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MEMORANDUM AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

IN AN AMOUNT EQUIVALENT TO US$32.0 MILLION

TO JAMAICA

FOR A

REFORM OF SECONDARY EDUCATION PROJECT

MARCH 4, 1993

CURRENCY EQUIVALENTS

Current Unit	=	Jamaican Dollar (J$)
US$1.00	=	J$23.0

FISCAL YEAR

April 1 - March 31

ACADEMIC YEAR

September 1 - June 30

ABBREVIATIONS AND ACRONYMS

ARP	Administrative Reform Program
CAST	College of Arts, Science and Technology
CTC	Cultural Training Center
EMIS	Educational Management Information System
GOJ	Government of Jamaica
HEART	Human Employment and Resource Training
HRDP	Human Resources Development Program
IBMS	Institution Based Monitoring System
ISER	Institute for Social and Economic Research
JBTE	Joint Board of Teacher Education
JSC	Jamaica School Certificate
JTA	Jamaica Teachers' Association
MLWS	Ministry of Labour, Welfare and Sport
MOEC	Ministry of Education and Culture
MOH	Ministry of Health
NAP	National Assessment Program
ODA	Overseas Development Agency (U.K.)
PIOJ	Planning Institute of Jamaica
PIU	Project Implementation Unit
PSIP	Public Sector Investment Program
ROSE	Reform of Secondary Education
SESP	Social and Economic Support Program
SLC	Survey of Living Conditions
STATIN	Statistical Institute of Jamaica
UWI	University of the West Indies

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JAMAICA

REFORM OF SECONDARY EDUCATION

LOAN AND PROJECT SUMMARY

Borrower: Jamaica

Beneficiaries: Ministry of Education and Culture
Planning Institute of Jamaica

Loan Amount: US$32.0 million equivalent

Terms: Repayment in 17 years, including a 4-year grace period, at the Bank's standard variable interest rate.

Financing Plan:

	Local	Foreign	Total
	---------- US$ million ----------		
IBRD	20.9	11.1	32.0
Netherlands	1.8	0.9	2.7
Government	6.0	0.0	6.0
Total	**28.7**	**12.0**	**40.7**

Rate of Return: Not Applicable

Poverty Category: Program of Targeted Interventions

Staff Appraisal Report: 11534-JM

Map: IBRD No. 20846

MEMORANDUM AND RECOMMENDATION OF THE PRESIDENT OF THE IBRD TO THE EXECUTIVE DIRECTORS ON A PROPOSED PROJECT TO JAMAICA FOR A REFORM OF SECONDARY EDUCATION PROJECT

1. I submit for your approval the following memorandum and recommendation on a proposed loan to Jamaica for the equivalent of US$32.0 million to help finance a Reform of Secondary Education Project. The loan would be at the Bank's standard variable interest rate, with a maturity of 17 years, including a grace period of four years. The Government of the Netherlands has expressed its intention to co-finance this project for an amount of 5 million Guilders (approximately US$2.7 million). Part I of the document contains a discussion of Jamaica's economic policies and the Bank Group's assistance strategy. Part II describes the proposed loan.

PART I. COUNTRY POLICIES AND THE BANK GROUP'S ASSISTANCE STRATEGY

A. Economic Policies and Performance

Economic Decline and Initial Adjustment

2. After rapid growth from independence in 1962 to 1973, the Jamaican economy contracted dramatically in 1973-80 because of external shocks and inappropriate domestic policies. The Government of Jamaica's (GOJ) role in the economy expanded substantially through direct interventions and nationalizations. During the early 1980s, GOJ took some measures to stabilize the economy and reestablish private sector confidence, with IMF and World Bank support, but fiscal and external current-account deficits remained unsustainable and government consumption continued to grow at the expense of private consumption and investment. Aggregate growth remained negative. External official financing allowed GOJ to defer serious adjustment, and external debt doubled by 1985. After 1987, following a major review of economic policies by GOJ, IMF, and the Bank, the adjustment program became more focused, private investment expanded, and the economy began to turn around, helped by improved terms of trade and better economic management. The Bank supported these efforts with four sector adjustment loans. GOJ reduced direct interventions in the economy, such as price and interest rate controls and quantitative restrictions on trade, realigned its exchange rate, and initiated a privatization program. Still, many measures were long delayed, and not enough was done to restructure and reduce the public sector.

Accelerated Adjustment and Stabilization

3. The new Government began in 1989 to accelerate the pace of reforms and reduce the size of the public sector, through cuts in subsidies and expenditures, and stepped up privatization. It also removed many distortions to the incentive system -- deregulating most prices and distribution/marketing channels, discontinuing general food subsidies, eliminating most remaining quantitative restrictions and trade monopolies, and lowering external tariffs. In the financial sector, it removed interest rate subsidies, strengthened the regulatory framework, and adopted a market-determined foreign exchange regime based on commercial bank transactions. In September 1991, it eliminated all restrictions on current (and on most capital) international transactions, allowing the exchange rate to effectively float.

4. These strong reforms did not bring quick results, however, because of inappropriate sequencing and continued public sector deficits, due to a large quasi-fiscal deficit (losses of the Bank of Jamaica - BOJ). Servicing the external debt, inherited from the 1980s, also meant that a substantial share of domestic saving was not available for domestic investment. In 1989 Jamaica was in the midst of an unsustainable recovery, fueled by external financing and reconstruction following Hurricane Gilbert. This, along with large foreign-exchange arrears and shortfalls in divestment proceeds and external financing, led to increases in domestic credit. The public-sector deficit, loose monetary policy, and a rapidly depreciating exchange rate contributed to accelerated inflation, which was accompanied by highly negative real interest rates. Between the end of 1990 and spring 1992, the exchange rate fell from J$8 per US$1 to J$28 although since mid-1992 it has remained stable at J$22-23. The main problem was that financial and exchange rate markets were liberalized in 1991, before eliminating the overall public sector deficit and providing a sound financial basis for BOJ.

Table 1. ECONOMIC DEVELOPMENTS, 1980-92

	1980-86	1987-89	1990	1991	Prel. Estimate 1992
Real Growth Rate a/					
GDP	-0.5	4.1	3.8	0.8	2.0
Per Capita GDP	-1.8	3.5	2.9	-1.0	0.5
Saving and Investment (% of GDP)					
Domestic Saving / GDP	15.3	23.4	19.0	20.3	28.0
Gross Investment / GDP	20.9	22.4	20.9	19.8	22.0
of which: Public Investment	..	13.0	10.6	8.2	9.5
Public Sector (% of GDP) (FY)					
Central Government Balance	-10.8	-1.5	1.5	3.9	4.0
Overall Public Sector Balance	-14.3	-8.0	-2.9	-0.4	0.1
Balance of Payments (% of GDP)					
Resource Balance	-5.7	1.0	-2.0	0.5	6.0
Current Account Balance	-10.9	-7.2	-10.7	-8.9	-4.0
Prices (FY)					
CPI (end of period, % change)	17.4	13.5	28.3	105.7	25.0
Real Exchange Rate b/ (1980=100)	89.6	69.0	65.8	44.8	53.7
External Debt					
Total DOD/GDP (%)	121	134	111	127	136
Total Debt Service/Exports c/,d/	33	37	31	31	27
Interest / Exports c/,e/	17	13	12	10	10
Interest / GDP e/	9	7	7	7	7

a/ 1991-92 in fiscal years.
b/ A decrease reflects depreciation. End of period; as of July for 1992/93.
c/ Exports of goods and non-factor services.
d/ Amortization and interest paid.
e/ Interest paid.

Source: Ministry of Finance, Bank of Jamaica, Statistical Institute of Jamaica, IBRD staff estimates.

5. GOJ greatly tightened its fiscal stance in the first quarter of 1992 and ended the 1991/92 fiscal year with an overall public-sector deficit of only 0.4% of GDP (excluding divestment proceeds). It replaced an array of other taxes with a general consumption tax (GCT) in October 1991, which is yielding more revenue than projected. Spending reductions were more important, with large layoffs and reductions in real wages in 1992. Salaries were taxed away in real terms by inflation, while some of tax revenues flows, especially the GCT, kept up well in real terms. This, however, left parts of the civil service sorely in need of real salary increases to prevent a further brain drain.

6. The depth of the reform has been considerable, and Jamaica is now close to having an adequate environment for more rapid and sustained growth, although the macroeconomic framework remains fragile. First, the adjustment program, especially in the last five years, has reduced the size of the State, with government consumption and public-sector investment each declining about one-third in the past two years. Under an Extended Fund Facility (EFF), approved in December 1992, GOJ committed itself to continue strengthening the fiscal situation, including that of BOJ. Second, the domestic markets for goods and financial assets are now much better linked to international markets. As long as this openness to international markets is maintained -- and it would be difficult economically and politically to reverse the trend now -- economic policy will face tight constraints and will not be able to get as far out of line as in the past. Investment and growth in the private sector have increased some, but a response adequate to raise real incomes noticeably still waits -- as it did for years in Chile and Mexico -- for assurance that no fiscal or other policy problems will cloud the sky. As the doubts are cleared up, a strong private sector response, already nascent, should help to solve the fiscal constraints.

__Outlook__

7. With further deepening of reforms, and barring unforeseen negative external shocks, economic performance is projected to improve on a sustained basis. Real GDP growth projections for 1992-94 begin low (rising gradually to 4% in 1994) because the immediate focus has to be on completion of stabilization. Full realization of Jamaica's economic potential would mean real GDP growth at (or above) 5-6% later in the decade, more rapid growth in exports of goods and services, and larger private capital inflows. The main source of increased growth will be a progressive improvement in the efficiency of investment, which was very low in the 1980s. Domestic saving is also projected to rise in step with improvements in the public-sector balance and to finance a modest increase in the share of GDP for investment. The current-account deficit is projected to decline substantially, while private capital inflows are expected to increase in response to reforms.

8. Despite the projected narrowing of the current-account deficit, Jamaica's gross financing needs will remain substantial (even after additional debt rescheduling) because of the weight of Jamaica's external debt and debt service. Allowing for increased real net direct foreign investment, for some repatriated flight capital, and for continued IMF support, gross external disbursement needs are estimated at about US$375 million a year for the next four years, which are covered by existing and anticipated commitments. Increasing the share of grants and concessional loans would substantially reduce Jamaica's debt overhang (and so its debt service ratios) by the latter 1990s.

Table 2. ECONOMIC PROJECTIONS

	Prel. Estimate 1992	Projected 1993	1994	1995	1996
Domestic Economy (%):					
GDP Growth	2.0	3.0	4.0	4.5	5.0
Investment / GDP	22.0	22.0	22.0	22.0	23.6
Domestic Saving / GDP	28.0	29.2	28.8	28.1	29.1
Overall Public Sector Balance / GDP a/	0.1	2.5	3.0	3.5	3.7
External Financing (US$ million):					
Current-Account Balance (before grants)	-136.3	-76.0	-48.7	-44.4	-21.6
Amortization b/	-329.0	-329.0	-281.0	-278.0	-346.5
Change in Net Reserves (- = increase)	-130.0	-89.0	-142.8	-156.6	-152.5
Total Financing Requirements	-595.3	-494.0	-472.5	-479.0	-520.5
Total Financing	595.3	494.0	472.5	479.0	520.5
Direct Foreign Investment	89.0	100.0	120.0	120.0	120.0
Grants	81.6	51.0	48.5	50.0	50.0
Disbursements and Other Flows	424.7	343.0	304.0	309.0	350.5

a/ Includes Central Government, BOJ losses and Public Entities; in fiscal years.
b/ Net of rescheduling.

Source: IBRD staff estimates and projections.

Poverty and Social Policies

9. About one-third of Jamaican households fall below the poverty line. The highest incidence of poverty is in rural areas, where infrastructure and social services are weakest. While unemployment contributes to poverty, most of the poor have work, at least in the informal sector; poverty in Jamaica stems primarily from low earning power and poor opportunities. Despite macroeconomic instability, unemployment fell from 25% in the early 1980s to 16% by the beginning of 1992. There were more than 20,000 new jobs a year in 1985-89, although most were low skilled and in the informal sector. Although emigration contributed to the decline of unemployment, adjustment measures and the resumption of modest growth led to increased employment and some recovery of incomes, which had been eroded in 1977-86.

10. In the 1970s, Jamaica's social indicators compared favorably with those of other middle-income countries in Latin America. Across the board reductions of state expenditure over the past 15 years, however, have led to major declines in social services and supporting infrastructure. Real spending on education and health fell by about 30% in 1980-86. By 1990, almost half of Jamaica's 6th grade school children were still not literate. GOJ attaches high priority now to improving delivery of social services, especially for the most disadvantaged.

11. GOJ removed inefficient general food subsidies in 1990-91 and replaced them with more targeted programs, such as the externally-supported Food Stamp and School Feeding Programs.

In 1990, it started a Social and Economic Support Program to fund public works projects, among other things. The Bank and other external agencies are supporting longer-term investments via the Human Resources Development Program (HRDP), initiated in 1988. It is designed to restore the flow of funds to the social sectors, redirect investments towards services most likely to reach the poor, rationalize allocation of services, and increase cost recovery. GOJ is committed to maintain minimum levels of spending in the social sectors (health, nutrition and education), consistent with its fiscal targets and a prioritized Public Sector Investment Program (PSIP). The key issue now is to improve the efficiency of these resources through improved project implementation and education and health sector reforms, such as those supported by this project.

The External Environment

12. Jamaica is a highly open economy with imports and exports of goods and services each exceeding 50% of GDP. Its dependence on bauxite/alumina and agricultural exports, and on tourism, make it particularly sensitive to international price and demand changes. It is also heavily dependent on imports, including fuel for most energy needs, and its high external debt makes it sensitive to variations in interest and exchange rates in industrial countries.

13. The vulnerability of Jamaica's economy to changes in the external environment is illustrated by projecting the initial effects of three hypothetical shocks. If bauxite-alumina prices fell by 30%, the projected current-account deficit would widen by more than 6 percentage points of GDP. If the demand for tourism and non-traditional exports grew only at the rate projected for GDP in North America in 1993-96, the projected deficit would be 7 percentage points of GDP higher. If oil prices rose by $5 a barrel, the deficit would increase by 3 percentage points of GDP. Such shocks would probably not be accompanied by corresponding increases of financing, so the deficit could not be sustained. A combination of recession and real depreciation would be needed to increase exports and decrease imports enough to cover the shortfall.

14. High external official debt remains a major concern. It has declined slightly since 1987, but was still the equivalent of 127% of GDP at end-1991. Since much of this debt is owed in US dollar equivalent, Jamaica is vulnerable to the appreciation of OECD currencies against the US dollar. Under 10% of the debt is commercial, about half is owed to official bilateral creditors, and the rest to multilateral institutions, including the Bank. This limits debt relief possibilities, although Paris Club rescheduling (on Houston terms), special measures by Canada and the United States, and commercial debt relief have all been undertaken. GOJ's current strategy is to limit increases in its external debt, through improved macroeconomic management and the promotion of foreign investment in the private sector, to rely more on grant and concessional loans, and to explore possibilities for further debt rescheduling, reduction and conversion.

15. A combination of bilateral assistance on concessional terms and further rescheduling of past debt will be necessary to ensure that Jamaica has the resources to develop, while meeting the external and internal costs of debt service, which now take almost half of the national budget. Although net reserves are still negative, they have become much less so in the past year and gross reserves are currently at two months of imports (nearly twice that of a year ago).

16. There are some new challenges (and opportunities) for Jamaica to become more competitive in external trade. New European Community policies are likely to reduce Jamaica's traditional exports of bananas and perhaps sugar. Likewise, the North American Free Trade Agreement (NAFTA) may erode, over time, the value of Jamaican (and other Caribbean) preferences

for manufactured exports to the United States. The larger EC and NAFTA markets will, however, open opportunities to expand non-traditional exports, such as information services and higher quality manufactures. More liberal trade arrangements and a competitive exchange rate will help these sectors continue to expand.

The Development Agenda

17. GOJ's development objectives -- stated most recently in its Medium-Term Policy Framework Paper (MTFP) of May 1992 -- are to achieve increased and more sustainable private-sector growth by having a sound macroeconomic framework and freeing the economy from over-regulation and excessive state intervention. The key issues for GOJ now are how to: (i) enhance macroeconomic stability so that GOJ can focus on micro issues within a consistent macroeconomic framework; (ii) enhance private-sector confidence and increase investment; and (iii) restore and develop the economic and social infrastructure, address basic poverty issues, and promote environmentally-sound development policies.

18. **Macroeconomic Stability.** This will continue to be a central concern over the next few years. An important element in maintaining macroeconomic stability in Jamaica will be to further reduce the size of the public sector and its claims on the economy's resources. Strong **fiscal management** has been the missing link in previous adjustment efforts and is essential now. GOJ took strong measures in 1992, bringing the public sector basically into overall balance. It recognizes that fiscal stability remains precarious and that the high external debt limits its flexibility. The EFF agreement with the IMF embodies the main macroeconomic commitments for the next three years and are similar to those in the MTFP. Between 1992-93 and 1994-95, the targets call for increasing surpluses in the public sector, rising to 3% of GDP in 1994-95. Deficit reduction covers the whole public sector, including BOJ, to allow expansion of credit to the private sector, without fueling inflation. Fiscal improvement is to come partly through revenue increasing measures, such as changes in the GCT, other tax reforms, measures to increase cost recovery, and improved customs administration. Most, however, will have to come from improvements in public expenditure policies. These include further reductions in the civil service, already pruned by 7,300, or nearly 20% of the staff, in 1992, and more privatization. Further reductions in the public sector work force are still needed but they should be more selective than last year's cuts. In particular, it will be important to implement layoffs and elimination of redundant agencies before public-sector salaries are revalued for inflation. Any actions that increase the deficit, such as the recent increase of salaries for teachers and police, will need to be carefully matched with other measures to improve the fiscal balance.

19. With the EFF, GOJ also agreed to a sound **monetary program**. It aims to bring inflation into line with its major trading partners and to allow the market to determine interest rates. It is tackling the difficult problem of accommodating BOJ losses on past, quasi-fiscal operations, which rose to 7% of GDP in 1992/93. They will now be phased onto the government budget. BOJ is being financially restructured, replacing non-interest earning "assets" with government bonds paying market rates, taking action to eliminate its quasi-fiscal losses, and moving the accounts of GOJ and public enterprises from BOJ to commercial banks. By 1995, interest-bearing BOJ liabilities will be fully converted into tradeable government liabilities. These are crucial steps in separating fiscal and monetary policies and allowing more autonomy for BOJ.

20. GOJ is committed to the maintenance of a competitive, market-determined flexible **exchange rate**, free of controls and distortions and to **trade reform**. Strong improvement in the fiscal balance and reduction of import tariffs will be important for sustaining the competitiveness of

the real exchange rate, and facilitating export growth. This will be essential if the balance of payments objectives agreed under the EFF -- involving a reduction in the current-account deficit (before grants) from 7.2% of GDP in 1991/92 to 4.3% in 1992/93 and, by 1994/95, 1.1% -- are to be achieved. In this context, Jamaica took the lead in securing the October 1992 agreement on reductions of the Caribbean Community (CARICOM) Common External Tariff (CET). Phased tariff reductions and a lowering of the tariff range will lead to a regime which, with few exceptions, will limit protection to the 5-20% range.

21. **Private Sector Development.** The removal of obstacles to accelerated private-sector development is central to the growth strategy. GOJ recognizes that government regulations and complex procedures have constrained business activity. It is removing them as rapidly as possible. It is also trying to reduce inefficiencies in publicly-owned utilities (power and water) that contribute to hidden and explicit costs in the private sector and to the fiscal burden on GOJ. Serious deterioration of economic infrastructure is also an obstacle to private sector development, as is already apparent in fast-growing tourism areas. Infrastructure rehabilitation and development are thus critical and, along with support for social programs, have become the main areas for external assistance.

22. Further improvements in trade policy, privatization, and the reform of the legal-regulatory framework for business are planned to encourage foreign and domestic investment. An extensive privatization program, including utilities, and the deregulation of the sugar and petroleum sectors, are key components of the reform agenda. Public sector investments will concentrate increasingly on social and economic infrastructure and, except for essential maintenance, there will be no public investment in public enterprises slated for divestment. To encourage private-sector development in poorer areas, GOJ is also reviewing an agriculture sector strategy, including deregulation and reorientation of research and extension, to help non-traditional exports. In tourism, it will rely almost entirely on private-sector initiative. In the public sector, there is still a need to streamline bureaucracy, improve the management of public expenditure programs, and change the orientation of the administration from direct interventionism to provision of services for a market environment.

23. **Poverty Alleviation and Human Resource Development.** Longer-term development prospects depend on progress in both these areas, after long years of deteriorating social service delivery and increased poverty. The policy framework which underpins the HRDP is now broadly appropriate to Jamaica's conditions and potential. The challenges are to increase resources and improve the institutional capacity to implement social programs. GOJ is committed to annually increasing the social sector share of non-debt current budget, as well as increasing capital allocations for education, health and nutrition in the PSIP from 13% in 1992/93 to 18% in 1994/95. GOJ will provide the domestic finance required to utilize external funding, and streamline procedures for the disbursement of both. The other main thrust is towards the rationalization of social service provisions and increased cost recovery. Within the social sectors, GOJ is targeting resources with the highest social rate of return. Recurrent expenditures for primary health care are to be increased to 25% of the total; primary education already takes 38% of the education budget. GOJ is considering the divestment of some hospital support services; more community involvement in education; and improved administration of user fees. Better program design and increased efficiency in the delivery of education, health and nutrition services can make a substantial contribution to **poverty alleviation.** However, much depends ultimately on sustainable, broad-based growth to provide more employment and increase resources for social programs.

24. **Environmental Protection.** Environmental awareness is high in Jamaica. GOJ knows that protecting a high quality natural environment is necessary for sustainable development, particularly in tourism and agriculture, two of the largest earners of foreign exchange. The major concerns involve watershed protection, urban degradation, and water pollution. There are needs for better coastal zone management, increased technical assistance for numerous watershed projects, and the removal of irrigation subsidies. For Kingston (where 40% of the population lives), a community environmental project is proposed, together with support for environmental assessment and compliance among private enterprises. Water pollution is being tackled with projects along the north coast and, in Kingston, with a much larger project planned for pollution abatement in the Kingston Harbor. A new umbrella agency, the National Resource Conservation Authority (NRCA) will develop national environmental planning, monitoring and regulatory systems, in close coordination with the private sector and NGOs. It is in the process of completing a National Environmental Action Plan that is expected to draw substantial international support.

B. The Bank's Country Assistance Strategy

25. The Bank fully supports GOJ's development agenda, outlined above and described in more detail in its MTFP. The current Bank strategy has three main objectives: First, consolidate stabilization by supporting public sector reform to match expenditures with revenue and at the same time to strengthen the capacity of the State to implement programs and projects. Institutional strengthening, among line ministries and government agencies, is a central objective in all the Bank's interventions. Second, encourage growth of export-oriented private-sector production of goods and services, through trade liberalization, regulatory reform, provision of economic infrastructure, and withdrawal of the State from areas -- particularly production and marketing -- where the private sector has more capability. Third, support GOJ in increasing the flow of resources for health and education services, especially for the poor, and in improving the systems for delivering these services. Protecting the environment is also critical for the objective of sustainable private-sector growth, as well as for improving directly the quality of life of Jamaicans.

Country Assistance Objectives

26. **Public Sector Reform and Institutional Strengthening.** While GOJ has reduced the aggregate size of the public sector, moving from stabilization to sustainable growth still requires major improvements in efficiency. Meeting the needs for development of the private sector and provision of social services to the populace requires strengthening the State sector in the key areas in which it will remain active. The challenge is to develop this strength without upsetting the fiscal balance, which remains precarious. The Bank will continue to monitor fiscal and other macroeconomic policies, in coordination with the IMF, while increasing efforts to promote further structural reforms that make the fiscal situation sustainable.

27. So far, cuts in the public sector have been made across the board, while salary reductions led many of the best staff to leave. The resources of the public sector are now spread thinly across a large number of agencies -- ministries, statutory bodies, and public enterprises. The Bank will offer sustained, long-term support for GOJ efforts to eliminate agencies that duplicate effort and to bring adequate authority and resources, including adequate salaries to retain qualified people, back into the mainline ministries responsible for the critical tasks of GOJ. Loans from the Bank already support technical assistance and sectoral reforms of management, but a more comprehensive program is needed. We intend to intensify our dialogue in this area in FY94 with an extensive review of public sector expenditures and public administration. This review will provide the basis for

more focused efforts on public reform and institutional strengthening in the key sectoral ministries where GOJ is to retain a lead role.

28. Even a smaller public sector will need adequate resources to sustain it with competent manpower and material inputs -- school books, medical supplies, computers, etc. The Bank shares GOJ's reluctance to raise tax rates and its recognition that reforms to the tax system, especially on the administrative side, can probably yield the necessary revenues. At GOJ's request, the Bank organized a mission in January 1993 to review the tax system and to provide key recommendations for reform. Implementing them will require technical assistance and financial support, which the Bank will help provide.

29. **Private Sector Development.** Restoring growth of incomes will require accelerating the growth of the export-oriented private sector. To achieve this, the Bank is supporting continuation of GOJ's efforts in three areas. First, ending the remaining public- sector activities that discourage investment. The corresponding reforms include further trade liberalization, deregulation of trade and investment, streamlining of customs procedures, and privatization to complete the exit of the public sector from activities that compete with the private sector. Second, taking positive actions to encourage private investment. These include improvements in the economic infrastructure, especially in transport, water and energy; regulations to limit anti-competitive practices; support for export promotion; and especially the consolidation of macroeconomic stability. Third, increasing the availability of credit for private investment, if the demand for investment finance increases in response to structural reforms, while capital markets are being strengthened.

30. The Bank's support for private sector development has already included two trade and financial sector adjustment loans. The most recent loan supported measures to reduce trade protection and make it more uniform; increase competition and the efficiency of enterprises; and strengthen the financial system and its regulatory framework. Further anticipated support includes a proposed Private Sector Development Adjustment Loan (PSDAL), focusing on further trade reform, privatization and the regulatory framework, and a Private Sector Investment and Export Development Project, which would support the supply response and export promotion through technical assistance and a global line of credit. Lending for infrastructure development would support private investment in infrastructure as well as improvements in implementation of donor-funded projects. The Energy Sector Deregulation and Privatization Loan, approved earlier this fiscal year, took such an approach, as will a proposed Transport Sector Project, allowing for private investments in highways, ports and other infrastructure, and a Water Restructuring and Privatization Project. Road rehabilitation and maintenance, and integrated planning of GOJs road program, is also the object of an ongoing project. The timing for further support will depend to a large extent on the pace of implementation of the large ongoing program supported by various donors.

31. **Social Services and Poverty Alleviation.** Under the umbrella of the HRDP, the Bank has helped to fund investments in the social sectors since 1988. The Bank endorses GOJ's basic approach to providing social services -- emphasizing provision of a sound basic education (grades 1-9) and primary health care, while targeting special programs for the poor. Promotion of the role of women is also an intrinsic component of all social programs. Each year the Planning Institute of Jamaica, with the Bank and other donors, reviews the HRDP policy framework as well as all HRDP projects to ensure their consistency with social sector policies and priorities and fiscal constraints. Further Bank support for HRDP will come through this project and a health sector operation, which will also address underlying poverty relief issues. The Bank is also supporting GOJ in monitoring poverty and social conditions generally, through an annual household Survey of Living Conditions.

Academics in Jamaica and Bank staff use this data for research on poverty and human resource development. The Bank is also using it in the preparation of a poverty assessment for the country.

32. **Environmental Initiatives.** A Bank report on the Environmental Issues in Jamaica has been circulated to the Board and is an input to GOJ's Environmental Action Plan, which will be presented at the next CGCED meeting in June 1994. Strengthening of the new National environmental agency (NRCA) is a key priority supported by major donor agencies and the Bank. To enhance its credibility, the NRCA will need to focus on a few well-defined priorities, watershed protection and waste management in particular. The Bank will work closely with GOJ in revising its water policies and legislation. The Bank is also preparing a Water and Sanitation Project for the Kingston Metropolitan Area (KMA) and will be supporting, through the GEF, steps to improve energy demand management. A community-based KMA slum upgrading program is also being considered. To promote sustainable hillside agriculture, the Bank is planning sector work to identify measures to improve the efficiency and earning power of small farmers. This, as well as the KMA slum upgrading Project, would have major benefits in poverty reduction.

<u>Assistance Program</u>

33. As of December 31, 1992, the Bank had approved 54 loans for Jamaica totaling about US$1 billion, after cancellations. Of that amount, about US$162 million has yet to be disbursed. The IBRD's share in Jamaica's MLT public debt service (including IMF) was estimated at 16% at the end of 1992. Debt service payments to the Bank were about 18% of MLT public debt service (including IMF) or 5% of exports of goods and non-factor services. Adjustment lending has accounted for about one-third of total Bank lending to Jamaica, including three structural adjustment loans (FY82-85) and four sector adjustment loans, for public enterprises sector (FY87), trade and financial sector (FY87), agriculture (FY90), and again for trade and finance with a second loan, TFSAL II (FY91).

34. Strong development of the investment pipeline will be necessary to assist GOJ in providing adequate economic and social infrastructure, and to support rapid and sustainable growth in response to recent and anticipated reforms. To do this while shifting our focus from adjustment to investment lending, our commitment levels will need to increase from an average of US$60 million to about US$100 million in each of the next few years. The size of the program will depend on continued reforms by GOJ, particularly in the fiscal area. The Bank's exposure may rise slightly in the medium term, after having declined over the past 3 years. Ultimately, the Bank can expect to reduce its exposure significantly as private capital inflows and export growth provide the Jamaican economy with the foreign exchange that it needs, and as moderate taxation of the growing private sector provides GOJ with most of its resources for public investment.

35. Timing the transition from adjustment to investment lending will depend on continued close monitoring of the balance of payments. Based on past experience, any adjustment operation will require: strong fiscal performance; structural reform to promote private sector development and reduce the public sector's overall role in the economy; and improved focus of GOJ activity on human resource development, targeted interventions to alleviate poverty, and infrastructure development. Adjustment lending is expected to decline to less than 15% of new commitments over the next few years. It will support private sector development and public sector reform, which will also be supported with some investment lending. Most other investment lending will go for infrastructure--about 35%--and human resource development and poverty alleviation--about 25% of new

commitments. Infrastructure projects with strong environmental protection components will rise to about 15%.

36. Another cornerstone of our strategy must also be to assist GOJ in securing a larger share of its external aid from other sources, especially in grants or soft loans. The size of external official debt will continue to limit Jamaica's capacity for extensive borrowing on conventional loan terms. The Bank will continue its efforts to mobilize bilateral and other multilateral flows through the Caribbean Group for Cooperation in Economic Development (CGCED). In addition, the Bank is encouraging policies that should increase the net flow of private external resources to the private sector, in the form of equity as well as lending.

37. Our lending program objectives will be developed from economic and sector work focusing on: (i) monitoring of the macroeconomic situation (with the IMF), including reviews and advice on key reforms, such as tax and customs; (ii) preparation of a country economic memorandum on the adjustment process, sources of growth, poverty, and policy agenda; (iii) review of public expenditure and management; and (iv) health, transport, and water sector development reviews as part of project preparation activities.

38. A further component of our assistance program, under consideration, is to open a Resident Mission in Kingston in the near future. This has received strong support from the Jamaican authorities. The mission would assist GOJ in making the transition from adjustment support to investment lending -- working hands on with ministries to improve the efficiency and the allocation of public sector resources; to strengthen our policy dialogue and analytical work in moving from macro to more detailed micro and sector reforms; to improve our pipeline; and most of all, to improve the implementation performance of the large portfolio of externally financed programs.

Implementation Issues

39. Project implementation has deteriorated seriously in the past few years, and is a major concern for all external financing agencies. In part, this has been the result of tight fiscal constraints which, combined with weaknesses in budgetary and expenditure procedures in the Ministry of Finance, have limited the flow of both external and counterpart funds. In addition, the line ministries and agencies directly responsible for project implementation have become increasingly short of adequate management and technical skills. Implementation problems also resulted from an unfocused PSIP, with too many small, locally-financed projects taking up an increasing share of GOJ's scarce funds and squeezing out counterpart funding. Where implementation problems have become especially evident, in some infrastructure and social sectors, new aid commitments have begun to be deferred. A major effort to improve implementation is crucial if GOJ is to succeed in restoring economic and social infrastructure to normal levels and to improve Jamaica's external financing situation.

40. The serious deterioration in implementation performance was raised by all donors during the CGCED sub-group meeting on Jamaica in June 1992, based on a detailed review of GOJ's PSIP conducted by the Bank. As a result, GOJ has since undertaken a detailed review of its financial and administrative procedures at Cabinet level and is taking remedial actions. In addition to revising budgetary procedures, GOJ selected 20 major foreign-funded projects (accounting for 80% of planned PSIP expenditures) for "fast-track" implementation; and provided them with adequate local counterpart financing in the 1992/93 budget. Recent disbursement figures indicate an improved pace

of implementation, in FY93, but regaining fully satisfactory levels will require sustained efforts by GOJ and the Bank.

41. The Bank, on its part, will strengthen supervision efforts as well as donor coordination on this crucial issue. As part of this continuing effort, a review of the entire portfolio will be made during a Country Implementation Review (CIR) to be held shortly in Kingston. Where necessary, we will restructure projects to reflect implementation constraints and increase the disbursement percentages in selected cases, especially in the social sectors, to 80%. This process is already ongoing. Continued dialogue on implementation will also be pursued in the context of the Public Sector Expenditure Review scheduled for FY94, and at the next CGCED meeting scheduled for June 1994.

IFC and MIGA Initiatives

42. The Bank has worked closely with IFC and MIGA to support private sector development in Jamaica. While it has generally taken the lead on the regulatory framework, IFC and MIGA have participated as appropriate. IFC investments have included participation in the tourism, construction, manufacturing and agribusiness sectors and, especially since 1989, in Jamaican banks and other financial institutions. Improved confidence in the economy has resulted in increased opportunities for IFC operations. It is exploring new possibilities that include tourism ventures, private investment in power generation, telecommunications, the privatization of Air Jamaica, and further investments in mining, manufacturing and agriculture, as well as capital market development. MIGA's national investment promotion conference in Jamaica in February 1991, organized in cooperation with Bank staff, made a valuable contribution to restoring investor confidence.

Cooperation with other Multilateral Institutions

43. The Bank has worked very closely with the IMF throughout the adjustment process and in monitoring macroeconomic developments. Donors have co-financed some of our adjustment loans, and the Inter-American Development Bank (IDB) supported the adjustment program with sector investment loans. With investment lending there has been a complementary division of labor in the roads, water, and education sectors. For instance, the IDB focuses more on primary education, while the Bank, through this project, concentrates on lower secondary education. There is also close coordination with the Caribbean Development Bank (CDB) in operations in Jamaica.

Summary Assessment

44. GOJ has made substantial progress over the last few years in creating an appropriate policy framework for restoring and enhancing its growth potential. At this stage, however, adequate private sector investment has yet to materialize. GOJ will face a serious challenge over the next few years to maintain the consistency of economic signals, in particular through continued progress with fiscal policy. The main risk is that there could be slow progress and inadequate adjustments in response to changes in the external environment and the domestic economy. Should this happen, Jamaica would delay further the realization of its growth potential.

45. If GOJ pursues vigorously its current reform agenda, and takes corrective actions to respond to external pressures, the Bank should be ready to increase its assistance, as proposed above. Should GOJ soften its policy stance and fiscal effort, however, the case for further strong Bank support would be undermined and the Bank would focus only on the social sectors and infrastructure

rehabilitation. Overall progress by GOJ will be assessed against the quantitative macroeconomic targets and the detailed policy reform agenda, spelled out in GOJ's MTFP and in the EFF arrangement. In addition, the proposed PSDAL will include further conditionality on trade reform, divestment, and deregulation. The Bank also monitors progress on the social sectors, including the specific commitments to increase the share of the PSIP devoted to education, health and nutrition, through the annual reviews of the HRDP. It will be expecting, with improved public sector efficiency, a more focused role of the Government and a recovery of project implementation performance to earlier levels. The success of the present adjustment efforts will ultimately be judged, however, on whether the Government succeeds in moving the economy from its past pattern of stop-and-go policies to a path of sustainable growth.

PART II. THE PROPOSED LOAN

46. **Background**. The deterioration of the economy in the 1970s and early 1980s and the weakness of economic management led to deep and ill-targeted cuts in Government social expenditures. Budgetary pressures increased such that by 1986, real outlays in education were 25% lower than in 1981 and in health 35% lower. There was an accompanying deterioration in the quality and capacity to deliver social services. In response, the Government of Jamaica (GOJ) introduced the *Human Resources Development Program (HRDP)* in 1988, with assistance from the Bank, to provide a cohesive policy framework for the Government's core social strategy and to restore adequate levels of finance for the social sectors, with particular emphasis on the poor. The main challenge now facing the HRDP is to shift the policy agenda from expanding coverage of social services to more complex analytical issues of improving their quality and efficiency, including better targeting. One of the principal policy objectives in education is to improve the quality and equity of basic education (Grades 1-9).

47. **Education Sector**. Jamaica has placed great emphasis on education throughout its modern history evidenced by average net enrollment rates of 98% at the primary level and 82% at the lower secondary level (Grades 7-9). Female participation rates are among the highest in the world. Jamaica's high coverage rates, however, mask a number of shortcomings, particularly at the lower secondary level. Poor quality and basic inequity of educational instruction characterize the education system today. Educational achievement is generally low, with high levels of functionally illiterate students leaving primary and entering secondary schools (48% in 1989) and very low performance on terminal exams at the secondary level. A highly stratified and inequitable system of resource allocation among different types of schools at the secondary level is reflected in large disparities in facilities, instructional quality, learning materials, and institutional support. Only 14% of children entering Grade 7 are awarded places in the relatively well-resourced prestigious traditional high schools that lead to post-secondary education and ultimately good prospects for employment opportunities. In contrast, the "All-Age" schools comprise over 40% of junior secondary enrollment, serve the poorest socio-economic levels of students, yet receive the lowest levels of resource allocation and educational inputs. About half of those who finish Grade 9 in All-Age schools are functionally illiterate. Given that nearly 40% of students leave school and enter the labor force at the end of Grade 9, the lower secondary cycle plays a critical role in establishing the basis for lifelong literacy, numeracy and other employment-related skills. Another issue requiring attention is the inability of the Ministry of Education and Culture (MOEC) to employ education data to evaluate and monitor the impact of existing or proposed policy changes. The current MOEC testing system, comprised of six largely redundant tests, fails to provide key information required for monitoring

education quality over time. This limits the accuracy of policy analysis to efficiently allocate scarce sectoral resources.

48. Although as a share of non-debt public expenditures, education rose from 19% in 1981 to 22% in 1991, when debt service is included, education expenditures actually fell from 15% to 12% over the same period--the result of high debt service and fiscal austerity measures. As a share of GDP, education spending also fell from about 7% in 1981 to a low of around 4% in 1985, and has since recovered only to about 5% at present. The decline has been a contributory factor to a marked deterioration in quality, where a shrinking budget has had the greatest impact on non-salary recurrent expenditures such as those for instructional materials, maintenance and quality training programs.

49. The Government has responded to these issues by adopting the goals of: (a) targeting resources to ensure equal opportunity for all children in Grades 1-9 to receive a high quality education following a common curriculum; (b) reallocating expenditures to focus on basic education (Grades 1-9), while generating additional resources from cost recovery, increased community participation, and other private sources; and (c) monitoring trends in achievement, through a rationalized examination system that will support improved policy analysis. Low quality of primary instruction in Grades 1-6 is currently being addressed by revising the curriculum and providing related complementary inputs; it will continue to be strengthened, under the HRDP framework with a wide range of bilateral and multilateral (including Bank) support. The remaining agenda is to improve the quality of education for all students in Grades 7 through 9, with emphasis on the schools serving the poorest students. The Reform of Secondary Education (or ROSE), officially adopted in a Cabinet decision of May 1991, will be a 15-year program consisting of three five-year phases. In each phase, schools will be selected according to clearly defined criteria (which take into account equity considerations), and will receive the new common curriculum and related inputs of teacher and principal training, textbooks and resource materials, equipment, furniture and selected refurbishing of facilities.

50. Project Objectives. The principal objectives of the project are to: (a) improve the quality, efficiency and equity of lower secondary education (Grades 7-9), with particular emphasis on schools serving the poorest students, by providing the necessary educational inputs and support services for Phase I of a 15-year junior secondary reform program; (b) strengthen the capacity of the MOEC to plan and monitor the impact of the reform through improved evaluation and management systems; and (c) strengthen the Government's capacity to undertake sophisticated social policy analysis and use the results in formulating more effective and targeted social programs.

51. Project Description. The project includes three components: Secondary Reform Support; Evaluation and Management Strengthening; and Social Policy Analysis. Secondary Reform Support (82.4% of total project costs) would include: (a) the introduction of a common curriculum in Grades 7-9; (b) related pre-service and in-service training of teachers and school administrators; (c) provision of textbooks; (d) provision of educational support materials; (e) improvements in, and limited new construction of, physical infrastructure for schools adopting the common curriculum; and (f) studies and pilot programs for improving upper secondary education (Grades 10-13). Evaluation and Management Strengthening (8.7% of project costs) would include: (a) rationalizing the examination system by reducing the redundancy and improving the utility of exams for selection, certification and monitoring trends by developing a new Grade 9 Test; (b) establishing a secondary Reform Management Team to ensure that the reform is adequately supported and integrated into all the relevant MOEC functional units; (c) conducting a public awareness campaign to inform key stakeholders and the general public about the benefits of the reform; (d) developing an evaluation

system to monitor the impact of the new curriculum on student achievement; and (e) preparing the second five-year phase of the reform. Social Policy Analysis (8.9% of total project costs), would improve the capacity of the Government to undertake sophisticated social policy analysis and formulate more effective and targeted social sector programs through: (a) the establishment of a Social Policy Analysis Unit in the Planning Institute of Jamaica (PIOJ) to identify topics for policy analysis, perform and contract out research, provide training and dissemination mechanisms to social sector line ministries; (b) in-service training for policy makers and researchers in key social sector ministries in research methodology and social policy analysis; (c) support to the University of the West Indies (UWI) to upgrade faculty and graduate training in policy analysis and to establish a Data Bank at the Institute of Economic and Social Research (ISER); and (d) support to the Statistical Institute of Jamaica (STATIN) to implement the Survey of Living Conditions (SLC). The cofinancing provided by the Government of the Netherlands will support exclusively the third component. Retroactive financing for an amount to cover US$3.0 million for consultants' services and incremental recurrent costs, incurred after March 1, 1993, is provided. Breakdowns of the costs and financing are shown in Schedule A. The relatively high share of Bank support (79%) is deemed necessary given: (a) the substantial deterioration of Jamaica's capacity to mobilize domestic resources, given fiscal constraints and high debt servicing requirements; and (b) the project's emphasis on serving the educational needs of the poorest segments of the population. Arrangements for procurement and disbursements are given in Schedule B. The timetable of key events for project processing is summarized in Schedule C and the status of Bank Group Operations in Jamaica in Schedule D. A map is attached. The Staff Appraisal Report No. 11534-JM, dated March 4, 1993, is also attached.

52. Project Management and Implementation. The MOEC will be the executing agency for the first two components and the PIOJ will implement the third. The establishment of the Reform Management Team, chaired by the Permanent Secretary and composed of a National Coordinator plus MOEC department directors, will help to ensure the necessary flexibility in implementation to allow the reform process to benefit from lessons learned in the early years of the project, and to integrate all ministry departments affected by the reform throughout the process. The Social Policy Analysis Unit in the PIOJ will be responsible for: implementing training programs in the sector ministries; administering technical assistance provided to UWI and the line ministries; disbursing funds for research to be conducted through UWI and for SLC activities; and, coordinating formal linkage mechanisms leading to a program of research in support of HRDP objectives.

53. Sustainability. The project will support the first 5 year phase of a 15-year reform program. The establishment of the Reform Management Team, which will outlive the project, will be vital for the remaining phases of the reform. The recurrent costs generated by the project are minimal and represent less than 2% of the MOEC's recurrent budget. In addition, the existing textbook rental scheme will be extended to cover all schools with grades 7-9 and thus reduce the recurrent costs to the Government of textbook replacement.

54. Lessons learned from Previous Bank Involvement. The Bank has made four loans totaling US$38 million to support education in Jamaica since 1966. Based on a review of audit and supervision reports, the main lessons emerging from past projects have been to: (a) allow for adequate planning and advanced preparation, especially for projects requiring policy decisions; (b) pay greater attention to institutional arrangements for project implementation, especially if the project is broad-based in scope; (c) ensure flexibility in both project design and implementation arrangements should a project need to be adapted to changing circumstances; and (d) ensure timely and adequate release of project finances through budgetary channels. These lessons are taken into account in the design of the proposed project. Substantial advance planning and preparation has been carried out under the Fourth

Education Project and with a Japanese Grant Facility. The Reform Management Team approach addresses issues raised with respect to (b) and (c). Finally, Ministry of Finance (MOF) officials have been kept informed during project preparation and a condition for loan effectiveness will require that adequate budgetary releases for this proposed project and the three other social sector projects funded by the Bank are assured for FY 1993/94 (Schedule D). In addition, a Country Implementation Review is scheduled for March 1993 to address implementation issues that are common to Bank-supported projects, including the availability of funds from the MOF to implementing ministries throughout the fiscal year. Lastly, the Bank will continue to monitor the release of resources to the social sectors (both retrospectively and projected) through the HRDP Annual Review.

55. **Rationale for Bank Involvement**. As described in Part I, the Bank's country assistance strategy is aimed at supporting the GOJ in the investment of social services and the development of human capital. Within the social sectors, the Bank's central role in assisting the GOJ to formulate, execute and monitor the HRDP has resulted in the development of an integrated approach to social sector development and poverty alleviation, with coordinated donor support for these efforts. The proposed project builds upon the Bank's substantial involvement in the education sector and supports one of the central priorities of the MOEC's *Five Year Plan* and the HRDP: improving the efficiency and quality of basic education (Grades 1-9), with a particular focus on schools serving the poorest students. Other major donors are already tackling the issues of efficiency and quality at the primary level. In a mutually reinforcing manner, this project will address these same issues at the last three grades of the basic education cycle, namely Grades 7-9. The project also draws on the recommendations and analysis of the Bank's regional study *Access, Quality and Efficiency in Caribbean Education*. Finally, the ongoing Fourth Education Project was designed specifically to assist the MOEC in building the conceptual and analytical framework for the reform of lower secondary education and to pilot the introduction of a common curriculum (including related training and evaluation activities) which forms the core of the reform program.

56. **Agreed Actions**. *During negotiations*, the Government: (a) agreed to submit to the Bank no later than September 15 of each year the specific schools to be selected for the following academic year, based on specific criteria; (b) agreed to adopt a policy by August 15, 1993 regarding a comprehensive textbook rental scheme at the lower secondary level, including a mechanism to identify and support those unable to pay; (c) provided written guarantee that proposed project, as well as the three existing World Bank social sectors projects (Social Sectors Development Project (Ln. 3111-JM) the Population and Health Project (Ln. 2851-JM), and the Education Program Preparation and Student Loan Project (Ln. 2899-JM)), would be given priority in budgetary and warrant allocations for 1993/94; (d) agreed to present to the Bank during the HRDP Annual Review (or in any case not later than March 31 of each year), the draft budget submission for the forthcoming year of the project; (e) agreed to allocate in its annual budget to be proposed to Parliament the funds, in an amount satisfactory to the Bank, necessary to implement the project in each fiscal year; (f) agreed that counterpart financing and external resources, satisfactory to the Bank, would be released to implementing agencies on a timely basis (i.e. notification of quarterly warrants be provided within two weeks of the start of any quarter); (g) provided assurance that the UWI under the Social Policy Analysis component would assume its share of the incremental recurrent costs; (h) agreed that the MOEC and the PIOJ would conduct, with prior approval of the terms of reference by the Bank, a Mid-term Implementation Review, not later than March 31, 1996, including the assessment of selected output indicators; (i) agreed to carry out annual reviews of the project in conjunction with the HRDP Annual Review exercise (or in any case, not later than March 31st), including policy and financial targets as contained in the HRDP Policy Matrix; and, (j) agreed that not later than March 31, 1994, it would submit to the Bank annual targets, satisfactory to the Bank, for the share of the

MOEC recurrent expenditures that would be allocated for Grades 7-9. *As conditions of loan effectiveness*, the Government will: (a) complete the appointment of the MOEC's Reform Management Team's Secretariat professional staff and fill 50 percent of the newly created posts in the MOEC to be supported by the project; (b) sign an Agreement with the Bank as Administrator for a grant from the Government of the Netherlands for cofinancing the proposed project; (c) submit the 1993/94 Parliamentary approved budget for the proposed project as well as three existing World Bank-financed projects in the social sectors, satisfactory to the Bank, which reflect line ministries' submission of realistic implementation schedules; and (d) confirm that the MOEC has signed an agreement with the JBTE for training activities which the JBTE will carry out. Finally, *as a condition of disbursement* for the Survey of Living Conditions sub-component (to be reflected in the Netherlands Grant Agreement), STATIN will have instituted a plan to implement the recommendations forthcoming from the data quality review satisfactory to the Bank for the improvement of data quality.

57. **Environmental Impact**. The project does not present environmental risks other than the relatively minor ones associated with construction of schools. These will be addressed in the design and approval stage of investment subprojects.

58. **Program Objective Categories**. The project is primarily under the human resource development POC, and is part of the core poverty intervention program. Students from low income families will be the primary beneficiaries of the project because of the selection of All-Age and New Secondary schools, which together cater to nearly 80% of the poorest population quintile in Grades 7-9. Improved social policy analysis will enhance the GOJ's capacity to target its resources. Other contributions to program objectives will be improved public sector management. Given that females generally have a higher school participation rate than males in Jamaica, there is no perceived need for a specific focus on women in this project.

59. **Project Benefits**. The project would assist the Government in achieving two central education objectives: (a) to improve the quality and equity of basic education, specifically Grades 7-9; and (b) to strengthen the system's capacity to plan and monitor improvements in the quality of education. The increase in educational expenditures for basic education will help redress imbalances in the allocation of public sector resources among different levels of education, by directing more resources to higher-yielding lower education levels. Improved relevance and quality of basic education would ultimately provide better trained and trainable manpower for the economy. Higher overall levels of achievement and increased resources targeted on the poorest groups of students would enhance efficiency in the use of public sector resources. A rationalized exam system would: reduce the redundancy and cost of exams in the education system, and eventually postpone the selection of students for academic streams until Grade 9; provide students leaving the education system at Grade 9 with school leaving certificates reflecting a recognized level of achievement for potential employers; and provide a reliable measure of learning output for policy analysis. In addition, improved social policy analysis through a relevant research agenda will help the Government to more effectively target scarce resources for social sector programs.

60. **Project Risks**. Principal project risks relate to: (a) budgetary constraints leading to the scarcity of both counterpart funds and the release of external resources; (b) potential backlash from those benefitting from the existing elitist system; and (c) weak implementation capacity, particularly regarding civil works. With regard to (a), the Bank's financing of a high share (79%) of project costs as well as planned cofinancing (6%) would reduce the need for counterpart funding, thus easing the GOJ's fiscal burden. In addition, the Bank will monitor the maintenance of sector

priorities in the context of Annual Reviews of progress towards social sector objectives as reflected in the proposed project and the Human Resource Development Program (HRDP), also supported by the Bank. These priorities have recently been reflected consistently in other policy statements issued by the Government (the Public Sector Investment Program (PSIP), the Medium Term Policy Framework and the Letter of Development Policy in the proposed Private Sector Development Adjustment Loan). With regard to (b), the MOEC has already begun a phased public education campaign, which the project will support, to ensure that all of the relevant stakeholders recognize the benefits of the reform. Representatives of groups potentially opposed to the reform have been brought into the development process early in the reform planning stages. Finally regarding (c), the MOEC has adopted an integrated management approach to the reform program rather than a stand-alone PIU which will provide: flexibility in managing and implementing both the reform and the project; and ensure that the far-reaching aspects of the reform are infused in all areas of the Ministry. Components with substantial or specialized manpower requirements, such as the day-to-day management of civil works execution, will be contracted out under the overall supervision of the MOEC's Reform Management Team.

61. **Recommendation**. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank, and recommend that the Executive Directors approve it.

Lewis T. Preston
President

Attachments
Washington, D.C.
March 4, 1993

JAMAICA COUNTRY ASSISTANCE STRATEGY
Policy Issues in Proposed FY93-97 Lending

Objective/Instrument	Issues
Consolidate Stabilization and Increase Public Sector Efficiency	
Public Sector Reform	• Improve efficiency and focus of public expenditures • Streamline central Government and reduce duplication of functions • Strengthen staffing and pay in central ministries • Strengthen regulatory functions and cost recovery policies
Privatization	• Accelerate divestment of public enterprises, including utilities • Regulatory reform to encourage competition
Reform Tax System	• Reduce exemptions to GCT and income tax • Reduce discretion in granting incentives • Improve tax and customs administration
Private Sector Development	
Trade Liberalization	• Maintain competitive real exchange rate • Meet and accelerate the CARICOM schedule for tariff reform • Reduce administrative barriers to exports
Enabling Environment	• Streamline investment approval procedures • Pass legislation to improve competition • Deregulate sugar and petroleum sectors • Develop capital markets • Strengthen export promotion services
Infrastructure Development	• Strengthen GOJ institutions to implement infrastructure projects -- Ministry of Construction and related agencies • Develop appropriate regulatory framework (Ministry of Public Utilities, Transport and Energy) and support institutional strengthening of National Water Commission and Jamaica Public Service Co. (power) • Encourage private sector participation and cost recovery in utilities and transport sectors • Improvements in urban transport policies

Objective/Instrument	Issues
Poverty Reduction and Improvement in Delivery of Social Services	
Policy Framework	• Promote employment-generating growth to reduce poverty • Improve efficiency and delivery of services within Human Resource Development Program (HRDP) policy framework • Increase share of expenditures for primary health care and basic education • Improve implementation of externally funded projects
Education	• Implement broad reform of basic education (grades 1-9) • Improve quality of education • Increase community participation
Health	• Strengthen referral system • Improve cost recovery (hospital, drugs, etc.) • Public/private provision of health services
Nutrition	• Target social assistance to vulnerable groups through food stamps and school nutrition programs
Sustainable Development	
Environmental Protection	• Strengthen capacity of national environmental institutions (NRCA) • Improve incentive regime for water and land use, including legislation • Address watershed protection and water pollution problems through investments also focusing on rural/urban poverty alleviation
Promote Energy Conservation	• Strengthen programs for energy demand management (GEF)

Schedule A

JAMAICA

REFORM OF SECONDARY EDUCATION PROJECT
Estimated Costs and Financing Plan

Estimated Cost:[a]	Local	Foreign	Total
	US$ million		
Secondary Reform Support			
Common Curriculum	1.4	0.4	1.8
ROSE Training	4.8	0.1	4.9
Education Materials	0.4	1.7	2.1
Textbooks	0.3	0.8	1.1
Infrastructure	9.9	5.9	15.8
Upper Sec Strategy	1.1	0.0	1.1
Evaluation and Management Strengthening			
Exam Rationalization	0.3	0.5	0.8
ROSE Management	0.8	0.2	1.0
Public Campaign	0.2	0.0	0.2
ROSE Evaluation	0.4	0.2	0.6
ROSE Phase II Prep	0.3	0.0	0.3
Policy Analysis and Management			
Policy Analysis Unit	1.4	0.2	1.6
Line Ministries	0.1	0.1	0.2
UWI	0.3	0.4	0.7
SLC	0.4	0.2	0.6
Total Base Costs	**22.1**	**10.6**	**32.7**
Physical Contingencies	0.9	0.6	1.5
Price Contingencies	5.7	0.8	6.5
Total Project Costs	**28.7**	**12.0**	**40.7**

Financing Plan:

	US$ million		
IBRD	20.9	11.1	32.0
Netherlands	1.8	0.9	2.7
Government	6.0	0.0	6.0
Total	**28.7**	**12.0**	**40.7**

[a] Including taxes and duties, which are negligible. *Totals may not add due to rounding.*

Schedule B
(page 1 of 2)

JAMAICA

REFORM OF SECONDARY EDUCATION PROJECT

Procurement Methods and Disbursements

(US$ Millions)

Category of Expenditure	ICB	LCB	Other	NBF	TOTAL COST
1. Works	3.9 (3.4)	11.0 (9.6)			14.9 (13.0)
2. Goods					
Furniture	1.8 (1.8)				1.8 (1.8)
Equipment	1.9 (1.9)		0.2[b] (0.2)	0.2[a]	2.3 (2.1)
Vehicles			0.02 (0.02)		0.02 (0.02)
Materials		0.6 (0.6)	0.2 (0.2)		0.8 (0.8)
Textbooks			0.9[b] (0.9)		0.9 (0.9)
3. Technical Assistance			6.7 (6.7)	0.9[a]	7.6 (6.7)
4. Studies, Pilot Program			1.9 (1.9)	0.6[a]	2.5 (1.9)
5. Training, Workshops			4.3 (4.3)	0.2[a]	4.5 (4.3)
6. Operation & Maintenance			2.2 (0.3)	0.2[a]	2.4 (0.3)
7. Incremental Staff			2.0 (0.2)	0.3[a]	2.3 (0.2)
8. Supplies, SLC Field Costs			0.4 (0.05)	0.3[a]	0.7 (0.05)
Total	7.6 (7.1)	11.6 (10.2)	18.8 (14.8)	2.7	40.7 (32.0)

Note: Figures in parentheses are the respective amounts financed by the Bank loan.
NBF: Not Bank-Financed.

a. Co-financed in parallel by the Government of the Netherlands; procured in conformity with World Bank *Guidelines: Procurement under IBRD Loans and IDA Credits* (Washington, D.C., May 1985), and *Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency* (August 1981).

b. Limited international bidding (LIB).

Disbursements by Category

The loan will disburse the following percentages, by category of expenditure:

- 85 percent of civil works
- 100 percent of equipment, furniture, vehicles, educational materials and textbooks
- 100 percent of technical assistance, training, fellowships, studies and pilot programs
- 50 percent of incremental recurrent costs up to an aggregate of US$235,800; thereafter 40 percent of incremental recurrent costs up to an aggregate of US$783,800; and 20 percent of incremental recurrent costs thereafter up to an aggregate of US$1,598,300.

Estimated IBRD Disbursements (US$ million)

IBRD FY	1994	1995	1996	1997	1998	1999	2000	2001
Annual	2.0	2.6	6.4	6.4	6.4	5.2	2.6	0.4
Cumulative	2.0	4.6	11.0	17.4	23.8	29.0	31.6	32.0

Economic Rate of Return: Not applicable.

Schedule C

JAMAICA

REFORM OF SECONDARY EDUCATION PROJECT

Timetable for Key Project Processing Dates

(a) Time taken to prepare 16 months:

June 1991	Identification
November 1991	Preparation
July 1992	Pre-Appraisal
October 1992	Appraisal

(b) First Bank Mission June 1991

(c) Appraisal Mission Departure October 1992

(d) Date of Negotiations February 1993

(e) Planned Date of Effectiveness June 1993

(f) Relevant PCRS and PPARs:

Credit/Loan No.	Project	PCR Date	PPAR No. & Date
Ln. 0468-JM	First Education Project	July, 1974	No. 0649 March 1975
Ln. 0727-JM	Second Education Project	June 30, 1981	No. 4161 November 1982
Ln. 0690-JM	First Population Project	October 31, 1978	No. 2580 June 29, 1979
Ln. 1284-JM	Second Population Project	February 9, 1984	No. 5589 April 1985
Ln. 2070-JM	Third Education Project	March 27, 1989	No. 9602 May 1991

STATUS OF BANK GROUP OPERATIONS IN JAMAICA

A. Statement of Bank Loans as of December 31, 1992

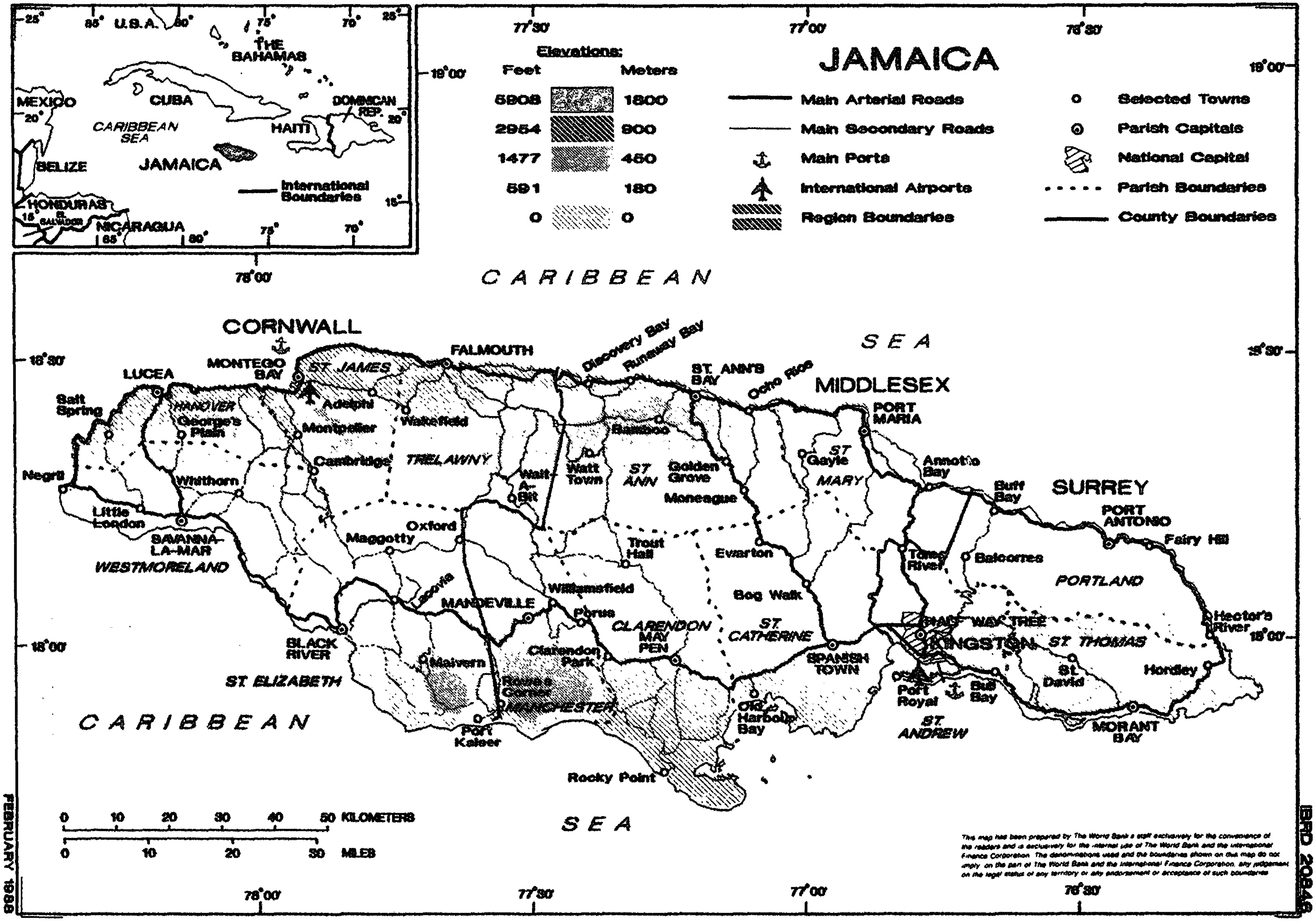
Credit No.	Fiscal Year/1	Borrower	Purpose		US$ Million (Less Cancellation) Bank	Undisbursed
43 Loans fully disbursed /1					764.5	
of which SECALs, SALs and Program Loans /2						
2105-JM	1982	Jamaica	Structural Adjustment I		76.2	
2315-JM	1983	Jamaica	Structural Adjustment II		60.2	
2478-JM	1985	Jamaica	Structural Adjustment III		55.0	
2848-JM	1987	Jamaica	Trade and Finance Sector Adjustment		40.0	
2849-JM	1987	Jamaica	Public Enterprise Sector Adjustment		20.0	
3174-JM	1990	Jamaica	Agriculture Sector Adjustment		25.0	
3303-JM	1991	Jamaica	Trade and Finance Sector Adjustment II		30.0	
			Subtotal		306.4	
2389-JM	1984	Jamaica	Urban Transport		16.0	5.1
2422-JM	1984	Jamaica	Water Supply and Sewerage T.A. Rehabilitation		9.0	2.8
2850-JM	1987	Jamaica	Sugar Rehabilitation		34.0	6.0
2851-JM	1987	Jamaica	Population and Health		10.0	7.3
2869-JM	1987	Jamaica	Fourth Power		18.0	2.8
2899-JM	1988	Jamaica	Education		8.3	1.5
3062-JM	1989	Jamaica	Clarendon Alumina Production		15.0	11.6
3111-JM	1990	Jamaica	Social Sector Development		30.0	26.3
3275-JM	1990	Jamaica	Road Infrastructure Planning		35.0	28.8
3386-JM	1991	Jamaica	Financial and Program Management Improvement		11.5	9.6
3502-JM	1993/3	Jamaica	Energy Sector Deregulation		60.0	60.0
			Total (net of cancellations)		1011.3	
			of which has been repaid		378.6	
			Total now outstanding		632.7	
			Amount Sold	1.6		
			of which has been repaid	1.6	0.0	
			Total Now Held by Bank		632.7	
			Total Undisbursed			161.8

/1 Including a telecommunications loan made in 1967 to the Jamaican Telephone Company and the Third Export Development fund loan made in 1983 subsequently cancelled.
/2 Approved during or after FY80.
/3 Not yet signed

B. Statement of IFC Investments as of December 31, 1992

Investment Number	Fiscal Year	Borrower	Type of Business	Loan	Equity	Total
038	1961	Jamaica Pre-Mix Ltd.	Cement & Constr. Materials	0.2	-	0.2
136	1969	Pegasus Hotels of Jamaica	Tourism	2.2	0.7	2.9
542	1981	West Indies Glass Company	Glass Containers	2.3	-	2.3
598	1982	Jamaica Flour Mills Limited	Food and Food Processing	5.0	-	5.0
818	1985	The Falcon Fund	Guarantee Facility	2.5	-	2.5
815	1985	Eastern Banana Estates 1/	Food and Food Processing	3.7	0.4	4.1
907	1986	St. Mary's Banana Estates Ltd.	Food and Food Processing	3.8	1.1	4.9
1129	1989	Eagle Merchant Bank	Commercial Bank	5.0	-	5.0
1130	1989	Jamaica Citizens Bank	Commercial Bank	5.0	-	5.0
1131	1989	Mutual Security Bank	Commercial Bank	5.0	-	5.0
		Total Gross Commitments		34.7	2.2	36.9
		Less Cancellations, Terminations, Participations Sales and Repayments		27.5	1.1	28.6
		Total commitments now held by IFC		7.2	1.1	8.3
		Total Undisbursed (Including Participants)		0.0		

1/ Investment was totally canceled


JAMAICA
Elevations:
Feet
Meters
5906
1800
2954
900
1477
450
591
180
0
0
Main Arterial Roads
Main Secondary Roads
Main Ports
International Airports
Region Boundaries
Selected Towns
Parish Capitals
National Capital
Parish Boundaries
County Boundaries
U.S.A.
THE BAHAMAS
MEXICO
CUBA
DOMINICAN REP.
HAITI
CARIBBEAN SEA
JAMAICA
BELIZE
HONDURAS
EL SALVADOR
NICARAGUA
International Boundaries
CARIBBEAN SEA
CORNWALL
MIDDLESEX
SURREY
ST. JAMES
HANOVER
TRELAWNY
WESTMORELAND
ST. ANN
ST. MARY
PORTLAND
ST. ELIZABETH
MANCHESTER
CLARENDON
ST. CATHERINE
ST. ANDREW
ST. THOMAS
MONTEGO BAY
LUCEA
FALMOUTH
Discovery Bay
Runaway Bay
ST. ANN'S BAY
Ocho Rios
PORT MARIA
Salt Spring
George's Plain
Adelphi
Wakefield
Montpelier
Cambridge
Negril
Whithorn
Little London
SAVANNA-LA-MAR
Maggotty
Oxford
Walt-A-Bit
Watt Town
Bamboo
Golden Grove
Moneague
Gayle
Annotto Bay
Buff Bay
PORT ANTONIO
Fairy Hill
Trout Hall
Ewarton
Tom's River
Balcorres
Williamsfield
MANDEVILLE
Porus
Bog Walk
Hector's River
HALF WAY TREE
KINGSTON
BLACK RIVER
MAY PEN
SPANISH TOWN
Malvern
Clarendon Park
Rocky Point
Old Harbour Bay
Port Royal
Bull Bay
St. David
Hordley
MORANT BAY
Port Kaiser
0 10 20 30 40 50 KILOMETERS
0 10 20 30 MILES
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FEBRUARY 1986
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