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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION

OF THE

PRESIDENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

TO

JAMAICA

FOR THE

SECOND EDUCATION PROJECT

February 18, 1971

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION OF THE PRESIDENT
TO THE EXECUTIVE DIRECTORS ON A
PROPOSED LOAN TO JAMAICA
FOR THE SECOND EDUCATION PROJECT

1. I submit the following report and recommendation on a proposed loan in an amount in various currencies equivalent to US\$13.5 million to Jamaica for the Second Education Project.

PART I - HISTORICAL

2. The proposed loan would be the second project for which the Bank has given financial assistance to Jamaica for implementation of its Education Development Plan for 1966-1980. In 1966 the Bank made a \$9.5 million loan (468-JM) to assist Government in establishing 50 junior secondary schools and in expanding teacher, agricultural, industrial and commercial training facilities. Construction of the schools included in the first project is expected to be completed by December 1971. In January 1970 Government submitted for the Bank's consideration a project prepared with UNESCO assistance. A Bank mission visited Jamaica in May 1970 to appraise this project.

3. Negotiations for the proposed loan were held from January 11 to 15, 1971. The Borrower was represented by Mr. Horace Barber, Deputy Financial Secretary, Ministry of Finance; Mr. Derry Marsh, Assistant Attorney-General; Mr. L.P. Brown, Project Director, Ministry of Education; Mr. K.E. Taylor, Assistant Chief Education Officer; Mr. Erwin L. Angus, Counsellor, Embassy of Jamaica in Washington; and Mr. G.R. Woodham, Ministry of Finance.

4. The proposed loan, the eighth to Jamaica, would increase the Bank's total lending (net of cancellations) to US\$60.0 million.^{1/} No IDA credits have been made to Jamaica. The following is a summary of Bank loans as of January 31, 1971:

^{1/} A telecommunications loan (No. 481-JM) made in 1967 to the Jamaica Telephone Company was cancelled by the Borrower during 1967. About \$13,000 withdrawn under the loan was repaid in full.

Loan Number	Year	Borrower	Purpose	(US\$ million)	
				Amount	Undisbursed
408-JM	1965	Jamaica	Highways	5.5	2.7
454-JM	1966	Jamaica Public Service Co.	Power	20.7	nil
468-JM	1966	Jamaica	Education	9.5	2.6
598-JM	1969	Water Commission	Water Supply	5.0	4.8
690-JM	1970	Jamaica	Population	2.0	2.0
*719-JM	1970	Jamaica Development Bank	Agricultural Credit	<u>3.7</u>	-
Total (less cancellations) of which has been repaid to Bank and others				46.4	
				<u>0.9</u>	
Total now outstanding				45.5	
Amount sold:			1.4		
of which has been repaid			<u>0.8</u>	<u>0.6</u>	
Total now held by Bank				<u>44.9</u>	---
Total undisbursed					<u>12.1</u>

* Loan signed on December 28, 1970, but not yet effective.

5. After the selection of the consultants for the highway project and the reduction in its scope in 1968 because of major cost overruns, construction work on the project has been proceeding satisfactorily. The water supply project was delayed initially due to the slow award of a major pipe contract. Disbursements began in November 1970, and the project is now expected to proceed expeditiously. Regarding the population project, progress has been made in the selection of the rural maternity center sites; design work is under way, and disbursement can be expected to begin during the next few months.

6. Several new projects are at various stages of preparation. A DFC-type project for industrial and hotel credit through the Jamaica Development Bank (JDB) is expected to be ready for Bank financing by the end of 1971, about the same time as a sewerage project for Kingston. The Government also has approached the Bank for assistance toward financing the highway sector, and airports, and the feasibility studies of these projects are at an early stage of preparation.

7. IFC has so far made two investments totalling US\$3.14 million in a hotel (Pegasus Hotel) and a cement manufacturing project.

PART II - DESCRIPTION OF THE PROPOSED LOAN

8. Borrower: Jamaica
- Amount: US\$13.5 million
- Purpose: To finance the foreign exchange cost of forty secondary schools, two teacher training colleges, two vocational training centers, and one ITV and educational materials and aids center, together with technical assistance and services.
- Amortization: In 25 years, including a 10-year grace period, through semi-annual installments beginning August 15, 1980 and ending February 15, 1995.
- Interest Rate: 7 $\frac{1}{2}$ % per annum
- Commitment Charge: 3/4 of 1% per annum

PART III - THE PROJECT

9. An appraisal report entitled "A Second Education Project in Jamaica" (No. PE-24a) is attached.
10. Since the mid 1960's Government has addressed itself increasingly to the country's education problems. Government has been seeking ways to curb the high rate of unemployment among the unskilled workers through making education programs more relevant to the country's needs in the industrial, commercial and agricultural sectors. Shortages of skilled and semi-skilled workers were found to exist as a result of the structural deficiencies within the present educational system and also because of the high rate of emigration among skilled workers. With the progress made on the first Bank-financed education project the critical area of shortage shifted to second cycle secondary education where the total enrollment of 15,200 was insufficient to meet the needs of the labor market. Furthermore, technical high schools have experienced difficulties in recruiting teachers. In an attempt to narrow the gap between the demand of the labor market and the output of the educational system, the Government has asked the Bank for assistance in financing a second education project.

11. The proposed project would contribute towards achieving this objective by increasing the enrollment capacity by about 19,300 new student places. To ensure that graduates acquire usable skills the senior department of the primary schools would be gradually eliminated, and these students would be transferred to junior secondary schools. This phasing out of the senior departments would have the added benefit of alleviating the severe overcrowding in the primary schools. Those pursuing their education under the proposed first cycle program would be instructed in industrial arts, agriculture and home economics. The secondary cycle curriculum would include pre-vocational courses in industrial, commercial, home economics, agricultural, scientific and related subjects. These courses would prepare the students for on-the-job training, for full employment, or further education. Admission to the secondary cycle would be on a selective basis. To ensure effective selection and provide competent guidance for interested students, the Ministry of Education's Guidance and Testing Division would prepare over the next two-year period all the proper testing materials. Enrollment under the first cycle, on the other hand, would be open to all students who have completed primary education, with each school serving a group of primary feeder schools. Teachers associated with the second-cycle program would require additional external technical assistance, initially through expatriates financed under bilateral assistance, mainly from the U.K. and Canada.

12. The proposed project based on the foregoing program, consists of the following inter-related elements:

- (a) construction and equipment for extensions of 17 existing high schools and the addition of facilities at 9 existing junior secondary schools for converting them into comprehensive schools; construction and equipment for two new secondary comprehensive schools and twelve new junior secondary schools;
- (b) construction and equipment for a new primary teacher training college; additions to an existing teacher training college and additions to the College of Arts, Science and Technology (CAST) for establishing a Technical Teacher Training Department;
- (c) construction and equipment for two new vocational training centers;
- (d) construction and equipment for an Instructional Television (ITV) and Education Materials and Aids Center;
- (e) technical assistance and fellowships for (i) developing training programs for the comprehensive schools, (ii) improving ITV services, (iii) supporting the teacher training programs, (iv) establishing testing procedures, and (v) educational planning; and
- (f) technical services to reinforce the project unit.

13. The total cost of the project is estimated at approximately US\$28.2 million. The proposed loan of US\$13.5 million would cover the estimated foreign exchange component of the cost of civil works, equipment, furniture and technical assistance, as well as interest and other charges during construction on the proposed Bank loan. A small amount of local cost financing might be involved if some specialists to be engaged under the technical assistance program were Jamaican.

14. The extension of CAST to establish a technical teacher training department has been included in the project, but will be financed by the Canadian International Development Agency (CIDA) with a loan repayable over 30 years (7 years of grace) at 3 percent. CIDA has an extensive program of assistance in the field of education for construction, equipment and technical assistance in Jamaica and CIDA will also extend assistance to CAST outside of the project. If, for any reason, Canadian assistance is not forthcoming, Government has undertaken to complete this work which is an important part of the project.

15. Contracts for civil works, equipment and furniture would be awarded on the basis of international competitive bidding. Bids would be invited in the form of packages to encourage both international and local bids. Local manufacturers of furniture and equipment would be given a preferential margin of up to 15 percent or the actual duty, whichever is lower. To avoid duplication of effort and cost, the architectural designs prepared for the schools in the first education project would be used, wherever feasible, for similar schools included in the proposed project.

16. The proposed project would continue to be administered by the Project Unit, which was established in the Ministry of Education for the first education project. Serious cost overruns occurred in the first project, mainly due to expenses relating to late site selection, changes in site selection after design work had been completed and increases in the cost of labor and materials. Government is anxious to avoid a repetition of the situation, and all of the sites have already been selected for the schools under the new project. Furthermore, closer cost control will be provided as a result of agreement reached during negotiations whereby the Project Unit would be enlarged to include an architect, a quantity surveyor and an equipment specialist.

PART IV - LEGAL INSTRUMENTS AND AUTHORITY

17. The draft Loan Agreement between Jamaica and the Bank, the Report of the Committee provided for in Article III, Section 4 (iii) of the Articles of Agreement and the text of a Resolution approving the proposed loan are being distributed to the Executive Directors separately. The draft Loan Agreement conforms substantially to the pattern of agreements for other education projects.

PART V - THE ECONOMY

18. An economic report entitled "Current Economic Position and Prospects of Jamaica" (No. WH-187a) was distributed to the Executive Directors on December 26, 1968. The report concluded that, on the whole, the performance of the economy had been satisfactory, and that the outlook for further growth was quite favorable. With the expected continuation of sound economic and fiscal policies and a more active government role in fostering agriculture and dealing with the high rate of population growth, Jamaica was considered creditworthy for further external borrowing on conventional terms. A new economic report on Jamaica is currently under preparation; it is not expected to arrive at very different conclusions. A basic data sheet is attached.

19. Economic growth has been vigorous through the last decade. After a slowdown in 1966/67, growth of GDP has accelerated again and is now just under 5 percent in real terms, the rate prevailing during the early 1960's. The growth of the various sectors of the economy has, however, been very uneven. Bauxite and alumina production, tourism, non-food manufacturing and construction were the most dynamic sectors during the 1960's and attracted much private foreign investment. Agriculture, except livestock production, virtually stagnated with output of the main export crops, sugar and bananas, falling steadily. The participation of agriculture in GDP declined between 1963 and 1969 from 12 percent to 9 percent, whereas over the same period bauxite and alumina production increased theirs from 9.6 percent to 11.6 percent. The growth was supported by a high level of investment, principally in the bauxite and alumina and the tourist sectors. Investment accounted for 29 percent of GDP in 1969, against just over 20 percent before 1966. Hence the prospects for attaining a somewhat faster growth in the next few years seem quite good. There is much need to achieve this economic expansion in view of Jamaica's chronic high unemployment (13-15 percent of labor force). Balance of payment constraints should not be a brake to a rate of growth of the economy of around 6 percent a year so long as inflation can be kept under control.

20. Inflationary pressures have recently built up as a result of an upward movement of wages, a steady expansion of credit, the 1967 devaluation to maintain parity with sterling, and generally rising prices abroad. Union-negotiated wage increases have outstripped money GDP for over a decade: they again exceeded 13 percent on an annual basis. The Government is unlikely to jeopardize its political support in the labor movement by advocating an incomes policy to restrain collective bargaining gains. The authorities are relying on credit restraint instead.

21. Fiscal performance on the level of the Central Government has been good, while the rest of the public sector has incurred growing deficits which have necessitated increased transfers to these entities. Shortages of qualified personnel rather than of funds have acted as the main constraint to increasing investment. Nevertheless, public investment has more than doubled since the mid-sixties. By 1969 and probably in 1970, approximately 80 percent of public investment was covered by the rising budgetary surpluses. This was

made possible by a real increase in current revenues of more than 12 percent per year between 1966 and 1969, while current expenditures increased by 9 percent per year in real terms over the same period. Until 1969, revenue growth resulted principally from the increase in personal incomes and consumption and in bauxite and alumina exports. Since then, new tax measures were introduced which aim at reducing tax avoidance and at a higher taxation of corporate incomes. Capital gains from land and shares and idle land held by foreigners are now also made subject to taxation. As a result, current revenue grew in 1969 by 21 percent and approached a proportion of 20 percent of GDP. The increase in revenue is likely to remain vigorous until about 1972, but to taper off thereafter when, as expected, bauxite production ceases to increase significantly and the effects of the recent tax measures are no longer felt. Current expenditures will continue to grow at a high rate, with spending on education and social services being stepped up further. To deal with the serious shortages in qualified manpower throughout public administration, the Government in 1970 granted substantial salary increases, concentrated on the higher echelons, to be spread over three years. Public investments are likely to increase only slowly over the next four years. The sectoral allocation of Central Government investment is unlikely to change substantially, with transport, agriculture and education remaining the most important sectors and each accounting for about 20 percent of the total.

22. The public debt is still fairly low. The foreign debt contracted by the end of 1969 was US\$154 million (including undisbursed). Total debt service amounted in 1969 to just under 12 percent of current revenues; service on external debt alone amounted to 3.5 percent of export receipts (net of factor income payments). Future borrowing, though considerably higher than in the past few years, is expected to remain prudent. Under these conditions, Jamaica should remain creditworthy for considerable amounts of external borrowing at conventional terms.

PART VI - COMPLIANCE WITH THE ARTICLES OF AGREEMENT

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

PART VII - RECOMMENDATION

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

Robert S. McNamara
President

Attachments

February 18, 1971

ANNEXJAMAICABASIC DATA

Area	Area:	10,992 square kilometers		
	<u>Population:</u> (end of 1969, estimated)	1.94 million		
	Density per sq. km.	175		
	Annual rate of natural increase (1960-1968)	3.1 percent		
		<u>1967</u>	<u>1968</u>	<u>1969</u>
	<u>GNP</u> , current market prices (J\$ million)	731	807	887
	Per capita (US\$)	468	528	549
	Sector origin (percent of GDP at factor cost)		(Prov.)	(Prelim.)
	Agriculture, livestock	11.3	10.3	9.0
	Mining	9.5	9.6	11.6
	Manufacturing, utilities	15.1	15.2	14.6
	Other	64.1	64.9	64.8
	Use of GNP (in percent)			
	Gross fixed investment	24.3	28.6	29.4
	Consumption	83.8	82.8	82.3
	Resource Gap (external)	4.7	7.4	8.1
	<u>Money and Quasi-money</u> (end of year, in J\$ million)	212.2	271.2	324.4
	Change in percent	9.7	27.8	19.6
	<u>Price Movements</u>			
	Consumer price index (end of year 1963 = 100)	110	117	124

1967	1968 (Revised	1969 (Revised Estimates)	1970 (Budgeted)
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(F.Y. beginning April 1)

Central Government Finances (J\$ million)

Current Revenues	131.6	150.2	182.1	216.2
Current Expenditures	120.1	134.4	152.6	181.4
Current Surplus	11.5	15.8	29.5	34.8
Capital Revenues	2.7	2.8	2.2	2.5
Total Surplus	14.2	18.6	31.7	37.3
Capital Expenditures (including amortization)	43.2	54.9	65.6	82.7
Deficit	29.0	36.3	33.9	45.4
Financed by:				
domestic borrowing (gross)	17.2	27.6	23.5	28.7
external borrowing (gross)	8.4	16.4	9.0	14.6
change in deposits (-=increase)	3.4	-7.7	1.4	2.1

Balance of Payments (US\$ million)

(Calendar year)

Exports (f.o.b.)	226.5	221.8	257.2
Imports (f.o.b.)	-296.1	-330.7	-381.2
Tourism (net)	68.1	75.5	78.5
All other invisibles (including transfers; net)	-68.3	-73.8	-82.2
Total current account	-69.8	-107.2	-127.7
Public capital (net)	2.7	16.0	6.9
Private capital (net)	83.3	129.2	108.5
Change in official reserves (-=increase)	-16.1	-33.9	13.9

Concentration of Commodity Exports (percent)

Bauxite and alumina	48.4	48.1	55.3
Sugar and rum	23.1	19.2	14.1
Bananas	9.1	7.5	5.8

External Public Debt (end of year, US\$ million)

(as reported to IBRD)	145.2	151.7	153.9
of which: undisbursed	53.7	37.0	32.0

Foreign Exchange Reserves (end of year
US\$ million)

Monetary authorities	101.5	141.6	140.6	164.0
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Rate of Exchange (end of year, US\$ per
Jamaican pound/dollar)

	2.40	2.40/	1.20	1.20
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February 11, 1971