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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A PROPOSED LOAN

IN THE AMOUNT OF US$130 MILLION

TO JAMAICA

FOR THE

ECONOMIC STABILIZATION AND FOUNDATIONS FOR GROWTH

DEVELOPMENT POLICY LOAN

November 8, 2013

Poverty Reduction and Economic Management
Caribbean Countries Management Unit
Latin America and the Caribbean Region

JAMAICA - GOVERNMENT FISCAL YEAR
April 1 - March 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of November 7, 2013)

Currency Unit
US$1.00 = J$105.2

ABBREVIATIONS AND ACRONYMS

BoJ	Bank of Jamaica
CEM	Country Economic Memorandum
CGF	Caribbean Growth Forum
CPC	Chief Parliamentary Council
CPI	Consumer Price Index
CPS	Country Partnership Strategy
CTMS	Central Treasury Management System
DFID	Department for International Development
DPL	Development Policy Loan
EFF	Extended Fund Facility
EPOC	Economic Program Oversight Committee
FRF	Fiscal Responsibility Framework
GDP	Gross Domestic Product
GoJ	Government of Jamaica
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-America Development Bank
ICT	Information Communications Technology
IFC	International Finance Corporation
IFI	International Financial Institutions
IMF	International Monetary Fund
JAMPRO	Jamaica Investment Promotion Agency
JDX	Domestic Debt Exchange
JM$	Jamaican Dollar
KCT	Kingston Container Terminal
LDP	Letter of Development Policy
LHI	Logistics Hub Initiative
LNG	Liquefied Natural Gas
MDA	Ministries, Departments and Agencies
MDGs	Millennium Development Goals
MIIC	Ministry of Industry, Investment and Commerce
MNP	Mobile Number Portability
MOE	Ministry of Education
MOF	Ministry of Finance
MSME	Micro and Small and Medium-Sized Enterprises
MTEF	Medium-Term Expenditure Framework
NCC	National Competitiveness Council
NDP	National Development Plan
NDX	National Debt Exchange
NEPA	National Environmental Protection Agency
NPL	Non-performing Loans
PED	Public Enterprise Division
PER	Public Expenditure Review
PIOJ	Planning Institute of Jamaica
PNP	People's National Party
PPP	Public Private Partnership
PSIP	Public Sector Investment Plan
SHRMD	Strategic Human Resource Management Division
SOE	State-owned Enterprises
SOP	Standard Operating Procedures
UNDP	United Nations Development Program

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JAMAICA

ECONOMIC STABILIZATION AND FOUNDATIONS FOR GROWTH DEVELOPMENT POLICY LOAN

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LOAN AND PROGRAM SUMMARY

JAMAICA

ECONOMIC STABILIZATION AND FOUNDATIONS FOR GROWTH DEVELOPMENT POLICY LOAN

Borrower	Jamaica
Implementation Agency	Ministry of Finance
Financing Data	*IBRD Loan:$130 million* *Terms:* US dollar denominated, commitment-linked, IBRD Flexible Loan with a Variable Spread, with level repayment schedule, with a total repayment term of 29.5 years, including a Grace Period of 6 years, with all conversion options selected, and the capitalization of the Front End Fee and the Premia for Interest Rate Caps and Collars, payable on May1 and November 1.
Operation Type	Stand-alone single-tranche Development Policy Loan
Main Policy Areas	*Pillar 1: Improving Investment Climate and Competitiveness* *Pillar 2: Improving Public Financial Management for Sustained Fiscal Consolidation*
Program Development Objective(s)	The operation will support the Government of Jamaica's implementation of a set of policy and institutional reforms to increase competitiveness and improve fiscal management.
Result Indicators	*Baseline data is for 2013 data unless otherwise specified; target is for end-2014.* *Pillar 1 Indicators:* ▪ Civil court cases above JM$ 250,000 processed by lower courts. Base: 0, Target: 2,250 ▪ Percent of construction permit applications approved within 90 days. Base: 89.6, Target: 95 ▪ Number of micro enterprises and small businesses that filed GCT returns: Base (2010):10461, Target: 11000 *Pillar 2 Indicators:* ▪ Number of sector-based tax incentives programs Base: 15, Target: 4 ▪ Percent of central personnel entered into personnel database. Base: 60, Target: 100 ▪ Percent of MDA payments done through electronic fund transfer. Base: 90, Target: 98 ▪ Percent of public investment projects in the online database. Base: 0, Target: 90
Overall Risk Rating	**High.** The Operation faces high risks, including that(i) macroeconomic stability would not be achieved as the fiscal adjustment is derailed, the supply response does not materialize in the short run, and/or additional negative external shocks or natural disasters create unforeseen financing; (ii) the reform agenda could lose steam if early results are not sufficient to maintain political and popular support; and (iii) limited technical capacity in the administration could slow down the pace of reforms. Some risks can be, and are being, mitigated. On the country side, the GoJ has already taken a number of actions that indicate a strong commitment to reform, including front loading a number of tough reforms, putting in place supervisory arrangements to ensure that reforms are effectively managed on a day to day basis, and building an unprecedented social

	compact with key stakeholders to support the reforms. The program is accompanied by technical assistance in critical reform areas to build capacity. Finally, the IMF, Bank and the IDB are closely monitoring the macroeconomic situation to try and address, to the extent possible, any emerging macroeconomic risks. Nevertheless, a significant risk remains if debt dynamics do not improve, and cannot be mitigated without a more significant resolution of the country's debt.
Operation ID	P145995

IBRD PROGRAM DOCUMENT FOR A PROPOSED ECONOMIC STABILIZATION AND FOUNDATIONS FOR GROWTH DEVELOPMENT POLICY LOAN TO JAMAICA

I. INTRODUCTION AND COUNTRY CONTEXT

1. **This Program Document presents a proposed Development Policy Loan (DPL) for Jamaica.** The proposed stand-alone operation, in the amount of US$130 million, supports the Government of Jamaica's (GoJ) ongoing efforts at structural reforms. Good progress on structural reforms is critical to attract private sector investment and leverage opportunities that could help the country break its continued cycle of high debt and low growth. The reforms are part of Vision 2030, the country's National Development Plan which sets development goals for economic prosperity, human development, security, and management of natural resources. This operation has two key pillars: (i) improving investment climate and competitiveness and (ii) improving public financial management for sustained fiscal consolidation. The operation is aligned with the FY 14-17 Country Partnership Strategy (CPS) currently under preparation which is expected to focus on building conditions for broad based private sector led growth, improving public sector efficiency and reducing vulnerability.

2. **Jamaica's progress on poverty and shared prosperity has been seriously undermined in the recent past due in large part to economic shocks that are amplified by structural weaknesses in the economy**. Jamaica has experienced low growth, high public debt, and serious social challenges for almost three decades. These factors have eroded Jamaica's competitiveness, leading to economic stagnation and volatility. For the past 30 years real per capita GDP increased at an average of just 1 percent per annum, making Jamaica one of the slowest growing developing countries. Nevertheless, between 1997 and 2007, Jamaica managed to reduce its poverty rate from 19.9 to 9.9 percent of the population. The global financial crisis resulted in a significant reversal of this progress, as poverty increased sharply to 17.8 percent in 2010, and unemployment reached 16 percent in 2013 (compared with 9.7 percent in 2007), with youth unemployment at 30 percent.[1]

3. **The crisis particularly affected the poor and middle class**. While a large part of the population suffered from negative real consumption growth, economic difficulties disproportionately affected the bottom 40 percent of the population. This has led to higher inequality, reversing a previously positive trend. The share of consumption of the bottom 40 percent of Jamaica's population, which had improved from 16.7 percent to 17.8 percent between 2001 and 2007, fell slightly to 17.3 percent in 2010. Rural areas were the hardest hit by the crisis, with the rural poverty level increasing from 17 percent in 2008 to 23.2 percent in 2010.

4. **The Government of Jamaica (GoJ) has articulated a comprehensive program of reforms that includes fiscal consolidation and a strategy to promote private sector-led growth.** In December 2011, the People's National Party (PNP) won a five year mandate,

[1] Note that the Government of Jamaica is currently revising its poverty calculation methodology, with support from the Bank. These numbers may change in the future if a revised methodology is adopted as is currently planned.

securing two thirds of the seats in Parliament.[2] The GoJ signed an IMF Extended Fund Facility Arrangement (EFF) for SDR 615.4 million (about US$932.3 million) for the period of April 2013 to March 2017, to support its reform program. The Government's economic reforms will also benefit from support from the World Bank and the IDB, with each having agreed to allocate US$510 million over the next four years. A number of significant policy actions were taken prior to the signing of the EFF Arrangement and the pace of reforms has persisted as evidenced by Jamaica's successful completion of the EFF's first review in September 2013.

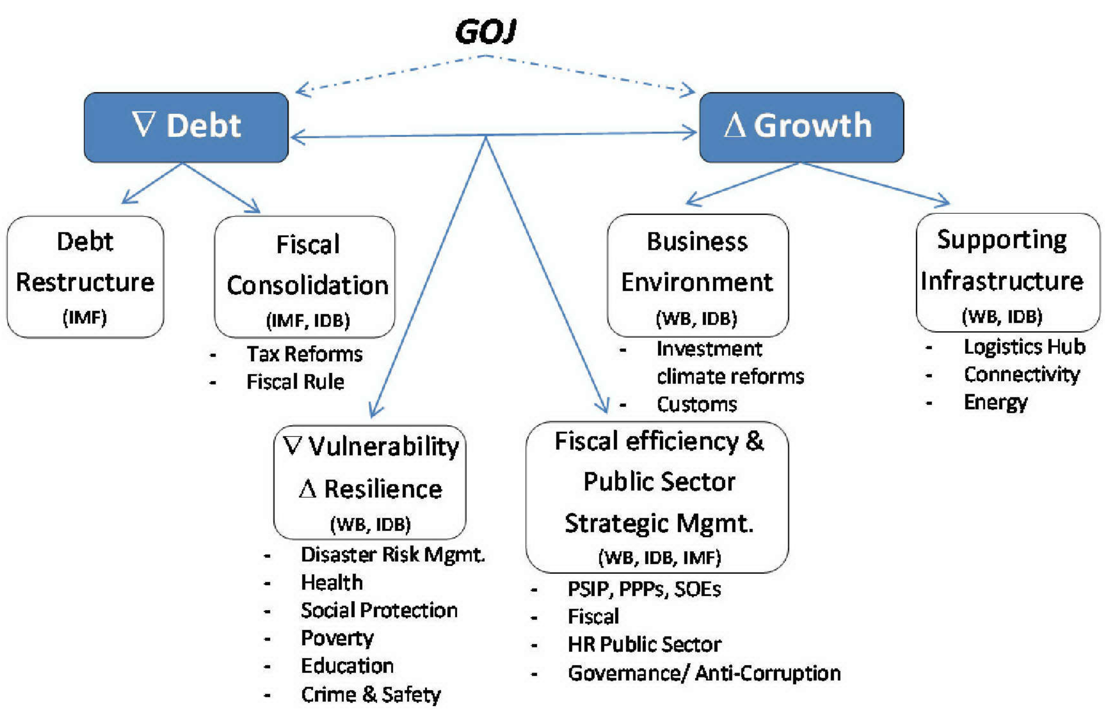
5. **Together, the three multilaterals are supporting a wide range of structural reforms designed to stabilize the economy, reduce debt, restore confidence, and build the foundations for growth and resilience (Figure 1).** The Bank, IMF, and IDB have a long record of partnership in Jamaica. In 2010, the three institutions supported the Government in addressing the adverse impact of the global financial crisis with a billion dollar financial package that included a US$200 million Bank DPL, similar support from the IDB, and a US$650 million IMF disbursement under a Stand-By Arrangement. The three institutions supported reforms that focused on fiscal and debt sustainability and public financial management. This time around, the institutions have come together once more to provide financial support for a comprehensive reform agenda under an IMF-led program. The Fund-supported program has focused on debt restructuring, fiscal consolidation and financial sector reforms. The IDB has focused on tax reform, including the legislation to reform the incentive system. The Bank is playing an important role supporting structural and institutional reforms to lay the foundations for future growth, enhance competitiveness, social protection and resilience, and improve public sector management, which are critical to the goals of debt reduction and sustainable growth. The Bank and IDB are coordinating their assistance in the different sectoral areas to ensure complementarity and consistency.

6. **This DPL supports initial steps towards removing key impediments to making the policy and institutional framework in Jamaica more conducive to supporting future growth**. Reversing Jamaica's low growth requires that Jamaica simultaneously (i) addresses the macro imbalances that have led to an unsustainable debt level; (ii) improves the business environment to attract strategic investments; and (iii) establishes mechanisms to manage the costs of natural disasters and to build social resilience by improving the delivery of critical social services. The Government has taken the first steps towards macro stability and debt sustainability (para 11). This DPL is part of an IFI package and supports Government's efforts to implement reforms that improve the investment climate and support fiscal consolidation. While raising growth rates in the short term is a difficult proposition, these reforms, if deepened and sustained, could significantly transform the policy and institutional landscape in Jamaica, attracting new investments that create jobs, improving the institutional arrangements for public service delivery and affording opportunities for all to compete in a global workplace. It is envisaged that this stand-alone operation will be followed by a programmatic series under the new CPS that will deepen reforms in these areas. The proposed DPL is complemented by Non-Lending Technical Assistance (NLTA), support through the Bank-managed DFID trust fund, and a number of investment operations that are under preparation.

[2] Jamaica is a Westminster-style parliamentary democracy. The PNP also won local elections in March 2012 confirming a strong support of its manifesto.

7. **While risks associated with meeting the objectives of this operation are high, inaction could be costly, and the GoJ's strong commitment and serious approach to reform implementation suggests that returns to this operation could be high.** The 2010 IFI supported Stand-By program was not successfully concluded, and by early 2013 there were speculations regarding Jamaica's ability to roll over large debt maturities. This time around, the GoJ has taken a number of actions that indicate a stronger commitment to reform. First, the GoJ undertook a number of tough reforms upfront, as prior actions to the IMF supported program (para.11). Second, they have put in place layers of implementation and supervisory arrangements to ensure that reforms receive high priority on a day to day basis. Third, the Government signed an unprecedented social compact with key stakeholders who have committed to support these reforms (para.52). Jamaica also faces a key opportunity to take advantage of the widening of the Panama Canal to transform itself into a global logistics hub (para.17). The Government appears convinced of the risks of inaction and its recent actions and dialogue with the IFIs support this assertion.

Figure 1. An Overview of IFI supported Reforms in Jamaica



II. MACROECONOMIC POLICY FRAMEWORK

2.1 Recent Economic Developments

8. **Jamaica has experienced a difficult macroeconomic situation since the global economic crisis.** Jamaica was hit hard by the global economic crisis, as tourism and bauxite revenues plummeted, FDI and remittances declined and the economy contracted by 1.2 percent

on average per year between 2009 and 2011. This contributed to raising Jamaica's debt ratio which reached 146.1 percent by end-March 2013. The country's debt service ratio averaged between 85-90 percent of revenue in recent years, leaving the Government with no option but to refinance maturing debt obligations and limiting fiscal space for productive expenditures.

9. **Despite a strong effort at macro stabilization in January 2010, which included a large domestic debt exchange, limited structural reforms hurt economic prospects and derailed the Stand-By Arrangement signed with the IMF in 2010**. After the global crisis, the strong macro stabilization effort was not followed by a commensurate effort on structural reforms. The country launched a strong macro stabilization effort in January 2010, which included a large domestic debt exchange (Jamaica Debt Exchange, JDX). The JDX reduced interest payments providing the country with an opportunity to reduce its financing needs and begin the process to establish sustainability of the debt. The Government had initial success with divestment efforts, and made progress in the area of tax administration, however the IMF Standby Arrangement went off-track in 2011, halting official flows to the country, just as interest rates were turning upwards and rescheduled payments coming due. The country was unable to fully secure the gains from the 2010 debt restructuring as pace of reforms slowed.

10. **Jamaica narrowly averted an economic crisis in early 2013.** By early 2013, investor confidence eroded partly due to the delays in concluding a new arrangement with the IMF. Continued macroeconomic challenges as well as the lingering effects of Hurricane Sandy, which hit the island in October 2012, negatively impacted economic performance. By February 2013, the Jamaican dollar had depreciated by 15 percent over the previous 12 months, foreign exchange reserves were barely US$900 million (less than half their level in 2010), and Jamaica's ability to refinance the large debt service payments due that month became a subject of speculation.

11. **The macro and fiscal reforms implemented under the new IMF supported program have worked to partly restore confidence to the Jamaican economy.** The fiscal stance improved in the run up to the IMF agreement, and difficult prior actions were implemented. This included a second comprehensive domestic debt exchange (that restructured 65 percent of GDP worth of debt and resulted in a fall in interest payments from 25.5 percent of revenues and grants in FY12-13 to 18.5 percent in FY13-14), a multi-year wage agreement with trade unions, and an upfront new tax package that restricted the use of discretionary tax waivers. Since the agreement, the economy has begun a slow path to stabilization as reserve losses were contained and the exchange rate, while depreciating slightly, stopped its free fall. The fiscal stance continues to improve, and the central government primary surplus reached 5.4 percent in FY2012/13 (compared to an average of 3.9 percent for the previous two years). The financial sector appeared to take the second debt restructuring in its stride, despite its high exposure to government debt, and did not utilize the $850 million support fund established by the Government.

12. **Economic targets and structural benchmarks for the first review of the IMF Program have been met, but growth remains elusive, and inflationary pressures persist.** Real GDP declined by 0.1 percent in the first quarter of FY2013/14. This performance compares to an average decline of 0.8 percent for the four preceding quarters. The weak growth performance is mainly explained by low external and domestic demand and a cautious investor stance. Low domestic demand reflects the impact of depressed real wages and high

unemployment. CPI inflation picked up in the second half of FY2012/13, but inflation impulses were eventually tempered by the first quarter of FY2013/14. During the first half of 2013, inflation was driven partly by the impact of pervasive drought conditions on some agricultural crops as well as higher international commodity prices. Thus, despite a general weakness in consumer spending, inflation reached 9.7 percent (year-over-year) in July 2013, compared to an average of 6.6 percent over the previous two years.

13. **The Bank of Jamaica (BoJ) relaxed monetary policy in early 2013, but since then monetary conditions have tightened.** Effective February 2013, BoJ reduced the interest rate on the 30-day Certificates of Deposit by 50 basis points to a historical low of 5.75 percent, down from 6.25 percent where the rate had been over the previous 18 months. More recently, the BoJ has actively sterilized its reserves build-up, while the lengthening of maturities in the NDX has contributed to reduced commercial bank liquidity. To ensure orderly adjustment in the exchange rate, the monetary authorities have sought to curtail excess liquidity through increased offerings of US$-indexed bonds and attractively priced Jamaica dollar securities. Nonetheless, the currency has continued to depreciate this fiscal year.

Table 1: Key Macroeconomic Indicators
(in percent of GDP, unless otherwise indicated)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Real economy	Annual percentage change, unless otherwise indicated						
GDP (J$ billions)	1,172	1,260	1,336	1,479	1,649	1,833	2,035
Real GDP	-0.6	0.9	-0.7	0.8	1.4	1.8	2.2
Imports	11.4	21.1	-0.6	-1.5	-1.3	-1.4	0.6
Exports	0.8	19.2	4.7	1.0	4.4	6.3	6.3
Unemployment rate	12.9	14.1	14.2	16.3	...	...	...
CPI (eop)	7.8	7.3	9.1	10.5	9.4	8.8	8.5
Fiscal Accounts	Percent of GDP, unless otherwise indicated						
Budgetary expenditure	33.2	32.0	29.9	28.0	27.7	27.1	26.4
Budgetary revenue	26.8	25.6	25.8	27.5	27.3	27.4	27.4
Budget balance	-6.3	-6.4	-4.1	-0.5	-0.4	0.3	1.0
Selected Monetary Accounts	in J$ billions						
Base Money	79	84	91	103	115	128	142
Credit to Private Sector	219	249	294	337	390	449	515
Interest (Key policy interest rate, eop)	6.75	6.25	5.75				
Balance of Payments	Percent of GDP, unless otherwise indicated						
Current Account Balance	-8.9	-14.8	-12.4	-11.0	-9.5	-7.6	-5.9
Imports	36.4	41.0	40.4	41.0	40.3	39.3	38.5
Exports	10.4	11.5	12.0	12.5	13.0	13.6	14.1
Foreign Direct Investment	1.3	1.5	1.7	4.1	4.2	3.5	2.3
Gross Reserves (weeks of imports of GNFS)	26.2	17.1	11.2	13.1	13.4	14.5	16.6
Net International reserves in US$ millions 2/	2592	1796	884	1225	1392	1437	1593
Public Debt 3/	143.2	141.6	146.1	142.7	134.5	129.6	124.3
Exchange Rate (average)	86	86	91	...	...	...	...
Other memo items:							
GDP nominal in US$ millions	13,631	14,653	14,754	...	...	...	...

Sources: IMF, Statistical Institute of Jamaica and Bank of Jamaica.
1/ Fiscal years run from April 1 to March 31. Authorities' budgets presented according to IMF definitions.
2/ Excludes the part of gross reserves to address potential FSSF-related demand.
3/ Central government direct and guaranteed only, including PetroCaribe debt (net of its financing to the central government) and projected IMF disbursements and other IFIs.

Table 2: BOP Financing Requirements and Sources
(in US$ millions)

	2012/13	2013/14	2014/15	2015/16	2016/17
BOP financing requirements and Sources					
Current account deficit	-1834	-1569	-1361	-1105	-886
Capital and financial account	941	1473	1322	932	790
Capital account (net)	-5	-5	-5	-5	-5
Financial account (net)	946	1479	1327	937	795
Direct investment (net)	258	587	596	506	344
Central Government (net)	-450	-215	-294	-393	-283
Other official (net)	552	624	610	460	370
Of which: PetroCaribe	339	336	306	273	249
Portfolio investment (net)	586	483	415	364	364
Financing	893	96	39	174	96
Change in reserves (- increase)	921	-225	-4	-172	-332
IMF 1/	0	-26	-163	127	176
Disbursements	0	346	259	176	176
Repayments	0	-372	-422	-50	0
IFI's	107	346	206	219	252

Source: IMF.

1/ Negative indicates repayment to the IMF.

Table 3: Key Fiscal Indicators
(in percent of GDP)

	2012/13	2013/14	2014/15	2015/16	2016/17
Budgetary revenue and grants	25.8	27.5	27.3	27.4	27.4
Tax	24.0	24.6	24.7	24.8	24.8
Non-tax	1.5	2.2	2.2	2.2	2.2
Grants	0.3	0.7	0.5	0.5	0.4
Budgetary expenditure	29.9	28.0	27.7	27.1	26.4
Primary expenditures	20.4	20.0	19.8	19.9	19.9
Wages and salaries	11.0	10.6	9.8	9.1	9.0
Programme expenditure	6.5	6.4	6.5	6.8	6.8
Capital expenditures	2.8	3.0	3.5	4.1	4.1
Interest payments	9.5	8.0	7.9	7.2	6.5
Domestic	6.6	5.2	5.1	4.7	4.1
External	2.9	2.8	2.8	2.5	2.4
Budget balance	-4.1	-0.5	-0.4	0.3	1.0
Primary balance	5.4	7.5	7.5	7.5	7.5
Gross financing sources	10.9	7.5	6.3	8.5	2.1
Domestic	10.2	6.0	1.6	4.8	1.2
External	0.7	3.5	2.6	3.7	2
Divestment + deposit drawdown	0.0	-2.0	2.1	0	-1.1
Principal repayments	6.6	7.0	5.9	8.9	3.1
Domestic	2.8	5.1	2.8	4.1	0.9
External	3.8	1.9	3.1	4.8	2.2
Public entities balance	0.1	-0.1	0.2	0.2	0.1
Public sector balance	-4.2	-0.6	-0.2	0.5	1.2

Source: IMF.

Table 4: Composition of Jamaica's Debt

March 2013	USD (Bn)	% Share	% of GDP
Total public debt	**20.0**	**100**	**146.1**
Govt (Domestic)	10.3	54	75.2
Govt guaranteed	1.7	9	12.4
Petrocaribe	1.2	7	8.8
Govt (External)	6.8	30	49.7
Financial sector holdings	7.4	37	54.1

March 2013	USD (Bn)	% Share	% of GDP
Total external debt	**6.8**	**100**	**49.7**
Bonds	2.9	43	21.2
Commercial banks	0.2	3	1.5
IMF	0.9	12	6.6
Multilateral	2.2	33	16.1
Bilateral Non-OECD	0.3	4	2.2
Bilateral OECD	0.3	5	2.2
Other	0.01	0.2	0.1

Source: IMF

2.2 Macroeconomic Outlook and Debt Sustainability

14. **Jamaica's macroeconomic outcomes are expected to improve under the IMF-supported program, with a significant turnaround in the fiscal and current account deficits, and a resumption of growth to 2.2 percent per annum by FY16/17.** Table 1 presents the macroeconomic framework underpinning the IMF-supported program. The projections are ambitious, and subject to downside risk. In particular, while the GoJ is working hard to meet fiscal targets, growth outcomes may be lower than projected, requiring an even tighter fiscal consolidation effort if the debt overhang is to be reduced significantly. Jamaica's tight linkages with the global economy make it difficult for growth to materialize in a depressed global environment. As the projections indicate, growth will remain subdued initially given the contractionary impact of fiscal consolidation, and will need to be supported by early success in securing large investments.

15. **A decisive shift of the growth trajectory will require existing growth drivers to perform as well as success in developing new areas of economic opportunity**. On a sectoral basis, growth drivers in the past have been very narrowly focused on tourism and bauxite (which together account for 30 percent of GDP), and remittance flows which are high at 14 percent of GDP. Sustained higher growth will require a significant turnaround in manufacturing and services and strong growth in agriculture and tourism. In addition, a decisive growth turnaround would require a combination of targeted large private investments and structural reforms to improve the business climate. The latter could reverse the historical decline in productivity levels that have in the past prevented the translation of reasonably high investment rates into robust growth and raise the chances that large investments would materialize.

16. **Jamaica faces an important opportunity that can potentially generate significant FDI inflows which would transform the economy.** The expansion of the Panama Canal, projected for completion in 2015, will result in significant rerouting of trade flows, and Jamaica, given its geographic location and as the third deepest natural harbor in the world, is well positioned to transform into a global logistics hub. While it is still early to get precise estimates of potential investments, these could be as high as $4-8 billion over the next decade, which in an

economy of about $15 billion could yield unprecedented gains. Approximately $1.2 billion in investments can come in over the next few years for three significant infrastructure development activities: $400 million to expand the Kingston Container Terminal as part of the Logistics Hub Initiative (LHI, three bidders have been prequalified), $100 million for upgrades to the Norman Manley International Airport (to be bid shortly), and approximately $700 million for development of an approximate 360MW power plant (a bid has been awarded). Discussions are underway for the development of a second port and related logistics arrangements. Should these investments come on-stream soon, they could help offset part of the contractionary impact of fiscal consolidation.

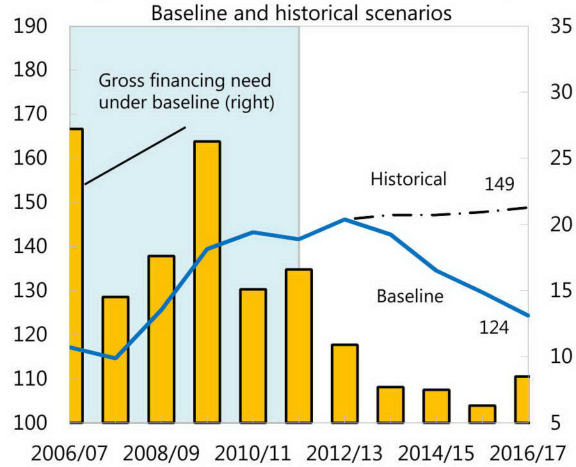
17. **A number of other investments are well under preparation**. These include a North South Highway project (US$650 million, under construction), a $500 million beverage investment (finalized in 2012) and smaller investments in tourism, ICT and sugar estates. The Government also has a significant PPP pipeline they are actively working on, which includes tourism, roads and education projects. The IFC's portfolio in Jamaica is already the largest in the Caribbean and it has recently committed a $500 million local currency bond which it plans to deploy in funding new projects as they come on stream.

18. **These projected investments and the related growth impact will not materialize without decisive actions on macro stabilization, especially a record of sustained fiscal consolidation.** The Government has committed to ambitious targets, including an annual 7.5 percent primary surplus target for the Central Government over four years and a zero fiscal balance for public entities. Achieving the fiscal targets set under the IMF program and legislated by the Fiscal Responsibility Framework (FRF) will require implementing proactive measures for expenditure reduction and revenue enhancement. The budgeted primary surplus of 7.5 percent of GDP for 2013/14 requires a 2.1 percent of GDP increase from the FY12/13 primary balance of 5.4 percent of GDP. This adjustment will be underpinned by a 0.6 percent of GDP increase in tax revenues and a 0.4 percent contraction in primary expenditures (all of which results from a wage bill reduction facilitated by the civil service wage freeze, Table 3). On the revenue side, upfront tax revenue measures implemented in February 2013 would facilitate the increase in tax revenues. The financial position of state owned enterprises (public bodies), which have been a source of significant contingent liabilities in the past, is expected to be in balance and an increase in user fees of some public bodies will yield savings of 0.2 percent of GDP. Fiscal adjustment over the four year EFF will require a reduction in the wage bill from 10.6 to 9 percent of GDP and an increase in tax revenues of about 0.2 percent of GDP. Capital expenditures are expected to increase by 1.1 percent of GDP. By 2015/16, the overall public sector balance is expected to be in surplus after many years, with a 1.8 percent of GDP improvement over the four year program period. The FRF will be amended to incorporate the requirements of a fiscal rule that stipulates limits on the annual budgets that are calibrated to reduce debt to no more than 60 percent of GDP by 2025/26.

19. **Fiscal consolidation will improve prospects for debt sustainability, but the high debt levels will persist in the medium-term.** The program is projected to sustain a progressive reduction in the public debt to GDP ratio to 124.3 percent of GDP by the end of fiscal year 2016/17 and beyond, down to 96 percent of GDP by 2019/20 (Figure 1). Apart from a strong fiscal consolidation, bringing the debt to GDP ratio to the levels expected in the IMF-supported program will require the implementation of programmed debt for asset swaps and debt guarantee reductions. The baseline debt trajectory is subject to significant downside risks. A debt sustainability analysis indicates that downside risks to debt reduction include fiscal slippage, real exchange rate depreciation, increase in contingent liabilities and a permanent interest rate increase.

Figure 1. Jamaica Public Debt Sustainability

Baseline and historical scenarios

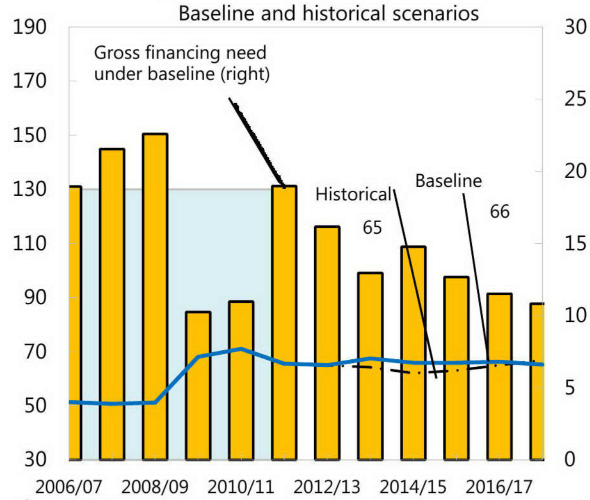


Source: IMF

20. **Financing needs over the next few years remain high, and will benefit from IFI support.** Despite a reduction in debt service payments as a result of the debt restructuring, gross financing needs will remain high (Figure 2) with about $600 million due in amortization payments in the last quarter of FY13/14. The large financing needs coupled with the reduced access to domestic markets after debt restructuring underscores the need for official creditors to play a critical role in financing Jamaica this fiscal year. Closing the financing gap will also require financial support from the PetroCaribe Development Fund, which is expected to provide inflows comparable to IFI support (Table 2).

Figure 2. Jamaica External Debt Sustainability (External Debt in percent of GDP)

Baseline and historical scenarios



Source:IMF

21. **Inflation is expected to persist in the short-term but will decline over the program period.** The pass-through of exchange rate depreciation as well as drought conditions created inflationary pressures during the first half of 2013. However, weak domestic demand conditions will likely keep CPI inflation within the Bank of Jamaica's forecast range of 8.5 to 10.5 percent in FY13/14, declining over the four-year period as the economy stabilizes.

22. **On the external front, depreciation of the exchange rate should help Jamaica become more resilient to exogenous shocks.** Exchange rate depreciation will improve price competitiveness and contribute to a narrowing of the current account deficit (Table 2). The extent of the improvement in the current account is likely to be partly countered by a recovery in investment. FDI coupled with official flows from the IFIs will lead to a gradual recovery in

foreign exchange reserves. Exchange rate depreciation, combined with fiscal sustainability and lower interest rates will support a modest growth recovery if planned investments materialize.

23. **The financial system is expected to remain well capitalized and profitable.** Despite the two debt restructurings, financial sector soundness indicators remain strong with all financial institutions exceeding the 10 percent minimum capital adequacy ratio. Non- performing loans have declined from 9 percent of total loans in December 2012 to 5.8 percent in June 2013 as a result of write-offs, payments and loan growth, with provisioning increasing to 101 percent of NPLs in June 2013. Bank deposits and the retail repo market have remained stable with no financial institution coming forward to request assistance from the $850 million Financial Sector Stability Fund. However, the over reliance on holdings of government securities (banks still hold around 40 percent of government securities) as well as the relatively high-interconnectivity amongst financial institutions have increased system-wide risk of spillovers. Planned legislative reforms under the IMF program should serve to mitigate some of these risks.

24. **On balance, despite the existing challenges and risks to the macro program, the country's macroeconomic framework is considered adequate for development policy lending.** Supported by the IMF, the Government has articulated a strong program of fiscal consolidation that remains on track, facilitated a flexible exchange rate regime, and maintained monetary stability. This is also a testament to the ambitious quantitative benchmarks agreed to in the ongoing IMF supported program. The first review of the program was successfully completed on October 1, 2013. The second review is expected to go to the IMF's Board around December 20, 2013 and will cover targets achieved through end-September, 2013. Nevertheless, a significant risk remains if debt dynamics do not improve and cannot be mitigated without a more significant resolution of the country's debt.

III. THE GOVERNMENT'S REFORM PROGRAM

25. **As mentioned above, the Government of Jamaica has launched a homegrown comprehensive program of structural reforms to significantly transform the economy**. In a recent speech, Prime Minister Portia Simpson Miller outlined the multi-sectoral policy framework that guides Jamaica's reforms, stating that the framework is designed to ensure macro stability through fiscal prudence, address energy sector issues, develop human capital, optimize trade and investment, advance justice and national security, resolve environmental and social challenges, and implement transformative projects, such as the Logistics Hub (see Annex 2, Letter of Development Policy).

26. **The reforms recently announced by the Prime Minister will contribute to the implementation of the National Development Plan (NDP) "Vision 2030" Jamaica's long-term strategic plan which aims to transform Jamaica into a developed country by 2030.** The plan, structured around four national goals and 15 national outcomes (Box 1) seeks to address critical development challenges and lay a foundation for inclusive and sustained growth and competitiveness, mitigate medium-term social effects of fiscal consolidation and climate resilience and protect social gains while moving towards fiscal and debt sustainability. GoJ recognizes that the failure to implement many initiatives was due to a weak institutional structure

and is now committed to improving the efficiency of the public administration and build social cohesion.

Box 1. Jamaica National Development Plan "Vision" 2030	
National Goals	**National Outcomes**
1. Jamaicans are empowered to achieve their fullest potential	1. A Healthy and Stable Population 2. World-Class Education and Training 3. Effective Social Protection 4. Authentic and Transformational Culture
2. The Jamaican society is safe, cohesive and just	5. Security and Safety 6. Effective Governance
3. Jamaica's economy is prosperous	7. A Stable Macro economy 8. An Enabling Business Environment 9. Strong Economic Infrastructure 10. Energy Security and Efficiency 11. A Technology-Enabled Society 12. Internationally Competitive Industry Structures
4. Jamaica has a healthy natural environment	13. Sustainable Management and Use of Environmental Resources 14. Hazard Risk Reduction and Adaptation to Climate Change 15. Sustainable Urban and Rural Development

Source: Jamaica, Vision 2030 document

IV. THE PROPOSED OPERATION

4.1 Link to Government Program and Operation Description

27. **While Jamaica faces a complex set of development challenges, the persistent lack of growth is an important one.** Solutions to Jamaica's low growth problem are complex. A 2011 Country Economic Memorandum (CEM) highlighted that despite relatively high investment rates (averaging 20 percent of GDP or more) the Jamaican economy has not grown. The CEM attributed this to persistently low factor productivity levels, and the prevalence of an enclave growth model. The CEM pointed to three key binding constraints to growth, namely fiscal and tax distortions, the prevalence of high crime, and deficient human capital. Combined with other contributing factors such as high energy costs, this makes for a difficult environment to do business, and a situation of low productivity. The report recommended, among other things, a comprehensive overhaul of the tax policy regime including a streamlining of tax incentives, a targeted focus on crime prevention, and initiatives to encourage vocational training while strengthening school systems. Combined with improvements in the business environment, these could go a long way in raising productivity and growth levels.

28. **Nevertheless, the Government's reforms to date have been impressive and are a good start at addressing growth constraints.** A significant overhaul of the tax legislation, as evidenced by the tabling of comprehensive tax incentives legislation and a bill to cap waivers to charities (a large source of tax expenditures that had been misused in the past) can decisively change the framework for tax policy, boding well for transparency and predictability of the tax regime. Commensurate improvements in tax administration can raise revenues (tax revenues to GDP were 24 percent in 2012/13), improving prospects for medium term fiscal sustainability.

The multi-year wage freeze and the second domestic debt exchange give the GoJ some fiscal space to implement underlying structural reforms that will change the profile of expenditures. Much more needs to be done, however, to create an investor friendly business climate that is conducive not only to the goal of attracting large infrastructure investments but also to foster broad-based growth that is underpinned by a healthy MSME sector, a thriving agribusiness industry that has good linkages with tourism, and a fast growing set of creative industries where Jamaica seems to have the ingredients to establish a significant niche.

29. **The objective of the proposed DPL is to support the Government of Jamaica's implementation of a set of policy and institutional reforms to increase competitiveness and improve fiscal management.** Reforms aimed at improving competitiveness include a range of investment climate related actions that will remove identified constraints to doing business, such as contract enforcement, delays in obtaining construction permits, access to finance, and lack of support to MSMEs. Even with significant progress on improving competitiveness, investor confidence will not return unless sustained progress is demonstrated on the fiscal front. This requires success at addressing the key underlying causes of the rigid expenditure patterns that make fiscal adjustment difficult, namely the large wage bill (currently 10.6 percent of GDP), the defined benefit pension program for civil servants that is entirely funded by budgetary outlays, and the public sector investment program, which is unable to deliver growth dividends in its present, un-prioritized form. It also requires decisive action on eliminating discretionary tax waivers and addressing the fiscal health of public enterprises which, in the past have been a large drain on the budget. The DPL supports actions in a number of these areas, and policy milestones have been strategically chosen to support the start of important structural reform efforts with legislation to follow where needed, and possibly supported in successive DPLs. The DPL supports the reduction of a number of binding constraints as identified in analytical work (Table 5). Within the strategic areas, the reforms supported by the DPL are those in which the Bank has an ongoing engagement and/or can bring value added, and where the Government has articulated a strong set of reforms that will bring meaningful change.

4.2 Prior Actions Results and Analytical Underpinnings

PILLAR I. Improving the Investment Climate and Competitiveness

30. **Within the overall objective of the DPL, Pillar 1 focuses on helping to establish the necessary conditions that would facilitate higher and productive private sector investment which is necessary for growth in Jamaica.** To help create the condition for more productive private investment, the proposed DPL would support numerous government initiatives already underway which could have a transformational impact on the country's ability to attract private sector investment and generate jobs. The reforms would improve the investment climate and support small business growth.

Investment Climate

31. **Jamaica ranks relatively low in investment climate related indices.** Key weaknesses include access to affordable energy, finance and a tax regime with numerous waivers. To address this, the GoJ launched an ambitious agenda to improve the business climate by establishing the National Competitiveness Council (NCC). The secretariat of the NCC is housed at JAMPRO, the

investment promotion agency. JAMPRO officials work closely with a number of GoJ Ministries, Departments and Agencies (MDAs) to address critical investment climate reforms that should unlock Jamaica's growth potential. The NCC has identified a number of key reforms to address the most critical constraints facing the private sector. The comprehensive tax incentives legislation that was recently tabled in Parliament as part of the IMF-supported program will go a long way in streamlining the tax framework and increasing transparency in the tax regime.

32. **The reforms supported by this operation seek to resolve key investment climate bottlenecks faced by the private sector.** A key issue is the enforcement of contracts. Civil courts—the main vehicles for dealing with commercial disputes in Jamaica—are severely backlogged with some cases taking years before being heard. The DPL supports reforms to increase the civil jurisdiction of the lower courts to improve the efficiency of disposing of commercial disputes. Another issue is the building permits process. Applications, fees, and requirements for building permits vary by parish, and once submitted it is difficult to track the status of the application. This creates problems for investors who have to navigate different processes, but more importantly need a more reliable time frame to line up financing and construction planning. A final investment climate area supported by the DPL is improving access to credit. MSMEs have limited access to finance as banks and financial service institutions are reluctant to extend credit without standardized credit reporting and assessment. The DPL supports the establishment of credit bureaus in Jamaica. Two have been licensed and are operational now. The credit bureaus will collect credit information and perform credit analysis required by the banks and other financial service institutions that extend credit to the private sector, particularly for MSMEs which have limited access due to lack of information about them.

- ***Prior Action 1:*** *The GoJ, through the Judicature, has expanded the civil jurisdiction of Resident Magistrates' Courts by increasing from JM$250,000 to JM$ 1 million the ceiling for claims that may be considered in these courts, in order to reduce the backlog of civil cases.*
- ***Prior Action 2:*** *The GoJ, through the Ministry of Local Government and Community Development, has standardized and harmonized application forms for construction permits across all Parish Councils.*
- ***Prior Action 3:*** *The GoJ, through the Ministry of Finance and Planning, has licensed at least one credit bureau which has begun to issue credit reports.*

33. **Results.** The above investment climate reforms would remove some of the key impediments for private sector development. The reduction of the backlog of commercial cases should reduce the time taken to resolve a case and hence facilitate contract enforcement and dispute resolution. Currently to enforce a contract through the courts in Jamaica takes 655 days and costs 45.6 percent of the claim. The standardization and harmonization of construction permits will facilitate construction activity by increasing predictability of processing. In the future, the GoJ plans a full rollout of an online tracking system that will enable builders to identify the agency and contact person that the application is with, so that issues can be resolved transparently and quickly. The credit bureau will increase access to credit to MSMEs by reducing information asymmetries between lenders and borrowers on borrowers' creditworthiness. The MSMEs will benefit from a reduction in the length of time it takes to process credit/loan applications, while for companies it is expected to reduce delinquency and

late payments leading to a reduction in non-performing loans in the medium-term. As a next step in improving access to credit, the government is working on legislation to expand what can be used for collateral.

Micro, Small and Medium Enterprises (MSMEs)

34. **MSMEs are responsible for the majority of the employment in Jamaica, and are important potential drivers of future economic growth, however they face severe constraints.** A weak enabling business environment, limited access to finance, low skills and informality are key constraints for MSMEs. Only 28 percent of MSMEs in Jamaica have a line of credit compared to an average of 49 percent in LAC. Excessive regulatory and administrative procedures, fees and financial requirements are a further barrier for MSMEs and result in a high level of informality. Given these constraints, the GoJ's 2013 MSME & Entrepreneurship Policy represents a significant step to provide a coordinated and targeted framework to support MSMEs in an effort to expand their contribution. Through its envisaged Implementation Plan under the purview of Ministry of Industry, Investment and Commerce (MIIC) and accompanying monitoring and evaluation component, this Policy would begin to unlock the cross-cutting MSME constraints and facilitate MSMEs contribution to greater economic growth and job creation. The policy framework, which was established through extensive collaboration, includes measures to reduce bureaucracy and increase efficiency including simplification of tax procedures, incentives to install energy efficient technology in MSMEs, and measures to position MSMEs to take advantage of the proposed logistics hub for better integration into global supply chains. Measures to increase access to finance for MSMEs are underway, including the passage of the Secured Interest in Personal Property Bill which will recognize alternate forms of collateral, and the roll out of the mobile money initiative, which will particularly benefit MSMEs.

- ***Prior Action 4:*** *Parliament has approved the Micro, Small and Medium Size Enterprise (MSME) and Entrepreneurship Policy to support the growth of MSMEs.*

35. **Results.** By creating an enabling business environment, improving access to finance, enhancing business and development support and fostering a culture of entrepreneurship and innovation, MSMEs will be well positioned to take advantage of new business opportunities, create jobs and increase their contribution to the economy. By providing a better and more supportive business environment, this should encourage MSMEs to move out of the shadows of informality, which in turn will improve their growth prospects and contribution to public finances. In addition, the GoJ has no single window for business registration, thus the private sector must deal with numerous MDAs to get necessary approvals. The introduction of a single registration Superform in the near future will help resolve this issue and provide greater clarity and transparency.

36. **Going forward, the government will need to build on reforms in other sectors to improve the foundation for broad-based growth.** Over the next few years, the government will need to build a strong reform program that addresses other key constraints in the economy. Among these challenges are lowering the cost of electricity – Jamaica currently has one of the highest energy costs in the world due to the dominance of oil, small-scale and aging equipment,

and high losses, and requires strengthening the regulatory framework to enable the growth of the sector. Another challenge is lowering cost and increasing penetration of ICT services, particularly broadband, as limited competition are holding back the potential impact of ICT as a key growth enabler across sectors. Further, to ensure effective implementation of one of the government's key growth initiatives, the LHI, reforms to modernize customs will need to be undertaken. Other key constraints would also need to be addressed including continued efforts to reduce crime (where good progress has been made in the recent past), education and skills development, and reforms to build resilience to natural disasters which periodically set back progress by imposing high budgetary costs and hampering growth.

PILLAR 2. Improving Public Financial Management for Sustained Fiscal Consolidation

37. **The second objective of the DPL is to contribute to fiscal consolidation efforts by improving public financial management and supporting expenditure controls in key areas.** Given tight fiscal space, there is a need for increased efficiency in the use of public monies, and also better risk management of financial liabilities. Efforts are underway to contain the long term costs of large expenditure items, such as pensions and wages to preserve the gains from recent fiscal consolidation efforts. Tax policy is to be radically overhauled. Better public sector oversight will support fiscal risk management, and budgetary reforms will strengthen budget management. The public sector investment program is being streamlined to achieve fiscal efficiency. The proposed DPL supports Government initiatives already underway in Jamaica to transform and rationalize Jamaica's public sector, improve the management of the wage bill for better service delivery while meeting GoJ's fiscal consolidation targets, and improve the budget process.

Public Sector Pension Reform

38. **Changes to the public pension system are needed to make the program more affordable in the long term, as well as bring it closer to global standards.** Expenditure on public pension is expected to double as a percentage of GDP in the next 30 years, reaching more than 2.2 percent of GDP by 2042. Implicit pension debt is currently estimated at 40 percent of GDP. The technical team at the Ministry of Finance has prepared the White Paper, and the proposed DPL supports the implementation of pension reforms as per the recently prepared White Paper, including increasing the retirement age to 65 (equating it to the National Insurance Scheme), introducing employee contributions, reducing accrual rates and moving away from using the final salary as a basis for calculating pensions in the benefit formula. Legislative changes will be required to facilitate the implementation of the new system. These measures are expected to reduce the cost of pensions relative to the current system. Implementation of pension reform is slated to begin in FY2015/16.

- ***Prior Action 5.*** *The Cabinet has approved the tabling in Parliament of a White Paper for a reform of the public sector pension that introduces key changes to contain the cost of pensions to the Government.*

39. **Results**. The government of Jamaica will take the first steps towards establishing a legal basis for a public sector pension system which is financially sustainable in the long run, as the cost of pensions are contained and eventually reduced.

Tax Reform

40. **The Government has implemented reforms to the tax regime that will greatly increase the transparency of tax policy and reduce revenue leakages.** As identified in the Bank's 2011 CEM, "Unlocking Growth", the rampant use of discretionary tax waivers created a non-transparent tax regime which resulted in distortions in the allocation of capital and decreased the productivity of investment, lowering potential growth of the Jamaican economy. After much analytical work and technical assistance, in February 2013, prior to the signing of the agreement with the IMF, the Cabinet issued a decision curtailing discretionary tax waivers to less than 0.1 percent of GDP, including legally binding waivers. In October 2013, the Government tabled in Parliament the Fiscal Incentives Bill and the Income Tax Relief Bill for Large-scale Projects and Pioneer Industries, both important pieces of legislation designed to provide a rules based framework for the granting of tax waivers, as well as a Charities Bill, which will establish a similar framework for waivers to charities. All pieces of legislation are expected to be approved by Parliament by the end of the calendar year. Given the significance of this reform in the overall set of reform policies, this DPL facilitates the transition to this new tax regime by supporting the tabling of the Fiscal Incentives Bill in Parliament. This action is harmonized with the relevant structural benchmark under the IMF-supported program.

- ***Prior Action 6:*** *The GoJ has tabled in Parliament on October 29, 2013, a Bill called the Fiscal Incentives (Miscellaneous Provisions) Act, 2013, to transition to a generally competitive business tax regime with the elimination of existing sector-based incentive programs and the introduction of generalized incentives through a rules based and non-discretionary system.*

41. **Results:** The passage of the Fiscal Incentive Bill (as well as the Bill for Large Scale Projects and the Charities Bill), expected by end-2013, will go a long way in fundamentally transforming the tax regime in Jamaica from a largely discretionary framework that gave significant latitude to Ministers to grant waivers, to a broad-based, rules-based and transparent regime that will provide predictability for the private sector while promoting competitiveness through lower tax rates. Complemented by tax administration reform, this could increase budgetary revenues and promote fiscal sustainability.

Public Service Reform

42. **The GoJ is undertaking a restructuring of its public sector in order to achieve long-term macroeconomic and fiscal sustainability**. The high wage bill is a key source of risk to fiscal sustainability and the Government is undertaking actions to constrain the growth of personnel expenditure. The Fiscal Responsibility Framework sets a target for reducing the size of the wage bill to 9 percent of GDP by March 2016. The measures to attain this objective, include: (i) reduction of the size of public sector establishment; (ii) development of strategic human resources management function of the Government; (iii) transformation of selected public entities into executive agencies (with devolved human resource management); and centralization of government corporate services to benefit from economies of scale through consolidation of selected administrative functions.

43. **To support a rationalization of public sector employment, the Government requires reliable data on current public employment.** Strategic management of public employment is hindered by the lack of accurate information. In 2010, public sector data was collected and stored as Excel files. In 2012, an application called e-Census with fairly comprehensive data storage capability was developed and populated with the available 2010 data. The data is remotely accessible through web access by Ministries, Departments, and Agencies (MDA). However, "cleaning", updating and using the personnel data base have not happened. The administration of the database is disconnected from the responsibilities for public service management assigned to the newly established Strategic Human Resources Management Division (SHRMD) in the Ministry of Finance. MDAs are not legally required to maintain an updated profile of their public servants. The Establishment Department and the Public Expenditure Department (PED) of the MOF do not have access to reliable data to carry out functional reviews and for making informed personnel management and expenditure decisions. This poses a risk that the GoJ may have difficulties in controlling the implementation of measures aimed at reducing the wage bill relative to GDP. The DPL supports first steps on public sector reform by establishing the information base for functional reviews of the public sector.

- ***Prior Action 7:*** *The GoJ has clarified the respective roles and responsibilities of the Strategic Human Resource Management Division of the Ministry of Finance and Planning and those of public entities in maintaining and using updated central personnel information.*

44. **Results**. Government has reliable data to support transformation and rationalization of public sector employment to support making informed managerial decisions about how to effectively allocate limited resources. The public service database in e-Census is up to date, covers all MDA employees. Management of human resources will strengthen internal controls, increase responsibility and accountability of public entities for management of their personnel, and ultimately will improve motivation for stronger performance.

Budget Management

45. **Improving the process related to budget formulation is a high priority in Jamaica, given the urgent need for further progress on fiscal consolidation.** Much has been achieved in this area with the Fiscal Responsibility Framework that sets out clear fiscal targets to be met in 2016. Some progress has also been made on the adoption of Central Treasury Management System (CTMS) to improve cash management. Less progress has been made in other areas, however, such as the establishment of a clear budget calendar that specifies when steps will be completed and identifies the officers accountable. This results in inadequate time for analysis and decision making, with the budget typically submitted to the Parliament after the start of the fiscal year. The budget execution system currently allows for overspending at the discretion of government officials thereby creating the need for either supplemental budgets or arrears. The DPL would envisage the following prior actions and triggers:

- ***Prior Action 8:*** *The GoJ has taken concrete steps to improve budget management by i) adopting a budget calendar for FY14/15 that has been approved by the Cabinet, and ii) completing the implementation of the Central Treasury Management System for at least* *thirty MDAs resulting in ninety percent (90%) of all MDA payments being done via electronic transfers.*

46. **Results**. Adoption of an interim budget calendar for 2014/2015 and a permanent budget calendar for 2015/2016 to force fiscal discipline and control in the budget preparation process. Clear ceilings within which MDAs draft their budget and determine priorities will be achieved. Budget execution will be strengthened and spending items will not be approved by GoJ on an ad-hoc basis, which had resulted in reallocations to the budget and which was introduced on a continuous basis. Prioritization and credibility to the budget will result in improved service delivery, and there will be transparency in the use of government resources. The migration to CTMS will improve cash management and reduce idle balances in government accounts thus minimizing the need for additional borrowing. The complete implementation of the CTMS would allow the GoJ to reduce check writing, as well as improve financial information availability.

Public Sector Investment Program

47. **To improve public investment planning and effectiveness, a more unified treatment of all public investments is needed, so that planning is done in a more managed and consistent manner.** Public investment planning in Jamaica is currently managed differently according to funding source. Projects are classified by Capital A (central government resources), Capital B (donor funded) and Public Bodies. As a result, investment planning is fragmented, limiting the capacity to have an overall view of public investment goals. This creates a challenge to strategically plan and prioritize public investments, to leverage it for growth and compromises accountability and transparency in the use of government investment resources. The development of an integrated process of strategic planning and budgeting, in line with the implementation of a system that makes use of the economic and financial analysis of public investment projects, will help the GoJ establish clear criteria for public investment prioritization.

48. **The public sector investment program (PSIP) will be improved by the creation of a user-friendly centralized database.** This database would capture all public investment projects—regardless of funding source—that can be accessed by all public entities and eventually the public. Such a database will allow policy makers to identify synergies and priorities for public investment. The database will also include a prioritization matrix application that will allow the use of different prioritization criteria to select projects for PSIP and monitor them.

- ***Prior Action 9:*** *The GoJ has adopted a policy to unify procedures, requirements and responsibilities regarding public investment projects (Capital A, Capital B, public bodies and PPPs) and approved the implementation of these new procedures for Capital A and Capital B projects for 2014/15 to improve public investment management.*

49. **Results**. A PSIP that captures all projects and prioritizes across the MDAs, including information on operations and maintenance for budget planning, will give the GoJ the ability to evaluate results and the impact of the entire PSIP as well as monitor outputs of projects on a periodic basis. Additionally, the annual budget presented to the legislature, including the supporting documents submitted with or around the same time as the budget, will provide a complete picture of central government capital expenditure.

Analytical Underpinnings

50. **In several reform areas, the Bank has an active engagement with the government which helps the choice of reforms being proposed.** Selection of the reforms is based on recent analytical work, on-going and proposed investment projects technical assistance and regional work. Table 5 details the specific reports and activities that have informed the selection of the prior actions.

Table 5. DPL Prior Actions and Analytical Underpinnings

Prior actions	Analytical Underpinnings
Pillar 1: Improving the Investment Climate and Competitiveness	
PA1-4.*Investment Climate and MSME*	Items selected from the GoJ's NCC 2013-2015Agenda. Doing Business surveys, which identified key areas of business climate improvement, GoJ CGF Action Plan presented at the CGF Regional Workshop in The Bahamas (June 2013).
Pillar 2: Improving Public Financial Management for Sustained Fiscal Consolidation	
PA5. *Public Sector Pension*	Bank's technical support for the analysis of the public sector pension system, using PROST model to simulate pension outcomes under different scenarios, which identified key reforms needed to contain spiraling public pensions.
PA6. *Tax Reform*	World Bank CEM (2011), "Unlocking Growth", IDB Tax Reform Action Plan
PA7. *Public Service Reform*	Cabinet Decision No. 2/13 of 12th January 2013 prioritizing the implementation of a common Human Resource Management Information System (HRMIS) linked to an integrated payroll system.[3] Public Sector Master Rationalization Plan. Ongoing engagement from previous DPL series.
PA8. *Budget Management*	Report on "Strengthening Fiscal Discipline in Jamaica: Sustainable steps toward the discipline needed for Results Based Medium-Term Budget Planning and Preparation" (March 2012), which stressed the need for a budget calendar as a critical step.
PA9. *Public Sector Investment*	PSIP Workshop conducted by the WB in Jamaica (June 2013), which produced a PSIP Action Plan, led by Financial Secretary; Note on PSIP Role drafted by the World Bank (August 2013), which highlighted benefits of unifying all public investments for planning purposes.

4.3 Link to CAS and Other Bank Operations

51. **The proposed operation is fully aligned with the FY14-FY17 Country Partnership Strategy (CPS) that is currently under preparation.** The proposed CPS is expected to focus on building conditions for broad based private sector led growth, improving public sector efficiency and reducing vulnerability. The two pillars of the DPL match the strategic objectives identified in the forthcoming CPS, and the reform program proposed addresses several of the key sectors contributing to the CPS targets.

52. **Several Bank operations are also supporting the implementation of the identified reforms.** Pillar I builds on the ongoing projects, AAA and TA engagement in private sector related reforms, including the Jamaica Growth and Competitiveness Project, ICT Sector Policy Notes for Jamaica, the Caribbean Growth Forum (CGF) Chapter for Jamaica, and the Jamaica Energy Security and Efficiency Enhancement Project, and various trade related work. It also

[3] The HRMIS system will be financed by a proposed IDB loan. This prior action strengthens the implementation and operational arrangements that will support the forthcoming ICT system.

builds on the extensive work of the IFC in Jamaica which has focused on PPP transactions, funding MSMEs, credit reporting and energy efficiency. The IFC recently launched a Jamaican dollar bond program to make long term currency funding available for various sectors including infrastructure. This should provide a significant source of funding for the LHI. Pillar II builds upon an active World Bank engagement on public sector management issues, supported by the Jamaica DFID trust fund which has provided extensive technical assistance in the areas of debt management, parliamentary oversight, government communications, and public investment policy. It is also coordinated with the proposed Public Sector Modernization Project. Other related Bank work included a Poverty and Social Impact Analysis of the fiscal reforms.

53. **Going forward, a programmatic NLTA is also being prepared to provide technical assistance for the implementation of reforms**, particularly in those areas that do not have a strong existing Bank engagement. In particular, the NLTA is expected to provide support for agricultural risk management, anti-corruption, health and growth identification.

54. **The design of this DPL has also benefited from lessons learnt from the previous DPL operations in Jamaica.** In particular, the importance of providing technical assistance or investment lending to bolster capacity will be specifically addressed in the NLTA. Other lessons incorporated include formulating policy actions to be sensitive to the staffing recruitment challenges faces GoJ, choosing prior actions that are achievable within the envisaged time frame and developing results indicators that are directly impacted by the policy action, given Jamaica's vulnerability to external events.

4.4 Consultations, Collaboration with IFIs and Other Development Partners

A. Consultations

55. **The Government's reform program is an outcome of extensive consultations with stakeholders.** The GoJ has undertaken a broad consultation process on its long-term development plan—Vision 2030—which incorporates many of the reforms supported by the DPL. Vision 2030 was publicly announced and consultations took place throughout the country with various target groups including youth and community groups, special interest groups, and the emigrant diaspora (via the web). More recently, the Jamaican government signed the island's first social partnership agreement (SPA) with the Private Sector, Trade Unions and Civil Society on July 31, 2013.

56. **A broad coalition is needed to create the necessary consensus in society to design and implement reform measures that are nationally acceptable and have a better chance of successful implementation.** A key risk facing reform implementation in Jamaica is the potential risk that vested interests would block reforms. The SPA (para 55) incorporates specific targets indicative of reform progress, such as reduction in the debt-to-GDP ratio; improving Jamaica's ranking in the World Bank's ease of doing business, as well as rates of unemployment, economic growth, and levels of energy diversification. The targets will be monitored by the Partnership Council which includes representation from the four groups (government, private sector, trade unions and civil society) that signed the agreement as well as from the Opposition political party that did not formally sign, but accepted the arrangement. The Partnership is managed out of the

Office of the Prime Minister and holds monthly meeting with the various stakeholders to monitor progress towards reforms. A committee for conflict resolution has been established so that partners can work out differences before committing to a resolution that then has the support of the Partnership. The Partnership also works closely with the Economic Program Oversight Committee (EPOC) to monitor the government's reform program, and serves as an on-going forum of consultations that can improve implementation of the government's reform and their sustainability. The EPOC consists of government and private sector representatives who meet frequently to monitor progress. A full time secretariat housed in the MoF supports this Committee.

57. **Consultations, involving multiple stakeholders, have also taken place on the specific reform measures supported by the DPL.** The proposed pension reform was derived from deliberations on the Green Paper from a multitude of stakeholders, including representatives of several bargaining units, the Private Sector Organization of Jamaica, and discussed thoroughly by the members of the Joint Select Committee of Parliament. For other policy actions, consultations were conducted during the formulation stage, particularly those related to the private sector, including the ongoing Caribbean Growth Forum (CGF) initiative.

B. Collaboration with Other Development Partners

58. **The Government's development program is receiving strong financial and technical support from multilaterals and other donors.** The Government's macroeconomic reform program has been prepared with IMF support. On the proposed loan, the Bank has collaborated closely with the IMF and IDB, to ensure synergies in the package of reforms being supported and to avoid duplicative efforts in the technical assistance provided. IMF is supporting reforms on macro and fiscal stability, and the financial sector. IDB is focusing on tax policy. This DPL complements these reforms by focusing on policies that lay the foundations of economic growth and measures to improve public sector efficiency. The Bank also collaborates closely with DFID, which has provided a Bank-executed trust fund for broad ranging public sector reforms in Jamaica.

V. OTHER DESIGN AND APPRAISAL ISSUES

5.1 Poverty and Social Impact

59. **Poverty and social impacts of policy measures supported under this DPL are expected to be either positive or negligible, with some reforms expected to have a more direct positive impact on the poor and vulnerable groups than others.** Given the time constraints under which this operation has been prepared, the PSIA has focused on desk review of secondary sources and primary research that was based on interviews with key local stakeholders and experts. All the specific policy reforms supported by this lending operation address the socioeconomic challenges of inequalities and vulnerabilities analyzed and may contribute to answer key challenges faced by the Government of Jamaica to reduce poverty and increase shared prosperity. Annex 5 details the reform-specific impacts.

60. **The reforms proposed in Pillar 1 are expected to have a positive impact.**

Employment generation will be stimulated indirectly by improved business environment and access to credit, especially considering that MSMEs are targeted. Improved access to finance would be particularly beneficial for women since they make up a relatively large portion of the informal sector (57 percent) and own-account workers (58 percent). With regard to the improvements in the efficiency of the system for the registration of land this will build on previous GoJ positive outcomes and continue to benefit poor households in squatters settlement, estimated at 20 percent of the population, and in rural areas.

61. **Policy reforms in Pillar 2 will also have important redistribution effects by means of improved fiscal efficiency and improved quality of public expenditures and controls.** A reform of the public sector pension system can lead to better management of government liabilities, which in turn will improve fiscal sustainability and increase fiscal space for needed pro-poor expenditures. The unsustainability of the current defined benefit pension scheme needs to be addressed or it will have more severe implications for overall fiscal expenditures. Pension reforms will have an impact on the income stream expected as accrual rates will be lower, though this is in part mitigated by grandfathering those with less than 5 years to retirement, reducing the accrual rates of those already in the system, and only applying the new lower accrual rates to new hires. The reform, however, does not discriminate between men's and women's retirement age, with women being more negatively impacted based on the assertion that women take care of unpaid family work, both for children and increasingly for the elderly, and therefore could be compensated by an earlier entry in the pension system. In order to assess the gender impact of pension schemes, it is thus necessary to consider all mechanisms that can offset the negative impact for women, such as care pension credits, minimum pensions and unisex tariffs, as well as derived pension rights. Considering the gradual approach of the government pension reform, there is opportunity for integrating pension reform with appropriate labor market and social policies and thus mitigating the risks of unequal distributional impact of the reform across social groups and gender. A comprehensive gender impact assessment as part of the pension reform process could also be considered in a forthcoming DPL.

62. **The overall conclusion of the PSIA is positive**. All the policies considered have clear positive distributional effects on the poor and vulnerable groups, in both the short and in the medium to long term. Although few challenges have been pointed out by this assessment, especially with a view to increase the gender sensitivity of the policy reforms, the opportunity for stronger citizen engagement and the need to have more robust poverty and social impact analysis and evaluation of those reforms in order to make the necessary adjustments, the desk review and the consultations have indicated no significant negative impact of the policies being pursued.

5.2 Environmental Aspects

63. **It is expected that the policies and reforms supported by this operation will not have any negative environmental impacts.** An on-site review was taken to cover all prior actions. Of the prior actions, there was a particular focus on construction permits. The streamlining of construction permits has a potentially positive impact on the environment in that it would enhance conditions for sustainably managed private sector growth, as transparency in the transaction process would provide opportunities for informed urban planning decisions. However the approval process for construction permits requires the co-ordination and integration of various government agencies, under the existing legislative framework. As such, the intention to

accelerate the issuance of construction permits should take into consideration the requirement to incorporate results of consultations with these agencies and other stakeholders, including civil society, in cases of projects where the National Environmental Protection Agency (NEPA) has determined that a full environmental assessment is required.

5.3 Fiduciary, Disbursement and Auditing Aspects

A. Fiduciary

64. **The GoJ is making progress in improving their public financial management system to mitigate fiduciary risks.** A comprehensive assessment of the Jamaica PFM systems (PEFA) was originally carried out in 2007 and repeated in February 2013. Both reports observed that performance of the GoJ PFM systems varied across the budget cycle.

65. **The GoJ budget is prepared with due regard to Government Policy.** The medium-term fiscal planning process is underpinned by the Fiscal Responsibility Framework, which has been in effect since 2010. Medium term fiscal forecasts and expenditure frameworks have recently been introduced as part of the budgeting process. Furthermore, the budget classification used by the GoJ is broadly compatible with international standards, and presents recurrent and capital expenditures within a single framework. The prepared budget is relatively credible at the aggregate level, however, a recent assessment observed an increase in unreported government expenditures, primarily attributed to unrecorded arrears, tax waivers and tax refunds. Fiscal and budget information is accessible to the public.

66. **Predictability and controls in budget execution have been limited by the monthly cash rationing system and weak tax collection.** In addition, while the internal audit function has seen some improvements, internal controls, particularly those related to payroll expenditures remain weak. At the same time, the public procurement framework has demonstrated some improvement by making tenders the default procurement method.

67. **Cash management and bank account reconciliation processes have demonstrated some improvement in recent years.** Significant progress was achieved in the last six months with the almost complete roll-out of the CTMS. However, the timely reconciliation of bank accounts by various MDAs still remains an issue.

68. **The existing payment, accounting and reporting system (FINMAN) allows for comparisons of budget estimates and out-turns, by economic categories for various MDAs**. However, this information is captured at the payment stage only. Commitment data is not recorded in FINMAN, apart from the schedule of debt service payments. In addition, in year financial reports produced by the system do not have capability of reporting revenue and expenditure out-turns on a monthly basis by administrative classification. As such, the Accountant General's Department is still unable to produce the whole of Government budget reports by administrative headings.

69. **The conversion of the annual financial statements to meet the international cash-basis IPSAS standard is a major outstanding issue in the agenda of the PFM reform.** The

annual financial statements covering all central government entities are still lacking. Individual MDAs, as well as LGAs and AGAs, produce annual financial statements. These statements are presented in a consistent format but not all of the national standards are clearly spelled-out and compatible with IPSAS. The Government has chosen to support the accounting and financial reporting reform, commencing with the adoption of Cash IPSAS, proceeding to a commitment-based budget accounting system, and culminating with the adoption of accrual accounting standards in the long run. The GoJ has also decided to replace (FINMAN) with a new integrated system, (IFMS), in order to meet the increased financial recording and reporting needs and improve fiscal accountability and transparency.

70. **All central government entities are audited annually.** A full range of audit services is performed and follows procedures and templates developed in keeping with the INTOSAI standards. Financial statements are usually presented for audit with some delays.

71. **Overall, the fiduciary and PFM framework is adequate for development policy lending.** Further improvements to developing a sound PFM system and improved quality of public expenditures continue to be high on the GoJ agenda. As part of this effort, the Jamaican authorities have already implemented a number of important measures. Recent achievements including centralization of the treasury management system and implementation of the Fiscal Responsibility Framework (FRF) demonstrate the GoJ commitment to the ongoing effort. However, as is discussed above, there still remain a number of significant weaknesses, especially in the area of strategic resource allocation, budget execution, accountability and transparency. The GoJ is has recently prepared an updated PFM Action Plan based on the findings of the latest PEFA assessment. This operation, as well as other operations, currently prepared by the WB and IMF will continue providing direct support to the identified priority areas, together contributing to the strengthening of the existing PFM environment.

B. Disbursement and Auditing

72. **Foreign exchange management system.** The IMF jointly with the World Bank conducted the Financial System Stability Assessment in 2006, and IMF also conducted a Safeguard Assessment in 2010 and found that the central bank control environment within which foreign exchange is managed is satisfactory. The Bank of Jamaica has well established procedures that ensure the integrity of its operation. It also has in place a well-functioning internal audit department and accounts are audited by independent external auditors. The Board of Directors of the Bank of Jamaica has an Audit sub-committee of the Board, which provides oversight of the financial management and control environment.

73. **Disbursement, Reporting and Auditing Arrangements.** The proposed loan will follow the Bank's disbursement procedures for development policy support. Loan proceeds will be disbursed once evidence of fulfillment of prior actions has been accepted and the necessary approvals by the World Bank and Jamaica have been obtained. The proceeds of the loan will be disbursed into an account designated by the Borrower that is part of the country foreign exchange reserves account at the Bank of Jamaica. The administration of this loan will be under the responsibility of the Ministry of Finance. Given that the fiduciary environment at the Bank of Jamaica is adequate, no specific audit of the deposit account will be required.

74. **Loan Administration.** The Bank would disburse the loan proceeds into an account of the Bank of Jamaica denominated in US dollars. The Bank of Jamaica will immediately credit the disbursed amounts to the account of the Ministry of Finance and Planning, thus becoming available to finance budgeted expenditures. Within a week of this funds transfer, the Ministry will provide the Bank with a written confirmation.

5.4 Monitoring and Evaluation

75. **The Ministry of Finance and Planning has responsibility for the coordination, monitoring and ensuring completion of the prior actions under the DPL.** Monitoring and evaluation is supported by the various ministries. The Bank has an extensive and active program in Jamaica in several of the policy reform areas identified under the DPL, and monitoring of results of the DPL actions will therefore be continued through the other Bank programs.

VI. SUMMARY OF RISKS AND MITIGATION

76. **The overall risk of achieving the objectives of the operation is high.** Jamaica is entering a demanding transition period, where difficult reforms will only yield results in terms of growth acceleration and shared prosperity over the medium term. There is a risk that political commitment may weaken and social tensions increase, or that natural disasters may adversely impact fiscal consolidation efforts and set back the reform program. Some risks can, and are being mitigated.

77. **The medium to long term results of the program supported by the DPL faces three types of risks: macroeconomic, governance and political and capacity risks.**

(i) **Macroeconomic risk.** The economic situation continues to be fragile, and the Jamaican economy remains highly vulnerable to external shocks and natural disasters. The combination of a large current account deficit, low foreign exchange reserves, high unemployment and limited fiscal space significantly reduces the Government's flexibility to absorb unforeseen shocks, including those resulting from natural disasters. Growth targets are ambitious, and require both the continuation of good policy and a favorable external environment. Specific risks relate to (i) potential changes to the PetroCaribe Agreement which provides sizeable financial flows, and (ii) increased stress in the financial sector after two large domestic debt exchanges.

- *Mitigation:* The Bank is monitoring this risk closely by working with the IMF and IDB on the Jamaica program, and will pace assistance under future budget support programs that will contribute to further strengthening the country's overall macroeconomic framework. The Government is undertaking appropriate policies to build economic resilience.

(ii) **Governance and political risks.** Jamaica faces a heavy reform agenda which could lose steam if early results are not sufficient to maintain political and popular support, and if vested interests are accommodated. The DPL complements difficult reforms underway under the EFF Arrangement which have consumed considerable political energy.

- *Mitigation*: The authorities are fully aware of this risk and are promoting continuous consultation and awareness-raising around benefits of sector reforms. The Bank, through the

DFID trust fund, is providing technical assistance on the development and implementation of a communication strategy for more effective outreach from the MoF to other parts of the Government on the reform agenda. In addition, the Government has signed a Social Partnership Agreement (SPA) with the Private Sector, Trade Unions and Civil Society (para 56) which is intended to form a broad coalition around the reform agenda to ensure the sustainability of reforms and mitigate against a relapse of political commitment.

(iii) **Capacity risks.** The multi-faceted reform agenda raises the risk that government capacity and fiscal resources could be stretched thin, that implementation could be delayed and that enforcement of new legislation could be weak. Legislative capacity has been stretched given the amount of legislation that needs to be drafted and approved over the next few years. In addition, an ongoing public sector wage freeze has greatly hampered the Government's ability to attract and maintain talent and made it difficult to create new positions. Several of the reforms require the Government to hire personnel with scarce skills, and there is a risk that the Government will not be able to fully operationalize some of the reforms within the envisaged timeframe.

- *Mitigation*: To support policy actions underpinning the DPL, the Bank has secured financing for training opportunities for public sector staff as well as for technical assistance, including in the form of special advisors focused on design and implementation of key reforms so that they might be able to take on some of these tasks without additional hiring requirements. On-going technical assistance is being provided in access to finance, doing business, PPP and other areas.

ANNEX 1. POLICY AND RESULTS MATRIX

Prior Actions	**Results Indicators**
Pillar 1—Improving Investment Climate and Competitiveness ***Establishing conditions to facilitate higher and more productive private sector investment***	
Investment Climate	
PA1: The GoJ, through the Judicature, has expanded the civil jurisdiction of Resident Magistrates' Courts by increasing from JM$250,000 to JM$1 million the ceiling for claims that may be considered in these courts, in order to reduce the backlog of civil cases. **PA2:** The GoJ, through the Ministry of Local Government and Community Development, has standardized and harmonized application forms for construction permits across all Parish Councils. **PA3:** The GoJ, through the Ministry of Finance and Planning has licensed at least one credit bureau which has begun to issue credit reports.	**Results**: Reduced backlog of commercial cases **Indicator:** Number of cases over JM$250,000 processed by the lower courts 2013 Baseline: 0 2014 Target: 2,250 **Result:** Conformity with construction permit applications speeds application process. **Indicator:** Percent of construction permits approved within 90 days 2012/13 Baseline: 89.6 2014 Target: 95
Micro, Small and Medium Enterprises (MSMEs)	
PA4. Parliament has approved the Micro, Small and Medium Size Enterprise (MSME) and Entrepreneurship Policy to support the growth of MSMEs.	**Result**: Increased number of formal MSMEs. **Indicator**: Number of microenterprises and small businesses that filed GCT returns 2010 Baseline: 10,460 2014 Target: 11,000 (5% increase)

Prior Actions	Results Indicators
Pillar 2—Improving Public Financial Management for Sustained Fiscal Consolidation ***Strengthening fiscal consolidation by supporting efforts to enhance expenditure management, efficiency and rationalization and bolster revenue mobilization prospects***	
Public Sector Pension Reform	
PA5. The Cabinet has approved the tabling in Parliament of a White Paper for a reform of the public sector pension that introduces key changes to contain the cost of pensions to the Government.	**Result**: Key milestone reached on addressing public pensions **Indicator:** Progress in completing pension reform legislation. 2013 Baseline: Cabinet decision 2014 Target: Drafting instructions for the Bill issued to the Chief Parliamentary Council
Tax Reform	
PA6. The GoJ has tabled in Parliament on October 29, 2013, a Bill, called the Fiscal Incentives (Miscellaneous Provisions) Act, 2013, to transition to a generally competitive business tax regime with the elimination of existing sector-based incentive programs and the introduction of generalized incentives through a rules based and non-discretionary system.	**Result**: Shift from discretionary framework to a more rules-based and transparent tax regime **Indicator:** Number of sector-based tax incentives programs 2013 Baseline: 15 2014 Target: 4
Public Service Reform	
PA7. The GoJ has clarified the respective roles and responsibilities of the Strategic Human Resource Management Division of the Ministry of Finance and Planning and those of public entities in maintaining and using updated central personnel information.	**Result**: Improved monitoring of public sector employment **Indicator**: Percent of Central Personnel in Public Service Database 2013 Baseline: 60 2014 Target: 100
Budget Management	
PA8. The GoJ has taken concrete steps to improve budget management by i) adopting a budget calendar for FY14/15 that has been approved by the Cabinet, and ii) completing the implementation of the Central Treasury Management System for	**Result**: Improved cash management of entities in the central government. **Indicator**: Percent of MDA payments done through electronic fund transfer by the Accountant General's Department. 2013 Baseline: 90

Prior Actions	Results Indicators
at least thirty MDAs resulting in ninety percent of all MDA payments being done via electronic transfers.	2014 Target: 98
Public Sector Investment Program	
PA9: The GoJ has adopted a policy to unify procedures, requirements and responsibilities regarding public investment projects (Capital A, Capital B, public bodies and PPPs) and approved the implementation of these new procedures for Capital A and Capital B projects for 2014/15 to improve public investment management.	**Result:** Improved planning and monitoring of all public investments. **Indicator**: Percent of Public Investment Projects in the online database 2013 Baseline: 0 2014 Target: 90

ANNEX 2: LETTER OF DEVELOPMENT POLICY

ANY REPLY OR SUBSEQUENT REFERENCE SHOULD BE ADDRESSED TO THE **FINANCIAL SECRETARY** AND THE FOLLOWING REFERENCE NUMBER QUOTED:-

Telephone No. 92-28600-16
Website: http://www.mof.gov.jm
Email: info@mof.gov.jm

MINISTRY OF FINANCE AND PLANNING
30 NATIONAL HEROES CIRCLE
P.O. BOX 512
KINGSTON 4
JAMAICA

November 6, 2013

Dr. Jim Yong Kim
President
The World Bank
1818 H Street NW
Washington DC 20433

Dear Dr. Kim,

Economic Stabilization and Foundations for Growth Development Policy Loan

The Government of Jamaica (GOJ) appreciates and welcomes the technical and financial support of the World Bank for the successful achievement of the goals, outcomes, and reform measures articulated in the Vision 2030 Jamaica National Development Plan. The Government of Jamaica is fully committed to the sustainable development of the country and continues to undertake major structural reforms that support growth and help reduce poverty.

Background

The Government of Jamaica has embarked on a wider ranging program of fiscal consolidation and structural reforms with the objective of significantly transforming the economy, creating jobs and reducing poverty. The economic program is supported by four main pillars: fiscal consolidation and debt sustainability to engender a stable and resilient macro-economy; monetary and financial system stability; structural reforms to strengthen productivity and competitiveness and strengthened social stability to protect the most vulnerable.

Much progress has been made in the area of fiscal consolidation and debt sustainability. The primary balance for the first quarter (April-June) of FY2013/14 was better than budgeted and Jamaica is on track to meet a primary balance target of 7.5 percent of GDP this fiscal year. In the area of debt sustainability, the successful National Debt Exchange (NDX) lowered interest rates on domestic debt and extended maturities. This resulted in a reduction in interest payments from 25.5 percent of revenues and grants in FY2012/13 to 18.5 percent in FY2013/14, without affecting financial market stability. Progress has also been made in the area of monetary policy and financial sector reforms and deeper financial sector reforms are envisaged going forward to phase out the retail repo model currently practiced by securities dealers and introduce a wider range of financial services, including collective investment schemes.

Jamaica's creditable economic performance is underscored by the recent upgrade by Standard & Poor's, which noted that the Jamaican economy has stabilized and expressed their expectation that the country's ambitious fiscal targets for this year will be met. The IMF's September 2013 Report to their Board on Jamaica's economic performance, acknowledged the GOJ's "financial discipline" and "steadfast implementation of the initial reforms".

Structural Reforms to Support Growth and Resilience

For over three decades, Jamaica's economy has faced serious challenges to achieve sustained levels of economic growth. This has resulted in a continuing fragile economic environment with considerable underlying vulnerabilities and a high public debt level that imposes an enormous fiscal burden.

While efforts at fiscal consolidation are underway, they need to be complemented by a growth and development strategy that transforms the Jamaican economy. The Government of Jamaica is undertaking a range of structural reforms with the objective of increasing factor productivity and firm competitiveness, identifying and securing financing for strategic investments, increasing the efficient use of government resources whilst reducing vulnerability.

a. Private Sector Growth

The Government is committed to deepening the role of the private sector to achieve the growth agenda. The core components of this agenda are strategic investments, improving the business environment, macroeconomic stability, entrepreneurship and innovation, energy efficiency and human capital development.

Creating the conditions for improving the ease of doing business is of critical importance to attract foreign and local investments. Jamaica is ranked 90th among 185 countries in the World Bank's 'Doing Business Report'. The Government of Jamaica is taking steps to improve the business environment and raise Jamaica's ranking in the surveys such as the World Bank's Doing Business indicators. To this effect, we have already undertaken several measures that would improve the business climate including: operationalizing Jamaica's first credit bureau to improving access to credit; increasing the civil jurisdictions of the lower courts to reduce back logs in the civil courts, leading to better contract enforcement. As part of the improvement of the business environment in Jamaica, the 'Super Form' will be introduced. This Super Form will consolidate applications from five different government agencies and is a major step towards eliminating the red tape that hampers the registration of new businesses in Jamaica

Over the last two decades, it has become increasingly clear that Jamaica has lost, and is continuing to lose its competitive edge in goods production. At the same time, however, Jamaica's competitive advantage in the services sector has increased, particularly in the logistics and shipping sector. This advantage has become even more critical, given the expansion of the Panama Canal, Jamaica's unique geo-strategic location, and the natural resource endowments which include two of the best natural harbours in the world. Our imperative is to integrate the Jamaican economy into the global value and supply chain and the Logistics Hub Initiative (LHI) is seen as the central plank toward achievement of this objective. Jamaica Logistics Hub is a clustering of global third party logistics providers and large global businesses with substantial cargo flows to take advantage of sea-air connectivity opportunities and trade corridors from production houses in the Asia/Pacific and other regions to the growing markets of over 800 million people in the Americas. The Government of Jamaica is prioritizing the development of the LHI, which plays a critical role in Jamaica's growth strategy, with the objective of positioning Jamaica as the fourth node in the global logistics chain, joining the Netherlands (Rotterdam), Singapore and Dubai. Successful implementation of the LHI will not only generate significant income and jobs for our people, especially the youth, but will also transform Jamaica's position in the global economy.

To this end, concession of the Kingston Container Terminal (KCT) represents a key infrastructure investment of the LHI. In recent years the KCT has deteriorated in terms of berth depth and operational capacity, and requires substantial investment to facilitate physical improvements and sustained efficiency of port operations to ensure its continuance as a preferred container hub in the sub-region. A successful concession of the KCT terminal is not only essential for advancing the LHI, but can greatly enhance the value and contribution to the economic development of the country. The Government of Jamaica is committed to allocating the KCT concession through a transparent and competitive manner and thus set the stage for greater interest and competitive bidding for future PPP projects.

Alongside the economic programme and mega projects to build and maintain the necessary macroeconomic stability and growth, there are institutional programmes aimed at transforming Jamaica's education system to ensure the country remains competitive and help to achieve the Prime Minister's mandate that "no one is left behind". The primary education school curriculum is undergoing renewal to be completed by 2016. The compelling purpose of the curriculum renewal is to achieve the required levels of literacy and numeracy. Review of all subjects of the national curriculum is underway and will be rolled out in September 2015. The contents of all subjects are being revised with particular attention to Science and Social Studies, and with more emphasis on Civics and Jamaican History.

b. Transforming the Public Sector to support Economic Growth

The GoJ is taking several steps to transform and modernize the public bureaucracy to make it more responsive, efficient and effective in contributing to sustainable growth, while streamlining costs. Other initiatives are underway to strengthen budget processes and improve the management of the public sector investment programme.

The present pensions arrangement is unsustainable and the GOJ is committed to addressing this issue. Much work has been done in the area of civil service pension reform that has led to the development of a White Paper on this issue titled "Reform of the Public Pensions System", which details parametric changes in the current pension system including the gradual increase of the retirement age to 65, and the contribution of five percent (5%) by employees. The revised pension system is expected to be implemented in FY2015/16. It is expected that over time, systems that provide for better monitoring and processing of pension payments will be in place.

Tax reform is a vital and necessary step to shore up our public finances, particularly the reduction and eliminations of distortions in the tax system with regard to tax incentives and waivers. In October 2013, the GoJ tabled in Parliament the Fiscal Incentives Bill and the Income Tax Relief Bill for Large-scale Projects and Pioneer Industries. These are both key pieces of legislation designed to provide a rules based framework for the granting of tax waivers. Likewise, a Charities Bill is also being tabled that will establish a similar framework for waivers to charities.

The new Strategic Human Resource Management Division (SHRM) at the Ministry of Finance and Planning is focusing its energies on activities such as the training and development of persons as well as succession planning for the overall sustainability of the Public Sector. The objectives of this Division are:

- To link the Human Resource Management function to strategic business objectives.
- To allow the Public Sector to better identify, develop, and deploy the knowledge, skills and abilities required to achieve maximum impact and contribute to the creation of value within the local economy.
- To establish a framework and approach to recruit, develop and retain the best talent in the public sector.

This new division is a merger of the Public Service Establishment Division in the Ministry of Finance and Planning and the Corporate Management Development Division of the Cabinet Office. One of the first tasks of this division is to bring synergy to the human resource management practices across the public service. During the course of this financial year, the Government will be procuring an enterprise-wide human capital management system to provide technological support to the human resource management practices. A major weakness to be addressed by the system is the lack of complete employment data for the sector which impairs the ability of entities to efficiently manage their Human Resource Management processes such as pensions, training and development, staff deployment, succession planning and leave administration.

The Government of Jamaica is establishing a Central Treasury Management System --a central payments platform – that is already underway. There are important efficiencies to be gained from the establishment of a new technical office to drive e-government and to provide new ICT systems and reduce the cost of communication within government and enable the greater utilization of electronic transactions. In order to ensure that the budgeting process is completed in a timely manner, a detailed budget calendar will be approved for the 2014/15 budget.

Reform is also underway to improve public investment planning, to facilitate better management and utilization of resources. To this end, we recognize that the success of the public sector investment program (PSIP) is highly dependent on the initial assessment of the issue as well as the mechanisms that are used to make the decision regarding how to allocate. As a first step, a Cabinet Submission has been prepared outlining the unified procedures that will apply to all public investment projects regardless of the funding type. The PSIP Policy Paper will be tabled annually with the Budget documents and will include the past year's public investment performance, the current year's plans & projections and the medium term profile. Another key step taken is the establishment of a public investment projects database which will eventually include all public investments of the GoJ (Capital A, B, and public bodies), and improve planning and monitoring.

c. Improving Resilience

Jamaica remains vulnerable on several fronts, including natural disaster sudden shocks which can be a significant strain on the fiscal accounts and are sources of volatility. Necessary reforms to mitigate these vulnerabilities are actively being undertaken.

Considering the mechanisms that need to be activated and the services that are provided during disasters the Government has introduced the Disaster Risk Management Bill which will enhance the country's ability to respond to disasters. The Bill seeks to: recognize existing organizational structures such as the National Disaster Committee, the Parish Disaster Committees and the Zonal Committees with their roles and functions clearly established; establish a National Disaster Fund which will help alleviate potential disruptions to the economic recovery programme in the event of a disaster; legally evacuate persons identified to be at risk as a preventative measure; and identify and describe high risk areas as "especially vulnerable areas" and outline the steps to be taken in respect of such areas.

Linked to disaster preparedness is the need to ensure the structural integrity of buildings. Accordingly, the Building Act was reviewed. The purpose of this Bill is to facilitate the regulation and enforcement of Jamaica's building code at the local level which considers natural hazards including wind, rain and seismic events; enforcement of such a code minimizes potential redirection of financial resources to reconstruction from predetermined development projects, and therefore limits the Government's implicit liability to response and recovery expenditures.

Another source of vulnerability is the high incidence of Non-Communicable Diseases (NCDs). NCDs account for upwards of 60 percent of deaths in Jamaica annually and cost about US$170 million per annum. The Government is committed to the World Health Assembly resolution of 2012 to reduce premature deaths from non-communicable diseases by 25% by 2025. The Ministry of Health has formulated the first comprehensive strategic plan for NCDs in Jamaica, which will address the four major conditions causing death and disease in the country: Cancer, Diabetes, Cardiovascular Disease, Chronic Respiratory Diseases and the four major risk factors - physical inactivity, unhealthy eating, harmful use of alcohol and tobacco use.

Jamaica is also committed to addressing crime and community safety. To this effect the Government is rolling out successful initiatives to reduce crime. The National Crime Prevention and Community Safety Strategy (NCPCSS) serves as a framework for securing support and approval and to instigate detailed planning in the area of crime prevention and community safety by the Government of Jamaica. The NCPCSS represents an integration of over 50 consultations from public and private sector bodies, civil society, NGOs, IDPs, and residents. Recently the Ministry of National Security signed a Memorandum of Understanding with 18 Government agencies to facilitate collaboration and information exchange for the Jamaica Crime

Observatory, a web-based crime and violence statistics databank covering the five parishes with the highest incidence of crime. The move will ensure standardisation and accessibility to timely and reliable crime statistical data, to inform the Government's strategy and efforts to reduce the incidence of crime and violence, particularly in high risk and vulnerable inner-city communities in Jamaica.

Finally and in recognition that the people of Jamaica are partners with the Government as we go through this reform process, the Government of Jamaica signed the island's Social Partnership Agreement (SPA) with the Private Sector, Trade Unions and Civil Society on July 31, 2013. The SPA is a consolidation of years of work and will include a programme of measures to achieve macroeconomic stabilization and growth with equity initially over the period 2013-2016.

In furthering our commitment to the people of Jamaica to provide better governance, the Government of Jamaica is in the process of streamlining the existing institutions that are tasked with combating corruption in Jamaica. In particular, legislation is being tabled in Parliament to establish a single anti-corruption agency that would merge three existing agencies-- Corruption Prevention Commission, the Integrity Commission and the Office of the Contractor General-- that by concentrating efforts and resources in the fight against corruption will be more effective in reducing corruption.

The Government believes that the policies and actions described in this letter will take us a long way toward achievement of Jamaica's growth and resilience strategy. The Government has taken all the agreed actions included in the First Foundations for Growth and Resilience Development Policy Loan and will continue to implement the additional measures identified in the country's reform programme to ensure success of the reform.

Sincerely,

Peter D. Phillips, PhD., MP.
Minister of Finance and Planning

ANNEX 3: FUND RELATIONS ANNEX

International
Monetary Fund

Send us your feedback

IMF Completes First Review under Extended Fund Facility Arrangement for Jamaica and Approves US$30.6 Million Disbursement

Press Release No. 13/374
September 30, 2013

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Jamaica's performance under an economic program supported by a four-year, SDR 615.38 million (about US$944 million, the equivalent of 225 percent of Jamaica's quota in the IMF) Extended Fund Facility (EFF) arrangement. The completion of this review enables the disbursement of SDR 19.97 million (about US$30.6 million), which would bring total disbursements under the arrangement to SDR 156.72 million (about US$240.4 million).

Following the Executive Board's discussion, Mr. Nayouki Shinohara Deputy Managing Director and Acting Chair of the Board, stated:

"Overall program implementation under the Extended Fund Facility (EFF) has been strong, despite the weak economic environment. The authorities' continued committment to the program objectives of strengthening Jamaica's fiscal position and creating the conditions for sustained economic growth will be critical to a revival of investor confidence and domestic demand in the period ahead.

"The program for the remainder of fiscal year 2013/14 focuses on structural reforms to strengthen the fiscal framework. Priorities include the enactment of an effective fiscal rule to lock in the gains from the fiscal adjustment thus far, and a comprehensive tax reform to broaden the tax base and reduce distortions. An expected short delay in submission to parliament of a new law on tax incentives should not postpone its enactment.

"Achieving broad-based growth and enhancing social protection are central pillars of the authorities' economic program. The growth agenda should be bolstered by further actions to enhance the business environment and support well-targeted public investments, in close collaboration with development partners.

"Close monitoring of the financial system remains essential to forestall the emergence of vulnerabilities following February's restructuring of the public debt. A comprehensive reform of the securities dealers sector would also be important for safeguarding financial stability."

IMF COMMUNICATIONS DEPARTMENT

Public Affairs	Media Relations
E-mail: publicaffairs@imf.org	E-mail: media@imf.org
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ANNEX 4: IMF STRUCTURAL PROGRAM CONDITIONALITIES

Structural Benchmarks	Timing	Implementation Status
Institutional fiscal reforms		
1. Government to table in parliament a budget in line with program commitments.	April 30, 2013	Met
2. Government to introduce a 5-year public sector investment program (PSIP), beginning with FY2013/14, to be updated on an annual basis.	April 30, 2013	Met
3.a. Government to present to Fund staff a conceptual proposal for the design of a fiscal rule.	August 31, 2013	Met
3.b. Revise the relevant legislation for the adoption of a fiscal rule to ensure a sustainable budgetary balance, to be incorporated in the annual budgets starting with the 2014/15 budget.	March 31, 2014	Proposed revised benchmark
4. Government to finalize a review of public sector employment and remuneration that serves to inform policy reform.	March 31, 2014	
5. Cabinet to approve a detailed budget calendar consistent with top-down expenditure ceilings, for the 2014/15 Budget.	November 30, 2013	Proposed revised benchmark
6. Government to ensure there is: (i) no financing of Clarendon Alimina Production (CAP) by the government or any public body, including Petro Caribe; and (ii) no new government guarantee for CAP or use of public assets (other than shares in CAP and assets owned by CAP) as collateral for third-party financing of CAP.	Continuous	Proposed revised benchmark
Tax Reform		
7. Government to implement the Cabinet decision stipulating the immediate cessation of granting of discretionary waivers as described in paragraph 34 of the April 17, 2013 MEFP.	Continuous	Met
8. Parliament to adopt amendments to the relevant tax acts to harmonize the tax treatment for charities across tax types and remove ministerial discretion to grant waivers for charities and charitable purposes as described in paragraph 34 of the April 17, 2013 MEFP.	May 31, 2013	Met
9.a. Government to table a Charities Bill in the House of Representatives, guided by TA provided by the IDB and in consultation with Fund staff.	September 30, 2013	
9.b. Government to cease the granting of waivers to charities other than under the Charities Bill.	November 30, 2013	
10.a. Government to table Omnibus Tax Incentive Act in the House of Representatives, guided by TA provided by the IDB and in consultation with Fund staff, to eliminate ministerial discretionary powers to grant or validate any tax relief, and put in place a transparent regime for limited tax incentives.	September 30, 2013	
10.b. Government to cease the granting of tax incentives under the regime prior to the Omnibus Tax Incentive Act and of any discretionary tax waive.	December 31, 2013	
11. Broader tax reform to become effective, including the modernization of taxes, with limited exemptions, and lower tax rates (MEFP paragraphs 6, 7, and 8).	March 31, 2014	
Tax Administration		
12. Parliament to adopt amendments to the Revenue Administration Act to (i) provide access to third-party information, to enhance compliance management, and (ii) empower the TAJ to require mandatory e-filing for groups of taxpayers and/or types of taxes.	June 30, 2013	Met
13. Government to increase the professional staff of Large Taxpayer Office (LTO) to 120 staff members.	June 30, 2013	Met
Financial sector		
14. Government to Establish and Operate a Central Collateral Registry.	December 31, 2013	
15. Government to implement a legal and regulatory framework conducive to Collective Investment Schemes (Paragraph 45 of the MEFP of April 17, 2013) in consultation with Fund staff.	December 31, 2013	
16. Government to implement legislative changes regarding unlawful financial operations, consistent with Fund TA advice provided in July 2010.	March 31, 2014	
17. Government to establish a distinct treatment for retail repo client interests in the legal and regulatory framework (Paragraph 46 of the MEFP of April 17, 2013) in consultation with Fund staff.	March 31, 2014	
18. Enact Omnibus Banking Law consistent with Fund Staff advice to facilitate effective supervision of the financial sector.	March 31, 2014	

Source: IMF, "Jamaica - First Review Under the Extended Arrangement Under the Extended Fund Facility and Request for Modification of Performance Criteria". EBS/13/121, September 17, 2013

ANNEX 5. POVERTY, SOCIAL AND ENVIRONMENTAL IMPACT ASSESSMENT

Prior actions	Poverty, Social and Gender Impact Analysis	Environmental Impact
Pillar 1: Improving Investment Climate and Competitiveness		
PA1-4. *Investment Climate and MSME*	Indirect and Positive: This set of policy reforms will impact important transmission channels. Employment generation will be stimulated by improved business environment and access to credit, especially since the focus is on MSMEs. This will also have a positive gender dimension, as women make up a relatively large portion of the informal sector (57%) and own-account workers (58%). With regards to the improvements in the efficiency of the system for the registration of land this will build on previous GoJ positive outcomes and continue to benefit poor households that live in rural areas and in squatters' settlement which is estimated at 20% of the population, or 540,000 residential squatters.	The streamlining of construction permits (through the standardization and harmonization of forms that can be tracked electronically through AMANDA) has a potentially positive impact on the environment in that it would enhance conditions for sustainably managed private sector growth, as transparency in the transaction process would provide opportunities for informed urban planning decisions. However the approval process for construction permits requires the co-ordination and integration of various Government Agencies, under the existing legislative framework. As such, the intention to accelerate the issuance of construction permits should take into consideration the requirement to incorporate results of consultations with these Agencies and other stakeholders, including civil society, in cases of projects where NEPA has determined that a full Environmental Assessment is required. The National Resource Conservation Authority Act of 1991.
Pillar 2: Improving Public Financial Management for Sustained Fiscal Consolidation		
PA5. *Pensions*	Positive, with gender issues to be strengthened: A reform of the pension system, as indicated in the White Paper on Public Sector Pension System (2013) can lead to better management of government liabilities, which in turn will improve fiscal sustainability and increase fiscal space for needed pro-poor expenditures. The unsustainability of the current defined benefit pension scheme needs to be addressed or it will have more severe implications for overall fiscal expenditures. Pension reforms will have an impact on the income stream expected as accrual rates will be lower, though this is in part mitigated by grandfathering those with less than 5 years to retirement, reducing the accrual rates of those already in the system, and only applying the new lower accrual rates to new hires. The reform however does not discriminate between men and women retirement age (equalization of retirement age), with women being more negatively impacted based on the assertion that women take care of unpaid family work, both for children and increasingly for the elderly, and therefore should be compensated by an earlier entry in the pension system. Most importantly, the gender neutrality of the reforms results in pension systems that reproduce (or even reinforce) existing gender inequalities in the labor market and in the division of social roles within households, producing gender differences in pension income. In order to assess the gender impact of pension schemes, it is thus necessary to consider all mechanisms that can offset the negative impact for women, such as care pension credits, minimum pensions and unisex tariffs, as well as derived pension rights in case of marriage or divorce and for	Neutral

	survivors and how these different features combine together. In addition, gender effects of pensions' reforms can have an effect also on younger generations, introducing dis-incentives for women to enter into formal labor market. Considering the gradual approach of the government pension reform, there is opportunity for integrating pension reform with appropriate labor market and social policies and thus mitigating the risks of unequal distributional impact of the reform across social groups and gender. A comprehensive gender impact assessment as part of the pension reform process could also be considered as part of a deeper PSIA.	
PA6. *Tax reform*	Neutral.	Neutral.
PA7. *Public service reform*	Neutral.	Neutral.
PA8. *Budget Management*	Neutral.	Neutral.
PA9. *Public investment planning*	Very positive: With regards to the measure focusing on the Public Investment Systems –and measures to strengthen public-private partnerships (PPPs), they are expected to improve the management of government investments and free public money, and this will in turn improve fiscal sustainability, transparency and increase fiscal space for needed pro-poor expenditures.	The National Resource Conservation Act and the Town and Country Planning Act require that NEPA assess proposals on behalf of the Natural Resources Conservation Authority /Town and Country Planning Authority against regulations to ensure that the development fits within the desired character of an area, public health, safety and the environment are not threatened and that the structural integrity of buildings are not compromised. These transactions are all digitized under the AMANDA tracking system, which has been in place at NEPA for eight years (although the public are allowed to track the progress of clearance, all documents in the clearance process are not available to the public electronically at this time). The empowerment and provision of adequate resources is a key element in ensuring successful implementation of such policies. Other agencies involved in the clearance process include the National Works Agency (drainage, traffic, access); Mines & Geology (geotechnical issues, slope stability); the Water Resources Authority – (ground and surface water issues); the Ministry of Agriculture (RPPD) based on location (release of agricultural lands); the Environmental Health Unit (sewage); the National Water Commission (waste water & potable water) ; and the Office of Disaster Preparedness and Emergency Management (hazard identification and risk assessments e.g. flooding)