1. Key development issues and rationale for Bank involvement

This proposed DPL will assist the government in improving fiscal and debt sustainability during an on-going and severe global financial crisis by supporting policies for macroeconomic stability and helping to improve the efficiency and effectiveness of public spending and investment decisions. Specifically, the proposed loan will support policy actions in the following areas: i) promoting fiscal sustainability through controlling overall public sector balances, debt generation, and rationalization of Public Bodies, ii) increasing the efficiency of public financial management and budgeting processes, and iii) reducing distortions and enhancing the efficiency and fairness of the tax system.

2. Proposed objective(s)

- Enhancing fiscal and debt sustainability. The loan supports measures to reduce Jamaica’s high level of debt and improve fiscal sustainability, which have constrained the country’s growth potential and crowded out investment. The loan includes fiscal and institutional reforms to reduce financing vulnerabilities, improve public spending effectiveness and improve the country’s ability to cope with the adverse consequences of the on-going global economic downturn.

- Increasing the efficiency of public financial management and budgeting processes. The public sector modernization efforts supported by the loan are expected to improve the efficiency of public expenditures and investment, strengthen the control of public finances, and enhance the effectiveness of government budgeting practices. These efforts are particularly important in the current global environment that may lead to decreased fiscal revenues as these reforms are expected to improve fiscal discipline and help foster growth in the medium term through a better allocation of scarce public resources to higher investment.

3. Preliminary description

The DPL is designed to support the implementation of the Government’s medium-term development strategy, and draws upon the Bank’s analyses of key issues and desirable policy directions through the country’s analytical work, including: the Poverty Assessment, CEM, PER, PEFA, CFAA, and CPAR. Within this framework, it focuses on policies and institutional aspects related to fiscal and debt sustainability that are most amenable to support via a single-tranche. The DPL is also designed to complement the ongoing and planned investment lending program under the upcoming CPS by supporting the government’s efforts to provide a stable macroeconomic framework and improved public sector effectiveness to stimulate growth and fund priority social and investment programs.

The focus of the DPL is on the strategy and design of policies and legislative reforms to be undertaken during the first years of the new Golding Administration. The actions are designed to achieve realistic but important improvements in the overall efficiency of government spending and achieve significant and sustainable reduction
in public debt. Achieving progress in these areas will allow for the government to make greater advancements on social and poverty goals. Emphasis is on consolidating overall public sector balances, controlling Public Body spending, improving the efficiency of financial management and budget processes, and increasing revenue collection.

4. **Environment Aspects**

The specific policies supported by this DPL operation are not expected to entail likely significant impacts on the environment, forests or other natural resources. However, to the extent the divestitures of Public Bodies have a potential environmental impact, the Development Bank of Jamaica is mandated to conduct such studies and take action, as it does for social impact analyses. Environmental impact analysis has been completed for the divestiture of the Sugar Company. In addition, as measures supported by the DPL program are expected to be successful with the potential for attracting new investment in the future (including in infrastructure), there will be a need to strengthen Jamaica’s national institutional capacity to identify and address environmental policy and regulatory issues. With this in mind, Jamaican Government has embarked on a number of initiatives geared toward the proper management, conservation and protection of the natural resources for sustainable development. In April 2001, the National Environment and Planning Agency (NEPA) was formed as a means for conducting environmental impact assessments under acceptable international standards. In 2003, A Strategic Environmental Assessment (SEA) was drafted for Jamaica as a means to better facilitate the integration of environmental sustainability into the development objectives of the country. The implementation of the SEA policy in 2006 was the first of its kind in CARICOM.

5. **Tentative financing**

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6. **Contact points**

**Seynabou Sakho**  
Senior Country Economist  
World Bank  
Latin America and Caribbean Region  
PREM, Economic Policy Sector  
1818 H Street NW  
Room I 4-219, Mailstop 4405  
Washington, D.C. 2044  
Phone: (202) 458 9732  
Fax: (202) 522 2119

and

**David Gould**  
Lead Economist  
World Bank  
Latin America and Caribbean Region  
PREM, Economic Policy Sector  
1818 H Street NW  
Room I 4-007, Mailstop 4405  
Washington, D.C. 2044  
Phone: (202) 458 9621  
Fax: (202) 522 2119