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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF US$ 70 MILLION TO

JAMAICA

FOR THE

FIRST ECONOMIC RESILIENCE DEVELOPMENT POLICY LOAN

February 19, 2020

Macroeconomics, Trade and Investment Global Practice
Finance, Competitiveness and Innovation Global Practice
Latin America and Caribbean Region

Jamaica

GOVERNMENT FISCAL YEAR

April 1 – March 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of February 19, 2020)

Currency Unit: Jamaican Dollar (J$)

US$1.00 = J$141.66

ABBREVIATIONS AND ACRONYMS

AGD	Accountant General Department
AuGD	Auditor General's Department
ASYCUDA	Automated System for Customs Data
BOJ	Bank of Jamaica
CIF	Climate Investment Funds
COA	Chart of Accounts
CPS	Country Partnership Strategy
DFID	Department for International Development
DPL	Development Policy Loan
DSA	Debt Sustainability Analysis
EFF	Extended Fund Facility
EPOC	Economic Programme Oversight Committee
ERDPL	Economic Resilience Development Policy Loan
FAA	Financial Administration and Audit
FDI	Foreign Direct Investment
FPP	Fiscal Policy Papers
FRL	Fiscal Responsibility Law
FY	Fiscal Year
GDP	Gross Domestic Product
GNP	Gross National Product
GRiF	Global Risk Financing Facility
GRS	Grievance Redress Service
GOJ	Government of Jamaica
IBRD	International Bank for Reconstruction and Development
ICC	International Code Council
IDA	International Development Association
IDB	Inter-American Development Bank
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFIs	International Financial Institutions
IMF	International Monetary Fund
ISSAI	International Standards of Supreme Audit Institutions
JCA	Jamaica Customs Agency

JSLC	Jamaica Survey of Living Conditions
JTIP	Jamaica Trade Information Portal
KMA	Kingston Metropolitan Area
LAC	Latin America and the Caribbean
LAMP	Land Administration and Management Programme
LDP	Letter of Development Policy
MDA	Ministries, Departments and Agencies
MFD	Maximizing Finance for Development
MoFPS	Ministry of Finance and the Public Service
MSMEs	Medium, Small and Micro enterprises
MTEF	Medium-Term Expenditure Framework
MTF	Medium-Term Socio-Economic Policy Framework
MTRBB	Medium-Term Results Based Budgeting
NDF	National Disaster Fund
NDRF	National Natural Disaster Reserve Fund
NFA	National Fisheries Authority
NIS	National Insurance Scheme
NLA	National Land Agency
NPL	Non-performing Loan
ODPEM	Office of Disaster Preparedness and Emergency Management
PATH	Programme of Advancement Through Health and Education
PDO	Program Development Objective
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Financial Management
PIT	Personal Income Tax
PPP	Public-Private Partnership
REER	Real Effective Exchange Rate
SBA	Stand-By Arrangement
SCD	Systematic Country Diagnostic
SDR	Special Drawing Rights
TSA	Treasury Single Account
WB	World Bank
WBG	World Bank Group
WTO	World Trade Organization

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JAMAICA

FIRST ECONOMIC RESILIENCE DEVELOPMENT POLICY LOAN

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P170223	Yes	1st in a series of 2

Proposed Development Objective(s)

The Program Development Objectives are to (a) Support Fiscal Sustainability and Inclusion; (b) Enhance Fiscal and Financial Resilience against Natural Disaster Risks; and (c) Improve the Investment Climate for Sustainable Growth.

Organizations

Borrower:	JAMAICA
Implementing Agency:	MINISTRY OF FINANCE & THE PUBLIC SERVICE

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**70.00**

DETAILS

International Bank for Reconstruction and Development (IBRD)	70.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Substantial

Results

Indicator Name	Baseline	Target
The Fiscal Council is adequately staffed and issues regular fiscal assessment reports (that include debt sustainability analysis)	No (2018)	Yes (2021)
Percentage of self-financing public bodies compliant with submitting an Annual Report within four months after the end of the financial year	47% (FY 2018/2019)	63% (FY 2021/2022)
Percentage of rural beneficiaries among all new PATH beneficiaries	80% (2018)	85% (2021)
Annual Fiscal Policy Paper has a section quantifying disaster-related risks	No (2018)	Yes (2021)
Capitalization of the National Natural Disaster Reserve Fund	J$100 million (Dec 2018)	J$3.1 billion (Dec 2021)
Number of post-natural disaster sources of financing available to ministries, departments and agencies with documented emergency procedures	0 (2018)	5 (2021)
Percentage of commercial declaration documentary processed by Customs within 16 hours	51% (2018)	70% (2021)
Percentage of commercial consignment initially assigned to green channel	10% (2018)	30% (2021)
Number of land titles issued annually	1,300 (2018)	3,500 (2021)
Total number of titles with unimproved value of J$ 2 million and below	2,000 (2018)	4,000 (2021)
Percentage of active fishers who are licensed	16% (2018)	30% (2021)
Number of days to obtain building permit	141.5 days (2018)	106 days (2021)

IBRD PROGRAM DOCUMENT FOR A PROPOSED LOAN TO JAMAICA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **This program document proposes a first development policy loan (DPL) operation in a programmatic series of two IBRD loans.** The financing consists of an IBRD loan in the amount of US$70 million. The proposed First Economic Resilience Development Policy Loan (ERDPL I) is closely aligned with the priorities of the Government outlined in the Medium-Term Socio-Economic Policy Framework (MTF) 2018-2021. This includes transformative reforms to break the cycle of low growth and high debt, which has weighed on poverty reduction and shared prosperity in Jamaica. It supports the Jamaican authorities' efforts to preserve and accelerate recent gains in fiscal consolidation and sustainable growth, while protecting the poor and vulnerable, including from climate and natural disasters. The proposed series leverages the Strategic Public Sector Transformation (P146688) and the Jamaica Foundations for Competitiveness and Growth (P147665) investment financing projects and is supported by substantial technical assistance (TA) from the World Bank Group (WBG) and other development partners. The proposed operation is aligned with the WBG's FY2014-2019 Country Partnership Strategy (CPS) for Jamaica, and is fully consistent with the priorities identified with the authorities.[1]

2. **Following a long period of low and volatile growth coupled with large fiscal deficits and deteriorating debt dynamics, the Government of Jamaica (GOJ) – with the support of the International Monetary Fund (IMF), the Inter-American Development Bank (IDB) and the World Bank Group (WBG) – embarked on a program of fiscal consolidation which has resulted in a remarkable turnaround since 2013**.[2] Jamaica has succeeded in setting its public debt-to-GDP ratio on a downward trajectory by maintaining large primary fiscal surpluses upwards of 7 percent of GDP since 2013. In this context, public debt declined from 145 percent of GDP at the start of FY 2013/14 to 94.4 percent in FY 2018/19. The Government's successful effort to consolidate its fiscal balances spans two political administrations and remains anchored in a social partnership (Economic Programme Oversight Committee — EPOC) involving stakeholders from public, private and civil society.[3] Investor confidence has been restored, as evidenced by the upgrade of Jamaica's credit ratings by Moody's and Standard & Poor's Global in December 2019 and September 2019, respectively. Foreign direct investment (FDI) inflows have also returned to pre-crisis levels, and foreign exchange reserves are at comfortable levels. Efforts are underway to address the country's inherent vulnerability to natural disasters and climate change. The Government demonstrated strong ownership of the reform agenda, and in November 2019 successfully completed the precautionary Stand-By Arrangement (SBA) with the IMF.

[1] The CPS (85158-JM) was discussed by the Board on April 29, 2014 covering the period 2014-2017. The CPS was extended to 2019 in May 2017.

[2] The IMF, WB and IDB approved a large package of financial support for Jamaica, committing almost US$2 billion in combined financing in 2013. The package was originally anchored by a four-year IMF Extended Fund Facility (EFF). However, the EFF was cancelled in 2016 and replaced with a three-year Precautionary Stand-By Arrangement (SBA) which expired in November 2019.

[3] EPOC was established in 2013 to monitor the implementation of Jamaica's economic reform measures under its agreement with the IMF. The Committee receives information from the Government to assess and report to the public on the performance of the Government relative to targets.

3. **The ERDPL series is structured around three interrelated pillars designed to: (i) support fiscal sustainability and inclusion; (ii) enhance fiscal and financial resilience against natural disaster risks; and (iii) improve the investment climate for sustainable growth**. It supports decisive reforms aimed at entrenching fiscal discipline through the creation of a fiscal council while addressing the overarching constraint of disaster financing and business climate issues. The IMF estimates that a disaster of the magnitude of Hurricane Gilbert (1988) or Ivan (2004) would significantly alter Jamaica's growth and debt trajectory. Real growth would be 2.5 percentage points lower in the year of the disaster and 0.5 percentage points lower in the following year, while Jamaica's long-term public debt trajectory would exceed the baseline by 7 percent of GDP.[4] Faster growth is necessary to release some of the fiscal pressures, requiring larger private investments and public private partnerships,[5] deeper investment climate and trade facilitation reforms, combined with reinforcing the resilience of Jamaica's physical infrastructure and coastal resources. In this regard, the first pillar supports the Government's ongoing fiscal consolidation efforts and promotes social inclusion by strengthening the institutional mechanisms that underpin fiscal responsibility, attenuates fiscal risks associated with public bodies, and improves effectiveness and sustainability of the social protection system within a sustainable fiscal envelope. The second pillar aims to ensure that budget planning adequately accounts for contingent liabilities and to ensure available resources more adequately cope with climate and natural disaster-related macroeconomic shocks. The third pillar supports elements of the Government's growth agenda through efforts aimed at reinforcing the resilience of Jamaica's physical infrastructure to multiple types of disaster risk. This includes reforms of the development and building applications approval process, trade facilitation, land titling and promoting the effective management and sustainable development of fisheries.

4. **Climate change is exacerbating Jamaica's vulnerability to natural disasters.** Current climate-change models project an increase in Jamaica's mean annual surface temperature of between 0.82° and 3.09° Celsius between 2081 and 2100. The frequency and intensity of extreme rainfall events is expected to increase significantly between 2040 and 2100. The sea level on Jamaica's north coast is projected to rise by 0.43 to 0.67 meters by 2100, while sea-level rise on the south coast could reach 1.05 meters. These and other projected effects of climate change are expected to intensify natural disaster risks, as Jamaica is likely to experience more frequent and intense floods, droughts, storm surges, and other extreme weather events.

5. **Jamaica has witnessed a modest reduction in poverty over the past five years.** Jamaica's poverty and inequality indicators worsened in the aftermath of the 2008 global financial crisis and during the period of slow growth and macroeconomic instability that marked the first years of this decade, but since the start of the fiscal consolidation, the country has begun to regain lost ground. The national poverty rate more than doubled from 9.9 percent in 2007 to 24.6 percent in 2013 before falling to 17.1 percent in 2016 as growth resumed. The moderate and extreme poverty rates have both returned to their 2010 levels, which are low by the standards of comparable countries in Latin America and the Caribbean (LAC). However, poverty reduction has not been continuous, and a 4 percentage-point increase in the poverty rate between 2014 and 2015 underscores the population's vulnerability to short-term shocks. The rural

[4] IMF, 2018. Article IV Report (April)

[5] Government borrowing has crowded out private investment, while low levels of credit to the private sector have slowed economic growth. Credit to the private sector by commercial banks remains limited at an estimated 27 percent of GDP in 2016, well below the regional average of 45 percent.

poverty rate (20.5 percent) significantly exceeds the rate in the Kingston Metropolitan Area (11.9 percent). Inequality indicators have decreased in recent years, and the Gini coefficient has remained around 0.38 since 2014. Continued gains in poverty and inequality indicators require that a declining debt trajectory be accompanied by expanding fiscal space for growth-enhancing investments and improved service delivery, as well as a more efficient public administration and an enabling environment for private-sector development.

6. **Given the Government's fiscal consolidation efforts and reforms to strengthen fiscal and financial resilience, the macroeconomic policy framework remains sound.** GDP growth has accelerated up to FY2018/19, and the growth outlook is positive, driven by ongoing structural reforms including addressing business climate issues. With limited pressure on the exchange rate, monetary policy has been supportive of growth. The GOJ has also demonstrated its ability to implement fiscal consolidation and has expressed a strong commitment to reducing debt by a further 34 percentage points to achieve the target of 60 percent of GDP by FY2025/26. The Government is also advancing reforms to address the numerous constraints to faster economic growth. Furthermore, while external vulnerabilities are high, given the current account deficit and the dependence on key trading partners, foreign direct investment (FDI) is projected to be sustained, and international reserves remain at adequate levels. The Government has also been proactive in adapting its public financial management systems to better respond to natural disasters.

7. **This proposed ERDPL series is consistent with the WBG's approach to Maximizing Finance for Development (MFD), as well as commitments to supporting and scaling up action on climate change and increasing the climate-related share of development financing.**[6] The operation is classified as "MFD-enabling" because it supports the restructuring, divestment, and consolidation of public entities to open space for private-sector participation in infrastructure financing, as well as enabling a more efficient Jamaican private insurance market. The proposed operation supports the design and implementation of disaster risk financing mechanisms that will protect private assets and generate opportunities for private-sector involvement in disaster risk reduction, including business contingency planning. The operation also supports reforms aimed at deepening the domestic private insurance market. Finally, the proposed operation is aligned with the World Bank Group's Climate Change Action Plan, its Action Plan on Climate Change Adaptation and Resilience, and its recently announced set of revised climate targets for 2021-25.

8. **There are several downside risks, bringing the overall risk of the operation to substantial.** Notably, the country's vulnerability to natural disasters represents a major risk as well as potential social pressures. Nevertheless, the authorities are keen to remain engaged with the World Bank Group for technical and financial support to implement their program, and the proposed operation supports substantial reforms underpinning the economic outlook. Sustained political commitment to implement difficult and sensitive reforms will be a crucial ingredient for the success of this operation.

2. MACROECONOMIC POLICY FRAMEWORK

[6] See Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries
https://worldbankgroup.sharepoint.com/sites/MFD/Document/MFD%20Approach/Maximizing%20Finance%20for%20Development%20-%20Leveraging%20the%20Private%20Sector%20for%20Growth%20and%20Sustainable%20Development.pdf?source=https://worldbankgroup.sharepoint.com/sites/MFD/

2.1. RECENT ECONOMIC DEVELOPMENTS

9. **Jamaica's economy is gradually recovering from a protracted period of low growth which has kept potential output growth below 1 percent.** Real GDP expanded by 1.9 percent in FY2018/19, above the average rate of 0.9 percent recorded between FY2013/14 and FY2017/18. Growth was mainly driven by private consumption and external demand as there was some slowdown in investments and public consumption (Table 1). At the sectoral level, the expansion in real GDP was attributed to mining, construction, tourism and a rebound in agriculture from the impact of adverse weather conditions in 2017. Construction and tradable services also grew at a robust pace as favorable external conditions bolstered tourism and related services. These conditions have been supporting an improvement in labor market with the unemployment rate falling to an historic low of 7.8 percent in July 2019.

10. **Low inflation in Jamaica has provided space to ease monetary policy and support growth**. Annual inflation declined to 3.4 percent in FY2018/19 down from an average 3.9 percent in FY2017/18, below the Central Bank's targeted range of 4-6 percent (Table 2). The slowdown in inflation reflected lower food, rent and education prices. Core inflation also remained contained below 2 percent. With relatively low inflation expectations and limited pressure on the exchange rate, the Central Bank has maintained an accommodative monetary policy stance. The main policy rate has been reduced to 0.5 percent in August 2019. The reserve requirement was also reduced from 12 percent to 9 percent in March 2019. At the same time, the country has adopted legislation to grant formal operational independence to the Central Bank. The country is moving towards a formal inflation targeting regime to inform expectations while it converges to a fully floating exchange rate. The Real Effective Exchange Rate (REER) has been relatively stable over the past two years.

Table 1: Contribution to GDP Demand and Supply Side (Percentage Points)

Demand Side								
	2015/16	2016/17	2017/18	2018/19e	2019/20f	2020/21f	2021/22f	2022/23f
Private consumption	-0.1	-0.3	0.8	1.1	1.1	1.1	1.2	1.3
Public Consumption	0.0	0.2	0.2	0.1	0.3	0.2	0.3	0.3
Investment	-1.4	-0.2	1.3	0.7	0.4	0.6	0.9	1.0
Private	0.1	0.4	0.2	0.3	0.2	0.5	0.9	0.8
Public	-1.2	-0.4	0.8	0.4	0.1	0.1	0.1	0.1
Exports	1.5	0.3	0.9	1.2	0.6	0.8	1.4	1.5
Imports	-1.0	-1.4	2.1	1.2	1.5	1.6	1.8	1.8
GDP Growth	**0.9**	**1.4**	**0.9**	**1.9**	**0.8**	**1.1**	**1.9**	**2.0**
Supply Side								
Agriculture	0.1	0.6	-0.2	0.2	0.1	0.2	0.2	0.1
Industry	0.4	0.2	0.3	0.8	0.2	0.2	0.4	0.5
Services	0.4	0.5	0.8	0.9	0.4	0.7	1.3	1.4
GDP Growth	**0.9**	**1.4**	**0.9**	**1.9**	**0.8**	**1.1**	**1.9**	**2.0**

Source: GOJ, IMF and WBG staff estimates and projections. Note: Fiscal years run from April 1 to March 31.

11. **The GOJ has made significant progress in fiscal management and has reduced the debt/GDP ratio by over 40 percentage points since 2013**. Jamaica's public debt as a percent of GDP fell from 145

percent of GDP in FY2013/14 to 94.4 percent in FY 2018/19. The sharp fall in debt has been attributed to proactive fiscal management, with the Government maintaining annual primary surpluses above 7.0 percent of GDP, along with proactive debt management. An overall fiscal surplus of 0.5 percent of GDP was achieved in FY17/18, followed by 1.2 percent of GDP in FY2018/19. The fiscal performance was also supported by greater control over public bodies easing historical downward pressures on the fiscal balance. Fiscal consolidation has helped shore up confidence in capital markets. Increased market confidence has given the GOJ the necessary space to execute careful debt-market transactions, which have further reduced the public debt stock and mitigated debt-related risks.[7]

12. **Total revenue expanded by 3.6 percentage points of GDP since 2015 to peak at 30.6 percent of GDP in FY2018/19.** Tax revenue accounted for most of this increase, rising steadily by 2.0 percentage points to reach 26.4 percent of GDP in FY2018/19. This improvement reflected reforms to broaden the tax base and strengthen revenue collection. The implementation of revenue-neutral personal income tax (PIT) reform enhanced efficiency by shifting the burden of taxation from direct to a simplified indirect taxation. Indirect tax collection from production and consumption rose from 7.9 to 9.3 percent of GDP between FY2015/16 and FY 2018/19 due to: (i) an increase of several excise tax rates on select products (fuel, tobacco, alcohol); (ii) elimination of consumption tax (GCT) exemptions and discretionary waivers; and (iii) increase of departure tax from US$14.50 to US$35.00. At the same time, the Large Taxpayers' Office has been strengthened and efforts to contain the effect of transfer pricing has been put in place. There was also an increase in non-tax revenues, which include customs administrations fees, transfers from select public entities and receipt from PetroCaribe Development Fund.[8]

13. **Total expenditure reached 29.4 percent of GDP in FY2018/19, 2.1 percentage points above FY2015/16 levels**. The Government has managed some rebalancing in spending with program and capital expenditure rising by 2.3 and 1.3 percentage points, respectively. This was coincided with lower interest payments. Higher program and capital spending, which were intended to enhance competitiveness and equity, included: (i) road infrastructure projects; (ii) social programs such as Programme for Advancement Through Health and Education (PATH) and school feeding program; and (iii) capital investment for security. Compensation to employees remained contained, falling below 10 percent of GDP. Active debt management, including a 10 percent of GDP debt reduction from the PetroCaribe debt buyback in 2015, has substantially decreased Jamaica's debt-service obligations as interest payments fell from 7.4 percent of GDP in FY2015/16 to 6.3 percent of GDP in FY2018/19.

14. **The external current account deficit is estimated to have declined in FY2018/19 and was safely financed by FDI**. The current account deficit approximated 2.2 percent of GDP in FY2018/19, relative to 3.0 percent of GDP in FY2017/18. This improvement reflected increased earnings from mining and tourism exports. The current account continues to be financed mainly through FDI mainly for the tourism and mining sectors, which represented on average 5.3 percent of GDP. As a result, international reserves remained adequate at 23 weeks of total imports.

[7] Jamaica issued US$869 million in long-term global bonds in August 2017 at historic low yields (5 percent on bonds due in 2028 and 6.45 percent on bonds due in 2045), which enabled the GoJ to repurchase US$145 million in high-interest short-term global bonds and to prepay US$526 million in bonds in the domestic market, in line with efforts to reduce the national debt and extend maturities. Moody's and S&P Global Ratings revised their outlooks on Jamaica from stable to positive in 2018. Additionally, Fitch Ratings upgraded the GoJ's Long-Term Foreign Currency Issuer Default Rating from B to B+ in January 2019, its highest rating in over 10 years, and raised the country's ceiling from "B" to "BB-".
[8] National Housing Trust, Jamaica Civil Aviation Authority, Chase Fund among others.

15. **Indicators of financial-sector soundness are broadly positive.** The banking system remains well capitalized with the capital-adequacy ratio stabilizing at 14 percent. The non-performing loan (NPL) ratio was also low at 2.3 percent at March 2019. In line with an accommodative monetary policy stance, growth in credit to the private sector remained robust expanding by 12.3 percent at March 2019, relative to a year earlier. Information from the Bank of Jamaica also confirmed that the weighted average lending rate for domestic currency fell from 14.3 to 13.3 percent between March 2018 and 2019. Yields on 6-month treasury bills have been declining steadily from 6.6 percent in December 2016 to 2.1 percent in May 2019. A reduction of the footprint of the Government in the domestic debt market has also resulted in lower concentration risks for the sector.

Table 2: Macroeconomic Indicators

	2015/16	2016/17	2017/18	2018/19e	2019/20f	2020/21f	2021/22f	2022/23f
Real Economy			*Annual growth rate unless otherwise noted*					
Nominal GDP (J$ billions)	1,688	1,789	1,927	2,053	2,155	2,279	2,429	2,596
Real GDP growth (percent)	0.9	1.4	0.9	1.9	0.8	1.1	1.9	2.0
CPI (period average)	3.4	2.4	4.6	3.3	4.4	4.6	4.6	4.8
CPI (eop)	3	4.1	3.9	3.4	4.7	4.5	4.7	4.8
Fiscal				*Percent of GDP*				
Budgetary revenue	27.0	27.9	29.1	30.6	29.4	29.1	29.0	29.0
Budgetary expenditure	27.3	28.1	28.6	29.4	29.3	28.6	28.3	27.9
Primary balance	7.2	7.6	7.5	7.5	6.5	6.5	6.5	6.5
Overall fiscal balance	-0.3	-0.2	0.5	1.2	0.2	0.4	0.7	1.1
Monetary and financial								
BOJ policy rate (eop/latest)	0.25	4.00	2.75	1.25	0.5	…	…	…
Credit to private sector (Percent change of M3)	8.2	26.5	14.8	12.3	…	…	…	…
Non-performing loans/total loans (eop/latest)	4.0	2.8	2.7	2.3	…	…	…	…
External				*Percent of GDP*				
Current-account balance	-1.9	-1.2	-3.0	-2.2	-2.5	-2.1	-2.4	-2.8
Exports of goods, f.o.b	8.3	8.8	9.9	12.4	10.3	9.3	9.8	10.2
Export of services	14.8	15.7	14.2	14.0	14.9	15.2	14.4	14.0
Imports of goods, f.o.b.	30.0	30.1	33.8	35.5	33.4	31.7	31.7	31.7
Imports of services	19.5	21.3	20.7	20.6	22.5	23.4	22.6	22.1
Foreign direct investment	6.6	4.2	6.0	4.5	1.7	4.1	4.1	4.1
Gross reserves (weeks of GNFS imports)	23.5	26.7	25.4	23.0	23.4	25.1	23.9	23.0
Memorandum items		353	306	10	49	388	105	117
Net international reserves (US$ millions)	2,416	2,769	3,075	3,085	3,134	3,522	3,627	3,744
Exchange rate (avg., J$/US$)	118.77	127.17	127.98	130.58				

Source: GOJ, BOJ, IMF and WBG staff estimates and projections. Note: Fiscal years run from April 1 to March 31. Authorities' budgets presented according to IMF definitions.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

16. **Real GDP is projected to decelerate to 0.8 percent in 2019 and average 1.7 percent over the medium term.** Growth is expected to be driven by net external demand and consumption. Investment will also continue to support increased activities, albeit at a more modest pace relative to 2017 when there was a surge in public investments. At the sectoral level, growth is expected to be driven by manufacturing and construction activities. Mining will contract due to the suspension of production at the *Alpart* alumina refinery (for 18 to 24 months) in September 2019.[9] Nevertheless, the completion of several projects in the energy sector – including the liquefied natural gas (LNG) plant in Clarendon, the 190MW plant in St. Catherine and the conversion of the Bogue plant to LNG in St. James - will continue to boost growth in the short-term. The Government is also proactively working to improve the business environment to attract private investments in key sectors while creating opportunities for medium, small and micro enterprises (MSMEs). This includes measures to reduce the distortive financial turnover taxes and the implementation of the Public Procurement Amendment Act allowing Jamaican MSMEs to compete for larger shares of Government contract. Ongoing FDI projects across the country along with efforts to boost credit should support job creation and economic activity. A combination of rising per capita GDP, low unemployment, and an increase in conditional cash transfers under the PATH (supported by this operation) is expected to support continued gains in poverty reduction over the next several years.[10]

17. **Inflation is expected to increase and remain within the 4-6 percent central bank's target range.** The increase in inflation will stem from moderately stronger domestic demand as a cyclically weaker global economy will keep imported inflation relatively subdued. Continued fiscal consolidation will help to restrain inflationary impulses. The monetary policy stance is expected to remain supportive of growth. The central bank is also expected to continue work to improve the transmission lag and to deepen financial intermediation.

18. **The GOJ is committed to continued fiscal discipline despite the expiration of the SBA with the IMF.** Starting in FY2019/20, the Government has decided that the primary surplus target over the medium term will be 6.5 percent of GDP, instead of the target of 7 percent in place since FY2013/14. The adjustment will allow higher spending on security, infrastructure, and poverty reduction initiatives and it is not expected to impact fiscal sustainability.[11] The overall fiscal surplus is expected to rise gradually to about 1.1 percent of GDP in FY2022/23 (Table 3). The Government's fiscal program is anchored in the Fiscal Responsibility Law (FRL) which demands that public debt falls to 60 percent of GDP by FY2025/26. The Government intends to support enhanced macroeconomic stability as an important condition for boosting private investment. Discussions are well advanced within the country for the creation of a fiscal council by FY2020/21 as part of efforts to entrench a culture of fiscal discipline. In the interim, the GOJ has extended the mandate of the existing EPOC until the fiscal council is in place.

19. **Revenues are expected to marginally decline to 29.1 percent of GDP over the period FY2019/20-FY2022/23.** The Government is deploying a range of measures to eliminate distortions and stimulate

[9] Alpart accounts for approximately 40 percent of Jamaica's alumina export.
[10] World Bank, Macro-Poverty Outlook (April 2019).
[11] IMF, 2019. Fifth Review Under the SBA.

economic activity including:(i) an increase of the General Consumption Tax's threshold from J$3 million to J$10 million; (ii) the replacement of all ad valorem Stamp Duty tax; (iii) reduction of the transfer tax rate for property from 5.0 to 2.0 percent; (iv) the increase of the transfer tax threshold (applicable to the estate of deceased persons); (v) the abolition of the minimum business tax; and, (vi) the elimination of the asset tax for non-financial institutions. Although these measures will cut domestic revenue collection by 0.7 percent of GDP per year over the medium term, they should encourage the formalization of thousands of micro and small businesses. At the same time, efforts are underway to improve the efficiency of collections.

20. **Total expenditures are projected to decline from its peak in FY2018/19 to average 28.5 percent of GDP over the period FY2019/20-FY2022/23.** Debt-service obligations will fall consistent with the continued decline in debt. Tight limits on personnel and program costs, will reduce total spending. Combined, these categories are expected to reduce total spending by 1.5 percentage points of GDP by FY2022/23 relative to FY2018/19 levels. With the Government committed to bridging the infrastructure gap, capital spending is expected to average 3.4 percent of GDP. To mitigate fiscal costs while boosting growth, the Government is aiming to attract private investments in key growth sectors and to implement significant reforms to unlock private sector opportunities, in addition to engaging in public private partnerships. Program expenditure will remain elevated at 9.6 percent of GDP over the medium term, while the authorities prioritize Government functions/services to release resources for social programs.

21. **Financing needs are expected to decline over the medium term consistent with continued fiscal consolidation.**[12] Gross financing needs are expected to fall to 3.8 percent of GDP in FY2022/23. External debt will account for most of the repayment obligations over the medium term. Additional reforms are being implemented to improve fiscal and debt management, and oversight and monitoring of the public enterprises. This will be crucial for enhancing governance and transparency and to mitigate fiscal risks.

Table 3: Fiscal Indicators, Percent of GDP

	2015/16	2016/17	2017/18	2018/19e	2019/20f	2020/21f	2021/22f	2022/23f
Revenue and grants	**27.0**	**27.9**	**29.1**	**30.6**	**29.4**	**29.1**	**29.0**	**29.0**
Tax	24.4	25.6	25.8	26.4	26.4	26.2	26.3	26.4
Income and profits	7.7	7.6	6.8	7.0	7.4	7.2	7.3	7.3
Production and consumption	7.9	8.3	9.1	9.3	9.0	9.0	8.9	8.9
International trade	8.7	9.7	9.9	10.2	10.0	10.0	10.1	10.2
Non-tax	2.3	2.0	3.0	3.7	2.8	2.6	2.5	2.4
Grants	0.3	0.3	0.3	0.5	0.2	0.2	0.2	0.2
Expenditures	**27.3**	**28.1**	**28.6**	**29.4**	**29.3**	**28.6**	**28.3**	**27.9**
Primary expenditure	19.8	20.3	21.6	23.2	23.0	22.6	22.5	22.5
Wages and salaries	10.0	10.0	10.0	9.7	9.8	9.7	9.5	9.5
Program expenditure	7.9	8.0	9.2	10.2	9.9	9.5	9.6	9.4
Capital expenditure	1.9	2.3	2.4	3.2	3.4	3.3	3.4	3.6
Interest payments	7.4	7.8	7.0	6.3	6.3	6.1	5.8	5.4
Domestic	3.2	4.2	3.7	3.8	3.9	3.8	3.6	3.3

[12] The Government continues to benefit from technical assistance from the IMF to improve the balance of payments. Errors and omission have been historically very large.

External	4.2	3.6	3.3	2.5	2.4	2.3	2.2	2.1
Budget balance	**-0.3**	**-0.2**	**0.5**	**1.2**	**0.2**	**0.4**	**0.7**	**1.1**
Primary balance	7.2	7.6	7.5	7.5	6.5	6.5	6.5	6.5
Principal repayments	**18.5**	**4.2**	**12.1**	**6.5**	**12.5**	**8.0**	**6.2**	**4.9**
Domestic	12.8	1.7	8.8	3.9	3.5	5.5	2.7	2.2
External	5.7	2.6	3.3	2.6	9.0	2.4	3.5	2.7
Gross Financing Needs	**18.8**	**4.4**	**11.6**	**6.8**	**13.4**	**8.6**	**5.4**	**3.8**
Gross Financing Sources	**18.8**	**4.4**	**12.0**	**6.8**	**13.4**	**8.6**	**5.4**	**3.8**
Domestic	2.1	3.9	4.6	4.9	5.4	6.0	3.5	2.1
External	15.9	1.9	6.9	1.7	6.5	2.6	1.9	1.7
Divestment+ deposit withdrawn	0.9	-1.4	0.4	0.2	1.6	0.0	0.0	0.0
Memorandum items								
Government and guaranteed debt (SBA)1	2,048.0	2,177.0	2,109.0	2,076.0	2,064.0	2,055.0	2,042.0	2,005.0
Government and guaranteed debt (FRL)2		2,033.0	1,952.0	1,938.0	2,014.0	2,013.0	1,997.0	1,975.0

1/ Debt statistics follow definition under the EFF program. Central Government direct and guaranteed only, including PetroCaribe debt (net of its financing to the central Government) and projected IFIs disbursements.
2/ Consolidated central Government and public bodies' debt, consistent with the Fiscal Responsibility law.
Note: Fiscal years run from April 1 to March 31. Authorities' budgets presented according to IMF definitions.

Table 4: Public Debt Composition

	2015/16	2016/17	2017/18	2018/19e	2019/20f	2020/21f	2021/22f	2022/23f
Public Debt (FRL)		**113.7**	**101.3**	**94.4**	**93.5**	**88.3**	**82.2**	**76.1**
Public Debt (SBA)	**122.5**	**121.7**	**109.4**	**101.1**	**95.8**	**90.2**	**84.1**	**77.2**
External Debt	74.2	73.3	66.0	60.8	58.4	55.8	51.4	47.2
Domestic Debt	48.3	48.4	43.5	40.3	37.3	34.4	32.6	30.0

Source: IMF, GOJ and WBG staff estimates. Note: Fiscal years run from April 1 to March 31.

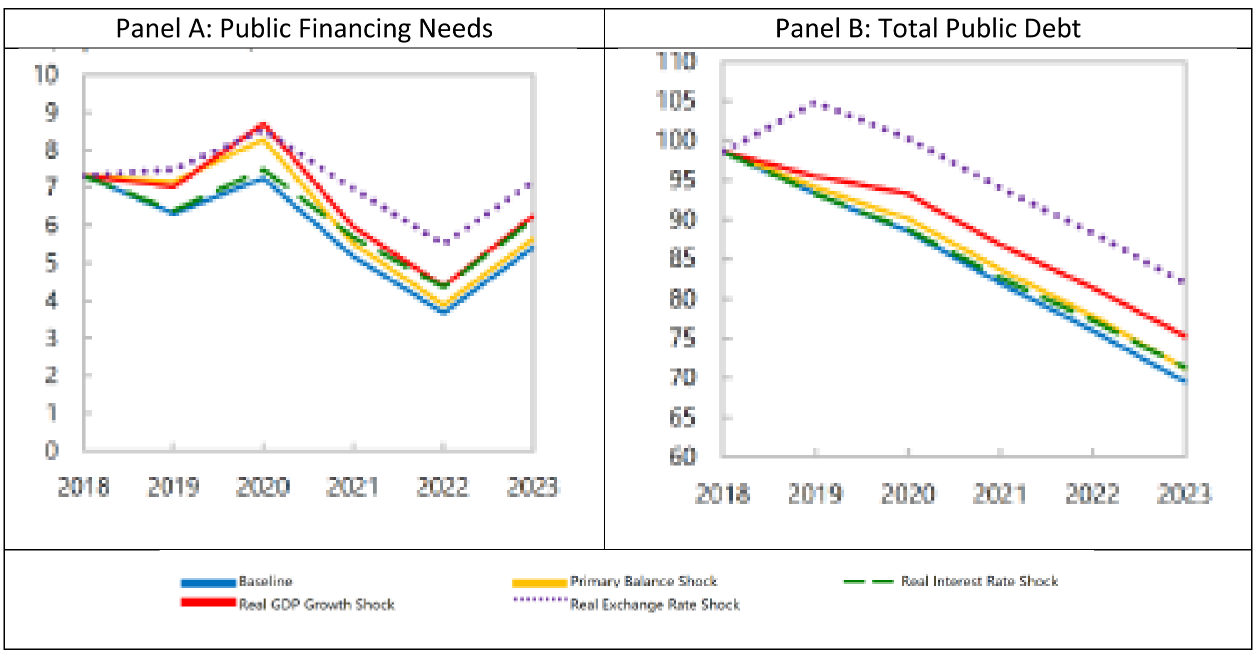
22. **Jamaica's public debt is expected to remain below 100 percent of GDP over the forecast horizon and is on track to being reduced to 60 percent or below by FY2025/26 (Figure 1).** The IMF's April 2019 Debt Sustainability Analysis (DSA) projects that under the baseline macroeconomic outlook, which assumes the GOJ will maintain a tight fiscal stance, the public-debt-to-GDP ratio will fall below 80 percent of GDP by FY2022/23 (Table 4). Public debt is expected to fall below the 60 percent threshold by FY2025/26. Large primary surpluses will account for almost the entire reduction in the debt-to-GDP ratio during the period. The real interest burden is expected to outweigh a modest acceleration in the GDP growth rate, which is projected to reach 2.3 percent by 2023, and the DSA assumes little contribution from privatization or the drawdown in deposits.

23. **Risks to debt sustainability remain significant.** The relatively high share of foreign currency denominated debt in the country's portfolio exposes Jamaica to volatile foreign-exchange markets. The

DSA estimates that a 25 percent one-time depreciation of the local currency against the U.S. dollar would increase the debt trajectory by about 12 percentage points of GDP over the baseline. The DSA also highlights the Government's exposure to financial risks arising from state-owned enterprises and other public entities. A large-scale accumulation of contingent liabilities could push the debt-to-GDP ratio about by 7 percentage points above the baseline by 2020. In a scenario where GDP growth would be 1.5 percentage points lower than the baseline, the debt-to-GDP ratio could be 5 percentage points higher than the baseline. Finally, previous DSA simulations suggested that a natural disaster could increase the debt to GDP ratio by as much as 12 percentage points above the baseline.[13]

24. **The authorities are actively working to mitigate risks to debt sustainability.** The issuance plan envisioned in the Government's 2019 debt management strategy calls for a shift toward domestic-market bonds over the medium term. The steady improvement in Jamaica's credit rating and the public sector's growing experience with liability-management transactions should enable the authorities to manage refinancing risks.[14] Over the past ten years, the Government has not issued any sovereign loan guarantees and is increasing its monitoring of implicit contingent liabilities. The Government will be revising the 2009 building code that will reflect higher standards for disaster resilience (supported by this operation) and its implementation is expected to reduce the reconstruction costs that the Government might be called on to underwrite.

Figure 1 Gross Financing Needs and Public Debt Indicators (2018-2023)



Source: IMF and WBG Staff Estimates

[13] IMF, 2018. "Jamaica Article IV Consultation."

[14] In September 2019, the Government used proceeds from a long-term bond issuance (US$815 million) to buy back more expensive debt maturing over the next three to nine years.

Table 5: Financing Requirements and Sources

in Million US$	2015/16	2016/17	2017/18	2018/19e	2019/20f	2020/21f	2021/22f	2022/23f
Financing Requirements	**267.3**	**168.1**	**451.5**	**339.9**	**405.0**	**350.0**	**415.0**	**521.0**
Current Account Deficit	267.3	168.1	451.5	339.9	405.0	350.0	415.0	521.0
Errors and omission	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Sources	**267.3**	**168.1**	**451.5**	**339.9**	**405.0**	**350.0**	**415.0**	**521.0**
FDI and portfolio investments (net)	204.1	516.7	216.9	612.1	436.0	581.0	786.0	816.0
Capital Grants	1,421.0	0.0	-19.0	-22.0	-22.0	-22.0	-22.0	-22.0
Other investments	-1,236.0	5.0	559.0	-240.0	41.0	179.0	-245.0	-155.0
Change in reserves (- means accumulation)	-204.5	-429.6	-332.9	51.8	-50.0	-388.0	-104.0	-118.0
Financing gap	82.7	75.9	27.6	-62.0	0.0	0.0	0.0	0.0

Source: GOJ, IMF and WBG Staff Estimates.

25. **The macroeconomic outlook is broadly positive, but downside risks are high.** Domestically, political and social pressure against further fiscal consolidation could derail ongoing efforts to boost growth, address fiscal and external imbalances and reduce the debt burden**.** At the same time, failure to sustain program implementation could trigger accumulation of public debt and heightened debt risks. The suspension of production at the *Alpart* alumina refinery for upgrade and expansion could hinder the recovery in the mining sector in the short run. Recognizing these risks, the GOJ has created mechanisms to ensure active stakeholder participation in the reform process. In 2016, the GOJ established the Economic Growth Council and revamped the EPOC, which led public-private consultations on the economic reform program and continues to monitor its implementation.[15] In May 2018, Cabinet approved the establishment of an independent Fiscal Council as part of a broader effort to ensure that fiscal responsibility is maintained beyond the end of the SBA in 2019. The proposed operation supports the operationalization of the Fiscal Council.

26. **External risks remain high, given the country's persistent vulnerability to global conditions.** Higher-than-anticipated commodity prices, tighter global financial conditions and natural disaster shocks could significantly impact on external and fiscal balances. The reliance on the United States, Canada and the United Kingdom for most of its tourists also exposes Jamaica to a deterioration in the economic situation in these countries. The global upsurge in anti-immigrant sentiment could also reduce remittance inflows, which have historically made an important contribution to financing Jamaica's trade deficit. Slower-than-anticipated economic growth could derail the fiscal and debt dynamics requiring stronger adjustment efforts to maintain a downward trajectory for public debt, which may be politically difficult. The response of the private sector to ongoing and planned reforms will be particularly critical.

27. **Jamaica's high vulnerability to natural disasters poses substantial risks to the country's economic outlook.** Climate change is expected to increase the frequency and intensity of extreme weather events worldwide.[16] The GOJ is currently attempting to strengthen multiple dimensions of

[15] The Economic Growth Council is a committee appointed by the Government comprising of representatives from both the public and private sectors to consult widely and to advise the Cabinet on a collection of broad platform policies and reforms that would facilitate economic growth in Jamaica.

[16] For example, tropical cyclones already occur regularly in the Caribbean, but rising sea temperatures are expected to increase

disaster resilience through measures designed to reinforce fiscal stability, mitigate financial risks, create more responsive budgetary mechanisms, strengthen the physical integrity of the built environment, rehabilitate coastal and marine ecosystems, and improve disaster-response systems. In collaboration with the World Bank, the GOJ has developed a policy framework for disaster risk financing, supported by this operation. This reform is led by the MoFPS, given its link with improving Jamaica's macro-fiscal policy stance against climate and natural disaster shocks.

28. **Despite substantial downside risks to the economic outlook, Jamaica's overall macroeconomic policy framework is adequate for the proposed operation.** Since 2013, the authorities have implemented far-reaching reforms that have returned the country to a sustainable fiscal position. The Government remains committed to its primary fiscal surplus target, and the debt stock is on track to reach 60 percent of GDP by FY2025/26. The baseline macroeconomic scenario forecasts annual average GDP growth rates of 1.6 percent over the medium term, while the inflation rate is expected to average around 5.0 percent (in line with the GOJ's target), and the current-account deficit should remain manageable at under 4.0 percent of GDP. Reforms to fiscal and monetary policymaking—such as the Fiscal Responsibility Framework, closer management of fiscal risks associated with contingent liabilities, and the Bank of Jamaica's (BOJ) expanded monetary policy toolkit—have improved the authorities' capacity to respond effectively to adverse shocks.

2.3. IMF RELATIONS

29. **Jamaica entered into a four-year Extended Fund Facility (EFF) program, for SDR 615 million, which was subsequently replaced in 2016 with a three-year SDR 1.2 billion program under the SBA. Jamaica successfully completed the SBA in November 2019.** The EFF focused on fiscal consolidation, targeting a primary fiscal surplus of at least 7 percent of GDP and establishing a floor on tax revenue, as well as ceilings on arrears accumulation, direct debt, and guaranteed debt. Structural benchmarks for fiscal discipline and public-sector efficiency and reforms to tax policy and administration, public financial management, and the regulatory framework for the financial sector also featured prominently in the program. The SBA program deepened many of these reforms while maintaining the key priorities of its predecessor, including the primary fiscal surplus target of 7 percent of GDP. Structural benchmarks for the SBA program included further tax reforms, measures to increase financial inclusion and bolster the resilience of the banking sector, public-sector modernization initiatives, and reforms to strengthen the autonomy of the BOJ.

30. **In November 2019, the sixth and final review of the SBA program was discussed by the Board of the IMF.** The review, highlighted Jamaica's impressive progress on fiscal consolidation, continued macroeconomic stability, low inflation rate, declining debt trajectory, record international-reserve levels, and important gains in employment and poverty reduction. However, it also noted that economic growth remained below expectations and that private investment has been slow to respond to the country's improving macroeconomic environment. Crime and violence were also highlighted as major constraints to growth and labour productivity.

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the rate at which tropical cyclones form. See: World Bank, 2014. Turn Down the Heat: Confronting the New Climate Normal.

31. **The Bank has been working closely with the IMF and the authorities to strengthen the fiscal framework and financial options to improve disaster preparedness and response.** The IMF and the Bank are coordinating in key areas such as debt management, reforms of the public entities sector and overall macroeconomic stability. The IMF and the Bank meet regularly to discuss and exchange views on relevant issues. Coordination between the IMF and the Bank will continue to ensure that the authorities receive consistent advice and information in developing and implementing their program.

3. GOVERNMENT PROGRAM

32. **The GOJ released its medium-term socio-economic development framework for 2018 to 2021 (MTF 2018-2021) in 2018[17]**. The MTF 2018 - 2021 is the fourth in a series of seven consecutive 3-year plans aligned to the overall vision, goals and national outcomes of Vision 2030 Jamaica – National Development Plan. The MTF is based on the nation's development goals as articulated in the country's long-term development plan and is aligned to the Sustainable Development Goals (SDGs). The MTF 2018 - 2021 will consolidate the gains made in the previous MTFs and strengthen the foundations for achieving the country's long-term results. In this regard, the plan aims to position the country as a place of choice, to live, work, raise families and do business. The consensus-based objectives remain: (i) undertaking fundamental reforms to consolidate the macroeconomic gains over the years; (ii) strengthening the country's international competitiveness; (iii) protecting the most vulnerable; and (iv) strengthening the resilience of the built and natural environment. The strategy highlights the need for continuity in the country's development model, addressing macroeconomic stability, fiscal risks from natural disasters, and broadening the country's economic base. The latter is expected to be achieved through strengthening the business climate for greater private sector participation.

33. **The Government's program gives strong emphasis to macroeconomic stability and debt reduction as a necessary condition for growth while creating space to advance with other reforms.** The country's vision is to reduce debt to GDP to 60 percent by FY2025/26. With support of the International Financial Institutions (IFIs), the Government has successfully addressed many critical contributors to macro-fiscal vulnerability, and recent gains in fiscal consolidation have been anchored by the fiscal responsibility framework. To reinforce fiscal stability and increase economic efficiency, the Government is advancing another round of reforms to further streamline its public enterprise portfolio, including through a combination of divestment, consolidation, and the closure of underperforming entities. In addition, measures to strengthen the BOJ's independence and formalize its responsibility for the overall stability of the financial system have bolstered the resilience of the financial sector. There are also plans to improve existing social protection systems. The latest Social Protection Strategy aims to accelerate Jamaica's economic and social development by adopting a structured approach to social protection interventions and by establishing a "social protection floor" that ensures members of vulnerable or disadvantaged groups have recourse to basic income security and essential social services

34. **The Government is taking steps to enhance the country's fiscal and financial resilience against natural disaster risks.** Natural disasters disrupt the national economy, undermine the quality of the country's infrastructure and natural environment, and carry a significant fiscal cost. In this regard, the GOJ, through the development of a Disaster Risk Financing Policy, is pursuing a strategy that provides

[17] http://www.vision2030.gov.jm/Portals/0/MTF/MTF%202018%20-%202021%20-%20%20March%202019.pdf

layers of protection. In parallel, work is advancing to amend the existing policy and regulatory framework to transfer Public-Private Partnership (PPP)-related contingent liabilities generated by natural disasters through comprehensive insurance policies. The Public Financial Management (PFM) systems are also being adapted to ensure timeliness, transparency and accountability in the reconstruction, rehabilitation and repair phase of natural disasters. This will allow for the introduction of quantitative assessments of disaster risks in the fiscal policy paper.

35. **Reforms for improving Jamaica's investment climate for sustainable growth also feature strongly in the Government program.** The Government is advancing legislative changes to ensure safety in the built environment while reducing the time and costs associated with obtaining building permits. Land reforms, which have been delayed for years, are being prioritized. Similarly, additional reforms to modernize customs to increase efficiency and to promote further investment and business opportunities for Jamaica, especially in the areas of shipping, logistics and international trade are under consideration.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

36. **The proposed operation directly addresses three of the most critical economic challenges Jamaica faces: it supports fiscal sustainability and social inclusion, enhances fiscal and financial resilience against climate and natural disaster risks, and improves the investment climate necessary for sustainable growth.** The operation's three pillars are closely aligned with the GOJ's program. All prior actions contribute to the overarching strategic goals of Vision 2030, as well as the more specific objectives of the 2018-2021 MTF. The actions supported relate to the following national outcomes: effective social protection, effective governance, stable macroeconomy, enabling business environment and hazard-risk reduction and climate-change adaptation.

37. **The proposed ERDPL series draws several lessons from experience with the implementation of the First and Second Competitiveness and Fiscal Management DPL (P151448 and P163586) and the Economic Stabilization and Foundations for Growth Development Policy Loan (P145995).** The completion reports and the review of P145995 by the Independent Evaluation Group (IEG) highlighted that building and maintaining strong political and social consensus through explicit social forums and mechanisms can be critical in bolstering Government and societal ownership and commitment to complex reform programs, enhancing their chances of success (IEG, 2019). Effective coordination with other multilaterals/partners can enhance the impact of a Bank-supported operation. This applies both in preparation and design of the operation, as well as to supervision. It also underscored the need to align the ambition of any DPL support to Jamaica with the Government's capacity to deliver on the reforms recognizing that some reforms may be implemented relatively quickly, giving quick and important wins, while others require more time to build consensus and lengthy legal reforms. The Bank's long experience with DPLs in Jamaica, especial working on fiscal and public bodies, confirms that a targeted operation, clearly focused on the critical constraints would have a greater likelihood of achieving results. The proposed ERDPL series aims therefore to build on ongoing momentum and champions in Jamaica to advance difficult reforms, while making space for a gradual process.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar A: Support Fiscal Sustainability and Inclusion

38. **The first pillar supports the Government's ongoing fiscal consolidation and promotes social inclusion.** Building on the significant fiscal reforms implemented over the past few years, this pillar strengthens the institutional mechanisms that underpin fiscal responsibility, attenuates fiscal risks associated with a large number of public bodies, and improves effectiveness and sustainability of the social protection system within a sustainable fiscal envelope. Policy measures supported by this pillar are crucial for the Government's ongoing fiscal consolidation and inclusion agenda, especially after the IMF SBA program's expiration in November 2019.

Prior Action 1: To strengthen the fiscal responsibility framework, the Borrower, through the Cabinet, has approved the design of a fiscal council, which will be operationally independent and financially autonomous.

39. **Rationale for the PA:** A fiscal council is an important institution to ensure that the fiscal rule that so far has served the country well is implemented appropriately, especially after the anchor of the IMF program is no longer present. Approved in 2014, the fiscal rule sets targets for the fiscal balance consistent with reducing the public debt-to-GDP ratio to 60 percent by FY2025/26. A respected and credible fiscal council can strengthen the Government's commitment to fiscal rules by raising the reputational and political costs of violating them. To fulfil its responsibilities, the fiscal council should: (i) be operationally independent; (ii) have the technical capacity necessary to monitor adherence to the fiscal rule and assess the fiscal implications of Government policies; and (iii) be adequately resourced to execute its mandate.

40. **Substance of the PA:** The prior action supports the Cabinet's decision[18] to develop a stand-alone legislation establishing the fiscal council. Its mandate would be to inform the public on the soundness and sustainability of Jamaica's fiscal position. According to the Cabinet decision, the council will focus on (i) assessing the macroeconomic and fiscal forecasts in annual and interim Fiscal Policy Papers (FPP), (ii) monitoring adherence to the fiscal rule provisions in the FRL, and (iii) assessing the consistency of the fiscal balance trajectory with the FRL and the medium and long-term debt sustainability. The council will have access to all relevant information to fulfill its mandate. The legislation will guarantee functional autonomy of the fiscal council. The fiscal council will consist of a single councilor, supported by technical staff. The legislation will include legal safeguards on the operational independence of the fiscal councilor, and recruitment will be done via an open merit-based process. An advisory committee, consisting of stakeholders from academia, private sector, trade unions and civil society, will support the fiscal council by expressing their views, but without having influence on operational independence. The budget allocation will follow examples of other commissions of Parliament that have their own separate line-item in the budget and multi-year budget allocation in the medium-term projections. The proposed *indicative trigger* is the adoption of the legal framework to establish the fiscal council and integrate it into Jamaica's institutional framework for fiscal policy.

[18] In Jamaica legal system, a Cabinet decision to develop a legislation includes issuance of drafting instructions to the Chief Parliamentary Counsel outlining the parameters of the future legal act that are binding for drafters. The implication is that a Cabinet decision is a very important milestone in shaping future legislation.

41. **Expected impact:** Establishment of the fiscal council is expected to strengthen adherence to continued fiscal prudence by providing an independent voice and assessments of fiscal policy decisions and implementation. The council is expected to become operational and will be required to publish regular reports directly through publicly accessible website. The result indicator for this operation that would indicate operationalization of the fiscal council is that the council is adequately staffed and issues regular fiscal assessment reports (that include debt sustainability analysis) by 2021.

Prior Action 2: To improve the governance of the Borrower's public sector, the Borrower, through the Ministry of Finance and the Public Service, has merged, closed or reintegrated into line ministries 6 Public Bodies, in accordance with the Public Sector Transformation Action Plan of 2018.

42. **Rationale for the PA:** Public bodies in Jamaica refer to statutory bodies, statutory authorities, or state-owned enterprises which are either fully funded by the national budget, partially funded, or self-financing. The functions performed by public bodies encompass a wide spectrum of activities traditionally associated with Government including developmental, regulatory, technical, social and delivery of public services. Some public bodies operate in the commercial sphere, while others perform non-commercial activities or a mix of the two. By the end of 2016, there were over 190 active public bodies. By March 2019, the number was reduced by over 30 and the Government is committed to continuing the downward trajectory. The proliferation of public bodies in the 80s and 90s in Jamaica occurred partly as a result of a lack of clarity and enforcement of the legal requirements for the formation of new public bodies. Over time, the mandates of some public bodies have lost their relevance, others have taken on policy functions that overlap with those of line Ministries or Departments, creating a complex bureaucratic landscape. Moreover, inadequate governance of some public bodies and insufficient compliance with the legal framework has also undermined their effectiveness in fulfilling their mandates.

43. **Substance of the PA:** The Government of Jamaica has in recent years sought to address many of the underlying weaknesses in the public bodies sector by conducting activities aimed at: (i) improving the governance of public bodies (e.g. through the Public Bodies Management and Accountability (Amendment) Act (2010), and the Corporate Governance Framework (2011)), and (ii) improving efficiencies and effectiveness by way of restructuring the operations of the sector through mergers, divestments and closures. There is also need for greater clarity and coherence in the roles and functions across the entire public sector. This prior action will help to sustain the restructuring of the public bodies sector going forward. In this regard and in line with the Public Sector Transformation Action Plan (2016-2019) and the Cabinet Decision of June 4, 2018 to accelerate the rationalization of public bodies to promote more efficient public service delivery, the prior action supports the implementation of the plan through the mergers, closures and reintegration into line Ministries of 6 public bodies between October 2018 and November 2019.[19] The *indicative trigger* targets continued progress on the rationalization of the public bodies sector and further strengthens the corporate governance framework through the promulgation of regulations on the nomination, selection and appointment of the boards of public bodies.

44. **Expected impact:** The aim of the rationalization of public bodies is to create a public bodies sector that is more efficient, accountable, and effective in the delivery of public services. The reform will increase accountability in the sectors by reducing the number of public bodies operating at an arm's length from

the parent Ministry and enable more effective oversight of those public bodies still in operation. Both reducing the number of public bodies and improving governance are expected to lead to better performance of the public bodies sector and, thus, to contribute to fiscal sustainability. The division responsible for oversight of the public bodies in the MoFPS will be better equipped to support and monitor the stock of public bodies. By the end of FY2021/22, at least 63% of self-financing public bodies should be compliant with annual reporting requirements, as compared to 47% in FY2018/2019. The expected fiscal impact of the actions on the remaining public bodies is considered to be minor in the short-term, given the actions being taken (mergers, reintegration) and the type of public bodies (statutory bodies and authorities) that are being addressed. The expected impact on the wage bill is likely to be minimal, as the actions are expected to entail only a minor reduction in staff (as most of the impacted staff are transitioning into other positions in the public sector).[20]

Prior Action 3: To improve equity of public spending, the Borrower through: (a) the Cabinet and the Ministry of Labour and Social Security, has increased the benefit size of the PATH conditional cash transfer; and (b) the Ministry of Labour and Social Security, has implemented, a Community Engagement Series to expand the number of PATH's eligible beneficiaries in rural areas.

45. **Rationale for the PA:** The PATH is the country's flagship cash transfer and largest poverty-targeted social safety net program. However, the benefit sizes and lingering coverage gaps hinder effective inclusion of the poor. Historically, PATH transfers have been low compared to average benefits provided by other countries in Latin America and the Caribbean. For instance, in 2010, the PATH transfer value accounted for less than 10 percent of the share of beneficiaries' post transfer welfare among the poorest quintile, compared to an average of 15.6 percent globally. Low transfer values reduce the ability of safety nets to close the poverty gap, therefore hindering intended equity and poverty reduction outcomes. On coverage, a recent analysis found that almost 40 percent of households in the bottom 40 percent of the income distribution have never applied for PATH assistance.[21] Key reasons for not applying included perceived ineligibility and lack of awareness about the program. These lingering coverage gaps are especially a concern for rural areas, which demonstrate higher poverty rates compared to other parts of the country. Rural poverty in 2017 was 20.1 percent, above the national poverty rate of 19.3 percent and the poverty rate for the Kingston Metropolitan Area (KMA) which was 17.1 percent. It is therefore critical to ensure inclusion of eligible persons from rural communities which account for a disproportionate share of the poor in the safety net.

46. The National Insurance Scheme (NIS) complements the non-contributory side of the existing social protection system by providing social insurance coverage for all employed persons to insure against future risks including old age, workplace injury and death. Although the NIS is well-established and grounded in a sound legal and policy framework, recent actuarial and system reviews have assessed the scheme to be unsustainable in the long term, posing a major threat to effective protection of the elderly in a time of demographic transition. The most recent actuarial review (2016) found that the scheme's investment fund would likely become negative in 2029. The 2013 actuarial review also assessed that the contribution

[20] The rationalization of public bodies will result in the reassignment and reallocation of human resources. Jamaica has prior experience in managing similar exercises and while the exact impacts have not been fully worked out, there is a legal framework with grievance redress mechanisms that can be accessed by civil servants, including the Industrial Dispute Tribunal and the Commission of Public Service and the Redundancy and Payments Act.

[21] World Bank. 2019. *Social Protection Programs in Jamaica* (Presentation to the Minister of Finance)

rate needed to sustain the scheme was between 13.5 and 14 percent of covered wages, much higher than the 4 percent contribution rate at the time. Additionally, benefit increases were automatically programmed and not linked to actuarial reviews of the system, therefore exacerbating threats to the scheme's sustainability. As such, the NIS represents a significant potential risk to the budget given its potentially large contingent liability for the Government.[22]

47. **Substance of the PA:** The prior action supports Cabinet approval of the PATH benefit size increase based on the analyses applying the Benefit Review Mechanism (16 percent average increase, ranging from 13 to 23 percent depending on the benefit category) and approval of community engagement initiative which prioritizes communities for targeted outreach based on poverty maps informed by the Jamaica Survey of Living Conditions (JSLC). Special procedures were introduced to improve access to the program, including mobile registration points and a communications strategy that targets rural communities. The trigger supports legislative reform to improve fiscal sustainability and adequacy of the NIS. The reform is centered on improving the levels of contributions to better ensure provision of benefits to future pensioners. It will also require benefit increases to be linked to actuarial reviews, which are mandated every three years. This will remove the automatic process for benefit increases, which did not assess implications. *The indicative trigger* is for an Amendment to the NIS Act outlining the new rules for increased benefits to be approved by Cabinet.

48. **Expected impact:** The increase in PATH benefits is expected to improve adequacy of the safety net. The community engagement initiative will facilitate an increased beneficiary incidence among rural households in PATH. Although rural beneficiaries did account for most of new enrollments before the engagement strategy commenced, this prior action is still important given the higher prevalence of poverty in rural areas and continued exclusion of eligible poor households from the safety net due to information gaps. The result indicator for this operation is increase of the share of rural beneficiaries among all new PATH beneficiaries from 80 percent in 2018 to 85 percent in 2021. The impact of this DPL series is expected to be reinforced by the Social Protection System Strengthening Project (P170497), currently under preparation. Lastly, considering the disproportionate impact of climate change and natural disasters on the poor, the increase in PATH benefits and its coverage is also expected to improve climate change adaptation capacity of the poor households who are particularly vulnerable to climate change impacts.

Pillar B: Enhance Fiscal and Financial Resilience against Natural Disaster Risks

49. **The second pillar supports reforms to help ensure that budget planning adequately accounts for contingent liabilities and that fiscal and monetary resources more adequately cope with climate and natural disaster-related macroeconomic shocks.** Recognizing the structural risk in Jamaica that climate-related and natural disasters set back hard-earned fiscal reforms and impact growth,[23] the GOJ is creating an enabling environment to expand ex-ante financial protection against disasters, while promoting fiscal

[22] If the assets of the National Insurance Fund are depleted, the responsibility for the fiscal shortfalls will fall on MoFPS, according to the National Insurance Act of 1965 and its subsequent amendments.
[23] The IMF, 2018. Article IV Report estimates that a disaster of the magnitude of Hurricane Gilbert (1988) or Ivan (2004) would significantly alter Jamaica's growth and debt trajectory. Real growth would be 2.5 percentage points lower in the year of the disaster and 0.5 percentage points lower in the following year, while Jamaica's long-term public debt trajectory would exceed the baseline by a full 7 percent of GDP. In terms of impact on the financial sector, a natural disaster shock could require recapitalization needs of 3.3 percent of GDP (Jamaica Financial Sector Stability Assessment stress testing, IMF, 2018).

and public financial management reforms designed to enhance resilience. To bolster economy-wide financial resilience, the authorities are implementing reforms designed to enhance the efficiency of the domestic private insurance market, which will improve risk pricing, improve its financial capabilities to pay catastrophic claims, eventually yielding a broader array of insurance products available to both the private and public sectors.

Prior Action 4: To mitigate the financial impact of natural disasters, the Borrower, through the Cabinet, has approved a Public Financial Management Policy Framework for natural disaster risk financing.

50. **Rationale for the PA:** The economic fiscal and social impact of natural disasters, many of which are exacerbated by climate change in Jamaica, has been significant, with costly emergency, recovery and reconstruction efforts, particularly in physical infrastructure and consequential damage, such as lost taxes from key productive sectors. An initial World Bank analysis estimated Jamaica's financial protection gap following a severe disaster to be in the order of US$6billion in emergency losses, and US$6.5 billion in total recovery and reconstruction costs (close to 50 percent of GDP).[24] Further, the Jamaican insurance industry is underdeveloped and does not fully conform to international best practices, inhibiting its ability to offer adequate coverage to both the public and private sectors. In the face of natural disasters, this not only reduces protection of individuals, it also implies substantial contingent liabilities as Government may need to absorb losses of private sector assets that are uninsured and underinsured.

51. **Substance of the PA:** In November 2018, Jamaica's Cabinet approved a new PFM policy framework for natural disaster risk financing. The framework aims to bolster financial resilience by developing sound legal and institutional arrangements for mounting a swift and cost-effective financial response to natural disasters, while minimizing budget reallocations and protecting the fiscal balance, the overriding objectives are preserving human life and assets. The framework also specifically addresses the need to identify, monitor, and mitigate all sources of contingent liabilities. In addition to enhancing the efficiency and transparency of disaster-related resource mobilization, the framework is designed to advance fiscal decentralization efforts at the parish, municipal and sectoral levels, promote hazard-risk analyses for all public investment projects, provide financing options for disaster risk retention and transfer, deepen local insurance markets to expand coverage and reduce costs, appropriately insure public assets against natural disasters, strengthen the GOJ's institutional capacity for disaster risk financing, increase the resources allocated to a disaster-specific reserve fund, and bolster Jamaica's gross reserve position to manage a potential spike in import demand in the aftermath of a disaster. Estimating the fiscal risks and financing needs generated by natural disasters, both at the national and household levels, will be critical to climate-change adaptation. The approval of the PFM policy framework at Cabinet level has provided the mandate to MoFPS to seek bipartisan support through Parliament for increased financial resilient against disaster shocks. To ensure continuous multi-stakeholder engagement GOJ has established a cross-sectoral Steering Committee task to operationalize the policy framework. A set of several *indicative complementary triggers* are proposed. The Steering Committee's deliberations, based on the PFM policy framework, are informing a legislative process that will result in the submission of the National Disaster Risk Financing policy for Parliament approval, complemented by an implementation plan. The GOJ is also taking steps to improve disaster insurance coverage in the public and private sectors, including Public Private Partnerships (PPPs), by issuing regulations enabling a more efficient local

[24] World Bank Cost Benefit Analysis, October 2019. The financing gap corresponds to a disaster of the severity of a Category 5 hurricane or major earthquake.

insurance market supported by tighter oversight rules, and by revising the PPP Policy and regulatory framework to ensure adequate insurance when transferring the administration of public assets to the private sector. A more efficient insurance market supported by tighter oversight mechanisms and rules will help reduce the Government's implicit and explicit contingent liabilities while improving insurance coverage among private sector beneficiaries.

52. **Expected impact:** The PFM policy framework specifically addresses the need to identify the Government's contingent liabilities so that they may be further monitored and mitigated where possible. The identification and measurement of contingent liabilities related to disasters will be integrated in the fiscal policy paper. This will be achieved through stronger capacity at MoFPS in measuring such risks. Following institutional changes in August 2016 establishing the Fiscal Policy unit, the MoFPS will staff a risk management unit within its fiscal policy branch, in order to positively assess and manage the contingent liabilities from natural disaster risk. This administrative unit will play an essential institutional role toward the successful implementation of the Jamaica's Natural Disaster Risk Financing Policy. Further quantifying natural disaster risk will inform the medium-term fiscal outlook and guide forward planning. Estimating the fiscal risks and financing needs generated by natural disasters, both at the national and household levels, will be critical for improving climate-change adaptation. In addition to enhancing the efficiency and transparency of disaster-related resource mobilization, the Policy will support cost-effective expanded financial protection of public assets and citizens for disaster risk retention and transfer. It will also promote hazard-risk analyses for public investment projects and deepen local insurance markets to expand coverage and reduce costs, all of which are considered critical aspects of GOJ's efforts to increase resilience to climate change.

Prior Action 5: To expedite post-disaster relief and recovery, the Borrower, through the House of Representatives, has raised the ceiling of the Contingencies Fund, from J$100 million to J$10 billion.

53. **Rationale for the PA:** One key instrument of a national disaster risk financing strategy is a well-functioning contingencies fund to provide immediate financing against disasters. While Jamaica has a contingencies fund in place, its ceiling J$100 million – until now limited under the Financial Administration and Audit (FAA) Act– was severely inadequate to cover the potential retained losses resulting from Jamaica's exposure to natural disasters. The current legislation governing the contingencies fund allows for expedited disbursements in the event of a natural disaster, but the absence of a clear mechanism to mobilize and channel resources for disaster response prevents adequate expenditure tracking and reporting, which complicates financial planning and inhibits transparency. The National Disaster Fund (NDF) is a separate fund, managed by the Office of Disaster Preparedness and Management (ODPEM), to be used for upgrading and maintenance of resilient infrastructure, as well as provincial-level lower impact disasters.

54. **Substance of the PA:** The new ceiling to the contingencies fund of J$10 billion which was approved by a resolution of Parliament amending the FAA Act in March 2019, allows the GOJ to mobilize resources ex-ante and channel resources ex-post for a national-level disaster response. With the recent lifting of the ceiling, the GOJ immediately injected (J$2 billion) into the fund. As the *indicative trigger*, the authorities also plan to amend legislation to enable the necessary fiscal, governance, disbursement and investment arrangements for the establishment and operationalization of a National Natural Disaster Reserve Fund (NDRF) under the contingencies fund, for frequent, low-intensity climate-related and

natural disasters events. The NDRF will be the reserve fund for national level emergencies. The Government plans to make the fund eligible for external financing.

55. **Expected impact:** An annual budget allocation of US$4 million to the NDRF is expected in the next three years, in addition to the US$16m initial capitalization. The NDRF is expected to reach a J$3.1 billion (US$25 million) capitalization by end 2021. By increasing the ceiling of the contingencies fund, losses and damages associated with climate change impacts are expected to be better addressed and overall adaptive capacity to be enhanced. While this represents a large increase in, it remains small compared to, historical annual average losses resulting from natural hazards in Jamaica[25]. Hence the need for combined financial instruments that also include the NDF and insurance against more severe disasters, as captured in the PFM policy framework.

Prior Action 6: To expedite funding for disaster relief and recovery, the Borrower, through the Ministry of Finance and the Public Service, has issued binding guidelines governing the process for budgetary allocation and reallocation, procurement and disbursement of public funds in post-disaster situations.

56. **Rationale for the PA:** Emergency budgetary procedures are vital to an effective disaster response, but fragmented financing sources, inconsistent procedures, and a lack of emergency guidelines can impede budget execution. The lack of consolidated information and clear instructions can lead to confusion in the aftermath of a disaster, slowing budget execution with negative social and economic consequences. The budget execution guidelines are a key aspect of the PFM Policy Framework for Natural Disaster Risk Financing in Jamaica. Specifically, policy objective 2 aims to achieve greater efficiency and transparency in the mobilization and execution of public expenditure in disaster risk management.

57. **Substance of the PA:** The Government through the MoFPS (Financial Secretary) issued guidelines in June 2019 on post-disaster budget execution. These binding guidelines document the procedures for accessing and allocating funding in post-disaster situations. The financing sources available to Jamaica's ministries, departments, and agencies include budget adjustments through virements and supplementary credits, as well as emergency resources provided via the Contingencies Fund, the Deposit Fund, and the National Disaster Fund. Accessing each of these financing sources requires following a distinct set of procedures. The guidelines now provide these procedures and will help budget officers have a comprehensive understanding of the options available to fund emergency recovery and reconstruction. In cases such as the National Disaster Fund, a fund managed by the Office of Disaster Preparedness and Emergency Management (ODPEM), the existing legislative framework provides insufficient guidance on fund management. As the *indicative trigger*, to improve the process for accessing and allocating expenditures from ODPEM's National Disaster Fund, intended for projects that mitigate, prevent, prepare for, respond to, and recover from emergencies and disasters, the Government will: (i) establish a Fund Committee; and (ii) issue instructions to guide the operation of the Fund.

58. **Expected impact:** Providing a single, comprehensive source of information on emergency financing procedures is expected to increase the responsiveness of the budget, which will be reflected in a reduction in the amount of time and number of steps required to process requests for emergency, post-disaster financing. Post-natural disaster sources of financing available to ministries, departments and agencies with documented emergency procedures are expected to include the: (i) Caribbean Catastrophe

[25] The estimated annual average losses for hydro-metrological hazards (hurricanes) alone in Jamaica exceed US$ 100 million.

Risk Insurance Facility) and any other new risk transfer instruments, (ii) ODPEM's National Disaster Fund, (iii) Contingencies Fund, (iv) Deposit Fund, and (v) Virements (in-year budget reallocation). For the National Disaster Fund, introducing appropriate fund administration and management arrangements will increase both transparency and accountability in the allocation of expenditures. Circumstances that may trigger the emergency financing procedures encompass a wide range of natural disasters, including extreme weather events caused or exacerbated by climate change. Considering the projected increase in the frequency and intensity of extreme weather events, the improved capacity for risk recovery and reconstruction while also safeguarding public funds supported by this prior action and trigger will be critical to strengthen climate-change adaptation.

Pillar C: Improve the Investment Climate for Sustainable Growth

59. **Jamaica's economic growth has been undermined by cumbersome business regulations, high costs and distorted incentives.** These have discouraged private investment that would have accelerated economic growth and helped integrate Jamaican firms into international supply chains. Achieving sustainable growth in Jamaica will require maintaining the environmental health and resilience of coastal and marine ecosystems with the high economic returns these natural assets provide. Much of Jamaica's economy depends on natural resources, including key sectors such as tourism and fisheries, and the projected trajectory of climate change poses a major threat to its overall development. The third pillar of the DPL series supports elements of the Government's growth agenda that address these impediments: reinforcing the resilience of Jamaica's physical infrastructure to multiple types of disaster risk, reforms of the development and building applications approval process, trade facilitation, land titling and promoting the effective management and sustainable development of fisheries.[26]

Prior Action 7: To improve customs management and reduce foreign trade transaction costs, the Borrower, through the Ministry of Finance and the Public Service, has submitted a new customs bill to the House of Representatives for its approval.

60. **Rationale for the PA:** Despite recent efficiency improvements, customs clearance times and international trade costs remain above regional and global averages, owing to an outdated trade facilitation regulatory framework inconsistent with World Trade Organization (WTO) rules. Ranked 134th on the World Bank's Doing Business Report (2019) indicator for trading across borders, Jamaica's border compliance costs are amongst the highest in the Latin America and Caribbean region and are higher than the regional average in Eastern Europe and Central Asia, East Asia and South Asia. Jamaica also performs less favorably than regional comparators on the Logistics Performance Index (2018)[27]. The Jamaica Customs Agency (JCA) has spearheaded major reforms in the past few years. In particular, the new Customs Bill from 2015 and the expansion of the Automated System for Customs Data (ASYCUDA) World, resulting in higher tax revenue collections and some reduction in time to trade. However, an outdated trade facilitation regulatory framework, administrative shortcomings with respect to its internal processes, ineffective information sharing, and fragmented information systems hinder the effectiveness of compliance and enforcement efforts and limit the efficiency of border clearance processes. Going

[26] While Jamaica compares favorably to the rest of LAC in Doing Business 2020 rankings (4th out of 32 economies), the Government has embarked into across the board business environment reforms to improve Jamaica's performance across several indicators, including dealing with construction permits (70th out of 190 economies), trading across borders (136th) and registering property (85th).
[27] Jamaica scored 2.52 on the LPI compared to the regional average of 2.66 and the average of upper middle-income countries which is 2.76

forward, there is a need to strengthen intra-agency collaboration and coordination to further improve customs revenue and efficiency.

61. **Substance of the PA:** The new Customs Bill, building on the results of the previous DPL series,[28] is expected to improve the efficiency and effectiveness of Customs administration and the competitiveness of Jamaica's trade. The implementation of modern customs legislation is also consistent with GOJ's stated ambitions to become a digital society. The Bill which will facilitate full implementation of the ASYCUDA World platform, is part of a broader reform agenda which builds on the implementation of ASYCUDA World in 2014, the Port Community System in 2016,[29] launch of the Jamaica Trade Information Portal (JTIP[30]) in 2019 and the progress towards an Electronic Single Window for Trade which will commence its pilot phase in the 1st quarter of 2020. The new Customs Bill, submitted to Parliament in June 2019, enables the implementation of a modern trade facilitation regime and control practices and procedures, such as risk management, simplified and expedited clearance processes, deferral and guarantee of customs duties, and appeal procedures. These provisions – aligned to WTO and World Customs Organisation standards - as well as improved measures on the treatment of goods in transshipment, transit and temporary storage, support the establishment of Jamaica as a regional Logistics Hub, a key element of Jamaica's vision for economic growth. As the *indicative trigger*, the GOJ will approve complementary rules and regulations to operationalize the Customs bill. These are likely to include amendments to risk-based management legislation to facilitate the Electronic Single Window for Trade and advanced rulings regulations and procedures to provide better transparency on import duties. A more robust risk management system will allow to detect instances of noncompliance with greater precision both, for Customs and other border regulatory agencies, as well as improving release times for compliant importers.

62. **Expected impact:** The new Bill is expected to enable Jamaica Customs Agency's implementation of modern trade facilitation and control practices and procedures. These are expected to improve the efficiency of the clearance process and reduce release times for imports. From a baseline of 51 percent, the percentage of commercial declaration documentary processed by customs within 16 hours is expected to increase to 70 percent. In addition, commercial consignment streamlined through the green channel is expected to increase to 30 percent.

Prior Action 8: To facilitate the titling of land, the Borrower: (a) through the Cabinet, has integrated the Land Administration and Management Programme into the National Land Agency; and (b) through the Ministry of Economic Growth and Job Creation, has enacted the amendment of the Registration of Titles, Cadastral Mapping and Tenure Clarification (Special Provisions) Act, to reduce the fees for land titling transactions for first time registrations.

[28] See Second Competitiveness and Fiscal Management Programmatic Development Policy Financing; April 28, 2017

[29] The Port Community System is a secure electronic platform accessible to private and public stakeholders in the port community. The Platform has been used to report all cargo vessels to Jamaica by shipping agents to the JCA through the PCS. This has resulted in a decreased turnaround time for the completion of trans-shipment bills from 30 minutes to an average of five minutes, while also facilitating 24-hour business transactions. PCS allows for the submission of shipping manifests and other key documents to one site, which automatically distributes them to key parties in the logistics chain. The PCS is expected to significantly improve trans-shipment shipping bill process, transforming what was a very manual process to an automated, paperless platform. Ultimately the PCS operator hopes to eliminate physical documents needed to clear cargo.

[30] Jamaica Trade information portal is an online platform which provides information on trading requirements with Jamaica.

63. **Rationale for the PA:** Registered property rights are important to support investment, productivity and growth. Research suggests that property owners with secure ownership are more likely to invest in private enterprises and transfer land to more efficient users. The ability to access accurate and authoritative information on land ownership also reduces transaction costs in financial markets, making it easier to use property as collateral. Only 60 percent of Jamaica's parcels of land have a registered title. Deterrents to land titling in Jamaica have included costly, complex and lengthy procedures, as well as lack of documentary evidence of ownership. A registration system based on paper certificates of titles, dating from 1889,[31] limits the capability to reduce processing times and thus improve efficiency.

64. **Substance of the PA:** The integration of Land Administration and Management Programme (LAMP) into National Land Agency (NLA), completed in January 2019, aims to harmonize and streamline procedures related to land titling and approved a set of principles for modernizing titling legislation. Approval was also given to adopt a systematic land registration policy which is a process of land titling on a commune- by- commune basis. This is in comparison to the voluntary registration system which currently exists, and which is based on an application by a landowner. The intent is that both will exist simultaneously. In addition, Cabinet approved in July 2019 an amendment of fees under the Registration of Titles, Cadastral Mapping and Tenure Clarification (Special Provisions) Act. An Order was issued in December 2019 to reduce fees under the Act. The amendment aims to significantly reduce the cost of first registration of land across the island[32]. Amendments to the Registration of Titles Act and to the Registration of Titles, Cadastral Mapping and Tenure Clarification (Special Provisions) Act [33] are expected to be submitted to Parliament. These legislative amendments will introduce systematic titling of land and enable the submission to Parliament of legislation to implement an electronic titling system (proposed *indicative trigger*).

65. **Expected impact:** By end 2021, the number of titles issued annually in Jamaica is expected to increase from 1,300 in 2018 to 3,500. The Government is also targeting lower income households, to ensure that the land titling reform is inclusive. Total number of titles for lower property values is expected to double between 2018 and 2021. The international experience with land titling projects which, if not addressed, can result in unintended consequences if risks are not well-mitigated include: (i) evictions ahead of titling; (ii) exclusion of women on titles (iii) failure to compensate persons of their assets if ownership changes hands; and (iv) an increase in grievances. However, the governance framework of the NLA is sufficiently robust to mitigate these risks. In addition to existing statutes, the NLA has been recently given the institutional responsibility for Adjudication. The NLA will embark on a robust and proactive citizen engagement process to sensitize the public about the proposed land titling process.

Prior Action 9: To promote the effective management and sustainable development of fisheries, aquaculture and other related activities, the Borrower has enacted a new Fisheries Act.

66. **Rationale for the PA:** The fisheries sector forms the backbone of the local economy in many coastal and inland communities across the island. The marine capture fishery comprises both artisanal and industrial operators and provides employment directly and indirectly to some 40,000 fisherfolk, whilst

[31] *Registration of Titles Act, 1889*
[32] For properties valued at J$2 million and under, statutory fees will decrease by almost one third, from J$22,000 to $15,000. For properties valued over J$2 million and up to J$5 million, fees will decrease by 70 percent, from J$67,000 to J$20,000
[33] *Registration of Titles Act 1889; Registration of Titles Cadastral Mapping and Tenure Clarification (Special Provisions) Act 2005 (SPA)*

also contributing to the livelihoods of over 200,000 people who depend on the fisheries sector.[34] The sector faces several challenges including unsustainable fishing practices (e.g. overfishing), environmental degradation (e.g. marine pollution and related destruction of coral reefs, seagrass beds and mangrove forests). Climate change impacts, including increasing temperatures, more intense hurricanes, ocean warming, reduced rainfall, dry spells, and acidification further undermine the marine life and the livelihood of fishers and fish farmers. The outdated legal and regulatory framework has been ineffective in addressing these challenges.

67. **Substance of the PA:** The new Fisheries Act, approved by Parliament in October 2018, was subsequently promulgated on June 1, 2019. The Act strengthens the institutional framework for effective management of the sector including through provisions for the establishment of National Fisheries Authority (NFA) with the responsibility to manage, develop, regulate the fisheries and aquaculture industries. The Act further specifies its functions to include the granting, variation, suspension and cancellation of licenses and authorizations. Additionally, the Act institutes new categories of licenses, as well as ramping up measures to tackle poaching and unregulated fishing in Jamaican waters. To further facilitate the implementation of the Fisheries Act and operationalize its guiding principles, rules and regulations will be issued (proposed *indicative trigger*).

68. **Expected impact:** By establishing the new legal and regulatory framework for promoting the effective management of fisheries and aquaculture, the new Fisheries Act will enable sustainable growth and development of the sector thereby also improving its ability to adapt to observed and anticipated climate change impacts. In particular, it will create more transparent and effective institutional mechanism for licensing, as well as establish a compliance division, which will have staff dedicated to fisheries surveillance. Through operationalization of the new category of licenses, authorizations and permits, together with the increase in penalties for fisherfolks who engage in unregulated fishing activities, the Act will help address illegal, unreported and unregulated fishing, thereby expected to result in sustainable harvesting of fisheries resources. The result indicator for this operation is an increase of the share of active fishers who are licensed from 16 percent to 30 percent.

Indicative Trigger 10 for ERDPL II: To enhance physical resilience and simplify approvals for construction permits, the Borrower: (i) approves technical rules and regulations (building codes) to the Building Act, 2018; and (ii) enacts new regulations that reduce processing times for construction permits approvals.

69. **Jamaica has experienced strong hurricanes during the past two decades and its housing sector remains susceptible to extensive damage from natural disaster shocks.** Climate change impacts, and most notably warmer ocean temperatures and higher sea levels are expected to further intensify the impacts of hurricanes. The housing sector has always been amongst the worst affected. One of the key reasons for extensive housing stock damage has been poor adherence to building codes, building codes that have not been updated and not enough of a strong legal framework to enforce the building code regulations. In addition, cumbersome processes for obtaining construction permits increase the cost of doing business in Jamaica and remain a key constraint to private investment, job creation and economic growth. In this regard, the Government in January 2019 promulgated the 2018 National Building Act which is a major step toward implementing an effective disaster risk strategy, protecting human lives, building

[34] Project Paper for "Promoting Community-Based Climate Resilience in the Fisheries Sector Project" (World Bank, 2018)

climate resilient infrastructure and preserving the value of physical assets and investments. New legislation simplifying approvals for construction permits is expected to significantly bolster economic activity, by further reducing the average time to approve a building or development application. The new Building Act is, in many respects, a best practice building legislation with major innovations including: (i) providing legal effect to the new and modern Building Code of Jamaica which builds on the innovation and experience imbedded in the model codes of the International Code Council,[35] (ii) introducing the innovation of "building practitioners" registration,[36] and (iii) outlining clear roles and responsibilities for building control processes with a focus on transparency, appeal mechanisms and reduced transaction costs for regulated firms and individuals. The Building Act calls for modifying rules and regulations (building codes) to upgrade to post 2017 Atlantic Hurricane season international standards. The last upgrade of the codes was based on the 2003 codes of the International Code Council (ICC). Two indicative triggers are proposed. The Government will revise all 11 National Codes following the 2018 codes of the International Code Council (ICC). The new codes will be complemented by new regulations that reduce processing times for construction permits approvals[37].

70. **The Building Act calls for efficient building permits issued and monitored by the Government.** The Government is working towards reducing the wait time from 141.5 days to 106 days for every permit that has been requested. Such 25 percent reduction in time would significantly improve Jamaica's competitiveness in this area, putting them at par with top performing economies worldwide in terms of time to issue a construction permit.[38] In addition, by providing a legally mandated process for future regular updates of the Building Code, the Building Act allows Jamaican authorities to adapt the code to the ever-growing pressure of climate change on the built environment, while allowing the recognition of new technology and facilitating more affordable building techniques.

Table 6: DPL Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Pillar A: Support Fiscal Sustainability and Inclusion	
PA 1: To strengthen the fiscal responsibility framework, the Borrower, through the Cabinet, has approved the design of a fiscal council, which will be operationally independent and financially autonomous.	LAC Regional Study: Fiscal Rules in Small Economies. World Bank, 2019 (forthcoming).
PA 2: To improve the governance of the Borrower's public sector, the Borrower, through the Ministry of Finance and the Public Service, has merged, closed or reintegrated into line ministries 6 Public Bodies, in accordance with the Public Sector Transformation Action Plan of 2018.	Financial Solutions for Climate and Natural Disaster Risks Program in the Caribbean, World Bank. Project preparation facility for PPPs under the Foundations for Competition and Growth Project (P147665); IFC transactions advisory on selected PPPs. Debt and Fiscal Sustainability DPL (P113893; P123241) – 2010-2012

[35] It also provides for a legally mandated process for future regular updates of the Building Code. This will allow Jamaican authorities to adapt the code to the ever-growing pressure of climate change on the built environment, while allowing the recognition of new technology and facilitating more affordable building techniques.
[36] "Building practitioners" are builders and draftsmen other than formally registered architects and engineers and are generally referred to as "informal builders". This socially and economically inclusive measure provides a very healthy measure of recognition and control over the "informal" sector without raising the cost of simple construction.
[37] The second DPF in the series will continue to work with the Government on this important reform area.
[38] The average time to issue construction permits in LAC is 199 days and 153 days in OECD high-income countries. Source: Doing Business 2019.

PA 3: To improve equity of public spending, the Borrower through: (a) the Cabinet and the Ministry of Labour and Social Security, has increased the benefit size of the PATH conditional cash transfer; and (b) the Ministry of Labour and Social Security, has implemented a Community Engagement Series to expand the number of PATH's eligible beneficiaries in rural areas.	World Bank NLTA, Jamaica Strengthening Social Protection System for Disaster Preparedness and Response (2015-2017) World Bank, 2017. Social Protection and Labor System Assessment for Disaster Preparedness and Response in Jamaica. World Bank: Public Expenditure Review in Social Protection (under preparation).
Pillar B: Enhance Fiscal and Financial Resilience against Natural Disaster Risks	
PA 4: To mitigate the financial impact of natural disasters, the Borrower, through the Cabinet, has approved a Public Financial Management Policy Framework for natural disaster risk financing.	World Bank (2018), Advancing Disaster Risk Finance in Jamaica, Washington DC. IMF (2018) How to manage the fiscal cost of natural disasters World Bank (2019 forthcoming), Natural Disaster Risk: Quantification and Evaluation of Contingent Liabilities and Financing Strategies Disaster Risk Finance and Insurance Program Technical Assistance to Colombia and Peru.
PA 5: To expedite post-disaster relief and recovery, the Borrower, through the House of Representatives, has raised the ceiling of the Contingencies Fund, from J$100 million to J$10 billion.	
PA 6: To expedite funding for disaster relief and recovery, the Borrower, through the Ministry of Finance and the Public Service, has issued binding guidelines governing the process for budgetary allocation and reallocation, procurement and disbursement of public funds in post-disaster situations.	Public Financial Management under the Strategic Public Sector Transformation Project. Program Document (P146688). Inclusive Economic Management in the Caribbean Trust Fund. World Bank (2018), Advancing Disaster Risk Finance in Jamaica, Washington DC. Financial Solutions for Climate and Natural Disaster Risks Program in the Caribbean. World Bank.
Pillar C: Improve the Investment Climate for Sustainable Blue Growth	
PA 7: To improve customs management and reduce foreign trade transaction costs, the Borrower, through the Ministry of Finance and the Public Service, has submitted a new customs bill to the House of Representatives for its approval.	TA on Trade Logistics in the Caribbean(P591347); Foundations for Competition and Growth Project (P147665)
PA 8: To facilitate the titling of land, the Borrower: (a) through the Cabinet, has integrated the Land Administration and Management Programme into the National Land Agency; and (b) through the Ministry of Economic Growth and Job Creation, has enacted the amendment of the Registration of Titles, Cadastral Mapping and Tenure Clarification (Special Provisions) Act, to reduce the fees for land titling transactions for first time registrations.	Foundations for Competition and Growth Project (P147665)
PA 9: To promote the effective management and sustainable development of fisheries, aquaculture and other related activities, the Borrower has enacted a new Fisheries Act.	Promoting Community-based Climate Resilience in the Fisheries Sector" (P164257)

4.3. LINK TO CPS, OTHER BANK OPERATIONS AND THE WBG STRATEGY

71. **The proposed operation advances the World Bank Group's twin goals by supporting the fiscal sustainability and inclusion, enhancing fiscal and financial resilience against climate and natural disaster risks, and improving the investment climate necessary for sustainable growth, which will help protect Jamaica's hard-won achievements in poverty reduction and shared prosperity while reinforcing the foundation for future growth.** Continued fiscal stability is essential to generate continued employment and wage gains, and increasingly sophisticated financial and insurance markets will be vital to accelerate economy-wide growth. Disaster resilience is a critical cross-cutting issue in Jamaica, with important implications for all other Bank-financed operations, as well as the twin goals.

72. **The proposed operation builds on the measures supported under the FY2014-19 Country Partnership Strategy (CPS).**[39] The CPS focuses on establishing the necessary conditions for broad-based, private-sector-led growth while improving public-sector efficiency and reducing vulnerability. The three pillars of the proposed operation are aligned with the three pillars of the CPS: (i) modernizing the public sector, (ii) creating an enabling environment for private-sector growth, and (iii) strengthening social and climate resilience. The WBG started preparation of the Systematic Country Diagnostics to underpin the next Country Partnership Framework.

73. **The ERDPL series is also aligned with recent and ongoing investment-project financing and NLTA activities.** The Strategic Public Sector Transformation Project (P146688) is designed to strengthen public resource management and support selected public sector institutions in facilitating a more enabling environment for private sector growth by reinforcing fiscal discipline, increasing revenue, and strengthening public-sector institutions. The Foundations for Competitiveness and Growth Program (P147665) includes a project-preparation facility designed to facilitate strategic private investments, divestments, and public-private partnerships. The operation also draws on past DPL series which supported the fiscal responsibility framework which included the establishment of debt targeted as well as reforms to rationalize the public sectors. The actions supported under Pillar B complement the activities of the Caribbean Financial Solutions for Climate and Natural Disaster Risk Program (P168156) funded by DFID. The program aims to inform the design of policies and financial instruments to mitigate the impact of climate change and weather-related shocks, improve disaster preparedness, and accelerate post-disaster recovery. Actions supported under Pillar B are also aligned with the mission of the Global Risk Financing Facility (GRiF), which promotes the establishment or expansion of ex-ante risk-financing instruments, including insurance, to bolster disaster resilience and facilitate a rapid post-disaster economic recovery. Actions under Pillar C aimed at strengthening coastal climate resilience are aligned with the Promoting Community-based Climate Resilience in the Fisheries Sector Project (P164257) funded by the Climate Investment Funds (CIF) Pilot Program for Climate Resilience, while resilient construction is supported under the Jamaica Disaster Vulnerability Reduction Project (P146965). Moreover, the prior actions and triggers related to social protection are linked to the ongoing Disaster Vulnerability Reduction Project, as a rapid increase in PATH transfers to disaster-affected beneficiaries is an option under the project's Contingency Emergency Response Component. Technical assistance provided by a Bank-Executed Trust Fund on Strengthening Social Protection System for Disaster Preparedness and Response

[39] The 2017 Performance and Learning Review extended the CPS through FY19.

(P159232) helped assess and strengthen the capacity of the country's social protection system to respond to disasters. The Social Protection System Strengthening Project (P170497), currently under preparation, is expected to complement this DPL series in improving inclusion in Jamaica.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

74. **The design of the proposed ERDPL series is informed by the Vision 2030 and the MTF 2018-2021 and benefitted from wide-scale consultations.** This consultation was conducted on several levels including at the level of Parliament, the Cabinet and with other key stakeholders, management and employees. The Government engaged with several parliamentary committees during the ERDPL preparation, since several of the prior actions supported under the series have direct budgetary implications and are subject to legislative review and approval.

75. **The Bank has been working with Jamaica's main development partners for the design of this operation.** The IMF has provided critical support to Jamaica's fiscal consolidation effort since 2013, first through the EFF and then the SBA, and the Bank continues to collaborate closely with IMF counterparts on reforms promoting macroeconomic and fiscal stability. To leverage complementarities and avoid duplicative efforts, the Bank also collaborates with DFID, the US Agency for International Development, the European Union, and Global Affairs Canada on issues related to disaster risk financing and disaster risk management, and works with the IDB and the European Union to strengthen public financial management. The IDB and World Bank also collaborate on social protection, and the Bank's social protection team has recently begun coordinating with representatives of the World Food Program.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

76. **The prior actions supported by the proposed operation are expected to have an overall positive direct and indirect impacts on poor households and vulnerable groups.** Poor households are often highly exposed to natural disasters, and they tend to have limited resources to cope with shocks.[1] Natural disasters directly impact livelihoods, immediately reducing income levels among household near or below the poverty line. Natural disasters can also affect future welfare by forcing the poorest households to adopt short-term coping mechanisms—such as removing children from school, forgoing medical care, or selling or consuming productive assets—that undermine their well-being and weaken their long-term economic productivity.

77. **Natural disasters tend to disproportionately affect female-headed households, households with children, and households located in remote rural areas or overcrowded urban slums.** Women are especially vulnerable to natural disasters, as they have lower average earnings and fewer employment opportunities than men. Women are also less likely to be in positions of power in local communities, and they are underrepresented in the design and implementation of disaster-resilience strategies. Children also face heightened risks, and adverse shocks that affect their education or cognitive development can

[1] World Bank, 2016. "Shock Waves: Managing the Impacts of Climate Change on Poverty." Washington, DC: The World Bank.

have lifelong repercussions. Due to their acute exposure to natural disasters, disadvantaged groups tend to disproportionately benefit from actions that mitigate disaster risks and promote a rapid emergency response.

78. **The measures to strengthen fiscal and financial resilience (Pillar B) will indirectly benefit poor households by bolstering macroeconomic stability, preventing fiscal imbalances that could threaten pro-poor spending, and reinforcing the necessary conditions for accelerated growth.** In addition, the measures to expedite disaster response supported under Prior Actions 5 and 6 are expected to have a positive direct impact on poor households by facilitating a rapid and effective Government response. In principle, Prior Action 2 could negatively impact household welfare if the divestment, consolidation, or closure of public bodies entails significant layoffs. However, the Public Sector Transformation Unit of the Ministry of Finance has introduced mitigation measures such as a re-training program and a skills improvement program for impacted staff for reintegration into other public-sector institutions. In addition, less than 10 percent of public employees' households are in the bottom 20 percent of the consumption distribution, and they represent about 2 percent of the population in the bottom 20 percent, suggesting that any negative impacts on the poor would not be significant. Jamaica has prior experience in managing similar exercises and while the exact impacts are unknown, there is a legal framework with grievance redress mechanisms that can be accessed by civil servants, including the Industrial Dispute Tribunal and the Commission of Public Service and the Redundancy and Payments Act.

79. **Prior actions 3 and 9 will directly benefit poor households by bolstering the country's physical resilience to natural disasters and by strengthening the Government's ability to provide relief quickly and effectively.** Under Prior Action 3, the expanded coverage of PATH will help smooth consumption among a larger share of poor households and strengthen their resilience to shocks. As PATH will likely serve as a frontline mechanism for providing support to disaster-affected households, increasing its coverage in rural areas will help bolster the resilience of a greater number of poor households. However, PATH's ability to shield households from shocks will depend on the size of the transfers provided to poor beneficiaries and disaster-affected households. If PATH transfers are insufficient to meet immediate consumption needs or help restore livelihoods, households may resort to negative coping mechanisms, which could deepen their poverty over the long term. To achieve their full poverty and social impact, the prior actions related to social protection must be complemented by the prior actions on contingency financing and ensuring a swift budgetary response to natural disasters. The new Fisheries Act supported under Prior Action 9 is expected to result in sustainable harvesting of fisheries resources, benefitting fishing communities which are mainly rural, have high poverty rates, and highly vulnerable to climate-related disasters. Finally, Prior Action 8**,** is expected to have indirect positive impacts. Securing land property rights can allow poor households to increase access to credit, increase investments in capital and housing quality to improve livelihoods. While comprehensive mitigation measures have been embedded in the reform actions, the Social Risk rating will be moderate, to reflect the international experience with land titling projects which if not addressed can result in risks that may include (i) evictions ahead of titling; (ii) exclusion of women on titles (iii) failure to compensate persons of their assets if ownership changes hands; and (iv) the upsurge in grievances. These risks are to be mitigated through information dissemination and sensitization about the reforms through a strong community engagement exercise, pro-active adjudication process to manage grievances and awareness of the grievance redress measures available to public servants and citizens.

5.2. ENVIRONMENTAL ASPECTS

80. **Jamaica has continuously updated its environmental policy and regulatory framework and integrated environmental issues into its national development plan.** The country has 52 environment-related statutes covering a wide range of policies areas, from public health to physical planning to land use, with many instances of overlapping responsibilities among ministries. The 2017 National Policy on Environmental Management Systems reflects the Government's commitment to improving environmental management. The policy seeks to integrate environmental considerations into economic and social decision-making processes, and it directly contributes to National Outcome 13 (sustainable management and use of environmental and natural resources) of Goal 4 (Jamaica has a natural healthy environment) of Vision 2030.

81. **The prior actions supported by the proposed operation are not likely to have any significant negative impacts on the country's environment, forests, fisheries, or other natural resources.** None of the actions supported by the operation include any environmentally sensitive investments or involve policy actions with significant adverse environmental consequences. The operations aims to improve the policy and regulatory framework for fiscal resilience, mitigate the economic threats posed by natural disasters and climate change, and improve country's physical and social resilience to reduce the physical and human costs associated with natural disasters.

82. **The operation is expected to contribute to environmental stability, hazard-risk reduction, and climate-change adaptation, and it is likely to have positive environmental impacts over the medium-to-long term.** By increasing the benefit size of the PATH conditional cash transfer and introducing community engagement plan under prior action 3 is likely to contribute in improving communication and targeting poor and vulnerable people to better cope the disaster risk and reduce pressure on local natural resources. Prior actions 4-6 supported under the proposed operation will strengthen the fiscal and financial management system for disaster response and are expected to contribute in minimizing environmental negative impacts and improving natural resources restoration. The new Fisheries Act (Prior Action 9) is expected to result in sustainable harvesting of fisheries resources and likely to contribute in improvement of natural resources management.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

83. **Jamaica's public financial management (PFM) systems continue to be strengthened but more is needed.** The 2016 Public Expenditure and Financial Accountability (PEFA) assessment concluded that the PFM systems in Jamaica is strong, especially external audit and scrutiny being areas of strength, but there are notable weaknesses in risk management, multi-year budgeting and treasury operations. Since the 2016 PEFA assessment, a detailed PFM Reform Action Plan (2017 -2021) was developed by the GOJ and is currently being implemented to address these weaknesses along with other areas for improvement. In respect to these specific weaknesses, the ongoing reforms and actions since the 2016 PEFA include amongst others, (i) implementation of medium-term results-based budgeting; (ii) enhancing of the public investment management system; (iii) implementation of an Enterprise Risk Management Programme; and (iv) implementation of an Integrated Financial Management Information System.

84. **Analyzing and managing fiscal risks is utilized in some areas but should be expanded further by the GOJ.** A broader examination of risk management at MoFPS is primarily focused on control and governance arrangement for public entities such as public corporations and extra-budgetary units. The 2016 PEFA assessment highlighted that reporting of risks associated with public corporations and Government authorities is not a prominent feature of the Jamaica PFM system. Control over fiscal risks associated with these entities is ongoing. Through Pillar A, Prior Action 2 of this operation, the structure of the public sector is being rationalized to reduce fiscal risks associated with public entities. The GOJ has divested, merged, or closed 6 public entities which will reduce the contingent liabilities generated by public entities that pose a threat to fiscal stability. Besides fiscal management over public entities, the GOJ should expand its fiscal management approach further and conduct a comprehensive systematic analysis and management of key fiscal risks to help ensure sound fiscal public finances and macroeconomic stability.

85. **Multi-year budgeting.** The budgeting process continues to evolve as Jamaica has embarked on the implementation of Medium-Term Results Based Budgeting (MTRBB) framework. The 2019/2020 approved budget was presented in the MTRBB format reflecting three forward years estimates. Though these budget estimates are not consistently linked to GOJ strategic policies, gradual work is planned so that future budgets are completely underpinned with macroeconomic and strategic policies, priorities and results. Also, MoFPS published for the first time, a Citizen's Guide for the 2019/2020 budget.

86. **Budgeting, Expenditure and Capital Investment.** The presentation of the budget also changed in respect to capital projects, with the unification of the Capital Budget. Prior to the commencement of fiscal year 2019/2020 budget, capital projects were classified as Capital A (GOJ Funded) and Capital B (Donor & GOJ Funded). The GOJ has updated its Chart of Accounts (CoA) to be consistent with the IMF's Government Financial Statistics Manual 2014 and to support the improved multi-year budgeting and results-based monitoring process. The GOJ will be working towards the integration of various IT systems used within Government, which separately handle budgeting, expenditure, reporting and project implementation. With the integration of these systems, the GOJ will be better able to generate accurate information in a timely manner, and hence improve the overall planning and budgeting process. To improve the overall process for evaluating projects, the GOJ is currently working towards the implementation of a Public Investment Management Information System (PIMIS), which aims to revise the existing structure, the preparation, appraisal, approval and management of all Government projects.

87. **GOJ publishes an annual budget.** Upon approval by Parliament, MoFPS publishes the Medium-Term Fiscal Policy Paper, annual budget and Estimates of Revenue on its website and makes the documents available in print form. Although central Government's budget execution reports are published monthly, they do not provide a full picture of the state of individual Ministries, Departments and Agencies (MDA), as the reports provide only aggregate expenditure information. Also, budget execution reports as well as individual MDA reports are prepared internally by most entities, but they are not published.

88. **Treasury Operations.** In respect to the Treasury Single Account (TSA), The Accountant General Department (AGD) has made recommendations on the structure to be adopted. However, this is not yet agreed upon within the GOJ. Until a final structure is agreed, the AGD is nonetheless taking steps to support the movement to a TSA. The AGD is currently closing and reducing the number of commercial

bank accounts which contain GOJ funds. In addition, it is working to support an expansion of the "sweeping" arrangements from commercial bank accounts of the Principal Receivers of Revenue (PRRs) into the AGD's accounts at the BOJ.

89. **The GOJ has made advances in reducing revenue arrears.** During the first calendar quarter, except for the month of March 2019, all monthly revenue targets for calendar year 2019 were exceeded. The reduction in revenue arrears and the increase in achieving revenue targets, have been due to the adoption of a new tax system, which is much more comprehensive, incorporates risk assessment, and shifts the focus from tax types to all taxes owed by each individual or entity. The Tax Administration of Jamaica has also executed capacity building activities which focused on compliance, audit, collection of debt and tax education. There has also been legislative support, in which a committee has been established to assess and decide on debts, arisen from taxes, to be written off and no longer included as revenue arrears when deemed uncollectible.

90. **External audit and scrutiny are areas of strength but needs enhancement.** The Auditor General's Department (AuGD) is active in carrying out financial, compliance, performance audits and the examination of fiscal policy paper. Audits are executed in accordance with International Standards of Supreme Audit Institutions (ISSAI). Since the 2016 PEFA assessment, the AuGD has progressed in respect to establishing a quality assurance unit to address the consistency in application of audit standards. Also, the AuGD's audit reports are now made publicly available on the AuGD website, once reports are tabled by Parliament. This report includes information on audits which were prepared and submitted within the twelve-month period required. However, individual MDA audited annual financial statements are not published. There has been a backlog of Government unaudited financial statements, which straddle between 2005 and 2018. Through the support of the World Bank, the AuGD seeks to contract out a number of backlog audits in order to progress towards a GOJ consolidated audited financial statements.

91. **The foreign exchange control environment of the BOJ, which manages the foreign exchange reserves of the Jamaica, is adequate.** The IMF completed a Safeguards Assessment of the BOJ in May 2017. The BOJ control environment within which foreign exchange is managed is satisfactory. BOJ has well-established procedures that ensure the integrity of its operations. It has a well-functioning internal audit department which has the capacity to execute its mandate. The internal audit department reports directly to an audit committee, which also provides additional oversight. In addition, BOJ's financial statements are published, transparent, and are audited annually by an independent reputable external audit firm.

92. **Disbursement and Auditing Arrangements.** The proposed loan will follow the World Bank's standard disbursement procedures for development policy support. The proceeds of the loan will be disbursed against satisfactory implementation of the program (specified prior actions achieved) and maintenance of an adequate macroeconomic policy framework. The Bank will disburse the loan proceeds, denominated in US dollar, into Jamaica's US dollar foreign-exchange account at the BOJ. This account forms part of Jamaica foreign exchange reserves at the BOJ. The BOJ will then immediately ensure that, upon deposit in said account, an equivalent amount in JMD will be credited to the GOJ's account, which will become available to finance budgeted expenditures. Within 30 days of the funds transfer, the GOJ, through its MoFPS, will provide the Bank with written confirmation of the amount deposited into a foreign-currency account at the BOJ and that the equivalent amount has been accounted for in the

country's budget management system in an account used to finance budgeted expenditures. If the proceeds of the loan or any part thereof are used for ineligible purposes, as defined in the Loan Agreement, the World Bank will require the Borrower to promptly return such amount to the World Bank. The amount refunded shall be cancelled from the Loan. No specific audit of the deposit of the loan proceeds will be required. However, the World Bank reserves the right to request such an audit at its discretion.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

93. **The MoFPS will be responsible for the overall implementation of the proposed operation and for reporting on its progress.** The World Bank will review the prior conditions for effectiveness and disbursement. It will be the responsibility of the MoFPS to present this information in a timely manner and in a format satisfactory to the Bank. The monitoring and evaluation system which supports the medium-term socio-economic framework will be important for assessment progress on the results of the ERDPL series. Since the development of Vision 2030 strategy, the Government has invested substantially in developing an electronic platform for monitoring results of Government programs.

94. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

95. **The overall risk rating for the proposed ERDPL series is assessed as substantial.** This reflects a range of macroeconomic, sector strategies and policies, implementation capacity, and stakeholders' risks, all of which could have an impact on the success of the proposed operation. The risk ratings in Table 7 follow the four-point rating scale from low (L), to medium (M), substantial (S), and high (H). The following sections describe risks that are considered high and substantial, also highlighting mitigation mechanisms where applicable.

Table 7: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other	
Overall	Substantial

96. **Macroeconomic risks are substantial.** While the GOJ's deep and sustained fiscal consolidation has put the public debt stock on a downward trajectory since 2013, Jamaica's debt still exceeds the average for small developing states. Moreover, the country's modest growth performance and exposure to a wide range of external shocks exacerbate macroeconomic risks and threaten the continuity of the fiscal consolidation, which could become difficult to maintain if the GDP growth rate remains low. Deteriorating macroeconomic conditions and/or losses from public bodies could undermine the intended outcomes of the proposed series even if the supported policies are fully implemented. While the Government is advancing with a fiscal council - with the expiration of the IMF SBA - to entrench fiscal discipline and mitigate macroeconomic risks, the international evidence indicates that fiscal councils – while a positive step forward – in and of themselves do not guarantee fiscal sustainability. Nevertheless, the proposed policy actions supported by the series and the ongoing political and social agreements are intended to promote prudent fiscal policies and strengthen measures to shield the economy and public accounts from the effects of natural disasters. The Government has not issued sovereign loan guarantees in the last ten years and is stepping up its monitoring of implicit contingent liabilities. These interventions ensure that risks to the project development objective (PDO) are minimized.

97. **Risks related to the implementation capacity of sector strategies and policies are substantial.** Jamaica has made important progress in raising the capacity of the public sector. However, significant deficiencies exist in some areas. The multidimensional nature of disaster risk resilience demands an integrative approach to the supported reforms, backed by strong institutional leadership and interagency coordination. Moreover, managing diverse types of risk requires a high degree of technical capacity in areas such as contingent liabilities management, disaster risk financing, and disaster risk management. The GOJ's inadequate capacity and limited resources could compromise the technical design of risk management policies, delay their implementation, inhibit their enforcement, and threaten their sustainability. While these risks cannot be eliminated entirely, they can be attenuated by strong technical assistance, continuous support for reform implementation, and close collaboration with the IMF, IDB, and other development partners. Furthermore, the design of the proposed operation seeks to mitigate capacity risks by: (i) concentrating on policy reforms that have benefitted from or are the subject of ongoing policy dialogue with the WBG; (ii) supporting policy reforms that leverage other WBG operations; and (iii) providing TA either directly or jointly with other development partners in selected areas. Finally, the proposed operation is highly selective in its design to avoid overwhelming the Government's administrative capacity and limited ability to absorb resources, thereby, minimizing risks to the PDO.

98. **Fiduciary risks are substantial.** The 2016 PEFA report concluded that Jamaica's PFM environment is strong. However, it identified important weaknesses in risk management, multi-year budgeting, and treasury operations. To mitigate these risks, the GOJ has prepared a time-bound action plan to guide its ongoing PFM reforms. The WBG, through the Strategic Public Sector Transformation (P146688) Project under implementation, is supporting reforms to strengthen the Governments capacity in all three areas.

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions and Triggers		Results Indicators
Prior Actions (PA) for the DPL I	**Indicative Triggers (IT) for the DPL II**	
Pillar A: Support Fiscal Sustainability and Inclusion		
PA 1: To strengthen the fiscal responsibility framework, the Borrower, through the Cabinet, has approved the design of a fiscal council, which will be operationally independent and financially autonomous.	**IT 1:** To strengthen the fiscal responsibility framework, the Borrower enacts the legal framework to establish the fiscal council.	The Fiscal Council is adequately staffed and issues regular fiscal assessment reports (that include debt sustainability analysis); *Baseline: No (2018) Target: Yes (2021)*
PA 2: To improve the governance of the public sector, the Borrower, through the Ministry of Finance and the Public Service, has merged, closed or reintegrated into line ministries 6 Public Bodies, in accordance with the Public Sector Transformation Action Plan of 2018.	**IT 2:** To improve the governance of the public sector, the Borrower: (a) submits the regulations for the nomination, selection and appointment of the boards of Public Bodies to Parliament for approval thereof; and (b) divests, merges, closes or reintegrates into line ministries 18 Public Bodies, in accordance with the Public Sector Transformation Action Plan of 2018.	Percentage of self-financing public bodies compliant with submitting an Annual Report within four months after the end of the financial year; *Baseline: 47% (FY2018/19) Target: 63% (FY2021/22)*
PA 3: To improve equity of public spending, the Borrower through: (a) the Cabinet and the Ministry of Labour and Social Security, has increased the benefit size of the PATH conditional cash transfer; and (b) the Ministry of Labour and Social Security, has implemented a Community Engagement Series to expand the number of PATH's eligible beneficiaries in rural areas.	**IT 3:** To improve fiscal sustainability and adequacy of the NIS scheme, the Borrower enacts amendments to the National Insurance Act to increase contribution rates and to base changes of NIS benefit sizes on actuarial reviews.	Percentage of rural beneficiaries among all new PATH beneficiaries; *Baseline: 80% (2018) Target: 85% (2021)*
Pillar B: Enhance Fiscal and Financial Resilience against Natural Disaster Risks		
PA 4: To mitigate the financial impact of natural disasters, the Borrower, through the Cabinet, has approved a Public Financial Management Policy Framework for Natural Disaster Risk Financing.	**IT 4:** To operationalize its Public Financial Management Policy for Disaster Risk and enable access to cost-effective disaster risk insurance, the Borrower (a) submits to Parliament, for approval thereof, the National Natural Disaster Risk	Annual Fiscal Policy Paper has a section quantifying disaster-related risks; *Baseline: No (2018) Target: Yes (2021)*

	Financing Policy together with its implementation action plan, (b) issues new regulations or guidelines to improve reporting requirements for insurance companies' reinsurance programs; and (c) approves amendments to the Public Private Partnership (PPP) policy and regulatory framework to require insurance coverage in PPP contracts to include disaster risks.	
PA 5: To expedite post-disaster relief and recovery, the Borrower, through the House of Representatives, has raised the ceiling of the Contingencies Fund, from J$100 million to J$10 billion.	**IT 5:** The Borrower expands its pre-arranged financial protection through the enactment of legislation to establish a National Natural Disaster Reserve Fund.	Capitalization of the National Natural Disaster Reserve Fund; *Baseline: J$100 million (Dec 2018) Target: J$3.1 billion (Dec 2021)*
PA 6: To expedite funding for disaster relief and recovery, the Borrower, through the Ministry of Finance and Public Service, has issued binding guidelines governing the process for budgetary allocation and reallocation, procurement and disbursement of public funds in post-disaster situations.	**IT 6:** To improve the process for accessing and allocating expenditures from the National Disaster Fund, the Borrower: (a) establishes a Fund Committee, with responsibility for the general administration of the National Disaster Fund; and (b) issues instructions to guide the operation of the National Disaster Fund.	Number of post-natural disaster sources of financing available to ministries, departments and agencies with documented emergency procedures; *Baseline: 0 (2018) Target: 5 (2021)*
Pillar C: Improve the Investment Climate for Sustainable Growth		
PA 7: To improve customs management and reduce foreign trade transaction costs, the Borrower, through the Ministry of Finance and the Public Service, has submitted a new customs bill to the House of Representatives for its approval.	**IT 7:** To further facilitate foreign trade, the Borrower approves rules and regulations of the customs bill and enhances trade facilitation with the implementation of risk-based controls.	Percentage of commercial declaration documentary processed by customs within 16 hours; *Baseline: 51% (2018); Target: 70% (2021)* Percentage of commercial consignment initially assigned to green channel; *Baseline 10% (2018) Target 30% (2021).*
PA 8: To facilitate the titling of land, the Borrower: (a) through the Cabinet, has integrated the Land Administration and Management Programme into the National Land Agency; and (b) through the Ministry of Economic Growth and Job Creation, has enacted the amendment of the Registration of Titles, Cadastral Mapping and Tenure Clarification	**IT 8:** To improve property rights protection and facilitate land markets, the Borrower submits a legislative package on e-titling of lands to Parliament for approval thereof.	Number of titles issued annually; *Baseline 1,300 (2018) Target: 3,500 (2021)* Total number of titles with unimproved value of J$ 2 million and below; *Baseline 2,000 (2018) Target: 4,000 (2021)*

(Special Provisions) Act, to reduce the fees for land titling transactions for first time registrations.		
PA 9: To promote the effective management and sustainable development of fisheries, aquaculture and other related activities, the Borrower has enacted a new Fisheries Act.	**IT 9:** To further facilitate the implementation of the Fisheries Act and operationalize its guiding principles, the Borrower approves related regulations.	Percentage of active fishers who are licensed; *Baseline: 16% (2018) Target: 30% (2021)*
	IT 10: To enhance physical resilience and simplify approvals for construction permits, the Borrower: (a) approves technical rules and regulations (building codes) to the Building Act, 2018; and (b) enacts new regulations that reduce processing times for construction permits approvals.	Number of days to obtain building permit; *Baseline: 141.5 (2018) Target: 106 (2021)*

ANNEX 2: FUND RELATIONS ANNEX

IMF Executive Board Completes Sixth and Final Review under the Stand By Arrangement for Jamaica

November 4, 2019

- The Executive Board of the International Monetary Fund (IMF) completed the sixth and final review of Jamaica's performance under the program supported by the Stand-By Arrangement (SBA).
- Jamaica's sustained policy discipline, together with a fully operational fiscal council and an independent central bank, will help institutionalize the gains achieved under the successive Fund-supported programs.
- Supply side reforms are needed to promote inclusive growth and reduce poverty, which requires productivity-enhancing public investments in human and physical capital, strengthened governance, greater financial inclusion, and tackling crime.

On November 4, 2019, the Executive Board of the International Monetary Fund (IMF) completed the sixth and final review of Jamaica's performance under the program supported by the Stand-By Arrangement (http://www.imf.org/en/about/factsheets/sheets/2016/08/01/20/33/stand-by-arrangement)(SBA). The 36-month SBA, with a total access of SDR 1,195.3 million (about US$ 1.65 billion), equivalent to 312 percent of Jamaica's quota in the IMF, was approved by the IMF's Executive Board on November 11, 2016 (see Press Release No.16/503 (http://www.imf.org/en/News/Articles/2016/11/11/pr16503-IMF-Executive-Board-Approves-US164-billion-Stand-By-Arrangement-for-Jamaica)). The Jamaican authorities continue to view the SBA as precautionary until the program expires on November 10, 2019, an insurance policy against unforeseen economic shocks that could lead to a balance of payments need.

Following the Executive Board's discussion today, Mr. Tao Zhang Deputy Managing Director and Acting Chair issued the following statement:

"The Jamaican authorities have demonstrated an exemplary commitment to reforms under two consecutive IMF-supported programs that have spanned the last 6 and a half years. Difficult reforms have been implemented—with considerable sacrifices by the Jamaican people—that have institutionalized fiscal discipline and led to substantial reduction in public debt, which is now on track to meet the legislated target of 60 percent of GDP by March 2026. The unemployment rate is at an all-time low, inflation is subdued, the financial system is less vulnerable, and international reserves are comfortable.

"The authorities are committed to sustain policy discipline after the conclusion of the SBA. The government's request to the Economic Programme Oversight Committee to continue monitoring its macroeconomic targets and reform commitments will support public accountability until the fiscal council becomes fully operational, while the proposed amendments to the BOJ Act will improve central bank governance and independence, allowing a greater focus on the central bank's price stability mandate. These reforms, together with a well-functioning public bodies' governance framework and a natural disaster financing policy, will help institutionalize the gains achieved under the Fund-supported programs.

"Important gains have been made in the oversight of financial institutions. The next steps should include enhanced group-wide supervision of financial conglomerates, improving data and analytics, better coordination among financial regulators, an improved legislative framework for the resolution of financial intermediaries, and further strengthening of the AML/CFT framework.

"Supply-side reforms are needed to promote inclusive growth and lower poverty. This requires productivity-enhancing public investments in human and physical capital, strengthened governance, greater financial inclusion, prioritizing measures to combat crime, and implementing policies that will help build resilience to natural disasters and weather fluctuations. To create fiscal space for these efforts, the government will have to strengthen fiscal institutions and modernize the compensation framework for public employees."

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ANNEX 3: 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 PUBLIC SERVICE
30 NATIONAL HEROES CIRCLE
P.O. BOX 512
KINGSTON
JAMAICA

January 20, 2020

POLICY LETTER
JAMAICA: ECONOMIC RESILIENCE DEVELOPMENT POLICY FINANCING LOAN

Mr. David Malpass
President
World Bank Group
1818 H Street NW
Washington, D.C. 20433
United States of America

Dear Mr. Malpass,

The Government of Jamaica (GOJ) continues to strive towards sustained economic growth and job creation through strict adherence to the tenets of fiscal prudence supported by macroeconomic stabilisation and the reduction of the debt-to-Gross Domestic Product (GDP) ratio. The downward trajectory of the debt-to-GDP ratio has been attributed to Jamaica's improved fiscal performance and strong macroeconomic fundamentals. The demonstration of strong ownership of the country's economic reform programme across stakeholders and the continued commitment to public accountability, through the Economic Programme Oversight Committee, have been the hallmarks of Jamaica's approach to the implementation of sound fiscal and monetary policy reforms and the successful completion of the supporting Precautionary Stand-By Arrangement (PSBA) with the International Monetary Fund (IMF).

Jamaica has made considerable gains through the economic reforms which have been executed to date. The continued commitment to the Economic Reform Programme (ERP) in tandem with fiscal prudence and discipline will assist in safeguarding Jamaica's macroeconomic stability, as the Government pursues the ongoing reduction of the public debt and economic expansion over the medium to long term. While it pursues these objectives, the GOJ remains cognizant of Jamaica's vulnerability to natural disasters and the eminent fiscal risks which have the potential to erode the gains realized from the economic reforms. The Government is therefore steadfast in its commitment to create a resilient economy; it is within this context that discussions have ensued between the GOJ and the World Bank regarding the Jamaica: Economic Resilience Development Policy Financing (DPF) Loan Series. This collaboration with the World Bank signals the Government's commitment to maintaining and accelerating the recent gains in fiscal management and sustainable inclusive growth, while protecting the poor and vulnerable, as the loan builds on the continuous policy reform discussions between the GOJ and the World Bank. The DPF supports the Government's reforms to improve fiscal sustainability and inclusion, as well as enhance fiscal and financial resilience against natural disaster risk and improve the investment climate for sustainable growth. These reforms are consistent with *Vision 2030 Jamaica - National Development Plan*, which articulates Jamaica's long term development strategies aimed at empowering Jamaicans to achieve their full potential and building a Jamaican society that is secure, cohesive and just.

Macroeconomic Framework

During FY 2018/19, the Government realized gains from improved fiscal performance which were maintained through continued macroeconomic stability, anchored by sound fiscal and monetary reforms, under the PSBA with the IMF. Real growth accelerated over the last three fiscal years (FY 2016/17 – FY 2018/19), averaging 1.4 percent which compares favourably with the preceding three (3) years when real growth averaged 1.1 percent. A growth rate of 1.9 percent in FY 2018/19 was the highest since FY 2006/07, when a growth rate of 3.0 percent was recorded. It is against this background of strong economic performance that the GOJ's fiscal programme which was crafted for FY 2019/20 continues to be anchored by the objectives of debt reduction and economic expansion. Investor and consumer confidence indicators are also positive and improving. The economic outlook remains positive and growth is projected to increase over the medium term to over 2.0 percent by FY 2022/23. Inflation continues to be low and stable over the last few years with the outturn for FY 2018/19 recorded at 3.4 percent. A marginal increase in the inflation rate to 4.8 percent is estimated for FY 2019/20 and is expected to remain below 5.0 percent over the medium term. Net International Reserves (NIR) remain in a strong position at US$3,162.5 million at end-December 2019 which is estimated to be 22.9 weeks of goods and services imports.

The Government has also succeeded in its pursuit of fiscal consolidation and debt reduction. For FY 2018/19, there was an over-achievement of the primary surplus target of 7.0 percent of GDP with an outturn of 7.5 percent of GDP. This, along with the execution of proactive debt management strategies, has contributed to the reduction in the debt stock. At end FY 2018/19 the debt-to-GDP ratio was 94.4 percent, down from 145.3 percent of GDP in FY 2012/13. The debt-to-GDP ratio is expected to continue its downward trajectory and is on track to meet the legislated debt-to-GDP target of 60.0 percent or less by end FY 2025/26, as stipulated in the Fiscal Responsibility Law. Given successive years of primary balance over-performance and the earlier than programmed achievement of the debt-to-GDP target of 96.0 percent by FY 2019/20, the primary surplus target was reduced to 6.5 percent of GDP. The lowering of the primary balance target allows for an increase in expenditure which will include capital spending. Further, there were adjustments to distortionary financial taxes which were aimed at promoting growth by lowering business costs. The reduction in the primary surplus target to 6.5 percent will not compromise the attainment of the legislated debt-to-GDP target of 60.0 percent over the medium term.

Jamaica's achievement of sustained progress in macroeconomic stability and the strengthening of external liquidity, which has resulted in improved ability to withstand external shocks, has not gone unnoticed. In September 2019, Standard and Poor's Ratings Agency (S&P), upgraded the GOJ's long-term foreign and local currency rating to "B+" from "B" and affirmed the 'B' rating on the short-term foreign and local currency sovereign credit ratings. The outlook remains "stable". The outlook was affirmed based on the Government's willingness to maintain robust primary fiscal surpluses, which will support a gradual reduction in debt and interest burden. The improved ratings by the S&P is a recognition of the gains Jamaica has made under the ERP and underscores the importance of Jamaica's commitment to sustain the reforms into the post IMF Programme period.

Reforms

Strengthening Fiscal Sustainability and Inclusion. Jamaica has made substantial progress since embarking on the ERP supported by the IMF Extended Fund Facility (EFF) and subsequently the PSBA. The conclusion of the most recent arrangement with the IMF will herald an era of greater economic independence for Jamaica, with the need for continued fiscal prudence. To secure the gains, the GOJ is dedicated to implementing measures to strengthen Jamaica's Fiscal Responsibility Framework. In this regard, in August 2019, the Cabinet approved the recommended design of a Fiscal Council, which will be operationally independent and financially autonomous. The Fiscal Council which is forecasted to be operational in 2020 is expected to deepen accountability and promote transparency, as it assumes the role of monitoring the Government's compliance with the legislated Fiscal Rules. The Fiscal Council will seek to further institutionalise economic independence by strengthening Jamaica's Fiscal Responsibility Framework through its mandate to inform the public on the soundness and sustainability of Jamaica's fiscal positions. It is proposed that the Council will focus on specific areas, assessing the reasonableness of macroeconomic and fiscal forecasts presented in the annual and interim Fiscal Policy Paper, monitoring adherence to the Fiscal Rule provisions in the Fiscal Responsibility Law (FRL) and assessing the consistency of the fiscal balance trajectory with the FRL, and the medium and long-term debt sustainability.

The GOJ is also working to improve the overall governance, efficiency and accountability of the public sector. In June 2018, Cabinet approved a plan to rationalise the public sector through the closure, divestment or reintegration of public bodies into line ministries as part of efforts to ensure greater efficiency and effectiveness in public-sector service delivery, reduce costs, and improve governance. A total of forty-seven (47) public bodies are estimated to be closed, merged or reintegrated into line ministries by FY 2023/24, including six (6) in FY 2019/20 and another eighteen (18) in FY 2020/21. A range of measures to mitigate potential adverse social implications of this reform, including the retraining and reintegration of staff in other functional areas of government have been deployed.

While the Country remains committed to fiscal discipline, the Government has actively taken steps to ensure the protection of the poor and vulnerable through a number of initiatives. In June 2019, the benefit size of the Programme of Advancement through Health and Education (PATH), the Country's flagship non-contributory cash transfer and largest poverty-targeted social safety net programme, was increased ranging from 13.9 percent to 23.1 percent within the differentiated payment schemes. A Community Engagement Series (CES) utilising public education fairs within remote communities was also implemented in August 2018, to increase awareness of the PATH and other social safety net programmes. The aim is to increase the beneficiary incidence among rural households in the PATH. The National Insurance Scheme (NIS) is another social protection measure utilised by the GOJ. The NIS is a compulsory contributory funded social security scheme which covers all employed persons and offers protection to its contributors and their families against loss of income arising from injury on the job, incapacity, retirement and/ or death of the insured. The Government is therefore cognizant of the importance of improved fiscal sustainability and the adequacy of the NIS in order to improve its effectiveness and longevity and has initiated reforms centered on improving levels of contribution. In January 2019, the minimum contribution for voluntary contributors was increased from J$100 to J$150 per week and will be increased to J$250 by January 2021. The contribution rate to the NIS was increased in April 2019 from 5.0 percent to 5.5 percent with a further planned increase to 6.0 percent by April 2020. The contribution rate will remain at 6.0 percent through to 2022.

Enhancing Fiscal and Financial Resilience against Natural Disaster Risks. The GOJ has been taking steps to mitigate the fiscal risk of natural disasters. The development of a Disaster Risk Financing Policy for which Cabinet gave its approval in November 2018, has commenced. The Government has been pursuing a strategy that provides layers of protection which includes, *inter alia*, accumulating fiscal savings in the Contingencies Fund, provided for in the Constitution, only to be used in the event of natural disasters. To this end, the Government passed the Financial Administration and Audit (Contingencies Fund) Resolution in March 2019, which raised the ceiling of the Contingency Fund in the Financial Administration and Audit Act, from J$100 million to J$10 billion. Another of the Government's disaster risk financing initiatives is the development of the National Natural Disaster Reserve Fund. This Fund is to be structured as a sub-account of the Contingencies Fund, earmarked for use in the eventuality of natural disasters, with its own rules of accumulation and use. Work to develop the Fund's operationalisation framework is ongoing and the Fund is projected to be operational in FY 2020/21. In March 2019, J$2 billion was transferred to the Contingencies Fund to specifically provide for the possibility of a natural disaster. The Government intends to supplement this amount with further transfers in future years. The GOJ is also exploring options to strengthen the local insurance market to enable access to cost-effective disaster risk insurance. In parallel, work is advancing to amend the Public Private Partnership (PPP) Policy to transfer contingent liabilities generated by natural disasters through insurance policies. The reconstruction, rehabilitation and repair phase of natural disasters requires timeliness, transparency and accountability in an effort to safeguard against further financial losses. The Government has issued guidelines to Ministries, Departments and Agencies advising of the instruments and disbursement modalities which are available to the GOJ for financing post-disaster expenditure in the event of a natural disaster.

Improving Investment Climate for Sustainable Growth. To improve the quality of Jamaica's built environment, given the increased threats of natural and man-made disasters and their risk to fiscal stability and economic growth, Parliament passed the Building Act of 2018 which came into effect on January 15, 2019. The Act establishes a National Building Code for Jamaica which is expected to ensure safety in the built environment, enhance amenities and promote sustainable development. Critical reforms will include increased monitoring of building works, increased compliance with standards, a reduction in terms of the time and costs associated with obtaining building permits, clarity of the process and predictability for investors.

To improve Jamaica's competitiveness by creating an environment which facilitates trade and promotes greater ease of doing business, the GOJ has tabled a Bill entitled "The Customs Act, 2019" in the House of Representatives on June 25, 2019. The new legislation is expected to modernize customs procedures and increase efficiency and predictability. This will result in border processes becoming more streamlined, timely, cost-effective, and transparent, while promoting future business opportunities for Jamaica, especially in the areas of shipping, logistics and international trade.

The GOJ has identified land titling as another key area of focus in improving Jamaica's investment climate. To improve property rights protection and facilitate land markets, the GOJ has merged the National Land Agency and the Land Administration and Management Programme. Additionally, to increase efficiency and cost-effectiveness in land titling, the Government, under the systematic titling programme, is advanced in the process of drafting amendments to the Registration of Titles Act and the Registration of Titles, Cadastral Mapping and Tenure Clarification (Special Provisions) Act and has also issued the Registration of Titles, Cadastral Mapping and Tenure Clarification (Special Provisions) (Fees) (Amendment) Order, 2019 to reduce the fees for land titling transactions. Having registered title to land will increase property rights protection and the ease by which land can be transferred and used as security. This impacts positively on investments, entrepreneurship, productivity and growth. These reforms should contribute to an increase in the number of land titles issued annually.

To further promote investment, the Government has promulgated the Fisheries Act, 2018 which came into effect on May 31, 2019 and aims to maximize the fisheries industry's potential to contribute to Jamaica's economic growth. The Act seeks to provide for and promote the effective management and sustainable development of fisheries and aquaculture through, *inter alia*, increased measures to tackle poaching and unregulated fishing in Jamaican waters and to facilitate the establishment of a proper licensing authority, equipped with the requisite provisions and safeguards that will ensure transparency.

Conclusion

Jamaica's economic performance reaffirms the GOJ's commitment to fostering a stable macroeconomy, enabling business environment and strong economic infrastructure in tandem with the Country's national development outcomes. The World Bank Group's Economic Resilience Development Policy Financing operation provides support to strong GOJ initiatives which are geared towards securing the recent gains and sustaining the implementation of reforms which are necessary for the maintenance of fiscal and macroeconomic stability and the generation of growth.

The GOJ hereby requests the first loan of the DPF operation in the amount of US$70 million for FY 2019/2020.

The Government reiterates its commitment to the Programme and wishes to express its appreciation to the World Bank for this collaboration.

Yours sincerely,

Nigel Clarke, DPhil, MP
Minister of Finance and the Public Service

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant Positive or Negative Environmental Impacts	Poverty and Social Impacts
Pillar A: Support Fiscal Sustainability and Inclusion		
Prior Action 1: To strengthen the fiscal responsibility framework, the Borrower, through the Cabinet, has approved the design of a fiscal council, which will be operationally independent and financially autonomous.	Neutral. This institutional reform will have no positive or negative impact on Jamaica's environment, forests, fisheries, or natural resources.	Indirect positive impact on poor households by bolstering macroeconomic stability, preventing fiscal imbalances that could threaten pro-poor spending, and reinforcing the necessary conditions for accelerated growth.
Prior Action 2: To improve the governance of the Borrower's public sector, the Borrower, through the Ministry of Finance and the Public Service, has merged, closed or reintegrated into line ministries 6 Public Bodies, in accordance with the Public Sector Transformation Action Plan of 2018.	Neutral. This institutional reform will have no direct positive or negative impact on the environment, forest, fisheries, or natural resources.	Potentially negative but expected to be small. Impacts on household welfare can be negative if the rationalization entails significant layoffs, however the reform is not expected to entail significant layoffs. Staff in most cases are expected to be relocated to other departments/ agencies. For any staff that would be affected by a closure, then the Employment (Terminations and Redundancy Payments) Act and associated regulations would be followed. Based on discussions with the Government, only a minor number of staff are likely to be made redundant. An appeals process is in place for any employees of public bodies who would wish to appeal the decision. Moreover, less than 10 percent of public employees' households are in the bottom 20 percent of the consumption distribution, and they only represent about 2 percent of the population in the bottom 20 percent.
Prior Action 3: To improve equity of public spending, the Borrower through: (a) the Cabinet and the Ministry of Labour and Social Security, has increased the benefit size of the PATH conditional cash transfer; and (b) the Ministry of Labour and Social Security, has implemented a Community Engagement Series to expand the number of PATH's eligible	Positive. Expanding PATH beneficiaries in remote areas is expected to help in reducing pressure on local natural resources.	Direct positive impact. The expanded coverage of PATH will help smooth consumption among a larger share of poor households and strengthen their resilience to shocks.

beneficiaries in rural areas.		
Pillar B: Enhance Fiscal and Financial Resilience against Natural Disaster Risks		
Prior Action 4: To mitigate the financial impact of natural disasters, the Borrower, through the Cabinet, has approved a Public Financial Management Policy Framework for natural disaster risk financing.	Positive. By improving public sector financial management for natural disaster risk financing, the Government can increase investment in disaster management, improve financing options and expand hazard risk insurance. These actions are likely to contribute in improving climate resilience and in increased expenditures in environment and natural resources management.	Indirect positive impact on the poor by ensuring that adequate resources are available to respond to disasters.
Prior Action 5: To expedite post-disaster relief and recovery, the Borrower, through the House of Representatives, has raised the ceiling of the Contingencies Fund, from J$100 million to J$10 billion.	Positive. This action is likely to have positive impacts on immediate recovery and restoration activities and help in further damage to environment and natural resources.	Positive direct impacts on poor households by facilitating a rapid and effective Government response to disasters.
Prior Action 6: To expedite funding for disaster relief and recovery, the Borrower, through the Ministry of Finance and Public Service, has issued binding guidelines governing the process for budgetary allocation and reallocation, procurement and disbursement of public funds in post-disaster situations.	Positive. A more efficient and streamline process could translate into strengthened capacity of the Government so that recovery as well as reconstruction efforts can be put in place more quickly. This action is likely to support quick environmental restoration.	Positive direct impacts on poor households by facilitating a rapid and effective Government response to disasters.
Pillar C: Improve the Investment Climate for Sustainable Growth		
Prior Action 7: To improve customs management and reduce foreign trade transaction costs, the Borrower, through the Ministry of Finance and the Public Service, has submitted a new customs bill to the House of Representatives for its approval.	Neutral.	Neutral. No significant effects are expected on the poor.
Prior Action 8: To facilitate the titling of land, the Borrower: (a) through the Cabinet, has integrated the Land Administration and Management Programme into the National Land Agency; and (b) through the Ministry of Economic Growth and Job Creation, has enacted the amendment of the	Neutral.	Indirect positive impacts. Securing property rights can allow poor households to increase access to credit, increase investments in capital and housing quality to improve livelihoods. For this PA it would be important to make sure Government has/will have the infrastructure to enforce these property rights, and that titling is

Registration of Titles, Cadastral Mapping and Tenure Clarification (Special Provisions) Act to reduce the fees for land titling transactions for first time registrations.		accompanied by creating the conditions that would allow low-income households and smallholders to increase access to credit and investment in their properties. While comprehensive mitigation measures have been embedded in the reform actions, the Social Risk rating will be increased from low to moderate, to reflect the international experience with land titling projects which, if not addressed, can result in risks that may include (a) evictions ahead of titling; (b) exclusion of women on titles (c) failure to compensate persons of their assets if ownership changes hands; and the upsurge in grievances.
Prior Action 9: To promote the effective management and sustainable development of fisheries, aquaculture and other related activities, the Borrower has enacted a new Fisheries Act.	Positive. The new legal and regulatory framework under the Fisheries Act 2018 will establish the National Fisheries Authority (NFA) with the responsibility to manage, develop and regulate the fisheries and aquaculture industries. The Act's rules and regulations will help in operationalization of the new category of licenses, authorizations and permits the Act introduces, together with the increase in penalties for fisherfolks who engage in unregulated fishing activities. These actions are expected to result in sustainable harvesting of fisheries resources and likely to contribute in improvement of environmental conditions.	Direct positive impacts in the medium term. Promotion of sustainable harvesting of fisheries resources is expected to benefit fishing communities, which are mainly rural, have high poverty rates, and highly vulnerable to climate-related disasters and impacts due to limited capital assets, buffers, and access to credit.