



W. 8470-JM

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

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

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

December 3, 2014

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

Dear Dr. Kim,

First Competitiveness and Fiscal Management Programmatic Development Policy Loan

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

Background

The GOJ has embarked on a wide ranging programme of fiscal consolidation and structural reforms with the objective of significantly transforming the economy, attracting private investment, creating jobs and reducing poverty. These reforms have been sustained since early 2013, and have gradually begun to stabilize the economy and restore investor confidence. The fiscal position has improved, with Jamaica achieving a 7.5 percent primary surplus in FY 2013/14, and a small budget surplus after many years of deficits. The current account deficit fell to 10.5 percent of GDP, foreign exchange reserves reached US\$2.2 billion at the end of September 2014, and inflation remains contained to single digit levels. After many years of economic contraction, growth has begun to recover, unemployment is falling and there are nascent signs of recovery. The debt burden is easing, albeit gradually, as the National Debt Exchange (NDX) lowered interest payments and the fiscal contraction has limited the need for new debt. Jamaica's creditable economic performance was underscored by the successful issue of a US\$800 million sovereign bond in international capital markets at attractive terms.

Going forward, the Government is committed to deepening its reform programme to improve competitiveness and sustain fiscal consolidation by continuing to implement a wide range of structural reforms in a number of areas.

Structural Reforms to Support Competitiveness and Fiscal Management

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

While efforts at fiscal consolidation are underway, they need to be complemented by a growth strategy that improves competitiveness and attracts private sector investment. The GOJ is undertaking a range of structural reforms with the objective of increasing factor productivity and firm competitiveness, identifying and securing financing for strategic investments, and establishing Jamaica as a global logistics hub.

a. Investment Climate and Competitiveness-related Reforms to Support Private Sector Investment

It is imperative to increase the role of the private sector to achieve the growth agenda. This would require maintaining macroeconomic stability, improving the business environment, undertaking strategic investments, as well as fostering entrepreneurship, innovation, energy efficiency and human capital development.

Creating the conditions for improving the ease of doing business is of critical importance to attract foreign and local investments. In the World Bank Doing Business Report for 2015, Jamaica's ranking in the jumped by 27 places, to 58 among 189 countries. This reflects the implementation of successful reforms related to business registration, access to credit, and the cost of getting electricity. The Government of Jamaica continues to take steps to improve the business environment. These include the following:

- Rollout of the Application Management and Data Automation (AMANDA) system. The AMANDA system will allow the Government to track approval of building construction permits across all parish councils in Jamaica and has been implemented. in all parishes, as well as in nine Agencies/Departments.). The Government will focus on implementing the system in the remaining commenting agencies to make it fully operational. The World Bank will provide assistance in strengthening the system for its effective operation.
- Reforms to the Development Applications Process (DAP). The GOJ is preparing a programme of reforms to be implemented for the improvement to the DAP, including the use of a joint technical team to process larger projects, which would reduce the time taken to provide permits for them. A Memorandum of Understanding between the Local Planning Authorities (LPAs) and the National Environment and Planning Agency (NEPA) will be effected to facilitate this joint technical team for the review, assessment and monitoring of development applications. Applications for projects above certain thresholds would be handled by the established joint technical team, which would include NEPA, National Works Agency and the relevant parish councils, while smaller projects would be handled by the parish councils, with clarity on the expected maximum timeframes. The new process is expected to to be approved by the end of 2014 and result in a faster, more streamlined approvals process.
- Adoption of a revised Building Bill: The new Bill would replace the 106 year old Building Act and provide a modern legal framework for the effective regulation and management of buildings and

building related activity, and to ensure safety in the built environment and the promotion of sustainable development.

- Introduction of an Insolvency Law. The Insolvency Act was passed in October 2014 and enabling regulations are being drafted with the support of the World Bank.

Apart from reforms to improve the business environment, reducing the cost of electricity is critical to improve competitiveness. Several projects and initiatives to achieve fuel-source diversification, facilitate energy conservation, liberalize the electricity market and reduce the cost of energy are moving ahead. After procurement efforts for a new power plant were suspended, an Electricity Sector Enterprise Team (ESET) was mandated by Cabinet in June 2014 to lead and manage initiatives related to the replacement of the baseload generating capacity and review the policy and legislation related to the sector in order to significantly reduce the cost of electricity whilst ensuring diversification in the fuel supply mix. The ESET aims to initiate this procurement process in the first quarter of 2015. It will also guide updates to the Electricity Act that clarify and codify the roles and responsibilities of the main actors in the sector, including the Government, the regulator, the utilities and the independent power producers. These amendments will be tabled in Parliament in January 2015 with expectations for effectiveness by end-March 2015.

Jamaica's unique geo-strategic location and natural resource endowments, which include two of the best natural harbours in the world, put the country in a strong position to be developed as a logistics hub. Jamaica's Logistics Hub Initiative (LHI) is a clustering of global third party logistics providers and large global businesses with substantial cargo flows. The LHI would leverage trade opportunities between production houses in the Asia/Pacific and other regions to the growing markets of over 800 million people in the Americas. The GOJ is prioritizing the development of the LHI, which is expected to play a central role in Jamaica's growth strategy. Successful implementation of the LHI is estimated to generate in excess of \$US 9 billion in investments, tens of thousands of jobs for Jamaicans, especially the young people, and to transform Jamaica's position in the global economy.

Strategic investments to establish Jamaica as a logistics hub are well underway. Work is proceeding on the privatization of both the Kingston Container Terminal (KCT) and the Norman Manley International Airport (NMIA). In the case of the KCT, a contract could be awarded by end-December. For NMIA, the Request for Proposals (RFP) is to be issued in January 2015, with the selection of a preferred bidder expected by May 2015. Regarding the development of a transshipment port and industrial and commercial zones in the Portland Bight area by China Harbour Engineering Company (CHEC), a final Framework Agreement was signed in August 2014. CHEC has commenced the technical feasibility study. This is a prerequisite for determining the construction methodology and for obtaining the terms of reference from NEPA. The project will be executed in phases with the first phase projected to be completed in the last quarter of 2016. Negotiations leading to execution of the Definitive Agreements are expected to commence shortly.

Plans to establish a Port Community System (PCS) to electronically integrate and streamline export and import procedures are underway. With the Jamaica Customs' acquisition of ASYCUDA World Customs Management System, an independent assessment of both the PCS and ASYCUDA World systems was

completed in September 2014 and will inform the next critical steps in the area of streamlining customs clearance.

b. Sustaining Fiscal Consolidation and Strengthening Public Financial Management

Recent success in fiscal consolidation cannot be sustained without structural reforms that would lock in these gains while transforming and modernizing the public bureaucracy to make it more responsive, efficient and cost-effective. A number of initiatives are underway to strengthen budget processes and improve the management of the public sector investment programme.

To strengthen fiscal transparency and support fiscal consolidation, the country's fiscal responsibility framework was enhanced through amendments to the Financial Administration and Audit Act and the Public Bodies Management and Accountability Act in March 2014. This is a significant step forward and aims to achieve a reduction of public debt to 60 percent of GDP by the end of 2025/26. Key elements of the amendments are: (i) a broad coverage of fiscal activities associated with the public sector, (ii) an automatic correction mechanism that would be triggered if cumulative deviations from the overall balance floor exceed either a lower threshold of 1.5 percent of GDP or an upper threshold of 3.5 percent of GDP—with the latter requiring a larger annual correction of 1.5 percent of GDP compared with 0.75 percent of the lower threshold; (iii) an automatic escape clause limited to major adverse shocks and triggered only with Parliamentary approval; (iv) a separate cumulative ceiling for user funded Public Private Partnerships (PPPs) of 3 percent of GDP, which would gradually increase as the fiscal position strengthens and (v) an enhanced enforcement and compliance regime to encourage greater ex-ante compliance with the legislation.

Next steps to ensure effective implementation of the amendments include: (i) developing mechanisms to closely monitor possible fiscal costs and contingencies associated with possible PPPs; (ii) enhancing the capacity of the Office of the Auditor General (OAG) to allow it to provide an independent assessment of the macroeconomic and budget forecasts underpinning the budget, as well as of the quality of adjustment measures and the proper treatment of PPPs; (iii) implementing the intended strengthening of the sanctions regime and (iv) developing an improved annual risk statement. The Government will ensure that, starting with the 2015/16 budget; a comprehensive and clear fiscal risk statement is presented, covering all significant contingent liabilities including those related to commercial public sector entities and PPPs.

The Government is committed to sharply reducing public debt, which is projected to decline to 96 percent of GDP by March 2020. This is expected to be achieved through sustained fiscal efforts, policies to bolster growth, and other measures. In designing and implementing these transactions, the Government will seek to ensure sound public sector governance. Furthermore, the Government will continue to strengthen its debt management strategy. The efficiency of the Debt Management Branch will be further strengthened through increased staffing of the middle office, skills training and effecting improvements to securities operations. The Regulations for the Public Debt Management Act are expected to be adopted during 2015. By January 2015, the EJOJ and the MOFP will finalize a Fiscal Agency Agreement on debt management operations and the debt issuance process.

The Government is committed to improving the efficiency, quality and cost effectiveness of the public sector. An action plan for public sector transformation was developed and covers the following areas: (i) the introduction of shared corporate services; (ii) the reallocation, merger, abolition and divestment/privatization of departments and agencies; (iii) outsourcing of services; (iv) strengthening control systems and accountability (including in auditing and procurement); and (v) aligning remuneration with job requirements. In line with the Fiscal Responsibility Framework, this programme seeks to achieve a reduction in the size of the wage bill to 9.0 percent of GDP in FY2015/16. Going forward, the following actions will be taken to maintain the reduction of the wage bill:

- The Government will initiate discussions on a new wage agreement for the period after March 2015, to maintain a prudent path of public sector wages.
- The GOJ will continue to reduce the size of the public sector over FY 2013–15 through the elimination of some posts and an attrition programme. To ensure that the GOJ's overall wage ceiling of 9.0 percent of GDP by FY 2015/16 is met, the filling of vacant positions will be constrained as needed.
- To support the management of public sector employment, we are improving the public service databases through e-Census and will ensure that it is up to date and covers all Ministries, Departments and Agencies (MDAs).
- The procurement of a human resources management software will be completed and implemented in the first entity, eGov Jamaica Ltd, by January 2015.

Key elements of the Government's work plan to strengthen budget preparation include: (i) issuing by September 30, 2014 the budget call for early and accurate budget envelopes and priorities, and (ii) strengthening the policy to limit the use of virements (authorizing the transfer of funds within the budget) and of ex-post regularization of unbudgeted spending through supplementary budgets (approved in July 2014). A further priority will be the introduction of the Medium Term Results Based Budgeting (MTRBB) to strengthen the development of realistic budget apportionment plans.

In the area of public bodies, further improvement is to be achieved. The sector's overall balance is projected to be in balance going forward. To enhance transparency, the annual reports (including audited statements) for public bodies will be completed within six months of the end of the fiscal year; this is to be achieved by end - 2014 for self-financing public bodies and by December 2015 for all other public bodies. Monitoring of public bodies will be strengthened by (1) enforcing a time limit for submission of the relevant public bodies' financial statements to the Auditor General; and (2) bolstering capacity within the Auditor General's office for more in-depth and frequent reviews of these statements. In addition, by June 2015, a review will be undertaken to evaluate the scope for reintegrating some public bodies into the central government and setting others at a more arms-length distance from the central government with a governance framework aligned with international best practices.

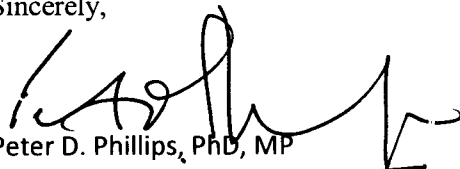
The Government is committed to implementing a revised public sector pension system which would reduce the burden of pension expenditure on the public exchequer. A White Paper on this issue titled "Reform of the Public Pensions System", detailed parametric changes in the current pension system

including the retention of the Defined Benefit Scheme, the gradual increase of the retirement age to 65, retention of the option to take a lump sum on retirement and the compulsory contribution of five percent by employees. The legislation to support this policy change is currently under preparation and the revised pension system is expected to be implemented in FY 2016/17. It is expected that over time, the burden of the pension system on the Consolidated Fund will be significantly reduced, and that systems will also be in place to provide for better monitoring and processing of pension payments.

Reform is also underway to improve public investment planning, so that we may better manage our capital expenditure. The improved Public Investment Management System (PIMS), designed with World Bank assistance, will be supported by a high-level Public Investment Management Committee that was approved by Cabinet in July 2014. A web-based public investment management information system was created and Phase 1 _ became operational in August 2014. A Public Sector Investment Programme (PSIP) Policy Paper was approved by Cabinet in September 2014.

The GOJ believes that the policies and actions described in this letter will go a long way toward achieving the objectives of Jamaica's growth and resilience strategy. The Government has taken all the agreed actions under the First Competitiveness and Fiscal Management Programmatic Development Policy Loan and commits to take the additional measures necessary to ensure the continuation and success of Jamaica's reform programme.

Sincerely,



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