

**PROGRAM INFORMATION DOCUMENT (PID)**  
**APPRAISAL STAGE**

December 16, 2014  
Report No.: AB7698

<b>Operation Name</b>	First Competitiveness and Fiscal Management Programmatic Development Policy Loan
<b>Region</b>	LATIN AMERICA AND CARIBBEAN
<b>Country</b>	Jamaica
<b>Sector</b>	Macroeconomic and Fiscal Management
<b>Operation ID</b>	P151448
<b>Lending Instrument</b>	Development Policy Lending
<b>Borrower(s)</b>	Government of Jamaica
<b>Implementing Agency</b>	Ministry of Finance and Planning
	Government of Jamaica Ministry of Finance and Planning Kingston, Jamaica Tel: -876-932-5416
<b>Date PID Prepared</b>	December 8, 2014
<b>Estimated Date of Appraisal</b>	January 20, 2015
<b>Estimated Date of Board Approval</b>	March, 2015
<b>Corporate Review Decision</b>	December 16, 2014

**I. Key development issues and rationale for Bank involvement**

Jamaica has experienced low growth and high public debt for almost three decades. For the past 30 years real per capita GDP increased at an average of just 1 percent per annum, making Jamaica one of the slowest growing developing countries. Natural disasters and adverse external shocks in this low-growth environment, coupled with weak fiscal discipline and the materialization of contingent fiscal risks, resulted in persistent fiscal deficits that have kept public debt above 100 percent of GDP for several years over this period. Combined with high unemployment and rising crime rates, the macroeconomic uncertainty created by Jamaica's sizeable debt burden has depressed investor sentiment and crowded out private sector investment. Subject to these factors, Jamaica has been unable to lay the foundations for long-term economic growth and sustained reductions in poverty and inequality.

In an attempt to break with the past, the Government of Jamaica (GoJ) recently embarked on a series of economic reforms, to restore macroeconomic stability and pave the way for higher and inclusive growth. To date, important strides have been made in the right direction as the country managed to avert a potential economic crisis in 2013 and is holding steady in the course of difficult reforms. Jamaica entered an IMF Extended Fund Facility (EFF) program in 2013 and

has made good progress, successfully completing five reviews of the Program as of end-September 2014.

This DPL supports reforms aimed at removing key impediments to competitiveness, economic growth, and debt sustainability. Overcoming Jamaica's long standing and interrelated problems of low growth and high debt is not an easy task. It requires simultaneous actions on two fronts: an aggressive fiscal consolidation process that will generate confidence and credibility and a fundamental reorientation of policies to stimulate private investment sufficient to offset the contraction in public investment made necessary by fiscal contraction. These policies will take several years to produce a significant jump in economic growth. Steadfast implementation of the reform program is expected to in turn induce a confidence and credibility effect, sufficient to support a rise in private sector investment, which will be important in reinforcing the gradual impact of the various structural reforms on growth and provide momentum for the much needed social acceptance of reforms. This DPL is part of the overall IFI package of support of Jamaica's economic recovery program.

## **II. Proposed Objective(s)**

The objective of the proposed Programmatic DPL is to support policies aimed at (i) improving investment climate and competitiveness and (ii) sustaining fiscal consolidation and enhancing public financial management. Reforms aimed at improving competitiveness include investment climate related actions that will reduce delays in the development approvals process, thus unblocking a number of potential construction projects that are in the pipeline. Other competitiveness related reforms include steps to increase the reliability of the power supply, lower costs while diversifying the sources of electricity generation, progress on the Logistics Hub Initiative, and enhancing trade facilitation. Even with significant progress on improving competitiveness, investor confidence will not return unless sustained progress is demonstrated on fiscal consolidation. Not only would this help reduce public debt to a sustainable level, it would also send a signal of reform commitment to investors. Sustaining fiscal consolidation requires success at addressing the key underlying causes of the rigid expenditure patterns that make fiscal adjustment difficult, namely the large wage bill (currently 10.7 percent of GDP), the defined benefit pension program for civil servants that is entirely funded by budgetary outlays, and the public sector investment program, which is unable to deliver growth dividends in its present, un-prioritized form

## **III. Preliminary Description**

### *Pillar I: Improving the Investment Climate and Competitiveness*

The DPL proposes to support specific elements of the government's agenda that will improve competitiveness and enable growth. These include addressing the development approvals process, the high cost of electricity, supporting the Logistics Hub Initiative – identified by the Government as a key growth initiative – and the associated trade facilitation measures that would ensure its success.

## *Pillar II: Improving Public Financial Management for Sustained Fiscal Consolidation*

The second pillar of the proposed DPL supports structural reforms for fiscal consolidation, increased transparency and efficiency of expenditures, and improved public investment management. The Government has made significant progress in these areas of reform since early 2013. Going forward, there is a need to preserve the gains from reforms so far, and begin work on additional reforms that would increase efficiency in the use of public monies.

### **IV. Poverty and Social Impacts and Environment Aspects**

The Government policies supported in this DPL are intended to support poverty reduction and increase shared prosperity in the long-term. All the policies considered have positive distributional effects on poor and vulnerable groups, in the medium to long term. While there exist near-term costs from the ongoing fiscal adjustment, consolidation efforts are ultimately focused on reversing the erosion of fiscal space for social programs, which were crowded out by Jamaica's high interest costs. Overall the GoJ's reform program, which the proposed DPL supports, prioritizes the protection of the poor and vulnerable, with an ongoing emphasis on safeguarding social spending and increasing the social safety net.

None of the policies supported by the proposed DPL are expected to have significant effects on Jamaica's environment, forests and other natural resources. Indeed, the DPL supported improvements in the development approval process that will allow better coordination and evaluation of large projects through joint technical teams, should improve the technical and environmental analysis of the projects. No environmental safeguards are expected to be triggered.

### **V. Tentative financing**

Source:	(\$m.)
Borrower	0
International Bank for Reconstruction and Development	75
Others (specify)	
Total	75

### **VI. Contact point**

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#### **Borrower**

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