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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A PROPOSED LOAN

IN THE AMOUNT OF US$75 MILLION TO

JAMAICA

FOR THE

FIRST COMPETITIVENESS AND FISCAL MANAGEMENT PROGRAMMATIC

DEVELOPMENT POLICY LOAN

January 28, 2015

Macroeconomic and Fiscal Management Global Practice
Caribbean Countries Management Unit
Latin America and the Caribbean Region

JAMAICA - GOVERNMENT FISCAL YEAR
April 1 - March 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of January 23, 2015)

Currency Unit
US$1.00 = J$115.5

ABBREVIATIONS AND ACRONYMS

ASCUYDA	Automated System for Customs Data	JLFS	Jamaica Labor Force Survey
BoJ	Bank of Jamaica	JSLC	Jamaica Survey of Living Conditions
CPI	Consumer Price Index	KCT	Kingston Container Terminal
CPS	Country Partnership Strategy	LDP	Letter of Development Policy
CTMS	Central Treasury Management System	MDA	Ministries, Departments and Agencies
DFID	Department for International Development	MIIC	Ministry of Industry, Investment and Commerce
DPL	Development Policy Loan	MOF	Ministry of Finance
EFF	Extended Fund Facility	MTEF	Medium-Term Expenditure Framework
EPOC	Economic Program Oversight Committee	MTF	Medium-Term Socio-Economic Policy Framework
FAA	Financial Administration and Audit	NDP	National Development Plan
FDI	Foreign Direct Investment	NMIA	Norman Manley International Airport
FRF	Fiscal Responsibility Framework	NEPA	National Environmental Protection Agency
GDP	Gross Domestic Product	NPL	Non-performing Loans
GoJ	Government of Jamaica	PATH	Program of Advancement through Health and Education
IBRD	International Bank for Reconstruction and Development	PDMA	Public Debt Management Act
IDA	International Development Association	PIOJ	Planning Institute of Jamaica
IDB	Inter-American Development Bank	PPP	Public Private Partnership
ICT	Information Communications Technology	PSIP	Public Sector Investment Plan
IFC	International Finance Corporation	PIMS	Public Investment Management System
IFI	International Financial Institutions	RFP	Request for Proposals
IMF	International Monetary Fund	SEZs	Special Economic Zones
IPSAS	International Sector Accounting	SOE	State-owned Enterprises
JAMPRO	Jamaica Investment Promotion Corporation	SOP	Standard Operating Procedures
JCA	Jamaica Customs Agency	UNDP	United Nations Development Program
J$	Jamaican Dollar		
LHI	Logistics Hub Initiative		

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JAMAICA
FIRST COMPETITIVENESS AND FISCAL MANAGEMENT PROGRAMMATIC DEVELOPMENT POLICY LOAN

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SUMMARY OF PROPOSED LOAN AND PROGRAM

JAMAICA
FIRST COMPETITIVENESS AND FISCAL MANAGEMENT PROGRAMMATIC DEVELOPMENT POLICY LOAN

Borrower	Jamaica
Implementation Agency	Ministry of Finance and Planning (MOFP)
Financing Data	*IBRD Loan. Terms:* U.S. dollar denominated, commitment-linked, IBRD Flexible Loan with a Variable Spread, with a total repayment term of 30.5 years, including a Grace Period of 6.5 years, with all conversion options selected, and the capitalization of the Front End Fee and the premia for Interest Rate Caps and Collars, payable on March and September 15. *Amount*: US$75 million
Operation Type	Programmatic (1st of 2), Single Tranche
Main Policy Areas	Investment climate, energy, trade facilitation, fiscal consolidation, pensions, debt management, budget processes and public investment management.
Pillars of the Operation And Program Development Objective(s)	The First Competitiveness and Fiscal Management Programmatic Development Policy Series supports policies aimed at (i) improving investment climate and competitiveness and (ii) sustaining fiscal consolidation and enhancing public financial management.
Result Indicators	*Baseline is for end-March 2014 data unless otherwise specified; target is for end March 2017.* *Pillar 1 Indicators:* • Full operationalization of AMANDA system as indicated by 100 percent usage in a Local Planning Authority (LPA) or Commenting Agency. Base: Four LPAs Target: All 14 LPAs and 6 Commenting Agencies • Percent of electricity generation using petroleum Base:95 percent, Target: 75 percent • Improvement in the Logistic Performance Index- Customs Aspect. Base (2014): 2.88 (LPI Customs Score), Target: 3.00 *Pillar 2 Indicators:* • Debt to GDP Base: (end FY13/14): 141.6 percent of GDP, Target: 125.5 percent of GDP • Number/value of virements on compensation and capital expenditure Base (end FY13/14): US$1.9 billion, Target: 0 • Annual employee contribution to pension as percent of annual public sector pension payments Base 1.8 percent; Target: 16.2 percent • Linkages between investment budget and forward expenditure estimate Base C (PEFA Indicator P1-12 d iv), Target B or better
Overall Risk Rating	**High.**
Operation ID	P151448

IBRD PROGRAM DOCUMENT FOR A PROPOSED FIRST COMPETITIVENESS AND FISCAL MANAGEMENT PROGRAMMATIC DEVELOPMENT POLICY LOAN TO JAMAICA

I. INTRODUCTION AND COUNTRY CONTEXT

1. **This Program Document presents a proposed programmatic Development Policy Loan (DPL) to support the Government of Jamaica's (GoJ's) structural reforms.** The first proposed operation in this two part series is in the amount of US$75 million. The GoJ is making progress implementing structural reforms that are critical to attract private sector investment and leverage opportunities that could help Jamaica break its cycle of high debt and low growth. The reforms are part of Vision 2030, the country's National Development Plan, which sets development goals for economic prosperity, human development, security, and management of natural resources. This operation builds on the reforms supported under the Bank's 2013 DPL to Jamaica, strengthening the focus on: (i) improving investment climate and competitiveness and (ii) improving public financial management for sustained fiscal consolidation. The operation is aligned with the FY 14-17 Country Partnership Strategy (CPS), which is focused on building conditions for broad based private sector led growth, improving public sector efficiency and reducing vulnerability.

2. **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.

3. **Poverty and inequality have increased in recent years, reversing the social achievements of the last two decades.** Jamaica's limited ability to deliver high growth has undermined its fiscal capability to shelter the poor and vulnerable. In 2007, the Government estimated poverty at just under 10 percent and the official Gini was the lowest in the region at 0.38. However, the global crisis, together with rising food and energy prices, resulted in a significant deterioration of poverty, especially in rural areas. Official poverty rates soared to 17.6 percent in 2010 and mean household income, particularly of the bottom 40 percent, contracted.[1] Inequality, although still remaining rather low when compared to the rest of the region, also increased to a Gini coefficient of 0.39 in 2010, while unemployment remained high at 13.4 percent in 2014, compared with 9.7 percent in 2007.

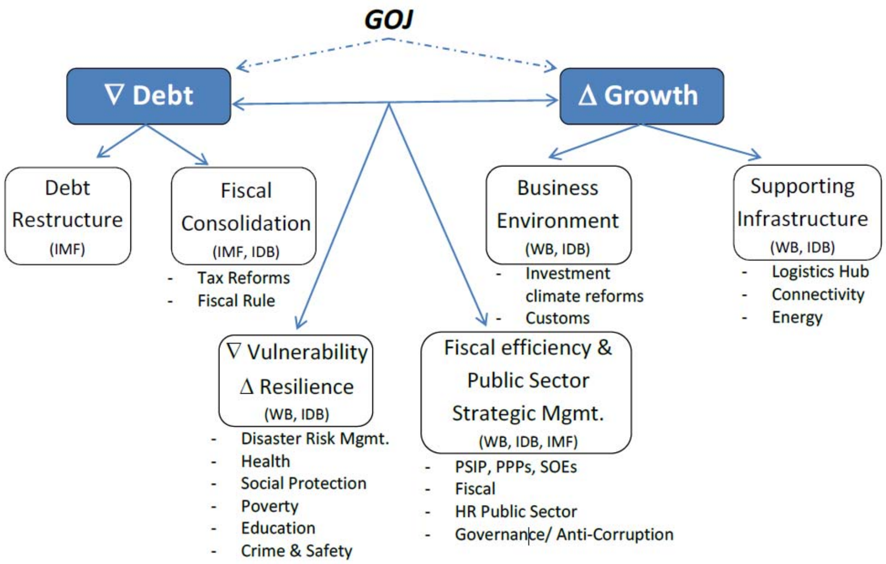
[1] The Government has recently released preliminary poverty estimates that indicate that Jamaica's poverty rate increased to 19.9 percent in 2012. (Jamaica Survey of Living Conditions 2012, Executive Summary, Planning Institute of Jamaica, December 2014).

4. **In an attempt to break with the past, the GoJ embarked on a series of economic reforms in 2013, to restore macroeconomic stability and pave the way for higher and inclusive growth.** To date, progress has been made on the reform agenda 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 successfully completed six reviews of the Program as of end-December 2014. This is no small achievement considering that the 2010 Stand-by Arrangement had only three completed IMF reviews. The economy is making progress towards stabilization and implementation of a program of reforms that includes fiscal consolidation and a strategy to promote private sector-led growth. Jamaica's ranking on the Doing Business Indicators has improved, a nascent growth recovery appears to be underway and the Government is in active discussions with investors on a number of large infrastructure projects. Following a three-year hiatus, the Government successfully placed a US$800 million Eurobond on July 1, 2014 - its largest bond issue ever. Jamaica's successful return to the market marks an important milestone in the country's economic recovery program.

5. **This DPL supports reforms aimed at removing 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: fiscal consolidation and stronger fiscal management to 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. While risks associated with meeting the objectives of this operation are high, inaction could also be costly. The Government's strong commitment to reform as evidenced by its successful performance under the IMF-supported program so far, suggests that returns to this operation could be high.

6. **The DPL is part of a broader package of multilateral support to Jamaica.** The Bank, IMF, and IDB have a long record of partnership in Jamaica. In 2010, the three institutions supported the Government in addressing the adverse impact of the global financial crisis. The institutions came together again in 2013 and have committed almost US$2 billion in combined financing anchored on the IMF-supported EFF and complementary reforms (Figure 1). The Fund-supported program has focused on debt restructuring, fiscal consolidation and financial sector reforms. The IDB has focused on tax reform, including the legislation to reform the incentive system. The Bank is supporting structural and institutional reforms to lay the foundations for future growth, enhance competitiveness, social protection and resilience, and improve public sector management, which are critical to the goals of debt reduction and sustainable growth. The Bank and IDB are coordinating their assistance in the different sectoral areas to ensure complementarity and consistency.

Figure 1. An Overview of IFI supported Reforms in Jamaica

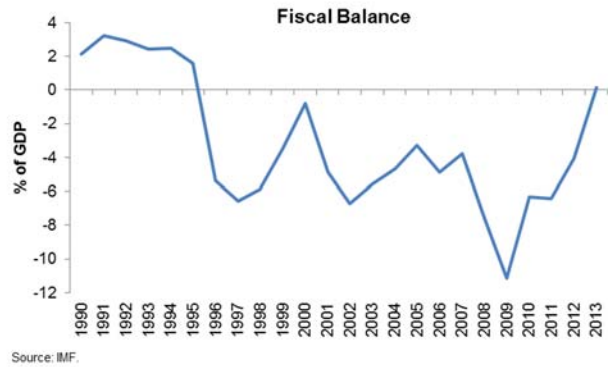


II. MACROECONOMIC POLICY FRAMEWORK

2.1 Recent Economic Developments

7. **The economy has stabilized since the start of the IMF-supported program, but growth remains weak.** After contracting in FY2012/13, the economy grew by 0.9 percent in FY2013/14, driven by improved performance in the mining, agriculture, and tourism sectors. While growth for the first quarter FY2014/15 was estimated at 1.9 percent, compared to the same quarter in FY2013/14, the economy contracted by 1.4 percent in the second quarter due to the impact of a drought. The general pick-up in growth has supported a mild strengthening of the labor market, with unemployment declining from 15.4 percent to 13.8 percent in seasonally adjusted terms between July 2013 and July 2014. While still at low levels, indicators of business and consumer confidence have also shown signs of improvement, despite weakening in the first quarter of FY2014/15. Domestic demand however, has been weak as fiscal consolidation measures have restrained government spending while relatively high unemployment and a nominal wage freeze in the public sector has dampened private consumption. Notwithstanding the recent improvements, the recovery remains fragile and the still weak economic environment overall has continued to pose challenges for private investment.

Figure 2. Fiscal Balance Percent of GDP



8. **Fiscal adjustment has continued, bolstering a primary surplus that is high by international standards.** The central government primary fiscal surplus was 7.7 percent of GDP in FY2013/14, up from 5.4 percent of GDP in FY2012/13, and 3.2 percent in FY2011/12. The sizeable adjustment was borne largely by expenditure compression supported by the multi-year wage freeze, as tax revenues fell short (by about 0.4 percent of GDP), reflecting lower imports and weak employment. The overall balance of the combined public sector has over performed relative to the budget target. Following a deficit of 4.1 percent of GDP in the previous year, the public sector's fiscal position was in balance in FY2013/14 for the first time in many years (Figure 2), resulting from lower interest costs and the increase in the primary surplus of the central government. Jamaica's public debt has declined, albeit remaining at higher levels than in comparable emerging market economies. The authorities' ongoing fiscal adjustment efforts and gains from the early 2013 debt exchange have reduced public sector debt from 146.5 percent of GDP in March 2013 to 141.6 percent a year later. The large share of foreign currency denominated debt, combined with the significant exchange rate depreciation, has resulted in a revaluation of the debt which has resulted in an increase in the nominal debt stock.

9. **Monetary policy has been geared toward containing inflation and rebuilding reserves.** Since late 2012, a tight monetary policy has been pursued, involving intensified open-market operations to withdraw liquidity, limiting the scope for monetary and credit growth. Monetary tightening has taken place due to liquidity sterilization by the Bank of Jamaica (BoJ), even though the policy interest rate was maintained at a historic low of 5.75 percent since February 2013. In early 2014, the BoJ accelerated its drive to attract longer-term foreign currency deposits from domestic banks to support the accumulation of international reserves. Both policy initiatives met with some success. Inflation declined to 8.3 percent (end of period) at end-March 2014 down from 10.3 percent in October 2013, before rising to 9 percent in July 2014 pushed by higher food prices due to the recent drought. After declining steadily since mid-2011, foreign exchange reserves have increased, standing at US$2.1 billion at end-August 2014, and were especially bolstered by the July bond issuance.

10. **The current account deficit has improved, largely due to import compression.** After weakening to J$103.9 to US$1 at end-March 2013 (an annual nominal depreciation of 14.2 percent and a real depreciation of 6.3 percent), the Jamaican dollar has continued to depreciate, to J$115.5 to US$1 on January 23, 2015. This has contributed to a significant contraction in imports, which in turn reflects a contraction in aggregate demand, particularly consumption. Imports contracted by 3.6 percent in FY13/14, offsetting a decline in export receipts of 7.5 percent (which are a third of the size of imports in value) and helping bring down the current account deficit to 8.4 percent. The deficit continues to be financed mainly through official financing and some recovery in foreign direct investment.

11. **Jamaica's financial system has remained sound, despite the high exposure to government debt.** Standard indicators of the soundness of the financial sector remain broadly

positive, including the share of non-performing loans and capital-asset ratios. Commercial banks' capital-asset ratios remained stable, at 14 percent at end-December, while non-performing loans (NPLs) declined to 5.2 percent of total loans from 5.8 percent at end-September, with almost full provisioning. Stress test results for end-March 2014 from the Bank of Jamaica confirmed that banks largely remained in compliance with capital requirements under a range of shocks. However, the financial system is still heavily exposed to government debt holdings (40 percent at end-FY2014) and a decline in the market value of government bonds could have a negative impact on financial institutions' capital.

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

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Real Economy	*Annual percentage changes, unless otherwise indicated*								
GDP (J$ billions)	1260	1336	1475	1597	1759	1937	2129	2334	2547
Real GDP	0.9	-0.7	0.9	0.9	2.1	2.3	2.5	2.7	2.7
Imports	21.1	-3.5	-3.6	-4.0	-3.1	0.3	-2.9	-2.4	-3.0
Exports	19.2	7.2	-7.6	0.0	1.8	0.9	0.0	0.0	-1.8
Unemployment rate	14.2	14.5	13.4	...	...	...	...	...	...
CPI (eop)	7.3	7.2	9.4	8.7	7.4	7.7	7.3	6.8	6.3
Private Investment	12.0	14.0	14.0	15.0	...	...	...	...	...
Fiscal Accounts	*Percentage of GDP, unless otherwise indicated*								
Budgetary expenditure	32.0	29.9	27.1	27.0	25.8	24.7	24.6	23.9	23.6
Budgetary revenue	25.6	25.8	27.2	26.4	25.7	25.6	25.7	25.4	25.5
Budget balance	-6.4	-4.1	0.1	-0.6	-0.1	0.9	1.1	1.5	1.9
Selected Monetary Accounts	*in J$ billions*								
Base money	4.8	7.6	3.1	8	10.4	11.4			
Interest (key policy interest rate, eop)	6.25	5.75	8.35						
Balance of Payments	*Percentage of GDP, unless otherwise indicated*								
Current account balance	-13.5	-10.8	-8.4	-6.1	-4.8	-4.7	-4.1	-4.0	-4.0
Imports	40.2	38.8	37.4	35.9	34.8	34.9	33.9	33.1	32.1
Exports	11.1	11.9	11.0	11.0	11.2	11.3	11.3	11.3	11.1
Direct investment (net US million)	201	310	527	387	532	506	506	460	470
Gross reserves (weeks of imports of GNFS)	17.4	11.4	14.7	14.3	17.1	17.6	19.4	20.2	20.5
Net international reserves in US$ millions 2/	1777	884	1303	1584	1771	1907	2067	2174	2353
Public debt 3/	141.9	146.9	141.6	139.9	131.4	125.5	117.0	108.0	100.8
Exchange rate (average)	86.4	91.0	103.9	...	...	...	...	...	...
Other memo items:									
GDP nominal in US$ millions	14583	14681	14196	...	...	...	...	...	...

Sources: IMF, Statistical Institute of Jamaica and Bank of Jamaica.
1/ Fiscal years run from April 1 to March 31. Authorities' budgets presented according to IMF definitions
2/ Excludes the part of gross reserves to address potential FSSF - related demand
3/ Private Investment is calculated as a residual using data for Gross Fixed Capital Formation and Public Investment.

Table 2: BOP Financing Requirements and Sources

(in US$ millions)

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Current account deficit	-1977	-1583	-1174	-852	-687	-682	-635	-650	-678
Capital and financial account	1200	583	1154	1120	358	564	789	754	847
Capital account (net)	-11	-14	-26	-26	-26	-26	-26	-26	-26
Financial account (net)	1211	597	1180	1146	383	591	815	779	873
Direct investments (net)	226	388	675	677	483	529	546	562	578
Central government (net)	-452	-621	-289	296	-662	-508	-273	-380	-365
Other official (net)	698	542	316	314	272	204	162	126	91
of which: PetroCaribe	492	462	382	294	209	163	123	87	53
Portfolio investment (net)	739	288	477	-141	290	366	380	471	568
Financing	776	1000	21	-268	330	117	-153	-103	-169
Change in reserves (- increase)	776	893	-330	-275	-67	-268	-136	-34	-61
IMF 1/	0	0	-26	-163	126	176	-18	-70	-108
Disbursements	0	0	346	259	176	176	0	0	0
Repayments	0	0	-372	-422	-50	0	-18	-70	-108
IFI's	0	107	376	170	270	209	0	0	0

Source: IMF.

1/ Negative indicates repayment to the IMF.

Table 3: Key Fiscal Indicators

(in percent of GDP)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Budgetary revenue and grants	26.9	25.6	25.7	27.2	26.4	25.7	25.6	25.7	25.4	25.5
Tax	23.9	23.1	23.9	23.6	23.6	23.3	23.5	23.6	23.7	23.8
Non-tax	2.1	2.2	1.5	2.9	2.3	2.0	1.9	1.9	1.4	1.4
Grants	0.9	0.3	0.3	0.7	0.5	0.4	0.4	0.3	0.3	0.3
Budgetary expenditure	33.1	32.0	29.8	27.1	27.0	25.8	24.7	24.6	23.9	23.6
Primary expenditure	22.2	22.4	20.3	19.5	18.9	18.2	18.1	18.7	18.3	18.4
Wages and salaries	10.9	11.1	11.0	10.7	10.0	9.0	9.0	9.0	9.0	9.0
Programme expenditure 1/	6.6	7.1	6.5	6.3	6.9	6.6	6.4	6.8	6.4	6.3
Capital expenditures 1/	4.7	4.2	2.8	2.5	2.0	2.6	2.7	2.9	2.9	3.1
Interest payments	10.9	9.6	9.5	7.6	8.1	7.6	6.6	5.9	5.4	5.0
Domestic	7.5	6.5	6.5	4.7	4.9	4.5	3.8	3.5	3.1	2.8
External	3.4	3.1	2.9	2.9	3.2	3.1	2.8	2.5	2.3	2.2
Budget balance	-6.2	-6.4	-4.1	0.1	-0.6	-0.1	0.9	1.1	1.5	1.9
Primary balance	4.7	3.2	5.4	7.7	7.5	7.5	7.5	7.0	6.9	6.9
Gross financing sources	15.1	16.2	10.9	7.1	5.0	9.3	2.5	9.8	6.0	6.6
Domestic	5.1	11.3	10.2	3.6	2.0	1.4	0.8	3.7	2.8	3.4
External	7.7	1.6	0.7	3.9	8.2	2.7	1.8	5.8	3.2	3.2
Divestment + deposit drawdown	2.3	3.3	0.0	-0.4	-5.2	5.2	-0.1	0.3	0.0	0.0
Principal repayments	8.8	10.2	6.7	7.1	4.5	9.1	3.3	10.9	7.5	8.4
Domestic	6.8	5.4	2.8	5.2	0.6	4.0	0.6	4.3	3.6	4.7
External	2.0	4.8	3.9	1.9	3.9	5.1	2.7	6.6	3.9	3.7
Public entities balance	-0.5	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: IMF.

1/ In 2014/15, projections reflect a reclassification of 0.5 percent of GDP from capital outlays to programme expenditures.

Table 4: Composition of Jamaica's Debt

March 2014	USD (Bn)	% Share	% of GDP	March 2014	USD (Bn)	% Share	% of GDP
Total public debt	**20**	**100**	**141.6**	**Total external debt**	**8.4**	**100**	**64.9**
Govt (Domestic)	10.6	53	74.4	Bonds	3.6	43.1	27.8
Govt guaranteed \1	1.8	9	12.7	Commercial banks	0.4	4.7	3.1
Petrocaribe \1	1.4	7	9.9	IMF	0.8	9.6	6.2
Govt (External)	9.5	47	67.2	Multilateral	2.8	32.3	20.9
				Bilateral Non-OECD	0.6	7.5	4.6
				Bilateral OECD	0.2	2.6	1.5
Financial sector holdings \1	7.4	37	52.4	Other	0.02	0.2	0.1

Source: GOJ.

1/ Refers to January 2014.

2.2 Macroeconomic Outlook and Debt Sustainability

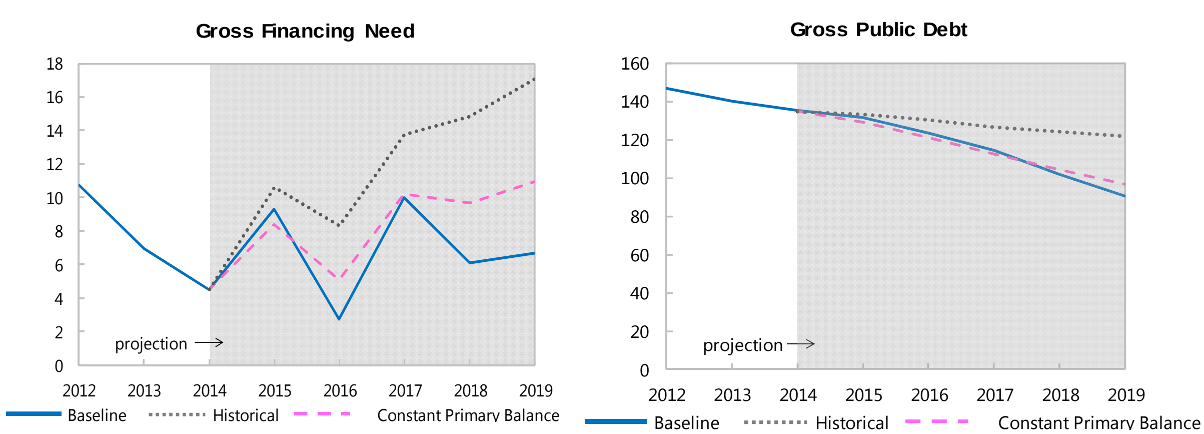
12. **Steadfast implementation of the GoJ's economic transformation program should strengthen the recovery**, **but growth prospects remain fragile.** In the near term, growth will remain subdued at an annualized rate of 0.9 percent over FY2014/15 due to the ongoing drought, weak demand and a slowly improving export sector. Despite the contraction in aggregate demand in the near term, the gradual impact of various supply side reforms and rising confidence with implementation of the comprehensive reform program is expected to help raise growth to beyond 2 percent over the medium term. The risks to the outlook remain high, however, and include a possible disruption of external financing flows, natural disasters, lower partner-country growth, and oil price shocks.

13. **The upward growth trajectory would require good performance of existing growth drivers as well as the emergence of new sources of economic growth.** While economic activity in Jamaica remains characterized by the continued concentration of the formal economy in a limited number of sectors (the growing "enclave" tourism and mining industries), the GoJ is taking steps to leverage an important growth opportunity, namely the expansion of the Panama Canal that can potentially generate significant FDI inflows which would transform the economy. The expansion of the Panama Canal, projected for completion in 2016, will result in significant rerouting of trade flows, and Jamaica, given its geographic location with the third deepest natural harbor in the world is well positioned to transform into a global logistics hub. The GoJ is making efforts to obtain significant private investment in infrastructure development activities, including (i) expansion of the Kingston Container Terminal as part of the Logistics Hub Initiative (LHI), (ii) upgrades to the Norman Manley International Airport (to be bid shortly), and (iii) development of new power plants. Moreover, discussions are underway with China Harbor Engineering Company for the development of a second port and related logistics arrangements. Resurgence in private investment would be critical to achieve higher growth.

14. **These projected investments and the related growth impact will not materialize without decisive actions on macro stabilization, especially actions to sustain fiscal consolidation.** The Government has committed to ambitious targets, including maintaining an annual 7.5 percent primary surplus target for the Central Government over four years and a zero fiscal balance for public entities. Achieving the fiscal targets set under the IMF supported program and strengthened by the recently adopted fiscal rule will require implementing proactive measures for expenditure reduction and revenue enhancement. Fiscal adjustment over the medium term will require a reduction in the wage bill from 10.7 to 9 percent of GDP, which so far has been largely supported by the wage freeze (Table 3). The financial position of state owned enterprises (public bodies), which have been a source of significant contingent liabilities in the past, is expected to be in balance, supported by an increase in user fees of some public bodies combined with careful monitoring and rationalization of public bodies' finances. On the revenue side, further fiscal adjustment will be underpinned by an increase in tax revenues of about 0.5 percent of GDP, supported by new tax policy measures (including a minimum business tax, broadening the base for the General Consumption Tax, and taxes on assets of financial entities), given a lack of buoyancy in tax revenues in FY2013/14.

15. **Fiscal consolidation will improve prospects for debt sustainability, but the high debt levels will persist in the medium term.** Over the past year, significant progress has been made in identifying and implementing policies to ensure the government's goal—of public debt at 96 percent of GDP by March 2020—becomes a reality. With continued fiscal consolidation and modest growth recovery, public debt is expected to follow a downward trajectory, falling by 5–8 percentage points per year into the medium term. Given the projected mild pickup in growth, a substantial fiscal effort will be required to generate the large primary fiscal surplus required to keep the debt to GDP ratio from rising over the medium term. While risks to the forecasted debt path remain high—centered on macro-fiscal and contingent liability shocks— under currently identified policies the debt level is expected at 100.6 percent of GDP by March 2020 (Figure 3). However, the authorities continue working towards the achievement of the 96 percent of GDP goal by March 2020.

Figure 3. Debt Sustainability Analysis



16. **Despite a reduction in debt service payments as a result of the debt restructuring, financing needs over the next few years remain high, and require good access to**

commercial debt markets. While Jamaica has been able to pre-finance some upcoming debt repayments using proceeds from its recent Eurobond placement, financing needs over the medium term remain sizeable. The period between FY2017/18 and FY2019/20 will be especially challenging for the GoJ (Figure 3). World Bank estimates indicate that domestic commercial debt service will increase by more than four-fold during this period, as amortization on the restructured bonds comes due. During this period, external principal payments will increase as two bond repayments come due. Overall, total debt amortizations on public commercial debt (at today's exchange rate) will average US$1.4 billion between FY2017/18 and FY2019/20. The large financing needs coupled with the reduced access to domestic markets after debt restructuring and the possibility that oil-related financing may be at risk underscores the need for official creditors to continue playing a critical role in financing Jamaica. Closing the financing gap and meeting the medium-term financing needs will however require significant financial support from domestic and external sources.

17. **Inflation is expected to persist in the short-term but will decline over the medium term.** Inflation has edged down in recent months, although it remains elevated, mainly due to the impact of drought on agricultural production and the pass-through of nominal depreciation into domestic price. However, weak domestic demand conditions and a tight monetary policy stance will likely keep CPI inflation within the Bank of Jamaica's forecast range of 7 percent to 9 percent in FY2014/15, declining over the four-year period as the economy stabilizes. A further gradual reduction is projected beyond the medium term, supported by the planned change to adopt a full-fledged inflation targeting monetary regime, supported by the IMF EFF.

18. **On the external front, depreciation of the exchange rate should help Jamaica become more resilient to exogenous shocks, and a fall in oil prices would reduce the trade deficit.** Exchange rate depreciation should improve price competitiveness and contribute to a narrowing of the current account deficit (Table 2). The extent of the improvement in the current account should also be helped by a recovery in foreign investment. FDI coupled with official flows from the IFIs could enhance foreign exchange reserves. Exchange rate depreciation, combined with fiscal sustainability and lower interest rates could support a modest growth recovery if planned investments materialize. Fuel imports comprise almost 35 percent of total merchandise imports, and the recent slide in oil prices would support a narrowing of the trade deficit beyond current projections.

19. **The financial system is expected to remain well capitalized and profitable as reform measures are undertaken to address vulnerabilities.** The principal source of vulnerability for the financial system will continue to be its high exposure to sovereign debt. The financial sector holds 40 percent of public debt, with government securities representing a multiple of the capital base. Associated risks have recently been at heightened levels owing to the second debt restructuring. And while the immediate impact of the debt exchange on financial sector stability appeared to have been modest and no entity has applied for support from the Financial Sector Support Fund, the resultant drying up of secondary markets in government paper, the tightening of Jamaican dollar liquidity, and the possibility of bond repricing, have heightened liquidity and solvency risks. Planned legislative reforms under the IMF supported program should however serve to mitigate some of these risks. Specifically, the recently tabled Omnibus Banking Law should facilitate effective supervision of the financial sector, by harmonizing the prudential standards across deposit takers, facilitating consolidated supervision of financial conglomerates,

strengthening the corrective, sanctioning and resolution regime and ensuring that the BoJ has operational independence for supervision.

20. **On balance, despite the existing challenges and risks to the macro program, the country's macroeconomic policy framework is considered adequate for development policy lending.** The Government has made good progress on a program of fiscal consolidation that remains on track, facilitated a flexible exchange rate regime, and maintained monetary stability. This is also a testament to the ambitious quantitative benchmarks agreed to in the ongoing IMF supported program. The sixth review of the Program was successfully completed on December 19, 2014.

III. THE GOVERNMENT'S REFORM PROGRAM

21. **The Government's economic reform program is anchored on the objectives of the National Development Plan (NDP) "Vision 2030 Jamaica," and its associated Medium-Term Socio-Economic Policy Framework (MTF, FY2012-15).** The NDP seeks to transform Jamaica into a developed country by 2030 and is structured around four national goals and fifteen national outcomes (Box 1). It is implemented through a series of Medium Term Socio-Economic Policy Frameworks (MTFs), which identify the priority national outcomes, strategies and actions for each three-year period. The MTF 2012–2015 is based on four themes that are aligned to the national goals of Vision 2030 Jamaica: (i) Development and Protection of Human Capital; (ii) National Security and Justice; (iii) Economic Stability, Competitiveness and Employment; and (iv) Environmental Resilience and Climate Change Response.

Box 1. Jamaica National Development Plan "Vision" 2030

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

Source: Jamaica Vision 2030 document.

22. **More specifically, the reform program is aimed at raising economic growth and reversing the rise of public debt.** The Government's reform program prioritizes the need to raise GDP growth, which is necessary to reduce poverty and increase shared prosperity. Higher growth, combined with sustained fiscal efforts as well as additional measures such as debt–asset swaps and asset sales is also expected to gradually reduce public debt to below 100 percent of

GDP by March 2020. The program aims to facilitate growth with a mix of policy changes to improve the business climate and increase competitiveness and a targeted program to attract private investment. The reduction in public debt would be underpinned by sustained fiscal consolidation that will increasingly result from structural reforms to control public finances. Moreover, fiscal consolidation would free domestic resources that can be directed toward meeting debt obligations and the catalytic development of infrastructure to support growth. In addition, enduring structural reform is expected to strengthen policy credibility which in turn will induce higher private sector investment, sufficiently strong enough to offset the contractionary effects of the fiscal tightening.

23. **At the center of this comprehensive economic reform agenda are measures to address structural constraints in the economy.** The program includes growth enhancing reforms to address key supply side impediments such as high electricity costs, delays in providing construction permits, weak trade facilitation, and infrastructure shortcomings**.** These measures are expected to improve the business climate and enhance competitiveness and are supported by major strategic investments, including a network of critical highways, new power plants, and logistics infrastructure that will establish Jamaica as a logistics hub. The program also includes structural fiscal reforms focused on strengthening tax policy, tax and customs administration, improving public financial management and the budget process as well as debt management. Public sector reform to improve the efficiency, quality and cost effectiveness of the public sector alongside financial sector reforms to mitigate the risks inherent in Jamaica's highly interconnected financial system are also important elements of the program.

24. **The GoJ has made good progress on its economic reform agenda (Box 2).** A large fiscal adjustment, supported by a multi-year wage agreement, has been put in place and important steps to sustain the adjustment have been made in the areas of tax reform and in institutionalizing a meaningful fiscal rule. The framework for the financial system has been fortified and reforms to improve the business climate are being implemented. Monetary policy has been restrained, and the exchange rate has depreciated, helping to restore some of Jamaica's lost competitiveness. In addition, and in view of minimizing the social impact of the reform program, the government has taken steps to strengthen social protection programs, including through the cash transfer program (PATH), a vital component of the social safety net.

Box 2. Key Milestones Achieved: Jamaica Economic Reform Program.

- The primary surplus of the central government was increased to 7.5 percent of GDP in 2013/14, with near balance for the overall public sector.
- A Public Debt Management Act was adopted to help restore debt sustainability, and future debt service was reduced through a February 2013 debt exchange for domestic government debt.
- A fiscal rule was adopted in March 2014, putting limits on the annual overall public sector balance, anchored on a reduction in public debt to 60 percent of GDP by 2025/26. This legislation also established a new permanent budget calendar, under which the budget is to be adopted before the start of the fiscal year.
- A multi-year wage agreement was reached with public sector unions limiting nominal wage increases to an annual average of not more than 5 percent.
- Wide-ranging tax reform has been implemented, including a Charities Act, the replacement of discretionary tax waivers and many sectoral tax incentives by transparent and standardized incentives, and import duty reform to reduce tariff dispersion.
- Tax administration was strengthened by increasing staffing of the Large Taxpayers Office, and legislation to increase the powers of the tax administration.
- Reform of the securities dealers sector was started, making less risky business models (collective investments schemes) available to securities dealers, and preparing a legal and regulatory framework to mitigate risks posed by the retail repo business model.
- Legislation was adopted or tabled in parliament to address unlawful financial operations and strengthen financial sector supervision.
- Reforms to improve the business climate included streamlining of the business registration process, progress in reducing the backlog in construction permits and the adoption of a new Insolvency Act.

Source: IMF Article IV, June 2014.

IV. THE PROPOSED OPERATION

4.1 Link to Government Program and Operation Description

25. **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.** Building on the Government's own agenda that focuses on facilitating growth and reducing debt, the first pillar of reforms supported by this programmatic DPL is aimed at improving competitiveness. This includes investment climate related actions that will reduce delays in the development approvals process, facilitating the implementation of construction projects. Other competitiveness related reforms include steps to increase the reliability of the power supply 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. Hence a second pillar of reforms support sustaining fiscal consolidation by enacting a fiscal rule to set targets for debt reduction as well as addressing the key underlying causes of the rigid expenditure patterns that make fiscal adjustment difficult, such as the large wage bill (currently 10.7 percent of GDP), the defined benefit pension program for public servants that is primarily funded by budgetary outlays, and the public sector investment program, which is unable to deliver growth dividends in its present, un-prioritized form.

26. **The proposed Programmatic DPL has been designed and will be implemented in close collaboration with ongoing World Bank investment operations that address competitiveness and fiscal management**. For example, the Foundations for Competitiveness and Growth Project (FCG), seeks to strengthen the business environment in Jamaica for private sector investment. The project finances technical assistance in the areas of investment climate reforms and competitiveness, including for improvements in the development approval process and in logistics and trade facilitation, which will directly support GoJ efforts to implement prior actions and triggers under Pillar 1. The Strategic Public Sector Transformation Project will support Jamaica Customs and the Bureau of Standards in its transition as well as the MoF in its implementation of an enhanced Public Investment Management System (PIMS), both actions supported by the DPL. The Energy Efficiency Project supported the drafting of the revised Electricity Act which has been approved by Cabinet as a prior action for the DPL. This close collaboration has helped design a program that is both strong and feasible given the current realities in Jamaica.

4.2 Prior Actions Results and Analytical Underpinnings

PILLAR I. Improving the Investment Climate and Competitiveness

27. The DPL proposes to support specific elements of the government's agenda that would improve competitiveness and facilitate 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.

1. Development Approval Process (DAP)

28. **One of the key constraints to private investment in the area of construction is the lengthy development approval process for obtaining construction permits.** Construction can potentially be an important driver of growth. In 2013, the construction industry accounted for about 7.1 percent of GDP and employed 83,000 people in Jamaica. However, the process to obtain approval for commercial projects is particularly onerous. It takes 18 steps from nine separate agencies, taking on average 18 months, compared with the regional average of less than 7 months and best practice of 2-3 months. Instances arise where projects are delayed; investors quit Jamaica, or relinquish their investments due to obstacles encountered in the development approval process. One example in the media last year was the delay incurred by the Marriott Hotel in Kingston, an investment worth US$23 million and expected to create 430 jobs. The Jamaican economy lost out on this investment and jobs during the three-year delay caused specifically by the DAP process. Yet it is not only the large projects that are affected – in the notices published in local papers by local municipalities on the DAPs approved, most commercial applications consistently face delays that could take years, while those for residential or signage permits may take weeks or months. The GoJ has been seeking to address this critical shortcoming since 2008, through numerous diagnostic reports and strategies, as a means to unlock potential investment in the economy, yet concrete progress has not been made thus far. Given the importance of this sector, and the ensuing economic activity post-construction, the private sector has estimated that reducing the average processing time to between 2-6 months from 18 months, would significantly bolster economic activity. For example, in the quarter

ending December 2013, US$125 million in applications (equivalent to 1 percent of GDP) were outstanding for the entire island. And while the GoJ has made significant progress over the past year to clear the backlog of building permits, more work needs to be done to make the improvements systematic. The proposed DPL supports the GoJ to improve the DAP, by implementing reforms to expedite the DAP and make it more transparent and streamlined.

29. **Key among these reforms is the implementation of a workflow automation system, the Applications Management and Data Automation (AMANDA) software system for tracking construction permits and reducing delays.** The AMANDA system, developed and successfully deployed for the Canadian government, sets out the list of tasks to be completed for each application, the names of the persons responsible for performing each task, and the timeline. This improves tracking and accountability of the DAP, and should reduce processing time as bottlenecks are easily identified. The standardization of the construction application form across parishes, an action supported by the World Bank in the previous DPL, provided a key step to ensuring uniformity and ease of application. The AMANDA system is to be introduced in all parish council offices and is expected to add a higher level of transparency to the development approval process.

30. **In addition to the AMANDA system, changes are also needed to the Development Approval Process to streamline the actual process.** Currently, all approvals go through the same process, without differentiation according to risk. However, simple or low-risk buildings require less documentation and fewer inspections than more complex structures and can be approved faster. For larger and more complex projects, the current process entails a sequential review by multiple agencies which delay the approval process considerably. To streamline the DAP, the GoJ is introducing simplified procedures, including: (i) establishing joint technical committees to review critical applications simultaneously and expedite their processing; (ii) establishing appropriate criteria and mechanisms to standardize processing timelines for all categories of buildings; (iii) facilitating the acceptance of certification from licensed professionals employed by developers; and (iv) making needed amendments to the Local Improvements Act and Town and Country Planning Act to allow for electronic filing of documents through an expanded AMANDA system.

31. **Finally, a key element to the development approval process is to update the building code, which necessitates a replacement of the 106-year old Parish Council Building Act.** An estimated 70 percent of Jamaica's buildings are designed without professional inputs, making the legalization of the new building code essential. However, before the new building code can become law, the Building Bill must be passed. Current laws and related building codes are too outdated to apply to modern construction, and the new Building Bill will 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. Specifically, the Bill will facilitate the adoption and application of internationally-recognized building standards, the establishment of effective and efficient systems for issuing building permits and the regulation of building practitioners. Overall, the Bill will enable increased efficiency of the applications process through the streamlining of standards, procedural requirements for obtaining building permits, and through a strengthened role for the building professionals involved.

***Prior Action 1**: The GoJ, through its Cabinet, has (i) approved a policy that revises the development approvals process for issuing construction permits by establishing joint teams within planning authorities to expedite processing as needed, standardizing timelines for processing of all categories of buildings, and facilitating the acceptance of certification from licensed professionals and (ii) started the implementation of the AMANDA tracking system in Local Planning Authorities (LPAs) or Parish Councils.*	***Trigger 1:** The GoJ begins implementation of the revised development approvals process for construction permits by fully implementing all the short term components of the revised policy on development approvals including (i) amending as needed the Local Improvements Act and Town and Country Planning Act; (ii) establishing a national policy for collection of development application fees and (iii) completing the implementation of the AMANDA tracking system for construction permits across all LPAs.* ***Trigger 2:** The GoJ makes effective a new building code as specified in a new Building Act.*

32. **Results:** The above reforms—by bringing in accountability, consistency and international standards to the DAP—should eventually reduce the amount of time for businesses to obtain development approvals, a critical step for increasing private investment. The resulting reforms should spur construction and economic activity in the medium term. As a result, there would be a reduction in the time taken to process commercial projects and possibly an uptick in construction activity.

2. Electricity

33. **Jamaica currently has some of the highest electricity costs in the world due to the dominance of oil-based, small-scale and aging equipment, and high losses primarily due to theft.** Energy costs are a major constraint to competitiveness, hampering the development of new industries and reducing profitability in the highly competitiveness tourism industry which is one of Jamaica's main growth drivers. Jamaica has established a vision for the electricity sector that includes diversifying away from petroleum (Heavy Fuel Oil and diesel), expanding domestic renewable energy sources and improving energy efficiency. However, despite numerous evolutionary changes in the power sector, the electricity market is still governed by the 1890 Electricity Lighting Act, which undermines the modernization of the sector. Clearly, a new legal framework for the electricity sector is needed. The Energy Security and Efficiency Enhancement Project funded by the World Bank provided technical support to prepare a framework for new legislation to clarify and codify the roles and responsibilities of the main actors in the sector, including the Government, the regulator, and the utility and independent power producers.

34. **Many of the current problems plaguing the power sector in Jamaica, including difficulties in procuring new non-oil generation, has to do with roles and responsibilities established in the current legislation**. The new electricity law proposes a number of reforms that will diversify electricity supply, and improve the efficiency of the sector, including: (i) establishing a "ring-fenced" system operator that will transparently dispatch power based on least-cost that will benefit low-cost producers, including renewable energy suppliers; (ii) introducing integrated resource planning for the power sector that will identify the least-cost expansion of generation, transmission, and distribution assets in the system; (iii) removing the 20 percent cap on renewable energy capacity, and establishing incentives for promoting renewables; (iv) establishing penalties for theft, which currently account for a large percentage of the country's high electricity losses; (v) speeding up the process of obtaining electricity by reforming the certification system for electricity connections by outsourcing to private

inspectors; and (vi) codifying for the first time the definition of energy efficiency and establishing programs to promote supply-side and demand-side efficiency measures.

35. **The new electricity act is an important step forward in overhauling the regulatory framework for the energy sector in Jamaica.** The law will facilitate the replacement of outdated generation capacity, lower electricity costs and tariffs by facilitating the use of alternative fuel sources, and improve the reliability and financial strength of the power system. There are three milestones before the Act can become effective: (i) Cabinet approval of the revised policy; (ii) submission of legislation in Parliament; and (iii) effectiveness of the new electricity act. The first milestone has been met, and in October 2014 Cabinet issued drafting instructions to the Chief Parliamentary Council to draft the legislation which is expected to be to be submitted to Parliament by end-January 2015, an IMF structural benchmark.

***Trigger 3**: The GoJ completes a comprehensive reform of the legislative framework underpinning Jamaica's energy sector with effectiveness of the new Electricity Act.*

36. **Results.** Approval of a new electricity act will strengthen the sector regulatory framework by providing clear policy directions, regulations and incentives in order to mobilize private sector investment promote renewable energies and increase energy efficiency at the level of utilities and end-users.

3. Logistics and Trade Facilitation

37. **The Logistics Hub Initiative (LHI), a critical element of the government's growth strategy for Jamaica, aims to integrate the Jamaican economy into global value chains and can attract significant amounts of FDI.** The LHI seeks to take advantage of the 2016 expansion of the Panama Canal to position Jamaica as a significant player in the global shipping and logistics industry given its central location to several key markets. However, even with the benefits of a good location, and a large and deep harbor, Jamaica will need to improve its logistics infrastructure to make the country an attractive and successful logistics hub. Executing the LHI entails improvements in (i) trade gateways; (ii) connectivity; (iii) competition and the associated regulatory framework; and (iv) a collaborative port and logistics community. It also requires the implementation of activities for new or upgraded infrastructure, improvements in customs, setting up of special economic zones, and execution of various LHI projects. Of these, two anchor investments for the LHI are the concessions for the Kingston Container Terminal (KCT) and Norman Manley International Airport (NMIA), A third critical anchor investment, the development of Caymanas Special Economic Zone (SEZ), is being supported by the Bank through the FCG Project, with the objective of attracting a world-class zone developer before the end of 2015.

38. **Concessioning of KCT represents a key infrastructure investment for the LHI.** In recent years the KCT has deteriorated in terms of berth depth and operational capacity. Substantial investment is needed to dredge Kingston port to accommodate the larger vessels that will pass through Panama post-expansion; to improve port efficiency, and going forward, expand port operations as the centerpiece of a growing logistics industry. A successful concession of the KCT terminal is essential for advancing the LHI; as well as contributing considerable value to the economic development of the country in its own right. The Government received bids from

potential concessionaires earlier this year and, in accordance with its PPP policy commenced negotiations with the selected bidder in September 2014.

39. **Another key concession is for NMIA.** Located in Kingston, NMIA is the second largest airport in Jamaica and its development is a key part of the GoJ's LHI strategy. NMIA has a runway capable of handling B747 and B777 aircraft, but not longer-haul carriers. The concession would (i) support an increase the capacity of the airport by expanding the runway; and (ii) improve quality and service standards in line with international best practices. In July 2014, the Government of Jamaica issued a Request for Expressions of Interest (REOI), inviting local and international firms to indicate interest in the concession for the operations and development of the NMIA. By October 2015, it is expected that the Government will issue a Request for Proposal for the NMIA concession. IFC has advised the Government of Jamaica on this transaction.

40. **Modernization of custom systems and processes are critical steps to reduce Jamaica's high cost and clearance times for imports**. For the LHI to be successful and for Kingston to become a major transshipment port, Jamaica must become more competitive in facilitating trade. Both costs and the time taken to clear shipments at Jamaican ports are well above the averages seen in Latin America and the Caribbean (LAC). For example, it costs on average US$2,180 to import a container, compared to LAC regional average of US$1,691. Part of the high costs and lengthy processing time is the lack of an integrated electronic customs management platform, which the GoJ is addressing by implementing ASYCUDA World – the Automated System for Customs Data – to be piloted in Kingston in early 2015, with full roll out across Jamaica by end 2016. Implementing ASYCUDA will be pivotal in transforming Jamaica's trade facilitation performance to world standards. By replacing Jamaica's current paper trail system with an electronic version, this will lead to reduced clearance times, improved transparency, and an overall better customs clearance process across Jamaica. Accompanying ASYCUDA implementation, other changes are needed to facilitate custom modernization, particularly pre-clearance of customs declaration and applying risk based approach to cargo examinations. Without these changes, the reduction in customs clearance times will not be as notable. The World Bank project Supporting Economic Management for the Caribbean (SEMCAR) has been supporting the GoJ, in conjunction with other Caribbean nations, to develop a pre-clearance regional framework as a crucial intermediate outcome for improving customs performance.

41. **Legal and regulatory reforms are needed to establish new Special Economic Zones (SEZs).** Another central element of the LHI is the establishment of SEZs to link industrial development and logistics services and facilitate SME participation in export industries. However, substantial legislative and regulatory framework development is needed to establish a new SEZ regime. The current Free Zones in place will be phased out by 2015 to comply with WTO requirements, thus, an SEZ Act will have to replace the Free Zone Act. The Government has prepared a draft interim SEZ policy document that has been circulated widely for consultations, with the objective of submitting the policy for Cabinet approval in January 2015. Through the ongoing FCG project, the Bank is working closely with the Government to provide advice on global standards and best practice in SEZ related legislation and regulation.

Prior Action 2: *The GoJ, through the Jamaica Customs Agency (JCA) has approved operational procedures to reduce the time taken for clearance of goods at Jamaican ports.*	***Trigger 4:*** *The GoJ implements its PPP policy by issuing a Request for Proposals for Norman Manley International Airport.* ***Trigger 5:*** *JCA completes implementation of ASYCUDA World in Kingston port as a pilot site and begins implementation at other ports.* ***Trigger 6:*** *The GoJ strengthens the regulatory framework governing the operations of SEZs with effectiveness of a new SEZ Act that does not generate a negative fiscal impact.*

42. **Results:** Actively addressing the infrastructure needs for Jamaica's logistics sector will better position Jamaica as an attractive logistics hub destination. The NMIA concession will improve Jamaica's air transport capacity. The implementation of pre-arrival procedures and ASYCUDA is expected to lead to improvements in revenue collection, quicker clearance of goods and transparent custom processes. These changes would enhance Jamaica's competitiveness by reducing processing times and costs to importers and exporters. Additionally, it will standardize custom operations across Jamaica and regionally as the majority of CARICOM countries have also embraced ASYCUDA. A new legal and regulatory framework for the SEZs will simplify the existing policy regime and facilitate compliance with WTO regulations.

43. **Restructuring the Bureau of Standards Jamaica (BSJ) and developing a National Quality Infrastructure will enhance trade facilitation and industry growth as well as better protect the health and safety for the Jamaican people.** Although the BSJ offers basic services normally expected of a national standards bureau, this is over shadowed by its regulatory activities. The BSJ is the major government agency directly involved in enforcing "compulsory standards."[2] In carrying out its regulatory functions, the BSJ conducts inspections in the marketplace and at ports of entry and laboratory testing and product certification under its Standards Compliance/Import Monitoring Program. Due to this, the BSJ is perceived to be a "policing organization" and there is reluctance by many private sector organizations to use any of the "facilitative" services of the BSJ. In line with best international practice of keeping the regulatory and service functions separate, restructuring of the BSJ to separate its regulatory functions from its facilitative roles will meet the needs of domestic industry and be compliant with the country's international and regional trade agreements, such as the WTO Agreement on Technical Barriers to Trade which establishes rules for the adoption of voluntary standards and enforcement of technical regulations, and the CARICOM Regional Organization for Standards Quality Act. The process is supported by the Bank's Strategic Public Sector Transformation project. The decision to separate the regulatory function of the BSJ has been taken at the Ministerial level and will soon be sent for Cabinet approval once legal modalities are determined.

Prior Action 3: *The Ministry of Industry Investment and Commerce (MIIC) has approved a resolution to separate the regulatory functions of the Bureau of Standards from its facilitative functions to enhance the Bureau's role in trade facilitation.*

[2] Jamaican Standards Act of 1969 uses the term "Compulsory Standards" and the BSJ, which was created by this Act, has adhered to the use of this term.

44. **Results.** The above measures would increase the use of the BSJ by the Jamaican private sector. The restructuring will allow the domestic industry to be compliant with the country's international and regional trade agreements; it will minimize duplication of re-testing and re-certification requirements and reduce non-tariff barriers to trade.

PILLAR 2: Supporting Sustained Fiscal Consolidation and Public Financial Management

45. 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 (see Box 2). 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.

1. Fiscal Consolidation and Debt Management

46. **Fiscal consolidation and debt sustainability have been important objectives of the IMF-supported program**, under which the GoJ rapidly reduced government expenditures to achieve a primary budget surplus of 7.5 percent of GDP in 2013/14. The Program calls for maintaining the primary balance in the 7-7.5 percent range in the medium term, a level rarely seen in other developing countries. While the second debt restructuring in 2013 supported a reduction of debt service payments, the high debt burden means that about 30 percent of revenues still need to be allocated to debt service. Going forward, the GoJ will need to maintain tight fiscal control to avoid a renewed debt buildup, and to deal with large debt service payments in the medium term. The introduction of a fiscal rule will help entrench fiscal discipline by constraining the annual budgets to achieve a reduction in public debt to no more than 60 percent of GDP by FY2025/26. A key feature of the fiscal rule relates to its numerical fiscal targets: a fiscal surplus target of at least 2.4 percent of GDP at the end of FY 2015/16 and debt ceiling target of 60 percent of GDP by March 31, 2026. In order to meet these targets, budget balances consistent with the rule will be incorporated in annual budgets starting in 2014/15. The fiscal rule covers the fiscal activities associated with the public sector, defined to include central and local governments and public enterprises. The adoption of a fiscal rule signals the GoJ's determination to maintain strict fiscal discipline, anchored in a clear target for debt reduction. Though there is an escape clause for major adverse shocks, it can only be triggered with parliamentary approval. Other design features of the fiscal rule include measures to ensure transparency and accountability such as a streamlined sanctions regime which will be in place by July 2015, and a strengthened oversight by the Auditor General on the implementation of the fiscal rule.

47. **Preserving the gains from fiscal consolidation will require continued vigilance in monitoring fiscal risks.** Historically, a key driver of Jamaica's high debt levels has been the assumption of contingent liabilities from public enterprises and also the private sector (the financial crisis of the mid-1990s that cost the government almost 40 percent of GDP emanated largely in the private sector). The Government is working with its development partners (in particular the IDB) to prepare a Fiscal Risk Statement that would be presented with the 2015/16 budget (and annually thereafter) which would cover all significant contingent liabilities including those related to commercial public sector entities and PPPs. Designed well, this Statement could go a long way in providing an early warning system to allow Jamaica's policymakers to detect

potentially problematic issues and resolve them before they became a major liability. This Statement complements a large agenda designed to monitor the financial health of Jamaica's public enterprises (also known as public bodies). The IDB's Policy Based Loan (PBL) series focuses, among other things, on improving efficiency and transparency of Jamaica's public bodies, and supporting the implementation of the Government's Master Rationalization Strategy to divest and wind-up public bodies where feasible. The Bank has supported this agenda by sharing with the Government an analytical piece that helps design a framework to monitor fiscal risks in public bodies.[3]

48. **Jamaica's high debt levels require careful management of public debt to ensure that risks are monitored and controlled where possible.** To address Jamaica's high debt vulnerability, institutional capacity for debt management has been strengthened and the legal framework has improved with the adoption of the Public Debt Management Act (PDMA), in November 2012. The Jamaican Debt Management Branch (DMB) went through a large restructuring in 2010, to create a front, middle and back office with clearly defined functions. The Bank has supported this transition, with technical assistance for the drafting of legislation, change management and training efforts, and continued dialogue and interaction with the DMB. While much progress has been made, there are still some critical steps that are needed to complete the change process that was started a few years ago and put the Debt Management Branch in a stronger position to execute its functions. An important step is to implement the regulations associated with the PDMA to enhance its effectiveness by specifying functions, responsibilities, and obligations of the Ministry of Finance and Planning related to the management of public debt and as well as guidelines for the management of contingent liabilities. The proposed regulations have been developed with the support of the Bank and will be sent to Cabinet for approval to issue drafting instructions to facilitate presentation to Parliament.

Prior Action 4: *The GoJ has adopted a set of fiscal rules to strengthen fiscal transparency and set a target for debt reduction by approving amendments to the Financial Administration and Audit Act and Public Bodies Management Act.*	***Trigger 7:*** *GoJ improves fiscal transparency by endorsing a Fiscal Risk Statement in the 2015/16 budget that covers all significant contingent liabilities including those emanating from public bodies and PPPs.* ***Trigger 8:*** *The GoJ strengthens the legal and regulatory framework underpinned by the 2012 Public Debt Management Act by making effective its supporting regulations which (i) specify functions and responsibilities of the Ministry of Finance and Planning related to the management of public debt and (ii) establish guidelines for the management of contingent liabilities.*

49. **Results.** The primary balance will be maintained at 7.5 percent of GDP and debt will be reduced in line with targets, reaching about 125.5 percent of GDP by the end of FY2016/17. Debt management will also be improved with the implementation of the regulations to the Debt Law, by putting into place a clear and fairly detailed regulatory framework for all the operational agents in terms of their responsibilities and functions, helping in the long run to reduce the systemic risk that Jamaica's high debt levels pose to the economy.

[3] World Bank (2013) "A Framework to Assess Fiscal Risks of Public Bodies: Application to Eight Selected Public Bodies in Jamaica."

2. Improving Efficiency of Public Expenditure

50. **The fiscal consolidation so far has been supported by a significant reduction in public expenditure.** Public sector wages have been frozen in nominal terms since the start of the IMF-supported program through wage agreements with trade unions. This will result in the wage bill as a share of GDP falling from over 11 percent in FY2011/12 to 9 percent by FY2015/16 and maintained at that level. Capital expenditures also fell from 4.7 percent in 2010/11 to 2.1 percent in 2014/15. Other programmed expenditures have been curtailed and the overall balance of public bodies (SOEs) has been set at zero. All these measures have helped reduce primary expenditures from over 22 percent of GDP in FY2011/12 to below 19 percent (budgeted) in 2014/15. While this has helped meet targets so far, improving the efficiency of public expenditure is critical to improving long term fiscal finances. The Government is receiving strong support on this front from its development partners, and is adopting a range of measures, such as the implementation of the Central Treasury Management System (CTMS) and the associated creation of a Single Treasury Account; the adoption of an advanced budget calendar that requires the budget to be formulated and agreed before the start of the fiscal year, and the beginning of strategic reviews and staffing analyses that will eventually inform reforms to manage the size of the public sector. This DPL series focuses on reforms to the budget process and civil service pensions, building on reforms supported in the previous DPL, namely: (i) measures to limit discretion on reallocation of spending; (ii) measures to begin the adoption of a Medium-Term Expenditure Framework (MTEF); (iii) legislation to implement changes to procurement and civil service pensions; and (iv) the establishment of a public investment management system. These measures are being supported by IPFs that are currently under implementation, namely the Public Sector Modernization Project and the Social Protection Project.

Tightening Budget Processes and Execution

51. **Achieving compliance with fiscal rules requires a strong budget process that supports both aggregate fiscal discipline as well as the efficient allocation of resources.** The Government of Jamaica has recognized the need for reform of its budget process and has made the implementation of results based budgeting a key element of its PFM action plan. Some progress has been made in developing a medium-term expenditure framework, including changes to the Financial Administration and Audit (FAA) Act that require publishing of a Fiscal Policy Paper with the Budget. However, previous efforts to implement a medium-term expenditure framework and a "managing for results" framework have met with only limited success. Recent engagement between the Bank and the Ministry of Finance and Planning has resulted in broad agreement around the need to ensure that the basic foundations of sound budgeting, directed at ensuring the credibility of the budget, are in place as a prerequisite for performance based approaches. The desirable features of a more effective budget process in Jamaica would include:

- Medium term fiscal policy setting and a "top-down" articulation of priorities by Cabinet at the start of the budget process in order to provide more meaningful guidance (and ceilings) on the bottom up elements of the process.
- Embedding a medium term focus through the use of rolling three year forward estimates in each budget. This approach will also simplify the budget process and ensure that the attention of the budget stakeholders is focused on developing the most appropriate suite of

spending initiatives, savings options and revenue measures that meet policy objectives within agreed fiscal constraints.

- A medium term performance framework – which entails measuring performance against outcome targets, set in the budget as well as program evaluation and performance audit – to assist all stakeholders to identify opportunities to improve the efficiency and effectiveness of government spending.

52. Moreover, the credibility of the budget is dependent upon the approved budget being respected during the execution phase. While some flexibility to adjust the budget during execution is appropriate to meet unexpected circumstances, unlimited capacity for agencies to change the composition of their budget after it is approved by Parliament undermines the credibility of the budget authority of the Cabinet and Parliament. The existing Financial Management Regulation (2011) is very liberal in providing broad scope for ministries and agencies in Jamaica to reallocate their detailed budget between the programmatic and object classes within the approved appropriations. This needs to be tightened to ensure greater predictability of resources, and reducing the possibility that the final budget is considerably different to the original budget estimates presented to Parliament. This tightening will occur effective the next budget with a Cabinet decision to limit virements. The relevant legislation will be amended in the course of 2015 to implement this policy change in a more permanent manner.

Prior Action 5: *The GoJ, through its Cabinet, has approved a decision to limit virements in the Government budget effective April 1, 2015, to provide greater predictability in budgetary expenditures.*	***Trigger 9:*** *The GoJ amends the Financial Administration and Audit Regulation to (i) strengthen the performance orientation of the budget process in the medium term and (ii) include the new virement policy into the regulation.*

53. **Results**: A key outcome sought from these reforms is a medium term budget that better reflects policy preferences and enhances efficiency and effectiveness of spending due to a close focus on performance. The limiting of virements would also reduce the ad-hoc increase of recurrent spending, and encourage Ministries, Departments and Agencies (MDAs) to engage in more careful budget planning.

Human Resources Reform

54. **Consolidating and sustaining fiscal gains will require deepening the reform agenda with an increased emphasis on measures to structurally reduce the wage bill.** The multi-year agreement that limits public sector wages, and aims to help reduce the wage bill to 9 percent of GDP, has been vital to achieving the near-term fiscal adjustment. However, such a compression in real wages is not sustainable over a longer horizon and will need to be replaced by deeper and more comprehensive public sector reforms that: (i) address inefficiencies in public employment; (ii) align remuneration with job requirements; (iii) automate the systems for remuneration and human resource management; and (iv) strengthen control systems and accountability (including in auditing, and procurement). While some of these steps have started, including functional reviews of some MDAs, accelerating the pace of reform will be critical. The Government has recently developed an action plan for public sector transformation. The next DPL will identify suitable employment reform measures for support as the public sector modernization program develops.

Enhancing Procurement Processes

55. **Enhancements to the public procurement process have the potential to achieve budgetary savings while promoting transparency.** In Jamaica, public procurement represents about J$50 billion, or around 3-4 percent of GDP. However, fragmented procurement processes across the MDAs and the lack of a comprehensive law have led to inefficiencies in public procurement and drawn out tendering due to limited staff capacity. To address these deficiencies, the GoJ, though its Procurement and Asset Policy Unit, has developed and tabled a comprehensive bill and attendant regulations that would bind public entities to specific standards of procurement practice. The Public Procurement Bill would establish the Public Procurement Commission to promote efficiency in public procurement proceedings, the implementation of procurement contracts, as well as to promote transparency and equity in the award of contracts. The Commission will also be responsible for the registration and classification of contractors, and will be authorized to hear their appeals from the decisions of procuring entities. The Bill promotes value for money in public expenditure, and the participation in public procurement by qualified providers of goods, works and services. The methods of procurement will be expanded, and the circumstances in which bidding occurs will include two stages —open and closed framework agreements, as well as electronic government procurement. E-procurement will introduce greater transparency, and centralized procurement will allow savings through bulk purchasing. Procurement officers are to be trained and certified to ensure adequate and timely procurement.

Prior Action 6: *The GoJ has strengthened transparency of Government procurement and allowed the use of e-procurement by tabling a new Procurement Bill in Parliament.*	***Trigger 10:*** *The GoJ makes effective the new Procurement Bill.*

56. **Results**. Centralized procurement and greater use of e-procurement will lead to higher transparency, and quicker processing, leading to cost savings to the government.

Reducing the Budgetary Impact of Pensions

57. **Changes to the public pension system are needed to make the program more affordable in the long term, as well as bring it closer to global standards.** In the absence of reforms, expenditure on public pension would double as a percentage of GDP in the next 30 years, reaching more than 2.2 percent of GDP by 2042. Implicit pension debt is currently estimated at 40 percent of GDP.[4] The GoJ has committed to implement a new civil service pension program at the start of the FY2016/17 budget year. The White Paper on Pension Reform, approved in 2013 as part of the last DPL, has outlined a number of reforms, including increasing the retirement age to 65 (equating it to the National Insurance Scheme), introducing employee contributions, reducing accrual rates and moving away from using the final salary as a basis for calculating pensions in the benefit formula. Translating the White Paper into legislative reforms has been underway and a legislative package is expected to be presented for Parliamentary approval in 2015. These measures are expected to reduce the cost of pensions relative to the current system.

[4] Implicit pension debt is the value of the commitments accrued to current participants in the pension system (both current retirees and current participants who would qualify for a pension today).

Trigger 11: *The GoJ submits to Parliament the draft public sector pension reform legislation that helps contain the budgetary cost of civil service pensions.*

58. **Results**. The Government of Jamaica will establish the legal basis for a contributory public sector pension system which is financially sustainable in the long run, as the budgetary cost of pensions are contained and eventually reduced.

Improving Public Sector Investment Planning and Implementation

59. **A fragmented public investment system has hindered the Jamaican government's ability to fully leverage public investment for growth.** In FY2013/14, public sector investment accounted for about 2.8 percent of GDP, compared with a regional LAC average of 4.3 percent. Moreover, empirical analysis indicates that public investment in Jamaica has had little impact on growth. Two key reasons for this are: (i) fragmented planning—based on the fact that public investment planning is currently managed differently according to funding source; and (ii) limited feasibility analysis prior to the decision to proceed with implementation. This undermines the effectiveness of public investment in supporting growth, as well as compromising accountability and transparency in the use of government resources.

60. **The GoJ is committed to improving the existing public investment system and has prioritized the strengthening of the Public Sector Investment Program (PSIP)** for attention in the PFM Action Plan. A key weakness is the absence of an efficiently functioning Public Investment Management System (PIMS). With technical assistance from the Bank, through the DFID-supported Trust Fund, and the Strategic Public Sector Transformation Project , the GoJ (working through the Ministry of Finance and Planning and the Planning Institute of Jamaica), is improving the PIMS, by strengthening the procedures, tools, institutions and governance mechanisms of the system. The 2013 DPL supported the first step for a new PIMS by supporting Cabinet approval for the rollout of the new PIMS framework. The proposed DPL supports the legal, procedural and institutional amendments needed to establish the PIMS. Specifically, the DPL supports the amendment to the Financial Administration and Audit (FAA) Act and the establishment of key institutions, including a PIM Secretariat. The DPL also supports greater harmonization between implementation of traditional public investment and PPP projects. PPP projects led by the government are currently identified and prepared in a process that exists in parallel to traditional public investment projects. However, screening criteria and feasibility standards are higher on PPP projects. The development of an integrated process of strategic planning and budgeting, in line with the implementation of a system that makes use of the economic and financial analysis of public investment projects, in accordance with PPP standards, will help the GoJ establish clear criteria for public investment prioritization. It is expected that the PIMS would provide an integrated approach to managing the public investment portfolio and projects which would extend across all public entities and sectors; include all types of public sector expenditures (actuals and contingencies); cover all steps and phases that a project has to complete through its productive life, including the interaction with other administrative systems (budget, treasury, procurement, human resources, others); and be strategic with all projects and overall portfolio selected and oriented to add value to a larger development purpose.

Prior Action 7: *The GoJ has amended the Financial Administration and Audit Act to establish a Public Investment Management System which provides a common framework for the preparation, appraisal, approval and management of public investments in Jamaica, irrespective of source of funding or procurement and implementation modalities.*	***Trigger 12:*** *The GoJ, through its Ministry of Finance and Planning, completes the building blocks for a functioning Public Investment Management System including: (i) setting out the processes and methodologies for the PIM system and ii) establishing key PIM institutions: PIM Committee and PIM Secretariat.*

61. **Results**. A well-functioning PIMS would maximize efficiency of public investment through better selection and management of investment expenditure, and improve the quality of social and economic infrastructure in the country.

Analytical Underpinnings

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

Table 5. DPL Prior Actions and Analytical Underpinnings

Prior actions	Analytical Underpinnings
Pillar 1: Improving Selected Investment Climate and Competitiveness Related Conditions	
Investment Climate and Competitiveness	Improving the Investment Climate in Jamaica Policy Note (2014). Items selected from the GoJ's NCC 2013-2015 Agenda. GoJ Caribbean Growth Forum Action Plan (February 2014). Doing Business 2014.
Energy	GoJ Caribbean Growth Forum Action Plan (February 2014). Development of the Electric Power Sector Policy and Modernization of the Electricity Lighting Act (MSTEM, 2013)
Logistics and Trade Facilitation	GoJ Logistics Hub Initiative Strategy Document (2013). "Making the most out of the Jamaican Logistics hub initiative" analytical work (2014). Analytical preparation for the Foundations for Competitiveness and Growth project. Strategic Public Sector Transformation Project (2014). WB SEMCAR project (on-going).
Pillar 2: Supporting Sustained Fiscal Consolidation and Public Financial Management	
Fiscal Consolidation and Debt Management	Manmohan Kumar (2009). "Fiscal Rules—Anchoring Expectations for Sustainable Public Finances." IMF Working Paper Kinda, Kolerus, Muthoora, and Weber (2013). "Fiscal Rules at a Glance." IMF Working Paper IMF Jamaica Staff Reports under the Extended Fund Facility. WB Technical Assistance through the DFID trust fund for the Debt Management Office.
Expenditure Efficiency	Strategic Public Sector Transformation Project (2014). World Bank (2013) " A Framework to Assess Fiscal Risks of Public Bodies: Application to Eight Selected Public Bodies in Jamaica Bank's technical support for the analysis of the public sector pension system, using PROST model to simulate pension outcomes under different scenarios, which identified key reforms needed to contain spiraling public pensions.
Public Sector Investment Planning and Management	PSIP Workshop conducted by the WB in Jamaica (June 2013), which produced a PSIP Action Plan, led by Financial Secretary; Note on PSIP Role drafted by the World Bank (August 2013), which highlighted benefits of unifying all public investments for planning purposes. Public Investment and Growth in Jamaica (BoJ, 2007).

4.3 Link to CPS and Other Bank Operations

63. **The proposed operation is fully aligned with the FY14-FY17 Country Partnership Strategy (CPS).** The CPS, which was approved by the Board in March 2014, focuses on building conditions for broad based private sector led growth, improving public sector efficiency and reducing vulnerability. The two pillars of the DPL match the strategic objectives identified in the CPS, and the reform program proposed addresses several of the key sectors contributing to

the CPS targets. As mentioned above, several Bank operations are also supporting the implementation of the identified reforms, in particular the Growth and Competitiveness Project (P147665), the Strategic Public Sector Transformation Project (P146688), and Supporting Economic Management of the Caribbean (SEMCAR).

64. **The design of this DPL benefits from lessons learnt from previous DPLs and builds on the achievements of the 2013 DPL.** The Bank's long experience with providing DPLs in Jamaica indicates that a targeted and focused operation has a greater likelihood of achieving results; hence the current DPL continues the focus of the last DPL on the twin goals of increasing competitiveness and sustaining fiscal consolidation. This DPL series builds on the achievements of the 2013 DPL. In the area of investment climate reforms, the 2013 DPL supported initial reforms on harmonizing the application forms for construction permits while this DPL will support improvements in the process to help reduce approval times. Under the pillar on PFM and fiscal consolidation, the 2013 DPL supported improvements in the debt management and budgeting process that will be deepened and continued in this series. The 2013 DPL also supported the start of the civil service pension reform which will be completed under this DPL series with the approval of pension reform legislation. Reforms to unify and harmonize the public sector investment program, begun under the 2013 DPL, will significantly advance over the next two years.

4.4 Consultations, Collaboration with IFIs and Other Development Partners

A. Consultations

65. **The Government's reform program is an outcome of extensive consultations with stakeholders.** The GoJ has undertaken a broad consultation process on its long-term development plan—Vision 2030—which incorporates many of the reforms supported by the DPL. Vision 2030 was publicly announced and consultations took place throughout the country with various target groups including youth and community groups, special interest groups, and the emigrant diaspora (via the web). To facilitate public-private cooperation, the Economic Policy Oversight Committee (EPOC) consists of government and private sector representatives who meet frequently to monitor the reform progress and serves as an on-going forum of consultations that can improve implementation of the government's reform program.

66. **Consultations, involving multiple stakeholders, have also taken place on the specific reform measures supported by the DPL.** The preparation of the revised development approvals process was led by PIOJ, JAMPRO in close consultation with a range of private sector and public sector stakeholders, including various MDAs and local Parish Councils. The proposed Electricity Act was developed by the Ministry of Science Technology, Energy and Mining with close consultations with private sector and labor union representatives. The proposed pension reform was derived from deliberations on the Green Paper from a multitude of stakeholders, including representatives of several bargaining units, the Private Sector Organization of Jamaica, and discussed thoroughly by the members of the Joint Select Committee of Parliament. In general, the GoJ has been proactive in seeking collaboration and buy-in for the relevant stakeholders.

B. Collaboration with Other Development Partners

67. **The Government's development program is receiving strong financial and technical support from multilaterals and other donors.** The Government's macroeconomic reform program has been supported by the IMF. On the proposed loan, the Bank has collaborated closely with the IMF and IDB, to ensure synergies in the package of reforms being supported and to avoid duplicative efforts in the technical assistance provided. IMF has supported reforms on macro and fiscal stability, and the financial sector. IDB has focused on tax policy. This DPL complements the reforms supported by the IMF and IDB, and in some cases (for example the prior action on fiscal rules), all three institutions have supported a significant reform. The Bank has also collaborated closely with DFID, which has provided a trust fund for broad ranging public sector reforms in Jamaica.

V. OTHER DESIGN AND APPRAISAL ISSUES

5.1 Poverty and Social Impact

68. **The policy reforms proposed under this operation are intended to support poverty reduction and increase shared prosperity in the long-term.** The DPL is focused on supporting policy measures which contribute to greater, sustainable and more inclusive growth. 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. The Program of Advancement Through Health and Education (PATH), the Government's flagship conditional cash transfer program currently benefits 15 percent of the Jamaican population. It has been very useful to help mitigate the negative impact of the recession as well as the recent reforms, and its size and coverage has been protected despite the broad fiscal consolidation that has occurred. Since April 2013, cash grants under PATH have increased by 30 percent in value as the Government has committed to maintaining the real value of social spending over the next three years. The PSIA of the specific reforms supported by the DPL has focused on a review of documents and the latest available data (the 2010 Jamaica Survey of Living Conditions (JSLC) and the 2012 Jamaica Labor Force Survey (JLFS)).[5] Table 6 summarizes the social and environmental impacts.

69. **Policy reforms in Pillar 1 are expected to have positive or neutral impacts in the short and long term.** The electricity sector reforms are expected to have a direct and positive impact on Jamaican households by reducing production and ultimately end-user costs. Over 92 percent of households in Jamaica have electricity, and they devote an average of 6.3 percent of total household expenditures to their electricity bill. Electricity takes up the largest share of expenditures for the poorest 20 percent of households, who spend an average of 8.2 percent of total expenditures on it. The streamlining of the development approvals process will indirectly benefit Jamaican households through increased economic activity, and the modernization of the Building Bill will directly benefit them through increased safety in the built environment. The

[5] While the 2012 JSLC has been processed, it is yet to be approved by Cabinet, and hence is not publicly available.

logistics and trade facilitation reforms are expected to be relatively neutral in terms of impacting households in the short term, but are expected to contribute to job growth in the medium term as they aim to increase Jamaica's attractiveness as an international logistics hub.

70. **The reforms proposed in Pillar 2 have short-term costs, but are expected to support reductions in poverty and vulnerability in the medium to long term.** Meeting the ambitious fiscal targets under the current adjustment program and complying with the planned fiscal rule are associated with short-term costs in the form of lost growth and weak job creation, and with direct negative impacts from the public sector wage freeze, increased user fees, and adjustments in public service delivery. The public sector wage agreement may have eroded the real value of wages frozen since March 2010 by about 35 percent by March 2015, when the current agreement is set to expire. While fewer than 10 percent of public sector workers lived in the poorest 40 percent of households in 2010, this substantial erosion could push some into vulnerability or poverty. In addition to its direct welfare impact, this erosion also increases the gap between public and private sector wages, making it more difficult to retain highly skilled civil servants needed for successful public sector modernization. Increases in user fees for public services, such as the recent rate increases for water and bus transport, directly impact household budgets, including those of the poor and vulnerable. Water bills and transport expenses account for about 11 percent of total household expenditure of the poorest 20 percent of households. As Ministries, Departments, and Agencies adjust their operations to the new fiscal realities, the coverage and quality of service delivery may also be affected. However, these measures are necessary for the long-term sustainability of social spending, which has been threatened by the high costs of Jamaica's debt burden. Measures to increase the efficiency of current public expenditures can have positive impacts through increasing the focus of planning and budgeting processes on performance. To the extent that social outcomes, efficiency, and cost effectiveness are prioritized, the positive impacts of social programs on reducing poverty and vulnerability are expected to increase.

5.2 Environmental Aspects

71. **It is expected that the policies and reforms supported by this operation will not have any negative environmental impacts.** The revision of the development approval process that will allow better coordination and evaluation of large projects through joint technical teams (with the National Environment Protection Agency a key team member), should improve the technical and environmental analysis of the projects. Differentiating projects by risk would allow the government to more appropriately allocate resources, particularly for environmental oversight, rather than to be spread too thin, as the approval process for construction permits requires the co-ordination and integration of various government agencies, under the existing legislative framework. As such, the intention to provide greater and more collaborative technical assistance for processing larger projects is viewed as a positive step. The new electricity act should make it easier to bring online renewable energy projects, which are becoming more cost competitive, in this respect there are potential positive environmental implications of the bill as the country moves away from heavy fuel oil.

Table 6. Summary of Poverty, Social and Environmental Impacts of the Operation

Prior actions	Poverty, Social and Gender Impact Analysis	Environmental Impact
Pillar 1: Improving Selected Investment Climate and Competitiveness Conditions to Facilitate Private Investment		
PA1: Development Approvals	Positive. Increased construction activity will increase employment in the construction industry, which typically employs a large share of unskilled workers.	Neutral. The approval process for construction permits requires the co-ordination of various Government Agencies, including the National Environment Protection Agency which plays a key role in this process, and other agencies responsible for mitigating environmental impacts.
PA2 : Electricity Act	Neutral-Positive. The reform should help lower electricity costs in the medium term and increase provision of electricity in rural areas where a large share of the poor live.	Neutral - Positive. The new legislation will prioritize a move away from Heavy Fuel Oil for power generation, while laying a framework for use of renewable sources.
PA3: Customs	Neutral	Neutral
PA4: Bureau of Standards	Positive - The restructuring of the BSJ will enhance its ability to protect health and safety by setting relevant standards.	Neutral
Pillar 2: Supporting Sustained Fiscal Consolidation and Public Financial Management		
PA5. Fiscal Rules	Short term negative - The increases in user fees will have short term negative impacts on the poor The GoJ has enhanced its conditional cash transfer program to address it.	Neutral
PA6. Virements	Neutral.	Neutral.
PA7. Procurement	Neutral.	Neutral.
PA8. Public investment management	Neutral.	Neutral.

5.3 Fiduciary, Disbursement and Auditing Aspects

A. Fiduciary

72. **Overall, the fiduciary and PFM framework is adequate for development policy lending.** A comprehensive assessment of the Jamaica PFM systems (PEFA) was done in February 2013. The report observed that performance of the GoJ PFM systems varied across the budget cycle. Progress on developing a sound PFM system and improved quality of public expenditures continue to be high on the GoJ agenda**.** As part of this effort, the Jamaican authorities have already implemented a number of important measures, including introduction of a Central Treasury Management System (CTMS) and the implementation of the Fiscal Responsibility Framework (FRF). However, there still remain a number of significant weaknesses, especially in the area of budget execution, use of International Sector Accounting Standards (IPSAS), preparation of the consolidated financial statements, and in strengthening internal and external audit functions for improving accountability and transparency for use of public funds.

73. The GoJ updated its PFM Action Plan based on the findings of the latest PEFA assessment, these are summarized below:

- Predictability and controls in budget execution have been limited by the monthly cash rationing system and weak tax collection. While the internal audit function has seen some improvements, internal controls, particularly those related to payroll expenditures remain weak.

- Cash management and bank account reconciliation processes have demonstrated some improvement in recent years. The CTMS has been rolled-out, however, the timely reconciliation of bank accounts by various MDAs still remains an issue.
- The existing payment, accounting and reporting system (FINMAN) allows for comparisons of budget estimates and out-turns, by economic categories for various MDAs. However, this information is captured at the payment stage only. Commitment data is not recorded in FINMAN, apart from the schedule of debt service payments. In addition, in year financial reports produced by the system do not have the capability of reporting revenue and expenditure out-turns on a monthly basis by administrative classification.
- The conversion of the annual financial statements to meet the international cash-basis IPSAS standard is a major outstanding issue in the agenda of the PFM reform. Individual MDAs, as well as LGAs and AGAs, produce annual financial statements presented in a consistent format but not all of the national standards are clearly spelled-out and compatible with IPSAS. The Government is undertaking accounting and financial reporting reform, commencing with the adoption of Cash IPSAS and a new integrated system (IFMS), to meet the increased financial recording and reporting needs and improve fiscal accountability and transparency. The Government also needs to consider preparing the consolidated financial statements of the Government using IPSAS.

B. Disbursement and Auditing

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

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

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

5.4 Monitoring and Evaluation

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

VI. SUMMARY OF RISKS AND MITIGATION

78. **The overall risk rating of this operation is high in light of the critical importance of political and governance, macroeconomic, and capacity and implementation risks in determining the success of this programmatic operation (Table 7).** Jamaica is going through a demanding transition period, where difficult reforms will only yield results in terms of growth acceleration and shared prosperity over the medium term. There is a risk that political commitment may weaken and social tensions increase, or that exogenous shocks may adversely impact fiscal consolidation efforts and set back the reform program. The reform program has overburdened the tight capacity to implement legislative and institutional reforms.

Table 7: Jamaica - The Systematic Operational Risks-rating Tool (SORT)

Risk Categories	**Rating**
1. Political and governance	Substantial
2. Macroeconomic	High
3. Sector strategies and policies	Low
4. Technical design of project and program	Low
5. Institutional capacity for implementation and sustainability	Substantial
6. Fiduciary	Moderate
7. Environment and social	Low
8. Stakeholders	Moderate
9. Other	Not Applicable
Overall Implementation Risk	**High**

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

- **Macroeconomic risks are high.** While the economy has stabilized somewhat, the recovery is still fragile and growth may continue to disappoint despite significant policy and institutional reforms. A number of downside risks to growth persist. The limited fiscal space significantly reduces the Government's flexibility to absorb unforeseen shocks, including those resulting from natural disasters. Growth targets require not only a continuation of good policy but also a favorable external environment. Specific risks relate to (i) changes in sources of oil financing; (ii) increased stress in the financial sector after two large domestic debt exchanges; and (iii) inability to refinance large debt amortizations coming due. The latter risk can be particularly problematic as lack of timely financing for these payments could seriously derail the gains made so far and precipitate a renewed crisis. Continued low growth could worsen the financing situation and, coupled with an exogenous shock, also precipitate a crisis.

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

- **Governance and political risks are substantial.** The reforms so far have inflicted significant pain, especially in the form of rising inflation, wage compression, reduced government activity (which has negatively impacted local businesses, and increased user charges). Further reductions in the wage bill will require continued wage restraint and success in implementing public sector reform. The remaining heavy reform agenda could lose steam if early results are not sufficient to maintain political and popular support, and vested interests are accommodated. The DPL complements difficult reforms underway under the IMF's EFF which have consumed considerable political energy. As the 2016 elections approach, the Government will have a difficult time balancing the need to deepen reforms with the need to maintain popular support.

80. While all identified risks cannot be mitigated, they are being managed by a comprehensive and close partnership with the client that (i) advises on technical issues underpinning a range of structural reforms, (ii) supports reform implementation, and (iii) monitors reform progress frequently by our strong presence on the ground. Risks are also being managed by close collaboration with the other IFIs (namely IMF and IDB).

ANNEX 1. POLICY AND RESULTS MATRIX

Prior Actions and Triggers		Results Indicators
Prior Actions under the First Programmatic DPL	**Indicative Triggers for the Second Programmatic DPL**	**Baseline end-March 2014, Target end March 2017**
Pillar 1—Improving Selected Investment Climate and Competitiveness-Related Conditions to facilitate Private Sector Investment		
PA 1. The GoJ, through its Cabinet, has (i) approved a policy that revises the development approvals process for issuing construction permits by establishing joint teams within planning authorities to expedite processing as needed, standardizing timelines for processing of all categories of buildings, and facilitating the acceptance of certification from licensed professionals and (ii) started the implementation of the AMANDA tracking system in Local Planning Authorities (LPAs) or Parish Councils.	**Trigger 1.** The GoJ begins implementation of the revised development approvals process for construction permits by fully implementing all the short term components of the revised policy on development approvals including (i) amending as needed the Local Improvements Act and Town and Country Planning Act; (ii) establishing a national policy for collection of development application fees and (iii) completing the implementation of the AMANDA tracking system for construction permits across all LPAs. **Trigger 2.** The GoJ makes effective a new building code as specified in a new Building Act.	**Result Indicator:** Greater accountability in the development approvals process as evidenced by 100 percent usage of the AMANDA system in LPAs and Commenting Agencies. Baseline: Four LPAs Target: All 14 LPAs and Commenting Agencies
	Trigger 3. The GoJ completes a comprehensive reform of the legislative framework underpinning Jamaica's energy sector with effectiveness of the new Electricity Act.	**Result Indicator:** Reduction in the energy sector's dependence on petroleum as evidenced by the percent of electricity generation using petroleum. Baseline: 94 percent Target: 75 percent
PA 2. The GoJ, through the Jamaica Customs Agency (JCA) has approved operational procedures to reduce the time taken for clearance of goods at Jamaican ports. **PA 3.** The Ministry of Industry Investment and Commerce (MIIC) has approved a resolution to separate the regulatory functions of the Bureau of Standards from its facilitative functions to enhance the Bureau's role in trade facilitation.	**Trigger 4:** The GoJ implements its PPP Policy by issuing a Request for Proposals for Norman Manley International Airport. **Trigger 5:** JCA completes implementation of ASYCUDA World in Kingston port as a pilot site and begins implementation at other ports. **Trigger 6:** The GoJ strengthens the regulatory framework governing the operations of SEZs with effectiveness of a new SEZ Act that does not generate a negative fiscal impact.	**Result Indicator:** Improvement in the customs clearance times and costs as measured by improvement in the Logistic Performance Index- Customs Aspect. Baseline: 2.88 (2014 LPI Customs Score) Target: 3.0

Pillar 2—Supporting Sustained Fiscal Consolidation and Public Financial Management		
PA 4. The GoJ has adopted a set of fiscal rules to strengthen fiscal transparency and set a target for debt reduction by approving amendments to the Financial Administration and Audit Act and Public Bodies Management Act.	**Trigger 7:** The GoJ improves fiscal transparency by endorsing a Fiscal Risk Statement in the 2015/16 budget that covers all significant contingent liabilities including those emanating from public bodies and PPPs. **Trigger 8:** The GoJ strengthens the legal and regulatory framework underpinned by the 2012 Public Debt Management Act by making effective its supporting regulations which (i) specify functions and responsibilities of the Ministry of Finance and Planning related to the management of public debt and (ii) establish guidelines for the management of contingent liabilities.	**Result Indicator:** Reduction in the public debt to GDP ratio. Baseline : 141.6 percent of GDP Target : 125 percent of GDP
PA 5. The GoJ, through its Cabinet, has approved a decision to limit virements in the Government budget effective April 1, 2015 to provide greater predictability in budgetary expenditures. **PA 6.** The GoJ has strengthened transparency of Government procurement and allowed the use of e-procurement by tabling a new Procurement Bill in Parliament.	**Trigger 9.** The GoJ amends the Financial Administration and Audit Regulation to (i) strengthen the performance orientation of the budget process in the medium term and (ii) include the new virement policy into the regulation. **Trigger 10:** The GoJ makes effective the new Procurement Bill. **Trigger 11.** The GoJ submits to Parliament the draft public sector pension reform legislation that helps contain the budgetary cost of civil service pensions.	**Result Indicator:** Greater credibility of the budgeting process as evidenced by the number/value of virements on compensation and capital expenditures. Baseline: J$ 1.9 billion Target: 0 **Result Indicator**: Public pension is administered through a contributory pension scheme as evidenced by annual employee contribution to pension as a percent of annual public sector pension payments. Baseline: 1.8 percent Target: 16.2 percent
PA 7. The GoJ has amended the Financial Administration and Audit Act to establish a Public Investment Management System which provides a common framework for the preparation, appraisal, approval and management of public investments in Jamaica, irrespective of source of funding or procurement and implementation modalities.	**Trigger 12.** The GoJ, through its Ministry of Finance and Planning, completes the building blocks for a functioning Public Investment Management System including: (i) setting out the processes and methodologies for the PIM system and (ii) establishing key PIM institutions: PIM Committee and PIM Secretariat.	**Result Indicator:** Linkages between investment budgets and forward expenditure estimates as measured by the PEFA indicator P1-12, dimension iv. Baseline: C Target : B or better

ANNEX 2: LETTER OF DEVELOPMENT POLICY

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

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

MINISTRY OF FINANCE AND PLANNING
30 NATIONAL HEROES CIRCLE
P.O. BOX 512
KINGSTON
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 Competiveness 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 the 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 2015with 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 BOJ 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.

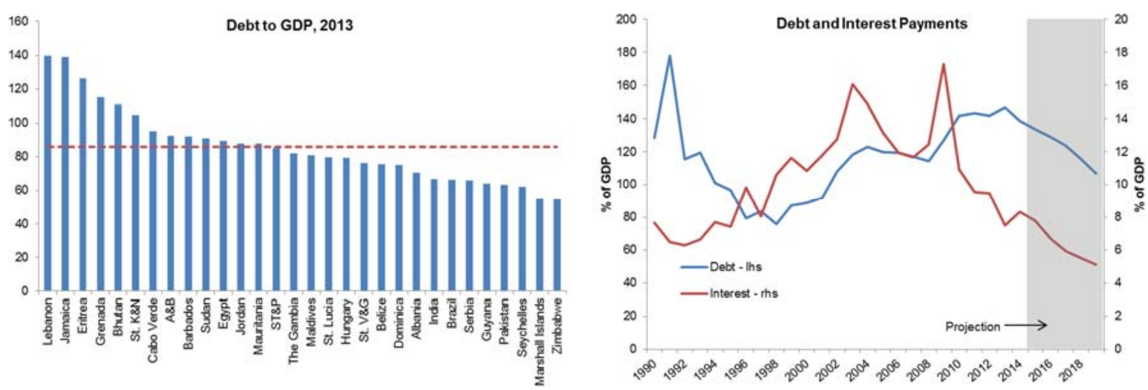
Sincerely,

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

ANNEX 3: ACHIEVING DEBT SUSTAINABILITY IN JAMAICA: PROSPECTS AND RISKS

1. **Jamaica ranks amongst the most heavily indebted developing countries. Jamaica has been heavily** indebted for decades, with an average debt to GDP ratio of 117 percent between FY 1990/91 and FY 2010/11. The debt burden climbed significantly between FY 1990/91 and FY 2013/14 when it reached close to 150 percent at end FY2013/14, surpassing other heavily indebted MICs such as Lebanon and Egypt. (Figure 1). The high debt burden makes Jamaica an outlier as measured by a number of key ratios. Interest payments reached 16 percent of GDP at its peak in FY 2008/09. After two debt restructurings and a tight fiscal consolidation, interest payments have fallen to 8 percent of GDP as of 2013/14 and are expected to continue to decrease. A large share of the debt is held by a few big financial institutions increasing systemic risk. Additionally, the maturity profile of this debt has resulted in lumpy repayment schedules, raising refinancing risks and contributing to the debt restructurings.

Figure 1: Jamaica's Debt Burden: Country Comparison and Historical Trend



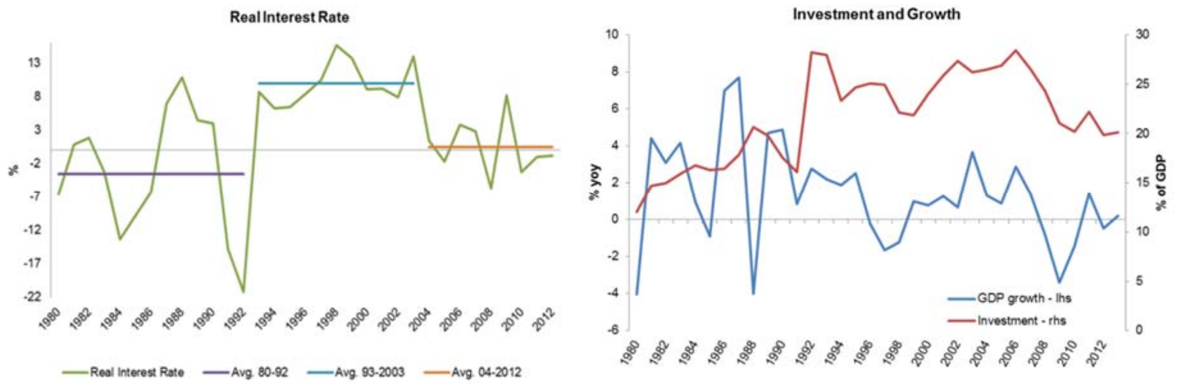
Source: World Bank, Bank of Jamaica, IMF. Note: Dotted line refers to sample average.

2. **Multiple factors were responsible for debt accumulation in Jamaica.** Jamaica's debt burden fell by over 100 percent of GDP between FY 1991/92 and FY 1996/97 (Figure 1). This was a period marked by substantial overall fiscal surpluses (averaging 1.3 percent of GDP and 3.2 percent of GDP at its peak in FY1991/92), which Jamaica has not been able to reproduce since. However, the debt burden rose by 47 percent between FY 1996/97 and FY 2003/04. This buildup was largely driven by the absorption of debt relating to the large financial crisis of FY 1996/97. According to some estimates, the crisis increased debt by 35 percent of GDP. Subsequently, large fiscal deficits and increasing costs of borrowing augmented this impact. The latest episode of debt buildup after the global crisis of 2008 was marked by a significant exchange rate depreciation and negative growth, both of which contributed to a debt buildup of 30 percent of GDP between FY 2008/9 and FY2012/13 (Figure 3).

3. **Large interest payments played an important role in debt accumulation.** During the period leading up to the financial crisis of the FY 1996/97 real interest rate rose to an average of 8 percent (Figure 2). This high cost of borrowing when combined with a 6 percent of GDP fiscal deficit translated into a sizeable debt buildup. As real interest rates decreased the debt increase was contained and even begun to decrease as a primary surplus was maintained. The decrease of the real interest rate since FY 2004/05 has led to a gradual decrease in the importance of the interest rate on debt

accumulation, to the point that since FY 2010/11 it has played a minor role and is even expected to contribute to decrease debt in the future.

Figure 2: Jamaica: Interest rates, Investment and GDP Growth



Source: Bank of Jamaica, IMF.

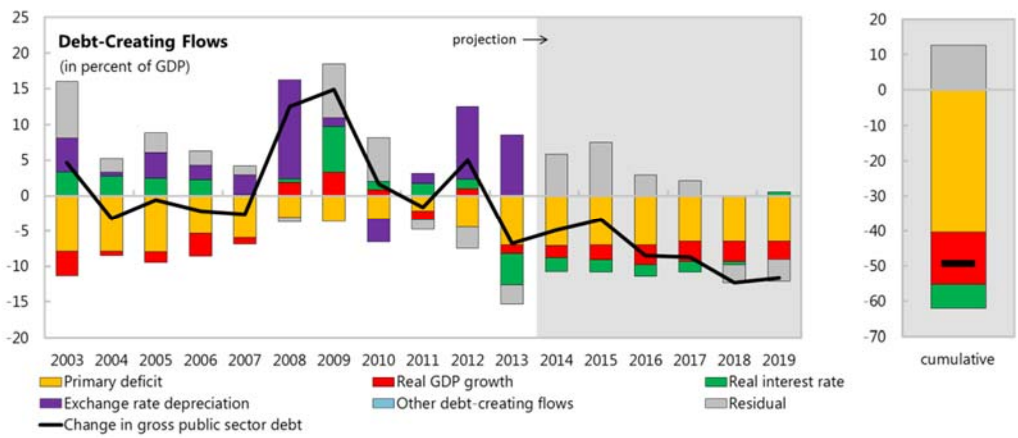
4. **The lack of growth also contributed to the debt buildup.** Numerous academic papers find a negative correlation between government debt and GDP growth (Patillo et al 2011, and Reinhart and Rogoff 2009). Although there is no consensus in the literature as to the precise mechanism by which it occurs, possible channels that have been identified are the subsequent need of a fiscal consolidation (decreasing overall demand) and crowding out of private investment. The debt overhang has played a role in suppressing growth in Jamaica, reinforcing the vicious cycle of low-growth and high debt. Jamaica's per capita average real GDP growth rate has remained at around 1 percent for the past twenty years. Growth contracted sharply after the global financial crisis, and average GDP growth between FY2008/9 and FY2012/13 was -0.75 percent.

5. **Achieving debt sustainability has required making difficult choices**. There are essentially three ways to reduce a debt overhang – (i) a strong fiscal consolidation; (ii) debt restructuring; and (iii) higher economic growth. At Jamaica's high level of debt, none of these options in isolation would be feasible or achieve a meaningful debt reduction. If debt were to be reduced solely by fiscal consolidation, the required primary balance surplus would result in severe expenditure compression with knock on effects on growth and social stability, as government spending on social and public service programs is cut drastically. A debt restructuring with a significant haircut for creditors, many of which comprise Jamaica's banks and financial institutions, would be detrimental to financial sector stability and potentially create another crisis. The large debt overhang would hamper any government led growth initiatives, given the inherent lack of confidence in the private sector that their investments would not face a future large tax on their investments.

6. **The Government has incorporated all three measures in its debt reduction strategy, which envisages a gradual reduction in Jamaica's debt burden over time**. The second debt restructuring, which was implemented as a near complete debt exchange on domestically held debt, restructured about US$8 billion of debt by reducing interest rates and lengthening maturities. This is complemented by a sustained primary surplus between 6.5 percent and 7 percent of GDP, a stable effective nominal interest rate which does not increase above 7 percent, and rising GDP growth which gradually increases to 2.7 percent by FY2018/19. These assumptions together imply an initial decrease

in public debt of about 4.5 percent of GDP from FY2013/14-FY2015/16 rapidly growing to 8.2 percent of GDP from FY2017/18-FY2018/2019. The debt to GDP ratio is projected to fall to 99.3 percent of GDP by FY 2019/20 under this baseline (Figure 4).

Figure 3: Jamaica Debt Decomposition: 2003-2019

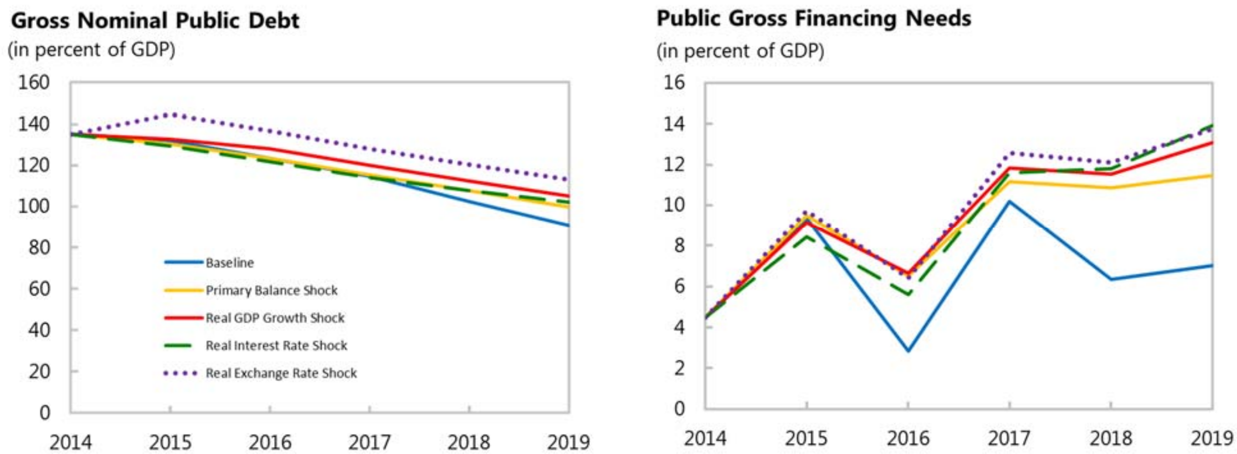


Source: IMF.

7. **This strategy, while potentially effective and less disruptive, is also risky.** Fiscal consolidation as the program progresses will become more challenging as elections draw closer and reform fatigue may set in. Fiscal consolidation accounts for close to 40 percent of the cumulative debt reduction from FY 2014/15- FY 2019/20. It will not result in sustainable debt reduction in the absence of growth, highlighting the importance of improving business climate and competitiveness of the economy. The debt trajectory is most sensitive to exchange rate devaluations as in the short run it would result in an increase in the debt stock, given the large share of U.S. Dollar denominated debt (Figure 4). Notwithstanding the progress on debt reduction, the large outstanding debt stock results in large financing needs (Figure 4). Hence, Jamaica will need access to commercial and official financing on reasonable terms to meet its sizable debt service commitments while not hampering the debt reduction achieved so far. The Government was able to raise significant private financing with its $800 million sovereign bond issue in June 2014. This has enabled it to pre-finance a large external bond repayment in June 2015. However, debt service payments averaging about US$1 billion dollars between FY 2017/18 and FY 2019/20 will require more such operations to ensure that Jamaica can roll over its repayment obligations until sustained growth creates the ability to pay down debt.

8. **The progress on macro will need to be sustained**, **and lead to a significant increase in private investment and growth**. Exchange rate depreciation – despite its balance sheet effects, would need to translate into higher competitiveness of Jamaica's exports. Jamaica's business environment has improved and this would need to facilitate a significant increase in private investment. Early signs of growth are encouraging. Data for tourist arrivals indicates continued increases through the year. Norman Manley International Airport recorded an increase of 9 percent year-on year in arrivals, higher than in previous years. There are a number of investment projects in the pipeline most notably projects to develop new power plants, a US$400 million investment to expand the Kingston Container Terminal, and a US$100 million project for upgrading the Norman Manley International Airport.

Figure 4: Jamaica: Public Debt and Gross Financing Needs under the Baseline and Alternative Scenarios



Source: IMF.

ANNEX 4: FUND RELATIONS ANNEX

IMF Executive Board Completes Sixth Review Under the Extended Fund Facility for Jamaica and Approves US$ 67 million Disbursement

Press Release No. 14/598
December 19, 2014

The Executive Board of the International Monetary Fund (IMF) today completed the sixth review of Jamaica's economic performance under the program supported by a four-year, SDR 615.38 million (about US$932 million at the time of approval) arrangement under the Extended Fund Facility (EFF).

The completion of the review enables an immediate purchase of an amount equivalent to SDR 45.95 million (about US$67 million). The EFF arrangement was approved on May 1, 2013 (see Press Release 13/150).

Following the Board discussion of the review, Mr. Naoyuki Shinohara, Deputy Managing Director, and Acting Chair made the following statement:

"The authorities' commitment to the program under the Extended Fund Facility has remained strong. Fiscal performance was broadly on track and all quantitative performance targets for end-September were met. Structural reforms have progressed on schedule.

"Macroeconomic performance under the program continues to be good and growth is showing signs of picking up. Wide-ranging actions to boost growth and employment are nonetheless critical for the success of the program. While the ongoing economic stabilization and debt reduction are essential pillars of the growth strategy, reforms to enhance the business climate should be accelerated—including by cutting red tape, reforming the energy sector, and making the public sector more client-oriented.

"Achieving the program's ambitious fiscal goals on a sustained basis will require further actions to strengthen public financial management and revenue administration, and to contain the wage bill. The preparation of the 2015/16 budget offers an opportunity to strengthen the quality of the fiscal adjustment, including by advancing public sector reform. These efforts will help provide additional resources for priority budgetary outlays.

"Expeditious implementation of the plans for financial sector reform, including by bringing into effect the Banking Services Act and the new framework for repo transactions, combined with strong contingency planning and resolution frameworks, will improve the soundness of the financial system."