PUBLIC
SIMULTANEOUS DISCLOSURE

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

JAMAICA

FISCAL STRUCTURAL PROGRAMME FOR ECONOMIC GROWTH II

(JA-L1051)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Gerardo Reyes-Tagle (IFD/FMM), Project Team Leader; David Kaplan (LMK/CME); Alternate Team Leader; Juan Pedro Schmid (CCB/CJA); Mario A Umana (INT/TIU); Javier Jimenez-Mosquera (LEG/SGO); Brodrick Watson (CCB/CJA); Lucia Madrigal (SCL/LMK); Marcio Cracel, Carlos Silvani, Jorge Baca-Campodonico, Michelle Solange, and Hunt Howell (contractuals); and Maria Lorena Kevish (IFD/FMM).

CONTENT

ANNEXES	
Annex I	Development Effectiveness Matrix (DEM) - Summary
Annex II	Matrix Policy

ELECTRONIC LINKS

REQUIRED

1. Policy Letter
2. Means of Verification
3. Results Matrix

OPTIONAL

1. Macro-Economic Indicators
2. Economic Analysis
3. Problem/Causes/Solutions/ Results Matrix
4. Financial Data Tables
5. Fiscal Consolidation Program (First and Second Programmatic Operations)
6. MOFP Tax Expenditure Estimate 2009-2011
7. Government of Jamaica Fiscal Policy Paper FY2014/15
8. IMF report Jamaica, Institutionalizing Tax and Customs Administrations, March 2011 *
9. Asian Development Bank (ADB), Finding Balance 2014: Benchmarking the Performance of State-Owned Enterprises in Island Countries
10. Tax reform in other countries
11. Jamaica Customs Code
12. Oil price shock Jamaica
13. Underlying causes of chronically negative balances of NWC and JUTC *
14. National Insurance Scheme in Jamaica: Pursuing Sustainability while Strengthening Adequacy *
15. Actuarial Analysis of the Sustainability of the National Insurance Scheme (NIS)
16. Memorandum of Economic and Financial Policies & Technical Memorandum of Understanding
17. Tax Administration Reform and Fiscal Adjustment: The Case of Indonesia (2001-07)
18. Information Technology Diagnosis of the Jamaican National Insurance Scheme (NIS)
19. Supporting the Development of More Effective Tax Systems

(*) At the request of the borrower country, the information contained in this document will not be disclosed. The non-disclosure of this information is in accordance with "Information provided in confidence; intellectual property; and business/financial information" exception referred to in paragraph 4.1 e (i) of the Access to Information Policy (GN-1831-28) of the Inter-American Development Bank.

20. India's Experience with Fiscal Rules: An Evaluation and The Way Forward
21. Tax reform for Stability and Growth in Jamaica
22. Tax Expenditures and Impact of Tax Reform
23. PEFA Report 2013
24. Comparative Policy Matrix
25. Barbados: Financial System Stability Assessment

ABBREVIATIONS	
ACCPAC	Accounting Financial Software Package
CARICOM	Caribbean Community and Common Market
CIT	Corporate Income Tax
DLP	Development Policy Loan
EFF	Extended Fund Facility (of the IMF)
ELO	Electronic Link Optional
ELR	Electronic Link Required
FAA	Financial Administration and Audit Act
FAMP	Fiscal Administration Modernisation Programme
FCP	Fiscal Consolidation Programme
FFF	Flexible Financing Facility
FIA	Fiscal Incentives Act
FISPEG	Fiscal Structural Programme for Economic Growth
FRF	Fiscal Responsibility Framework
FS	Financial Secretary
FY	Fiscal Year
GCI-9	Ninth General Capital Increase
GCT	General Consumption Tax
GDP	Gross Domestic Product
ICA	Initial Capital Allowances
IDB	Inter-American Development Bank
IAMC	Independent Assessment of Macroeconomic Conditions
IMF	International Monetary Fund
IRR	Internal Rate of Return
IT	Information Technology
JCA	Jamaica Customs Agency
JUTC	Jamaica Urban Transit Company
LT	Large Taxpayers
LTO	Large Taxpayer Office
MBT	Minimum Business Tax
MIS	Management Information System
MLSS	Ministry of Labour and Social Security
MOFP	Minister of Finance and Planning
MRP	Master Rationalisation Plan
MTF	Medium Term Framework
NIF	National Insurance Fund
NIS	National Insurance Scheme
NPV	Net Present Value
NWC	National Water Commission

PAYE	Pay As You Earn
PB	Public Bodies
PBP	Policy-Based Loan under the Programmatic approach
PBL	Policy Based Loan
PCR	Project Completion Report
PEFA	Public Expenditure and Financial Accountability
PIT	Personal Income Tax
PS	Permanent Secretary
TAJ	Tax Administration Jamaica

PROJECT SUMMARY

JAMAICA

FISCAL STRUCTURAL PROGRAMME FOR ECONOMIC GROWTH II
(JA-L1051)

<table>
<tr><th colspan="5">Financial Terms and Conditions</th></tr>
<tr><td colspan="3" rowspan="2">Borrower: Jamaica</td><th colspan="2">Flexible Financing Facility (FFF)[a]</th></tr>
<tr><td>Amortization Period:</td><td>20 years</td></tr>
<tr><td colspan="3" rowspan="2">Executing Agency: Ministry of Finance and Planning (MOFP)</td><td>Original WAL:</td><td>12.75 years</td></tr>
<tr><td>Disbursement Period:</td><td>12 months</td></tr>
<tr><th>Source</th><th>Amount (US$ million)</th><th>%</th><td>Grace Period:</td><td>5.5 years</td></tr>
<tr><td rowspan="2">IDB (OC)</td><td rowspan="2">130</td><td rowspan="2">100</td><td>Supervision and Inspection Fee:</td><td>[b]</td></tr>
<tr><td>Interest Rate:</td><td>Libor</td></tr>
<tr><td rowspan="2">Total:</td><td rowspan="2">130</td><td rowspan="2">100</td><td>Credit Fee:</td><td>[b]</td></tr>
<tr><td>Currency of Approval:</td><td>US$ chargeable to the Ordinary Capital (OC)</td></tr>
<tr><th colspan="5">Project at a Glance</th></tr>
<tr><td colspan="5">Project Objective/Description: The objective of the Fiscal Structural Programme for Economic Growth II (FISPEG II) is to support the government’s efforts to achieve a sustainable fiscal path. This will be accomplished through: (i) reducing tax distortions which hinder private investment, employment and competitiveness; (ii) strengthening revenue collection through broadening tax bases and reducing tax rates while enhancing tax and customs administration effectiveness and facilitating trade; (iii) enhancing control over budgetary expenditure; (iv) improving the fiscal sustainability of the National Insurance Scheme; and (v) strengthening the Fiscal Responsibility Framework (FRF).

The programme is structured as a Policy-Based Loan under the Programmatic approach (PBP) with three operations (see Annex II). This is the second operation of the PBP series that will disburse US$130 million in a single tranche.</td></tr>
<tr><td colspan="5">Special Contractual Clauses prior to the first disbursement: The disbursement of the single tranche of the loan will be subject to compliance with the conditions summarised in the Policy Matrix (see Annex II) (¶3.2).</td></tr>
<tr><td colspan="5">Exceptions to Bank Policies. None.</td></tr>
<tr><td colspan="5">The project qualifies for[c]: SV ☑ PE ☐ CC ☐ CI ☑</td></tr>
</table>

[a] Under the Flexible Financing Facility (FN-655-1), the borrower has the option to request modifications to the amortization schedule as well as currency and interest rate conversions. In considering such requests, the Bank will take into account operational and risk management considerations.

[b] The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors during its review of the Bank’s lending charges, in accordance with the relevant policies.

[c] SV (Small and Vulnerable Countries), PE (Poverty Reduction and Equity Enhancement), CC (Climate Change, Sustainable Energy and Environmental Sustainability), CI (Regional Cooperation and Integration).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, Problem Addressed, and Justification

1.1 **Macroeconomic and fiscal background.** Three years ago, Jamaica was faced with seemingly insurmountable economic challenges: an overvalued exchange rate,[1] plummeting foreign exchange reserves, large current and fiscal deficits, limited access to international markets, a high public expenditure bill, and an unsustainable debt burden equivalent to 140.1% of Gross Domestic Product (GDP), with no room for responsive fiscal policies and all in the midst of the global financial crisis. The macroeconomic context has improved nonetheless (see Electronic Link Optional ELO#1). The Minister of Finance and Planning (MOFP) signed an Extended Fund Facility (EFF) with the International Monetary Fund (IMF) in 2013 supplemented by technical and financial support from the Bank and the World Bank of US$510 million each over the period 2013-17, through a large-scale fiscal adjustment programme.

1.2 At the request of the authorities, the Bank is supporting the government's structural reform plan through the Fiscal Structural Programme for Economic Growth (FISPEG) Policy-Based Loan under the Programmatic approach (PBP). The first operation of the FISPEG supported the authorities in the design and implementation of a key tax reform (approved in December 2013; implementing since January 2014) that broadens the tax base, eliminates the tax system distortions (e.g. standardises the Corporate Income Tax rate (CIT) and eliminates / reduces some key tax expenditures) and promotes investment and formal employment for economic growth. Under the tax policy reform, the authorities strengthened the Tax Administration Jamaica's (TAJ) and Jamaica Customs Agency's (JCA) effectiveness, built on three pillars[2]. The first operation also strengthened the public expenditure controls by supporting the approval of the Master Rationalisation Plan (MRP), the central government wage freeze; and better control of the Public Bodies (PB).[3] With respect to the National Insurance Scheme (NIS) reform, the programme supported: (i) concept paper that addressed issues regarding the contribution rate, pension benefits and coverage indicators of the scheme, all with the goal of reducing the actuarial deficit from 29% to 18% of GDP by FY2017/18; (ii) elaboration of an actuarial analysis, which quantified the fiscal consequences of not reforming the pension system; and (iii) analysis of the current NIS Management Information System (MIS), which is crucial to ensuring the adequate monitoring of and compliance with pension system requirements.

1.3 Under this second operation, the FISPEG II is supporting: (i) the strengthening of the pension system's fiscal sustainability through the reform of the NIS; and

---

1 The overvaluation ranged between 9% and 22% with respect to its equilibrium. See: IMF EFF. April 2013.

2 The pillars are: (i) update the tax administration legal framework to improve enforcement powers; (ii) implement administrative measures to improve tax compliance; and (iii) acquire new integrated IT systems As part of the conditions of the first operation, the Bank, the authorities and the IMF agreed on a Tax and Customs Administration Reform Action Plan which the Bank is regularly monitoring.

3 Public Bodies means a statutory body or authority or any government company but does not include an executive agency designated under the Executive Agencies Act.

(ii) the establishment of a fiscal rule that supports the country's return to a sustainable fiscal path. The programme as a whole is supporting the government's efforts to tighten the fiscal policy stance to return to a fiscal sustainability path and resume economic growth.

1.4 The macroeconomic programme supported by the three multilateral institutions aims to raise and maintain the central government's primary surplus to 7.5% of GDP from FY2013/14 to FY2016/17 (up from 3.2% in FY2011/12). The public debt is expected to decrease given the projected macroeconomic framework and fiscal targets reflected in the medium-term macroeconomic framework. At the end of the programme economic growth is expected to reach an annual rate close to 3%. The seventh review of the EFF concluded in March 2015, and the programme performance is on track.

1.5 Preliminary macro and fiscal results of the authorities' programme reveals that between FY2011/12 and FY2013/14 the central government's primary balance increased from 3.2% of GDP to 7.7% while the overall budget balance improved from -4.1% of GDP to 0.1%, the first budget surplus since FY1995/96. This is in part due to the government's efforts to reduce the primary expenditure from 22.4% of GDP to 19.5% in the same period. By FY2016/17, Jamaica is expected to generate a budget balance of 0.8% of GDP. This would be due to a combination of higher revenues, a significantly lower budgetary expenditure bill and a smaller public sector debt. A cautionary note is that growth is resuming at a very slow pace (growth projected to reach 0.4% in FY2014/15 and 2.3% by FY2016/17) and public debt is presently at 136.7% of GDP. In addition, notwithstanding the encouraging initial results of the tax reform under the FISPEG (see ¶1.2 and ¶1.13), strengthening of the tax administration is crucial to enforce the grandfather provisions and the implementation of the Fiscal Incentives Act (FIA) 2013. Jamaica will require of sustained primary surpluses of 7.5% of GDP over the medium and long term to reduce debt-to-GDP to 96% by 2020. A major risk would be continued weak growth that could undermine support for the reform efforts. Consequently, fiscal consolidation, in combination with growth facilitating reform measures, needs to be maintained for some time.

1.6 This is the second of a series of three policy-based loans under the programmatic approach that constitute the FISPEG. The first operation (3148/OC-JA) of an amount of US$80 million was approved by the Board of Directors in February 2014. This second operation is to be funded with a US$130 million loan in accordance with the priorities of IDB Country Strategy with Jamaica, 2013-2014 (GN-2694-2). The amount of the FISPEG II represents 8.7% of the financing needs for FY2015/16 (equivalent to US$1.5 billion dollars).[4]

1.7 **Problems Addressed by the Bank's programme.** The main problem being addressed by this operation is the country's lack of fiscal sustainability. This will be effected by mitigating five specific problems and their associated causes:

---

4 Around US$500 million will be covered with the existing cash balance, including the proceeds from a US$800 million international bond (July 2014). The rest is covered with external and domestic resources.

1.8 **Tax policy.** The tax system is discretionary while the tax administration requires updating. The system was built around uneven tax treatment of sectors and taxpayers. Tax expenditures are high compared to international standards (see ELO#22).[5] The main causes associated to this problem are:

a. The tax code allows for a large number of exemptions to the tax bases. Both exemptions and zero-rating of General Consumption Tax (GCT) complicates tax administration and increased economic distortions[6]. Exemptions, tax waivers, and incentives were given on a discretionary basis and could not be justified on equity grounds. Tax expenditures accounted for 7.8% of GDP between 2009-11, of which tax incentives accounted for 2.3%, discretionary waivers 0.8%, and statutory waivers 4.7% (see ELO#6 and see ELO#22).

b. Large Taxpayers (LT) paid Corporate Income Tax (CIT) rates up to 33.33% compared to 27.8% across the Latin America and the Caribbean region.[7] The comparatively higher rates, among other factors, had a negative impact on competitiveness as no longer can a country tax business investment and activity at a high rate without adversely affecting its economic performance.[8] Under the tax reform designed and implemented under the FISPEG I, the CIT rate for unregulated companies was reduced to 25%. As part of this second operation the government is committed to maintain the rate as established under the first operation.

c. High and dispersed import tariffs (from zero to 177%) hinders economic productivity and competitiveness (see ELO#11) and see ELO#7).

d. High tax rates have resulted in high tax noncompliance rates. Non-filing rates for FY2012/13 reached 55% of total taxpayers for CIT; 57% for Personal Income Tax (PIT); and 24% for GCT. Tax arrears reached J$278 billion, of which 74% were overdue for more than 5 years (see ELO#6 and ELO#22).

1.9 **Tax administration.** The TAJ and JCA have limited capacity to increase their revenue collection. The main causes associated with this problem are:

a. The tax and customs administration legislation requires strengthening to provide the right enforcement powers to the TAJ and JCA. Enforcement of compliance is ineffective. The TAJ Large Taxpayers Office (LTO) is understaffed[9] and there are no effective compliance plans in place.

---

[5] Jamaica is the third highest country with tax incentives in the Region. See Fretes, V. et. Al. More than Revenue: Taxation as a Development Tool IADB, 2013, page 212. As part of final operation, the Bank will update the study on tax expenditures to assess how much it has been reduced as a percent of GDP.

[6] According to the World Bank, such tax exemptions encourage informality in the business sector and penalize firms with small amounts of capital, a characteristic of the large majority of native firms. The allocation of capital implied by such a state of affairs is highly inefficient. The evidence suggests that the tax regime could be a binding constraint on Jamaica's growth because it distorts capital accumulation. See: Jamaica Country Economic Memorandum, World Bank, May 2011, pg 7.

[7] Excluding Brazil and Argentina whose CIT rates are 35% and 34% respectively, the average drops to 26.8%. Also, Jamaica is significantly above the average of 25% observed in the Caribbean Region. See: Fretes, V. et. Al. More than Revenue: Taxation as a Development Tool IADB, 2013, pgs 203-217.

[8] See: Pomerlau K. and Lundeen, A. International Tax Competitiveness Index. Tax Foundation 2014.

[9] For example, in 2013, the office had 75 staff to audit and inspect 1,042 LTs: 1 employee for every 14 taxpayers (7%), while the average standard for small developing countries in the LAC region is 16%.

A significant number of large and medium taxpayers do not file on time (in FY2011/12, only 72.5% of the LTs and 19.8% of the medium and small taxpayers filed their Pay As You Earn (PAYE) returns on time. For GCT, these rates were 93.6% and 64.6% respectively). The TAJ and JCA e-filing and e-payment systems are partially implemented and therefore not used extensively. The balance of tax arrears was equivalent to 18 months of TAJ collection. Around 50% of the total arrears are due from government agencies and PBs, of which more than 60% were older than 6 years (see ELO#8).

b. The TAJ and JCA lacks integrated Information Technology (IT) systems to support their operations. The IT systems in use by TAJ and JCA were made up of a number of independent legacy systems that were not integrated and relied on manual data entry (i.e. limited e-filing) (see ELO#8).

c. The JCA and TAJ accounting and financial systems do not fully comply with accounting standards therefore require updating. These systems were a combination of manual processing supplemented with Excel spreadsheets and some accounting information produced by their legacy systems (see ELO#8).

1.10 **Rationalisation of expenditure.** Expenditure rigidity poses a major challenge to the MOFP regarding budget management and control. Some of the major PBs incur chronically large deficits and have sizable debts that are guaranteed by the central government.[10] The main causes associated to these problems are:

a. A high wage bill budget component, which comprises 60% of primary expenditure (i.e. 11% of GDP in FY2012/13, the second largest wage bill in the Caribbean Region).

b. Lack of effective budget management and control of the PBs increases fiscal risks exposure. Supplementary estimates of PB revenues and expenditures are occasionally tabled in Parliament justifying additional (unplanned) subventions from the Consolidated Fund. Accounting standards[11] (i.e. auditing, recording and reporting) are not applied consistently across PBs giving rise to budget misclassification of the PBs and lack of information about the financial soundness of the PB.[12]

c. The financial statements of non-self-financing PBs are not comprehensive, do not distinguish between commitments and expenditure or between advances and payments, and do not allow direct comparison of budget implementation

[10] See: Villasmil, R. Underlying Causes of the Chronically Negative Balances of NWC and JUTC. March 2015. IDB. Pg 13 (see ELO#13).

[11] The Jamaican national accounting standards are based on International Accounting Standards (IAS). Jamaican accounting standards regulators adopted the IFRS on auditing on 2002. All companies are required to apply IFRS in the preparation of their financial statements and to have these statements audited in accordance with IAS.

[12] For example, Clarendon Alumina Production has incurred losses of US$29.8 million, with a cumulative fiscal deficit projected at US$236.8 Million by FY2013/14. The National Water Commission was burdened with two major liabilities in 2013 that forced an overall loss of US$61.4 million, leading to an accumulated nominal deficit of US$232.4 million (see ELO#13).

to the original budget, therefore not allowing for an easy consolidation of public accounts to assess fiscal performance. Also, the presentation of the PBs' financial statements is severely delayed (12 to 18 months), and even then the MOFP only monitors the finances of one-third of PB.[13] According to the Public Expenditure and Financial Accountability (PEFA) Report 2013 (see ELO#23), these delays in the submission of financial statements limit the information available for policy decisions.

1.11 **NIS Reform**. The National Insurance Fund (NIF), which finances all of the benefits under the NIS, is expected to enter operational deficit (in the absence of any reform) by 2025 due to an increase in the ratio of pensioners to contributors. The actuarial deficit in 2013 was US$3.41 billion (29% of GDP). NIS pension expenditures represented 0.9% of GDP (roughly 1/3 of total public pension expenditure). At the current contribution rate, the NIS cannot support the current level of pensions with an estimated actuarial deficit per contributor of US$7,794. Under these conditions, the NIF could run out of resources by 2033.[14] The four main causes associated with this problem are:

a. NIS contributions equal to 4% of wages (up to the Insurable Wage Ceiling of J$1.5 million per annum) are insufficient to finance the pension benefit levels (see ELO#14 and ELO#15). Actuarial balance requires the contribution rate to be raised or benefits to be reduced.

b. Real returns on NIF assets have been falling and in 2010-14 were negative. During this period, the average gross nominal annual yield on NIF assets was 9.5% with an inflation rate of 11.7%. In 2005-09, the average gross nominal yield was 18%, with an inflation rate of 11.4% (see ELO#14 and ELO#15).[15]

c. Data collection is weak. The NIS database is out-dated, incomplete and has numerous errors and omissions, causing extensive delays in the processing of claims and the payment of benefits (see ELO#18).

d. NIS lacks the information and mechanisms to monitor its performance and fiscal sustainability (see ELO#15). While the law requires a quinquennial actuarial review of the NIF, the last review was at March 2005. It is not possible to verify the status of beneficiaries of the NIS and their participation in other programmes.

1.12 **The fiscal rule.** Prior to the first operation, no comprehensive Medium-Term Framework (MTF) had been developed for an appropriate fiscal response to macro-economic shocks, leading to increased unplanned expenditures, whenever a shock occurred. This generated delays in implementing corrective measures for budget deviations and did not provide safeguards for a response mechanism to tackle adverse economic shocks. The main causes associated with this problem are:

---

13 According to the Public Enterprises Division in 2010, only 12% of PBs submitted their reports on time.

14 In addition to the fiscal problems, the NIS also faces an important problem of coverage due to labor-market informality. In particular, only 40% of workers contribute to the NIS. (see ELO#14), pg. 8.

15 In 2012 the NIF performed an asset swap of Fixed Rate Accrediting Notes in exchange for government debt at a rate of J$80 (US$0.7) for every J$100 (US$0.9), lowering the value of the fund by 20% (see ELO#15). In 2013, the NIF stood at US$565 million, compared to US$631 million in the previous fiscal year.

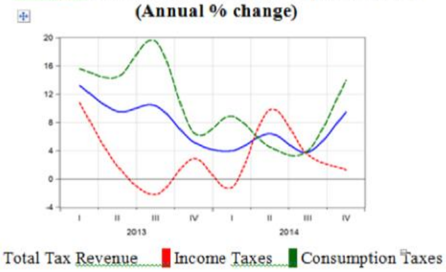
a. Inadequate operational guidance to formulate the budget and the MTF.

b. Limited mechanisms to constrain contingent liabilities and off-budget fiscal activities. Inadequate mechanisms to discourage the shifting of fiscal activities from the central government budget to explicit or implicit guarantees.

1.13 **Justification.** As part of the first operation, the Bank provided technical assistance to the government (under ATN/FI-12649-JA, Support to Fiscal Consolidation), to design, approve and implement a comprehensive tax reform that broadens the tax base, reduces tax expenditures, and promotes economic growth and formal employment. This reform is consistent with international best practice recommended by the Bank and other institutions (see ELO#19 and ELO#21). Preliminary data suggests that the reform's revenue impact is moving in the right direction. In the first quarter of FY2014/15, the previously observed downward trend in tax revenue was reversed. As shown in Chart 1, the nominal increase in total tax revenue, compared to the same quarter of the previous year, was 10.6% while consumption taxes rose by 15.3%. Considering that the inflation rate in the same period was around 8%, an increase in total tax revenue in real terms in the same period was also achieved. The revenue increase of 10% in nominal terms with respect to the previous year observed in Q3 2013 was influenced by tax measures introduced in the FY2013/14 budget. Given that full implementation of the comprehensive tax reform will take considerable time (24 months from initiation), the rate of revenue increase is expected to continue during the next fiscal year (around 6%).[16]

1.14 The design of the FISPEG series frontloads key reforms such as the approval of the comprehensive tax reform (approved in the first operation). For this second operation, the key reforms that are put forward include: the enactment of the Minimum Business Tax (MBT) Act and the legally binding framework for the new fiscal rule framework. It also calls for the submission to Cabinet of the Green Paper for the reform of the NIS as a key step prior to the establishment of the legislative framework for a comprehensive reform of the NIS (condition for the third operation).

Chart 1. Jamaica tax revenue gross performance (Annual % change)



1.15 **The Bank's Strategy in the Country and Sector.** The Country Strategy focuses on supporting efforts to re-establish fiscal sustainability, maintain social stability, and promote private sector-led growth. The FISPEG supports the Country Strategy in the first area, as well as contributing to improving the business climate by simplifying the tax structure. It also complemented three Bank

---

[16] The transition will be complete when all beneficiaries from the old regime have elected the new regime or have their benefits expire under the old regime. Entities that have been benefitting under the old incentive Act may opt to continue to enjoy those benefits until their incentive period expires. This mechanism of grand-fathering is designed to minimize disruption within the economy.

operations: (i) the Competiveness Programme (3147/OC-JA), which sponsored reforms to reduce the cost of paying taxes for private sector activities; (ii) the Public Financial and Performance Management Programme (2058/OC-JA), which implemented the Financial Administration and Audit Act (FAA); and (iii) the Public Sector Efficiency Programme (3121/OC-JA) that aims to strengthen the government's capacity in managing its human resources, IT, and management by results.

1.16 The programme is aligned with the IDB Country Strategy with Jamaica, 2013-2014 (GN-2694-2).[17] The FISPEG will contribute to the lending programme priorities of the Ninth General Increase in the Resources of the Inter-American Development Bank (AB-2764) (GCI-9) by supporting small and vulnerable countries and support regional cooperation and integration through institutional strengthening. For example, when it comes to agricultural imports, many tariff rates at or below 40% were reduced to the default rate of 20% in line with CARICOM. Also, non-consumer goods were reduced to 0%. A rate of 0% has been applied to consumer items and intermediary goods used in the productive process for manufacturing and primary producers through the Productive Inputs Relief, in line with CARICOM. The FISPEG supports the institutional strengthening of JCA to facilitate the movement of goods and services within and outside CARICOM, to promote a better integration of the country in the global economy. It will also contribute to the development regional goals of institutions for growth and social welfare by increasing the tax revenues; and to the products of updated public financial management systems related to accounting and tax revenues, as defined in the Results Framework.

1.17 **The Bank's interventions in Jamaica.** The Bank has sponsored two closely related programmes. The first was the Fiscal Consolidation Programme, funded by two programmatic Policy Based Loans (PBL, 2359/OC-JA and 2502/OC-JA) and disbursed in 2010. The third PBL in the series was not processed due to a deteriorating macro-economic and fiscal environment in 2011/12. Several lessons from the Bank's experience with the design and execution of the (truncated) Fiscal Consolidation Programme (FCP) are useful to keep in mind (see ELO#5): (i) when designing and implementing comprehensive and sensitive tax reforms, a broad social and political consensus is needed, which takes time to build; and (ii) the Bank's technical team should have the opportunity to discuss the reform agenda with host-country technical staff outside of the narrow context of the programme design and implementation. The FISPEG benefits from the sensitisation achieved from the FCP experience and the now much broader public realisation that the country has to put key structural reforms into effect.

1.18 The second intervention is a US$65 million investment loan (2658/OC-JA) for the Fiscal Administration Modernisation Programme (FAMP), signed in 2011, that supports the modernisation of the tax administration, the strengthening of debt management and the implementation of the Central Treasury Management System.

[17] The FISPEG is aligned to CS 2013-14 and also with the Country Strategy currently in preparation.

1.19 **Coordination with other donors.** The Bank has been coordinating efforts with the IMF, specifically on tax reform and fiscal rule. It has also been coordinating with the World Bank, which prepared a Development Policy Loan (DPL) on competitiveness in the amount of US$130 million approved in December 2013. The DPL complements the FISPEG operation by concentrating primarily on the expenditure side of public finance and on specific bottlenecks to doing business.

1.20 **Coordination among government agencies.** All of the reforms are carried out by the MOFP, except for the NIS reform, which is done by the Ministry of Labour and Social Security (MLSS). The MOFP is coordinating with the NIS and is an active participant in the stakeholder working group, which includes: MLSS, Planning Institute of Jamaica, The Cabinet Office, the Jamaica Government Pensioners' Association, the Jamaica Confederation of Trade Unions, and the Jamaica Employers Federation, in addition to members from civil society and academia.

B. Objective, Components and Cost

1.21 **Objective.** The objective of FISPEG II is to support the government's efforts to achieve a sustainable fiscal path. This will be accomplished through: (i) reducing tax distortions which hinder private investment, employment and competitiveness; (ii) strengthening revenue collection through broadening tax bases and reducing tax rates while enhancing tax and customs administration effectiveness and facilitating trade; (iii) enhancing control over budgetary expenditure; (iv) improving the fiscal sustainability of the NIS; and (v) strengthening the Fiscal Responsibility Framework (FRF).

1.22 The programme's direct beneficiaries are: (i) the central government, which will benefit from additional resources to finance more effective public expenditure; (ii) taxpayers who will benefit from an equitable tax system; and (iii) participants under the NIS through a better NIS system. The programme comprises five components as outlined below:

1.23 **Component I. Macroeconomic stability.** The objective of this component is to maintain a sustainable macroeconomic policy framework consistent with the objectives of the programme and the Policy Matrix.

1.24 **Component II. Strengthening tax revenues.** The objective is to reduce economic distortions and inequities resulting from the tax system. In this second operation, the tax policy subcomponent supports the implementation of the legislative tax reforms (e.g. FIA, Charities Act and corresponding law amendments) that were approved under the first operation. To ensure the continuity and sustainability of the tax reform the government will implement the following policy actions for the second operation:

a. Simplifying the tariff structure by reducing import tariff dispersion, consistent with Caribbean Community and Common Market (CARICOM) and other international trade agreements by: (i) applying tariff caps on imports as specified in the first operation; and (ii) maintaining the 5% tariff rate on selected intermediate and final goods as specified in the first operation.

b. Increasing tax revenues by: (i) enacting a Minimum Business Tax. (MBT);[18] (ii) maintaining a cap of 50% on claims for deduction of tax losses forwarded in any year of assessment on chargeable income (CIT and PIT); and (iii) making the GCT applicable to government purchases.

c. Curtailing tax expenditures by: (i) enforcing provisions of the Charities Act, the FIA and the consequential amendments to the revenue laws; and (ii) maintaining the cessation of granting of new categories of ministerial discretionary waivers.

d. Reducing economic distortions and promoting economic growth by: (i) maintaining the CIT rate of 25% for unregulated companies; (ii) continuing the ETC for registered trade companies under the labour incentive programme, up to a cap of 30% of the chargeable income tax; (iii) maintaining the Initial Capital Allowances (ICA) for new capital investment; and (iv) maintaining limitation of tax incentive allowed under the FIA for pioneer/mega projects at an overall cap of 0.25% of GDP.

e. Reviewing and assessing the recommendations of the Bank-sponsored study of the rationalisation of taxes on petroleum and derivatives.

1.25 The third operation will ensure that all the activities from (a) to (d) are maintained and fully enforced and the agreed recommendations in (e) are implemented.

1.26 Under the tax administration measures, the Government of Jamaica will implement the following policy actions for the second operation:

a. Continuing to strengthen TAJ and JCA enforcement capabilities by: (i) maintaining the number of qualified professional staff in the LTO at no less than 120 (see footnote 9); (ii) maintaining the powers of TAJ to mandate taxpayers e-filing; (iii) enforcing mandatory e-filing of all taxes paid by LT, including payroll taxes; (iv) harmonising and strengthening the tax laws' provisions for the collection of outstanding arrears by submitting the tax amendments to Parliament; (v) assessing the appropriateness of bank fees being charged and, where it is to the benefit of the government, making corresponding adjustments in contract arrangements, where feasible; (vi) expanding e-payment options to include the special telephone consumption tax and guest accommodation room tax; (vii) reaching the proportion of LTs filing on time: CIT ≥ 80%, GCT ≥ 90%, PAYE ≥ 60%, so that the ratio of tax arrears to revenue ≤ 5%; (viii) assuring that the Proportion of medium size taxpayers filing on time is: CIT ≥ 40%, GCT ≥ 80%, PAYE ≥ 56%, so that the ratio of tax arrears to revenue ≤ 20%; and (ix) conducting audits on 20% of LTs and 20% of medium taxpayers.

b. Continuing to develop and implement the IT system for revenue administration by: (i) meeting interim benchmarks for the implementation of Phase 1 of TAJ's integrated tax administration IT system;[19] and (ii) meeting

[18] The MBT was introduced as a temporary measure in 2014. Under this operation the measure will be made permanent by tabling the tax amendment in Parliament, which took place in March 2015. (See ELO#27).

[19] Phase 1 incorporates taxpayer registration, GCT/SCT and telephone call tax into the new ITAS application.

interim benchmarks for the implementation of the JCA integrated IT system, including mandatory e-filing of all customs declarations and manifests.

c. Assuring that the Accounting Financial Software Package (ACCPAC) system in JCA is fully implemented.

1.27 The third operation will ensure that all the activities from (a) and (b) are maintained and fully enforced and the ACCPAC is fully operational.

1.28 **Component III. Rationalisation of expenditure.** The objectives are to: (i) support the government's policy to control public expenditures; (ii) increase the use and effectiveness of public resources; and (iii) improve monitoring of PBs. To achieve these objectives, the government will implement the following policy actions for the second operation:

a. Maintaining the policy of no central government salary increases to meet the wage bill annual target of no more than 10.1% of GDP for FY2014/15.[20]

b. Implementing the interim benchmarks of the Master Rationalisation Plan to streamline the PB including specified advances in privatization of three State-Owned Enterprises and merger of two regulatory entities.

c. Enforcing measures to strengthen the accountability and transparency of PB by ensuring presentation of annual reports of self-financing PB to Portfolio Ministries within the agreed six month time period[21] after the end of the financial year to which the reports pertain.

d. Completing the Bank sponsored study on the economic and financial situation of the National Water Commission (NWC) and Jamaica Urban Transit Company (JUTC) (see ELO#13).

1.29 The third operation will ensure that the government continues to manage the central government salary increases to meet the annual wage bill target and that the MRP continues to be implemented. It will also support the government in enforcing measures to strengthen the accountability and transparency of the PBs as well as the implementation of the recommendations under the Bank's study.

1.30 **Component IV. Improve Fiscal Sustainability of the NIS.** The objective is to reverse the increasing fiscal deficit trend of the NIS. To address this objective, the government will implement the following policy actions for the second operation:

a. Submitting the Green Paper to Cabinet for the reform of the NIS that reflects the preferred option arising from: (i) an examination of the various options previously identified, including their fiscal impact on the government;

[20] As part of the FISPEG, the wage bill policy target for the second operation was set at 9.7% of GDP. Despite maintenance of the no salary increase policy, the estimated wage/GDP ratio for FY14/15 is 10.1% of GDP. The deviation is due to GDP being lower than previously estimated. Growth and inflation for FY14/15 to date has also been lower than programmed, so growth for the full fiscal year is lower than estimated. The measure does not affect the objectives of FISPEG (see ELO#27).

[21] Agreed under the EFF programme. The measure does not affect the objectives of FISPEG (see ELO#27).

(ii) stakeholder consultations; and (iii) an action plan that includes timelines and resources for the implementation of these reforms. All reform options contained in the Green Paper involve a combination of parametric reforms to improve the financial sustainability of the system.

b. Establishing a stakeholder working group on the reform of the NIS including representatives from the MLSS, the MOFP, the Planning Institute of Jamaica. and other representatives. International experience suggests that social dialogue is crucial to successfully implement pension reforms (see ELO#14).

c. Publishing the actuarial analysis of the NIS for public consultation.

d. Approval by Cabinet for issuance3 of drafting instructions for a bill to mandate that an actuarial analysis of the NIS is required every three years.

e. Reviewing and approving the hardware and software assessment report that has been supported by the current operation, which includes a proposal for the creation of a management information system (MIS). Based on this report, the procurement process for the contracting of the most urgently needed components of the MIS has been launched.[22]

1.31 The third operation will ensure that: (i) the legislative framework is in place for the reform of the NIS; (ii) the government tables in Parliament the Bill that requires an actuarial analysis of the NIS every three years; and (iii) the key modules of the specified NIS-MIS system are operational.

1.32 **Component V. Implementation of a Fiscal Rule.** The objective is to ensure that the government has made a binding commitment to achieve fiscal sustainability by providing a framework for automatic fiscal corrections to deviations from pre-determined fiscal balance. To address this objective the government will enhance the fiscal rules through the passage of the Public Bodies Management and Accountability (Amendment) Act, 2014 and the Financial Administration and Audit (Amendment) Act, 2014.[23] The third operation will ensure that the fiscal rule continues to be effective.

C. Key Results Indicators

1.33 The expected results of the operation are an increase of: (i) tax revenues as a consequence of the tax reform; (ii) annual audits performed by LTO and Medium Taxpayer Office; and (iii) the percentage of self-and-non-self-financing PBs with financial statements on time. Also, other expected results are the decrease of:

[22] This condition has been revised to allow for the contracting of the most urgently needed components. The MIS assessment has revealed key areas needing improvement, making it infeasible to include them all in one contract. The components supported under FISPEG II will generate improvements in services. These include: (i) acquire the repository and security components and the Registration and Contribution components; (ii) Assess current and future state capacity requirements and acquire new operating hardware platform; and (iii) Implement and integrate these components and the new operating platform.

[23] The government is calibrating the macro-fiscal indicators to estimate the overall balance path to comply with the debt ceiling. It is also strengthening the institutional framework to: (i) improve the budgetary procedures; (ii) exclude the selected commercial PBs from the fiscal rule; (iii) bolster the capacity at the Office of the Auditor General; and (iv) design a sanctions regime for infringement of the rule.

(i) the annual central government sector wage bill; (ii) the actuarial deficit of the NIF; (iii) the average time for pension claims processing; and (iv) the primary expenditure. Detail of the impact, results and outputs of the operation are included in the Results Matrix (see Electronic Link Required#4).

1.34 The Bank performed a Cost Benefit Analysis to evaluate the expected results of the programme's tax reform component, which is oriented to the accomplishment of a sustainable tax system, contributing to increasing tax revenue and reducing the fiscal deficit. (see ELO#2). The tax revenue strategy proposed by the FISPEG tax reform Component II, is expected to increase revenue by approximately US$141.22 million (1% of GDP) once all the reforms are fully implemented. The calculation of benefits show that by FY2022/23 the reform will be generating a Net Present Value (NPV) of approximately US$292 million (at the Bank's standard discount rate of 12%) with an Internal Rate of Return (IRR) of 77%.

1.35 External and Internal Validity.

a. **Tax policy and administration reforms.** A successful tax administration reform in Indonesia (see ELO#20) has many similarities to the Jamaica case, including: (i) being developed under the country's broader economic reform programme; and (ii) relying on compliance facilitation and compliance enforcement. The Indonesian reforms were assessed as having lessened the fiscal deficit (from 3.2% in FY2000 to 1% in FY2006) and increased tax revenues (from 9.6% of GDP in FY2000 to 11.2% in FY2006).

b. **Rationalisation of expenditure.** A study of PBs in the Solomon Islands (see ELO#9) has similarities to the Jamaica intervention including privatizations and improvements of government PBs and concluded that the Solomon Islands PB portfolio is now the most profitable portfolio in the Pacific and in the benchmarking sample. The average ROE of the portfolio increased from –12% in FY2002–2008, to 6% in 2009 -2012, reaching 15% in FY2012.

c. **NIS Reform.** An actuarial study of the pension system reform in Barbados in 2002, which has similarities with the Jamaica, showed that the reform extended the life of the Barbados National Insurance Scheme at least until 2045 (see ELO#25). This represents an improvement over the no-reform projected depletion date of 2030. Another similarity of the reforms is the stakeholder consultations, which increase the chances of their social acceptance.

d. **Fiscal Rules.** An examination of India's experience with fiscal rules (see ELO#20) shows that the approach used there is similar to the one proposed for Jamaica as it tackles the deficit bias at its core and enables countercyclical fiscal policy through automatic stabilisers. The Indian model focuses on medium-term fiscal policy on debt sustainability using a medium-term debt target and annual nominal expenditure growth rules.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing Instruments

2.1 The FISPEG will be financed through the Bank's Ordinary Capital. The three-stage PBP structure and the accompanying financing arrangements is a flexible and effective mechanism to support complex and long-term reforms that require sequenced actions for implementation (see CS-3633-1).

B. Environmental and Social Safeguard Risks

2.2 Since this is a PBP, there are no associated environmental or social risks. In accordance with the Directive B.13 of the Bank's Environment and Safeguards Compliance Policy (GN-2208-20 and OP-703), no ex-ante environmental impact classification is required given the nature of the programme.

C. Other Key Issues and Risks

2.3 **Macroeconomic and fiscal sustainability.** There is a high risk of macroeconomic instability in the short- and medium-term because Jamaica's fiscal position is still vulnerable. This could jeopardize the impact of the programme. The main action for mitigation is the Bank's and IMF's quarterly reviews which serve as a reference point to establish how the macroeconomic and fiscal situation is evolving in the country.

2.4 **Development.** There is a high risk that the government cannot fully implement all the reform policies presented in the FISPEG, because of institutional weakness and suboptimal outcomes on past fiscal reform. The main actions to mitigate this risk are: (i) provision of technical assistance; and (ii) the FAMP resources to undertake investments that are accompanying the FISPEG reforms.

2.5 **Public management and governance.** There is a high risk of delay in implementing the reforms, due to the long and complex government agenda of all necessary structural reforms (other than the FISPEG) needed in the short run, and a potential weakening of political will in the future. This risk is mitigated by: (i) implementing a management strategy of the main policy reforms; (ii) raising public awareness of the need for the reforms; (iii) stakeholder meetings; and (iii) maintaining a continuous dialogue through supervision missions.

2.6 **Reputational risk.** There is a high risk in jeopardizing the Bank's reputation as an effective partner in host-country policy reform initiatives in the event of an incomplete reform within the timeframe and scope required by the FISPEG. To mitigate this risk, the Bank and the IMF are supervising the implementation of the programme and the quantitative indicators. The quarterly reviews of the EFF is a paramount condition for the continuity of the FISPEG.

2.7 **Other risks**. Aside from the abovementioned risks, Jamaica is prone to natural disasters and it is highly exposed to international market volatility (e.g. interest rates; oil shock prices, etc.). To mitigate this risk, the Bank is continuously monitoring the macroeconomic and fiscal developments in Jamaica.

2.8 The overall risk to the FISPEG is mitigated by the EFF. The IMF monitors the implementation of the programme policies on a quarterly basis. By phasing the financing from the Bank in tandem with the EFF, the overall risk of the lending programme with the country is significantly reduced. The IMF has successfully completed seven reviews under the EFF. Also, the Bank has been working closely with the MOFP, the MLSS, and the NIS on the design and implementation of the reforms under this programme. The probability that the reforms are sustainable over time increases substantially as the majority of them require Parliamentary approval and because the government is strongly committed to implement them.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of Implementation Arrangements

3.1 The borrower will be Jamaica. The executing agency will be the MOFP, which will be responsible for: (i) presenting evidence on the conditions met for disbursement of loan proceeds required by the Bank; (ii) promoting actions to achieve the policy objectives defined in the programme; and (iii) compiling, maintaining, and delivering to the Bank the necessary information, indicators, and parameters to monitor and evaluate programme outcomes.

3.2 The disbursement of the single tranche of the loan will be subject to the compliance of the conditions summarised in the Policy Matrix (see Annex II).

B. Summary of Arrangements for Monitoring Results

3.3 The borrower and the Bank have agreed to supervise the programme through regular meetings. The Bank will approve a Project Completion Report within six months after the disbursement of the last operation to evaluate the development impact of the programme, using a reflexive evaluation. Additionally, an *ex-post* economic evaluation to compare the estimated financial benefits with the benefits generated by the implementation of the policy actions will be carried out. The borrower and the Bank have agreed on the indicators and baseline to conduct this evaluation. The policy and results matrices will define the monitoring and evaluation plan, which will be monitored by the Bank using its administrative resources. The MOFP will compile and process all data required to monitor and evaluate the operation. The consultancies contracted to verify the indicators in the Results Matrix (see ELR#4), and the activities included in the Policy Matrix (Annex II), will be financed with administrative resources from the Bank. The abovementioned evaluations will be carried out with Bank resources.

IV. POLICY LETTER

4.1 The Bank and the government agreed on the macroeconomic and sector policies set out in the Policy Letter dated March 24, 2015, which describes the components of the strategy being implemented in the programme's areas of action described in this document.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	**Aligned**		
Lending Program	**-Lending to small and vulnerable countries -Lending to support regional cooperation and integration**		
Regional Development Goals	**-Ratio of actual to potential tax revenue**		
Bank Output Contribution (as defined in Results Framework of IDB-9)			
2. Country Strategy Development Objectives	**Aligned**		
Country Strategy Results Matrix	**GN-2694-2**	**i) Modernize revenue systems including rationalization of the waivers system and tax reform. ii) Strengthen public expenditure management system.**	
Country Program Results Matrix	**GN-2805**	**The intervention is included in the 2015 Operational Program.**	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	**Evaluable**	**Weight**	**Maximum Score**
	8.2		**10**
3. Evidence-based Assessment & Solution	**9.6**	**33.33%**	**10**
3.1 Program Diagnosis	**3.0**		
3.2 Proposed Interventions or Solutions	**3.6**		
3.3 Results Matrix Quality	**3.0**		
4. Ex ante Economic Analysis	**8.5**	**33.33%**	**10**
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	**4.0**		
4.2 Identified and Quantified Benefits	**1.5**		
4.3 Identified and Quantified Costs	**1.5**		
4.4 Reasonable Assumptions	**0.0**		
4.5 Sensitivity Analysis	**1.5**		
5. Monitoring and Evaluation	**6.5**	**33.33%**	**10**
5.1 Monitoring Mechanisms	**1.5**		
5.2 Evaluation Plan	**5.0**		
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood	**High**		
Identified risks have been rated for magnitude and likelihood	**Yes**		
Mitigation measures have been identified for major risks	**Yes**		
Mitigation measures have indicators for tracking their implementation			
Environmental & social risk classification	**B.13**		
IV. IDB´s Role - Additionality			
The project relies on the use of country systems			
Fiduciary (VPC/FMP Criteria)	**Yes**	**Financial Management: Budget, Treasury, Accounting and Reporting, External control, Internal Audit. Procurement: Information System, Shopping Method.**	
Non-Fiduciary			
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan			

The diagnosis takes into account Jamaica's characteristics in the area of intervention. The diagnosis provides a clear identification of the general problem to be addressed and the project´s objective, i.e. to "support the Government of Jamaica's efforts to achieve a sustainable fiscal path". It also includes sufficient information to facilitate the understanding of the nature and scope of the development challenges being addressed.

The specific problems, i.e. "tax distortions which hinder private investment, employment and competitiveness, narrow tax bases, high statutory tax rates, tax and customs administration ineffectiveness, lack of control over budgetary expenditure, fiscal sustainability challenges of the National Insurance Scheme, and a weak Fiscal Responsibility Framework" are also clearly identified. The link on how the specific problems contribute to the main problem is clear. The identification of the main determinants of the problems is, generally, supported with evidence, and most magnitudes of deficiencies are provided.

The program has vertical logic. The connection of the proposed solutions to the identified development problems is clear. The document includes some empirical evidence on the effectiveness of the interventions proposed. Both outcome and output indicators are SMART.

The project has a financial analysis that estimates a NPV of US$292 million and a 77% IRR in 10 fiscal years. For the third operation, the analysis should reinforce the explanation of the assumptions used in the Dynamic Computable General Equilibrium Model, as to improve the evaluability of the CBA.

The monitoring plan provides annual targets for the outcome and output indicators. The evaluation plan proposes a reflective and an ex-post cost-benefit analysis evaluation.

POLICY MATRIX

Objectives	Conditions for the first operation	Conditions for the second operation	Triggers for third operation
I. Macroeconomic stability			
Preserve a stable macro-economic context.	I.1.a: The Government of Jamaica complies with the Policy Letter and maintains a macroeconomic framework consistent with the objectives of the programme and the Policy Matrix.	I.1.b: The Government of Jamaica, maintains a macroeconomic framework consistent with the objectives of the programme and the Policy Matrix.	I.1.c: The Government of Jamaica maintains a macroeconomic framework consistent with the objectives of the programme and the Policy Matrix**.**
II. Strengthening tax policy and administration			
Reduce distortions and improve efficiency of the tax system to promote growth, competitiveness and equity.	II.1.a: The Government of Jamaica makes effective the Fiscal Incentives [Miscellaneous Provisions] Act 2013 (FIA) the Charities Act (and the consequential amendments to legislation including the Income Tax and Customs Acts respectively) and the Income Tax Relief (Large-scale Projects and Pioneer Industries Act 2013) to take measures to:	II.1.b: The Government of Jamaica implements the comprehensive tax reform embodied in the FIA and Charities Act as part of the FY2014/15 budget that includes measures to:	II.1.c: The Government of Jamaica maintains the implementation of the comprehensive tax reform program that includes measures to:
	A. Simplify the tariff structure by reducing import tariff dispersion (consistent with CARICOM and other international trade agreements) by: 1. Capping tariffs on non-agricultural imports to a default rate of 20% with exceptional cases at 40%. For agricultural imports, tariff ≤ 40% will be reduced generally to 20%. Some	A. Simplify the tariff structure by reducing import tariff dispersion (consistent with CARICOM and other international trade agreements) by: 1. Applying tariff caps on imports as specified in the first operation.	A. Simplify the tariff structure by reducing import tariff dispersion (consistent with CARICOM and other international trade agreements) by: 1. Maintaining the tariff caps on imports as specified in the first operation.

Objectives	Conditions for the first operation	Conditions for the second operation	Triggers for third operation
	Common External Tariff (CET) rates >50% will remain.[1]		
	2. Raising the 0% tariff rate on selected intermediate and final goods to 5%.	2. Maintaining the 5% tariff rate on selected intermediate and final goods as specified in the first operation.	2. Maintaining the 5% tariff rate on selected intermediate and final goods as specified in first operation.
	B. Increase tax revenues by: 2. Establishing a cap of 50% on claims for deduction of tax losses forwarded in any year of assessment on chargeable income (CIT and PIT).	B. Increase tax revenues by: 1. Enacting the Minimum Business Tax Act. (MBT).[2] 2. Maintaining a cap of 50% on claims for deduction of tax losses forwarded in any year of assessment on chargeable income (CIT and PIT). 3. Making the GCT applicable to government purchases.	B. Increase tax revenues by: 1. Maintaining the MBT. 2. Maintaining a cap of 50% on claims for deduction of tax losses forwarded in any year of assessment on chargeable income (CIT and PIT). 3. Maintaining the applicability of GCT to Government of Jamaica purchases.
	C. Curtail tax expenditures by: 1. Effecting the new Charities Act, the FIA and the consequential amendments to the revenue laws. 2. Cessation of granting of new categories of ministerial discretionary waivers.	C Curtail tax expenditures by: 1. Enforcing provisions of the Charities Act, the FIA and the consequential amendments to the revenue laws. 2. Maintaining the cessation of granting of new categories of ministerial discretionary waivers.	C. Curtail tax expenditures by: 1. Maintaining the provisions of the Charities Act, the FIA and the consequential amendments to the revenue laws. 2. Maintaining the cessation of granting of new categories of ministerial discretionary waivers.
	D. Reduce economic distortions and promote economic growth by: 1. Reducing CIT rate (from 30% to 25%) for unregulated companies as defined in the Income Tax Act.	D Reduce economic distortions and promote economic growth by: 1. Maintaining the CIT rate of 25% for unregulated companies.	D Reduce economic distortions and promote economic growth by: 1. Maintaining the CIT rate of 25% for unregulated companies.

[1] The tariff structure prior to the tax reform was composed of 11 rates that went from 0% to 177% with an average rate of 10.3%, with the majority of the number of tariff codes at 0%, followed by 20% and 40%. The new tariff scheme after the tax reform modified the structure, concentrating the tariff codes mostly between the 5% and 20% rates so as to converge to a default rate of 20%.

[2] i.e. Minimum tax on corporations and self-employed in such arrangements as sole proprietorships and partnerships. The MBT was introduced as a temporary measure (6 months) in 2014. Under the FISPEG II the Bank is requiring that the measure be made permanent by tabling it in Parliament, which took place in March 2015.

Objectives	Conditions for the first operation	Conditions for the second operation	Triggers for third operation
	2. Allowing for an employment tax credit (ETC) calculated on the statutory payroll levies (education tax, NHT, NIS and HEART) to registered companies engaged in trade. The ETC has a cap of 30% of chargeable income tax.[3]	2 Continuing the ETC for registered trade companies under the labour incentive programme, up to a cap of 30% of the chargeable income tax.	2. Continuing the ETC for registered trade companies under the labour incentive programme, up to a cap of 30% of the chargeable income tax.
	3. Increasing the Initial Capital Allowances (ICAs).[4] 4. Limiting tax incentives allowed under the FIA for "pioneer/mega" projects to an overall cap of 0.25% of GDP.	3 Maintaining the ICAs for new capital investment. 4. Maintaining limitation of tax incentive allowed under the FIA for pioneer/mega projects at an overall cap of 0.25% GDP.	3. Maintaining the ICAs for new capital investment. 4 Maintaining limitation of tax incentive allowed under the FIA for pioneer/mega projects at an overall cap of 0.25% GDP.
		E. Review and assess the recommendations of the Bank-sponsored study of the rationalisation of taxes on petroleum and derivatives.	E. Implement the agreed recommendations of the Bank-sponsored study of the rationalisation of taxes on petroleum and derivatives within the context of maintaining consistency with the FRF.
Improve the effectiveness and efficiency of the tax and customs collection system.	II.2.a: The Government of Jamaica undertakes comprehensive tax administration improvements to:	II.2.b: The Government of Jamaica continues comprehensive tax administration improvements to:	II.2.c: The Government of Jamaica continues comprehensive tax administration improvements to:
	A. Strengthen TAJ and JCA enforcement capabilities by: 1. Increasing the LTO professional staff from 90 to 120. 2. Strengthening powers to TAJ to	A. Continue to strengthen TAJ and JCA enforcement capabilities by: 1. Maintaining the number of qualified professional staff in the LTO at no less than 120. 2 Maintaining powers to TAJ to	A. Continue to strengthen TAJ and JCA enforcement capabilities by: 1. Maintaining the number of qualified professional staff in LTO at no less than 120 2 Maintaining powers to TAJ to

[3] The tax credit is only calculated on trading profits and excludes investment and other types of passive income.

[4] ICAs will apply to specified newly acquired plant and equipment. The initial allowance will be increased from 20% to 25% and the annual allowance there on will be 12.5% per annum. Its application will be broadened to a wider range of eligible plant and equipment. A straight-line method of capital allowances will replace the reducing balance method. Industrial buildings will be allowed an initial 20% allowance and a 4% allowance thereafter. The revision of the basis of capital allowances from a reducing-balance method to a straight-line method, combined with annual allowance rates that accord more closely with the useful lives of assets, will also render the system more competitive.

Objectives	Conditions for the first operation	Conditions for the second operation	Triggers for third operation
	mandate taxpayers e-filing.	mandate taxpayers e-filing.	mandate taxpayers e-filing.
	3. Issuing instructions for e-filing for all large taxpayers; all employers with 20 or more employees; and GCT refund claims.	3. Enforcing mandatory e-filing of all taxes paid by large taxpayers,[5] including payroll taxes.	3 Continuing to enforce mandatory e-filing for large taxpayers and payroll taxpayers.
		4 Harmonising and strengthening the tax laws' provisions for the collection of outstanding arrears (including powers to seize and sell taxpayers' property, and harmonise penalties and fines) by submitting a Bill to Parliament.	4. Provisions remain in force to strengthen the collection of outstanding arrears.
		5. Assessing the appropriateness of bank fees being charged and where it is to the benefit of the government make corresponding adjustments in contract arrangements as feasible.	5. Maintain government contracts at appropriate fee structures.
		6. Expand e-payment option to include the special telephone consumption tax and guest accommodation room tax.	6 Maintain e-payment for taxes included as of the second operation.
		7. Proportion of large taxpayers' filing on time: CIT ≥ 80%, GCT ≥ 90%, PAYE ≥ 60%, so that the ratio of tax arrears to revenue ≤ 5%.	7. Proportion of large taxpayers' filing on time: CIT ≥ 85%, GCT ≥ 95%, PAYE ≥ 90%, so that the ratio of tax arrears to revenue ≤ 5%.
		8. Proportion of medium size taxpayers'[6] filing on time: CIT ≥ 40%, GCT ≥ 80%, PAYE ≥ 56%, so that the ratio of tax arrears to revenue ≤ 20%.	8. Proportion of medium size taxpayers' filing on time: CIT ≥ 40%, GCT ≥ 80%, PAYE ≥ 65%, so that the ratio of tax arrears to revenue ≤ 20%.

[5] Large taxpayers are defined as those who earn an annual gross receipt larger than J$500 million that are not in the jurisdiction of the Medium Term Office (MTO).
[6] Medium Taxpayers are defined as those with annual gross receipt between J$30 and J$500 million and are not in the jurisdiction of the LTO.

Objectives	Conditions for the first operation	Conditions for the second operation	Triggers for third operation
		9. Conducting audits on 20% of the large taxpayers and 20% of the medium taxpayers.[7]	9. Conducting a comprehensive audit on 15% of the large taxpayers and 10% of the medium taxpayers. 10. Reducing medium size taxpayers' tax arrears on GCT, CIT and PAYE to <10% of the amount collected on these taxes.
	B. Strengthen the revenue administration agencies through improvements to their IT systems by: 1. Cabinet approval for TAJ to issue a contract for the integrated IT system 2. Cabinet approves JCA issuing a contract to implement an integrated customs IT system.	B. Continue to develop and implement the IT system of the revenue administration by: 1. Meeting interim benchmarks for implementation of Phase 1[8] of TAJ's integrated tax administration IT system. 2. Meeting interim benchmarks[9] for implementation of the JCA integrated IT system, including mandatory e-filing of all customs declarations[10] and manifests.	B Continue to develop and implement the IT system of the revenue administration by: 1. Fully implementing Phase 1of TAJ's integrated tax administration IT system. 2. Meeting benchmarks[11] for implementation of the JCA integrated IT system, including mandatory e-filing of all customs declarations and manifests.
		C. The ACCPAC system in JCA is fully implemented.	C. The ACCPAC system in JCA is fully operational.
III. Rationalisation of expenditure			
Contain public expenditure.	III.1.a:The Government of Jamaica, implements a policy of no central government salary increases to meet	III.1.b: The Government of Jamaica continues the policy of no central government salary increases to meet	III.1.c: The Government of Jamaica continues to manage central government salary increases to meet

7 Each LT's audit should include separate audits of each tax type paid as well as the comprehensive audit of the taxpayer.
8 Phase 1 involves incorporation of taxpayer registration, GCT/SCT and telephone call tax into the new ITAS application.
9 This benchmark will be development of the ASYCUDAWorld Prototype.
10 Customs declarations here is defined as declarations for goods imported for commercial purposes.
11 This benchmark will be installation of the ASYCUDAWorld system at selected pilot sites and Customs headquarters.

Objectives	Conditions for the first operation	Conditions for the second operation	Triggers for third operation
	an annual wage bill target of no more than 10.6% of GDP for FY2013/14.	a wage bill annual target of no more than 10.1% of GDP for FY2014/15.[12]	an annual wage bill target of no more than 9% of GDP for FY2015/16.
Improve efficiency and transparency of Jamaica's Public Bodies (PBs)	III.2.a: The Government of Jamaica, approves an update of the 2010 Master Rationalization Plan[13] to streamline the PBs through the following measures: A. Divestment of commercial entities. B. Merger of entities where feasible to bolster efficiencies. C. Winding-up of inactive entities (updating the list of entities in this category).	III.2.b: The Government of Jamaica, implements interim benchmarks of the Master Rationalisation Plan to streamline the PBs, including specified advances in privatization of three State-Owned Enterprises and merger of two regulatory entities.	III.2.c: The Government of Jamaica, continues to implement the Master Rationalisation Plan to streamline the PBs.
	III.3.a: The Government of Jamaica, enforces measures to strengthen the accountability and transparency of public bodies by: 1. Reporting non-compliance to the Attorney General's Chambers those self-financing Public Bodies (PBs) that have not complied with the statutory requirement for submission of annual reports, and requesting that enforcement proceedings be considered.	III.3.b: The Government of Jamaica, enforces measures to strengthen the accountability and transparency of public bodies by: 1. Ensuring presentation of annual reports (including audited financial statements) of self-financing public bodies to Portfolio Ministries within the agreed six month time period[14] after the end of the financial year to which the reports pertain.	III.3.c: The Government of Jamaica, continues to enforce measures to strengthen the accountability and transparency of public bodies by: 1. Ensuring the presentation of annual reports (including audited financial statements) for all public bodies to Portfolio Ministries within the agreed six month time period after the end of the financial year to which the reports pertain.

[12] As part of the FISPEG , the wage bill policy target for the second operation was set at 9.7% of GDP. Despite maintenance of the no salary increase policy, the estimated wage/GDP ratio for FY14/15 is 10.1% of GDP. The deviation from the original target is due to GDP being lower than previously estimated, resulting in a higher than targeted wage/GDP. During FY14/15, the previously estimated GDP for FY13/14 was revised downwards based on actual data. The actual growth and inflation for FY14/15 to date has also been lower than programmed, so growth for the full fiscal year is lower than estimated.

[13] The action plan will demonstrate that it has taken into account the government's experience with, and lessons learned from, carrying out the Action Plan for Rationalization of Public Bodies submitted to the Bank in 2008 in compliance with commitments made to meet the objectives of the Jamaica Competitiveness Enhancement Program (1972/OC-JA, 2297/OC-JA, & JA-L1014).

[14] As agreed under the EFF, the period to submit the annual reports is within six months after the end of the financial year.

Objectives	Conditions for the first operation	Conditions for the second operation	Triggers for third operation
		III.4.b: Complete the Bank sponsored study on the economic and financial situation of the NWC and JUTC.	III.4.c: Implement the agreed recommendations of the Bank sponsored study to the extent possible within the context of maintaining consistency with the FRF.
IV. Ensuring Sustainability of the National Insurance Scheme			
Implement a fiscally sustainable National Insurance Scheme (NIS).	IV.1.a: The MLSS, submits to Cabinet a Concept Paper for reform of the National Insurance Scheme (NIS) that outlines: 1. The options and their impact for: i. Adjusting the contribution rate; ii. Adjusting pension benefits; and iii. Increasing coverage 2. The differentiated gender effects of these adjustments.	IV.1.b: The Government of Jamaica submits to Cabinet the Green Paper for the reform of the NIS that reflects the preferred option arising from: 1. An examination of the various options previously identified, including their fiscal impact on the Government 2. Stakeholder consultations. 3. An action plan that includes timelines and resources for the implementation of the reform.	IV.1.c: Legislative framework in place for a comprehensive reform of the NIS based on the Bank-sponsored actuarial study and its consequential fiscal impact. The reform will include a timeline for implementation that address: 1. The contribution rate; 2. The pension benefits; and 3. Increasing coverage.
	IV.2.a: The MLSS, submits to Cabinet an actuarial analysis of the National Insurance Scheme (NIS).	IV.2.b: The Government of Jamaica establishes a stakeholder working group on the reform of the NIS including representatives from the MLSS, MoF, PIOJ and other representatives.	
		IV.3.b: The Government of Jamaica ensures that the actuarial analysis of the NIS is publicly displayed for consultation.	
		IV.4.b: Cabinet approves the issuance of drafting instructions for a bill to mandate that an actuarial analysis of the NIS is required every three years.	IV.4.c: The Government of Jamaica tables in Parliament a Bill to require an actuarial analysis of the NIS every three years.

Objectives	Conditions for the first operation	Conditions for the second operation	Triggers for third operation
	IV.5.a: The Government of Jamaica, prepares a report that includes: 1. An assessment of the current state of the hardware and software of the NIS. 2. A proposal for the creation of an NIS Management Information System (MIS) that interfaces with relevant Government agencies.	IV.5.b: The Government of Jamaica reviews and approves the hardware and software assessment report and, based on the proposal for the creation of the specified NIS-MIS, launches the procurement process of the most urgently needed components.[15]	IV.5.c:Key modules of the specified NIS-MIS are operational.
V. Strengthening the Fiscal Responsibility Framework			
Assure a binding commitment to long-term fiscal sustainability	V.1.a: Cabinet approves the concept paper for enhanced rules-based governance of fiscal activities of the public sector and the issuing of drafting instructions to the Chief Parliamentary Counsel to draft the necessary legislative amendments. The enhanced fiscal rules will: 1. Establish debt reduction objectives specified as a medium term target of public debt to GDP ratio. 2. Enable automatic correction mechanisms to be implemented in the event of deviations from targeted fiscal balances. 3. Implement an escape clause to be activated only by Parliament.in cases of major adverse shocks.	V.1.b: The fiscal rules are enhanced through the passage of the Public Bodies Management and Accountability (Amendment) Act, 2014 and the Financial Administration and Audit (Amendment) Act, 2014.	V.1.c: Continued effectiveness of the legally binding fiscal rules.

[15] This last condition has been revised slightly to allow for the contracting of the most urgently needed components, instead of the entire system. The reason for the change is that the MIS assessment has revealed many important areas needing improvement, making it infeasible to include them all in one contract. Nevertheless, the improvements supported in this second operation will generate a substantial improvement in services. The components covered under the current operation will be: 1. Acquire the core components of the system i.e., the repository and security components; 2. Acquire the Registration and Contribution components; 3. Assess current and future state capacity requirements and acquire new operating hardware platform and; 4. Implement and integrate these four components and the new operating platform.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/15

Jamaica. Loan ____/OC-JA to Jamaica
Fiscal Structural Programme for
Economic Growth II

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with Jamaica, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a fiscal structural programme for economic growth II. Such financing will be for the amount of up to US$130,000,000 from the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ___________, 2015)

LEG/SGO/JA-IDBDOCS#39605988
JA-L1051