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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A PROPOSED

DEVELOPMENT POLICY LOAN

IN THE AMOUNT OF US$70 MILLION

TO

JAMAICA

FOR THE

SECOND COMPETITIVENESS AND FISCAL MANAGEMENT PROGRAMMATIC

DEVELOPMENT POLICY FINANCING

April 28, 2017

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 April 10, 2017)

Currency Unit
US$1.00 = J$128.6

ABBREVIATIONS AND ACRONYMS

AMANDA	Applications Management and Data Automation
ASYCUDA	Automated System for Customs Data
AuGD	Auditor General Department
BOJ	Bank of Jamaica
CPS	Country Partnership Strategy
CTMS	Central Treasury Management System
DBJ	Development Bank of Jamaica
DFID	Department for International Development
DMB	Debt Management Branch
DPF	Development Policy Financing
DSA	Debt Sustainability Analysis
EFF	Extended Fund Facility
EIA	Environmental Impact Assessment
EPOC	Economic Program Oversight Committee
ESEEP	Energy Security and Efficiency Enhancement Project
FDI	Foreign Direct Investment
GLHI	Global Logistics Hub Initiative
GOJ	Government of Jamaica
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IFI	International Financial Institution
IMF	International Monetary Fund
INDC	Intended Nationally Determined Contribution
IPF	Investment Policy Financing
IPSAS	International Public Sector Accounting Standards
J$	Jamaican Dollar
JCA	Jamaica Customs Agency
JPS	Jamaica Public Service Company
JSLC	Jamaica Survey of Living Conditions
LDP	Letter of Development Policy
MLGCD	Ministry of Local Government and Community Development
MOFPS	Ministry of Finance and the Public Service
NDP	National Development Plan
NEPA	National Environment and Planning Agency
NDC	Nationally Determined Contribution
NLTA	Non-lending Technical Assistance
PATH	Programme of Advancement through Health and Education
PDMA	Public Debt Management Act
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PSIP	Public Sector Investment Program

RFP	Request For Proposal
SBA	Stand-by Arrangement
SEZ	Special Economic Zone
SOE	State-Owned Enterprise
UNFCCC	United Nations Framework Convention on Climate Change
USD	United States Dollar

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JAMAICA
SECOND COMPETITIVENESS AND FISCAL MANAGEMENT
PROGRAMMATIC DEVELOPMENT POLICY FINANCING
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This DPF was prepared by an IBRD team led by Philip Schuler and including Neil Pravin Ashar, Laura Bermam, Gianfranco Bertozzi, Roland Bradshaw, Kerry Crawford, Mike Darr, Diego Dorado, Penelope Demetra Fidas, William Gain, Vicky Hormazabal, David I, Mark Lambrides, Lisa Liu, Anthony Molle, Shaun Moss, Thomas Moullier, Luiz Edgard Ramos Oliveira, Juan Carlos Parra Osorio, German Reyes, Gonzalo Reyes, Shonell Jodian Robinson, Nikolai Soubbotin, Raul Tolmos, Thomas Vis, and Davide Zucchini. Michelle Palmer and Miriam Beatriz Villarroel provided production assistance. Peer reviewers were Jay-Hyung Kim and Alejandro Espinosa-Wang. Sophia Guerrier-Gray, Alma Kanani, and Sona Varma also provided valuable advice. The team is grateful for the guidance and supervision of Tahseen Sayed (Country Director), Sophie Sirtaine (former Country Director), Sabine Hader (Operations Advisor and former acting Country Director), Galina Sotirova (Country Manager), Francisco Carneiro (Program Leader), Paloma Anos Casero (Practice Director), and Miria Pigato (Practice Manager). The team also expresses its gratitude to the Government of Jamaica for its collaboration in the preparation of this operation.

SUMMARY OF PROPOSED LOAN AND PROGRAM

JAMAICA
SECOND COMPETITIVENESS AND FISCAL MANAGEMENT
PROGRAMMATIC DEVELOPMENT POLICY FINANCING

Borrower	Jamaica
Implementation Agency	Ministry of Finance and the Public Service (MOFPS)
Financing Data	*IBRD Loan.* Terms: U.S. dollar denominated, commitment-linked, IBRD Flexible Loan with a Variable Spread, with a total repayment term of 25 years, including a grace period of 5 years, with all conversion options selected and the capitalization of the Front End Fee, payable on May 1 and November 1. *Amount:* US$70 million
Operation Type	Programmatic (2nd of 2 operations), Single Tranche
Pillars of the Operation and Program Development Objective(s)	The Competitiveness and Fiscal Management Programmatic Development Policy Financing Series supports the Government of Jamaica's 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 2018.* **Pillar 1 Results for improving investment climate and competitiveness:** Increase in the share of building applications approved within 90 days. Baseline: 66 percent; Target: 85 percent Creation of new bodies to implement the Building Act and apply the new national building code. Baseline: No bodies; Target: At least two of the three bodies specified in the Act (Building Practitioners Board, Building Appeals Board, Building Advisory Council are created and are operational). Reduction in the percentage of electricity generated using petroleum. Baseline: 94 percent, Target: 75 percent Faster customs clearance, as measured by the increase in the share of shipments processed and cleared within 24 hours. Baseline: 32 percent; Target: 65 percent Increase in the share of free zone operators converted to special economic zone operators. Baseline: 0 of 120; Target: 40 percent of operators converted **Pillar 2 Results for sustaining fiscal consolidation and enhancing public financial management:** Reduction in the public debt to GDP ratio. Baseline: 141 percent of GDP; Target: 115 percent of GDP Increased transparency of information on exposure to implicit and explicit contingent liabilities from public bodies. Baseline: No data published; Target: At least two reports published

	Increase in the ratio of annual public service employee pension contributions to public sector pension payments. Baseline 4 percent; Target: 12 percent Reduced use of virements on compensation and capital expenditure. Baseline: J$1.9 billion, Target: 0 Increase in the percentage of public requests for tenders published under an electronic government procurement system. Baseline: 0 percent; Target: 5 percent of bid proposals at or above the prescribed limit are executed through the electronic government procurement system. Increased linkage between investment budgets and forward expenditure estimates, as shown by presenting projections of the total cost of major investment projects, together with a year-by-year breakdown of the capital costs and estimates of the recurrent costs for the next five years, in the annual public sector investment program documents. Baseline: Only capital cost projections are presented; Target: Both recurrent and capital cost projections are presented for at least 50 percent of projects.
Overall Risk Rating	High
Operation ID	P163586

IBRD PROGRAM DOCUMENT FOR A PROPOSED
DEVELOPMENT POLICY LOAN
TO JAMAICA

1. INTRODUCTION AND COUNTRY CONTEXT

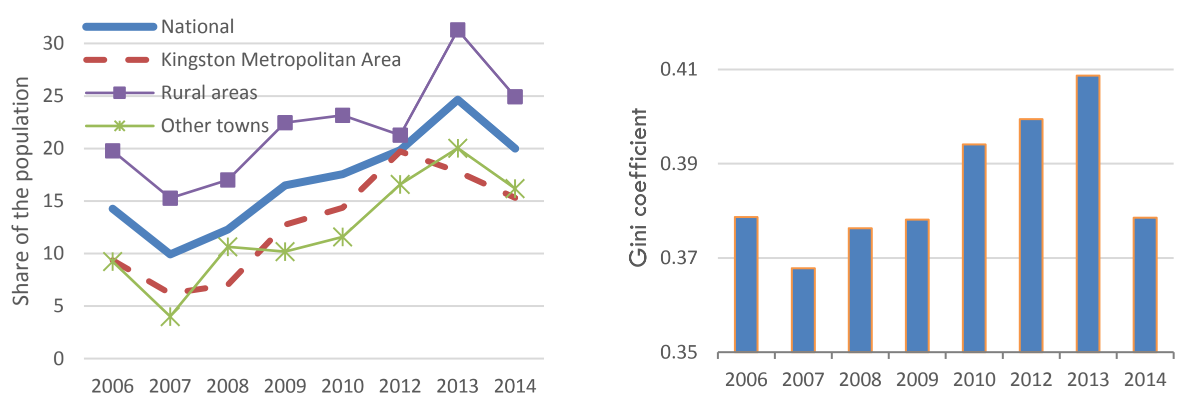
1. **This program document presents a proposed programmatic Development Policy Financing (DPF) operation to support the Government of Jamaica's (GOJ's) policies aimed at (i) improving investment climate and competitiveness and (ii) sustaining fiscal consolidation and enhancing public financial management.** The fiscal and structural reforms supported by the proposed operation are expected to break the cycle of high debt and low growth that has hindered poverty reduction and shared prosperity in Jamaica. The first operation in this two-part DPF series was a loan of US$75 million. The DPF series is rooted in the government's development program and is being carried out through close collaboration with multilateral partners.

2. **Jamaica has experienced uneven growth and high public debt for almost three decades.** Natural disasters and adverse external shocks, coupled with insufficient fiscal discipline and the materialization of contingent fiscal liabilities, have resulted in persistent fiscal deficits that have kept public debt above 100 percent of GDP for the past 15 years. Jamaica's large debt burden has depressed investor sentiment and crowded out private sector investment needed for job creation and economic growth. High debt service obligations have limited the government's fiscal space for spending on poverty reduction and public goods.

Figure 1.1. Poverty Increased after 2007 but Has Declined Recently

A. Moderate poverty increased in all regions after the 2007 global crisis

B. Inequality increased after the crisis, but declined in 2014.



Source: World Bank staff calculations using Jamaica Survey of Living Conditions (JSLC) data.
Notes: Data is not available for 2011 because the Survey of Living Conditions was not conducted in that year.

3. **Poverty increased in the wake of the global economic crisis, eroding the gains of the previous two decades.** From 2007 to 2013 the national poverty rate more than doubled, going from 9.9 in 2007 to 24.6 percent in 2013, the highest rate since 1996. Poverty decreased to 20 percent in 2014 (the latest year for which data are available), the same level observed in 2012 (Figure 1.1, Panel A). Poverty reached 24.6 percent in 2013, mostly driven by a large increase in rural poverty. Hurricane Sandy and severe drought conditions contributed to an increase of 10 percentage points in poverty in the rural areas (to 31.3 per-

cent).[1] Poverty in urban areas—excluding the Kingston metropolitan area—increased as well by 3.4 percentage points. Inequality and poverty have had similar trends in the last 10 years, with both variables experiencing reductions between 2003–2007, increasing in the period 2008–2013, and decreasing significantly in 2014 (Figure 1.1, Panel B).

4. **Rural households, female-headed households and children are overrepresented among the poor.** In 2012, half of the population lived in rural areas, representing 58 percent of the poor. Fifty-two percent of the households in the country are headed by a woman, and those households account for 58 percent of the poor, while children account for 27 percent of the population and 33 percent of the poor.

5. **As a small island developing country, Jamaica is particularly vulnerable to the effects of climate change.** Hurricanes, droughts, and other extreme weather events have resulted in significant losses and damages. Between 2001 and 2012, Jamaica experienced 11 storm events (including 5 major hurricanes) and several flood and drought events, which resulted in losses and damages of around J$128.5 billion.[2] Climate change is likely to increase the frequency and severity of these events. Coastal areas—where 82 percent of the population lives—are vulnerable to rising sea levels. Climate change is causing damage to coral reefs and watersheds, thus degrading their ability to protect the island from storm surges and hinders the competitiveness of important industries (e.g., tourism and fisheries).[3]

6. **Jamaica launched far-reaching economic reforms in 2013 to establish macroeconomic stability and pave the way for faster and more inclusive growth.** In February 2013, the country was experiencing the after-effects of Hurricane Sandy, five consecutive quarters of GDP contraction, rapid currency depreciation, and dwindling international reserves. There were doubts about the government's capacity to make large upcoming debt service obligations. To address this situation, the government embarked on a course of fiscal consolidation backed up by reforms to improve macroeconomic policy-making institutions and the investment climate. The International Monetary Fund (IMF), World Bank, and Inter-American Development Bank (IDB) approved a large package of financial support for Jamaica, committing almost US$2 billion in combined financing (including this DPF series), anchored on a four-year IMF Extended Fund Facility (EFF) program. The EFF 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 World Bank has been supporting structural and institutional reforms to lay the foundations for future growth, enhanced competitiveness, social protection and resilience, and improved public sector management. The World Bank and IDB are coordinating their assistance in the different sectoral areas to ensure complementarity and consistency.

7. **Reforms have succeeded in stabilizing the economy and reducing debt.** GDP growth rates have increased each year since 2013. By FY2013/14 the government had brought public sector finances into balance, after running overall public sector deficits of 4.1– percent of GDP during the previous three years (see Figure 2.2 and Table 2.2). Public debt has dropped by 25 percentage points of GDP since the start of reforms. With public debt still at 120 percent of GDP, however, Jamaica continues to face one of the

[1] Jamaica was the first country directly affected by hurricane Sandy in October 2012. The JSLC is usually collected in the third quarter (July-October) of every year and has the previous 12 months as reference period. This means that the 2013 JSLC uses July-October 2012 as reference period, including hurricane Sandy's landfall in Jamaica.
[2] Government of Jamaica, "Intended Nationally Determined Contribution of Jamaica Communicated to the UNFCCC," November 2015.
[3] Kent Carpenter, et al., "One-Third of Reef-Building Corals Face Elevated Extinction Risk from Climate Change and Local Impacts," *Science* (July 25, 2008):560-63.

largest debt overhangs in the world, and real GDP in 2016 is still 2 percent below its 2007 level. The government elected in February 2016 is reorienting the reform program towards faster growth, while preserving a commitment to fiscal prudence. The precautionary program under the IMF Stand-by Arrangement (SBA) approved in November 2016 reflects these priorities.

8. **This proposed DPF operation supports the government's reforms, which aim to continue removing impediments to economic growth and fiscal sustainability.** It supports fiscal consolidation and stronger fiscal management needed for continued debt reduction, and a reorientation of policies to stimulate private investment. Although risks associated with meeting the objectives of this operation are high, inaction would be costlier, particularly in the face of growing uncertainty about the direction of economic policies in the U.S. and Europe. The successful performance under the EFF since 2013, despite political transitions and changing economic conditions, demonstrates the country's strong commitment to reform.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

9. **Jamaica's economy is showing signs of a modest growth acceleration, after enduring several years of low or negative growth.** The economy is estimated to have achieved GDP growth of 1.4 percent in 2016—up from 1.0 percent in 2015 and 0.7 percent in 2014. GDP grew by 2.0 percent year on year (y/y) in the third quarter of 2016—the seventh consecutive quarter of positive growth (Figure 2.1, Panel A). Agriculture has rebounded from the 2015 drought: real output during the first three quarters of 2016 was 12 percent higher than the same period of 2015. Utilities, the hospitality sector, and tradable services have also enjoyed strong growth in 2016, with the growth in tourism and trade logistics supported by favorable external conditions. Real consumption resumed growing in 2016 after falling for several years (Figure 2.1, Panel B), and spending on gross fixed capital formation rebounded in 2016 as well. Business and consumer confidence improved in 2016. The growth in commercial banks' loans and advances to the private sector reflects this confidence, rising to 21 percent (y/y) in November 2016 from 10 percent at the end of 2015.

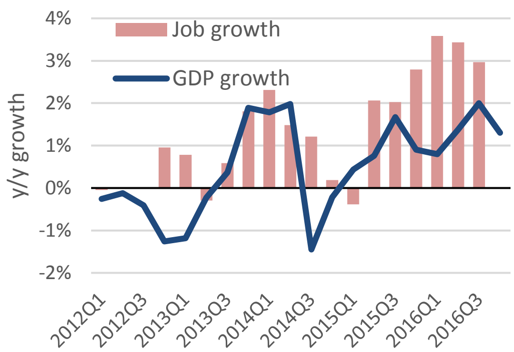
10. **Job growth is rising and the unemployment rate is falling, although its level remains high.** The unemployment rate has been falling gradually since it peaked at 16.3 percent in April 2013. According to the latest data available, it stood at 12.9 percent in October 2016, compared to 13.5 percent a year earlier. Youth and female unemployment remain high at 32.4 percent and 17.5 percent, respectively. Although the improvement in the unemployment rate has been small, there have been sustained increases in employment levels and in labor force participation, especially for women. During 2016 the labor force increased by 2.3 percent (4 percent for women), and total employment grew by 2.9 percent (5.2 percent for women). Expansion of employment in trade, construction and repair of motor vehicles made the largest contributions to job growth. Agriculture jobs have been declining overall: although the number of women employed in agriculture has been growing steadily during the past year (14 percent increase y/y in October), men have been exiting the sector.

11. **The current account deficit declined to 2.8 percent of GDP in 2015 from 8.1 percent in 2014** (Figure 2.1, Panel E). The current account recorded a slight deficit during the first three quarters of 2016—the smallest in magnitude in several years. Declining oil prices made an important contribution: Jamaica's import bill for fuels during January through September fell by 16 percent over the same period in 2015, following a 42 percent decline in 2015 over the previous year. Tourism continues to grow, and has been supporting the improvement in the current account. Arrivals in 2016 were 2.8 percent higher than in 2015,

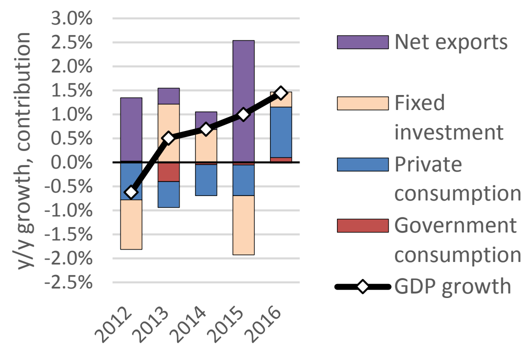
following 2.1 percent growth in 2015. Large increases in arrivals from the U.S and Europe have been the largest contributors to this growth. Net remittances grew by 3.1 percent during 2016 over 2015. On the other hand, exports of bauxite—Jamaica's largest merchandise export—and other goods declined in 2015,

Figure 2.1. Macroeconomic Conditions Have Improved since 2013

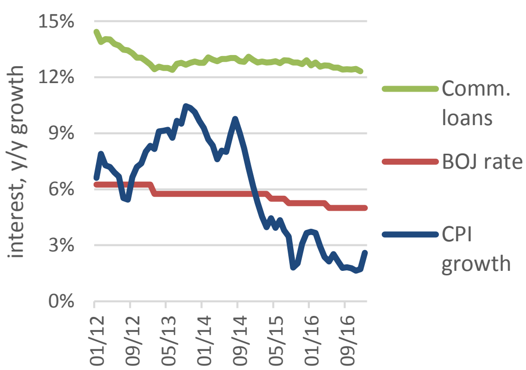
A. GDP and employment growth have shown modest acceleration.



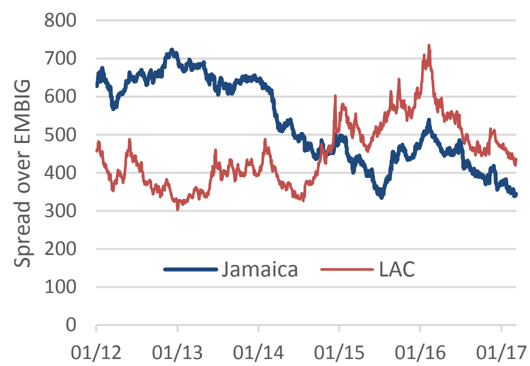
B. External demand has supported GDP growth.



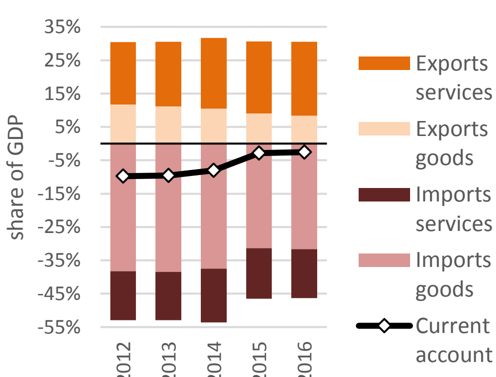
C. Inflation and the policy rate have declined, although commercial lending rates remain high.



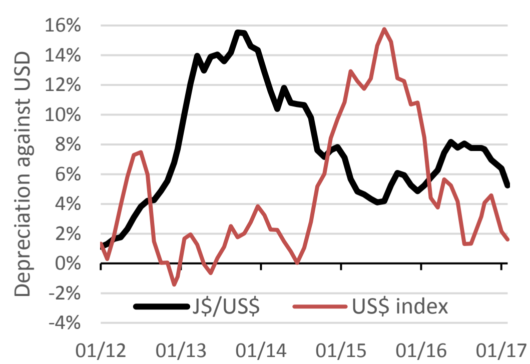
D. Jamaican bond spreads have declined and are below the regional average.



E. Rising services exports and low oil prices have improved the current account.



F. The rate of depreciation against the U.S. dollar has dropped since 2013, although Jamaica now outpaces other countries.



Sources: World Bank staff calculations using data from BOJ, Bloomberg, Statistical Institute of Jamaica, U.S. Federal Reserve.
Notes: The US$ index is a weighted average of the foreign exchange values of the U.S. dollar against the currencies of a large group of major U.S. trading partners developed by the U.S. Federal Reserve. Panel F shows the rate of depreciation of these currencies against the U.S. dollar as a comparison to depreciation of the Jamaican dollar vis-à-vis the U.S. dollar.

although in the first three quarters of 2016 there has been some growth in exports of beverages and tobacco, chemicals, machinery, and miscellaneous manufactures. As will be discussed below, bureaucratic regulations and other deficiencies in the business climate have hindered the ability of Jamaican firms to integrate into global supply chains.

12. **The government has made significant progress since 2013 in restraining spending and has reduced the debt/GDP ratio by 25 percentage points.** The GOJ succeeded in bringing the primary fiscal surplus up to at least 7.5 percent of GDP during the first two years of the IMF EFF program (see Figure 2.2, Panel A), which contributed to a modest overall public sector surplus. This tight fiscal stance, together with timely active debt management operations, contributed directly to reducing the debt/GDP ratio by 25 percentage points over three years.[4] Fiscal consolidation has also engendered confidence in capital markets, as evidenced by falling spreads over other emerging market sovereign bonds (see Figure 2.1, Panel D). Greater control over state-owned enterprises has eliminated their historical downward pressure on the fiscal balance—as shown in the public entities balance in Table 2.2. Increased market confidence in Jamaica has given the government space to execute careful debt market transactions that have further reduced public debt and the risks associated with it.[5]

13. **The government has achieved some rebalancing of spending as part of its reform program** (Figure 2.2, Panel B). Debt reduction has brought with it a sizeable reduction in the government's interest bill to 7.4 percent of GDP in FY2015/16 from 9.5 percent of GDP in FY2012/13. The government has also contained spending on wages and salaries. Gains in reducing spending on interest and wages have created space for spending on programs. The public investment program bore a significant portion of the tight fiscal stance, however. Capital spending fell by half to 1.5 percent of GDP during the first two years of the reform program. The government was able to increase spending on capital projects somewhat last year, supported by the additional fiscal space agreed during the 10th review of the EFF, and public investment spending is projected to rise to 3.2 percent of GDP by FY2020/21.

14. **The government launched tax reforms in 2016 to boost GDP growth.** It cut income taxes as part of a broader revenue-neutral package of tax reforms to spur economic growth by rebalancing from direct to indirect taxes. Effective July 1, 2016, people with annual incomes of J$1 million or less pay no income tax. The threshold was raised to J$1.5 million on April 1, 2017. Accompanying the first phase of the higher threshold were measures to increase indirect taxes on transport fuels, cigarettes, and heavy fuel oil. These are projected to generate revenue of around 1.0 percent of GDP. The government is considering other revenue options for the FY2017/18 budget, with a view toward offsetting the revenue loss associated with the increased threshold to J$1.5 million and generating additional revenues to expand social transfers to protect the vulnerable.[6]

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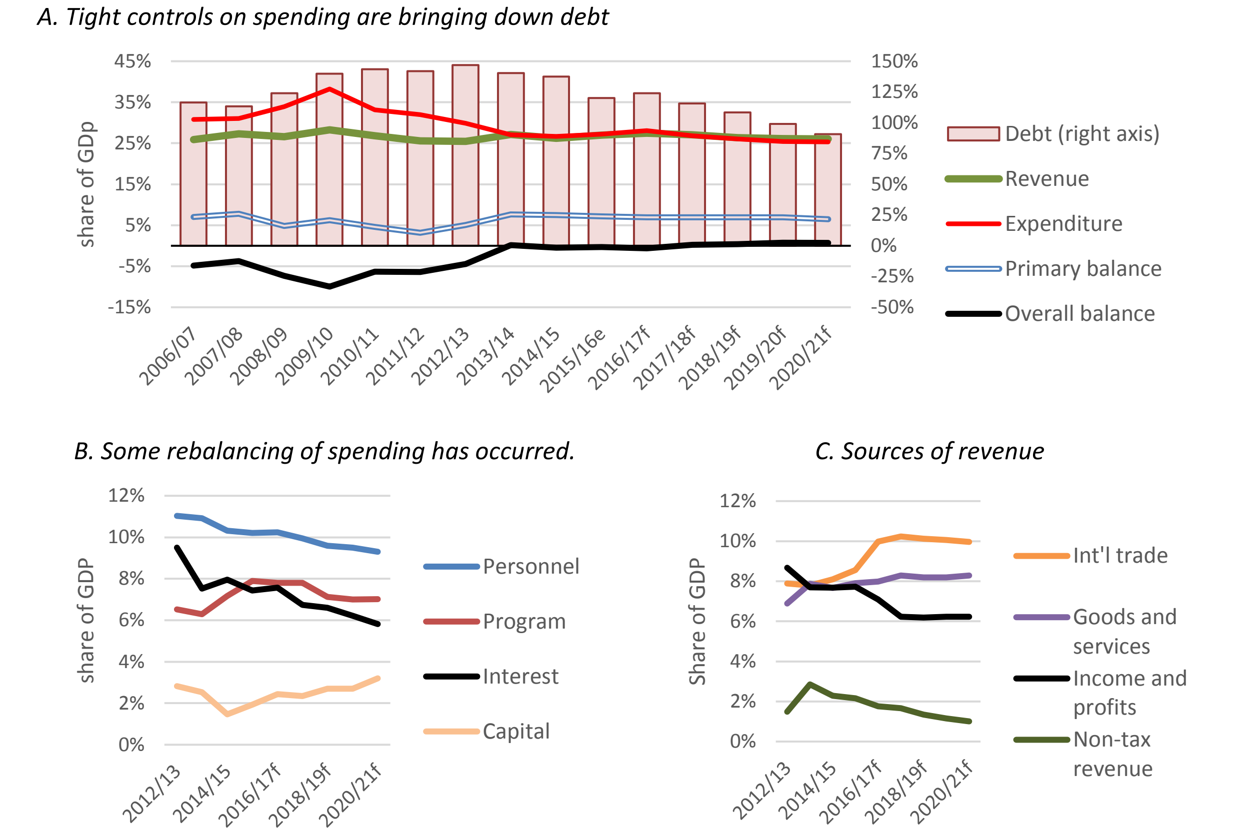
[4] The latest debt sustainability analysis (DSA) finds that the primary surplus accounted for just over half of the cumulative reduction of the debt/GDP ratio between FY2013/14 and FY2014/15, followed closely by liability management operations. Depreciation of the Jamaican dollar offset this to some extent. See Annex 5 for a detailed analysis of debt dynamics.

[5] Jamaica issued an historic US$2 billion Eurobond in July 2015. This enabled the GOJ to retire its entire US$2.9 billion PetroCaribe debt at an almost 50 percent discount. In February 2016, GOJ re-entered the domestic bond market redeeming bonds totaling J$61m (3.6 percent of GDP) and issuing J$15m in new bonds. In August 2016, GOJ went to the international market to exchange US$785m of high-coupon international debt maturing in 2017–19 for long-dated debt, thus reducing refinancing risk and extending the average maturity of Jamaican debt.

[6] The IMF and World Bank have been providing technical assistance to MOFPS on tax reform and social protection to reduce the risk that the increased indirect taxation (which is typically regressive) will increase poverty.

Figure 2.2. Fiscal Conditions are Improving



Sources: World Bank staff calculations from IMF and MOFPS data

15. **Inflation has dropped to historically low levels.** Inflation fell to an average of 2.3 percent in 2016 from 3.7 percent in 2015, resulting mainly from slower growth of domestic agriculture prices. Fuel and transport prices rose by an average of 1.2 percent between September 2016 and January 2017 after declining for the previous 12 months and are expected to feel continued upward pressures from expected rises in oil prices. The Bank of Jamaica (BOJ) expects headline inflation to track within the range of 4.0–6.0 percent during the remainder of 2017. Favorable inflation conditions allowed BOJ to reduce its policy rate—the rate on its 30-day certificate of deposit—to 4.75 percent in April 2017 from 5.5 percent, which prevailed in 2015. BOJ is beginning a transition to inflation targeting. As an initial step in this process, it raised its rate on overnight deposits in September 2016 to 3.0 percent from 0.25 percent in order to bring its rates in line with those in private overnight markets. BOJ plans eventually to use the overnight rate as its policy rate to enhance the effectiveness of monetary transmission.

16. **Jamaica's financial system remains resilient.** Indicators of financial sector soundness remain broadly positive, including the share of non-performing loans (NPLs) and capital-asset ratios. Commercial banks' capital adequacy ratio rose to 14.1 percent in December 2016 from 13.7 percent a year earlier, while NPLs for all lenders declined to 2.9 percent of total loans in December 2016 from 4.1 percent in December 2015 and 7.0 percent at the end of 2013. Lending to the private sector has been experiencing faster growth since May 2016, averaging 22 percent y/y between May and November, compared to growth rates of 5–10 percent throughout 2015 and early 2016. Despite declining inflation and greater macroeconomic stability, interest rates on commercial loans have changed little over the past several

years, averaging between 12.6 and 12.9 percent during this time. Yields on treasury bills have been declining steadily since late 2014 when they reached 8.4 percent. The yield on the 3-month bill averaged 5.8 percent during 2016, but declined to 5.6 in early 2017.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

17. **The outlook for Jamaica is encouraging, provided policy reform continues.** GDP growth accelerates modestly under the baseline to 2.1 percent by FY2017/18, rising to almost 3.0 percent by the end of the decade. The rebound in agriculture, continued growth in external demand for services exports (e.g., business process outsourcing and tourism), and new FDI support growth in this baseline scenario, as does increased private sector activity encouraged by the implementation of competitiveness reforms. World Bank poverty simulations project a slight reduction in the incidence of poverty to around 18.1 percent by 2018, supported by a modest increase in per capita GDP and growth in labor-intensive sectors (notably agriculture).[7]

18. **Inflation is expected to rise, but remains benign.** Rising world commodity prices should bring inflation, as measured by growth in the consumer price index (CPI), up to around 5.0 percent by the end of 2017 and then average around 5.5 percent during the medium term, placing inflation in the middle of BOJ's target band. Little inflationary pressure is evident in the domestic economy: output remains below potential, the unemployment rate lies above its historical average, and fiscal and monetary policy restraint should hold prices in check. BOJ's expanding policy toolkit will allow BOJ to exercise better control over monetary aggregates.

19. **The current account deficit is projected to increase to no more than 3.6 percent of GDP over the medium term, allowing BOJ to accumulate reserves.** Assuming a gradual increase in world oil prices and steady GDP growth in the U.S., petroleum imports should remain manageable at about 8.4 percent of GDP (compared to 14–15 percent in 2012–14, when world prices were at their peak), and tourism exports will average around 17.4 percent of GDP (compared to 14–15 percent of GDP in 2012–14). New investment in port infrastructure, tourism, and business process outsourcing will boost foreign direct investment (FDI) to around 4.3 percent of GDP (from 2–3 percent in 2012–14), although it should be noted that this falls below the 2015 Caribbean small states average of 5.7 percent.[8] BOJ expects to continue accumulating reserves over the medium term (see Table 2.3 on page 13). The IMF forecasts Jamaica's international reserves to reach 100 of the IMF's Assessing Reserve Adequacy metric by 2019.[9]

20. **Jamaica is committed to continued fiscal restraint.** GOJ plans to maintain a primary fiscal surplus of 7.0 percent of GDP through FY2019/20 and expects to achieve a small (less than 1.0 percent of GDP) overall budget surplus from FY2017/18 onwards (see Figure 2.2 on page 6). This will support the target set out in Jamaica's fiscal responsibility legislation of reaching a public debt/GDP ratio of 60 percent by March 2026. Lower financing costs (associated with a smaller debt stock) and achieving a wage bill/GDP target of 9 percent by FY2018/19 (consistent with the fiscal responsibility law) would reduce total spending by 2.6 percentage points of GDP by FY2019/20.[10]

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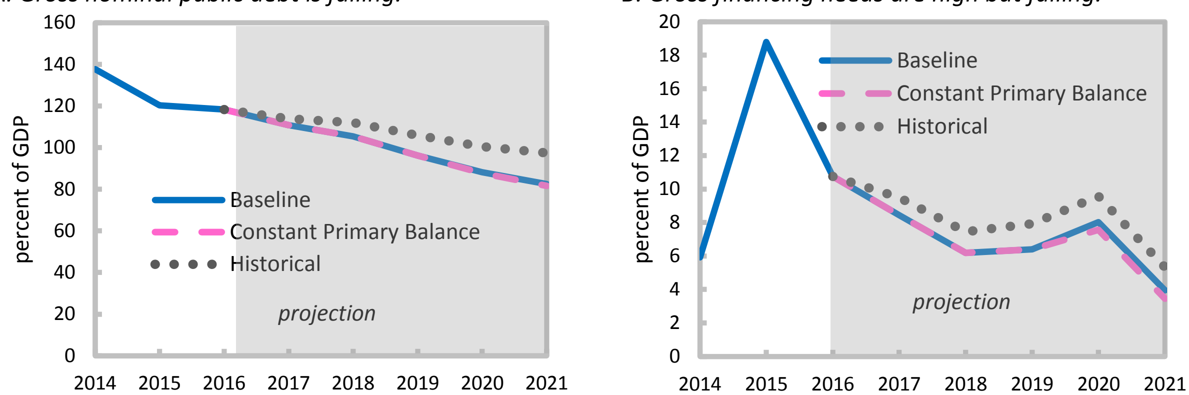
[7] World Bank, Macro-Poverty Outlook (September 2016).
[8] World Development Indicators.
[9] IMF, "Jamaica—Request for a Stand-By Arrangement and Cancellation of the Current Extended Arrangement under the Extended Fund Facility," (November 2016).
[10] During 2017 the government will be undertaking several measures to tighten controls over recruitment and compensation that are supported by the IMF SBA.

21. **Fiscal restraint is making Jamaica's public debt burden more manageable.**[11] The latest debt sustainability analysis (DSA) projects an almost 40-point decline in the public debt/GDP ratio by FY2021/22 (see Panel A of Figure 2.3 below). This depends critically on the government maintaining high primary fiscal surpluses. The modest acceleration in GDP growth (projected to rise to 2.8 percent) is mostly outweighed by the real interest burden in the baseline forecast, and the DSA assumes little contribution from privatization or the drawdown in deposits.

22. **Financing needs remain high but are falling.** Even though the budget is in balance, Jamaica's high debt overhang creates large financing requirements for the government. Panel B of Figure 2.3 shows that gross financing needs are expected to fall substantially: declining to around 3.9 percent of GDP in FY2021/22 from 10.8 percent in FY2016/17, with a small spike in FY2020/21 to meet large domestic bond payments.[12] Domestic debt accounts for the majority of repayment obligations over the medium term, as shown in Table 2.2 (page 12). The domestic issuance plan envisioned in MOFPS's latest (February 2017) medium-term debt management strategy should adequately address these needs.

Figure 2.3. Public Debt Is Becoming More Manageable

A. Gross nominal public debt is falling. *B. Gross financing needs are high but falling.*



Source: IMF (November 2016)

23. **Risks to debt sustainability remain significant.** New Eurobonds issued in 2014–15 have increased Jamaica's exposure to volatile foreign exchange markets. The strengthening of the U.S. dollar since late-2016 and possible additional appreciation in the future are a major source of risk. The latest DSA estimates that a large (32 percent) one-time depreciation against the U.S. dollar would push the trajectory of debt upwards by almost 14 percentage points of GDP over the baseline (see Figure A5.4 on page 55). The DSA also highlights the government's exposure to financial risks from state-owned enterprises and other public bodies. Sovereign loan guarantees were around 10.4 percent of GDP in FY2015/16. The DSA estimates that a large realization of these guarantees would elevate the debt/GDP ratio about 8.5 percentage points above the baseline by FY2020/21. DSA simulations suggest that a natural disaster (e.g., caused by extreme weather events that are expected to become more frequent and severe as a result of climate change) or other shocks to GDP would push the debt/GDP ratio around 5–6 percentage points above the baseline in FY2020/21.[13]

[11] This section is based on the IMF's latest debt sustainability analysis (DSA), which was released in November 2016. See Annex 5 for a fuller discussion of debt dynamics. The DSA baseline includes the US$300 million in commercial loans to be leveraged by the proposed IBRD guarantee.

[12] See Figure A5.3 on page 56 in the annexes for the maturity profile of Jamaica's debt.

[13] See Annex 5 for details on simulations used in the DSA.

24. **The government is actively working to mitigate these risks to debt sustainability.** The issuance plan envisioned in the current debt management strategy calls for a shift towards domestic market bonds over the medium term. The steady improvement in Jamaica's credit ratings (most recently Moody's upgrade of GOJ risk to B3 in November 2016 from Caa2) and GOJ's growing experience undertaking liability management transactions should enable Jamaica to manage refinancing risks. Consistent with the IMF program's ceiling on non-accumulation of guarantees, MOFPS has substantially scaled back its issuance of sovereign loan guarantees and is stepping up its monitoring of implicit contingent liabilities. Recognizing the vulnerability of the island's buildings to earthquakes, effects of climate change, and other natural hazards, the government has developed a new building code that raises standards for building construction, thus reducing the reconstruction costs that the government might be called on to underwrite.

25. **Other downside risks to the macroeconomic outlook are also substantial. Possible reform fatigue poses one important risk.** Debt reduction currently depends critically on the government maintaining high primary surpluses over a prolonged period of only modest growth. Popular support for fiscal policy restraint and supporting reforms (e.g., those needed to reduce the government wage bill) could unravel. This could manifest itself in the form of demand for increased government consumption or unproductive tax breaks. Recognizing this risk, Jamaica has strengthened mechanisms to ensure close stakeholder participation in the reform process. In May 2016, GOJ established the Economic Growth Council, a committee of business leaders tasked with developing a growth strategy. In November 2016 it revamped the Economic Policy Oversight Committee (EPOC), which has been leading public-private consultations on the economic reform program, and supplemented EPOC with creation of the Public Sector Transformation Oversight Committee. These committees bring together the government, business community, labor unions, and civil society to ensure that reforms remain on track.

26. **Emerging developments in the U.S. and Europe also affect the outlook.** Global investors started moving assets out of sovereign debt and into equities in late-2016, and out of emerging markets and into mature economies. U.S. interest rates are now rising more rapidly than expected, which will likely raise future borrowing costs for the Jamaican government as well as for private borrowers in Jamaica. As noted above, the U.S. dollar has appreciated rapidly and may appreciate more in the future. In addition to the risks these developments pose for public debt sustainability, they place stress on private borrowers and commercial bank balance sheets, given the high rate of dollarization in domestic credit markets.[14] Finally, the upsurge in anti-immigrant sentiment in Europe and the U.S. could reduce remittance inflows from Jamaica's diaspora (estimated at around 15 percent of GDP), which have historically made an important contribution to financing Jamaica's trade deficit and alleviating household poverty. To better insulate Jamaica's economy from external shocks, BOJ is accumulating non-borrowed international reserves. BOJ is also implementing a foreign currency auction mechanism with the aim of establishing a well-functioning interbank foreign exchange market that is resilient to volatility in global markets. BOJ has equalized reserve requirements for foreign and local currency deposits to reduce incentives for dollarization. The reorientation of BOJ's policy toolkit (see paragraph 15 above) should improve monetary policy transmission and enable BOJ to respond more effectively to shocks.

27. **Contingent liabilities arising from state-owned enterprises (SOEs) and public private partnerships (PPPs) pose risks for fiscal sustainability**. In addition to possible realization of loan guarantees discussed above, the government could be called up on to provide financing if SOEs incur operating losses or require capital injections. The FY2017/18 government budget provides such support to two public entities

[14] BOJ reports that around 46.1 percent of total deposits are held in U.S. dollars (Unaudited Assets and Liabilities of Commercial Banks – BOJ, December 2016).

(down from five in the previous budget), which totals J$5.6 billion (equivalent to 0.3 percent of GDP) thus consuming around 1.1 percent of government revenue. Increasing the use of PPPs is one important part of the Jamaica's growth strategy. If PPP operations funded by users (projects such as toll roads) do not achieve the expected level of user demand, the government may be required to compensate the operator. As a first step towards mitigating these risks, the government has begun to disclose all significant fiscal risks, including those emanating from SOEs and PPPs, through the publication of a Fiscal Risk Statement along with the budget. Jamaica's fiscal responsibility laws place a ceiling on user-pays PPPs (such as toll roads) of 3 percent of GDP and on guaranteed public debt of 8 percent starting in FY2016/17, which will be gradually tightened to 3 percent of GDP by 2027. Finally, reforms to Jamaica's public investment management (PIM) system have strengthened screening of PPPs for financial viability and fiscal risks.

28. **Jamaica is also vulnerable to climate change effects and other natural hazards.** Hurricanes, drought, and earthquakes have imposed large costs in the past—as much as 8 percent of GDP in the case of Hurricane Ivan (2004). Financial costs have been high in part because few buildings were designed and built by trained professionals. Observers expect extreme weather events to become more likely due to climate change. The growth of unplanned settlements in environmentally sensitive lands further increases climate vulnerability, as does damage to watersheds and coral reefs (by degrading their ability to provide critical environmental services). To mitigate these risks, Jamaica is strengthening warning systems for floods, drought, and other extreme weather events (with support from the Pilot Program for Climate Resilience). This will improve the resilience of agriculture, tourism, fisheries, and other weather- or climate-sensitive industries. Jamaica has developed a modern building code that emphasizes structural safety, is retrofitting bridges and other critical physical infrastructure, and introducing coastal protection measures.[15]

29. **On the upside, acceleration in the execution of pending and proposed public-private partnership transactions could generate significant new investment.** This is most likely in transport and other infrastructure services. The expansion of the Panama Canal may provide new opportunities for Jamaica. The finalization in July 2016 of the 30-year concession to operate the Kingston Container Terminal, bodes well for other investments that could position Jamaica as a trade logistics hub.

30. **The government has taken concrete steps to mitigate these risks, and Jamaica's overall macroeconomic policy framework is adequate for the proposed operation.** Since 2013 the authorities have implemented far-reaching reforms that have placed fiscal policy on a sustainable footing. The government is committed to maintaining a high primary fiscal surplus of 7.0 percent of GDP, supported by an IMF program. Debt is on a downward trajectory to below 100 percent of GDP by 2020 and to 60 percent within a decade. Under the baseline macroeconomic scenario, annual GDP growth rates of 2.1–2.8 percent are forecast during the medium term, inflation is expected to average around 5.5 percent of GDP, and the current account deficit should remain manageable at no more than 3.6 percent of GDP. Reducing macroeconomic and fiscal risks facing Jamaica has been the focus of this DPF series. Reforms to fiscal and monetary policymaking—such as the fiscal responsibility framework, closer management of fiscal risks from contingent liabilities, and the expanded monetary policy toolkit—have improved the authorities' capacity to respond effectively to adverse shocks.

[15] The World Bank is financing many of these measures through the Disaster Vulnerability Reduction Investment Project Financing (IPF).

Table 2.1. Key Macroeconomic Indicators

	2012/ 13	2013/ 14	2014/ 15	2015/ 16e	2016 /17f	2017/ 18f	2018/ 19f	2019/ 20f	2020/ 21f
Real Economy			*Annual growth rate, unless otherwise noted*						
GDP (J$ billions)	1,337	1,462	1,572	1,691	1,758	1,883	2,040	2,212	2,386
Real GDP growth	-0.8	1.0	0.2	1.1	1.7	2.1	2.5	2.7	2.8
Exports of goods	7.8	-14.2	-6.3	-14.9	-1.8	3.2	1.5	2.9	2.8
Imports of goods	-3.1	-7.3	-4.3	-15.7	5.8	4.3	3.0	3.1	3.9
Unemployment rate (eop/latest)	14.4	13.4	14.2	13.3	12.9	…	…	…	…
Fiscal					*Share of GDP*				
Budgetary revenue	25.8	27.1	26.2	27.0	27.4	27.1	26.4	26.2	26.0
Budgetary expenditure	29.9	27.0	26.7	27.2	28.0	26.8	26.0	25.4	25.3
Overall fiscal balance	-4.1	0.1	-0.5	-0.3	-0.6	0.2	0.4	0.7	0.7
Public debt[1]	145.3	140.4	136.6	120.2	123.9	115.7	108.4	99.0	90.6
Monetary and financial									
CPI (period average)	7.2	9.4	7.2	3.4	2.9	5.2	5.5	5.5	5.5
CPI (end of period)	9.1	8.3	4.0	3.0	4.8	5.5	5.5	5.5	5.5
Base money growth (eop)	7.6	3.4	7.0	18.7	2.1	11.4	10.2	8.3	8.5
BOJ policy rate (eop/latest)	5.75	5.75	5.75	5.25	5.00	…	…	…	…
Non-performing loans/total loans (eop)	7.0	5.4	5.0	4.1	3.5	…	…	…	…
External									
Current account balance (% of GDP)	-10.0	-8.7	-7.0	-1.8	-2.8	-2.8	-2.8	-2.9	-3.3
Direct investment (US$ million, net)	325	511	595	917	840	650	650	680	720
Gross reserves (weeks of imports of GNFS)	11.4	14.4	19.3	23.5	24.2	26.9	28.6	28.0	28.0
Net international reserves (US$ million)	884	1,304	2,294	2,416	2,536	3,019	3,419	3,556	3,815
Exchange rate (avg., J$/US$)	91.2	103.9	113.1	118.8	126.7	…	…	…	…

Sources: IMF, MOFPS, Statistical Institute of Jamaica and Bank of Jamaica, and World Bank staff estimates.
Notes: Fiscal years run from April 1 to March 31. Authorities' budgets presented according to IMF definitions. Data for FY2016/17 are the latest estimates (indicated with "e"), and those for FY2017/18 and later are forecasts ("f").
1/ Debt statistics follow the definition set in the EFF program: central government direct and guaranteed only, including PetroCaribe debt (net of its financing to the central government) and projected disbursements by international financial institutions.

Table 2.2. Key Fiscal Indicators

(percent of GDP)

	2012/ 13	2013/ 14	2014/ 15	2015/ 16e	2016/ 17f	2017/ 18f	2018/ 19f	2019/ 20f	2020/ 21f
Revenue and grants	25.8	27.1	26.2	27.0	27.4	27.1	26.4	26.2	26.0
Tax	24.0	23.6	23.6	24.5	25.4	25.0	24.8	24.8	24.8
Income and profits	8.7	7.7	7.7	7.7	7.1	6.2	6.2	6.2	6.2
Production and consumption	7.2	7.9	7.7	7.9	8.0	8.3	8.2	8.2	8.3
International trade	7.9	7.8	8.1	8.6	10.0	10.2	10.1	10.1	10.0
Non-tax	1.5	2.9	2.3	2.2	1.8	1.7	1.3	1.2	1.0
Grants	0.3	0.7	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Expenditures	29.9	27.0	26.7	27.2	28.0	26.8	26.0	25.4	25.3
Primary expenditure	20.4	19.5	18.7	19.8	20.5	20.1	19.4	19.2	19.5
Wages and salaries	11.0	10.1	9.7	9.6	9.6	9.4	9.0	8.9	8.7
Program expenditure	6.5	6.3	7.2	7.9	7.8	7.8	7.1	7.0	7.0
Capital expenditures	2.8	2.5	1.5	1.9	2.4	2.4	2.7	2.7	3.2
Interest payments	9.5	7.5	8.0	7.4	7.6	6.7	6.6	6.2	5.8
Domestic	6.6	4.7	4.8	4.2	3.6	3.1	2.8	2.6	2.3
External	2.9	2.8	3.1	3.2	4.0	3.6	3.8	3.6	3.5
Budget balance	-4.1	0.1	-0.5	-0.3	-0.6	0.2	0.4	0.7	0.7
Primary balance	5.4	7.6	7.5	7.1	7.0	7.0	7.0	7.0	6.5
Gross financing needs	10.7	7.1	5.9	18.8	10.8	8.4	6.2	6.7	8.0
Overall budget deficit (– = budget surplus)	4.1	-0.1	0.5	0.3	0.6	-0.2	-0.4	-0.7	-0.7
Principal repayments	6.6	7.2	5.4	18.5	10.2	8.6	6.6	7.5	8.7
Domestic debt	2.8	5.3	1.6	12.8	1.8	5.0	3.8	4.8	6.7
External debt	3.8	1.9	3.8	5.7	8.4	3.7	2.8	2.7	2.0
Gross financing sources	10.7	7.1	5.9	18.8	10.8	8.4	6.2	6.7	8.0
Domestic borrowing	10.0	3.6	2.7	2.1	4.3	2.7	4.6	2.8	5.1
External borrowing	0.7	3.9	7.4	15.8	7.2	4.8	2.7	3.0	2.0
of which: official	0.7	3.9	2.5	1.8	1.9	2.2	1.9	1.6	0.6
Divestment + deposit drawdown	0.0	-0.4	-4.2	0.9	-0.7	0.9	-1.0	0.9	0.9
Memorandum items									
Government and guaranteed debt[1]	145.3	140.5	137.6	120.2	123.9	115.7	108.4	99.0	90.6
Public entities balance	0.1	0.0	0.9	1.8	0.0	0.0	0.0	0.0	0.0

Sources: IMF EFF program reviews

Notes: Fiscal years run from April 1 to March 31. Authorities' budgets presented according to IMF definitions. Data for FY2016/17 are the latest estimates (indicated with “e”), and those for FY2017/18 and later are forecasts (“f”).

1/ Debt statistics follow the definition set in the EFF program: central government direct and guaranteed only, including Petro-Caribe debt (net of its financing to the central government) and projected disbursements by international financial institutions.

Table 2.3. Balance of Payments Financing and Sources

(millions of U.S. dollars)

	2012/ 13	2013/ 14	2014/ 15	2015/ 16e	2016/ 17f	2017/ 18f	2018/ 19f	2019/ 20f	2020/ 21f
Current account balance	-1,459	-1,231	-978	-259	-393	-409	-429	-465	-557
Merchandise trade	-3,946	-3,778	-3,647	-3,062	-3,330	-3,485	-3,609	-3,725	-3,883
of which: oil imports	2,124	2,158	1,759	1,016	1,001	1,212	1,291	1,358	1,435
Services trade	551	669	790	968	1,056	1,135	1,193	1,246	1,288
of which: tourism receipts	2,058	2,096	2,314	2,451	2,523	2,611	2,701	2,795	2,893
Income	-182	-318	-351	-493	-523	-528	-536	-539	-544
Current transfers	2,119	2,197	2,229	2,328	2,404	2,469	2,523	2,553	2,583
of which: net private transfers	1,913	1,993	2,079	2,146	2,218	2,279	2,329	2,355	2,381
Capital and financial account balances	782	1,649	1,968	279	514	892	829	602	816
Capital account	-14	-26	-19	1,421	-28	-28	-28	-28	-28
Financial account	796	1,675	1,987	-1,142	542	920	857	630	844
Direct investments	325	511	595	917	840	650	650	680	720
Central government	-396	241	600	1,611	-175	170	-20	55	0
IFI's	107	376	181	231	217	250	250	250	100
of which: IBRD[1]	27	154	97	37	24	124	57	66	42
Other official	651	356	78	-2,851	-63	-40	-34	-33	2
of which: PetroCaribe	462	369	161	-2,932	30	41	47	47	45
Portfolio investment	216	567	714	-820	-60	140	260	-73	122
Financing	678	-418	-990	-20	-120	-483	-400	-137	-259
Change in reserves (– = increase)	893	-330	-641	-205	-200	-467	-337	-39	-142
Financing gap	-215	-88	-349	185	79	-16	-63	-97	-117
IMF financing (net)	0	-26	-163	74	79	-16	-63	-97	-117
Disbursements	0	346	259	119	79	0	0	0	0
Repayments	0	-372	-422	-45	0	-16	-63	-97	-117
Memorandum item									
GDP nominal (US$ billion)	14.66	14.08	13.90	14.23	14.13	14.71	15.43	16.15	17.00

Sources: IMF, World Bank

1/ Gross IBRD loan disbursements.

2.3. IMF RELATIONS

31. **Jamaica completed a successful SDR 615 million IMF program under the Extended Fund Facility (EFF) that operated from April 2013 to November 2016.** The program emphasized fiscal consolidation, notably through increasing the primary fiscal surpluses to at least 7.0 percent of GDP, a floor on tax revenue, and ceilings on arrears accumulation, direct debt, and guaranteed debt. It set structural benchmarks for institutional reforms to enhance fiscal discipline and increase efficiencies, reform of tax policies and administration, strengthening of the financial sector, and growth-enhancing reforms. Jamaica successfully

completed all 13 scheduled quarterly reviews, meeting all but one quantitative criteria and structural benchmarks.[16]

32. **In November 2016 the IMF approved a three-year, SDR 1.2 billion program under the Stand-By Arrangement.** The new program gives greater emphasis to accelerating economic growth, reflecting the priorities of the new administration, while continuing to maintain fiscal prudence, including the 7.0 percent of GDP primary fiscal surplus target. Structural benchmarks include tax reform, reforms to increase financial inclusion and resilience of the banking sector, public sector modernization initiatives, and increased central bank autonomy. The EFF program was cancelled upon approval of the new SBA. The authorities intend to treat the SBA as precautionary, providing insurance against unforeseen shocks.

3. THE GOVERNMENT'S REFORM PROGRAM

33. **The government's program is anchored in the objectives of the National Development Plan (NDP) "Vision 2030 Jamaica," which seeks to transform Jamaica into a developed country by 2030.** Within this are four overarching goals:

1. Jamaicans are empowered to achieve their fullest potential.
2. The Jamaican society is secure, cohesive and just.
3. Jamaica's economy is prosperous.
4. Jamaica has a healthy natural environment.

34. **Since 2013 the government has pursued reforms that have succeeded in cutting debt and establishing conditions for economic growth.** Fiscal consolidation, reinforced by a strengthened fiscal responsibility framework, has been the centerpiece of the economic reform program. Through these measures, the government is addressing the unsustainable fiscal policies and debt accumulation that historically have been the main sources of macroeconomic vulnerability. The government reduced its debt/GDP ratio by 25 percentage points in three years. The new fiscal responsibility framework requires the government to continue maintaining high primary fiscal surpluses to bring public debt below 100 percent of GDP by 2020 and to a long-term level of 60 percent by 2026.

35. **Accompanying this fiscal restraint are structural reforms to remove impediments to growth: high crime, cumbersome business procedures, low productivity, vulnerability to climate change, and an inefficient public sector.** Strategic investments and major initiatives such as public sector transformation, the Global Logistics Hub Initiative (GLHI), policies to improve social protection and human capital development, efforts to mitigate climate change and reduce the island's climate vulnerability provide an anchor for the growth agenda. 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. Reforms 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.

36. **Strong stakeholder consultations have sustained reform momentum and contributed to the program's success.** Jamaica instituted a high-level public-private consultation mechanism overseen by EPOC. Consultations have been instrumental in monitoring program developments (and the EFF review process), maintaining a broad consensus behind reforms over time—a notable departure from previous reform episodes—and helping to adapt the reform program as conditions changed. Jamaica broadened

[16] Jamaica narrowly missed one primary surplus target in March 2015, for which the IMF Board gave a waiver. They still met the surplus target for the fiscal year, however.

Box 1. Key Policy Reform Milestones achieved since 2013

- The primary surplus of the central government has been maintained at 7.0 percent of GDP or higher since FY2013/14, with near balance for the overall public sector.
- 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 2026. 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 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 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 through legislation to increase the powers of the tax administration.
- The Special Economic Zone Act was passed in 2016. This brings industrial tax incentives in line with international rules and encourages greater linkages between small businesses and global supply chains.
- The Electricity Act was passed in 2015, enabling new investments that will reduce power costs and are diversifying sources of supply away from oil.
- The Petroleum Company and the Kingston Container Terminal were privatized in 2016.
- 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.
- The Banking Services Act was passed to address unlawful financial operations and strengthen financial sector supervision.

Source: GOJ's Memoranda of Economic and Financial Policies presented in IMF EFF program reviews.

this consultation mechanism in 2016 through creation of the Economic Growth Council and the Public Sector Transformation Oversight Committee.

37. **Acknowledging both the successes of the 2013 program and the remaining challenges, the government has unveiled a revised strategy that gives greater emphasis to stimulating economic growth and job creation, while preserving the foundation of policies to maintain macroeconomic stability.** The government has taken steps to reorient taxation through cutting wage taxes and making greater use of indirect taxation. Over the medium term, it will rebalance spending away from wages towards social programs and public investment. The government intends to stimulate better public asset utilization through asset sales and privatizations. It is putting in place a modern monetary framework that enable BOJ to move to inflation targeting and establish a more robust financial system. Investing in public security and strengthening the social safety net round out the strategy.

4. THE PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

38. **The Programmatic DPF series supports the GOJ's policies aimed at (i) improving investment climate and competitiveness and (ii) sustaining fiscal consolidation and enhancing public financial management.** These policies are central elements of the government's ongoing reform program. They are closely aligned with the third goal of the NDP—becoming a prosperous economy—and support achievement of outcomes within that goal: a stable macro-economy, an enabling business environment, energy security and efficiency, and internationally competitive business structures. The proposed operation also

supports hazard risk reduction and adaptation to climate change—an outcome that is part of the fourth goal of the NDP (a healthy natural environment).

39. **The first pillar of the proposed operation supports policy reforms that are central to the government's growth agenda.** This pillar reflects the priority the government places on streamlining and modernizing elements of the country's regulatory framework that have hindered investment and undermined firms' ability to compete internationally. This pillar contains policy reforms that aim to reduce Jamaica's vulnerability to the effects of climate change and to reduce or limit the island's greenhouse gas (GHG) emissions. Proposed prior actions include reforms identified in a number of government initiatives: the National Energy Policy, which focuses on cutting electricity costs and shifting towards renewable and other cleaner sources; reforms to economic zones and trade facilitation systems that are part of the government's flagship GLHI; and Jamaica's Climate Change Policy Framework and its Nationally Determined Contribution (ratified on March 30, 2017) to the United Nations Framework Convention on Climate Change (UNFCC).

40. **The second pillar helps the government to sustain fiscal consolidation by strengthening the legal and institutional framework for fiscal and public financial management.** This pillar supports reforms that are helping the government to better contain and manage fiscal risks associated with debt management, sovereign loan guarantees, and the public sector pension system. It also supports the overhaul of Jamaica's public investment management system. The proposed prior actions in this pillar are completion of reforms to put in place a strong fiscal responsibility framework and to transform and modernize the public sector. These reforms will both reduce debt and provide fiscal space to rebalance spending towards inclusive growth.

41. **Lessons from previous operations have informed the design of this DPF series.** The World Bank's long experience with DPFs in Jamaica indicates that a targeted and focused operation has a greater likelihood of achieving results. The series therefore focuses on increasing competitiveness and on policies that help Jamaica sustain fiscal consolidation. The proposed operation draws directly on lessons articulated in the implementation completion report for the 2013 DPF, such as the need to coordinate closely with other multilaterals and the benefits from integrating World Bank instruments: DPFs, IPFs, and NLTA. In addition, prior actions in this programmatic series build on those in the 2013 DPF. For example, the 2013 DPF supported the start of the public investment reform, which will be completed under this DPF series.

4.2. PRIOR ACTIONS RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar 1. Improving the investment climate and competitiveness

42. Jamaica's economic competitiveness has been undermined by cumbersome business regulations, high costs (notably for energy), and distorted incentives.[17] These have discouraged private investment that would have stimulated economic growth and helped to integrate Jamaican firms into international supply chains. The first pillar of the DPF series supports elements of the government's growth agenda that address these impediments: reform of the development and building applications approval process, application of a modern building code, electricity sector reform, trade facilitation, and reform of economic zone governance.

[17] These factors are discussed in detail in World Bank analytical work: "Jamaica Country Economic Memorandum: Unlocking Growth" (2011), "Improving the Investment Climate: A Policy Note" (2014), and "Realizing the Potential of the Logistics Hub Initiative" (2014).

Theme 1.1 Strengthening the regulatory environment for development and building projects

43. **An outdated legal and institutional framework governing buildings, construction, and development projects is one key constraint to private investment, job creation and economic growth and has increased Jamaica's vulnerability to natural hazards.** Many investment activities require obtaining a development or building permit, and the cumbersome process for approving these deters or delays commercial projects that generate employment and economic growth.[18] Approval of applications for commercial projects often takes years. Several agencies must approve permit requests, each following its own procedures. The paper-based application system is difficult to monitor and manage. Fees differ across jurisdictions. The building code and laws governing the built environment, including the 106-year old Parish Council Building Act, are outdated and do not promote energy efficiency, safety, or resilience to natural hazards. Most buildings in Jamaica were designed and built by untrained practitioners and are not aligned with modern construction standards, making the country vulnerable to extreme weather (which is expected to become more likely due to global climate change) and seismic events. Deficiencies in zoning codes have enabled unplanned urban growth in environmentally-sensitive areas.

44. **Modernizing the framework for building and development projects is an important element of Jamaica's efforts to improve the investment climate.**[19] The private sector has estimated that reducing the average time to approve a building or development application to between 2–6 months would significantly bolster economic activity. In response, the government began in 2008 to take steps to improve the application approval process. The December 2014 Cabinet Decision 43/14 intensified these efforts by directing ministries and agencies involved in the review process to accelerate the reform process.[20] The first operation of this DPF series supported the creation of a multi-agency joint technical team made up of planning authorities and National Environmental Protection Agency (NEPA), as well as the piloting of the Applications Management and Data Automation (AMANDA) system by local authorities in 2014. By the beginning of 2016, AMANDA was in use in all 14 parishes. In 2016 the Cabinet approved measures to strengthen the multi-agency application review process. MLGCD is preparing a policy on application fees that is expected to be approved by December 2017. The World Bank-financed Foundations for Competitiveness and Growth IPF (P147665) is supporting investments in AMANDA and technical support to implement these policy reforms.

45. **The proposed operation supports the modernization of building code legislation, aimed at increasing buildings' energy efficiency and resilience to climate change effects and other natural hazards.** The Bureau of Standards has developed a comprehensive, modern building code that is aligned with international standards.[21] It requires all new buildings (commercial and residential) to meet higher energy efficiency standards. It also sets standards for building safety, so that they are better able to withstand hurricanes and other extreme weather events (which are likely to become more frequent and severe, due to climate change), earthquakes, and other natural hazards. A draft Building Act was submitted to Parliament in December 2016. When passed, it will give legal force to the new building code (i.e., without this Act, compliance with the new code cannot be enforced). The Act also strengthens systems for code enforcement and dispute resolution, and it establishes a framework through which building practitioners (as

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[18] For example, construction of the recently opened Marriott Hotel in Kingston, an investment worth US$23 million that is expected to create 430 jobs and generate foreign exchange, was delayed for three years by bottlenecks in the development approval process.
[19] See Government of Jamaica, "Growth Agenda Policy Paper FY2015/16 (March 2015), and Economic Growth Council, "Call to Action" (September 2016).
[20] See Cabinet Office, "Development Applications Review Process Reform Plan, 2015-2018" (July 2015).
[21] These include the International Energy Efficiency Code and the other 10 codes from the International Code Council.

opposed to licensed architects and other building professionals) are trained and accredited to carry out small construction projects that meet the new code's requirements. The proposed operation supports submission of the legislation to Parliament. The World Bank-financed Disaster Vulnerability Reduction IPF (P146965) is supporting implementation of the Building Act (passage of the Act is a disbursement condition in the IPF for these implementation activities).

Prior Action 1: *The bill entitled the Building Act, 2016, which aims to facilitate efficient application of internationally recognized building standards, has been approved by Jamaica's Cabinet and submitted to the Parliament for approval.*

46. **Results:** The reforms will contribute to inclusive economic growth by encouraging new commercial and industrial investment and by giving a boost to the construction industry (and through that to jobs for less-skilled workers). They should also result in safer and more energy-efficient buildings, as well as in an economy that is more resilient to natural hazards. These results will be realized in the long term. An intermediate result is improved capacity of officials to apply the new building code.

47. **Climate co-benefits:** This prior action is expected to contribute climate adaptation co-benefits by limiting the built environment's vulnerability to the effects of climate change. It is expected to contribute climate change mitigation co-benefits by requiring new buildings to be more energy efficient.

Theme 1.2 Reducing electricity costs and diversifying sources of supply

48. Jamaica continues to have electricity prices that are among the highest in the world, due to the dominance of oil-based power generation, small-scale and aging equipment, and high losses. Although GOJ reforms have contributed to a drop in electricity prices to approximately US$0.24/kWh in 2014, these prices remain higher than the average in the rest of the world and throughout Latin America and the Caribbean.[22] High energy costs undermine firms' competitiveness, notably of Jamaican operators in the highly competitive global tourism industry, which is one of Jamaica's main growth drivers. Outdated laws and regulations (some a century old) constrained Jamaica from making the structural shift out of heavy fuel oil and diesel and into sources that are more efficient and/or limit or reduce Jamaica's GHG emissions. Reforming this regulatory framework is central to achieving the national energy policy's objective of a "modern, efficient, diversified and environmentally sustainable energy sector."[23] To meet the target of reducing GHG emissions by 7.8 percent by 2030 as set out in Jamaica's NDC, the government has set a goal of increasing the share of renewable sources of energy in its primary energy mix to 20 percent by 2030.[24]

49. **The proposed operation supports the overhaul of the regulatory framework for electricity through a new Electricity Act.** The Energy Security and Efficiency Enhancement Project (ESEEP) IPF (P112980) financed GOJ's preparation of the Electricity Act. With support from the proposed DPF, Parliament passed the legislation in July 2015, and the Act came into operation in August 2015. The Act repealed

[22] In comparison, the retail electricity price in 2014 was US$0.16/kWh in Costa Rica, US$0.19/kWh in Honduras, and US$0.15/kWh in Colombia (Climatescope, 2015).

[23] Ministry of Energy and Mining, "Jamaica's National Energy Policy 2009–2030" (October 2009).

[24] Jamaica's nationally determined contribution will mitigate the equivalent of 1.1 million metric tons of carbon dioxide per year by 2030 (7.8 percent of emissions) compared to a business as usual scenario. This target is predicated on the current level of implementation of the National Energy Policy and the existing pipeline of renewable energy projects.

several outdated laws and it consolidated and modernized the legal framework for generation, transmission, and distribution of electricity in Jamaica. The Act realigned roles and responsibilities of the major actors in the electricity sector and introduced a number of other reforms, including: (i) “ring-fencing” of the Jamaica Public Service Company (JPS) as the 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.

50. Since passage of the Act, the authorities have aligned other laws and institutional arrangements with the Act’s new regulatory framework. The Office of Utilities Regulation Act was amended in November 2015 and the Jamaica Public Service Company’s license was revised in January 2016 to reflect these entities’ revised responsibilities. The ESEEP IPF continues to support implementation of reforms in the electricity sector, including the development of new energy efficiency standards, the launch of the appliance efficiency testing center at the Bureau of Standards, and the development of comprehensive grid codes.

***Prior Action 2**: The Electricity Act of 2015, which introduces a new regulatory framework that aims to promote new investment and competition in the electricity industry, has been approved by Jamaica’s Parliament, published in the Jamaica Gazette, and is effective.*

51. **Results.** The new regulatory framework has enabled investments that will reduce the electricity sector’s dependence on oil as well as reduce energy costs. Both will help Jamaican firms to become more competitive in international markets, which in turn will contribute to economic growth and job creation. Investments in cheaper and cleaner sources are underway. Conversion of the 120MW diesel-fired Bogue power plant to natural gas was completed in August 2016, and construction of a 190MW gas-fired plant at Old Harbour is expected to be completed by 2018. As of mid-2016, 113MW of renewable energy capacity was either commissioned or under development.

52. **Climate co-benefits:** This prior action is expected to contribute mitigation co-benefits by introducing a legal and regulatory framework that promotes the increased use of natural gas and renewable energy sources, thus limiting or reducing Jamaica’s emission of GHGs.

Theme 1.3 Trade facilitation: Positioning Jamaica as a premier logistics hub

53. **Jamaica’s proximity to the U.S. market and position astride global shipping lanes present economic opportunities that have gone largely unrealized due to weaknesses in the country’s business regulatory environment.** Customs clearance times and international trade costs lie above regional and global averages.[25] Over time, Jamaica’s regulatory framework for economic zones grew outdated and inconsistent with World Trade Organization rules. Government agencies that should provide transparent and

[25] Jamaica scored 2.40 on the 2016 Logistics Performance Index (43 percent of the score of the top performer), placing it at 119 out of 160 economies surveyed. Its score in Trading across Borders in the Doing Business 2017 survey was 60.7 percent from the frontier, placing it at 131 out of 190 economies globally and 27 out of 32 economies regionally.

predictable services to facilitate trade, such as standards, have competing regulatory compliance mandates. Physical infrastructure investment requirements have exceeded the government's available financial resources. Jamaican ports consequently lost market share to regional competitors, and the vast majority of Jamaican firms operate outside of global value chains. Fundamental changes in the international economy during the past several decades have made the 1982 Export Free Zone Act a barrier to international integration, due to its rigid requirements on eligible activities, mandatory export volume requirement, and restrictions on supply to the local market.

54. **The Global Logistics Hub Initiative (GLHI) aims to attract foreign investment into the country and integrate Jamaican firms into global value chains.** The GLHI is a tent pole of Jamaica's growth strategy. It aims to secure several billion U.S. dollars of private investment in logistics infrastructure, overhaul the economic zones regime to attract international businesses to Jamaica, modernize the quality standards infrastructure, and improve trade facilitation services. The GLHI also embraces the broader regulatory reform agenda, as well as policies aimed at unlocking Jamaica's growth potential.[26]

55. **The DPF series supports reforms of the standards infrastructure and customs administration to reduce trade transaction costs.** The first operation supported new customs clearance policies and the separation of the Bureau of Standards' regulatory functions from its service provision activities. The proposed second operation supports the automation of customs clearance through implementation of Automated System for Customs Data (ASYCUDA) World. The Jamaica Customs Agency introduced ASYCUDA World for export clearance at all ports in 2015 and finished rolling out the import clearance modules in early 2016.[27] In April 2016 JCA made the use of ASYCUDA World mandatory for all export and import declarations nationwide. JCA is now working to install the performance management module for ASYCUDA and to interface ASYCUDA with other trade-related information technology systems (e.g., Port Community System, National Single Electronic Window, post office). The World Bank has also been supporting efforts to streamline trade procedures and increase their transparency through the Foundations of Competitiveness and Growth IPF and through regional non-lending technical assistance to help Caribbean countries implement the WTO Trade Facilitation Agreement.

56. **The proposed operation also supports improved governance of economic zones through the Special Economic Zone (SEZ) Act to facilitate new investment and international integration.** Parliament passed the legislation in January 2016, and the Act entered into operation on August 1, 2016. The Act repeals the 1982 Jamaica Export Free Trade Act (which was inconsistent with World Trade Organization rules on subsidies), encourages linkages between international investors and small businesses, facilitates private operation of SEZs, and places a greater emphasis on social and environmental priorities. The Act establishes an SEZ Authority to regulate zone operators, which came into being in August 2016. The Authority has drafted implementing regulations for the Act (which are expected to be gazetted in mid-2017) and is currently building its staff. The Foundations of Competitiveness and Growth IPF has been financing technical work to strengthen SEZ-related regulations, institutions and laws, as well as the preparation of a master plan for the GLHI. The IPF also supports the development of the Caymanas SEZ—a GLHI anchor investment.

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[26] Ministry of Industry, Commerce, Agriculture and Fisheries, "The Logistics Hub: A Platform for the Efficient Flow of Business Activity" (http://www.miic.gov.jm/content/logistics-hub-platform-efficient-flow-business-activity).

[27] Usage statistics reveal the rapid take-up in usage of ASYCUDA: 7 customs declarations were processed through ASYUCDA in 2014, 39,311 in 2015, and 361,941 in 2016 (through November). UNCTAD, "ASYCUDA World Project Report," (November 2016).

Prior Action 3: *The Automated System for Customs Data (ASYCUDA) for customs clearance, aimed at facilitating faster clearance of import and export transactions, has been installed and is operational at all major ports of entry of Jamaica.*
Prior Action 4: *The Special Economic Zones Act of 2016, aimed at modernization of the regulatory framework for economic zones in Jamaica, has been approved by Jamaica's Parliament, published in the Jamaica Gazette, and is effective.*

57. **Results:** Implementation of ASYCUDA World has already resulted in quicker customs clearance. Over the medium term, delays at the border will be reduced as ASYCUDA is integrated with other trade-related information technology systems, and the authorities expect that border systems automation will improve revenue collection and regulatory compliance. The SEZ Act is expected to result in the conversion of around 120 entities with free zone status to SEZ status over the next several years. Over time, these prior actions are expected to contribute to increased competitiveness and economic growth by encouraging new investment in Jamaica (e.g., in trade-related infrastructure and in logistics, business-process outsourcing, and agro-food industries) and by better connecting Jamaican firms with international supply chains.

Pillar 2. Supporting sustained fiscal consolidation and enhancing public financial management

58. **GOJ cut spending sharply in 2013 and has maintained strict fiscal discipline since then**. Public debt has declined significantly. Nevertheless, interest payments are still expected to consume an average of 26 percent of government revenue through FY2019/20. This will constrain fiscal space for capital projects and social programs that could reduce poverty and increase economic growth. To make maximum use of this limited fiscal space, the second pillar of the DPF series supports critical reforms that help the government to manage fiscal risks, reduce the budgetary impact of public employees' pension, increase the transparency of public procurement, and better align the public investment program with the budget and strategic national priorities.

Theme 2.1 Sustaining fiscal consolidation by enhancing fiscal responsibility, managing fiscal risks and reducing the budgetary impact of public pensions

59. **Sustaining a prudent fiscal stance into the future requires adherence to fiscal rules, careful debt management, vigilant monitoring of fiscal risks, and other efforts to contain the growth in future spending.** The fiscal consolidation achieved since 2013 has placed public debt on a downward trajectory. To be sure, Jamaica has experienced episodes of fiscal consolidation and debt reduction in the past, but the authorities have found it challenging to sustain progress. In addition, assumption of contingent liabilities—from both public and private enterprises—has contributed to episodes of debt accumulation.[28]

60. **Jamaica has strengthened its fiscal responsibility framework since 2013 to entrench fiscal prudence.** The first operation in this DPF series supported amending of the Financial Audit and Administration Act in 2014 to set an aggressive debt reduction target—to 60 percent of GDP by 2026 (i.e., greater than 50 percent reduction). The amended Act requires GOJ to maintain fiscal balances that are consistent with meeting that target. The fiscal rule covers the fiscal activities associated with the public sector, defined broadly to include central and local governments and public enterprises. It sets limits on users-pay PPPs

[28] For example, the financial crisis of the mid-1990s, which cost the government almost 40 percent of GDP, emanated largely from the private sector.

to reduce the government's exposure to fiscal risks from PPPs. In addition, the Public Debt Management Act (PDMA) sets a cap on the stock of public bodies' debt guaranteed by the government.

61. **Preserving the gains from fiscal consolidation will also require continued vigilance in managing fiscal risks.** Disclosure of these risks is an essential first step. The proposed DPF supports preparation and publication of a comprehensive assessment of risks to the government's fiscal program. MOFPS presented the 2016/17 fiscal risks statement to Parliament in April 2016 with the budget. This identified risks inherent in the central government budget (e.g., wage settlements and tax arrears) as well as those stemming from economic shocks, climate change, natural disasters, and judicial awards. The mid-term Fiscal Policy Paper Interim Report (issued in September 2016) contained a brief update of the fiscal risks statement that accompanied the budget submission.

62. **The government has strengthened its capacity to manage public debt and contingent liabilities.** World Bank technical assistance during 2013–14 supported the drafting of legislation to improve the legal framework for debt management, restructuring of the Debt Management Branch (DMB) of MOFPS (into front, middle and back offices), change management, and training. The proposed second DPF operation supports further strengthening of this capacity by providing assistance in amending the PDMA to specify functions, responsibilities, and obligations of units of the DMB. The amendments also require the MOFPS to monitor and manage contingent liabilities. DMB has already brought its operations in line with the draft legislation in anticipation of the law's passage, and it has sensitized public bodies to the new (stricter) requirements for approving sovereign loan guarantees. Finally, the amendments empower DMB to gather financial data from public bodies to assess the government's exposure to implicit liabilities arising from their operations. The amendments require thrice-yearly reports on both implicit and explicit contingent liabilities, which DMB expects to begin publishing in 2017. The amendments were submitted to the Parliament in December 2016, and approval is expected by mid-2017.

63. **Reducing the budgetary impact of public employees' pensions also helps to preserve the benefits of fiscal consolidation and to reduce fiscal risks.** If left unchanged, the current government pension scheme would double its spending 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.[29] The White Paper on Pension Reform, prepared with support from the Social Protection IPF (P146606) and approved in 2013 with support from the Economic Stabilization and Growth DPF (P145995), outlined reforms that will increase the retirement age to 65 (equating it to the National Insurance Scheme), introduce employee contributions for all public employees, reduce accrual rates, and move away from using the final salary as a basis for calculating pensions in the benefit formula. The proposed DPF supports incorporating these reforms into the Pensions (Public Service) Act, which was tabled in Parliament in July 2016. The House of Representatives passed the bill on April 5, 2017, with an expected effectiveness date of June 1, 2017. MOFPS is reorganizing the Pension Administration Unit and preparing implementing regulations.

[29] 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).

Prior Action 5: *Jamaica's Ministry of Finance and the Public Service has prepared and published the FY2016/17 annual Fiscal Risk Statement to improve the transparency of risks to fiscal operations, including risks from natural hazards, economic shocks, and contingent liabilities emanating from public bodies and public-private partnerships.*
Prior Action 6: *A bill entitled the Public Debt Management (Amendment) Act, 2016, which specifies functions of Jamaica's Ministry of Finance and the Public Service units related to debt management and establishes guidelines for managing contingent liabilities, has been approved by Jamaica's Cabinet and submitted to the Parliament for approval.*
Prior Action 7: *A bill entitled the Pensions (Public Service) Act, 2016, which establishes a contributory pension scheme for public service workers, has been approved by Jamaica's Cabinet and submitted to the Parliament for approval.*

64. **Results.** Continued public debt reduction is the primary result of these reforms. Debt is expected to fall to 115.7 percent of GDP by the end of FY2017/18. Exposure to new explicit contingent liabilities has decreased (MOFPS has issued no new loan guarantees since 2013); the reforms are expected to reduce exposure to implicit contingent liabilities as well. Increased reporting of contingent liabilities is an intermediate step towards achieving this result. Pension reform will significantly increase the ratio of employee contributions to pension expenditures. This should grow to 12 percent by the end of FY2017/18 from 4 percent at the end of FY2013/14.[30]

Theme 2.2 Enhancing public financial management through greater efficiency, transparency and effectiveness of spending

65. **Improving the efficiency, transparency and effectiveness of public spending is essential over the longer term.** Jamaica's success in restoring fiscal balance has been remarkable. As with many other countries faced with the need to restore macroeconomic stability, however, Jamaica has had to forego some public investments to meet fiscal consolidation targets. Capital spending fell from 13 percent of total spending in FY2011/12 to 5 percent in FY2014/15, before beginning a slow climb that is projected to return capital spending to 13 percent of spending (3.2 percent of GDP) by FY2020/21. Even though total public debt has been declining, interest payments remain a large drain on the budget (27 percent of spending in FY2016/17). The DPF series supports Jamaica in improving its fiscal management systems so that the country can maintain a sustainable fiscal stance.

66. **Insufficient discipline in budget execution has historically been a burden on Jamaica's public finances.** Ministries formerly had unlimited capacity to change the composition of their budget after parliamentary approval. GOJ has tightened budget execution procedures since 2013 to ensure greater predictability of resources for ministries and consistency of spending with approved budgets. The first operation in this DPF series supported a 2014 Cabinet decision to limit virements. Jamaica amended the Financial Administration and Audit Act in 2015 to provide a stronger legal basis for implementing the new policy. Since 2015, GOJ has also started the review of ongoing budget programs by estimating their cost over a three-year period.

67. **Fragmented procurement processes across ministries, departments and agencies and the lack of a comprehensive law have led to inefficiencies in public procurement and drawn-out tendering processes due to limited staff capacity.** To address these deficiencies, the government has prepared a new

[30] Members of the police force currently contribute 1.7 percent of their salary toward their pensions. Parish Councilors and Parliamentarians contribute 6 percent towards their pensions. Some civil servants currently contribute 4 percent of their salary to the Family Benefit Scheme. Other public sector employees currently make no contributions.

procurement law and attendant regulations that will bind public entities to specific standards of procurement practice and make these practices more transparent. The new legal framework also facilitates the use of e-procurement and other modern methods that promise to deliver greater efficiencies. The first operation in this DPF series supported drafting and tabling of the legislation in 2014. Parliament passed the Public Procurement Act in October 2015. With support from IDB, MOFPS began piloting a new e-procurement system in 2015. MOFPS expects all ministries, departments and agencies to adopt e-procurement by the end of 2017. MOFPS is preparing implementing regulations that will specify the responsibilities of bodies created by the Act—the Office of Public Procurement Policy and the Public Procurement Commission—that are expected to take effect by the middle of 2017.

68. **Jamaica's systems for managing capital projects have been fragmented, hindering the government's ability to leverage public investment for growth.** Not only have levels of capital spending been low, but also public investment in Jamaica has made little contribution to economic growth in the past. One reason for this is that investment projects were managed differently according to their funding source. A second reason is the limited application of feasibility analysis prior to the decision to proceed with implementation. A third is the limited capacity of project managers to implement projects. These factors have undermined the effectiveness of public investment in supporting growth, as well as compromising accountability and transparency in the use of government resources.

69. **Jamaica has significantly strengthened the public investment management (PIM) since 2013.** Under the new PIM system, all proposed public investment projects, regardless of funding source, are now screened, approved and managed through an integrated process. This extends across all public entities and sectors; includes all types of public sector expenditures (actuals and contingencies); covers all steps and phases that a project has to complete through its productive life; ensures that all projects and the overall portfolio are aligned to a larger development purpose; and ensures that both future capital and recurrent spending associated with investment projects are provided for in budget forecasts.

70. **The World Bank has supported the government throughout the reform process.** Non-lending technical advisory services from the World Bank helped the government to develop the design for the new PIM system. The 2013 DPF supported Cabinet approval of this design. The first operation in this programmatic series supported amendment of the Financial Audit and Administration Act in 2014 to establish new institutions: the PIM Committee (which reviews the feasibility and strategic alignment of all investment proposals, sets investment project priorities, and recommends projects to the Cabinet for approval) and the PIM Secretariat (which provides technical support to the PIM Committee, assesses proposals, and undertakes evaluations). The proposed second operation has supported the government in making these institutions operational. Following the change in government administration in February 2015, the Cabinet appointed a new PIM Committee in 2016. The executive director was hired in August 2015 and other core staff of the PIM Secretariat were hired during 2016. In December 2016, the Cabinet approved policies that govern the operation of the PIM system from proposal to impact evaluation. The Strategic Public Sector Transformation IPF is financing investments (including in a pre-investment evaluation facility) and additional technical support for the new PIM system.

Prior Action 8: *Jamaica has made operational the Public Investment Management System (PIMS) through selection of the members of the Public Investment Management (PIM) Committee, appointment of the Executive Director of the PIM Secretariat, and approval of the PIMS Operational Guidelines.*

71. **Results**. A key outcome expected from these reforms is that medium-term budgets will be more closely aligned with national policies and will enhance the efficiency and effectiveness of spending. The

limiting of virements will reduce the ad hoc increase of recurrent spending and encourage more careful budget planning. Centralization and greater use of e-procurement will increase transparency and speed up procurement, leading to cost savings to the government. A well-functioning PIMS will make public investment more effective through better selection and management of investment expenditure, as reflected in a closer linkage between investment budgets and forward expenditure estimates. The reforms ultimately will improve the quality of social and economic infrastructure in the country.

4.2.1 Changes to the Program since the First Operation

72. The government has been implementing policy reforms largely according to what was envisioned when the first operation in the DPF series was approved in March 2015. Adjustments to the DPF2 policy matrix are proposed in response to new developments in Jamaica, most notably the February 2016 parliamentary elections, change of government, and reorganization of economics ministries. Table 4.1 compares indicative triggers that were presented in the first operation with prior actions proposed for this operation. Four triggers are dropped to focus the policy matrix on the reforms that are most essential to realizing the programmatic series' development objectives.

73. The February 2016 parliamentary elections and subsequent change of government slowed progress on all actions involving legislation. Bills that had been tabled but not passed before the elections (prior actions 1 and 7) had to be resubmitted to the new Parliament. The parliamentary transition and the reorganization of economic ministries slowed work on preparation of new legislation (prior action 6) and implementation of enacted legislation (prior action 4, as well as trigger 10). In response, parliamentary approval is replaced with submission to Parliament in prior actions 1 and 6. Results from these prior actions are expected to be realized, however: passage of the Building Act (prior action 1) is a disbursement condition of the Disaster Vulnerability Reduction IPF; the Foundations of Competition and Growth IPF is financing implementation of the SEZ Act (prior action 4); MOFPS has made preparations to implement the new public employees' pension scheme and the PDMA (prior actions 6 and 7) as soon as those laws are enacted. In contrast, the implementation of customs automation has exceeded original expectations, and prior action 3 is modified to reflect this additional progress.

Table 4.1. Changes to Indicative Triggers in the First Operation of the DPF Series

Indicative Triggers from DPF1	Proposed Revised Prior Actions for DPF2	Comments
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.	**Dropped as a prior action**	Dropped in response to new developments. • Component (i) is dropped as the authorites determined it was no longer needed. After reviewing MLGCD's drafting instructions for amendment of the Local Improvements Act and Town and Country Planning Act (to allow electronic submission of applications), the Chief Parliamentary Counsel determined that these laws did not need to be amended, as the Electronic Transactions Act already provided the necessary basis for electronic submission. The Office of the Prime Minister confirmed this finding. • The elections and government reorganization introduced a pause in the preparation of the fee policy in component (ii) and led to new thinking about its content. MLGCD is currently revising its Cabinet submisson on the fee policy and expects Cabinet approval later in 2017. • Component (iii) was completed in December 2015, when all parishes began using AMANDA. This component alone does not represent a critical policy reform in the context of development policy lending, however. In order to expedite the multi-agency process for reviewing and approving applications (which was established as a prior action of DPF1), Cabinet revamped the technical review team in November 2016, and the Minister of Economic Growth and Job Creation approved new operational policies for the team. The result indicator is changed from measuring implementation (number of parishes using AMANDA) to outcomes (increase in speed of approval).
Trigger 2. The GOJ makes effective a new building code as specified in a new Building Act.	**Revised Prior Action 1.** The bill entitled the Building Act, 2016, which aims to facilitate efficient application of internationally recognized building standards, has been approved by Jamaica's Cabinet and submitted to the Parliament for approval.	Milestone changed from passage of the Act to submission in Parliament due to a delay resulting from the change of government, which required revision and resubmission of the bill. The bill was revised to strengthen enforcement, thus increasing the likelihood that the legislation's contribution towards an improved investment climate will be realized. The bill was tabled in Parliament on December 6, 2016. Passage of the Building Act is a disbursement condition of the Disaster Vulnerability Reduction IPF. A result indicator is added. (None was specified in DPF1.)

Indicative Triggers from DPF1	Proposed Revised Prior Actions for DPF2	Comments
Trigger 3. The GOJ completes a comprehensive reform of the legislative framework underpinning Jamaica's energy sector with effectiveness of the new Electricity Act.	**Kept as Prior Action 2**	Reworded for clarity. The Act became operational in August 2015. GOJ promulgated grid codes in 2016.
Trigger 4: The GOJ implements its PPP Policy by issuing a Request for Proposals for Norman Manley International Airport.	**Dropped as a prior action**	Dropped to focus this part of the operation on trade facilitation policy reforms rather than on PPPs. In addition, executing a single PPP transaction does not represent a critical policy reform in the context of development policy lending. After receiving no bids in response to the June 2015 request for proposals, the Development Bank of Jamaica (DBJ) revised the proposed divestment terms in 2016. It issued a new invitation for prequalification in February 2017.
Trigger 5: JCA completes implementation of ASYCUDA World in Kingston port as a pilot site and begins implementation at other ports.	**Kept as Prior Action 3**	Milestone adjusted to reflect full operation of ASYCUDA at all major ports of entry. This action was achieved in April 2016 with JCA notification that ASYCUDA World is required for all import and export declarations. The result indicator proposed in DFP1 (increase the Logistics Performance Indicator score) is replaced with faster customs clearance as this more closely corresponds with the action and is measured more frequently.
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.	**Revised Prior Action 4:** The Special Economic Zones Act of 2016, aimed at modernization of the regulatory framework for economic zones in Jamaica, has been approved by the Borrower's Parliament, published in the Official Gazette, and is effective.	Deleted the clause on the fiscal effects of the SEZ Act as these will not be measurable for several years. The Act was gazetted in June 2016 and became effective August 1, 2016. A result indicator is added. (None was specified in DPF1.
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.	**Kept as Prior Action 5**	Minor rewording. MOFPS presented the 2016 Fiscal Risk Sstatement to Parliament in April 2017 as part of the FY2016/17 Fiscal Policy Paper. The 2016 statement presents a comprehensive picture of upside and downside risks to the sustainability of the fiscal stance embodied in the FY2016/17 budget.
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	**Kept as Prior Action 6**	Wording revised to reflect the change in instrument from regulations issued under the Act to an amendment of the Act itself. The milestone was changed from passage to submission. The bill amending the PDMA was tabled in Parliament in December 2016, and passage is expected in early 2017. In anticipation of its passage, MOFPS has organized its debt management unit into front-, middle- and back-offices, and its has developed a framework for compiling data on public bodies' financial operations.

Indicative Triggers from DPF1	Proposed Revised Prior Actions for DPF2	Comments
guidelines for the management of contingent liabilities.		An additional result indicator is added to directly measure monitoring of contingent liabilities, which historically have been a major contributor to government debt accumulation.
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.	**Dropped as a prior action**	Although the trigger was achieved, the team proposes to drop it as a prior action as the measure made a less fundamental change to how Jamaica conducts fiscal policy than other measures in the matrix. The virement policy was incorporated into fiancial management regulations issued in 2015, and the budget process was revised as intended.
Trigger 10: The GOJ makes effective the new Procurement Bill.	**Dropped as a prior action**	The Procurement Act was passed by Parliament in September 2015 and signed in October 2015, but it will not become effective until implementing regulations are approved, which is expected later in 2017. This trigger was dropped to focus the operation more closely on the program's goals of fiscal sustainability and economic growth. In addition, many of the measures needed to improve Jamaica's procurement systems will be introduced through implementing regulations rather than in the law. The World Bank is providing technical advice on the regulations. The IDB is financing work to roll out the eProcurement system, which also is expected to occur in mid-2017, as well as capacity building for procurement officials.
Trigger 11. The GOJ submits to Parliament the draft public sector pension reform legislation that helps contain the budgetary cost of civil service pensions.	**Kept as Prior Action 7**	Reworded for clarity. The bill was submitted to Parliament in July 2016. The lower house passed the bill on April 5, 2017, with an expected effectiveness date of June 1, 2017.
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.	**Kept as Prior Action 8**	Minor rewording for clarity. The PIM Committee began operating in 2015. New members were appointed in May 2016. The PIMSec director was hired in 2015, and key staff positions were filled in 2016. Cabinet approved policies governing PIMS operations in December 2016.

4.2.2 Analytical Underpinnings

74. The World Bank has an active engagement with the government that has helped it shape its economic reform program. Table 4.2 details the analytical work, technical assistance, regional advisory work that have informed the selection of the prior actions.

Table 4.2. DPF Prior Actions and Analytical Underpinnings

Prior actions	Analytical underpinnings
Pillar 1: Improving the investment climate and competitiveness	
Investment Climate and Competitiveness	Improving the Investment Climate in Jamaica Policy Note (2014). Items selected from the National Competitiveness Council 2013–2015 Agenda. GOJ Caribbean Growth Forum Action Plan (February 2014). Doing Business. Building code analysis prepared for the Disaster Risk Vulnerability IPF.
Energy	GOJ Caribbean Growth Forum Action Plan (February 2014). Development of the Electric Power Sector Policy and Modernization of the Electricity Lighting Act (Ministry of Science, Technology, Energy and Mining, 2013)
Logistics and Trade Facilitation	GOJ Logistics Hub Initiative Strategy Document (2013). Bank ESW "Realizing the Potential of Jamaica's Logistics Hub Initiative" (2014). Analytical preparation for the Foundations for Competitiveness and Growth project. WB SEMCAR project. Bank TA on implementation of the Trade Facilitation Agreement implementation. Toward a Blue Economy (2016).
Pillar 2: Supporting sustained fiscal consolidation and enhancing public financial management	
Fiscal consolidation and fiscal risks	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. "A Framework to Assess Fiscal Risks of Public Bodies: Application to Eight Selected Public Bodies in Jamaica." World Bank (2014) WB Technical Assistance through the DFID trust fund for the Debt Management Branch. 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.
Expenditure efficiency, effectiveness and transparency	Jamaica PFM Enhancement TA 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. LINKS TO CPS AND OTHER WORLD BANK OPERATIONS

75. **This DPF series contributes to achieving the World Bank Group's twin goals by supporting the government in eliminating two major obstacles to poverty reduction and shared prosperity in Jamaica, namely chronically high debt and low growth.** High debt service obligations consume fiscal space that could be devoted to pro-poor spending and growth enhancing public investments. A cumbersome regulatory environment discourages private investments that would generate employment and economic growth.

76. **The proposed operation is fully aligned with the FY2014–17 Country Partnership Strategy (CPS).** The CPS for Jamaica (Report Number 85158), which was discussed by the Board in April 2014, focuses on building conditions for broad based private sector-led growth, improving public sector efficiency and reducing vulnerability. The two pillars of the programmatic DPF series contribute directly to achieving the CPS objectives of improving fiscal and debt management, improving public administration performance, and improving the business environment. As the country program evolved, the World Bank worked with the authorities to develop measures that can sustain the large fiscal consolidation that Jamaica achieved

between 2012 and 2014, such as through the DPF series' support for adoption of fiscal rules, regular analysis of fiscal risks, stronger management of contingent liabilities, and reform of the government pension program. The programmatic DPF series is also closely integrated with IPFs and NLTA activities. Several of these have supported the preparation of policy measures that are prior actions in the proposed operation.[31] Other World Bank operations are financing work to implement policy changes that are prior actions in the proposed operation.[32] This close collaboration has helped design a strong DPF program and ensure achievement of its proposed outcomes.

4.4. CONSULTATIONS, COLLABORATION WITH IFIS AND OTHER DEVELOPMENT PARTNERS

4.4.1 Consultations

77. **The government's reform program is an outcome of extensive consultations with stakeholders.** The GOJ undertook a broad consultation process on Vision 2030, its long-term development plan. Vision 2030 was publicly announced, and consultations took place throughout the country with target groups including youth and community groups, special interest groups, and the emigrant diaspora.

78. **Consultations involving multiple stakeholders have also featured prominently in the economic reforms supported by this programmatic DPF series.** GOJ established EPOC in 2013 to facilitate public-private cooperation on reforms and monitor their implementation. In May 2016 GOJ created the Economic Growth Council, a committee of business leaders tasked with developing a growth strategy through broad consultations. In November 2016, it supplemented EPOC with creation of the Public Sector Transformation Oversight Committee. These committees bring together the government, business community, labor unions, and civil society to ensure that reforms remain on track. The government has also proactively consulted with stakeholders on individual policy reforms as well. For example, the reform of the development approvals process is led by the Planning Institute of Jamaica and the Jamaica Promotions Corporation in close consultation with a range of private sector and public sector stakeholders, including various GOJ agencies and local Parish Councils.

4.4.2 Collaboration with Other Development Partners

79. **The government's development program is receiving strong financial and technical support from multilaterals and donors.** The IMF has supported the economic reforms since 2013 through the EFF and now the precautionary SBA. The World Bank has collaborated closely with the IMF and IDB throughout work on this programmatic DPF series to ensure synergies among reforms supported by the three institutions and to avoid duplicative efforts in the technical assistance provided. The IMF has supported reforms on macro and fiscal stability, and the financial sector. The IDB has focused on tax policy. This DPF series complements that support. In some cases, such as the prior action on fiscal rules in DPF1, all three insti-

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[31] Examples include the Energy Security and Efficiency Enhancement IPF (ESEEP) (P112780), which supported the drafting of the new Electricity Act the Social Protection IPF (P146606)) financed work to design the new public sector pension scheme. The Public Financial Management NLTA (P146170) informed the design of debt management legislation, the new public investment management system, procurement reform, and new measures to improve budget preparation and execution.

[32] The Public Sector Transformation IPF (P146688) is financing the establishment of the new public investment management system. The Foundations of Competitiveness and Growth IPF (P147665) is financing technical work and investments needed to improve the development application approval process and to implement the SEZ Act. A regional trade facilitation activity is helping Jamaica to modernize customs and border management systems.

tutions have supported a significant reform. Pilot Program for Climate Resilience has financed GOJ activities to increase climate change resilience that complement the reforms of the building code framework supported by the proposed DPF. The World Bank has also collaborated closely with DFID, which has provided a trust fund for broad ranging public sector reforms in Jamaica.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

80. **The policy reforms proposed under this operation are intended to reduce poverty and increase shared prosperity in the long-term.** Reforms to boost competitiveness are intended to stimulate economic growth and job creation. While there are short-term negative impacts from fiscal adjustment, these fiscal measures are ultimately focused on reclaiming fiscal space for social programs, which have been crowded out by high debt service costs. The poverty and social impact analysis of the specific reforms supported by the DPF has focused on a review of documents, the latest available data for the 2012 Jamaica Survey of Living Conditions, and staff projections of poverty rates. Annex 4 summarizes the social and environmental impacts.

81. **Fiscal consolidation can have small short-term negative impacts but it is necessary for the long-term sustainability of social spending.** It is associated in the short term with lower growth and weaker job creation. Increased user fees and adjustments in public service delivery can increase poverty in the short run. Maintaining a large primary fiscal surplus necessary for the long-term sustainability of social spending, however, 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.

82. **Policy reforms in Pillar 1 are expected to have positive 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 93 percent of households in Jamaica have electricity, and they devote an average of 5.8 percent of total household expenditures to their electricity bill. The poorest 20 percent of the households spend an average of 5.7 percent of total expenditures on electricity. This share is slightly higher for quintiles 2–4 and lowest for the richest quintile, which spends an average of 5.1 percent on electricity. The streamlining of the development and building application approval process will indirectly benefit Jamaican households through increased economic activity, and the Building Act will directly benefit them through increased safety in the built environment. The logistics and trade facilitation reforms are expected to be relatively neutral in terms of effects on 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.

83. **Of the reforms proposed in Pillar 2, public sector pension reform has some distributional effects, while others are not expected to have direct poverty or social effects**. Public sector employees in Jamaica enjoy higher job security and better access to public services, and are under-represented among the poor (7 percent are poor compared to 19.9 percent for the general population) and among the poorest 40 percent (16.6 percent). The current rules of the public sector pension system imply regressive redistribution from the average taxpayer to public employees. The proposed increase in employee contributions would result in small reductions of the disposable income, potentially affecting a small percentage (less

than 4 percent) of public sector employees. More than a third of those vulnerable households are beneficiaries of the Programme of Advancement Through Health and Education (PATH)—the government's flagship conditional cash transfer program.

84. **Overall the GOJ's reform program, which the proposed DPF supports, prioritizes the protection of the poor and vulnerable, with an ongoing emphasis on safeguarding social spending and increasing the social safety net.** PATH currently benefits 15 percent of the Jamaican population. Despite its size and coverage being protected during the broad fiscal consolidation that has occurred, a significant share of the poor population receives no cash transfers and for those receiving benefits the income support received is limited. The design of the social assistance system reflects many constraints linked to the high level of informality, administrative capacity and limited fiscal resources. As a result, a large part of the poor population does not receive income support (only about 60 percent of the population in the bottom two deciles is enrolled in PATH). Furthermore, the generosity of benefits is low. On average, the PATH benefits represent less than 5 percent of the income of the poorest 10 percent of the population. The government has committed to maintaining the real value of social spending.

5.2. ENVIRONMENTAL ASPECTS

85. Consistent with OP8.60, the Bank assessed Jamaica's framework of environmental policies, standards, specific and general guidelines, terms of reference for environmental impact assessments (EIAs), notification of public meetings, and permits. Jamaica requires a detailed screening and EIA approval process. The framework requires public disclosure of environmental instruments, consultations, and monitoring of proposed mitigation options. Disclosure of EIAs for review are placed in local media, parish councils, and on government websites. Based on that assessment, the World Bank finds that Jamaica's framework of environmental policies and standards are adequate for development policy financing.

86. **The National Environment and Planning Agency (NEPA) is the central institution in Jamaica's environmental protection framework.** NEPA's mandate comes mainly from the Town and Country Planning Act, the Natural Resources Conservation Authority Act, and the Land Development and Utilization Act. These laws give NEPA the power to directly request environmental impact assessments (EIAs) from any applicant for a permit or from any person who is doing any undertaking that is likely to have adverse effects. Environmental licenses are also required for a variety of other projects not requiring full EIAs. NEPA staff are well versed in the environmental clearance process and the specific content of environmental management plans and status of mitigation options on specific complex infrastructure projects. Disclosures of environmental impact assessments for review are placed in local media, parish councils, and on the NEPA website. Also, minutes of stakeholder meetings are placed verbatim on the NEPA website. NEPA's operations are financed equally by appropriations from the GOJ budget and from fees derived from permits and licenses.

87. **Prior actions related to the building code implementation and electricity reform are expected to have neutral or positive environmental effects.** The bill titled "The Building Act, 2016" requires compliance with Jamaica's new building code, which promotes energy efficiency, rainwater harvesting, and resilience to natural hazards, including those stemming from climate change. The bill provides climate change mitigation and adaptation co-benefits. It requires the construction of environmentally-friendly and energy-efficient buildings. The building regulatory system includes the 11 International Code Council codes (referred to in the bill), including the "International Energy Efficiency Code." The new building code also requires new structures to avoid or withstand increased force and frequency of hydro-meteorological hazards such as extreme wind, flood, storm surge and sea level rise. The bill provides for new mechanisms

that will enhance the implementation of building regulation and building codes. The Electricity Act establishes a new legal and regulatory framework for the generation, transmission and distribution of electricity that encourages diversification away from oil-fired plants and makes it easier to bring on line renewable energy projects. It provides climate change mitigation co-benefits. GOJ estimates that reducing dependence on generation from petroleum will mitigate the equivalent of 1.1 million metric tons of carbon dioxide per year by 2030 (7.8 percent of emissions) compared to the business-as-usual scenario modeled in its INDC.[33] Diversification away from oil-fired plants requires construction of new generation facilities. Like all large construction projects in Jamaica, these are required to comply with NEPA's environmental protection requirements.

88. **Some activities resulting from the prior action regarding economic zones reform could have negative effects.** The SEZ Act is expected to encourage more investment in trade logistics, business process outsourcing, and agro-parks. Expansion of agricultural activities in Jamaica, as well as the development of large infrastructure projects associated with the GLHI, could impose new risks to the environment. The Act requires the SEZ Authority to ensure that the environment is protected in SEZs. The Act does not establish different environmental protection standards inside SEZs. Instead, it requires SEZ developers to comply with the robust environmental management system and environmental protection laws prevailing outside of SEZs. New investments in port infrastructure or in the expansion of businesses supplying firms in the SEZs (which might be encouraged by increased activity in SEZs) are also required to comply with these environmental protection laws.

89. **The customs reform prior action is not expected to have direct effects on the environment.** GOJ has adopted ASYCUDA World and required its use by traders. The use of ASYCUDA to speed up customs clearance is unlikely to have any direct effects on the environment. Integrating ASYCUDA with other systems, such as those related to licenses for importing hazardous materials and substances, may enable GOJ to enforce compliance with licensing more effectively and with less red tape for traders.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

90. **Jamaica's public financial management (PFM) systems have been strengthened in recent years.** Jamaica has made positive strides in improving their PFM systems since the last 2012 Public Expenditure and Financial Accountability (PEFA) assessment. A detailed PFM Reform Action Plan was developed after the 2012 PEFA assessment and is being implemented. Four main themes capture the main reforms: (i) strengthening of the PIM system; (ii) strengthening of the budget preparation process and the introduction of result-based budgeting; (iii) tax reform; and (iv) legislative reform. The latest preliminary October 2016 PEFA assessment, which is still in draft and awaiting GOJ's approval for public disclosure, concluded that PFM in Jamaica is strong but there are notable weaknesses in aspects of risk management, multi-year budgeting and treasury operations. The budgeting process is evolving and the introduction of a fiscal framework is a positive start. Revenue forecasting has improved significantly and the revenue agencies have developed effective processes and procedures. These actions have improved budget execution. On the expenditure side, limited cash plans and effective commitment control detract from effective management of the release of the budget without accumulation of arrears. Arrears were around 4.49 percent of expenditure at the end of January 2016.[34]

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[33] Government of Jamaica, "Intended Nationally Determined Contribution of Jamaica Communicated to the UNFCCC," November 2015.

[34] Data provided by MOFPS.

91. Ongoing reforms and achievements to date are as follows.

a) A new Treasury-linked accounting and reporting system and the Treasury Single Account facilitate the centralization of government cash management function.
b) GOJ's chart of accounts has been modernized to conform to the 2014 Government Finance Statistics Manual.
c) Reporting of expenditures and revenues by public bodies is both comprehensive and timely.
d) The PIM system has been revamped to provide a common framework for the preparation, appraisal, approval, and management of public investments in Jamaica.
e) Amendments in 2014 to the Financial Administration and Audit Act introduced a new legally binding budget calendar to ensure that the budget is prepared and approved before the start of any financial year.
f) A Budget Call Circular is now produced annually and issued to guide the preparation of the annual budgets. Ministries, departments and agencies are required to submit budget estimates that include three-year forward estimates.

92. **External audit and scrutiny are areas of significant strengths.** The Auditor General's Department (AuGD) is active in carrying out financial and compliance audits. It adopted International Standards of Supreme Audit Institutions and International Organization of Supreme Audit Institutions auditing standards to govern its work with audit plans and strong staff development programs. Timeliness of submission of the annual report is constrained by the lack of consolidated financial statements. External scrutiny of audit reports by the Public Accounts Committee is very positive, and this is focused on areas that AuGD has identified. The committee tables a consolidated report in the House of Representatives with reasonable timeliness, and while its hearings are in public covered by the media, its reports are not easily accessible (e.g., via the Parliament website), but they are nonetheless available to the public. The AuGD also audits the Fiscal Policy Paper, which is also subject to scrutiny by the Public Administration and Appropriations Committee that is active in examining issues affecting both the implementation of the budget and public administration.

93. **Jamaica publishes the annual government budget.** MOFPS promptly posts on its website the Estimates of Revenue and the Estimates of Expenditure after Parliament approves the annual budget. It also posts the Fiscal Policy Paper (which presents the medium-term fiscal framework, the public sector investment program, and an assessment of fiscal risks) along with AuGD's review of this report, a report of public bodies' revenue and expenditures, and monthly central government budget execution reports.

94. **Foreign exchange management systems.** In September 2016, the IMF conducted a Safeguards Assessment of BOJ that did not identify any significant safeguards risks. BOJ control environment within which foreign exchange is managed is satisfactory. BOJ 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 BOJ Board of Directors has an audit committee, which provides oversight of the financial management and control environment.

95. **Disbursement and auditing arrangements.** The proposed loan will follow the Bank's standard disbursement procedures for development policy support for disbursement and auditing arrangements. The proceeds of the loan will be disbursed against satisfactory implementation of the program (specified prior actions achieved) and maintenance of an adequate macroeconomic policy framework. The Bank will disburse the loan proceeds, denominated in U.S. dollars, into the GOJ's foreign exchange account at the BOJ. BOJ will then immediately ensure that, upon deposit in said account, an equivalent amount in Jamaica

dollars will be credited into the GOJ's account, which will become available to finance budgeted expenditures. Within 30 days of the funds transfer, the GOJ, through its MOFPS, will provide the Bank with written confirmation of the amount deposited into the foreign currency account at the BOJ, and that the equivalent amount has been credited in the borrower's accounting system to an account that finances budgeted expenditures. BOJ's financial management is adequate and no specific audit of the deposit of the loan proceeds will be required.

96. **Jamaica has a robust institutional framework for overseeing the conduct of public procurement.** It comprises the National Contracts Commission (an independent commission tasked with promoting efficiency, transparency and equity in the award and implementation of government contracts) and the Office of the Contractor General (OCG), which is an independent commission set up to ensure that the public sector procurement process delivers value to the tax-payer; is merit based, is free from corruption, impropriety and irregularity; and is transparent, impartial, competitive, fair, efficient and effective. Jamaica's public procurement system maintains a high level of transparency. OCG maintains a comprehensive, detailed database of all government procurement contracts and publishes this information regularly in the Quarterly Contracts Award.

97. **GOJ is working to address weaknesses of the procurement system,** including a lack of competiveness (in 2015–16, only 56 percent of contracts by number or 48 percent by value were awarded competitively) and a complaints review system that lacks real authority to protect the interests of aggrieved bidders. A new Public Procurement Act was adopted in October 2015, which promises further improvement in Jamaica's procurement system. That law has not yet come into effect, however. It is expected to do so in 2017, when the necessary implementing regulations will be adopted.

98. **Simultaneously with these legislative developments, GOJ has developed and is currently piloting an electronic procurement system, which will take full effect only when the Public Procurement Act 2015 becomes effective.** It is expected to further enhance the transparency of procurement operations and improve access to information for prospective contractors and to increase the efficiency of procurement by facilitating greater aggregation of demand for common-use items, thus driving down prices and speeding up procurement implementation.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

99. **MOFPS has responsibility for the coordination, monitoring and ensuring completion of the prior actions.** Various ministries support program monitoring and evaluation. The World Bank has an extensive and active program in Jamaica in several of the policy reform areas identified under the DPF, and monitoring of results of the DPF actions will therefore be continued through the other World Bank programs.

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

please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit http://www.inspectionpanel.org.

6. SUMMARY OF RISKS

101. **The overall risk rating of this operation is high.** The medium to long-term results of the program supported by the DPF series are most exposed to political and governance, macroeconomic, institutional capacity, fiduciary, and environmental and social risks (Table 6.1). As realization of macroeconomic risks could in turn compound other risks, the team proposes an overall risk rating of "high."

Table 6.1. Systematic Operational Risk Ratings

Risk Categories	**Rating**
Political and governance	Substantial
Macroeconomic	High
Sector strategies and policies	Low
Technical design of project and program	Low
Institutional capacity for implementation and sustainability	Substantial
Fiduciary	Substantial
Environment and social	Moderate
Stakeholders	Moderate
Other	Not Applicable
Overall Implementation risk	**High**

102. **Governance and political risks are substantial.** Achieving Jamaica's debt reduction target of 60 percent of GDP by 2026 depends critically on maintaining a tight fiscal stance over many years. Fiscal consolidation by its nature has the potential to provoke political opposition due to continued fiscal austerity. Political support for investment climate reforms could dissipate if policy measures do not generate tangible results (e.g., in the form of jobs or income growth). Vested interests that derive benefits from cumbersome business regulations may succeed in blocking reforms supported in Pillar 1. GOJ is proactively working to mitigate these risks by strengthening the stakeholder consultation mechanism—through revamping EPOC and complementing it with an oversight committee for public sector transformation reforms—in order to build continued support for reforms. Jamaica's fiscal responsibility laws also help to ensure that fiscal policies remain sustainable in the face of political pressure, as they establish legally binding fiscal rules on budget balances, the use of sovereign loan guarantees, and PPPs.

103. **Macroeconomic risks are high.** Although the economy has stabilized, the recovery is still fragile and vulnerable to a range of external shocks, as discussed earlier in Section 2.2. A severe growth slowdown, significant increase in interest rates, or major external imbalance could stall the broader economic reform program supported by this proposed DPF operation. Fiscal consolidation measures would be difficult to maintain during a growth slowdown, as would the employee contributions mandated in the new public sector pension system. Even if policies supported by the proposed operation are implemented as planned, expected outcomes from these reforms might not materialize if economic conditions deteriorate. For example, during an economic downturn, investors might postpone renewable energy projects facilitated by the energy sector reforms or new projects in SEZs. Public bodies could suffer large financial losses that trigger a government bailout. Jamaica is improving its fiscal and monetary policy-making systems with the expressed goal of mitigating macroeconomic risks. For example, MOFPS has improved its fiscal risks monitoring through the release of an annual fiscal risks statement that comprehensively identifies macroeconomic risks to fiscal policy. It is improving its capacity to manage the public debt portfolio

and to undertake debt market operations in order to reduce interest rate, currency, and other macroeconomic risks to debt sustainability. Electricity sector reforms are enabling diversification away from Jamaica's heavy dependence on oil, and thereby reducing the economy's vulnerability to volatility in world oil prices. To buffer the economy from shocks, the Bank of Jamaica is accumulating reserves, strengthening the resilience of the interbank foreign exchange market, and adopting tools to better manage the money supply. Finally, the precautionary IMF SBA program provides a form of insurance against balance of payments shocks and thus represents an additional measure to mitigate macroeconomic risks to achieving the proposed DPF's development objectives.

104. **Risks to institutional capacity for implementation and sustainability are substantial.** The multifaceted 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. The volume of legislation required since 2013 has stretched Jamaica's legislative capacity thin. In addition, the public sector wage freeze has 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 (e.g., personnel for the SEZ Authority and new procurement institutions, or personnel needed to assess proposed PPPs in the context of public investment management), and there is a risk that the government will not be able to fully implement some of these reforms within the timeframe needed to achieve this proposed DPF operation's expected outcomes. To overcome these capacity constraints, the authorities have sought financial and technical support from the IDB, IMF, World Bank, and other development partners. For example, the IDB is supporting implementation of procurement and customs reforms. As discussed in Section 4, GOJ is using support from World Bank IPFs to implement new legislation (e.g., the Building Act, Electricity Act, and SEZ Act) and institutional reforms, such as those to improve public investment management and to streamline development application approvals.

105. **Fiduciary risks are substantial.** The draft 2016 PEFA report concluded that the Jamaica PFM environment is strong, but nevertheless has weaknesses in risk-management, multi-year budgeting and treasury operations. To mitigate these risks, GOJ is continuing the ongoing PFM reform process. Once the 2016 PEFA report is finalized, GOJ will prepare a time-based action plan to address the weaknesses areas noted in the PEFA.

106. **Environmental and social risks are moderate.** The objective of reforming Jamaica's economic zones framework is to encourage new or expanded productive activities. Although much of the new investment in SEZs is expected to be in industries or activities that pose little risk to the environment (e.g., business process outsourcing), GOJ has prioritized development of agro-parks and agro-processing, which are intended to increase agricultural production. This could increase pressure on the environment, as could construction of infrastructure associated with new SEZs. Jamaica has in place a robust environmental protection framework that applies to all economic activities, whether inside or outside SEZs. Any new infrastructure, agriculture, construction, or other projects encouraged by the new SEZ framework will be subject to NEPA's environmental and planning requirements. The SEZ Act explicitly requires all SEZ developers and operators to comply with environmental protection laws. Finally, the SEZ Act requires the SEZ Authority to ensure that the environment is protected inside SEZs.

107. Although all identified risks cannot be eliminated, 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 IMF, IDB, and other partners.

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions under the First Programmatic DPF	Proposed Prior Actions for the Second Programmatic DPF	DPF Series Results Baseline end-March 2014 Target end March 2018
Pillar 1—Improving Selected Investment Climate and Competitiveness-Related Conditions to facilitate Private Sector Investment		
PA 1. Jamaica's 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.		**Result Indicator:** Increase in the share of building applications approved within 90 days. *Baseline:* 66 percent approved within 90 days in 2014Q1 *Target:* 85 percent approved within 90 days in 2018Q1
	PA 1. The bill entitled the Building Act, 2016, which aims to facilitate efficient application of internationally recognized building standards, has been approved by Jamaica's Cabinet and submitted to the Parliament for approval.	**Result indicator:** Creation of new bodies to implement the Building Act and apply the new national building code. *Baseline:* No bodies. *Target:* At least two of the three bodies specified in the Act (i.e., Building Practitioners Board, Building Appeals Board, and Building Advisory Council) are created and are operational.
	PA 2. The Electricity Act of 2015, which introduces a new regulatory framework that aims to promote new investment and competition in the electricity industry, has been approved by Jamaica's Parliament, published in the Jamaica Gazette, and is effective.	**Result Indicator:** Reduction in the percentage of electricity generated using petroleum. *Baseline*: 94 percent *Target*: 75 percent
PA 2. Jamaica, through the Jamaica Customs Agency (JCA) has adopted operational procedures to reduce the time taken for clearance of goods at Jamaican ports. **PA 3.** The Ministry of Industry Investment and Commerce has approved a resolution to separate the regulatory functions of the Bureau of Standards from its	**PA 3.** The Automated System for Customs Data (ASYCUDA) for customs clearance, aimed at facilitating faster clearance of import and export transactions, has been installed and is operational at all major ports of entry of Jamaica.	**Result Indicator:** Faster customs clearance as measured by the increase in the share of shipments processed and cleared within 24 hours. *Baseline:* 32 percent *Target:* 65 percent

Prior Actions under the First Programmatic DPF	Proposed Prior Actions for the Second Programmatic DPF	DPF Series Results Baseline end-March 2014 Target end March 2018
facilitative functions to enhance the Bureau's role in trade facilitation.		
	PA 4. The Special Economic Zones Act of 2016, aimed at modernization of the regulatory framework for economic zones in Jamaica, has been approved by Jamaica's Parliament, published in the Jamaica Gazette, and is effective.	**Result Indicator:** Increase in the share of free zone operators converted to SEZ operators. *Baseline:* 0 of 120 operators need to be converted *Target:* 40 percent of operators converted
Pillar 2—Supporting Sustained Fiscal Consolidation and Enhancing Public Financial Management		
PA 4. Jamaica 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.	**PA 5.** Jamaica's Ministry of Finance and the Public Service has prepared and published the FY2016/17 annual Fiscal Risk Statement to improve the transparency of risks to fiscal operations, including risks from natural hazards, economic shocks, and contingent liabilities emanating from public bodies and public-private partnerships.	**Result Indicator:** Reduction in the public debt/GDP ratio. *Baseline:* 141 percent *Target:* 115 percent
	PA 6. A bill entitled the Public Debt Management (Amendment) Act, 2016, which specifies functions of Jamaica's Ministry of Finance and the Public Service units related to debt management and establishes guidelines for managing contingent liabilities, has been approved by Jamaica's Cabinet and submitted to the Parliament for approval.	**Result Indicator:** Increased transparency of information on exposure to implicit and explicit contingent liabilities from public bodies. *Baseline:* No data published *Target:* At least 2 reports published
	PA 7. A bill entitled the Pensions (Public Service) Act, 2016, which establishes a contributory pension scheme for public service workers, has been approved by Jamaica's Cabinet and submitted to the Parliament for approval.	**Result Indicator**: Increased ratio of annual public service employee pension contributions to public service pension payments. *Baseline:* 4 percent *Target:* 12 percent
PA 5. Jamaica's Cabinet has approved a decision to limit virements in the government budget effective April 1, 2015 to provide greater predictability in budgetary expenditures.		**Result Indicator:** Reduced use of virements on compensation and capital expenditure. *Baseline:* J$1.9 billion *Target:* 0

Prior Actions under the First Programmatic DPF	Proposed Prior Actions for the Second Programmatic DPF	DPF Series Results Baseline end-March 2014 Target end March 2018
PA 6. A bill entitled the Public Procurement Act, 2014, aimed at strengthening transparency in public procurement and enabling the use of e-procurement, has been approved by Jamaica's Cabinet and submitted to the Parliament for approval.		**Result Indicator:** Increase in the percentage of public requests for tenders published under an electronic government procurement system. *Baseline:* 0 percent *Target:* 5 percent of bid proposals at or above the prescribed limit executed through the electronic government procurement system
PA 7. Jamaica has passed the Financial Administration and Audit (Amendment) Act to establish a Public Investment Management System (PIMS), which provides a common framework for the preparation, appraisal, approval and management of public investments, irrespective of sources of funding or procurement and implementation modalities.	**PA 8.** Jamaica has made operational the Public Investment Management System (PIMS) through selection of the members of the Public Investment Management (PIM) Committee, appointment of the Executive Director of the PIM Secretariat, and approval of the PIMS Operational Guidelines.	**Result Indicator:** Increased linkage between investment budgets and forward expenditure estimates, as shown by presenting projections of the total cost of major investment projects, together with a year-by-year breakdown of the capital costs and estimates of the recurrent costs for the next five years, in the annual public sector investment program documents. *Baseline:* Only capital cost projections are presented. *Target:* Both recurrent and capital cost projections are presented for at least 50 percent of projects.

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 THE PUBLIC SERVICE
30 NATIONAL HEROES CIRCLE
P.O. BOX 512
KINGSTON
JAMAICA

January 20, 2017

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

Dear Dr. Kim,

Re: Second Competitiveness and Fiscal Management Programmatic Development Policy Operation

The Government of Jamaica (GOJ) has identified economic growth as its main priority. Having achieved an average growth rate of 0.7 percent over FY 2013/14 and FY 2014/15 in real terms, the Government has formulated and continues to develop actions to achieve higher levels of economic growth. To this end, the Economic Growth Council has announced that it is aiming to achieve a Gross Domestic Product (GDP) growth rate of 5% within four (4) years. In order to realize this goal, the Government understands that it is imperative that certain reforms are undertaken to improve the investment climate, encourage and facilitate investment. In addition, the Government is committed to the continued adherence to prudent fiscal and public debt management.

Under an Extended Fund Facility (EFF) with the International Monetary Fund (IMF), the GOJ achieved thirteen (13) successful quarterly reviews prior to the approval of a successor programme in the form of a Precautionary Stand-By Arrangement. The success of the reforms undertaken under the EFF is evidenced by the benefits which have been realized, including an improved credit rating, a reduction in the debt-to-GDP ratio from 145.1 percent at the end of FY 2012/13 to 120.3 percent at the end of FY 2015/16 as well as an improvement in the current account deficit of the Balance of Payments from 8.1 percent to 1.8 percent of GDP over the same period. In addition, inflation decreased to 3.0 percent in FY 2015/16, due to the reduction in global oil prices, among other factors.

The GOJ reiterates its commitment to continuing the programme of reforms and notes that this Policy Operation will contribute to enabling the Government to achieve its goals outlined in *Vision 2030: Jamaica National Development Plan including that of* a prosperous economy whose features include macroeconomic stability, a facilitatory investment climate/business environment, energy security and efficiency and internationally-competitive industries.

The Policy Operation will directly assist the GOJ's efforts to achieve higher levels of economic growth through the completion of various initiatives targeted at improving: investment levels in the country; competitiveness; fiscal consolidation; and public financial management.

Pillar I – Improving selected investment climate and competitiveness-related conditions to facilitate private sector investment

The time taken to approve developments and other projects has long been an issue for potential investors. The GOJ has taken steps to increase the ease of doing business, including reducing the time taken for setting up a business and facilitating on-line registration of businesses. The government aims to reduce the turn-around time for approval of development projects from the current standard of 90 days (dependent on the need for any extraordinary permits or assessments) to 60 days by March 2018.

In the 2016 edition of the World Bank's *Doing Business Report*, Jamaica was ranked 64th out of 189 countries. This represents an improvement from the 71st spot occupied by Jamaica in the previous report. In addition, according to the 2016-2017 Global Competitiveness Index, Jamaica was ranked 75th out of 138 economies, whereas in 2015, it was ranked 86th out of 140 economies. These improvements are indicative of the early successes of the reforms undertaken, which included:

- Establishing a Team to review development applications, and preparing the requisite operational guidelines for the Team;
- Developing a policy for the harmonization and collection of development application fees;
- Implementing the Application Management and Data Automation (AMANDA) system to track the approval of building construction permits across the island; and
- Tabling the bill entitled, *"The Building Act, 2016"*, which comprises the new building code.

Another prohibitive factor to investment is the high cost of electricity at USD 0.21 cents per kilowatt hour (for residential customers). Given recent developments in this sector, including the introduction of Liquefied Natural Gas (LNG), it is forecast that the cost of electricity could be as low as USD 0.12 cents per kilowatt hour when the retrofitted plant becomes fully operational in November 2016. In addition, a comprehensive reform of the framework governing the electricity sector was completed, culminating in the passage of the *Electricity Act* in 2015 by the Houses of Parliament. The Electricity Sector Enterprise Team has completed an Action Plan to reduce the cost of energy and consistent with this plan, the government has approved the construction of a natural gas-fired power plant, which will have a capacity of 190 MW. This plant is expected to be operational by 2018.

The uncertainties regarding customs tariffs, duties, exemptions and waivers that had affected private sector investment have been effectively resolved. The implementation of ASYCUDA World, as well as the passage of various amendments to the *Customs Act* have resulted in increased transparency in the process of importing and clearing materials for the manufacturing and other industries, with tariff rates and caps being applied as legislated.

The *Special Economic Zones (SEZ) Act 2015*, which was promulgated in February 2016, with an appointed Day Notice of August 1, 2016, aims to provide a framework that will assist in establishing Jamaica as a logistics hub. This move is expected to generate investment and provide employment, especially for young people in Jamaica. The Board of the SEZ Authority has been appointed and the engagement of a management team as well as drafting of regulations was on track to be completed by December 2016. Jamaica is well on its way to making the logistics hub initiative a reality.

As part of the thrust towards enhanced growth, the privatization of the Norman Manley International Airport (NMIA) is being pursued. Despite the first tender for bids in 2015 not yielding positive results, the Government remains dedicated to the divestment of the entity. In July 2016, the Cabinet named the NMIA Enterprise Team, charged with identifying a suitable concessionaire.

Pillar II – Supporting Sustained Fiscal Consolidation and Public Financial Management

The GOJ remains committed to improving the efficiency, quality, and cost effectiveness of the public sector. To this end, the Government has outlined several initiatives aimed at improving transparency and providing better oversight and management of public expenditure by developing reforms in the areas of, public procurement and the pension scheme for the public sector and has also implemented a Public Investment Management System.

With respect to transparency, the Fiscal Risk Statement (FRS) was provided in the Fiscal Policy Paper for FY 2016/17. The Fiscal Policy Paper is tabled each year in Parliament and provides information on the macroeconomic outlook as well as initiatives being undertaken by the Government in that regard. The FRS raises awareness about the challenges currently being faced by the Government, and how these challenges might impact macroeconomic stability and indeed, projections for growth.

A bill entitled, *"The Public Debt Management (Amendment) Act, 2016",* was tabled in Parliament in December, 2016 and seeks to operationalize the functions and responsibilities of the Debt Management Branch within the Economic Management Division of the Ministry of Finance and the Public Service (MOFPS).

The *Financial Administration and Audit Act (Fiscal Responsibility Framework) (Amendment) Regulations, 2015* aim to strengthen the rules regarding public financial management. The Regulations treated with the Public Investment Management System (PIMS), and the requirement for all public investment projects to be submitted to the Public Investment Management Secretariat for approval, and also requires that all related capital and recurrent expenditure for these projects be included in the budget. Also, the Regulations address the issue of excess expenditure and the requirement that such approval be sought from the Parliament. In addition, the *Financial Management (Amendment) Regulations, 2015* sets out the guidelines for the reallocation of expenditure.

Furthermore, as it concerns the establishment of the PIMS, the PIM Committee and PIM Secretariat, their operation is expected to be enhanced through the PIMS Operating Guidelines which were approved by Cabinet in December 2016. The PIM Committee continues to meet to review and evaluate proposed projects.

On the issue of containing and managing public expenditure, a Bill entitled the *Pensions (Public Service) Act* was tabled in Parliament in July 2016 and the MOFPS has been taking steps to reorganize its Pension Administration Unit. Following the submission to Parliament of accompanying regulations in November 2016, the new Act is expected to take effect in April 2017.

Finally, the GOJ has been engaged in the process of drafting Regulations for the *Public Procurement Act*, which was passed in 2015 in the Houses of Parliament. The GOJ intends to have these Regulations and also the Principal Act take effect by April 1, 2017. The Regulations will include guidelines on public procurement including methods and techniques, the appeals process for contract award decisions as well as the registration and classification of contractors. A new procurement plan has been developed and the institutional arrangements necessary to enact the Act are also being effected. The e-Procurement system has been operationalized, and it is expected that more procuring entities will be on-board going forward.

The agreed actions under the Second Competitiveness and Fiscal Management Programmatic Development Policy Operation have been completed. These actions have enabled the government to continue on the path of undertaking the necessary reforms to achieve competitiveness and growth, as well as prudent management of the country's budget. The government reiterates its commitment to the Programme and wishes to express its appreciation to the World Bank for the assistance provided under this Operation.

This revised Policy Letter reflects recent developments, and supersedes the previously issued Policy Letter dated November 30, 2016.

Sincerely,

Audley Shaw, CD, MP
Minister of Finance and the Public Service

ANNEX 3: FUND RELATIONS ANNEX

IMF Executive Board Concludes First Review under the Stand-By Arrangement for Jamaica

April 18, 2017

- Program implementation remains strong under the Stand-By Arrangement, with sustained positive GDP growth
- The rebalancing from direct to indirect taxes, which is accompanied by higher social expenditure, is expected to expand the revenue base to support growth-enhancing spending, which will create jobs and reduce poverty
- The Bank of Jamaica's planned move to introduce a market-based exchange rate pricing mechanism will facilitate the central bank's inflation targeting objective

On April 14, 2017, the Executive Board of the International Monetary Fund (IMF) completed the first review of Jamaica's performance under the program supported by the Stand-By Arrangement (SBA), on a lapse of time basis. The 36-month SBA with a total access of SDR 1,195.3 million (about US$ 1.63 billion), equivalent of 312 percent of Jamaica's quota in the IMF, was approved by the IMF's Executive Board on November 11, 2016 (see Press Release No.16/503). The Jamaican authorities continue to view the SBA as precautionary, and to use it as an insurance policy against unforeseen external economic shocks that could lead to a balance of payments need.

Program implementation remains strong under the SBA. Sustained macroeconomic discipline and visible reforms have boosted stability and confidence. Positive real GDP growth has been recorded in 7 consecutive quarters, and Jamaica is projected to grow by 2 percent in FY2017/18, bolstered, by construction and tourism, among other factors. Inflation reached an all-time low in 2016, and investor confidence is at an all-time high, attracting foreign direct investment. The current account deficit has narrowed significantly, supporting accumulation in non-borrowed reserves.

Continued fiscal consolidation—as reflected in the 7 percent of GDP primary surplus target under the FY2017/18 budget—remains critical for further debt reduction. The ongoing revenue-neutral rebalancing from direct to indirect taxes, designed around the principles of fairness, progressivity and efficiency, will further expand the tax base and work incentives. The budget also provides for greater capital spending.

The significantly higher budget allocation for social spending will help insulate Jamaica's poor and vulnerable from the impact of the rebalancing to indirect taxes. Implementation of the PATH graduation strategy later this year will help reallocate resources to the neediest families. The planned targeting assessment will be critical to improving and expanding the coverage.

Decisive policy actions are required to improve public sector resource allocation and efficiency. Reducing the government's wage bill, including by strengthening budgetary controls, redefining the size of government, and lowering pension costs, is key to shifting Jamaica's limited fiscal resources to productive spending. At the same time, a broader effort to reduce the number of public bodies and improve their monitoring will enhance their governance and transparency, and reduce fiscal risks. Avoiding a return to discretionary tax incentives to specific businesses and/or sectors is critical to safeguard the gains achieved in tax policy from implementing the 2014 Omnibus bill.

Anchoring monetary actions on the central bank's inflation objectives, supported by a flexible exchange rate, is crucial for policy credibility. The BOJ's planned move towards a transparent and more market-based exchange rate pricing mechanism via foreign exchange auctions will improve price discovery in the foreign exchange market, and facilitate BOJ's market-based purchase of international reserves. The authorities are also taking actions to further enhance financial sector supervision, crisis preparedness, and strengthening the framework for anti-money laundering efforts and combating the financing of terrorism (AML/CFT).

The expanded program monitoring—through the Economic Program Oversight Committee, the Economic Growth Council, and the Public-Sector Transformation Oversight Committee—will continue to update the wider public on progress under the government's policy commitments, holding the government accountable to the Jamaican people.

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior actions	Significant positive or negative environment effects (yes/no/to be determined)	Significant poverty, social or distributional effects positive or negative (yes/no/to be determined)
Operation Pillar 1: Improved Investment Climate and Competitiveness Conditions to Facilitate Private Investment		
Prior action #1: Building Act	*Yes: neutral to positive* The Building Act requires compliance with Jamaica's new building code, which aims to increase buildings' energy efficiency and their resilience to effects of climate change and natural hazards, as well as encouraging rainwater harvesting. The Building Act also establishes bodies responsible for training and certifying building practitioners to work with the new building code. These aspects should contribute to a positive impact on the environment, e.g., insofar as greater energy efficiency reduces greenhouse gas emissions from electricity generation, or to the extent that development and building projects incorporate better rainwater management and therefore less impact on streams and aquifers.	*Yes: positive.* Increased construction activity will increase employment in the construction industry, which typically employs a large share of unskilled workers.
Prior action #2: Electricity Act	*Yes: neutral to positive* This Act modernizes the regulatory framework of the electricity sector to achieve the policy objectives outlined in the National Energy Policy—namely that Jamaica achieves by 2030, a modem, efficient, diversified and environmentally sustainable energy sector. The Act eliminates an outdated legal framework governing energy that had been an obstacle to diversification out of diesel and heavy fuel oil for electricity generation. The Act removes disincentives to purchase electricity generated by independent power producers that the Jamaica Public Service Company (JPS) had previously faced. The Act requires JPS, as the Single Buyer of electricity under the Act, to protect and preserve the environment. The new regulatory framework put in place by the Act has contributed to considerable new investment in renewable energy generation capacity. Jamaica's INDC cites these investments as the means for the country to achieve a reduction in greenhouse gas emissions. Existing environmental legislation and permitting is adequate to manage potential negative environmental impacts of construction of new power plants.	*Yes: neutral to 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.
Prior action #3: Customs automation	*No effects* GOJ has adopted ASYCUDA World and required its use by traders for all customs declarations. The use of ASYCUDA to speed up customs clearance is unlikely to have a direct effect on the environment.	*No effects*

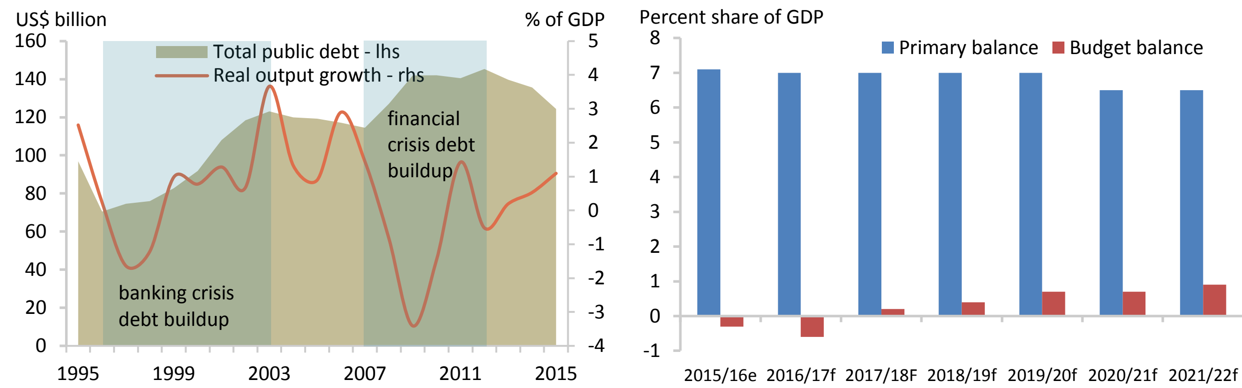
	Integrating ASYCUDA with other systems, such as those related to licenses for importing hazardous materials and substances, may allow the GOJ to enforce compliance with licensing more effectively (and with less red tape for traders).	
Prior action #4: SEZ Act	*Yes: neutral to negative* The SEZ Act does not introduce different environmental protections standards to activities inside SEZs, but rather requires compliance with the environmental protection framework that exists elsewhere in Jamaica. It requires that proposed SEZs be located in areas where controls can be established to prevent adverse environmental activities. The Act states that SEZ developers shall take adequate steps to control pollution of the air, land and sea by oil, chemicals, emissions, hazardous wastes, effluent solid, and other waste in the zone area. The Act requires the SEZ Authority to ensure that the environment is protected in the course of the development and operation of Zones. This may require that the SEZ Authority set up an environmental management team as part of its staff. The major investments expected to take place in SEZs are business process outsourcing, international trade logistics (e.g., distribution and order fulfillment), and agro parks. Expansion of agricultural activities could potentially have negative effects on the environment, as could large infrastructure projects associated with SEZs or Jamaica's aspirations to become a global logistics hub. Existing environmental legislation should be sufficient to ensure this expansion does not adversely affect the environment. Jamaica has in place a robust environmental protection framework that applies to all economic activities, whether inside or outside SEZs. Any new infrastructure, agriculture, construction, or other projects encouraged by the new SEZ framework will be subject to the National Environment and Planning Agency's requirements, including those regarding environmental licensing requirements, conformity of a project with zoning rules, public consultations, and preparation and disclosure of environmental impact assessments. The agency is financed equally by appropriations from the GOJ budget and from fees derived from permits and licenses.	*Yes: neutral to positive* The reform should contribute to employment growth in the long term.
Operation Pillar 2: Sustained Fiscal Consolidation and Enhanced Public Financial Management		
Prior action #5: Fiscal risks disclosure	*No effects*	*No effects*
Prior action #6: Debt management	*No effects*	*No effects*
Prior action #7: Public sector pension	*No effects*	*Yes: positive distributional effects with risks of negative effects on poverty incidence*

		The current public sector pension system has a regressive redistribution from the average taxpayer to public employees. The proposed increase in employee contributions would reduce this effect somewhat. It would also result in small reductions of the disposable income of public sector employees, potentially affecting a small percentage (less than 4 percent) of public sector employees who are vulnerable to fall into poverty.
Prior action #8: Public investment management	*Yes: neutral to positive* The new public investment management system makes no changes to how environmental regulations are applied to public investments. Public investments will have to comply with applicable environmental national regulations and preparation/submission of environmental management instruments (e.g. environmental impact assessments). The new system should ensure that all project proposals (including PPPs) are reviewed in a standardized way what reduces the chances that a project is approved without having been evaluated for environmental risks.	*No effects*

ANNEX 5: ACHIEVING DEBT SUSTAINABILITY IN JAMAICA: PROSPECTS AND RISKS

1. **Jamaica has a long history of slow output growth and high debt that underpins prospects and risks for debt sustainability.**[35] Average annual output growth equaled 0.5 percent between 1995 and 2016, and has surpassed the 2 percent mark only twice since the mid-1990s—in 2003 and 2006. Jamaica suffered through two major financial crises during this period, resulting in rapid public debt accumulation (Figure A5.1). The first buildup occurred between 1998 and 2003, largely driven by the absorption of debt relating to the banking crisis of 1996/97. During this period, total public debt increased by approximately 47 percentage points of GDP. Increasing borrowing costs augmented the impact. The second episode began with the global financial crisis of 2007/08, which was marked by negative growth, significant exchange rate depreciation, underperformance of fiscal revenues, sharp increases in interest costs, and added-on deficits from public entities like Air Jamaica and Clarendon Alumina Partners. Debt grew by 31 percentage points of GDP between 2007 and 2012, reaching 145 percent of GDP by the end of FY2012/13. This heavy debt burden has deterred private investment and perpetuated slow growth. In an effort to attract greater private investment and promote growth, the Government of Jamaica (GOJ) launched a fiscal consolidation and reform agenda in March 2013.

Figure A5.1. Historical debt accumulation and projected fiscal balances



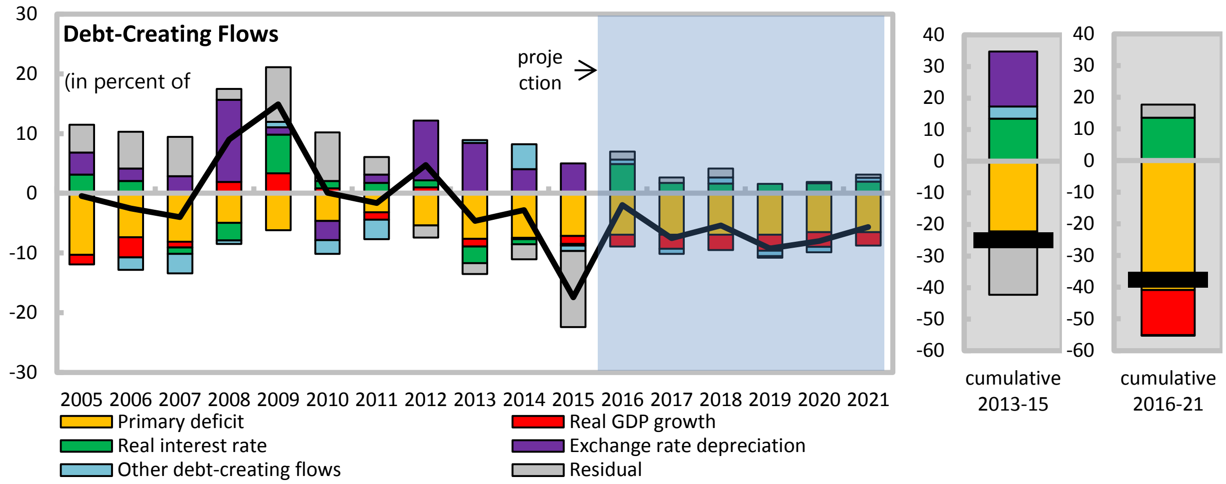
Source: IMF, World Bank staff estimates

2. **Reforms have improved fiscal conditions and are contributing to slowly rising GDP growth rates.** Fiscal consolidation has been anchored by large primary fiscal surpluses, which averaged 7.5 percent of GDP between 2013 and 2015, and had its target lowered to 7.0 percent of GDP to accommodate growth-enhancing spending. This relatively short period of high primary surpluses, together with well-timed debt management operations, have already begun to show their effects on the stock of public debt, which was reduced to 137.6 percent of GDP by the end of FY2014/15—a reduction of nearly 8 percentage points of GDP since end of FY2012/13. The primary surplus is projected to stay at or above 6.5 percent of GDP in the medium-term, and hence, help reroute public debt into a downward trajectory. Supported by the fiscal efforts, economic activity has also recently started to pick up, with output growing by 1.1 percent in FY2015/16 and an estimated 1.6 percent in FY2016/17.

3. **Recent progress on the fiscal front has placed the baseline debt trajectory on a downward trend.** The latest debt sustainability analysis (released by the IMF in November 2016) shows that primary surpluses have accounted for most of the reduction in Jamaica's debt since 2013 (Figure A5.2). Assuming the government continues to maintain a primary fiscal balance above or equal to 6.5 percent of GDP, Jamaica is now on a path to reduce public debt to 91 percent of GDP by March 2021. This baseline scenario also assumes growth rates between 2 and 3 percent per annum between 2017 and 2021. Large primary surpluses and GDP growth are contributing to debt reduction

[35] This annex was prepared by Luiz Edgard Ramos Oliveira.

Figure A5.2. Contributions to Debt Reduction, 2005–21



Source: IMF (November 2016)

Notes: Automatic debt dynamics are derived as $\frac{r - \pi(1+g) - g + ae(1+r)}{1+g+\pi+g\pi}$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

The real interest rate contribution is derived from the formula above as r - π (1+g) and the real growth contribution as -g.

The exchange rate contribution is derived from the formula above as ae(1+r).

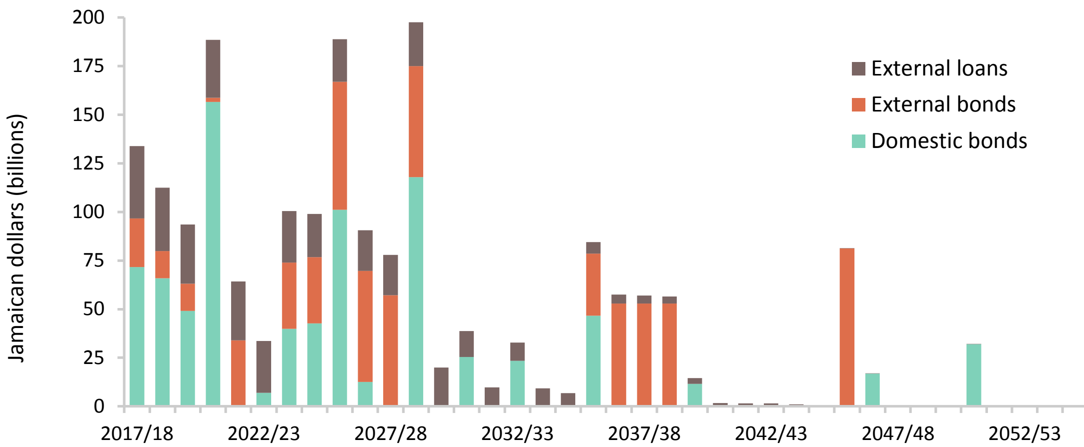
The residual includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

4. **In addition to prudent fiscal policy, the GOJ has engaged in successful liability management operations to reduce debt levels and risks.** First, in July 2015 Jamaica bought back its PetroCaribe debt at a discount, reducing the public debt-to-GDP ratio by 10 percentage points from its FY2014/15 level. The government reached an agreement with the Venezuelan state-owned oil company Petróleos de Venezuela, S.A., to retire Jamaica's stock of PetroCaribe debt, which had reached approximately US$2.97 billion at end-2014. To finance the buyback, the government issued US$2.0 billion in July 2015 in two international bonds.[36] The IMF estimates that overall fiscal savings from this operation are approximately US$287 million in net present value terms. Second, in August 2016 the GOJ went to the market to exchange US$785 million of high-coupon international debt maturing in 2017–19 for US$743 million of its 2039 bond.[37] Between February 2015 and April 2016 (i.e., before and after the recent liability management operations), average years-to-maturity on outstanding public bonds increased from 8.8 to 12.4 years, while that for total outstanding public debt currently rests at 13 years (see Table A5.1).

[36] Jamaica issue a 13-year US$1.35 billion bond with an interest rate of 6.75 percent, with equal payments scheduled for 2026, 2027 and 2028, and a 30-year US$650 million bullet bond with an interest rate of 7.875 percent.

[37] The government purchased US$785 million of the 2017 bond (10.625 percent coupon) and the 2019 bond (8.0 percent). At the same time it reopened the 2039 bond (8.0 percent), selling US$743 million at a price of 114 for an effective yield of 6.75 percent.

Figure A5.3. Maturity profile of Jamaica government debt through FY2015/55



Source: World Bank staff calculations using Debt Management Branch data

Table A5.1. Domestic and external debt maturity structure, by instrument and creditor

Domestic Debt - Maturity Structure by Remaining Maturities (J$ millions, as of January, 2017)

	< 1 year	1 < … < 5 years	5 < … < 10 years	> 10 year	Total	Average Maturity [1]
J$ Benchmark Notes	68,491.3	251,386.4	156,492.3	283,133.7	759,503.7	10.7
US$ Denominated Notes & Loans	…	67,511.7	…	…	67,511.7	4.6
Treasury Bills [2]	4,888.0	…	…	…	4,888.0	1.0
Commercial Bank [2, 3]	…	2,583.2	…	…	2,583.2	2.5
Other [2]	…	…	…	0.2	0.2	10.0
Total	73,379.3	321,481.4	156,492.3	283,133.9	834,486.8	10.1
Percentage	8.8	38.5	18.8	33.9	100	…

[1] Average maturity is weighted by total remaining debt outstanding as of August 2016.

[2] Includes public sector entity loans.

[3] Average maturity is assumed, due to lack of detailed repayment schedule data.

External Debt - Maturity Structure by Remaining Maturities (US$ millions, as of January, 2017)

	< 1 year	1 < … < 5 years	5 < … < 10 years	> 10 year	Total	Average Maturity [1]
Bilateral	26.9	85.4	372.3	207.3	691.9	10.9
Multilateral	10.2	134.5	879.5	2,686.0	3,710.2	16.4
IDB	3.9	66.6	54.9	1,567.2	1,692.6	14.6
IBRD	6.2	43.1	22.5	735.7	807.5	20.9
IMF	…	…	762.9	…	762.9	11.8
Other	0.1	24.8	39.2	383.1	447.2	15.5
Commercial Banks [2]	15.7	153.5	60.5	…	229.7	2.5
Bonds	78.3	359.2	1,594.2	3,578.6	5,610.3	14.8
Total	131.1	732.6	2,906.5	6,471.9	10,242.1	14.7
Percentage	1.3	7.2	28.4	63.2	100	…

[1] Average maturity is weighted by total remaining debt outstanding as of August 2016.

[2] Includes commercial borrowing other than from commercial banks with maturity between 5 and 10 years (JD$9.9 million).

5. **These transactions illustrate the market's renewed confidence in Jamaica's debt sustainability.** All three major credit rating companies upgraded Jamaica's scores by a factor of one, and maintained their positive stance on the country's economic outlook. Jamaica now has a credit rating of B3 from Moody's (upgraded from Caa2 in November 2016 and from Caa3 in May 2015), and B from both S&P and Fitch Ratings (upgraded from B- in September 2015 and February 2016, respectively) in both local and foreign categories. Rating agencies cited the GOJ's fiscal consolidation, adherence to the fiscal primary surplus targets, and strong commitment to structural reforms as the main factor behind the upgrade, as well as PetroCaribe debt buyback. Bond spreads have reaffirmed increased market confidence, with the EMBIG sovereign spread for Jamaica experiencing a strong decline since the beginning of the fiscal reform program. Between March 2013 and March 2017, the index fell by over 350 basis points, or approximately 51 percent, dropping below the LAC regional index in late 2014 for the first time since November 2008.

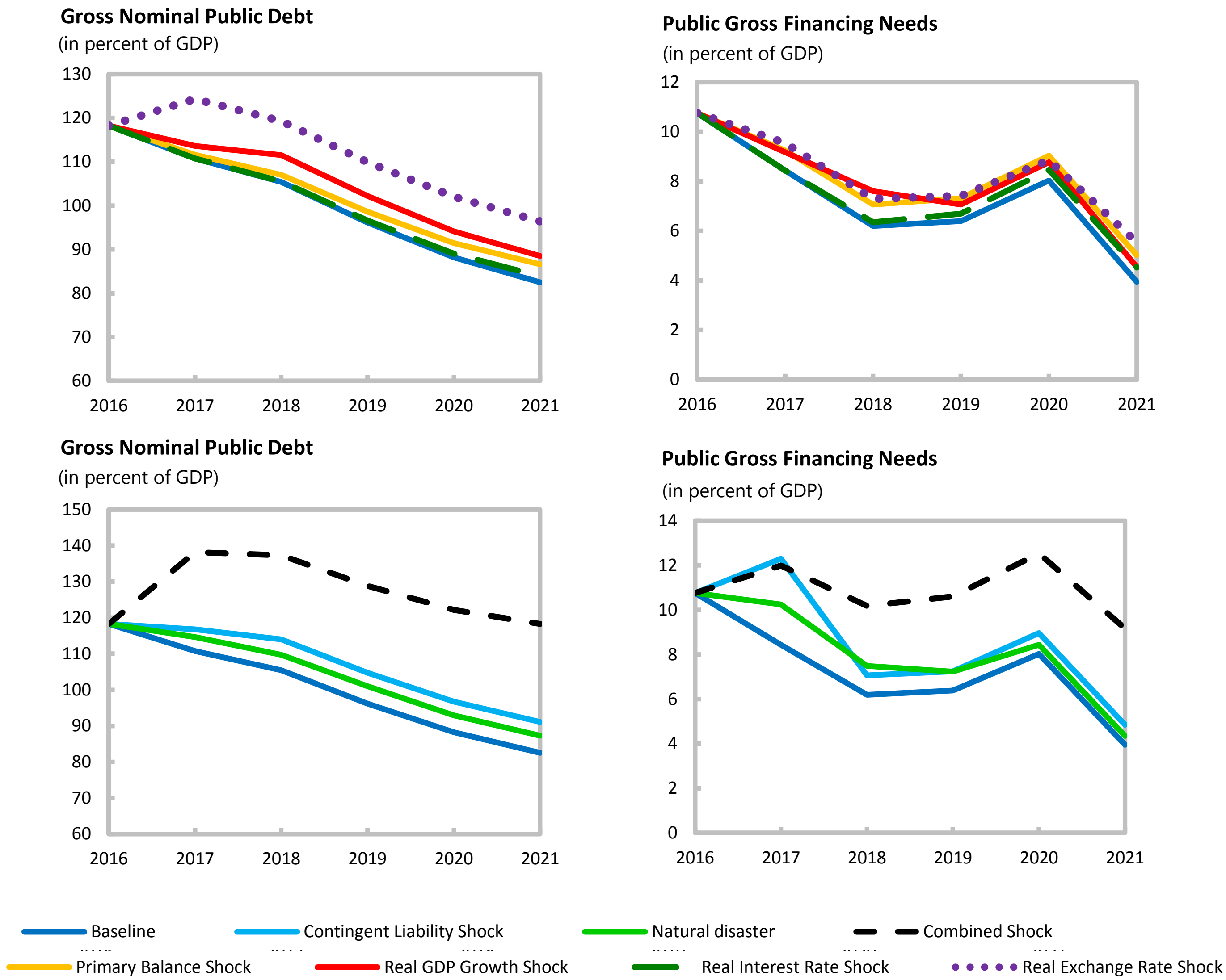
6. **Despite the improved outlook, the latest DSA reveals important risks to the sustainability of public debt.** In two stress tests modeled as part of the DSA, public debt would rise above current levels. First, the growing share of external debt has increased Jamaica's exposure to currency fluctuations. A one-time nominal depreciation of 32 percent, holding GDP growth, the primary balance, and other major variables constant, would increase the debt/GDP ratio by 6 percentage points after one year and leave it above the baseline debt trajectory.[38] In the DSA simulation, the debt/GDP ratio would be 13.9 percentage points above the baseline in FY2021/22 (Figure A5.4). Second, a more severe macroeconomic shock characterized by slower than projected growth in 2017–18, a primary public balance deterioration, and an accelerated increase in the real interest rate over the medium run could result in a 20 point jump in the debt/GDP ratio in the first year and decline only gradually over time, leaving debt 35.8 percentage points of GDP above the baseline in FY2021/22. The government's gross financing needs would also increase. In other DSA stress tests, public debt does not increase above its current level, but debt remains higher than levels in the baseline projection over the medium term:

- A contingent liabilities shock, modeled as an increase in non-interest expenditures (equivalent to 10 percent of the banking sector's assets) and slower GDP growth, could result in a debt level that is 8.6 percentage points of GDP above the baseline in FY2021/22.
- A scenario with a GDP growth slowdown with rates that are 1.7 percentage points below the baseline for two years (a drop equal to one standard deviation of recent growth rates) could result in a debt/GDP ratio that is 6.0 percentage points above the baseline in FY2021/22.
- A natural disaster that imposes costs equal to 4 percent of GDP could leave the debt/GDP ratio 4.7 points above the baseline in FY2021/22.
- In a scenario with smaller primary surpluses (6.2 percent of GDP per year over the medium term versus 7.0 percent), the debt-to-GDP ratio would be 4.1 percentage points above the baseline in FY2021/22. In addition, fiscal complacency could undermine policy credibility and investor confidence, which in turn would increase the cost of financing and unravel progress achieved since 2013.

7. **Finally, Jamaica's exposure to exchange rate risk has increased.** The stock of foreign-currency denominated debt is around 72 percent of GDP. A 30 percent real depreciation shock would see external debt increase to approximately 102 percent of GDP in 2017, before resuming its expected downward path towards 89 percent in 2021 under this scenario. GOJ's medium-term debt management strategy aims to rebalance its borrowing towards the domestic market in order to mitigate exchange rate risk (as well as rollover risks).

[38] This depreciation would be slightly greater than the 26 percent depreciation (y/y) in 2003 and the 25 percent depreciation in 2009.

Figure A5.4. Debt Sustainability Analysis – Macro-Fiscal Stress Tests.



8. **Jamaica's success in keeping debt on a downward, sustainable path is contingent on maintaining fiscal prudence and accelerating growth.** The country's current strategy of expenditure-side fiscal adjustment has yielded important benefits, restoring its ability to access commercial markets and mitigating macro-fiscal volatility. A more stable fiscal scenario bodes well for the buildup of fiscal space and increased potential for growth-enhancing fiscal expenditure. In conjunction, accelerated growth and high primary balances should continue to chip away at the public debt stock and help Jamaica to grow its way out of debt. Nevertheless, the creation and maintenance of this virtuous cycle of growth and debt reduction will need time and commitment to deliver the desired results, especially considering the still high current debt levels. Further successful implementation of liability management operations will continue to move debt levels towards their medium- and long-term targets, but a careful examination of persistent macro-fiscal risks is paramount to the strategies' success.