

OFFICIAL DOCUMENTS LN 8759-JM

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MINISTRY OF FINANCE AND THE PUBLIC SERVICE
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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.

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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,

A handwritten signature in black ink, appearing to read 'Audley Shaw', written in a cursive style.

Audley Shaw, CD, MP

Minister of Finance and the Public Service