Dear Dr. Kim,

Economic Stabilization and Foundations for Growth Development Policy Loan

The Government of Jamaica (GOJ) appreciates and welcomes the technical and financial support of the World Bank for the successful achievement of the goals, outcomes, and reform measures articulated in the Vision 2030 Jamaica National Development Plan. The Government of Jamaica is fully committed to the sustainable development of the country and continues to undertake major structural reforms that support growth and help reduce poverty.

Background

The Government of Jamaica has embarked on a wider ranging program of fiscal consolidation and structural reforms with the objective of significantly transforming the economy, creating jobs and reducing poverty. The economic program is supported by four main pillars: fiscal consolidation and debt sustainability to engender a stable and resilient macro-economy; monetary and financial system stability; structural reforms to strengthen productivity and competitiveness and strengthened social stability to protect the most vulnerable.

Much progress has been made in the area of fiscal consolidation and debt sustainability. The primary balance for the first quarter (April-June) of FY2013/14 was better than budgeted and Jamaica is on track to meet a primary balance target of 7.5 percent of GDP this fiscal year. In the area of debt sustainability, the successful National Debt Exchange (NDX) lowered interest rates on domestic debt and extended maturities. This resulted in a reduction in interest payments from 25.5 percent of revenues and grants in FY2012/13 to 18.5 percent in FY2013/14, without affecting financial market stability. Progress has also been made in the area of monetary policy and financial sector reforms and deeper financial sector reforms are envisaged going forward to phase out the retail repo model currently practiced by securities dealers and introduce a wider range of financial services, including collective investment schemes.

Jamaica’s creditable economic performance is underscored by the recent upgrade by Standard & Poor’s, which noted that the Jamaican economy has stabilized and expressed their expectation that the country’s ambitious fiscal targets for this year will be met. The IMF’s September 2013 Report to their Board on Jamaica’s economic performance, acknowledged the GOJ’s “financial discipline” and “steadfast implementation of the initial reforms”.

November 6, 2013
Structural Reforms to Support Growth and Resilience

For over three decades, Jamaica’s economy has faced serious challenges to achieve sustained levels of economic growth. This has resulted in a continuing fragile economic environment with considerable underlying vulnerabilities and a high public debt level that imposes an enormous fiscal burden.

While efforts at fiscal consolidation are underway, they need to be complemented by a growth and development strategy that transforms the Jamaican economy. The Government of Jamaica is undertaking a range of structural reforms with the objective of increasing factor productivity and firm competitiveness, identifying and securing financing for strategic investments, increasing the efficient use of government resources whilst reducing vulnerability.

a. Private Sector Growth

The Government is committed to deepening the role of the private sector to achieve the growth agenda. The core components of this agenda are strategic investments, improving the business environment, macroeconomic stability, entrepreneurship and innovation, energy efficiency and human capital development.

Creating the conditions for improving the ease of doing business is of critical importance to attract foreign and local investments. Jamaica is ranked 90th among 185 countries in the World Bank’s ‘Doing Business Report’. The Government of Jamaica is taking steps to improve the business environment and raise Jamaica’s ranking in the surveys such as the World Bank’s Doing Business indicators. To this effect, we have already undertaken several measures that would improve the business climate including: operationalizing Jamaica’s first credit bureau to improving access to credit; increasing the civil jurisdictions of the lower courts to reduce back logs in the civil courts, leading to better contract enforcement. As part of the improvement of the business environment in Jamaica, the ‘Super Form’ will be introduced. This Super Form will consolidate applications from five different government agencies and is a major step towards eliminating the red tape that hampers the registration of new businesses in Jamaica.

Over the last two decades, it has become increasingly clear that Jamaica has lost, and is continuing to lose its competitive edge in goods production. At the same time, however, Jamaica’s competitive advantage in the services sector has increased, particularly in the logistics and shipping sector. This advantage has become even more critical, given the expansion of the Panama Canal, Jamaica’s unique geo-strategic location, and the natural resource endowments which include two of the best natural harbours in the world. Our imperative is to integrate the Jamaican economy into the global value and supply chain and the Logistics Hub Initiative (LHI) is seen as the central plank toward achievement of this objective. Jamaica Logistics Hub is a clustering of global third party logistics providers and large global businesses with substantial cargo flows to take advantage of sea-air connectivity opportunities and trade corridors from production houses in the Asia/Pacific and other regions to the growing markets of over 800 million people in the Americas. The Government of Jamaica is prioritizing the development of the LHI, which plays a critical role in Jamaica’s growth strategy, with the objective of positioning Jamaica as the fourth node in the global logistics chain, joining the Netherlands (Rotterdam), Singapore and Dubai. Successful implementation of the LHI will not only generate significant income and jobs for our people, especially the youth, but will also transform Jamaica’s position in the global economy.

To this end, concession of the Kingston Container Terminal (KCT) represents a key infrastructure investment of the LHI. In recent years the KCT has deteriorated in terms of berth depth and operational capacity, and requires substantial investment to facilitate physical improvements and sustained efficiency of port operations to ensure its continuance as a preferred container hub in the sub-region. A successful concession of the KCT terminal is not only essential for advancing the LHI, but can greatly enhance the value and contribution to the economic development of the country. The Government of Jamaica is committed to
allocating the KCT concession through a transparent and competitive manner and thus set the stage for greater interest and competitive bidding for future PPP projects.

Alongside the economic programme and mega projects to build and maintain the necessary macroeconomic stability and growth, there are institutional programmes aimed at transforming Jamaica’s education system to ensure the country remains competitive and help to achieve the Prime Minister’s mandate that “no one is left behind”. The primary education school curriculum is undergoing renewal to be completed by 2016. The compelling purpose of the curriculum renewal is to achieve the required levels of literacy and numeracy. Review of all subjects of the national curriculum is underway and will be rolled out in September 2015. The contents of all subjects are being revised with particular attention to Science and Social Studies, and with more emphasis on Civics and Jamaican History.

b. Transforming the Public Sector to support Economic Growth

The GoJ is taking several steps to transform and modernize the public bureaucracy to make it more responsive, efficient and effective in contributing to sustainable growth, while streamlining costs. Other initiatives are underway to strengthen budget processes and improve the management of the public sector investment programme.

The present pensions arrangement is unsustainable and the GOJ is committed to addressing this issue. Much work has been done in the area of civil service pension reform that has led to the development of a White Paper on this issue titled “Reform of the Public Pensions System”, which details parametric changes in the current pension system including the gradual increase of the retirement age to 65, and the contribution of five percent (5%) by employees. The revised pension system is expected to be implemented in FY2015/16. It is expected that over time, systems that provide for better monitoring and processing of pension payments will be in place.

Tax reform is a vital and necessary step to shore up our public finances, particularly the reduction and eliminations of distortions in the tax system with regard to tax incentives and waivers. In October 2013, the GoJ tabled in Parliament the Fiscal Incentives Bill and the Income Tax Relief Bill for Large-scale Projects and Pioneer Industries. These are both key pieces of legislation designed to provide a rules based framework for the granting of tax waivers. Likewise, a Charities Bill is also being tabled that will establish a similar framework for waivers to charities.

The new Strategic Human Resource Management Division (SHRM) at the Ministry of Finance and Planning is focusing its energies on activities such as the training and development of persons as well as succession planning for the overall sustainability of the Public Sector. The objectives of this Division are:

- To link the Human Resource Management function to strategic business objectives.
- To allow the Public Sector to better identify, develop, and deploy the knowledge, skills and abilities required to achieve maximum impact and contribute to the creation of value within the local economy.
- To establish a framework and approach to recruit, develop and retain the best talent in the public sector.

This new division is a merger of the Public Service Establishment Division in the Ministry of Finance and Planning and the Corporate Management Development Division of the Cabinet Office. One of the first tasks of this division is to bring synergy to the human resource management practices across the public service. During the course of this financial year, the Government will be procuring an enterprise-wide human capital management system to provide technological support to the human resource management practices. A major weakness to be addressed by the system is the lack of complete employment data for the sector which impairs the ability of entities to efficiently manage their Human Resource Management processes such as pensions, training and development, staff deployment, succession planning and leave administration.

The Government of Jamaica is establishing a Central Treasury Management System --a central payments platform - that is already underway. There are important efficiencies to be gained from the establishment of
a new technical office to drive e-government and to provide new ICT systems and reduce the cost of communication within government and enable the greater utilization of electronic transactions. In order to ensure that the budgeting process is completed in a timely manner, a detailed budget calendar will be approved for the 2014/15 budget.

Reform is also underway to improve public investment planning, to facilitate better management and utilization of resources. To this end, we recognize that the success of the public sector investment program (PSIP) is highly dependent on the initial assessment of the issue as well as the mechanisms that are used to make the decision regarding how to allocate. As a first step, a Cabinet Submission has been prepared outlining the unified procedures that will apply to all public investment projects regardless of the funding type. The PSIP Policy Paper will be tabled annually with the Budget documents and will include the past year’s public investment performance, the current year’s plans & projections and the medium term profile. Another key step taken is the establishment of a public investment projects database which will eventually include all public investments of the GoJ (Capital A, B, and public bodies), and improve planning and monitoring.

### c. Improving Resilience

Jamaica remains vulnerable on several fronts, including natural disaster sudden shocks which can be a significant strain on the fiscal accounts and are sources of volatility. Necessary reforms to mitigate these vulnerabilities are actively being undertaken.

Considering the mechanisms that need to be activated and the services that are provided during disasters the Government has introduced the Disaster Risk Management Bill which will enhance the country’s ability to respond to disasters. The Bill seeks to: recognize existing organizational structures such as the National Disaster Committee, the Parish Disaster Committees and the Zonal Committees with their roles and functions clearly established; establish a National Disaster Fund which will help alleviate potential disruptions to the economic recovery programme in the event of a disaster; legally evacuate persons identified to be at risk as a preventative measure; and identify and describe high risk areas as “especially vulnerable areas” and outline the steps to be taken in respect of such areas.

Linked to disaster preparedness is the need to ensure the structural integrity of buildings. Accordingly, the Building Act was reviewed. The purpose of this Bill is to facilitate the regulation and enforcement of Jamaica’s building code at the local level which considers natural hazards including wind, rain and seismic events; enforcement of such a code minimizes potential redirection of financial resources to reconstruction from predetermined development projects, and therefore limits the Government’s implicit liability to response and recovery expenditures.

Another source of vulnerability is the high incidence of Non-Communicable Diseases (NCDs). NCDs account for upwards of 60 percent of deaths in Jamaica annually and cost about US$170 million per annum. The Government is committed to the World Health Assembly resolution of 2012 to reduce premature deaths from non-communicable diseases by 25% by 2025. The Ministry of Health has formulated the first comprehensive strategic plan for NCDs in Jamaica, which will address the four major conditions causing death and disease in the country: Cancer, Diabetes, Cardiovascular Disease, Chronic Respiratory Diseases and the four major risk factors - physical inactivity, unhealthy eating, harmful use of alcohol and tobacco use.

Jamaica is also committed to addressing crime and community safety. To this effect the Government is rolling out successful initiatives to reduce crime. The National Crime Prevention and Community Safety Strategy (NCPCSS) serves as a framework for securing support and approval and to instigate detailed planning in the area of crime prevention and community safety by the Government of Jamaica. The NCPCSS represents an integration of over 50 consultations from public and private sector bodies, civil society, NGOs, IDPs, and residents. Recently the Ministry of National Security signed a Memorandum of Understanding with 18 Government agencies to facilitate collaboration and information exchange for the Jamaica Crime...
Observatory, a web-based crime and violence statistics databank covering the five parishes with the highest incidence of crime. The move will ensure standardisation and accessibility to timely and reliable crime statistical data, to inform the Government's strategy and efforts to reduce the incidence of crime and violence, particularly in high risk and vulnerable inner-city communities in Jamaica.

Finally and in recognition that the people of Jamaica are partners with the Government as we go through this reform process, the Government of Jamaica signed the island’s Social Partnership Agreement (SPA) with the Private Sector, Trade Unions and Civil Society on July 31, 2013. The SPA is a consolidation of years of work and will include a programme of measures to achieve macroeconomic stabilization and growth with equity initially over the period 2013-2016.

In furthering our commitment to the people of Jamaica to provide better governance, the Government of Jamaica is in the process of streamlining the existing institutions that are tasked with combating corruption in Jamaica. In particular, legislation is being tabled in Parliament to establish a single anti-corruption agency that would merge three existing agencies-- Corruption Prevention Commission, the Integrity Commission and the Office of the Contractor General-- that by concentrating efforts and resources in the fight against corruption will be more effective in reducing corruption.

The Government believes that the policies and actions described in this letter will take us a long way toward achievement of Jamaica’s growth and resilience strategy. The Government has taken all the agreed actions included in the First Foundations for Growth and Resilience Development Policy Loan and will continue to implement the additional measures identified in the country’s reform programme to ensure success of the reform.

Sincerely,

[Signature]

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