I. Key development issues and rationale for Bank involvement

Jamaica has experienced uneven growth and high public debt for almost three decades. After growing rapidly in the 1960s, the economy has suffered several lengthy contractions and periods of modest recovery. Natural disasters and adverse external shocks, coupled with weak fiscal discipline and the materialization of contingent fiscal liabilities, resulted in persistent fiscal deficits that have kept public debt above 100 percent of GDP for the past fifteen years. Jamaica’s sizeable 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.

In an attempt to break with the past, the government embarked on a series of economic reforms in 2013, to restore macroeconomic stability and pave the way for higher and inclusive growth. To date, progress has been made on the reform agenda as the country managed to avert a potential economic crisis in 2013 and is holding steady in the course of difficult reforms. Jamaica entered an IMF Extended Fund Facility program in May 2013 and has successfully completed ten reviews of the Program as of December 2015. The government has constrained recurrent spending and reformed tax policies, thereby reducing public debt and creating space for increased spending on social protection and public investments.

This proposed Development Policy Finance operation supports reforms aimed at removing impediments to economic growth and debt sustainability. The operation is part of a broader package of multilateral support provided by the IMF and the Inter-American Development Bank.

II. Proposed Objective(s)

The development objectives of the proposed operation are to (i) improve investment climate and competitiveness and (ii) sustain fiscal consolidation and enhancing public financial
management. The first pillar of the proposed operation supports increased economic growth by reducing regulatory compliance costs associated with commercial development projects, reducing electricity costs and diversify sources of supply, and helping to establish Jamaica as an international logistics hub. The second pillar focuses on strengthening the fiscal position by improving budget and debt management procedures, reforming the public sector pension scheme, and stronger public investment management systems. Both pillars build on the government’s own agenda for facilitating growth and reducing debt. The two pillars are mutually reinforcing. Even with significant progress on improving competitiveness, investor confidence will not return without sustained progress on fiscal consolidation. Not only would this help reduce public debt to a sustainable level, it would also send a signal of reform commitment to investors.

III. Preliminary Description

Pillar 1. Improving the Investment Climate and Competitiveness

The operation proposes to support specific elements of the government’s agenda that will improve competitiveness and stimulate economic growth. These include institutional reforms to streamline the development approval process, reduce the high cost of electricity and dependence on oil-based generation, improve trade facilitation, and encourage investment, particularly investment supporting Jamaica’s Logistics Hub Initiative.

Pillar 2. Sustaining Fiscal Consolidation and Public Financial Management

The operation proposes to support elements of the government’s Public Financial Reform Action Plan and other initiatives that improve the effectiveness of public spending. These include measures to strengthen the institutional framework for budgeting, debt management, public procurement, and public investment management. It also supports policies to make the public sector pension program sustainable in the long run.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

Government supported under Pillar 1 are expected to generate jobs and economic, thereby contributing to reduced poverty and shared prosperity over the long run. Reduction in electricity costs will yield benefits to the poor in the short run as well. Fiscal consolidation slows economic activity in the short to medium term, thereby slowing the pace of poverty reduction. Reducing the debt overhang creates fiscal space for increased future spending on poverty reduction programs and public goods, however. The government’s fiscal adjustment program includes a rule to prevent reductions in spending on social protection.

Environmental Aspects

Policies supported by this operation are not expected to directly affect Jamaica’s environment, forests or other natural resources. Some have potentially beneficial indirect effects: the revised electricity regulatory framework is encouraging investment in cleaner and more efficient sources of power generation, thereby reducing Jamaica’s dependence on heavy fuel oil and diesel generation. No environmental safeguards are expected to be triggered.
V. Tentative financing

Source: ($m.)
Borrower 0
International Bank for Reconstruction and Development 75
Borrower/Recipient
IBRD
Others (specify)

Total 75

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