I. Country and Sector Background

Jamaica is a small open economy with good social indicators. It is the largest English-speaking country in the Caribbean with a population of about 2.7 million and per capita income of $4,999 (Atlas method, 2009 prices). Life expectancy is high at 73 years and poverty reached a low of 9.9 percent of population in 2007, although poverty spiked in 2008-2009 due to the severe economic contraction following the global crisis. Despite a number of advantages—including rich natural resource endowments, close proximity to the USA (its largest trading partner), and high levels of private investment—the country faces major challenges from low growth, vulnerability to natural disasters, and high debt.

Low growth despite high rates of investment has been a major challenge for Jamaica. Real GDP per capita grew just 0.5 percent per year since the 1970s, despite total fixed investment averaging 25 percent of GDP during 1960-2008, above the average for Latin America (20 percent) and comparable to fast-growing East Asia (28 percent). A new World Bank study has identified low productivity due to crime, human capital deficiencies, and fiscal distortions as the main reason behind the slow growth.

Vulnerability to natural disasters and climate change has been a second major challenge. The coastal zone in Jamaica is home to two-thirds of the population and an estimated 75 percent of industries, critical infrastructure and service sector, which altogether account for 80-90 percent of GDP. These assets and the production capacity are frequently threatened by natural disasters and climate change. For example, the 2007 Hurricane Dean left J$23.8 billion in damages while the 2008 Hurricane Gustav caused losses of J$15.2 billion.
Finally, high debt is another important constraint for Jamaica which has been among the most indebted countries in the world for more than two decades. The public sector debt-GDP ratio has averaged over 100 percent from FY1990/91 to FY2007/08. The debt was reduced to 80 percent of GDP in FY1996/97 through a concerted effort of sustained fiscal surpluses but rose thereafter due to the 1996 financial crisis and the Government’s subsequent decision to bail out all depositors with an estimated cost of 40 percent of GDP. After peaking at 125 percent of GDP in FY2002/03, the debt started to decline and reached 114 percent of GDP by FY2007/08. Since then, the adverse impacts of the global crisis caused the debt, including contingent liabilities, to rise to 139 percent of GDP by FY2010/2011.

II. Operation Objectives

The proposed operation builds on the progress made under the Bank’s previous Fiscal and Debt Sustainability DPL (January 2009) and the First Programmatic Fiscal Sustainability DPL (FSDPL1, February 2010). The reform program supported by the proposed DPL is the manifestation of the Jamaican Government’s strategy to increase fiscal and debt sustainability, improve macroeconomic stability, and accelerate growth. The Government of Jamaica (GoJ) has made significant progress towards achievement of its objectives in three areas, despite the difficult external environment and the slow pace of recovery from the adverse effects of the global crisis.

The Program Development Objectives are to:

- **Enhance fiscal and debt sustainability**, by supporting reforms to increase control on public spending and debt generation, reduce debt service burden and improve debt management, reduce financial vulnerabilities, and increase public spending effectiveness.
- **Increase the efficiency of public financial management and budgeting processes**, by supporting efforts to improve the efficiency of public expenditure and investment, and strengthen control of public finances and the effectiveness of government budgeting practices.
- **Improve the effectiveness and efficiency of the tax system**, through reducing the use of fiscal incentives and increasing the uniformity of the tax code, improving client services for tax payers, broadening the tax base, and simplifying tax payments.

Specific prior policy actions supported by the FSDPL2 include:

- The Borrower’s legislature has enacted: (i) the Financial Administration and Audit Amendment No. 2 Act (Act 5 of 2010), dated March 22, 2010 which amends the Financial Administration and Audit Act to, inter alia, ensure accountability for applying principles of prudent fiscal management; and (ii) the Public Bodies Management and Accountability Amendment Act (Act 7 of 2010), dated March 22, 2010 which amends the Public Bodies Management and Accountability Act to, inter alia, increase the transparency and comprehensiveness of data on fiscal operations presented to the Borrower’s legislature; all for purposes of introducing into said legislation a fiscal responsibility framework which is being implemented by Borrower, as evidenced by the submission to the Borrower’s legislature of a fiscal policy paper on April 28, 2011.
- The Borrower, through the Ministry of Finance and Public Service (MoFPS), has submitted on July 12, 2011, to the Borrower’s legislature for approval a new public debt management law, for purposes of: (i) consolidating the existing legal and regulatory framework related to debt management; (ii) introducing modern debt management practices (including the establishment of a high level Public Debt Management Committee); and (iii) ensuring prudent management of government guarantees and contingent liabilities.
The Borrower has started to implement a time-bound action plan for purposes of strengthening the institutional and technical capacity of the Debt Management Unit, including: (i) the establishment of a new functional organization structure with front, middle and back offices, as evidenced by the corresponding Borrower’s Cabinet decision; and (ii) the development of a medium term debt management strategy, as evidenced by the submission to the Borrower’s legislature of said strategy on April 28, 2011 and published on MoFPS’ website (http://www.mof.gov.jm/budget/fiscal_policy/FY%202011-2012).

The Borrower has continued to implement the plan to achieve the rationalization of Public Bodies, as evidenced by the divestiture of: (i) Air Jamaica; (ii) three sugar estates (Monymsuk, Frome, Bernard Lodge); and (iii) the Pegasus Hotels of Jamaica.

The Borrower, through MoFPS, has completed employment surveys (censuses) for all non-self financing (fully-funded and partially funded) Public Bodies.

The Borrower has implemented a new methodology for evaluating capital investments in six pilot line ministries (MoFPS, Ministry of Transport and Works, Ministry of Education, Ministry of Health, Ministry of Agriculture and Fisheries and Ministry of National Security), as evidenced by the inclusion in the Budget Call 2011/2012 Financial Year (No. 907/120) dated January 28, 2011, of processes to be followed for the purposes of prioritizing the investment program.

The Borrower has introduced the medium term expenditure framework in six pilot line ministries (MoFPS, Ministry of Transport and Works, Ministry of Education, Ministry of Health, Ministry of Agriculture and Fisheries, and Ministry of National Security), as evidenced by: (i) the submission to the Borrower’s legislature of the fiscal policy paper on April 28, 2011 including a fiscal responsibility statement outlining how fiscal targets will be achieved; and (ii) the inclusion in the Budget Call 2011/2012 Financial Year (No. 907/120) dated January 28, 2011, of the key elements of the decision processes for the medium term expenditure framework including budget ceilings and procedures for decisions on medium term priorities.

The Borrower has continued to implement a uniform tax code, as evidenced by: (i) the Borrower’s Cabinet Decision (No. 28/2010) dated July 21, 2010; (ii) further measures issued by the MoFPS dated November 15, 2010 and published on MoFPS’ website on November 15, 2011 on the MoFPS’ website (www.mof.gov.jm/pressreleases), all for the purposes of instituting interim measures, *inter alia*, freezing the issuance of new statutory waivers and reducing the issuance of discretionary waivers by the MoFPS until the new tax waiver/incentive policy and strategy is adopted by the Borrower.

The Borrower’s legislature has approved the consolidation of the departments of Inland Revenue, Taxpayer Audit and Assessment, and Tax Administration Services into a single tax administration department called Tax Administration Jamaica, as evidenced by the enactment of the Revenue Administration (Amendment) Act (No. 11/2011) dated April 1, 2011; and (ii) The Borrower has prepared a detailed restructuring plan for implementing the legislated changes in the Revenue Administration (Amendment) Act (No. 11/2011).

The Borrower has continued to implement a simplified process for paying taxes and improving tax collection efficiency and client services, as evidenced by: (i) the implementation of the first phase of the amalgamation of payroll taxes, which consolidates five payment checks and five forms for five different taxes into one payment check and one form, as evidenced by the issuance of the Income Tax (Amalgamated Payroll Remittance) Regulations (No. 133) effective as of November 15, 2010; the creation of client services units in large taxpayer offices to establish a one-stop shop for all tax payments (including providing 14 different services to large taxpayers and covering 149 of the 473 large taxpayers in the Borrower’s territory); and (iii) the extension of online tax filing and payment to all taxpayers and to all tax instruments, as evidenced by the creation of a website for purposes of online tax filing and payment (http://www.jamaicatax-online.gov.jm/).
Some key expected outcomes of the FSDPL2 include:

1. The FY2011/12 budget process is developed within the Fiscal Responsibility Framework (FRF) and is bound by the FRF’s medium term targets for debt creation and the overall fiscal deficit;
2. A detailed borrowing plan is developed by the Debt Management Unit, which fully operationalizes the Medium Term Debt Management Strategy; and quantitative limits on instruments and lenders are established in line with the overall budget ceiling established by the FRF;
3. The Government has fully implemented the new methodology for evaluating capital investments in six pilot ministries;
4. The six pilot Ministries, Departments, and Agencies (MDAs) have submitted their MTEFs;
5. Improved PEFA rating of “Collection of tax payments” to B in FY2010/11 from a baseline of: D+ in 2007/08.

III. Rationale for Bank Involvement

Two interrelated and critical development challenges for the Government of Jamaica (GoJ) are (i) achieving fiscal and debt sustainability; and (ii) laying the foundation for inclusive and sustained growth over the medium term. To this end, the Government has articulated an ambitious long-term strategy, Vision 2030, and an associated Medium-Term Socioeconomic Policy Framework (MTF, FY09-12) with intermediate steps that will support the longer term vision. Although the economic environment is fundamentally different from when the process began four years ago, the broad thrusts of the articulated strategy remain valid. Vision 2030 aims at shifting the economy from one based exclusively on exploiting “basic factors” – sun and sand tourism, mineral deposits and basic agricultural commodities – to one that is increasingly based on cultural, human, knowledge and institutional capital to take the country to OECD standards of living. The medium-term strategy identifies six national outcomes and five supporting national outcomes. There is full alignment of the MTF with Vision 2030 Jamaica and the six Priority National Outcomes for MTF 2009-2012 are (i) security and safety; (ii) a stable macroeconomy; (iii) strong economic infrastructure; (iv) energy security and efficiency; (v) world class education and training; and (vi) effective governance.

The Government’s reform program is an outcome of extensive consultations with stakeholders. Through the PIOJ, the Government has undertaken a broad consultation process on its long-term development plan—Vision 2030 National Development Plan, tabled in Parliament in May 2009—which incorporates many of the reforms supported by the DPL series. Vision 2030 was publicly announced and consultations have taken place throughout the country with various target groups including youth and community groups, special interest groups, and the emigrant Diaspora (via the web). The Public Sector Transformation Unit program incorporates a well-structured consultative process. The governance structure of the transformation project includes a Sub-Committee of the Cabinet chaired by the Prime Minister, to approve, give direction and oversight to the restructuring of the Public Sector, and the Consultative Monitoring Group (CMG) comprising representatives of Government, private sector, trade unions, academia and the Opposition to review the strategies being pursued by the PSTU and monitor their implementation. Implementation and change management “transition” teams have been formed in each MDA to assist their colleagues to grasp all of the critical issues. Privatization and debt management reforms of the government benefited from consultations with the Jamaican public sector, senior private sector leaders, International Financial Institutions, the Commonwealth Secretariat and UK Debt Management Office.

The GoJ reform program builds upon the measures implemented in the last two years and also supported under the previous DPL operations. The GoJ reform program is expected to provide long-term solutions to the problems that have contributed to fiscal slippages and debt accumulation in the past. New measures
taken under the GoJ program solidify the milestones achieved and include key policy actions required to maintain the reform momentum and achieve fundamental changes in the public sector. The implementation of the FRF, major debt reforms, divestiture of large loss-making Public Bodies, and improvements in public financial management and tax policy and administration build on the momentum of the adoption of FRF, JDX, the initiation of a public sector reform plan, and strengthening tax revenue and collection.

The reform program supported by the proposed FSDPL2 is expected to establish a strong foundation for growth-oriented reforms envisioned by the GoJ in the medium term. The main—but not the only—focus of the reform program supported by the current DPL series is fiscal sustainability, reflecting both the reform priorities of the Government and the most pressing/urgent needs at the time of the DPL series was designed. The policies supported by the current DPL series can be largely thought of as so-called “numerator” policies, designed to address major sources of fiscal vulnerability and stabilize the debt dynamics. However, the DPL program also includes reforms in the area of tax policy and tax administration, designed to improve the business environment and stimulate growth. In addition, reforms supported under FSDPL1—in particular, the JDX—have already removed an important impediment to growth by lowering the high cost of debt servicing which was severely constraining the fiscal space. Finally, with the completion of major parts of the fiscal and debt reform agenda under the proposed FSDPL2, the GoJ can turn its focus in the coming fiscal year more squarely towards reforms which could promote growth more directly.

The IFIs coordinate closely on their support to the reform program of the GoJ. The reform actions supported by this DPL are complemented by the IMF SBA and the public sector reform programs of the IDB. Given the critical importance of debt and fiscal issues, these themes are common across the structural benchmarks of the IMF and the prior actions of the Bank and the IDB. There is full alignment between the Program Matrix of this DPL and the PBL of the CDB. There is a division of labor among the institutions to ensure complementarity. As part of this coordination, the World Bank, the IMF and the IDB had joint missions for reforming debt management in May and October 2010. The World Bank is also coordinating with the IFIs in the phasing of disbursements and in the sequencing of the policy actions. This coordination is important to ensure that the Government’s financial needs are met in a timely manner while reform momentum is maintained. The main synergies between the policy reforms supported by the IFIs are:

1. Implementation of a Fiscal Responsibility Framework;
2. Public Sector Rationalization;
3. Improving Efficiency of Public Expenditure Management and of Tax Policy and Administration;
4. Strengthening of Debt Management; and
5. Strengthening internal and external controls.

IV. Tentative financing

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V. Institutional and Implementation Arrangements

The proposed financing, amounting to US$100 million, will be available for disbursement upon effectiveness. The disbursement arrangements will follow OP8.60. Loan proceeds will be disbursed against satisfactory implementation of the development policy program. Once the Loan is approved by
the Board and becomes effective, the proceeds of the Loan will be deposited at the request of the Recipient by the World Bank in a Foreign Currency Deposit Account (FCDA) designated by the Recipient and acceptable to the Bank. The Recipient will ensure that upon the deposit of the Credit into the account, an equivalent amount in local currency is credited in a Local Currency Deposit Account (LCDA), in a manner acceptable to the Bank at the Bank of Jamaica (BoJ). The Recipient will report to the Bank on the amounts deposited in the foreign currency account and credited in local currency to the LCDA. The administration of this Credit will be responsibility of the Ministry of Finance. The Bank will reserve the right to request an audit of the designated account by an independent firm of auditors and in accordance with terms of reference acceptable to it. In addition, the BoJ shall maintain an appropriate accounting system in accordance with Generally Accepted Accounting Principles.

The Bank would disburse the loan proceeds into an account of the Central Bank of Jamaica denominated in US dollars. The Central Bank of Jamaica will immediately credit the disbursed amounts to the account of the Ministry of Finance and the Public Service, thus becoming available to finance budgeted expenditures. Within a week of this funds transfer, the Ministry will accordingly provide the Bank with a written confirmation.

The Ministry of Finance and the Public Service will play the primary role in coordinating monitoring and evaluation of program implementation. The government and the Bank will take advantage of several important data sources to assess progress of the DPL, including:

① Central and nonfinancial public sector budget monitoring from the Ministry of Finance and the Public Service
② Statistical Institute of Jamaica
③ Central Bank of Jamaica reports and analysis
④ Reviews and analyses of laws and implementing regulations by the Bank and other stakeholders
⑤ Data from key Government agencies such as PIOJ and the Auditor General
⑥ Financial audits and follow up of CPAR and CFAA recommendations
⑦ Bank, CDB, IDB and IMF supervision missions and reports. Jamaica is under intensified surveillance from the Fund which produces a bi-annual staff report that assesses its economic and financial stability. The World Bank has been closely coordinating with the Fund on its monitoring of the economic and financial situation.

VI. Risks and Risk Mitigation

The reform program of the Government of Jamaica, to be supported by the proposed FSDPL2, faces four types of significant risks: economic, political, institutional, and natural disasters. These risks must be weighed against the substantial benefits of assisting in the creation of fiscal space in Jamaica to support the Government reforms necessary for achievement of long-term development objectives.

Economic: The recovery from the global financial crisis has been slower than anticipated and real GDP growth is expected to be modest in the medium term. Although fiscal and debt sustainability have been substantially improved through reforms supported under FSDPL1, slower recovery or adverse shocks to growth could weaken fiscal balances and reduce the ability of the Government to push ahead with critical medium term reforms. For example, the Government has already decided to postpone some reforms—such as the proposal to lower corporate income taxes to 25 percent, in line with the personal income tax rate—due to concerns over revenue generation in the current environment. In addition, measures such as the public sector wage freeze cannot be maintained for a prolonged period and will require structural changes to ensure the sustainability of the wage bill.
Monitoring and mitigation: Since Jamaica is vulnerable to external shocks, prospects for mitigation are limited. However, following the JDX and the Stand-By Arrangement (SBA) with the IMF, a number of external vulnerabilities have been significantly reduced. Risks of fiscal slippages are reduced through the periodic reviews of the SBA. The Bank and DFID are supporting a multi-year, comprehensive restructuring of debt management in line with international best practice. The Bank participates in ongoing macro-monitoring and country dialogue and stands ready to adjust the program to mitigate risks as much as possible. Other development partners are active in Jamaica with sizeable portfolio and resources for on-demand technical assistance. The wage freeze is meant a stop-gap measure while the envisioned comprehensive HR reform is being prepared and implemented.

Political: The current government came into power in the fall of 2007, but it has had a small majority in Parliament, making the Government’s program vulnerable to special interests. Political opposition may delay implementation of reforms. Although new elections are not due until 2012, it is possible that elections could take place at an earlier date. If political pressures were to increase, the Government may postpone necessary but potentially unpopular measures which could jeopardize sustainability of the fiscal consolidation. Certain discretionary actions, such as the Cabinet Decision to limit the use of tax waivers and incentives, could be also reversed at a later date due to political pressures. In addition, with the expiration of the wage freeze in 2012, the Government could face pressure for compensatory wage increases. Finally, the recent security episode has highlighted the sometimes fragile nature of the social compact in the country and the need for a long-resolution to the security and governance challenges.

Mitigation: The political risk is reduced by the Government’s consultative approach to reform implementation and the dialogue among country stakeholders on the fiscal and economic costs of inaction. In particular, there is broad agreement among all stakeholders that the pre-reform status quo was unsustainable and reforms were absolutely necessary. This is illustrated by the fact that while previous attempts to raise gasoline taxes in Jamaica resulted in riots and eventual roll-back of policy, the tax increase supported under FSDPL1 was well-received by the general public who understood the urgent need to strengthen fiscal balances. Government is using the time of the current wage freeze to fundamentally change and streamline the wage bargaining process by working with the unions to significantly reduce the number of bargaining units. The Government is also committed to addressing security challenges, as evidenced by its tenacity in pursuing a resolution to the May 2010 Tivoli Gardens incident, and has committed to develop and implement a national safety and security strategy in the near term. IFIs and other donors are heavily focused on building consensus for advancing critical public sector reforms.

Institutional capacity and reform implementation: The Government has embarked on substantial public sector reforms which require changes in institutional structure and significant enhancement in institutional capacity. The reform process could be delayed as the institutions try to adjust to the changes and enhance their capacity. For example, as highlighted earlier in the document, the transition to MTEF is a multi-year process that requires significant investments in capacity building and aligning the orientation of the institutions towards medium term planning. Similarly, the DMU reforms will require a substantial upgrading of technical and institutional capacity. Finally, there may be short-term delays in reform implementation as the reform strategies developed at the unit and ministry-level are subsumed into the broad overarching rationalization plan of the PSTU.

Mitigation: Jamaica has well established institutions which are committed to reform. The development partners have put together a multi-year technical assistance package to support institutional capacity building and advancing public sector reforms. For example, the DMU reforms are being implemented with guidance from specialists in the Bank’s Treasury department, and are being overseen by a high-level Debt Committee comprised of senior members of the Government and the civil society. The Bank has reached an agreement with DFID to secure £920,000 for funding technical assistance for institutional changes including restructuring of the Debt Management Unit, Parliamentary oversight of budgetary processes, and the Government communication strategy.
**Natural Disasters and Climate Change:** Natural disasters can derail economic growth, limit the progress on poverty reduction, and pose a heavy fiscal burden, increasing indebtedness and redirecting public resources away from long-term development plans. Jamaica is highly vulnerable to droughts, floods, and hurricanes. The cumulative damage from the last three major storms— Ivan (2004), Dean (2007), and Gustav (2008)—was over US$1 billion. The most recent tropical storm Nicole caused a fiscal cost of 1 percent of the GDP to the government budget. In general for the Caribbean countries, the annualized cost of hurricanes is estimated to range from 0.13 to 1.93 percent of GDP. The emerging risks from climate change must also be taken into account in long-term development planning to ensure that new projects take into account climate resilience.

**Mitigation:** The damage to major private sector enterprises is partly covered by insurance. The GoJ participates in the Caribbean Catastrophe Risk Insurance Facility. The Bank is assisting Jamaica through investments in natural disaster risk mitigation with the Hurricane Dean Emergency Recovery Loan and technical assistance for its safety net program to mitigate adverse consequences on poverty. In January 2009, the National Water Sector Adaptation Strategy and Plan of Action to address climate change were established with Bank assistance and provide recommendations on key investments (capacity, institutional, policy and legislative, etc) to mitigate the negative impacts of climate change in the water sector. With joint support from the WB and IDB, the GoJ is preparing a strategic program for climate adaptation under the Pilot Program for Climate Resilience (PPCR).

**VII. Poverty and Social Impacts and Environment Aspects**

**Poverty and Social Impacts**

The actions supported by the proposed FSDPL2 are expected to have a positive overall distributional impact. The Poverty Assessment and the Public Expenditure Review have found that the high debt has adversely impacted the poor by reducing fiscal space for priority social spending and investment programs, while macroeconomic volatility and inflation have had a disproportionately negative impact on the poor. In particular, high inflation in the past had eroded much of the purchasing power of transfers provided under the conditional cash transfer program. Since the expected outcomes from the DPL series include a more stable macro environment, reduced debt burden, increased fiscal space for productive and poverty-alleviating expenditures, and improved growth outlook, the broad distributional impacts are expected to be pro-poor. Furthermore, the Bank has undertaken a comprehensive Poverty and Social Impact Assessment (PSIA) to evaluate the distributional impacts of tax reform and Public Bodies rationalization components of the Government’s reform program. For these two reforms, the PSIA has been able to identify specific distributional transmission channels and evaluate—using both quantitative and qualitative methods—the impacts on the poor.

The short-term, direct impact of the tax reform is likely to have been somewhat negative, but the medium- and long-term effects of the reform package are expected to be positive. Simulations show that the tax reform on its own would have likely led to a small increase in poverty. However, the progressivity of the petroleum tax combined with a highly progressive incidence of the loss of interest income from the JDX has lessened the impacts on the poorest households. In addition, the substantial improvement in the fiscal position due to these reforms is expected to yield a positive growth dividend and therefore help poverty reduction. Therefore, the combined effect of the package of fiscal (tax and debt exchange) reforms is estimated to have reduced both poverty and inequality.

The overall poverty and distributional impacts of public bodies rationalization are likely to be small. Households with members employed in sectors under rationalization (sugar, aluminum, and ethanol) have consumption per capita 30 percent lower than other households and are three times more likely to be poor. However, these households account for only 0.2 percent of the Jamaican population (5,626 Jamaicans
living in 2,274 households). Moreover, a number of these households already have access to social safety nets: more than 13 percent of the potentially affected households are beneficiaries of the Jamaican CCT program PATH, compared with less than 7 percent of non-affected households who are PATH beneficiaries. Moreover, displaced sugar workers are eligible for compensation under the Sugar Transformation Payment (STP) program, which pays J$170,000 to displaced females and J$150,000 to displaced males in addition to making tuition and clinic attendance payments on behalf of the displaced workers.

Despite the limited overall impact, qualitative work has revealed substantial vulnerabilities in the sugar sector. Community interviews—although not representative due to small sample size—revealed that as many as half of those previously employed have not been able to secure formal employment since. Limited coping mechanisms are a major source of vulnerability: many households have borrowed in anticipation of receiving STP but few have actually received them. However, so far few, if any, households have lost their homes and most community members remain optimistic about the future, believing that privatization would lead to increased investment in the factories and improved management practices.

Although workers employed in the industries to be privatized—like most public sector workers—will have a more difficult time finding new employment, training programs can make a big difference. Compared with workers in other industries/sectors, public sector workers in industries with entities to be privatized not only face a higher probability of losing their job but also a more difficult time finding new jobs once unemployed. However, employment probabilities are substantially higher with workers with above-average levels of schooling. Moreover, even after controlling for all other determinants such as age, gender, education, and sector of employment, access to specialized training (such as government-sponsored HEART/ National Training Agency programs) makes a significant difference.

The Government has developed a wide array of tools to help mitigate any adverse distributional impacts. In December 2008, the GoJ set up a special program through the HEART Trust/National Training Agency to retrain laid-off workers in order to assist them to gain alternative employment. The PATH program, which reaches about 14 percent of the population, has been used as a vehicle to help the poor with additional payments during periods of natural disasters as well as the recent global crisis. The STP payments have been distributed to 1,200 recipients by September 2010 and in March 2011 the workers aspect of the grant program was completed.

**Environment Aspects**

The specific policies supported by this DPL operation are not expected to have significant effects on the environment, forests or other natural resources. Jamaica has the institutional capacity and the necessary arrangements to assess and manage adverse environmental effects. The National Environment and Planning Agency (NEPA) has been in place since April 2001 as a means for conducting environmental impact assessments under acceptable international standards. The Development Bank of Jamaica and other investment promotion agencies (e.g., Jamaica trade and Invest, formerly JAMPRO) require that all proposed projects conform to the environmental laws of Jamaica and must comply with regulations stipulated by the NEPA. Currently, limited fiscal space hampers the ability of relevant GoJ agencies to perform such tasks effectively and this capacity may come under increased pressure from potential additional investments in mining and agriculture following privatization in these sectors. However, the successful implementation of this DPL operation would in fact create the fiscal space needed for the GoJ to invest in critical environmental public goods such as protection of watersheds and forests, zoning and flood prevention, protection of coastal resources, stricter/effective enforcement of physical planning and environmental laws and regulations, and better integration of institutional mandates regarding environmental management. Indeed, an Integrated Environmental Assessment was completed in April 2009 in anticipation of the divestiture of the Sugar Company by the Sugar Industry Authority and the
Ministry of Agriculture has already taken steps to initiate the process of Strategic Environmental Assessment.

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