

PROJECT INFORMATION DOCUMENT (PID)
APPRaisal STAGE

Report No.: PIDA4016

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Strategic Public Sector Transformation (P146688)</th>
</tr>
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<tbody>
<tr>
<td>Region</td>
<td>LATIN AMERICA AND CARIBBEAN</td>
</tr>
<tr>
<td>Country</td>
<td>Jamaica</td>
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<td>Sector(s)</td>
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<td>Theme(s)</td>
<td>Public expenditure, financial management and procurement (40%), Tax policy and administration (20%), Other public sector governance (40%)</td>
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<td>Borrower(s)</td>
<td>Jamaica Ministry of Finance and Public Service</td>
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<td>Jamaica Ministry of Finance and Public Service</td>
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<td>Date PID Prepared/Updated</td>
<td>19-Mar-2014</td>
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<td>Estimated Date of Appraisal Completion</td>
<td>15-Apr-2014</td>
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<td>23-May-2014</td>
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I. Project Context

Country Context

Jamaica is a small upper middle-income country with a long history of elusive growth and high debt. Over the past four decades, Jamaica has consistently been one of the world’s slowest growing economies. Since the mid-1990s, real GDP growth has averaged less than 1 percent a year. The country’s high level of public debt, projected at 138.3 percent of GDP by fiscal year ending March 2014, and associated high debt service obligations resulted in costly risk premiums, crowded out and distorted private sector investment and left the country highly vulnerable to shifts in market sentiment. Moreover, like many other Caribbean countries, Jamaica suffered recurring natural disaster related shocks that exacted heavy tolls on Jamaican households and the economy as a whole, contributing to sustained high unemployment rates, of 10.8 percent in 2006/07 and rising to 14.9 percent by 2013/14, and increasing poverty rate, from 9.9 percent in 2007 to 17.8 percent in 2010.

High public debt levels with large swings in the debt to GDP ratio is a burden Jamaica has been struggling with for decades, significantly conditioning its fiscal performance. The history of high
debt is related to chronic public deficits, weak budget coverage, and contingent liabilities arising from a large number of weakly regulated public bodies. Although the Government of Jamaica (GoJ) has undertaken several initiatives during the past few years aimed at strengthening management of its public finances, several fundamental issues, such as inefficient budgeting processes, insufficient control over public expenditure and the public investment planning process, and weak links between government priorities, planning, and budget continue to affect GOJ’s performance to increase efficiency and accountability in the use of public resources, manage fiscal risks, and improve public sector performance.

Jamaica's poor fiscal performance was also exacerbated by low and anemic growth arising from low productivity and a distortion system of incentives, which adversely affected the overall competitiveness of the economy. The World Bank's 2011 Country Economic Memorandum (CEM) report for Jamaica highlighted that Jamaica's problems were not new nor undiagnosed. Accordingly, the GOJ reform program with the World Bank focuses on stabilizing the economy by reinforcing fiscal discipline, strengthening institutions that facilitate private sector growth including improving an enabling environment, as well as supporting the productive sector.

The 2008 global financial crisis hit Jamaica very hard and government efforts to stabilize the economy in 2009-11 were inadequate; the failure to address persistent fiscal and debt issues, led to a crisis of confidence by early 2013. The Government prepared and entered into a Stand-By Arrangement (SBA) with the International Monetary Fund (IMF) in 2010, which included an ambitious fiscal consolidation plan and other policy reforms such as the Jamaica Debt Exchange (JDX). Complementing IMF and Inter-American Development Bank (IDB) financing, the Bank provided a US$300 million DPL for budget support. The Government had initial success with divestment efforts and made progress in the area of tax administration, but the program was interrupted in 2011 due to missed fiscal targets in the IMF agreement, thus halting official flows to Jamaica and compromised Jamaica's ability to refinance the large public debt. By early 2013 public debt levels to GDP were approaching 150 percent and financing debt service payments coming due by the end of the fiscal year became a major challenge to GoJ.

In May 2013, International Financial Institutions (IFIs) agreed on a comprehensive package of assistance, comprising an IMF Extended Fund Facility (EFF), and financial support from the IDB and the World Bank. The Government of Jamaica (GoJ) signed an IMF Extended Fund Facility (EFF) for SDR 615.4 million (about US$932.3 million) for the period of April 2013 to March 2017, which was approved by the IMF Board on May 1, 2013. The World Bank and the Inter-American Development Bank (IDB) each allocated US$510 million to Jamaica for the same period. Together, the three multilateral organizations are supporting a set of ambitious structural reforms designed to stabilize the economy, reduce debt and create the conditions for growth and resilience. IMF support focuses on reforms expected to have a more short-term stabilizing impact, such as debt restructuring, fiscal consolidation, and financial sector reforms. The Bank and the IDB are supporting, in close coordination, structural and institutional reforms in the areas of public sector management, competitiveness, social protection, and resilience.

Over the first nine months of the first fiscal year of the IMF EFF program the fiscal adjustment has been implemented successfully and as a result, all IMF program fiscal performance criteria up to the 2nd review (December 2013) were met. Overall policy implementation under the program remains strong. Structural reforms are progressing despite a difficult economic environment, and government is making significant progress on the ambitious structural reform agenda. Many of the
already existing World Bank technical assistance, through various sources of grant funding (e.g. Supporting Economic Management in the Caribbean, DFID), has supported the government in meeting these targets. The Strategic Public Sector Transformation Project will continue the tradition of supporting the GoJ in its adjustment program, while also addressing strategic sectors and institutions that contribute to GoJ’s growth agenda.

**Sectoral and institutional Context**

The Government of Jamaica faces two challenges as it seeks to restore its debt sustainability through a fiscal consolidation program. It must maintain support for the program to weather the short-term effects until the longer-run benefits that will result from increased growth are realized.

Several challenges exist in GoJ's reform efforts. Elevated public debt levels, weak public management systems, and binding fiscal constraints are a few of the challenges GOJ faces. Improving fiscal and debt sustainability in order to reduce debt overhang, improve competitiveness and reverse the weak growth trajectory therefore are high priorities in Jamaica. Addressing governance and public financial management issues are integral to achieving this objective. Further, reducing administrative barriers to competitiveness within the export sector is critical for supporting the growth agenda through trade.

The Government has a variety of actions underway to address some of these obstacles. These include, inter alia:

(a) Reforms to the public financial management (PFM) system. With support from development partners, the Government of Jamaica has begun an ambitious program to overhaul the way it budgets public monies, levies taxes, and procures goods and services. Through the Bank managed and Canadian funded Supporting Economic Management in the Caribbean Program (SEMCAR), as well as DFID-financed trust funds, the government has initiated several of these PFM activities.

(b) Putting in place an effective fiscal rule to entrench fiscal discipline. Authorities are working to consolidate the gains of fiscal consolidation in the medium term. The aim is to limit the annual budget deficits of the public sector so as to substantially reduce Jamaica's debt to no more than 60 percent of GDP by 2025/26 and control fiscal risks. Since the beginning of the IMF program the authorities have dedicated significant efforts to put together an effective fiscal rule. The authorities and the IMF TA supporting this initiative have held numerous consultations across stakeholders in the elements of what the fiscal rule should comprise. As part of the structural benchmarks, the Government presented to Fund staff a first conceptual proposal for the design of the fiscal rule by August 31, 2013. The authorities have then continued with the preparation of the accompanying legislation. The Government has confirmed their commitment to present to the Fund a revision of the relevant legislation for the adoption of the forthcoming fiscal rule, to be incorporated in the annual budgets starting with the 2014/15 budget, as a structural benchmark to be met by end-March 2014. Therefore, the legislation incorporating the new fiscal rule in Jamaica's Financial Administration and Audit Act is expected to be passed by Parliament before the start of the next fiscal year.

(c) Requirements to make public institutions more accountable. A steady stream of amendments have provided the legal framework necessary to hold public bodies to account. With the promulgation of the Corporate Governance Framework in September 2011 and revisions in October 2012, the government has created a roadmap for implementing the law. The Auditor
General has begun conducting performance audits of different public bodies and will receive support in a forthcoming IDB loan to strengthen and extend this work.

The WB Public Sector team has a long standing relationship that has allowed the team to work closely with government in the preparation of this operation. The team already offered technical expertise to Jamaica through existing programs such as SEMCAR and a DFID funded PFM trust fund. Hence the team has envisioned the proposed operation as an opportunity to continue with the on-going engagement through those programs, and additionally, to develop new areas of engagement where the team can have a valuable contribution to other reform efforts the Government may want to undertake as part of their economic reform program.

Accordingly, clear selective criteria was used for project interventions where: (i) there is greatest impact in its contribution to stimulate economic activity; (ii) immediate intervention is necessary to support financial discipline; and (iii) a “realism lens” was used on what is politically and institutionally feasible. Moreover, the extensive experience that the World Bank now has in the country through several multi-sectoral and multi-year initiatives such as the SEMCAR Multi-Donor Trust Fund Program, Bilateral Trust Fund Programs like the United Kingdom's Department for International Development (DFID) Program in Jamaica for Enhancing Public Financial Management and other interventions have allowed for an in-depth knowledge of the public sector in the country and has paved the way for a custom-tailored approach in conjunction with other donors. This coordination has allowed the Bank to intervene in areas where it has a comparative advantage and complement others in which partner donors have been working extensively.

Problem identification was grounded in a series of consultations: (i) with key members of the private sector on public sector bottlenecks to the business environment; (ii) a week long learning series in customs; (iii) a development dialogue series on public sector investment planning with civil society; and (iv) a government-wide stakeholder consultation on the overall project.

The intervention proposed by this project reinforces GoJ's and other development partners efforts to strengthen fiscal discipline and improve capacity to create more fiscal space for new spending initiatives without commensurately increasing aggregate expenditure. In this sense, Components 1 and 2 of this project for example will help authorities control expenditures and spend more efficiently through eliminating the PFM-based constraints, distortions and factors limiting growth such as inefficient budgeting processes, insufficient control over public expenditure and the public investment planning process, and weak links between government priorities, planning, and budget. The proposed operation recognizes that complementation capability is limited and therefore draws from this experience through a proper sequencing of discrete interventions to enhance public sector efficiency and performance to enable fiscal consolidation, growth and productivity. However, the team also recognizes limitations in driving growth, which have determined that this project has been designed to modernize the public sector with the vision that this will stimulate the private sector, which could possibly drive growth.

The preparation of this project closely considered complementarity with other development partners' activities. This will support a comprehensive program of fiscal adjustment and growth enhancing structural reforms; in this sense, the project is broadly aligned with the fiscal consolidation framework and structural benchmarks identified in the IMF EFF program. Additionally, the TA in the project is anticipated to be provided in tandem with the IMF program timeline to support activities that will enable to meet the structural benchmarks.
This complementarity with the IMF has further been strengthened with a continued collaboration across IMF and WB public financial management initiatives. The Fund incorporated in its second review the adoption of a budget calendar, which the GOJ developed through technical assistance of a DFID funded PFM trust fund managed by the World Bank. Strengthening budget processes and the Public Investment System (PIM) will help improve aggregate fiscal discipline. Going forward, this complementarity is expected to continue with the objective of strengthening results across actions envisaged by different development partners.

II. Proposed Development Objectives
The Project Development Objective (PDO) is to strengthen public resource management and support select public sector institutions in improving an enabling environment for private sector growth.

III. Project Description

Component Name
Strengthening Public Investment Management System (PIMS)
Comments (optional)

Component Name
Strengthening Budget Preparation Process and Result Based Budgeting
Comments (optional)

Component Name
Adaptive Public Sector Approaches
Comments (optional)

Component Name
Property Tax
Comments (optional)

Component Name
Fostering Industrial Growth and Trade Facilitation
Comments (optional)

IV. Financing (in USD Million)

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V. Implementation
Implementing Agency: The implementing agency will be the Ministry of Finance of Jamaica. The Financial Secretary (FS) via the Implementation Council will be the overall responsible person for the implementation of all the components and to ensure coordination among all the institutions and agencies partaking in this intervention. The MOF will produce an Operational Manual prior to effectiveness of the loan that will define responsibilities, roles and coordination arrangements for all agencies involved and will outline how the proposed activities will ensure the attainment of the Project Development Objectives (PDOs).

VI. Safeguard Policies (including public consultation)

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Comments (optional)

VII. Contact point

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Borrower/Client/Recipient
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Email:

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