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PROGRAM DOCUMENT

ON A PROPOSED LOAN

IN THE AMOUNT OF US$100 MILLION

TO

JAMAICA

FOR A

SECOND PROGRAMMATIC FISCAL SUSTAINABILITY

DEVELOPMENT POLICY LOAN

August 5, 2011

Poverty Reduction and Economic Management
Caribbean Countries Management Unit
Latin America and Caribbean Region

JAMAICA — GOVERNMENT FISCAL YEAR
April 1 – March 31

CURRENCY EQUIVALENTS
US$1.00 = J$85.86
(as of July 21, 2011)

WEIGHTS AND MEASURES
Metric System

SELECTED ABBREVIATIONS AND ACRONYMS

AAA	Analytic and Advisory Assistance	IFI	International Financial Institution
AG	Attorney General	IFMIS	Integrated Financial Management Information System
BoJ	Bank of Jamaica	IMF	International Monetary Fund
CAP	Clarendon Alumina Partners	IRC	International Rice Commission
CAR	Capital Adequacy Ratio	JDX	Jamaica Debt Exchange
CARTAC	Caribbean Technical Assistance Center	JLP	Jamaica Labor Party
CAS	Country Assistance Strategy	LAC	Latin America and the Caribbean
CCT	Conditional Cash Transfer	MDA	Ministries, Departments, and Agencies
CDB	Caribbean Development Bank	MoFPS	Ministry of Finance and the Public Service (Ministry of Finance as of July 1, 2011).
CEM	Country Economic Memorandum	MoF	Ministry of Finance
CFAA	Country Financial Accountability Assessment	MTDS	Medium-Term Debt Management Strategy
CIDA	Canadian International Development Agency	MTEF	Medium-Term Expenditure Framework
CPAR	Country Procurement Assessment Review	MTF	Medium-Term Framework
CPI	Consumer Price Index	NEPA	National Environmental Planning Agency
CPS	Country Partnership Strategy	NIR	Net International Reserves
CTCS	Caribbean Technical Consulting Services	NIS	National Insurance Scheme
CTMS	Central Treasury Management System	PATH	The Programme for Advancement through Health and Education
DBJ	Development Bank of Jamaica	PAYE	Pay-As-You-Earn
DFID	U.K. Department for International Development	PBL	Policy-Based Lending
DMU	Debt Management Unit	PBMA	Public Bodies Management and Accountability
DPL	Development Policy Loan	PDVSA	Petróleo de Venezuela S.A.
ET	Enterprise Team	PED	Public Enterprise Division
EU	European Union	PEFA	Public Expenditure and Financial Accountability
FAA	Financial Administration and Audit Act	PER	Public Expenditure Review
FPP	Fiscal Policy Paper	PFM	Public Financial Management
FRF	Fiscal Responsibility Framework	PHJL	Pegasus Hotels of Jamaica Limited
FSDPL1	First Programmatic Fiscal Sustainability DPL	PIOJ	Planning Institute of Jamaica
FSDPL2	Second Programmatic Fiscal Sustainability DPL	PSTU	Public Sector Transformation Unit

GCT	General Consumption Tax	SBA	Stand-By Arrangement
GDP	Gross Domestic Product	SCT	Special Consumption Tax
GOJ	Government of Jamaica	SDR	Special Drawing Rights
HRMIS	Human Resource Management Information System	TA	Technical Assistance
IADB	Inter-American Development Bank	TAJ	Tax Administration Jamaica
IBRD	International Bank for Reconstruction and Development	UDC	Urban Development Corporation of Jamaica
IDA	International Development Association	UNDP	United Nations Development Programme
IFC	International Finance Corporation	USAID	U.S. Agency for International Development

Regional Vice President	Pamela Cox
Country Director	Françoise Clottes
Sector Director	Rodrigo A. Chaves
Sector Manager	Oscar Calvo-Gonzalez (Acting)
Sector Leader	Auguste Tano Kouame
Task Team Leaders	Denis Medvedev / Zafer Mustafaoglu

JAMAICA

SECOND PROGRAMMATIC FISCAL SUSTAINABILITY DPL

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This DPL was prepared by a team led by Denis Medvedev and Zafer Mustafaoglu. The core team included Rohan Longmore, Elizabeth Currie, Kathy Lalazarian, Roland Clarke, M. Mozammal Hoque, Enos Esikuri, Michiel Paris, Santiago Florez Gomez, Mariano Lafuente, Juliet Williams, Patricia Chacon Holt, and Florencia Liporaci. The team gratefully acknowledges the support and guidance of Françoise Clottes, Yvonne M. Tsikata, Rodrigo A. Chaves, Marcelo Giugale, Oscar Calvo-Gonzalez, Auguste Tano Kouame, Giorgio Valentini, and Badrul Haque. The peer reviewers were Brian R. Pinto (PRMVP), Vera Songwe (MDO), Jorge Thompson Araujo (MNSPR), and Eriko Togo (PRMED).

Loan and Program Summary
Jamaica

Second Programmatic Fiscal Sustainability Development Policy Loan

Borrower:	Jamaica
Implementing Agency:	Ministry of Finance
Financing Data:	*IBRD Loan Amount:* US$100 million *Terms:* A US Dollar denominated, commitment-linked, Flexible Loan with a Fixed Spread, with a custom repayment profile resulting in a 9.5 year Grace Period and 18.5 years Final Maturity, with all conversion options selected and payable on May 15 and November 15 of each year.
Operation Type:	Second of two programmatic single-tranche Development Policy Loans (DPL)
Main Policy Areas:	The proposed operation supports Government efforts aimed at: (i) enhancing fiscal and debt sustainability; (ii) increasing the efficiency of public financial management and budgeting processes; and (iii) improving the effectiveness and efficiency of the tax system.
Key Outcome Indicators (March 2012):	(i) 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; (ii) 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; (iii) The Government has fully implemented the new methodology for evaluating capital investments in six pilot ministries; (iv) The six pilot Ministries, Departments, and Agencies (MDAs) have submitted their Medium-Term Expenditure Framework (MTEF); (v) Improved PEFA rating of "Collection of tax payments" to B in FY2010/11 from a baseline of: D+ in 2007/08.
Program Development Objectives and Contribution to CPS:	The Program Development Objectives are: • *Enhancing 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. • *Increasing the efficiency of financial management and budget 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. • *Reducing distortions and enhancing the 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. These efforts are particularly important for improving fiscal balances to create space for productive expenditures and help foster growth in the medium term. *Contribution to the Country Partnership Strategy (CPS):* The proposed DPL is fully consistent with the current World Bank Group CPS (2010-2013).

Risks and Risk Mitigation:	*There are four significant risks to the program supported by the proposed FSDPL2:* **Economic:** Downside risks to the global economy could jeopardize the recovery in tourism and remittances and adversely affect credit markets and the reserve coverage. Growth is expected to be modest in the medium term and a slower recovery or adverse shocks could weaken fiscal balances and reduce the ability of the Government to continue implementing critical medium term reforms. The recent public sector salary increase, mandated by a Supreme Court decision, has further raised the wage bill to GDP ratio. The delays in completing reviews under the IMF program could affect progress towards medium-term fiscal targets. *Mitigation: Since Jamaica is vulnerable to external shocks, prospects for mitigation are limited. However, following the debt exchange and the Stand-By Arrangement (SBA) with the IMF, external vulnerabilities have been reduced. Although the IMF reviews are delayed, the Government maintains a close dialogue with the IMF and is committed to medium-term fiscal sustainability. The Government is preparing a supplementary budget to finance the salary increase and is working to ensure the longer-term sustainability of the wage bill. The Bank will continue to monitor the situation through macro-monitoring and country dialogue.* **Political:** The Government has a small majority in Parliament. Although new elections are not due until 2012, they could take place earlier. If political pressures were to increase, the Government may postpone necessary but potentially unpopular measures and some discretionary actions could be reversed. Recent security events have highlighted the sometimes fragile nature of the social compact in the country. *Mitigation: The political risk is reduced by the Government's consultative approach to reform implementation and the broad agreement among all stakeholders that the pre-reform status quo was unsustainable. The Government is committed to addressing security challenges by developing and implementing a national safety and security strategy. The IFIs and other donors are heavily focused on building consensus for advancing critical public sector reforms.* **Institutional capacity and reform implementations:** The Government's reform program requires significant enhancement of institutional capacity. There may also be short-term delays in reform implementation if the Government decides to wait for the conclusion of the discussions on the draft Public Sector Rationalization plan of the Public Sector Transformation Unit (PSTU). *Mitigation: Jamaica has well established institutions. The Government is committed to reform and the development partners are committed to providing support and technical assistance. The Bank has signed an agreement with DFID and secured £920,000 for technical assistance on institutional development including restructuring of the Debt Management Unit and Parliamentary oversight of public financial management.* **Natural disasters and climate change:** Jamaica is highly vulnerable to natural disasters, in particular to droughts, floods, and hurricanes. The most recent tropical storm Nicole caused a fiscal cost of one percent of the GDP to the Government. *Mitigation: The damage to major private sector enterprises is partly covered by private insurance and the Government participates in the Caribbean Catastrophe Risk Insurance Facility. The Bank is assisting Jamaica through investments in natural disaster risk mitigation. With joint support from the WB and IADB, the Government is preparing a strategic program for climate adaptation under the Pilot Program for Climate Resilience (PPCR).*
Operation ID No.	P123241

IBRD PROGRAM DOCUMENT FOR A PROPOSED SECOND PROGRAMMATIC FISCAL SUSTAINABILITY DEVELOPMENT POLICY LOAN TO JAMAICA

I. INTRODUCTION

1. **This program document describes the proposed single-tranche Second Programmatic Fiscal Sustainability Development Policy Loan (FSDPL2) in the amount of US$100 million for Jamaica.** The proposed operation builds on the progress made under the Bank's previous Fiscal and Debt Sustainability DPL (January 2009, P101321) and the First Programmatic Fiscal Sustainability DPL (FSDPL1, February 2010, P113893). 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 reform program rests on three pillars: (i) enhancing fiscal and debt sustainability; (ii) increasing the efficiency of public financial management and budgeting processes; and (iii) reducing distortions and enhancing the efficiency of the tax system. Reflecting the most pressing concerns at the time of operation preparation, the focus of the Government's program has been primarily on the first pillar of fiscal and debt sustainability. However, the Government of Jamaica (GoJ) has made significant progress towards achievement of its objectives in each of these three areas, despite the difficult external environment and the slow pace of recovery from the adverse effects of the global crisis.

2. **The GoJ remains committed to its medium term reform program under a challenging environment.** The GoJ recognizes the importance of improving macroeconomic stability and paving the way for accelerated growth while protecting the poor. To this end, the GoJ has developed a well-articulated medium-term economic program to improve fiscal sustainability, reduce the debt overhang, and accelerate growth, while maintaining and even expanding social spending to protect the most vulnerable groups. Despite the challenges created by the severe impact of the global crisis, the security events in May/June 2010 and the tropical storm Nicole in September 2010, the GoJ remained committed to its reform agenda.

3. **The macroeconomic environment was strengthened substantially by the successful implementation of Government's reforms.** The Jamaica Debt Exchange (JDX), supported under the FSDPL1, was a success with a participation ratio of 99.2 percent. The JDX contributed to a reversal of exchange rate depreciation and lowered interest rates and inflation. The nominal interest rates on Treasury Bills have fallen to the lowest levels in the last thirty years, reflecting the improved confidence in the Jamaican economy and the Government's program. The fiscal and macroeconomic environment was further strengthened by the adoption of the Fiscal Responsibility Framework (FRF) and a series of tax reforms aimed at increasing revenue collection.

4. **The reform program of the GoJ received broad support from the International Financial Institutions (IFIs), including the World Bank, the International Monetary Fund (IMF), and the Inter-American Development Bank (IADB)**. Jamaica has successfully completed the first three reviews under the 27-month IMF Stand-By Arrangement (SBA),

approved in February 2010 in the amount of SDR820.5 million (300 percent of quota). Completion of the third review on January 14, 2011, enabled the disbursement of SDR 31.9 million (US$49.3 million), bringing total disbursements to SDR 541.8million (US$838.2 million). Although the completion of the fourth and fifth reviews has been delayed, discussions between the Government and the IMF are ongoing. The World Bank increased its budgetary support envelope to Jamaica to US$400 million, with half of these resources disbursed under the FSDPL1. The GoJ also received US$600 million in budget support from the IADB in 2010, with the most recent disbursement of US$200 million coming on December 17, 2010, via a Policy-Based Loan (PBL). The Caribbean Development Bank (CDB) disbursed US$33.3 million in February 2009 and US$33.3 million in April 2010, representing the first two tranches of a US$100 million PBL approved in December 2008. The broad support by the donor community has helped boost confidence in Jamaica in the international markets and has given the GoJ important breathing room to continue the implementation of its ambitious reform program.

5. **The IFI's continue to 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 IADB. 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 IADB 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.

6. **The proposed FSDPL2 is rooted in the Country Partnership Strategy (CPS) of the World Bank Group**. Fiscal and debt sustainability—the focus of the proposed FSDPL2—are the main components of the macroeconomic stability pillar in the 2010-13 CPS (Report No. 52849), which was presented to the Board on March 23, 2010. The proposed FSDPL2 is envisaged in the CPS as the second of the two programmatic single tranche operations designed to support the GoJ reform efforts in this area.

II. COUNTRY CONTEXT

A. Political Context

7. **Jamaica has been a stable parliamentary democracy since its independence in 1962, with freedom of expression and well-established traditions of democratic participation**. Politics have historically been dominated by two main parties—the People's National Party (PNP) and the Jamaica Labour Party (JLP). The current Government was elected in late 2007 on a manifesto to improve fiscal and debt situation, curb corruption, create jobs, and reduce crime and violence through strengthening the governance framework. The GoJ embarked on an ambitious reform program and introduced a number of measures aimed at reducing debt and controlling the debt generating process which should provide the necessary fiscal space to advance the country's overall development objectives. The next elections are constitutionally due in 2012 although in practice they could be called earlier.

B. Economic Context

8. **Jamaica is a small open economy with good social indicators but major challenges from low growth, natural disaster vulnerability, and high debt**. Jamaica is the largest English-speaking country in the Caribbean with a population of 2.7 million and per capita income of US$4,972 in 2010. Life expectancy is high at 73 years and poverty reached a low of 9.9 percent of population in 2007. However, poverty spiked to an estimated 17.6 percent of population in 2010 (a third consecutive year of increases) due to the severe economic contraction following the global crisis. Despite a number of advantages—including rich natural resource endowments, close proximity to the United States (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.

Table 1: Key Economic Indicators FY2006/07 - FY2013/14

						Projections		
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
GDP and prices								
Real GDP (percent change)	3.2	0.6	-1.7	-2.5	-0.6	1.8	2.5	2.9
Nominal GDP (in billions of J$)	815	923	1,028	1,112	1,227	1,339	1,449	1,558
Consumer price index (end of period)	8.0	19.9	12.4	13.3	7.8	7.0	5.5	5.5
Government operations (percent of GDP)								
Budgetary revenue	26.0	27.5	26.9	27.0	25.6	26.4	26.1	26.4
Tax	23.7	24.5	24.4	24.1	22.8	23.6	23.9	24.2
Non-Tax	2.1	2.5	1.7	2.4	2.0	2.0	1.4	1.4
Grants	0.2	0.5	0.7	0.6	0.8	0.8	0.8	0.8
Budgetary expenditure	30.9	31.3	34.3	37.9	31.9	30.7	29.6	29.3
Primary expenditure	19.0	19.6	22.0	20.9	21.2	21.4	21.1	21.3
Wages and salaries	9.7	9.4	10.9	11.4	10.4	10.7	10.5	10.4
Program Expenditure	5.9	7.1	7.1	6.5	6.3	6.4	6.7	6.9
Capital expenditure	3.4	3.1	4.0	3.1	4.5	4.3	4.0	4.0
Interest payments	11.9	11.6	12.3	17.0	10.6	9.4	8.5	8.0
Domestic	8.7	8.2	8.8	13.0	7.4	6.2	5.9	5.7
External	3.3	3.5	3.5	3.9	3.3	3.2	2.5	2.2
Budget Balance	-4.9	-3.8	-7.4	-10.9	-6.2	-4.3	-3.8	-2.8
Primary fiscal balance	7.1	7.9	4.9	6.1	4.4	5.0	5.0	5.1
Off-budget expenditure	1.5	1.1	-0.7	0.0	0.0	0.0	0.0	0.0
Public entities balance	0.0	-3.4	-2.6	-1.6	-0.5	-0.8	-0.2	0.0
Public sector balance	-6.3	-8.3	-9.2	-12.5	-6.7	-5.2	-3.7	-2.8
Public debt [1]	117.1	114.2	126.1	140.0	139.4	135.6	130.5	125.8
External sector (percent of GDP)								
Current account balance	-9.7	-18.4	-18.4	-7.6	-7.9	-8.7	-7.8	-5.8
Of which: exports of goods, f.o.b.	17.9	18.3	17	11.2	10.2	13.8	13.6	13.4
Of which: imports of goods, f.o.b.	42.3	50.4	50	35.6	33.9	37.9	36.9	35.7
Net international reserves (millions of US$)	2,329	2,083	1,629	1,762	2,549	2,196	2,088	2,108

[1] Includes public, publicly guaranteed, and PetroCaribe debt.

Source: IMF and World Bank staff.

9. **Low growth despite high rates of investment has been a major challenge for Jamaica.** Real Gross Domestic Product (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). Several studies attempted to explain this puzzling combination of high investment and low growth by: (i) potential errors in measuring GDP growth; (ii) high replacement investment due to chronic natural disasters; (iii) distorted capital accumulation due to high crime; (iv) insufficient public investment due to debt overhang; and (v) large investment in construction, a large part of which could be unproductive. None of these factors explain the puzzle, and a new World Bank Country Economic Memorandum has instead focused on low productivity due to crime, human capital deficiencies, and fiscal distortions (Box 1).

Box 1: Low Growth in Jamaica: Disappointing Performance due to Low Productivity

The findings of a new World Bank Country Economic Memorandum for Jamaica (Report No. 60374-JM) indicate that the disappointing economic performance is a case of low productivity. Total Factor Productivity (TFP) in Jamaica was growing above the world and regional averages in the 1960s but collapsed in the 1970s. Estimates for 1992-2008 show that labor productivity was negative in eight of 10 sectors of activity in Jamaica and it was positive but negligible in manufacturing and transport and communication. Jamaica's TFP per worker also lags significantly behind most other countries in the Latin American and the Caribbean region. Low TFP is also a major factor explaining the income gap between Jamaica and the US. Analysis shows that between 40 and 60 percent of the income disparity between the two countries is due to differences in TFP.

Main causes of Jamaica's low productivity are: (i) high crime rates; (ii) deficiencies in human capital; and (iii) fiscal distortions.

- Crime is the most evident and severe problem in Jamaica. Crime severely limits growth, leading to a vicious circle as low growth further increases crime and higher crime rates further reduce growth. Crime erodes political stability and makes rule of law a critical area of concern. It has a negative effect on human capital, creating incentives for migration. It constrains business expansion and diverts resources from productive activities to crime protection. Because of crime and other structural conditions, investment in Jamaica tends to flow into isolated activities. All-inclusive resorts, mining, and Export Free Zones are the best examples of this "enclave" development model with its low spillovers. A 2007 United Nations–World Bank study (Report No. 37820) illustrates the link between growth and lower crime rates. It states that Jamaica could experience an annual increase of 5.4 percent in per capita GDP if it cut crime rates to the levels prevailing in Costa Rica.

- The available evidence shows that Jamaica has a low level of human capital, with poor quality of education and insufficient training of its labor force, despite the country's efforts. From 1995 to 2008, Jamaica saw an increase in enrollment rates in both secondary and tertiary level education, however existing quality indicators put Jamaica below the Caribbean region average. There is also evidence that human capital is a scarce factor because private returns to schooling and private returns to training are extremely high, and have not declined in recent years. Jamaica also has challenges in retaining its qualified workers because of the brain drain process. The migration rate of qualified workers has increased. In general, it is believed that the people who migrate are more able, more entrepreneurial and less risk averse. The country therefore loses very important assets for productivity, innovation and entrepreneurship via migration. The Jamaican labor market is flexible but substantial deficiencies exist in the skill content of the labor force. Skill formation through schooling, job training, and learning-by-doing is critical to labor productivity and economic growth. A large portion of the Jamaican labor force has no formal training. In 1995, as much as 80 percent of the labor force indicated that they had no formal training. In 2008, the figure remained high at 72 percent. The combination of low educational attainment and low levels of training suggests an overall low quality of the human capital.

- Jamaica's fiscal policies and budget-management practices and policies constrain fiscal consolidation. Inconsistent, complex tax policy with numerous exemptions and special privileges has reduced tax revenue by an estimated 20 percent, significantly affecting the GoJ's spending capacity. The complex system of taxes and incentives also creates distortions for the allocation of capital and lowers investment productivity. High debt-servicing costs and a high wage bill have reduced the fiscal space available for productivity enhancing public spending, including public investment which is complementary to private investment and expenditure on education and health. Underlying institutional and political economy factors are major impediments to strengthening fiscal and expenditure policy and management of public finances. Existing rules and organizational structures have not supported the required fiscal discipline. From a political economy perspective, the relatively sharp division of the country into opposing political camps has made it difficult to reach a national consensus and make binding commitments.

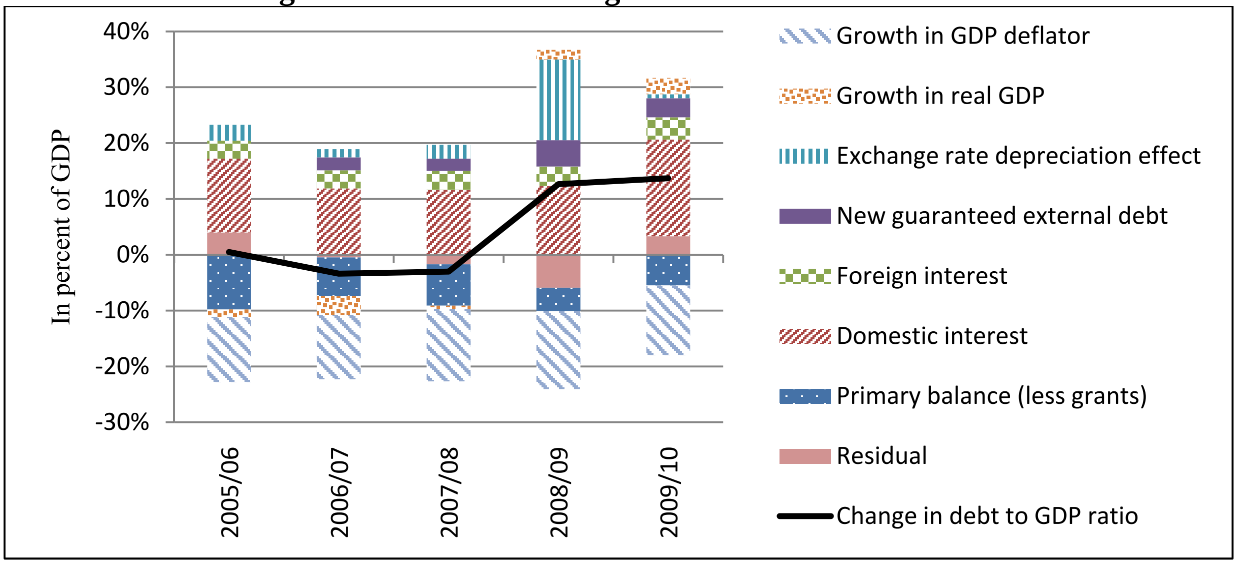
10. **Vulnerability to natural disasters and climate change has been a second major challenge.** The coastal zone in Jamaica is home to two-thirds of the population and an estimated 75 percent of industries, critical infrastructure and service sector, which altogether account for 80-90 percent of GDP. These assets and the production capacity are frequently threatened by natural disasters and climate change, with most of the damage concentrated on critical infrastructure such as roads. The 2007 Hurricane Dean left J$23.8 billion in damages while the 2008 Hurricane Gustav caused losses of J$15.2 billion. The Planning Institute of Jamaica (PIOJ) estimates the damage from the September 2010 Tropical Storm Nicole at J$20.5 billion.

11. **High debt is another important constraint in Jamaica, which has been among the most indebted countries in the world for more than two decades.** The public sector debt-to-GDP ratio has averaged over 100 percent from FY1990/91 to FY2007/08. Debt declined to 80 percent of GDP in FY1996/97 through a concerted effort of sustained fiscal surpluses exceeding 10 percent of GDP. However, it rose thereafter due to the 1996 financial crisis and the GoJ's subsequent decision to bail out all depositors at an estimated cost of 40 percent of GDP. After peaking at 125 percent of GDP in FY2002/03, the Government debt (excluding PetroCaribe and domestic guaranteed debt) started to decline and reached 109 percent of GDP by FY2007/08. Since then, the adverse impact of the global crisis—in particular the rise in domestic interest expenditures, sharp currency depreciation in FY2008/09, and the severe GDP contraction—caused the debt to rise to 129 percent of GDP by FY2009/2010. Including all public, publicly guaranteed, and PetroCaribe debt—the definition of public debt used by the IMF—the debt-to-GDP ratio reached 140 percent (Figure 1).

12. **The history of high debt is related to a high public sector wage bill, weak budget control leading to chronic deficits, and contingent liabilities arising from a large number of weakly regulated public bodies.** The Government is among the largest employers in Jamaica, with its nearly 120,000 workers accounting for more than 10 percent of total employment. Since the mid-1990s, the public sector wage bill has fluctuated between 10 and 12.5 percent of GDP and the wage negotiation process has been fragmented with large number of bargaining units leading to staggered wage negotiations and salary increases. Although the central government has been able to record large primary surpluses despite the fiscal pressure from the wage bill, these surpluses have been insufficient for a sustainable fiscal consolidation. For instance, in FY2007/08 the primary surplus amounted to 7.8 percent of GDP, but the overall central government balance was an almost 4 percent deficit due to high interest expenditures. The public

bodies balance widened the deficit by another 3.4 percent of GDP and off budget expenditures were 1.1 percent of GDP. Consequently, the 7.8 percent of GDP primary surplus gave way to an aggregate public sector deficit of 8.2 percent of GDP. The Government has also had to take on the liabilities created by the public bodies.

Figure 1: Drivers of Change in the Debt to GDP Ratio



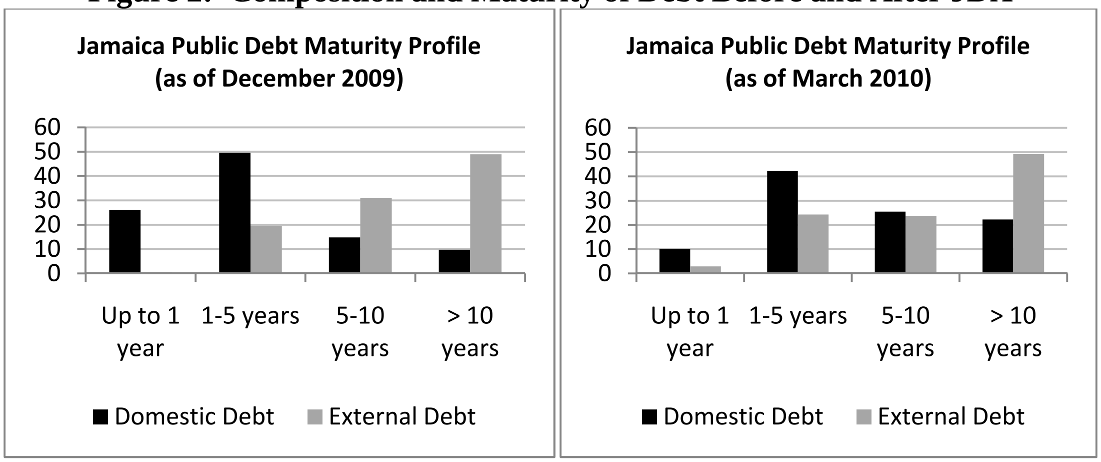
Source: World Bank Staff calculations.

13. **In order to improve the debt profile and increase debt sustainability, the GoJ launched the Jamaica Debt Exchange (JDX) on January 14, 2010.** The JDX had three primary objectives: (i) improve the maturity profile of domestic debt, of which 40 percent was due to mature in less than 24 months; (ii) reduce the interest expenses, which at end-2009 represented 15.9 percent of GDP and accounted for an average of 60 percent of GoJ's revenues annually; and (iii) reduce the variable-rate portion of domestic debt. The JDX, which closed on February 24, 2010, was a voluntary exchange covering all domestically issued bonds (excluding Treasury Bills) and involved the consolidation of 345 securities into 25 new benchmark bonds with longer maturity and lower coupons. The total value of the offer was J$700.0 billion or 65.0 percent of GDP. The offer was executed as a par-for-par exchange of principal amounts and non-participating securities were called. The exchange was broadly endorsed by the multilateral agencies, including the IMF, IADB, the CDB, and the World Bank, who together committed US$2.4 billion to the Government's reform program.

14. **The JDX recorded a participation rate of 99.2 percent and resulted in notable improvements in the maturity profile and composition of the domestic debt as well as decline in coupon rates.** The average maturity of the domestic debt after the JDX increased to 8.9 years from 4.5 years, lowering pressures on interest rates and improving the Government's ability to respond to shocks (Figure 2). In particular, the portion of domestic debt due in FY2010/11 fell from 26 percent to 10 percent. The share of domestic bonds attributable to fixed rate instruments increased to 38 percent from 34 percent, while the newly introduced CPI-linked bonds accounted for 3 percent. The share of domestic debt priced in US dollars fell to 11 percent from 12 percent. The JDX was also successful in lowering the variable rate portion of the domestic debt by 6.0 percentage points to 48 percent. The average coupon on outstanding

Jamaican and US dollar domestic debts came down to 12.5 percent and 7 percent, respectively. This reflected a decline of 650 basis points (bps) and 200 bps respectively. At the time of the operation, the JDX was estimated to have reduced the net present value of the debt by about 20 percent due to fall in interest rates and extension of maturities.

Figure 2: Composition and Maturity of Debt Before and After JDX



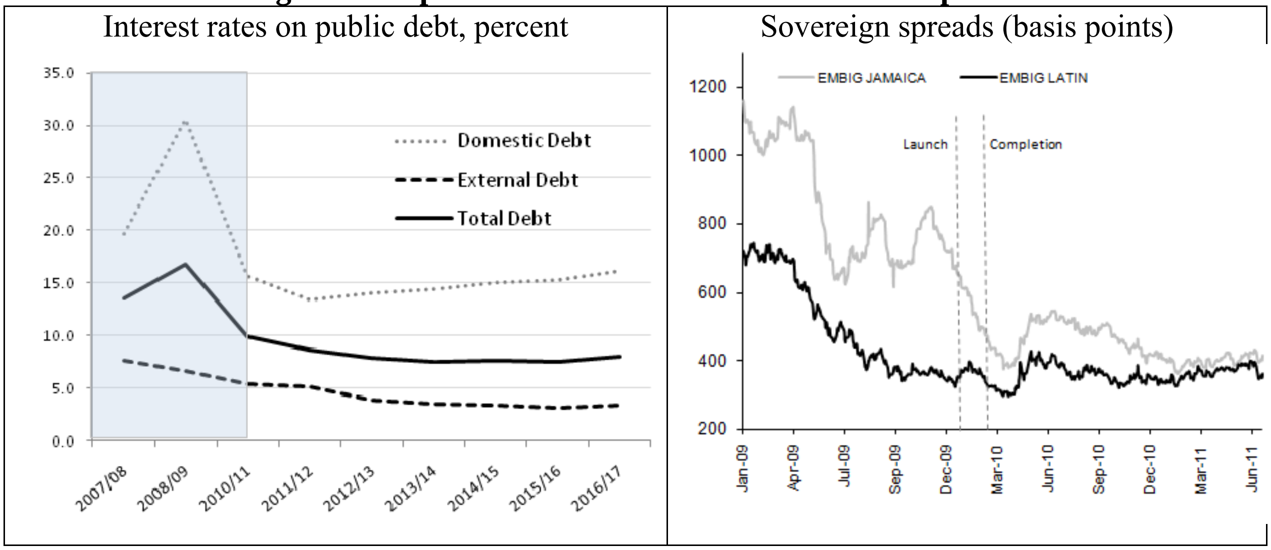
Source: World Bank Staff calculations.

C. Recent Economic Developments

15. **The success of the JDX generated significant improvements in the macroeconomic environment through substantial interest savings, reversal of currency depreciation, and a reduction in risk premia**. The JDX is estimated to have generated annualized interest savings of 5 percent of GDP in FY2010/11, representing a decline of 34 percent in first year of implementation (Figure 3). The exchange rate appreciated by 5.5 percent between January 2011 and March 2010, reflecting increased investor preference for Jamaica dollar securities. This was the sharpest appreciation since 1997 and compares favorably with annual average depreciation of 8.6 percent in the previous 10 years. Moreover, Jamaica sovereign spreads fell to 113 basis points after the JDX from 377 basis points in the five months before (Figure 3). Moody's, Fitch, and Standard & Poor upgraded their ratings on Jamaican sovereign foreign currency bonds from Caa1, CCC, and SD in the months before and during the JDX to B3, B- and B- with a stable outlook. These developments contributed to the interest rates on Treasury Bills having fallen to the lowest levels in thirty years.

16. **The balance sheets of financial institutions have remained robust after the JDX despite substantial holdings of Government debt.** There have been no requests for support from the Financial System Support Fund (FSSF) which was created to provide temporary assistance to institutions in the event of liquidity and capital needs resulting from the JDX. As of March 2011, the capital adequacy ratio (CAR) – a solvency indicator – of the banking system stood at 17.6 percent, just above the 17.4 average of the past two years. Nonetheless, both the JDX and the slow recovery in the domestic economy had some impact on the financial system. Following average annual growth of 22 percent since 2007, credit to private sector contracted by 2.3 percent in March 2011. In addition, the ratio of non-performing loans to total loans rose to 7.5 percent from 5.5 percent in March 2010.

Figure 3: Impact of JDX on interest rates and risk premia



Source: World Bank Staff calculations

17. **Despite remaining weaknesses, the Jamaican economy appears to be recovering from the adverse effects of the global crisis.** Real GDP contracted by 2.5 percent in FY2009/10, which was 1.1 percentage points better than expected. In the last quarter of FY2010/11, real GDP expanded by 1.4 percent (year-on-year), limiting the contraction for the entire year to 0.6 percent. Although the recovery has been slowed by the tentative pace of rebound in the global economy and the adverse effects of Tropical Storm Nicole in September 2010, growth is forecasted to continue improving. Despite an end of the year spike in oil prices, the current account deficit widened marginally from 7.6 to 7.9 percent of GDP, owing mostly to increased tourist arrivals, higher remittances, and a slowdown in profit transfers.[1] Annual inflation has slowed to 7.8 percent from 13.3 percent a year ago, prompting the Bank of Jamaica (BoJ) to reduce its benchmark interest rates.[2] The public sector deficit has improved to 6.7 percent of GDP from 12.5 percent in FY2009/10 despite an increase in capital spending due to a containment of interest expenditures as well as improvements in public entities balance. Domestic financing was largely secured through the reopening of existing bonds.

18. **The reserve coverage has been protected with funding from the IMF given declining private capital inflows.** With the help of IMF disbursements and demand for local currency, net international reserves (NIR) increased to US$2.5 billion at the end of FY2010/11. Gross reserves amount to more than 22 weeks of imports goods and services, or more than three times the value of the current account deficit. Gross reserves to short-term external debt increased from 6.4 in FY2008/09 to 11.2 in FY2009/10. However, this ratio declined to 5.4 in FY2010/11 due to additional borrowing by the Government in the course of the year.

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[1] Remittances grew by 6.0 percent in the first quarter of 2011 (year on year) to US$480 million, the highest quarterly outturn since 2008. Total number of visitors increased by 8.1 percent (year on year) in the first two months of 2011.

[2] Effective July 4, the interest rate on the 30-day Certificates of Deposit was 6.5 percent, down from 10 percent in March 2010. The BoJ also reduced the interest rate payable to financial institutions for overnight placements from 0.50 percent to 0.25 percent.

19. **The GoJ has agreed to settle the outstanding wage claims by public sector unions at the total cost of approximately two percent of GDP over the medium term**. In 2008, the GoJ and the unions signed a Memorandum of Understanding (MoU) which provided for a 15 percent public sector salary increase in 2008 and a follow-up increase of 7 percent in 2009. However, the GoJ was unable to pay the 2009 increase due to a difficult fiscal situation (that resulted mostly from the impact of the global financial crisis) and instead instituted a three-year public sector wage freeze. On August 3, 2010, the Supreme Court ruled that the MoU was a binding contract that the GoJ must honor, but did not specify the method or timing of making the payment. Following the decision, the GoJ and the public sector unions reached an agreement on July 7, 2011. This agreement fulfills the legal obligation of the GoJ by raising the public sector payroll by the agreed-upon amount of seven percent in September 2011 and making back payments totaling J$22.4 billion (1.8 percent of last year's GDP) in equal installments over the next three years.[3] In order to finance the additional wage expenditure, the GoJ is preparing a supplementary budget outlining the necessary expenditure cuts and/or revenue measures. This supplementary budget is expected to be presented to Parliament on August 31, 2011.

20. **The GoJ is committed to maintaining social expenditures for protecting vulnerable groups**. Under the challenging environment created by the severe adverse effects of the crisis and the fiscal tightening, the GoJ has protected and even widened the coverage of safety net programs**.** In FY2010/11, the number of beneficiaries of the conditional cash transfer Programme for Advancement through Health and Education (PATH) grew by nearly 39,000 recipients (a 9 percent increase), while the program budget grew by 28 percent. Maintaining social expenditures is also recognized under the IMF-supported SBA.

D. Economic Outlook and Debt Sustainability

21. **The economy is expected to recover gradually over the medium term**. Continued weaknesses in the global environment, combined with the security events in May 2010 and the damage from Tropical Storm Nicole, have limited the recovery potential in the near term. Although the economy returned to positive growth in FY2011/12, given the severe impact of the crisis, the real GDP is only expected to recover to its FY2007/08 level sometime in FY2013/14. As the global environment improves and export revenues strengthen, the current account deficit is expected to narrow in the medium term, reaching 5.8 percent of GDP by FY2013/14 (Table 1). Inflation is expected to continue declining to 5.5 percent by FY2013/14, although significant upside risks exist due to recent food price hikes.

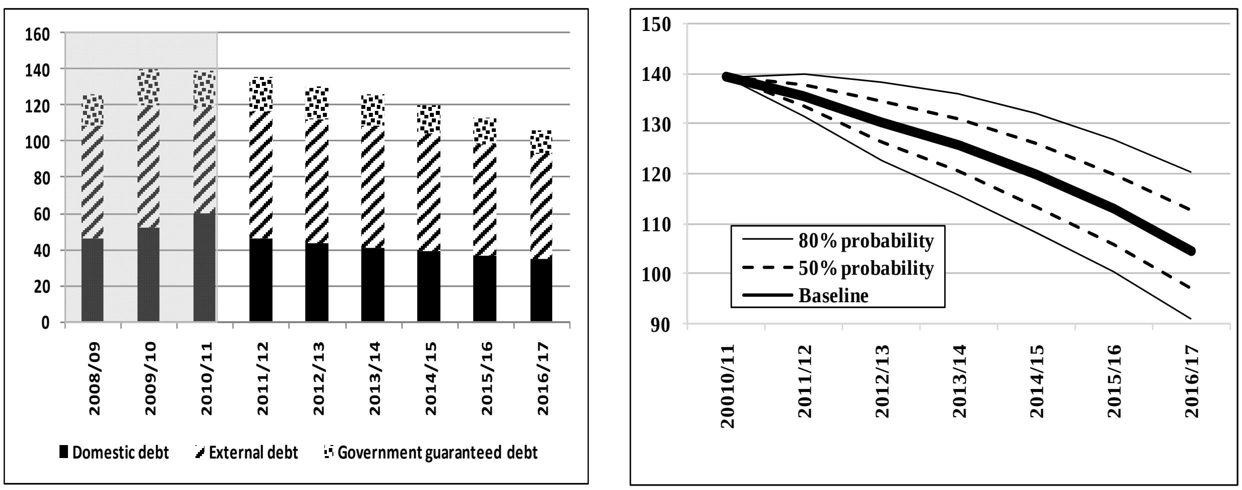
22. **The improvement in fiscal space created by the JDX is expected to be consolidated through strong primary surpluses, low interest expenditures, and stronger control over public bodies balances**. After declining to 4.4 percent of GDP in FY2010/11 due to lower-than-expected revenues, the central government primary surplus is projected to rise to 5.1 percent of GDP by FY2013/14.[4] Domestic interest savings due to the JDX along with lower external interest rates are expected to gradually improve the overall deficit from 6.2 percent of GDP in

[3] At the current exchange rate, each payment would amount to approximately US$49 million.
[4] Additional wage expenditure due to the recent salary increase is expected to be financed by further revenue measures or containment of other expenditures, leaving the primary balance targets unaffected.

FY2010/11 to 2.8 percent in FY2013/14. The net transfers to public bodies are expected to be eliminated by FY2013/14 due to divestiture of large loss-making entities such as Air Jamaica. To support the achievement of fiscal targets, capital expenditure will have to remain prudent at around 4 percent of GDP. However, as the GoJ focuses on increasing the efficiency of capital spending, growth is not expected to suffer.[5]

23. **Due to these efforts, the public, publicly guaranteed, and PetroCaribe debt is expected to fall from 140 percent of GDP in FY2009/10 to under 126 percent by FY2013/14**. Under the baseline scenario of the debt sustainability analysis, which assumes full implementation of the Government reform program, the debt to GDP ratio is projected to fall gradually (Figure 4; also see Annex 7). Lower interest payments following the JDX and economic recovery contribute to the downward debt dynamics. Still, the debt ratio remains vulnerable to external shocks, particularly large exchange rate depreciations. For example, because more than 40 percent of Government debt is denominated in foreign currency, a 30 percent nominal exchange rate depreciation in FY2011/12 could raise the debt to GDP ratio by 17 percentage points.

Figure 4: Debt dynamics in the baseline scenario



Source: World Bank Staff calculations

24. **The debt situation would have been dire had the JDX not been successful.** Scenario A1 in Figure 5 simulates this case assuming low GDP growth (averaging 0.9 percent per year), high real external and domestic real interest rates (5.4 and 8.4 percent, respectively), and a low primary surplus for the entire projection period. Figure 5 shows that the public debt to GDP ratio would have been on an explosive path under this scenario. In the absence of the JDX, the debt ratio could have been improved somewhat if some fiscal consolidation (improving the primary surplus by one percent of GDP) had taken place (Scenario A2). These results highlight the importance of the JDX and the fiscal consolidation program in lowering public debt.

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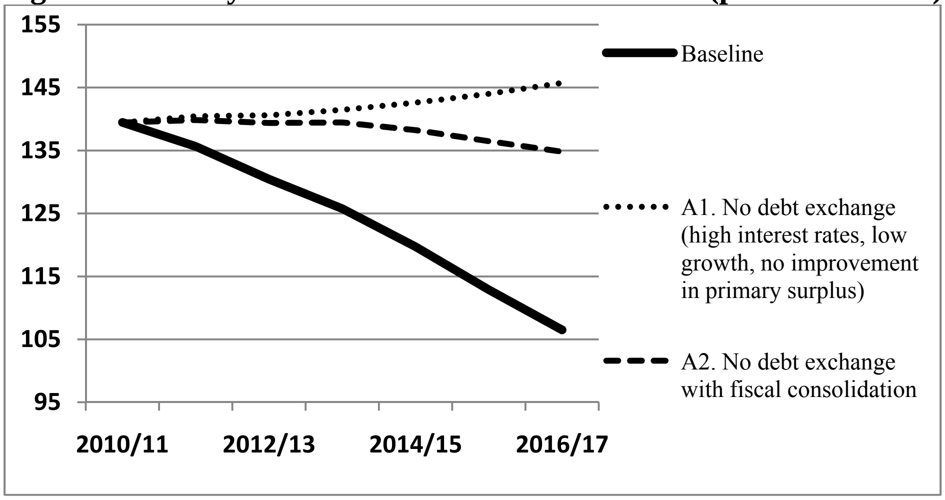
[5] The increased efficiency of government capital spending will be supported, *inter alia*, by the introduction of the investment prioritization methodology in the public sector. See the next section of this Program Document for additional details on the investment prioritization tool.

Figure 5: Debt dynamics with and without the JDX (percent of GDP)



Source: World Bank Staff calculations

25. **Although the debt exchange has considerably lowered refinancing risks, these remain substantial over the medium term.** After having declined dramatically from 26.1 to 14.6 percent of GDP from FY2009/10 to FY2010/11, gross financing needs are expected to remain around this level through FY2013/14 (Table 2). Still, debt service obligations will remain substantially below pre-JDX levels. Official flows—which comprise the bulk of external financing—are expected to diminish over time, while domestic financing sources will become more important. Balance of payments support under the IMF SBA, scheduled to expire in May 2012, could total an additional SDR279 million if the entire quota amount is disbursed.

Table 2: Financing needs

(in percent of GDP)				Projection		
	2008/09	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**
Gross Financing Needs	17.5	26.1	14.6	13.0	16.2	15.1
Primary budget balance	4.9	6.1	4.4	5.0	5.0	5.1
Principal Repayments	10.9	15.2	8.3	8.7	12.0	12.3
External	3.6	2.3	1.9	4.9	3.4	1.4
o.w. official	1.8	1.7	1.4	1.3	1.4	1.1
Domestic	7.2	13.0	6.5	3.7	8.6	10.9
Interest	12.3	17.0	10.6	9.4	8.5	8.0
External	3.5	3.9	3.3	3.2	2.5	2.2
Domestic	8.8	13.0	7.4	6.2	5.9	5.7
Gross Financing Sources	17.5	27.0	17.7	10.4	16.2	15.1
External	5.7	4.6	7.4	2.7	3.4	1.4
o.w. official	3.0	4.5	4.1	2.7	1.4	1.1
Domestic	11.2	22.4	10.2	7.7	12.8	13.7
Divestment + deposit drawdown	0.6	0.0	0.1	0.0	0.0	0.0

Source: IMF and World Bank staff.

26. **Overall, the macroeconomic policy framework is assessed as being adequate for the proposed operation**. Progress continues with the fiscal reform, in spite of the fragile recovery from the adverse effects of the global crisis. Monetary policy has remained prudent and inflation expectations have come down. External balances remain stable while tourism and remittances

have recovered well. The international reserve coverage is strong and the Jamaican authorities remain in close dialogue with the IMF on meeting performance targets under the SBA. At the same time, important challenges remain. Downside risks to the global economic recovery could threaten revenues from tourism and remittances. Similarly, credit markets and the reserve coverage could be adversely affected should international financial conditions deteriorate. The delay in the IMF reviews could affect the progress towards medium-term fiscal targets, although under the current projections Jamaica could still reach its goals of a balanced budget and a debt-to-GDP ratio (excluding PetroCaribe and domestic guaranteed debt) of close to 100 percent of GDP by FY2015/16. While the current improvements in the macroeconomic environment and economic management due to strong commitment of the GoJ to reforms have opened a major window of opportunity, a sustained period of implementation is required for achieving lasting results. The fiscal and debt sustainability reforms are not yet complete and further efforts are needed to permanently reduce the debt-GDP ratio. In particular, efforts to reduce public indebtedness must be based on a three-pronged approach of controlling public sector balances, improving public financial management, and reducing tax distortions and enhancing competitiveness to improve economic growth potential. The Government's program to accomplish these objectives is outlined in the following section.

III. GOVERNMENT PROGRAM: IMPROVING FISCAL SUSTAINABILITY AND GROWTH POTENTIAL

27. **Two interrelated and critical development challenges for the 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.

28. **The combination of high debt and low economic growth created a vicious circle in the past, increasing the challenges for fiscal sustainability**. On one side, high debt burden limited fiscal resources for productive public spending and increased uncertainty in the economy, adversely affecting the Jamaican economic growth. On the other hand, low growth rates reduced government revenues and created a necessity for higher fiscal adjustment, making an already big challenge potentially more difficult to tackle. The GoJ is fully aware of the importance of breaking free from the vicious circle of the past and creating an economic environment conducive to growth.

29. **The GoJ is in the process of defining a comprehensive medium term growth agenda**. The challenge of achieving sustained high growth is big given the poor historical performance. Following the successful implementation of the fiscal responsibility reforms and the debt exchange in 2010, macroeconomic environment and fiscal sustainability improved significantly, allowing the Government to focus more on medium term growth. In this regard, the Cabinet approved an interim framework for a Growth Inducement Strategy in February 2011. The strategy, developed at the PIOJ and closely aligned with the goals of *Vision 2030 Jamaica National Development Plan*, elaborates a set of short- and medium-term measures to jump-start growth over the next three fiscal years. The focal points of the new strategy include job creation, income generation, and increased production and exports through six key components of crime reduction, asset mobilization, competitiveness (including tax reform), business networks, infrastructure, and urban/regional development. The strategy is based on the principles of public-private partnerships, drawing on the lessons learned from the pilot Community Renewal Programme, and plans to use targeted public spending on national works and community development projects to create an enabling environment for private sector participation and growth through direct multiplier effects, provision of public goods (e.g. productivity spillovers from improved infrastructure), and reduction of obstacles to doing business (e.g. crime).

30. **The World Bank is supporting the GoJ growth agenda through both existing projects and projects in the pipeline**. The Bank is financing three ongoing investment projects that help support growth in Jamaica. These are the Jamaica Inner City Basic Services for the Poor project (P091299), the Jamaica Rural Economic Development Initiative (P105122), and the Jamaica Education Transformation Capacity project (P107407). In addition, the recently approved Jamaica Energy Security and Efficiency Enhancement project (P112780) has the objective of increasing energy efficiency and reducing energy cost, thereby improving competitiveness of the country. On the analytical side, the new CEM is specifically focused on growth obstacles in Jamaica (See Box 1). The CEM was delivered to the Government in mid-June 2011 and was launched with a series of dissemination workshops in Kingston, Montego Bay, and Ocho Rios. The recommendations of the new CEM are expected to facilitate a broader discussion on growth agenda in the country.

31. **The GoJ has taken a sequenced approach of focusing on the most urgent and pressing problem of fiscal sustainability first, while laying the foundations for inclusive and sustained growth**. Magnified by the adverse impact of the global crisis, the most pressing challenge for the GoJ in 2009-10 was improving fiscal and debt sustainability while protecting the social gains achieved over the past years. Therefore, the Government reform program under implementation is focused on fiscal and debt sustainability, improving the business environment through establishment of an efficient and equitable tax system, financial system stability, and price stability. The achievement of these goals is expected to also address some of the obstacles that have limited Jamaica's growth performance in the past.

32. **The reform program under implementation rests on three pillars which also form the FSDPL program development objectives**. Given the above-mentioned challenges faced by the GoJ, the natural focus of the reform program has been on the fiscal and debt sustainability pillar, although the Government has made substantial progress in all three areas:

a) *Enhancing 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. New reforms include the enactment and implementation of the Fiscal Responsibility Framework (FRF), submission to Parliament of a new debt management law and improving capacity of the Debt Management Unit (DMU), and divestiture of the largest loss-making Public Bodies.

b) *Increasing the Efficiency of Financial Management and Budget 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. New reforms include the implementation of a new methodology for evaluating investments, introduction of a Medium Term Expenditure Framework (MTEF), and transition to performance auditing.

c) *Reducing Distortions and Enhancing the 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. New reforms include the consolidation of tax agencies into a single Tax Administration Jamaica (TAJ), limiting the issuance of new tax waivers and initiating a comprehensive review of the incentive structure, amalgamation of payroll taxes, and broadening the availability of online services for tax filing and payment.

33. **International experience suggests that countries which successfully resolved debt challenges and achieved fiscal sustainability focused their reform programs on increasing primary balances, strengthening fiscal and financial institutions, minimizing currency risks to the debt stock, and buttressing reserves**. The GoJ reform program, described in more detail below, addresses each of these elements to ensure long-term solvency, increase fiscal space, and contribute to an environment conducive to growth. The FRF, MTEF, and investment prioritization are expected to strengthen the institutional structure, public bodies' rationalization and tax reforms should improve public sector balances, and DMU reforms are anticipated to result in a strategic, risk- and cost-minimizing approach to debt management. In addition to working with the Bank and other donors on these three elements, the GoJ has received support from the IMF in maintaining relatively high levels of international liquidity. In this regard, the GoJ reform program has been designed and implemented based on sound analytic principles in order to maximize the potential of reforms to engender substantive and lasting effects.

34. **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 FSDPL series is fiscal sustainability, reflecting both the reform priorities of the Government and the most 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.

35. **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.

A. Indicative Triggers and Progress in Achieving Expected Outcomes of the Programmatic Fiscal Sustainability DPL Series

36. **The FSDPL2 is proposed as the second of two single-tranche programmatic DPLs and builds on the progress achieved since the previous operations**.[6] The GoJ reform agenda is part of a well-specified medium-term program, and the policy actions and outcome indicators of the proposed operation, as well as those of the 2009 Fiscal and Debt Sustainability DPL and the 2010 FSDPL1, have been sequenced to match the GoJ's phased approach to reforms. The preparation of the FSDPL2 commenced once the GoJ achieved significant progress on the five indicative triggers agreed upon in the FSDPL1 (Table 3). In the course of the policy dialogue between the GoJ and the Bank, three of the five triggers were revised and another trigger, once completed, was split into two separate prior actions (Table 3).

Table 3: Status of indicative triggers for the FSDPL2

Indicative Triggers ***numbered in order of presentation in the Policy Matrix of the FSDPL1***	**Prior Actions under the FSDPL2** ***numbered in order of presentation in the Policy Matrix of the FSDPL2 (Annex 1)***
(1) Amendments to Financial Administration and Audit Act and the Public Bodies Management and Accountability Act have been enacted and the Fiscal Responsibility Framework (FRF) is being fully implemented. ***Status:*** Completed by the Government.	(1) (a) The Borrower has introduced a fiscal responsibility framework into its legislation, as evidenced by the enactment, by the Borrower's Parliament of: (i) the FAA (Amendment) Act which amends the FAA Act to, *inter alia*, ensure accountability for applying principles of prudent fiscal management; and (ii) the PBMA (Amendment) Act which amends the PBMA Act to, *inter alia*, increase the transparency and comprehensiveness of data on fiscal operations presented to the Borrower's Parliament; and (b) The Borrower has started to implement the fiscal responsibility framework described in the FAA (Amendment) Act, as evidenced by a letter issued by the Borrower's Financial Secretary dated July 18, 2011 demonstrating how said fiscal

[6] The Bank's recent budget support operations in Jamaica included the 2009 Fiscal and Debt Sustainability DPL (US$100 million, P101321) and the 2010 First Programmatic Fiscal Sustainability DPL (US$200 million, P113893).

Indicative Triggers *numbered in order of presentation in the Policy Matrix of the FSDPL1*	**Prior Actions under the FSDPL2** *numbered in order of presentation in the Policy Matrix of the FSDPL2 (Annex 1)*
	responsibility framework has been implemented, through, *inter alia*: (i) the submission by the Borrower's Minister of Finance to the Borrower's Parliament on April 28, 2011 of the Fiscal Policy Paper; (ii) the submission by the Borrower's Auditor General to the Borrower's Parliament on May 27, 2011 of a report indicating that the Fiscal Policy Paper complies with the principles of prudent fiscal management specified in Section 48D of the FAA (Amendment) Act; and (iii) the submission by the Borrower's Minister of Finance to the Borrower's Parliament in April 2011of estimates of revenue and expenditure for Public Bodies with respect to the ensuing financial year as specified in Section 2A of the PBMA (Amendment) Act.
(2) The Government has started implementing a time bound action plan for strengthening institutional and technical capacity of the Debt Management Unit, including the establishment of: (a) a new functional organization structure with front, middle and back offices (b) the development of a Medium Term Debt Management Strategy and (c) the enactment of a Public Debt Law that provides a unified framework for strategic debt management. ***Status:*** Revised from *enactment* of the Public Debt Law to *submission to Parliament* of the Public Debt Management Act (see paragraph 49 below for a detailed discussion). Revised trigger completed by the Government.	(2) (a) The Borrower has submitted on July 12, 2011 to the Borrower's Parliament, for approval thereby, a bill entitled the Public Debt Management Act, 2011, 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 with the purpose of providing strategic guidance on debt management, and chaired by the Borrower's Financial Secretary); and (iii) ensuring prudent management of government guarantees and contingent liabilities, as evidenced by a letter issued by the Clerk to the Houses of the Borrower's Parliament dated July 14, 2011; and (b) the Borrower has started to implement the time-bound action plan dated December 1, 2010 for purposes of strengthening the institutional and technical capacity of the Borrower's Debt Management Unit, including: (i) the submission by the Borrower to the Borrower's Parliament on July 19, 2011, for ratification thereby, of the Civil Service Establishment (General) (Amendment) (No. 2) Order, 2011 which will establish a new functional organization structure with front, middle and back offices, as evidenced by a letter issued by the Clerk to the Houses of the Borrower's Parliament dated July 20, 2011; and (ii) the development of a medium term debt management strategy, as evidenced by the submission to the Borrower's Parliament of said debt management strategy on April 28, 2011 and publication on MoF's website (http://www.mof.gov.jm).
(3) The Government has fully implemented the new methodology for evaluating capital investments in all line ministries. (4) All Ministries, Departments, and Agencies (MDAs) have submitted and published their Medium-Term Expenditure Framework (MTEF).	(5) (a) The Borrower has implemented a new methodology for evaluating capital investments in six line ministries (MoF, 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 (Ref. No. 907/120) dated January 28, 2011 of processes to be followed to prioritize the investment program; and (b) The Borrower has introduced a medium term expenditure framework in six pilot line ministries (MoF, Ministry of

Indicative Triggers *numbered in order of presentation in the Policy Matrix of the FSDPL1*	Prior Actions under the FSDPL2 *numbered in order of presentation in the Policy Matrix of the FSDPL2 (Annex 1)*
Status: Revised from *all* to *six* largest ministries representing 91 percent of central government expenditure. The revision of the trigger still provides for the coverage of the vast majority of the central government while allowing the Government some flexibility in first testing the tool with the strongest ministries (in terms of capacity) before rolling it out to the entire central government. This is consistent with experience and best practice in other countries. Revised triggers completed by the Government.	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 by the Borrower's Minister of Finance to the Borrower's Parliament on April 28, 2011 of the Fiscal Policy Paper, including a fiscal responsibility statement outlining how fiscal targets will be achieved; and (ii) the inclusion in the Budget Call 2011/2012 Financial Year (Ref. No. 907/120) dated January 28, 2011 of key elements of the decision processes for the medium term expenditure framework including budget ceilings and procedures for cabinet decisions on medium term priorities.
(5) (a) The GoJ has continued progress on implementation of a uniform tax code; (b) the GoJ has established a one-stop shop for all tax payments to ease cost of paying taxes; and (c) e-filing extended to all taxpayers and to all types of taxes. ***Status:*** Separated into policy and administrative actions, resulting in actions (6) and (7). Additional parts have been added to action (7) to reflect the substantive progress achieved by the Government in consolidating various tax departments into a single Tax Administration Jamaica and easing the costs of paying taxes through payroll tax amalgamation. All parts of the new actions, including every portion of the original trigger, have been completed by the Government.	(6) The Borrower has continued to implement a uniform tax code by instituting interim measures (including, *inter alia*, freezing the issuance of new statutory waivers and reducing the issuance of discretionary waivers by the Minister of Finance) until a tax policy reform is implemented, as evidenced by: (i) the Borrower's Cabinet Decision (No. 28/2010) dated July 21, 2010; (ii) the measures adopted by the MoF dated November 15, 2010 and published on the MoF' website on November 15, 2010 (www.mof.gov.jm/pressreleases); and (iii) a letter from the Borrower's Financial Secretary dated July 14, 2011 summarizing said Cabinet Decision and the November 15, 2010 measures. (7) (a) (i) The Borrower's Parliament 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, 2011, dated April 1, 2011; and (ii) the Borrower has prepared a detailed transition plan for implementing the organizational, administrative and operational changes introduced in the Revenue Administration (Amendment) Act, 2011 dated April 1, 2011, as evidenced by a letter issued by the Borrower's Financial Secretary dated July 14, 2011; and (b) 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 payments and five forms for five different taxes into one payment and one form, as evidenced by the issuance of the Income Tax (Amalgamated Payroll Remittance) Regulations, 2010 dated November 15, 2010; (ii) the creation of client services units in large taxpayer offices to establish a one-stop shop for all

Indicative Triggers *numbered in order of presentation in the Policy Matrix of the FSDPL1*	**Prior Actions under the FSDPL2** *numbered in order of presentation in the Policy Matrix of the FSDPL2 (Annex 1)*
	tax payments (including providing fourteen different services for large taxpayers and covering one hundred forty nine of the four hundred seventy three 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 a letter issued by the Borrower's Financial Secretary dated July 14, 2011 and the upgrading of the Borrower's website for purposes of online tax filing and payment (http:/ http://www.jamaicatax-online.gov.jm).

37. **The GoJ has made substantial progress towards achieving end-program outcomes, and its performance in achieving interim indicators has been mostly satisfactory**. An October 2010 ICR report (ICR00001658) assessed the progress towards meeting the expected outcomes of the 2009 Fiscal and Debt Sustainability DPL (Report No. 46806-JM) and found that performance had been moderately satisfactory. According to the report, GoJ fully met five of the 11 targets, partially met four others, and did not meet the remaining two. A major factor affecting implementation was the deeper than expected recession, compounded by the Government's small majority in Parliament which complicated the passage of some reforms. With regard to the interim indicators for the DPL series stipulated in the FSDPL1, the GoJ has fully met seven out of ten and partially met two others (See Annex 3). The only interim indicator not met was a target for the primary balance, which was missed due to much deeper and more protracted economic slowdown in the country. Finally, the achievement of the end-series outcomes appears to be on track, with only one of nine targets in danger of being missed (Annex 3). This target is the wage bill to GDP ratio, which is likely to be missed given the recent public sector salary increase. However, this target was already off track even before the wage increase due to slower-than-anticipated recovery of economic activity. Moreover, in providing this increase the Government was following a Supreme Court ruling and therefore had to respect the Court decision or risk losing credibility in the eyes of the public sector workers as well as the broader civil society (see paragraph 19 for additional details). Finally, the GoJ has committed to identifying revenue measures or expenditure cuts to finance the increase and protect medium-term fiscal and debt sustainability.

B. Pillar 1: Enhancing Fiscal and Debt Sustainability

Fiscal Responsibility Framework

38. **The GoJ has recognized that controlling public sector balances and bringing the debt to GDP ratio on a declining path requires fundamental changes in the institutional structure to actively promote decision making processes consistent with fiscal sustainability.** The historical problems leading to the build-up of the high debt included the fragmented budget structure focused on central government, while leaving large number of public bodies out of prudent budgetary controls. This structure allowed for open ended fiscal commitments and un-quantified contingent liabilities; a fragmented and dysfunctional wage bargaining mechanism with a tendency to accelerate public sector wage growth during the

budget year; and a separation of the policy making process from the budget process. As a result, ad hoc intra year adjustments to the budget have become common practice. Overall, within the budgetary process, a lack of defined responsibilities and clear accountability mechanisms implied a tendency to push spending above what was fiscally sustainable while at the same time discrediting the whole budget process as spending units could never be certain that budgeted funds would be actually available.

39. **The GoJ introduced the Fiscal Responsibility Framework (FRF) to address these challenges and ensure accountability for applying principles of prudent fiscal management**. The FRF was introduced as amendments to the Financial Administration and Audit Act and Public Bodies Management and Accountability Act, approved by Parliament in March 2010 and made effective in October 2010. The FRF requires the Minister of Finance to demonstrate how specific policy measures are designed to meet prudent levels of fiscal balances and debt, including official targets of zero fiscal balance, debt to GDP ratio below 100 percent, and a reduction of the government wage bill to below 9 percent of GDP by 2016.[7] It also requires increased transparency and comprehensiveness of reporting on fiscal operations, including the requirement to publish and have approved by Parliament the budgets and corporate plans of all public bodies. All future borrowing and guarantees (by the Government and Public Bodies) require the written approval of the Minister of Finance.

40. **The GoJ has begun implementing the FRF this year with the tabling in Parliament of a Fiscal Policy Paper (FPP), the Auditor General's report on the FPP, and the Tax Expenditure Statement**. Following the FRF requirements, the FPP presented by the Minister on April 28, 2011, included the following key elements: (i) a Fiscal Responsibility Statement signed by the Minister, which contains medium-term fiscal and debt targets together with a menu of revenue and expenditure measures required to achieve them; (ii) a Macroeconomic Framework, outlining macroeconomic developments in FY2009/10-FY2010/11 and the outlook for FY2011/12-FY2013/14; (iii) a Fiscal Management Strategy, containing an overview of central government and public bodies operations together with medium-term revenue and expenditure strategies and the expected public debt trajectory. The Auditor General, mandated by the FRF to examine the FPP for compliance with prudent fiscal management, has issued its report to Parliament on May 27, 2011. The report finds that the FPP complies with the FRF principles but also provides recommendations for improving reporting and developing additional performance targets. The Tax Expenditure Statement, tabled at the same time as the FPP, contains details of tax exemptions, deductions, and credits granted in the previous calendar year, therefore speaking to foregone tax revenue.

41. **A second series of amendments to strengthen the FRF has been approved by the House of Representatives**. These amendments, passed on June 7, 2011, tighten up areas of the fiscal framework by requiring the Ministry of Finance to give approval for any policy change with budgetary implications before it is presented to Cabinet, limiting guarantees to those which have been, *inter alia*, approved by Parliament, eliminating any possible loophole to obtain

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[7] These are provided in section 48C of the Financial Administration and Audit Act. The definition of public debt includes central government, Bank of Jamaica, and external guaranteed debt. It does not include PetroCaribe or domestic guaranteed debt.

deferred financing, ensuring that Public Private Partnerships (PPPs) are based on sound fiscal principals and all fiscal risks are reported, and establishing clear reporting and auditing guidelines for the public bodies. The amendments also provide the legislative framework for FRF regulations which are currently being finalized.

42. **The FRF is a major step forward in putting the country back onto a sustainable fiscal and debt path by institutionalizing the process of making good policy choices and ensuring that fiscal policy is transparent and contestable**. It deals with some of the institutional problems of the past which have led to the loss of control over fiscal deficits and debt, by increasing the political costs of pursuing unsustainable policies. However, the legal changes are not a panacea. The credibility and strength of the framework will depend fundamentally on a consensus among the public and within Parliament that the principles of the FRF are necessary (although not sufficient) conditions for growth and development. For these reasons the public sector sensitization program which was launched in early-September to educate officials (including the Ministers) about the FRF, is fundamental but will also need to be supplemented by extensive communication with the public and parliament to build the consensus around the central importance of the FRF for future macroeconomic stability.

43. **The FSDPL2 prior action in the area of fiscal responsibility was an indicative trigger for this operation envisaged under the FSDPL1**. The Government has fully completed all parts of the following action:

(1) (a) The Borrower has introduced a fiscal responsibility framework into its legislation, as evidenced by the enactment, by the Borrower's Parliament of: (i) the FAA (Amendment) Act which amends the FAA Act to, *inter alia*, ensure accountability for applying principles of prudent fiscal management; and (ii) the PBMA (Amendment) Act which amends the PBMA Act to, *inter alia*, increase the transparency and comprehensiveness of data on fiscal operations presented to the Borrower's Parliament; and

(b) The Borrower has started to implement the fiscal responsibility framework described in the FAA (Amendment) Act, as evidenced by a letter issued by the Borrower's Financial Secretary dated July 18, 2011 demonstrating how said fiscal responsibility framework has been implemented, through, *inter alia*: (i) the submission by the Borrower's Minister of Finance to the Borrower's Parliament on April 28, 2011 of the Fiscal Policy Paper; (ii) the submission by the Borrower's Auditor General to the Borrower's Parliament on May 27, 2011 of a report indicating that the Fiscal Policy Paper complies with the principles of prudent fiscal management specified in Section 48D of the FAA (Amendment) Act; and (iii) the submission by the Borrower's Minister of Finance to the Borrower's Parliament in April 2011of estimates of revenue and expenditure for Public Bodies with respect to the ensuing financial year as specified in Section 2A of the PBMA (Amendment) Act.

44. **The expected outcome from the FSDPL2 (FY2011/12) in this area is the end-series outcome envisioned in the FSDPL1:**

- The FY2011/12 budget process is developed within the FRF and is bound by the FRF's medium term targets for debt creation and the overall fiscal deficit.

Debt Management

45. **Jamaica's current medium-term debt management strategy lacks a quantitative basis, exposing the country to substantial risk given the large debt and high debt servicing costs**. A lack of a quantifiable debt management strategy, based on risk-cost modeling and an analysis of markets constraints and opportunities, means the current debt management strategy may well be sub-optimal. However, there has been no analytical unit responsible for producing such a strategy within the Debt Management Unit (DMU). Jamaica has also lacked an adequate legal and regulatory framework for strategic debt management and there has been no high-level oversight/decision-making body to analyze different strategic proposals for managing the debt and contingent liabilities, including guarantees, as well as for developing the domestic debt market. The internal and external auditors lack sufficient knowledge of strategy-oriented public debt management, and currently do not carry out performance auditing. Although reporting is relatively good, it lacks more strategic dimensions, risk indicators and analysis of compliance, along with proposals of new strategies. Finally, there is no structured framework for addressing operational risk, no procedures manuals, and no Fiscal Agent Agreement with the BoJ.

46. **The GoJ is well aware of these challenges and has submitted to Parliament a new Public Debt Management law to address the existing deficiencies**. The new law consolidates previously fragmented legislative structure (replacing 19 separate acts) and sets explicit limits for government borrowing and the issuance of guarantees. The law mandates regular comprehensive reporting on public sector debt to Parliament as well as the development and implementation of a Medium Term Debt Management Strategy. Finally, the law provides for the creation of a high-level Public Debt Management Committee and a technical Public Debt Financing Committee. The committees will facilitate transparency in debt management, improve institutional memory, and monitor strategy implementation; the terms of reference for their members have already been developed. The law has benefitted from feedback from major stakeholders, including the Accountant General, the Auditor General, and the BoJ, as well as the IFIs including the IMF and the World Bank.

47. **As part of its effort to improve debt management, the GoJ has submitted to Parliament a Medium-Term Debt Management Strategy (MTDS)**. With technical assistance and training from the IMF, the World Bank and the IADB, the DMU capacity has been upgraded through the adoption of a MTDS analytical toolkit. With the new tool, the DMU staff is in a position to analyze alternative scenarios, quantify the risk-cost trade-offs, and provide more thorough reporting to the policymakers. The newly developed MTDS has been submitted to Parliament as part of the opening budget presentation on April 28, 2011.

48. **The GoJ has submitted to Parliament for ratification a new organizational structure for the Debt Management Unit to provide it with a more strategic, analytical orientation**. The GoJ debt management reform program is developed within the framework of a three-year reform plan, supported by the Bank and DFID and designed with the objective of strengthening institutional capacity for public debt and contingent liabilities management. In this regard, the GoJ has begun to restructure the DMU along the lines of international best practice into a front (negotiations), middle (analysis) and back office (registration, payments) offices. New positions have been advertised and the Government is in the process of short-listing and interviewing.

49. **The FSDPL2 prior action in the area of debt management represents a revision of an indicative trigger for this operation envisaged under the FSDPL1**. Part (a) below has been revised from enactment of the Public Debt Management Act to its submission to Parliament. The revision of the trigger is an outcome of consultations between the Bank and the Government, recognizing that, while the Government does not have full control over Parliamentary processes, its consultative approach and commitment to reform provide a good environment for the enactment of the Act following its submission to Parliament. Furthermore, the enactment of the Act is being closely monitored by other key donors and IFIs. The Bank will continue following the progress of this Law and will take the final outcome into consideration when discussing potential future Development Policy Lending with Jamaica. The Government has fully completed all parts of the following action:

(2) (a) The Borrower has submitted on July 12, 2011 to the Borrower's Parliament, for approval thereby, a bill entitled the Public Debt Management Act, 2011, 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 with the purpose of providing strategic guidance on debt management, and chaired by the Borrower's Financial Secretary); and (iii) ensuring prudent management of government guarantees and contingent liabilities, as evidenced by a letter issued by the Clerk to the Houses of the Borrower's Parliament dated July 14, 2011; and

(b) the Borrower has started to implement the time-bound action plan dated December 1, 2010 for purposes of strengthening the institutional and technical capacity of the Borrower's Debt Management Unit, including: (i) the submission by the Borrower to the Borrower's Parliament on July 19, 2011, for ratification thereby, of the Civil Service Establishment (General) (Amendment) (No. 2) Order, 2011 which will establish a new functional organization structure with front, middle and back offices, as evidenced by a letter issued by the Clerk to the Houses of the Borrower's Parliament dated July 20, 2011; and (ii) the development of a medium term debt management strategy, as evidenced by the submission to the Borrower's Parliament of said debt management strategy on April 28, 2011 and publication on MoF's website (http://www.mof.gov.jm).

50. **The expected outcome from the FSDPL2 (FY2011/12) in this area is the end-series outcome envisioned in the FSDPL1**:

- (a) A detailed borrowing plan is published by the Debt Management Unit, which fully operationalizes the Medium Term Debt Management Strategy; and

  (b) Quantitative limits on instruments and lenders are established in line with the overall budget ceiling established by the FRF.

Rationalization of Public Bodies

51. **The public sector in Jamaica includes a large number of Public Bodies, defined as statutory bodies, statutory authorities, or Government companies**. At the end of FY2010/11, there were 195 active Public Bodies in Jamaica. Among these, 105 depend on subventions from

the Consolidated Fund for all or part of their revenues, while the remaining 90 are expected to generate sufficient revenue to fully finance their operating costs (self-financing Public Bodies). The authority for monitoring the financial performance of self-financing Public Bodies rests with the Public Enterprise Division (PED) of the Ministry of Finance, while Public Bodies which depend on support from the Consolidated Fund are being monitored by the expenditure division within the Ministry of Finance.

52. **The GoJ has made substantial progress in increasing financial oversight of the Public Bodies as their operations have a significant effect on the overall public sector balance**. In FY 2010/11, 67 self-financing Public Bodies submitted their corporate plans and budgets to the PED, up from 54 in FY2009/10. These 67 Public Bodies have total assets of 70 percent of GDP, employ 15,783 workers (about 10 percent of the total employment in the public sector), and generated profits (transfers to the Government) of just under J$23 billion, or 7.7 percent of budgetary revenue in FY2009/10.[8] Among these, the PED has identified 20 "selected" Public Bodies for closer monitoring; these 20 account for 60-70 percent of the total expenditure by self financing Public Bodies. Certain individual Public Bodies within this group have experienced substantial losses, including a J$11.8 billion loss by Air Jamaica (now privatized), J$1.8 billion loss by Urban Development Corporation (UDC), and J$1.3 billion loss by PetroJam. Overall, in FY2009/10 the Public Bodies had a negative contribution to the public sector balance of 1.6 percent of GDP, increasing the overall public sector deficit from 10.9 to 12.5 percent of GDP.

53. **Recognizing the vulnerabilities to fiscal sustainability and driven by a vision of a more streamlined, efficient public sector, the GoJ has embarked on a program of rationalization and restructuring of Public Bodies**. The Public Bodies Rationalization Plan was originally developed in the PED during FY2008/09 with a view to wind-up, merge, and privatize some 130 Public Bodies. However, the rationalization program at the PED was later subsumed by the activities of the Public Sector Transformation Unit (PSTU), which is tasked with a broader strategic objective of reforming the public sector. The Public Sector Master Rationalization Plan (MRP), prepared by the PSTU, was tabled in Parliament on July 20, 2010. Following a series of consultations in June 2010 with the major stakeholders, the finalized plan, which, *inter alia*, includes a dramatic reduction in public bodies, was tabled in Parliament on July 20, 2010. The Public Administration and Appropriations Committee (PAAC) of Parliament agreed with 10 of 14 PSTU recommendations and the final plan will be debated and amended by Parliament in the beginning of the calendar year, after which it would be submitted for Cabinet approval.

54. **The GoJ has divested Air Jamaica to Caribbean Airlines while acquiring a small ownership interest in the latter**. Effective May 1, 2010, Caribbean Airlines assumed full financial responsibility for Air Jamaica. In order to guarantee airlift on routes previously serviced by Air Jamaica, the GoJ acquired a 16 percent (valued at US$28.5 million) ownership stake in Caribbean Airlines. Given the small size of the acquisition, however, this purchase does not conflict with the GoJ divestiture objectives. As part of the transition process, all Air Jamaica

[8] Between FY 2009/10 and 2010/11, the total assets of the 67 self-financing Public Bodies grew by 10 percent in nominal terms, while employment grew by nearly 4 percent.

employee positions were made redundant on April 30, 2010. Approximately two-thirds of the employees have been re-hired by Caribbean Airlines. The GoJ remains the owner of all of Air Jamaica's other assets, including its real estate assets and its industrial assets. Caribbean Airlines has leased some of these assets from Air Jamaica.

55. **The Development Bank of Jamaica (DBJ)—an entity tasked with divestment of certain assets— has completed the privatization of the sugar industry by divesting the three remaining state-owned sugar estates and is advancing the broader divestment agenda in the agriculture sector**. As part of its rationalization program, the GoJ identified six publicly-owned sugar estates for privatization: St. Thomas Sugar Factory at Duckenfield, Long Pond and Hampden in Trelawny, Monymusk in Clarendon, Frome in Westmoreland, and Bernard Lodge in St. Catherine. The first three estates were sold to Everglades Farms Limited and Seprod Limited, in June 2009, and the sale agreement for the remaining three was signed with Complant International Sugar Co. Ltd on July 30, 2010. The DBJ is also in the process of divesting the GoJ stake in the Mavis Bank Coffee Factory Limited, the largest Blue Mountain processing facility in Jamaica, and the Wallenford Coffee Company, and is inviting expressions of interest to purchase or lease the land at Montpelier Citrus Company Limited.

56. **The GoJ has entered into an agreement for the sale of Pegasus Hotels of Jamaica as part of the broader effort to refocus the portfolio of Urban Development Corporation (UDC) assets on its core mandate of urban development**. After receiving clearance from the Office of Contractor General and subsequently gaining Cabinet approval, a sale agreement for Pegasus Hotels of Jamaica Limited (PHJL) was signed with the Preferred Bidder on September 14, 2010.[9] Several other UDC properties are also slated for divestment. Four proposals were received for the purchase of UDC's 50 percent share in Bloody Bay Hotel Developments Ltd by September 3, 2010, and an evaluation team is assessing the proposals.

57. **The GoJ is preparing the divestiture of assets under the direction of the Ministry of Energy and Mining, including Clarendon Alumina Partners (CAP) and Petrojam.** The sale of the Government's 45 percent stake in CAP to Tzu Hui Hung Fang was halted because the purchaser missed a December 2010 deadline to proceed with the sale, but another unsolicited offer came in October 2010. The GoJ is pursuing the offer but thus far the sale—which was a March 2011 structural benchmark under the IMF SBA program—remains incomplete. Negotiations for the sale of the additional 2 percent stake in Petrojam to PDVSA of Venezuela—allowing PDVSA to take ownership of a controlling 51 percent stake—are ongoing as PDVSA is undertaking its due diligence. The GoJ is also in preliminary stages of divesting West Indies Alumina Company (Windalco), which comprises two alumina refineries, a shipping port and bauxite mines, and the Wigton Wind Farm.

58. **The Bank reviewed the GoJ privatization practices through a detailed analysis of the sale process and concluded that appropriate methods were used in the course of**

[9] The transaction remains open because under Jamaica Stock Exchange rules the successful bidder needs to offer the same share purchase terms and conditions to minority shareholders. Currently the tender-offer proceedings between the successful bidder and the minority shareholders are ongoing; however, regardless of the outcome of these proceedings, there are no stipulations in the agreement which could revert the sale of the Government's shares in PHJL, nor is there any obligation or intention by the Government to take back its holding in PHJL.

privatizations. This analysis is described in more detail in Annex 8. Privatizations have been adequately announced and publicized, both foreign and domestic buyers have been generally encouraged to participate, the sales processes have been open, transparent and competitive and tender pre-conditions have been appropriate.

59. **The GoJ is preparing a divestment policy paper to solidify the overall framework of the ongoing divestment program**. While important strides have been made and the divestment program remains a priority to the GoJ, the divestment management process is fragmented and there is no standardized framework in place. To address these challenges, the policy paper is being prepared with the overall objective of creating a framework with strict guidelines governing divestments. In the course of its policy dialogue with the Government, the Bank has provided comments on the draft policy paper.

60. **While the FSDPL2 prior action in the area of Public Bodies rationalization was not an indicative trigger for this operation, it was envisaged as a potential FSDPL2 prior action during the preparation of FSDPL1**. The Government has fully completed all parts of the following action:

(3) The Borrower has continued to implement the plan dated July 3, 2008 to achieve the rationalization of Public Bodies, as evidenced by the divestiture of: (i) Air Jamaica (pursuant to the Contribution and Share Issuance Agreement, Personnel Provision Agreement and Transition Services Agreement, all signed on April 30, 2010); (ii) three sugar estates (Monymusk, Frome, Bernard Lodge) (pursuant to the Agreement for Sale and Purchase signed on July 30, 2010); and (iii) the Pegasus Hotels of Jamaica Limited (pursuant to the Share Sale and Purchase Agreement signed on September 14, 2010).

61. **The expected outcomes from the FSDPL2 (FY2011/12) in this area are the end-series outcomes envisioned in the FSDPL1:**

- The winding-up of inactive Public Entities has been completed (as of December 2009, 38 inactive bodies remain to be wound-up);
- Pending divestments of public bodies that were slated for privatization have been completed.

Improving Efficiency and Effectiveness of Public Service Compensation and Incentives

62. **The Government of Jamaica has embarked on an ambitious plan of modernizing core government operations, rationalizing public sector staff, and devolving authority from the central government to local entities**.[10] For example, managers currently do not have full authority in hiring staff and taking disciplinary actions, and lines of reporting and accountability are somewhat blurred. The GoJ is attempting to strengthen human resource functions (both horizontal and vertical) with the development of accountability mechanisms to manage for

[10] Devolution of authority includes giving entities full autonomy for overall management of their operations, human resources and finances.

results, and has become more resolute in securing and maintaining the necessary data on the public service to assist managers to make informed decisions on staffing, recruitment as well as overall management of the service.

63. **The PSTU has developed a Public Sector Master Rationalization Plan (MRP) for restructuring of ministries, departments and agencies**. The Plan has identified 12 entities for full devolution of authority, conducted over an 18 month period.[11] Responsibilities for selected human resources functions have been transferred from the Offices of the Services Commission as of October 1, 2010. The Offices of the Services Commission will also take a judgment on whether the entities have adequate human resource capacity to carry out the new devolved responsibilities, and whether new business processes will need to be introduced. To be effective, the plan must be accompanied by a complete review of the legislative framework to determine whether such a rationalization plan, governance structure and proposed decision-taking authority is within its confines.[12] In this regard, the PSTU has recommended that a Prior Options Review be conducted before final approval for full autonomy is designated.

64. **New accountability processes are in the process of being established**. As part of the Public Sector Modernization Vision and Strategy Medium Term Action Plan (MTAP) - a five year agenda for modernizing government – the accountability systems across government are expected to be strengthened, with specific emphasis on senior executive officers and overall performance management and evaluation systems.[13] The Management Accountability Framework (MAF) will further determine the mechanics of oversight and accountability of all twelve devolved authorities.[14]

65. **The GoJ has completed employment surveys of the entire public sector to create a regularly updated database**. By end-March 2011, employment surveys have been completed for all self-financing, fully-funded, and partially-funded Public Bodies. These surveys, together with the ones completed in early 2009 covering the central government, form a centralized database which will be updated on a quarterly basis and is also expected to be reconciled with the census and payroll information collected by the PSTU as part of a payroll audit. The database, which resides in the MoF, is expected to be the first step in establishing a centralized human resource management information system (HRMIS). The HRMIS could contain information on: (i) total employment; (ii) total vacancies and summaries of each of those by positions (such as management, professional staff, occupation, etc.); (iii) average total remuneration and summary statistics on compensation of remuneration (type of position, average

[11] The entities proposed include: (i) National Land Agency; (ii) Administrator General's Department; (iii) Auditor General's Department; (iv) Office of Utilities Regulation; (v) Office of the Parliament; (vi) Passport Immigration and Citizenship Agency; (vii) National Environment and Planning Agency; (viii) Scientific Research Council; (ix) Registrar General's Department; (x) Real Estate Board; and (xi) King's House. These entities were selected based on specific criteria developed by the PSTU.

[12] Such legislation includes the Constitution (1962), The Public Service Regulations (1961), the Public Bodies Management and Accountability Act (amended 2009) and the Executive Agencies Act (2002).

[13] See Cabinet Office website for more information on the Accountability Framework: http://www.cabinet.gov.jm/files/docs/MVSP_Govatyourservice.pdf?phpMyAdmin=36964530831c7b5cd24342ae2600c405

[14] it is suggested, for example, that the Public Accountability Commission of Parliament provide oversight of the Office of the Auditor General

number of qualified applicants per advertised vacancy, by type of position, etc.). The purpose of this activity would be so that senior officials (e.g. Cabinet) may take corrective action should employment or wage trends be determined as potentially unsustainable.

66. **The GoJ is working to contain the wage bill growth while respecting its legal obligations to the public sector workers unions**. The recent agreement between the GoJ and the public sector unions on a seven percent salary increase—originally agreed to in 2008 and affirmed by the August 2010 Supreme Court decision—has brought an end to the public sector wage freeze introduced in April 2009 (see paragraph 19 for additional details on this agreement). In the meanwhile, the GoJ has taken steps to comprehensively revise the wage bargaining process. The MoF has prepared a position paper outlining a new wage negotiation strategy which envisions a dramatic reduction in the number of wage bargaining units (currently numbering more than a hundred) and is discussing the new strategy with the public sector workers unions.

67. **While the FSDPL2 prior action in the area of public service compensation and incentives was not an indicative trigger for this operation, it was envisaged as a potential FSDPL2 prior action during the preparation of FSDPL1.** The Government has fully completed all parts of the following action:

(4) The Borrower, through MoF, has completed employment surveys (censuses) for all non-self financing Public Bodies (fully-funded by the Borrower and partially funded by the Borrower), as evidenced by the letter issued by the Borrower's Financial Secretary dated May 2, 2011 including all completed surveys.

68. **The expected outcomes from the FSDPL2 (FY2011/12) in this area are the end-series outcome envisioned in the FSDPL1:**

- A centralized HRM database covering total public employment is fully functional;
- The wage bill as a percentage of GDP is at or below 10 percent (Baseline: 11.8 percent of GDP by end- FY2009/2010);
- Transition teams are in place in at least 10 Ministries, Departments and Agencies (MDAs) to implement the recommendations of the Public Sector Transformation Unit.

C. Pillar 2: Increasing the Efficiency of Financial Management and Budget Processes

Achieving Fiscal Discipline and Strategic Allocation of Resources

69. **The introduction of the FRF was a response to a cumulative failure over the years to take policy decisions consistent with Government priorities and the resources available**. This has particularly been the case with public investment with the result that investments which are carried out do not always correspond to government priorities, have not always been subject to a full cost-benefit analysis, and numerous unfinished investments compete for resources with potential new investments. The FRF introduces responsibility and accountability into the decision making process, but cannot on its own ensure that spending is aligned with government priorities. Including a medium term perspective in policy making and budgeting is essential to

gradually aligning both current and capital spending decisions with Government priorities. Indeed such a perspective is a necessary complement to the FRF since it is only with a medium term planning and budgetary perspective that a credible Fiscal Policy Paper can be developed and implemented.

70. **Countries which have successfully introduced a medium term perspective into the policy and budgeting process have done so only gradually over a number of budget cycles**. Introduction of medium term budgeting is a complicated process and it requires a change in the mind set of all public institutions to fully internalize the requirements of it and do accurate costing of proposed budgetary programs. Successful country examples, such as Australia, New Zealand, UK and Turkey, show that implementation takes multiple budget cycles and continuous improvement of processes based on initial implementation results. In Jamaica this process has begun as it has been recognized that the Medium Term Socio-Economic Policy Framework (MTSEPF) which is issued on a regular basis (the most recent one is for the period 2009-2012) does not constitute a medium term expenditure framework (MTEF), as it is not developed within a clear macroeconomic resource framework and is not fully costed, nor crucially, updated annually and used as the based for budget preparation.

71. **The MoF and the PIOJ have been working with the six largest ministries—representing 91 percent of central government spending—to gradually develop a Medium Term Expenditure Framework (MTEF).**[15] As part of the FY2011/12 budget process, these ministries submitted their annual budgets accompanied by somewhat less detailed budgets for the next two years, indicating the costs of the continuation of existing policies and the potential costs of new policies, within resources ceilings provided by MoF. A selective approach was adopted in order not to overstretch administrative resources given the need to implement many other initiatives as well as the human capacity constraints both in the reporting ministries and in the Public Expenditure Division (PEX) of the MoF, tasked with evaluating the budgets.

72. **The investment projects in the six largest ministries were also evaluated according to a new methodology for investment prioritization**. During the budget preparation process, the six ministries were required to indicate whether one or more of a fixed set of the Government's development objectives would be satisfied by each project. Using a consistent set of weights, the projects were subsequently ranked by the PEX in order to identify the highest-ranking, most-impactful projects. This work, as well as the efforts in preparing medium-term budgets, was facilitated by a group of consultants financed by the IADB. Therefore, human capacity constraints will be a key challenge in ensuring the sustainability of the process as well as its expansion to the entire public sector. Moreover, success will require that the prioritization is enshrined in public regulations as part of the annual budget process and that clear rules are set regarding the approval of investment projects at the Cabinet level.

73. **The process of introducing a full MTEF takes many years and the measures taken by the GoJ in this respect are important initial steps**. The MTEF processes will start to have effect once there are effective procedures in place to ensure that policy trade-offs are evaluated

[15] Ministry of Finance, Ministry of Transport, Ministry of Education, Ministry of Health, Ministry of Agriculture and Ministry of National Security.

and incorporated into the medium term resource ceilings, and that links are made between outer year budgets and future annual budgets. In most countries this is only achieved over a number of budget cycles through iteration and improvement of the medium term process. It might be discovered that in many cases there is still insufficient information available on the efficiency and effectiveness of policies to fully evaluate trade-offs. Nonetheless, even at this stage, analysis of the costs of existing policies into the future and possible costs of new policies will provide useful information.

74. **The FSDPL2 prior action in the area of fiscal discipline and strategic allocation of resources represents a revision of indicative triggers for this operation envisaged under the FSDPL1**. In consultations with the Government and following international experience, the triggers have been revised from all ministries to six key ministries representing 91 percent of central government expenditure. The revision of the triggers still provides for the coverage of the vast majority of the central government while also allowing the Government some flexibility in first testing the tool with the strongest ministries (in terms of capacity) before rolling it out to the entire central government. This is consistent with experience and best practice in Bank operations in other countries. Thus, the prior action completed in the area of fiscal discipline and strategic allocation of resources include:

(5) (a) The Borrower has implemented a new methodology for evaluating capital investments in six line ministries (MoF, 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 (Ref. No. 907/120) dated January 28, 2011 of processes to be followed to prioritize the investment program; and

(b) The Borrower has introduced a medium term expenditure framework in six pilot line ministries (MoF, 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 by the Borrower's Minister of Finance to the Borrower's Parliament on April 28, 2011 of the Fiscal Policy Paper, including a fiscal responsibility statement outlining how fiscal targets will be achieved; and (ii) the inclusion in the Budget Call 2011/2012 Financial Year (Ref. No. 907/120) dated January 28, 2011 of key elements of the decision processes for the medium term expenditure framework including budget ceilings and procedures for cabinet decisions on medium term priorities.

75. **The expected outcomes from the FSDPL2 (FY2011/12) represent a revision of the program outcome envisaged under the FSDPL1 following the revision of the prior actions above:**

- The Government has fully implemented the new methodology for evaluating capital investments in six pilot ministries;
- The six pilot Ministries, Departments, and Agencies (MDAs) have submitted their MTEFs.

Improving Public Financial Management

76. **The Government is aware of the limitations of the public financial management (PFM) system and is pursuing an ambitious reform program for PFM strengthening to support its overall public sector reform and fiscal consolidation**. The key measures in this area are centered on the implementation of the FRF. In addition, the GoJ is working on strengthening the technical basis of budgeting and financial management through i) improving accounting and financial reporting and eventually moving to an accrual system of accounting; ii) introducing an Integrated Financial Management Information System (IFMIS); iii) strengthening internal control and internal audit systems; and iv) strengthening external audit by providing more independence and improving the capacity of the office of the Auditor General.

77. **The GoJ is planning to implement the International Public Sector Accounting Standards issued by the International Federation of Accountants (IFAC)**. The plan includes implementation of accrual accounting. However, before implementing full accrual system of accounting, GoJ needs to consider careful sequencing to ensure that appropriate levels of staffing resources, knowledge, and information systems are available. In addition, more attention needs to be given to ensuring that the current cash accounting basis is properly understood and that accounting practices are sufficiently strong to form a proper basis for the introduction of accrual accounting. The GoJ also needs to introduce a new classification and chart of accounts to meet the requirements under the planned computerized accounting system.

78. **The GoJ is establishing a central treasury management system (CTMS) to bring responsibility for treasury management functions under one agency**. The CTMS will establish a Treasury Single Account (TSA) to improve cash management, to consolidate all general government cash resources, and close the individual bank accounts of government entities. The process of account consolidation has already begun and the GoJ plans to begin running the system on a pilot basis in April 2011, consistent with the revised IMF benchmark. However, international experience suggests that the full implementation of CTMS requires considerable work on revising institutional structures and business processes can take between five and seven years, even with adequate preparation. As part of computerization of the PFM system for the introduction of the CTMS, the GoJ is in the process of procuring software for integrating the PFM information system, which is also known as the Enterprise Resource Management System.

79. **GoJ needs to strengthen the control environment by introducing a risk-based internal audit function by allocating limited internal audit resources in high risk areas**. Jamaica has about 200 internal auditors with units in all ministries. However, the work done by the internal auditors is mostly compliance auditing rather than checking the systems and processes and suggesting changes for improving the control environment. While internal audit should be the responsibility of each ministry, the function of setting internal audit guidelines and procedures could be centralized in the Ministry of Finance. The Government also needs to consider developing the capacity of the internal auditors with targeted professional training in "risk-based" internal auditing.

80. **Following the recommendations of the PSTU, the GoJ is planning to provide full independence to the Auditor General (AG)**. Currently, AG has offices in various ministries

which can compromise the independence of the audit function. In this regard, focus has been placed on the devolution of power to give the AG's office full control over its day-to-day activities including human resources and financials. Under the revised structure, the Public Accounts Committee of the Parliament will have oversight of the AG's office.

81. **The Auditor General is implementing its action plan for institutional and professional capacity building**. The AG is working to strengthen its capacity to meet the new requirements of the FRF, including reviewing the Fiscal Policy Paper (FPP). Furthermore, new Performance Audit Unit, Financial Audit Unit, and Information Technology Units have been established, and the Auditor General is planning to centralize its external audit function. The AG office has secured support from the UK's National Audit Office to assist with training, mentoring, streamlining of reforms and overall quality development of all audit work.

82. **The public financial management agenda was supported by the previous DPLs and the proposed FSDPL2 does not have any prior actions in this area**. Both the Fiscal and Debt Sustainability DPL (2009) and the FSDPL1 (2010) supported reform actions to improve institutional capacity in this area and the Bank will continue monitoring the progress.

D. Pillar 3: Reducing Distortions and Enhancing the Efficiency of the Tax System

83. **The tax regime in Jamaica is complicated, with nine major tax instruments applied at varying rates, numerous exemptions, waivers, and incentives, and high costs of paying taxes**. The main tax instruments in Jamaica include the income tax, stamp duty, general and special consumption tax (GCT and SCT), customs duty, transfer tax, property tax, education tax, travel tax, and betting and gambling tax. The three major taxes, the GCT, SCT, and income tax, account for approximately 70 percent of total tax revenues. Although the Government has removed a number of GCT exemptions in a series of reforms during FY 2009/10, the uniformity of the tax code continues to be affected by numerous discretionary tax waivers, exemptions, and incentives. Finally, Jamaica ranks 174th out of 183 economies in the costs of paying taxes. According to Doing Business 2010, an average small-to-medium size manufacturing company in Jamaica pays a 51.3 percent tax on its profits, has to make 72 separate payments, and spends 414 hours to pay the taxes (twice the time required in the next highest comparator country).

Tax Policy Reforms

84. **High tax rates and complicated procedures to comply with tax policy reduce firm competitiveness and encourage tax evasion and avoidance**. Studies have pointed to the prominence of the informal sector in Jamaica, with estimates ranging from 40 to 44 percent of the official GDP in 2001 and the tax system is considered to be one of the driving causes of the expansion of informal activities (IADB 2006). The burden therefore falls on those in the formal sector, further creating perverse incentives and dampening productivity. The literature has also documented the low rates of growth of productivity in Jamaica and the consequent loss of market share by Jamaican exporters.

85. **The distortions in the incentives regime reduce revenue collection and hinder efficient allocation of investment**. The Jamaican tax structure has a complex and extensive system of incentives, many of which have accumulated over more than half a century and are

accessible to local and foreign investors. The incentives provide income tax relief as well as concessions on import taxes and duties to eligible enterprises for up to 15 years, while some incentives provide other benefits such as capital allowances. Incentives can be discretionary; many are specific to particular sectors, while others are available to any eligible applicant. Holden and Holden (2005) were able to identify over 200,000 different incentives, but mentioned that there may be even more. The identified incentives alone, according to the authors, imply forgone revenue of about 20 percent of total government revenue. Other studies of the incentive regime in Jamaica suggest that there is substantial bias in favor of capital-intensive projects generally, and particularly projects of a larger nature (Artana and Navajas, 2004), which discriminates among smaller local firms.

86. **Persistent difficulties in the external environment have limited fiscal space and have constrained the GoJ to making only small strides in improving the uniformity of the tax code**. A proposal to lower the corporate income tax from 33.33 percent to 25 percent (in line with the current 25 percent tax rate on personal income tax) has been postponed due to the expected negative revenue implications. Before moving ahead with tax policy simplification, the Government wants to strengthen the Tax Administration first to ensure that any tax policy change does not cause a significant decline in revenues. The authorities did, however, temporarily increase some categories of payroll tax: tax rates for income between J$5-10 million and over J$10 million were adjusted from 25 percent to 27.5 percent and 35 percent, respectively, until March 31, 2011. However, even prior to the announcement of this increase, the tax rolls reflected less than 700 individuals with declared incomes above J$10 million, thus illustrating the limitations of relying on taxing high earners to buttress fiscal revenues.

87. **The GoJ has made some progress in reducing the use of tax incentives and waivers**. A July 21, 2010 Cabinet decision (#28/2010) and follow-up measures taken by the Government on November 15, 2010 instituted a freeze on the issuance of new statutory and discretionary waivers and mandated publication of all waivers on the MoF website. However, waivers for humanitarian purposes and charitable organizations were exempted from this requirements, and additionally, waivers in the "unspecified" category were allowed up to a monthly maximum of J$140 million. The objective of the policy was to limit the use of waivers while the GoJ, with the help of an IADB-financed consultant, examines the current structure of the waivers and incentive packages, estimates the foregone revenue, and develops a long-term waiver policy and strategy as part of the broader agenda of tax policy reform. Between December 2010 and March 2011, however, the use of waivers exceeded the stipulated limit. In follow-up discussions with the IADB, which is closely following this reform area, the GoJ has revised upward the waiver limit and has agreed to apply the December-March deviations against the new cap so that the new annual limits would not be exceeded. The agreement has been documented in a joint Technical Memorandum and compliance will be closely monitored by both GoJ and the IADB.

Tax Administration Reforms

88. **The GoJ has completed the first step in the amalgamation of payroll taxes**. Prior to the reform, taxpayers had to file and pay each of the following five taxes separately: national insurance scheme, national housing trust, HEART for training, education tax and PAYE income tax. To ease tax collection, simplify the structure of payroll taxes, and reduce the costs of paying them, the GoJ developed a four-phased approach:

(a) Phase 1: A new payroll tax form was gazetted on November 15, 2010 and made effective January 1, 2011. Under the new form, taxpayers can file all five payroll taxes with a single form and make a single payment (in person or online) instead of five separate payments. The filing of annual returns for the 2011 tax year will also be consolidated.

(b) Phase 2: Tax filing will be simplified for the self employed and own account.

(c) Phase 3: Five different payroll taxes will be rationalized to a common base. Currently each contribution is deducted from a different base.

(d) Phase 4: Five different payroll taxes will be consolidated.

89. **The GoJ has merged Inland Revenue, Taxpayer Audit and Assessment, and the Tax Administration Services Departments into Tax Administration Jamaica (TAJ) to increase the efficiency of tax administration**. Under the new structure, the existing departments have been consolidated into a single unit with the responsibility for administering domestic taxes, while Jamaica Customs became an International Tax Authority operating as an Executive Agency and the Taxpayer Appeals Department became a separate appellate jurisdiction under the MoF. The TAJ is led by a Commissioner General with the support of three Deputies with responsibilities for Management Services, Operations, and Legal Support. The requisite amendments to the Revenue Administration Act were enacted on April 1, 2011, and the TAJ has been operational since May 2011. Several activities have already begun to take place, to ensure the smooth operation and transition including establishment of a head office, sustained communications with external stakeholders, the relocation of certain aspects of operations (accounts, training, human resource, etc) and the redeployment of senior managers.

90. **The GoJ has strengthened the large taxpayer office, which is a one-stop-shop for all tax payments by large taxpayers (gross revenues of J$500 million and above)**. The Government has created a concept of one-stop-shop by establishing "Client Relationship Offices" in each of the large tax payer office. As a result, taxpayers interface with only one office for 14 different services.[16] The Client Relations Offices significantly eases the costs of paying taxes for large taxpayers, which account for 80 percent of all tax revenue collected. There are currently two such offices in Kingston and Montego Bay, and the GoJ has increased their staff complement to reach a greater number of taxpayers. When opened on April 1, 2009, these offices operated on a pilot basis. As of March 2011, 149 of the 473 largest taxpayers were using the office with the availability of full range of services, and the collections from clients represented more than 42 percent of all tax revenues.

91. **The GoJ has significantly eased the filing and payment of taxes by broadening the availability of electronic filing and payment to all taxpayers and all taxes**.[17] In October 2008, the authorities introduced online filing and payment of GCT and SCT. One year later, the

[16] The services being provided by the Client Relation office include: registration, payment, auditing, debt management, tax compliance certificate, property tax services, stamp duty, transfer tax, training on taxes, e-filing, courier services and after hour services.

[17] The Jamaica Tax Payment Portal is accessible at www.jamaicatax-online.gov.jm.

authorities broadened the scope to the filing and payment of payroll deductions. In March 2010, the authorities made further advances by allowing online filing and payment of individual and corporate income tax, education tax for the self-employed, and NIS. Finally, in December 2010, the national housing trust contributions also became available for online payment, thereby allowing all tax types to be filed and paid online. The online portal is user-friendly, allows for users to save their return and to complete it a later date, and a toll-free customer care line is available for tax-related questions as well as technical support. The online portal also cuts down on errors in submitted returns by validating the information at the point of user entry and therefore increases efficiency and reduces the need for Tax Administration to enter data. The current penetration of the online filing and payment is quite low—less than 1 percent of all taxpayers and taxes collected—although year-on-year growth rates have been very rapid. Additional take-up is likely to be limited by the lack of broad public awareness/trust of the system. To address these issues, the GoJ plans on launching a public awareness campaign and to broaden the payment options to include debit cards and bank transfers.

92. **The FSDPL2 prior actions in the area of tax reform include an indicative trigger for this operation envisaged under the FSDPL1 as well as an additional substantive action in the area of tax administration.** The additional action reflects the substantial advances made in consolidating the previously disjointed tax administration functions as well as the progress in the Government's efforts to simplify tax filing and payment through the amalgamation of payroll taxes. Furthermore, the original indicative trigger envisaged under the FSDPL1 has been split in two parts (two prior actions) to differentiate actions related to tax policy and tax administration. All parts of the actions below have been fully met by the Government:

(6) The Borrower has continued to implement a uniform tax code by instituting interim measures (including, *inter alia*, freezing the issuance of new statutory waivers and reducing the issuance of discretionary waivers by the Minister of Finance) until a tax policy reform is implemented, as evidenced by: (i) the Borrower's Cabinet Decision (No. 28/2010) dated July 21, 2010; (ii) the measures adopted by the MoF dated November 15, 2010 and published on the MoF' website on November 15, 2010 (www.mof.gov.jm/pressreleases); and (iii) a letter from the Borrower's Financial Secretary dated July 14, 2011 summarizing said Cabinet Decision and the November 15, 2010 measures.

(7) (a) (i) The Borrower's Parliament 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, 2011, dated April 1, 2011; and (ii) the Borrower has prepared a detailed transition plan for implementing the organizational, administrative and operational changes introduced in the Revenue Administration (Amendment) Act, 2011 dated April 1, 2011, as evidenced by a letter issued by the Borrower's Financial Secretary dated July 14, 2011; and

(b) 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 payments and five forms for five different taxes into one payment and one form, as evidenced by the issuance of the Income Tax (Amalgamated Payroll Remittance) Regulations, 2010 dated November 15, 2010; (ii) the creation of client services units in large taxpayer offices to establish a one-stop shop for all tax payments (including providing fourteen different services for large taxpayers and covering one hundred forty nine of the four hundred seventy three 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 a letter issued by the Borrower's Financial Secretary dated July 14, 2011 and the upgrading of the Borrower's website for purposes of online tax filing and payment (http:/ http://www.jamaicatax-online.gov.jm).

93. **The expected outcome from the FSDPL2 (FY2011/12) in this area is the end-series outcome envisioned in the FSDPL1:**

- Improved PEFA rating of "Collection of tax payments" to B in FY2011/12 from a baseline of: D+ in 2007/08.

IV. BANK SUPPORT TO THE GOVERNMENT'S PROGRAM

A. Link to the Country Partnership Strategy

94. **The proposed FSDPL2, which is the second in a series of two programmatic DPLs envisaged in the current CPS, is consistent with the main CPS pillars**. The FY2010-13 World Bank Group's CPS (Report No. 52849) was discussed by the Board on March 23, 2010. The proposed FSDPL2 reflects the GoJ's intention of addressing fiscal and debt challenges. The GoJ's efforts are based on three critical and interrelated development challenges under the Economic Stability Pillar of the CPS: (i) promoting fiscal and debt sustainability; (ii) improving transparency and efficiency of public financial management and budget processes; and (iii) reducing distortions and enhancing the efficiency of the tax system. Fiscal space remains limited and the interventions identified in the strategy and the proposed FSDPL2 have been carefully chosen to help the GoJ achieve its objectives while mindful of its limited human and financial resources.

B. Collaboration with the IMF and other donors

95. **A total of nineteen International Development Partners (IDPs) are active in Jamaica.** Most support is directed to the social sector, followed by budgetary support with a focus on growth and competitiveness. Two bilateral IDPs (CIDA and DFID) have regional strategies while USAID, IADB, IMF, and the World Bank have country strategies. All strategies and sectoral support are provided in line with government priorities articulated through the PIOJ and in the MTF. The specific programs of each of the main donors are summarized in Annex 6.

96. **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 program of the IADB. 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 IADB. 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 IADB had joint missions to support debt management reforms in May and October 2010. The World Bank is also coordinating with the IFIs in sequencing of the policy actions. This coordination is important to ensure that the GoJ's financial needs are met in a timely manner while reform momentum is maintained. The main synergies between the reforms supported by the IFIs are:

(a) Implementation of the Fiscal Responsibility Framework;

(b) Public Sector Rationalization;

(c) Improving Efficiency of Public Expenditure Management and of Tax Policy and Administration;

(d) Strengthening of Debt Management; and

(e) Strengthening internal and external controls.

97. **The Bank consults extensively with the major donors in Jamaica**. The consultations take place through regular meetings of the Debt and Growth Thematic Working Group chaired by the Bank in addition to quarterly meetings with the IMF and meetings at the local level with all donors to better coordinate and streamline activities under the various policy matrices. The extensive program of support to reform debt management practices in Jamaica over the next three years—launched through joint missions of the Bank, the IMF, and the IADB—is an example of the consultative process to reform implementation taken by the IFIs in Jamaica. Another example is SEMCAR (Supporting Economic Management in the Caribbean), a CIDA-financed and Bank-executed program which supports the GoJ in the areas of public financial management, tax policy and administration, and customs.

98. **On February 4, 2010 the IMF Board approved a 27-month US$1.27 billion Stand-By Arrangement (SBA) for balance of payments support.** Completion of the third review on January 14, 2011, enabled the disbursement of SDR31.9 million (US$49.3 million), bringing total disbursements to SDR541.8million (US$838.2 million). Up through the third review, fiscal performance was on track with all quantitative performance targets met. The fourth and fifth reviews, originally scheduled for end-July, have been delayed but discussions between the GoJ and the IMF are ongoing (see the IMF Assessment Letter in Annex 4 for the current status of discussions between the Government and the IMF). In addition, the IMF, directly and through CARTAC, has been providing technical assistance on debt management, tax issues, investment schemes, and the stability of the financial system.

99. **The IADB disbursed US$600 million in budget support policy-based loans (PBL) in the 2010 calendar year.** The last disbursement of US$200 million took place in December 2010, following the previous US$200 million tranche in August. Additionally, in 2011 the IADB disbursed a US$50 million PBL for Human Capital Protection and another US$60 million PBL for Public Financial and Performance Management was approved in April 2011. Furthermore, the IADB has had a long relationship with the MoF, the Office of the Prime Minister, and the PIOJ providing technical assistance in public financial management, budget processes, central government operations, and investment prioritization.

Box 2: Good Practice Principles on Conditionality

Principle 1: ***Reinforce ownership.***
The proposed DPL was developed within the objectives of the Government's Medium-Term Socio-Economic Policy Framework and 25-year National Development Plan – Vision 2030, which is being widely consulted with stakeholders and broader civil society and which will establish clear development priorities. The priority legislative agenda is developed in consultation with the Parliamentary leadership on an ongoing basis. The Bank support focuses on (1) promoting fiscal sustainability through controlling overall public sector balances and debt generation; (2) increasing the efficiency of public financial management and budgeting processes; and (3) reducing distortions and enhancing the efficiency of the tax system. These focus areas, including the rationalization of Public Bodies, have all benefitted from broad political support. The DPL is strongly underpinned by prior and ongoing analytical and fiduciary work, including the Country Economic Memorandum (2011), Poverty and Social Impact Assessment (2011), Poverty Assessment (2006), the CFAA/CPAR (2006), and PEFA (2007), as well as non-Bank AAA, including the Matalon Report on Tax Reform (2004) and the IMF/CARTAC report on Tax Incentives (2008).

Principle 2: ***Agree upfront with the Government and other financial partners on a coordinated accountability framework.***
The Bank's support is summarized in a brief and focused policy matrix. The Bank, the IADB, and the Caribbean Development Bank (CDB) are providing support in the form of loans or contingent credit. The IMF has an SBA of SDR820.5 million for Jamaica. The Bank, the IMF, and the IADB draw on the country's development plan, thereby ensuring coordination among them and consistency of support. All three institutions have been supporting measures to improve fiscal and debt management, rationalize Public Bodies, and strengthen tax administration and policy.

Principle 3: ***Customize the accountability framework and modalities of Bank support to country circumstances.***
The Country Financial Accountability Assessment (CFAA), completed in 2006, indicates that the fiduciary environment in Jamaica is generally adequate, stating that the treasury management is solid and the internal control has in place a legal framework and independence, which are the basis for a sound Public Financial Management (PFM) system. The funds from the proposed DPL would be handled through this system.

Principle 4: ***Choose only actions critical for achieving results as conditions for disbursement.***
The Bank's policy matrix has only seven prior actions (Annex 1). They address key development policies prioritized in the CPS including actions in promoting fiscal and debt sustainability to enhance growth and reduce poverty and inequality.

Principle 5. ***Conduct transparent progress reviews conducive to predictable and performance-based financial support.***
As agreed with the Government, this DPL is the second in a series of two programmatic operations, timed to meet the country's financing needs, and is to be evaluated and monitored for results. Monitoring and evaluation of the program will take place within the government's own processes. The policy matrix contains ten outcome indicators (Annex 1), which are assessed as part of the operation implementation and are closely linked to the supported policy actions.

C. Relationship with Other Bank Operations

100. **The proposed operation is the second in the programmatic series of two single-tranche loans focused on fiscal sustainability**. The proposed FSDPL2 advances the reform program supported under the FSDPL1 by supporting the continuation and extension of the GoJ

program in FY2009/10. Moreover, the FSDPL series builds upon the initial achievements supported by the previous Fiscal and Debt Sustainability DPL, which was approved in January 2009. Finally, proposed FSDPL2 is also designed to complement the ongoing and planned investment lending program under the current CPS by supporting the GoJ efforts to provide a stable macroeconomic framework and improved public sector effectiveness to stimulate growth and fund priority social and investment programs.

101. **The actions supported by the proposed operation are part of a longer standing policy dialogue that has been supported through both AAA and lending activities.** The current fiscal challenges underscore the importance of this operation in helping the Government maintain social and economic gains from other Bank-financed operations and in helping create the environment for further support. Consistent with the overarching themes of economic stability and promotion of inclusive and sustained growth in the Bank's program, the gains from this DPL are expected to minimize delays in existing Bank-financed projects in education, health, social protection, basic infrastructure and disaster management. They will also reduce the risk to the recent Jamaica Energy Security and Efficiency Enhancement loan for US$15 million (P112780).

102. **A Trust Fund secured from DFID is designed to support the proposed reform actions under the FSDPL2.** The World Bank and DFID have signed an agreement to jointly support reforms in the areas of debt management, parliamentary oversight of budgeting processes, and improved communication of government reforms through a Technical Assistance (TA) Trust Fund. DFID will provide £920,000 over a three-year period to finance TA activities under Bank management, and the implementation of these activities in all areas has commenced.

D. Lessons Learned

103. **The Bank has maintained an active engagement with the GoJ by supporting the Government program through a series of Country Partnership Strategies, and this experience has informed the design of the proposed operation.** Key lessons relevant in the context of lending operations were that lending activities should take into account fiscal constraints and consider the implementation capacity of government agencies, which restricts the effectiveness of lending in some cases. Bearing these lessons in mind, the previous Fiscal and Debt Sustainability DPL (January 2009) and the first programmatic Fiscal Sustainability DPL (February 2010) were aligned with the Government's policy reform program and its institutional capacity. Moreover, the disbursement amount of the FSDPL1 was adjusted during the operation preparation in order to align the amount with the Government liquidity needs. The proposed programmatic FSDPL2 builds on the success of the previous operations.

104. **Several important lessons have been learned from the Implementation Completion and Results Report (ICR) of the 2009 Fiscal and Debt Sustainability DPL**. The lessons from the ICR (Report No. ICR00001658) include (i) the importance of timing of the operations, taking into consideration Government financing needs as well as the momentum for reform; (ii) use of the programmatic approach to frame the reform program in a medium-term perspective; and (iii) accompanying development policy lending with technical assistance (TA) and capacity building. The proposed FSDPL2 takes all of these suggestions on board by supporting the continuation of

the GoJ reform program in the context of a programmatic series and being accompanied by a large TA component in support of the DMU reforms.

105. **Aspects of the previous operation—including the JDX, sequencing of the reform agenda, and the setting of triggers—also provided important lessons for the design of FSDPL2**. The success of the JDX underscored both the Government's commitment to reforms and the broad consensus among stakeholders on the urgency and necessity of the Government's actions. The Government's sequenced approach to reform implementation by resolving fiscal and debt challenges first and then moving on to the growth agenda has shown the importance of aligning the Bank support to government priorities. Finally, the formulation of the investment prioritization and MTEF triggers as covering all MDAs in the span of one year—which has been subsequently revised to six largest ministries accounting for 91 percent of central government spending—has shown the team that setting highly ambitious targets may not be consistent with a sequenced approach to reform phase-in, the latter being the preferred method of reform implementation according to international experience.

E. Analytical Underpinnings

106. **The proposed FSDPL2 supports the Government's medium-term development strategy, and draws upon a large body of analytical work**. Within this framework, it focuses on policies and institutional aspects related to fiscal and debt sustainability. Box 3 below presents the links between prior actions and various AAA work.

Box 3: Links between DPL and Prior Analytical and Fiduciary Work

Analytical Reports — Recommendations		FSDPL2 Actions: Annex 1
Poverty Assessment (2006) Report. No. 35882-JM	Maintain macroeconomic stability, notably through low inflation, to avoid "taxing" the poor.	(1), (2)
	Reduce payroll taxes and increase the value added tax [e.g., by expanding coverage of the base] to reduce the wage wedge and increase labor demand.	(6), (7)
Country Economic Memorandum (2003) Report No. 26088-JM	Reduce growth of public sector wage bill.	(1), (3)
	Privatize public entities and reduce contingent liabilities.	(2), (3)
	Expand the tax base.	(6), (7)
	Maintain credible macro policies.	(1)
Country Economic Memorandum (2011) Report No. 60374-JM	Reduce tax distortions	(6)
	Reduce debt burden	(1), (2)
	Increase fiscal space for productive capital spending	(1), (2)
Public Expenditure Review (2005) Report No. 29546-JM	Make sustained reduction in the debt a Government priority.	(1), (2)
	Reduce contingent liabilities (arising from deferred financing and from public sector loans such as in sugar	(2)

	and highways), and make them more transparent.	
	Rationalize the tax system to reduce the wide dispersion of effective rates.	(6)
Fiduciary Reports — Recommendations		
Country Fiduciary Assessment (CFAA/CPAR 2006) Report No. 34962-JM	Address the fundamental issues of indebtedness and efficiency of expenditures in consideration of the fiscal situation.	(1), (2)
	Move to a Medium-Term Expenditure Framework to improve the predictability of the budget and the link between policy, planning and budget allocation.	(5)
	Improve the quality and timeliness of financial reporting.	(5)
	Expand oversight coverage of public enterprises by Parliament and the Auditor General.	(1)
PEFA (2007)	Expand coverage of effective fiscal controls to include off-budget entities.	(1), (2)
	Improve effectiveness of the Audit Committees and Auditor General, *inter alia*, through more timely submission of financial statements.	(1)
	Improve fiscal discipline and strategic allocation of resources.	(1), (5)
Non-World Bank Reports		
CARTAC/IMF: Jamaica: Strategy for Reform of Tax Incentives (2008)	Grant no new tax holidays, and phase out existing holidays.	(6)
	Repeal or scale back significantly the powers of the Minister of Finance to grant discretionary waivers of taxes.	(6)
	Develop systematic costing of all expenditures, to be included in tax expenditure budgets published with annual budgets.	(1), (5)
Tax Policy Review Committee (Matalon report) (2004)	Reduce exemption list for the GCT.	(6)
	Increase individual income tax threshold.	(6)
	Amalgamate the various payroll taxes.	(7)

F. Country Consultations

107. **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 PSTU 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.

108. **Moreover, specific consultations regarding the reforms supported by FSDPL2 have been undertaken with a broad group of stakeholders**. Six consultations were organized in Jamaica in 2010, including the Cabinet and members of Parliament. There were also a number of video and audio conferences with local counterparts. The Bank benefitted from interaction with the MoF, the Office of the Prime Minister (specifically the Public Sector Transformation Unit and representatives from the Cabinet Office), the PIOJ, the Bank of Jamaica, Tax Administration Jamaica, the AG Office, Petroleum Corporation of Jamaica, the Development Bank of Jamaica, and the Office of the Services Commission. Consultations were also held with the International Development Partners and civil society groups, including academia and students who attend a discussion at the University of the West Indies in September 2010. The Bank also benefitted from discussions with select heads of the various Enterprise Teams responsible for leading the divestment process of specific government assets (including Sugar Estates, Air Jamaica, Clarendon Alumina Partners and the Pegasus Hotel).

109. **The stakeholders were upbeat about the Government's economic reform program as the GoJ successfully completed a historic JDX and tabled Jamaica's first consolidated budget in Parliament**. To maintain the momentum, the stakeholders identified a number priority areas for support: (i) implementation of stronger governance and fiscal responsible procedures; (ii) debt and fiscal sustainability to achieve economic stability and the fiscal space needed to undertake critical public sector investment in support of long-term growth; (iii) rationalization of the government; and (iv) continued tax reforms to maximize revenue collection while improving and business competitiveness. The impact of the recent economic crises has been pronounced in terms of limiting tax reforms, which compromises the government's ability to meet the agreed deliverables. The broad consensus among the Development Partners was that progress on the agreed reforms has been uneven and that the process of legislative changes is quite lengthy and much needed capacity strengthening in a number of institutions have been either delayed or postponed.

G. Poverty and Social Impacts

110. **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.

111. **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. Annex 9 discusses these PSIA findings in some detail, while the paragraphs below summarize the main results. The poverty and distributional impacts of other aspects of the Government's program are expected to be broader in nature and in line with the arguments of the previous paragraph.

112. **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 with a general equilibrium model of Jamaica coupled to a micro-accounting module for translating macro- and sector-level changes into poverty and distributional outcomes 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.

113. **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). 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. Should some of the non-eligible households fall below the poverty line when some family members lose jobs as a result of the rationalization program, these households would become eligible for PATH and would be protected under that program. 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.

114. **Despite the limited overall impact, qualitative work has revealed substantial vulnerabilities in the sugar sector.** Many members of rural communities which previously relied on income from sugar factories/estates have resorted to "hustling": selling juices, peppers, limes, and other small crops or becoming taxi drivers. 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 borrowed in anticipation of receiving STP but have experienced difficulties in collecting payments due to complicated procedures (which require opening one or more bank accounts) and being offered in-kind payments (e.g., motorcycles) instead of cash. In some cases, parents resorted to limiting the school attendance of their children to two-three days per week and some households reduced their consumption to less than two full meals per day and/or started stealing sugar cane from the fields to supplement the nutritional intake. 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.

115. **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: after one year, those who received training have a probability of getting a job more than 6 percentage points higher than those who did not get training.

116. **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.[18] While a detailed impact evaluation of the PATH program is ongoing, existing evidence indicates that the program targeting is good with most participants poor or close to being poor. PATH is also piloting a "Steps to Work" initiative aimed to help working able adults in PATH families to engage in activities that will help them find and retain gainful employment such as job search assistance, medical education, training, and small business assistance. 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.

[18] PATH or Program for the Advancement through Health and Education is a conditional cash transfer (CCT) program geared to provide cost effective social assistance to the extremely poor in exchange of them complying with conditions that promote the development of their human capital. The largest proportion of beneficiaries is drawn from the poorest quintile (poorest 20 percent), which is better targeting when compared to many similar programs in the LAC region. The program's benefit level were adjusted twice in 2008: once to keep with inflation and maintain its purchasing power (April 2008) and once to allow for higher incentives for secondary school kids and boys at all grade level to encourage them to attend school and complete high school (December 2008). In response to the financial crisis, the government has expanded coverage in 2009 by 10 percent to reach 327,000 beneficiaries at the end of December 2009 with plans to reach 360,000 beneficiaries by March 2010.

H. Environmental Aspects

117. **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.

118. **Environmental and climate change considerations feature prominently in the Government's long-term strategic plans**. The GoJ through *Vision 2030 Jamaica: National Development Plan (2009-2030)* has outlined its priorities and actions with regard to environment and climate change in the combined sector plan on Natural Resources and Environmental Management and Hazard Risk Reduction and Climate Change (2009). The combined sector plan highlights the key challenges and identifies four broad areas for priority attention as follows: Biodiversity and Ecosystem Management; Natural Resources Management; Environmental Governance; and Natural Hazards Mitigation and Climate Change. A primary focus of Vision 2030 Jamaica is to adapt to climate change through mainstreaming climate risks into government policies and plans, identifying strategic priorities and adoption of best practice, as well as promoting greater public awareness of the issues. Vision 2030 Jamaica is further complemented by the Second National Communication, which spans from 2006 through 2011. It sets out steps taken or envisaged to facilitate adequate adaptation to climate change for the water resources, coastal resources, human health, human settlement and agricultural sectors.

I. Fiduciary Aspects

Public Financial Management System

119. **The GoJ is making progress in improving public financial management system to mitigate fiduciary risks and the overall fiduciary environment is considered appropriate for development policy loan support.** The 2007 Public Expenditure and Financial in Accountability (PEFA) Assessment identified a number of areas where the PFM system was performing adequately, but also noted some areas for improvement. The PEFA Assessment built

on the assessment of Jamaica's PFM environment during a joint Country Fiduciary Assessment (CFAA/CPAR) that was conducted in 2006. The two assessments provide an indication of strengths and weaknesses in the management of public finances. The areas of adequate performance identified during the assessment included revenue forecasting, budget classification, and oversight of fiscal risk. On the other hand, areas where improvement is required included multiyear fiscal planning, expenditure policy, quality and timeliness of the preparation of annual financial statements, external audits payroll controls and controls for non salary expenditure. Significant delays were noted in the preparation and submission of financial statements for audit.

120. **The Government has adopted a number of key recommendations of the Country Fiduciary Assessment to address existing weaknesses**. The key measures are centered on the implementation of the FRF and the introduction of an investment prioritization system together with the adoption of the elements of a MTEF. In addition, the Government is working on strengthening the technical basis of budgeting and financial management through: (i) improving accounting and financial reporting and eventually moving to an accrual system of accounting; (ii) introducing an Integrated Financial Management Information System (IFMIS); (iii) strengthening internal control and internal audit systems; and (iv) strengthening external audit by providing more independence and improving the capacity of the office of the Auditor General. The GoJ is making progress in improving public financial management system to further mitigate fiduciary risks and the overall fiduciary environment is considered appropriate for development policy loan support.

121. **Public procurement capacity in Jamaica is still evolving.** The Government adopted the public sector procurement policy with the objectives of: (i) maximizing economy and efficiency in procurement; (ii) fairness, integrity and public confidence in the procurement process; (iii) sustainable development through minimizing negative impact on the environment; and (iv) fostering national growth and development. The Government adopted appropriate rules and regulations for improving public procurement under the Contractor-General Act of December, 2008 and also amended the same in October 2010 and January 2011 for further improvement. In addition, the Government also prepared a Public Procurement Handbook. However, the challenges for public procurement in Jamaica are to make the procurement system more efficient by improving procurement performance and effective monitoring. Specific issues which could be addressed within the existing legal framework include, *inter alia*: addressing delays in contracting caused by bottlenecks in the contract approval process and strengthening the internal control and internal audit of procurement activities in public agencies and project implementing units.

Foreign exchange system

122. **The IMF conducted a safeguards assessment of the BoJ and finalized its report in June 2010.** The assessment found adequate external audit and financial reporting frameworks at the BoJ. However, the report concluded that the legal structure needed strengthening to increase operational independence and autonomy. It also identified some areas for improvement in the internal audit function of BoJ. In addition, the report recommended measures to further strengthening the effectiveness of the bank's governance and oversight mechanisms. The report found that the control environment within which foreign exchange is managed is satisfactory. The finding was similar in the Financial System Stability Assessment, which was carried out in

2006 jointly by the IMF and the World Bank. The financial statements of BoJ are audited by an international firm of accountants and are published on the BoJ's website. Any findings and recommendations issued as a result of the audit exercises are considered by an Audit Committee of the Board. The management of BoJ agreed with the findings of the Safeguard Assessment Report and has commenced implementation some of its main recommendations.

123. **The proposed FSDPL2 will follow the Bank's disbursement procedures for development policy support.** Loan proceeds will be disbursed once effectiveness has been declared. The proceeds of the loan will be disbursed into an account designated by the Borrower that is part of the country foreign exchange reserves account at the Central Bank of Jamaica. The administration of this loan will be under the responsibility of the Ministry of Finance. Given that the Borrower's current public financial management system is satisfactory and the fiduciary environment at the Central Bank of Jamaica is adequate, no specific audit of the deposit account will be required.

J. Loan Administration

124. **The Bank will disburse the loan proceeds into a BoJ account denominated in US dollars.** The BoJ will immediately credit the disbursed amounts to the account of the Ministry of Finance. Within a week of this funds transfer, the MoF will accordingly provide the Bank with a written confirmation.

K. Monitoring and Evaluation Arrangements

125. **The MoF and the PIOJ will play the primary role in coordinating monitoring and evaluation of program implementation.** The government appointed a point person in the PIOJ for coordinating the implementation of reforms supported by the FSDPL2. The Government and the Bank will take advantage of several important data sources to assess progress of the FSDPL2 and the DPL series more broadly, including:

- Central and nonfinancial public sector budget monitoring from the MoF
- Statistical Institute of Jamaica
- Central Bank of Jamaica reports and analysis
- Reviews and analyses of laws and regulations by the Bank and other stakeholders
- Data from key Government agencies such as the PIOJ and the Auditor General
- Financial audits and follow up of CPAR and CFAA recommendations
- Bank, CDB, IADB and IMF supervision missions and reports. The World Bank has been closely coordinating with the IMF on monitoring the economic and financial situation.

L. Risks

126. **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.** Risks and mitigation measures are summarized below.

127. **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. Downside risks to growth in Jamaica's main trading partners could jeopardize the recovery in tourism and remittances. Similarly, credit markets and the reserve coverage could be adversely affected should international financial conditions deteriorate. 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. The recent public sector salary increase—mandated by a Supreme Court ruling—has further raised the wage bill to GDP ratio and has made the planned HR reforms even more urgent. The delays in completing the fourth and fifth reviews under the IMF SBA program could affect progress towards medium-term fiscal targets.

128. *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. Although the IMF reviews are delayed, the GoJ and the IMF maintain a close dialogue and the Government is committed to medium-term fiscal sustainability. The GoJ is preparing a supplementary budget to finance the public sector salary increase without affecting the primary balance targets. Moreover, the Government was able to negotiate a three-year period over which the back wages would be paid, demonstrating its commitment to limiting the growth in the wage bill and protecting fiscal balances. To ensure the longer-term sustainability of the wage bill, the GoJ has prepared a position paper outlining a drastic reduction in the number of wage bargaining units. 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.*

129. **Political:** The current Government came into power in the fall of 2007. It has a small majority in Parliament. Although new elections are not due until 2012, it is possible that elections could take place earlier. 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 also be reversed at a later date due to political pressures. 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.

130. *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. 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.

131. **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.

132. *Mitigation: Jamaica has well established institutions. The Government is committed to reform and the development partners are committed to providing support and technical assistance to improve institutional capacity and advance 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. The Bank is executing a £920,000 grant from DFID to provide technical assistance for institutional changes including restructuring of the Debt Management Unit, Parliamentary oversight of budgetary processes, and the Government communication strategy.*

133. **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 GoJ 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.

134. *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 IADB, the GoJ is preparing a strategic program for climate adaptation under the Pilot Program for Climate Resilience (PPCR).*

ANNEX 1: OPERATION POLICY MATRIX

PROGRAM MATRIX FOR THE PROPOSED SECOND PROGRAMMATIC FISCAL SUSTAINABILITY DEVELOPMENT POLICY LOAN (FSDPL2)

Government Objectives	Issues	Policy Actions under the Fiscal and Debt Sustainability DPL (January 2009)	Policy Actions under the First Fiscal Sustainability DPL (FSDPL1) (February 2010)	Policy Actions Supported by the Second Fiscal Sustainability DPL (FSDPL2)	Expected Outcomes from FSDPL2 (by March 2012)
Pillar 1. Enhancing Fiscal and Debt Sustainability					
1.1 Fiscal Responsibility Framework	*Containing the growth of public debt and reducing the overall debt burden is critical to establish fiscal solvency, flexibility, and space for social and investment spending.*	The MoF has submitted to the Cabinet proposed amendments to the Financial Administration and Audit Act and the Public Bodies Management and Accountability Act, which introduce a Fiscal Responsibility Framework (FRF).	The Borrower, through MoFPS, has submitted to the Borrower's legislature on February 5, 2010, for approval thereby, a bill containing the proposed amendments to the Borrower's Financial Administration and Audit Act and the Borrower's Public Bodies Management and Accountability Act, for purposes of introducing into said legislation a fiscal responsibility framework.	(1) (a) The Borrower has introduced a fiscal responsibility framework into its legislation, as evidenced by the enactment, by the Borrower's Parliament of: (i) the FAA (Amendment) Act which amends the FAA Act to, *inter alia*, ensure accountability for applying principles of prudent fiscal management; and (ii) the PBMA (Amendment) Act which amends the PBMA Act to, *inter alia*, increase the transparency and comprehensiveness of data on fiscal operations presented to the Borrower's Parliament; and (b) The Borrower has started to implement the fiscal responsibility framework described in the FAA (Amendment) Act, as evidenced by a letter issued by the Borrower's Financial Secretary dated July 18, 2011 demonstrating how said fiscal responsibility framework has been implemented, through, *inter alia*: (i) the submission	(1) The FY2011/12 budget process, which commences in the final quarter of CY2010, is developed within the FRF and is bound by the FRF's medium term targets for debt creation and the overall fiscal deficit.

Government Objectives	Issues	Policy Actions under the Fiscal and Debt Sustainability DPL (January 2009)	Policy Actions under the First Fiscal Sustainability DPL (FSDPL1) (February 2010)	Policy Actions Supported by the Second Fiscal Sustainability DPL (FSDPL2)	Expected Outcomes from FSDPL2 (by March 2012)
				by the Borrower's Minister of Finance to the Borrower's Parliament on April 28, 2011 of the Fiscal Policy Paper; (ii) the submission by the Borrower's Auditor General to the Borrower's Parliament on May 27, 2011 of a report indicating that the Fiscal Policy Paper complies with the principles of prudent fiscal management specified in Section 48D of the FAA (Amendment) Act; and (iii) the submission by the Borrower's Minister of Finance to the Borrower's Parliament in April 2011of estimates of revenue and expenditure for Public Bodies with respect to the ensuing financial year as specified in Section 2A of the PBMA (Amendment) Act.	
		The MoF has developed and approved an action plan for the consolidation of Public Bodies' and Central Government accounts.	The Borrower, through MoFPS, has submitted to the Borrower's legislature on February 5, 2010 for approval a bill containing the proposed amendments to the Borrower's Public Bodies Management and Accountability Act, for purposes of vesting in the Borrower's legislature the		

Government Objectives	Issues	Policy Actions under the Fiscal and Debt Sustainability DPL (January 2009)	Policy Actions under the First Fiscal Sustainability DPL (FSDPL1) (February 2010)	Policy Actions Supported by the Second Fiscal Sustainability DPL (FSDPL2)	Expected Outcomes from FSDPL2 (by March 2012)
			authority to approve the annual budget of Public Bodies.		
		The MoF has: (a) ceased authorization of deferred financing in the Central Government since 2005; (b) communicated its commitment to the Cabinet (on December 10, 2007) and Parliament (on December 11, 2007) not to utilize any deferred financing arrangement.	The Borrower's legislature has enacted the Act to Amend the Financial Administration and Audit Act of 2010 dated January 29, 2010 which eliminated MoFPS' authorization to approve any deferred financing of Public Bodies.		
1.2 Debt Management	*Debt management activities are fragmented and lack medium- and long-term strategic vision*		The Borrower, through MoFPS, has officially announced on January 14, 2010 a domestic debt exchange offer to reduce the Borrower's net present value of its public debt.	(2) (a) The Borrower has submitted on July 12, 2011 to the Borrower's Parliament, for approval thereby, a bill entitled the Public Debt Management Act, 2011, 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 with the purpose of providing strategic guidance on debt management, and chaired by the Borrower's Financial Secretary); and (iii) ensuring	(2) (a) A detailed borrowing plan is published by the Debt Management Unit, which fully operationalizes the Medium Term Debt Management Strategy; and (b) Quantitative limits on instruments and lenders are established in line with the overall budget ceiling established by the FRF.

Government Objectives	Issues	Policy Actions under the Fiscal and Debt Sustainability DPL (January 2009)	Policy Actions under the First Fiscal Sustainability DPL (FSDPL1) (February 2010)	Policy Actions Supported by the Second Fiscal Sustainability DPL (FSDPL2)	Expected Outcomes from FSDPL2 (by March 2012)
				prudent management of government guarantees and contingent liabilities, as evidenced by a letter issued by the Clerk to the Houses of the Borrower's Parliament dated July 14, 2011; and (b) the Borrower has started to implement the time-bound action plan dated December 1, 2010 for purposes of strengthening the institutional and technical capacity of the Borrower's Debt Management Unit, including: (i) the submission by the Borrower to the Borrower's Parliament on July 19, 2011, for ratification thereby, of the Civil Service Establishment (General) (Amendment) (No. 2) Order, 2011 which will establish a new functional organization structure with front, middle and back offices, as evidenced by a letter issued by the Clerk to the Houses of the Borrower's Parliament dated July 20, 2011; and (ii) the development of a medium term debt management strategy, as evidenced by the submission to the Borrower's Parliament of said debt	

Government Objectives	Issues	Policy Actions under the Fiscal and Debt Sustainability DPL (January 2009)	Policy Actions under the First Fiscal Sustainability DPL (FSDPL1) (February 2010)	Policy Actions Supported by the Second Fiscal Sustainability DPL (FSDPL2)	Expected Outcomes from FSDPL2 (by March 2012)
				management strategy on April 28, 2011 and publication on MoF's website (http://www.mof.gov.jm).	
1.3 Rationalization of Public Bodies	*The Government's public sector rationalization plan supports the objectives of achieving fiscal sustainability and growth through a transformed cohesive public sector that is performance-based, efficient, cost effective, and service oriented.*	The MoF has approved a plan to achieve the rationalization of Public Bodies and the following actions have been taken by the GoJ consistent with the plan: (i) the divestiture of forty-nine percent of Petrojam Limited and significant advances in the divestiture of the GoJ's sugar cane industry assets and Petrojam Ethanol Limited, as evidenced by the Heads of Agreement signed by the GoJ with a potential buyer on June 27, 2008; (ii) the engagement of privatization advisors for the divestment of Air Jamaica Limited; (iii) the arrangement reached by the GoJ, in principle, to privatize Clarendon Alumina Partners, an entity which represents the GoJ's equity in the Jamalco refinery; (iv) the preparation of a draft information	The Borrower's Cabinet has approved on January 8, 2010, a strategic plan for restructuring the Borrower's public sector 2009-2011.	(3) The Borrower has continued to implement the plan dated July 3, 2008 to achieve the rationalization of Public Bodies, as evidenced by the divestiture of: (i) Air Jamaica (pursuant to the Contribution and Share Issuance Agreement, Personnel Provision Agreement and Transition Services Agreement, all signed on April 30, 2010); (ii) three sugar estates (Monymusk, Frome, Bernard Lodge) (pursuant to the Agreement for Sale and Purchase signed on July 30, 2010); and (iii) the Pegasus Hotels of Jamaica Limited (pursuant to the Share Sale and Purchase Agreement signed on September 14, 2010).	(3) The winding-up of inactive Public Entities has been completed (as of December 2009, 38 inactive bodies remain to be wound-up). (4) Pending divestments of public bodies that were slated for privatization have been completed.

Government Objectives	Issues	Policy Actions under the Fiscal and Debt Sustainability DPL (January 2009)	Policy Actions under the First Fiscal Sustainability DPL (FSDPL1) (February 2010)	Policy Actions Supported by the Second Fiscal Sustainability DPL (FSDPL2)	Expected Outcomes from FSDPL2 (by March 2012)
		memorandum in respect of the privatization of Mavis Bank Coffee Factory Ltd. to be issued to prospective bidders; (v) the identification of fifteen entities (including Wallenford Coffee Company Ltd. and Caymanas Track Limited) of commercial nature for privatization.			
1.4 Improving Efficiency and Effectiveness of Public Service Compensation and Incentives.	*The wage bill is estimated at 10.4 percent of GDP in FY2010/11 and managing this component of public expenditure is a priority.*	The GoJ has completed an education sector employment survey which is the first step of an employment survey of the public sector to be included in a study to evaluate a medium-term strategy for public sector workforce skills needs and compensation.	The Borrower has completed: (a) a separate employment survey of all employees in each of the following sectors: (i) health; (ii) national security; (iii) finance; and (iv) agriculture; and (b) a separate employment survey of administrative employees in the education sector; said surveys aimed at establishing the number of employees in the respective sectors. The Borrower, through MOFPS, has issued Circular No. 6 ref. 59/33, dated February 2, 2010 approving a wage/salary freeze for all of the Borrower's public sector employees until March 31, 2012, and said	(4) The Borrower, through MoF, has completed employment surveys (censuses) for all non-self financing Public Bodies (fully-funded by the Borrower and partially funded by the Borrower), as evidenced by the letter issued by the Borrower's Financial Secretary dated May 2, 2011 including all completed surveys.	(5) A centralized HRM database covering total public employment is fully functional. (6) The wage bill as a percentage of GDP is at or below 10 percent (Baseline: 11.8 percent of GDP by end- FY2009/2010). (7) Transition teams are in place in at least 10 Ministries, Departments and Agencies (MDAs) to implement the recommendations of the Public Sector Transformation Unit.

Government Objectives	Issues	Policy Actions under the Fiscal and Debt Sustainability DPL (January 2009)	Policy Actions under the First Fiscal Sustainability DPL (FSDPL1) (February 2010)	Policy Actions Supported by the Second Fiscal Sustainability DPL (FSDPL2)	Expected Outcomes from FSDPL2 (by March 2012)
			resolution is in full force and effect.		
Pillar 2. Increasing the Efficiency of Financial Management and Budget Processes					
2.1 Achieving Fiscal Discipline and Strategic Allocation of Resources	*Ensuring the proper appraisal of investment projects with a view to improving resource allocation and productivity of spending.*	The Public Sector Modernization Division of the Cabinet Office has prepared a draft technical framework for the capital investment prioritization, establishing the link between policy, planning and budget allocation.		(5) (a) The Borrower has implemented a new methodology for evaluating capital investments in six line ministries (MoF, 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 (Ref. No. 907/120) dated January 28, 2011 of processes to be followed to prioritize the investment program; and (b) The Borrower has introduced a medium term expenditure framework in six pilot line ministries (MoF, 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 by the Borrower's Minister of Finance to the Borrower's Parliament on April 28, 2011 of the Fiscal Policy Paper,	(8) The Government has fully implemented the new methodology for evaluating capital investments in six pilot ministries. (9) The six pilot Ministries, Departments, and Agencies (MDAs) have submitted their MTEFs.

Government Objectives	Issues	Policy Actions under the Fiscal and Debt Sustainability DPL (January 2009)	Policy Actions under the First Fiscal Sustainability DPL (FSDPL1) (February 2010)	Policy Actions Supported by the Second Fiscal Sustainability DPL (FSDPL2)	Expected Outcomes from FSDPL2 (by March 2012)
				including a fiscal responsibility statement outlining how fiscal targets will be achieved; and (ii) the inclusion in the Budget Call 2011/2012 Financial Year (Ref. No. 907/120) dated January 28, 2011 of key elements of the decision processes for the medium term expenditure framework including budget ceilings and procedures for cabinet decisions on medium term priorities.	
2.2 Improving Public Financial Management	*Key challenges are institutional foundations such as staff resources, and training and guidelines on the preparation and costing of sectoral strategies.*	The Auditor General is implementing its action plan for institutional and professional capacity building; and the Minister of State in the Ministry of Labor and Social Security and the Deputy Leader of the House, on behalf of the MoF, have submitted to Parliament for approval a proposal to update legislation governing the internal audit departments and audit committees (the Financial Administration and Audit (Amendment) Act, 2008).	The Borrower's Auditor General has continued to implement an annual operational plan within the framework of the five-year strategic corporate plan including relocation of its staff to updated physical facilities, and completion of 90 percent of planned audits.		

Government Objectives	Issues	Policy Actions under the Fiscal and Debt Sustainability DPL (January 2009)	Policy Actions under the First Fiscal Sustainability DPL (FSDPL1) (February 2010)	Policy Actions Supported by the Second Fiscal Sustainability DPL (FSDPL2)	Expected Outcomes from FSDPL2 (by March 2012)
Pillar 3. Reducing Distortions and Enhancing the Efficiency of the Tax System					
	High tax rates and complicated procedures to comply with tax policy reduce competitiveness and encourage tax evasion and avoidance.	The MoF has: (a) issued: (i) the Provisional Collection of Tax (Income Tax) Order, 2008 on June 20, 2008 to increase the threshold above which individual income tax is due; (ii) the Provisional Collection of Tax (General Consumption Tax) Order, 2008 on May 9, 2008 to simplify the general consumption tax on motor vehicles; and (iii) the Provisional Collection of Tax (Stamp Duty) Order, 2008 on April 11, 2008 to simplify the special consumption tax on tobacco; and (b) submitted to Cabinet a proposal for amalgamation of statutory payroll deductions.	The Borrower has implemented three tax packages dated May 6, 2009, September 29, 2009 and December 23, 2009, respectively, for purposes of: (a) improving efficiency and uniformity of tax policy by reducing the number of items excluded from taxation; and (b) improving revenue generating capacity through increasing excise tax rates on several items.	(6) The Borrower has continued to implement a uniform tax code by instituting interim measures (including, *inter alia*, freezing the issuance of new statutory waivers and reducing the issuance of discretionary waivers by the Minister of Finance) until a tax policy reform is implemented, as evidenced by: (i) the Borrower's Cabinet Decision (No. 28/2010) dated July 21, 2010; (ii) the measures adopted by the MoF dated November 15, 2010 and published on the MoF' website on November 15, 2010 (www.mof.gov.jm/pressreleases); and (iii) a letter from the Borrower's Financial Secretary dated July 14, 2011 summarizing said Cabinet Decision and the November 15, 2010 measures.	(10) Improved PEFA rating of "Collection of tax payments" to B in FY2011/12 from a baseline of: D+ in 2007/08.
	Paying taxes in Jamaica is extremely costly in terms of time and the number of procedures	The GoJ has: (a) issued a six-month tax amnesty for taxpayers with arrears due and payable on or before April 11, 2008; and (b) published a plan to continue its efforts to reduce tax	The Borrower has continued to implement its tax administration reform project, which commenced on January 12, 2009, as evidenced by the establishment of a large tax	(7) (a) (i) The Borrower's Parliament has approved the consolidation of the departments of Inland Revenue, Taxpayer Audit and Assessment, and Tax Administration Services into a	

Government Objectives	Issues	Policy Actions under the Fiscal and Debt Sustainability DPL (January 2009)	Policy Actions under the First Fiscal Sustainability DPL (FSDPL1) (February 2010)	Policy Actions Supported by the Second Fiscal Sustainability DPL (FSDPL2)	Expected Outcomes from FSDPL2 (by March 2012)
	required to complying with the tax rules.	arrears and improve revenue collections during its fiscal year 2008/2009 and beyond.	office, a customer care center, a forensic data mining unit, a high intensity unit and a special enforcement team.	single tax administration department called Tax Administration Jamaica, as evidenced by the enactment of the Revenue Administration (Amendment) Act, 2011, dated April 1, 2011; and (ii) the Borrower has prepared a detailed transition plan for implementing the organizational, administrative and operational changes introduced in the Revenue Administration (Amendment) Act, 2011 dated April 1, 2011, as evidenced by a letter issued by the Borrower's Financial Secretary dated July 14, 2011; and (b) 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 payments and five forms for five different taxes into one payment and one form, as evidenced by the issuance of the Income Tax (Amalgamated Payroll Remittance) Regulations,	

Government Objectives	Issues	Policy Actions under the Fiscal and Debt Sustainability DPL (January 2009)	Policy Actions under the First Fiscal Sustainability DPL (FSDPL1) (February 2010)	Policy Actions Supported by the Second Fiscal Sustainability DPL (FSDPL2)	Expected Outcomes from FSDPL2 (by March 2012)
				2010 dated November 15, 2010; (ii) the creation of client services units in large taxpayer offices to establish a one-stop shop for all tax payments (including providing fourteen different services for large taxpayers and covering one hundred forty nine of the four hundred seventy three 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 a letter issued by the Borrower's Financial Secretary dated July 14, 2011 and the upgrading of the Borrower's website for purposes of online tax filing and payment (http:/ http://www.jamaicatax-online.gov.jm).	

ANNEX 2: LETTER OF DEVELOPMENT POLICY

ANY REPLY OR SUBSEQUENT REFERENCE SHOULD BE ADDRESSED TO THE FINANCIAL SECRETARY AND THE FOLLOWING REFERENCE NUMBER QUOTED:-

Telephone No. 92-28600-16
Website: http://www.mof.gov.jm
Email: info@mof.gov.jm

MINISTRY OF FINANCE
30 NATIONAL HEROES CIRCLE
P.O. BOX 512
KINGSTON
JAMAICA

July 22, 2011

POLICY LETTER

Second Programmatic Fiscal Sustainability Development Policy Loan

Mr. Robert B. Zoellick
President
The World Bank
1818 H Street, NW
Washington DC 20433
USA

Dear Mr. Zoellick

The Government of Jamaica appreciates and welcomes the technical and financial support of the World Bank and the avenues which it opens for the successful and gradual achievement of the goals, outcomes, and reform measures articulated in Vision 2030 Jamaica - National Development Plan and the Medium Term Socio-Economic Policy Framework 2009-2012.

The Government of Jamaica (GOJ) is fully committed to the sustainable development of the country and therefore continues to undertake major structural reforms that are of paramount importance in improving the quality of life of the Jamaican people. This requires strong and sustained economic growth which will facilitate job creation and poverty reduction; greater security and safety; effective governance; as well as, education and training to boost production and productivity. Several challenges, including the heavy debt burden and the recent global economic crisis, will have to be overcome to achieve these objectives and create the appropriate framework and capacity for global competitiveness. The GOJ will take full advantage of the spirit of commitment and partnership that was engendered among key stakeholders during the preparation of the long-term development plan in order to address these and other challenges and thereby meet the GOJ's objectives.

As Jamaica strives to achieve sustainable development, continued implementation of the reform agenda is critical. The reform agenda seeks to realign the economy with sustainable, growth-oriented strategies. The GOJ's priorities for the macro-economy in the context of the Medium-Term Framework 2009 - 2012 are:

a) Prudent management of public expenditure and the national debt, through adherence to the Fiscal Responsibility Framework (FRF). The medium term goal is to achieve fiscal surpluses and reduce the debt/GDP ratio to 100 percent or less by FY2015/16.

b) Intensification of measures to improve the efficiency of financial management and budget processes within the central government. Specifically, public spending will be subject to medium term planning and improved monitoring and evaluation.

c) Enhancement of both revenue collection and equity of the tax system through improvements in tax administration and tax policy. In particular, the simplification of tax payments, improvements in customer service and the effective collection of taxes will be pursued.

I. Background

The Jamaican economy has suffered from low growth, debt overhang, a high crime rate and frequent natural disasters for decades. These challenges have been further compounded by severe growth contraction due to the recent global economic crisis. Despite difficulties, the GOJ is fully committed to proceeding with the reform agenda, and the early signs point to improvement in macro stability and debt sustainability. Jamaica's current situation has been triggered by a confluence of factors which are summarized below.

Jamaica has a history of poor economic performance. Jamaica had low growth rates despite having one of the highest investments to GDP ratio among developing countries and this contradiction is considered to be a puzzling case. Jamaica's disappointing economic performance is a case of low productivity. Once the spread of low productivity across the economy is taken into account, Jamaica becomes less puzzling. Main causes of Jamaica's low productivity are (i) high crime rates, (ii) deficiencies in human capital and (iii) fiscal distortions. The recent global crisis has further restricted the possibility for growth and the economy has contracted over three consecutive years. However, the economy is expected to recover in FY2011/12. Sound public policies and reforms will be important for improving the overall competitiveness of the Jamaican economy and creating an environment conducive to growth.

Jamaica has a high public sector debt burden. Jamaica has been among the most indebted countries in the world for more than two decades. The public sector debt to GDP ratio has remained above 100 percent since FY2001/02. The history of high debt is related to chronic fiscal deficits, weak budget coverage, and contingent liabilities arising from a number of public bodies. Public debt to GDP ratio (excluding PetroCaribe and other Public Bodies) increased to 129.4 percent by FY2009/2010 due to the adverse impact of the global crisis and the resulting contraction in the Jamaican economy.

The composition of Jamaica's public debt indicates significant exposure to currency, interest and roll-over risks. While the domestic debt exchange programme (JDX) undertaken in February 2010 was successful in reducing both the extent and propinquity of the rollover and refinancing risks in the government's debt portfolio, the overall exposure to these risks remains very high. As of March 2011, 55.4 percent of the total public debt, including government guaranteed debt was indexed or denominated in foreign currency. Variable-rate instruments accounted for 40.2 percent of the domestic and 23.8 percent of the external debt. Fifty-six percent of the domestic debt has a maturity of five years or below while 78.4 percent of the external debt has a maturity longer than 5 years.

Jamaica is subject to frequent natural disasters which has a deleterious effect on the country's capital stock. Since 2000, the estimated cost of rehabilitation work arising from the impact of these shocks accounted for an average of 5.8 percent of gross fixed capital formation.

Jamaica's business environment is uncompetitive. High crime, red tape, and heavy tax burdens are noted as significant impediments to doing business in the country. The 2010-2011 Global Competitiveness Index ranked Jamaica 95th of the 137 countries included and 18th among 25 Latin American and Caribbean countries. In terms of the business environment, Jamaica's ranking declined sharply in 2011. Out of a sample of 183 countries included in the World Bank Doing Business Survey, Jamaica ranked 81 compared to 75 previously.

II Impact of the recent International Crisis

The recent global crisis had a significant impact on the Jamaican economy that is likely to continue over the medium-term. The Jamaican economy contracted by 2.5 percent in FY2009/10, representing an acceleration in the rate of decline relative to the previous year when real GDP declined by 1.7 percent. GDP declined by another 0.6 percent in FY2010/11 and the GOJ expects recovery to 1.5 percent in FY2011/12. The impact of the external environment has been through four main transmission channels: decline in global tourism activities, the impact of declining US growth on exports and remittances, the tightening of international and domestic financial conditions, and a sharp decline in domestic demand and credit growth. Jamaica's recovery is linked to the recovery of global demand and private investment.

a) The current account deficit is estimated at 7.9 percent of GDP in FY2010/11, broadly in line with the previous year but significantly better than the 18.4 percent of GDP (deficit) recorded in FY2008/09. The deficit is expected to continue to improve over the medium-term as wage remittances and export performance, including tourism, recovers. With the support of the multi-laterals and government's policy of accessing the international capital markets solely to amortize debt, the NIR is expected to approximate US$2 billion in the medium-term.

b) Fiscal balances are expected to improve over the medium-term. Central government revenues have been constrained due to, among other things, lower payroll tax collections partly related to rising unemployment levels and contained public sector salaries; and lower collections on interest income following the debt exchange. These effects have been partly counterbalanced by increased revenue as modernization plans of the tax administration system are implemented. In terms of expenditures, interest savings and wage containment have reduced central government expenditures from 38 percent of GDP in FY2009/10 to 32 percent of GDP in FY2010/11. The most significant reduction is in domestic interest payments resulting from the debt exchange, although the government is also expected to benefit from falling external interest rates.

c) The debt to GDP ratio is expected to decrease in the medium term. Notwithstanding the challenging global environment, the public debt to GDP ratio (excluding PetroCaribe and other Public Bodies) is projected to fall gradually from the 129.4 percent of GDP in FY2010/11 to 100 percent or less by FY2015/16. Lower interest payments following the debt exchange, higher long-run growth and an improved primary balance all play a role in the downward debt dynamics. There are, however, risks to this forecast as the debt ratio remains vulnerable to external shocks, particularly large exchange rate depreciations.

d) Poverty in Jamaica has increased in recent years amidst contraction in economic activities associated with the recent global crisis. The poverty level rose to 16.5 percent in 2009 from the 9.9 percent in 2007. Poverty increased sharply in the Kingston Metropolitan Area between 2007 and 2009, increasing from 6.2 percent to 12.8 percent over the same period. This compares with an increase in poverty in rural areas from 15.3 percent to 22.5 percent.

III Structural Reforms

The GOJ fiscal sustainability reform programme is part of the medium-term socio-economic policy framework. The framework sets out the broad package of policies, strategies and programmes proposed by the GOJ for implementation over the period 2009-2012, and is focused on fiscal and debt sustainability, establishment of an efficient and equitable tax system, financial system stability and price stability. It supports the overall vision, goals and outcomes of Jamaica's long term development plan, Vision 2030, and is the vehicle that transforms these long term goals and outcomes into medium-run priorities, strategies, programmes and measures.

The fiscal sustainability programme builds upon measures implemented in the last two years and rests on three pillars: 1) Enhancing fiscal and debt sustainability; 2) Increasing the efficiency of financial management and budget processes; and 3) Reducing distortions and enhancing the efficiency of the tax system.

Enhancing fiscal and debt sustainability

The GOJ has recognized that controlling public sector balances and setting the debt to GDP ratio on a declining path requires fundamental changes in the institutional structure. International experience suggests that countries which successfully resolved debt challenges and achieved fiscal sustainability focused their reform programmes on increasing primary balances, strengthening fiscal and financial institutions, minimizing currency risks to the debt stock, and buttressing reserves. The GOJ reform programme addresses each of these elements to ensure long-term solvency, increase fiscal space, and contribute to a conducive growth environment.

The GOJ has introduced the Fiscal Responsibility Framework (FRF) to address these challenges and ensure accountability for applying principles of prudent fiscal management. The FRF was introduced as amendments to the Financial Administration and Audit Act and Public Bodies Management and Accountability Act. The amendments were approved by Parliament in March 2010 and came into effect in October 2010. The FRF is designed to strengthen the budget process by enhancing the mechanisms for transparency and establishing clearer goals, targets and limits for public spending, deficits and debt. The Framework requires the Minister of Finance to demonstrate how specific policy measures are designed to meet prudent levels of fiscal balances and debt, including official targets of a zero fiscal balance, a debt to GDP ratio of 100 percent or less and a wage/GDP ratio of 9 percent by end-FY 2015/16. The FRF also requires the Minister of Finance to increase the transparency and comprehensiveness of data on fiscal operations presented to Parliament. Specific measures include the requirement to publish, and have approved by Parliament, the budgets and corporate plans of all public bodies. All borrowing and guarantees (by the Government and Public Bodies) require the written approval of the Minister of Finance.

The GOJ Debt Management Reform Programme has been developed within the framework of a three-year action plan. The objective of this plan is to strengthen the institutional capacity for public debt and contingent liabilities management, particularly along strategic lines, but also taking into account operational dimensions. In this regard, the GOJ has initiated the restructuring of the Debt Management Unit (DMU) along the lines of international best practice in terms of having a functional organizational structure. The new structure consists of front (negotiations), middle (analysis) and back (registration, payments) offices. Further, the GOJ has submitted to Parliament a new debt bill to consolidate the existing legislative structure, introduce modern debt management practices and ensure prudent management of government guarantees and contingent liabilities. The GOJ is expecting that Parliamentary approval of the new debt bill will occur in the near future and the Government is fully committed to its implementation. The GOJ has also made progress in improving the technical capacity in the DMU and developed a Medium-Term Debt Management Strategy (MTDS).

Recognizing the threats to fiscal sustainability and driven by a vision of a more streamlined, efficient public sector, the GOJ has embarked on a programme of rationalization and restructuring of Public Bodies. The Public Bodies Rationalization Plan was originally developed in the Public Enterprise Division (PED) of the Ministry of Finance and the Public Service during FY2008/09 with a view to wind-up, merge, and privatize some 130 Public Bodies. However, the rationalization programme at the PED was later subsumed by the activities of the Public Sector Transformation Unit (PSTU), which is tasked with a broader strategic objective of reforming the public sector and preparing a master rationalization plan in this regard. A Public Sector Master Rationalization Plan (MRP) was prepared and tabled in Parliament on July 20, 2010. The MRP sought to review the functions of all Ministries, Departments and Agencies and provide clear guidelines for the implementation a Government-Wide Network and a Strategic Human Resource Management System. The GOJ is committed to augmenting the fiscal and debt sustainability agenda by fully implementing the MRP over the medium-term.

Meanwhile, plans for the winding up of inactive Public Bodies and divestment of Public Bodies scheduled for privatization have continued. The GOJ has divested its interest in Air Jamaica to Caribbean Airlines. Effective May 1, 2010, Caribbean Airlines assumed full responsibility for Air Jamaica. The GOJ acquired a 16 percent (valued at US$28.5 million) ownership of Caribbean Airlines in exchange for guaranteed airlift on routes previously serviced by Air Jamaica. The GOJ remains the owner of all of Air Jamaica's other assets, including its real estate assets and its industrial assets. Caribbean Airlines has leased some of these assets from Air Jamaica. The Development Bank of Jamaica (DBJ)—an entity tasked with divestment of certain assets— has completed the privatization of the sugar industry by divesting the three remaining state-owned sugar estates. The divestment of Urban Development Corporation (UDC) assets is proceeding with the sale of Pegasus Hotels of Jamaica, for which a sale agreement was signed with the Preferred Bidder on September 14, 2010. These steps are helping to reduce the effect of loss making institutions on government operations.

Improving the efficiency and effectiveness of public sector compensation and incentives is one of the most important areas of sustainable fiscal reform. In this regard, the GOJ has embarked on an ambitious plan of modernizing core government operations and rationalizing the public sector. This also involves attempts to strengthen human resource functions (both horizontal and vertical) with the development of additional accountability mechanisms to manage for results. The GOJ has become more resolute in securing and maintaining the necessary data on the public service to assist managers to make informed decisions on staffing, recruitment as well as overall management of the service. The GOJ has also started addressing issues with respect to the negotiation cycle for public sector emoluments.

Increasing efficiency of financial management and budget processes

In order to improve the ability of the GOJ to spend its resources more efficiently and reduce the risk of budget overruns, it is important to bring accounting, recording and reporting standards in line with international standards. To this end, ongoing implementation of the FRF will assist in establishing an institutional framework, such that the Government is accountable for applying principles of prudent fiscal management to achieve medium-term fiscal targets established in law.

Including a medium-term perspective in policy making and budgeting is essential to gradually aligning both current and capital spending decisions with government priorities. The FRF incorporates this medium term perspective and will therefore assist in ensuring that spending is aligned with Government priorities. As part of FY2011/12 budget preparations, the GOJ has introduced the medium-term expenditure framework (MTEF) in six pilot ministries, together responsible for approximately 91 percent of central government expenditure. The GOJ has also deployed the newly developed investment tool for evaluation and prioritization of existing and new capital investment projects across the same six pilot ministries. This tool will help the government in assessing trade-offs in the allocation of resources to and within these ministries. The procedures for screening and evaluating investment projects will be an essential element of any future MTEF process.

The Government is aware of the limitations of the existing public financial management (PFM) system and is pursuing an ambitious reform programme for PFM strengthening to support its overall public sector reform and fiscal consolidation. The key measures in this area are centered on the implementation of the FRF. In addition, the GOJ is working on strengthening the technical basis of budgeting and financial management through i) improving accounting and financial reporting and eventually moving to an accrual system of accounting; ii) introducing an Integrated Financial Management Information System; iii) strengthening internal control and internal audit systems; and iv) strengthening external audit by providing more independence and improving the capacity of the office of the Auditor General. The GOJ is establishing a central treasury management system (CTMS) to bring responsibility for treasury management functions under one agency. The CTMS will establish a Treasury Single Account to improve cash management, to consolidate all general government cash resources and to close the individual bank accounts of government entities.

Reducing Distortions and Enhancing the Efficiency of the Tax System

The tax regime in Jamaica is complicated, with nine major tax instruments applied at varying rates, numerous exemptions, waivers, and incentives, and high costs of paying taxes. The GOJ is reforming tax policy and tax administration to increase efficiency and enhance revenue generation. There has been progress in reducing the use of tax incentives and waivers. In July

2010, Cabinet took a decision to freeze the issuance of any new waiver categories as of August 1, 2010. This was further reinforced on November, 15 2010 by a decision to limit the issuance of unspecified discretionary waivers to a monthly ceiling. The GOJ has enlisted the assistance of a consultant to examine the current structure of waivers and incentive packages and produce recommendations towards reducing their use. This examination is now part of the overall tax reform programme for which a green paper has been prepared and on which consultations will be held in the near future.

The GOJ has implemented important reforms in Tax Administration, which include steps to amalgamate payroll taxes and broaden the availability of electronic filing and payment to all taxpayers and all tax types, as well as continued enhancement of the large taxpayer offices. A new payroll tax form was gazetted on November 15, 2010 and made effective January 1, 2011. Under the new form, taxpayers can file all five payroll taxes with a single form and make a single payment (in person or online) instead of five separate payments. In October 2008, the Government introduced online filing and payment of GCT and SCT. One year later, the scope was broadened to the filing and payment of payroll deductions. In March 2010, the Government made further advances by allowing online filing and payment of individual and corporate income tax, education tax for the self-employed, and NIS. Through the amalgamation of payroll taxes, the National Housing Trust contributions are also now available for online payment, thereby allowing essentially all tax types to be filed and paid online. The GOJ has strengthened the large taxpayer office, which is a one-stop-shop for all tax payments by large taxpayers (gross revenues of J$500 million and above). The Government has created a concept of one-stop-shop by establishing "client relationship offices" in each of the large tax payer offices. As a result, taxpayers interface with only one office for about 14 services. The client relations offices significantly ease the costs of paying taxes for large taxpayers.

The Government has consolidated Inland Revenue, Taxpayer Audit and Assessment, and the Tax Administration Services Departments into a single entity called Tax Administration Jamaica (TAJ) led by a Commissioner General effective May 1, 2011.

IV Government Commitment to the Continued Reform Programme

The GOJ is aware that the reduction of the debt burden to fiscally sustainable levels requires a sustained period of thorough reforms. These reforms span the areas of fiscal and debt sustainability, public financial management, and tax policy and administration. The GOJ is committed to continue and strengthen this ambitious and substantive reform programme for a sustained period.

The GOJ is committed to maintaining macroeconomic stability and fiscal discipline. The GOJ believes that the policies and actions described in this letter are adequate to achieve the objectives of the public sector reform programme. The GOJ has taken all the agreed actions under Second Programmatic Fiscal Sustainability DPL and stands ready to take additional measures, if necessary, to ensure the continuation and success of the reform programme.

V Government and Stakeholder Support for the Programme

The Gal's broad reform agenda has the support of key stakeholders in the country and the international donor community. The medium-term fiscal and debt management reforms are being implemented in consultation with major stakeholders, including private sector and civil society representatives, and the Tripartite Social Partnership, which includes members of the Opposition. The successful domestic debt exchange (JDX) in 2010 is evidence of the strong consensus around the urgent need for the reform programme.

Jamaica continues to benefit from the availability of technical and financial resources in order to facilitate the implementation of these policy and administrative changes in the areas outlined, and appreciates the strong support received from the International Financial Institutions. The GOJ will continue to contribute leadership and resources to drive and support the implementation of the reform programme.

Yours truly,

Audley Shaw, M.P.
Minister of Finance

ANNEX 3: RESULTS FRAMEWORK

Policy Area	Interim Outcome Indicators (March 2011)	Status (July 2011)	End-Series Outcome Indicators (March 2012)	Status (July 2011)
Fiscal Responsibility Framework	Increase in the primary surplus of the central government by 1.8 percent of GDP (Baseline: 4.8 percent of GDP at end-FY2008/09).	*Not met:* Primary surplus was 4.4 percent of GDP by March 2011. Performance was negatively affected by stronger and more protracted recession which reduced revenue collection.	The FY2011/12 budget process is developed within the FRF and is bound by the FRF's medium term targets for debt creation and the overall fiscal deficit.	*On track*: Cabinet approved the proposal in February 2010 and Parliament approved the amendments to the FAA and PBMA Acts in March 2010. The amendments were made effective on October 1st of 2010. MoF prepared regulations for the implementation of the FRF in the FY2011/12.
	No more deferred financing (Baseline: Average annual deferred financing from FY2000/01 to FY2005/06 was J$497 million).	*Met*: There has been no deferred financing.		
Debt Management	Fiscal savings of at least 1.5 percent of GDP generated due to GoJ's Debt Management Activities (Baseline: Interest payments by Central Government were 16.0 percent of GDP in FY2009/10)	*Met*: Interest payments declined to 10.6 percent of GDP by March 2011.	(i) A detailed borrowing plan is published by the Debt Management Unit, which fully operationalizes the Medium Term Debt Management Strategy; and (ii) Quantitative limits on instruments and lenders are established in line with the overall budget ceiling established by the FRF.	*On track*: (i) The GoJ has developed its first Medium-Term Debt Management Strategy (MTDS). The Bank, the IMF, and the IADB provided technical assistance and training and the DMU capacity has been upgraded through the adoption of a MTDS analytical toolkit. (ii) Quantitative borrowing limits have been specified in the new Public Debt Management Bill, submitted to Parliament on July 12, 2011.

Policy Area	Interim Outcome Indicators (March 2011)	Status (July 2011)	End-Series Outcome Indicators (March 2012)	Status (July 2011)
Rationalization of Public Bodies	Reduced losses of Public Bodies generate savings of at least 1 percentage point of GDP by FY2010/11 (Baseline: Public entities balance was -2.8 percent of GDP in FY2009/10).	*Met*: Public entities balance was -0.5 percent of GDP by March 2011.	(i) The winding-up of inactive Public Entities has been completed (as of December 2009, 38 inactive bodies remain to be wound-up); (ii) Pending divestments of public bodies that were slated for privatization have been completed	*On track*: (i) No additional progress has been made in winding up of inactive bodies, but this is expected to take place as part of implementation of the PSTU's Master Rationalization Plan. (ii) A number of entities/assets were divested including the remaining sugar factories in July 2010, Air Jamaica in March 2010, and the Pegasus hotel in September 2010. In the context of these developments, the Public Bodies' balance improved from -2.6 percent of GDP in 2008/09 to -1.0 percent in 2010/11.
	The 2010/11 budget circular has explicitly established the Government's intention to produce consolidated public sector tables in the 2010/11 Budget memorandum (Baseline: No such instructions provided in earlier years).	*Partially met*: the Budget Memorandum did not publish consolidated public sector tables, but the FY2011/12 Fiscal Policy Paper (submitted to Parliament as part of the FY2011/12 budget presentation) included detailed accounts of both central government and the public bodies.		
	The 2010/11 budget circular has set explicit targets for the coverage of public entities in the annual Estimates of Revenue and Expenditure (Baseline: No such targets published in earlier years).	*Met*: The circular included explicit targets for the coverage of public entities and the IMF has been conducting quarterly assessment of performance relative to those targets. This is consistent with the IMF SBA signed in 2010.		

Policy Area	Interim Outcome Indicators (March 2011)	Status (July 2011)	End-Series Outcome Indicators (March 2012)	Status (July 2011)
Public Service Compensation and Incentives	Information is available on the number and posts of public sector employees in the five strategic sectors, which represent almost 40 percent of total public sector workforce, laying the groundwork for the public sector workforce restructuring being undertaken by the Public Sector Transformation Unit (PSTU) (Baseline: No employment surveys processed as of FY 2008/09).	*Met*: Employment surveys have been completed for the entire public sector.	A centralized HRM database covering total public employment is fully functional.	*On track*: As at March 31, 2011, the MoF has completed an employment survey (post audit) of all the Central Government and all Public Bodies including self-financed entities. In parallel, the Public Sector Transformation Unit compiled the first full data base of employees in the Public Sector through a census and payroll analysis, including those of Public Bodies, collecting other information.
	The Centralized Human Resource Management (HRM) database is fully functional and has updated and accurate information on public employment in the five strategic sectors, including age and qualifications of individual employees (Baseline: No data published as of FY 2008/09).	*Partially met*: Base data has been collected and a Budget Circular has been issued to require quarterly updates of the database; but so far the data has not been published.		
			The wage bill as a percentage of GDP is at or below 10 percent (Baseline: 11.8 percent of GDP by end- FY2009/2010).	*Off track*: Even before the recent public sector salary increase, the wage bill was expected to reach 10.7 percent of GDP by end FY2011/12 due to the slower-

Policy Area	Interim Outcome Indicators (March 2011)	Status (July 2011)	End-Series Outcome Indicators (March 2012)	Status (July 2011)
				than-anticipated pace of economic recovery. In implementing the wage increase, the GoJ was following the ruling of the Supreme Court (see paragraph 19 for additional details).
			Transition teams are in place in at least 10 ministries, departments and agencies (MDAs) to implement the recommendations of the Public Sector Transformation Unit.	*On track*: The PSTU Master Rationalization Plan has been cleared by the Government and is being implemented.
Fiscal Discipline and Strategic Allocation of Resources			The Government has fully implemented the new methodology for evaluating capital investments in six pilot ministries.	*On track following outcome revision*: The original outcome of 10 ministries has been revised to the 6 largest ministries. A new methodology for project evaluation (used by the US EPA) has been customized for use in the budget process and was applied in these ministries during the FY2010/11 budget process with the assistance of IADB consultants. The Government will need to develop its own capacity for future years.

Policy Area	Interim Outcome Indicators (March 2011)	Status (July 2011)	End-Series Outcome Indicators (March 2012)	Status (July 2011)
			The six pilot MDAs have submitted their MTEFs.	*On track following outcome revision*: The original outcome of all MDAs has been revised to the 6 largest ministries. Medium-term revenue and expenditure targets were already provided by these ministries during the FY2010/11 budget process. However, the introduction of the MTEF is a long, time-intensive process and the Government will substantially upgrade its capacity before expanding to all MDAs.
Public Financial Management	The timeliness of annual appropriation accounts submission of selected MDAs to Auditor General has improved, as indicated by a decrease in accounts outstanding by 20 percent (Baseline: 158 accounts outstanding in December 2008).	*Met:* As at December 2010 there were 53 outstanding accounts.		
Tax Efficiency and Administration	Increased number of corporate (CIT and GCT) and (non-PAYE) individual tax payers on the tax roll reflected in 15 percent increase of the number of tax	*Met*: By FY2009/10, the number of taxpayers rose to 116,547, representing a 24 percent increase.	Improved PEFA rating of "Collection of tax payments" to B in FY2010/11 from a baseline of: D+ in 2007/08	*On track*: A series of reforms improved the effectiveness of collection of tax payments, including (i) the consolidation of three Tax Departments into Tax

Policy Area	Interim Outcome Indicators (March 2011)	Status (July 2011)	End-Series Outcome Indicators (March 2012)	Status (July 2011)
	payers for 2008/09 compared to 2007/08 (Baseline: 93,712 taxpayers in 2007/08).			Administration Jamaica to increase efficiency and improve monitoring; (ii) the broadening of online filing and payment to all taxes and taxpayers; and (iii) the amalgamation of payroll taxes to make it impossible to pay only some (but not all) of the five payroll taxes.

ANNEX 4: FUND RELATIONS NOTE

1. Jamaica, which became a member of the International Monetary Fund on February 21, 1963, has a current IMF quota of SDR273.50 million (about US$429 million). The IMF conducts regular Article IV consultations with Jamaica and the latest one was completed by the IMF Executive Board on July 30, 2010. On February 4, 2010, the Executive Board of the IMF approved a 27-month Stand-By Arrangement with Jamaica in the amount of SDR820.5 million (about US$1.27 billion) to support the country's economic reforms and help it cope with the consequences of the global downturn. The third review of the Standby-By Arrangement was completed on January 14, 2011 and enabled a further disbursement of SDR31.9 million (about US$49.3 million), bringing total disbursements under the arrangement to SDR541.9 million (about US$838.2 million).

2. The IMF has provided the Bank with the below Assessment Letter dated August 5, 2011.

Jamaica—Assessment Letter for The World Bank
August 5, 2011

The last Article IV consultation was concluded on February 4, 2010 *(see the Public Information Notice at http://www.imf.org/external/np/sec/pn/2010/pn10115.htm).*

1. ***After a prolonged contraction, the Jamaican economy is showing signs of recovery.*** Following 13 consecutive quarters of negative growth, real GDP expanded by 1.4 percent during the first quarter of 2011 (y/y), and preliminary data for the second quarter point to a similar growth rate. Business sentiment has improved and inflation fell to 7.2 percent in June (y/y). The external current account deficit is expected to rise from 7.9 percent of GDP in FY2010/11 to 8.7 percent in FY2011/12, reflecting a higher oil import bill. Most financial indicators have remained broadly stable, but banks' NPL ratio deteriorated in recent months, to 7.5 percent in March.

2. ***The third review of the Stand-by Arrangement (SBA) was completed in January 2011.*** All end-March quantitative performance criteria were met, except for that on the central government primary balance, which was missed by a slight margin. Progress was made in several structural areas, including enhancements in the fiscal responsibility framework; introduction of an interim central Treasury management system; design of a public sector rationalization plan; and approval of a strengthened debt management law. Financial sector reforms moved ahead, with an increase in the risk-weighting of FX-denominated public bonds and a strengthening in the prudential framework for securities dealers. However, the divestment of the alumina company CAP was delayed.

3. ***The authorities have expressed their commitment to achieving a primary surplus of 5 percent of GDP in FY2011/12.*** The government plans to present a supplementary budget to Parliament that would include expenditure cuts and measures to enhance revenue compliance. These plans will need to take into account the impact in FY2011/12 of the recent decision to pay the full amount of backpay to public sector workers (near 2 percent of GDP over a 3-year period). The authorities are also preparing contingency spending cuts in the investment plans of public bodies.

4. ***The completion of the fourth and fifth reviews under the SBA has been delayed.*** Our projections show that, under current policies, the primary surplus would average 5 percent of GDP over the next three fiscal years, and the public debt ratio would reach 129.3 percent of GDP at end FY2013/14. This is significantly less than the corresponding objectives expected at the time of the third review (average primary surplus of 7.5 percent and public debt ratio of 113.8 percent, respectively), making it more challenging to meet the objectives set under the Fiscal Responsibility Law. Staff remains engaged in discussions with the authorities on a set of policies that would help achieve the medium-term objectives of the program, which would include: (i) boosting revenue, including through improvements in tax administration and a drastic reduction in discretionary waivers and statutory incentives; (ii) agreement on containing pension pressures and reducing in a sustainable manner the size of the government's wage bill, which is very high by international standards; and (iii) the implementation of a clear strategy for the divestment of CAP.

5. ***Risks to the program remain high.*** A weak global recovery, with downside risks in Jamaica's main trading partners, could adversely affect tourism and remittances flows, put pressure on credit markets and international reserves, and derail the incipient recovery in economic activity. Additionally, the upcoming general elections, scheduled to take place by September 2012, may make it more challenging to reach a consensus on needed policies and reforms.

Table 1. Jamaica: Selected Economic Indicators 1/

	2008/09	2009/10	2010/11 Prel.	2011/12 Rev.Est. 2/	Proj. 2012/13	Proj. 2013/14
			(Annual percent change)			
GDP, prices, and employment						
Real GDP	-1.7	-2.5	-0.6	1.8	2.5	2.9
Nominal GDP	12.1	8.2	10.4	9.2	8.2	7.5
Consumer price index (end of period)	12.4	13.3	7.8	7.0	5.5	5.5
Consumer price index (average)	20.2	9.7	11.4	7.8	6.0	5.5
Exchange rate (end of period, in J$/US$)	88.0	89.0	85.4	…	…	…
Exchange rate (average, J$/US$)	76.3	88.9	86.1	…	…	…
End-of-period REER (percent change, appreciation +)	-10.1	9.9	11.3	…	…	…
Treasury Bill rate, end-of-period, in percent	21.5	10.5	6.6	…	…	…
Treasury Bill rate, period average, in percent	17.0	18.8	8.2	…	…	…
Unemployment rate (in percent)	10.8	11.4	…	…	…	…
			(in percent GDP)			
Government operations						
Budgetary revenue	26.9	27.0	25.6	26.4	26.1	26.4
Budgetary expenditure	34.3	37.9	31.9	30.7	29.6	29.3
Primary expenditure	22.0	20.9	21.2	21.4	21.1	21.3
of which: wage bill	10.9	11.4	10.4	10.7	10.5	10.4
Interest payments	12.3	17.0	10.6	9.4	8.5	8.0
Budget balance	-7.4	-10.9	-6.2	-4.3	-3.5	-2.0
Of which: primary fiscal balance	4.9	6.1	4.4	5.0	5.0	5.1
Public entities balance	-2.6	-1.6	-0.5	-0.8	-0.2	0.0
Public sector balance	-10.0	-12.5	-6.7	-5.2	-3.7	-2.8
Public debt 3/	126.1	140.0	139.4	138.3	135.5	129.3
External sector						
Current account balance	18.4	7.6	7.0	8.7	7.8	5.8
Of which: exports of goods, f.o.b.	17.0	11.2	10.2	13.8	13.6	13.4
Of which: imports of goods, f.o.b.	50.0	35.6	33.9	37.9	36.9	35.7
Net international reserves (in millions of US$)	1,629	1,762	2,549	2,196	2,088	2,108
Gross international reserves (In millions of US$) 4/	1,664	2,434	3,421	3,306	3,398	3,037
Money and credit			(Changes in percent of beginning of period broad money)			
Net foreign assets	-13.3	14.6	23.3	-9.9	-1.4	1.6
Net domestic assets	24.8	-11.6	-21.6	23.5	9.6	5.9
Of which: credit to the central government	8.7	4.2	-11.7	6.0	2.4	1.8
Broad money	11.6	3.0	1.7	13.6	8.2	7.5
Velocity (ratio of GDP to broad money)	3.2	3.3	3.7	3.5	3.5	3.5
Memorandum items:						
Nominal GDP (in billions of J$)	1,028	1,112	1,227	1,339	1,449	1,558

Sources: Jamaican authorities; and Fund staff estimates and projections.

1/ Fiscal years run from April 1 to March 31. Authorities' budgets presented according to IMF definitions.

2/ Staff revised projections for 2011/12 and the medium term reflect very preliminary estimates for revenue and primary expenditure.

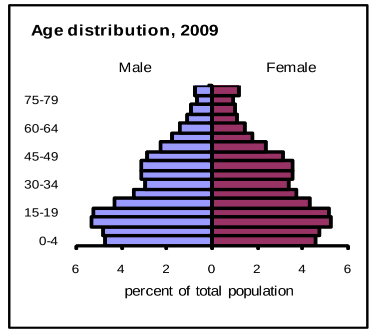
3/ Central government direct and guaranteed only, including PetroCaribe debt and projected IMF disbursements.

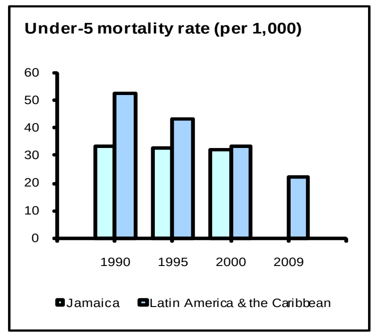
4/ Includes the US$650 million, which the authorities hold in reserve to address potential FSSF-related demand.

Jamaica at a glance

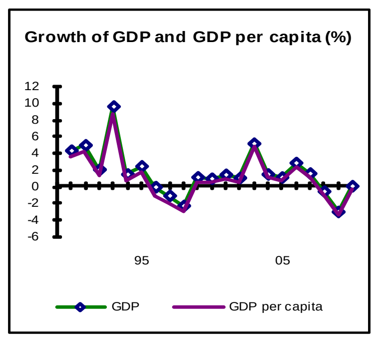
8/9/11

Key Development Indicators	Jamaica	Latin America & Carib.	Upper middle income
(2010)			
Population, mid-year (millions)	2.7	572	1,002
Surface area (thousand sq. km)	*11*	20,394	48,659
Population growth (%)	0.5	11	0.9
Urban population (% of total population)	*53*	79	75
GNI (Atlas method, US$ billions)	*12.9*	4,011	7,515
GNI per capita (Atlas method, US$)	*4,750*	7,007	7,502
GNI per capita (PPP, international $)	*7,430*	10,286	12,440
GDP growth (%)	-1.2	-1.9	-2.6
GDP per capita growth (%)	-1.7	-3.0	-3.4
(most recent estimate, 2004–2010)			
Poverty headcount ratio at $1.25 a day (PPP, %)	<2	8	..
Poverty headcount ratio at $2.00 a day (PPP, %)	6	17	..
Life expectancy at birth (years)	73	74	72
Infant mortality (per 1,000 live births)	26	19	19
Child malnutrition (% of children under 5)	3	4	..
Adult literacy, male (% of ages 15 and older)	81	92	94
Adult literacy, female (% of ages 15 and older)	91	90	91
Gross primary enrollment, male (% of age group)	95	118	111
Gross primary enrollment, female (% of age group)	95	114	110
Access to an improved water source (% of population)	93	93	95
Access to improved sanitation facilities (% of population)	83	79	84





Net Aid Flows	1980	1990	2000	2010 [a]
(US$ millions)				
Net ODA and official aid	125	271	9	150
Top 3 donors (in 2008):				
European Union Institutions	4	7	33	106
Belgium	0	0	0	9
United Kingdom	8	7	5	8
Aid (% of GNI)	5.1	6.5	0.1	*0.6*
Aid per capita (US$)	59	113	3	55



Long-Term Economic Trends	1980	1990	2000	2010	1980–90	1990–2000	2000–10
					(average annual growth %)		
Consumer prices (annual % change)	27.3	22.0	8.2	*11.4*			
GDP implicit deflator (annual % change)	18.3	25.1	10.6	11.0			
Exchange rate (annual average, local per US$)	1.8	7.2	42.7	88.7			
Terms of trade index (2000 = 100)	..	..	..	..			
Population, mid-year (millions)	2.1	2.4	2.6	2.7	1.1	0.8	0.5
GDP (US$ millions)	2,679	4,592	9,009	12,227	2.3	1.6	1.2
		(% of GDP)					
Agriculture	..	*8.0*	7.0	6.2	2.0	-0.6	-0.3
Industry	..	*37.1*	25.5	22.1	2.4	-0.8	-0.4
Manufacturing	..	*17.2*	10.6	9.1	2.7	-1.8	-1.5
Services	..	*54.9*	67.4	71.7	-0.3	3.8	1.6
Household final consumption expenditure	63.8	64.9	74.2	82.6	..	..	..
General gov't final consumption expenditure	20.2	13.0	14.3	15.9	..	..	..
Gross capital formation	15.9	25.9	*29.2*	21.3	..	..	..
Exports of goods and services	51.1	48.1	*39.1*	34.7	..	..	..
Imports of goods and services	51.0	51.9	*51.9*	53.3	..	..	..
Gross savings	10.8	18.5	*23.0*	..			

Note: Figures in italics are for years other than those specified. 2010 data are preliminary. Group data are for 2009. .. indicates data are not available.
a. Aid data are for 2009.

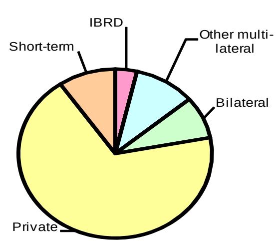
Development Economics, Development Data Group (DECDG).

Balance of Payments and Trade	**2000**	**2010**
(US$ millions)		
Total merchandise exports (fob)	1,555	1,402
Total merchandise imports (cif)	3,429	4,829
Net trade in goods and services	-822	-2,580
Current account balance	-356	-1,118
as a % of GDP	-4.0	-7.9
Workers' remittances and compensation of employees (receipts)	892	*1,833*
Reserves, including gold	1,049	*2,549*

Central Government Finance		
(% of GDP)		
Current revenue (including grants)	25.1	25.6
Tax revenue	22.8	22.8
Current expenditure	24.8	31.9
Overall surplus/deficit	-1.7	-6.2
Highest marginal tax rate (%)		
Individual	*25*	*25*
Corporate	33	*33*

External Debt and Resource Flows		
(US$ millions)		
Total debt outstanding and disbursed	4,724	8,480
Total debt service	704	750
Debt relief (HIPC, MDRI)	–	–
Total debt (% of GDP)	52.4	59.0
Total debt service (% of exports)	15.5	*21.0*
Foreign direct investment (net inflows)	468	*348*
Portfolio equity (net inflows)	0	*0*

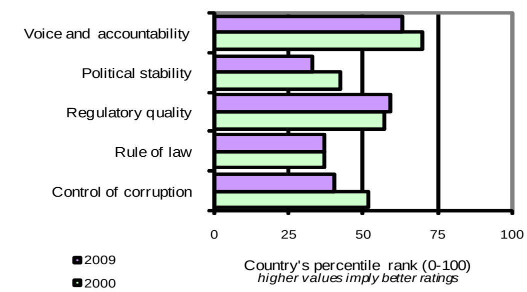
Composition of total external debt, 2009



Private Sector Development	**2000**	**2010**
Time required to start a business (days)	–	8
Cost to start a business (% of GNI per capita)	–	5.2
Time required to register property (days)	–	37

Ranked as a major constraint to business	**2000**	**2010**
(% of managers surveyed who agreed)		
Access to/cost of financing	..	*72.2*
Tax rates	..	*60.0*
Stock market capitalization (% of GDP)	39.8	54.9
Bank capital to asset ratio (%)	*9.2*	..

Governance indicators, 2000 and 2009



Source: Kaufmann-Kraay-Mastruzzi, World Bank

Technology and Infrastructure	**2000**	**2009**
Paved roads (% of total)	70.1	*73.3*
Fixed line and mobile phone subscribers (per 100 people)	33	121
High technology exports (% of manufactured exports)	0.1	0.7

Environment		
Agricultural land (% of land area)	44	*43*
Forest area (% of land area)	31.5	*31.3*
Terrestrial protected areas (% of land area)	..	..
Freshwater resources per capita (cu. meters)	*3,593*	*3,514*
Freshwater withdrawal (billion cubic meters)	0.6	..
CO2 emissions per capita (mt)	4.0	*5.2*
GDP per unit of energy use (2005 PPP $ per kg of oil equivalent)	4.5	*4.4*
Energy use per capita (kg of oil equivalent)	1,447	*1,633*

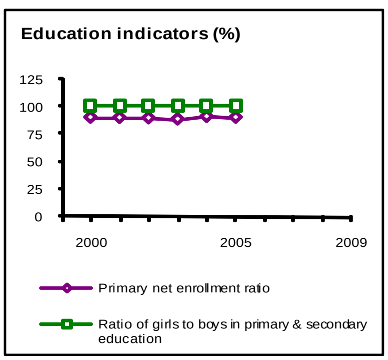
World Bank Group portfolio	**2000**	**2009**
(US$ millions)		
IBRD		
Total debt outstanding and disbursed	415	398
Disbursements	98	120
Principal repayments	60	49
Interest payments	22	15
IDA		
Total debt outstanding and disbursed	–	–
Disbursements	–	–
Total debt service	–	–
IFC *(fiscal year)*		
Total disbursed and outstanding portfolio	58	197
of which IFC own account	20	120
Disbursements for IFC own account	0	15
Portfolio sales, prepayments and repayments for IFC own account	5	11
MIGA		
Gross exposure	93	72
New guarantees	0	0

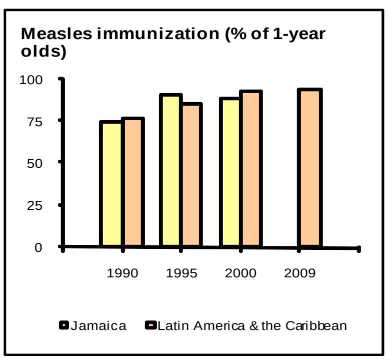
Note: Figures in italics are for years other than those specified. 2010 data are preliminary. 8/9/11
.. indicates data are not available. – indicates observation is not applicable.

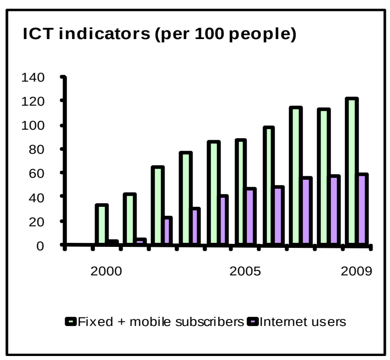
Development Economics, Development Data Group (DECDG).

With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

	Jamaica			
Goal 1: halve the rates for extreme poverty and malnutrition	**1990**	**1995**	**2000**	**2009**
Poverty headcount ratio at $1.25 a day (PPP, % of population)	<2	<2	<2	..
Poverty headcount ratio at national poverty line (% of population)	..	27.5	18.7	..
Share of income or consumption to the poorest qunitile (%)	5.8	*6.4*	*5.4*	..
Prevalence of malnutrition (% of children under 5)	..	4.0	3.8	..
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	*96*	..	90	*90*
Primary completion rate (% of relevant age group)	95	*92*	87	*89*
Secondary school enrollment (gross, %)	*70*	*66*	87	*91*
Youth literacy rate (% of people ages 15-24)	..	..	*92*	*94*
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	*102*	..	101	*101*
Women employed in the nonagricultural sector (% of nonagricultural employment)	50	49	47	*48*
Proportion of seats held by women in national parliament (%)	5	*12*	13	*13*
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	33	33	32	*31*
Infant mortality rate (per 1,000 live births)	28	27	27	*26*
Measles immunization (proportion of one-year olds immunized, %)	74	90	88	*76*
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	*170*
Births attended by skilled health staff (% of total)	*79*	*95*	*97*	*97*
Contraceptive prevalence (% of women ages 15-49)	*55*	*66*	*69*	..
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	2.1	2.2	1.9	1.7
Incidence of tuberculosis (per 100,000 people)	7	7	7	*7*
Tuberculosis case detection rate (%, all forms)	79	67	76	78
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	92	93	93	*93*
Access to improved sanitation facilities (% of population)	83	82	83	*83*
Forest area (% of land area)	31.9	31.7	31.5	*31.3*
Terrestrial protected areas (% of land area)	..	..	..	..
CO2 emissions (metric tons per capita)	3.3	3.9	4.0	*5.2*
GDP per unit of energy use (constant 2005 PPP $ per kg of oil equivalent)	5.1	5.4	4.5	*4.4*
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	4.4	11.7	19.1	11.2
Mobile phone subscribers (per 100 people)	0.0	1.8	14.2	110.1
Internet users (per 100 people)	0.0	0.1	3.1	58.6
Personal computers (per 100 people)	..	0.5	4.6	*6.8*







Note: Figures in italics are for years other than those specified. .. indicates data are not available. 8/9/11

Development Economics, Development Data Group (DECDG).

ANNEX 6: DONOR ACTIVITIES IN JAMAICA

3. **A total of nineteen International Development Partners are active in twelve sectors with most support directed to the social sector, followed by budgetary support with strong support for growth and competitiveness.** Two bilateral Partners (CIDA and DFID) have regional strategies while USAID, IADB, IMF, and the World Bank all have country strategies. All strategies and sectoral support are provided in line with government priorities articulated through the PIOJ and in the MTF. All the major donors interact regularly in the context of the Debt and Growth Thematic Working Group meetings chaired by the World Bank.

4. **IADB**: As identified in the Country Strategy for Jamaica, key areas of IADB support include public financial management and private sector development, where the IADB specifically supports improvements in the incentive framework and the business environment. Specific reforms include reducing the transaction costs for titling and registering land, increasing access to credit for sole proprietors and small businesses, and improving incentives for informal businesses to become formal. In 2010, the GoJ received US$600 million in budget support from the IADB, with the most recent disbursement of US$200 million coming on December 17, 2010, via a Policy-Based Loan (PBL).

5. **IMF**: The IMF program focuses on a three-pronged strategy of: (i) putting public finances on a sustainable path that includes much-needed public sector reform; (ii) lowering exceptionally high interest costs, addressing the problem of the debt overhang, and raising the productivity of public spending; and (iii) reducing systemic risks through financial sector regulatory reform. The Stand-By Arrangement (SBA) to support these objectives was approved on February 8, 2010, and spans through March 31, 2012 (see Annex 4 for additional details on the IMF program in Jamaica).

6. **EU:** EU support to Jamaica is anchored in the 10th EDF Country Strategy Paper and National Indicative Program for 2008-2013. With a total allocation of €110 million for programmable resources and €12.9 million for emergency assistance, the EU is the most important grant donor in Jamaica. The country strategy aims to assist Jamaica in its macroeconomic reform program as presented in the government's Medium Term Framework and to support the Government in reducing crime and violence and supporting human rights. The resources available under the program are allocated as follows: 55 percent for general budget support, 30 percent for sector budget support; and 15 percent for national capacity building. Apart from EDF funding, other instruments of EU involvement in Jamaica include projects by the European Investment Bank (EIB), activities financed under the Regional Indicative Programme (RIP) for the Caribbean, and the Banana Support Programme.

7. **USAID**: The USAID program of assistance to Jamaica is rooted in the 2010-2014 Country Assistance Strategy, which focuses on social and economic issues that contribute most directly to crime and violence. Under the CAS, programs in Jamaica are organized around four priority goals: reducing crime and corruption through efforts in law enforcement restructuring and reform, promoting economic development by supporting trade, investment, and agricultural competitiveness, investing in human capital by improving quality and equity of primary and secondary education, and HIV/AIDS prevention.

8. **DFID:** The DFID and the World Bank are cooperating on restructuring the debt management unit into front, middle and back offices in line with international best practice. These efforts, together with programs to improve Parliamentary financial oversight and the Government's communication strategy, are financed by a £920,000 Bank-executed trust fund provided by the DFID. The DFID's involvement in Jamaica is conducted under the DFID Caribbean regional umbrella, with annual spending of £13 million in 2010/11. In Jamaica, the DFID program is focused on strengthening security, justice and anticorruption efforts. Active programs include the Commonwealth Debt Initiative (CDI), which has benefitted Jamaica since 1998, police reform and police capacity building, the Jamaicans for Justice initiative, Community Security Initiative (a two year, £1 million program), and rehabilitation of Jamaican offenders. Another important activity over the last five years has been the Jamaica Social Policy Evaluation (JASPEV) project, which supports the government's strategic plan for a more effective social sector delivery system by the year 2015.

9. **UNDP**: UNDP activities in Jamaica are based on the 2007-2011 Country Programme Action Plan. The Action Plan identifies three thematic areas as the focus of the UNDP program: poverty reduction through improved economic planning, debt management, tax reform, and more efficient public spending; crisis management through conflict prevention, justice and security sector reform, and disaster risk management; energy and environmental security.

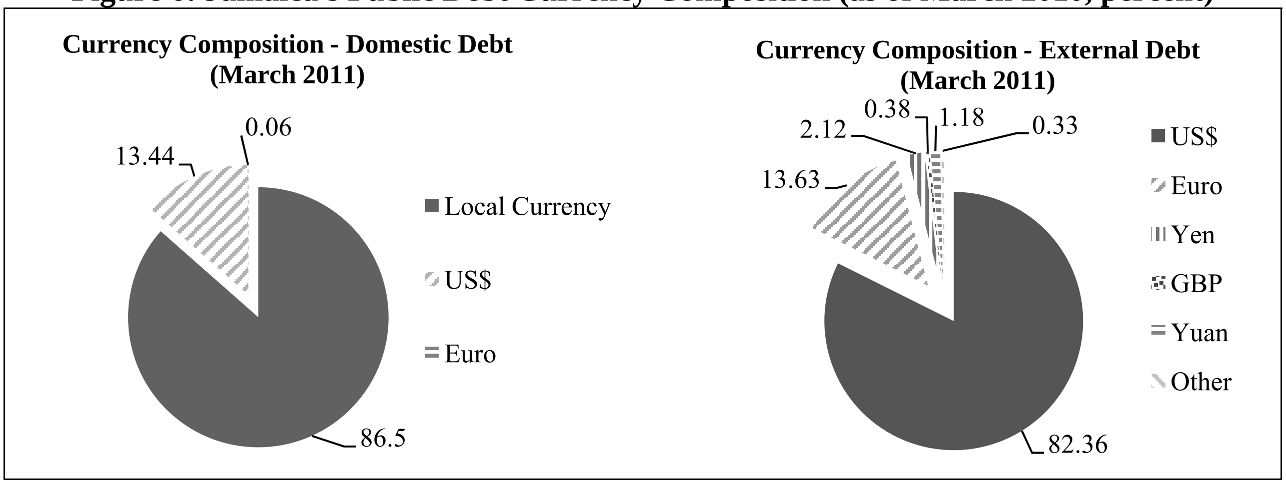
10. **CIDA:** CIDA's development assistance program focuses on three main areas: improving governance, strengthening the private sector, and improving environmental management. Through Canadian Partnership Branch, CIDA co-finances projects in Jamaica by Canadian non-governmental organizations and institutions working in areas such as cooperatives, education, family planning, youth and community development. Since 1989, CIDA's Industrial Cooperation Program has financed 24 initiatives by Canadian businesses seeking to develop partnerships with Jamaican companies. CIDA's priorities include strengthening of key central agencies responsible for the environment and supporting HIV/AIDS prevention and treatment programs.

11. **CDB:** Since assuming office in 2007, the Government has benefitted from over US$200 million in CDB loans, which have supported educational and community development projects, agricultural support, and natural disaster recovery. In April 2010, the CDB disbursed a second tranche (US$33.3 million) of its US$100 million policy-based loan to the Government. Furthermore, citizens, especially from rural areas, have been beneficiaries of the CDB's Caribbean Technology Consultancy Service (CTCS), a program that supports the development of small businesses throughout the region.

ANNEX 7: DEBT SUSTAINABILITY ANALYSIS AND FINANCING REQUIREMENTS

1. **This annex presents the public debt sustainability analysis for Jamaica using both deterministic and stochastic simulations and the susceptibility of public debt to GDP ratio to various shocks.** The baseline public debt to GDP ratio projections are based on the macroeconomic assumptions that are consistent with the medium term macroeconomic framework envisaged in Table 1.

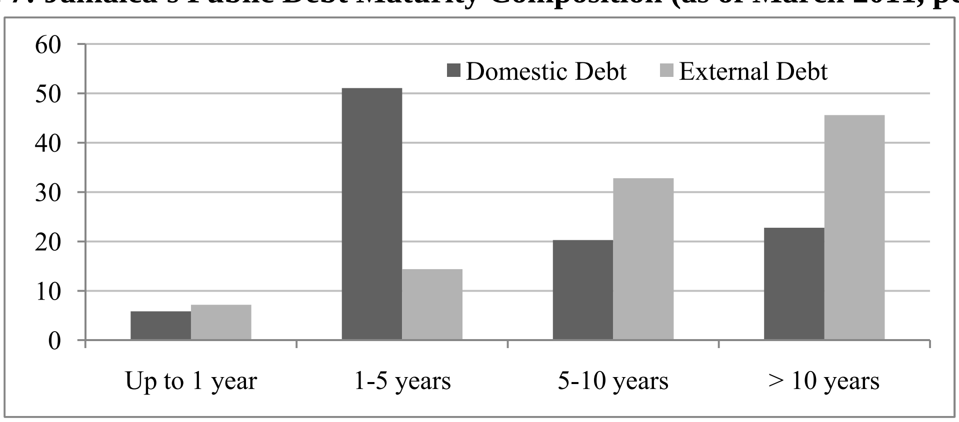
Figure 6: Jamaica's Public Debt Currency Composition (as of March 2010, percent)



Source: World Bank staff calculations

2. **At the end of FY2010/11 the public, publicly guaranteed, and PetroCaribe debt stood at 139.4 percent of GDP, including 20.3 percent of GDP in guaranteed debt not owed by the central government.** Of the central government debt, a little over half was held in external debt, with the remainder held as domestic debt. This domestic debt was predominantly denominated in Jamaican dollars, although 13.4 percent was denominated in US dollars (Figure 6). Overall, 76 percent of central government debt was denominated in foreign currencies. The maturity profile of external debt indicates that almost half of external outstanding loans mature in 10 years or more compared to roughly a quarter of domestic debt loans. Half of domestic debt loans mature within 5 years, with 6 percent maturing this fiscal year (Figure 7).

Figure 7: Jamaica's Public Debt Maturity Composition (as of March 2011, percent)



Source: World Bank staff calculations

3. **Public debt has averaged more than 100 percent of GDP since 1990 and has constrained public non-interest expenditure, but the Government is determined to lower debt levels through the fiscal consolidation reform program.** Since FY2007/08 the public, publicly guaranteed, and PetroCaribe debt has risen rapidly from 114.2 percent to 139.9 percent of GDP in FY2009/10, spurring the Government to enact various reforms to increase the overall public sector balance over the medium term. These reforms include: (i) the rationalization of several loss making public bodies; (ii) improving the efficiency of tax collection; (iii) the implementation of a Fiscal Responsibility Framework; and (iv) a debt exchange conducted in early 2010 which lowered interest rates and extended maturities on domestic debt.

4. **The assumptions underlying the baseline scenario postulate the successful implementation of the Government reform program.** Primary expenditure moderation and tax reform are expected to improve the primary surplus from 5.0 percent of GDP in FY2011/12 to 7.3 percent of GDP by FY2016/17. After three years of negative real GDP growth, growth for FY2011/12 is anticipated at 1.8 percent. The GDP growth is expected to steadily rise to 2.9 percent annually by FY2013/14 and remain at this level for the remainder of the projection period, as the improved macroeconomic stability and reduced public sector borrowing would support higher long run growth. Inflation is expected to fall gradually from an average of 7.4 percent in FY2011/12 to 4.6 percent in FY2016/17. Following the debt exchange the average nominal interest rate on public debt is projected to be 11.1 percent in FY2011/12 and average 9.3 percent thereafter. Finally, the Jamaican/US dollar nominal exchange rate is expected to steadily depreciate to 100.9 by the end of the projection period.

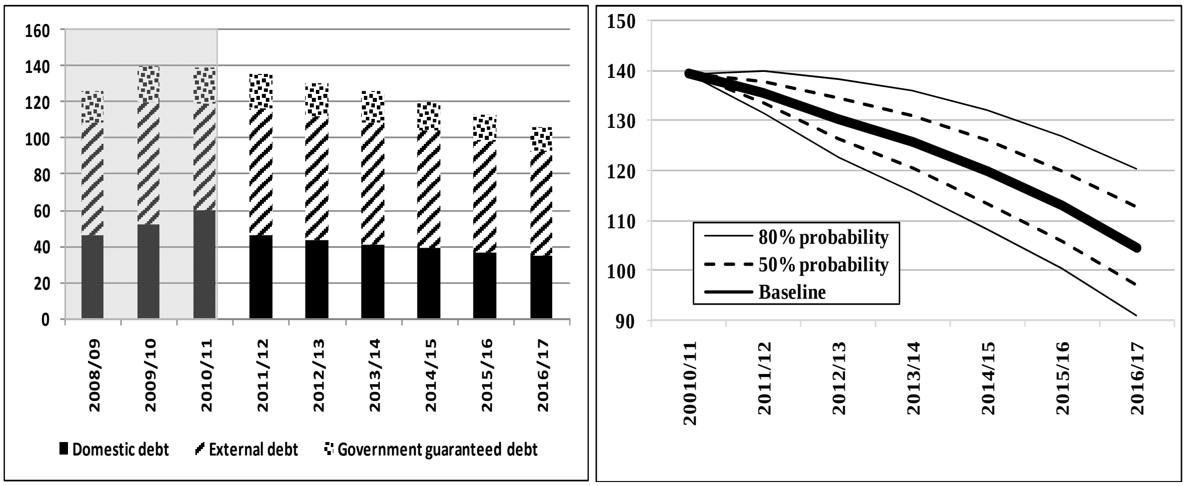
Table 4: Public Sector Debt Sustainability (percent of GDP, unless otherwise indicated)

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
				I. Baseline Projections					
Public sector debt	**126.1**	**139.9**	**139.5**	**135.6**	**130.5**	**125.8**	**119.7**	**112.9**	**106.5**
Government debt	108.9	119.9	119.2	116.3	112.4	109.0	104.2	98.4	93.1
o/w foreign-currency denominated	63.0	67.6	59.0	70.0	68.9	67.7	65.2	61.6	58.3
Government guaranteed debt	17.2	20.0	20.3	19.4	18.0	16.7	15.6	14.4	13.4
Change in public sector debt	7.2	11.0	-0.7	-2.9	-3.9	-3.4	-4.9	-5.7	-5.4
Identified debt-creating flows	8.6	3.6	-7.5	-2.9	-3.9	-3.4	-4.9	-5.7	-5.4
Primary deficit	-4.9	-6.1	-4.4	-5.0	-5.0	-5.1	-6.6	-7.3	-7.3
-Seignorage	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+Automatic debt dynamics:	13.5	9.7	-3.1	2.1	1.1	1.7	1.7	1.6	1.9
Contribution from interest rate/growth differential	7.2	15.0	5.9	2.4	1.4	1.5	1.5	1.4	1.7
Contribution from real exchange rate depreciation	6.4	-5.3	-9.0	-0.3	-0.3	0.2	0.2	0.2	0.2
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
-Privatization receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes	-1.4	7.4	6.8	0.0	0.0	0.0	0.0	0.0	0.0
Key Macroeconomic and Fiscal Assumptions									
Real GDP growth (in percent)	-1.7	-2.5	-0.6	1.8	2.5	2.9	2.9	2.9	2.9
Average real interest rate	11.4	6.2	-3.2	3.7	3.7	4.6	4.7	4.6	4.9
Exchange rate (LC per US)	88.0	89.0	85.4	89.1	91.3	93.6	96.0	98.4	100.9
Inflation rate (in percent)	13.8	10.6	11.0	7.4	5.8	4.6	4.6	4.6	4.6
Primary deficit	-4.9	-6.1	-4.4	-5.0	-5.0	-5.1	-6.6	-7.3	-7.3

Source: World Bank staff calculations

5. **Under the baseline scenario, the public, publicly guaranteed, and PetroCaribe debt is estimated to fall gradually to 106.5 percent of GDP by FY2016/17, having reached a high of 139.9 percent in FY2009/10 (Figure 8).** Interest rate savings from the debt exchange, rising primary balances, higher GDP growth and lower interest payments due to lower debt levels all contribute positively to debt reduction, while falling domestic inflation rates and the net Jamaican/US dollar exchange rate depreciation contribute negatively.

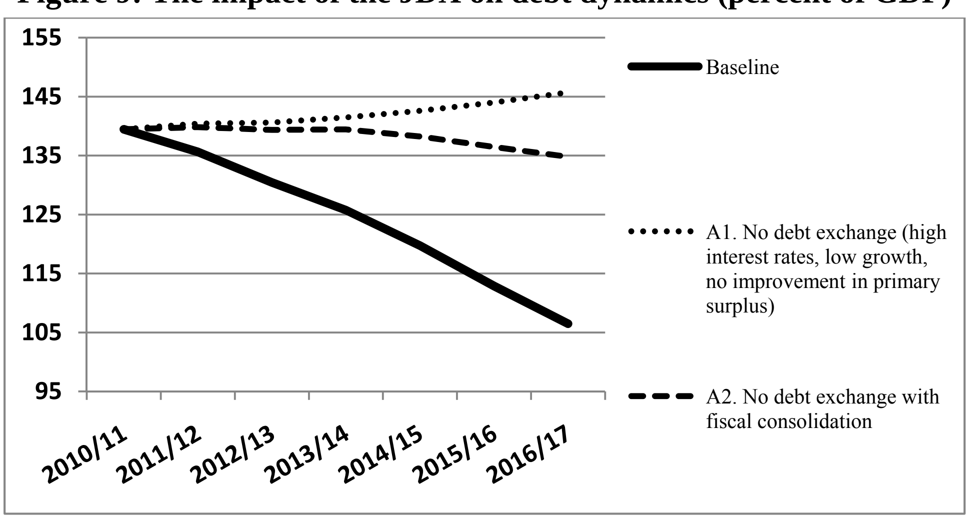
Figure 8: Baseline Scenario (percent of GDP)



Source: World Bank staff calculations

6. **Stochastic simulations indicate a high likelihood of downward debt dynamics under the present reform program.** Figure 8 shows the probabilistic debt projections reflecting the uncertainties regarding the macroeconomic assumptions underlying the baseline scenario. Probability bands were constructed by assuming that the GDP, interest rate and inflation rate forecasts are each normally distributed with a standard deviation equal to the standard deviation in 2003-2010. The simulations indicate that, with an 80 percent probability, the public, publicly guaranteed, and PetroCaribe debt will be between 90 and 120 percent of GDP by FY2016/17.

Figure 9: The impact of the JDX on debt dynamics (percent of GDP)



Source: World Bank staff calculations

7. **The debt situation would have been dire had the debt exchange not been successful and if the fiscal consolidation program was not implemented.** Scenario A1 simulates this case assuming low GDP growth at 1 percent annually, high real external and domestic real interest rates at 5.2 and 7.5 percent respectively and no improvement in the 2010/11 primary surplus for the entire projection period. Figure 9 shows that the public debt to GDP ratio would have been on an explosive path under this scenario. The debt ratio could have been stabilized if the present non interest fiscal consolidation had taken place (Scenario A2). These alternatives highlight the importance of the debt exchange and the fiscal consolidation program in lowering public debt.

8. **The scenarios in Table 5 highlight the sensitivity of the debt dynamics to various shocks.** All shocks are concentrated in FY2011/12 and FY2012/13 or in the case of the 30 percent exchange rate depreciation in FY2011/12 only. It is important to note that the underlying assumptions for later years remain unchanged from the baseline scenario and hence show a strongly downward trend in the debt to GDP ratio in these years.

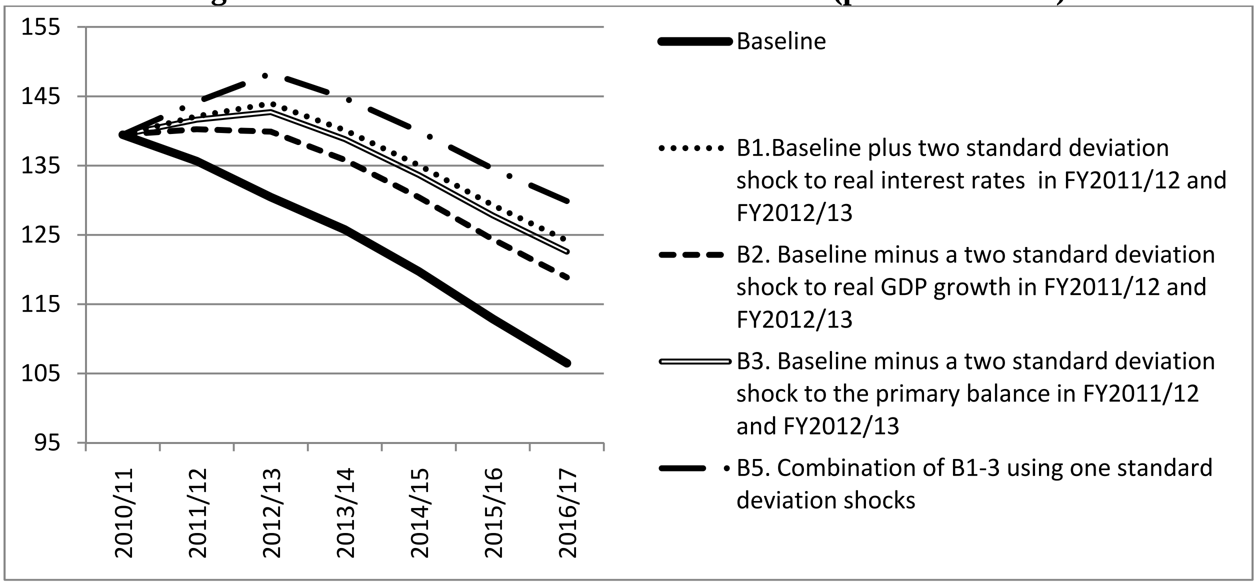
Table 5: Debt Ratios under Sensitivity Tests (in percent of GDP)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Baseline	139.5	135.6	130.5	125.8	119.7	112.9	106.5
A1. No debt exchange (high interest rates, low growth, no improvement in primary surplus)	139.5	140.4	140.6	141.5	142.6	144.0	145.7
A2. No debt exchange with fiscal consolidation	139.5	139.8	139.4	139.5	138.2	136.5	134.8
B1.Baseline plus two standard deviation shock to real interest rates in FY2011/12 and FY2012/13	139.5	142.1	144.0	140.1	135.0	129.3	124.2
B2. Baseline minus a two standard deviation shock to real GDP growth in FY2011/12 and FY2012/13	139.5	140.2	139.9	135.8	130.4	124.4	118.9
B3. Baseline minus a two standard deviation shock to the primary balance in FY2011/12 and FY2012/13	139.5	141.6	142.7	138.8	133.6	127.8	122.6
B4. Baseline plus a 30 percent nominal depreciation in FY2011/12	139.5	152.6	148.3	144.7	140.0	134.6	129.9
B5. Combination of B1-3 using **one standard deviation shocks**	139.5	144.2	148.3	144.7	140.0	134.6	129.9
B6. Combination of B1-4 using **one standard deviation shocks**	139.5	161.6	167.9	165.5	162.2	158.4	155.6

Source: World Bank staff calculations

9. **Shocks to GDP, the primary balance or real interest rates could hamper progress towards debt reduction.** Individual shocks of a two standard deviation magnitude (measured by the standard deviation over the 2003-10 period) would raise debt to GDP levels in FY2012/13 above the baseline by 9.5 percent for real GDP, 12.4 percent for the primary balance, and 13.5 percent for real interest rates (Figure 10). A combination all three of these shocks (scenario B5), but at a reduced magnitude of one standard deviation, would raise the public, publicly guaranteed, and PetroCaribe debt-to-GDP ratio by 23.4 percentage points over the baseline.

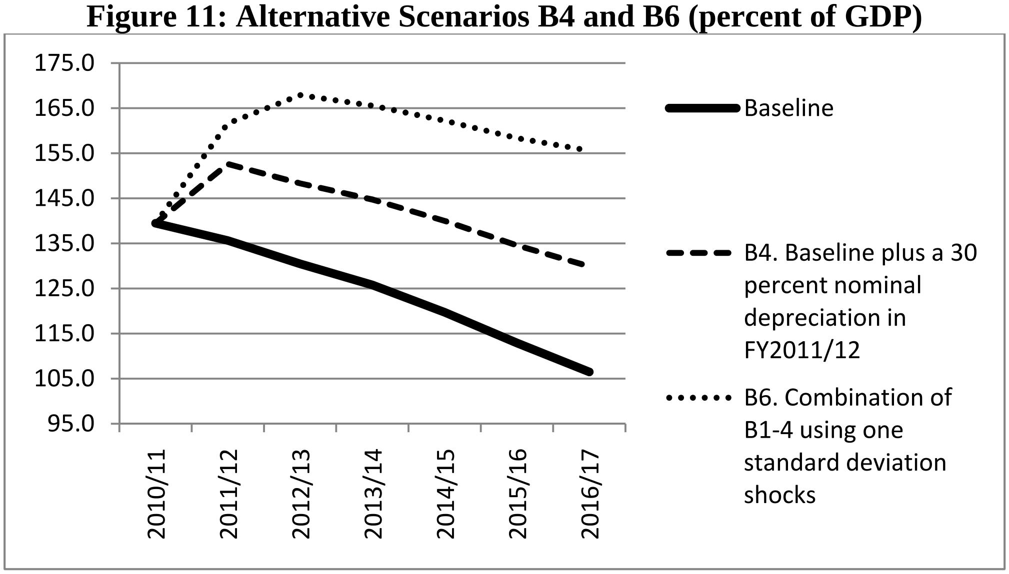
Figure 10: Alternative Scenarios B1-B3 and B5 (percent of GDP)



Source: World Bank staff calculations

10. **The high ratio of foreign currency denominated debt in total debt exposes the vulnerability of debt to exchange rate movements.** Scenario B4 displays the debt dynamics in the event of a 30 percent nominal deprecation of the exchange rate in FY2011/12 (Figure 11). The debt levels would rise 17 percent of GDP above that of the baseline scenario in that year. If additionally this depreciation occurs together with the one standard deviation shocks of combination scenario (B5), then the debt to GDP level would rise to as high as 168 percent.

Figure 11: Alternative Scenarios B4 and B6 (percent of GDP)



Source: World Bank staff calculations

ANNEX 8: REVIEW OF JAMAICA'S PRIVATIZATION PROGRAM

Policy and Strategy

1. Jamaica's Privatization Program is governed by Ministry Paper #34 of 1991 which sets forth policies and procedures for privatization.[19] Most countries have adopted a privatization law and supporting privatization regulations at the beginning of their program. The law and regulations are generally supported by an annual or multi-year program that details the enterprises/ assets to be privatized during that period. However, it does not appear necessary that Jamaica change at this point. Its program is mature and operates well with the present Policy and Procedures Paper# 34. The present paper #34 and the revised policy paper and procedures manual conform to good practice.

Institutional Capacity

2. There is a complex, though quite interesting institutional structure managing the implementation of the privatization program. First, the process is initiated and closely guided by the PM's office/ Cabinet. The Chair and the members of the Enterprise Team (ET) are selected by the PM's office and approved by cabinet. The ETs are generally a mix of private and public sector appointees including a representative of the portfolio ministry, the Ministry of Finance, DBJ, a board member of the enterprise to be privatized and the Chair, the latter is independent of the enterprise and normally from the private sector. We interviewed three of the ET Chairs. Each is a very experienced businessman (insurance company chairman, banker or lawyer), near or at retirement, and highly respected. Each indicated that they had been directly appointed by the PM and reported directly to the PM. The chair and the members of the ETs work without compensation. Since privatization is invariably a highly political process, the PM's office appears to be carefully guiding the process. The ETs represent an interesting innovation by the GOJ, dating back to the early phases of the Jamaican program. The Government has effectively contracted out the privatization process to the private sector, and at present with the support of the PM's office, has reduced the ability of line ministries to stall or even derail the process which has often occurred in decentralized privatization processes in other countries.

3. In addition to the ETs, the Development Bank of Jamaica (DBJ) serves as the Secretariat for Privatization, a technical resource to: (i) guide the process and retain external professional support such as financial advisors, accountants and auditors, lawyers and other technical experts, as necessary; (ii) to assist in drafting necessary supporting documents such as the information memorandum; and (iii) in guiding visits by potential investors to the enterprise for due diligence purposes and maintaining the data room (now in electronic form).

Privatization Procedures and Process

4. To date, the GOJ has privatized all of its properties on a case by case basis and generally

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[19] The GoJ draft policy and procedures paper, Government of Jamaica, *Policy Framework and Procedures Manual for the Privatisation Of Government Assets*, December, 2010, once approved by Cabinet, will replace Ministry Paper # 34 of 1991. The strategy is part of a broader Government initiative to decide what is the proper role of government in Jamaica, what essential services it should provide, what it should own and operate and what is should divest.

by competitive tender. As smaller properties are privatized, the Government might want to consider auctions; they are faster, less expensive and generally produce highly competitive results, if the process is handled correctly. The Jamaican tender process appears to be in line with good practice:

- After the Cabinet approves a company/ assets for divestiture an ET is established, a Chairman is selected by the PM/ Cabinet and professional firms are hired to assist in the internal due diligence process to prepare the company for sale;
- The office of Contractor General (CG) maintains an oversight role on all privatization transactions in an expanded view of its mandate. We were told by several parties, that the CG will investigate the transaction if there is any hint of impropriety;
- A bid announcement is prepared and circulated widely in international press and Jamaica;
- A long list of interested firms is evaluated and after due diligence by the DBJ and reviewed by the ET; a short list of qualified buyers is then produced with the concurrence of the ET;
- Qualified buyers can acquire the bid package at a pre-set price and have a period of time to do due diligence on the assets/ company for sale;
- Bids are sealed and submitted to the ET and evaluated against pre-defined scoring criteria. Bids are open at a preannounced place and time, as an open process. The DBJ guides this process;
- The selected bidder is reviewed and approved by the portfolio ministry, PM and Cabinet and authorization is given to the ET to negotiate;
- The ET invites the selected bidder to negotiate. If preliminary negotiations are successful and Heads of Agreement (Letter of Intent laying out terms and agreement in principle) reached, the ET will recommend the transaction through the Portfolio (line) Ministry to the PM and ultimately the Cabinet. The PM/ Cabinet may require changes in the transaction. If the negotiations fail the ET moves on to the next bidder;
- The ET and external counsel negotiate the sales/ purchase agreement and other supporting documents required for the transaction and the deal will close, again subject to final review by the PM/ Cabinet and the Attorney General who reviews and approves all such agreements.

5. This process—delineated above based on discussions with the Government—conforms well to good practice and the draft Policy and Procedures document. All transactions have their own dynamic and rarely follow such a straight path. Given the history of losses in three of the four entities under privatization and the difficult shape the assets/companies were in, it is not surprising that the privatization process has proven to be lengthy and difficult in each case, Pegasus being the exception. We discuss three transactions below—Sugar Estates, Air Jamaica and Pegasus.

Specific Transactions Reviewed

6. **Sugar estates.** The privatization of six sugars estates and five factories took place in

three phases. The objective of the GOJ was to ensure the viability of the industry and to ensure that these specific estates received necessary investments and were modernized. The process was incentivized by EU financial support for transformation of the industry. With sugar subsidies from the European Union (EU) winding down, the state owned sugar estates were operating at a loss. The EU offered the GOJ transformation (restructuring) financing of 89 million Euros, conditioned on divestment of the estates.

7. Following the divestiture of the first three estates in June 2009, the Cabinet at its meeting of 29 March 2010 approved the divestment of three remaining estates. The Sugar Divestment Team (SDT) evaluated the bids and Complant International Sugar Company of China was selected as the successful bidder to acquire the estates at the Frome, Monymusk, and Bernard Lodge Sugar Estates. The SDT made the recommendation to Cabinet to approve the sale through the Ministry of Agriculture and Fisheries. Cabinet approved via Cabinet decision No. 26/10 on 12 July 2010. Negotiations with Complant began soon thereafter. This resulted in a signed agreement on 30 July 2010. A first deposit for $473,020 was received on 23 August 2010.

8. The total purchase price for the buildings and equipment was US$9 million. It is anticipated that Complant will invest up to US$50 million to modernize the factories. The transaction is intended to close fully in August 2011. SCJ, the sugar holding company, is handling the planting, harvesting and refining of the sugar for Complant in its initial season as owner on a cost plus 5 percent margin basis. SCJ had signed forward contracts with Tate & Lyle to export sugar to the EU. It is our understanding that Complant is responsible for absorbing operating results of the estates as of date of signing the agreement (30 July 2010).[20]

9. Our conclusions on the sugar estates privatizations are: (i) that the initial process resulting in a sale in 2009 of three of the estates to two different bidders was somewhat messy or untidy. It is very unusual to re-open the bid period three different times and to negotiate with a sole bidder for such an extended period of time; (ii) at the end of the day the process for the sale of the first three estates was competitive resulting in several bidders; (iii) the second sale attracted a long list of interested bidders and this resulted in several qualified bidders and in divesting the remaining three estates relatively quickly; (iii) EU transformation support of some 89 million Euros provided strong incentives for the transaction to move forward; (iv) the Administration was resolved to divest properties that were consuming fiscal resources; and, (v) the process appears to comply well with the Governments policies and procedures, despite the initial delays.

10. **Air Jamaica (AJ).** The country's flag carrier has been on a list of state-owned firms to be privatized for some time. Over the last few years Air Jamaica was operating at a substantial loss. The A J privatization was housed in the Ministry of Finance as the line ministry. The ET chair was directly appointed by the PM, and is the Chairman of one of Jamaica's largest insurance companies. IFC acted as the sell-side advisor to the Government.

11. The divestment agreement to Caribbean Air (CA) includes the following: (i) assumption by CA of operating responsibilities for JA, including all operating losses, if any, as of June 2010;

[20] Interview with Mr. Aubyn Hill.

(ii) the GOJ remains with AJ's liabilities, primarily consisting of airline leases to be unwound.; (iii) GOJ to own a 16.5 percent stake in CA as of the closing; (iv) All JA personnel were made redundant as of June 2010, but some 2/3 of these staff were hired by CA; (v) JA retained some assets, primarily land and buildings, including a headquarters building in downtown Kingston. CA is leasing some of these facilities back from JA; (vi) JA will operate as a division of CA and will retain its status as a flag carrier retaining landing rights and routes in North America; (vii) due to the change in Administrations in Trinidad Tobago, the Government of Trinidad insisted on an option to put the deal back to Jamaica within one year of assuming operating responsibility for the airline, June 2011. The Chair of the ET indicated that there was little chance of that happening. AJ apparently will add some 68 percent additional revenues to CA and some valuable routes. In fact, while the mission was in Jamaica CA held a launch event to promote its deal with JA; and, (viii) subject to finalizing legal agreements and the completion of a US$49.2 million working capital injection into JA by the Government of Trinidad (the Chairman of the ET estimated that some $30 million had already been injected), the transaction is expected to close within the next month. The completion means that the US DOT will approve CA to fly from Jamaica to the US (permission already received from Canada) and the shareholder and license agreements will be signed, and the GoJ will at that time get 16 percent of CA. The ET confirmed that there is no put option in the contract. However, there are certain covenants to be performed under the contract by all parties, e.g. the GoJ must use best efforts to ensure that CA gets permission to fly the routes to North America from Jamaica.

12. Our conclusions on the JA transaction are that: (i) it was a fiscally important though politically brave decision for the GOJ to make; (ii) the transaction appears to have been conducted transparently and in line with Government policy and procedures; (iii) given the losses, the Government was pragmatic and simply cut the best deal it could; (iv) the PM chose a very experienced businessman to drive the transaction for the Government and he seems to have done a very good job; and, (v) this transaction, while nominally under the Ministry of Finance, seems to have been closely controlled by the PM and his chosen advisor.

13. **Pegasus Hotels of Jamaica Limited (PHJL).**[21] The sale of the Pegasus Hotel was derived from the GOJ's decision to have the Urban Development Corporation (UDC) revert to its core mandate of economic development and to divest its mature properties including several hotel and tourism properties. A UDC Enterprise Team was established to oversee the sale with DBJ acting as the Secretariat for the process. In addition, Scotia DBG Investments Ltd. (Scotia DBG) was hired as the financial advisor/ broker for the sale.

14. The divestment process was consistent with the GOJ's process. The UDC ET and the advisor to the transaction reviewed the bid submission and decided to accept the bid of US$11 million on 27 July, 2010, for the 59.91 percent of the shares held by NHPL in PHJL. The advisor/ lead broker Scotia DBG and legal counsel provided advisory support to the transaction to ensure that the transaction was in compliance with Jamaica Stock Exchange rules. The Office of the Contractor general reviewed the process and advised by letter of 18 August 2010 that the

[21] The description of the privatization process is based on interviews with DBJ officials, Ministry of Finance officials and a document provided by DBJ, entitled Divestment of the Government of Jamaica's 59.81 percent shareholding in Pegasus Hotels of Jamaica Limited Held by National Hotel and Properties Limited

process was in conformity with acceptable processes. The Purchase/ Sales Agreement was signed on 14 September 2010 after Cabinet approval in September.

15. Our conclusions on the Pegasus Hotel transaction are: (i) it emerged from a decision by Government to have UDC divest mature properties and return to its core business; (ii) that the process was transparent and carried out according to Government policies and procedures; (iii) there was an advisor and legal counsel in place to guide the UDC ET and ensure that the transaction was in conformity with stock exchange rules; and, (iv) the process remains open to allow minority shareholders in this public company to exit on the same terms and conditions as the Government.

ANNEX 9: POVERTY AND SOCIAL IMPACTS OF FISCAL REFORMS IN JAMAICA

Introduction

1. **This Annex summarizes the main results of the Poverty and Social Impact Analysis (PSIA) study of the reforms supported by the World Bank under the Programmatic Fiscal Sustainability DPL series.** The PSIA focuses on two reform actions likely to have the most significant distributional impacts: tax reform and rationalization of public bodies. These focus areas have been identified through consultations between the Government of Jamaica and the World Bank. This PSIA identifies the particular channels through which the above reforms are likely to affect the various segments of the Jamaican society and explores the extent of the likely impacts.

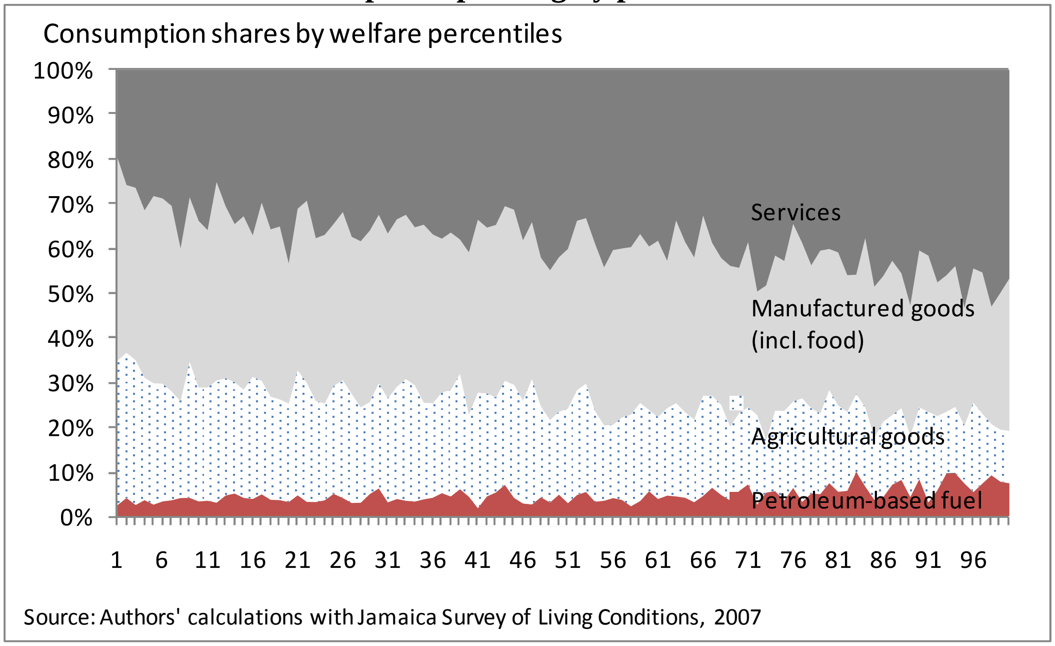
Tax reform

2. **In order to analyze the distributional impacts of tax reform, this section develops a recursive dynamic computable general equilibrium (CGE) model as well as the micro-accounting module used to translate the CGE results into poverty and inequality outcomes.** The CGE analysis is carried out by contrasting a baseline simulation with a set of alternative scenarios for the years 2007-2020. The results of these simulations are subsequently mapped to the 2007 household survey (Jamaica Survey of Living Conditions) to explore the potential impacts of changes in the macroeconomic and sectoral variables on household welfare, poverty, and the distribution of income.

3. **The simulation incorporates the major tax changes in fiscal years 2009 and 2010 as well as the Jamaica debt exchange (JDX) in February 2010.** The first scenario (tax reform) includes the largest measures (in terms of expected revenue impacts) from the series of tax amendments implemented by the Jamaican authorities in FY2009-2010, such as the increase of the special consumption tax (SCT) rate on petroleum and petroleum products (from J$7.36 to J$16.11 per liter of unleaded gasoline) and the subsequent re-introduction of the ad-valorem component of the SCT on petroleum, as well as the increase in the general consumption tax (GCT) rate. The second scenario (JDX + tax reform) also takes into account the decrease in the rate of interest paid on domestic and foreign debt after the JDX.

4. **Although shifts towards indirect taxation are usually regressive—because poor people consume a larger portion of their income—the incidence of the petrol tax is actually progressive.** Even though the petrol tax increase is welfare-enhancing on average, its implementation could have adverse distributional effects if poorer parts of the population consume more gasoline (relative to their total spending) than the richer segments. This is normally why consumption taxes are considered regressive, as they affect a greater share of a poor person's income than a rich person's income. However, in the case of Jamaica raising gasoline taxes is unlikely to widen welfare disparities because the consumption of gasoline (as a share of total consumption spending) is an increasing function of household welfare (Figure 12). For any household, gasoline consumption is a small share of total household budget; however, a poor household normally spends approximately 3 percent of its total expenditure on gasoline while the same share for a non-poor household is 4.7 percent. Therefore, the increase in the petrol tax imposes a higher burden (in relative terms) on the rich households than on the poor.

Figure 12: Allocation of consumption spending by percentiles of the income distribution



5. **On the other hand, the incidence of a reduction of interest payments on domestic debt is quite progressive.** There is no information in the JSLC or other readily available data sources on the distribution of interest income from government bonds in Jamaica. However, the JSLC does contain a question on dividend, interest, and rental income, and this information has been used to allocate the bond interest receipts across the three representative household groups in the CGE model. The data indicate that households with skilled primary earners receive approximately 84 percent of all dividend, interest, and rental income in Jamaica, while households with unskilled primary earners in urban occupations receive another 15 percent. Therefore, the distribution of interest income is heavily biased towards richer skilled households, and the poorest households—those with unskilled primary earners in rural occupations—receive less than 1 percent of total interest income. As a result, a reduction in interest earnings due to the JDX would affect rich households much more than poor households.

6. **The micro model results show that the reform scenario leads to additional poverty reduction and lower inequality, although the differences with respect to the no-reform scenario are quite small.** The third and fourth columns of Table 6 show that, while poverty could rise somewhat under tax reform alone, it would fall by 0.3 percentage points in the tax reform + JDX scenario, while the Gini coefficient could also decline by a 0.3 points. Although these differences are very small, there are several reasons why one may not expect to observe a big boost in poverty reduction in this scenario. First, as mentioned earlier, consumption per capita does not increase in this scenario relative to no-reform, which means that poverty reduction can come only from distributional change. Second, although some distributional changes are pro-poor—as discussed earlier, the increase in the petrol tax and the reduction in bond coupon payments affect rich households more than the poor ones—other changes are biased against the poorest households. These include the overall increase in the GCT rate, which hurts poor households who spend all of their income on consumption, and the large increase in demand for investment goods, which do not require rural factors in the production process. As a

result, the wages of unskilled rural households decline relative to the labor earnings of unskilled urban and skilled households. On balance, the pro-poor distributional changes outweigh the anti-poor ones, but the overall distributional change—and hence poverty reduction—is not particularly large.

Table 6: Poverty and Inequality Summary Indicators, 2007 and 2020

	2007	2020, no-reform	2020, Tax Reform	2020, Tax reform + JDX
Extreme poverty headcount (%)	2.86	1.54	1.54	1.54
Poverty headcount (%)	9.91	6.41	6.55	6.11
Poverty gap (x100)	2.48	1.44	1.41	1.40
Poverty gap squared (x100)	0.95	0.53	0.52	0.52
Gini	36.78	36.32	36.06	36.03
Theil (GE1)	23.75	23.13	22.78	22.74

Source: World Bank staff calculations.

Public bodies rationalization

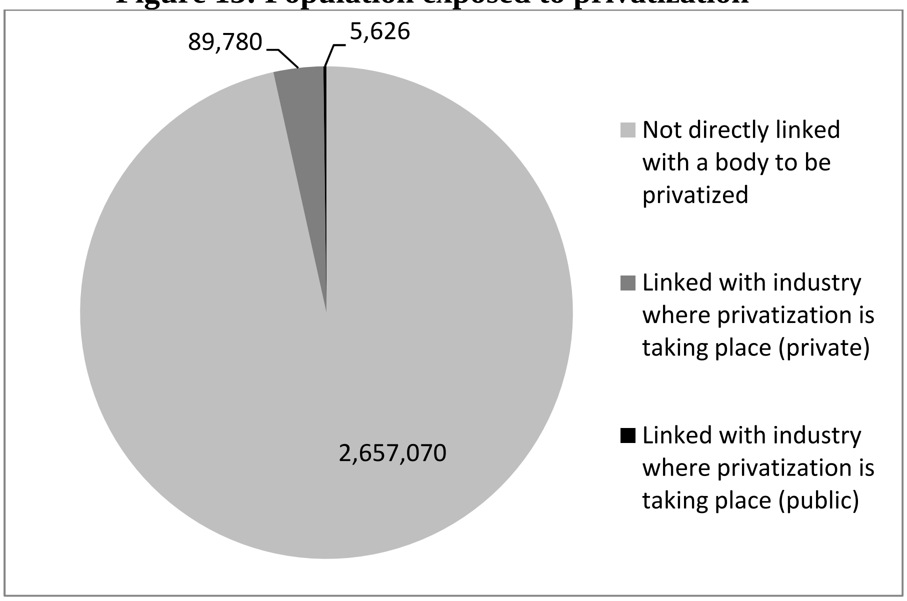
7. **This section focuses on the privatization of Government assets in sugar and mining as part of the broader public bodies rationalization program supported by FSDPL2 in sugar, mining, hotels, and air transport.** The entities currently under privatization include Air Jamaica, six publicly-owned sugar estates (St. Thomas Sugar Factory at Duckenfield, Long Pond and Hampden in Trelawny, Monymusk in Clarendon, Frome in Westmoreland, and Bernard Lodge in St. Catherine), Clarendon Alumina Partners (CAP), and Pegasus Hotels. Air Jamaica became part of Caribbean Airlines in May 2010. The first three estates were sold in June 2009, while the sale agreement for the last three was signed in July 2010. The Sugar Company of Jamaica Limited is now a legacy company that was slated for closure in December 2010. CAP operations have been taken over by a Swiss trading and mining group in January 2011, while a sale agreement for Pegasus was reached in September 2010. In order to focus on sectors which employ more people and are likely to have larger distributional effects, this PSIA examines more carefully the experiences of the sugar privatization as well as the likely effects of the privatization of bauxite and alumina production.

Quantitative results

8. **This section uses the 2007 Jamaican Living Conditions Survey (JLCS) to identify the households with incomes linked to the public bodies subject to privatization.** The objective of this exercise is twofold. First, get an order of magnitude of the privatization reform in terms of the number of households and individuals it could affect. Secondly, it compares characteristics between households who depend on a sector subject to be privatized and the rest of the population. Given the difficulty to identify in JLCS at the 4-digit level of disaggregation the public bodies to be privatized, when identifying the households that are part of the sector to be privatized, the exercise considers only three sectors: sugar, aluminum and ethanol.

9. **The reform is likely to directly affect few Jamaican households.** Figure 13 shows that, of the total population of 2,675,800 in Jamaica in 2007, 95,406 (3.5 percent) live in a household whose head was working in an industry where privatization is taking place. But the great majority of these Jamaicans, 89,780, were already part of the private sector and only 5,626 lived in a household whose head worked in a public body to be privatized (households at risk). In other words, the privatization reform could affect the livelihood of, as many as 5,626 Jamaican citizens (0.2 percent of the total population) living in 2,274 households with a direct link to the public bodies subject to privatization.

Figure 13: Population exposed to privatization



Source: World Bank staff calculations.

10. **Households with a direct link to a public body to be privatized are significantly poorer than the rest of the population**. These households have a level of consumption per capita 30 percent lower than other households and a higher incidence of poverty (Table 7). The big difference in poverty incidence among households with a link to a sector to be privatized and other households is corroborated by the proportion of beneficiaries of PATH, a social assistance program targeting the poor. As expected, household heads of the poorer vulnerable households are less educated than non-vulnerable households, however, surprisingly, there are more female heads of households among the non-vulnerable population subgroup.

11. **One of the most important linkages between the privatization reform and household welfare is via employment**. To evaluate the potential employment effects of the public bodies rationalization program, this section analyzes the probability of transition to employment from unemployment, and vice versa, in the very short run (after one quarter) and in the medium run (after one year). Figure 14 presents the proportion of the employed (left axis) and unemployed population (right axis) that transit to unemployment and employment, respectively, over time. More than half of the unemployed population manages to find a job after one year while during the same length of time, less than 4 percent of the employed population loses their job. After one year in employment, the probability of job separation starts declining.

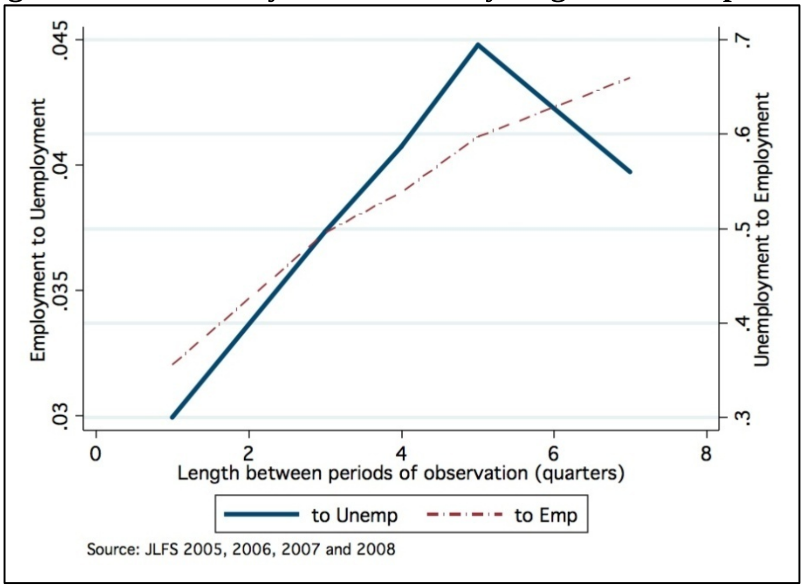
Table 7: Households with a direct link to a public body to be privatized

	All reporting Households	Households linked to privatization	Households **not** linked to privatization	Significant Difference
Consumption per capita (mean)	167,715	117,505	189,678	***
Poverty Rate (%)	9.38	17.84	5.67	***
Gini coefficient	0.37	0.33	0.37	
Path Beneficiary (%)	8.79	13.17	6.87	**
Household size	3.46	3.38	3.5	
Years of schooling	8.84	8.34	9.08	***
Gender of household head (male %)	57.11	73.89	49.51	***

Note: *** significant difference at the 1% level, ** significant difference at the 5% level.
Source: World Bank staff calculations.

12. **In order to allow for multiple factors to affect the probability of transitioning in and out of employment simultaneously, this section estimates a "mover-stayer" model**. The analysis therefore identifies the variables affecting the probability of losing and finding a job, respectively. In order to test if the effects affecting the probability of transition are different after one quarter versus one year, separate estimations are undertaken for the short- and medium-run, respectively. The transition functions are estimated using a standard probit model, accounting for survey weights and using robust standard errors.[22] The results of estimating this model are shown in Table 8, where the coefficients should be interpreted as the change in the probability of observing an outcome (i.e., marginal effects).

Figure 14: Probability of transition by length between periods



Source: World Bank staff calculations.

[22] The latter is important for accounting for unobserved individual-level heterogeneity.

13. **Workers with above-average years of schooling are less likely to lose their jobs and have an easier time finding a job once unemployed**. At very low levels of education, the probability of losing a job increases slightly with additional years of schooling (both in the short and the medium run). However, for workers with 5 or more (4 for the medium-run) years of formal education, an additional year of schooling reduces their probability of losing a job.

Table 8: Determinants of the probability of transition

	Pr(losing a job)		Pr(finding a job)	
	Short run effects	Medium run effects	Short run effects	Medium run effects
Sex (Male=1)	-0.877	-2.080	18.626	15.842
Experience	-0.173	-0.257	-0.653	-0.555
Experience squared	0.002	0.003	0.016	0.008
Years of schooling	0.327	0.335	-1.583	4.442
Years of schooling squared	-0.034	-0.045	0.091	-0.219
Public sector worker	-0.960	-1.534	-6.987	-2.915
Worker received training	-0.736	-1.137	-1.487	6.176
Working in entity to be privatized	2.429	2.611	-6.706	-8.457
Industry Controls				
Mining and Quarrying	2.792	6.930	-17.996	-25.162
Manufacturing	3.787	5.832	-19.098	-27.346
Electricity & Water	13.715	10.543	-5.244	-32.382
Construction	11.739	14.797	-11.555	-29.068
Hotels, tourism	2.471	4.257	-23.875	-23.946
Transport/Communication	2.680	6.226	-13.346	-12.046
Finance & Insurance	1.565	4.259	-20.252	-19.383
Government Services	2.149	4.223	-16.266	-28.972
Other Services	5.524	7.985	-16.120	-21.218
Year Controls				
2006	-0.116		-0.140	
2007	-0.728		-1.706	
2008	0.146		1.980	
N	26,682	29,288	2,123	2,442
R^2	7.43	7.14	5.4	3.53

Source: World Bank staff calculations.

14. **Although public sector workers face a lower probability of losing a job, they also find it much more difficult to gain new employment once unemployed.** Public sector workers have much more job security, but once they lose their job, the probability of finding a new one is 6.98 percentage points lower than individuals who previously worked in the private sector. This result suggests that workers in the public sector have a particular set of skills that are not fungible enough to allow them to transit in and out of unemployment easily.

15. **Taking all factors into consideration, public sector workers in industries under privatization are about 25 percent more likely to lose their job than workers in other industries.** On the one hand, as mentioned above, public sector workers in general have a lower probability of losing a job. On the other hand, working in industries where privatization is taking place is positively associated with a higher risk of losing a job. Moreover, individual characteristics (such as education and experience) also vary across industries and sectors. In order to calculate the overall impact, a probability of losing a job was calculated for all active workers in the sample using the estimated coefficients from Table 8. The results show that public workers in the sugar and aluminum industries have an average predicted probability of losing their job of 4.6 percent compared with 3.7 percent for workers in other industries.

16. **Receiving special training, either by the employer or via the government training programs such as HEART or NTA, makes a big difference.** In the short-run, workers who received specialized training have a lower probability of getting a job, perhaps motivated by a higher reservation wage. However, after one year, those who received special training have a probability of getting a job more than 6 percentage points higher than those who did not get specialized training.

Qualitative results

17. **This section summarizes the findings of a series of participatory (community based) and life history (individual/household based) interviews in the sugar privatized areas of Trelawny and Bernard Lodge, Inswood.** The interviews took place in December 2010, one year after the privatization process, and some further follow-up interviews were conducted in June 2011. Although only two communities were interviewed, the effects are similar enough to be summarized together in Figure 15.

18. **Of particular note, and overwhelming 'feel' from communities, was one of optimism for the future.** There was genuine 'hope' that the privatization the local sugar factory would result in a more prosperous future, however the underlying premise for such hope lay in 're-recruitment' or 'retention' - if still employed at the sugar factories. Overall therefore, generally, divestment was thought to be a good thing that would result in investment into the factories and improved management practices. However, the reality is that these are short run effects, with the long run effects of divesture effects yet to be felt.

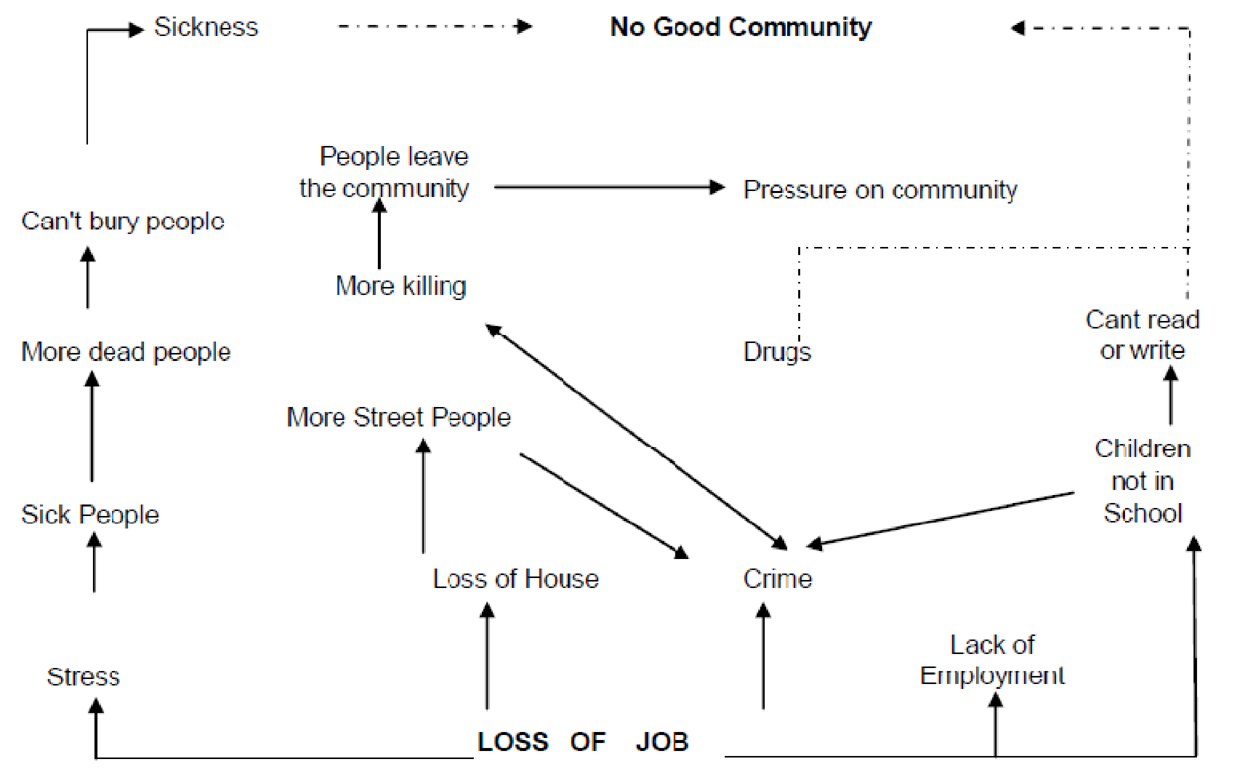
19. **The interviews identified the following main issues facing the communities, all of which have been accentuated in the post sugar privatization period:**

- *Unemployment/Employment Effect/Low Wage*. All communities identified future job creation and skill training to be critical, with the broad recognition that the lack of work has had major 'knock on' (multiplier) effects for spending/employment within the local community; Community groups note that many people are now unable to purchase basic foods – this is particularly the case for single occupied, former sugar industry, households over the age of 60; It is widely stated the current sugar privatization (or at least system/information about the process) is in 'Chaos' – with suggestion that at least 50 percent of those previously employed not having worked since (Bernard Lodge estimates suggested now only 500 of approximately 2500 previously employed). People now 'hustle' (i.e. sell juice/small crops – peppers/lime /other, become taxi drivers) to survive.

- *Child School Attendance*: In the worst affected areas parents state that they can only afford to send their children to school 2-3 days per week; “Sending children to school is no longer a priority”; there is a lot of ‘loitering’ as a result – higher school drop outs; higher teenage pregnancy and overall lower school attainment.
- *Society Problems*: Lack of jobs has resulted in an increases sex trade (both male and female prostitution); Negative impact on communities with higher levels of distress borrowing from families and neighbors – this appears to have reached breaking point in some instances as future income streams are looking less certain – ‘many people have borrowed against future STU payments’; Key family members have migrated - especially men who leave their families; Family breakdown and domestic violence has also resulted.
- *Theft/Deaths*: People in effected communities ‘live from day to day’ – and theft has increased; In Trelawny deaths increased immediately after privatization because of ‘gangs’ but has subsequently reduced - “…we have a few rapes now and then and a few murders but we don’t have any crime and violence…”.
- *Lack of Proper Housing/Sanitation*: In the Bernard Lodge area/estate owned land most houses are ‘shacks’, with houses made/’pieced together’ from wood/boards; Residents on such land do not pay electricity or water bills. Bernard Lodge had previously been approached to renovate such ‘shacks’ for people to live in but refused to re-invest in the hope that such buildings would fall down and the tenants would move out. Land tenure for residents is therefore very insecure which results in no long term security/few plans for any crop cultivation etc; Government schemes to develop housing have been “talked about” but communities stated that they did not receive any substantive information.

20. **There are a few major differences between what the communities anticipated effects were and how what has resulted, at least in the relatively short period post privatization**. The effects of loss of jobs and/or less secure jobs (in the case of re-employment) is creating stress on families and communities both indirectly and directly with: Extra lending demands on friends and family – much of which appears to have reached a critical limit, however as yet (in the short run) few/if any individuals have lost their house. Communities did refer to some outward migration having occurred, however this seems to have followed on from an exacerbation of coping mechanisms (i.e. selling of assets/borrowing from other households/friends). Some Sugar Transformation Payments (STP) have been distributed, but community members do not have a clear idea of eligibility and/or who has received these. A number of persons are still waiting for STP while having already borrowed against them. The first payment was made about one year ago, but many of the people who worked as contractors did not get anything as they had no contract with Bernard Lodge. In many instances workers were re-employed on short term contracts, were slightly above the J$475,000 wage threshold, or were pensioners who had passed the pension age – all of whom were excluded from STP. In other cases, potential recipients experienced difficulties in collecting payments due to complicated procedures (which require opening one or more bank accounts) and being offered in-kind payments (e.g., motorcycles) instead of cash.

Figure 15: Causal flow actual consequences of sugar privatization



(Source: Innswood Focus Group, Adapted From PIOJ 2006)

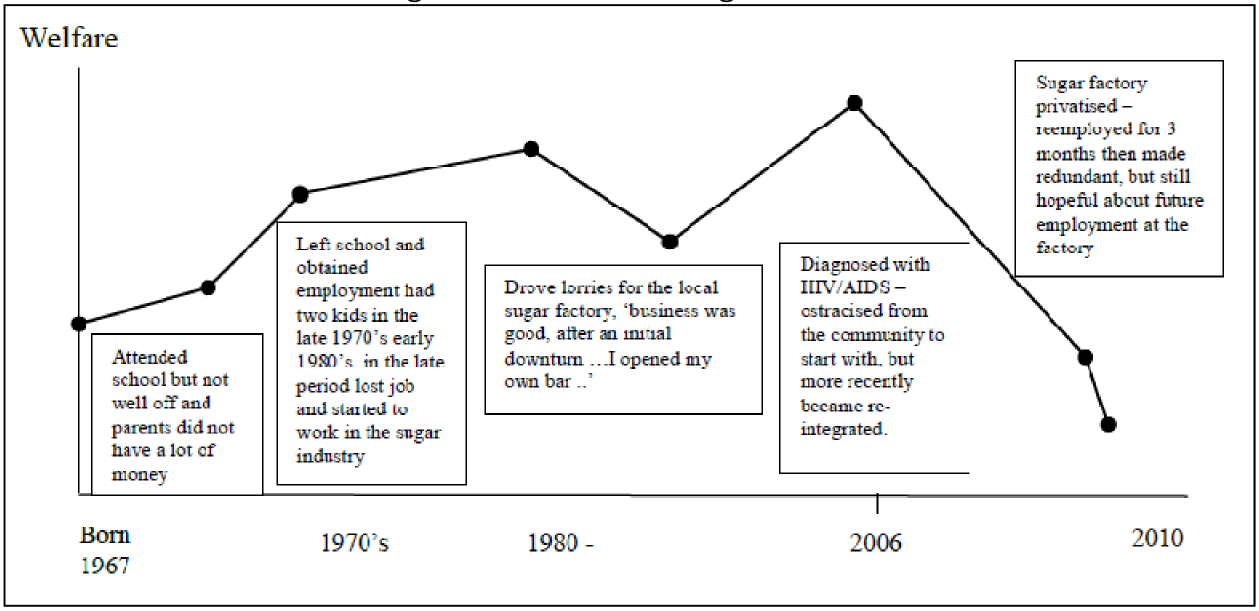
21. **Coping mechanisms associated with re-training and migration appear to be less of an option**. This is particularly concerning given the above average age of agricultural workers. With this category of workers coping mechanisms that follow the sale/reduction of assets tends to be reduction of personal and household consumption – in several cases to less than 2 'full' meals per day. In several cases elderly headed households who were formerly employed in the sugar industry were resorted to stealing cane from fields as a source of gaining nutritionally intake. The long term effects of these individuals are yet to be fully considered.

22. **In addition to community interviews to try and provide a further understanding of the coping mechanisms adopted by individuals and families, life histories were undertaken**. Characteristics from the quantitative and community based discussion were used to inform the design of a semi-structured life history interview. The adoption of life histories allowed for the opportunity to provide comparative information about households as well as recording responses to open-ended questions that arise during the course of interviews. The latter focused on critical incidents, events and factors identified by households and information that households identified as important but was not part of the questionnaire design.[23] The perceived welfare of a redundant

[23] The life histories adopted a "best practice" approach drawing from the work of others, an extensive review of life history literature, advice from life history experts, and experience of the research team. Specifically the life histories traced an individual's life from childhood to the present day, focusing on key events. In many instances the interviewee also drew a timeline at the end of the interview to triangulate the details of the interview, clarify any

sugar worker (referenced by the self-judgment) is shown on the vertical axis of Figure 16.

Figure 16: Redundant sugar worker



Source: Self-assessment by the sugar worker.

23. **The sugar worker was employed as a driver at the local sugar factory and re-employed for 3 months, post privatization, but had no work since**. He is still hopeful of future employment and how the future will turn out and is 'highly expectant' of re-employment. We can see that he perceives his welfare to be at the lowest in his entire life, at the present time, this has been caused by a series of shocks. Firstly he was diagnosed with HIV/AIDS in 2006; Secondly as he was ostracized from the community the bar that had produced many welfare gains throughout the late 1990's produced less income; Thirdly the effects of reduced bar income from fewer people being employed, and spending 'socially', in the local community (post sugar privatization) and his unemployment results in a further downward trajectory in welfare. As is common with many households suffering 'crises', the sequence or serial shocks tends to result in a permanent loss of welfare more than any single shock. Higher levels of young dependants in the 1980s combined with a first redundancy also highlights the current concerns of many families.

Conclusions

24. **Relatively few household will experience negative income or consumption shocks associated with the fiscal measures under the Programmatic Fiscal Sustainability DPL series.** The impact of the tax reform on poor households is limited due to excise taxes affecting items which are by and large demanded in lesser proportion by less well-off households. Some households could experience negative welfare shocks in the short term, but poverty reduction

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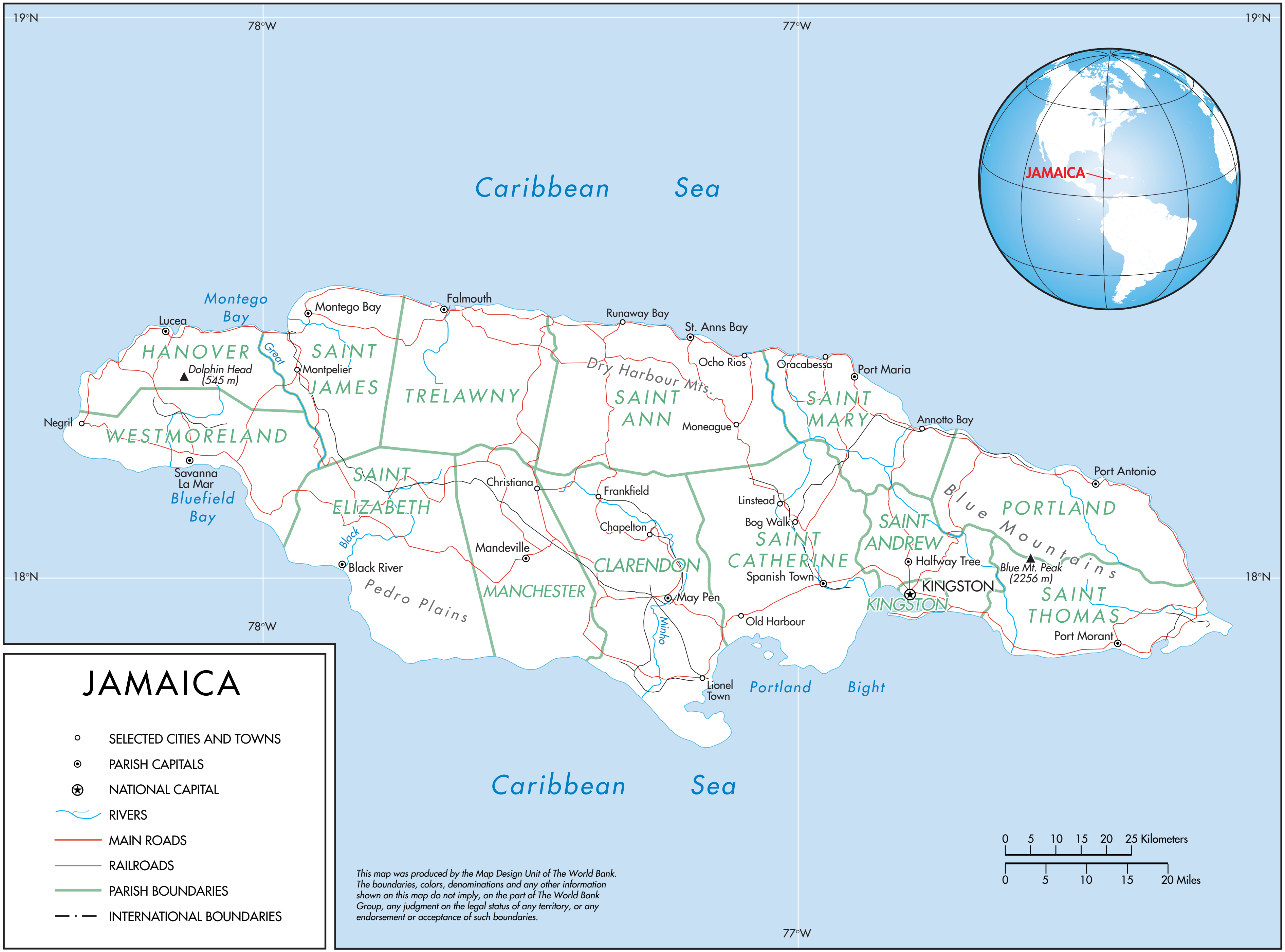
inconsistencies and identify incidents or processes not captured in the previous discussion. At the end of the semi-structured interview, which normally lasted between one to two and a half hours, the respondents were given an opportunity to ask the interviewers questions.

and inequality are likely to decline over the medium- and long-term as the fiscal reforms bear fruit in terms of faster and more inclusive growth. Similarly, some households could be negatively affected by the loss of employment due to public bodies rationalization. Although workers employed in sectors where privatization is taking place are already at a higher risk of losing their jobs than workers in other sectors, the total number of potentially affected persons represents just 0.2 percent of the Jamaican population. In addition, government programs—such as Sugar Transformation Unit payments, the conditional cash transfer PATH, and training opportunities through HEART/NTA—are available to mitigate the adverse impacts.



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