

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**IDB COUNTRY STRATEGY
WITH JAMAICA
(2006-2009)**

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LIST OF ACRONYMS AND ABBREVIATIONS

AFS	Audited Financial Statements
BCI	Business Climate Initiative
CBO	Community Based Organization
CFAA/CPAR	Country Financial Accountability Assessment/Country Procurement Assessment Report
CFP	Country Financing Parameters
CIDA	Canadian International Development Agency
COF	Country Office
CSME	CARICOM Single Market and Economy
DFID	(UK) Department for International Development
FAA	Financial Administration and Audit Act
FDI	Foreign Direct Investment
FSRP	Financial Sector Reform Program
FY	Fiscal Year
GDP	Gross Domestic Product
GOJ	Government of Jamaica
IDB	Inter-American Development Bank
IDP	International Development Partner
JPSDS	Jamaica Private Sector Development Strategy
MDG	Millennium Development Goals
MIF	Multilateral Investment Fund
MOF	Ministry of Finance
MTSEPF	Medium Term Social and Economic Policy Framework
NFP	Non-Financial Products
ODPEM	Office of Disaster Preparedness and Emergency Management
OECD	Organization for Economic Co-operation and Development
PBL	Policy Based Loan
PIOJ	Planning Institute of Jamaica
PSA	Private Sector Assessment
SME	Small and Medium Enterprise
STATIN	Statistical Institute of Jamaica
SWAp	Sector Wide Approach
TC	Technical Cooperation
WB	World Bank

EXECUTIVE SUMMARY

Like many other resource-rich countries, especially small ones, Jamaica has underperformed economically over the long term; for three decades robust and sustained economic growth has been elusive. Per capita incomes have stagnated and this has undercut broader developmental progress, contributed to the emigration of skilled Jamaicans, and frustrated expectations. To a certain extent the gap between actual income and the expected or desired level of consumption and investment has been financed by growing debt levels and more recently by remittances. Public debt in March 2006 was approximately 132 percent of GDP – a level that not only represents a threat to macroeconomic stability but also absorbs significant resources. Roughly half of government expenditures are devoted to interest payments and high primary budget surpluses are required to stop the debt from growing and prevent negative debt dynamics.

Jamaica has made better progress on the social front, particularly in reducing poverty in the 1990s. Nevertheless, the scope for further reductions in poverty in the absence of growth appear exhausted. And notwithstanding Jamaica's solid formal democratic and political institutions, societal cleavages appear greater than in many other Caribbean countries and social capital correspondingly lower. Crime and violence, although long-standing, have been growing problems.

The public sector is large in terms of employment and in terms of the scope of its activities, despite considerable privatization since the late 1980s. In addition, the civil service has a strong core of competent staff, particularly at senior levels. Consequently, in many cases ministry capacity is relatively strong by Caribbean standards.

In order to address the aforementioned development challenges, the Government's Medium-Term Socio-Economic Policy Framework (MTSEPF) focuses on: a stable macroeconomic environment; a reduction of public debt; faster private sector development through improved competitiveness; and consolidation of social gains.

This Country Strategy is consistent with the MTSEPF and also complements the programs of other International Development Partners (IDPs). A key area of focus will be **private sector development**, where the Bank will seek to support improvements in the incentive framework and the business environment. There is a range of relatively small but catalytic changes and microeconomic reforms that could be made to improve the business environment and which are amenable to Bank support. The thrust of these reforms will be to build economic opportunities for the majority by measures such as reducing the transaction costs for titling and registering land, improving access to credit for sole proprietors and small businesses, and improving incentives for informal businesses to become formal. The Country Strategy incorporates the Private Sector Development Strategy, which delineates avenues of assistance from the Multilateral Investment Fund (MIF), Private Sector Department (PRI) and Inter-American Investment Corporation (IIC).

Obtaining **better value for money** or better outcomes from resources will also be important. Jamaica is not getting benefits and rewards commensurate with the level of effort or resources, both at a macro level and in many sectors. At a minimum, the goal should be to ensure that the portfolio is managed to obtain the maximum developmental results possible in a difficult environment for project execution, given the tight fiscal space.

A third potential area where the Bank could help is in the development of a comprehensive approach to the **management of natural disaster risk** that would focus on mitigation, preparedness, emergency response and recovery strategies. This would imply that the Bank: (i) assist in reducing risks and vulnerability to hazards; and (ii) stand ready to assist in the event of a disaster.

The fiscal situation strongly conditions the type of financial support that would be most useful to the GoJ. Over time, growing current expenditures – particularly on interest payments and wages and salaries – combined with the GoJ's desire to reduce the budget deficit, have crowded out capital expenditures. Government capital expenditures fell from over 4 percent in the first half of the 1990s to around 2 percent in the last 3 years. Consequently, because government investment is small, financing required for investment is small. General financing that can be used to roll over debt or finance recurrent budget deficits is more useful for the GoJ. This has led to increased reliance on private domestic and external financing via bond issues. A corollary of this is that the IDB's share of external public debt and even more so total public debt is modest, even though the IDB accounts for more than half of all multilateral development bank debt.

The reduction in the government's investment program caused budgetary allocations to IDB-supported projects to fall far short of that needed for a normal pace of implementation. This has contributed to slow project execution and extended project lifetimes, delayed or prevented the achievement of development objectives, and increased the ratio of project administration and financial costs to disbursements. Although this situation is gradually improving due to partial cancellations of loan resources since 2004 and the exit of old projects from the portfolio, the acute scarcity of fiscal space means that this problem will likely continue over the life of this Strategy. Moreover, since the projected budgetary allocation for IDB-supported projects during the period from 2006/07 to 2007/08 is lower than the amount required to finish the existing projects within a reasonable timeframe, there is no budgetary space for further investment loans. This implies that the Bank's program for 2006-2009 will have little public sector investment lending and rather focus on policy-based lending, grant modalities (MIF and PRODEV) for catalytic actions, and private sector (PRI and IIC) lending. The relatively small support in financial terms also implies a focused and necessarily limited program. Although it is hoped that the Bank's interventions will be more important in developmental terms, the circumscribed nature of the program warrants modesty regarding the objectives and expected impact. It is hoped that this Country Strategy would prove to be transitional in nature and that progress on fiscal adjustment and public debt reduction would lead to the preparation of a less circumscribed Country Strategy in the future. In addition, should the fiscal situation improve sufficiently to allow for further investment borrowing during this Strategy period, the Bank would leave open the possibility of preparing new investment loans if requested by Government.

Summary Strategy Matrix		
Government Strategy	IDB Potential Actions	Performance Indicators
A. Private Sector Development Pillar: Goal – Output/value added in the private sector expands in a sustainable and labor-intensive manner through organic growth and absorption of the informal sector		
1. Supportive macroeconomic framework <ul style="list-style-type: none"> • Maintenance of stable and predictable macroeconomic environment • Balanced budget in FY2007/08 and fiscal surpluses thereafter • Return public debt to sustainable levels 		<ul style="list-style-type: none"> • GoJ Target: Public debt reduced to 100% of GDP by March 2010 (Baseline March 2006: 132%)
2. Sound incentive framework and facilitative business climate <ul style="list-style-type: none"> • Foster private sector development through improving competitiveness • Maintenance of competitive levels of the real effective exchange rate, real wages and interest rates • Continued trade integration • Improvement of enabling environment • Reduction of crime 	Loan/TCs <ul style="list-style-type: none"> • Policy-based loan to support facilitative business climate and tax reform, particularly with regard to stamp duties inter alia <ul style="list-style-type: none"> ○ Support for trade policy and institutional development, especially that related to the investment regime ○ Process of dialogue between public and private sectors ○ Creation of credit bureaus ○ Collateral framework reform ○ Reform of land market ○ General regulatory reform ○ Legal system reform and assist in reduction of legal back-log 	<ul style="list-style-type: none"> • Availability of credit information (Baseline: 0; Source: Credit Information Index, Doing Business Report 2006) • Days dealing with licenses declines (Baseline: 242 days; Source Doing Business Report 2006) • Cost of registering property as % of property value declines (Baseline: 13.5%; Source: Doing Business Report 2006) • Informal sector declines relative to formal economy (Baseline: 43%; Source: Index based on electricity consumption and GDP data).
3. Complementary inputs <ul style="list-style-type: none"> • Provision of reliable and cost-effective infrastructure • Supply of appropriately skilled manpower 	Loans <ul style="list-style-type: none"> • PRI Wharf project • IIC Port Logistics project TCs <ul style="list-style-type: none"> • Concession line of activity or PPP cluster • Competitiveness of Small Hotels • SME Competitiveness • Coffee Industry Rehabilitation • Angel Investor Network 	<ul style="list-style-type: none"> • Percentage of roads in good and fair condition does not decline (Baseline: January 2005 48%)

Summary Strategy Matrix		
Government Strategy	IDB Potential Actions	Performance Indicators
B. Getting better value for money: Goal – Greater efficiency allows Jamaica to benefit more from a given level of resources		
1. Sectoral efficiency <ul style="list-style-type: none"> • Strategic prioritizing: the allocation of resources to policy priorities and reduction of unproductive expenditure • Measure and manage performance 	Loans <ul style="list-style-type: none"> • Policy-based loan Triggers <ul style="list-style-type: none"> • Mutual agreement on sectoral reforms/targets • <33% projects unsatisfactory • GoJ readiness 	<ul style="list-style-type: none"> • Education outcomes (pass rates, drop out rates) improve for a given government expenditure
2. Project-level efficiency <ul style="list-style-type: none"> • Examine programs for their relevance, cost-effectiveness, achievement of service standards, impact on target population 	Process <ul style="list-style-type: none"> • Intensified portfolio management. • Further loan cancellations as necessary 	<ul style="list-style-type: none"> • Annual IDB disbursements rise from 5.6% of available balance (Baseline: 2005) to >10% by end 2008 • Administrative costs decline from 9% of IDB disbursements (Baseline: June 2005) to < 7% by end 2008
3. Public financial management <ul style="list-style-type: none"> • Enhance the efficient collection and use of public resources, accountability and transparency through public sector reform, the introduction of a Financial Management Information System and accrual accounting, and strengthening of legal, financial and regulatory mechanisms 	Loans <ul style="list-style-type: none"> • Programmatic policy-based loan for public financial management and management for results TCs <ul style="list-style-type: none"> • PRODEV 	<ul style="list-style-type: none"> • Action Plan for Managing for Results developed and approved by GoJ and in implementation by March 2007
C. Reducing vulnerability to natural disasters		
1. Appropriate comprehensive disaster risk management <ul style="list-style-type: none"> • Office of Disaster Preparedness and Emergency Management (ODPEM) created • National Hazard Mitigation Policy under draft 	TC/NFP <ul style="list-style-type: none"> • Country risk evaluation • Follow up actions to be decided 	<ul style="list-style-type: none"> • A plan to reduce Risk Management Index approved by GoJ; (Index 49.5 in 2003, source: IDEA, 2004, Manizales, Colombia, ATN/JF-7907-RG)

I. INTRODUCTION

- 1.1 This Country Strategy (CS) sets out the IDB's strategy with Jamaica for the 2006-2009 period. After 14 years as Prime Minister, P.J. Patterson retired on March 30, 2006, and was replaced by Portia Simpson Miller. Fiscal and debt constraints circumscribe both the scope and the instruments of the CS. Consequently, it is modest in nature and is narrowly focused on private sector development, value for money, and reducing vulnerability to natural disasters. In light of the private sector pillar, the CS was prepared in parallel with and incorporates the Jamaica Private Sector Development Strategy.¹ It is hoped that progress on fiscal adjustment and debt reduction will allow the preparation of a less circumscribed CS in the future.
- 1.2 The IDB has historically had a close working relationship with the Government of Jamaica (GoJ) that has traditionally been reflected in a substantial portfolio of investment lending projects. The GoJ has appreciated the Bank's technical knowledge and experience in project design and execution as well as the financial benefits of borrowing from the Bank. In addition, the IDB has supported the country at critical junctures – through the process of structural adjustment and coping with the aftermath of a financial sector crisis in the late 1990s.² Nevertheless, the GoJ's experience with the speed and flexibility of international capital markets in recent years has given rise to dissatisfaction with the operational pace and rules and procedures of the development banks. These factors, and more fundamentally, the GoJ's growing need for general financing rather than investment project-specific financing suggest that the IDB-Jamaica relationship needs modifications and that the Bank's program in the short-to-medium term will be more limited to policy-based loans, private sector lending and grant modalities (MIF and PRODEV), and more focused than in the recent past. The limited financial size of the program relative both to private financing and the scale of Jamaica's development challenges argue for modesty with respect to the expected impact.

II. PRINCIPAL DEVELOPMENT CHALLENGES

- 2.1 Jamaica faces governance challenges that transcend and cut across various development challenges. On the surface, Jamaica has strong formal institutions. It has a well-established parliamentary democracy and a vibrant civil society. It also possesses a strong and competent civil service. However, society shows signs of social and political polarization, which makes difficult forming consensus on policies that are in the broad public interest and that take a long time horizon. There is a history of political violence and in recent decades growing violence associated with organized crime.

¹ This CS benefited from an abundance of recent IDB and World Bank economic and sector work (Annex VI).

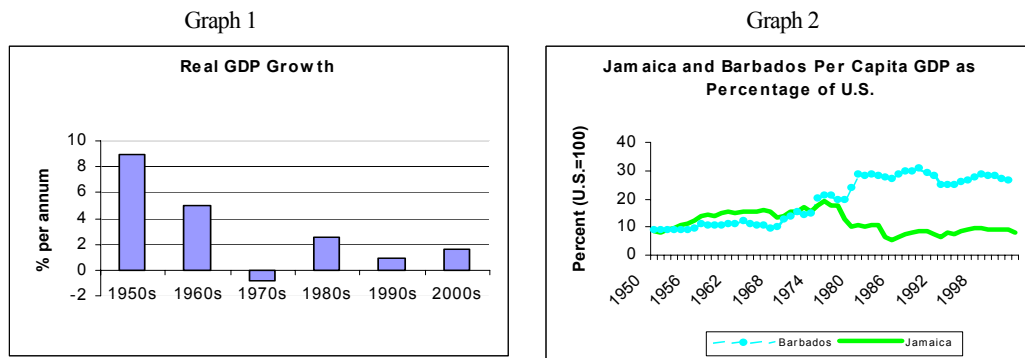
² It should be noted that the intensive and prolonged support of the multilateral financial institutions for the structural adjustment period (between 1977 and 1996 Jamaica had eight IMF arrangements, eight adjustment operations with the World Bank, and two sector loans with the IDB) generated conditionality fatigue. However, this was not problematic with the two most recent policy-based loans (Financial Sector Reform Program and the Social Safety Net Reform Program).

2.2 Jamaica's economy now is underpinned by four pillars: alumina, tourism, the informal sector, and remittances. The bauxite and alumina industry contributes 23 percent of exports of goods and services. Tourism generates 37 percent of exports, and directly and indirectly employs 20 percent of the labor force. The informal sector is estimated to be equivalent to 43 percent of GDP.³ And remittances grew tenfold from US\$184 million in 1990 to US\$1,870 million in 2005, a level that is equivalent to 18 percent of GDP. Jamaica has a long tradition of emigration but the economic stagnation of the last three decades and worsening crime situation have stimulated greater levels of emigration. As many Jamaicans live abroad as in Jamaica and many graduates now live abroad.⁴ The Jamaican diaspora has been successful and productive outside of Jamaica's institutional environment and their success and growing numbers have been reflected in sharply increasing remittances to Jamaica. While the high level of external financial support lifts living standards in the short term, the loss of such a skilled part of society lessens the skills available to the private and public sectors. It also blunts the effectiveness and rationale for public financing and provision of higher education: while the costs of education and training are borne mainly by the public, the benefits accrue mostly to those individuals and the recipient developed countries.

2.3 Therefore, an overarching development challenge is to make Jamaica a safe and productive environment where Jamaicans want to live, work and engage in socially productive activities. This requires progress on six fronts: (i) accelerating growth; (ii) reducing poverty and preserving social gains; (iii) reducing crime; (iv) preserving the environment; (v) managing natural disasters; and (vi) getting better value for money.

A. Accelerating Growth

2.4 Of these, the central development challenge is to achieve sustained and robust economic growth. After a prosperous 1950s and 1960s, Jamaican development went off track in the 1970s and the country has failed to converge with industrial countries and even fallen behind some other Caribbean countries (Graphs 1 and 2). Brisk economic growth in the 1950s and 1960s was followed by modest growth over the next three decades. This experience was not unique to Jamaica: since the 1960s, resource-abundant countries have under-performed compared with resource-poor countries.⁵



Source: STATIN and IMF International Financial Statistics.

³ GRADE (2004).

⁴ OECD (2005).

⁵ Auty (1999). See the Jamaica Country Strategy Issues Paper for an analytical overview of the historical growth performance.

2.5 Growth is critical for raising living standards, achieving further reductions in poverty, and for macroeconomic and social stability. Projections of Jamaica’s long-term development progress in the future indicate that if the growth of income per capita continues according to the trend of the last 24 years (1.22 percent), by 2024 per capita income would be US\$3,792 in 2000 dollars, which would be only 8.6 percent of the OECD’s income level (Table 1). If economic growth averages 3.5 percent per annum – in line with the GoJ’s medium-term targets – and therefore at 3.09 percent in per capita terms, per capita income would still be only 12.4 percent of the OECD level by 2024. These projections indicate both the magnitude of improvement necessary to significantly raise living standards and the long-term nature of the development challenge.

Table 1: Scenarios for Growth in Income Per Capita Over Next 20 Years			
	2004	Real annual growth (%)	2024
Base case (trend of last 24 years)			
Per capita GDP (US\$ 2000)	2,975	1.22	3,792
Per capita GDP/OECD GDP per capita (%)	10.3%	-	8.6%
High case (Government medium-term economic growth target)			
Per capita GDP (US\$ 2000)	2,975	3.09	5,465
Per capita GDP/OECD GDP per capita (%)	10.3%	-	12.4%

a) Macroeconomic policy framework

2.6 Accelerating growth depends on private sector development, which in turn requires a supportive macroeconomic context, a sound incentive framework, a facilitative business environment, and adequate infrastructure. A supportive macroeconomic context is: (i) stable, in the sense of low volatility in the principal prices (exchange rate and interest rate) and low inflation; (ii) sustainable; and (iii) non-distortionary, in the sense that attainment of the first two goals should not damage the incentive framework.

2.7 Since 1991 Jamaica has made major progress in reducing the inflation rate. However, the country has a very high level of public debt (128 percent of GDP), that is costly to service, impedes macroeconomic management, creates vulnerability to shocks, and poses risks to macroeconomic sustainability (Box 1).

2.8 The high level of debt has become an important impediment to fiscal balance and macroeconomic sustainability. Interest payments accounted for an average of 49 percent of government expenditures and 16.3 percent of GDP in the last three fiscal years.⁶ Hence, extraordinarily high primary fiscal surpluses are required merely to balance the budget and avoid adding to the debt.⁷ With a GDP growth rate of 1 percent (the average for 1998-2003) and real interest rate of 7.1 percent (the average for 1998-2003), a primary surplus of 8.6 percent of GDP would be required to stabilize the public debt-to-GDP ratio.⁸ In the last three

⁶ The fiscal year runs from April 1 to March 31.

⁷ The primary balance is the budget balance excluding interest payments.

⁸ IMF (2005b).

fiscal years, Jamaica ran a primary surplus of 11.3 percent of GDP, but a budget deficit of 4.9 percent.

Box 1: Public Debt

After peaking at 148 percent of GDP in March 2003, public debt declined to 132 percent of GDP by March 2006 (US\$13 billion in US dollar terms). This ratio is double the EU's Maastricht Treaty target of 60 percent of GDP and one of the highest in the world among countries borrowing on commercial terms (World Bank, 2005a). The debt-to-exports ratio is 128 percent. And the debt-tax revenue ratio is the fifth highest among 21 emerging market countries.

The debt is subject to roll-over, currency and interest rate risks. Until 2009 amortization in the amount of 12-13 percent of GDP falls due, which creates a roll-over risk in both domestic and external markets. Roughly 57 percent of debt is domestic and 43 percent is external. Over-a-tenth of domestic debt is US\$-linked, so that 49 percent of total debt carries foreign currency risk. Each one percent depreciation of the exchange rate would likely raise the debt stock by 0.5 percent of GDP and interest costs by 0.1 percent. In addition, roughly 37 percent carries floating interest rates. Interest rate risks relate to rising domestic interest rates, rising international interest rates, and higher interest spreads. Each percentage point increase in the average interest rate would increase interest payments, and the fiscal deficit, by about 0.5 percent of GDP.

Standard and Poor's and Moody's assign a "B" rating to Jamaica's long-term foreign currency debt and Jamaica has successfully issued several large bonds since late 2003. The Emerging Market Bond Index secondary market spread was 405 basis points during 2004/05, following a temporary peak of around 1,000 basis points during a near crisis in early 2003.

Despite the high costs of the debt, the GoJ has shown a strong commitment to honor its obligations. Constitutional provisions give top priority to debt servicing and the country's strong legal and parliamentary frameworks work to uphold this. In addition, Jamaican residents hold the majority of public debt (possibly accounting for 75-80 percent of total debt), thereby sharply limiting the scope for transferring losses to foreigners and providing strong political incentives for continued servicing. Moreover, any attempt to restructure the debt could have a devastating impact on the financial sector, whose portfolios are concentrated on public sector debt. Not least, the GoJ would like to protect its reputation and access to capital markets. This commitment has been manifested in the GoJ's actions to raise the primary surplus whenever necessary to avoid a debt trap.

Reducing vulnerability by lowering the stock of debt through fiscal effort is the government's top priority. The government and IMF are projecting total public debt to decline significantly as a percentage of GDP, reaching 99 percent of GDP by March 2010. More cautiously, the World Bank notes that reducing the debt to 100 percent of GDP within 7-8 years would require running a primary surplus of 12 percent of GDP as well as an absence of major shocks or deteriorations in growth.

Sources: IMF (2004), Artana and Navajas (2004), and World Bank (2005a).

2.9 But debt is not the only challenge to fiscal sustainability. Indeed, the debt itself reflects a history of significant fiscal deficits.⁹ Jamaica ran a cumulative fiscal deficit of 183 percent of GDP from 1975 until 2005. As noted above, the budget deficit averaged 4.9 percent of GDP during the last three fiscal years. With off-budget expenditure – primarily comprising central bank losses, off-budget projects and the realization of contingent liabilities – averaging 2.6 percent per annum, the overall fiscal deficit averaged 6.8 percent of GDP over the same period. Significantly, in the last year that a fiscal surplus was recorded (FY1995/96) wage and salary payments amounted to 7.7 percent of GDP. Since then public employment and wages have grown so that wage and salary expenditures now amount to 10-12 percent of GDP. This is higher than many comparable countries and nearly double the average for Latin America and the Caribbean in the 1996-2000 period.¹⁰

2.10 Over time, this growth in current expenditures has crowded out capital expenditures, which fell from 9 percent of GDP in the 1980s, to around 4 percent in the 1990s, and to 0.9-2.4 percent in

⁹ The poor long-term fiscal outcomes are related to political economy factors rather than institutional weaknesses. In fact, Jamaica ranked top or second in two international assessments of budget institutions (Artana and Navajas, 2004).

¹⁰ World Bank (2005).

FY2002/03-FY2005/06. The small size of public investment is now impeding the government's ability to provide critical public goods and may impact on long-term growth.

b) Incentive framework

- 2.11 Several challenges remain to improve the incentive framework for private sector development. Bolstering the stability and sustainability of the macroeconomic policy framework will be important for reducing uncertainty and real interest rates, and hence encouraging longer-term investment. The tax system requires reform in order to encourage employment and lessen incentives to capital intensity. Reducing the tax burden (on non-favored activities) would also lessen the incentives for informality. In addition, the tax system needs to be made neutral between sectors in order to more closely align private and social rates of return (thereby contributing to a higher economy-wide rate of return on investment).¹¹ Such distortions are a large part of the reason that GDP grew by less than one percent per annum between 1992 and 2003 even though total fixed capital formation averaged over 27 percent of GDP.¹² The country should be getting better growth and employment outcomes from such a high level of investment, and consequently improving the efficiency of private investment will be key to growth.
- 2.12 The real effective exchange rate (REER) and labor costs will remain key determinants of competitiveness and the incentive framework for investment in export and import-competing activities. They also will be strong determinants of the labor-intensity of growth. There appears to be a strong association between the level of the REER and merchandise export performance.¹³ Moreover, a significant appreciation of the REER from the early to late 1990s and significant real wage gains that exceeded growth and productivity increases led to a weak export performance over the last decade-and-a-half and to the atrophying of the productive sectors. The natural resource-based sectors (tourism and alumina) support high wages in their sectors, while remittances may be providing an attractive alternative to wage income. Nevertheless, the relatively high labor costs outside of the resource sectors co-existing with high unemployment and under-employment appear to be more related to labor market institutions (including the large size of public employment and powerful urban labor unions) that keep wage rates above market clearing rates.
- 2.13 The country's weak export performance over the last decade is particularly worrisome in view of the increasing erosion of trade preferences (which benefit over 50 percent of Jamaica's merchandise exports). Jamaica's Caribbean Basin trade preferences in the US market (its

¹¹ For example, Artana and Navajas (2004) estimated that a debt-financed investment in the sugar industry (with an inflation rate of 10 percent, and a social rate of return of -17 percent per annum) would yield investors a private rate of return of 10 percent.

¹² Other reasons could include: (i) output losses and capital destruction associated with tradable goods firm closures and bankruptcies resulting from real exchange rate appreciation from 1992-98 in conjunction with trade liberalization; (ii) rising capital intensity and substitution of capital for labor combined with falling total factor productivity; (iii) mis-measurement of either growth or investment. The World Bank (2004) has estimated that growth may have been underestimated by 1-2 percentage points per annum. But even adjusting for that, investment has clearly been highly inefficient.

¹³ The elasticity of Jamaica's share of world merchandise exports with respect to the level of REER was estimated at 0.6 (World Bank, 2004).

largest export destination)¹⁴ will expire in 2008 unless a Free Trade Area of the Americas or similar accord with the United States materializes. In addition, trade preferences for Jamaica's sugar and banana exports to the European Union will be eroded over the medium term. The sugar industry, which employs 40,000 persons, is uncompetitive, with production costs that are over three times those of the world's principal sugar exporters. While two private sector firms are profitable and might be able to survive with lower preferences, much of the state-owned sector could not survive now without government subsidies, let alone in the face of an assumed 38 percent reduction in price over three years.¹⁵ This underlines the importance of improving overall competitiveness as well as creating sufficient productive employment to absorb labor from declining low productivity and uncompetitive industries.

c) Business environment

- 2.14 Beyond maintenance of a supportive macroeconomic framework and a facilitative incentive framework, the government could spur private sector development by removing constraints on the business environment. Transactions costs are high, secure property rights are expensive to obtain and access to the legal system is costly. Numerous impediments to private sector development could be removed relatively easily and at little political cost, thereby contributing to faster growth and a reduction in the size of the informal sector.
- 2.15 There is no system for obtaining credit information in Jamaica. The probability of serial default is one of the main reasons cited by commercial banks for their reluctance to provide credit to smaller borrowers. Provisions in the Financial Institutions Act [1992] currently prevent the sharing of credit information and thereby block the creation of a credit bureau, which have been shown to be important in the development of unsecured lending by financial institutions.¹⁶ A new law [The Credit Reporting Bill] has been drafted to deal with this problem, but it contains provisions that might undercut its effectiveness.
- 2.16 Registering untitled land is complicated and costly. Engaging in land transactions results in fees, charges and commissions that can amount to more than 20 percent of the cost of the transaction. This reduces the number of transactions and creates incentives for the formal sector to try to avoid these taxes. For those with informal title, the process of titling and registration is so costly as to make it prohibitive. Weak land rights are hindering the development of the private sector, particularly in rural areas, and among smaller businesses. The solution would be to undertake a land reform that allows informal land holdings to be made formal and allows low cost registration and titling.
- 2.17 Despite significant liberalization since the late 1980s, the legacy of heavy state intervention and control over the economy persists. The private sector perceives processes to be cumbersome and the state to be controlling rather than facilitative and client friendly. For instance, entrepreneurs must make 72 payments and spend 414 hours to pay taxes.¹⁷ (*Ad valorem* stamp

¹⁴ Although Jamaica is a member of CARICOM and participates in the Caribbean Single Market and Economy, this market is not very important in terms of exports. However, it is critical with respect to trade policy, which is guided by the common external tariff and by CARICOM's overall trade objectives.

¹⁵ World Bank (2005b).

¹⁶ ERI (2005).

¹⁷ 2006 Doing Business Report, World Bank.

duties impose high costs on many commercial transactions. Furthermore, concern that transactions are being undervalued to reduce duties leads to bureaucratic delays that extend for weeks or even months. Several initiatives to reduce unnecessary bureaucracy are underway – often with public/private collaboration. The “Legislations, Regulations and Process Improvement Project, run by the Jamaica Chamber of Commerce and supported by USAID is one of the most important.

- 2.18 The legal framework for commercial transactions is outdated and high cost. It takes 18 steps and 202 days to put business contracts into effect.¹⁸ Enforcement of judgments is slow and costly because of inadequate staffing. In addition, there is a large backlog in the courts and the private sector complains that the judges have no more than limited knowledge of commercial issues. The high transaction costs of the legal system put it beyond the reach of small businesses and weaken the incentives for businesses to be formal. Making the arbitration system available to smaller businesses and giving it formal legal standing and enforceability would allow dispute resolution outside of inefficient and costly courts and strengthen incentives for businesses to become formal.

d) Complementary inputs

- 2.19 Private sector development will also require reliable and cost-effective infrastructure. Transport infrastructure is generally well developed, particularly with regard to seaports and airports. Investment in ports and the privately-run airport at Montego Bay has continued and facilities have improved.
- 2.20 For a country of its size the national road network is extensive (approximately 20,000 km). However, it is in variable condition. Although 100 percent of the road surface of the main road network (approximate 5,000 km) is paved, it is extrapolated that only 52 percent of the total length can be classified as in good condition.¹⁹ The following elements have contributed to this status: insufficient routine and periodic maintenance, increased traffic volumes, increased overloading of commercial vehicles and, particularly over the past few years, damage caused by flooding associated with the increasing intensity of the hurricane seasons. All of these impacts have resulted in an urgent need for rehabilitation and a sustainable routine and periodic maintenance program. The infrastructure of the local road network of some 15,000 km is deteriorating even more rapidly.
- 2.21 The ability of the road authorities (the National Works Agency for the main roads and the Parish Councils for the local roads) to establish sustainable maintenance programs is greatly hampered by government budget constraints and the government’s propensity to fund new construction rather than allocating funds to routine and periodic maintenance programs. Notwithstanding the need for new capital investments in the network to support such wider economic development objectives as the development of the tourism industry, there is an immediate requirement for the establishment of properly funded enhanced routine and periodic maintenance programs without which the newly

¹⁸ 2006 Doing Business Report, World Bank.

¹⁹ Based on the partially completed 2005 road condition survey.

constructed road surfaces will also rapidly sink into the “fair and poor” road condition classification.

- 2.22 Several years ago, the GoJ reformed the institutional arrangements in the sector in order to improve the efficiency and effectiveness of public road administration. The National Road Services Improvement Program (NRSIP) financed by the Bank supports these goals and seeks to improve the focus on and institutional capacity for maintenance. Since 2000, the GoJ has introduced private participation in the transport sector, including concession contracts for the management and upgrading of Sangster International Airport (Montego Bay).
- 2.23 The reliability of the power supply has improved in recent years but electricity costs are higher than in many countries. High costs are partly due to the dependence on imported oil for fuel (97 percent of the country’s commercial power needs are met from imported petroleum) and partly due to inefficiencies in the country’s aging power plants. The Jamaica Public Service Company, which was privatized in April 2001, has a monopoly over transmission and distribution, and dominates generation.
- 2.24 Privatization and liberalization of the telecommunications sector since 2000 has encouraged significant private sector investment that has resulted in improvements in coverage and access. Mobile phone penetration is very high. Tariff rates have fallen and the reliability of service has improved for fixed line services but it still lags developed countries and may constrain the growth of certain service export activities.

B. Reducing Poverty and Preserving Social Gains

- 2.25 A second fundamental development challenge is to continue the progress in reducing poverty and preserve social gains. Poverty declined from 28 to 14.8 percent from 1990 to 2005 even though the economy continued to stagnate. Possible explanations for this apparent paradox include: (i) appreciation of the exchange rate in real terms, which simultaneously benefited poverty reduction in the short term by restraining prices and supporting higher real wages, but damaged tradable sector and broader economic growth;²⁰ (ii) a fall in the relative price of food – the main expenditure item in the poor’s budget – due to the aforementioned exchange rate appreciation and trade liberalization in the early 1990s; (iii) the successful disinflation that started in the early 1990s, which sharply reduced the inflation tax burden on the poor; (iv) remittances, which increased significantly since the early 1990s and are equivalent to 18 percent of GDP;²¹ and (v) growth in the informal sector. A final possible explanation is mis-measurement - specifically underestimation of economic growth. Most analyses explaining the reduction of poverty in Jamaica attribute little impact by the social safety nets in place at the time. Social security and general welfare expenditures were equivalent to only 0.9 percent of GDP in 2002 and were poorly targeted.²²

²⁰ Nominal earnings increased by 107% between 1995 and 2000, well above the 71% increase in the CPI during the same period.

²¹ There are also important internal remittances or transfers from urban to rural sites.

²² This section draws heavily from the “Poverty and Social Safety Net in Jamaica” sector note prepared by José Cuesta.

Box 2: Millennium Development Goals

Jamaica has already met or is on track to meet many of the Millennium Development Goals (MDGs), including poverty reduction, universal primary education, gender equality and access to safe water.

Jamaica has relatively low rates of infant and child mortality, but because it is more difficult to greatly reduce already low rates, it is considered to be far behind in meeting those targets. Jamaica is far behind in reducing maternal mortality and lagging on meeting the HIV/AIDS target, although it has controlled malaria.²³ The Jamaica 2004 MDG Report acknowledges that achieving the expected goals in child mortality, maternal health and HIV/AIDS by 2015 is very unlikely.

- 2.26 Aside from remittances, most of the factors that have contributed to reducing poverty since 1991 cannot be repeated and the scope for further poverty reduction in the absence of economic growth may already be exhausted. Consequently, a sustained pick up in economic growth will be required in order to secure further reductions in poverty. Preferably such growth would be driven by the tradable sectors because poverty is associated with employment in non-tradable sectors. Non-tradable agriculture and services account for 39 percent and 49 percent of total poverty, while tradable agriculture, mining, manufacturing and tradable services account only for 12 percent of total poverty.

C. Reducing Crime

- 2.27 Jamaica is amongst the most violent countries in the world and violent crime has increased in recent years.²⁴ Crime and violence reflect low social capital, the growth of gangs, an escalation of drug trafficking, and entrenched political polarization, which, in turn, further serve to undermine social capital. Crime and violence curtail life expectancy (particularly among young males), reduce the quality of life and inflict psychological stress on citizens.
- 2.28 Crime imposes major economic costs on society and business (about 4 percent of GDP in direct costs).²⁵ Crime deters investment, encourages migration of skilled labor, necessitates high government spending on crime control, generates security costs for businesses, and causes output losses. Although reported rates of property crimes, robberies, and other non-violent crimes are relatively low,²⁶ this may understate the incidence of extortion, fraud, robbery/burglary and arson, which have been estimated to cost manufacturing firms 5.7 percent of revenue.²⁷ Reducing crime would reduce costs on business and improve incentives for private investment.

D. Preserving the Environment

- 2.29 Jamaica is endowed with a rich national heritage arising from the diverse range of ecosystems created by the country's varied topography, geology and hydrology. The country's marine ecosystems and forests are among the most diverse in the Caribbean Islands. These give rise to

²³ Government of Jamaica. *Millennium Development Goals. Jamaica*. April 2004. Jamaica's infant mortality rate declined from 24 per 1,000 live births in 1993 to 19 in 2001. The under 5 mortality rate declined from 28.5 live births in 1993 to 26.6 in 2001.

²⁴ The recorded intentional homicide rate was 33 per 100,000 inhabitants in 2000, lower only than Colombia (63) and South Africa (52), and rose to 44 per 100,000 in 2001 (World Bank, 2004).

²⁵ World Bank (2004).

²⁶ Thomas (2004).

²⁷ World Bank (2004).

a scenic beauty that attracts local and foreign visitors to the island, resulting in the economic importance of tourism. The importance of the bauxite industry and the agricultural sector underline the critical role that natural resources play in Jamaica's economy. Consequently, systematic and conscientious management of the country's environment and natural resources is vital for its sustainable economic and social development, as well as for the protection of citizens' health and the vital services of its ecosystems.

- 2.30 The major environmental management challenges are: (i) water pollution, caused by sewage disposal, inadequate solid waste collection and disposal; (ii) soil erosion, linked to unsustainable agricultural practices, deforestation and improper infrastructure development; (iii) water misuse, caused by inadequate allocation and inefficient management of the resource by both irrigators and domestic users; and (iv) loss of biodiversity and over exploitation of marine resources.

E. Managing Natural Disasters

- 2.31 A further development challenge is preventing and mitigating natural disasters. Jamaica is prone to various natural hazards (floods, landslides, hurricanes and earthquakes). Moreover, the frequency of hurricanes/tropical storms in the Caribbean appears to have risen in the last few years and may stay at relatively high levels for another 5-15 years.²⁸ In addition to direct human loss and suffering, such disasters can be economically costly. Hurricane Gilbert was estimated to cost 65 percent of GDP in 1988 and Hurricane Ivan cost approximately 8 percent of GDP in 2004.²⁹

- 2.32 Addressing these risks will require the incorporation of risk reduction at the planning level, particularly through risk identification, mitigation, and preparedness, and the development of sector plans. Jamaica has created an Office of Disaster Preparedness and Emergency Management (ODPEM), whose enforcement law (National Hazard Mitigation Policy) is still a draft. ODPEM, which falls under the Ministry of Land and Environment, is supported by the UNDP and other donors as well as by NGOs and corporate sponsors.

F. Getting Better Value for Money

- 2.33 Jamaica and the GoJ need to get better value for money or better outcomes from existing resources. Jamaica is not getting benefits and rewards commensurate with the level of effort or resources. In many instances, expenditures are poorly allocated, ineffective or inefficient. In others, potential benefits – for instance, economies of scale in solid waste management – are being foregone. The need to improve the efficiency and effectiveness of expenditures is particularly critical given the current fiscal constraints and debt burden.

- 2.34 Getting better value for money will require: (i) at its simplest, wiser spending decisions and better planning; (ii) improving institutional and incentive frameworks; (iii) enhancing project level management; and (iv) strengthening public financial management, particularly budgeting, prioritization of investments, procurement and accounting. The latter can be fostered by

²⁸ Gray (2005).

²⁹ ECLAC (2004).

increasingly linking the budget to planning and conducting selective performance and value-for-money audits.

- 2.35 An example of improved resource allocation and utilization would be an emphasis on maintenance and rehabilitation of main roads, as opposed to new road construction.³⁰ As another example, the education sector needs reform in both the allocation of expenditures, and institutional arrangements and incentive frameworks. The government spends 5.4 percent of GDP on education, compared with an average of 4.1 percent in middle income countries as a whole, and households spend another 5.5 percent. However, outcomes have not matched the resources, with particular concern about quality. About 30 percent of primary school leavers are illiterate and only about 20 percent of secondary graduates had the requisite qualifications for meaningful employment and/or entry to post-secondary programs.³¹ Tertiary level courses are supply driven and do not necessarily respond to the needs of the private sector or students. Nineteen percent of total education spending is allocated to tertiary education, where costs per student are much higher than primary or secondary school, and the social rate of return is typically significantly lower than the private rate of return. Moreover, the developmental benefit of such public spending is substantially undermined by emigration of about 80 percent of graduates. As is typical in developing countries when a central ministry tries to provide services as well as finance and regulate them, expenditures on staff have crowded out essential complementary expenditures. Recurrent expenditures account for 99 percent of the budget for primary schools, leading to a deterioration of physical plant. At the primary level, wages of teachers (88 percent) and administrative staff (9 percent) account for 97 percent of expenditures and less than one percent is spent on instructional materials. Wages account for 85 percent at the secondary level. Decentralization, with greater school-based management, is necessary to improve incentives in the sector.
- 2.36 In addition to improving value for money at the sectoral level, more attention should be paid to project and program design and management in order to ensure that Jamaica receives the maximum developmental benefits relative to the costs, in the context of severe resource constraints.
- 2.37 Last, fiduciary management can help to eliminate waste and ensure that public expenditures are made in an efficient manner. Jamaica has a sound legal and institutional framework for public financial management based on the Constitution and the Financial Administration and Audit Act (FAA). However, the evolution of the institutional framework is outpacing that of the underlying accountability and business processes. Institutional changes supporting public sector reform include the establishment of Executive Agencies, which have taken over from the central government the management of a share of public resources, but the accountability mechanisms to monitor these agencies are being implemented slowly and unevenly.³²
- 2.38 Jamaica has a consolidated fund for all revenues, which gives government full control of the revenue inflows, and expenditure from the consolidated fund is controlled by warrants for expenditure authorized by the Minister of Finance. Budget cuts through the limited amounts of

³⁰ This is supported by one of the Bank's existing roads projects (*National Road Services Improvement Program (JA-0043)*).

³¹ Taskforce (2004).

³² World Bank/IDB Draft Joint Country Financial Accountability Assessment and Country Procurement Assessment Report, June 2005.

the warrants issued and the practice of supplementary budgets during the fiscal year undermine the relevance of the budget formulation exercise and affect the predictability of budget execution. Budget execution is mainly affected by the impact of cash management in the context of fiscal constraints, weaknesses in commitment controls, and shortcomings in the procurement process. The limited functionality of the information system, practices associated with the absence of commitment controls, the extensive use of partial payments, and the use of deferred financing limit the Government's ability to comply with the legal mandates of the Financial Administration and Audit Act.

- 2.39 There are a number of problems associated with procurement including: (i) the absence of enforceable detailed procurement procedures embodied in laws or official regulations; (ii) inadequate procurement planning; (iii) lack of market information and centralized procurement statistics; (iv) contract fragmentation; (v) ambiguous contract terms and conditions; (vi) late payments; and (vii) frequent cost and time overruns, especially in works.³³ In addition, recent CPARs have found procurement capacity and training shortfalls and the Ministry of Finance and Planning has recognized these training needs to be of high priority.
- 2.40 Jamaica has a relatively comprehensive institutional and legislative framework for financial control and legislative oversight of public financial management. However, the scope and working methodologies of both the internal audit units and the Auditor General's Department do not adequately reflect modern practices. Moreover, enforcement mechanisms need to be strengthened.

III. MEDIUM-TERM FRAMEWORK

A. GOJ's Medium-Term Strategy

- 3.1 The GoJ's medium-term development strategy is set out in several documents, of which the most important are the Medium-Term Socio-Economic Policy Framework (MTSEPF), which covers the period April 2004 to 2007, and the Budget, which is accompanied by a Debt Management Strategy.
- 3.2 The overarching strategic goal is the maintenance of a stable and predictable macroeconomic environment as a foundation for sustainable growth and poverty reduction. To this end, a key priority is to reduce the fiscal deficit and balance the government's budget in FY2007/08. The fiscal framework is organized around this target and on the expenditure side set out in a Medium-Term Expenditure Framework. The government intends to examine programs for their relevance, cost-effectiveness, achievement of acceptable service standards, and impact on the target population.
- 3.3 The fiscal strategy is consistent with and integrally linked to the strategic objective of returning public debt to sustainable levels while ensuring that the overall borrowing requirements are met at minimum cost and with a prudent degree of risk. The government has targeted a reduction in the debt/GDP ratio to below 100 percent by April 2010. The

³³ World Bank/IDB (2005).

major elements of the government's debt management strategy are to: (i) maintain a prudent debt structure (through maintenance of an appropriate mix of fixed and floating-rate debt in order to minimize interest-rate risk, continued extension and smoothing of the maturity profile in order to better manage refinancing risk, and continued minimization of currency exposure); (ii) increase transparency and predictability; (iii) market consultation; (iv) diversify the debt portfolio; and (v) improve the legal and regulatory framework governing debt management. Consistent with the goal of reducing overall debt, the Bank and the GoJ will review the need for investment loans over the medium term based on the fiscal situation of the country.

- 3.4 A key pillar of the GoJ's medium-term development strategy is to foster private-sector led growth through improving competitiveness. The strategy is to improve competitiveness through the provision of the aforementioned stable macroeconomic framework; maintenance of competitive levels of the real effective exchange rate, real wages, and interest rates; improvement of the enabling environment; provision of a sound operating environment with reliable and cost-effective infrastructure; supply of appropriately skilled manpower, and a reduction of crime. The government wants growth to be environmentally sustainable, particularly in the tourism sector.
- 3.5 The GoJ's strategic objective in social development is to consolidate the gains achieved over the past decade. The primary strategy for poverty reduction will be the maintenance of macroeconomic stability – particularly the control of inflation – and an acceleration of economic growth and employment creation. The government intends to continue to reform and modernize the social safety net by orienting it towards a developmental approach. It will also undertake direct poverty alleviation programs, including the redevelopment of inner city areas.
- 3.6 Human resource accumulation will be fostered through investment in education, with government goals including strengthening early childhood education, increasing access to secondary and tertiary education, and improving science education.
- 3.7 The government plans to continue the process of public sector modernization, through its Public Sector Modernization Programme. It will also continue to strengthen local governments by broadening responsibilities and functions of local authorities. In addition, it is considering establishing Regional Education Authorities, as has already been accomplished in the health sector.

B. Medium-Term Macroeconomic Projections

- 3.8 IMF and GoJ medium-term macroeconomic projections foresee an acceleration of real GDP growth based on large-scale foreign direct investment in the bauxite and tourism sectors (Annex III). That FDI is likely to cause a temporary rise in import levels and the current account deficit. However, the FDI will largely offset the impact of the rising current account deficit on the balance of payments. The projected improvement in the fiscal balance is vulnerable to negative shocks. Nonetheless, under the favorable baseline scenario, total public debt would decline significantly as a percentage of GDP throughout the period, reaching 100 percent of GDP by March 2010. Of crucial importance to the

design of the IDB country strategy, capital expenditures would continue to be constrained as a percentage of GDP.

C. Consultation with Civil Society

- 3.9 As part of the development of their country strategies – and within the framework of the MTSEPF – in February 2005 the IDB, World Bank and UK Department for International Development (DFID) conducted joint consultations with a cross section of civil society in Mandeville, Montego Bay and Kingston. The major issue areas raised in the consultations were: education, governance, crime and violence, youth, HIV/AIDS, private sector development, agriculture, and the MTSEPF itself.
- 3.10 Participants emphasized the importance of early childhood education and the quality of education. Participants suggested that teaching parenting skills in school might address problems related to youth. Concern was raised over governance issues: transparency and accountability in public projects (particularly infrastructure), and the degree and manner of public consultation. Some participants also highlighted the heavy burden of the government wage bill, and questioned the levels of productivity and value for money in the public sector. Participants stressed the importance of private sector development and underscored the constraints to development and formality for small businesses posed by the tax system, bureaucratic constraints, and land transfer obstacles. Participants suggested that government take a more coherent and integrated strategic approach to address crime and violence, which was a particular concern for the participants in Kingston. A common concern related to how the MTSEPF would be funded, in light of fiscal and debt constraints.

D. Harmonization and Cooperation with other IDPs

- 3.11 The Bank has increased its already active role in promoting harmonization, coordinating with the other International Development Partners (IDPs), and supporting the PIOJ's coordination efforts. At the PIOJ's request, the Bank provided a six month consultancy to assist in developing a strategy and plan for coordinating the IDP, to develop terms of reference for the formation and operation of Thematic Working Groups in key areas, and to build capacity within the PIOJ to handle the leadership role in harmonization. The Bank later supported a case study and the Harmonization Workshop of October 2004 to provide input into the Second High Level Forum on Harmonization and Alignment in Paris. Efforts to reduce transaction costs and create synergies include joint missions, joint reporting, joint strategy consultations with civil society, periodic and regular IDPs thematic working group meetings, as well as bilateral collaboration on specific projects and/or issues. For example, the Bank and the World Bank conducted joint missions, co-task managed and jointly wrote an assessment of Jamaica's public financial management and procurement systems.

IV. PAST STRATEGY AND PORTFOLIO ISSUES

A. Assessment of Past Strategy

- 4.1 The current Country Strategy Paper for Jamaica (GN-2025) was approved in August 1998 and articulated **two overriding objectives**. The first was to support the establishment of a satisfactory macroeconomic environment characterized by sustainable fiscal and balance-of-payments positions, reduced interest rates and low inflation. The second was to promote an improved environment for long-term private sector-led growth and development, paying particular attention to: (i) issues of productivity and competitiveness; (ii) reform of the regulatory and institutional framework affecting the economic environment; and (iii) strengthening of social sector performance and environmental conditions.
- 4.2 In pursuit of the above objectives, the strategy set out **five principal areas** of strategic focus for Bank support: (i) stable macroeconomic conditions; (ii) private sector development; (iii) public sector modernization; (iv) social development; and (v) environmental management. The strategy also delineated **two alternative lending scenarios**: (i) a “growth scenario” with higher levels of lending that assumed a sustainable, growth-oriented macroeconomic policy framework was put in place; and (ii) a “status quo scenario” with a reduced lending program based on agreed criteria and a cautious case-by-case approach to individual new operations. The Bank pursued the “status quo scenario” in 1998 and 1999 but shifted to the “growth scenario” after the adoption of the Staff Monitored Program (SMP) in 2000.
- 4.3 The strategy was modified somewhat by the programming exercise in 2003, which proposed that the considerations that should guide Bank support in Jamaica should be: (i) the need for assistance in implementing recommended macroeconomic policy and structural reforms; (ii) the need to maintain the momentum of regulatory and institutional reform to strengthen competitiveness and improve the environment for business activity; (iii) the need to build social consensus on national policy; and (iv) the need to continue policy dialogue toward ensuring that essential social sector and social assistance services continue to be provided at acceptable levels.
- 4.4 During the period 1999-2004, fourteen loans consistent with the strategy were approved. Some of these loans (for example, Social Safety Net Reform, Citizen Security and Justice, Emergency Reconstruction) were not foreseen in the strategy although the issues they addressed were raised. And some loans that were foreseen in the strategy did not materialize, for example a Low Income Urban Settlements loan.
- 4.5 With the benefit of hindsight, it is now clear that the operational program resulting from the strategy was over-dimensioned. The Bank significantly increased its loan approvals and portfolio at a time when the country’s own public investment program was shrinking. As a result of fiscal constraints many of the approved projects have faced significant implementation problems which jeopardized the achievement of their development objectives. In some cases, implementation problems were exacerbated by over-elaborate project design. Development objectives were either not achieved or have been achieved only partially so far in a majority of the strategy areas (Table 2).

Table 2: Development Impact: Challenges, Indicators and Results		
Development Challenge (1998 Strategy)	Indicator of Development Impact (1998 Strategy)	Results as of 8/31/2005
I. Promotion of sound macroeconomic conditions		
Stability	<ul style="list-style-type: none"> ▪ Low inflation ▪ Reduced interest rates 	Partial – Positive <ul style="list-style-type: none"> ▪ Inflation slightly higher than 1997 but consistently below 15% ▪ Interest rates have declined but experienced occasional spikes
Sustainability	<ul style="list-style-type: none"> ▪ Sustainable fiscal position ▪ Sustainable balance of payment position 	Partial - Positive <ul style="list-style-type: none"> ▪ Fiscal deficits reduced over time ▪ Current account deficit larger, but international reserve position stronger
Resolution of financial crisis	<ul style="list-style-type: none"> ▪ Resolution of financial crisis and strengthening of regulatory and supervisory framework for financial sector 	Positive <ul style="list-style-type: none"> ▪ Financial crisis resolved in orderly manner ▪ Regulatory and supervisory framework strengthened
II. Private sector development		
Address bureaucratic, regulatory, institutional impediments	<ul style="list-style-type: none"> ▪ Energy sector privatization 	Limited <ul style="list-style-type: none"> ▪ Power sector privatized but Bank did not participate in privatization. Bank did contribute to strengthening of regulatory framework
Tourism and infrastructure impediments	<ul style="list-style-type: none"> ▪ Tourism masterplan ▪ Implementation of North Coast Highway Program ▪ Maintenance and upgrades of infrastructure 	Partial – Positive <ul style="list-style-type: none"> ▪ Tourism masterplan completed ▪ Very slow implementation of North Coast Highway and cost overruns ▪ Routine maintenance system established but no progress to date in the implementation of the maintenance program in part due to fiscal constraints ▪ Emergency reconstruction following natural disasters but implemented slowly and with initial problems in quality
Agriculture and irrigation	<ul style="list-style-type: none"> ▪ Capital investment, training and better management ▪ Resolution of water supply issues 	Partial – Positive <ul style="list-style-type: none"> ▪ Investment in productive projects on-going. Capacity to provide agricultural support services increased but project implementing slowly because of fiscal constraints ▪ Water Resources Master Plan 95% completed ▪ Irrigation project signed only recently
III. Public sector modernization		
Deepen and widen public sector modernization	<ul style="list-style-type: none"> ▪ Improved transparency and decentralization ▪ Public sector restructured for greater efficiency and budgetary restraint 	Limited <ul style="list-style-type: none"> ▪ No progress with respect to civil service reform ▪ Process of decentralization to parishes supported but progress limited, because of fiscal constraints and reluctance to implement policy reforms ▪ Health sector decentralization was realized leading to greater client satisfaction
Land administration	<ul style="list-style-type: none"> ▪ Efficiency in land registration system and land markets ▪ Establishment of good land information system 	Very limited <ul style="list-style-type: none"> ▪ Land project had limited success in land registration ▪ Not achieved. Removed from the project during rescoping
Export and investment promotion	<ul style="list-style-type: none"> ▪ Improved efficiency in export procedures 	None <ul style="list-style-type: none"> ▪ No activity or progress with regard to export procedures

Table 2: Development Impact: Challenges, Indicators and Results		
Development Challenge (1998 Strategy)	Indicator of Development Impact (1998 Strategy)	Results as of 8/31/2005
IV. Social sector development		
General improvements in quality, accessibility and management of social services	<ul style="list-style-type: none"> ▪ Improved quality of service ▪ Improved efficiency 	Positive <ul style="list-style-type: none"> ▪ Efficiency, transparency and targeting of social safety net improved ▪ Transaction costs reduced
Violence reduction	<ul style="list-style-type: none"> ▪ Reduction in urban violence 	Limited so far <ul style="list-style-type: none"> ▪ Citizen Security and Justice Program slow to implement because of fiscal constraints
Expand access to and quality of basic education	<ul style="list-style-type: none"> ▪ Number of schools constructed ▪ Introduction of new curriculum 	Limited so far <ul style="list-style-type: none"> ▪ No school constructed because of fiscal constraints ▪ New curriculum introduced in primary schools country-wide
Expand access to low-income housing and catalyze community change	<ul style="list-style-type: none"> ▪ Provision of low income housing 	None <ul style="list-style-type: none"> ▪ Planned IDB loan dropped from pipeline
V. Environmental management		
Ensure sustainable provision of water and sanitation	<ul style="list-style-type: none"> ▪ Expanded access to potable water ▪ Improved financial viability of National Water Company 	Limited so far <ul style="list-style-type: none"> ▪ Rural Water Program slow to implement because of fiscal constraints and circumscribed by partial cancellations ▪ Kingston Water Supply Rehabilitation project not yet initiated
Improve solid waste management	<ul style="list-style-type: none"> ▪ Improved environmental quality ▪ Services made financially sustainable 	Limited <ul style="list-style-type: none"> ▪ Project implementation constrained by budgetary allocation ▪ Besides drafting of Tipping Fees Regulations, no progress towards financial sustainability

4.6 Two of the most successful projects were sector loans that provided financing that was untied to GoJ investment expenditures. The Financial Sector Reform Program - FSRP (LO-1268/OC) aided the resolution of the financial sector crisis of the late 1990's and hence contributed to general macroeconomic stability. Furthermore, the FSRP reduced the probability of future crises by comprehensively strengthening the regulatory and supervisory framework for the financial sector. The Social Safety Net Reform Program improved the efficiency of the social safety net by consolidating social programs and reducing average transaction costs. Transparency and targeting was improved and both errors of inclusion and exclusion were reduced. Moreover, the thrust of social security was changed from a welfare to a developmental orientation.

B. Summary of Portfolio Issues

4.7 As of December 31, 2005, the Bank's portfolio consisted of 13 investment loans and was spread across a wide variety of sectors. The portfolio was valued at US\$258 million, of which US\$96 million had been disbursed. There were 27 active non-reimbursable technical cooperation and MIF operations valued at US\$13.8 million, of which US\$4.5 million had been disbursed.

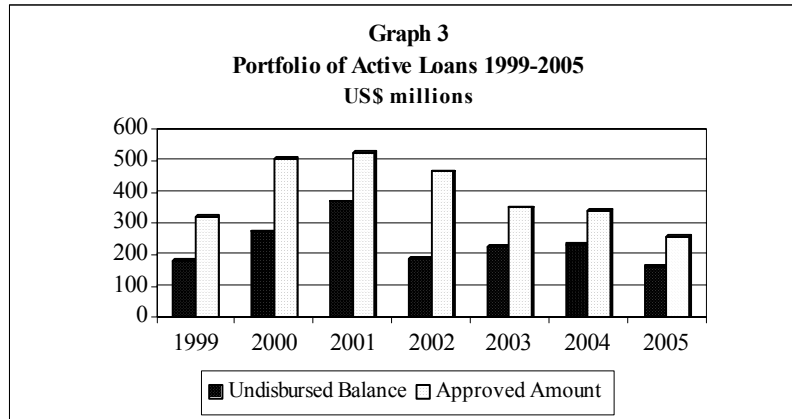
4.8 Implementation of the Bank's portfolio has become increasingly affected by severe fiscal constraints and the GoJ's diminishing investment budget. Since 2002 budgetary allocations to IDB-supported projects have fallen far short of that needed for a normal pace of execution. The

final budget allocation for IDB-financed projects during FY2004/05 (reflecting the original budget modified by two supplemental budgets) was J\$1.25 billion (US\$20.1 million). This amount was only a quarter of the J\$5 billion considered necessary for the satisfactory implementation of projects in the portfolio and which was requested by executing agencies at the beginning of the fiscal year. Moreover, only 46 percent of the approved budget was actually released in expenditure “warrants”.³⁴ Preliminary data for FY05/06 suggest little change.

- 4.9 The acute scarcity of project resources severely constrained project implementation, with negative consequences for the achievement of development objectives, the viability of projects, and the ratio of project administration and financial costs to disbursements.³⁵ The number of projects being classified as “*unsatisfactory*” in terms of implementation progress rose from four in July 2002 to nine (out of thirteen) by June 2005, before declining to six by the end of 2005. As of December 31, 2005, three projects were on alert status and six were “problem” projects. The delays in project execution created inefficiencies and increased project costs, while pushing developmental benefits into the future. These factors led to the recognition that the Bank’s portfolio was over-dimensioned relative to Jamaica’s limited capital budget.
- 4.10 Consequently, since April 2003 the GoJ and IDB have collaborated to rationalize the portfolio in order to achieve a more fiscally manageable portfolio while trying to minimize the impact of cancellations on the likely achievement of the portfolio’s development objectives. During the Portfolio Dialogue and Pre-Programming Mission of October 12-14, 2004, agreement was reached with the GoJ to cancel US\$49.8 million in loan resources from nine out of the 13 projects. In September 2005, a Portfolio Review Mission and the GoJ agreed that further cancellations would be made when four projects reach the end of their execution periods in 2006. The 2004 cuts have successfully reduced the approved amount of the Bank’s portfolio and, more importantly, the undisbursed balance (Graph 3).

³⁴ “Warrants” issued by the Ministry of Finance authorize ministries to spend counterpart and/or loan resources for specific line items approved in the national budget.

³⁵ For the portfolio as a whole administrative costs are estimated to have represented 10 percent of disbursements as of December 31, 2005, and financial charges are estimated to have represented 16.8 percent of disbursements. In six projects the combined costs represent between 37 and 41 percent of disbursements.



Sources: Jamaica Annual Portfolio Review Report, 2005 and Quarterly Portfolio Review Mission Aide Memoire, January 31, 2006.

4.11 The fiscal constraint is unlikely to lessen in the short or medium term. The MOF's projected budgetary allocation for IDB-supported projects during the period from 2006/07 to 2007/08 averages only US\$30 million per annum, which implies IDB disbursements of around US\$23 million³⁶. Since this is lower than the amount required to finish the existing projects within a reasonable timeframe (a maximum of a three year extension to the approved execution period), there is no budget space for further investment loans.

C. Lessons Learned

4.12 The Bank's experience, particularly with regard to the portfolio situation, and the recent Country Program Evaluation (CPE) by the Office of Evaluation (OVE)³⁷ point to several lessons for the future country strategy:

- a) The country strategy should analyze carefully the macroeconomic and budgetary environment within which the country (and Bank program) will be operating.
- b) There is a need for much greater realism about the size of program and portfolio, project execution capacity, and project execution times.
- c) As a highly-indebted country, Jamaica should borrow only for projects with a high economic rate of return. In addition, the rate of return estimations should be realistic, taking into account possible delays and cost overruns.³⁸
- d) Jamaica might benefit from improved medium-term investment planning. In particular, the Public Sector Investment Program needs to be much more realistic and consistent with the country's fiscal context.

³⁶ Disbursements for calendar year 2005 were only US\$12.8 million as compared with US\$20.8 million in 2004. This is partly due to the suspension of disbursement under the Northern Coastal Highway Improvement Project.

³⁷ Country Program Evaluation: Jamaica 1990-2002 (RE-310).

³⁸ One should consider *ex post* rates of return on projects that implement far more slowly than anticipated in *ex ante* cost-benefit analysis.

V. BANK STRATEGY

A. Constraints on the Strategy

- 5.1 As the review of development challenges indicated, Jamaica has many developmental needs. But fiscal and debt considerations constrain the ability of the Bank to respond to these needs in the forthcoming strategy period and circumscribe the options in terms of Bank instruments and likely lending levels. The GoJ has assigned the highest priority to fiscal consolidation and debt reduction. This is highly appropriate and indeed required for macroeconomic sustainability. It is critical that Jamaica shift into a virtuous circle of shrinking debt, declining interest rates, falling interest bill, greater fiscal surplus, back to shrinking debt.³⁹ From a developmental perspective, ideally fiscal adjustment should be focused on current expenditures rather than capital expenditures. However, it has proved easier to cut capital expenditures. Moreover, if investment projects turn out to bring limited returns, perhaps because of weak implementation due to insufficient funding, eliminating such projects is a rational strategy to raise welfare. It is important that the Bank support the GoJ's goals of fiscal constraint and debt reduction. This Strategy aligns the Bank with these GoJ priority objectives.
- 5.2 The projected annual budgetary allocations for IDB-financed projects during the strategy period are insufficient even for the current portfolio and so rule out the approval of public sector investment projects during this strategy period. Room perhaps could be found for a small facility-type loan to fund technical assistance activities in a strategic area, if this were judged to be an extremely high value added intervention.
- 5.3 Policy-based loans would avoid the fiscal constraints upon investment projects, as well as being the instrument best suited to supporting government policy reforms in the strategic pillars of the Strategy. They could also help debt management by reducing the average cost and extending the average maturity of external debt. The Strategy contemplates use of two sector policy loans on the assumption that the macroeconomic policy framework would be judged consistent with the objectives of such loans during their preparation and implementation. Given the circumscribed macroeconomic room for maneuver, the Bank will continue to monitor the implementation of the GoJ's macroeconomic strategy and make a judgment about the macroeconomic policy framework before and during the preparation of any policy-based loans.
- 5.4 Hence, the IDB program for 2006-2009 will focus on portfolio execution, policy-based lending, private sector lending, grant modalities (MIF and PRODEV), and non-financial products.

B. Objectives

- 5.5 Consistent with Jamaica's development needs as well as with the IDB's two overarching objectives of supporting an increase in sustainable economic growth and a reduction in

³⁹ Reducing the debt would bring direct savings from reduced interest payments, indirect savings because interest spreads would decline with the level of debt, and increased private sector confidence in the macroeconomic framework.

poverty, the objectives of the Strategy are: (i) output/value added in the private sector expands in a sustainable and labor-intensive manner both through organic growth and absorption of the informal sector; (ii) greater efficiency allows Jamaica to benefit more from a given level of resources; and (iii) vulnerability to natural disasters is reduced.

C. Strategic Pillars

5.6 Given the juncture at which the Bank's support to Jamaica stands and the repeated calls for Country Strategies to become more upstream documents,⁴⁰ by and large this Strategy does not identify and set out individual projects. Rather it delineates the broad areas that are strategic priorities and criteria against which any proposed operation can be judged. The Strategy is focused, selective and eschews some areas where important development challenges exist, such as crime and violence.⁴¹ It also sets out ceilings for the overall size of the operational program under different circumstances. The Programming process over the Strategy period will determine the exact composition of the operational program, in accordance with this Strategy.

1. Private Sector Development

5.7 Jamaica faces an overwhelming need for economic growth. Growth alone can raise living standards and will be essential for continued poverty reduction as well as a reduction of social tensions. It will also be a key component of ensuring macroeconomic sustainability and moving to a less vulnerable situation. Higher growth depends on improved private sector development, which will be the first strategic pillar for the IDB during 2006-2009. A diagnostic assessment of the business climate – Jamaica: A Private Sector Assessment – was completed in August 2005 and this has contributed to the analytical underpinnings for the Jamaica: Private Sector Development Strategy (JPSDS) and Business Climate Initiative (BCI), which Jamaica signed in February 2004. The Private Sector Development pillar of the Country Strategy embodies and draws from the JPSDS. Annex IV presents the JPSDS' Action Plan. A key aspect will be in building economic opportunities for the majority, such as reducing the transactions cost for titling and registering land, improving access to credit for sole proprietors and small businesses, and improving incentives for informal businesses to become formal.

5.8 Private sector development requires the maintenance of a supportive macroeconomic framework, improved incentive frameworks, a better business climate, and the provision of complementary inputs.

a) Macroeconomic framework

5.9 As mentioned previously, the GoJ's MTSEPF outlines a strategy to improve competitiveness through the provision of a stable macroeconomic framework, and

⁴⁰ "New Lending Framework (NLF). Assessment report and recommendations" GN-2200-13, April 2005.

⁴¹ The latter is excluded because of the existence of an ongoing project (Citizen Security and Justice) and the aforementioned fiscal constraints, which together suggest that the best impact the Bank can have is to support the proper execution of the existing project. In addition, other IDP have selected crime and violence as their principal or one of their principal areas of focus (Annex VIII).

maintenance of competitive levels of the real effective exchange rate, real wages, and interest rates. The Bank will continue to maintain a dialogue on macroeconomic policy with the GoJ and other international financial institutions. In addition, a central thrust of this Strategy is to ensure that the Bank's lending program and portfolio are consistent with the GoJ's fiscal consolidation and debt reduction objectives.

b) Public-private dialogue for private sector development

- 5.10 Although the MTSEPF sets out a strategic framework for private sector development at the broadest level, Jamaica does not have a detailed private sector development strategy that would translate that framework into specific actions on a timetable and in a coherent manner, particularly, for instance, with regard to the business climate. Consequently, a basic requirement for an acceleration of private sector development in Jamaica is a process of dialogue between the private and public sectors to develop such a strategy. The Bank's PSA and JPSDS have initiated such a process and the Bank can contribute further to the process of persuasion and coordination between the private and public sectors in order to establish a propitious environment for policy reform. A major priority of the JPSDS is to enable and promote a policy debate that could lead to the evolution of a coherent framework and shared vision within the country for encouraging private sector development. This will require sustained Bank support, commitment and dialogue.

c) The incentive framework for private sector development

- 5.11 The Bank will strengthen the dialogue with the GoJ with a view to supporting improvements in incentive frameworks and the removal of distortions. Tax policy reform is a critical area for progress towards an undistorted incentive framework that is neutral between sectors and activities and between capital and labor. Tax policy reform, particularly with regard to tax incentives would be important for reducing the incentive bias towards capital intensity and allowing economic growth to be more labor-intensive. In broad terms, improved tax policy would be critical for lessening the divergence between private and social rates of return and thereby improving the efficiency of private investment. The Bank is in a strong position to initiate discussions on tax reform. It provided the majority of financing for a comprehensive review of the tax system in 2004-2005 (ATN/SF-8667-JA). In addition, MIF has financed a comprehensive review of the regional investment incentives used by CARICOM countries (ATN/MT-7123-RG) and the CARICOM Secretariat, with support from the IDB and CARTAC, is in the process of finalizing a regional study on taxation of the tourism sector (ATN/SF-8666-RG). In the short-term, the JPSDS proposes to review stamp duties as an initial step that would contribute to further advancing the dialogue on tax reform.
- 5.12 The Bank will continue to support Jamaica's integration process, and where possible, will promote a regional focus in the JPSDS-related interventions and will stand ready to support the GoJ with technical assistance and grant funding wherever possible. The Bank Group will continue to strengthen the private sector's capacity to meet international standards for market access and to support the building of awareness of the CSME and changes currently underway in trading relationships both at the hemispheric and global level.

- 5.13 The Bank will also study the labor market, which remains an important facet of competitiveness and the incentive framework for more labor-intensive growth.

Table 3: Summary of Bank Support for Private Sector Development	
Macroeconomic policy framework	Continued policy dialogue
Public-private dialogue	Continued dialogue re private sector development
Incentive framework	Dialogue on tax reform
	Trade capacity and international integration
	Labor market study
Business climate	Access to finance
	Land market and property rights
	General regulatory reform and elimination of “red tape”
	Legal framework for business
Complementary inputs	Infrastructure
	Entrepreneurship and technical skills

d) Business climate

- 5.14 Wherever possible the Bank will support improvements in the business environment. The strategic thrust will be towards: (i) enhancements of the institutions governing incentives for the private sector; (ii) reductions in transaction costs; and (iii) improved security of property rights. Potential areas where reforms could greatly facilitate private sector development include: financial sector development⁴²; land market reform; general regulatory reform; and legal system reform. Such reforms are expected to especially benefit micro, small and medium entrepreneurs, who are disproportionately hindered by current impediments.
- 5.15 Ideally, the specific activities to be supported will be a result of the public-private dialogue process. Nevertheless, a short list of interventions has been chosen according to the following criteria: greater probability of being successfully implemented due to government receptiveness; higher likelihood of having a meaningful impact; and greater complementarities to other donor activities.
- 5.16 The following interventions will be discussed with the GoJ: (i) revision of the draft Credit Reporting Bill to ensure the maximum incentives for gathering and using credit information; (ii) review of regulatory framework, processes and fees related to the Stamp Duties Office and the Land Registry Agency; (iii) strengthening of land property rights

⁴² In the area of access to finance, the Bank Group’s strategy is also to alleviate deficiencies in access to capital in the short term by direct assistance to and through domestic financial organizations. In terms of direct support, PRI may provide support through its Trade Finance Facilitation Program and the IIC may work with local commercial banks to provide credit lines for SMEs. The sugar sector, particularly ethanol production, may need greater private sector investment. MIF or the Social Entrepreneurship Program may provide institutional strengthening for microfinance and SME institutions.

through a review of land titling and registration; and (iv) improving the functioning of the legal system by supporting the reduction of the backlog in legislation drafting.

- 5.17 The process of improving the business climate will be carried out through the preparation and implementation of a policy-based loan, which would naturally provide an umbrella and coherent framework for the Bank Group's work in private sector development. Individual, grant-funded TCs would then fit into this framework. Many of the issues requiring attention in the legal framework, financial sector and land market would be ideal candidates for support from the Multilateral Investment Fund (MIF). Furthermore, MIF grant support is less problematic with respect to budgetary scarcity than investment loans.

e) Complementary inputs

- 5.18 The IDB Group will continue to support the provision of physical infrastructure. Given fiscal constraints and an overly extensive and dense road network, the Bank's strategy with regard to the **public** provision of infrastructure is to focus on improving the efficiency and effectiveness of public road administration by emphasizing maintenance, rather than new construction (as part of both this Strategy pillar and the next). The primary vehicle for this strategic thrust is the National Road Services Improvement Program (NRSIP), which seeks to improve the focus on and institutional capacity for maintenance.
- 5.19 The IDB Group will also support the **private** provision of infrastructure, both through strengthening the institutional arrangements and environment for private sector involvement and direct private sector investment. The GoJ has increasingly moved in this direction in recent years and the Bank will stand ready to support the government through discussion, technical assistance (particularly in the regulatory area), and where appropriate investment, in options such as management contracts, public-private partnerships (PPPs), "Build-Operate-Transfer" arrangements, and privatization. In this context, the Bank will stand ready to assist the GoJ in reviewing and reforming the institutional structure of the power sector. Energy remains a key issue given the hitherto limited availability of domestic supplies and the high dependence on imported oil.
- 5.20 The IDB Group, through MIF and the Social Entrepreneurship Program, will continue to support entrepreneurs in order for them to effectively upgrade their skill set and comply with basic market requirements regarding quality, product certification, environmental standards, quality and timeliness. Support for business development will be done in close coordination with other donors and their programs, especially a large EU project for strengthening private sector organizations and business development services for micro and small enterprises, and the USAID-DFID competitiveness projects. Competitiveness may also be fostered by linking science and technology with the development of small and medium sized enterprises, with possible support from the Access to Knowledge Partnership Korea Fund for Technology and Innovation Fund (KPK).

2. Getting Better Value for Money

- 5.21 The Bank will support Jamaica in getting better value for money at a number of levels. The goal will be to achieve greater efficiency in order to allow Jamaica to benefit more from a given level of resources or effort.
- 5.22 At a sectoral level, the Bank will support interventions that improve value for money, particularly those that would improve the institutional and incentive frameworks for sectors or contribute to greater allocative and technical efficiency. The scope for such improvements is broad and includes increasing the efficiency of public sector expenditures, for example by improving the incentive framework in the education sector or decreasing the proportion of public education expenditures directed at the tertiary level. Alternatively, it could include fostering private sector provision. Support for such reforms would be best conveyed in a policy-based loan for education, which is an important priority for the GoJ.
- 5.23 At the project level, the Strategy is to continue the policies of intensified portfolio management and of bringing the size of the portfolio better into line with the GoJ's budget capacity (through partial cancellations at the end of project lifetimes), in order to ensure that Jamaica receives the maximum developmental benefits from existing programs relative to their costs, in the context of severe resource constraints.⁴³ The portfolio continues to provide development support in the strategic areas of the last country strategy: private sector development, public sector modernization, social development and environmental management. Sound portfolio management will continue to be key for getting better value for money. Indicators of performance are: disbursements as a proportion of the undisbursed balance, and administrative costs as a proportion of IDB disbursements.
- 5.24 The Bank will stand ready to assist the strengthening of public financial management, including elements such as management systems for planning, financial management, procurement, and fiscal and fiduciary oversight, ensuring appropriate linkages between planning and project prioritization and budget allocation. The recent CFAA/CPAR prepared jointly by the IDB and World Bank has provided analytical underpinnings that are being supplemented by further country diagnosis under the Program to Implement the External Pillar of the Medium-Term Action Plan for Development Effectiveness (PRODEV). Implementation of some of the CFAA/CPAR recommendations or Country Action Plan will be supported through the PRODEV. These diagnoses and actions will pave the way for further Bank support through a programmatic or standard policy-based loan that will facilitate broader and deeper reforms under the government's own Medium-Term Action Plan for Managing for Results.

3. Reducing Vulnerability to Natural Disasters

- 5.25 In order to contribute to reducing Jamaica's vulnerability to natural disasters, the Bank will emphasize prevention activities (risk identification, mitigation and preparedness) but may need to continue to assist with rehabilitation and reconstruction activities if

⁴³ It was agreed with the GoJ that the maximum period of extension for projects should be 3 years.

necessary. The Bank will support risk identification activities (hazard assessment, vulnerability assessment, and risk assessment) and provide technical assistance for strengthening risk management in Jamaica as warranted and requested.

- 5.26 Specifically, the Bank will support the preparation of a country risk evaluation that will: (i) profile the country's disaster risk and the soundness of the risk management system; and (ii) identify developmental and technical assistance needs for strengthening risk management (AT-1327). This evaluation will provide Jamaica and the Bank with robust information regarding: (i) probable losses and economic impact; (ii) geographical areas and sectors at high risk that warrant priority intervention; and (iii) institutional capacity to manage risk. This evaluation will form the basis for dialogue of possible future Bank support. It will also likely be complemented by additional support for mitigation activities in the principal tourism areas under the Disaster Prevention Fund. The Bank will collaborate closely with the Caribbean Development Bank, which is also planning to assist Jamaica in the area, and with the World Bank, which is developing a catastrophic insurance scheme for the Caribbean.

D. Lending Scenarios, Triggers and Bank Exposure

- 5.27 Lending under this Strategy will take place in a context where the IDB is the most important multilateral lender to Jamaica but has a minor financial role compared with private sector lenders. The IDB accounts for over half of all MDB debt but only 12 percent of external public debt and a mere 5 percent of total government debt. By contrast, private creditors (primarily bond holders) account for 83 percent of total government debt, with bilateral and non-IDB multilaterals accounting for the remainder.
- 5.28 The Strategy envisages two lending scenarios (a **base** and a **high scenario**), both of which would entail: (i) very limited public sector investment project lending; (ii) increased reliance on assistance through the private sector windows, non-financial products, and non-reimbursable technical cooperation; (iii) potential policy-based lending; and (iv) an emphasis on managing the current portfolio.
- 5.29 The base lending scenario comprises two policy-based loans (PBLs). For the purposes of the scenario both PBLs are assumed to be two-shot programmatic loans, with initial approval in 2007.
- 5.30 In the base lending scenario (Table 4), net loan flow would be slightly negative in two out of three years and outstanding debt to the IDB would decline overall in the Strategy period. Lending to Jamaica would remain well within the Bank's four exposure indicators. Nevertheless, it should be noted that these indicators understate exposure risk because they consider only external public debt, which accounts for only 43 percent of Jamaica's outstanding public debt. As noted above, Jamaica's total public debt is equivalent to 132 percent and the associated debt service burden is heavy. The IDB's share of multilateral debt and total external debt would rise slightly in 2007 (in large part because of a projected significant decline in World Bank debt) and decline thereafter without taking account of the next Country Strategy.

- 5.31 The high scenario comprises the base scenario plus an additional policy-based loan in 2007. The triggers for moving from the base scenario to the high scenario would be: (i) agreement on sectoral reforms/targets; (ii) no more than 33 percent of projects in the portfolio classified as unsatisfactory in implementation progress; and (iii) a decline in public debt consistent with the GoJ's 2006/07 Budget targets. The exposure indicators under the high scenario are little different from those under the base scenario (Annex XI).

Table 4: Base Lending Scenario (US\$ million)						
	Projected					
	2004	2005	2006	2007	2008	2009
Loan approvals	56.8	0.0	0.0	60.0	30.0	30.0
Loan disbursements	80.8	12.8	23.0	83.0	53.0	53.0
Repayments	52.3	51.2	67.9	71.0	73.4	71.1
NET LOAN FLOW	28.5	-38.4	-44.9	12.0	-20.4	-18.1
Interest and charges	31.2	35.2	31.5	30.2	28.8	26.7
NET CASH FLOW	-2.7	-73.6	-76.4	-21.2	-53.8	-50.8
IDB debt outstanding	731.9	671.1	626.2	638.2	617.8	599.7
IDB Exposure (%) *						
IDB debt service/total external debt service (30%)	10.2	8.0	11.2	8.5	9.6	9.3
Multilateral debt service/total external debt service (50%)	18.3	14.5	20.6	15.2	18.3	17.6
IDB debt/multilateral debt	56.0	54.9	54.3	56.0	52.5	52.7
IDB debt/external debt	14.3	12.4	11.6	11.8	11.4	11.1
IDB debt service/exports (8%)	2.1	1.9	2.2	2.2	2.2	2.1
External debt service/exports	20.4	23.6	19.8	26.3	22.9	22.2
IDB exposure (18%)	1.5	1.3	1.3	1.3	1.2	1.2
* Thresholds are given in parentheses.						

E. Strategy Implementation Risks

- 5.32 **Macroeconomic risks.** Adverse policies or developments at the macroeconomic level could counter-act, outweigh or overwhelm Bank interventions at the micro level to improve the business climate, thereby jeopardizing expected developmental results. The global context for macroeconomic management may become more challenging over the Strategy period. Notwithstanding that Jamaica has suffered from external economic shocks in recent years, most notably the impact on tourism of the September 2001 terrorist attacks and a significant rise in the international price of crude oil in 2005, in general the world economic environment has been remarkably benign. World economic growth has been brisk, world interest rates and lending spreads for emerging markets have been low, and international prices of alumina have been high. A world recession or rising world interest rates combined with a pull-back from emerging markets could complicate macroeconomic management. Jamaica will remain vulnerable to shocks as long as its public debt remains at a high level, and reducing the debt

level through increasing economic growth and generating fiscal surpluses is likely to be challenging. The Bank will continue to collaborate closely with the IMF in reviewing macroeconomic developments, including analysis of maintenance of an appropriate macroeconomic policy framework consistent with the objectives of potential policy-based loans. The Bank will also coordinate with the World Bank, which is also contemplating the approval of a policy-based loan in the medium term. More generally, the Strategy is designed to keep the Bank’s portfolio and lending program consistent with the GoJ’s fiscal and debt reduction objectives.

- 5.33 **Tighter fiscal constraints on the portfolio.** The Bank’s Strategy is explicitly designed to address the tight fiscal constraints affecting the portfolio. However, should the fiscal constraints tighten, the expected improvements in portfolio performance indicators would be delayed.
- 5.34 **Political risks.** The strategic pillar of getting better value for money assumes that efficiency and general welfare considerations take priority over political considerations and special interest lobbying. This assumption might not bear out in the run up to and immediate aftermath of the next general election.
- 5.35 **Vulnerability to natural disasters.** A natural disaster during the Strategy period could result in a diversion of attention and funding from Bank portfolio execution, which could impact on the achievement of intended development results.

F. Country Financing Parameters

- 5.36 In November 2004, the Board of Executive Directors approved a policy to modernize the policies and practices that restrict the use of Bank resources in investment loans (GN-2331-5) and in April 2005 the Board of Governors approved a proposal to eliminate the limit on the percentage of the Bank financing established in the foreign exchange matrix. In accordance with these policy changes, Country Financing Parameters (CFP) were subsequently established for Jamaica based on the initial work done by the World Bank. The CFP establish maximum flexibility for Jamaica (Table 5). The Bank will periodically review the parameters and make adjustments as appropriate.

Table 5: Country Financing Parameters	
Category	Parameter
Cost sharing and local cost financing	Up to 100 percent
Recurrent cost financing	No country level limit
Taxes and duties	No exclusions

- 5.37 It should be noted that the introduction of new Country Financing Parameters will not alleviate the aforementioned budgetary constraints on portfolio execution. All capital expenditures regardless of their source of financing form part of government expenditure and contribute to the fiscal deficit. Consequently, IDB financing of 100 percent of a project instead of 70 or 80 percent will not have any effect on the level of the fiscal deficit – it would just raise the proportion of the deficit financed by the IDB by substituting for other financing sources.

FULL STRATEGY MATRIX

Strategy Matrix						
Development Area and Objectives	Government Strategy	Other Bilateral/ Multilateral: Strategy/Actions	IDB Strategy	IDB Actions		Performance Indicators
				Recent/Ongoing	Potential	
A. Private Sector Development Pillar: Goal – Output/value added in the private sector expands in a sustainable and labor-intensive manner through organic growth and absorption of the informal sector						
1. Supportive macroeconomic framework <ul style="list-style-type: none"> Maintenance of a stable and sustainable macroeconomic policy framework 	<ul style="list-style-type: none"> Maintenance of stable and predictable macroeconomic environment Balanced budget in FY2007/08 and fiscal surpluses thereafter Return public debt to sustainable levels 	<ul style="list-style-type: none"> IMF Intensified Surveillance EU Support to Economic Reform Program 	<ul style="list-style-type: none"> Maintain dialogue with GOJ 			<ul style="list-style-type: none"> GoJ Target: Public debt reduced to 100% of GDP by March 2010 (Baseline March 2006: 132%)

Strategy Matrix						
Development Area and Objectives	Government Strategy	Other Bilateral/ Multilateral: Strategy/Actions	IDB Strategy	IDB Actions		Performance Indicators
				Recent/Ongoing	Potential	
<p>2. Sound incentive framework and facilitative business environment</p> <ul style="list-style-type: none"> • Keep levels of real effective exchange rate, real wages, and interest rates competitive • Progress towards an undistorted incentive framework that is neutral between sectors and activities and between capital and labor • Reduce business transactions costs and improve security of property rights 	<ul style="list-style-type: none"> • Foster private sector development through improving competitiveness • Maintenance of competitive levels of the real effective exchange rate, real wages and interest rates • Continued trade integration • Improvement of enabling environment • Reduction of crime 	<ul style="list-style-type: none"> • IMF Intensified Surveillance • World Bank country analytical work, policy dialogue • EU Trade Development Project • EU Private Sector Development Program • EU North Coast Highway Program • USAID “Legs and Regs” Program 	<ul style="list-style-type: none"> • Maintain dialogue with GoJ • Where possible, support improvements in incentive frameworks and removal of distortions (e.g. to improve private investment efficiency by lessening the divergence between private and social rates of return) • Support continued trade integration • Wherever possible support enhancements of institutions governing incentives for the private sector and reductions in transaction costs 	<p>Loans</p> <ul style="list-style-type: none"> • Agricultural Support Services • Information and Communication Technology • Land Administration & Management Program • Citizen Security and Justice Program <p>TC</p> <ul style="list-style-type: none"> • Comprehensive Tax Reform Study • Information and Knowledge Building for the FTAA • Support for Implementation of the CARICOM CSME (RG) <p>NFP</p> <ul style="list-style-type: none"> • Revitalizing the Jamaican Economy study • Private Sector Assessment • Private Sector Development Strategy • Business Climate Initiative 	<p>Loan/TC</p> <ul style="list-style-type: none"> • Policy-based loan to support facilitative business climate and tax reform, particularly with regard to stamp duties inter alia <ul style="list-style-type: none"> o Support for trade policy and institutional development, especially that related to the investment regime o Process of dialogue between public and private sectors o Creation of credit bureaus o Collateral framework reform o Reform of land market o General regulatory reform o Legal system reform o and assist in reduction of legal back-log 	<ul style="list-style-type: none"> • Availability of credit information (Baseline: 0; Source: Credit Information Index, Doing Business Report 2006) • Days dealing with licenses declines (Baseline: 242 days; Source: Doing Business Report 2006) • Cost of registering property as % of property value declines (Baseline: 13.5%; Source: Doing Business Report 2006) • Informal sector declines relative to formal economy (Baseline: 43%; Source: Index based on electricity consumption and GDP data)

Strategy Matrix						
Development Area and Objectives	Government Strategy	Other Bilateral/Multilateral: Strategy/Actions	IDB Strategy	IDB Actions		Performance Indicators
				Recent/Ongoing	Potential	
3. Complementary inputs <ul style="list-style-type: none"> • Adequate quality and quantity of physical infrastructure • Entrepreneurship and technical skills 	<ul style="list-style-type: none"> • Provision of reliable and cost-effective infrastructure • Supply of appropriately skilled manpower 	<ul style="list-style-type: none"> • USAID and DFID Trade Competitiveness of Target Industries 	<ul style="list-style-type: none"> • Support efficient and effective public provision of infrastructure through focus on maintenance • Support private provision of infrastructure through technical assistance and investments • Promote entrepreneurship and upgrading of technical skills of SMEs 	Loans <ul style="list-style-type: none"> • Northern Coastal Highway Program • National Road Services Improvement • Kingston Water Supply 	Loans <ul style="list-style-type: none"> • PRI Wharf project • IIC Port Logistics project TCS <ul style="list-style-type: none"> • Concession line of activity or PPP cluster • Competitiveness of Small Hotels • SME Competitiveness • Coffee Industry Rehabilitation • Angel Investor Network 	<ul style="list-style-type: none"> • Percentage of roads in good and fair condition does not decline (Baseline: January 2005 48%)

Strategy Matrix						
Development Area and Objectives	Government Strategy	Other Bilateral/ Multilateral: Strategy/Actions	IDB Strategy	IDB Actions		Performance Indicators
				Recent/Ongoing	Potential	
B. Getting better value for money: Goal – Greater efficiency allows Jamaica to benefit more from a given level of resources						
1. Sectoral efficiency	<ul style="list-style-type: none"> Strategic prioritizing: the allocation of resources to policy priorities and reduction of unproductive expenditure Measure and manage performance 	<ul style="list-style-type: none"> World Bank Public Sector Reform EU Support to Economic Reform Program 	<ul style="list-style-type: none"> Support improvements in institutions and incentive frameworks Support greater allocative and technical efficiency 	Loans <ul style="list-style-type: none"> National Road Services Improvement 	Loans <ul style="list-style-type: none"> Policy-based loan in education Triggers <ul style="list-style-type: none"> Mutual agreement on sectoral reforms/targets <33% projects unsatisfactory GoJ readiness 	<ul style="list-style-type: none"> Education outcomes (pass rates, drop out rates) improve for a given government expenditure
2. Project-level efficiency	<ul style="list-style-type: none"> Examine programs for their relevance, cost-effectiveness, achievement of service standards, impact on target population 		<ul style="list-style-type: none"> Improve portfolio management, including by bringing better into line size of program with GoJ capital budget capacity, in order to achieve maximum development effectiveness in the context of tight fiscal constraints and reduce inefficiencies deriving from slow implementation 	Process <ul style="list-style-type: none"> Intensified portfolio management. Loan balance cancellations and reduction in portfolio size 	Process <ul style="list-style-type: none"> Intensified portfolio management. Further loan cancellations as necessary 	<ul style="list-style-type: none"> Annual IDB disbursements rise from 5.6% of available balance (Baseline: 2005) to >10% by end 2008 Administrative costs decline from 9% of IDB disbursements (Baseline: June 2005) to < 7% by end 2008
3. Public financial management	<ul style="list-style-type: none"> Enhance the efficient collection and use of public resources, accountability and transparency through public sector reform, the introduction of a Financial Management Information System and accrual accounting, and strengthening of legal, financial and regulatory mechanisms 	<ul style="list-style-type: none"> CIDA/DFID Public Sector Modernization EU Support to Economic Reform Program 	<ul style="list-style-type: none"> Promote management for results Support improvements in financial management, transparency and accountability 	<ul style="list-style-type: none"> Information and Communication Technology NFP <ul style="list-style-type: none"> Joint CFAA/CPAR with World Bank 	Loans <ul style="list-style-type: none"> Programmatic, policy-based loan for public financial management and management for results TCs <ul style="list-style-type: none"> PRODEV 	<ul style="list-style-type: none"> Action Plan for Managing for Results developed and approved by GoJ and in implementation by March 2007

Strategy Matrix						
Development Area and Objectives	Government Strategy	Other Bilateral/Multilateral: Strategy/Actions	IDB Strategy	IDB Actions		Performance Indicators
				Recent/Ongoing	Potential	
C. Reducing vulnerability to natural disasters						
1. Appropriate comprehensive disaster risk management	<ul style="list-style-type: none"> Office of Disaster Preparedness and Emergency Management (ODPEM) created. National Hazard Mitigation Policy under draft. 	<ul style="list-style-type: none"> CDB Development of Action Plan for Vulnerability Reduction 	<ul style="list-style-type: none"> Emphasize prevention activities (risk identification, mitigation and preparedness) but assist with rehabilitation and reconstruction activities, if needed Support risk identification activities and the strengthening of the national systems for disaster prevention and response 	Loans <ul style="list-style-type: none"> Emergency Reconstruction Facility 	TC/NFP <ul style="list-style-type: none"> Country risk evaluation Follow up actions to be decided 	<ul style="list-style-type: none"> A plan to reduce Risk Management Index approved by GoJ; (Index 49.5 in 2003, source: IDEA, 2004, Manizales, Colombia, ATN/JF-7907-RG)

CURRENT OPERATIONAL PROGRAM 2006 – 2007

TABLE 1 INDICATIVE LENDING PROGRAM 2006-2007		
LOAN No.	PROJECT NAME	AMOUNT (US\$ million)
W/N	Competitiveness PBL	30.0
TOTAL		30.0

TABLE 2 INDICATIVE TECHNICAL COOPERATION PROGRAM 2006-2007		
TC No.	PROJECT NAME	AMOUNT (US\$ million)
JA-T1009	Absenteeism in Jamaica's Primary Schools	0.15
JA-T1015	Strengthening GOJs Capacity to Manage for Results	0.45
JA-T1016	Diamond Back Squid Fishing Project	0.15
TOTAL		0.75

TABLE 3 INDICATIVE MIF OPERATIONAL PROGRAM		
PROJECT No.	PROJECT NAME	AMOUNT (US\$ million)
JA-M1005	Mentoring Model to Develop Young Entrepreneurs	0.4
JA-M1008	Competitiveness of Small Hotels in Jamaica	0.7
TOTAL		1.1

MEDIUM-TERM MACROECONOMIC OUTLOOK

MEDIUM-TERM MACROECONOMIC OUTLOOK (% of GDP unless otherwise specified)					
	2005/06	2006/07	2007/08	2008/09	2009/10
Real GDP growth (%)	1.8	3-4	3-4	4-5	4-5
Consumer prices (% change)	15.5	10.7	9.4	8.8	8.0
Average nominal interest rate on public debt (in percent per annum)	12.1	12.6	12.9	12.8	12.4
Budgetary revenue	28.9	28.1	28.1	28.1	28.1
Primary budgetary expenditure	18.5	18.1	18.1	18.1	18.1
Of which: capital expenditures	2.4	1.7	1.7	1.7	1.7
Gap	-	2.9	3.0	3.0	3.0
Primary budgetary balance	10.4	12.9	13.0	13.0	13.0
Interest expenditures	13.7	13.4	13.0	12.1	11.0
Budget balance	-3.3	-2.9	0.0	1.2	2.2
Off-budget expenditure	2.5	2.4	1.8	1.8	1.4
Overall fiscal balance	-5.8	-5.3	-1.8	-0.6	0.8
Public debt	131.5	118.5	108.3	100.1	100.0
External current account (% of GDP)	-8.3	-13.0	-11.0	-9.0	-4.3
Current account plus net direct investment (% of GDP)	-2.5	-4.3	-3.7	-2.5	-0.8
Net international reserves (US\$ million)	2,078	2,119	2,153	2,154	2,270

Source: IMF, Staff Report, May 2006, MOF and PIOJ.

JAMAICA PRIVATE SECTOR DEVELOPMENT STRATEGY ACTION PLAN⁴⁴

Issue Area	Possible Action/Type of Activity	Bank Instruments and Funding Source	Responsible Unit
1. Dialogue on tax reform	1.1 Reform of tax structure and incentive framework		
	1.1.1 Promote debate and awareness with GoJ re the distortionary impact of the current tax structure and incentives and its negative effects on growth. Discussions will be based on the IDB-sponsored analysis undertaken by Georgia State University (ATN/SF-8667-JA); the study Investment Incentives in CARICOM countries (ATN/MT-7123-RG); and new policy research documents. Discussions will start with the special follow-up mission (1 st semester 2006), with the objective of laying the groundwork for a tax system and incentive structure reform in the medium to long run.	Administrative Funds	SC3,FI3
	1.1.2 Policy recommendations study on the incentive reform process for Jamaica, building on current studies. (Timetable depending on the discussions held on the follow-up mission)	TC (Trust Funds or as part of the preparation of the PBL)	SC3,FI3
	1.1.3 On-going study on investment incentives and taxing in the tourism sector (ATN/SF-8666-RG). (To be completed by 1st semester 2006)	Regional TC (underway)	INT
	1.2 Reduction of Stamp Duties		
	1.2.1 Initiate discussions regarding the reduction of Stamp Duties. Will be discussed as part of the follow-up mission (1 st semester 2006).	Administrative Funds or as part of the preparation of the PBL	SC3,FI3
1.2.2 Organize seminar on international best practices on reduction of Stamp Duties. (Precise timetable will be discussed as part of the follow-up mission.)	TC (Trust Funds, BCI funds or as part of the preparation of the PBL)	SC3,FI3	
1.2.3 Policy study to determine if and how the Stamp Duty Act should be modified. (Precise timetable will be discussed as part of the follow-up mission.)	TC (Trust Funds, BCI funds or as part of the preparation of the PBL)	SC3,FI3	

⁴⁴ Action Plan will be prioritized based upon the public-private dialogue.

Issue Area	Possible Action/Type of Activity	Bank Instruments and Funding Source	Responsible Unit
2. Improving Access to Finance and Financial Market Development	2.1 Reform of the secured transactions framework		
	2.1.1 Commission a detailed review of the secured transactions framework in Jamaica. (Expected to be completed by early 2007.)	TC (MIF, Trust Funds, BCI funds or as part of the preparation of the PBL)	FI3
	2.1.2 Support a comprehensive reform of every phase of the secured transactions framework in order to promote a new collateral law for movable and fixed property. (Specific timetable will be included in the review.) (i) Support abrogation of elements of existing laws such as the Companies Act and the Sale of Goods Act that impact the ability to pledge collateral. (ii) Promote a new system of recording security interests that is simple, can be accessed remotely, and is efficient; (iii) Promote the development of a new way to repossess collateral in the event of default.	TC (MIF, Trust Funds, BCI funds or as part of the preparation of the PBL)	FI3
	2.2 Creation of Credit Bureaus		
	2.2.1 Hold a seminar on Best Practices on Credit Bureaus. This will encourage that the new provisions of the Credit Reporting Bill provide the maximum incentives for gathering and using credit information. (2006)	Administrative funds or BCI funds	FI3
	2.2.2 Support for the creation of a private Credit Bureau. Assistance with funding for the establishing a credit bureau and institutional strengthening if needed. (Timing will depend on the approval of the new bill that allows for the sharing of financial information.)	Loan for the establishing a credit bureau (MIF) ; TC for institutional strengthening if needed (MIF/BCI/Trust Funds)	MIF assists with a loan; MIF,FI3 for TC
2.3 Facilitating Electronic Transactions			
2.3.1 Assist with the final analysis of the electronic transactions act, to ensure that its provisions are consistent with promoting new financial services. Specific activities will include holding a seminar on best practices on the benefits of electronic transactions and facilitative regulation. (2007)	TC (administrative funds, BCI)	FI3	
2.3.2 Assist financial institutions with developing services. Timing and specific proposals will depend on the dispositions included in the Act. (2007-2008)	MIF TC for product development	MIF	

Issue Area	Possible Action/Type of Activity	Bank Instruments and Funding Source	Responsible Unit
	<p>2.4 Support through financial intermediaries 2.4.1 First Caribbean International Bank of Jamaica and RBTT Jamaica are interested in participating in the Trade Finance Facilitation Program. (Possible closure in late 2006)</p>	Letter of Credit line of credit under the Trade Finance Facilitation Program	PRI
	<p>2.5 Capital Market Development 2.5.1 Activities to support Jamaica Stock Exchange self-regulation. In particular, TA to set up a market surveillance system (Post 9/11 requirement). This activity is a follow-up of ATN/MT-4690/RG for the strengthening of regional stock exchanges. (2007) 2.5.2 Assistance to initiate education/promotion campaign for retail investors and private firms about stock and bond issues and the JSE. (2007) 2.5.3 Participation of IDB representative in conference on regional capital market development (Took place in January 2006)</p>	TC (Trust Funds) TC (Trust Funds) Administrative	FI3,MIF FI3 PRI
<p>3. Regulation, Legal Commercial Framework and red tape reduction</p>	<p>3.1 Reducing red tape 3.1.1 Initiate discussion with GoJ and other donors re governance reform in order to reduce regulation e.g. through the introduction of sunset clause provisions or other mechanisms. Especially, will seek to coordinate with the USAID sponsored “Legs and Regs” initiative. Discussions will start in the follow-up mission (2nd semester 2006 or early 2007). 3.1.2 Review of the procedures and charges/fees of selected agencies. The study will include the following agencies, at a minimum: (i) the Registrar of Companies, (ii) agencies involved in business licensing, (iii) the Land Registry, (iv) the Stamp Duties Office (Timing to be determined during the discussions held in the follow-up mission. The results of the review will determine if there is an opportunity for a MIF project on simplification of registration and business licensing procedures)</p>	Administrative funds BCI funds, MIF	SC3, FI3 SC3, FI3

Issue Area	Possible Action/Type of Activity	Bank Instruments and Funding Source	Responsible Unit
	<p>3.2 Improving Commercial Legal Framework. (Timing of specific activities to be determined during the discussions held in the follow-up mission.</p> <p>3.2.1 Backlog on legislation drafting. Assist the government with reducing the backlog of laws in order to reduce the implementation time for initiatives requiring legal changes.</p> <p>3.2.2 Improve the ADR framework. (2008)</p> <p>(a) Review Arbitration Law in order to improve enforcement and effectiveness of arbitration decisions</p> <p>(b) Establishing an ADR Center</p>	<p>TC (Trust Funds, BCI funds or as part of the preparation of the PBL)</p> <p>TC (Trust Funds, BCI funds or as part of the preparation of the PBL)</p>	<p>SC3,FI3</p> <p>FI3</p>
	<p>3.2.3 Companies Act. Revision to the Companies Act in order to rectify the major weaknesses in the existing Companies Act and improve administration of registration and obtaining information on companies, including outside Kingston. (2008)</p> <p>3.2.4 Bankruptcy Law. Revision of the Bankruptcy Law with the support of a combination of local and international experts (2008)</p> <p>3.2.5 Commercial Courts. (2007)</p> <p>(a) Training judges in commercial issues</p> <p>(b) Study to assess needs to revive Commercial Courts</p>	<p>TC (Trust Funds, BCI funds or as part of the preparation of the PBL)</p> <p>TC (Trust Funds, BCI funds or as part of the preparation of the PBL)</p> <p>TC (Trust Funds, BCI funds or as part of the preparation of the PBL)</p>	<p>FI3</p> <p>FI3</p> <p>FI3</p>
	<p>3.3 Strengthening Land property rights</p> <p>3.3.1 Complete a comprehensive economic and legal analysis of the impediments to titling and registration of land and buildings, including the recording and registering ownership changes for properties that are already titled. It is expected that an improved land titling process will contribute to the development of the financial sector and complement the secured transaction framework reform through the link with the mortgage markets. (2007-08)</p>	<p>TC (Trust Funds, BCI or as part of the preparation of the PBL)</p>	<p>EN3</p>

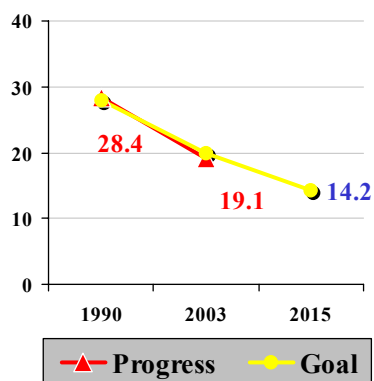
Issue Area	Possible Action/Type of Activity	Bank Instruments and Funding Source	Responsible Unit
4. Upgrading Infrastructure	<p>4.1 Public-private Partnerships</p> <p>4.1.1 PPP seminars to bring international best practices to Jamaica. The National Works Authority has expressed interest in upgrading in-house capacities to deal with PPP. It is expected that this will generate requests for the support from the MIF PPP line of activity, and prepare the grounds for future PPP projects by FI and/or PRI. (Seminar was held in Feb. 2006.)</p> <p>4.1.2 Support for private participation in the rehabilitation and expansion of Norman Manley International Airport in Kingston. (Will depend on decision regarding privatization)</p> <p>4.1.3 Funding for a USD5 million logistics project. Still initial informational conversations. (2006-2007 if there is interest)</p> <p>4.1.4 Highway2000 project linking Mandeville and Kingston. Possible partial funding for Phase II (section 1B) of the Highway2000, although this phase of the project is still under discussion. (PRI)</p>	<p>Administrative funds</p> <p>Concession line of activity or PPP cluster TC</p> <p>Loan</p> <p>Loan</p>	<p>FI3</p> <p>MIF</p> <p>IIC</p> <p>PRI</p>
	<p>4.2 Energy</p> <p>4.2.1 OUR on support for drafting LNG regulation. (2008)</p> <p>4.2.2 Petroleum Corporation was interested in financing for the following activities: expansion of the refinery and the cat-cracking facilities; distribution of their LNG joint venture with the Government of Trinidad. Early stage of conversations</p> <p>4.2.3 Jamaica Public Services Company. Possible \$25-30 million project for a 120-150 MW plant. (Note: there are some outstanding legal issues associated with a previous PRI attempt to work with JPSCo that will need to be resolved before moving ahead.)</p>	<p>TC (MIF, Trust Funds)</p> <p>Loan for a public institution w/o government guarantee</p> <p>Loan</p>	<p>FI3</p> <p>--</p> <p>PRI</p>

Issue Area	Possible Action/Type of Activity	Bank Instruments and Funding Source	Responsible Unit
5. Supporting Trade Capacity and Global Integration	<p>5.1 International Negotiations 5.1.1 TC to support international negotiations, and the elaboration of technical papers. (Expected to begin by 1 Q 2006 provided the Ministry of Foreign Affairs has made sufficient progress in execution of ATN/CC-8814-JA)</p> <p>5.2 Trade Sector Facility 5.2.1 Trade sector facility- The Bank's trade facility enables countries to draw upon financial resources to address urgent needs in the area of trade policy formulation, negotiation and implementation. It typically finances institutional restructuring (enhancing intra- and inter-ministerial coordination, as well as coordination between government, private sector and civil society); technical work needed to negotiate and implement trade agreements; strengthening of specialized institutions such as Standards Bureaus or Customs; modernization of information and communications systems related to trade; and training. The Trade Sector Facility is expected to advance in the medium-long term, only if the right fiscal conditions are in place.</p>	<p>TC financed through the IDB-Canada Trade Fund</p> <p>Trade sector facility loan</p>	<p>INT</p> <p>SC3</p>
6. Promoting Entrepreneurship and Upgrading Technical Skills	<p>6.1 Entrepreneurship and business development 6.1.1 Initial steps for the establishment of an angel investor network that will channel funding to new enterprises. Counterpart is the University of Technology. Feasibility study is on-going and will include policy recommendations for the design phase. (Approval expected by end of 2006) 6.1.2 Developing proposal with the Jamaica Hotel and Tourism Association focusing on improving the competitiveness of the small hotels. (2nd semester 2006) 6.1.3 Jamaica Exporters Association will present a project proposal for a sustainable tourism network for SMES based on cultural/heritage tourism. This project will build upon a USAID-DFID cluster initiative. (2006) 6.1.4 Conversations with the Tourist Product Development Company (TPDCo) on an SME competitiveness program on issue areas identified: training for retailer in the craft sector; training associated with the rehabilitation of heritage sites; product development (e.g. attractions). (Still only initial informational conversations. (2007) 6.1.5 Post-hurricane rehabilitation of small farmers production and strengthening of coffee exports performance partnering with the Coffee Industry Board. (2007) 6.1.6 Grace Kennedy. Several interesting potential projects, including financing opportunities for: a) building a warehouse; b) leasing receivables bond; or c) remittance backed future flow funding. Early conversations.</p>	<p>TC</p> <p>TC</p> <p>TC</p> <p>TC</p> <p>TC and/or financing</p> <p>Loan for US\$5 million</p>	<p>MIF</p> <p>MIF</p> <p>MIF</p> <p>MIF</p> <p>MIF and/or SDS/MSMS</p> <p>PRI</p>
7. Strengthening Public-Private Sector Dialogue on	<p>7.1 Promote policy debate with GoJ 7.1.1 Special follow-up mission and meetings to present the results of the JPSDS to GoJ officials. The objective is to increase the understanding and awareness of private sector development issues within the government and keep the reform momentum. More specific actions will follow as a result of the mission. (To be completed by 1st semester 2006)</p>	<p>Administrative Funds</p>	<p>FI3</p>

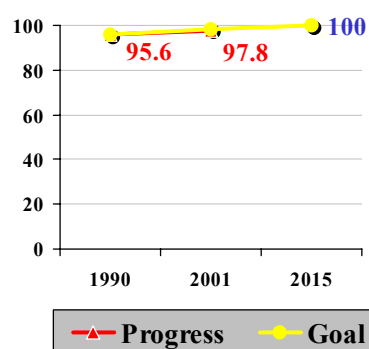
Issue Area	Possible Action/Type of Activity	Bank Instruments and Funding Source	Responsible Unit
Business Climate Issues	<p>7.2 Promote Public-Private Dialogue</p> <p>7.2.1 Organize workshops and roundtables between key government officials and private sector representatives in order to increase the understanding and dialogue between GOJ and key private sector champions. Additional activities could include a media campaign to raise the level of debate within the country in order to increase awareness of the key elements of a private sector development reform strategy. A consultant will be hired to give support to this process.(Process to be launched by end 2006)</p> <p>Initial topics for discussion would include: (i) tax and incentive framework reform; (ii) improving access to finance through reform of secured transactions framework and adequate credit bureaus legislation; (iii) red tape reduction; (iv) strengthening of property rights; and (v) legal commercial framework reform.</p>	TC financed through Administrative funds, Trust Funds and/or as part of the preparation of the PBL	FI3

PROGRESS ON MILLENNIUM DEVELOPMENT GOALS⁴⁵

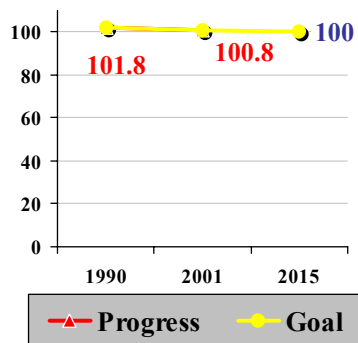
1. Eradicate extreme poverty and hunger (population below national poverty line (%))



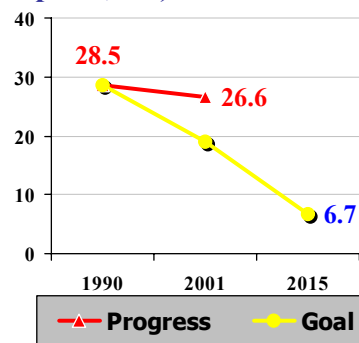
2. Achieve universal education (net primary enrollment ratio)



3. Promote gender equality (ratio of girls to boys at primary, secondary education)

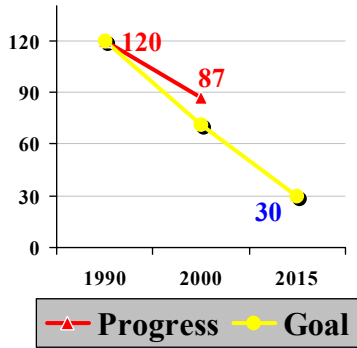


4. Reduce child mortality (under 5 mortality rate per 1,000)

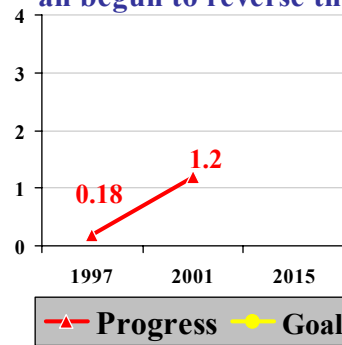


⁴⁵ UNDP, National MDG Reports and WDI.

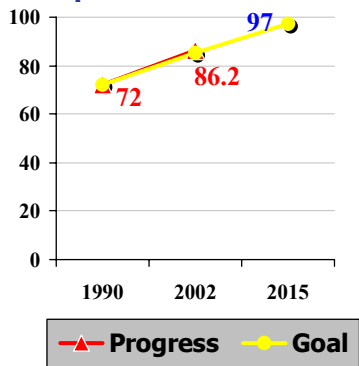
**5. Reduce maternal mortality
(rate per 100,000 live births)**



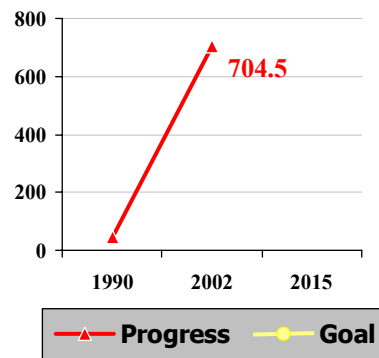
**6. Combat HIV/AIDS
(% 15-49 year-old prevalence rate). Goal: Have halted by 2015
an begun to reverse the spread.**



**7. Ensure environmental
sustainability (Access to an
improved water source - %)**



**8. Develop a global partnership for
development (Fixed line and mobile
telephones (per 1,000 people))**



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