

PROJECT PROFILE
JAMAICA

I. BASIC DATA

Project name:	Competitiveness Enhancement Program II		
Project number:	JA-L1010		
Project team:	Claudia Stevenson (ICF/CMF), Team Leader; Jaiwattie Anganu (CMF/CJA); Juan Ketterer (CMF/CAR); Emmanuel Abuelafia (CCB/CCB); Hunt Howell (Consultant); Luiz Vilella (ICF/FMM), Hyun Hun Lee (LEG/SGO); and Annabella Gaggero (ICF/CMF).		
Borrower:	Government of Jamaica (GOJ)		
Executing agency:	Planning Institute of Jamaica (PIOJ)		
Financing plan:	IDB (OC):	US\$60,000,000	
	Total:	US\$60,000,000	
Safeguards:	Policies triggered:	B.13	
	Classification:	Not required	

II. GENERAL JUSTIFICATION AND OBJECTIVES

- 2.1 The first operation of the Jamaica Competitiveness Enhancement Program –JCEP I – (Loan Contract 1972/OC-JA) was approved by the Board in April 2008 and US\$30 million were disbursed in July 2008. JCEP I provides the frame of reference for the current operation under the programmatic series. The present operation is the second of a series of three individual operations under the programmatic modality and provides continuity to the agreements reached on the Policy Matrix of the first operation. The second operation maintains the dialogue between the Bank and the borrower on issues relevant to promoting sustained, long-term growth in the country. With the recent external shocks produced by international financial conditions, the measures in JCEP regarding tax reform and reducing expenditure burden on the budget become more relevant to the policy dialogue.
- 2.2 These US\$60 million will support the GoJ in pursuing long-term policy reform in the areas of: (i) competitiveness implementation framework; (ii) tax expenditure reform including: (a) reduction of distortions in the tax system; (b) simplification of tax administration; and (c) expenditure rationalization; (iii) improving access to finance including (a) secured transactions framework; (b) framework for the creation of credit bureaus; and (c) facilitating electronic transactions; and (iv) strengthening of land property rights.
- 2.3 The GoJ has achieved progress in all the components of the Policy Matrix, although in some cases the progress has not been as originally envisioned and some adjustments have been made (see [Draft Policy Matrix](#)). The main changes in the Policy Matrix pertain to the institutional framework for public-private dialogue, where, although the Steering Committee of the Program has served as a vehicle for Public-Private Dialogue, a final definition of the institutional framework has not yet been made.

- 2.4 **Macroeconomic Conditions.** Jamaica is a small open economy with a nominal GDP of just over US\$10 billion. The island's per capita GDP, at US\$4,172,¹ ranks Jamaica at the lower end of the mid-income Caribbean countries. In 2006, the highest growth rate in over a decade was recorded at 2.6%, but after the devastating impact of hurricane Dean, the economy suffered from major losses and the growth rate fell back to just 1.2% in 2007. Growth forecasts for 2008 after the effects of Tropical Storm Gustav and a potential slow-down in tourism in the last months of the year due to the economic problems in the US are nonetheless still slightly positive – In October WEO forecasted 0.7% growth for 2008.
- 2.5 **Debt sustainability** analysis carried out for the Independent Macroeconomic Assessment (IMA)² indicates that under current macroeconomic conditions, the primary surplus required to stabilize the debt-to-GDP ratio (currently at 123.7 percent) is 4 percent of GDP. To reduce the debt-to-GDP ratio to 40 percent (a threshold suggested by IMF research), Jamaica would need to run a primary surplus of 7.44 percent of GDP for 20 years.³ Stress tests indicate that Jamaica's debt situation is robust to most foreseeable shocks when taken individually and the debt-to-GDP ratio would continue to decline over the medium term. However, a test with several simultaneous shocks shows that there are risks to the debt outlook and the sustainability of the debt position is highly dependent on the types of external shocks the country receives.
- 2.6 **Competitiveness in Jamaica and Access to Finance.** Jamaica is a small open economy, where about 90% of the consumable goods (electronics, machinery, processed foods) are imported. These goods are consumed by upper and middle-income households, and are used as intermediate inputs for business, while low-income households buy staple goods that are produced domestically, at a low price. In international trade, Jamaica's services sector represents the fastest-growing export for the country. The Jamaican economy is heavily dependent on tourism, which when including its indirect effects on other sectors, accounted for 9.6 percent of employment in 2005. Jamaica's English speaking population and shared time zone with the US encourages investment in Business Process Outsourcing (BPO). Recent studies have described the problems that hinder competitiveness and growth in Jamaica.⁴ Jamaica ranks 60 out of 125 countries in the Global Competitiveness Index according to the Global Competitiveness Report for 2006-2007. Among the factors that especially limit business' competitiveness are: (i) access to financing; (ii) tax regulation; (iii) tax rates; (iv) business' cost of crime and violence; (v) informal sector; (vi) inadequate supply of infrastructure; and (vii) burden of economic regulation. Other factors

¹ IMF World Economic Outlook.

² Available in electronic files: <http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1183375>.

³ Detragiache, E. and A. Spilimbergo (2001) "Crises and Liquidity: Evidence and Interpretation", IMF, Working Paper WP/01/02.

⁴ The *Global Competitiveness Report 2006-2007* (World Economic Forum); The *Road to Sustained Growth in Jamaica* (World Bank) and *Jamaica: A Private Sector Assessment* Economic Research Institute 2006.

that affect the competitiveness of the Jamaican companies are the indices related to macroeconomic environment and public institutions.

A. Objectives

- 2.7 The objective of the operation is, in continuation of the first programmatic operation, to support the GoJ in addressing key constraints to the competitiveness of Jamaica by promoting implementation of reforms to reduce costs of doing business. Concrete activities supported by this loan are detailed below and are also listed in the [Draft Policy Matrix](#).

1. Program structure

- 2.8 In addition to the requirement for a macroeconomic framework congruent with the program's objectives, the program structure is divided into four reform areas: (1) Competitiveness Implementation Framework; (2) Tax Reform; (3) Improving Access to Finance and Financial Market Development and (4) Reduction of Business Costs through Expedited Land Titling.

B. Key Results Indicators and Progress on the Policy Matrix

- 2.9 **Competitiveness implementation framework.** The JCEPI's steering committee has acted as vehicle for discussion of the issues pertaining to the Program. However, there are still on-going discussions between the different stakeholders on what is the best institutional arrangement for the Public Private Forum (PPF) and its technical secretariat. In this regard, a mapping of all the existing on-going forums related to public-private discussion is being carried out in order to identify the most promising one in which to establish the competitiveness PPF on a pilot basis.
- 2.10 **Tax and expenditure reform.** This component will support the GoJ in developing a tax system that is simple, efficient and fair and that encourages investment, risk taking, entrepreneurship and the development of asset markets. For the second operation, the main focus of tax reform will be on tax administration reform in order to broaden the tax base and have a more efficient and transparent collection system.
- 2.11 **Reduction of distortions in the tax system.** The GoJ has made progress in the agreed benchmarks of the Tax Reform Action Plan. In this sense, some of the milestones have already been achieved, such as the elimination of dividends to shareholders of non-listed companies and in the reduction of Stamp Duties from 5.5% to 4.5% and Transfer Taxes by 1.5% to 6%. In addition, the harmonization of payroll taxes entered into effect on January 1, 2009. Other milestones of the Action Plan are still under preparation such as the financing for the Tax Expenditure Report, and the training for the GoJ officials on tax modeling.
- 2.12 **Simplification of Tax Administration.** The GoJ has made progress in the implementation of the Action Plan aimed at simplifying and lowering the cost of

paying taxes. In this regard, the following initiatives are either on-going or complete: (i) Electronic Drop Box to make the system more user friendly; (ii) E-Payment Kiosks, E-payment portal is now 12th in terms of collection up from 30th previously; (iii) Third Party Collection Project - Technical component is completed and the application has been tested ; (iv) Implement Out/Inbound Call Centre; (iv) Taxpayer Reminder Service; (v) Quality Assurance Testing by Fiscal Services Limited of the Application for GCT/SCT e-filing (complete); (vi) Procurement & Installation of new Central Facility Computers (complete); and (vii) Requirements and Conceptual Design (RACD) for Income Tax and PAYE – Pay as you Earn– (complete).

- 2.13 **Expenditure rationalization.** The GoJ has made substantial progress in the actions aimed toward reducing support for state owned enterprises. The divestiture of the Sugar Industry Company is almost finalized and a Memorandum of Understanding has been signed with the buyer (a Brazilian company, Infinity Bioenergy). Regarding Air Jamaica, a new CEO has been recently appointed and some initial contacts with potential buyers have been made with the support of the IFC. In addition, a Technical Cooperation Program for supporting the divestiture of Air Jamaica has been approved by the Bank on November 10, 2008.
- 2.14 **Secured transactions framework.** The consultations with cabinet and private sector stakeholders, which are part of the agreed benchmarks of the Action Plan, have already taken place. At present a set of potential stakeholders in secured transactions has been identified, and detailed one-on-one interviews have been carried out and workshops with both private sector stakeholders and with members of the Cabinet are programmed for the last week in January.
- 2.15 **Creation of credit bureaus.** The benchmarks of the agreed Action Plan are: (i) the draft Credit Reporting Legislation and associated draft regulations have been tabled in Parliament and referred to a Joint Select Committee and hearings have started; (ii) the Financial Services Commission (FSC) Board of Directors formally approved the agency's oversight functions.
- 2.16 **Facilitating electronic transactions.** The draft regulations for the Electronic Transactions Act are finalized and consultations are being carried out. The final document was submitted to the Office of the Chief Parliamentary Council (CPC). Because the Ministry of Energy, Mining and Technology (MEMT) has been restructured, the PIOJ will be in charge of executing the Technical Cooperation for the implementation of the m-banking legal, regulatory and institutional framework.
- 2.17 **Reduction of business costs through expedited land titling.** The Ministry of Agriculture has made progress on reducing Land Titling and Registration cost as a new Parish (Clarendon) and part of the parish of Saint Thomas have been declared LAMP areas under the Special Provision Act. In addition, the Ministry has been very active in titling properties, with a target of 470 new titles for 2008.

III. TECHNICAL ISSUES AND SECTOR KNOWLEDGE

- 3.1 **Mapping of the different on-going forums for Public-Private Dialogue.** There are many on-going forums in Jamaica that address issues related to competitiveness, as well as discussions between the different stakeholders on the institutional arrangement that would best fit the PPF. Thus there is need to deepen the understanding of the performance objectives and dynamics of all the on-going forums in Jamaica in order to support the implementation of the most effective institutional tool to support the Program's objective.
- 3.2 **Supporting the Divestiture of State Controlled Enterprises.** As part of the execution of the Action Plan for divestiture of state controlled enterprises, the process of divestiture of Air Jamaica needs technical support regarding a financial and technical analysis and a diagnostic of the technical state of the art of the equipment. One of the critical issues is that the airline does not produce the information that will be required for divestiture. The Bank is supporting this activity with the technical cooperation program "Strategy for the Divestiture of Air Jamaica" (JA-T1037; ATN/FC-11305-JA).
- 3.3 **On-going Technical Support for Implementation.** In addition, the Bank has been supporting the implementation of the Action Plans for the use of m-banking services and for the reduction of costs of land titling through the following TC operations: Enhancing Competitiveness through Land Titling Registration and Reform (JA-T1020; ATN/KP-10363-JA) and Financial Services through Mobile Devices (JA-T1021; ATN/KK-10825-JA). In addition, the consensus building activities for the implementation of a secured transactions framework are being supported by the BCI.

IV. SAFEGUARDS AND FIDUCIARY SCREENING

- 4.1 The environmental and social safeguard classification system did not require classification for this operation given that it is a PBL, 2nd Operation (Annex I).

V. OTHER ISSUES

- 5.1 **Requirement for close collaboration with other donors.** The Bank has been working in close coordination with the IMF and the other donors (World Bank and EU) on the supporting of policies that promote economic growth, macroeconomic stability and fiscal balance.

VI. RESOURCES AND TIMETABLE

- 6.1 Distribution of the POD to QRR is expected by February 9, 2009. To accompany GOJ's efforts, the team will develop proposals for various trust funds in the amount of about US\$1.03 million to support the implementation of the policy actions; and about US\$64,448 will be required for missions and other activities (Annex III).

SAFEGUARD POLICY FILTER REPORT

This Report provides guidance for project teams on safeguard policy triggers and should be attached as an annex to the Project Concept Document (or equivalent) together with the Safeguard Screening Form, and sent to ESR.

1. Save as a Word document. 2. Enter additional information in the spaces provided, where applicable. 3. Save new changes.

PROJECT DETAILS	IDB Sector	Private Sector Development
	Project Type	Policy Based Loan (PBL)
	Additional Operation Details	
	Country	Jamaica
	Project Status	New Operation
	Investment Checklist	Generic Checklist
	Team Leader	Claudia Stevenson
	Project Title	Competitiveness Enhancement Program II
	Project Number	JA-L1010
	Safeguard Specialist(s)	<i>To be completed by assessor</i>
	Assessment Date	2009-01-08
	Assessment Number	2009-01080330-2
	Additional Comments	

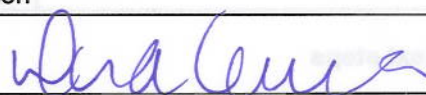
SAFEGUARD POLICY FILTER RESULTS	Project Type	Policy Based Loan (PBL)	
	Safeguard Policy Items Identified (Yes)	Operation for which ex-ante impact classification may not be feasible. These loans are: Policy-based loans, Financial Intermediaries (FIs) or loans that are based on performance criteria, sector-based approaches, or conditional credit lines for inves	(B.13)
	Potential Safeguard Policy Items (?)	No potential issues identified	
	Recommended Action	Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s), including B13, for guidance. No project classification required. Submit Report and PCD (or equivalent) to ESR. <i>Policy Directives can be accessed from the Resources tab on the Toolkit home page.</i>	
	Additional Comments		

ASSESSOR DETAILS	Name of person who completed screening:	Annabella Gaggero
	Title	Project Assistant
	Date	2009-01-08

Annex II
INDEX of completed and proposed sector work
Jamaica
Competitiveness Enhancement Program (JA-L1010)

Issues	Description	Expected Dates	References & hyper links to Technical files
Technical options and design	(1) Mapping of on-going Public – Private Initiatives (2) Reform of Secured Transactions Framework (3) Support for the Divestiture of Air Jamaica (JA-T1037) (4) Action Plan for Reducing Time and Costs of Land Titling and Registration (JA-T1020) (5) Action Plan for an Enabling Environment for M-Banking (JA-T1021)	January 2009 January 2009 April 2009 February 2009 March 2009	
Analysis of project cost and economic viability	(1) Project Profile	January 2009	
Financial management/fiduciary issues and control environment	(1) POD	February 2009	
Data collection and analysis for reporting on results	(1) Results Matrix	February 2009	
Institutional analysis/personnel, procedures other aspects of implementation capacity	(1) POD	February 2009	
Stakeholders and political environment	(1) POD	February 2009	
Social and environmental safeguards	(1) Safeguard Policy Filter Report (no project classification required)	January 2009	
Other key issues, such as donors, gender, sustainability, country/sector issues	(1) Women's Access to Finance	March 2009	

ELIGIBILITY REVIEW MEETING**ERM MINUTES****January 14th, 2009****I. Basic information:**

PROJECT NUMBER:	JA-L1010
PROJECT NAME:	Competitiveness Enhancement Program II
PIPELINE YEAR	[2009] [A]
TEAM LEADER:	Claudia Stevenson
CHAIRPERSON (VPC MANAGER):	Dora Currea 

II. ERM decisions:

ELIGIBILITY	YES		
IDB FINANCING AMOUNT AND SOURCE	US\$ 60.000.000		
ENVIRONMENTAL AND SOCIAL CLASSIFICATION	A/ B/ C/ OTHER B		
	NEXT ACTIONS		
POD DUE DATE	July 6 2009		
TOTAL RESOURCE REQUIREMENTS (US\$)	ADMINISTRATIVE BUDGET	NPC ¹ (US\$)	45000
		PC ²	227 days
	TC FUNDING	1,030,000	
	TOTAL		
DIVISION CONTRIBUTION	DIVISION 1 CMF	DIVISION 2	
	100 %	%	
TECHNICAL COOPERATION (TC) CLEARED FOR APPROVAL	/ NO /		

III. Recommendations:

SUBJECT	RECOMMENDATIONS
1. Overall risk assessment and mitigation strategy	The second phase of the project must demonstrate substantial progress in the key reforms areas. The project must deal with relevant issues and its ultimate amount should be commensurate with the scope of the reforms supported by the loan.
1. a) Environmental and Social Strategy	As agreed with ESR, the project will not be classified as it is a PBL, but technical work and strategic assessment will be conducted.

¹ NPC: Non personnel costs (travel, consultants, etc)² PC: Personnel costs (FTEs)

SUBJECT	RECOMMENDATIONS
2. Institutional and policy issues	The coordination among donors was mentioned as an important risk that should be addressed during the Operational Mission.
3. Reforms to be supported.	The timing of the reforms might not be adequate, so changes in both, amount and phases of the operation might be considered. The issue will be addressed after the Mission is back from Jamaica. The ERM agreed to hold another meeting at that time.

IV. Next steps

TOPIC	NEXT STEPS
The Public Forum for Competitiveness involve labor and environmental regulations that should be taking into account	The GOJ is working on creating a social partnership for public private dialogue. The Team will look for support for the Technical Secretariat on topics of competitiveness and business climate. Environmental regulation and labor will be included as triggers for the third operation.
Expenditure rationalization: technical support for divestiture and concessions or management in the sugar production and airline sectors should be take into account	The Bank has approved a TC for supporting the divestiture of Air Jamaica. The team will also explore what the government is doing with regard to other on-going divestitures.
Land titling: there are issues regarding the land use.	There is a TC that is supporting the implementation of an Action Plan that includes capacity-building, dissemination and consensus building activities. The team will explore with the Ministry of Agriculture, including its National Land Agency, the need to include technical support for land use zoning and land market rationalization policies in the third operation.
The accuracy of the policy matrix and the text of the document with respect to the latest developments and the changes introduced to the matrix	The Team will update both the status of the progress of the conditions on the policy matrix after the Orientation Mission. The conditions for matrix have not been modified as the second operation has to be agreed yet. The Team stated that there will be a detailed explanation in the annex of the Mission Report after the mission. This information will be used for the POD.
Coordination with other donors and among IDB's projects	The POD will present updated information about the support commitments from other donors in the intervention areas of the project and the coordination effort among different donors.
TC	The topics of the TCs, already included in the budget, are yet to be decided.

Scope, size and dates	After the mission returned from Jamaica, the date for the POD was agreed. The Bank informed the GoJ that the following components of the Policy Matrix had to show further progress in i) tax expenditure report, ii) labor tax harmonization, iii) credit bureaus and iv) land titling.
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ANNEX TO ERM MINUTES

List of invitees/participants

INVITEES	DEPARTMENT/DIVISION	PARTICIPANTS
Corresponding VPC Manager	Dora Currea (CCB/CCB)	√
Corresponding VPS Manager		
Corresponding Country Representative	Gerard Johnson (CCB/CJA)	√
Originating VPS Division Chief	Kurt Focke (ICF/CMF)	√
Other relevant VPS Division Chief (s)		
Corresponding Regional Economic Advisor	Andrew Powell (CCB/CCB)	√
Corresponding Country Coordinator	Clark Sand (CCB/CCB)	√
Corresponding LEG Coordinator	Laura Profeta (LEG/SGO)	√
SPD Manager		
FIN/FSV Chief		
VPC/PDP Chief		
ESG Chief	Maria Da Cunha (VPS/ESG),	√
Project team members	Juan Ketterer (CMF/CAR) Hyun Jung Lee (LEG/SGO) Claudia Stevenson (ICF/CMF) Luis Villela (FMM/CMF) Hunt Howel (consultant), Annabella Gaggero (ICF/CMF), Anganu Jaitawattie (CMF/CJA) Emmanuel Abuelafia (CCB/CCB)	√
Other participants as needed		

√ denotes ERM participation