

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

JAMAICA

COMPETITIVENESS ENHANCEMENT PROGRAM

(JA-L1001)

LOAN PROPOSAL

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<u>ELECTRONIC TECHNICAL FILES</u>	Issues Addressed*	Hyperlink/Status of Preparation
REQUIRED		
Independent Macroeconomic Assessment January 30, 2008		http://idbdocs.iadb.org/WS/Docs/getDocument.aspx?DOCNUM=1183375
Policy Letter February 11, 2008		http://idbdocs.iadb.org/WS/Docs/getDocument.aspx?DOCNUM=1322138
ADDITIONAL TECHNICAL REFERENCES		
Holden P. and Sarah Holden <i>Jamaica: A Private Sector Assessment</i> ERI (2005)	Diagnostic of main constraints on business productivity and growth	http://idbdocs.iadb.org/WS/Docs/getDocument.aspx?DOCNUM=1183370
Strategic Guidelines for Private Sector Participation in Jamaica	Hybrid Bank planning tool combining elements of traditional strategy with elements of a business plan	http://idbdocs.iadb.org/WS/Docs/getDocument.aspx?DOCNUM=1342831
Tax Reform in Jamaica Scenario Options for consideration	Contracted. First draft of action plan submitted.	

ABBREVIATIONS

BCI	Business Climate Initiative
BPO	Business Process Outsourcing
CIT	Corporate Income Tax
ETA	Electronic Transactions Act
FSC	Financial Services Commission
GoJ	Government of Jamaica
GDP	Gross Domestic Product
HEART	Human Employment and Resource Training
IDB	Inter-American Development Bank
IMA	Independent Macroeconomic Assessment
IMF	International Monetary Fund
JCEP	Jamaica Competitiveness Enhancement Program
M-banking	Mobile Banking
MAL	Ministry of Agriculture and Land
MEMT	Ministry of Energy, Mining and Telecommunications
MoF&PS	Ministry of Finance and Public Service
NLA	National Land Agency
NPSA	National Payments System Act
PBL	Policy Based Loan
PIOJ	Planning Institute of Jamaica
PSA	Private Sector Assessment
PSOJ	Private Sector Organisation of Jamaica
SMEs	Small and Medium Enterprises

PROJECT SUMMARY
JAMAICA
COMPETITIVENESS ENHANCEMENT PROGRAM
(JA-L1001)

Financial Terms and Conditions			
Borrower: Government of Jamaica Executing Agency: Planning Institute of Jamaica (PIOJ)		Amortization Period:	20 years
		Grace Period:	5 years
		Disbursement Period:	12 months
Source	Amount (in US\$ millions)		
IDB (OC)	30	Supervision and	*
IDB (FSO)	0	Inspection Fee:	
Other/Cofinancing	0	Interest Rate:	Adjustable
Local	0	Credit Fee:	*
Total	30	Currency:	US dollars
Project at a Glance			
Project Objective/Description: The general objective of the project is to improve competitiveness in Jamaica. The purpose is to promote specific reforms to reduce the cost of doing business, thereby improving efficiency and ability of business to compete in an increasingly global marketplace. The program is to be the first of three proposed programmatic PBLs to be funded in an estimated total amount of US\$90 million. In addition to the requirement for a macroeconomic framework congruent with the program's objectives, the first program will support reforms in four areas, as noted in the special contractual conditions below.			
Special contractual clauses: The borrower, through the Executing Agency, will have complied with the commitments as stated in the Policy Matrix (Annex I) and will have submitted the evidence of compliance with the conditions relevant to the sole disbursement of this programmatic PBL. These conditions are stated fully in Section B (¶1.28 - 1.45), and may be summarized as follows: (i) macroeconomic sustainability; (ii) competitiveness implementation framework; (iii) tax expenditure reform including: (a) reduction of distortions in the tax system; (b) simplification of tax administration; and (c) expenditure rationalization; (iv) improving access to finance including: (a) secured transactions framework reform; (b) framework for the creation of credit bureaus; and (c) facilitating electronic transactions; and (v) strengthening of land property rights.			
Exceptions to Bank policies: None			
Project qualifies for: SEQ[] PTI[] Sector[] Geographic[] Headcount[]			
Procurement: N/A			
ESR Verification Date: October 31, 2007.			

* The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for ordinary capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six month period, the amount that would result from applying 1% to the loan amount, divided by the number of six-month periods included in the original disbursement period.

I. DESCRIPTION AND RESULTS MONITORING

A. Background, Problem Addressed, Justification

1. Macroeconomic imbalances and debt

- 1.1 Jamaica has struggled with macroeconomic imbalances since the early 1970s, when rapidly growing public expenditures resulted in significant fiscal deficits between 1975 and 1985 and the accumulation of a large stock of public debt. The resolution of a financial crisis in the late 1990s exacerbated the situation by adding another roughly 40 percent of GDP to the debt stock. Since 1996 the government has applied tight monetary and exchange rate policies in order to reduce inflation, and since 1999, the government has run large primary surpluses in order to avoid unsustainable debt dynamics.¹ These policies have successfully reduced inflation to single digits but at the cost of relatively high interest rates.
- 1.2 Public debt peaked at 143.9 percent of GDP in March 2003 and has since declined to 132.4 percent by March 2007. This improvement stemmed from exchange rate effects, an acceleration of economic growth, and higher primary surpluses/reduced fiscal deficits since 2003. The fiscal deficit has declined from 7.6 percent of GDP in 2002/03 to 3.3 percent in 2005/06. However, in 2006/07 the fiscal deficit widened to 6.6 percent of GDP, due both to revenue weakness and an overrun in current expenditures. The high level of debt creates vulnerability to shocks, and poses risk to macroeconomic sustainability. Interest payments on the debt represent approximately 13 percent of GDP and 25 percent of the Government's budget in fiscal year 2007/08.
- 1.3 **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 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 It should be noted that for the last eight years Jamaica has run primary surpluses in excess of this amount. 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, if the economy were to be hit by a combined exchange rate, interest rate and growth shock, the debt-to-GDP ratio would rise. This underlines Jamaica's vulnerability to external shocks and the macroeconomic imperative of a significant reduction in the debt ratio. To the extent that the Competitiveness

¹ Much of the fiscal adjustment took place in capital expenditures. By contrast, expenditures on wage and salaries have remained at significantly higher levels than during the early 1990s.

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.

Program achieves its goals and raises economic growth, it would strengthen macroeconomic sustainability.

- 1.4 **Long-term growth.** Since the early 1970s Jamaica has experienced low long-term economic growth. Between 1970 and 2005 the economy grew by an annual average of 0.9 percent and per capita income fell by a cumulative 5 percent in real terms. Between 2000 and 2005, investment averaged 30 percent of GDP, but economic growth averaged 1.5 percent per annum. Studies sponsored by the IDB have attributed the problems in the quality of investment to distortions in the allocation of resources, especially those caused by the tax system.⁴ A recent IMF study also concluded that growth had been reduced by the allocation of investment to less productive areas but attributed this to the high level of public debt and associated macroeconomic uncertainty.
- 1.5 Long-term development of the goods-producing industries has also been affected by an appreciation in the real effective exchange rate of more than 35 percent from 1990 to 2001⁵ in conjunction with an erosion of trade preferences. Output and employment in export and import-competing industries, especially agriculture and manufacturing, have atrophied as a result. The economy has become more dependent on service sectors (which now account for 62 percent of GDP) and on the two principal exports -- tourism and bauxite and alumina. In addition, while the formal economy stagnated in the 1990s, the informal economy grew rapidly to 43 percent of formal GDP by 2001.⁶
- 1.6 Economic growth has accelerated gradually over the last two years, with significant foreign direct investment taking place in the bauxite and tourism industries. In the latter, more than US\$800 million in investment is expected over the medium term. The investment has stimulated construction, and agriculture is recovering from adverse weather shocks of recent years. However faster, broader and sustained economic growth will be critical for raising living standards and further reducing poverty. Further acceleration of growth depends on private sector development, which in turn requires a supportive macroeconomic context, a sound incentive framework and a facilitative business environment.

2. Sectoral and structural impediments

- 1.7 Jamaica has the characteristics of a small open economy, where about 90% of the consumable goods (electronics, machinery, processed foods) are imported.⁷ In international trade, Jamaica's service sector represents the fastest-growing export

⁴ Holden (2005) *Jamaica: A Private Sector Assessment*, and Artana and Navajas *Fiscal Policy Challenge* (2004). An IMF study also concluded that the high investment-low growth paradox was partly but not totally explained by statistical mismeasurement (IMF Working Paper ED/861235, *Public Debt and Productivity, the Difficult Quest for Growth*).

⁵ IMF Working Paper ED/861235, *Public Debt and Productivity: the Difficult Quest for Growth in Jamaica*.

⁶ IDB "The Informal Sector in Jamaica", December 2006 [RE3-06-010], Washington D.C.

⁷ Internal IDB report.

for the country. Tourism is an important sector, 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). One of the reasons these industries have begun to expand is the emergence of a lower-cost data and telecommunication backbone.

- 1.8 Several recent studies have described the problems that hinder competitiveness and growth in Jamaica.⁸ 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 limit business' competitiveness are: (i) ability to access financing; (ii) tax regulation; (iii) tax rates; (iv) business' cost of crime and violence; (v) informal sector; (vi) inadequate supply of infrastructure; and (vii) economic regulation. Other factors that affect the competitiveness of the Jamaican companies are the indices related to macroeconomic environment and public institutions.
- 1.9 The Bank-sponsored *Private Sector Assessment* (PSA)⁹ identified the following factors that hinder private sector development in Jamaica: (i) over-involvement of the state in the economy; (ii) distortions due to incentives and inequitable tax systems; (iii) underdevelopment of financial markets; (iv) costly and cumbersome processes for land registration; (v) excess of regulation and procedures; (vi) inefficient legal system; and (vii) inadequate infrastructure. The PSA concluded that Jamaica's business environment generates high transactions costs and that the current incentives facing investors and entrepreneurs are not conducive to promoting a high growth environment and vibrant entrepreneurship. In June 2006 the Bank's Private Sector Committee approved the report "Jamaica Strategic Guidelines for Private Sector Development" (PS-167-1) based on the PSA.

3. Program justification

- 1.10 The PSA and Guidelines provided the framework for a dialogue between the Bank and the private and public stakeholders that in turn led to a Government of Jamaica (GoJ) request for Bank support for improving competitiveness by means of a sequence of three policy-based loans under the programmatic modality. For its part, the GoJ will make a long-term commitment to carrying out key reforms that are complex, require a sequence of actions for implementation and that are informed by a broad dialogue amongst stakeholders. This operation will serve a catalytic role to encourage greater understanding and consensus between the different stakeholders on issues related to competitiveness.
- 1.11 The proposed policy-based loan of US\$30 million to finance the first operation will make a modest but useful contribution to Jamaica's projected gross financing

⁸ The *Global Competitiveness Report* 2005-2006 (World Economic Forum); The *Road to Sustained Growth in Jamaica* (World Bank) and *Jamaica: A Private Sector Assessment* Economic Research Institute 2006.

⁹ *Jamaica: A Private Sector Assessment* ERI. 2006, supported through BCI.

need of US\$2.4 billion for FY2007/08, and is dimensioned primarily with a view to supporting the reforms that will be undertaken, consistent with the lending envelope and areas of priority in the Country Strategy with Jamaica.

- 1.12 As noted in the Policy Letter (Annex IV) the Government of Jamaica favors the reforms proposed in this operation, and the reforms have also been widely discussed with both public and private stakeholders.
- 1.13 The Bank's country strategy, approved in August 2006, recognizes the importance of a stable macroeconomic framework as the cornerstone for future growth. The private sector development component of the strategy identifies a process of public-private dialogue and several sector-level reforms (discussed below) as necessary to establish a propitious environment for policy reform for improving the business climate. The strategy specifies a Policy – Based Loan as the tool for addressing the key issues of private-sector development that were identified both in the “Country Strategy” and in the “Strategic Guidelines for Private Sector Development” approved by the Private Sector Committee of the Bank.

4. Problems addressed

- 1.14 Based on the analytical work and the dialogue with the Bank, the most important issues that affect competitiveness at the firm level in Jamaica are described below:

a) Public-private dialogue

- 1.15 Currently, Jamaica has several councils that engage in public - private sector dialogue on competitiveness issues. In November 2007 this discussion became more focused at a public-private “National Planning Summit” hosted by the GoJ with participation from the major private sector and labor organizations. The Summit participants agreed to create a position of “Chief Execution Officer” and an advisory board of no more than nine senior public, private, and labor officials to address the recommendations emanating from the Summit. This advisory board is seen as a promising forum for continuing, effective public-private dialogue and action on competitiveness policy issues, and may be a means for unifying the disparate groups that have addressed these issues in the past.

b) The tax and expenditure system

- 1.16 **Tax policy.** Jamaica's corporate income tax framework is particularly distortionary. Nominal rates of corporate income tax (CIT) are relatively high, but these are offset by tax incentives to preferred sectors under 12 tax incentive acts. This distorts allocative decisions between sectors and activities and drives a wedge between private and social rates of return. Recent studies sponsored by the Bank¹⁰ show that the Jamaican tax incentives provide a strong bias towards capital-intensive production technologies in a country where capital is scarce and labor is plentiful. The tax incentive structure also promotes debt financing at the

¹⁰ Artana and Navajas (2004), “Fiscal Policy Challenge”, IDB.

expense of equity financing and crowds out investments with a higher economic rate of return. The incentives also create numerous inequities, narrow the tax base, and result in a total “tax expenditure”, i.e. tax revenue forgone, that has never been systematically calculated.

- 1.17 The complexity and discretionality of the tax system creates uncertainty and increases transaction costs. The Stamp Duties Act is complicated and open to broad interpretation. Ad valorem stamp duties impose high costs on many commercial transactions particularly in property transfers and registering security interests, increasing costs of transactions by up to 20 percent. Complexity also increases compliance and administrative costs. For instance, there are five payroll deductions , with separate administrations and separate rate and base structures. Two of these deductions are the contributions to the Human Employment and Resource Training (HEART) trust fund¹¹ and the Education Tax.
- 1.18 **Tax administration** in Jamaica needs to be enhanced. Full compliance with all the tax laws and regulations is an arduous and costly endeavor for businesses. . For example various taxes must be paid to separate agencies at different times during the month, documentation requirements of legitimate business expense deductions are complicated and even ambiguous, and reporting requirements are occasionally duplicated.
- 1.19 **Government expenditure** reform is also needed to reduce high debt levels and deficits. The central budget has been required to support state-owned enterprises, that need to be examined closely for both their net benefits to the economy and for the market distortions they may introduce.

c) Access to finance and financial market development

- 1.20 Access to finance by the private sector has been limited by the high ratio of public debt held by commercial banks, compared to their overall assets. In addition to these macroeconomic considerations, there are several sector-level constraints on businesses’ access to financing, resulting in financial markets that inadequately support investment and entrepreneurship activities. The Jamaica Competitiveness Enhancement Program (JCEP) addresses three of these constraints.
- 1.21 **Secured transactions.** A strong legal and institutional framework for enhancing the security of loans, by pledging and rapidly foreclosing on moveable property assets, can decrease the risk of loss to banks and thereby broaden the universe of attractive credit applicants. Although the current Jamaican legal system allows for various forms of secured lending in Jamaica, each has some restrictions on the type of collateral, the type of debtor and the type of creditor and has different cost and procedures. Each option comes with its own set of rules for creating security, some of which are very extensive. In addition, some of the options are subject to the Stamp Duty Act and some are effectively only available to corporations,

¹¹ Established by the Human Employment and Resource Training Act of 1982.

excluding individuals and smaller companies. Thus, a single and simple set of rules for creating security in movable property of any nature, that would allow any corporation or individual to give or take security in movable property would allow access to credit under much simpler and less costly circumstances to a broader spectrum of the population. As the linkage between these impediments and the underutilization of moveable property as collateral is poorly understood, the building of public awareness is an important first step in resolving this issue.

- 1.22 **Credit bureaus.** There is no formal system, such as would be provided by credit bureaus, for assessing credit applicants' payment histories. The absence of this information increases the transactions costs of providing credit for both the financial institution and the client. It particularly discourages lending to the smaller enterprises and lower-income households due to the high relative cost of obtaining this information for small loans.
- 1.23 **M-banking.** Jamaica has favorable conditions for fostering the use of mobile devices for providing financial services to poor populations, particularly in remote areas. These include a high level of use of cell phones and a sophisticated banking network. Security issues, limited access to traditional financial services by the poor, and money transfers between urban and rural areas lend further urgency to the use of electronic (cash free) banking services. The recently approved Electronic Transactions Act provides the basic framework for the provisions of the service. Another key component, the legal provisions for a real time clearing systems for financial transactions, is currently under legislative review.

d) Land titling

- 1.24 Weak land property rights and burdensome registration and titling procedures hinder private investment and the use of land as collateral for financing new businesses. The process for registering a parcel of land for which there is no registered title includes a cumbersome number of steps and the transactions costs of transfers are extremely high. Transfer taxes and stamp duties account for about 13 per cent of the value of the transaction, and professional fees may amount to an additional 12 percent. These factors limit the development of real estate markets and the value of the assets, in particular those held by the poor, since they cannot be utilized for home improvement or as a collateral for business endeavors.

B. Objective and Components

1. Objectives

- 1.25 The objective of the operation is to support the GoJ in addressing key constraints to the competitiveness of Jamaica, by promoting implementation of reforms to reduce costs of doing business.
- 1.26 The program is proposed under the programmatic modality with three sequential operations proposed, according to the guidelines for programmatic policy reform loans (GN-2200-13 and CS-3633). The first operation consists of a series of

conditions precedent to a sole disbursement, while the accomplishment of the triggers for the second and third operation will generate the basis for continuity in the Bank's dialogue with the country, as discussed in paragraphs 1.10 – 1.11.

- 1.27 As noted above, the policy issues to be addressed by the present operation are the result of the extensive dialogue carried out by the Bank regarding the improvement of business climate and competitiveness. Moreover, the main commitments have been discussed with several stakeholders from the public and private sector.¹²

2. Program structure

- 1.28 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. GoJ commitments for the first operation, as well as the triggers for the subsequent operations are shown in detail in the Policy Matrix (Annex I) and are outlined below. The commitments in each of the four reform areas are outlined below. A draft of the evidence of compliance is listed in the Means of Verification Matrix attached (Annex II).

a) Competitiveness implementation framework

- 1.29 In order to consolidate existing initiatives and to create a sustainable venue for the relevant actors to promote public-private dialogue and consensus on key policy actions, a small, high-level Public – Private – Trade Union forum will be established with representation of government officials, private sector, opposition, labor, and civil society. The forum should validate priorities for the reform process and ensure the consistency of all reform activities including but not limited to those supported by this Competitiveness Enhancement PBL.
- 1.30 As a **condition for disbursement** of the first (single tranche) loan, the GoJ will have formally designated a Public-Private-Trade Union Steering Committee, with representation of government officials and private sector. This Committee will monitor implementation of the Competitiveness Enhancement PBL and will be chaired by the Planning Institute of Jamaica (PIOJ). As a trigger for the second and third operation, the Public – Private – Trade Union forum will be established and will be supported by a technical secretariat.

b) Tax and expenditure reform

- 1.31 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. By the end of the third operation, the

¹² As part of the dialogue, a workshop with the principal policy actions to be included in the Matrix was held with a wide array of public and private stakeholders.

discretionality and dispersion of the current tax system will be reduced, labor taxes will be rationalized and the cost and time of paying taxes and the government budget support for loss-making public entities will be reduced.

- 1.32 **Reduction of distortions in the tax system.** The actions in this area will be aimed at supporting the GoJ in adopting a strategy toward tax neutrality in respect to investment decisions that reduce distortions in the tax system and to make the required legal and regulatory reform, including a new tax framework.
- 1.33 As a **condition for disbursement** of the first operation, the MoF&PS will submit a time-bound Action Plan approved by the Ministry of Finance and Public Service (MoF&PS) for reduction of tax distortions including: (i) a legislative agenda addressing the reform of stamp duties, a reduction of the nominal corporate income tax (CIT) rate albeit achieving the same effective rate through the reduction of fiscal incentives, and the rationalization of labor taxes, including an agenda for unifying some of the existing taxes, (ii) the preparation of a tax expenditure study; and (iii) training on tax policy modeling. As a trigger for the second operation, the GoJ will have met the interim benchmarks of the action plan. For the third operation satisfactory progress will have been made in implementing the legislative initiatives of the action plan.
- 1.34 **Simplification of Tax Administration.** The GoJ is currently working on simplifying and lowering the cost of paying taxes. Several initiatives are being implemented such as an electronic tax collection system and the single window for trade facilitation. The actions to be supported by the program include the implementation of initiatives to improve taxpayer services, including “easy” payment facilities and “outbound call centers”.
- 1.35 As a **condition for disbursement** of the first loan, the GoJ will submit evidence of the implementation of the electronic tax collection system as well as an Action Plan to further simplify the submission of tax returns. The second and third operation will be triggered by the implementation of further measures for reducing tax collection costs.
- 1.36 **Expenditure rationalization.** As part of the identification of offsetting measures designed to promote fiscally neutral reform, the GoJ is actively engaged in a review of discretionary expenditures, which, if rationalized, would reduce the burden on the government budget.
- 1.37 As a **condition for disbursement**, the GoJ will present an action plan for the rationalization of public enterprises with a view to reduce government budget support for these entities. For the second operation, reduction in budget expenses on one state-owned enterprise will be achieved and for the third operation, budget support will be eliminated for at least one such enterprise.

c) Improving access to finance and financial market development

- 1.38 **Secured transactions framework.** The actions supported in this area will promote a framework for lending by creating a central registry of pledged assets in accordance with international best practices.
- 1.39 As a **condition for disbursement** of the first loan, the GoJ will approve and present a time-bound Action Plan for consultation with private-sector stakeholders and submission to Cabinet in order to build consensus on the legislative and regulatory reforms needed to enact a secured transaction framework and create a central registry of pledged assets. For the second operation, measures for enabling and creating the central registry will be implemented. For the third operation, the remaining benchmarks for implementing the framework and central registry will be in place.
- 1.40 **Creation of credit bureaus.** Small businesses and low-income entrepreneurs are the primary market segments that can benefit from the establishment and growth of credit bureaus in countries such as Jamaica. As part of the current operation, the Bank will support the legal and institutional reforms necessary for the establishment of a credit bureau in Jamaica. Legislation entitled the Credit Reporting Act has been drafted.
- 1.41 As a **condition for disbursement** of the first loan, the Minister of Finance and the Public Service will submit to Cabinet the draft bill for credit reporting legislation and the MoF&PS will present an action plan for its implementation, including regulations, and establishing an institutional framework for credit bureau supervision. The second and third operations will require interim benchmarks be achieved, while the third operation will call for a fully functioning legal and institutional framework for supervision be in place.
- 1.42 **Facilitating electronic transactions.** Cellular telephone technology can be used to improve access to financial services by underserved segments of the market. This is particularly true in Jamaica as the penetration rate of cell phone is over 100%.
- 1.43 As a **condition for disbursement** of the first loan, the Electronic Transactions Act (ETA) will be approved, the MoF&PS will submit a proposal for a National Payments System (NPS) to Cabinet for consideration. The MoF&PS will complete the e-payment regulations and carry out the consultations. For the second operation, the government will approve and present a time-bound Action Plan for an effective legal, regulatory and institutional framework for the provision of these services, the e-payment regulations will be promulgated, the ETA will be fully in force, and a draft NPS Act will be tabled in Parliament. For the third operation the m-banking legal, regulatory and institutional framework will be fully implemented.

d) Reduction of business costs through expedited land titling

- 1.44 The program will support the GoJ in carrying out a long-term program to reform the current land property systems, establishing secure property rights and lowering the cost of land titling and registration.
- 1.45 As a **condition prior to disbursement** of the first loan, the GoJ will approve and submit a time-bound Action Plan that includes a strategy for low cost registration and titling of currently informal land holdings and reduction of fees, commissions and duties for land transactions. For the second and third operations, benchmarks regarding the compliance of the activities identified in the Action Plan will be achieved, including implementing actions to lower the cost of land registration.

C. Key Results Indicators

- 1.46 The **Results Framework** for this program is presented in Annex III. The key indicators are summarized as follows: At the level of program outputs, the key results indicators are the policy commitments made by the borrower with respect to each of the three PBLs and the evidence of successful compliance with these commitments. Notable among these are the rationalization of the CIT and labor taxes and reduction of stamp duties. Substantial simplification of tax collection and related administrative procedures will also be a key results indicator. The specific initiatives with regard to the first operation will be spelled out in an action plan to be presented by the Ministry of Finance prior to disbursement of the first loan. The successful implementation of this action plan during the course of the second and third programmatic PBLs will be a key indicator of beneficial results from the program.
- 1.47 Broad understanding of the required reforms, acceptance by all stakeholders, and finally implementation of a reliable and low cost legal and institutional framework for utilizing moveable property as collateral for loans is a further key results indicator of the program. Currently, bank credit, particularly to small and medium enterprises, is constrained by several factors. However a system of secured transactions based on moveable property, often the most prevalent form of property among SMEs, will serve to greatly improve the opportunities for businesses to obtain credit while at the same time reducing the risk to lenders of extending credit beyond their circle of established, well known, and typically larger borrowers.
- 1.48 By the same token, the creation of credit bureaus will substantially increase the ability of lenders to assess the creditworthiness of potential borrowers beyond their traditional clients while also lowering transactions costs of loan approval for both borrowers and lenders. Thus, Parliamentary approval of credit reporting legislation and the successful implementation of the regulatory framework for supervision of private credit bureaus will be a key results indicator for the program.

- 1.49 By reducing the cost and time of the land titling and registration process, landowners, particularly those with smaller holdings, will be able to use their land as collateral for business endeavors and to make improvements in their property as a result of ownership. Also, several studies have shown that the land ownership reduces crime in neighborhoods which among other benefits improves the business environment, thus indirectly contributing to the competitiveness in Jamaica.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing Instruments

- 2.1 The operation will be funded by a Policy Based Loan utilizing the programmatic modality. Financing for the first operation will utilize the Ordinary Capital resources of the Bank in the amount of US\$ 30 million.

B. Environmental

- 2.2 The institutional and policy reforms supported by the operation will not have adverse direct environmental impacts. The program is expected to have positive social impacts by fostering access of the poorer segments of the population to financial services and to productive endeavors. According to the Environmental and Safeguard Compliance (OP-703) this operation does not have an impact on the environment and does not require to be classified. In the area of Land Titling and Registration, the Bank is supporting the drafting of an Action Plan through Technical Cooperation Funds (Land Titling and Registration -JA-T1020) the Bank is promoting the participation of stakeholders and civil society in the definition of the key actions to be taken.

C. Other Key Issues and Risks

- 2.3 The conditions for the disbursement of the operation represent the beginning of a long-term commitment to important reforms to foster private sector development and to improve the business conditions of the small and medium firms. Although some conditions include the enactment of legislation, which is already advanced in the legislative process, other conditions involve the drafting of action plans that will require further policy initiatives and further legislative drafting and enactment in the long run. Change over time in the policy priorities of the Government is a related risk. This risk is mitigated by the continuous dialogue that the team has had with the past and current administrations. Looking forward, this risk is mitigated by the continuous public-private dialogue built into the design of the program that should foster continuity on key actions. The actions to be taken regarding tax reform and rationalization of public expenditures require political will and affect different interest groups. This risk is mitigated by the technical support that the Bank has given to analyze the impact on different scenarios of tax reform and by the support through technical cooperation of the

actions to rationalize state controlled enterprises. The first loan of the proposed three-loan programmatic operation initiates a long-term dialogue between the Bank and the country about competitiveness and private sector development issues. The programmatic structure of the operation allows for flexibility in the design of the details of the second and third PBLs while maintaining the overall objectives.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of Implementation Arrangements

- 3.1 The Planning Institute of Jamaica (PIOJ) with support from the Ministry of Finance and Public Service (MoF&PS) will be responsible for implementing the program. Other GoJ agencies involved in program implementation are the Financial Services Commission (FSC) the Ministry of Agriculture and Land (MAL), the Ministry of Energy, Mining and Telecommunications (MEMT), and the National Land Agency (NLA). Also, stakeholders from the private sector such as the Private Sector Organisation of Jamaica (PSOJ) will be involved in the Program. An operational steering committee, chaired by the PIOJ and with Government, private and Trade Union agencies as members, has been established to monitor the program.

B. Summary of Arrangements for Monitoring Results

- 3.2 The PIOJ will be responsible for monitoring the results of the program. The Institute reports to the Office of the Prime Minister and is in charge of coordinating development policy in Jamaica. The PIOJ has experience in coordinating multiple public and private and international development agencies to reach development goals and has experience in managing external cooperation programs. Also, the PIOJ has had prior experience with the Bank in designing, coordinating and executing investment loans.

C. Significant Design Activities Post Approval

- 3.3 Some of the activities for achieving the goals of the operation are being supported by various TC funds. Land Titling and Registration (JA-T1020) is supporting the diagnostic and implementation of the Action Plan for Land Titling, as well as its implementation. The enabling environment for m-banking is being supported by (JA-T1021), Financial Services through Mobile Devices, and the BCI is supporting the Financial Services Commission (FSC) to strengthen its institutional capacity for the supervision of credit bureaus. Also, the diagnostic and crafting of an Action Plan for secured Transactions is being supported by the Financial Services in Latin America TC (RG-T1216).

PROPOSED POLICY MATRIX
Jamaica Competitiveness Enhancement Program (JA-L1001)

Objectives	Commitments 2008	Triggers for second operation	Triggers for third operation
I. Macroeconomic Sustainability			
To support and facilitate the implementation of the Program.	✓ Maintenance of an appropriate macroeconomic policy framework is congruent with the program's objectives.	✓ Maintenance of an appropriate macroeconomic policy framework	✓ Maintenance of an appropriate macroeconomic policy framework.
II. Competitiveness Implementation Framework			
To promote a sustainable forum for public-private dialogue to improve competitiveness.	✓ A Public – Private – Trade Union Steering Committee with representation of government, private sector & trade unions officials to monitor the program is operating.	✓ Public - Private - Trade Union Forum created. ✓ Technical Secretariat to Forum created and providing support to Forum. ✓ Agenda to Promote Competitiveness agreed by Forum.	✓ Forum holding regular meetings. ✓ The priority activities for the second year of the Competitiveness Agenda have been carried out.
III. Tax and Expenditure Reform			
A. Reduce distortions in the current tax systems.	✓ Time bound Action Plan approved by the Ministry of Finance and Public Service (MoF&PS) for reduction of distortions, including as a minimum: <ul style="list-style-type: none"> • A legislative agenda for tax reform, including: <ul style="list-style-type: none"> ○ Reform of Stamp Duties and CIT rationalization. ○ Rationalization of labor taxes. • TORs for Study on tax expenditure. • Training of key government officials in tax policy modeling. 	✓ Tax reform interim benchmarks achieved, including but not limited to: <ul style="list-style-type: none"> • Reform of Stamp Duties and CIT rationalization. • Rationalization of labor taxes. ✓ Preparation and dissemination of tax expenditure report. ✓ Key government officials trained in tax policy modeling.	✓ Satisfactory progress in implementing legislative initiatives to reduce distortions in tax system, including but not limited to: <ul style="list-style-type: none"> • Reform of Stamp Duties and CIT rationalization. • Rationalization of labor taxes. ✓ Tax policy modeling being utilized.
B. Simplification of tax administration.	✓ MoF&PS implementation of initiatives to improve taxpayer services, including 'easy payment' facilities, and 'outbound call centre.' ✓ Time bound Action Plan approved by MoF&PS to simplify and facilitate the submission of tax returns.	✓ Interim tax collection simplification benchmarks achieved.	✓ Remaining tax collection simplification benchmarks achieved.
C. Expenditure Rationalization.	✓ Action Plan Approved by the MoF&PS for the rationalization of public enterprises with a view to reduce government support for these entities.	✓ Reduction of government budget support for at least one state-controlled enterprise.	✓ Elimination of government budget support for at least one state-controlled enterprise.

Objectives	Commitments 2008	Triggers for second operation	Triggers for third operation
IV. Improving Access to Finance and Financial Market Development			
A. Reform of the secured transactions framework.	<ul style="list-style-type: none"> ✓ Time bound Action Plan approved by the MoF&PS for consultation with private sector stakeholders and submission to Cabinet to build consensus on legislative and regulatory reforms needed to enable secured transactions framework and creation of central registry of pledged assets. 	<ul style="list-style-type: none"> ✓ Interim secured transaction benchmarks achieved in building consensus on legislative reforms to enable secured transactions framework and creation of central registry of pledged assets. 	<ul style="list-style-type: none"> ✓ Remaining secured transactions benchmarks achieved, in building consensus on legislative reforms to enable secured transactions framework and creation of central registry of pledged assets.
B. Creation of Credit Bureaus.	<ul style="list-style-type: none"> ✓ Submission to Cabinet by the Minister of Finance and the Public Service of currently proposed credit reporting legislation. ✓ Time bound action plan approved by the MOF&PS for implementation including regulation and the establishment of an institutional framework for supervision. 	<ul style="list-style-type: none"> ✓ Interim benchmarks achieved including, but not limited to: <ul style="list-style-type: none"> - Financial Services Commission capability to supervise credit bureaus is enhanced. - Assessment completed of provision for voluntary reporting of credit histories to Credit Bureaus. 	<ul style="list-style-type: none"> ✓ Remaining benchmarks achieved for a fully functioning framework for the regulation and supervision of credit bureaus.
C. Facilitating Electronic Transactions.	<ul style="list-style-type: none"> ✓ New Electronic Transactions Act enacted. ✓ Minister of Finance submission to Cabinet of a legislative proposal for a National Payments System. ✓ Draft e-payment regulations completed and consultations done. 	<ul style="list-style-type: none"> ✓ Approval by the Permanent Secretary of the Ministry of Energy, Mining and Technology (MEMT) of a time bound action plan for implementation of legal, regulatory and institutional framework for use of mobile devices for financial transactions. ✓ Electronic Transactions Act fully in force. ✓ Tabling in Parliament of National Payments System legislation. ✓ Promulgation by the Financial Secretary of E-payment regulations. 	<ul style="list-style-type: none"> ✓ Remaining benchmarks achieved for full implementation of legal, regulatory and institutional framework for use of mobile devices for financial transactions. ✓ National Payment System in effect. ✓ E-payment Regulations in effect.
V. Reduction of business costs through expedited land titling			
Strengthening land property rights	<ul style="list-style-type: none"> ✓ Time bound Action Plan approved by the Ministry of Agriculture to: <ul style="list-style-type: none"> • Allow low-cost registration and titling of currently informal land holdings. • Reduce fees, commissions and duties for land transactions. 	<ul style="list-style-type: none"> ✓ Interim benchmarks achieved to strengthen land property rights, including but not limited to: <ul style="list-style-type: none"> • Actions for reducing registration and land titling costs. 	<ul style="list-style-type: none"> ✓ Remaining land property rights benchmarks achieved, including but not limited to: <ul style="list-style-type: none"> • Actions for reducing registration and land titling costs. • Reductions in fees, commissions and duties for land transactions by 5%.

MEANS OF VERIFICATION MATRIX
Jamaica Competitiveness Enhancement Program (JA-L1001)

Objectives	Responsible Agency	Commitments 2008	Means of Verification	Comments
I. Macroeconomic Stability				
To support and facilitate the implementation of the Program.		1. Maintenance of an appropriate macroeconomic policy framework.	1. Information provided by the Financial Secretary and reviewed by the Bank.	
II. Competitiveness Implementation Framework				
To promote a sustainable forum for public-private dialogue to improve competitiveness.	Planning Institute of Jamaica (PIOJ).	2. A Public – Private – Trade Union Steering Committee with representation of government, private sector & trade unions officials to monitor the program is operating.	2. Official Minutes from the first meeting of the Steering Committee submitted by the Director General of PIOJ.	
III. Tax and Expenditure Reform				
A. Reduce the distortions in the current tax system.	Ministry of Finance and Public Service (MoF&PS)	3. Time Bound Action Plan approved by the Ministry of Finance and Public Service (MoF&PS) for reduction of distortions, including as a minimum: <ul style="list-style-type: none"> ▪ A legislative agenda for tax reform, including: <ul style="list-style-type: none"> ○ Reform of Stamp Duties and CIT rationalization. ○ Rationalization of labor taxes. ▪ Study on tax expenditure. ▪ Training of key government officials in tax policy modeling. 	3. Official communication from the Financial Secretary submitting the approved the Action Plan.	
B. Simplification of tax administration.	MoF&PS	4. MoF&PS Implementation of initiatives to improve taxpayer services, including “easy payment” facilities and “outbound call centre.”	4. Official communication from the Financial Secretary submitting evidence of the implementation of the agreed measures to reform tax administration.	

Objectives	Responsible Agency	Commitments 2008	Means of Verification	Comments
		5. Time bound Action Plan approved by MoF&PS to simplify and facilitate the submission of tax returns.	5. Official communication from the Financial Secretary submitting the approved Action Plan.	
C. Expenditure Rationalization.	MoF&PS	6. Action Plan approved by the MoF&PS for rationalization of public enterprises with a view to reduce government support for these entities.	6. Official communication from the Financial Secretary submitting the approved Action Plan.	
IV. Improving Access to Finance and Financial Market Development				
A. Reform of Secured Transactions Framework.	MoF&PS	7. Time bound Action Plan approved by the MoF&PS for consultation with private sector stakeholders and submission to Cabinet to build consensus on legislative and regulatory reforms needed to enable secured transactions framework and creation of central registry of pledged assets.	7. Official communication from the Financial Secretary submitting the approved Action Plan.	
B. Creation of Credit Bureaus.	MoF&PS & Financial Services Commission (FSC).	8. Submission to Cabinet by the Minister of Finance and the Public Service of currently proposed credit reporting legislation. 9. Time bound Action Plan approved by MoF&PS for implementation including regulation and the establishment of an institutional framework for supervision.	8. Official communication from the Minister of Finance confirming the submission to Cabinet. 9. Official Communication from the Financial Secretary submitting the approved Action Plan.	
C. Facilitating Electronic Transactions.	MoEM&T	10. New Electronic Transactions Act enacted. 11. Minister of Finance submission to Cabinet of proposal for a National Payments System.	10. Publication in the Official Gazette of enacted legislation. 11. Official communication from the Minister of Finance confirming the submission to Cabinet.	

Objectives	Responsible Agency	Commitments 2008	Means of Verification	Comments
		12. Draft E-payment regulations completed and consultations done.	12. Official communication from Financial Secretary submitting the draft E-Payment Regulations and providing evidence of the consultations.	
V. Reduction of Business Costs through Expedited Land Titling				
Strengthen land property rights.	Ministry of Agriculture (MAL)	13. Time Bound Action Plan approved by the Ministry of Agriculture to: <ul style="list-style-type: none"> ▪ Allow low-cost registration and titling of currently informal land holdings. ▪ Reduce fees, commissions and duties for land transactions. 	13. Official communication from the Permanent Secretary (PS) of the Ministry of Agriculture submitting the approved Action Plan.	

**RESULTS FRAMEWORK
MATRIX OF INDICATORS
Jamaica Competitiveness Enhancement Program (JA-L1001)**

Project Objective	<p>The general objective of the project is to improve competitiveness in Jamaica. The purpose is to promote specific reforms to reduce the cost of doing business, thereby improving efficiency and ability of business to compete in an increasingly global marketplace. In addition to the requirement for a macroeconomic framework congruent with the program's objectives, the purpose of the first program is to support reforms in the following four component areas:</p> <ul style="list-style-type: none"> (a) an enhanced competitiveness implementation framework, (b) tax and expenditure reform, (c) improved access to finance and financial market development, and (d) reduction of business costs through expedited land titling.
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NOTE: As this is a Policy Based Loan, the outputs are measured in terms of achievement of the policy commitments of the respective operations, as specified in the policy matrix (Annex I). The indicators for the achievement of these outputs are specified in the Means of Verification Matrix (Annex II above) for the first PBL. Indicators for the second and third PBLs are preliminary, subject to negotiation of these future operations.

Objective for component	Output/ Outcome	Baseline	After 1 st PBL	After 2 nd PBL	After 3 rd PBL	Target: 2 yrs. After Program
Component 1: Enhanced competitiveness implementation framework						
This component is essentially designed to achieve a change in the attitudes of key stakeholders toward collaboration on competitiveness issues.	Outputs Creation of public-private competitiveness forum.	<p>Inadequate institutional framework to carry out public private dialogue regarding competitiveness policy.</p> <p>Base Line Indicator: Multiple, special-purpose forums in existence with little continuity of each.</p>	<p>- A Public – Private – Trade Union Steering Committee with representation of government, private sector & trade unions officials to monitor the program is operating.</p> <p>Indicator: Official Minutes from the first meeting of the Steering Committee submitted by the Director General of PIOJ.</p>	<p>- Public - Private Trade Union Forum created.</p> <p>- Agenda to Promote Competitiveness agreed by Forum.</p> <p>- Technical Secretariat to Forum created and providing support to Forum</p> <p>Indicator: Forum and technical secretariat in operation.</p>	<p>- Forum holding regular meetings.</p> <p>- The priority activities for the second year of the Competitiveness Agenda have been carried out.</p> <p>Indicators:</p> <ul style="list-style-type: none"> - Forum and technical secretariat in operation. - Report on implementation of priority activities. 	<p>Public-private forum in operation with active participation of relevant stakeholders and a technical secretariat in operation</p> <p>Indicators:</p> <ul style="list-style-type: none"> - Forum and technical secretariat in operation. - Reports on progress in implementation of competitiveness agenda.

Objective for component	Output/ Outcome	Baseline	After 1 st PBL	After 2 nd PBL	After 3 rd PBL	Target: 2 yrs. After Program
	Outcomes Jamaica improves its relative competitiveness position.	Jamaica competitiveness indicators lag behind those of comparable countries. Base Line Indicator: Jamaica's current ranking in the Global Competitiveness Report 2006-2007 and Doing Business 2007 report.				Indicator: <ol style="list-style-type: none"> 1. Jamaica's Businesses Competitiveness Ranking Indicator in the Global Competitiveness report improves by 5%.* 2. The Ease of Doing Business Indicator from the Doing Business report improves by 5%.* <hr/> * These percentage increases are indicative, not definitive, targets due to influence of exogenous factors.

Objective for component	Output/ Outcome	Baseline	After 1 st PBL	After 2 nd PBL	After 3 rd PBL	Target: 2 yrs. After Program
Component 2: Tax and Expenditure Report						
Develop a tax system that is simple, efficient and fair and that encourages investment, risk taking, entrepreneurship and the development of asset markets. By the end of the program, the discretionality and dispersion of the current tax system will be reduced, the labor taxes will be rationalized and the cost and time of paying taxes and the budgetary allocation for loss-making public entities will be reduced	Subcomponent a. Reduction of tax system distortions					
	Outputs Legislation in effect rationalizing the CIT and labor taxes, and reforming stamp duties.	Current tax system favors more capital-intensive firms, discourages investment and promotes informality of smaller firms and the cost of doing business transactions is high.	<p>- Time bound Action Plan approved by the MoF&PS for reduction of distortions, including as a minimum:</p> <ul style="list-style-type: none"> • A legislative agenda for tax reform, including : <ul style="list-style-type: none"> ○ Reform of Stamp Duties and CIT rationalization. ○ Rationalization of labor taxes. • Study on tax expenditure • Training of key government officials on tax policy modeling <p>Indicator: Official communication from Financial Secretary approving the Action Plan.</p>	<p>- Tax reform action plan interim benchmarks achieved.</p> <p>- Preparation and dissemination of tax expenditure report.</p> <p>Indicator: Official communication from the Financial Secretary reporting progress on the Action Plan.</p>	<p>- Satisfactory progress in implementing legislative initiatives to reduce distortions in tax system..</p> <p>Indicator: Official communication from the Financial Secretary reporting progress on the Action Plan.</p>	A legislative agenda in place for reduction of distortions including the reform of Incentive Acts and offsetting reduction in Corporate Income Taxes, rationalization of labor taxes, simplification of tax system and elimination of distortions, possibly including stamp duties.

Objective for component	Output/Out-come	Baseline	After 1 st PBL	After 2 nd PBL	After 3 rd PBL	Target: 2 yrs. After Program
	Out-comes A more equitable, transparent and efficient tax code.	Base Line Indicator: CIT and labor taxes as of 2007.				Result: 10% reduction in tax expenditure. 10% reduction in labor taxes. Indicators: -Tax Expenditure report data Updated legislation. - Updated legislation in corresponding year.
Subcomponent b. Simplification of tax administration						

Objective for component	Output/ Outcome	Baseline	After 1 st PBL	After 2 nd PBL	After 3 rd PBL	Target: 2 yrs. After Program
	Output Easy payment and out-bound call center facilities operational Simplified and standardized tax collection system in place.	The process of paying taxes is costly and time consuming	<ul style="list-style-type: none"> - MoF&PS implementation of initiatives to improve taxpayer services, including 'easy payment' facilities, and 'outbound call centre' - Time bound Action Plan approved to simplify and facilitate the submission of tax returns. Indicator: <ul style="list-style-type: none"> - Official communication from the Financial Secretary submitting evidence of the implementation of the agreed measures for reform of tax administration. - Official communication from the Financial Secretary submitting the approved Action Plan. 	<ul style="list-style-type: none"> - Interim tax collection simplification benchmarks achieved. Indicator: Financial Secretary certification that agreed interim benchmarks have been achieved.	<ul style="list-style-type: none"> - Remaining tax collection simplification benchmarks achieved. Indicator: Financial Secretary certification that agreed final benchmarks have been achieved.	Initiatives to improve taxpayer services in place for the corresponding year.

Objective for component	Output/ Outcome	Baseline	After 1 st PBL	After 2 nd PBL	After 3 rd PBL	Target: 2 yrs. After Program
	Outcomes Cost of and procedures for paying taxes lowered and simplified, respectively.	Base Line: Average time for paying taxes for a medium sized business in 2007. Average time for paying labor taxes in 2007.				Result: The average time of paying taxes is reduced by 10%. Indicators: Time for paying taxes from “Doing Business Report.”
Subcomponent c. Expenditure rationalization						
	Output Government budget support for state-controlled enterprises reduced substantially and eliminated in at least one case.	The financial soundness of public entities affects the central government budget.	- Action Plan approved by the MoFPS for rationalization of public enterprises with a view to reduce government budget support for these entities. Indicator: Official communication from the Financial Secretary submitting the approved Action Plan.	- Reduction of government budget support for at least one state-controlled enterprise Indicator: Budget of the corresponding year.	- Elimination of government budget support for at least one state-controlled enterprise. Indicator: Budget of the corresponding year.	Central budget support for state controlled enterprises reduced by 33%.
	Outcomes Less pressure on cen-	Base Line: Net budgetary allocation to public entities in 2006.				Result: Central budget support for state controlled enterprises reduced by 33%.

Objective for component	Output/ Out-come	Baseline	After 1 st PBL	After 2 nd PBL	After 3 rd PBL	Target: 2 yrs. After Program
	tral gov-ernment budget	Current state controlled enterprises that require budgetary support: Air Jamaica Sugar Industry JUTA				Indicators: Net budgetary allocation to state-controlled enterprises in the corresponding year.
Component 3: Improving access to finance and financial market development						
Subcomponent a. Reform of the secured transactions framework						
Banks will have an enhanced capability to engage in prudent lending to a broader cross section of productive Jamaican enterprises, thus increasing the access of these businesses to credit. Transactions costs for simple payment operations will be reduced and secu-	Output Legislative, regulatory and institutional framework in place to enable low-cost use of move-able as-sets as security for bank loans.	The existing collateral framework for lending does not allow for the inexpensive and predictable use of property as collateral.	- Time bound Action Plan approved by the MoF&PS for consultation with private sector stakeholders and submission to Cabinet to build consensus on legislative and regulatory reforms needed to enable secured transactions framework and creation of central registry of pledged assets. Indicator: Official communication from the Financial Secretary submitting the approved Action Plan	- Interim secured transaction benchmarks achieved. Indicator: Financial Secretary certification that interim benchmarks regarding legislation and central registry have been achieved.	- Remaining secured transaction benchmarks achieved Indicator: Financial Secretary certification that final benchmarks regarding legislation and central registry have been achieved.	Legislative and institutional framework for secured transactions in place. Indicator: Enacted regulatory framework. Central registry of pledged assets functioning and associated operational guidelines widely disseminated.

Objective for component	Output/Out-come	Baseline	After 1 st PBL	After 2 nd PBL	After 3 rd PBL	Target: 2 yrs. After Program
ity of these transactions will be increased.	Out-comes Ex-panded access to credit through im-proved creditor rights and ease of fore-closure.	Base Line: Strength of legal rights of borrow-ers and lenders index [Value in 2006: 6 – on a scale of 0 to 10] <i>Doing Business 2006</i> .				Result: The legal rights of borrowers and lenders will have increased. Indicator: Strength of [bor-rower and lender] legal rights index. <i>Doing Business</i> for the corre-sponding year.

Objective for component	Output/ Outcome	Baseline	After 1 st PBL	After 2 nd PBL	After 3 rd PBL	Target: 2 yrs. After Program
	Subcomponent b. Creation of credit bureaus					
	Output Legal, regulatory and institutional framework in place to ensure conducive environment for the establishment of private credit bureaus.	Base Line: No credit bureau currently in existence.	<ul style="list-style-type: none"> - Submission to Cabinet by the Minister of Finance and the Public Service of currently proposed credit reporting legislation. - Time bound Action Plan approved by MoF&PS for implementation including regulation and the establishment of an institutional framework for supervision. Indicators: <ul style="list-style-type: none"> - Official Communication from the Minister of Finance confirming the submission to Cabinet. - Official communication from the Financial Secretary submitting the approved Action Plan. 	<ul style="list-style-type: none"> - Interim benchmarks achieved including, but not limited to: <ul style="list-style-type: none"> - Financial Services Commission capability to supervise credit bureaus is enhanced. - Assessment completed of provision for voluntary reporting of credit histories to Credit Bureaus. Indicator: Financial Secretary certification that interim benchmarks including FSC capability et. al have been achieved.	<ul style="list-style-type: none"> - Remaining benchmarks achieved for a fully functioning framework for the regulation and supervision of credit bureaus. Indicator: Financial Secretary certification that fully functioning framework for regulation and supervision of credit bureaus has been achieved.	Result: Credit history information available to lenders, to small businesses and low income entrepreneurs. Indicators: Credit history information on loan applicants available from credit bureaus.

Objective for component	Output/Out-come	Baseline	After 1 st PBL	After 2 nd PBL	After 3 rd PBL	Target: 2 yrs. After Program
	<p>Out-come</p> <p>At least one viable private credit bureau established and providing easily and widely accessible credit history and rating information to qualified users.</p>	No private credit bureau coverage currently exists.				<p>Result: Widespread availability of credit history information allowing banks to lend to a broader cross section of businesses.</p> <p>Indicators: Private credit bureau coverage for the corresponding year from the “Doing Business Report.”</p>

Objective for component	Output/ Outcome	Baseline	After 1 st PBL	After 2 nd PBL	After 3 rd PBL	Target: 2 yrs. After Program
	Subcomponent c. Facilitating electronic transactions					
	Output Legal, regulatory, and institutional framework in place to facilitate use of mobile devices (cell phones, etc.) for conducting financial transactions.	The cost and time of doing business transactions is high and is centralized in Kingston.	<ul style="list-style-type: none"> - New Electronic Transactions Act enacted. - Minister of Finance submission to Cabinet of proposal for a National Payments System. - Draft E-payment regulations completed and consultations done. <p>Indicator:</p> <ul style="list-style-type: none"> - Publication in the Official Gazette of enacted legislation. - Official communication from the Minister of Finance confirming submission to Cabinet. - Official communication from the Financial Secretary submitting draft E-payment Regulations and providing evidence of consultations. 	<ul style="list-style-type: none"> - Approval by Permanent Secretary of Ministry of Energy, Mining and Telecommunications (MEMT) of a time bound Action Plan for implementation of legal, regulatory and institutional framework for use of mobile devices for financial transactions. - Electronic Transactions Act fully in force. - Tabling in Parliament of National Payments System legislation. - Promulgation by Financial Secretary of E-Payment Regulations. 	<ul style="list-style-type: none"> - Remaining benchmarks achieved for full implementation of legal, regulatory and institutional framework for use of mobile devices for financial transactions. - National Payment System in effect. - E-Payment Regulations in effect. <p>Indicator:</p> <ul style="list-style-type: none"> - Official communication from the PS of MEMT confirming compliance with remaining benchmarks in the action plan. - Official communication from the Financial Secretary that the National Payments System and the E-Payments regulations are in effect. 	<p>Results:</p> <ul style="list-style-type: none"> - Electronic Transactions Act and National Payments Act in place. - Enabling environment for m-banking in place. - National Payments system in place. <p>Indicators:</p> <p>Publication of respective legislation and regulations in official government Gazette.</p>

Objective for component	Output/ Out-come	Baseline	After 1 st PBL	After 2 nd PBL	After 3 rd PBL	Target: 2 yrs. After Program
				Indicators: - Official Communication from the PS of MEMT approving the Action Plan. - Gazetted copy of the Electronic Transactions Act. - Official communication from the Financial Secretary that the National Payments System legislation has been tabled in Parliament.		

Objective for component	Output/Out-come	Baseline	After 1 st PBL	After 2 nd PBL	After 3 rd PBL	Target: 2 yrs. After Program
	Out-comes Lower cost and increased security for business (and personal) clients when carrying out small, simple bank transactions.	Base Line: Current level of banking transactions utilizing new technology (e.g. cell phone banking) is zero.				Result: Small businesses and low-income entrepreneurs use mobile banking technology. Indicators: 10% of banking transactions done utilizing mobile banking technology. [based on information available from banking system].

Objective for component	Output/ Out-come	Baseline	After 1 st PBL	After 2 nd PBL	After 3 rd PBL	Target: 2 yrs. After Program
Component 4: Reduction of business costs through expedited land titling						
Land transactions costs will be reduced and security of ownership increased, leading to more liquid real estate markets and, property values that better reflect market conditions. Use of land as collateral for mortgage loans will be facilitated, particularly benefiting small landowners.	Output Land titling and registration costs, including fees and commissions, reduced substantially.	Current number of procedures, time required (days), and cost (as a percentage of property value) to register a property <i>Doing Business 2006/7.</i>	-Time bound Action Plan approved by the Ministry of Agriculture to: - Allow low-cost registration and titling of currently informal land holdings. - Reduce fees, commissions and duties for land transactions Indicator: Official communication from the PS of Ministry of Agriculture submitting the approved Action Plan.	- Interim benchmarks achieved to strengthen land property rights. Indicator: Official communication from the PS MoA certifying that interim benchmarks have been achieved.	- Remaining land property rights benchmarks achieved. Indicator: Official communication from the PS MoA certifying that final benchmarks have been achieved.	Cost and time indicator for registering property from the "Doing Business Report."
	Out-come Formal Land-ownership increases.	Base Line: Current number of registered land holdings.				Result: The number of registered land-holding increases by 20%. Indicators: Number of land holdings registered between 2007 and two years after the third operation.

JAMAICA
COMPETITIVENESS ENHANCEMENT PROGRAM
(JA-L1001)

A. Environmental and Social Impact of the Proposed Reforms

- 1.1 The institutional and policy reforms supported by the operation will not have adverse direct environmental impacts. It is expected that some of the measures promoted by the operation will have a positive environmental impact since the Jamaican enterprises, as they become more competitive, will have to comply with international environmental standards. The program is expected to have positive social impacts by fostering access of the poorer segments of the population to financial services and to productive endeavors.

B. Effects of the current Land Titling and Registration System on the Poorer populations

- 1.2 The system for registering land in Jamaica especially discriminates against the poor, since its expense makes it prohibitively costly for poorer Jamaicans to register and title their land. The result is that people live in houses that have been in their family for generations but which lies on “unimproved land”. They pay nominal ground rent to the owners of the land, but the costs of purchasing the land and transferring it to the owner of the houses is prohibitive even though the recipient of the ground rent receives little benefit because the amounts are so small. Both the occupiers of the dwellings and the owners of the land who are currently receiving the ground rent would benefit greatly in some means of transferring title.
- 1.3 As a result of the very high transaction costs and the distortions in the system, the real estate market in Jamaica is underdeveloped and the value of these assets cannot be utilized for home improvements or as a collateral for business endeavors, in particular for the poor.
- 1.4 An illustration of the benefits to the poor of formal titling is provided by a recent World Bank program in Peru, where approximately one million urban properties received formal titles at a cost of approximately \$60 per property. The program used an innovative methodology, based on the work of Hernando de Soto, to work around a complex and costly existing system. It involved mass titling and registrations of communities, allowing economies of scale to lower the cost substantially. The process involved four distinct stages: First, a community was selected for titling, with the selection being accompanied by substantial publicity regarding its benefits and the scheduling of the mass titling and registration exercise. Second, a team to undertake the titling moved into a community,

explained what was involved, and began the process. The methodology basically consisted of getting neighbors to agree on the boundaries of their properties. Once the boundaries were identified, advanced GPS technology pinpointed the coordinates of the properties involved. These were recorded real-time in a mobile computing system, which was then uploaded each evening to a large database in Lima. A third and closely related part of the exercise involved mediation of disputes to persuade neighbors to agree. In the event that they did not, the dispute was referred to a land court for longer-term resolution. The fourth and final phase of the process was the registration of the title and the issuing of title certificates to property owners.

- 1.5 A later evaluation of the project estimated that on average, a newly titled and registered property gained about 20 per cent in value, or \$750 dollars, which amounted to a \$750 million wealth effect, one of the highest rates of return on any World Bank project in the history of the institution. The gains in value would probably have been even higher if it had been linked to financial market development, so as to promote the mortgaging of the newly titled and registered properties.
- 1.6 The poorer segments of the Jamaican population do not have access to their land as a means of creating wealth and using their property for collateral for loans for productive activities or for improvements of their dwellings. In many cases, their land is inherited by families but goes untitled for generations since the costs of titling and registering is very high. This leaves families in very vulnerable positions, preventing even family members to engage into productive activities by fear of leaving their property unattended. In many cases, they also have to pay for protection to remain in their land.
- 1.7 By supporting the GoJ in reducing the time and costs of land titling, the program will promote access to financing for the vulnerable segments of the population and access to their wealth in terms of owning their property and creating the possibility of engaging into new productive endeavors or making home improvements. Experience has also shown that when land is titled and registered, crime rates tend to fall down.
- 1.8 The project will contribute to identify the main constraints in the current institutional, legal and regulatory framework, as well as to explore the most appropriate technologies and methodologies aimed at allowing the poorer sector of the population access to wealth and financial services through the titling and registering of their land.