

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**JAMAICA**

**FISCAL STRUCTURAL PROGRAMME FOR ECONOMIC GROWTH**

**(JA-L1038)**

**LOAN PROPOSAL**

This document was prepared by the project team consisting of: Gerardo Reyes-Tagle (IFD/FMM), Project Team Leader; Ángel Melguizo (SCL/LMK) Alternate Team Leader; Juan Pedro Schmid (CCB/CJA); Claudia Stevenson (IFD/CTI); Javier Jimenez-Mosquera (LEG/SGO); Camila Mejia (SCL/LMK); Brodrick Watson (CCB/CJA); Marcio Cracel, Carlos Silvani and Hunt Howell (consultants); and Marina Massini (IFD/FMM).

This document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. This document has not been approved by the Board. Should the Board approve the document with amendments, a revised version will be made available to the public, thus superseding and replacing the original version.

## CONTENT

### PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING .....	2
A.	Background, Problem Addressed, Justification .....	2
B.	Bank's Interventions in Jamaica .....	8
C.	Coordination with Other Donors .....	9
D.	Objective, Components and Cost .....	9
E.	Expected Impact and Key Results .....	12
II.	FINANCING STRUCTURE AND MAIN RISKS .....	13
A.	Financing Instrument and Programme Strategy .....	13
B.	Environmental and Social Safeguard Risks .....	14
C.	Other Key Issues and Risks .....	14
III.	IMPLEMENTATION AND MANAGEMENT PLAN .....	15
A.	Summary of Implementation Arrangements .....	15
B.	Summary of Arrangements for Monitoring Results .....	15
IV.	POLICY LETTER .....	15

ANNEXES	
Annex I	Development Effectiveness Matrix – Summary
Annex II	Policy Matrix

ELECTRONIC LINKS	
REQUIRED Electronic Link (REL)	
1. Policy Letter	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38271951">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38271951</a>
2. Results Matrix	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38249544">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38249544</a>
3. Means of Verification	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38256550">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38256550</a>
OPTIONAL Electronic Link (OEL)	
1. Economic Analysis	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38249557">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38249557</a>
2. Financial Evaluation	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38249563">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38249563</a>
3. Monitoring and Evaluation Plan	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38249571">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38249571</a>
4. Problem/Causes/Solutions/ Results Matrix	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38249587">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38249587</a>
5. Financial Data Tables	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38248184">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38248184</a>
6. Best Practices for Fiscal Consolidation Program compatible with the Jamaican Case	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38354211">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38354211</a>

## **ABBREVIATIONS**

ACCPAC	Accounting financial software package
CAP	Clarendon Alumina Production
CARICOM	Caribbean Community
CET	Common External Tariff
CG	Central Government
CIT	Corporate Income Tax
CS	Country Strategy
CTMS	Central Treasury Management System
DPL	Development Policy Loan
EFF	Extended Fund Facility
OEL	Optional Electronic Link
REL	Required Electronic Link
ETC	Employment Tax Credit
FAA	Financial Administration and Audit Act
FAMP	Fiscal Administration Modernisation Programme
FCP	Fiscal Consolidation Program
FE	Financial Evaluation
FFB	Fully Funded Bodies
FIA	Fiscal Incentives Act
FR	Fiscal Rule
FRF	Fiscal Responsibility Framework
FISPEG	Fiscal Structural Programme for Economic Growth
FY	Fiscal Year
GCI-9	Ninth General Increase in the Resources of the IDB
GCT	General Consumption Tax
GDP	Gross Domestic Product
GoJ	Government of Jamaica
HEART	Human Employment and Resource Training
ICA	Initial Capital Allowances
IMF	International Monetary Fund
IT	Information Technology
JCA	Jamaica Customs Agency
JUTC	Jamaica Urban Transit Company
LAC	Latin America Region
LTO	Large Taxpayer Office (TAJ)
MBT	Minimum Business Tax
MLSS	Ministry of Labour and Social Security
MoFP	Ministry of Finance and Planning
MRP	Master Rationalisation Plan
MTEF	Medium-Term Fiscal Framework

NDX	National Debt Exchange
NHT	National Housing Trust
NIF	National Insurance Fund
NIS	National Insurance Scheme
NWC	National Water Commission
OC	Ordinary Capital
PAYE	Pay As You Earn
PB	Public Bodies
PBL	Policy-Based Loan
PBMA	Public Bodies Management and Accountability
PBP	Programmatic Policy-Based Loan
PCR	Project Completion Report
PDMA	Public Debt Management Act
PED	Public Enterprise Division (MoFP)
PEFA	Public Expenditure and Financial Accountability (Public Finance Management Performance Report - PFM-PR)
PFB	Partially Funded Bodies
PIOJ	Planning Institute of Jamaica
PIT	Personal Income Tax
PPP	Public-Private Partnership
RFP	Request For Proposal
SBA	Stand-By Agreement
SFB	Self Financed Bodies
TA	Technical Assistance
TAJ	Tax Administration Jamaica
WAL	Weighted Average Life

## PROJECT SUMMARY

### JAMAICA

#### Fiscal Structural Programme for Economic Growth (JA-L1038)

Financial Terms and Conditions			
<b>Borrower:</b> Jamaica		<b>Flexible Financing Facility (FFF)*</b>	
		<b>Amortisation Period:</b>	20 years
<b>Executing Agency:</b> Ministry of Finance and Planning (MoFP)		<b>Original WAL*:</b>	12.75 years
		<b>Disbursement Period:</b>	12 months
<b>Source</b>	<b>Amount (US\$)</b>	<b>Grace period:</b>	5.5 years
		<b>Supervision and Inspection Fee:</b>	**
<b>IDB:</b> Ordinary Capital (OC)	80,000,000	<b>Interest Rate:</b>	Based on Libor
<b>Local:</b>	0	<b>Credit Fee:</b>	**
<b>Total:</b>	80,000,000	<b>Currency of Approval:</b>	US\$ chargeable to the Ordinary Capital
Project at a Glance			
<p><b>Project Objective/Description:</b> The programme's objective is to support the efforts of the Government of Jamaica to achieve a sustainable fiscal path and higher economic growth. This will be done through: (i) reducing tax distortions which hinder private investment, employment and competitiveness; (ii) strengthening revenue collection through broadening tax bases and reducing tax rates; (iii) enhancing the control over budgetary expenditure; (iv) improving the fiscal sustainability of the National Insurance Scheme (NIS); and (v) strengthening the Fiscal Responsibility Framework (FRF).</p> <p>The programme is structured as a Programmatic Policy Based Loan (PBP) with three operations (see Annex II). This first operation, for US\$80 million, will be disbursed in a single tranche. The second and third operations, with proposed amounts for US\$40 million and US\$80 million respectively, are expected to be presented to the Board approval in 2015 and 2017.</p>			
<p><b>Special contractual clauses:</b> The disbursement of the single tranche of the loan will be subject to compliance with the conditions summarised in the Policy Matrix (Annex II).</p>			
<p><b>Exceptions to Bank policies:</b> None.</p>			
<p><b>Project qualifies for:</b>    SEQ <input type="checkbox"/>    PTI <input type="checkbox"/>    Sector <input type="checkbox"/>    Geographic <input type="checkbox"/>    Headcount <input type="checkbox"/></p>			

\* Under the Flexible Financing Facility (FN-655-1) the Borrower has the option to request modifications to the amortisation schedule as well as to currency and interest rate conversions, in all cases subject to the final amortisation date and original Weighted Average Life (WAL). In considering such requests, the Bank will take into account market conditions and operational and risk management considerations.

\*\* The credit administration 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 policies.

## I. DESCRIPTION AND RESULTS MONITORING

### A. Background, Problem Addressed, Justification

#### 1. Macroeconomic and fiscal background

- 1.1 With the exception of a one-off growth year (2011), the country's last sexennium (2008-2013) was characterised by a weak economic performance and recession. While the impact of the 2008 global financial meltdown may be the immediate cause of Jamaica's current economic situation (see [OEL#5](#)), the structural growth discontinuity goes back for three decades. In particular, the mid 1990's was characterised by a combination of a domestic financial crisis, a decline of the long-term growth rate of exports, an expansionary debt path and a deterioration of the fiscal governance framework. The unfavourable tax revenue performance—built upon an inadequate tax base and low compliance— and expenditure pressures have left the country with limited room for responsive fiscal policies, saddling it with a huge debt burden, bouts of financial instability and large fiscal deficits.<sup>1</sup> This notable under-performance has been at the centre of a vicious circle known as the high debt-low growth trap.<sup>2</sup> Breaking this cycle requires a sustainable quantum improvement in the country's medium-and long-term fiscal position founded on a pro-growth tax policy reform, an enhanced public expenditure strategy, an efficient pension system and a solid Fiscal Responsibility Framework (FRF).<sup>3</sup>
- 1.2 Despite fiscal measures implemented in Fiscal Year (FY) 2008/09 to mitigate the impact of the global crisis, cumulative real Gross Domestic Product (GDP) growth (2008-2011) declined by 5.4%. Tax revenue collection remained flat from FY2009/10 to FY2010/11 and declined by 1% of GDP in FY2011/12. Unemployment increased from 9.7% (2007) to 12.8% (2011) and the poverty rate doubled.<sup>4</sup> The central government budget deficit widened from 4.6% of GDP in FY2007/08 to 11.1% in FY2009/10, due to higher interest payments and wage costs (see [OEL#5](#)).
- 1.3 In 2010, the Government of Jamaica (GoJ) carried out a reform-based programme with the support of the International Monetary Fund (IMF) (Stand-By Agreement – SBA), the Bank (Fiscal Consolidation Programme (FCP), 2359/OC-JA and 2502/OC-JA), and the World Bank (Development Policy Loan). Support included

---

<sup>1</sup> Repeated joint efforts by the IMF, the World Bank and the Inter-American Development Bank to support the country to overcome these structural problems, have failed to achieve an enduring recovery.

<sup>2</sup> Evidence suggests a non-linear impact of debt on growth with a turning point beyond which the government debt-to-GDP ratio has a deleterious impact on long-term growth. The argument calls for debt reduction to support economic growth. See: Checherita, C. and Rother, P. Impact of high government debt on economic growth. ECU, 2010.

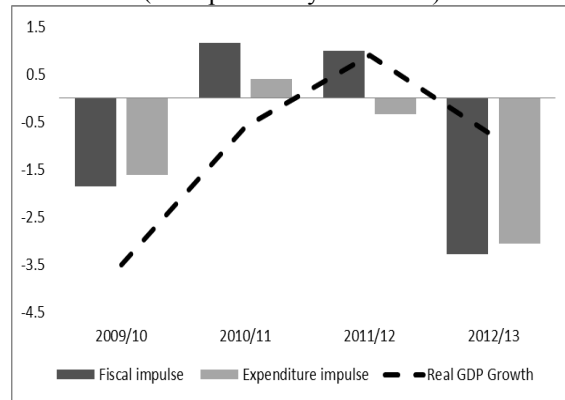
<sup>3</sup> Scarlett, H. (2011) examines the impact that taxation in Jamaica has on economic growth. The analysis indicates that by increasing the share of tax revenue garnered from indirect taxes, policymakers actions would result in long run economic growth benefits. For example, a 1% increase in indirect taxes is expected to increase GDP per capita by 0.2%. See: Scarlett H. Tax Policy and Economic Growth in Jamaica. Bank of Jamaica, 2011.

<sup>4</sup> 16.5% of Jamaicans fell below the poverty line in 2012. Source: [www.indexmundi.com/Jamaica](http://www.indexmundi.com/Jamaica)

the implementation of structural fiscal reforms and corresponding containment measures. The programme went off-track in 2011; influenced by slippages in wage costs, and lower revenues, as the targeted fiscal consolidation failed to materialise.

- 1.4 In FY2012/13, the Ministry of Finance and Planning (MoFP) tightened its fiscal policy stance (see Chart 1.1) by approving a comprehensive economic reform programme that included measures to raise revenues and control budget expenditure. The MoFP introduced a budget aimed at raising the central government's primary surplus to 6% of GDP (up from 3.2% in FY2011/12) including tax measures estimated to increase revenues by 1.6% of GDP.

Chart 1.1 Fiscal impulse and GDP growth  
(% of previous year's GDP)



Source: IMF data and Bank staff estimates

- 1.5 Furthermore, the MoFP strengthened its FRF aimed at: (i) improving fiscal discipline by requiring the GoJ to commit to a prudent fiscal policy; (ii) establishing rules and procedures that the GoJ must follow in the design and implementation of fiscal policy; and (iii) establishing mechanisms to assess the performance of the processes, goals and priorities.
- 1.6 In addition to these measures, the IMF Board approved a four-year Extended Fund Facility (EFF) for Jamaica (May 2013).<sup>5</sup> The Bank and the World Bank Management propose to support the EFF with potential financing of US\$510 million over the period 2013-2017. The Medium-Term Fiscal Framework (MTFF) supported by the EFF is challenging. Jamaica's public debt remains at over 140% of GDP; therefore high primary surpluses will be required over the years to reduce debt-to-GDP.
- 1.7 The MTFF targets a primary surplus of 7.5% of GDP from FY2013/14 to FY2017. In the short term, the increase in the primary surplus will be accomplished by expenditure restraints and revenue measures, but deeper structural measures are required. The public debt is expected to follow a descending path given the projected macroeconomic framework and fiscal targets reflected in the medium-term macroeconomic framework. Yet the overall debt level will continue to be high over the next few years. Shocks to key variables, could lead to further increases in the debt-to-GDP ratio, which would require

<sup>5</sup> The EFF's main pillars include: (i) structural reforms to boost competitiveness and growth; (ii) fiscal adjustment reforms; (iii) debt management measures to regain debt sustainability; and (iv) social protection programmes.



further adjustments. As such, fiscal consolidation, in combination with growth-facilitating reform measures needs to be maintained for a prolonged period.<sup>6</sup>

## 2. Problems addressed by the Bank's programme

- 1.8 Jamaica faces a significant challenge in terms of achieving economic growth and fiscal sustainability. Real GDP growth is likely to remain anaemic (0.8% in FY2013/14). Private consumption remains weak as disposable income is affected by wage restraints, higher inflation and high unemployment (16.4% as of April 2013). The public entities' financial stance poses a challenge to the overall fiscal balance of the public sector. The National Insurance Scheme (NIS), is likely to become a source of pecuniary pressure if no action is taken to improve its fiscal sustainability. The fiscal situation has been further exacerbated by structural gaps.
- 1.9 **Tax policy.** The tax system in Jamaica is complex, discretionary and outdated.<sup>7</sup> It has been built around high import tariffs (e.g. rates of 100% and more are imposed on some goods) and corporate tax rates (large taxpayers pay up to a rate of 33.33% income rate versus 29% in the Latin American Region (LAC)) as well as widespread taxes that encourage informality—around 35% of GDP—and non-compliance among taxpayers.<sup>8</sup> Uneven tax treatment of goods, sectors and firms distorts resource allocation and compromises economic efficiency.<sup>9</sup> Many tax-breaks—exemptions, waivers, and investment incentives—across different types of taxes, taxpayers, and activities, cannot be justified on equity grounds.<sup>10</sup> On average, these special treatments account for 7% of GDP, which is high compared to international standards (see [OEL#5](#)). The sectors that have benefited the most from tax waivers are tourism, bauxite and mining, among others; "...such tax exemptions encourage informality in the business sector and penalise firms with small amounts of capital. Corporate Income Tax (CIT) incentives allow projects with negative rates of return on investment to be profitable for the private sector. The allocation of capital implied by such a state of affairs is highly inefficient. The evidence suggests that the tax regime could be a binding constraint on

---

<sup>6</sup> According to the IMA, the current macroeconomic framework is conducive to the objectives of the PBLs. For details, see "Jamaica: Independent Macroeconomic Assessment" approved in October 2013.

<sup>7</sup> Doing Business Indicators (2014), ranks Jamaica 168<sup>th</sup> out of 189 economies for the time taken by the private sector to pay taxes. Similarly, according to the 2010 Enterprise Survey, 43% of Jamaican companies stated that tax rates or tax administration were the biggest obstacles they faced in doing business. Also, 35% see tax rates as a major or severe constraint on the firm's operations, while 23% see tax administration as a major or severe operational constraint.

<sup>8</sup> Non-filing rates for FY2012/13 reached 55% of total taxpayers for the CIT, 57% for Personal Income Tax (PIT) and 24% for General Consumption Tax (GCT). Tax arrears reached J\$278 billion, of which 74% have been overdue for more than 5 years. CIT and PIT rates are not standardized. Before the approval of the tax reform—there was no legislation providing governance for charities, resulting in fragmented tax treatment and ministerial discretionary waivers (J\$3 billion).

<sup>9</sup> The impact of taxation on economic activities varies across countries. For Jamaica, the results indicate that increasing consumption and trade-taxes by 1 percent respectively may lead to a correspondent 0.05% and 0.2% increase in GDP per capita. Greater benefit would be derived by reducing the taxation on personal income if the objective is to stimulate demand. See: Scarlett H. Tax Policy and Economic Growth in Jamaica. BoJ, 2011

<sup>10</sup> For example, motor vehicles are taxed with rates that vary from zero to 177%. The Tax Code allows for a greater number of exempt activities compared with international standards. Also, both exemptions and zero-rating of the GCT complicate the administration of the tax, increase the economic distortion to which it gives rise, and for the most part serve no significant equity purpose. See: Edmiston, K. and Bird, M. "Taxing Consumption in Jamaica." April 2006.

Jamaica's growth because it distorts capital accumulation".<sup>11</sup> In addition, labour taxes for the NIS, the National Housing Trust (NHT), the Education Tax and the Pay as You Earn (PAYE) use different tax bases to calculate tax deductions, which distort the public sector tax accounting system.

- 1.10 **Tax administration.** The Tax Administration of Jamaica (TAJ) and the Jamaica Customs Administration (JCA) have limited capacity to increase their effectiveness. The Large Taxpayers Office (LTO) under TAJ is under-staffed.<sup>12</sup> A significant number of large and medium taxpayers do not file on time and tax arrears are high. The JCA has no mandate to collect outstanding arrears. High fees are charged by commercial banks for processing tax and customs revenue receipts.<sup>13</sup> The TAJ and JCA e-Payment system is not fully implemented and their Information Technology (IT) systems are based on an obsolete software/hardware platform. Finally, the JCA accounting and financial systems are outdated and do not comply with accounting standards.
- 1.11 **Central government (CG) current budget management.** Budget rigidity poses a major challenge to the MoFP regarding budget management and control. A high non-discretionary component of the budget (including the wage bill which in FY2012/13 comprised 54% of primary expenditure, i.e. 11% of GDP), has contributed to a decoupling between budget planning and budget execution.<sup>14</sup> The aggregate expenditure outturn deviated by 8.5 percentage points of GDP between FY2009/10 and FY2011/12 (i.e. -3.8% to 4.7%).<sup>15</sup> This is in part due to the lack of effective controls in payroll processing. Fragmentation of personnel and payroll processing, institutional weaknesses, and the lack of direct integration between personnel databases and the payroll function, point to weak payroll controls.
- 1.12 **Public Bodies (PBs) budget control.**<sup>16</sup> Some of the major PBs may jeopardize the fiscal sustainability of the country as they incur large deficits.<sup>17</sup> Lack of an effective budget management and control has partially fostered these deficits.

---

<sup>11</sup> Jamaica: Unlocking growth. Country Economic Memorandum, World Bank. 2011, pg 17.

<sup>12</sup> LTO has 120 staff to audit and inspect 1042 Large Taxpayers: 1 employee for every 9 taxpayers (11.5%), while the average standard for small developing countries in the LAC region is 16%.

<sup>13</sup> For tax e-payments, debit-credit card costs are- 1.75%-1.80% per transaction. The average international rate is 0.375%.

<sup>14</sup> The wage bill is twice as much as Trinidad and Tobago and other Central American countries See: PEFA Report 2013.

<sup>15</sup> Measured as the differences between original budgeted and actual expenditures.

<sup>16</sup> There were 195 active Public Bodies in 2010-11. The PBs are divided into three groups: (i) 90 Self Financed Bodies (SFB), (ii) 47 Partially Funded Bodies (PFB) from the central government budget, and (iii) 58 fully funded bodies (FFB) from the central government budget. Collectively, they represent an important subset of the public sector and are integral to the development and implementation of a number of key policy objectives.

<sup>17</sup> From the cash flow perspective, the overall balance of the PBs is just -0.1% of GDP. Yet, a deeper analysis into the contingent liabilities of the PBs shows a different story. For example, in FY2012/13, losses at the National Water Commission (NWC) were estimated at J\$1.9 billion, with an accumulated deficit of J\$19 billion (87% of which is pension liabilities). The Jamaican Urban Transit Company (JUTC) has an estimated loss of J\$1.5 billion and an accumulated deficit of J\$15.4 billion. Also, the Clarendon Alumina Production (CAP) has incurred losses of J\$3.4 billion, with a cumulative fiscal deficit projected at J\$27 billion by FY2013/14. These cumulative losses can jeopardise the already fragile fiscal situation of the country. The IMF is closely monitoring the CAP divestment, including a continuous structural benchmark stipulating no additional government guarantees or other liabilities for the government.

Accounting standards (i.e. auditing, recording and reporting) are not applied consistently across PBs. The financial statements of non-self-financing PBs are not comprehensive, do not distinguish between commitments and expenditure, or between advances and payments and do not allow direct comparison of budget implementation to the original budget, therefore not allowing for an easy consolidation of public accounts to assess fiscal performance. Furthermore the PBs financial statements are often severely delayed,<sup>18</sup> and even then the MoFP only monitors the finances of one-third of PBs.<sup>19</sup> According to the PEFA for Jamaica (2012) this lack of transparency and financial statement data limits the information available for policy decisions. Also the designation “self-financed” is illusory given that the CG, as the main shareholder, is ultimately responsible for Self Financed Bodies (SFB) liabilities if and when they have to be written off.

- 1.13 **The National Insurance Scheme.** The NIS actuarial deficit for 2013 is 77 billion of Jamaican dollar (J\$) (6% of GDP). At the current contribution rate the NIS cannot support the current level of pensions with an estimated actuarial deficit per contributor of J\$78,500 (18% of the average earnings). Under these conditions, the National Insurance Fund (NIF) will be in deficit in 2036 and will be exhausted by 2045. In addition, only 20% of the working-age population is covered by the NIS and only 27% of the elderly are receiving NIS pension benefits. These gaps in social insurance will put additional pressure on the budget, and may result in political pressures to extend non-contributory benefits, potentially adding to fiscal imbalances.
- 1.14 The average gross yield on the assets of the NIF has considerably decreased. In March 2013 the Fund stood at J\$63.5 billion, compared to J\$71 billion in the previous fiscal year. Additionally, the average gross yield on the assets of the NIF over the last five years was 9.5% p.a., compared to 18% p.a. over the preceding five years. The NIS also faces challenges in terms of data collection. Its database is out-dated, incomplete and has numerous errors and omissions,<sup>20</sup> causing extensive delays in the processing of claims and payment of benefits. Furthermore, the NIS lacks information and mechanisms to monitor the performance and fiscal sustainability of the scheme. The law requires a quinquennial actuarial review of the NIF yet, the last review was done in 2005.
- 1.15 **Fiscal rule.** No comprehensive framework has been developed for an appropriate fiscal response to macro-economic shocks, thereby leading the GoJ to increase or reallocate expenditures, on an ad hoc basis, whenever a shock occurs. The FRF does not impose a sufficiently binding commitment towards long-term fiscal sustainability. Shortcomings include: (i) lack of an operational cap on the amount of debt and the size of fiscal deficit in the annual budget; (ii) poor sanctions

---

<sup>18</sup> In 2010, only 12% of Public Bodies had submitted their Annual Reports on time. (See: Ministry Paper, 9-2011).

<sup>19</sup> The Public Enterprise Division (PED) regularly monitors 65 of the 90 SPBs, while none of remaining 25 SFBs and none of the PFBs or FFBs are monitored given the institutional weakness and lack of personnel of the PED. Revenues and assets of the 65 actively monitored self-financing PBs were equivalent respectively to 27% and 78% of GDP in 2012/13.

<sup>20</sup> It is not possible to verify the status of beneficiaries of the NIS and their participation in other Government programmes. Only 40% of those who should be contributing to the NIS are actually contributing (Labour force survey 2012).

mechanism for breaches of fiscal targets and expenditure controls; (iii) inadequate mechanisms to monitor contingent liabilities;<sup>21</sup> and (iv) lack of a strong mechanism to discourage shifting of fiscal activities from the central government budget to explicit or implicit guarantees. These shortcomings have the potential to generate delays in implementing corrective measures for budget deviations and do not provide sufficient safeguards to avoid abuses on the use of response shock mechanisms to tackle adverse economic shocks.

### **3. Justification**

- 1.16 The GoJ tabled in Parliament (October 2013), the Charities bill and other bills that conform the Omnibus Tax Incentives Framework. This framework includes the Fiscal Incentives (Miscellaneous Provisions) Act, 2013 (FIA), amendments to the Income Tax Act, and amendments to the Customs Duty Act. The Omnibus framework for both Acts, and the comprehensive tax reform were designed under the technical assistance (TA) provided by the Bank. The reforms are aimed at simplifying the tax system, reducing import tariff dispersion, removing economic distortions, limiting tax exemptions, and eliminating ministerial discretion to grant incentives. These reforms are in line with international best practices particularly for small and developing countries, which recommend broadening the tax base, simplifying and making more transparent the tax system.<sup>22</sup> If successfully implemented, the reforms are expected to promote growth, broaden the tax base, lower tax rates, and reduce the scope for rent seeking. Some examples of countries that successfully implemented similar tax reforms include: Peru, and Uruguay in the LAC region, and Mauritius, Seychelles (see [OEL#6](#) for similarities with Jamaica) and Senegal in other regions.<sup>23</sup> The international evidence suggests that implementing this type of policy measures tend to improve the fiscal balance through higher revenues and tighter expenditure control, which are the expected effects in this operation and are reflected in the Results Matrix.
- 1.17 In addition to the continuous TA, the authorities have requested from the Bank budget support in the form of a Programmatic Policy-Based Loan (PBP). The programme outlines three key reforms that would be achieved in each operation, the first being the comprehensive tax reform, followed by the strengthening of the FRF through the Fiscal Rule and last but not least, the NIS reform. The programme is designed, following a vertical logic whereby each intervention logically contributes to the next higher level, but with some flexibility under the

---

<sup>21</sup> Government guarantees have risen by over 400% between 2003 and 2013, reaching over 12% of GDP in 2012/13. In addition, the 2005 PetroCaribe agreement between Venezuela and Jamaica contributed to an accumulation of debt and guarantees following the rapid rise in international oil prices, reaching almost 18% of GDP in 2012/13.

<sup>22</sup> Waglé, S. (2011) "Coordinating tax reforms: can lost tariffs be recouped?" Policy Research Working Paper 5919. World Bank; Canavire-Bacarreza, G. and J.Martinez-Vazquez and V.Vulovic. "Taxation and Economic Growth in Latin America". Washington DC. 2013; Ter-Minassian, T; "Fiscal policy and economic growth: an overview of theory and empirical evidence". Draft, August 1, 2013. Inter-American Development Bank; and IDB More than Revenue: Taxation as a Development Tool. IDB, Washington DC. 2013. Corbacho, A., V. Fretes and E. Lora.

<sup>23</sup> For example, in Uruguay, the 2006 tax reform, with Bank support, included a new personal income tax, revamping the corporate income tax and eliminating tax exemptions and subsidies.

PBP instrument given that the design of the NIS reform is just starting. The present operation focuses on the approval of the tax reform; the conceptualisation of the fiscal rule legislation and the concept paper of the NIS reform. The second and third operations will seek outputs indicating that the legislations, tools, and procedures are being implemented. These operations will also aim at implementing a better operational framework of the PB and reducing their risk exposure to the public finances.

#### **4. Strategic Alignment**

- 1.18 The IDB Country Strategy (CS) with Jamaica 2013-14 (GN-2694-2) support efforts to re-establish fiscal sustainability, maintain social stability, and promote private-sector led growth. This Fiscal Structural Programme for Economic Growth (FISPEG) supports the CS primarily in the first area, although it also helps improving the business climate by simplifying the tax structure. The FISPEG is aligned with the objective of the GCI-9 (AB-2764) that supports small vulnerable countries, institutions for growth, social welfare, and regional integration. It contributes to the regional goal of increasing the ratio of actual to potential tax revenue as well as the upgrade of public financial systems as defined in the Results Framework of GCI-9. The programme is also aligned with the Sector Strategy Institutions for Growth and Social Welfare (GN-2587-2).

#### **B. Bank's Interventions in Jamaica**

- 1.19 The FISPEG complements two operations: (i) the Competitiveness Enhancement Programme III (JA-L1014), which includes reforms to reduce tax distortions and the cost of paying taxes for the private sector, and (ii) the Public Financial and Performance Management Programme (2058/OC-JA), which supports fiscal responsibility, strengthening the Financial Administration and Audit Act (FAA).
- 1.20 The Bank sponsored two related programmes. The first was the FCP, funded by two PBPs (disbursed in 2010). A third PBL under the FCP was not approved due to the deteriorating macro-economic conditions in 2011/12. Several lessons from past operations and the Bank's experience with the design and execution of the (truncated) FCP are useful to keep in mind. As noted in the draft Project Completion Report (PCR): (i) when designing and implementing comprehensive and sensitive tax reforms, a broad social and political consensus is needed, which normally takes time to build; (ii) ideally, the Bank technical team would have the opportunity to discuss the reform agenda with host-country technical staff outside the narrow context of the programme design and implementation and (iii) in-depth reforms need the active participation of all stakeholders (government, private sector, etc.) in early stages through-out the entire process. In some instances, the Bank has to frontload key policy conditions and monitor the design, implementation and risks (¶2.7) closely to increase the probability of achieving the objectives of the operation. The FISPEG benefits from the past Bank experience and the sensitisation achieved from the FCP experience, it frontloads key reforms such as the approval of the comprehensive tax reform (in this first operation) and the implementation of the new fiscal rule framework (condition for

the second operation). It also benefits from a broader public realisation that the country has to concretise key structural reforms that are key factors to enable the success of the operation.

- 1.21 The second intervention is an investment loan for US\$65 million (Fiscal Administration Modernisation Programme—FAMP, 2658/OC-JA) to support the modernisation of the tax and customs administration, the strengthening of debt management as well as the implementation of the Central Treasury Management System. Signed in December 2011, the loan had only disbursed 5% of the funds as of December 2013. While the FAMP operation had been de-linked from the FCP and in fact was intended to provide needed support for tax administration independent of policy reforms embodied in the FCP, the delays in the FAMP start-up have more closely aligned its execution with that of the proposed FISPEG. The Bank is working with the authorities to improve the execution of the FAMP as it is recognised that the tax administration strengthening is key to sustaining the tax policy reforms.

### **C. Coordination with Other Donors**

- 1.22 The Bank has been coordinating efforts with the IMF under the EFF programme, specifically on the tax reform and the FRF. It has also been coordinating with the World Bank, who prepared a Development Policy Loan (DPL) in the amount of US\$130 million that was approved on December 12<sup>th</sup> 2013. This DPL aims at improving the investment climate and competitiveness and public financial management for sustained fiscal consolidation. The DPL complement the Bank's FISPEG operation by concentrating primarily on the expenditure side of public finance and on specific bottlenecks to doing business.

### **D. Objective, Components and Cost**

- 1.23 **Objective.** The programme's objective is to support the efforts of the GoJ to achieve a sustainable fiscal path and higher economic growth. This will be done through: (i) reducing tax distortions which hinder private investment, employment and competitiveness; (ii) strengthening revenue collection through broadening tax bases and reducing tax rates; (iii) enhancing the control over budgetary expenditure; (iv) improving the fiscal sustainability of the NIS; and (v) strengthening the FRF. The components of this operation are:
- 1.24 **Component I. Macroeconomic stability.** A general condition of the FISPEG is a stable macroeconomic policy in line with the programme objectives. This commitment will be set out in the country's Policy Letter to the Bank, and will be consistent with the GoJ's Medium-Term Economic Programme.
- 1.25 **Component II. Strengthening tax policy and administration.** The objective is to reduce economic distortions and inequities resulting from the tax system. In this first operation, the tax policy subcomponent supports legislative reforms to:

- a. Simplify the tariff structure by reducing tariff dispersion. Import duties will be capped for non-agricultural imports at 20%.<sup>24</sup> For agricultural imports, tariff rates  $\leq 40\%$  will be reduced to 20%.<sup>25</sup> The GoJ will increase the 0% rate on selected intermediate and final goods to 5%.
  - b. Increase tax revenues by establishing a cap of 50% on claims for deduction of tax losses forwarded in any year of assessment on chargeable income (CIT and PIT).
  - c. Curtail tax expenditures by effecting the Charities Act and the FIA. New incentives will take the form of tax credits for PIT and CIT only, and will be defined as the amount credited against the CIT/PIT payable in any fiscal year. There will be no ministerial discretion in granting tax incentives. The FIA will also place an overall cap on tax incentives for pioneer and mega projects at 0.25% of GDP.
  - d. Reduce economic distortions and promote economic growth by lowering the CIT rate from 30% to 25% for unregulated companies;<sup>26</sup> increasing the Initial Capital Allowances (ICA);<sup>27</sup> and allowing for an Employment Tax Credit (ETC) calculated on the statutory payroll levies paid by trade companies. The ETC has a cap of 30% of income tax chargeable.<sup>28</sup>
- 1.26 Subsequent measures under the second and third operations include establishing the standard GCT rate of 16.5% to government purchases; establishing a Minimum Business Tax (MBT); the amalgamation of other taxes (payroll, PAYE, education tax, etc.) and a Bank-sponsored study to prepare the analytical input needed for the rationalisation of petroleum taxes.
- 1.27 Under the tax administration subcomponent, this first operation addresses the inefficiencies of tax and customs administration by supporting the increase of the number of professionals in the LTO from 90 to 120. It also requires that all large taxpayers and all employers with more than 20 employees file their tax returns electronically; that the TAJ and JCA issue regulations to establish tax and customs duty e-Payment systems; and that the JCA implement a proprietary software package (ACCPAC) to strengthen its accounting and financial IT systems. The subsequent operations will support maintenance of the policy and administrative reforms and implementing studies initiated in the first operation.

---

<sup>24</sup> In exceptional cases these goods will be capped at 40%.

<sup>25</sup> In exceptional cases, the Common External Tariff (CET) rates above 50% will be maintained (poultry, milk and cream, including milk powder, and vegetables). These rates will be held compliant with CARICOM/CET agreements.

<sup>26</sup> Unregulated companies are all private companies except the ones included in the financial sector (which are regulated companies and include: commercial banks; insurance; etc.).

<sup>27</sup> ICAs will apply to specified newly acquired plant and equipment investments. The initial allowance will be increased from 20% to 25% and the annual allowance there on will be of 12.5% per annum. Its application will be broadened to a wider range of eligible plant and equipment. A straight-line method of capital allowances will replace the reducing balance method. Industrial buildings will be allowed an initial 20% allowance and a 4% allowance thereafter.

<sup>28</sup> The tax credit is only calculated on trading profits and excludes investment and other type of passive income.

- 1.28 **Component III. Rationalisation of expenditure.** The objective is twofold: (i) improve the CG efficiency and lower its wage bill target as a percent of GDP, allowing greater investment in activities contributing to economic growth; and (ii) reduce fiscal drain and contingent liabilities to the CG of PBs by rationalising their structure, improving their accounting practices and addressing underlying reasons for poor performance of particular PBs.
- 1.29 To achieve the first objective, GoJ will build on an agreement signed with the unions, and commit to implementing a policy of no nominal increase in CG's salary scales. For the first operation, the results of this policy will be measured in terms of meeting an annual wage bill target of no more than 10.6% of GDP in FY2013/14. For the subsequent operations, the wage bill will be lowered to represent 9.1% of GDP (FY2015/16) and a more efficient human resource management will be implemented.
- 1.30 For the second objective, the GoJ will update the 2010 Master Rationalisation Plan (MRP) that calls for divestment, merger or winding up of the PBs. The second and third FISPEG operations will see the achievement of pre-established benchmarks of the MRP. The PBs are also to be held more transparent and accountable by means of requiring an increasing proportion of them to comply with a six-month deadline for filing their annual financial statements after the close of the financial year.<sup>29</sup> To extend full financial oversight to the partially funded entities, the PED will be restructured and a strengthened monitoring and reporting system will be in place, with the goal of expanding its capability to examine balance sheet and P&L data from the 65 PBs now fully monitored to all 195 PBs by the end of the programme. The most problematic of the large PBs (e.g. NWC, JUTC and NHT) responsible for the lion's share of the cumulative deficits will undergo a Bank-sponsored analysis of the underlying causes of their chronic negative balances and the accepted recommendations from this study will be implemented by the third operation.
- 1.31 **Component IV. Ensuring Fiscal Sustainability of the NIS.** The objective is to reverse the increasing fiscal deficit trend of the NIS. In this first operation, the programme will support the preparation of a concept paper that will address issues regarding the contribution rate, pension benefits and coverage indicators of the scheme,<sup>30</sup> all with the goal of reducing the actuarial deficit from 6% to 4% of GDP by FY2017/18.<sup>31</sup> To ensure adequate adjustments to the scheme, the monitoring of the performance and the fiscal sustainability of the NIF will be strengthened by the publication of new actuarial analyses with a new structure that includes revenue and expenditure forecasts, yields etc. Based on an analysis of the current NIS Database Management Information System, a proposal will be

---

<sup>29</sup> The statutory deadline is four months after FY end, however by common agreement with the GoJ and IMF authorities an interim six-month deadline has been established.

<sup>30</sup> The concept paper will address, where possible, measures that incorporate the gender dimension, differentiating with the highest possible rigour the effects between male and female beneficiaries.

<sup>31</sup> A cautionary note is in place: Pending the results of the actuarial analysis that is presently ongoing, the deficit is likely to increase. A revised estimate of the deficit will be provided by the second operation.



prepared to develop a better system that ensures compliance and efficacy in the processing of pension claims. Subsequent operations will focus on the implementation of a parametric reform of the NIS (i.e. increase coverage and pension adequacy, while ensuring the NIF's sustainability) and the requirements for mandatory actuarial reports submitted triennially to Parliament for approval. In addition, these operations will support the implementation of the new NIS Database Management Information System.

- 1.32 **Component V. Strengthening the FRF.** The objective is to ensure that the GoJ has made a binding commitment to its long-term fiscal sustainability by providing a framework for automatic fiscal corrections to deviations from overall balance targets. The Fiscal Rule (FR) aims at enhancing the fiscal transparency, and locking in the gains of fiscal consolidation.<sup>32</sup> The relevant existing legislation in the FAA Act, the Public Bodies Management and Accountability (PBMA) Act, and the Public Debt Management Act (PDMA) will be amended to implement the fiscal rule. Commitments for the first operation includes a concept paper for enhanced rules-based governance of fiscal activities of the public sector and the issue of drafting instructions to the Chief parliamentary Counsel to draft the necessary legislative amendments. The FR establishes debt reduction objectives, enables automatic correction mechanisms to be enforced in case of budget deviations, and allows for Parliament to implement an escape clause only in cases of adverse shocks. Subsequent operations will monitor the establishment of the new FRF.
- 1.33 **Cost.** The programme is structured as a PBP with three operations (see Policy Matrix in Annex II). This first operation, for US\$80 million dollars, will be disbursed in a single tranche. The second and third operations, tentatively for US\$40 million and US\$80 million respectively, are expected to be presented to the Board approval in 2015 and 2017. The GoJ's total financing needs for FY2014/15 is US\$800 million. This first operation represents 10% of the total financing needs.

## **E. Expected Impact and Key Results**

- 1.34 All in all, the FISPEG is expected to yield an overall conservative impact of 3% of GDP. The tax policy reform proposed will raise revenues by an estimated J\$12.5 billion (US\$125.4 million), approximately 1% of the GDP (see [OEL#5](#)). Efficiency gains on the expenditure side are expected to be 2% of GDP over the life of the programme. These estimates do not consider indirect benefits in the form of productivity gains or higher economic growth due to tax and pension systems improvements or better services expected from the PBs.

---

<sup>32</sup> The FR aims to limit the annual budgeted overall fiscal deficits, to achieve a reduction in public debt to less than 60% of GDP by 2025/26. It establishes an automatic correction mechanism, triggered by substantial cumulative deviations from the annual overall balance target. The FR will include an escape clause, triggered only with parliamentary approval. The clause will pre-define a clear list of events or shocks that could have a serious adverse impact on public finances, and specify measurable conditions for triggering the clause, such as declines in GDP or fiscal revenues.

- 1.35 According to the Financial Evaluation (FE) (see [OEL#2](#)), by 2017, the benefits may outweigh the costs to taxpayers of the tax policy reforms. The present value of the tax reform will be generating a cumulative net benefit of approximately US\$51.8 million. By 2022, this value should reach US\$408 million, equivalent to an Internal Return Rate of 53%. Estimates are based on a discount rate of 8.3% (average real cost of the Jamaican T-Bill with maturity of 10 years in the local market). The benefits obtained are subject to an additional deduction of 26.5% corresponding to the transfers within the society. Based on the FE, continuation of the financing and technical support from the Bank is recommended, through the implementation of this operation.

**Table 1.1: Impact and Results of the Programme**

	<b>Baseline FY2012/13</b>	<b>FY2015/16</b>
<b>Estimated impact</b>		
Public sector balance (as % of GDP)	-4.4	0.6
<b>Quantitative results</b>		
Tax revenue (as % of GDP)	24.6	25.5
<i>of which the tax reform represents</i>	0	1
Primary expenditure (as % of GDP)	20.4	19.9
<i>of which the wage bill</i>	11	9.1
Non-agriculture and agriculture imports <i>(with a rate <math>\leq 40</math>) converging to a default rate.</i>	40	20
CIT rate for unregulated companies reduced.	30	25
Labour tax credit to foster economic growth	0	Cap of $\leq 30\%$ of income tax
Annual audits performed by (LTO and MTO)	8 and 100	20 and 200
Taxpayers using e-filing as a % of total taxpayers (32,000)	5	100
Collection fees paid to commercial banks (in J\$ billion)	1.8	1.1
Self-financing PBs with financial statements on time (number)	40	80
Non-self-financing PBs with financial statements on time (number)	15	30
PBs monitored by the PED (number)	80	200
Actuarial Deficit of the NIF	6	4
Average time for pension claims processing	12	4

- 1.36 The programme's direct beneficiaries will be: (i) the central government, which will benefit from additional resources to finance a more effective public expenditure; (ii) all taxpayers who will benefit from an equitable tax system; and (iii) the participants under the NIS through a better pension system.

## **II. FINANCING STRUCTURE AND MAIN RISKS**

### **A. Financing Instrument and Programme Strategy**

- 2.1 The FISPEG will be financed with resources from the Bank's Ordinary Capital. Given its depth and breadth, the programme is structured as a Programmatic Policy-Based Loan with three independent, but technically related operations. This financing arrangement is the most appropriate because it is a flexible and effective mechanism to support complex and long-term reforms that require sequenced actions for implementation while also allowing for broader dialogue.

**B. Environmental and Social Safeguard Risks**

- 2.2 There are no associated environmental or social risks in this PBP. According to the Directive B.13, Environment and Safeguards Compliance Policy (OP-703), no ex-ante environmental impact classification is required under this programme.

**C. Other Key Issues and Risks**

- 2.3 **Macroeconomic and fiscal sustainability risks.** Jamaica's macroeconomic stability faces risks in the short term given the challenging fiscal position. The weakening of the Jamaica dollar, which depreciated 14% in 2013, has dampened investor and consumer confidence even though it has improved competitiveness. The structural imbalance of the external account remains a risk for the medium to long term. Net International Reserves declined from over US\$2 billion in 2011 to under US\$900 million by August 2013 but remain above EFF targets. However, official inflows will continue to be required in the short to medium term to cover the balance of payments deficit. Interest rates have been trending upwards. The benchmark 90 days T-Bill has been increasing from 5.5% just after the National Debt Exchange (NDX) to 7.6% as of end of November 2013, which is important to note because almost 40% of Jamaica's domestic bonds (i.e. 20% of direct public debt), have a variable interest rate.
- 2.4 **Development risks.** Past delays of fiscal reforms in the country, highlights potential challenges in implementing the needed reforms. Both, the 2010 IMF SBA and the FCP, were not completed. The FCP, originally conceived as a sequence of three PBL funded operations, was discontinued after the second operation as delays in implementing the tax reforms originally envisioned became evident. The IMF's SBA expired in May 2012 after missing several reviews. However, the current administration has shown strong commitment to the reforms embedded in the EFF with the IMF. In addition, the current reform agenda is strongly frontloaded, as all policy measures agreed for this first operation have already been enacted, particularly on tax policy, therefore reducing the risk of reform fatigue and political challenges.
- 2.5 **Public management and governance risks.** There may be adverse reactions by affected parties to key structural changes notably: (i) the new tax incentive regime; and (ii) the public sector wage austerity. Also, the institutional weakness, reform fatigue and political resistance are potential challenges. The experience with the FCP and the delays in implementing the FAMP highlight the importance of taking into consideration the capacity of the authorities and to providing technical support if needed to move forward with the programme.
- 2.6 **Reputational risk.** The reforms required from Jamaica for the EFF and the FISPEG imply a risk that the reforms cannot be concretised in the time and scope required by the FISPEG, jeopardising the Bank's reputation as an effective partner in host-country policy reform initiatives. Despite its mixed experience with the FCP, the Bank will continue to support Jamaica's fiscal policy and administration reform efforts given the renewed and more evident commitment

from the authorities to successfully implement the programme due in part to the more robust framework established by the EFF.

- 2.7 The overall risk to the FISPEG operation is mitigated by phasing Bank financing with the EFF. The IMF monitors and verifies the implementation of the policies on a quarterly basis (after two reviews the EFF is on track). In addition, the Bank worked closely with the MoFP, the Ministry of Labour and Social Security (MLSS) and the NIS on the design of key reforms under this programme. The FISPEG is part of a joint concerted action with the World Bank and the IMF. Each of the three institutions has provided the necessary support to the country. The IMF by approving the EFF, the World Bank by providing a disbursement and the IDB by leading the tax policy and tax system reform. In addition, the disbursement of the FISPEG in February is a key part of Jamaica's financing plan.

### **III. IMPLEMENTATION AND MANAGEMENT PLAN**

#### **A. Summary of Implementation Arrangements**

- 3.1 The borrower will be Jamaica. The executing agency will be the MoFP, which will be responsible for: (i) presenting the evidence of the conditions met for disbursement of loan proceeds, and other information required; (ii) promoting actions to meet the programmes' policy objectives; and (iii) compiling, maintaining, and delivering to the Bank the indicators, and parameters that will help Jamaica and the Bank monitor and evaluate programme outcomes.

#### **B. Summary of Arrangements for Monitoring Results**

- 3.2 The borrower and the Bank have agreed to supervise programme execution through monitoring meetings to be mutually agreed. The Bank, in collaboration with the borrower, will approve a PCR within six months after the final disbursement of the last operation. The PCR will evaluate the development impact of the programme, and the extent to which the planned outcomes were achieved, by employing a reflexive evaluation. The borrower and the Bank have previously agreed on the indicators and baseline to be used in conducting this final evaluation. Because the present operation is a PBL, the policy and results matrices will jointly define the monitoring and evaluation plan.
- 3.3 The borrower will compile and process all data required to monitor and evaluate the FISPEG. The assignments contracted to verify the indicators of the Results Matrix (see [REL#2](#)) and the activities in the Policy Matrix, will be financed with administrative resources from the Bank. An ex-post evaluation will be done with Bank resources to measure the expected benefits from the policy actions.

### **IV. POLICY LETTER**

- 4.1 The Bank and the GoJ have agreed on the macroeconomic and sector policies in the Policy Letter (see [REL#1](#)), describing the components of the GoJ's strategy being implemented in the programme's areas of action described in this document.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	i) Lending to small and vulnerable countries, and ii) Lending to support regional cooperation and integration.		
Regional Development Goals	i) Ratio of actual to potencial tax revenue, and ii) Trade openness.		
Bank Output Contribution (as defined in Results Framework of IDB-9)	Public financial systems implemented or upgraded.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2694-2	i) A transparent and streamlined framework for tax administration, and ii) Improved fiscal balance.	
Country Program Results Matrix		Document under revision.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Evaluable	Weight	Maximum Score
	8.5		10
3. Evidence-based Assessment & Solution	9.4	33.33%	10
3.1 Program Diagnosis	2.4		
3.2 Proposed Interventions or Solutions	4.0		
3.3 Results Matrix Quality	3.0		
4. Ex ante Economic Analysis	9.5	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	2.5		
4.2 Identified and Quantified Benefits	2.0		
4.3 Identified and Quantified Costs	2.0		
4.4 Reasonable Assumptions	2.0		
4.5 Sensitivity Analysis	1.0		
5. Monitoring and Evaluation	6.5	33.33%	10
5.1 Monitoring Mechanisms	1.5		
5.2 Evaluation Plan	5.0		
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood			High
Identified risks have been rated for magnitude and likelihood			Yes
Mitigation measures have been identified for major risks			Yes
Mitigation measures have indicators for tracking their implementation			Yes
Environmental & social risk classification			B.13
IV. IDB's Role - Additionality			
The project relies on the use of country systems			
Fiduciary (VPC/PDP Criteria)			
Non-Fiduciary			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan			

The document very clearly presents the roots of what it calls the “perennially wobbly performance” of “recurring bouts of financial instability and chronic fiscal deficits”. Breaking this cycle requires a sustainable improvement of Jamaica's medium and long term fiscal stance. The specific “structural gaps” that this project will address are associated to tax policy, tax administration, budgetary rigidity and management, the lack of a fiscal framework (Fiscal Rule) and the National Insurance Scheme long term financial viability. The analysis presents multiple issues, some of which are structural and long term (such as contingent liabilities) while others are more of a short term (tax policy) or of an instrumental nature such as the use of electronic tax filings.

The proposed solution is consistent with the diagnosis and analysis. The rationale for the project is to put the Jamaican economy on a fiscally sustainable growth path from the current vulnerable position, bearing in mind its history of partial compliance with previous adjustment programs. This raises the question of the project's sustainability and the evidence that this time the policy package will be effective. In this context, the risk analysis includes a presentation of the macroeconomic, developmental, public management and governance risks, and reputational risks that explain the “High Risk” rating given to the project. The Results Matrix is clear. The objective of the project is to return to a sustainable fiscal and growth path by improving fiscal balance. The expected impacts as presented in The Results Matrix include a reduction of the Fiscal Deficit as a percentage of GDP, and an indicator related to the return to a “sustainable growth path”.

The document includes an economic analysis based on a Dynamic Computable General Equilibrium Model (DCGEM) although the model's complete specification is not presented in the Annex. A reflexive and an ex post cost-benefit analysis is proposed.

## POLICY MATRIX

Objectives	Conditions for the first operation	Triggers second operation	Triggers third operation
<b>I. Macroeconomic stability</b>			
Preserve a stable macro-economic context.	I.1.a: The GoJ complies with the Policy Letter and maintains a macroeconomic framework consistent with the Medium-Term Economic Programme (MTEP).	I.1.b: The GoJ, maintains a macroeconomic framework consistent with the economic program objectives including a primary balance consistent with the MTEP.	I.1.c: The GoJ maintains a macroeconomic framework consistent with the economic program objectives including a primary balance consistent with the MTEP.
<b>II. Strengthening tax policy and administration</b>			
Reduce distortions and improve efficiency of the tax system to promote growth, competitiveness and equity.	II.1.a: The GoJ makes effective the Fiscal Incentives [Miscellaneous Provisions] Act 2013 (FIA) and the Charities Act (and the consequential amendments to legislation including the Income Tax and Customs Acts respectively) and the Income Tax Relief (Large-scale Projects and Pioneer Industries) Act 2013 to take measures to:	II.1.b: The GoJ implements the comprehensive tax reform embodied in the FIA and Charities Act as part of the FY2014/15 budget that includes measures to:	II.1.c: The GoJ maintains the implementation of the comprehensive tax reform program that includes measures to:
	A. Simplify the tariff structure by reducing import tariff dispersion (consistent with CARICOM and other international trade agreements) by: <ol style="list-style-type: none"> <li>1. Capping tariffs on non-agricultural imports to a default rate of 20% with exceptional cases at 40%. For agricultural imports, tariff <math>\leq</math> 40% will be reduced generally to 20%. Some Common External Tariff (CET) rates &gt;50% will remain<sup>1</sup>.</li> <li>2. Raising the 0% tariff rate on selected intermediate and final goods to 5%.</li> </ol>	A. Simplify the tariff structure by reducing import tariff dispersion (consistent with CARICOM and other international trade agreements) by: <ol style="list-style-type: none"> <li>1. Applying tariff caps on imports as specified in the first operation.</li> <li>2. Maintaining the 5% tariff rate on selected intermediate and final goods as specified in the first operation</li> </ol>	A. Simplify the tariff structure by reducing import tariff dispersion (consistent with CARICOM and other international trade agreements) by: <ol style="list-style-type: none"> <li>1. Maintaining the tariff caps on imports as specified in the first operation,</li> <li>2. Maintaining the 5% tariff rate on selected intermediate and final goods as specified in first operation</li> </ol>
	B. Increase tax revenues by:	B. Increase tax revenues by: <ol style="list-style-type: none"> <li>1. Establishing a Minimum Business Tax. (MBT)<sup>2</sup>.</li> </ol>	B. Increase tax revenues by: <ol style="list-style-type: none"> <li>1. Maintaining the MBT.</li> </ol>

<sup>1</sup> The current tariff structure is composed of 11 rates that go from 0% to 100% with an average rate of 10.3%, with the majority of the number of tariff codes at 0%, followed by 20% and 40%. The new tariff scheme will modify the structure, concentrating the tariff codes mostly between the 5% and 20% rates so as to converge to a default rate of 20%.

<sup>2</sup> i.e. Minimum tax on corporations and self-employed in such arrangements as sole proprietorships and partnerships.

Objectives	Conditions for the first operation	Triggers second operation	Triggers third operation
	2. Establishing a cap of 50% on claims for deduction of tax losses forwarded in any year of assessment on chargeable income (CIT and PIT).	2. Maintaining a cap of 50% on claims for deduction of tax losses forwarded in any year of assessment on chargeable income (CIT and PIT). 3. Establishing the standard GCT rate of 16.5% to government purchases.	2. Maintaining a cap of 50% on claims for deduction of tax losses forwarded in any year of assessment on chargeable income (CIT and PIT). 3. Maintain the 16.5% GCT rate on GoJ purchases.
	C. Curtail tax expenditures by: 1. Effecting the new Charities Act, the FIA and the consequential amendments to the revenue laws. 2. Cessation of granting of new categories of ministerial discretionary waivers.	C. Curtail tax expenditures by: 1. Enforcing provisions of the Charities Act, the FIA and the consequential amendments to the revenue laws. 2. Maintaining the cessation of granting of new categories of ministerial discretionary waivers.	C. Curtail tax expenditures by: 1. Maintaining the provisions of the Charities Act, the FIA and the consequential amendments to the revenue laws. 2. Maintaining the cessation of granting of new categories of ministerial discretionary waivers.
	D. Reduce economic distortions and promote economic growth by: 1. Reducing CIT rate (from 30% to 25%) for unregulated companies as defined in the Income Tax Act.  2. Allowing for an employment tax credit (ETC) calculated on the statutory payroll levies (education tax, NHT, NIS and the Human, Employment and Resources Training HEART Trust) to registered companies engaged in trade. The ETC has a cap of 30% of chargeable income tax <sup>3</sup> . 3. Increasing the Initial Capital Allowances (ICAs) <sup>4</sup> . 4. Limiting tax incentives allowed under the Income Tax Relief (Large-scale Projects and Pioneer Industries) Act, 2013 for “pioneer/mega” projects to an overall cap of 0.25% of GDP.	D. Reduce economic distortions and promote economic growth by: 1. Maintaining the CIT rate of 25% for unregulated companies.  2. Continuing the ETC for registered trade companies under the labour incentive programme, up to a cap of 30% of the chargeable income tax.  3. Maintaining the ICAs for new capital investment. 4. Maintaining limitation of tax incentive allowed under the FIA for pioneer/mega projects at an overall cap of 0.25% of GDP.	D. Reduce economic distortions and promote economic growth by: 1. Maintaining the CIT rate of 25% for unregulated companies.  2. Continuing the ETC for registered trade companies under the labour incentive programme, up to a cap of 30% of the chargeable income tax.  3. Maintaining the ICAs for new capital investment. 4. Maintaining limitation of tax incentive allowed under the FIA for pioneer/mega projects at an overall cap of 0.25% of GDP.

<sup>3</sup> The tax credit is only calculated on trading profits and excludes investment and other types of passive income.

<sup>4</sup> ICAs will apply to specified newly acquired plant and equipment. The initial allowance will be increased from 20% to 25% and the annual allowance there on will be 12.5% per annum. Its application will be broadened to a wider range of eligible plant and equipment. A straight-line method of capital allowances will replace the reducing balance method. Industrial buildings will be allowed an initial 20% allowance and a 4% allowance thereafter. The revision of the basis of capital allowances from a “reducing-balance method” to a “straight-line method,” combined with annual allowance rates that accord more closely with the useful lives of assets, will also render the system more competitive.

Objectives	Conditions for the first operation	Triggers second operation	Triggers third operation
		E. Review and assess the recommendations of the Bank-sponsored study of the rationalisation of taxes on petroleum and derivatives.	E. Implement the agreed recommendations of the Bank-sponsored study of the rationalisation of taxes on petroleum and derivatives within the context of maintaining consistency with the FRF.
Improve the effectiveness and efficiency of the tax and customs collection system.	II.2.a: The GoJ undertakes comprehensive tax administration improvements to:	II.2.b: The GoJ continues comprehensive tax administration improvements to:	II.2.c: The GoJ continues comprehensive tax administration improvements to:
	<p>A. Strengthen TAJ and JCA enforcement capabilities by:</p> <ol style="list-style-type: none"> <li>1. Increasing the LTO professional staff from 90 to 120.</li> <li>2. Strengthening powers to TAJ to mandate taxpayers e-filing.</li> <li>3. Issuing instructions for e-filing for all large taxpayers; all employers with 20 or more employees; and GCT refund claims.</li> </ol>	<p>A. Continue to strengthen TAJ and JCA enforcement capabilities by:</p> <ol style="list-style-type: none"> <li>1. Maintaining the number of professional staff in the LTO at no less than 120.</li> <li>2. Maintaining powers to TAJ to mandate taxpayers e-filing.</li> <li>3. Enforcing mandatory e-filing of all taxes paid by large taxpayers<sup>5</sup>, including payroll taxes.</li> <li>4. Harmonising and strengthening the tax laws' provisions for the collection of outstanding arrears (including powers to seize and sell taxpayers' property, and harmonise penalties and fines) by submitting a Bill to Parliament.</li> <li>5. Assessing the appropriateness of bank fees being charged and where it is to the benefit of the Government make corresponding adjustments in contract arrangements as feasible.</li> <li>6. Expand e-payment option to include the special telephone consumption tax and guest accommodation room tax.</li> <li>7. Proportion of large taxpayers' filing on time: CIT ≥ 80%, GCT ≥ 90%, PAYE ≥ 80%, so that the ratio of tax arrears to</li> </ol>	<p>A. Continue to strengthen TAJ and JCA enforcement capabilities by:</p> <ol style="list-style-type: none"> <li>1. Maintaining the number of professional staff in LTO at no less than 120</li> <li>2. Maintaining powers to TAJ to mandate taxpayers e-filing.</li> <li>3. Continuing to enforce mandatory e-filing for large taxpayers and payroll taxpayers.</li> <li>4. Provisions remain in force to strengthen the collection of outstanding arrears.</li> <li>5. Maintain Government contracts at appropriate fee structures.</li> <li>6. Maintain e-payment for taxes included as of the second operation.</li> <li>7. Proportion of large taxpayers' filing on time: CIT ≥ 85%, GCT ≥ 95%, PAYE ≥ 90%, so that the ratio of tax arrears to</li> </ol>

<sup>5</sup> Large taxpayers are defined as those who earn an annual gross receipt larger than J\$500 million that are not in the jurisdiction of MTO.



Objectives	Conditions for the first operation	Triggers second operation	Triggers third operation
		revenue $\leq 5\%$ . 8. Proportion of medium size taxpayers' filing on time: CIT $\geq 40\%$ , GCT $\geq 80\%$ , PAYE $\geq 65\%$ , so that the ratio of tax arrears to revenue $\leq 20\%$ . 9. Conducting a comprehensive audit on 15% of the large taxpayers and 10% of the medium taxpayers. <sup>7</sup>	revenue $\leq 5\%$ . 8. Proportion of medium size taxpayers' filing on time: CIT $\geq 40\%$ , GCT $\geq 80\%$ , PAYE $\geq 65\%$ , so that the ratio of tax arrears to revenue $\leq 20\%$ . 9. Conducting a comprehensive audit on 15% of the large taxpayers and 10% of the medium taxpayers. 10. Reducing medium size taxpayers' tax arrears on GCT, CIT and PAYE to $<10\%$ of the amount collected on these taxes.
	B. Strengthen the revenue administration agencies through improvements to their IT systems by: 1. Cabinet approval for TAJ to issue a contract for the integrated IT system  2. Cabinet approves JCA issuing a contract to implement an integrated customs IT system.	B. Continue to develop and implement the IT system of the revenue administration by:  1. Meeting interim benchmarks for implementation of Phase 1 <sup>8</sup> of TAJ's integrated tax administration IT system. 2. Meeting interim benchmarks <sup>9</sup> for implementation of the JCA integrated IT system, including mandatory e-filing of all customs declarations <sup>10</sup> and manifests.	B. Continue to develop and implement the IT system of the revenue administration by:  1. Fully implementing Phase 1 of TAJ's integrated tax administration IT system.  2. Meeting benchmarks <sup>11</sup> for implementation of the JCA integrated IT system, including mandatory e-filing of all customs declarations and manifests.
		C. The ACCPAC system is fully implemented.	C. The ACCPAC system is fully operational.
Objectives	Conditions for the first operation	Triggers second operation	Triggers third operation
<b>III. Rationalisation of expenditure</b>			
Contain public expenditure.	III.1.a: The GoJ, implements a policy of no central government salary increases to meet an annual wage bill target of no more than 10.6 percent of GDP for FY2013/14.	III.1.b: The GoJ, continues the policy of no central government salary increases to meet a wage bill annual target of no more than 9.7 percent of GDP for FY2014/15.	III.1.c: The GoJ continues to manage central government salary increases to meet an annual wage bill target of no more than 9.0 percent of GDP for FY2015/16.

<sup>6</sup> Medium Taxpayers are defined as those with annual gross receipt between J\$30 and J\$500 million and are not in the jurisdiction of the LTO.

<sup>7</sup> Each LT's audit should include separate audits of each tax type paid as well as the comprehensive audit of the taxpayer.

<sup>8</sup> Phase 1 involves incorporation of taxpayer registration, GCT/SCT and telephone call tax into the new ITAS application.

<sup>9</sup> This benchmark will be development of the ASYCUDAWorld Prototype.

<sup>10</sup> Customs declarations here is defined as declarations for goods imported for commercial purposes.

<sup>11</sup> This benchmark will be installation of the ASYCUDAWorld system at selected pilot sites and Customs headquarters.

Objectives	Conditions for the first operation	Triggers second operation	Triggers third operation
Improve efficiency and transparency of Jamaica's Public Bodies (PBs)	III.2.a: The GoJ, approves an update of the 2010 Master Rationalization Plan <sup>12</sup> to streamline the PBs through the following measures: A. Divestment of commercial entities. B. Merger of entities where feasible to bolster efficiencies. C. Winding-up of inactive entities (updating the list of entities in this category).	III.2.b: The GoJ, implements interim benchmarks of the 2014 Master Rationalization Plan to streamline the PBs	III.2.c: The GoJ, continues to implement the 2014 Master Rationalization Plan to streamline the PBs
	III.3.a: The GoJ, enforces measures to strengthen the accountability and transparency of public bodies by: 1. Reporting non-compliance to the Attorney General's Chambers those self-financing Public Bodies (PBs) that have not complied with the statutory requirement for submission of annual reports, and requesting that enforcement proceedings be considered.	III.3.b: The GoJ, enforces measures to strengthen the accountability and transparency of public bodies by: 1. Ensuring presentation of annual reports (including audited financial statements) of self-financing public bodies to Portfolio Ministries within the statutory time period of the end of the financial year to which the reports pertain.	III.3.c: The GoJ, continues to enforce measures to strengthen the accountability and transparency of public bodies by: 1. Ensuring the presentation of annual reports (including audited financial statements) for all public bodies to Portfolio Ministries within the statutory requirement period of the end of the financial year to which the reports pertain.
		III.4.b: Complete the Bank-sponsored study on the economic and financial situation of the NWC and JUTC.	III.4.c: Implement the agreed recommendations of the Bank-sponsored study to the extent possible within the context of maintaining consistency with the FRF.
<b>IV. Ensuring Sustainability of the National Insurance Scheme</b>			
Implement a fiscally sustainable National Insurance Scheme (NIS).	IV.1.a: The MLSS, submits to Cabinet a Concept Paper for reform of the National Insurance Scheme (NIS) that outlines: 1. The options and their impact for: i. Adjusting the contribution rate; ii. Adjusting pension benefits; and iii. Increasing coverage 2. The differentiated gender effects of these adjustments.	IV.1.b: The GoJ submits to Cabinet the Green Paper for the reform of the National Insurance Scheme that reflects the preferred option arising from: 1. An examination of the various options previously identified, including their fiscal impact on the Government 2. Stakeholder consultations. 3. An action plan that includes timelines and resources for the implementation of these reforms.	IV.1.c: Legislative framework in place for a comprehensive reform of the NIS based on the Bank-sponsored actuarial study and its consequential fiscal impact. The reform will include a timeline for implementation that address: 1. The contribution rate 2. The pension benefits; and 3. Increasing coverage.

<sup>12</sup> The action plan will demonstrate that it has taken into account the government's experience with, and lessons learned from, carrying out the "Action Plan for Rationalization of Public Bodies" submitted to the Bank in 2008 in compliance with commitments made to meet the objectives of the Jamaica Competitiveness Enhancement Program (1972/OC-JA, 2297/OC-JA, & JA-L1014).

Objectives	Conditions for the first operation	Triggers second operation	Triggers third operation
	IV.2.a: The MLSS, submits to Cabinet an actuarial analysis of the National Insurance Scheme (NIS).	IV.2.b: The GoJ establishes a stakeholder working group on the reform of the NIS including representatives from the MLSS, MoF, PIOJ and employee and employer representatives.	
		IV.3.b: The GoJ, ensures that the actuarial analysis of the NIS is publicly displayed for consultation.	
		IV.4.b: Cabinet approves drafting instructions for a bill to mandate that an actuarial analysis of the NIS will be required every three years.	IV.4.c: The GoJ, tables in Parliament a Bill to require an actuarial analysis of the NIS every three years.
	IV.5.a: The GoJ, prepares a report that includes: 1. An assessment of the current state of the hardware and software of the NIS. 2. A proposal for the creation of an NIS Management Information System (MIS) that interfaces with other relevant Government agencies.	IV.5.b: The GoJ, reviews and approves the hardware and software assessment report and based on the proposal for the creation of the specified NIS-MIS, contracts services for its creation.	IV.5.c: Key modules of the specified NIS-MIS is operational.
Objectives	Conditions for the first operation	Triggers second operation	Triggers third operation
<b>V. Strengthening the Fiscal Responsibility Framework</b>			
Assure a binding commitment to long-term fiscal sustainability	V.1.a: Cabinet approves the concept paper for enhanced rules-based governance of fiscal activities of the public sector and the issuing of drafting instructions to the Chief Parliamentary Counsel to draft the necessary legislative amendments. The enhanced fiscal rules will: 1. Establish debt reduction objectives specified as a medium term target of public debt to GDP ratio. 2. Enable automatic correction mechanisms to be implemented in the event of deviations from targeted fiscal balances. 3. Implement an escape clause to be activated only by Parliament in cases of major adverse shocks.	V.1.b: The legally binding fiscal rules are effective for the budget of FY2014/15.	V.1.c: Continued effectiveness of the legally binding fiscal rules.