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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

JAMAICA

FISCAL STRUCTURAL PROGRAMME FOR ECONOMIC GROWTH III

(JA-L1055)

LOAN PROPOSAL

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*At the request of the borrowing country, the information contained in this document will not be disclosed. The non-disclosure of this information is in accordance with the "country-specific information" exception in paragraph 4.1 i of the Bank's Access to Information Policy.

ELECTRONIC LINKS
18. Comparative Policy Matrix
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ABBREVIATIONS

ACCPAC	Accounting Financial Software Package
CARICOM	Caribbean Community and Common Market
CS	Country Strategy
CIT	Corporate Income Tax
CTMS	Central Treasury Management System
EFF	Extended Fund Facility
ETC	Employment Tax Credit
FAA	Financial Administration and Audit Act
FAMP	Fiscal Administration Modernisation Programme
FCP	Fiscal Consolidation Programme
FIA	Fiscal Incentives [Miscellaneous Provisions] Act
FISPEG	Fiscal Structural Programme for Economic Growth
FRF	Fiscal Responsibility Framework
FY	Fiscal Year (April 1 to March 31 in Jamaica)
GCT	General Consumption Tax
GDP	Gross Domestic Product
ICA	Initial Capital Allowances
IDB	Inter-American Development Bank
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IRR	Internal Rate of Return
IT	Information Technology
JCA	Jamaica Customs Agency
JUTC	Jamaica Urban Transit Company Limited
LAC	Latin America and Caribbean
LNG	Liquid Natural Gas
LT	Large Taxpayers
LTO	Large Taxpayer Office
MBT	Minimum Business Tax
MIS	Management Information System
MLSS	Ministry of Labour and Social Security
MOFPS	Ministry of Finance and the Public Service
MRP	Master Rationalisation Plan
NIF	National Insurance Fund
NIS	National Insurance Scheme
NPV	Net Present Value
NWC	National Water Commission
PAYE	Pay As You Earn
PB	Public Bodies
PBP	Policy-Based Loan under the Programmatic approach
PBL	Policy-Based Loan

ABBREVIATIONS	
PCR	Project Completion Report
PEFA	Public Expenditure and Financial Accountability
PED	Public Enterprises Division
PIT	Personal Income Tax
PP	Position Paper
RAIS	Revenue Administration Information System
ROE	Return on Equity
SCT	Specific Consumption Tax
TAJ	Tax Administration Jamaica
WB	World Bank
WG	Working Group

PROJECT SUMMARY
JAMAICA
FISCAL STRUCTURAL PROGRAMME FOR ECONOMIC GROWTH III
(JA-L1055)

<table>
<tr><th colspan="5">Financial Terms and Conditions</th></tr>
<tr><td colspan="3" rowspan="2">Borrower: Jamaica</td><th colspan="2">Flexible Financing Facility[a]</th></tr>
<tr><td>Amortization Period:</td><td>20 years</td></tr>
<tr><td colspan="3" rowspan="2">Executing Agency: Ministry of Finance and the Public Service</td><td>Original WAL:</td><td>12.75 years</td></tr>
<tr><td>Disbursement Period:</td><td>12 months</td></tr>
<tr><th>Source</th><th>Amount (US$)</th><th>%</th><td>Grace Period:</td><td>5.5 years</td></tr>
<tr><td rowspan="2">IDB (OC):</td><td rowspan="2">50,000,000</td><td rowspan="2">100</td><td>Supervision and Inspection Fee:</td><td>[b]</td></tr>
<tr><td>Interest rate:</td><td>Libor</td></tr>
<tr><td rowspan="2">Total:</td><td rowspan="2">50,000,000</td><td rowspan="2">100</td><td>Credit Fee:</td><td>[b]</td></tr>
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Project at a Glance

Project Objective/Description:

The objective of the Fiscal Structural Programme for Economic Growth III is to support the government's efforts to achieve a sustainable fiscal path. It will do so by: (i) further reducing tax distortions, which hinder private investment, employment and competitiveness; (ii) continue strengthening revenue collection through broadening tax bases while enhancing tax and customs administration effectiveness; (iii) enhancing control over budgetary expenditure; (iv) improving the fiscal sustainability of the National Insurance Scheme; and (v) strengthening the Fiscal Responsibility Framework.

This operation is the third and last one of three consecutive, independently financed but technically interrelated one-tranche programmatic policy-based loans, as per document CS-3633-1.

Special Contractual Clauses prior to the disbursement:

The single disbursement of loan resources will be subject to compliance with the policy conditions summarized in the Policy Matrix (Annex II) and in the Policy Letter, as well as the compliance with the conditions contained in the loan contract (¶3.4).

Exceptions to Bank Policies: None

Strategic Alignment

Challenges[c]:	SI ☐	PI ☐	EI ☐
Cross-Cutting Themes[d]:	GD ☐	CC ☐	IC ☑

[a] Under the Flexible Financing Facility (FN-655-1), the borrower has the option to request modifications to the amortization schedule as well as currency and interest rate conversions. In considering such requests, the Bank will take into account operational and risk management considerations.

[b] The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors during its review of the Bank's lending charges, in accordance with the relevant policies.

[c] SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

[d] GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, Problem Addressed, Justification

1.1 **Background.** Since signing the Extended Fund Facility (EFF) with the International Monetary Fund (IMF) in May 2013, Jamaica has been recovering from the economic conditions that led up to the increasingly unsustainable fiscal deficit that prevailed at that time.[1] Over the thirteen reviews, the programme has complied with all structural benchmark indicators and all quantitative quarterly targets and therefore it has been on track since the outset. In parallel, the authorities have successfully complied with all the structural reform conditions under the Policy-Based Loans (PBLs) signed with the Bank (see par. ¶1.31) and the Development Policy Loan agreed with the World Bank (WB). The successful results achieved by Jamaica are due to the strong commitment from the authorities to approve and implement key structural reforms. Strong coordination has also prevailed between the IMF, the WB and the Bank.

1.2 Over the last three fiscal years (2013/14-2015/16),[2] the Jamaican economy recorded an average annual growth rate of around 0.7% in real terms, in line with its prior low growth of around 1%. On the positive side, inflation is receding and reserves are increasing (see Macro-Economic Indicators), tax revenues went up from 23.5% to 24.4%, the overall deficit decreased from 6.4% to 0.5% of GDP and public debt declined from 140.5% to 120% of Gross Domestic Product (GDP). While some cautionary approach remains due to Jamaica's track record implementing fiscal adjustment programmes and the still high level of debt and low growth, there is strong recognition from the multilateral and bilateral organisations that this time around, Jamaica has taken the right steps towards securing a sustainable fiscal path and higher growth rates. The economy's growth projections for FY2016/17 stands at around 1.8% in real terms, based on the improvement in bauxite exports, higher tourism receipts, remittances —which boost domestic demand— and an upturn in agriculture. The government's current Fiscal Policy Paper outlines a macroeconomic policy framework that is compatible with achieving the objectives of this programme.

1.3 Following the elections held in February 2016, there was a change in the political administration. The current government has signalled that fiscal consolidation will remain the focus of economic policy in FY2016/17 and as such, it fully supports both the EFF and the structural reforms agenda under the Bank's Fiscal Structural Programme for Economic Growth (FISPEG) Policy-Based Loans under the Programmatic approach (PBP).

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[1] The EFF centers on a strong fiscal consolidation programme, anchored on the premise that the central government can achieve annual primary surpluses of 7.5% and 7% of GDP for the period 2013/14-2021/22. Public debt is expected to decrease given the projected macroeconomic framework and fiscal targets reflected in the medium-term macroeconomic framework. In addition, economic growth would accelerate to an annual rate close to 3% by the end of the programme. The main pillars are: (i) structural reforms to boost growth and employment; (ii) actions to improve the economy's competitiveness; (iii) structural fiscal reforms; (iv) debt reduction to place public debt on a sustainable path; and (v) social protection programmes.

[2] The fiscal year in Jamaica runs from April 1 to March 31.

1.4 **Problems addressed.** Jamaica continues to experience low average economic growth and challenges in its fiscal sustainability, heightened by a slow recovery from the global economic recession of 2008. At the beginning of the FISPEG programmatic series (2014), the main factors that needed to be addressed were:

1.5 A distortionary and inequitable **revenue system** historically characterised by: (i) narrow tax bases, excessive waivers and non-standard incentives;[3] (ii) high direct tax rates;[4] and (iii) high and dispersed import tariffs[5] that hindered economic productivity and competitiveness (Jamaica Customs Code).[6]

1.6 **Tax collection** systems at the Tax Administration Jamaica (TAJ) and the Jamaica Customs Agency (JCA) required updating to enhance their capacity to collect revenue more effectively. Elements that needed to be addressed related to: (i) the understaffing of key units involved in tax collection;[7] (ii) the need for strengthening a mandate to enforce compliance to address inter alia, the timeliness of taxpayers filing and paying;[8] (iii) e-filing and e-payment systems that were partially implemented; and (iv) Information Technology (IT) systems not integrated that partially relied on manual data entry. In addition, TAJ and JCA's accounting and financial systems required automation and in some respect did not comply with accounting standards. These systems were a combination of manual processing supplemented with Excel spreadsheets and some accounting information from the legacy systems.

1.7 Historically the central government's budget has been impacted by a number of factors that have negatively affected the planned budgets. Budget rigidities and lack of effective budget planning in some Public Bodies (PBs) have also impacted the fiscal operations. The central government wage bill component, which in FY2012/13 represented 54% of the primary expenditure (11% of GDP), is among the highest in the Caribbean Region, primarily due to the limited growth of the economy. In addition, some of the PBs[9] incurred chronically large deficits

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[3] In the period 2006-09, tax expenditures averaged 7.1% of GDP (Tax Expenditures and Impact of Tax Reform), with no economic or social justification. Jamaica has the third highest level of tax incentives in the region. See Fretes, V. et. al. More than Revenue: Taxation as a Development Tool IADB, 2013, page 212.

[4] For example, until 2013, Large Taxpayers (LT) in Jamaica paid Corporate Income Tax (CIT) at a rate of up to 33.33%, which is comparable to an average rate of 27.8% across the LAC region. Excluding Brazil and Argentina whose CIT rates are 35% and 34% respectively, the average drops to 26.8%. Also, Jamaica is significantly above the average of 25% observed in the Caribbean Region. See: Fretes, V. et. Al. More than Revenue: Taxation as a Development Tool. IADB, 2013, pages 203-217.

[5] The tariffs ranged between zero and 177%.

[6] See: Pomerlau K. and Lundeen, A. International Tax Competitiveness Index. Tax Foundation 2014.

[7] For example, in 2013, the Large Taxpayer Office (LTO) had 75 staff to audit and inspect 1,042 LTs: 1 employee for every 14 taxpayers (7%), while the average standard for small developing countries in the LAC region is 16%.

[8] In FY2011/12, only 73% of the LTs and 20% of the remaining taxpayers filed their Pay As You Earn (PAYE) returns on time. For General Consumption Tax (GCT), these rates were 94% and 65% respectively.

[9] Public Bodies are "defined as defined as statutory bodies, authorities or government companies" (MOFPS/ Public Enterprises Division -PED Jamaica Public Bodies: Estimates of Revenues 2016, p.1).

and debts.[10] Parliament has traditionally approved additional (unplanned) subventions from the Consolidated Fund. Some PBs have failed to fully comply with accounting standards[11] (i.e. auditing, recording and reporting) resulting in ineffective budget planning and execution and delayed information about their financial soundness.[12] In 2010, only 12% of PBs presented their financial statements on time (within 6 months after FY end).[13] Two PBs, the National Water Commission (NWC) and Jamaica Urban Transit Company Limited (JUTC), stood out as particularly challenging. According to the Public Expenditure and Financial Accountability (PEFA Report 2012), these delays in the submission of financial statements limit the information available for policy decisions.

1.8 The **National Insurance Scheme (NIS)** had an actuarial deficit in 2013 of US$3.41 billion (29% of GDP),[14] with pension expenditures of 9.9% of GDP. Current contribution rates do not support current pension levels. The National Insurance Fund (NIF) could run out of resources by 2033.[15] The NIS contributions equal to 4% of the wage have been shown to be insufficient to finance the pension benefit levels (National Insurance Scheme in Jamaica: Pursuing Sustainability while Strengthening Adequacy and Actuarial Analysis of the Sustainability of the National Insurance Scheme (NIS)). In 2005-09, the average gross nominal yield was 18%, with an inflation rate of 11.4%.[16] The NIS database on pensioners is outdated, incomplete and encumbered with errors and omissions, which causes extensive delays in the processing of claims and the payment of benefits (Information Technology Diagnosis of the Jamaican National Insurance Scheme (NIS). NIS has lacked the information and mechanisms to monitor its performance and fiscal sustainability (Actuarial Analysis of the Sustainability of the National Insurance Scheme (NIS). While the law requires a quinquennial actuarial review of the NIF, the last review was in 2005. The status of beneficiaries of the NIS and their participation in other programmes could not be verified.

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10 See: Villasmil, R. Underlying Causes of the Chronically Negative Balances of NWC and JUTC. March 2015. IDB. pag 13.

11 The Jamaican national accounting standards are based on International Accounting Standards (IAS). Jamaican accounting standards regulators adopted the International Financial Reporting Standards (IFRS) on auditing on 2002. All companies are required to apply IFRS in the preparation of their financial statements and to have these statements audited in accordance with IAS.

12 For example, Clarendon Alumina Production has incurred losses of US$29.8 million, with a cumulative fiscal deficit projected at US$236.8 million by FY2013/14. The NWC was burdened with two major liabilities in 2013 that forced an overall loss of US$61.4 million, leading to an accumulated nominal deficit of US$232.4 million (Underlying causes of chronically negative balances of NWC and JUTC).

13 Source: Public Enterprises Division in the Ministry of Finance and the Public Service.

14 The NIF may enter in an operational deficit (in the absence of any reform) by 2025 due to an increase in the ratio of pensioners to contributors.

15 In addition to the fiscal problems, the NIS also faces an important problem of coverage due to labor market informality. In particular, only 40% of workers contribute to the NIS. (National Insurance Scheme in Jamaica: Pursuing Sustainability while Strengthening Adequacy, pg.8).

16 In 2012 the NIF performed an asset swap of Fixed Rate Accrediting Notes in exchange for government debt at a rate of J$80 (US$0.7) for every J$100 (US$0.9), lowering the value of the fund by 20% (Actuarial Analysis of the Sustainability of the National Insurance Scheme (NIS)). In 2013, the NIF stood at US$565 million, compared to US$631 million in the previous fiscal year.

1.9 On the **Fiscal Rules**, the government needed to refine its capacity to address fiscal responses to macroeconomic shocks. In the past, this led to increased expenditures, on an ad hoc basis[17] because no mechanism was in place to constrain contingent liabilities or discourage the shifting of fiscal activities from the central government budget to explicit or implicit guarantees.

1.10 **Justification.** At the request of the authorities, the Bank is supporting the government's structural reform plan through the FISPEG. This intervention is justified by the vast experience and lessons learned that the Bank has gained supporting member countries in strengthening their tax systems, improving the quality of public expenditure and fostering sustainability throughout the LAC region. In the Caribbean, the Bank has supported the design and implementation of tax reforms (e.g. Bahamas and Suriname) and tax administration strengthening (Barbados, Bahamas and Suriname). Since 2010, the Bank has been supporting Jamaica through a diverse portfolio that includes this PBL programmatic series (see par. ¶1.31), an investment loan (Fiscal Administration Modernisation Programme JA-L1039) and a series of technical assistance that have supported the design and implementation of the structural reforms. For example, as part of the first operation, the Bank provided technical assistance to the government (under ATN/FI-12649-JA, Support to Fiscal Consolidation), to design, approve and implement a comprehensive tax reform that broadens the tax base, reduces tax expenditures, and promotes economic growth and formal employment. This reform is consistent with international best practice recommended by the Bank and other institutions (Supporting the Development of More Effective Tax Systems).

1.11 The **overall objective** of the FISPEG as a programmatic series is to support the government's efforts to achieve a sustainable fiscal path. This is done by: (i) reducing tax distortions which hinder private investment, employment and competitiveness; (ii) strengthening revenue collection through broadening tax bases and reducing tax rates while enhancing tax and customs administration effectiveness and facilitating trade; (iii) enhancing control over budgetary expenditure; (iv) improving the fiscal sustainability of the NIS; and (v) strengthening the FRF through an enhanced fiscal rule.

1.12 The FISPEG programmatic series frontloads key structural reforms such as the approval of the comprehensive tax reform (see Box 1), which was the focus of the first loan operation for US$80 million (3148/OC-JA, approved by the Board of Directors in February 2014). Other measures achieved during the first operation were the strengthening of the tax administration enforcement mandates by updating its legal framework; the rationalisation of public expenditure; and the preparation of the conceptual paper that lay ground for the enhancement of the fiscal rule. The second loan operation for US$130 million (3511/OC-JA approved in August 2015), focused on the implementation of the tax reform; the institutional strengthening of the TAJ and JCA; the rationalisation plan to streamline the PBs; the approval of an enhanced fiscal rule and; the institutional strengthening of the

[17] The ratio between the primary expenditure and the GDP is 20.4%, IMF EFF recommends decreasing this ratio to 18.0%.

NIS. Table 1 below describes the progress achieved by the FISPEG during the first two operations.

Table 1. Key milestones achieved by the FISPEG operations I and II

Area	Operation I	Operation II
Tax policy	Approval of the tax reform by amending the: - Fiscal Incentives (Miscellaneous Provisions) Act (FIA) - Charities Act - Income Tax and Customs Acts - Income Tax Relief Box 1 summarizes the main results of the tax reform.	Implementation of the tax reform as part of the FY2014/15 budget and introduction of the: - Minimum Business Tax (MBT) - GCT rate to government purchases
Tax administration	Strengthening of TAJ and JCA by: - updating their legal framework to improve enforcement powers - implementing administrative measures to improve tax compliance; - acquiring a new integrated IT system.[18]	Additional strengthening of the TAJ and JCA by: - enforcing mandatory e-filing of all taxes paid by LTs - enforcing the use of the IT e-filing system - submitting to Parliament amendments to the Tax Collection Act to include provisions for the collection of outstanding arrears - implementing the Accounting Financial Software Package (ACCPAC)
Rationalisation of Expenditure	- Implementation of a policy of no central government salary increases to meet an annual wage bill target - Updating of the 2010 Master Rationalisation Plan (MRP) to: (i) streamline the PBs and; (ii) improve the accountability and transparency of PBs	- Under the MRP: (i) the privatisation of three PBs and merging of two regulatory entities; and (ii) institutional measures to strengthen the timely presentation of annual reports by self-financing PBs
Sustainability of the NIS		- Approval of drafting instructions for a Bill to mandate an actuarial analysis of the NIS every three years - Submission to Cabinet of a Green Paper for the reform of the NIS and the corresponding Action Plan
Fiscal Responsibility Framework	- Approval of a Concept Paper to enhance rules-based governance of fiscal activities of the public sector	Implementation of the enhance Fiscal Rules by amending the: - Public Bodies Management and Accountability Act; - Financial Administration and Audit Act; - Charities Act; - FIA.

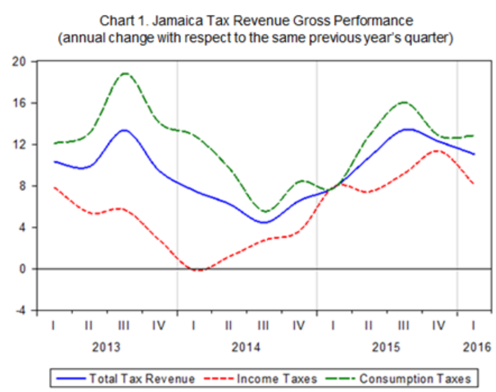
[18] As part of the conditions of the first operation, the Bank, the authorities and the IMF agreed on a Tax and Customs Administration Reform Action Plan, which the Bank is regularly monitoring.

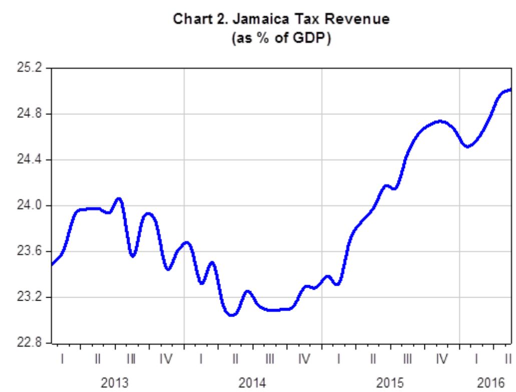
Box 1: Highlights of the tax reform in Jamaica

In December 2013, the Jamaican authorities, with the technical support of the Bank (in the design and implementation), approved a historic tax reform. The reform aims at: (i) broadening the tax base by eliminating / reducing tax expenditures; and (ii) making a more efficient and equitable tax system by eliminating tax distortions, reducing and standardising tax rates, and promoting investment and formal employment for economic growth. The key amended Acts (see Table 1) provides a comprehensive framework for the incentive regime ensuring limited standardised non-specific incentives that help boost the use of capital and labour in productive sectors of the economy. These amendments were implemented: (i) cease granting of discretionary incentives and eliminate others that could not be justified under economic and productive means; (ii) reduce Corporate Income Tax (CIT) for unregulated companies a rate of 25%; (iii) modernize capital allowance regime; (iv) reduce agricultural imports tariff rates at or below 40% to a default rate of 20%; and (v) establish an Employment Tax Credit (ETC) to foster productivity and boost growth.

The full implementation of the tax reform was completed when all taxpayers under the old regime chose between subscribing to the new regime or electing to have their tax exemption benefits expire under the old regime. Entities that had been benefitting under the old Incentive Act had the opportunity to continue to enjoy those benefits until their incentive period expires. This mechanism of grandfathering allows minimal disruption within the economy. The effects of the tax reform have been:

- Tax expenditures reduction from 6.5% of GDP in 2011 to 3.5% in 2014 (Tax Expenditure Estimates 2012-2014).
- The growth rate of tax collection increased in the period 2014-2016 (see Chart 1). In 2015 (Q3) the nominal growth rate of total tax revenue, compared to 2014(Q3), was 13.4%, while inflation was around 3.5%. Given that, the real growth rate of GDP was of around 1%, total tax revenue in real terms grew by 1.1%.
- Results up to May 2016 show a strong recovery of tax revenue going from 23% of GDP at the beginning of FY2014/15 to 25% of GDP reported in May 2016 (see Chart 2).





Notwithstanding the encouraging initial results of the tax reform under the FISPEG, further strengthening of the tax administration is crucial to enforce strict compliance with the grandfathered provisions and the implementation of the FIA.

1.13 **The Bank's Strategy in the Country and Sector.** The programme is aligned with the IDB Country Strategy for Jamaica, 2016-2021 (GN-2868). The CS focuses on supporting efforts to re-establish fiscal sustainability, maintaining social stability, and promoting private sector-led growth. The FISPEG supports the CS in improving the public sector management strategic area as well as increasing private sector productivity and growth. It complements four Bank operations: (i) the Competitiveness Programme (3147/OC-JA), which sponsored reforms to reduce the cost of paying taxes for private sector activities; (ii) the

Public Financial and Performance Management Programme (2058/OC-JA), which implemented the Financial Administration and Audit Act (FAA); (iii) the Public Sector Efficiency Programme (3121/OC-JA) that aimed to strengthen the government's capacity in managing its human resources, IT, and management by results; and (iv) the Fiscal Administration Modernisation Programme (2658/OC-JA), which provides support to the government's efforts to improve efficiency of fiscal management and responsibility. In addition, the programme is included in the Operational Program Report of 2016 (GN-2849).

1.14 **Strategic Alignment.** The programme is consistent with the Update to the Institutional Strategy (UIS) 2010-2020 (AB-3008). The programme is aligned with the cross-cutting theme of institutional capacity and rule of law by strengthening the institutional capacity of JCA to facilitate the movement of goods and services within and outside CARICOM, and promote a better integration of the country in the global economy. The programme will contribute to the Corporate Results Framework 2016-2019 (GN-2727-6) (CRF) by increasing tax revenues as a percent of GDP. The programme is also consistent with the Sector Strategy Institutions for Growth and Social Welfare (GN-2587-2) in the areas of public sector management and finance through the strengthening of the public sector management and revenue generation and macro-fiscal management. Additionally, the programme is consistent with the Fiscal Policy and Management Sector Framework (GN-2831-3), under all four dimensions:

a. Dimension 1: Fiscal policies to reinforce sustained growth in a context of fiscal sustainability and macroeconomic stability;

b. Dimension 2: Build public sector's institutional capacities to design and implement fiscal policies that improve efficient mobilisation and allocation of resources;

c. Dimension 3: Governments promote fiscal policies that improve equity and social inclusion and;

d. Dimension 4: Governments promote strengthening the efficiency of tax administrations and of financial management and use of public resources.

1.15 **The Bank's interventions in Jamaica.** The Bank sponsored two closely related programmes. The first was the Fiscal Consolidation Programme (FCP), funded by two programmatic PBLs (PBL, 2359/OC-JA and 2502/OC-JA) disbursed in 2010. The third PBL in the series was not processed. Several lessons from the Bank's experience with the design and execution of the (truncated) FCP are useful to keep in mind: (i) when designing and implementing comprehensive and sensitive tax reforms, a broad social and political consensus is needed, which takes time to build; and (ii) the Bank's technical team should have the opportunity to discuss the reform agenda with host-country technical staff outside of the narrow context of the programme design and implementation. The FISPEG benefits from the sensitisation achieved from the FCP experience and the now much broader public realisation that the country has to put key structural reforms into effect.

1.16 The second intervention is a US$65 million investment loan (2658/OC-JA) for the Fiscal Administration Modernisation Programme (FAMP), signed in 2011, that supports the modernisation of the tax administration, the strengthening of debt management and the implementation of the Central Treasury Management System (CTMS). This program is 63% disbursed and has provided invaluable support in achieving many of the FISPEG-sponsored policy reforms. For example, the use of the GENTAX by TAJ, financed under FAMP, has strengthened the monitoring and evaluation of the CIT collection as well as facilitated corrective actions where necessary.

B. Objective, Components and Cost

1.17 This is the third and last in a series of three PBLs under the programmatic approach that constitute the FISPEG. The pending challenges under the FISPEG addressed in this operation are key issues regarding the NIS reform, the consolidation process of the institutional strengthening of the TAJ and JCA and the fiscal rule. (Paragraph ¶1.19 below details the activities that pertain to this operation).

1.18 The **objective of the FISPEG III** is to support the government's efforts to achieve a sustainable fiscal path. It will do so by: (i) further reducing tax distortions, which hinder private investment, employment and competitiveness; (ii) continue strengthening revenue collection through broadening tax bases while enhancing tax and customs administration effectiveness; (iii) enhancing control over budgetary expenditure; (iv) improving the fiscal sustainability of the NIS; and (v) strengthening the FRF.

1.19 This operation will build on the success of the first two operations, which achieved simplification of the tariff structure; reduction of tax distortions by implementing such measures as reducing the CIT rate to 25%; implementation of the fiscal responsibility framework; curtailment of expenditure through, for example, the cessation of granting new categories of ministerial discretionary waivers; among other major achievements. In addition to maintaining all of the reforms and institutional changes achieved during the first and second operations, the third operation will focus particularly on the following areas under the programme: (i) securing the full implementation of the tax reform, which includes the strengthening of the tax revenues as well as the further enhancement of the tax and customs administration; (ii) the full implementation of the MRP, continued management of the central government salary increases to meet the annual wage bill target and stronger control of the PBs and; (iii) the sustainability of the NIS, by supporting the government in paving the road for a comprehensive reform through legislative amendments and operational strengthening.

1.20 **Changes in the policy conditions of the FISPEG III.** This third operation drives the same reforms that had originally been planned in the framework of a programmatic series that supports substantive medium and long-term policy reforms (see CS-3633-1). Yet, some adjustments were made in some of its original policy conditions due to information and circumstances that were not known at the beginning of the series. These adjustments do not alter the outcomes and objective of the FISPEG. As detailed below and in the

Comparative Matrix, in one particular case it was necessary to postpone the adoption of a legal reform (the regulatory framework NIS) to give more time to the maturation of essential consensus among multiple stakeholders. In the remaining cases, the policy conditions were reinforced or specific conditions eased slightly, without affecting the fulfilment of the objectives of the operation.

1.21 The programme comprises five **components** as outlined below:

1.22 **Component I. Macroeconomic stability.** The objective of this component is for the Government of Jamaica to maintain a macroeconomic framework consistent with the objectives of the programme and the Policy Matrix.

1.23 **Component II. Strengthening tax policy and administration.** The objective of this component is to further reduce distortions and improve efficiency of the tax system to promote growth, competitiveness and equity. Specifically, the Government of Jamaica:

a. Maintains the implementation of the comprehensive tax reform programme that includes measures to:

   1. Simplify the tariff structure by reducing import tariff dispersion (consistent with CARICOM and other international trade agreements) by maintaining: (i) the tariff caps on imports as specified in the first operation; and (ii) the 5% tariff rate on selected intermediate and final goods as specified in the first operation.
   2. Increase tax revenues by: (i) implementing the MBT; (ii) maintaining a cap of 50% on claims for deduction of tax losses forwarded in any year of assessment on chargeable income (CIT and Personal Income Tax-PIT); and (iii) maintaining the GCT rate applicable on Government of Jamaica purchases.
   3. Curtail tax expenditures by maintaining: (i) the provisions of the Charities Act, the FIA and the consequential amendments to the revenue laws; and (ii) the cessation of granting of new categories of ministerial discretionary waivers.
   4. Reduce economic distortions and promote economic growth by: (i) maintaining the CIT rate of 25% for unregulated companies; (ii) continuing the ETC for registered trade companies under the labour incentive programme, up to a cap of 30% of the chargeable income tax; (iii) maintaining the Initial Capital Allowances (ICAs) for new capital investment; and (iv) maintaining the limitation of tax incentives allowed under the FIA for pioneer/mega projects at an overall cap of 0.25% GDP.
   5. Implement a new SCT regime on LNG, increase SCT on Petroleum

Products and cigarettes, and increase Departure Tax.[19]

b. Continues the comprehensive tax administration improvements to:

1. Continue to strengthen TAJ and JCA enforcement capabilities by: (i) increasing the number of qualified professional staff in LTO to 135; (ii) maintaining powers to TAJ to mandate taxpayers e-filing; (iii) continuing to enforce mandatory e-filing of all taxes for all large taxpayers and GCT refund claims and employer annual returns (SO2) for all taxpayers; (iv) maintaining provisions to strengthen the collection of outstanding arrears; (v) increasing the use of low cost electronic payment methods to decrease payment processing fees; (vi) maintaining e-payment for taxes included as of the second operation; (vii) improving the proportion of large taxpayers' filing on time: CIT ≥ 95%, GCT ≥ 97%, PAYE ≥ 97%, with the actual ratio of tax arrears to revenue ≤ 24.6%; (viii) improving the proportion of medium size taxpayers' filing on time: CIT ≥ 40%, GCT ≥ 88%, PAYE ≥ 64%, with the actual ratio of tax arrears to revenue ≤ 56%; and (ix) conducting comprehensive audits of at least 12.5% of the large taxpayers by FY2015/16.[20]

2. Continue to develop and implement the IT system of the revenue administration by: (i) fully implementing Phases 1 and 2 and implementing Phase 3 of TAJ's integrated tax administration IT system;[21] and (ii) full implementation of the JCA integrated IT system, including mandatory e-filing of all customs declarations and manifests.

3. Fully operationalize in the JCA the ACCPAC system.

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[19] The original condition of the FISPEG called for the implementation of the recommendations of the Bank-sponsored study of the rationalisation of taxes on petroleum and derivatives. Following the discussions during the preparation of this third operation, the authorities opted to implement the abovementioned measure, which is in line with the objective of increasing tax revenues (see: Comparative Policy Matrix).

[20] Conditions (i) and (iii) changed from the original trigger in the second operation of the FISPEG, both reinforced the objective of the programme as more qualified staff was hired than what was originally established and mandatory e-filing was extended to GCT refund claims and employer annual returns for all taxpayers. Conditions (v), (vii), (viii) and (ix) changed due to the implementation of the tax IT system and the automation of the procedures to collect taxes, such as the mandatory e-filing. Because of this, TAJ and JCA are now able to implement stricter controls over tax filing and a more accurate reporting of tax compliance. Regarding comprehensive tax audits, in FY2015/16 TAJ reallocated human resources to resolve some audit anomalies in the hotel sector arising as the result of the implementation of the IT-system and stricter e-filling control. As such, the comprehensive audits reported for this last operation are smaller than originally planned in the programme. Regarding arrears, at the beginning of the FISPEG, the amount was based on manual procedures therefore containing many errors and omissions. The number reported in this operation is coming from the IT-system, which provides a more accurate number. In addition, an ongoing debt write-off policy has lower collectable arrears until individual cases are resolved. (see: Comparative Policy Matrix).

[21] The original condition called for the implementation of Phase I of the IT-system. With resources available under the FAMP, the Government of Jamaica implemented Phase I and Phase II and now is implementing Phase III. The full implementation of Phase I and II and the startup of Phase III exceeds the original condition and therefore reinforcing the objective of the FISPEG. Phase 2 adds the income taxes (CIT, PIT, Education Tax, Minimum Business Tax and Asset Tax) into the Revenue Administration Information System (RAIS); Phase 3 adds Stamp Duty, Withholding Taxes, Transfer Taxes, Betting-Gaming-Lottery, Environmental Protection Levy, Trade and Business Licenses, and Contractor Levy.

1.24 **Component III. Rationalisation of expenditure.** The objective of this component is to contain public expenditure. Specifically the Government of Jamaica:

a. Continues to manage central government salary increases to meet an annual wage bill target of no more than 10.3% of GDP for FY2015/16.[22]

b. Continues to implement the MRP to streamline the PBs.

c. Continues to enforce measures to strengthen the accountability and transparency of PBs by demonstrating improvement in the proportion of self-financing PBs monitored by the Public Enterprises Division (PED) of the MOFPS that present their annual reports (including audited financial statements) within the agreed six month time period after the end of the financial year to which the reports pertain.

d. Implements specific efficiency measures at the JUTC and NWC consistent with the relevant conclusions of the Bank sponsored study. [23]

1.25 **Component IV. Ensuring Sustainability of the National Insurance Scheme.** The objective of this component is to implement a fiscally sustainable reform of the NIS. Specifically:

a. Cabinet approval of the Position Paper (PP) on the preferred option for the NIS Reform and its fiscal impact, which includes specific recommendations for implementation regarding: (i) the contribution rate; (ii) the pension benefits; and (iii) increasing coverage.[24]

b. The Government of Jamaica tables in Parliament a Bill to require an actuarial analysis of the NIS every three years.

c. Key modules of the specified NIS-MIS are operational.

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22 As part of the original condition in the FISPEG, the wage bill policy target for the third operation was set at 9% of GDP. Despite maintenance of the no salary increase policy, the estimated Wage to GDP ratio for FY15/16 is 10.3%. The deviation from the original target is due to the GDP being lower than expected during FY15/16. During FY15/16, the Government of Jamaica reviewed the previous estimated GDP for FY14/15 based on updated data. The actual growth and inflation for FY15/16 to date has been lower than programmed. So the growth for the full fiscal year is lower than estimated (see: Comparative Policy Matrix).

23 This condition changed from the original trigger in the second operation of the FISPEG (see: Comparative Policy Matrix). The original condition of the programme for the third operation was that the Government of Jamaica would implement the agreed recommendations of the Bank sponsored study. The abovementioned condition is the result of the discussions between the Bank and the authorities regarding the recommendations of the Bank study and therefore is in line with the objective of the component.

24 In the first operation of the FISPEG, the original condition of the programme for the third operation was that the Government of Jamaica would put in place the legislative framework for a comprehensive reform of the NIS based on the Bank sponsored actuarial study and its consequential fiscal impact. This original condition implied Parliament approval. For this operation, the condition changed to what has been described above. The approved PP will provide the social consensus needed to consolidate the reform prior to be presented to Parliament, so the condition remains in line with the objective of the programme (see: Comparative Policy Matrix).

1.26 **Component V. Strengthening the Fiscal Responsibility Framework.** The objective of this component is to assure a binding commitment to long-term fiscal sustainability. Specifically, the Government of Jamaica continues to be committed to the continued effectiveness of the enhanced rules of the Fiscal Responsibility Framework.

1.27 The programme directly benefits: (i) the central government, through additional resources to finance more effective public expenditure; (ii) taxpayers, through a more equitable tax system; and (iii) participants under the NIS through a better pension system.

C. Key Results Indicators

1.28 The expected results of the operation are an increase in: (i) tax revenues through the tax reform; (ii) annual audits performed by LTO and Medium Taxpayer Office; and (iii) the percentage of self-financing PBs with audited financial statements submitted on time. Other expected results are decreases in: (i) the annual central government sector wage bill to GDP; (ii) the actuarial deficit of the NIF; (iii) the average time required for pension claims processing and (iv) contain the increase of the primary expenditure as percent of GDP Detail of the impact, results and outputs of the operation are included in the Results Matrix.

1.29 The Bank performed a Cost Benefit Analysis to evaluate the expected results of the programme's tax reform component, which is oriented to the accomplishment of a sustainable tax system, contributing to increasing tax revenue and reducing the fiscal deficit (Economic Analysis). The design of the tax reform intends to have a gradual impact on tax revenues over a period of three years that would accumulate to 1% of GDP by the end of FY2016/2017.

1.30 The discount rate used to calculate the Net Present Value (NPV) is 12% over a period of 10 years. The Revenue Reform benefits derive from the 8 intervention policies presented in Chapter III of the Financial Evaluation, starting with a benefit of US$12.5 million in 2013 and ending with a benefit of US$40.7 million in 2020. The NPV was US$294.4 million and the Internal Rate of Return (IRR) was 78%.

1.31 The tax revenue strategy proposed by the FISPEG Tax Reform Component II, is expected to increase revenue by approximately US$141.22 million (1% of GDP) once all the reforms are fully implemented. The calculation of benefits shows that by FY2022/23 the reform will be generating a NPV of approximately US$292 million (at the Bank's standard discount rate of 12%) with an IRR of 77%.

1.32 External and Internal Validity:

a. **Tax policy and administration reforms.** A successful tax administration reform in Seychelles (Tax reform in other countries) has many similarities to the Jamaica case, including: (i) being developed under the country's broader economic reform programme; and (ii) relying on compliance facilitation and compliance enforcement. The Seychelles reforms were assessed as having lessened the fiscal deficit (from 3.2% in FY2000 to

1% in FY2006) and increased tax revenues (from 9.6% of GDP in FY2000 to 11.2% in FY2006).

b. **Quality of expenditure.** A study of PBs in the Solomon Islands (Asian Development Bank (ADB), Finding Balance 2014: Benchmarking the Performance of State-Owned Enterprises in Island Countries), which underwent interventions similar to those in Jamaica including privatisations and improvements of government PBs concluded that the Solomon Islands PB portfolio is now the most profitable portfolio in the Pacific and in the benchmarking sample. The average Return on Equity (ROE) of the portfolio increased from –12% in FY2002–2008, to 6% in 2009 -2012, reaching 15% in FY2012.

c. **NIS.** An actuarial study of the pension system (NIF) reform in Barbados in 2002, which has many similarities to the Jamaica interventions showed that the reform extended the life of the Barbados NIF at least until 2045. This represents a significant improvement over the no-reform projected depletion date of 2030. Another similarity of the reforms is the stakeholder consultations, which increase the chances of their social acceptance.

d. **Fiscal Rules.** An examination of India's experience with fiscal rules (India's Experience with Fiscal Rules: An Evaluation and The Way Forward) shows that the approach used there is similar to the one proposed for Jamaica as it tackles the deficit bias at its core and enables countercyclical fiscal policy through automatic stabilisers. The proposed framework focuses on medium-term fiscal policy on debt sustainability using a medium-term debt target and annual nominal expenditure growth rules.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing Instruments

2.1 This operation is the third and last one of three consecutive, independently financed but technically interrelated one-tranche programmatic policy-based loans, as per document CS-3633-1.

2.2 The amount of the FISPEG III is US$50 million. The dimensioning of the size of the loan is justified, following paragraph 3.27 items (b) and (c) of the Guidelines for Preparation and Implementation of PBLs (CS-3633-1). The FISPEG loan will contribute to Jamaica's FY2016/17 financing needs of US$650 million (equivalent to just over 4% of GDP). The remainder of the financing is sourced from the domestic market and other multilateral financing. This loan is aligned with the strategic objectives of the IDB Country Strategy with Jamaica, 2016-2021 (GN-2868).

B. Environmental and Social Safeguard Risks

2.3 Since this is a PBP, there are no associated environmental or social risks. In accordance with the Directive B.13 of the Bank's Environment and Safeguards Compliance Policy (GN-2208-20 and OP-703), no ex-ante environmental impact classification is required given the nature of the programme.

C. Other Key Issues and Risks

2.4 **Macroeconomic and fiscal sustainability.** Given Jamaica's small size, geographical location and dependence on the world economy, there is a medium risk level of macroeconomic instability in the short and medium term. Due to the country's impressive record complying with the FISPEG and the EFF programmes, the risk has gone down from high level (in the first operation) to a medium level in this third operation. This medium level position risk is due to the high debt to GDP ratio and low growth dynamics in which the country still stands as well as the vulnerable external position and fiscal stance of the economy. This could jeopardize the achievement of the impact of the programme, which is to improve the public sector balance from negative 4.1% of GDP to a positive 0.8%. GDP growth has resumed but at a very slow pace. Official inflows could be required in the short to medium term if the international environment worsens and hinders access to external, commercial financing. Constant monitoring and evaluation of the Bank's FISPEG programme mitigates this risk. The discussions and monitoring within the Bank and the periodic IMF revisions of the EFF also mitigate the risk. After three years of engagement with the multilaterals, Jamaica has successfully implemented all key structural conditions.

2.5 **Development.** There is a medium risk level that the Government of Jamaica cannot fully implement all the reform policies presented in the FISPEG, because of structural weaknesses such as institutional capacity and low growth. This would also have implications for the Bank as it could lessen its reputation as an effective partner in accompanying structural reforms in the Caribbean. This risk is substantially mitigated, as three of the four reforms in the programme were frontloaded by design and therefore implemented in the first and second operations and continue to be enforced. The last of the reforms, which corresponds to the NIS, is still in progress and the Government of Jamaica expects to implement it after this third operation. The delay behind its design and implementation is that the consensus among stakeholders (e.g. NIS, MLSS, MOFPS, etc.) took longer than originally expected at the beginning of the FISPEG programme. Presently Cabinet has approved the PP, with few amendments in a decision dated October 10, 2016. It is the government's intention to use the approved PP to inform the White Paper regarding the reform of the NIS, which will then be submitted to Parliament upon approval by Cabinet. These important steps signal the government's commitment to the NIS reform. In addition, the Bank and the IMF have coordinated efforts to supervise the implementation of the programme and the success of the associated quantitative indicators.

2.6 **Public management and governance.** There is a medium risk level of discontinuation of the current initiatives that are supporting the reform implementation due to the following factors: the long and complex government

agenda of all necessary structural reforms (including the ones outside the programme) needed in the short run. The main risk is that there can be an adverse reaction by affected parties to fundamental structural changes, notably: (i) the impact on the tax incentive regime; and (ii) the public sector wage austerity. This risk is already substantially mitigated. As previously explained, this is the third operation and the reforms can be considered very successful. The government is taking advantage of the reforms, the macroeconomic and fiscal situation demonstrates important improvements and there is no return to the original situation.

2.7 **Other risks.** Aside from the abovementioned risks, Jamaica is prone to natural disasters (e.g. hurricanes, earthquakes, etc.) and it is highly exposed to the international market volatility (e.g. interest rates; oil shock prices, etc.). To mitigate this risk, the Bank has continuously monitored the macroeconomic and fiscal developments in Jamaica.

2.8 As FISPEG draws to a close, it may be said that the overall risk to the programme was mitigated by the government commitment to the reforms and the coordinated efforts between the Bank, the IMF and the WB in assisting Jamaica to achieve the objectives planned under the three institutions' programmes. The IMF has monitored the implementation of its EFF (including macroeconomic, monetary and exchange rate policies, and fiscal policy) on a quarterly basis. The Bank under the FISPEG monitored all the macroeconomic and fiscal conditions and policies also on a quarterly basis. The IMF has successfully completed thirteen reviews under the EFF. Also, the Bank has been working closely with the MOFPS, the MLSS, and the NIS on the design and implementation of the reforms under this programme. The probability that the reforms are sustainable over time increases substantially as the majority of these have received Parliamentary approval and because the government is strongly committed to implementing them.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of Implementation Arrangements

3.1 The Borrower is Jamaica. The executing agency is the MOFPS, which is responsible for: (i) presenting evidence on the conditions met for disbursement of loan proceeds required by the Bank; (ii) promoting actions to achieve the policy objectives defined in the programme; and (iii) compiling, maintaining, and delivering to the Bank the necessary information, indicators, and parameters to monitor and evaluate programme outcomes.

3.2 **Coordination with other donors.** The Bank has been effectively coordinating efforts with the IMF, specifically on tax reform and fiscal rule. It has also been coordinating with the WB. The WB's work complements the FISPEG operation by concentrating primarily on the expenditure side of public finance and on specific bottlenecks to doing business.

3.3 **Coordination between government entities.** The MOFPS is coordinating all the reforms under the FISPEG, except for the pension reform, which is executed

by the NIS. The MOFPS coordinates with the NIS and chairs the stakeholder-working group, which originally included the MLSS, Planning Institute of Jamaica (PIOJ), the Cabinet Office, the Jamaica Government Pensioners' Association, the Jamaica Confederation of Trade Unions, and the Jamaica Employers Federation, in addition to members from civil society and academia. Following a Cabinet recommendation, the Working Group (WG) was restructured to include only the MOFPS, MLSS and the PIOJ. The WG has met on a regular basis to discuss the progress and next steps of the NIS reform.

3.4 **The single disbursement of loan resources will be subject to compliance with the policy conditions summarized in the Policy Matrix (Annex II) and in the Policy Letter, as well as compliance with the conditions contained in the Loan Contract.**

B. Summary of Arrangements for Monitoring Results

3.5 The Borrower and the Bank have agreed to supervise the programme through regular meetings. The Bank will start the preparation of the Project Completion Report (PCR) within six months after the disbursement of this final operation to evaluate the development impact of the programme, using a reflexive evaluation approach. Additionally, an ex post economic evaluation to compare the estimated financial benefits with the benefits generated by the implementation of the policy actions will be carried out. The Borrower and the Bank have agreed on the indicators and baseline to conduct this evaluation. The policy and results matrices will define the monitoring and evaluation plan, which will be monitored by using the Bank's administrative funds. The MOFPS will compile and process all data required to monitor and evaluate the operation. The consultancies contracted to verify the indicators in the Results Matrix, and the activities included in the Policy Matrix (Annex II), will be financed with administrative resources from the Bank. The abovementioned evaluations will be carried out with Bank resources.

IV. POLICY LETTER

4.1 The Bank and the Government have agreed on the macroeconomic and sector policies set out in the Policy Letter, dated October 26, 2016,which describes the components of the strategy 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**		
Development Challenges & Cross-cutting Themes	**-Institutional Capacity and the Rule of Law**		
Regional Context Indicators			
Country Development Results Indicators	**-Percent of GDP collected in taxes (%)***		
2. Country Strategy Development Objectives	**Aligned**		
Country Strategy Results Matrix	**GN-2868**	**Attain fiscal sustainability in the medium term.**	
Country Program Results Matrix	**GN-2849**	**The intervention is included in the 2016 Operational Program.**	
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**
	8.7		**10**
3. Evidence-based Assessment & Solution	**9.6**	**33.33%**	**10**
3.1 Program Diagnosis	**3.0**		
3.2 Proposed Interventions or Solutions	**3.6**		
3.3 Results Matrix Quality	**3.0**		
4. Ex ante Economic Analysis	**10.0**	**33.33%**	**10**
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	**4.0**		
4.2 Identified and Quantified Benefits	**1.5**		
4.3 Identified and Quantified Costs	**1.5**		
4.4 Reasonable Assumptions	**1.5**		
4.5 Sensitivity Analysis	**1.5**		
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	**Medium**		
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/FMP Criteria)	**Yes**	**Financial Management: Treasury.**	
Non-Fiduciary			
The IDB's involvement promotes additional 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			

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The general objective of the project is to support the government's efforts to achieve a sustainable fiscal path. The specific objectives are: (i) reducing tax distortions which hinder private investment, employment and competitiveness, (ii) strengthening revenue collection through broadening tax bases and reducing tax rates while enhancing tax and customs administration effectiveness, (iii) enhancing control over budgetary expenditure, (iv) improving the fiscal sustainability of the National Insurance Scheme (NIS), and (v) strengthening the Fiscal Responsibility Framework (FRF).

The general problem being addressed by this program is the country's weak fiscal sustainability. Six specific problems are identified: (i) macroeconomic instability, (ii) distortionary tax system, (iii) limited capacity to increase revenue collection, (iv) expenditure rigidity regarding budget management and control, (v) actuarial deficit of the NIS and current contribution rates, which do not support future projections of current pension levels, and (vi) limited capacity for an appropriate fiscal response to macro-economic shocks. These problems and their determinants are clearly identified and quantified.

The loan proposal clearly identifies the potential beneficiaries of the project. The project´s vertical logic is clear and well specified. The link between interventions and problems has been in general established. However, the project does not present adequate evidence of the external validity of the proposed solutions.

The Result Matrix is adequately constructed and contains the required elements for monitoring the project. The impact, outcomes and output indicators proposed are SMART. In general, the program includes an adequate monitoring and evaluation plan.

The documentation includes an ex ante Economic Analysis, where the economic benefits have been clearly quantified and the costs reflect real resource costs to the economy. The Net present Value (NPV) is US$292.0 million and the Internal Rate of Return (IRR) 77%.The assumptions used are clearly presented and a sensitivity analysis has been performed undertaking variations in key assumptions. These assumptions are linked to internal validity evidence of the proposed project solutions. The loan proposal also includes an ex post Economic Analysis.

The documentation includes a risk matrix. Mitigation measures are identified with appropriate monitoring indicators.

POLICY MATRIX

Objectives	Conditions for the first operation	Conditions for the second operation	Conditions for the third operation
I. Macroeconomic stability			
Preserve a stable macroeconomic context.	I.1.a: The Government of Jamaica complies with the Policy Letter and maintains a macroeconomic framework consistent with the objectives of the programme and the Policy Matrix.	I.1.b: The Government of Jamaica, maintains a macroeconomic framework consistent with the objectives of the programme and the Policy Matrix.	I.1.c: The Government of Jamaica maintains a macroeconomic framework consistent with the objectives of the programme and the Policy Matrix.
II. Strengthening tax policy and administration			
Reduce distortions and improve efficiency of the tax system to promote growth, competitiveness and equity.	II.1.a: The Government of Jamaica makes effective the Fiscal Incentives (Miscellaneous Provisions) Act 2013 (FIA), 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 Government of Jamaica 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 Government of Jamaica maintains the implementation of the comprehensive tax reform programme that includes measures to:
	A. Simplify the tariff structure by reducing import tariff dispersion (consistent with CARICOM and other international trade agreements) by: 1. Capping tariffs on non-agricultural imports to a default rate of 20% with exceptional cases at 40%. For agricultural imports, tariff ≤ 40% will be reduced generally to 20%. Some Common External Tariff (CET) rates >50% will remain.[1] 2. Raising the 0% tariff rate on selected intermediate and final goods to 5%.	A. Simplify the tariff structure by reducing import tariff dispersion (consistent with CARICOM and other international trade agreements) by: 1. Applying tariff caps on imports as specified in the first operation. 2. Maintaining the 5% tariff rate on selected intermediate and final goods as specified in the first operation.	A. Simplify the tariff structure by reducing import tariff dispersion (consistent with CARICOM and other international trade agreements) by maintaining: 1. The tariff caps on imports as specified in the first operation. 2. The 5% tariff rate on selected intermediate and final goods as specified in the first operation.

[1] The tariff structure prior to the tax reform was composed of 11 rates that went from 0% to 177% 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 after the tax reform modified the structure, concentrating the tariff codes mostly between the 5% and 20% rates so as to converge to a default rate of 20%.

Objectives	Conditions for the first operation	Conditions for the second operation	Conditions for the third operation
	B. Increase tax revenues by: 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).	B. Increase tax revenues by: 1. Enacting the Minimum Business Tax. (MBT) Act.[2] 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. Making the GCT rate applicable to government purchases.	B. Increase tax revenues by: 1. Implementing the MBT. 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. Maintaining the GCT rate applicable on Government of Jamaica 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 maintaining: 1. The provisions of the Charities Act, the FIA and the consequential amendments to the revenue laws. 2. 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 HEART) to registered companies engaged in trade. The ETC has a cap of 30% of chargeable income tax.[3]	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.	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.

[2] i.e. Minimum tax on corporations and self-employed in such arrangements the Initial Capital as sole proprietorships and partnerships. The MBT was introduced as a temporary measure (6 months) in 2014. Under the FISPEG II the Bank is requiring that the measure be made permanent by tabling it in Parliament, which took place in March 2015.

[3] The tax credit is only calculated on trading profits and excludes investment and other types of passive income.

Objectives	Conditions for the first operation	Conditions for the second operation	Conditions for the third operation
	3. Initial Capital Allowances (ICAs).[4] 4. Limiting tax incentives allowed under the FIA for "pioneer/mega" projects to an overall cap of 0.25% of GDP.	3 Maintaining the ICAs for new capital investment. 4. Maintaining limitation of tax incentives allowed under the FIA for pioneer/mega projects at an overall cap of 0.25% GDP.	3. Maintaining the ICAs for new capital investment. 4 Maintaining limitation of tax incentives allowed under the FIA for pioneer/mega projects at an overall cap of 0.25% GDP.
		E. Review and assess the recommendations of the Bank-sponsored study of the rationalisation of taxes on petroleum and derivatives.	E. Implement a new Special Consumption Tax (SCT) regime for Liquid Natural Gas (LNG); increase SCT on petroleum products and cigarettes; and increase Departure Tax.
Improve the effectiveness and efficiency of the tax and customs collection system.	II.2.a: The Government of Jamaica undertakes comprehensive tax administration improvements to:	II.2.b: The Government of Jamaica continues comprehensive tax administration improvements to:	II.2.c: The Government of Jamaica continues comprehensive tax administration improvements to:
	A. Strengthen TAJ and JCA enforcement capabilities by: 1. Increasing the LTO professional staff from 90 to 120. 2. Strengthening powers to TAJ to mandate taxpayers e-filing. 3. Issuing instructions for e-filing for all large taxpayers; all employers with 20 or more employees; and GCT refund claims.	A. Continue to strengthen TAJ and JCA enforcement capabilities by: 1. Maintaining the number of qualified professional staff in the LTO at no less than 120. 2. Maintaining powers to TAJ to mandate taxpayers e-filing. 3. Enforcing mandatory e-filing of all taxes paid by large taxpayers,[5] including payroll taxes. 4. Harmonising and strengthening the tax laws' provisions for the collection	A. Continue to strengthen TAJ and JCA enforcement capabilities by: 1. Increasing the number of qualified professional staff in LTO to 135. 2. Maintaining powers to TAJ to mandate taxpayers e-filing. 3 Continuing to enforce mandatory e-filing of: (a) All taxes for all large taxpayers; (b) GCT refund claims and employer annual returns (SO2) for all taxpayers. 4. Maintaining provisions to strengthen the collection of outstanding

[4] ICAs (initial capital allowances) 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.

[5] Large taxpayers are defined as those who earn an annual gross receipt larger than J$500 million that are not in the jurisdiction of the Medium Term Office (MTO).

Objectives	Conditions for the first operation	Conditions for the second operation	Conditions for the third operation
		of outstanding arrears (including powers to seize and sell taxpayers' property, and harmonise penalties and fines) by submitting a Bill to Parliament.	arrears.
		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.	5. Increasing the use of low cost electronic payment methods to decrease payment processing fees.
		6. Expand e-payment option to include the special telephone consumption tax and guest accommodation room tax.	6. Maintaining e-payment for taxes included as of the second operation.
		7. Proportion of large taxpayers' filing on time: CIT ≥ 80%, GCT ≥ 90%, PAYE ≥ 60%, so that the ratio of tax arrears to revenue ≤ 5%.	7. Improving the proportion of large taxpayers' filing on time: CIT ≥ 95%, GCT ≥ 97%, and PAYE ≥ 97% with the actual ratio of tax arrears to revenue ≤ 24.6%.
		8. Proportion of medium size taxpayers'[6] filing on time: CIT ≥ 40%, GCT ≥ 80%, PAYE ≥ 56%, so that the ratio of tax arrears to revenue ≤ 20%.	8. Improving the proportion of medium size taxpayers' filing on time: CIT ≥ 40%, GCT ≥ 88%, and PAYE ≥ 64% with the actual ratio of tax arrears to revenue ≤ 56%.
		9. Conducting audits on 20% of the large taxpayers and 20% of the medium taxpayers.	9. Conducting comprehensive audits on at least 12.5% of the large taxpayers by FY2015/16.
	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.	B. Continue to develop and implement the IT system of the revenue administration by: 1. Meeting interim benchmarks for implementation of Phase 1[7] of TAJ's	B. Continue to develop and implement the IT system of the revenue administration by: 1. Fully implementing Phases 1 and 2, and implementing Phase 3 of TAJ's

[6] 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.
[7] Phase 1 includes the implementation of taxpayer registration, GCT, SCT and telephone call tax into the new Revenue Administration Information System (RAiS).

Objectives	Conditions for the first operation	Conditions for the second operation	Conditions for the third operation
		integrated tax administration IT system.	integrated tax administration IT system.[8]
	2. Cabinet approves JCA issuing a contract to implement an integrated customs IT system.	2. Meeting interim benchmarks[9] for implementation of the JCA integrated IT system, including mandatory e-filing of all customs declarations[10] and manifests.	2. Full implementation of the JCA integrated IT system, including mandatory e-filing of all customs declarations and manifests.
		C. The ACCPAC system in JCA is fully implemented.	C. Fully operationalize in the JCA the ACCPAC system.
III. Rationalisation of expenditure			
Contain public expenditure.	III.1.a: The Government of Jamaica, implements a policy of no central government salary increases to meet an annual wage bill target of no more than 10.6% of GDP for FY2013/14.	III.1.b: The Government of Jamaica continues the policy of no central government salary increases to meet a wage bill annual target of no more than 10.1% of GDP for FY2014/15.[11]	III.1.c: The Government of Jamaica continues to manage central government salary increases to meet an annual wage bill target of no more than 10.3% of GDP for FY2015/16.[12]
Improve efficiency and transparency of Jamaica's Public Bodies (PBs).	III.2.a: The Government of Jamaica, approves an update of the 2010 Master Rationalisation Plan[13] to streamline the PBs through the following measures: 1. Divestment of commercial entities. 2. Merger of entities where feasible to bolster efficiencies. 3. Winding-up of inactive entities (updating	III.2.b: The Government of Jamaica, implements interim benchmarks of the Master Rationalisation Plan to streamline the PBs, including specified advances in privatization of three State-Owned Enterprises and merger of two regulatory entities.	III.2.c: The Government of Jamaica, continues to implement the Master Rationalisation Plan to streamline the PBs.

[8] Phase 2 Phase 2 adds the income taxes (CIT, PIT, Education Tax, Minimum Business Tax and Asset Tax) into the RAiS; Phase 3 adds Stamp Duty, Witholding Taxes, Transfer Taxes, Betting-Gaming-Lottery, Environmental Protection Levy, Trade and Business Licenses, and Contractor Levy.

[9] This benchmark will be development of the ASYCUDAWorld Prototype.

[10] Customs declarations here is defined as declarations for goods imported for commercial purposes.

[11] As part of the FISPEG , the wage bill policy target for the second operation was set at 9.7% of GDP. Despite maintenance of the no salary increase policy, the estimated wage/GDP ratio for FY14/15 is 10.1% of GDP. The deviation from the original target is due to GDP being lower than previously estimated, resulting in a higher than targeted wage/GDP. During FY14/15, the previously estimated GDP for FY13/14 was revised downwards based on actual data. The actual growth and inflation for FY14/15 to date has also been lower than programmed, so growth for the full fiscal year is lower than estimated.

[12] Comparable adjustments for the third operation are as follows: The original expectation for wage / GDP was 9%, but due to lower-than-expected GDP growth the ratio has been raised to 10.3%.

[13] 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	Conditions for the second operation	Conditions for the third operation
	the list of entities in this category).		
	III.3.a: The Government of Jamaica, enforces measures to strengthen the accountability and transparency of PBs by: 1. Reporting non-compliance to the Attorney General's Chambers those self-financing 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 Government of Jamaica, enforces measures to strengthen the accountability and transparency of PBs by: Ensuring presentation of annual reports (including audited financial statements) of self-financing PBs to Portfolio Ministries within the agreed six month time period[14] after the end of the financial year to which the reports pertain.	III.3.c: The Government of Jamaica, continues to enforce measures to strengthen the accountability and transparency of PBs by demonstrating improvement in the proportion of self-financing PBs monitored by the Public Enterprises Division PED of the MOFPS that present their annual reports (including audited financial statements) within the agreed six month time period after 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 specific efficiency measures at the JUTC and NWC consistent with the relevant conclusions of the Bank sponsored study.[15]
IV. Ensuring Sustainability of the National Insurance Scheme			
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	IV.1.b: The Government of Jamaica submits to Cabinet the Green Paper for the reform of the NIS that reflects the preferred option arising from: 1. An examination of the various options previously identified, including their fiscal impact on the government.	IV.1.c: Cabinet approval of Position Paper on the preferred option for the NIS Reform and its fiscal impact, which includes specific recommendations for implementation regarding: 1. The contribution rate.

[14] As agreed under the EFF, the period to submit the annual reports is within six months after the end of the financial year.

[15] JUTC measures include reductions in bus boarding times, improved vehicle tracking, extension of vehicle life, and reduction of maintenance costs. NWC measures include improvements in meter reading, reduction in staff required per water connection, increased collections, and expected reductions in non-revenue water.

	2. The differentiated gender effects of these adjustments.	2. Stakeholder consultations. 3. An action plan that includes timelines and resources for the implementation of the reform.	2. The pension benefits. 3. Increasing coverage.
	IV.2.a: The MLSS, submits to Cabinet an actuarial analysis of the National Insurance Scheme (NIS).	IV.2.b: The Government of Jamaica establishes a stakeholder working group on the reform of the NIS including representatives from the MLSS, MOFPS, PIOJ and other representatives.	
		IV.3.b: The Government of Jamaica ensures that the actuarial analysis of the NIS is publicly displayed for consultation.	
		IV.4.b: Cabinet approves the issuance of drafting instructions for a bill to mandate that an actuarial analysis of the NIS is required every three years.	IV.4.c: The Government of Jamaica tables in Parliament a Bill to require an actuarial analysis of the NIS every three years.
	IV.5.a: The Government of Jamaica 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 relevant government agencies.	IV.5.b: The Government of Jamaica reviews and approves the hardware and software assessment report and, based on the proposal for the creation of the specified NIS-MIS, launches the procurement process of the most urgently needed components.	IV.5.c: Key modules of the specified NIS-MIS are operational.
V. Strengthening the Fiscal Responsibility Framework			
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:	V.1.b: The fiscal rules are enhanced through the passage of the Public Bodies Management and Accountability (Amendment) Act, 2014 and the Financial Administration and Audit (Amendment) Act, 2014.	V.1.c: Continued effectiveness of the enhanced rules of the Fiscal Responsibility Framework.

	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.		

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/__

Jamaica. Loan ____/OC-JA to Jamaica
Fiscal Structural Programme for Economic Growth III

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with Jamaica, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a fiscal structural programme for economic growth III. Such financing will be for the amount of up to US$50,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on __________)

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