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JAMAICA

**IDBG COUNTRY STRATEGY WITH JAMAICA
2016–2021**

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This document was prepared by Therese Turner-Jones (Country Office Representative), Juan Pedro Schmid, Harold Arzu (CCB/CJA); Inder Ruprah and Lesley Cassar (CCB/CCB). The team received valuable inputs from Juliana Almeida (VPC/VPC); Olga Gomez (SPD/SDV); Glaister Cunningham, Rajiv Ebanks, Martin Nesbeth and Brodrick Watson (CCB/CJA); Rene Herrera (FMP/CJA); Naveen Jainauth-Umrao (FMP/CGY); Graham Williams (FMP/CBL); Alejandra Fleitas, Roberto Laguado (VPC/FMP); Navita Anganu (CMF/CJA); Gerard Alleng and Anaitée Mills (CSD/CCS); Seth Colby (DSP/DCO); Malaika Masson (ENE/CJA); Joseph Milewski (RND/CGU); Adria Armbrister (GDI/CPE); Camila Mejia (ICS/CJA); Claudia Stevenson (IFD/CTI); Gerardo Reyes-Tagle (IFD/FMM); Mario Umaña (INT/TIN); Fernando Pavon (LMK/CJA); Maria Soledad Bos (SCL/EDU); Stefan Wright (SMC/CJA) and Donna Harris (SPH/CJA); in consultation with representatives of key organizations of the Government of Jamaica.

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ABBREVIATIONS

CCB	Caribbean Country Department of the Inter-American Development Bank
CDC	Country Development Challenges
CSJP	Citizen Security and Justice Program
EFF	Extended Fund Facility
GOJ	Government of Jamaica
IDBG	Inter-American Development Bank Group
IFI	International Financial Institution
IIC	Inter-American Investment Corporation
IMF	International Monetary Fund
MIF	Multilateral Investment Fund
MTF	Medium Term Socio-Economic Policy Framework
NCDs	Non-Communicable Diseases
NIDS	National Identification System
NSG	Non-Sovereign Guaranteed
OVE	Office of Evaluation and Oversight
PATH	Program of Advancement Through Health and Education
PBL	Policy-Based Loan
PFM-RAC	Public Financial Management Reform Action Plan
SG	Sovereign Guaranteed
SMEs	Small and Medium-sized Enterprises
SOEs	State-owned entities
UIS	IDBG Update to the Institutional Strategy 2016-2019
UNODC	United Nations Office for Drugs and Crime

EXECUTIVE SUMMARY*

Country Context	<p>Jamaica is a small, open economy characterized by low growth and high debt. Structural factors are behind the weak economic performance. The country has experienced low average growth rates, which suggests that economic growth has been affected by volatility and hysteresis. Concurrently, the public sector is characterized by low efficiency and performance, reducing the overall efficiency of the economy and leading to ineffective allocation of resources and public goods.</p> <p>The world economic downturn in 2008 triggered a prolonged and deep recession from which the country is still recovering. The downturn was exacerbated by a weak fiscal and economic situation that led to a crisis with an uptick in the already high debt-to-GDP ratio from 113.5 percent in FY2007/08 to 140 percent in FY2009/10. However, the authorities have embarked on a successful IMF supported reform program and the economy has been improving since 2013; primary fiscal surplus and falling debt but economic growth remains elusive.</p>
The IDB Group in Jamaica	<p>The IDB Group (IDBG) has been the main development partner of Jamaica for over 45 years. The Bank's sovereign guaranteed portfolio as of September 2016 amounts to US\$348 million comprising 8 active loans with undisbursed balances of US\$159.8 million in areas including water and sanitation, fiscal management, social protection, citizen security and public sector efficiency. Over the 2013-2014 Country Strategy and transition period, the Bank approved US\$500 million and disbursed US\$652.4 million. For the private sector, approvals over the aforementioned period amount to US\$182.2 million.</p>
Strategic Areas 2016-2021	<p>In line with the analysis of the Country Development Challenges as well as with the consultations with the authorities and Civil Society, the 2016-2021 Country Strategy will support the Government's development agenda through addressing constraints to economic growth with a focus on three overarching strategic objectives: (i) improve public sector management; (ii) increase private sector productivity and growth; and (iii) reinforce human capital protection and development. In addition, the cross-cutting areas of crime, resilience to climate shocks and gender, address challenges that span several sectors and offer synergies and complementarities with the strategic areas.</p>
Estimated Lending Framework	<p>Estimated approvals over the new Country Strategy period amount to US\$854 million, with disbursements from the existing balance and new approvals estimated at US\$830 million. As a result, Jamaica's debt to the Bank as a share of GDP is estimated at 11.4 percent at the end of the country strategy period, equivalent to 47.8 percent of total multilateral debt.</p>
Risks	<p>Risks remain in spite of improvements in macroeconomic stability over the last three years. Jamaica faces risks, typical for small, open island-economies; lack of diversified exports both in terms of commodities and export markets. Similarly, remittances are dependent on labor market conditions in the countries of origin. Given its geographic location, the country also faces risks from natural disasters. Finally, the ongoing fiscal consolidation increases the risk of reform fatigue in the absence of stronger growth and job creation.</p>

* This Country Strategy will be valid from November 2, 2016 through November 30, 2021.

I. SOCIOECONOMIC CONTEXT

- 1.1 **Jamaica is a small, open economy, characterized by low growth and high debt.** Between 1990 and 2014, Jamaica's average economic growth rate was 0.9 percent, well below the 3.0 percent and 3.8 percent average of the countries of the Caribbean Country Department (CCB)¹ and, more broadly, across Latin America and the Caribbean. Markedly, Jamaica has the lowest growth recorded over that period of all IDB borrowing countries², except Haiti. Years of high fiscal deficits, public enterprise borrowing, and financial sector bailouts have led to rapid debt accumulation that stifles growth³. In turn, low growth has further debilitated the fiscal situation and frozen the standards of living (real GDP per capita has remained flat since the 1990's).
- 1.2 **Studies⁴ show that structural factors are behind this weak economic performance.** Low average growth and high growth volatility suggest that the economy suffers from hysteresis - i.e. reduced growth in productive capacity. Simultaneously, public sector low efficiency and effectiveness have resulted in inadequate allocation of resources and weak public financial management. The debt build-up, in turn, has constrained infrastructure and impacted social investments, and it has challenged the provision of public services in general.
- 1.3 Given the previously described public sector and macroeconomic environment, **private sector development has been challenging.** The private sector in Jamaica has been historically relatively large, comprising almost 90% of the country's working labor force⁵. Although Jamaica has a high level of early-stage entrepreneurial activity, the country is characterized by a high rate of failure of firms. Only 5.1% of the persons who owned or manage a business in 2014 had done so for more than 42 months. Studies have indicated⁶ that, among others, macroeconomic uncertainty, weak institutions and infrastructure⁷, red tape, limited access to finance⁸, and the pressing cost of crime and violence⁹ have resulted in a higher than desirable business failure rate and a private sector characterized by low dynamism, low innovation¹⁰ and limited exports. Nonetheless, Jamaica has been successful in some niche sectors, such as resort tourism and agriculture, which have, however, few linkages with the rest of the economy. The interaction between the previously described factors appears to have trapped Jamaica in a low economic growth and low productivity path.
- 1.4 In the context of this weak socioeconomic and extremely vulnerable fiscal situation, **the world economic downturn in 2008 triggered a prolonged and deep recession from which the**

¹ The Caribbean Country Department of the IDB comprises The Bahamas, Barbados, Guyana, Jamaica, Suriname and Trinidad and Tobago.

² The IDB has 48 member countries, of which 26 located in the Caribbean and Latin America can borrow.

³ "IMF Survey : Strong Recovery in Jamaica but Bold Reforms Still Needed", IMF, Washington, DC USA, June 2016.

⁴ See Chapter I in the CDC and World Bank 2011 Country Economic Memorandum.

⁵ "Private Sector Assessment of Jamaica", Compete Caribbean, 2014.

⁶ *Ibidem* and "Micro-Small-Medium Enterprises in the Caribbean: Towards a New Frontier", Caribbean Development Bank, 2016.

⁷ Jamaica scores well in terms of port and air transport infrastructure. However, the country has comparatively poor-quality roads and railway infrastructure. Jamaica is thus ranked 79th for the overall quality of its infrastructure, below both Barbados (22nd) and Trinidad and Tobago (51st). Notwithstanding this, only 11.8% of Jamaican firms identify transportation as a major constraint on operations in a country-wide, firm-level survey funded by the Compete Caribbean Program. However, Jamaica ranks 88 in terms of electricity infrastructure and 40% of the Jamaican firms surveyed identified it as a major or very severe obstacle to doing business. See also *Ibidem*.

⁸ Even though Jamaica is ranked 12th (out of 189 countries) in the World Bank's 2015 Doing Business report for ease of getting credit, 30% of firms identify access to finance as a major constraint in the 2013 country-wide, firm-level survey funded by the Compete Caribbean Program. In addition, the interest-rate spread of Jamaican banks in 2010 was the second-highest among the comparator, being exceeded only by that in Haiti. Since peaking during the crisis and immediate post-crisis periods, spreads have been trending downwards. As a result, only 27% of Jamaican firms had a loan in 2010 (see *Ibidem*).

⁹ Jamaica's high rate of violent crime harshness the business environment, having substantial adverse repercussions for private sector development and firm survival rates. For example, violence and crime in Jamaica have increased operation costs (i.e. private security, insurance, losses, thefts, arson, etc.), have led to loss of output because of reduced hours of operation (i.e. avoiding night shifts), or have forced productive-trained individuals to occasionally (from injury) or permanently (from murder) exit the labor force. Crime and violence have been signaled also as a major deterrent for investment. (World Bank, 2003 and UNODC, 2007).

¹⁰ Jamaica ranks 89 out of 128 countries in the Global Innovation Index, which ranks Jamaica best for institutions in rank 57 but weak for Infrastructure at 102 and Knowledge and Technology Outputs 110.

country is still recovering. The already high debt-to-GDP ratio (113.5 percent in FY2007/08) increased to 140 percent in FY2009/10 and social indicators deteriorated. The poverty headcount ratio increased from 9.9 percent in 2007 to 19.8 percent in 2012¹¹. The poverty rate upsurge was especially pronounced in urban areas (from 5.3 percent to 18.5 percent between 2007 and 2012), though the level remains higher in rural areas, where more than one out of five Jamaicans live in poverty (15.3 in 2007 to 21.3 percent in 2012). In addition, growth incidence curves for the same period indicate that the contraction in consumption during the recession was more pronounced for poorer households. Similarly, unemployment reached a high of 16.3 percent in 2013 (April), and is slowly receding to around 13 percent (April 2016) compared with 9.4 percent in April 2007. Unemployment is higher among women (16.8 percent), and youth unemployment remains a main concern at over 30 percent¹². School enrollment has increased substantially, but differences remain in terms of quality, learning outcomes and availability of relevant skills for employment. At the same time, the public health sector is overwhelmed mainly due to costs associated with rising non-communicable diseases¹³ and crime-related injuries¹⁴. The number of homicides increased in 2015¹⁵, placing Jamaica's record of 44.3 murders per 100,000 persons among the highest in the world.

- 1.5 **In light of ongoing economic turbulence, Jamaica signed a four-year Extended Fund Facility (EFF) arrangement with the International Monetary Fund (IMF) in May 2013.** The macroeconomic framework supported by the EFF provides a roadmap for fiscal and external sustainability, aimed at reducing debt-to-GDP from 145.3 percent in FY2012/13 to below 100 percent by FY2019/20. In addition, the EFF revived the unfinished structural reform agenda from a 2010 IMF program that stalled in mid-2011. Jamaica's performance and policy implementation under the EFF have been strong as the Government showed commitment to reaching the established targets and implementing policies. However, in spite of successfully passing twelve reviews as of June 2016, economic recovery has remained weak¹⁶.
- 1.6 **Vision 2030 Jamaica outlines the Government of Jamaica's long-term plan for achieving strategic goals of national growth and development.**¹⁷ These strategies are broken down into 3-year periods in a Medium Term Socio-Economic Policy Framework¹⁸ (MTF) detailing projects, reforms and initiatives geared toward achieving the strategic goals. In addition, the Growth Agenda Policy Paper FY2015/16 outlines measures and policies that focus specifically on accelerating economic growth. The conclusions of the IDB's Country Development Challenges for Jamaica and the resulting priority areas coincide to a great extent with the Government's development agenda.
- 1.7 **Policies and programs that tackle developmental constraints have to be designed to be in line with fiscal consolidation efforts.**¹⁹ Despite infrastructure needs, investment loans will have to be restricted to high-priority areas agreed between the Bank and the authorities. Specifically, Bank operations have to incorporate: (i) limited fiscal space in view of further

¹¹ Values are not strictly comparable as 2012 uses a new poverty line. Also, a poverty estimate for later years is not available but given the slow growth and only a moderate reduction in the unemployment rate, poverty is expected at similar levels.

¹² Among other negative effects, studies* have shown a positive correlation between high levels of youth unemployment and crime. Moreover, it is worth mentioning that the population segment predominantly involved and directly affected by violent crime in Jamaica is young, unskilled, unemployed, and undereducated males aged 15 to 29 from underserved urban neighborhoods with the highest poverty rates.

*Fouguère et al., "Youth Unemployment and Crime In France", Journal of the European Economic Association, September, 2009.

¹³ NCDs currently account for more than half of deaths.

¹⁴ Jamaica ranked 7th for homicides in the 2014 UNODC report on homicide.

¹⁵ There was a 14.1 per cent reduction in category 1 crimes in 2015, in spite of a 20.1 per cent increase in murders.

¹⁶ See Section 1.3 in CDC appendix for economic policies and outlook.

¹⁷ Four national goals: empowerment of Jamaicans, safety and justice, economic prosperity and the environment are mapped into 15 national outcomes, which in turn are pursued through national strategies. The Plan is available at: <http://www.vision2030.gov.jm>

¹⁸ <http://www.vision2030.gov.jm/MTF>

¹⁹ The legally binding fiscal rule that will take effect when the EFF expires in March 2017 targets a debt-to-GDP ratio of 60 percent for March 2026. Based on a debt dynamics formula, the fiscal rule calculates the overall fiscal balance to achieve this target.

targeted reduction of debt through a primary fiscal surplus; (ii) specific interventions - public investments need to be filtered by inclusive growth-enhancing effects and fiscally neutral impact; (iii) intertemporal trade-offs, for example, reforms could worsen the fiscal balance and have a negative shock to growth and employment in the near term, even though they may be growth and productivity enhancing in the medium-term; and (iv) policies and programs that minimize reform fatigue. Boosting short-term growth and employment through investment by the private sector or in areas that complement private sector investment would satisfy many of these criteria and help lower the debt-to-GDP ratio.

II. THE IDB GROUP IN JAMAICA

- 2.1 **The IDB continues to be Jamaica's most active multilateral partner.** Over the past three years, IDB financial support accounted for around 15 percent of external financing and over half of the country's total multilateral financing.²⁰ The Bank's support to the country is concentrated in the public sector but non-sovereign guaranteed (NSG) loans have increased recently.²¹ The Bank's activities comprise investment and policy-based lending, as well as grants for technical assistance spanning several sectors.²²
- 2.2 **The 2013-2014 Country Strategy focused on three priority areas:** (i) Fiscal Sustainability; (ii) Social Protection & Safety; and (iii) Financial Sector and Business Climate. In addition, the area of Disaster Risk Management and Climate Change Adaptation was included as a cross-cutting theme. The priority areas were chosen within the context of the GOJ's economic reform program in collaboration with the World Bank and IMF, a coordination scenario that established a joint financing envelope of US\$510 million each from the World Bank and the IDB over the IMF program period (May 1, 2013 to April 30, 2017). Given the uncertainty about medium-term developments and the possibility that priority areas could change after the initial stabilization of the economy, the Strategy was restricted to only two years.²³
- 2.3 Over the country strategy and transition period up to September 2016, the IDBG approved SG loans totaling US\$500 million, \$395 million of which were Policy-Based Loans (PBLs)²⁴. Total disbursements during the period amounted to US\$6524 million. PBL support for reforms in fiscal management and competitiveness comprised the bulk of disbursements (US\$455 million including US\$60 million for the Public Financial Management Program approved in 2011). The remaining US\$197.4 million was provided from the investment loan portfolio. The bulk of approvals were in the area of fiscal modernization (48%), financial sector (23%) and social protection, health and crime prevention (22%). New investment projects supported public sector efficiency, citizen security and justice, social protection and climate change adaptation. From the private sector window, during this period the IDBG approved NSG lending of US\$182.8 million (including US\$175 million to improve the port terminal in Kingston) as well as MIF grants valued at US\$3.86 million, leveraging counterpart financing of US\$11.9 million, which facilitated access to finance across different asset classes such as Micro-finance for financial inclusion, SME financing by assisting the commercial bank to downscale and adopt products and processes to better serve the bankable SMEs; and equity financing by establish the ecosystem for the emergence of a venture capital industry and enhancing the capacity of the Junior Stock Exchange to attract capital for small enterprises.^{25,26}

²⁰ Only the share of IMF disbursements for direct budget support has been counted.

²¹ As of December 2015, the stock of NSG loans totaled US\$65.4 million, compared to US\$1.5 billion for sovereign guaranteed operations.

²² See sectoral composition in the Portfolio Summary.

²³ The 2013-2014 Country Strategy transition period expires on November 1, 2016. It was extended beyond the usual one year to take into account the election that was held on February 25, 2016.

²⁴ The transition period of the 2013/2014 Country Strategy was extended until November 1st 2016 (GN-2694-7). However the portfolio information provided in this paragraph covers the period from January 2013 until September 2016.

²⁵ Notable intervention was also made to develop a public private partnership to better respond to the dynamic needs in the fragmented youth employment space through the NEO (New Employment Opportunities) program

- 2.4 **Main results of the 2013-2014 Country Strategy:** As the main development partner of Jamaica, IDBG facilitated reforms towards economic stabilization and supported investments in a range of sectors, including water and sanitation²⁷, energy efficiency, agriculture, social investment and public financial management.
- 2.5 In the area of **Fiscal Sustainability**, the Bank contributed to updating and strengthening the fiscal legal framework and modernizing the Government's capacity to enforce it through tax reform, public financial management reforms and public sector modernization. The Bank supported the Government in a series of tax policy and tax administration reforms, and in strengthening the fiscal responsibility framework through the introduction of a legally binding fiscal rule.²⁸ The first round of tax reform included the implementation of key measures to make the tax system more efficient in line with international best practices.²⁹ Tax policy reforms included: (i) increasing the tax base by eliminating/ reducing tax expenditures; (ii) simplifying the tariff structure by reducing import tariff dispersion; and (iii) reducing economic distortions in the tax system to promote economic growth. Regarding tax administration, the most important measures included: (a) updating the legal framework of Tax Administration Jamaica (TAJ) to improve enforcement powers; (b) administrative changes to improve tax compliance; and (c) acquiring integrated IT systems to strengthen tax collection and auditing activities.³⁰ In addition, the Bank supported **public sector modernization** to enhance expenditure management and performance management in the public sector. The Bank also assisted with the modernization of public financial management systems through the creation of an electronic procurement (e-tendering) system and the automation of processes of the Auditor General's Department.³¹ Further, the Bank provided significant technical assistance for the development and establishment of a National Identification System. The Transformation Programme of the Ministry of Finance was also supported by the IDB, including a strategic review of the Ministry, and the development and implementation of a change management and communications strategy.³²
- 2.6 In the area of **Social Protection & Safety**, the Bank supported the strengthening of social services, social protection and crime prevention. Specifically, the Bank provided help to the social safety net through the Program of Advancement Through Health and Education (PATH).³³ PATH has contributed to improving the human capital stock in Jamaica by keeping children of poor families healthy and in school and creating stronger linkages between social assistance and meaningful employment. Over the strategy period the Bank's resources provided cash grants for 314,000 beneficiaries including children ranging from 1–6 years old who benefited from improved early childhood health outcomes by regularly attending health clinics; children 6-18 years old who improved school attendance; and pregnant and lactating

²⁶ As of December 2015, the MIF portfolio is estimated at US\$6.8 million.

²⁷ The US\$133 million Kingston Metropolitan Area (KMA) Water Supply Improvement Programme (JA-L1035), which was approved before the last country strategy, supported improvements in the quality of services provided to the Kingston Metropolitan Area (KMA) and selected urban areas and to increase the efficiency and sustainability of the National Water Commission (NWC).

²⁸ The fiscal rule further strengthened reforms in public financial management reforms in Jamaica that the Bank has been supporting, including through the Public Financial and Performance Management Program I, II and III (JA-L1003, JA-L1013 and JA-L1026) for a total of US\$180 million.

²⁹ As the first operation of a policy-based program, the US\$80 million Fiscal Structural Program for Economic Growth (JA-L1038) supported multiple legislative tax policy and administrative reforms.

³⁰ Increases in revenue accompanied by a reduction in tax expenditures and an increase in formal labor indicate that the tax reform is having the desired effects.

³¹ The Public Sector Efficiency Programme (JA-L1046) and the Enhanced Information Management for more Transparent and Efficient Gov. Audits (JA-T1078) have contributed to enhancing Jamaica's Public Procurement System and the Auditor's General Department.

³² Supported by Public Sector Transformation: Support the Ministry of Finance and Planning (JA-T1080). See also http://www.cabinet.gov.jm/areas_responsibility/public_sector_transformation_and_modernisation/resource_management_and_account_5

³³ The Bank has supported PATH since 2000. During the last Country Strategy period, the Bank supported PATH with the 2012 Integrated Social Protection and Labor Program (JA-L1037) and the 2015 Integrated Support to the Social Protection Strategy (JA-L1053).

mothers who benefitted from timely preventive health care. In order to improve graduation from social assistance, the Bank supported training and intermediation services for adults in PATH beneficiary households. In addition, the existing electronic labor exchange was expanded to become the National Employment Portal with more than 11,000 job seekers registered, more than 517 newly registered employers and approximately 703 posted jobs that cover a wide range of industries and skill sets.^{34 35}

- 2.7 The three phases of the **Citizen Security and Justice Program (CSJP) contributed to reducing individual, family and community risk factors related to poverty, crime and violence.**³⁶ The program aimed at violence prevention, with a focus on youth, through multiple activities to improve behavioral change, job readiness and life skills. The evaluation of Phases I and II of CSJP concludes that the program succeeded in contributing to a reduction in crime and violence, among other positive effects, in the 50 target communities.³⁷ Similarly, an evaluation published in 2013 by the Office of Evaluation and Oversight (OVE) indicated that Jamaica's CJSP I and II were the projects with the most successful implementation among all of the IDB's Citizen Security Projects.³⁸ Additionally, the Bank supported the design and implementation of risk assessment instruments to improve targeting of at-risk youth under CSJP. This was complemented by implementing case management and the strengthening of case managers' capabilities to perform structured professional judgement assessments. The Bank continues to strengthen data collection, management and the use of rigorous impact evaluations in crime prevention programs.
- 2.8 In the area of **Finance and Business**, the Bank supported reforms that included the amalgamation of business taxes, streamlining of the process to start a business, the reduction of budgetary support for state owned enterprises, a secured transaction framework, a legal framework for credit bureaus and a regulatory framework for enabling mobile banking and digital payments.³⁹ These reforms, which started in 2008, were important factors that contributed for the improved ranking of Jamaica in the Doing Business Indicators, from 85 to 58 between 2014 and 2015 (and particularly the massive improvement in the access to credit indicator which moved from 109 to 12⁴⁰) as well as from 71 in 2015 to 64 in 2016 (under the new methodology). The last Country Strategy coincided with a period of heightened economic uncertainty and slow recovery, constraining demand for NSG operations. However, reflecting the improving economic outlook, discussions on several potential projects have been ongoing and the Bank closed its largest private sector operation (approved in December 2015 to finance much needed improvements in the country's logistics infrastructure.⁴¹ In addition, the MIF approved \$3.9M in technical assistance for projects related to social inclusion, financial access, innovation finance, and energy efficiency.
- 2.9 **The IDB's support during the last Country Strategy helped to meet part of the country's financing needs during the stabilization process.** The 2013-2014 Country Strategy outlined that financing support to Jamaica would be fully coordinated with its main multilateral partners, namely the World Bank and the IMF. Financial support for the macroeconomic

³⁴ The electronic labor exchange has increased placement by 35 percent in both 2014 and 2015.

³⁵ An on-the-job training pilot that aims to specifically connect PATH households to meaningful and practical job training is showing promise.

³⁶ The Bank has been involved with CSJP since 2001. The third phase of the CSJP program (JA-L1043) was approved and began execution in 2014.

³⁷ Project Completion Report (PCR), Citizen Security and Justice Programme II (JA-L1009, JA-X1003 & JA-X1006).

³⁸ The evaluation highlighted that Jamaica's projects included central elements identified as best practices: (i) participatory preparation that allowed high buy-in by communities; (ii) a sensitive situational diagnostic; (iii) the use of nongovernmental organizations to deliver interventions using skills-based trained practitioners and well established protocols for many of the interventions; and (iv) the presence of community officers identifying, motivating, and following up on beneficiaries at the community level. The latter proved to be one of the most valuable features of the program.

³⁹ 2008-2014 Jamaica Competitiveness Enhancement Project I-III, JA-L1001, JA-L1010 and JA-L1014 for a total of US\$150 million.

⁴⁰ This was supported with a grant, JA-CC2046, from the Compete Caribbean Program.

⁴¹ JA-L1054, "Kingston Container Terminal Project"

stabilization program during the EFF was planned in an effort to maintain proportionality among the three institutions. In particular, the IDB and World Bank agreed to a pari-passu arrangement, each institution committing disbursements of \$510 million over the four year program. Based on the strong performance of Jamaica and substantive financing needs, the Bank met this commitment in early 2016.⁴² Disbursements during the extended transition period are estimated at US\$200 million, bringing total disbursement during the strategy and transition period to US\$700 million.

- 2.10 **Available Portfolio.** As of September 30, 2016, the main sectors of the sovereign guaranteed (SG) portfolio with undisbursed balances comprise water and sanitation (US\$47.5 million out of US\$133 million approved), social protection (US\$43.3 million out of US\$80 million approved), fiscal modernization (US\$22 million out of US\$65 million approved), public sector efficiency (US\$21.9 million out of US\$25 million approved), citizen security (US\$12.9 million out of US\$20 million approved) and agriculture competitiveness (US\$3.9 million out of US\$15 million approved). The total available portfolio of US\$159.8 million from the Bank's Ordinary Capital represents 35 percent of the original amount and has an average age of 3.4 years. Given the sectoral distribution of the available balances the portfolio is well aligned with the new priority areas, especially for public sector modernization, crime and social protection.
- 2.11 **NSG portfolio.** As of August, 2016, the IIC portfolio was \$63.7 million.
- 2.12 **Main lessons learned.** Jamaica's 2013-2014 Country Strategy experience is marked by starts and stops—notably the interim nature and short duration of the strategy. Given the uncertainty of the macroeconomic situation following the derailment of the 2010 IMF program, all multilateral lending significantly declined after 2011. The period leading up to the 2013-2014 Strategy focused on consensus building among Jamaica's partner International Financial Institutions (IFI) on how to provide support. First lesson—executing investment loans against a backdrop of macroeconomic instability may be risky, even for projects that would address the causes of economic instability in the medium term. In the early stages of stabilization, the focus of the administration was for budget support to avoid insolvency and stabilize the economy in the short term. Second—donor coordination in a context of fiscal constraints (due to debt targets agreed under the IMF arrangement) should also include coordination of the portfolio, including timing, complementarities and alignment with the public sector investment plan, especially as each IFI puts high priority on projects competing for fiscal space, so as to avoid implementation delays. These lessons notwithstanding, the IDB and GOJ worked assiduously to disburse committed funds as agreed between the IFIs. In any event, the main lesson may be that working together with a client in a challenging situation can be a reward in itself. The need for budget support opens unique possibilities within the framework of a forward-looking country strategy for deep, far-reaching reforms that would be hard to implement under normal circumstances. The partnership between Jamaica and the IDBG was reinforced through closer and more proactive portfolio monitoring and programming. In addition, the IDB reestablished its role as a partner of choice for Jamaica's development financing and technical assistance needs, working closely with the authorities in stabilizing the Jamaican economy following the implementation challenges encountered in 2010. Further, the trusted advisor role of the IDB has also been strengthened.
- 2.13 **The IDB's Office of Evaluation and Oversight (OVE).** The Country Program Evaluation 2009-2014 analyzed program effectiveness against the strategic objectives set by the Bank. In addition, OVE also conducted a structural depth analysis of the reform measures undertaken by the policy-based programs. OVE found that measures from interventions dealing with revenue policy and administration, education and public expenditure management generally had higher impact and recommended that this type of support be continued in these areas.

⁴² World Bank disbursements from the start of the EFF until June 2016 amounted to around US\$289.6 million.

Regarding the investment portfolio it was found that, among others, oversized loans, fiscal space limitations, lengthy procurement processes and complex project design impeded portfolio execution, leading to extensions of up to four years. Given the likely continuation of fiscal constraints, it was recommended that new investment lending be concentrated in historically high performing sectors and with consideration given to simplified approaches, perhaps with multi-phase structuring and to focus PBLs on deepening public finance reforms. Finally, more regular monitoring of program performance relative to Country Strategy outcomes was recommended in order to maintain alignment. See Annex VI for more detail on OVE's recommendations and IDB Management's response.

III. STRATEGIC AREAS

- 3.1 **The 2016-2021 Country Strategy will support the Government's development agenda,⁴³ address constraints to economic growth and aims to contribute to poverty reduction with a focus on three overarching strategic objectives:** (i) improve public sector management⁴⁴; (ii) increase private sector productivity and growth; (iii) and reinforce human capital protection and development. In addition, the IDBG will fully integrate crime, resilience to climate shocks, and gender equality as cross-cutting areas while implementing its support to the Jamaican Government in attaining the three CS overarching strategic objectives. The selection of the strategic objectives is based on the main development challenges identified in the CDC, in combination with in-depth dialogue with the Government and civil society. The identified strategic objectives are fully aligned with the IDB Update to the Institutional Strategy 2010-2020 (UIS), covering several structural and emerging development challenges and addressing several objectives of the UIS.

A. Improve Public Sector Management

- 3.2 **Jamaica's is one of the world's most indebted countries⁴⁵.** The current high level of debt is the result of years of very low growth, financial bailouts (in particular, the late 90s - early 2000s⁴⁶), the build-up of public enterprises' contingent liabilities, assumption of public enterprise debt,⁴⁷ and inefficient public resource management. Central government primary fiscal deficits were not the drivers of the increased debt as over the last decades the central government had primary fiscal surpluses. However, simultaneously there were high fiscal deficits due to large interest payments.⁴⁸ With two thirds or more of revenues required for

⁴³ The selected strategic areas are completely aligned with Jamaica's development plan, outlined in the national development plan, Vision 2030 Jamaica, the Medium Term Socio-Economic Policy Framework 2015-2018 (MTF 2015-18) and the Growth Agenda Policy Paper FY2015/16. The MTF 2015-2018 is based on four broad strategic areas or Medium Term Themes, which are aligned with the four National Goals of Vision 2030 Jamaica: (i) development and protection of human capital; (ii) national security and justice; (iii) economic stability, growth and employment; and (iv) environmental resilience and climate change response. The areas of the Government's growth agenda are fiscal consolidation, enhancing the business environment and competitiveness, strategic investment projects, human and community security as well as environmental resilience.

⁴⁴ In other words, efficiency and efficacy

⁴⁵ Precisely, with a public debt to GDP ratio of 124% in 2015, Jamaica is the seventh most indebted country in the world after Japan (248% of GDP), Greece (178%), Lebanon (142%), Italy (133%), Portugal (128%), and Eritrea (127%). In 2014 it was the third most indebted country after Japan and Greece (IMF, WEO 2016).

⁴⁶ In the early 90's, Jamaica engaged in a swift process of financial liberalization. The reforms phased out long-standing credit restrictions and interest rate ceilings, resulting in a rapid expansion of the financial sector. However, the establishment of accompanying prudential regulations lagged behind the liberalization process, leading to widespread bankruptcies. The government was forced to intervene and in 1997 created the Financial Sector Adjustment Company (FINSAC). The FINSAC mandate was to restore the stability of Jamaica's financial sector. The institution managed the breakdown, nationalization and/or merging of problematic financial institutions. The debts assumed by FINSAC, which were eventually transferred to the central government in 2000 and 2001, amounted to over 34 percent of GDP. (Johnson, J. and Montecino, J.A.; Center for Economic and Policy Research, Washington, DC, May 2011)

⁴⁷ Central government debt includes close to US\$600 million debt that was assumed from public entities, including Clarendon Aluminum Production, Air Jamaica and the National Road Operating and Construction Company. As of June 2016, US\$1.1 billion in external debt has a government guarantee.

⁴⁸ Since the bailout in the early 2000s, Jamaica's Government debt service has represented, on average, 43% (1994/95-2014/15) of public sector revenues and grants.

interest payments⁴⁹ and salaries since the mid-nineties, productive primary expenditure (among others, productive infrastructure and social expenditure) was crowded out, reducing economic growth, and in turn fiscal revenue, and slowing social development.

3.3 To break this vicious circle, the objective of improved public sector management partly consists of increasing tax revenue and improving the efficacy and efficiency of public spending. During the last Country Strategy, which coincided with the first half of the 2013 IMF program, the focus was mainly on revenue measures. The comprehensive tax reform contributed to increases in average tax revenues of 23.6 percent of GDP before the reform to currently 25.4 percent⁵⁰ by reducing tax expenditures⁵¹, strengthening tax administration, and broadening the tax base. Although there is room for further improvement in tax policy and administration⁵², a shift in the focus to expenditure rationalization is suggested. The two main expenditures continue to be interest payments (7.7 percent of GDP in FY2015/16), which is projected to decline as debt decreases, and public sector salaries (10.4 percent of GDP), which will decline if the public sector modernizes, rationalizes and becomes more efficient. Reform of State-owned entities (SOEs) also plays a major role in improving public sector management as SOEs have in the past been a major source of debt build-up through contingent liabilities, and the public pension system, which could become a new contingent liability in the medium to long term.⁵³

3.4 The public sector wage bill is a key reform area, as it absorbs over one third of Government revenues, constraining other expenditure and/or increasing the need for higher tax revenue. Driven by several rounds of salary increases for a growing number of public sector employees, public sector salaries increased from 5 percent of GDP in FY1995/96 to almost 11 percent in FY2009/10, compared to the average for the Western Hemisphere region of 8.2 percent, Europe (5.7 percent) and Asia and Pacific (5.1 percent).⁵⁴ Also, central government employees as a share of the total population is 4 percent, which is above the 3 percent average for the region. Around one third of the wage bill comprises allowances. In comparison with private sector workers, government employees have a positive wage premium, i.e. a salary above a similar private sector position, which has increased from 10 percent in October 2011 to 23 percent in October 2014, despite a wage freeze.⁵⁵ In addition, oversight and monitoring of salaries and allowances is limited by a lack of data and the absence of a centralized information and management system, which is ubiquitous and common to the whole public sector system. A low level of automation⁵⁶ greatly affects public sector efficiency⁵⁷, and hinders transparency and accountability.

⁴⁹ Jamaica's increasing interest rates and debt burden were partly due to an increase in the share of debt that was domestically financed. Starting in the early 1990s, the composition of Jamaica's debt changed prominently. At the beginning of the 1990s, the share of external debt dropped from nearly 90 percent of the total to a low of about 40 percent a decade later. Since then, the share of external debt has increased, but the higher effective interest rates on the debt contracted domestically considerably impacted the public finances.

⁵⁰ These levels of tax revenues are in line with the LAC average of 21.7 percent. For a full comparison, see OECD/ECLAC/IDB (2016), Revenue Statistics in Latin America and the Caribbean 2016, OECD Publishing, Paris.

⁵¹ Tax expenditures were widely used to support specific industries. For instance, tax expenditures equivalent to 7.6 percent of GDP were granted on average between 2009 and 2011. Another important source of revenue losses was low compliance, partly caused by weak capacity of tax administration. Comprehensive tax reform eliminated a large part of tax expenditure and improved tax compliance through improved tax policy and administration.

⁵² A recent general consumption tax gap analysis by the IMF shows that Jamaica's general consumption tax collections could be higher by as much as 2 percent of GDP if compliance were improved further and by 5 percent of GDP if tax expenditures and policy were further improved. See also box 1 in 2016 IMF Article IV.

⁵³ The public sector pension system is currently underfunded by 3 percent of GDP per year. Even with planned reforms, a gap of 0.5 percent of GDP would remain. See also IMF June 2014 Memorandum of Financial and Economic Policies.

⁵⁴ Reported in B. Clements et al., 2010, 'Evaluating Government Employment and compensation', Technical Notes and Manuals, Washington, DC, IMF Fiscal Affairs Department.

⁵⁵ IDB's calculations based on e-census data. This premium does not take into consideration that government employees have access to the public sector pension scheme, which has a high replacement rate.

⁵⁶ Jamaica ranks 109 out of 193 countries in the United Nations e-Government development index.

⁵⁷ See Alfonso et al, 2013, Public Sector Efficiency: Evidence for Latin America. IDB Discussion Paper, No IDB-DP-279.

- 3.5 **In this context, a National Identification System and digitizing administrative records would facilitate public sector modernization.** At present, the authorities use several isolated identification systems, including birth registries, tax registration number, voter ID and National Insurance Scheme number. The current system results in a duplication of effort when verifying and managing identity in the public and private sectors, hindering accuracy and precision of identity, and increasing errors and fraud. The implementation of a National Identification System (NIDS) would facilitate the interaction of the public sector with citizens and companies, reduce the number of errors and fraud, and allow for the re-engineering and streamlining of current administrative processes. Moreover, the absence of systematic and digitized administrative records in Jamaica hinders efficient policy making. Key entities like the civil registry only have digitized records from 1992 and audits demonstrate data weaknesses and issues with overall data quality, interconnectivity and interoperability of systems that create challenges for public policy design, implementation, monitoring and evaluation⁵⁸.
- 3.6 **Further, there are a number of weaknesses in public financial management, especially in the area of strategic allocation and budget transparency and accountability.** Weak or ineffective public financial management systems, processes and institutions slow down economic and social development as they hinder the efficient use of limited public resources, lead to low transparency and accountability in government finances and lower the amount and quality of services for citizens. In a highly indebted country like Jamaica, weak public financial management also impedes debt reduction as it leads to inefficient and ineffective allocation of resources. According to the 2013 Public Expenditure and Financial Assessment (PEFA),⁵⁹ current budget preparation and execution is still fragmented and lacks performance indicators that can evaluate the quality and effectiveness of the public budget. The published figures for revenues and expenditures, effective controls of the budget revenue totals and management of fiscal risks do not contribute to meaningfully achieve fiscal discipline in Jamaica. Systemic issues, such as commitment controls, payroll, procurement, and quality of accounting and data, the management of budget resources leave room for improvement. Regarding the strategic allocation of resources, the budget is severely hampered by existing rigidities and adjusted to a reduced fiscal envelope, then executed under further cash limitations, which therefore, does not contribute to effective implementation of government objectives in Jamaica.⁶⁰
- 3.7 **In sum, several areas provide opportunities to strengthen the area of public sector management** that are also priority areas in the Government's MTF 2015-2018 as well as a central part of the Growth Agenda Policy Paper 2015/16.⁶¹ Given the importance of labor costs in the budget, modern and efficient human resource management and development is a central part of public sector modernization. Strategic reviews of government agencies could be the basis to improve the efficiency of the allocation of human resources across government agencies and the implementation of shared corporate services in areas such as human resources, audit, IT and legal and logistics services. Finally, policy measures to guide the sustainability of the public sector wage bill will be required to complement the reforms.
- 3.8 **In order to strengthen the area of public sector management the IDBG will support:** (i) strengthening the financial management system, including for public enterprises; (ii) human

⁵⁸ Vital Statistics Commission of Jamaica, "Audit of Vital Registration and Vital Statistics Systems".

⁵⁹ A new assessment is currently underway.

⁶⁰ According to the 2013 PEFA, variations between actual expenditures and originally approved budgets have been greater when looking at the expenditure composition within most ministries, departments and agencies (MDAs). There are several reasons for these deviations, including shifting priorities during the year, uneven implementation capacity, unrealistic budgeting, and expenditure cuts across the board due to macro-fiscal considerations and cash shortfalls. In addition, weak cash management procedures employed in the process of monthly budget allocations hamper meaningful budget execution and the credibility of the budget is hampered by the shortfalls between projected and outturn revenues.

⁶¹ Public Sector Transformation Unit (PSTU) vision, www.cabinet.gov.jm/public_sector_transformation/pstu

resource management, which comprises payment and benefits policies;⁶² ⁶³ (iii) modernization and streamlining of processes and organizational changes throughout public sector entities to avoid duplication and red tape;⁶⁴ and (iv) the introduction of a National Identification System, including related legislation;⁶⁵ (v) continued support in tax policy and administration with a focus on streamlining and simplifying the tax system to enhance compliance and enforcement while broadening the tax base and eliminating tax distortions;⁶⁶ and (vi) direct cost saving investments, such as for energy efficiency, would complement efforts in this area.⁶⁷

3.9 The cross-cutting areas of resilience to climate shocks, crime and gender have important linkages with this priority area. Climate-related shocks worsen economic performance and fiscal outcomes, while fiscal constraints affect the resources that can be allocated to adaptation, mitigation and disaster risk management. Crime and violence contribute directly and indirectly to Jamaica's public deficit. Violence-related injuries cost the Jamaican healthcare system an estimated 12 percent of the annual budget, interpersonal violence-related injuries, account for approximately 4 percent of Jamaica's GDP.⁶⁸ Spending on law enforcement and violence prevention programs constrains Jamaica's investment in growth inducing areas. Gender imbalances are also a factor in public sector modernization as a smaller percentage of men (35%) occupy high level managerial posts (Permanent and Deputy Permanent Secretaries).⁶⁹ Linkages to other strategic areas are strong, given the interdependence of the private sector with economic stability and public sector business services as well as the dependence of social services and employees on the public sector.

3.10 The actions proposed under this priority area contribute to the objectives of the IDB Update to the Institutional Strategy 2010-2020 (UIS) of creating a more distributive fiscal policy and strengthening the capacity of the state. In addition, this area tackles the structural and emerging development challenge of limited capacity of the public sector to deliver services, fight corruption and enforce the rule of law that the UIS identified as priorities. This area also follows OVE's recommendation to focus on revenue administration and policy as well as public expenditure management.

B. Increase private sector productivity and growth

3.11 Jamaica's growth performance has been below comparable countries for decades reflecting a stagnant private sector.⁷⁰ High economic growth is driven by a dynamic, innovating, internationally competitive, exporting private sector, which are not characteristics of Jamaica's private sector. Jamaica's private sector performance in terms of sales, employment and productivity has been poor. Labor productivity growth has been one sixth of the performance of the private sector in other small economies,⁷¹ and Jamaican firms perform worse than the Caribbean average in terms of sales and employment growth. In terms of

⁶² The Public Sector Efficiency Program, JA-L1046, with a remaining available balance of US\$21.9 million, supports human resource management.

⁶³ Human resource management should also incorporate gender and diversity into recruitment and retention policies and the establishment of a policy on sexual harassment in the workplace.

⁶⁴ The Public Sector Efficiency Program, JA-L1046, with a remaining available balance of US\$21.9 million, also supports information and communication technologies management (ICTM) and control systems and accountability mechanisms.

⁶⁵ The Bank has supported the development of the National Identification System through the technical cooperation JA-T1100 and JA-T1053.

⁶⁶ The Fiscal Administration and Modernization Programme, with an available balance of US\$47.5 million, will continue to contribute to these reforms.

⁶⁷ This can also include direct support to public sector enterprises, such as the Kingston Metropolitan Area (KMA) Water Supply Improvement Programme (JA-L1035), which supports investment by the National Water Commission (NWC).

⁶⁸ Ward, E., McCartney, T., Brown, D.W., Grant, A., Butchart, A., Taylor, M. et al. 2009. Results of an exercise to Estimate the costs of interpersonal violence in Jamaica. *West Indian Medical Journal* 58(5): 446–51.

⁶⁹ Commonwealth Secretariat, 2015. *The Status of Women in Leadership Across the Commonwealth*. The report is available online at: <http://thecommonwealth.org/sites/default/files/inline/Women%20in%20Leadership%20Baseline%20Data%20Report%202015.pdf>

⁷⁰ Between 1990 and 2014, Jamaica's economy grew on average 0.92 percent, the lowest of all the IDB borrowing countries, except Haiti.

⁷¹ Own calculations based on 2010 World Bank Enterprise Survey.

innovation, the gap analysis in the CDC indicates that technology and innovation in Jamaica is behind comparable countries. Government's online services are lacking, there are relatively few patent applications and technical publications, and there are low levels of high-tech imports and R&D spending.⁷² Finally, fiscal constraints have weakened infrastructure, including energy and water/irrigation.⁷³ Several reasons related to business environment and competitiveness are responsible for this weak performance, including: (i) complicated processes and red tape; (ii) difficult access to finance; and (iii) high electricity prices. Inadequate policy frameworks for specific sectors, such as agriculture, also contributed to economic underperformance.

- 3.12 Jamaica has made tremendous strides in improving its business environment.** Despite recent reforms, Jamaican businesses still struggle with red tape and excessive bureaucracy. In international comparisons, Jamaica's business climate is weak in the areas of taxation, accessing electricity, resolving legal disputes, obtaining construction permits.⁷⁴ In addition, insufficient trade facilitation and weak logistics hinder exports and diversification of the economy. In terms of innovation, Jamaican firms struggle with gaps in the legal framework for intellectual property as well as weak policies and institutions for innovation. As a result, legislation for intellectual property, copyrights, patents as well traditional knowledge need to be updated. The different institutions that are part of the ecosystem for innovation and entrepreneurship (Ministries, Universities, think tanks and providers of finance) need to be strengthened and their activities coordinated. There is also the need for a comprehensive innovation and entrepreneurship policy.⁷⁵
- 3.13 Private firms have difficulty accessing adequate levels of financing.** Access to finance is an issue for firms in Jamaica.⁷⁶ The share of Jamaican firms with a loan is low⁷⁷ and firms that see lack of access to credit as an obstacle is higher in Jamaica than in the Caribbean, as are firms that tried to obtain a loan but were denied loans.⁷⁸ On one hand, macroeconomic risks increase the risk premium, while historic high levels of Government borrowing crowded out private sector borrowing. Private sector credit as a share of GDP in 2015 was 30.4 percent, lower than comparable countries such as The Bahamas (72.1 percent), LAC (55.2 percent), middle income countries (101.7 percent) or Caribbean small states (41.0 percent). On the other hand, the financial system does not efficiently channel credit to most productive areas of the economy. As a result, Jamaica's spread between lending and deposit rate of 12.1 percent is the highest among CCB countries and is almost double the LAC average of 7.2 percent.⁷⁹ Despite advances in the Doing Business indicator for access to finance to the 12th rank, high

⁷² Also, Jamaica ranks 89 out of 128 countries in the Global Innovation Index, driven by weak rankings for Infrastructure at 102 and Knowledge and Technology Outputs 110.

⁷³ Although the quality of overall infrastructure improved from the previous Global Competitiveness Report (3.5 in a 1-7 scale) to the latest (4.2), it is still lower than benchmark economies. Jamaica slightly improved the quality of roads (3.66 compared to 3.62 in 2013-14) but experienced a decline in the quality of port infrastructure (from 5.05 to 4.94) (World Bank Competitiveness Index).

⁷⁴ Jamaica ranks 146 for taxation, 80 for getting electricity, 107 for enforcing contracts, 72 for obtaining construction permits as well as 146 for trading across borders. See also 2016 World Bank Doing Business Indicator. Also, of the 15 topics of the 2010 Jamaica Enterprise Survey, more than one third of firms identified at least 7 areas as an obstacle to business operations, as pointed out by Nugent, Stevonne, and Juan Pedro Schmid. "The Business Climate in Jamaica: What Does the Enterprise Survey Have to Say?." IDB Policy Brief #249, 2014.

⁷⁵ See 2014 Private Sector Assessment Report, prepared for Compete Caribbean.

⁷⁶ Jamaica is ranked 7th out of 189 countries in the World Bank's 2016 Doing Business report for ease of getting credit. Jamaica's rank is based on recent reforms that established credit bureaus and adopted a secured transactions law. However, 30% of firms identified access to finance as a major constraint in the 2013 country-wide, firm-level survey funded by the Compete Caribbean Program.

⁷⁷ 27% in 2010, the lowest in the region other than St. Lucia (based on World Bank 2010 Enterprise Survey).

⁷⁸ Own calculations based on 2010 Enterprise Survey.

⁷⁹ While deposit rates decreased from 1.94 percent to 1.44 percent from the start of the successful stabilization under the EFF until December 2015, loan rates remain almost unchanged at 17.5 percent (from 17.97).

interest rates in addition to collateral requirements of over 200 percent of loan amounts for SMEs make access to finance one of the main constraints to start and grow a business.⁸⁰

- 3.14 **High electricity prices have been a drag for business.**⁸¹ Despite the decrease from US\$0.39 to US\$0.27 per kWh between 2012 and 2015, Jamaica's average electricity tariff was high, even compared to Barbados at US\$0.24, but more so in comparison to Trinidad and Tobago at US\$0.06 or the United States at US\$0.1. Tariffs are high because electricity generation is still depending on old, inefficient diesel generators⁸² in addition to high technical losses, including from theft.⁸³ Finally, supervision and regulation is constrained by a lack of clarity of roles and responsibilities as well as limited capacity for the implementation of the legal framework, all of which bring uncertainty and constrain investment in the sector.⁸⁴
- 3.15 **Agriculture is a relevant sector that has been constrained by lack of infrastructure investment and distortionary policies.** The share of agriculture in GDP (6.5 percent in Jamaica) is in line with other service-based Caribbean economies (average 4.6 percent in 2010-12)⁸⁵. In addition, agriculture offers growth potential through linkages to manufacturing and tourism.⁸⁶ The sector remains the largest employer in the country, accounting for 17.5 percent of the total workforce in April 2016. The share of the labor force employed in agriculture is therefore higher than the share of agriculture in the GDP, demonstrating that the sector is relatively less productive than others. Jamaican agriculture's low productivity is also confirmed by its yields, which are lower than in comparable countries⁸⁷, and by the low agricultural total factor productivity annual growth (0.4 percent on average in the period 1961-2007), one of the lowest in the region. The policy support provided by the state to agricultural producers is high if compared to the rest of the region (in Jamaica, 24% of farm receipts were obtained through policy support in the period 2012-14) but most of this support (78%) is provided through price distorting policy measures (mostly trade-related) and is concentrated on a few products.⁸⁸ Instead, despite recent improvements through the establishment of agroparks, the sector lacks investments in general services (only 11% of total support), which include critical infrastructure such as farm roads and irrigation systems⁸⁹, as well as research and extension services and animal and plant inspection systems.⁹⁰ As shown by recent regional studies⁹¹, the policy interventions applied in Jamaica increase prices for consumers

⁸⁰ Besides the historical legacy of the banks' business model of depending on financing the government, the IMF sees a low level of bank operational efficiency, low competition and high taxation of the financial sector as central drivers of the high interest rate margins on loans to the private sector (See 2016 IMF Article IV).

⁸¹ The 2013 firm-level survey funded by the Compete Caribbean Program found that 18.6 percent of firms identified electricity as the top constraint, second only to tax rates (at 33.1 percent).

⁸² By the end of 2016, to the projected energy mix for Jamaica comprises renewables contribution of 10.5%, LNG 8.0%, with the remainder coming from petroleum.

⁸³ Technical losses as of February 2015 were 26.9 percent, of which 18.3 percent is from theft and illegal connections. Average losses were 17 percent in LAC and 7 percent for OECD.

⁸⁴ See e.g. Contextual Report for Governance Framework, OUR. Report to the Inter-American Development Bank, submitted by Jed Bailey, July 15, 2016; Capacity Building in Ministry of Science, Energy and Technology. Report to the Inter-American Development Bank, July 15, 2016.

⁸⁵ FAO statistical yearbook 2014: Latin America and the Caribbean.

⁸⁶ According to the Ministry of Tourism, only 30 percent of the monetary value of agricultural output consumed by the tourism sector is sourced locally.

⁸⁷ 2011 yields were in line with LAC averages for root tubers and vegetables but is lagging for other major crops, including fruits, citrus fruits, cereal and coarse grains. See Tables 20-30 in FAO statistical yearbook 2014: Latin America and the Caribbean.

⁸⁸ Jamaica implements a number of commodity-specific policies in addition to varying import tariffs. See IDB/FAO Jamaica Agricultural Support Analysis on <http://agrimonitor.iadb.org/>

⁸⁹ Among the critical distortions hampering the development of climate-resilient agriculture are the historically low water tariffs charged for irrigation.

⁹⁰ Jamaica ranks third to last in the IDB's Agro-Monitor measure of public good provision to agriculture, but one of the highest both in terms of producer support and consumer support. The evidence (OECD 2015) shows that public expenditure on agriculture allocated towards the provision of public sector goods (e.g. rural infrastructure, technological innovation, agricultural health, market information) have greater returns than public expenditures allocated towards the provision of private goods (e.g. purchase and distribution of inputs, subsidies for production, etc.). Agriculture in Jamaica has the opposite policy framework.

⁹¹ Anriquez, Gustavo, et al. Public Expenditures and the Performance of Latin American and Caribbean Agriculture. Inter-American Development Bank, 2016.

and inhibit the sector's growth and productivity, which would be crucial to alleviate poverty in rural areas and reduce net imports (equivalent to 4 percent of GDP for food, beverages and fats, excluding manufactured food), which are a burden for the external current account.

- 3.16 **The Government intends to transform and modernize the Agriculture Sector.** The envisioned transformation is towards a market-driven, private sector-led sector. In this respect, the MTF 2015-2018 intends to strengthen agricultural research institutions and programs; improve competitiveness of a diversified range of agricultural products and provide adequate water supply, irrigation and drainage to boost production and improve quality of life in rural areas. In addition, MTF 2015-2018 includes strategies to strengthen agricultural marketing structures; increase climate resilience in the Agriculture Sector; promote national food and nutrition security and food safety; advance the development of organic agriculture and the fisheries sub-sector; investment loans improve the capacity of the Government to meet the needs of the sector⁹²; develop and improve farm roads and access to fish landing sites; increase access to resources; and improve extension service delivery to women and youth in agriculture.
- 3.17 **Given these challenges, the authorities are focusing on reforms to reduce the transaction costs of doing business.** Progress has been made as reflected in the change in the World Bank's Doing Business Indicator⁹³ but several areas remain weak. Elements that the authorities intend to address under the 2015-2018 MTF include delays and problems in licensing and approval processes for construction projects as well as in the acquisition, titling and transfer of land, and further simplification of tax administration processes. Further, the Government also intends to facilitate private sector led economic projects in areas of comparative advantage through PPPs given the current fiscal constraints. In order to address high electricity prices, the country has started to replace old, diesel-based generators with more efficient generators that use LNG. Going forward, the 2015-2018 MTF focuses on strengthening the institutional, legal and policy framework for energy production and diversification of energy sources, as well as the promotion of renewable energy sources and energy efficiency and conservation efforts.
- 3.18 **Given these challenges, the IDBG will support private sector development through:** (i) reforms that directly improve the business and innovation climate;⁹⁴ (ii) increase access to finance for SMEs via reforms that increase efficiency, improve risk management practices in the financial system and bolster the financial system regulatory framework;⁹⁵ and (iii) reduce the cost of electricity by diversifying energy generation towards clean energy, supporting energy efficiency and strengthening governance. In terms of agriculture, the IDBG will support: (a) modernization of the regulatory framework; (b) improvement of related infrastructure such as irrigation, farm roads and rural electrification taking into account climate resilience related considerations; and (c) improve agricultural general services such as extension services and research, as well as incorporation of innovation and technology in non-traditional value chains, including climate smart technology and practices.⁹⁶

⁹² Areas include among others technical capacity to respond to challenges such as pests and climate change, rationalize commodity boards, modernize fisheries and improve other extension services. See also actions 57-64 in 2015-18 MTF.

⁹³ Using the new methodology in the 2016 Doing Business Report, Jamaica's rank moved to 64 from 71 and the country was highlighted as one of the 10 top reformers.

⁹⁴ Support of business climate reforms will deepen those started under the Jamaica Competitiveness Enhancement Program (JA-L1014). Areas that remain weak or require micro and/or sectoral reforms include trading across borders, enforcing contracts and registering property. Reforms that directly improve logistics and trade facilitation are also beneficial.

⁹⁵ The actions in this segment will continue the work started under the Financial System Reform Support Program (JA-L1058) and aim, among others, at improving financial inclusion and long term financing, as well as lending practices and credit reporting.

⁹⁶ The Bank is currently supporting the Agriculture Sector through the project JA-L1012 (remaining balances of US\$3.9 out US\$15 million).

- 3.19 The cross-cutting areas of resilience to climate shocks, crime and gender have important linkages with the business environment and competitiveness.** While the deterioration of infrastructure due to past climate shocks adds directly to the cost of doing business, potential future shocks pose a risk to the private sector and imply higher cost for resilient private and public infrastructure as well as insurance. At the same time, both climate change adaptation and mitigation also represent opportunities for the private sector to support environmentally sustainable business models and promote the adoption of innovative technologies. The high levels of crime in Jamaica are both a consequence and a cause of the country's low growth. Crime, including domestic violence, adds significant hidden costs to business and Government transactions.^{97 98} Additionally, actions to address crime divert resources and a high incidence of crime fosters an atmosphere of fear and tension that polarizes society. Finally, the increased likelihood of unemployment among women (17.8%), part-time and family employment⁹⁹ combined with the high prevalence of single women as head of household¹⁰⁰ and a lack of publicly-run, low-cost child-care institutions impinge on the ability of women to start and grow formal businesses.¹⁰¹ Barriers to women entrepreneurs represent a lost opportunity to improve the country's competitiveness. Linkages also exist with the other priority areas as the private sector depends on macroeconomic stability, a modern and efficient public sector and a healthy and skilled population. Finally, public sector management would also benefit from lower electricity prices as the public sector is a major consumer and energy imports are the main determinant for the deficit of external accounts.
- 3.20 There are important synergies and complementarities within the IDBG.** While the IDB collaborates with the Government to create a supportive business environment, the IIC and MIF will work with private sector clients to increase productivity, competitiveness, and sustainability of the business sector. The private sector can play a major role in areas including infrastructure, energy generation, energy efficiency, sustainable tourism, value-chains, export oriented industries, climate resilience and expanding opportunities and services to vulnerable populations. As noted earlier, restricted and expensive access to finance is suppressing investments and entrepreneurship as structural factors impede the supply of finance to certain productive sectors, particularly SMEs. These forces are also a central issue in the agriculture sector, characterized by declining productivity. While the IDB will continue collaboration with the authorities to facilitate access to finance, the IIC and MIF will pursue opportunities that expand the supply of credit to SMEs and promote products to facilitate market development, social inclusion, and agricultural productivity. In addition, the private sector lending arms will make an effort to introduce new funding instruments in local currency and work with non-bank financial intermediaries.
- 3.21 The priority area contributes to Jamaica's development plan and to the objectives of the IDB Update to the Institutional Strategy 2010-2020.** The proposed focus supports increasing productivity and reducing inequality while fostering a more inclusive and prosperous society. It also addresses the structural and emerging development challenges of low productivity and innovation that the UIS identified as priorities. The area coincides with the IIC Business Plan 2016-2019 objectives to improve MSME access to finance, promote infrastructure for development and enhance private provision of basic goods and services,

⁹⁷ Crime is seen by Jamaican firms as a major obstacle to their operations, with 46% of firms identifying crime, theft and disorder as a major constraint to their operations; this is significantly higher than the average for Latin America and the Caribbean of 36%.

⁹⁸ For an example on how gender-based violence can affect employers, see GIZ. 2013. Los costos empresariales de la violencia contra las mujeres en el Perú.

⁹⁹ World Economic Forum. 2015. Gender Gap Report: Jamaica Country Profile.

¹⁰⁰ Handa and Horton show that head of household headship exerts a "cost" paid in terms of increased physical illness and loss of leisure time. (Handa, Sudhanshu and Sue Horton. unpublished. Why head the household? Demographic effects on time use in Jamaica. Available online: http://www.unc.edu/~shanda/research/why_head_hhold.pdf

¹⁰¹ As a result, Jamaica places last in the LAC region for business climate for women, according to the WeVenture Scope rankings (2013). The Economist Intelligence Unit. 2013. Women's Entrepreneurial Venture Scope (WeVenture Scope).

income generating opportunities and social mobility for vulnerable populations. Finally, it is aligned with the Government's growth agenda, which follows a two-pronged approach of business environment and competitiveness reforms, while paying special attention to strategic investments.

C. Reinforce human capital protection and development

3.22 Tackling inequality, reducing poverty and protecting the most vulnerable requires addressing differences in quality and access to basic services as well as the provision of a social safety net. Following several years of decline, poverty, as measured by the headcount ratio of poverty, increased from a low of 9.9 percent in 2007 to 19.8 percent in 2012. Poverty was higher in rural than in urban areas (21.3 percent versus 18.5 percent) and concentrated among female headed households (58.3 percent of people below the poverty line live in a household in which the head of household is female). Despite these challenges, Jamaica has made progress in key social outcomes. Life expectancy increased from 72 years in 1990 to 76 years in 2014, slightly above the average for the Non-Latin Caribbean.¹⁰² Similarly, infant and maternal mortality declined by 43 and 19 percent since 1995 and the prevalence of undernourishment dropped from 10.4 in 1991 to 7.9 in 2013.¹⁰³ Finally, immunization coverage is currently 90 percent.¹⁰⁴ In terms of education, access has improved considerably as school enrollment has increased to a net enrolment rate of 99 percent in pre-primary education, 92.5 percent at the primary level from grades 1-6 and 80 percent for lower secondary education grades 7-9. At the same time, social protection through Jamaica's conditional cash transfer program supports poorer households while improving health and education outcomes for vulnerable mothers and children.¹⁰⁵ However, quality and access for these services varies substantially as do the outcomes in terms of health and education.

3.23 Educational outcomes have not fully kept pace with the increase in enrollment. In terms of learning outcomes, average passing rates reached the targets of Jamaica's Education Sector Transformation Plan as it increased between 2013 and 2015 from 77 percent to 86.5 percent and from 58 to 67 percent for grade four literacy and mathematics, respectively.¹⁰⁶ However, there are socio-economic differences in achievements, reflected by varying passing rates for different schools¹⁰⁷ in addition to a considerable drop in school enrollment at the later secondary level for students from poor households,¹⁰⁸ especially boys.¹⁰⁹ Finally, a mismatch of training and job requirements has a negative effect on productivity, employability and youth unemployment. Taken together, educational outcomes are challenged by differences in quality of teachers,¹¹⁰ support staff and school infrastructure;¹¹¹ education curricula with insufficient

¹⁰² Life expectancy remains above the average for Latin America & Caribbean and Upper middle income countries, which increased between 1990 and 2014 from 68 to 75 and 68 to 74, respectively (all data from Global Health Report, WHO 2015).

¹⁰³ Other countries also made strong progress in basic health indicators. For instance, from 1990 to 2015, Jamaica reduced infant mortality rate by 44 percent to 14/1000 live birth, compared to reductions of 65 percent for LAC (15/1000 in 2015) and upper middle income countries (15/1000 in 2015).

¹⁰⁴ For detailed estimates for the different vaccines, see Jamaica: WHO and UNICEF estimates of immunization coverage: 2015 revision.

¹⁰⁵ Currently, 311,000 people are receiving PATH benefits, equivalent to over 10 percent of the population.

¹⁰⁶ Jamaica's Education Sector Transformation Plan has a target of 85 percent and 60 percent for literacy and mathematics, respectively

¹⁰⁷ The proportion of students at all levels (primary and secondary) performing above average reaches 71 percent in high socio-economic status schools compared to 31 percent of those in low socio-economic status locations.

¹⁰⁸ 74 percent of children ages 17-18 from the wealthiest group enrolled in schools in 2012, only 37 percent of those from the poorest group enrolled, and only 4 percent of children from this last group continue to tertiary education.

¹⁰⁹ Enrollment for girls and boys at upper secondary is 81 percent versus 68 percent and for tertiary education is 61 percent versus 39 percent. Similarly, two thirds of tertiary graduates are girls.

¹¹⁰ In 2014/15, 11.9 percent of teachers in the formal Jamaican system were untrained. The share was highest for early childhood at 23.4 percent and secondary at 15.5 percent.

¹¹¹ In 2015/2016 59 of 1013 public schools used a dual shift system, which has been linked to low teaching and learning outcomes.

alignment with labor market skill requirements; and a dominant gender gap in which girls outperform boys in most subjects and levels and have higher enrollment rates.¹¹²

3.24 Non-communicable diseases (NCDs) and violence related injuries have become a major financial burden in the health sector while emerging infectious diseases threaten economic stability. The public health sector is challenged by a lack of resources. The no-user fee policy of 2008 was compensated by an increase in the health budget, but the increase was not enough to make up for the loss of fees, resulting in the same level of out of pocket expenditures of around 30 percent than before the eradication of the user fees.¹¹³ Also, Jamaica is second to last in the region in terms of government expenditure on health as a share of total expenditure (8.1 percent) and last as a share of GDP (2.8 percent).¹¹⁴ Insufficient investment in infrastructure, equipment, supplies, and human resources have compromised the quality of health services, particularly of the primary care system, which in turn has led to avoidance of primary health care facilities and an overwhelming demand for hospital services.¹¹⁵ Recent data show a high use of private health facilities, which also indicates a perception of low quality in the public sector.¹¹⁶ The challenge of providing health services is aggravated by an increased burden of NCDs, which have surpassed communicable diseases as the main cause for mortality and morbidity.¹¹⁷ It is estimated that the economic burden attributable to the four major NCDs amounted to JM\$8.3 billion in 2010 (equivalent to around 0.7 percent of GDP). Overall, 70 percent of the economic burden was borne by the public sector, 25 percent by the private sector and 5 percent by external sources. In addition, violence related injuries represented 12 percent of Jamaica's total health budget and led to estimated productivity losses of 4 percent of the country's GDP in 2006.¹¹⁸ Finally, Jamaica's recent experience with the Chikungunya and the Zika viruses speaks to the need to keep the control of emerging and re-emerging infectious diseases high on the agenda in order to mitigate the effects on public health and productivity.¹²⁰

3.25 A segment of the population is at risk for deprivation and intergenerational transmission of poverty. Jamaica merged its social protection programs in 2001 into a conditional cash transfer program, namely the Program of Advancement Through Health and Education (PATH). It focuses on households with school-age children and promotes school attendance and health checks.¹²¹ Extensions to the program also support the elderly and persons with disabilities. The cash transfers are important as they provide families with support for school-related costs, especially transport, and school lunches through the

¹¹² The gap increases with the level of school, reaching 61 to 39 percent females versus males at the tertiary level.

¹¹³ World Bank Health Financing Profile – Jamaica, IOS Partners 2012

¹¹⁴ According to WHO Global Health Expenditure Database, only Brazil is lower as a share of total government expenditure and Jamaica is lowest for the region as a share of GDP.

¹¹⁵ For a detailed assessment of the consequences of the abolition of the user fee, see Haye W De La, Alexis S. The impact of a no-user-fee policy on the quality of patient care/service delivery in Jamaica. *West Indian med. j.* [serial on the Internet]. 2012 Mar [cited 2016 Sep 08]; 61(2): 168-173.

¹¹⁶ According to the Survey of Living Conditions 2012, of the individuals who sought care at a medical facility after reporting an illness of injury (75 percent), only 61 percent used public health facilities.

¹¹⁷ Chao, Shiyan. 2013. Jamaica's effort in improving universal access within fiscal constraints. *Universal Health Coverage (UNICO) studies series*; no. 6. Washington, DC : World Bank Group.

¹¹⁸ Ward, E., McCartney, T., Brown, D.W, Grant, A, Butchart, A, Taylor, M. et al. 2009. Results of an exercise to Estimate the costs of interpersonal violence in Jamaica. *West Indian Medical Journal* 58(5): 446–51.

¹¹⁹ "In addition to physical consequences of violence and injuries, there are a number of chronic illnesses that are associated directly and indirectly with exposure to violence and injuries. These include asthma, heart disease, ulcers and gastrointestinal disorders, diabetes mellitus, cancer and depression. (74;75). Other consequences of injuries and violence include sexually transmitted infections, unwanted pregnancies, eating disorders and substance abuse (74;75)." (Draft Strategic Plan for NCD Prevention & Control in Jamaica 2012-2017. Ministry of Health January 2012).

¹²⁰ The rate of occurrence of new diseases could increase with climate change. See USGCRP, 2016: The Impacts of Climate Change on Human Health in the United States: A Scientific Assessment. Crimmins, A., J. Balbus, J.L. Gamble, C.B. Beard, J.E. Bell, D. Dodgen, R.J. Eisen, N. Fann, M.D. Hawkins, S.C. Herring, L. Jantarasami, D.M. Mills, S. Saha, M.C. Sarofim, J. Trtanj, and L. Ziska, Eds. U.S. Global Change Research Program, Washington, DC, 312 pp.

¹²¹ Pregnant and lactating women and children ages 0-6 are required to regularly attend well-being visits, while school-aged children need to be enrolled and attend at least 85 percent of days at school.

complementary School Feeding Program¹²². Protection and development of Jamaica's human resources have positive effects on productivity as basic skills are lacking among lower skilled workers. In addition, human capital investments could mitigate negative outcomes, including crime and teenage pregnancies.¹²³ While PATH is hailed as successful, it could increase its efficiency by improving targeting. Currently, only 56 percent and 46 percent of extreme poor and poor are covered under the program. At the same time 15 percent of beneficiaries are above the poverty line and not considered as being vulnerable (45 percent are above the poverty line but are considered vulnerable).¹²⁴¹²⁵ Other vulnerable groups would also benefit from an expansion and deepening of social assistance and protection, including for the elderly and persons with disabilities.¹²⁶

3.26 Given ongoing socio-economic challenges, the Government is focusing on improving the quality and access of basic public services, while strengthening social protection.

In terms of education, the authorities foresee the introduction of targeted reforms to the education system to improve learning outcomes. While the Government provides for increased years of schooling to age 18 and access to education and training opportunities through institutions such as the Human Employment and Resource Training Agency (HEART Trust NTA), such mechanisms are being expanded to provide improved access to education and training for all youth, including from poorer communities. In doing so, special emphasis will be on improving school completion rates and early childhood development, i.e. from 0 to 5 years. As such, health, education and social programs will be reformed and strengthened to target the first 8 years of childhood. In addition, the alignment of training with labor market demands is to be strengthened. In terms of the provision of health services, the Government intends to protect health gains by strengthening access and quality of service delivery, enhancing the capacity of the health sector including the workforce to promote healthy lifestyles towards reducing the burden of both non-communicable diseases (including those that are violence induced), and strengthening the system of surveillance and treatment of infectious diseases. The authorities also aim to develop an effective and sustainable mechanism for health governance and financing while ensuring access to essential medicine. Finally, the Government has approved a comprehensive Social Protection Strategy¹²⁷, which will guide social protection including through PATH, the National Insurance Scheme and policies for the elderly and disabled persons.

3.27 The Bank proposes improvements in access and quality of health, education and skills development as well as social protection¹²⁸ through support for: (i) the Government's effort to achieve a sustainable health system that will provide universal access to an essential package of services and efforts to improve primary health care at the community level;¹²⁹ (ii) improvements in teaching and learning outcomes through expansion of training for school leaders, teacher training and support staff, curriculum development, infrastructure and investment to enhance the learning environment; (iii) strengthening linkages of schools with the labor market, for instance through the implementation of a formal apprenticeship

¹²² For a description of the SFP, see e.g. IADB (JA-T1046), Modernizing the School Feeding Program.

¹²³ Bushway, Shawn. "Labor Markets and Crime" in Wilson, J.Q. and Petersilia, J. eds. 2011 Crime and Public Policy. For Jamaica: Guerra et al (2010). USA: Department of Justice Office of Juvenile Justice and Delinquency Prevention.

¹²⁴ All information based on own calculations using the 2012 Survey of Living Conditions.

¹²⁵ Being a program that targets more than the poor, higher coverage of the poor but also more leakage to the vulnerable and middle/high income class can be expected. For a comparative study in LAC, see also Robles, Marcos, Marcela G. Rubio, and Marco Stampini. "Have Cash Transfers Succeeded in Reaching the Poor in Latin America and the Caribbean?." (2015).

¹²⁶ JA-L1020 and JA-L1031 expanded PATH support to the elderly.

¹²⁷ Jamaica, Social Protection Strategy, 2014, Planning Institute of Jamaica.

¹²⁸ The proposed actions will continue the Bank's strong involvement in education (JA-L1005, JAL1021, JA-L1024 and JA-L1033), social protection and health (JA-L1037 and JA-L1053) as well as PATH. IDB has had a lead role in the support and development of PATH and the School Feeding Program, supporting reforms with policy-based lending and contributions for cash grants and institutional investments. Support for PATH during the last country strategy and transition period included JA-L1037 and JA-L1053.

¹²⁹ Strengthening Health Systems in Jamaica, JA-T1092, supports the MOH's efforts to develop strategies for sustainable health financing.

program;¹³⁰ (iv) improving targeting and effectiveness of the PATH program¹³¹ as well as expanding the focus on early childhood development¹³² and strengthening linkages to school achievements; and (v) collaboration with the authorities to improve the delivery of social assistance and social protection and programs other than PATH, including ways to improve the coverage, sustainability, and institutional framework of the pension system..^{133 134}

- 3.28 The cross-cutting areas of resilience to climate shocks, crime and gender have important linkages with this priority area.** The poorer segments of the population are disproportionately affected by climate risks given low quality housing in environmentally sensitive areas and generally lower coping capacity in the event of hazards. Poor households are often engaged in climate-sensitive activities and are more exposed to communicable diseases, which could become more prevalent as climate changes.¹³⁵ Similarly, critical social infrastructure is also highly vulnerable to the effects of climate change. Lower income households are also more likely to reside in high crime areas while young, poor males are overrepresented as perpetrators and victims of crime. The lack of attachment to the workplace, school, and/or training programs is associated with increased involvement in crime¹³⁶. At the same time, lower income women and children are at a higher risk of exposure to domestic partner and social violence due both to neighborhood factors and a lack of financial and social resources and require public, rather than private, services to report and address the consequences of this violence¹³⁷. Female-headed households are more likely to include children under 12, fall below the poverty line (58.3 percent of persons below the poverty line live in a household with a female head of household), have a head of household in poor physical health and lack access to basic services.¹³⁸ Thus, the bulk of recipients of government welfare programs are single women, who are heads of household, and their children. IIC will look for opportunities that expand coverage of goods and services to disadvantaged populations, provide inclusive infrastructure, and create new economic opportunities.
- 3.29 Improvements in public sector management can also enhance the delivery and effectiveness of social interventions.** Currently, there is insufficient coordination amongst government agencies that deliver social interventions. Such a situation causes duplication of services, limited targeting, and a lack of synergies that hamper the achievement of significant outcomes. Duplication could be reduced through the establishment of legal and ICT frameworks that enhance coordination between government agencies for the delivery of these interventions. This includes the establishment of case management electronic systems across the Government and new approaches to track beneficiaries, improve monitoring and evaluation capacities, in order to avoid the duplication of social services which could lead to considerable cost-savings across the public sector, improved targeting and improvements in

¹³⁰ JA-L1037 and JA-L1053 are supporting a pilot to improve labor market outcomes of low income households.

¹³¹ The Bank is currently supporting PATH through financing of cash grants and institutional reforms with the Integrated Social Protection and Labor Program, JA-L1037, and the Integrated Support to Jamaica Social Protection Strategy, JA-L1053, with combined outstanding balances of US\$43.3 million.

¹³² Parenting is being considered as a potential condition for cash grants.

¹³³ JA-L1053 also supports the Ministry of Labor in the modernization of social security services, including for the elderly.

¹³⁴ Technical Support to Improve the Fiscal Sustainability of NIS (JA-T1090) explored improvements for the pension system.

¹³⁵ The rate of occurrence of new diseases could increase with climate change. See USGCRP, 2016: The Impacts of Climate Change on Human Health in the United States: A Scientific Assessment. Crimmins, A., J. Balbus, J.L. Gamble, C.B. Beard, J.E. Bell, D. Dodgen, R.J. Eisen, N. Fann, M.D. Hawkins, S.C. Herring, L. Jantarasami, D.M. Mills, S. Saha, M.C. Sarofim, J. Trtanj, and L. Ziska, Eds. U.S. Global Change Research Program, Washington, DC, 312 pp.

¹³⁶ Bushway, Shawn. "Labor Markets and Crime" in Wilson, J.Q. and Petersilia, J. eds. 2011 Crime and Public Policy. For Jamaica: Guerra et al (2010). USA: Department of Justice Office of Juvenile Justice and Delinquency Prevention.

¹³⁷ Benson, Michael et. al. 2003. Neighborhood Disadvantage, Individual Economic Distress and Violence Against Women in Intimate Relationships. Journal of Quantitative Criminology; Vol. 19; No. 3, September.

¹³⁸ Handa, Sudhanshu and Sue Horton. unpublished. Why head the household? Demographic effects on time use in Jamaica. Available online: http://www.unc.edu/~shanda/research/why_head_hhold.pdf. Levy, Dan and Jim Ohls. 2007. Evaluation of Jamaica's PATH Program: Final Report. Mathematica Policy Research.

the delivery of these services. Furthermore, these initiatives could enhance referrals for services between government agencies and allow beneficiaries to receive packages of services that will be more adapted to specific needs.¹³⁹

- 3.30 **The proposed actions are well-aligned with the Government and IDB's strategic agenda.** The actions support the Government's growth agenda pillar, 'Social Protection and Human Capital Development', the national outcome #3 of the 2015-2018 MTF, 'Effective Social Protection' and contribute to the UIS goals of reducing extreme poverty and developing quality human development. Finally, the actions are strongly aligned with the structural and emerging development challenges of social exclusion and inequality that are priorities for action in the UIS.

D. IIC and MIF Approach

- 3.31 **IIC and MIF will focus origination efforts on opportunities to increase the productivity and competitiveness of the private sector,** particularly those in infrastructure, energy generation, energy efficiency, inclusive tourism, and value-chains, and export oriented industries. As indicated previously, limited access to finance is suppressing investments and entrepreneurship. These aspects, as well as the negative impact of deficient infrastructure, have constrained productivity and competitiveness, and hampered social inclusion, including in the agriculture sector, which is demonstrating declining productivity. In keeping with the three areas of focus, and building on previous work in Jamaica, the MIF will continue to support: (a) growth entrepreneurship with a focus on social innovation, and access to finance for small dynamic businesses; (b) energy efficiency and renewables; and (c) the development of the agriculture sector, with an emphasis on climate resilience and climate adaptation.

E. Cross-Cutting Themes

- 3.32 **The complexities and multi-sectoral linkages in the areas of crime, resilience to climate shocks and gender suggest a cross-sectoral approach.** Crime is a major problem in Jamaica, given its widespread impact.¹⁴⁰ For instance, police and security forces comprise a large share of the public sector work force, and crime is a deterrent to private sector investment and adds transaction costs to businesses. Pervasively, crime also has negative socio-economic impacts. Jamaica is vulnerable to extreme weather and climate events, which have broad effects, and are projected to worsen with climate change. In terms of climate resilience, risks from extreme weather have several dimensions, including vulnerability of the country's physical infrastructure; risk for health and life due to the vulnerability of human settlements; and the economic impact on agriculture, which also has important ramifications for the well-being of rural populations that are highly dependent on the sector. In addition, there is a need to ensure the sustainability of investments and the achievement of Sustainable Development Goals, which will raise productivity and competitiveness and foster domestic drivers of growth.¹⁴¹ Gender issues cut across all sectors and warrant attention. In Jamaica, female-headed households are over-represented among the vulnerable population. Further, an outstanding challenge is that boys and young men underperform in education and are the main victims and perpetrators of crime.

- 3.33 **CRIME. Tackling the problem of violence is essential for improving the business climate and well-being of the population.** Crime is a major cost factor for companies doing business in Jamaica. It deters the establishment of new businesses and restricts the benefits

¹³⁹ The implementation of a unique NIDS and GovNet that will allow tracking of individuals, as well as the communication and data sharing across Government agencies would facilitate a coordinated approach to social service delivery.

¹⁴⁰ Crime was considered as a strategic area of its own but given its impact on virtually all aspects of life in Jamaica, it was included as a cross-cutting area.

¹⁴¹ Luis Alberto Moreno and Nicholas Stern, Smart infrastructure is the key to sustainable development. The Guardian, May 10, 2016.

that the country receives from existing ones.¹⁴² Although the homicide rate per 100,000 inhabitants has decreased from a peak of 62.8 in 2009 to 44 in 2015, it is still over the Latin American average (23). Furthermore, Jamaica has the highest homicide rate in the Caribbean and the homicide rate increased sharply in 2015 after experiencing several years of decline before 2014. The Government's efforts in relation to crime span a broad range of areas including community intervention through the Citizen Security and Justice Program (CSJP), justice system reforms, community policing and legal reform.

- 3.34 **It is estimated that in 2008 approximately 4 percent of murders were a result of domestic violence.**¹⁴³ Women and children are the main victims of this type of violence. Some critical factors have been identified as the main contributors to domestic violence-related murder: (i) perpetrator's access to a gun and previous threat with a weapon; (ii) perpetrator's prior history of poor mental health or substance abuse; (iii) estrangement from a controlling partner; (iv) abuse during pregnancy¹⁴⁴; (v) second child born to a mother under 18; (vi) maternal age less than 15; (vii) no or limited prenatal care; and (viii) low educational attainment of the mother¹⁴⁵.
- 3.35 **CSJP is a major pillar of crime and violence prevention.** Since 2001, CSJP implemented by the Ministry of National Security, has been a central part of the Government's national security policy.¹⁴⁶ The objective is to reduce crime and violence in vulnerable communities, through interventions addressing individual, family and community risk factors. While the program has been successful, there is a need for better coordination across Government institutions in order to coherently implement programs that address citizen security challenges. There is also a need to create synergies between other Government programs such as PATH and programs by the Ministry of Education in order to improve interventions for young people with the objective of reducing the risk of involvement in crime and violence.
- 3.36 **Despite ongoing reform efforts in the justice sector, there are several factors affecting the efficiency of justice.** There is a backlog of cases before the courts which affects the effectiveness of law enforcement, resulting from several factors including a shortage of personnel such as judges, defense lawyers and prosecutors. The lack of technology and poor infrastructure hinder the efficiency of operations in the courts. Inefficiencies in the justice sector also affect the effectiveness of other agencies such as the Jamaica Constabulary Force. These challenges can be mitigated by investing in the modernization of the Justice system, which includes investments in court scheduling systems and electronic filing that could help to ensure the integrity of case files and improve the efficiency of the delivery of justice.
- 3.37 **As crime has adverse effects on economic activity and threatens the achievement of inclusive development, security and safety are major concerns for the authorities.** The MTF 2015-2018 tackles the issue through a focus on five national strategies: (i) border security and national waters; (ii) management, rehabilitation and reintegration of clients of

¹⁴² The dominance of all-inclusive resorts has been linked to the high level of crime, see for instance World Bank, 2010. World Bank Country Partnership Strategy for Jamaica for the Period 2010 to 2013.

¹⁴³ It should be noted that the police classification used is not sufficient to identify all femicides that occur. See Lemard, G. and Hemenway, D. 2006. Violence in Jamaica: an analysis of homicides 1998-2002. *Inj. Prevention*; Vol 12; No. 1: 15-18; February. The police classified 37% of all murders in 2015 as "Domestic Related" This is a broader definition than that used. While women and children would be a significant sub-set in this category compared to other categories such as Gang Related, they would not be the main victims within this expanded definition

¹⁴⁴ Jacquelyn C. Campbell, Daniel Webster, Jane Koziol-McLain, Carolyn Block, Doris Campbell, Mary Ann Curry, Faye Gary, Nancy Glass, Judith McFarlane, Carolyn Sachs, Phyllis Sharps, Yvonne Ulrich, Susan A. Wilt, Jennifer Manganello, Xiao Xu, Janet Schollenberger, Victoria Frye, and Kathryn Laughon. Risk Factors for Femicide in Abusive Relationships: Results From a Multisite Case Control Study. *American Journal of Public Health*: July 2003, Vol. 93, No. 7, pp. 1089-1097.

¹⁴⁵ Mary D. Overpeck, et. al., 1998. Risk Factors for Infant Homicide in the United States. *N Engl J Med* 1998; 339:1211-1216 October 22.

¹⁴⁶ The IDB has been supporting the program since 2001.

correctional services; (iii) law enforcement and other security institutions and arrangements against crime, violence and corruption and promoting acceleration of the justice system; (iv) terrorist activity; and (v) management and reintegration of deported persons. In line with these national strategies, the Government has decided to focus crime and violence prevention efforts on six strategic policies: (i) removing the profit from crime; (ii) reforming the justice system; (iii) policing by consent; (iv) adopting a coherent anti-gang strategy; (v) focusing on at-risk individuals and communities; and (vi) strengthening systems of governance. The first policy, which involves removing the profit from crime will focus on Inter-Ministerial cooperation on national security issues, the establishment of a task force that will see to the successful prosecution of fraud and money laundering cases as well as the management and integration of complex legal, financial and personal data from diverse sources and jurisdictions and the upgrade to the intelligence architecture.

- 3.38 Given the challenges that crime poses for Jamaica, the Bank proposes to address the issue of **crime and violence**¹⁴⁷ through different angles: (i) enhance the effectiveness of **CSJP**¹⁴⁸ through the implementation of risk assessment instruments to improve the targeting of crime prevention interventions; (ii) **strengthen data collection** across the police, the Ministry of National Security and other government agencies in order to enhance organization and policing strategies, as well as the targeting of crime prevention interventions; (iii) implement **crime prevention, rehabilitation and reinsertion interventions**¹⁴⁹ with a multi-sectoral approach¹⁵⁰ that can include improvements to the built physical environment in poor communities and interventions to improve civil registration; (iv) **strengthen and modernize the justice system** as a crucial part of modernizing and improving court management, reducing delays, increasing consistency, and increasing effectiveness against organized crime; and (v) implement data gathering surveys and census for the population in prisons and rehabilitation centers as well as studies to trace recidivism.
- 3.39 **GENDER. Gender inequality remains a key developmental area in Jamaica.** Important areas with inequality and disparities include societal norms that¹⁵¹ influence and create gender-specific vulnerabilities, poverty and unemployment, domestic partner violence and sexual and reproductive health outcomes; barriers to entrepreneurship; and public- and private-sector leadership. In addition, there are significant inequalities in education and violence.¹⁵² Women and children in Jamaica are overrepresented among the poor and very poor. In addition, even though women outperform men in education, the same is not true for the labor market. For example, tertiary school enrollment in 2013 was 40.3 percent for females compared to 17.6 percent for males, but women's unemployment continues to exceed that of men by more than 7 percentage points. Therefore, better educational performance of girls and women is not reflected in the formal labor market. In addition, young males are overrepresented as perpetrators and victims of violent crimes.
- 3.40 **Several gender-related issues have been highlighted by the MTF 2015-2018.** Inequalities and disparities between men and women are evident in the education system, the labor

¹⁴⁷ See section on Gender for policies concerning domestic violence.

¹⁴⁸ The Bank has supported the community-based Citizen Security and Justice Program from its inception in 2001 (JA-L1009, JA-L0105). The Citizen Security and Justice Program III, JA-L1043 will continue to provide support over the new country strategy period (available balance is US\$12.9 million)

¹⁴⁹ The Bank proposes to analyze the experience of successful rehabilitation and reinsertion models implemented by the IDB in other countries such as The Juvenile Detention Center in Pacora, in Panama City, which opened in early 2012 and has a comprehensive model that includes training and social reintegration. It is part of the IDB-financed Comprehensive Security Program that aims to strengthen public safety with an emphasis on prevention and care for at-risk youth.

¹⁵⁰ JA-X1003 provided support for CSJP participants through internships.

¹⁵¹ See World Bank Next Generation Final Note (Nov 2015) "Gender Norms and Youth Violence in Jamaica: Trends and Recommendations"

¹⁵² Harriot, Anthony D., and Marlyn Jones. Crime and Violence in Jamaica: IDB Series on Crime and Violence in the Caribbean. Inter-American Development Bank, 2016.

market, health delivery, crime and violence and employment opportunities¹⁵³ and climate change mitigation. . Additionally, greater focus needs to be placed on mitigating negative social norms which hypersexualize girls. It is agreed that Jamaican women where appropriate should be given greater access to certain fundamental rights in Jamaica than which currently exists. Fostering equality and equity in respect of gender and in all spheres of society is part of National Outcome#6 – Effective Governance.

- 3.41 In order to address **gender issues** with a focus on poverty reduction, income-generation and redress in cases of violence against women, the Bank will support: (i) prioritization of gender issues both as a part of **women-specific gender policy** and a clear **national policy on sexual harassment in the workplace** as well as in policies developed in the health and social protection areas; (ii) incorporation of **gender-based perspectives in education and citizen security policies** to address issues of educational attainment and performance as well as youth violence and imprisonment; (iii) improvement in the **quality and quantity of gender disaggregated data** collection in the areas of poverty, domestic violence, sexual violence against women, men and children and femicide; (iv) improvements in **child- and elder-care services** and quality early childhood education programs and school feeding programs to reduce the impact of child- and elder-care on income-generating activities for women; and (v) the creation of a **one-stop-shop service** and information centers for women of all social strata. In addition, IIC operations can help create viable economic opportunities for disadvantaged population groups, prioritizing the improvement of Jamaica's business climate for both women and men.
- 3.42 **RESILIENCE TO CLIMATE SHOCKS. The vulnerability of Jamaica to the impacts of climate shocks is a function of various elements**, mainly related to its relative small size, its location within the Atlantic Hurricane Belt, its hilly topography and geographical setting (narrow coastal zones) and being a small island developing state. Thus, climate strongly influences the daily lives and socio-economic conditions of Jamaicans, as it is a controlling factor in some of the primary drivers of the economy (tourism and agriculture), it is linked to the health and wellbeing of the population and affects critical livelihood sectors (e.g. water and energy). In addition, climate considerations have become more relevant with the effects of climate change that have altered the dynamics of development and increased uncertainty in the planning and implementation of activities, whether it is planting and harvesting of crops, the supply of water or the predictability of climate patterns. Between 2001 and 2012, Jamaica was affected by 10 climate disaster events, a drastic increase from 1 per decade from 1940 to 2000. The estimated impact to the country of these 10 disasters was on average 2 percent of GDP on each occasion. Of this, the infrastructure sector accounted for 46 percent of the overall costs, mostly (86 percent) in transport (roads and bridges).¹⁵⁴ The principal response to these changes is to integrate and implement adaptation measures across the socio-economic sphere in order to increase the resilience of the society, economy and environment to the impacts of climate change and climate variability.¹⁵⁵
- 3.43 **Given the vulnerability to natural hazards, there is a focus on measures to improve resilience to climate variability, adaptation to climate change as well as disaster risk management.** The extensive droughts that occurred in 2013 and 2014, coupled with changing and unpredictable rainfall pattern serves to underscore the need to build resilience to climate

¹⁵³ According to the International Labour Organization 2015 report entitled "Women in Business and Management, Gaining Momentum," Jamaica has the highest proportion of women in middle and senior management roles among 108 countries http://www.ilo.org/wcmsp5/groups/public/--dgreports/--dcomm/--publ/documents/publication/wcms_334882.pdf

¹⁵⁴ See PIOJ (2012): Assessing the Costs of Disasters on Jamaica's Infrastructure: Evidence from the Damage and Loss Assessment by the Planning Institute of Jamaica and PIOJ (2012): Socio-economic and environmental Disaster Impact Assessment Handbook for Jamaica.

¹⁵⁵ Montego Bay participates in the IDB's Emerging and Sustainable Cities Program, which is an instrument to strengthen planning and public investment at the city level, including for climate-related considerations, as well as to improve long term sustainability and competitiveness.

change and variability. Furthermore, as the effects of climate change continue to increase, it is expected that the impact on key sectors of the economy will increase, threatening the efforts on sustained growth and productivity. Finally, Disaster Risk Management is required to prepare for, manage and rebuild after disasters and should be developed hand-in-hand with a climate resilient strategy.

- 3.44 **In terms of resilience and climate change mitigation**, the Bank supports increasing climate finance resources¹⁵⁶ to support the transition toward a lower carbon, more resilient future.¹⁵⁷ Central areas include: (i) policy reforms across sectors and thematic areas to include climate change considerations that reflect policy changes needed to address the realities of climate change, e.g., reforms related to fiscal and national accounting policies; (ii) increasing the availability of climate-relevant information, i.e., transforming the data being generated under various studies into information that decision-makers can understand and act on; (iii) strengthening capacity building, which should be closely aligned to providing an adequate decision-making platform, improving information dissemination and public awareness; and (iv) a multi-sectorial approach to the issue of resilience and disaster risk management, which removes the silo approach and seeks to build organic, seamless linkages across the socio-economic landscape,¹⁵⁸ including vulnerable groups (elders, children and women), who are significantly more exposed to violence during the period of a natural disaster. These issues are not confined to the public sector but should include cross-linkages with areas such as water, energy, agriculture, tourism and housing both with and within the private sector.

IV. INDICATIVE LENDING FRAMEWORK

- 4.1 **The 2016/17 Fiscal Policy Paper outlines the Government's Medium Term Fiscal Strategy.** Under this framework, the financing needs over the country strategy period would amount to around US\$5 billion, equivalent to 37 percent of 2015 GDP. The financing need is dominated by Jamaica's debt amortization payments as the country is projected to have only small, and disappearing, fiscal deficits over the whole period. The financing framework foresees 52 percent being covered from external sources and the remainder from the domestic debt market. Under the suggested scenario below, IDB would contribute 18 percent and 35 percent of total and external financing for 2016 – 2021 respectively.
- 4.2 **Under the financing scenario, the country strategy estimates total approval of US\$854 million over the period of the country strategy.**¹⁵⁹ Expected disbursements, including from the inherited portfolio of US\$160 million, amount to US\$166.0 million per year, leading to disbursements totaling US\$830 million over the 5-year period. This would result in a total positive loan flow of US\$258 million and net cash flow of US\$62 million. These disbursements would increase the IDB debt as a share of total multilateral debt to 47.8 percent by the end of the country period compared to 41.1 percent as of end-2016.¹⁶⁰ The share of IDB debt to Jamaica's GDP would decline from 12 percent to 11.4 percent but IDB debt to external debt would increase between 2015 and 2020 from 15.7 percent to 18.6 percent (see Annex III).
- 4.3 **Although, budget support played a major role in the previous country strategy, the Bank's focus under this Strategy is expected to shift toward investment lending in high growth areas.** However, important reforms are still ongoing and budget support would be

¹⁵⁶ The Bank has set a goal to increase climate related financing to 30% of the IDB/IIC Group's combined total project approvals by December 31, 2020. IDB AGM Resolution AG-6/16 AND CII/AG-2/16.

¹⁵⁷ Joint Statement by the Multilateral Development Banks at Paris, COP21. "Delivering Climate Change Action at Scale: Our Commitment to Implementation."

¹⁵⁸ JA-G1001 and JA-G1002 in execution in the portfolio focus on watershed management, testing strategies to improve resilience and adaptation.

¹⁵⁹ The indicative lending framework would involve coordinated support among multilateral agencies, in particular the IMF and World Bank.

¹⁶⁰ As IMF support through a line of credit it expected, IDB's share in exposure by 2021 is estimated at 33%.

beneficial from a debt management perspective. The temporal profile of the proposed financing plan would thus be largely related to the timing of structural reforms and the availability of fiscal space for investment lending. Given that the political feasibility of fundamental, expensive structural reforms is often highest at the outset of the mandate of a new administration, it is anticipated that support could be concentrated at the start of the strategy period, thereby resulting in some degree of frontloading. It is noteworthy that according to Jamaica's parliamentary system, general elections are constitutionally required to take place by February 2021. Technical Assistance and Investment Grants over the country strategy period would continue to play a central role. Furthermore, there is considerable scope to leverage incremental financial support from other IFIs and bilateral donors.

V. STRATEGY IMPLEMENTATION

A. Portfolio Execution

- 5.1 **Portfolio Execution remained challenging during the last Country Strategy period.** Despite improvement in execution, under-performing projects remained a challenge. In addition to capacity constraints and complicated and lengthy procedures, tight fiscal space posed a problem across some projects. As outlined above, fiscal space will remain narrow over the country strategy period and new allocations will only be available for high-priority investments with clear and positive effects on either fiscal savings or economic growth. Against this backdrop, the Bank will continue to monitor the portfolio, provide strengthening to local execution capacity and country systems, and assess where non-performing projects could be reformulated or cancelled. In addition, the Bank will ensure adequate project design prior to approval, especially for large and complex investments.

B. Private Sector Engagement

- 5.2 **In line with increased macro stability and the recovery of the economy, private sector lending is expected to increase.** Given that the last country strategy period coincided with economic stabilization after a deep economic recession, Jamaica had offered limited opportunities for the various private sector windows of the Bank. However, the Bank has been actively exploring several areas that offer opportunities for the near future, including agriculture, logistics, energy generation, energy efficiency, inclusive tourism, value-chain financing, and SME support.
- 5.3 **Close collaboration between the IDB and the IIC is expected to create synergies and utilize the comparative strengths of the respective organizations.** While the IDB will continue to support the authorities in reforms of the domestic business climate, IIC will work with investors to facilitate specific projects, which will also improve the scope and impact of foreign direct investments. Areas that require close coordination between the public and private sector like infrastructure, energy, PPPs, urban development and sustainable tourism are most likely to benefit from sustained and coordinated engagement from the entire Bank Group.

C. Knowledge Agenda

- 5.4 Compared to other countries in the region, Jamaica has reliable data on a broad range of economic and social topics. In addition, government agencies and academics, among others, provide research on several topics that are relevant for the areas of this Country Strategy. However, knowledge gaps exist and specific sectoral data is still missing, for instance on

crime and domestic violence. In addition, some data sources cannot be disaggregated by gender. As such, several actions in the priority areas include data collection efforts.¹⁶¹

D. Coordination with Other Development Partners

5.5 Coordination with other multilateral and official donors will continue. The Bank has been working closely with other development partners, especially the World Bank, the International Monetary Fund and the Caribbean Development Bank. Specifically, in addition to coordinating technical assistance and support, the World Bank and the IDB also agreed on a financial commitment of US\$510 million by each institution in support of the EFF. Another example of coordination and harmonization includes the collaboration of the IDB's Financial Management Division with the World Bank that comprises: (i) hosting capacity-building workshops with the Auditor General of Jamaica; (ii) conducting a joint Fiduciary Financial Review Of The Advancement Through Health and Education (PATH) program; and (iii) a joint (IDB and WB) audit workshop with a mission to increase project fiduciary awareness and improve the quality of project audits. Collaboration also extends to bilateral partners. The current portfolio comprises two investment loans with co-financing in the area of: citizen security with the Department of Foreign Affairs, Trade and Development (DFATD, Canada) and the Department For International Development (DFID, United Kingdom); and the European Union and China in public sector efficiency. Dialogue and coordination will also continue with the Caribbean Investment Fund (CIF) and the Japan International Cooperation Agency (JICA) for Energy Efficiency and Conservation; the Global Environment Facility for Water and Sanitation; and the Climate Investment Fund and World Bank for Climate Change. As in the past Country Strategy period, the IDB will seek to leverage additional financing from other IFIs and contain the growth of expensive external debt.

5.6 Regional cooperation: Jamaica is participating in a number of IDB-led regional initiatives, including new neighbors (diversifying tourism source markets by exploring air links to South America; energy (efforts to diversify the mix of energy sources); and transportation and logistics (including maritime). All of these fall within the Strategic Agenda on Integration, an informal tool that guides Bank programming in Integration in the Caribbean. Given the size of the domestic market in Jamaica, regional efforts are recognized as imperative to overcoming market failures in the Caribbean.

E. Use and Strengthening of Country Systems

5.7 In line with international mandates, the development and use of national country systems in project execution remain a priority in the area of fiduciary management. During this CS period, and consistent with the Bank's strategy for expanded use of country systems, the IDB will continue to rely on the following fiduciary subsystems in Jamaica: budget, treasury, accounting and reporting, external control and limited tender. In September 2013, the "Use of Country Procurement Systems for Limited Tender" in Jamaica was approved. Currently, the Bank has approved 18 countries out of 26 for the use of country systems in Bank-financed operations. Jamaica is the only country in the Caribbean in this group. The Bank aims to have the validation for advanced use in Bank-financed operations in Jamaica by 2018. Advanced use will include Individual Consulting Services as well as National Competitive Bidding.

5.8 During the strategy period the Bank will support Jamaica's national systems through deepening reforms, and modernization. Key areas include: (a) strengthening of the public procurement system; (b) technical support; (c) software integration; (d) budget execution; (e) Central Treasury Management System (CTMS) functionality advance to the Integrated

¹⁶¹ Results from the Tool for Assessing Statistical Capacity (TASC) allow identifying the strengths and weaknesses of the country's statistical system and the Statistical Institute (STATIN).

Financial Management Information System (IFMIS); (f) strengthening of control systems; and (g) enhancing the independence of the Auditor General’s department. All initiatives will be supported by training to improve capacity. By the end of the strategy period, it is envisaged that these strategic interventions will result in increased use of fiduciary systems.

- 5.9 Table 1 summarizes the status and expectations for the use of fiduciary systems during the CS period.

Table 1: Use of Country Systems

IDB Strategic Objective	Use of Country Systems	Baseline 2016	Estimated Use 2020	Foreseen Actions
Institutional Capacity Effectiveness and Efficiency	Budget	100%	100%	Monitoring of the enhancements
	Treasury	13%	60%	Monitoring of enhancements and validation
	Accounting / Reporting	38%	60%	Monitoring of enhancements and validation
	Internal Audit	0%	20%	Validation
	External Audit	25%	40%	Monitor legislative status and institutional adequacy
	National Informative System	0%	100%	Validation, implementation and usage monitoring of the new e-procurement system
	Price Comparison ^{1/} (Shopping)	7%	100%	Usage monitoring
	Contracting of Individual Consultants	0%	80%	Validation, implementation and usage monitoring
	NCB Partial	N/A	N/A	N/A
	NCB Advanced	0%	30%	Validation, implementation and usage monitoring

Notes: 1/ As of December 2015, shopping was used in one operation in the Jamaica portfolio (Support for Education Sector Reform II).

- 5.10 The last **Public Expenditure and Financial Assessment (PEFA)** exercise was undertaken in 2012 and highlighted continuous reform needs for Jamaica despite support from donors/partners including the IDB. In response, the Government developed a comprehensive Public Financial Management Reform Action Plan (PFM-RAC) and invited the donor community to participate in its implementation. Better coordination among donors plus improved monitoring are likely to produce solid, sustainable results of the PFM-RAC. Through ongoing projects (policy-based loans, investment loans and technical cooperation grants) the authorities and the Bank, in the last eight years, have made significant investments in Public Financial Management. The Bank is heavily involved in the PFM-RAC notably in the areas of Central Treasury Management, Internal control, Accounting/Reporting, External Control, and fiscal management and will continue during the new country strategy.

VI. RISKS

- 6.1 **Macroeconomic Risks:** The Jamaican economy has stabilized compared to the situation at the beginning of the 2013-2014 Country Strategy. Debt to GDP decreased from over 145 percent of GDP as of March 2013 to around 127 percent of GDP as of March 2016. During the same period, Jamaica maintained a primary surplus of 7 percent of GDP and above, while the overall deficit decreased to less than 1 percent of GDP. Similarly, the external position has become stronger. Over the last three years, the current account deficit decreased from 10 percent of GDP to currently less than 3 percent of GDP while gross international reserves reached the equivalent of 23 weeks of goods and services import. In addition, the exchange rate overvaluation is being addressed through nominal and real depreciation. Macroeconomic risks remain important in Jamaica as a small, open island economy that has several vulnerabilities. Exports are concentrated in terms of goods and services (tourism, bauxite, petroleum products and agriculture) and destinations (the United States, Canada and the UK), making the country vulnerable to economic shocks in these countries. Similarly, remittances

are dependent on labor market conditions in the same countries. Finally, debt reduction will remain a centerpiece of Jamaica's economic policy framework for several years to come.¹⁶²

- 6.2 **Macroeconomic risks will be mitigated and monitored** by close supervision of economic performance and policies in order to support corrective measures as well as through support in key areas for macroeconomic stability in the priority area of public sector management.
- 6.3 **Natural Disasters:** Jamaica faces the annual threat of storms, rainfall-induced landslides, seismic events and other natural disasters, all of which can have significant fiscal impacts. After Hurricane Sandy in 2012, for example, PIOJ reported damage estimated at US\$107.14 million. That shock combined with adverse global developments in turn initiated a downward revision of 0.4 percentage point in GDP estimates, resulting in a downward revision of GDP growth by 0.1 percent for FY 2012/13.¹⁶³ Similarly in 2010, tropical storm damage affected GDP by over one percent. A natural disaster of significant proportion during the country strategy period therefore could diminish GDP gains recorded to date under the EFF. The Bank will continue to support climate change adaptation and mitigation initiatives in keeping with cross-cutting climate resilience efforts that will be further complemented by disaster risk management measures in the public and private sectors.
- 6.4 **In order to adapt to the climate risks mentioned** the IDBG support that involves construction of assets will emphasize the incorporation of climate-resilient infrastructure (e.g. more heat-resistant material, as well as engineering design to address high flood levels). The support that involves capacity building components in areas affected by climate change will incorporate training on climate risk management. The agriculture related support will include climate smart practices and policies.
- 6.5 **Taken together, while Jamaica remains vulnerable, the country is in a much stronger position to absorb shocks.** Compared to the beginning of the IMF supported program, Jamaica has built buffers and created space to accommodate shocks. Also, the additional fiscal rule that will take effect when the EFF expires provides a legal framework on how to accommodate shocks while aiming for the target of debt to GDP at 60 percent by March 2026. Finally, several of the measures suggested in this Country Strategy would further strengthen Jamaica's ability to face shocks.
- 6.6 **Portfolio execution risks:** Measures to improve portfolio implementation would prioritize strengthening the capacity of executing agencies. Training in project management for results, specifically the Bank's PM4R program will continue to be offered to executing agencies for new projects, complemented with proactive Bank support to address challenges in the existing portfolio. Sustained engagement in this area with stakeholders will include assessments of loans that are not meeting milestones, with a view to reformulating or cancelling operations that are considered to no longer meet original development objectives, where applicable. Additionally, the Bank will intensify and strengthen collaborative oversight of the portfolio jointly with PIOJ over the CS period.

¹⁶² Accelerating economic growth remains an important focus of the Government as reflected in the establishment of a portfolio ministry and an Economic Growth Council.

¹⁶³ Jamaica Macro Socio-Economic and Environmental Assessment of the Damage and Loss Caused by Hurricane Sandy", Planning Institute of Jamaica (PIOJ), January 2013.

Annex I: Results Matrix

Government Priorities	Strategic Areas	IDB Strategic Objectives	Expected Results	Indicators	Baseline (Source)
A Stable Macroeconomy	1. Improve Public Sector Management	1.1 Attain fiscal sustainability in the medium term	Reduce central Government deficit	Central Government overall fiscal balance/GDP	-0.3 (Ministry of Finance FY2015/16)
			Positive public entities balance	Overall balance of selected public entities (includes balances of selected public entities, which refers to the most important 18 public bodies)/GDP. ¹	0 (IMF, FY2015/16)
			Reduction of public and publicly guaranteed debt to GDP	Debt-to-GDP	128.7 (IMF, FY2015/16)
		1.2 Strengthening public financial management system	Increase predictability of budget	Absolute deviation of total revenues from budgeted total revenue	2.7% (MOFPS, average FY2012/13-FY2015/16)
				Absolute deviation of total expenditures from budgeted total expenditures	3.3% (MOFPS, average FY2012/13-FY2015/16)
				Absolute deviation of primary expenditures from budgeted primary expenditures	2.4% (MOFPS, average FY2012/13-FY2015/16)
				Absolute deviation of total capital expenditure from budgeted capital expenditures	20.8% (MOFPS, average FY2012/13-FY2015/16)
		1.3 Reduce Central Government Wage bill as a percentage of Gross Domestic Product	Wage bill reduction as a percentage of Gross Domestic product	Wage Bill (% of GDP)	10.4% (IMF, FY2015/16)
		1.4 Increase efficiency of public sector	Increase public sector effectiveness	Efficiency of public expenditure	0.3 (PRODEV evaluation tool, 2013)
		1.5 Strengthen the quality of administrative records	Increase the % of the population covered under the national identification system	% of citizens covered under the national identification system	0 (Registrar General, 2016)

¹ The 18 "Selected Public Bodies" include: Airport Authority of Jamaica (AAJ); Human Employment and Resource Training Trust (HEART); Jamaica Mortgage Bank (JMB); Housing Agency of Jamaica (HAJ); National Housing Trust (NHT); National Insurance Fund (NIF); Development Bank of Jamaica (DBJ); National Water Commission (NWC); Petrojam; Petroleum Corporation of Jamaica (PCJ); Ports Authority of Jamaica (PAJ); Urban Development Corporation (UDC); Jamaica Urban Transit Company Ltd. (JUTC); Caymanas Track Ltd. (CTL); Wallenford Coffee Company Ltd. (WCC); National Road Operating and Constructing Company Ltd. (NROCC); Petro-Ethanol; Clarendon Aluminum Production (CAP);.

Government Priorities	Strategic Areas	IDB Strategic Objectives	Expected Results	Indicators	Baseline (Source)
		1.6 Reduce government expenditure on electricity utility bills	Reduce the GWh electricity consumed in public facilities (particularly hospitals & schools)	% annual reduction in GWh consumed	54 GWh in hospital and schools 394 GWh all government facilities (JPS Bill 2015)
An Enabling Business Environment	2. Increase private sector productivity and growth	2.1. Improve the regulatory framework for doing business	Shorten distance to the frontier (DTF) – Doing Business ²	DTF	67.27 (Doing Business Report 2016)
		2.2 Facilitate access to finance for SMEs	Increase access to credit for SMEs	Small establishments (10 or less full-time employees) that have line of credit of loan from financial institution	37.4% (Enterprise survey firm level survey by Compete Caribbean 2013)
				Medium establishments (11 to 100 full-time employees) that have line of credit of loan from financial institution	46.9% (Enterprise survey firm level survey by Compete Caribbean 2013)
		2.3 Increase the Security of Supply and Diversification of the Energy Matrix	Increase the share of renewable energy and natural gas in the energy matrix	% penetration of Renewable Energy and Natural Gas in the energy mix	RE: 10.5% NG: 8% (MSET, end-2016)
		2.4 Increase agriculture productivity	Increased labor force productivity in agriculture and accelerate the agriculture sector growth rate.	Labor force productivity in agriculture (Agriculture Forestry & Fishing GDP/ Skilled Agricultural and Fishery Workers)	240,805 JM\$ per worker (2015 based on STATIN)
				Growth rate of Agricultural GDP	11.5% (Average 2011-2015)
Development and Protection of Human Capital	3. Reinforce human capital protection and development	3.1 Improve the Public Health System	Increase the usage of primary care facilities	Usage of public health facilities of individuals who sought care at a medical facility after reporting an illness or injury.	61% (Survey of Living Conditions 2012)
			Reduce the disability-adjusted life years lost due to NCDs	Age-standardized Disability Adjusted Life Years ³ , (per 100,000), Non-communicable diseases	21,085 (2012, Global Health Observatory, WHO)
			Reduce the prevalence of adult risk factors	Prevalence of diabetes (% population ages 20-79)	11.5% (World Economic Indicators 2014)

² Please, see <http://www.doingbusiness.org/data/distance-to-frontier> for more details.

³ DALYs for a disease or health condition are calculated as the sum of the Years of Life Lost (YLL) due to premature mortality in the population and the Years Lost due to Disability (YLD) for people living with the health condition or its consequences.

Government Priorities	Strategic Areas	IDB Strategic Objectives	Expected Results	Indicators	Baseline (Source)
				Raised blood pressure (aged 18+)	22.1 (WHO, 2014)
				Obesity, BMI >= 30 (aged 18+)	26.8 (2014, WHO)
		3.2 Improvements in learning outcomes	Improved Grade 4 proficiency in numeracy	% of students with proficiency in grade 4 numeracy	67% (Ministry of Education 2015)
			Improved Grade 4 proficiency in literacy	% of students with proficiency in grade 4 literacy	86.5% (Ministry of Education 2015)
			Increase lower secondary completion rates and upper secondary enrollment rates for boys.	Upper Secondary (grades 10-11) enrollment rates for boys	59.7 (2013/14 MOE)
				Lower Secondary (grade 9) completion rate for boys	83.8 (2014, MOE)
			Lowering the % of youth (14-24 years old) that does not work or study	% of youth (14-24 years old) that do not work or study	TBC ⁴ (April 2016, based on STATIN)
		3.3 Support consumption, protect and promote the human capital accumulation of poor and vulnerable	Increase efficiency and effectiveness of PATH through improved targeting (target poor) and reduction of leakages (non-poor receiving benefits).	Beneficiaries of the program that are either poor or extremely poor and beneficiaries that are non-poor.	56 percent extreme poor, 46 percent poor. 15 of beneficiaries above poverty line (based on 2012 Survey of Living Conditions)
			Increase access to PATH labor market programs	Number of PATH beneficiaries that join a school to work program	4000
			Reduction in the extreme poverty rate of PATH beneficiaries	Extreme Poverty Rate	7.3% (based on 2012 Survey of Living Conditions)

⁴ In the process of being calculated. To be included prior to SEC distribution.

Annex II: Country Systems Matrix

IDB Strategic Objective	Expected Results	Indicator	Baseline (2016)	Indicative Target	Timing
Strengthening and use of country systems	Increased use of financial management sub systems (treasury, accounting and reporting, internal audit and external control)	a) % of IDB projects using the Treasury single account b) % of IDB projects using the accounting and reporting subsystem c) % of IDB projects using the internal audit subsystem d) % of IDB projects using the external control subsystem	a) 13% of IDB projects using the Treasury single account b) 38% of IDB projects using the accounting and reporting subsystem c) 0% of IDB projects using the internal audit subsystem d) 25% of IDB projects using the external control subsystem	a) 60% of IDB projects using the Treasury single account b) 60% of IDB projects using the accounting and reporting subsystem c) 20% of IDB projects using the internal audit subsystem d) 40% of IDB projects using the external control subsystem	At the end of CS period
	Increased use of procurement sub systems (national informative system, shopping, contracting of individual consultants and advanced national competitive bidding (NCB))	a) % of IDB projects using the national informative system b) % of IDB projects using the shopping subsystem c) % of IDB projects using the contracting of individual consultants subsystem d) % of IDB projects using advanced NCB subsystem	a) 0% of IDB projects using the national informative system b) 7% of IDB projects using the shopping subsystem c) 0% of IDB projects using the contracting of individual consultants subsystem d) 0% of IDB projects using advanced NCB subsystem	a) 100% of IDB projects using the national informative system b) 100% of IDB projects using the shopping subsystem c) 80% of IDB projects using the contracting of individual consultants subsystem d) 30% of IDB projects using advanced NCB subsystem	At the end of CS period

Annex III: Main Economic and Social Indicators

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Population (millions)	2.66	2.67	2.68	2.69	2.70	2.71	2.71	2.72	2.72
Unemployment rate (% labor force)		10.6	11.4	12.4	12.7	13.7	15	13.2	13.1
GDP per capita, current prices, USD	4754.8	5053.9	4436.6	4817.3	5233.9	5339.1	5099.5	4925.8	4921.7
Real GDP (% change)	0.7	-1.2	-2.6	-1.2	0.5	-0.3	0.5	0.4	1.5
Headline inflation (% end of Period)	16.8	16.8	10.2	11.7	6.0	8.0	9.7	6.4	5.8
Nominal GDP (billions of USD)	12.9	13.7	12.1	13.2	14.4	14.8	14.2	13.8	13.9
Total revenue (% of GDP)	27.2	27.4	27.5	27.0	25.9	25.7	26.8	26.5	27.1
Total expenditure (% of GDP)	31.3	33.9	37.7	34.5	32.3	30.3	27.8	26.9	27.5
Overall balance (% of GDP)	-4.1	-6.6	-10.2	-7.5	-6.4	-4.7	-1.0	-0.4	-0.3
Total public debt (% of GDP)	115.2	123.9	138.1	143.0	142.1	145.3	142.8	139.7	134.9
Total investment (% of GDP)	26.6	24.4	21.0	20.2	21.4	19.9	21.3	22.4	
National savings (% of GDP)		-5.3	3.1	1.9	-1.7	-1.8	-0.9	0.2	
External public debt (Millions of USD)/5	6554.2	6807.9	7581.4	8728.0	8859.5	8566.5	8417.2	8840.8	8778.9
Total external debt/GDP	48.4	51.2	55.5	62.4	60.2	58.3	61.8	64.9	63.4
Total Amortization scheduled (US Billions)	0.6	0.5	0.4	0.3	0.6	0.6	0.4	0.5	0.7
Interest payments/GDP (%)	11.7	12.3	16.1	12.5	9.9	9.5	8.1	7.9	8.0
Debt service/exports of goods and services	0.2	0.2	0.2	0.2	0.3	0.2	0.3	0.4	
Interest payments/revenue	43.2	44.8	58.6	46.4	38.3	37.0	30.1	29.8	29.3
Interest payments/GDP	11.7	12.3	16.1	12.5	9.9	9.5	8.1	7.9	8.0
Foreign direct investment net inflows/GDP	6.3	10.1	4.0	1.4	1.2	2.8	4.2	4.3	
Real effective exchange rate (2005=1)	1.1	1.1	1.2	1.4	1.5	1.4	1.4	1.6	1.8
Average deposit rate	4.9	5.3	5.4	2.5	2.1	2.1	1.2	1.4	1.4
Average lending rate	20.8	23.2	21.9	19.0	18.3	17.2	14.6	15.0	15.0

Sources: International Monetary Fund, Ministry of Finance and Public Service

ANNEX IV: INDICATIVE LENDING FRAMEWORK

	2013	2014	2015	2016 ^{1/}	2017	2018	2019	2020	2021
Approvals	14.00	160.00	205.00	166.00	248.00	150.00	150.00	140.00	100.00
Disbursements	101.40	193.90	215.00	232.00	150.00	200.00	200.00	130.00	90.00
Repayments (principal)	98.60	59.03	63.00	46.97	98.32	95.66	102.45	107.14	107.48
Net flow of loans (IDB)	2.80	134.87	152.00	185.03	51.68	104.34	97.55	22.86	-17.48
Interest and commissions	26.40	26.80	26.60	35.20	36.61	38.50	39.92	40.73	41.29
Net cash flow	-23.60	108.07	125.40	149.83	15.08	65.84	57.64	-17.87	-58.77
IDB debt	1281.11	1474.00	1564.30	1697.33	1799.01	1903.35	1950.90	1993.77	2036.29
IDB debt/GDP (%)	9.03%	10.61%	11.23%	12.07%	12.36%	12.50%	12.19%	11.81%	11.36%
IDB debt/public external debt (%)	11.30%	13.09%	14.80%	15.72%	16.36%	17.17%	18.04%	18.30%	18.55%
IDB debt/multilateral external debt (%)	37.57%	44.07%	43.34%	41.09%	40.78%	42.58%	43.87%	45.69%	47.84%

Source: World Bank, IMF and own calculations.

Notes: For 2016-2021, exact timing of projected approvals and disbursement will depend on reform agenda, public sector investment program and financing need.

1/ 2016 approvals and disbursements under the new country strategy are projected at US\$66 million and US\$61.6 million, respectively.

ANNEX V: Development Effectiveness Matrix

COUNTRY STRATEGY: DEVELOPMENT EFFECTIVENESS MATRIX

In August 2008, the Board of Directors approved the Development Effectiveness Framework (GN-2489) to increase the evaluability of all Bank development products.

The Development Effectiveness Matrix for Country Strategies (DEM-CS) is a checklist of the elements that are necessary to evaluate a country strategy. It is based on the evaluation criteria developed by the Evaluation Cooperation Group of the Multilateral Development Banks in the "Good Practice Standards for Country Strategy and Program Evaluation."

COUNTRY STRATEGY: JAMAICA

STRATEGIC ALIGNMENT

Refers to the degree to which the design and objectives of the CS are consistent with the country development challenges and with the government's development plans and priorities.

EFFECTIVENESS

This measures whether the country strategy is likely to achieve its intended objectives, through an examination of three dimensions: (i) the quality of the diagnostics on which Bank action is based in each area of work; (ii) the quality of the results matrix for the strategy; (iii) the use and build up of country systems.

Effectiveness dimensions	
I. Country Diagnosis - Country Development Challenges (CDC)	Yes/No
- The CDC is comprehensive / holistic / complete	Yes
- The CDC clearly identifies the main development challenges	Yes
- The CDC presents magnitudes of the main development challenges that are based on empirical evidence	Yes
II. Priority Areas Diagnostics	%
- That clearly identify and dimension, based on empirical evidence, the priority area's specific constraints and challenges	100%
- That clearly identify and dimension, based on empirical evidence, the main factors or causes contributing to the specific constraints and challenges	100%
- That provide corresponding policy recommendations	100%
III. Results matrix*	%
- The strategic objectives are clearly defined	100%
- The expected outcomes are clearly defined	100%
- The strategic objectives and expected results that are directly related to the main constraints identified in the Diagnosis	100%

- The indicators are outcome indicators and are SMART	100%
- The indicators have baselines	93%
IV. Vertical logic	Yes/No
- The CS has vertical logic	Yes

** The Results Matrix is composed by indicators that are meaningful to, and capture progress towards, the expected results. The expected results stem from the strategic objectives.*

CS Diagnostic: As part of the Country Strategy 2016-2021 a country development challenges diagnostic was presented, under the title "Jamaica: Country Development Challenges". The CS diagnostic is comprehensive and based on empirical evidence. The diagnostic identifies 3 priority areas for Bank intervention: (i) improve public sector management; (ii) increase private sector led growth and competitiveness; and (iii) reinforce human capital and development.

-The diagnostic clearly identifies and dimensions, based on empirical evidence, **100%** priority area's specific constraints and challenges.-The diagnostic clearly identifies and dimensions, based on empirical evidence, the main factors or causes contributing to the specific constraints and challenges for 100% of the priority areas.-The diagnostic provides corresponding policy recommendations for Bank actions, which are based on empirical evidence, for 100% of the priority areas.

Results matrix: The section of the Results Matrix corresponding to the new strategic area includes **13 strategic objectives for Bank action, 22 expected results and 30 indicators to measure progress.- 100%** of the strategic objectives are clearly defined. - 100% of the expected outcomes are clearly defined.- 100% CS Objectives are directly related to the main constraints identified in the Diagnosis.- 100% of the indicators used are SMART.- 93% of the indicators have baselines.

Country Systems: During the strategy period the Bank will support Jamaica's national systems through deepening reforms, and modernization. Key areas include: (a) strengthening of the public procurement system; (b) technical support; (c) software integration; (d) budget execution; (e) Central Treasury Management System (CTMS) functionality advance to the Integrated Financial Management Information System (IFMIS); (f) strengthening of control systems; and (g) enhancing the independence of the Auditor General's department. All initiatives will be supported by training to improve capacity. By the end of the strategy period, it is envisaged that these strategic interventions will result in increased use of fiduciary systems.

Vertical logic. *The CS has vertical logic.*

RISKS. This measures three dimensions: (i) identification of factors that actually do or might affect attainment of the proposed objectives; (ii) definition of mitigation measures; and (iii) monitoring mechanisms.

The Strategy identifies four risks: (i) macroeconomic; (ii) natural disasters; and (iii) portfolio execution. Mitigation and monitoring measures have been identified for all the mentioned risks.

ANNEX VI: Management Response to Country Program Evaluation Recommendations

Recommendation	Management Response
<p>1. Ensure the continuity of CS and better justify lending envelopes. The Bank needs to avoid lapses in the validity of the strategic documents (CS or CS updates) that frame its engagement in Jamaica, regardless of lending. Strategy documents—which could usefully span a longer-term horizon, even if future revisions are likely—should thoroughly justify lending envelopes, whether changing a previously approved envelope or setting it anew, by analyzing scenarios and explaining how expected cash flows match Jamaica’s financing needs.</p>	<p>Partially Agree. Jamaica’s macroeconomic situation between 2010 and 2013, with a failed IMF Standby Agreement (SBA) 1 followed by a fresh Extended Fund Facility (EFF) program, clearly explains the basis for the sequence of strategy documents.</p> <p>First, in 2011, the IDB decided to withhold budget support due to the failure of the SBA. Second, at the very end of 2012, snap elections were called and the incumbent party was replaced by a new administration. Third, as a result of the 2012 negative Macroeconomic Sustainability Assessment (MSA), it was not possible to predict when it would be possible to resume normal programming. Fourth, at the end of 2012, the new administration announced that it had decided to enter a new agreement with the IMF. Thus, Management opted to present a Country Strategy (CS) without a financial envelope, and to return to the Board with a financing proposal once the macroeconomic conditions were more certain.</p> <p>Finally, the reason that led Management to propose a two-year CS was the likelihood that the priorities of the country might be different as the EFF advanced. This led to a formal agreement with the Government of Jamaica (GoJ) in 2013, to accept the new proposed timeframe for the CS and re-assess the situation afterwards.</p> <p>Once an agreement had been reached with the IMF and World Bank on relative burden sharing to support the EFF and once the IMF had approved the new program, the Board approval was sought for the 2013-2014 lending envelope.</p> <p>During the period under review, Jamaica’s circumstances were fluid and flexibility was needed to address a changing situation. This being said, Management fully agrees with the need for strategic continuity in the future.</p> <p>Consequently, a Country Strategy (or Update) to cover the remaining two years of the current political cycle and the EFF will be prepared. It should be noted that the Government has stated its clear preference for a full four year Country Strategy. It should also be noted that managing an IDB portfolio under the umbrella of an IMF program requires ingenuity given the fiscal targets which constrain expenditures, and which in turn affect execution and disbursements.</p>
<p>2. Focus policy-based lending on deepening public finance reforms. Even under the best scenarios, Jamaica will for several years continue to need a tight fiscal stance to bring down its debt. Under such conditions, the Bank’s intent to continue devoting a share of new lending to programmatic budget support operations in public finance is justifiable.</p> <p>Such operations have supported important reforms, though in many cases these reforms need to be further pursued to show results. The Bank should also strive to maintain the continuity of the ongoing PBP in the education sector.</p>	<p>Agree. Jamaica has made important strides in public financial management under the EFF. The launch of a comprehensive tax reform in 2013 and the introduction of a legally binding fiscal rule, with a debt-to-GDP target of 60 percent by 2026, are two of the most important reforms undertaken by Jamaica in recent history. Both reforms were strongly supported by the IDB through Policy Based Loans (PBLs) and Technical Cooperation grants (TCs).</p> <p>Policy based reforms will continue to be given high priority in these areas to enable durable and sustainable reductions in public expenditure and Jamaica’s debt. The Bank’s ability to provide further support for public financial reforms and education sector depends on the envelope agreed upon for the CS.</p>
<p>3. Ensure appropriate sizing of new investment loans. The limited fiscal space over the next several years restricts the scope for new Bank investment lending. Any new investment lending that is undertaken should be structured in a way that is mindful of fiscal restrictions, possibly using multiphase loans or modular design, as the previous CPE suggested. As a general rule, it would also be good practice not to approve new operations in a sector in which existing operations are underperforming.</p>	<p>Partially Agree. Due to the fiscal space limitations, Management will make every effort to redirect resources from underperforming operations in the existing portfolio.</p> <p>Management and the GOJ held the 2014 portfolio review in October 2014, and an agreement was reached to target underperforming operations with more aggressive steps to either remove the constraints to execution or restructure part of the loans.</p> <p>Note however, that Management questions using the performance of individual operations as criteria to decide on the pertinence of sector interventions going forward. The relevance of new operations needs to be assessed on their merits. Performance is certainly one of many factors that are taken into consideration during project design to better mitigate risks identified.</p>

Recommendation	Management Response
	<p>However, using single operations performance as a condition to decide on future loans could prove impractical and unresponsive to client needs.</p>
<p>4. Strengthen monitoring and evaluation. There should be more regular monitoring and stock taking of how the Bank's overall program is contributing to the targeted CS outcomes. In addition, there should be greater emphasis on assessing how individual operations are contributing to the specific outcomes in their results frameworks.</p>	<p>Partially Agree. While agreeing with the need to streamline monitoring and evaluation of CS objectives into programming activities, Management believes that the annual programming exercise reflected in the Country Programming Documents (CPDs) includes relevant information on the alignment of the program and the contribution of individual projects towards the objectives and expected results of the current CS. Management will continue to take stock of project performance via the individual PMRs with a portfolio view going forward. Additionally, it is important to bear in mind that Management, in consultation with the Board of Executive Directors, is currently revisiting the role of the Country Strategies (CS) and related programming instruments. Cognizant of the role monitoring and evaluation play in development effectiveness, one of the issues under discussion in the Working Group is the CS results matrix, and how to best monitor the achievement of its outcomes.</p>