



**The World Bank**

Jamaica First Economic Resilience DPL (P170223)

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# Program Information Document (PID)

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Appraisal Stage | Date Prepared/Updated: 23-Dec-2019 | Report No: PIDA28007

**BASIC INFORMATION****A. Basic Project Data**

Country	Project ID	Project Name	Parent Project ID (if any)
Jamaica	P170223	Jamaica First Economic Resilience DPL (P170223)	
Region LATIN AMERICA AND CARIBBEAN	Estimated Board Date 20-Feb-2020	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Finance & the Public Service	Implementing Agency Ministry of Finance & the Public Service		

**Proposed Development Objective(s)**

The Program Development Objectives of this operation are to (a) Support Fiscal Sustainability and Inclusion; (b) Enhance Fiscal and Financial Resilience against Natural Disaster Risks; and (c) Improve the Investment Climate for Sustainable Growth.

**Financing (in US\$, Millions)****SUMMARY**

<b>Total Financing</b>	70.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	70.00
World Bank Lending	70.00

Decision

Other

**Explanation**

The Chair authorized the team to appraise the operation and to proceed to negotiations once a revised version of the Policy and Results Matrix has been cleared.



## B. Introduction and Context

### Country Context

Following a long period of low and volatile growth coupled with large fiscal deficits and deteriorating debt dynamics, Jamaica's economy has shown a remarkable turnaround since 2013. Jamaica has succeeded in setting its public debt-to-GDP ratio on a downward trajectory by maintaining large primary fiscal surpluses upwards of 7 percent of GDP since 2013. While fiscal consolidation has helped restore macroeconomic stability, Jamaica's low growth and exposure to external shocks threatens the important gains achieved over the past five years. As a small island developing economy, Jamaica is highly exposed to natural disasters and climate change, and a significant share of its GDP and population are vulnerable to disasters. Moreover, economic growth has remained slow, limiting the impact of fiscal surpluses on debt dynamics.

With the government's efforts to pursue fiscal consolidation and strengthen fiscal and financial resilience as part of efforts to boost growth, the macroeconomic policy framework is deemed adequate for the ERDPL. GDP growth has accelerated recently, and the growth outlook is positive, driven by ongoing structural reforms including tackling business climate issues. With limited pressure on the exchange rate, monetary policy has been supportive of growth. The Government of Jamaica (GoJ) has also demonstrated its ability to implement fiscal consolidation and has expressed a strong commitment reducing debt by a further 40 percentage points by FY2025/26 while addressing constraints to faster growth. Furthermore, while external vulnerabilities are high given the current account deficit and the dependence on key trading partners, foreign direct investment (FDI) is projected to be sustained, and international reserves remain at adequate levels.

### Relationship to CPF

The proposed operation builds on the measures supported under the FY2014-19 Country Partnership Strategy (CPS). The CPS focuses on establishing the necessary conditions for broad-based, private-sector-led growth while improving public-sector efficiency and reducing vulnerability. The three pillars of the proposed operation are aligned with the three pillars of the CPS: (i) modernizing the public sector, (ii) creating an enabling environment for private-sector growth, and (iii) strengthening social and climate resilience.

## C. Proposed Development Objective(s)

The Program Development Objectives of this operation are to (a) Support Fiscal Sustainability and Inclusion; (b) Enhance Fiscal and Financial Resilience against Natural Disaster Risks; and (c) Improve the Investment Climate for Sustainable Growth.

### Key Results

This operation is expected to strengthen the institutional mechanisms that underpin fiscal responsibility, improve effectiveness of the social protection, enhance ex-ante financial protection against disasters, maintain environmental health and resilience of coastal and marine ecosystems, and improve business climate.

## D. Project Description



The proposed operation directly addresses three of the most critical economic challenges Jamaica faces: it supports fiscal sustainability and inclusion, enhances fiscal and financial resilience against climate and natural disaster risks, and improves the investment climate necessary for sustainable blue growth. The operation's three pillars are closely aligned with the GoJ's program. All prior actions contribute to the overarching strategic goals of Vision 2030, as well as the more specific objectives of the 2018-2021 Medium-term Socioeconomic Policy Framework. The actions supported relate to the following national outcomes: effective social protection, effective governance, stable macroeconomy, enabling business environment and hazard-risk reduction and climate-change adaptation.

The first pillar supports the government's ongoing fiscal consolidation and promotes social inclusion. Building on the significant fiscal reforms implemented over the past few years, this pillar strengthens the institutional mechanisms that underpin fiscal responsibility, attenuates fiscal risks associated with public bodies, and improves effectiveness and sustainability of the social protection system within a sustainable fiscal envelope. Policy measures supported by this pillar are crucial for the government's ongoing fiscal consolidation and inclusion agenda, especially after the IMF's Stand-By Arrangement (SBA) program's expiration in the Fall of 2019.

Recognizing the structural risk in Jamaica that climate-related and natural disasters could set back hard-earned fiscal reforms and impact growth, the GoJ is creating an enabling environment to expand ex-ante financial protection against disasters, while promoting fiscal and public financial management reforms designed to enhance resilience. The second pillar supports reforms to help ensure that budget planning adequately accounts for contingent liabilities from climate and natural disaster related risks, and that fiscal and monetary resources are sufficient to cope with disaster-related macroeconomic shocks. To bolster economy-wide financial resilience, the authorities are implementing reforms designed to enhance the efficiency of the domestic private insurance market, which will improve risk pricing, improve its financial capabilities to pay catastrophic claims, eventually yielding a broader array of insurance products available to both the private and public sectors.

Achieving sustainable growth in Jamaica will require maintaining the environmental health and resilience of coastal and marine ecosystems with the high economic returns these natural assets provide. In addition, Jamaica's economic growth has been undermined by cumbersome business regulations, high costs and distorted incentives. These have discouraged private investment that would have accelerated economic growth and helped integrate Jamaican firms into international supply chains. The third pillar of the DPL series supports elements of the government's growth agenda that address these impediments: application of a modern building code, reforms of the development and building applications approval process, trade facilitation, and land titling.

## **E. Implementation**

### Institutional and Implementation Arrangements

The Ministry of Finance & the Public Service (MoFPS) will be responsible for coordinating, monitoring, and verifying the completion of the prior actions. Various ministries will support program monitoring and evaluation. The World Bank has ongoing programs in Jamaica in many of the policy areas targeted by the proposed operation, and its results will be observable by other World Bank operations.

## **F. Poverty and Social Impacts and Environmental Aspects**



## Poverty and Social Impacts

The prior actions supported by the proposed operation are expected to have positive direct and indirect impacts on poor households and vulnerable groups. The measures to strengthen fiscal and financial resilience will indirectly benefit poor households by bolstering macroeconomic stability, preventing fiscal imbalances that could threaten pro-poor spending, and reinforcing the necessary conditions for accelerated growth. These measures as expected to benefit women, who are especially vulnerable to natural disasters as they have lower average earnings and fewer employment opportunities than men.

## Environmental Aspects

The proposed DPL is likely to have positive impact on the country's environment, forests, fisheries, or other natural resources. The new Fisheries Act is expected to result in sustainable harvesting of fisheries resources and likely to contribute in improvement of environmental conditions. The operation is expected to contribute to environmental stability, hazard-risk reduction, and climate change adaptation.

## G. Risks and Mitigation

The overall risk rating for the proposed DPL series is substantial. There are a number of downside risks bringing the overall risk to the operation to substantial. This reflects a range of macroeconomic, sector strategies and policies, implementation capacity, and stakeholders risks. While fiscal consolidation has put the public debt stock on a downward trajectory since 2013, Jamaica's debt still exceeds the average for small developing states. The proposed operation and the ongoing political and social agreements are intended to promote prudent fiscal policies and strengthen measures to shield the economy and public accounts from the effects of natural disasters. The design of the DPL seeks to mitigate capacity risks by concentrating on policy reforms that have benefitted from or are the subject of ongoing policy dialogue with the WBG, supporting policy reforms that leverage other WBG operations, and providing TA either directly or jointly with other development partners in selected areas. Sustained political commitment to implement difficult and sensitive reforms will be a crucial ingredient for the success of this operation.

## CONTACT POINT

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**APPROVAL**

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**Approved By**

Country Director:	Tahseen Sayed	21-Oct-2019
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