



JAMAICA EXPERIENCE



TITLE OF THE EXPERIENCE:

Jamaica Competitiveness Enhancement Program

Country: Jamaica

Institution: Planning Institute of Jamaica

Type of Institution: Public

Other institutions involved: Ministry of Finance, Ministry of Industry and Commerce, Office of the Prime Minister, Private Sector Association of Jamaica.

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Related Principle: 2 - effective institutions responsible for promoting competitiveness

Context

Multilateral institutions, including the Bank, have closely followed Jamaica's performance over the years¹, studying the low growth paradox in spite of high investment and high potentials and came to the conclusion that there are several areas to foster sustained growth by enhancing the performance of the private sector in Jamaica.

With this background in mind, the Bank started a process of dialogue in 2005, consultation and technical support for the GoJ on issues that hinder private sector led growth and agreed with the GloJ on the content of a Policy Reform Program and agreed on the execution of a programmatic series of three operations. The present note explains the starting point of the Program, the process for implementing reform, how the objectives of the program became more relevant during the external crisis and the next steps for further promoting and building on the recent reforms.

The first stage of the process was to carry out an in-depth analysis, involving consultation with stakeholders to identify the main issues that hindered competitiveness and private sector led growth in Jamaica. The baseline situation for the major issues that were identified as part of the Private Sector Assessment prior to program initiation.

¹ The Road to Sustained Growth in Jamaica. The World Bank. 2004. Jamaica Country Strategy.2006. IDB.Strategic Guidelines for Private Sector Development. IDB. 2006.

Objectives

The objective of the program is to improve competitiveness by promoting reforms that expand access to credit, reduce distortions in the tax system and government participation in inefficient enterprises and projects, and lower business costs through more efficient land titling and registration. The concrete activities supported by this loan are: (i) Competitiveness implementation framework, (ii) Tax reform, (iii) Reduction of budgetary burden for State Owned Enterprises, (iv) Improving access to finance and financial market development, including secured transactions framework, creation of credit bureaus. And facilitating electronic transactions, and (v) Reduction of business costs through expedited land titling.

Relevance

Jamaica has faced social, political and economic challenges that have hindered the achievement of its growth potential.

According to the GCI, the principal factors that limit business' competitiveness are: (i) access to financing; (ii) tax regulation; (iii) tax rates; (iv) the cost of crime and violence to business; (v) the high level of informality among small businesses; (vi) inadequate supply of infrastructure; and (vii) burden of economic regulation. The Private Sector Assessment (PSA)² further identified the following factors: (i) over-involvement of the state in the economy; (ii) distortions due to incentives and inequitable tax systems; (iii) underdevelopment of financial markets; (iv) costly and cumbersome processes for land registration; (v) excess of regulation and procedures; (vi) inefficient legal system; and (vii) inadequate infrastructure.

The program strengthened public private dialogue to reach consensus on key reforms, and addressed the issues of reducing the cost of paying taxes, the efficiency of state participation in State Owned Enterprises, moved forward regulation to lower the cost of access to finance and supported the implementation of measures to lower the cost and reduce the time for Land Titling and Registration.

Implementation

The GoJ and Bank agreed on the principal areas for fostering private sector development and developed a three stage Policy Matrix The Bank then started developing Action Plans for each area. This process involved a series of seminars with international experts in the area of taxes (two held in 2007), Credit Bureaus (two held in 2007), Secured Transactions (one in 2008, two in 2009 and several meetings with stakeholders, Mobile Banking (One in 2009, two in 2010), Land Titling (one in 2008). A wide range of stakeholders from the private and the public sectors were invited to participate in these seminars, and the priority actions for each of these areas were discussed and agreed.

In addition, international consultants supported the drafting of the Action Plans for Tax Policy, Tax Expenditure, Secured Transactions, Mobile Banking and Land Titling and Registration, bringing the experience from other countries both in the Region and elsewhere that face similar challenges to those of Jamaica. In all, the JCEP program supported the process of informed decision making needed to design the proposed reforms with four technical cooperation programs, plus additional administrative funds of about USD 1 Million³ and around 20 seminars and workshops during the 2007-2011 period.

² Jamaica: A Private Sector Assessment ERI. 2006.

³ JA-T1020 Land Titling and Registration, JA-T1021 Mobile Banking, JA-T1042 Women's Access to Finance, JA-X1002 Assessment and Implementation of Business Climate Reforms

Distribution of tasks

The PIOJ allocated a full time staff for supporting and coordinating between the different stakeholders.

Achievements and results

Through the program implementation the results of the implementation of the activities were:

- (i) Increased trust and cooperation between public and private sector as a sole Public Private Dialogue was created with the participation of the Trade Unions as well, that was streamlined with the merging of the two major public-private forums
- (ii) Reductions of distortions in the tax system. Even though the tax systems remains to be complex and with distortive incentives and signals, Stamp Duties and Transfer Taxes were reduced by 45% , taxes can now be electronically filed and there is only one payment for labour taxes which can be done electronically. Also, the Ministry of Finance and the Public Service (MoF&PS) designed new tax forms that will allow the capturing of more detailed data for analysis of the PIT and the CIT.
- (iii) Divestment of State Owned Enterprises. The Sugar Industry has been fully divested with the Sugar Divestment Agreements Signed Between Government and Chinese Investors” as well as Air Jamaica
- (iv) Enactment of new legislation for fostering access to finance Four new pieces of legislation were enacted during under the JCEP’s implementation that will promote a more enabling environment for accessing to credit: (i) The Credit Information Act, (ii) The Electronic Transactions Act, (iii)The National Payment Systems act and (iv) the e-payment regulations. The first one will allow for the establishment of Credit Bureaus that will provide record information on creditors, thus allowing good creditors to be recognized and have the possibility to access financial resources. The last three are essential for the implementation of a framework for mobile banking, and in 2010 there were two Jamaican Banks already providing the service. In addition progress in the regulation for allowing Mobile Banking was reached.
- (v) Reduction in Land Titling and Registration times and costs.. Estimates from the LAMP program show that the cost of registering a 1,000 square meters parcel with a market value of \$ 1 Million, drops from J\$144,250 to J\$ 34,800 (75% reduction). Further the time period for filing objections after approval has been reduce from seven (7) to six (6) weeks which impacts on the total processing time. On average the total processing time from date of lodgment to date title is issued is four (4) months.

Unexpected achievements

In some areas there was more progress than the originally envisioned.

For example, the secured transaction reform initiative originally was designed to be primarily an exercise in building consensus on the legislative and institutional changes needed to eventually implement a fully functioning framework.

In the case of the Tax Reform target of harmonization of Personal and Corporate Income tax (PIT & CIT) by the third operation, the higher rate paid on the CIT could not be lowered to the PIT rate, due to the extreme fiscal constraints on the government after the external crisis. In addition, as the execution of the program evolved and a comprehensive Tax Expenditure analysis was carried out the results of the study showed that the current methodology for collecting tax information was insufficient to provide decision makers with enough information to make an informed reform on such a delicate issue.

On the implementation of Action Plans in the areas of Mobile Banking and Land Titling, new developments and innovations came forward as part of the various stakeholders’ involvement in the processes. For example, in addition to the Mobile Banking action plan to promote the use of mobile banking for financial transactions, the GoJ’s interest went a step further in trying to find ways to use m-

banking to reach the unbanked.

Experience and Sustainable Results

Yes, most of the reforms are in place and are in the implementation phase.

Capacity to replicate and potential for exchange

The GoJ has been interested in developing a second phase of reforms with more emphasis on new activities to promote businesses activities, innovation, entrepreneurship and the use of ICT.

Human, operational and institutional capacities

The GoJ and the JCEP team are in capacity for sharing this experiences.

Good practices and concrete lessons

Concrete lessons and good practices are the importance of supporting policy reforms with technical expertise, and dissemination and consultation with stakeholders for all the key activities.

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