



COUNTRY PRIVATE SECTOR DIAGNOSTIC

# CREATING MARKETS IN JAMAICA

Repositioning for Private Sector-led Sustainable Growth

*Executive Summary*

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**WORLD BANK GROUP**

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2121 Pennsylvania Avenue, N.W.

Washington, D.C. 20433

[www.ifc.org](http://www.ifc.org)

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Photos: Cover, World Bank Group.

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# EXECUTIVE SUMMARY

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**The World Bank Group prepared this Country Private Sector Diagnostic (CPSD) for Jamaica as part of ongoing efforts to boost private sector participation in key sectors over the next three to five years.** Weighed down by structural constraints, Jamaica's real gross domestic product (GDP) expanded at an annual rate of less than 1 percent over the last three decades and economic activities remain concentrated in few sectors. The stock of public debt is among the highest in the region, which limits government's capacity to provide complementary public goods for growth. This report identifies ways to reduce cross-cutting constraints to private investment, with a focus on making agriculture and outsourcing services more competitive. Jamaica has an opportunity to produce high-value horticulture crops for export to existing and new markets. In outsourcing, the country can leverage its success with call centers to move toward higher-value services including knowledge process outsourcing (KPO), information technology outsourcing, and eventually digital services for creative industries.

**This CPSD comes at a crucial time in the country's push to find new private sector opportunities to assist with the recovery from the fall in economic activity caused by the COVID-19 pandemic.** COVID-19 has exacerbated vulnerabilities in Jamaica's development, reversing some of the gains achieved over the past decade, including increasing public debt and amplifying weaknesses in health, education, and information and communication technology systems. Real GDP is estimated to have contracted by a historic 10 percent in 2020. Tourism, which accounted for nearly a third of GDP in 2014–19, was among the sectors hit hardest—resulting in job losses that have likely increased poverty and inequality. Nevertheless, green shoots exist in horticulture and outsourcing, which are at the center of the government's private sector development strategies. Sustainable, inclusive recovery from the pandemic over the next three to five years will require investment in climate adaptation and resilience, diversifying into sectors with strong potential for growth and job creation, and building on Jamaica's geographic and climatic advantages.

**Improving the business climate is critical to boost investment in a sustainable recovery.**

The domestic private sector continues to face constraints, including business regulations, trade procedures, access to finance, worker skills, energy costs, and transport and logistics, undermining short-term recovery efforts and long-term competitiveness. Accordingly, this report focuses on interventions that could have major impacts and are likely to be feasible in the context of government's capacity and available resources over the near to medium term.

## Country context

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**As a small island off the North American coast, Jamaica faces unique development opportunities and constraints.** Jamaica has been a beacon of political stability, liberty, and cultural influence. It is a leader in the Caribbean in terms of its infrastructure assets—including airports, seaports, and ground transportation—coupled with digital connectivity, proximity to North America, and brand recognition in major markets. These assets have also strengthened the platform for the development of its tourism, creative, and outsourcing services sectors and can serve as a base for other

industries to develop. Its geography confers advantages and makes it an attractive tourism destination. Economic growth has been historically low, and most workers are in services. Jamaica faces many challenges typical of small island developing states, including limited export diversification and exposure to natural disasters.

**The COVID-19 pandemic led to a contraction in economic activity in Jamaica, disproportionately impacting tourism—which generates a large share of direct and indirect jobs.** The contraction was caused by a sharp drop in external demand and private consumption, reflecting the near closure of international travel and a marked slowdown in domestic demand. On the supply side, services contracted because of the disruption of tourism and related services. Industry was held back by disruptions in domestic production linked to the pandemic and the temporary closure of Jamaica's largest aluminum refinery. In July 2020, unemployment reached 12.6 percent—the highest level in recent years—hitting women and young people especially hard and is likely to have increased poverty. A surge in remittances, which increased by 20 percent in 2020, helped cushion the impact of the pandemic. Poverty has traditionally been very sensitive to changes in remittances which supplement the income of many households in Jamaica.

**The impact of the pandemic on Jamaica's economy is exacerbated by climate change.** With approximately 90 percent of Jamaica's US\$14 billion GDP produced within its coastal zone, Jamaica is particularly vulnerable to climate change, including rising sea levels and temperatures, more frequent and severe natural disasters, such as hurricanes, tropical storms, floods, and droughts.<sup>1</sup> These have adverse implications for key economic and climate sensitive sectors, such as tourism and agriculture. Climate shocks affect both crop production and infrastructure assets, with poverty implications. Long-term climate change impacts, including changing precipitation patterns and increasing temperatures, affect the reliability of water resources needed for food production and negatively impact the livelihoods of local communities. As such, climate-informed policies form a central part of private sector development and Jamaica's efforts to restore growth.

## State of the private sector

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**Jamaica's private sector exhibits a dualistic structure with a few large, often multisectoral, successful firms and many micro, small, and medium enterprises (MSMEs).** Although large firms contribute significantly to GDP, they account for just under a third of jobs. They are most active in tourism, finance, electricity, and agro-processing. MSMEs, on the other hand, provide more than two-thirds of jobs and are mostly engaged in wholesale, accommodation and food services, and agriculture. International trade is primarily conducted by large firms and some successful MSMEs, many of which are not linked into global value chains (GVCs) and have low local value-added components. Only 4.5 percent of small firms are involved in exports, compared with 33.5 percent of large ones.

**Most firms in Jamaica are young, with limited export activity, high dependence on imports, and low innovation capacity.** The most recent World Bank Enterprise Survey found that half of all Jamaican firms were less than 15 years old.<sup>2</sup> Only 16 percent of formal firms were involved in exports, below the average for other upper-middle-income countries, while 74 percent of manufacturing firms imported from abroad, above the average of comparator countries. Extensive dependence on imported inputs reflects, among other things, Jamaica's high production costs and limited innovation.

**Firm productivity in Jamaica is closely correlated to size and ownership structure.** Large foreign-owned companies and retail enterprises are the most productive in terms of sales per worker. Firms in manufacturing and other services are the least productive. Small firms and domestic companies also exhibit low productivity.

## Cross-cutting constraints to private sector growth

**Jamaica has struggled to improve its business regulatory environment, and weaknesses in competition, tax, land, and other policies remain.** Limited competition undermines firm innovation and affects the prices, reliability, and penetration of network services such as telecommunications and energy. Lack of pro-competition regulation in key sectors, the prevalence of state-owned enterprises, and weak competition enforcement are contributing factors. The tax structure is complex, and there are shortcomings with land titling. There is also substantial room for improvement in e-government services for firms. The government has prioritized regulatory reform, with several important initiatives planned or underway. Examples include rationalization of the tax code, revisions to mediation frameworks and online court proceedings, and the establishment of a public office to oversee insolvency proceedings.

**High trade costs have hampered the growth of Jamaican exports.** The time and costs to export and import are relatively high in Jamaica because of high and multiple taxes and fees, weak coordination among agencies, absence of an integrated, harmonized framework for border agencies, prevalence of manual processes, and low capacity of firms to implement international requirements, among other factors. Jamaica's trade practices limit domestic firms' ability to integrate with GVCs and create market distortions. Export growth has stagnated, making it imperative to intensify efforts to increase participation in international markets and leverage preferential market access conditions with key trade partners. The government is working to facilitate trade, including by improving cooperation among border agencies, risk management in border clearance, and customs regulations and data systems.

**MSMEs consider access to finance a major constraint, but substantial opportunities exist to improve alternative financing sources and digital financial services.** Only about a quarter of Jamaican MSMEs have a bank loan or line of credit, compared with a regional average of nearly half in Latin America and the Caribbean. Furthermore, the local financial sector is shallow, with low levels of domestic credit to the private sector. The recent microfinance law and regulation is a first step toward regulating the microfinance segment and should pave the way for further market expansion. Alternative sources of financing—such as leasing, factoring, and venture capital—are also underdeveloped, and MSMEs have limited or no access to digital financial services (financial technology [or fintech]). Fintech could cut costs and facilitate access to credit and payment systems for MSMEs. To promote it, changes are needed in regulations, as are active policies to promote its use.

**Employers have trouble finding workers with the requisite skills, particularly in higher-value services.** Contributing factors include a limited number of tertiary graduates in key fields (such as computer science, programming, and engineering), brain drain, and lack of occupation-specific and socio-emotional skills. Various government and nongovernmental agencies offer labor market initiatives, most of which are implemented in collaboration with the National Training Agency's Human Employment and Resource Training Trust. The government has tried to encourage Jamaica's large, relatively well-educated diaspora to return, but the domestic job market offers insufficient incentives. Overcoming skill mismatches, particularly in higher-value activities, requires strengthening links between education and training provider on the one hand and future private sector needs on the other.

**Energy costs are high relative to peer countries and the world, constricting the competitiveness of local firms.** High costs are partly due to limited use of renewables, system losses and the terms of contracts with foreign providers of fuel oil and natural gas. MSMEs are disproportionately affected by the high costs and occasional outages. Renewable energy and energy efficiency are becoming increasingly important to the government and its development partners. Reforms that stimulate investment in renewable energy would lower costs and accelerate decarbonization. Firms would also benefit from reforms that increase efficiency and reduce system losses.

**Jamaica's public transport infrastructure is relatively developed, but shortcomings in logistics services raise costs and make it harder for MSMEs to export.** Jamaica's airports, ports, and highways rank among the best in the Caribbean. However, Jamaica's tradeable sectors—especially agriculture—face four categories of logistics challenges. These include: (1) high costs of logistics due to low-capacity utilization of trucks as a large share of trucks are filled only for a one-way trip and/or not filled to capacity, thus shippers pay for the unused capacity; (2) limited third-party cold chain logistics, which include refrigerated trucking and cold storage, creating a lost opportunity to preserve or extend the shelf life of agriculture products; (3) lack of skills and know-how across the logistics sector, especially for agriculture; and (4) delays in full digitalization of border processing. Opportunities for strengthening transport and logistics lie in promoting the digitalization of logistics services to help optimize utilization through digital logistics platforms; developing specialized logistics skills, especially for agriculture; and continuing the digitalization of border processing (the single window, Port Community System) for better efficiency across borders.

**Accelerated technological adoption, innovation and digitalization have the potential to transform Jamaica's economy.** Jamaica already hosts a burgeoning business process outsourcing (BPO) services industry. Further technological advancement through, among other things, access to affordable high-speed internet connectivity, would create opportunities, including broadening e-commerce, application-based activities (for example, shared economy transactions), and fintech. An ecosystem to incentivize the use of digital financial services, with broad reach, is necessary to accelerate financial inclusion of MSMEs. This needs to be complemented by a range of demand-side measures such as e-governance initiatives, revision of laws and regulations in support of the digital economy, and strengthening of digital literacy and skills. Digitalization of logistics services could help reduce trade costs and informality, while increasing traceability of cross-border activities.

## Identifying sector opportunities

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**The country has potential to unlock income-generating opportunities for growth.** Much of the country's rich endowment of natural and human capital remains untapped, despite Jamaica's advantageous geographical location. Greater private participation in sectors with significant untapped potential could accelerate economic growth and development, with enhanced job creation, productivity, and other positive spillovers. This CPSD examines two such sectors, which have also been identified by the government as priority areas: agriculture and outsourcing. Agriculture accounts for 15 percent of jobs and outsourcing accounts for about 3 percent of jobs in the country.<sup>3</sup> The emerging prospects in these two sectors could attract private investment to spur recovery and growth, with the necessary reforms. They also hold significant potential to contribute to greener, inclusive, and sustainable growth, while increasing diversification and boosting labor productivity.

## Agriculture, with a focus on high-value goods

**Agriculture is a major pillar of Jamaica's economy.** In 2019, the sector contributed 7 percent of GDP. Two main types of producers exist. The first is a small group of large commercial plantations that produce monoculture crops, such as sugar or coffee, for export. The second is a large group of small mixed-crop farms that produce goods mostly for household consumption or sale in the domestic market. Small farms account for 41 percent of Jamaica's 400,000 hectares of agricultural land, with most operating on plots of two hectares or less. The country's agroclimatic conditions allow it to cultivate many crops, including high-value horticulture (fruits, vegetables, and spices). Unlike other Caribbean countries, which face constraints in expanding agricultural production, Jamaica has large amounts of unused land: more than a third of agricultural land lays idle. Some of this land could produce high-value horticulture crops and offers opportunities for investment and expansion to export to existing and new markets.

**Jamaican exports are concentrated in terms of both markets and products, with high-value horticulture crops offering the best opportunity for export diversification.**

Because of its size and firm scale, the country would face difficulties competing with regional and global powerhouses in agriculture products with high returns to scale. It will be imperative for Jamaica to nurture transformative investments—through domestic or international firms—that can produce goods at reasonable scale and of consistent quality. The experiences of selected exporters show that Jamaica could be a leading player in high-value niche exports. Global growth in demand for high-value horticulture products offers Jamaica an opportunity to increase its exports in this segment, which includes strawberries, pineapples, avocados, mangoes, citrus fruits, specialty vegetables, dry peppers, ginger, and turmeric. Moreover, more than two-thirds of Jamaica's agrifood exports go to Canada, the United Kingdom, and the United States, indicating an opportunity to diversify export markets, including within the Caribbean.

**Additional reforms are needed to boost the competitiveness of the horticulture sector.**

Constraints are related to adapting to climate change, access to land, links to markets, research and development and extension services, logistics and postharvest infrastructure (such as cold storage and warehousing), food safety, access to finance, among others. Strong coordination—both within the government and between the public and private sectors—is needed to develop horticulture, with a clear action plan and accountability for who is responsible for implementing each action.

## Outsourcing, with a focus on evolving toward higher-value services

**Although Jamaica has established itself as a preeminent BPO services destination in the Caribbean, it needs to develop higher-value services to stay competitive.** The country's proximity to North American markets, sizeable English-speaking workforce, and cost competitiveness have favored the development of BPO services. Government estimates suggest that revenue from the sector nearly doubled between 2016 and 2021, from US\$400 million to about US\$780 million. Similarly, employment jumped from 17,000 direct employees in 2015 operating in 30 companies to more than 44,000 people in 2021 in 95 domestic and international firms.

**Though the sector is positioned to continue to grow over the short term, it faces significant risks from increasing automation and competition including from other**



**countries.** Jamaica can increase its market share in KPO by specializing in higher-value services and positioning itself in global markets for digital services such as business research, content creation, and mobile and web development. Doing so will require capitalizing on comparative advantages such as language skills, similar time zone and proximity to North American markets, a large pool of trainable tertiary-educated workers, proactive government support, reforms under consideration in digital infrastructure, and presence in the BPO services sector. This will require change: refreshing laws and regulations, investing in digital skills, and addressing deficiencies in digital infrastructure.

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**The Jamaica CPSD is forward-looking, focusing on key issues for effective action to boost the growth of the private sector.** The analysis highlights entry points where policy intervention can contribute to breaking the current low-growth and low productivity trend in Jamaica. Key recommendations to unlock potential in agriculture and outsourcing services are outlined in table E.1. Clear and comprehensive implementation plans would be needed for these and other reforms, as gaps in implementation can hamper reform effectiveness.

TABLE E.1. Selected recommendations to overcome key sectoral constraints

Constraint	Recommendations	Short term (1–2 years)	Medium term (3–5 years)
<b>AGRICULTURE</b>			
<b>Weak connections to markets and links between actors in agricultural value chains</b>	Continue strengthening partnerships and alliances between producers and their capacity to deliver products of reliable quality and quantity to buyers (including through producer-buyer contracts)	●	
	Support use of e-commerce and digital platforms to connect producers, offtakers, and end markets	●	
	Strengthen market intelligence to help producers and exporters understand demand, including from tourism and regional markets	●	
<b>Lack of postharvest and food quality and safety infrastructure</b>	Explore public-private partnerships and public investment options for postharvest infrastructure that meets national and international safety and quality standards	●	
	Invest in digital infrastructure to support traceability systems		●
<b>Underdeveloped financial services for agriculture</b>	Facilitate access to finance, especially for climate-smart agriculture and small farmers—for example, by expanding lines of credit and guarantees	●	
	Encourage banks and microfinance institutions to expand their agriculture lending portfolios—for example through training and use of financial technology		●
<b>OUTSOURCING</b>			
<b>Limited human capital to drive higher-value outsourcing services</b>	Augment existing skills development initiatives by implementing a multitier training program that includes: (1) business process outsourcing services segment training, (2) higher-value services training, and (3) digital skills development		●
	Develop a platform-based online training solution to provide training modules across key industry segments and skill requirements	●	
<b>Digital infrastructure is expensive and limits competitiveness</b>	Improving telecommunication sector's competitiveness in terms of cost and quality by: <ul style="list-style-type: none"> <li>Review and reform the Telecommunications Act to align with current market trends, technologies, and international good practices, and implement the associated regulatory frameworks to promote competition and investment in broadband markets</li> <li>Support cost reduction and ease of development of digital infrastructure measures such as infrastructure sharing, easing right of way authorizations and permit procedures, and enabling nondiscriminatory access to upstream networks (international connectivity)</li> <li>Upgrade work from home regulations—widen its applicability to the business process outsourcing services sector and to the Special Economic Zone (SEZ) Act</li> </ul>		●
			●
		●	
<b>Onerous regulatory requirements and gaps</b>	The SEZ Authority should consider adopting a multiuse cluster approach towards the development (or approval) of SEZs and technology parks		
	Allow domestic businesses to operate in the zones without availing tax exemptions	●	
	Allow for flexibility in utilization of nonprocessing area (dual usage) by developers for creating additional social infrastructure		

## Notes

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1. USAID (2017).
2. The World Bank Enterprise Surveys, <http://www.enterprisesurveys.org>.
3. The share of agriculture is based on October 2021 data for agriculture, forestry, and fishing from STATIN (see <https://statinja.gov.jm/LabourForce/NewLFS.aspx>); the share of outsourcing is based on 2021 data for BPO employment from the JIS (see <https://jis.gov.jm/jobs-increase-by-15-in-bpo-sector/>).

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## **IFC**

2121 Pennsylvania Avenue, N.W.  
Washington, D.C. 20433 U.S.A.

## **Contacts**

**Thomas Haven**

[thaven@worldbank.org](mailto:thaven@worldbank.org)

**Denny Lewis-Bynoe**

[dlewisbynoe@ifc.org](mailto:dlewisbynoe@ifc.org)

**Rohan Longmore**

[rlongmore@worldbank.org](mailto:rlongmore@worldbank.org)

**[ifc.org](https://ifc.org)**