

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

JAMAICA

PUBLIC FINANCIAL AND PERFORMANCE MANAGEMENT PROGRAM II

(JA-L1013)

LOAN PROPOSAL

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ELECTRONIC LINKS
REQUIRED
1. Policy Letter http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=2177126
2. Means of Verification Matrix http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=2177106
3. Results Matrix http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=2177132
4. Safeguard Policy Filter http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=2189970
OPTIONAL
1. Description of Key Results Indicators http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=2182048
2. Comparison Original Triggers and Current Policy Reforms for the Second Operation http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35058967
3. Comparison of Original Triggers with Revised Triggers for the Third Operation http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35060238

ABBREVIATIONS

CEOs	Chief Executive Officers
CFAA	Country Financial Accountability Assessment
CPAR	Country Procurement Assessment Report
EAs	Executive Agencies
EU	European Union
FAA	Financial Administration and Audit Act
FRF	Framework for Fiscal Responsibility
GOJ	Government of Jamaica
IDB	Inter-American Development Bank
IFMIS	Integrated Financial Management Information System
IIIA	International Institute of Internal Auditors (IIIA)
IMF	International Monetary Fund
MfR	Managing for Results
MOFPS	Ministry of Finance and Public Service
MTAP	Medium Term Action Plan
MTW	Ministry of Transport and Works
NCC	National Contracts Commission
OCG	Office of the Contractor General
PBIs	Performance Based Institutions
PBMA	Public Bodies Management and Accountability Act
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIOJ	Planning Institute of Jamaica
PMES	Performance Management and Evaluation System
PRODEV	Program to Implement the External Pillar of the Medium-Term Action Plan for Development Effectiveness
PSs	Permanent Secretaries
PSMD	Public Sector Modernization Division of the Cabinet Office
ROMEM	Result Oriented Evaluation Model
SC	Steering Committee
USAID	United States Agency for International Development

PROJECT SUMMARY

JAMAICA

PUBLIC FINANCIAL AND PERFORMANCE MANAGEMENT PROGRAM II (JA-L1013)

Financial Terms and Conditions			
Borrower: Government of Jamaica		Amortization Period:	20 years
		Grace Period:	5 years
Executing Agency: Ministry of Finance and the Public Service (MOFPS)		Disbursement Period:	12 months
Source	Amount		
IDB (OC)	US\$60,000,000	Supervision and Inspection Fee:	*
		Interest Rate:	Libor
		Credit Fee:	*
Total	US\$60,000,000	Currency:	US dollars Single Currency Facility
Project at a Glance			
Project objective/description: The objective of this second programmatic operation is to continue supporting the Government of Jamaica in carrying out their reform efforts to improve expenditure management and performance management in the public sector. The reforms combine policy initiatives and government actions in four areas: fiscal responsibility, financial management, public procurement; and performance management and accountability. These reforms are critical for the coherent operation of the fiscal responsibility framework and for increasing the efficiency of public expenditure, which contribute to ease the fiscal burden.			
Special contractual conditions: The disbursement of the only tranche of the financing will be subject to the compliance by the borrower of all the policy conditions summarized in the Policy Matrix (Annex II).			
Exceptions to Bank policies: None			
Project qualifies for: SEQ[] PTI [] Sector [] Geographic[] Headcount []			
Procurement: N/A			

(*) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provision of the Bank's policy on lending rate methodology for ordinary capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. DESCRIPTION AND RESULTS MONITORING

A. Introduction

- 1.1 This \$60 million loan operation is the second of three consecutive single-tranche operations that, while technically related, are being financed independently under the programmatic policy-based lending approach in accordance with documents CA-450-1 and CS-3633. On November 19th, 2008 the Board of Executive Directors of the Bank approved the first policy-based loan (PBL) in this programmatic series entitled “Financial and Performance Management Program” (Loan Contract No. 2058/OC-JA) for US\$60 million, which was disbursed in early December, 2008. The proposal for that loan constitutes the framework document for the programmatic series (PR-3330), and the present proposal updates, complements, and follows up on the framework document, in accordance with the guidelines set forth in Memorandum EVP/1/2006 (PO-LO-2006) dated March 6th, 2006.

B. Background, Problems Addressed and Justification

1. Macroeconomic situation

- 1.2 The sharp rise in commodity prices between late 2006 through mid-2008, natural disasters, and most recently the international financial crisis, has put increased pressure on Jamaica’s already difficult macroeconomic situation. The impact of the global financial crisis on Jamaica intensified during 2008-9 pushing the economy into recession in the third quarter of 2007. The final estimate of economic activity for 2009 is expected to be -4% and economic growth is expected to resume only in 2011. In addition, Government revenues are below projected levels and the deficit is expected to surpass the Government’s estimates for FY 2009/10. The debt overhang, at 132% of GDP at December 2009, limits the range of policy actions to respond to the economic turmoil, given that about 60% of total spending goes to debt service.
- 1.3 The Government of Jamaica has taken a set of fiscal measures to address the situation and is on the brink of signing a Stand-By Arrangement with the IMF backed by a comprehensive set of further fiscal measures and a voluntary exchange of its domestic debt to reduce interest rates and increase maturities. The total package may result in overall net fiscal savings of 6.5% of GDP per annum. The primary fiscal surplus is targeted to reach 6% in 2010/11 and is projected to rise over time to some 9% of GDP in 2013/14 as the economy recovers. The debt to GDP ratio is expected to fall from a peak of 140% at the end of 2009/10 fiscal year to about 120% by 2014.
- 1.4 The IMF Program will be accompanied by financing from other multilaterals including the IDB in a total package that could amount over 20% of GDP. The multilateral support funds will be used to a) re-establish central bank reserves to provide confidence and guard against capital flight, b) finance targeted buy-backs of domestic debt with high coupons that do not participate in the debt exchange, c) finance a Financial Systems

Support Fund that would extend liquidity to the financial sector, and d) budgetary needs as determined under the IMF program.

- 1.5 The strong fiscal measures, the unprecedented multilateral support under the IMF Program aimed at ensuring macroeconomic stability, and the importance of maintaining the significant reform agenda all count in favor of Policy Based Lending at this time. The Policy Based Loans to be discussed are all in line with the 2008 update of the Country Strategy and will assist in fostering growth, managing public finances, while also protecting social spending and pursuing education reform and are consistent with the overall program. However, there are significant downside risks. External shocks (natural and economic), slippage in the fiscal measures and rises in interest rates could alter the debt dynamics and provoke renewed concerns regarding debt sustainability.
- 1.6 The current operation is part of the IDB support package, and in particular, seeks to continue the reforms initiated under the first operation to improve efficiency of public expenditure by strengthening fiscal discipline and modernizing its public financial and performance management practices and systems.

2. GOJ's Challenges: fiscal prudence and more effective expenditure and performance management

- 1.7 The Framework document from the first operation of this programmatic series extensively describes the specific problems and challenges facing Jamaica in public financial and performance management that were identified in the 2006 IDB/WB *Joint Country Accountability Assessment and Country Procurement Assessment Report (CFAA/CPAR)* as well as the GOJ's *Medium Term Action Plan (MTAP) for Managing for Results (MfR)*¹ prepared in 2007 with Bank financial support. The MTAP results from the GOJ's review of the implementation of its *Public Sector Modernization Vision and Strategy 2002-2012*. Because resource limitations hampered progress during the first phase of implementation, the MTAP prioritizes future efforts in three key areas: (i) the public financial management and public procurement systems; (ii) the Performance Based Institutions (PBI) Model; and (iii) the institutional performance monitoring and evaluation systems (PMES). These are precisely the reform areas supported by this programmatic series. Below is a brief summary of the key challenges that this operation seeks to address.
- 1.8 First and foremost is the challenge of adherence to the principles of fiscal prudence in a context of high indebtedness. The GOJ has decided to pursue a fiscal policy in accordance with principles of prudent fiscal management specified in a fiscal responsibility framework and corresponding legislation. It is expected that the conduct of fiscal policy in accordance with this set of legislated standards, instruments and procedures should contribute to reversing existing public debt build-up dynamics and achieving sustainable fiscal targets. Since this is a new area for the government, the major challenge is that the establishment of the legal framework is a long and complex process that requires intensive work, including

¹ The GOJ's document "Government at Your Service. Comprehensive Review of Ministry Paper No. 56/2002 and a "Medium Term Action Plan for Managing for Results" were supported by JA-T1015 (PRODEV).

sensitization of all stakeholders about the problem and the existing alternatives and international experiences to address it, design of the Fiscal Responsibility Framework, the drafting of the corresponding legislation that creates a compatible set of rules for fiscal and financial management, the discussion and passage of the Bill, as well as the initial steps for the creation of the institutional capacity and technical expertise at the Ministry of Finance and Public Service (MOFPS), the Auditor General's Department, Parliament and other Ministries, Departments and Agencies.

- 1.9 Second, there is a need to improve the efficiency of expenditure management particularly in public financial management and public procurement. The limited functionality of the current financial management information system (FMIS) contributes to the lack of timely budgetary information which reduces the efficiency of public spending and budget monitoring. The absence of a centralized mechanism for effective commitment controls results in the accumulation of arrears, bypassing budgetary management controls. In addition, any effective reform in financial management requires the enhancement of internal audit and control, and the incorporation of modern practices for these functions, while improving coverage and enforcement capabilities. A significant problem in public procurement is the absence of detailed procurement procedures embodied in laws and official regulations which include sanctions for noncompliance. The lack of standardized procedures and procurement documents, centralized and available procurement statistics, as well as the lack e-government procurement (e-GP) processes adversely affect the efficient, effective and transparent conduct of government procurement.
- 1.10 Third, the GOJ's public sector modernization efforts have followed the performance-based approach, but the evolution of the institutional framework has outpaced that of its underlying accountability and business processes. The creation of Executive Agencies (EAs) and Performance Based Institutions (PBIs) have been taking over the management of a share of public resources from the central government ministries, but new accountability mechanisms for these agencies are being implemented slowly and unevenly. The existing accountability system needs to be standardized and integrated with other mechanisms to focus public service capacities on achieving results. In this context, there also is a need to strengthen the accountability framework for government's senior management.
- 1.11 Based on these challenges, the GOJ and the Bank reached agreement in 2008 on the reform agenda subsequently supported by this programmatic operation. The programs' expected results are directly related to the GOJ's commitment to continue systemic changes aimed at ensuring that the reforms are sustainable, fiscal policy and management are consistent with principles of prudence, procurement and financial management processes are better integrated, and the regulatory framework consistent with international standards.

C. GOJ's actions taken in expenditure management and performance management

- 1.12 The following section describes the actions that the Government of Jamaica has been taking since then in the strategic areas of expenditure management and performance management set forth in the 2008 framework document of the programmatic series.

Because the current macroeconomic scenario is much more complicated than that of the first operation, it has affected the GOJ's ability to achieve some of the reforms at the pace originally planned. Nonetheless, the GOJ has made good progress. More importantly, it remains fully committed to the program and continues progressing towards achieving the program targets.

1. Expenditure Management

a) Prudence and Transparency

- 1.13 As a first step of the reform to promote fiscal responsibility and transparency, during the first operation of this programmatic series in 2008, the Ministry of Finance submitted to Cabinet a proposal for a new Framework for Fiscal Responsibility (FRF). The proposed framework contains two basic elements to improve accountability and increase transparency by: (i) requiring the government to pursue its policy objectives in accordance with the principle of responsible fiscal management; and (ii) imposing regular fiscal reporting obligations and facilitating public access to fiscal information.
- 1.14 During the first part of 2009, the main stakeholders in the MOFPS have worked on fine tuning the FRF proposal and the subsequent proposed draft legislation. Key amendments to the *Financial Administration and Audit Act (FAA)* and the *Public Bodies Management and Accountability Act (PBMA)* include dispositions requiring relevant information be supplied to the Financial Secretary from both the general government sector and the wider public sector and that failure to do so will be an offence; and that public bodies be prohibited from entering into negotiations for any borrowing unless the Minister of Finance has specifically exempted it from this requirement. Moreover, the details of planned borrowings must be specifically included in the public bodies' business plans.

b) Financial Management

- 1.15 For the first operation, the GOJ tabled in the Houses of Parliament the Bill to amend the Financial Administration and Audit Act (FAA) to include an Enhanced Framework for Internal Audit and Internal Control. The Bill set out provisions for the mandatory establishment of audit committees in ministries, departments, agencies and public bodies. The Bill further established a body called the Audit Commission, which is a statutory body to monitor the operation of Audit Committees and to ensure their continued effectiveness. The amendment also expanded the definition of departments to include Executive Agencies in order to promote accountability in Executive Agencies similar to that of central government. Both Houses of Parliament passed the Bill in 2009 and it was recently submitted to the Governor General signature to enact it into law.
- 1.16 Also in the first operation, to support the improvement of quality of the internal audit and control functions, the MOFPS approved the Policy and Procedures Manual for the Quality Assurance and Improvement Program, which meets the standards required by the International Institute of Internal Auditors (IIIA). The Ministry Circular that approved the Manual mandates its use for the implementation of the quality assurance and improvement programs within all internal audit units of the Ministries, departments and

agencies. The Manual also included the IT and value for money audit guidelines. During 2009, the Internal Audit Units have been implementing the IIIA standards in a technically coordinated and ordered manner.

c) Public Procurement

- 1.17 Reforms in this area were front loaded. As part of the first operation, the GOJ submitted to Parliament in late 2008 new Regulations for Public Procurement. The regulations were then issued setting legally binding and uniform rules for procurement in all public sector entities, thereby enhancing the regulatory and enforcement framework. The Regulations provide policy rules to all personnel of the GOJ engaged in any aspect of procurement and provide civil and summary sanctions for those who contravene the rules. The new Regulations include the requirement for all public officers involved in the process to declare any conflict of interest.
- 1.18 To support the implementation of the new procurement policies and procedures, the GOJ issued and declared mandatory the use of the revised Handbook of Public Sector Procurement Procedures, which includes Standard Bidding Documents (SBDs) for use in the procurement of goods, services and works. The SBDs were developed on the basis of best international practices, including formats required by the Multilateral Development Banks. The MOFPS, following Cabinet approval, also increased the thresholds for the procurement of goods, services and works by public entities and included provisions with regard to direct contracting/sole sourcing.
- 1.19 In addition, in an effort to standardize and greatly enhance the efficiency and transparency of the GOJ's procurement administration as well as reduce the cost of government purchases, the GOJ approved an e-procurement strategy that sets out the road map for Jamaica's transition to e-procurement and will guide the process of implementation of the electronic procurement system, including the functioning of an e-tendering solution.
- 1.20 During 2009 GOJ efforts were focused on the implementation of new regulations and use of the new Handbook and standard bidding documents. Staff training efforts intensified in the second half of the year. At the same time, the authorities of the MOFPS conducted dialogue and negotiations for the procurement of an e-tendering solution in keeping with the strategy to modernize the tools for public procurement.

2. Performance Management

a) Medium Term Action Plan for Management for Results

- 1.21 In compliance with the targets for the first operation, the Medium Term Action Plan (MTAP) for Management for Results was approved by the Steering Committee (SC) chaired by Cabinet Office. Activities of the MTAP have been and continue to be included in the corporate plans of the Ministries and other relevant agencies. Moreover, the GOJ has utilized the MTAP to coordinate external assistance from other multilateral and bilateral organizations.

- 1.22 To monitor and evaluate government entities performance, under the first operation, the Ministry of Transport and Works (MTW) put into operation the pilot Performance Monitoring and Evaluation System (PMES). The electronic application has been used by the heads of portfolio entities of the MTW since 2008. The PMES forms part of a wider Result Oriented Evaluation Model (ROMEM) and is the pilot experience to enable the GOJ to develop a framework for institutional performance monitoring and evaluation to be applied across government entities.
- 1.23 A critical tool for MTAP implementation is an enhanced system for project prioritization for public investment. The GOJ prepared a technical draft proposal that is currently being refined and finalized by a working group of the principal stakeholders. Once the review of critical technical issues is completed, the proposal will be sent to Cabinet for approval. The proposal includes the following elements: (a) clearly defined responsibility for policy direction, allocation of resources and project selection within resource constraints; (b) procedures for managing the process of project prioritization (top down and bottom up); and (c) standard methodologies and criteria to be used across all entities. Also during the second half of 2009, a web-accessible tool for its deployment is being identified and customized.

b) Accountability Framework for Executive Agencies and Performance Based Institutions

- 1.24 In compliance with the first operation's targets, the GOJ submitted to Cabinet a draft proposal for Strengthening the Accountability Framework for the Government Senior Management. The Senior Management Group comprises Permanent Secretaries (PSs) and Chief Executive Officers (CEOs) of Executive Agencies and Performance Based Institutions. During 2009 this proposal has been discussed at the Permanent Secretaries Board.
- 1.25 In addition, in late 2008 a draft proposal for the Regulations of the Executives Agencies Act was submitted to the members of the Technical Advisory Committee for their consideration. That review was completed in the first half of 2009. The proposed draft regulations have been prepared and submitted to the Attorney General for comments. They will then be submitted to Cabinet for its consideration and approval prior to submission to Parliament.
- 1.26 During 2009 the GOJ started the preparation of technical proposals for the corporate governance framework and the accountability framework for Regional Service Delivery Systems.

D. Objective, Components and Cost

- 1.27 Objective. The objective of this second programmatic operation is to continue supporting the Government of Jamaica in carrying out their reform efforts to improve expenditure management and performance management in the public sector. The reforms combine policy initiatives and government actions in four areas: fiscal responsibility, financial management, public procurement; and performance management and accountability.

These reforms are critical for the coherent operation of the fiscal responsibility framework and for increasing the efficiency of public expenditure, which contribute to ease the fiscal burden.

- 1.28 The present operation, the second of the programmatic series builds on the foundation laid during the first operation, and represents the intermediate step towards the achievement of the overall program objectives.
- 1.29 Successful implementation of the reforms included in this program presupposes a stable macroeconomic environment that is compatible with the program's objectives. The amounts proposed are in line with government and IMF forecasts in terms of external financing needs for this year and the coming years, and with the financial requirements for 2009 set forth in Bank programming. **As a condition for disbursement of the second loan, the government will maintain a macroeconomic policy framework consistent with the Program's objectives and in accordance with the provisions of the Policy Letter (Electronic link #1).**
- 1.30 Components. The program is divided into two components, each with targets related to changes in the relevant legal framework as well as procedures and/or instruments necessary to achieve the desired goals. The following section describes each program component, as well as adjustments to the triggers established in the 2008 framework document. In some cases the complexity of the reforms and the legally mandated extensive consultation processes affected the timing of the full achievement of some of the triggers. In other cases, changes provide greater precision in the definition of the triggers. None of these changes, however, affect the program's medium- and long-term objectives since GOJ is maintaining the scope of the reforms. Even though there are few delays in achieving some targets, GOJ actions remain focused on achieving the ultimate goals.²
- 1.31 Component I: Expenditure Management. Under this component the program aims at improving the efficiency of expenditure management by enhancing the legal framework for fiscal responsibility and debt management, and addressing critical public financial management and procurement issues identified in the CFAA/CPAR. Specifically, the program interventions and targets under this component are:
 - a. *Fiscal Responsibility*: To enhance accountability, transparency and sustainability in debt and medium term fiscal management, the program seeks the development and adoption of fiscal responsibility legislation. During 2009 the GOJ has fine tuned the proposed Fiscal Responsibility Framework and is drafting legislation that includes amendments to the Financial Administration and Audit Act (FAA) and the Public Bodies Management and Accountability Act (PBMA) in the areas of fiscal responsibility, reporting and debt management. **As a condition for disbursement of the second loan, the GOJ will:** (i) (through Cabinet) issue drafting instructions to the

² See optional electronic links for an explanation of any difference between the original triggers and current policy conditions for the second loan operation (optional electronic link #2), and between the original triggers and the revised triggers for a third possible loan operation (optional electronic link #3).

Chief Parliamentary Counsel (CPC) for the legislation to enable the new framework for fiscal responsibility; and (ii) table in Parliament a Ministry Paper stating Government's intention to enact legislation to establish a Fiscal Responsibility Framework within the current fiscal year.

- b. *Public Financial Management:* The Program emphasizes improving the effectiveness of Public Financial Management in key areas such as the enhancement of the legal framework and supporting systems and instruments. This includes: (i) amendment of legislation for the enhanced framework for internal audit and control and the adoption of improved instruments to perform these functions; (ii) modernization of the financial management instruments, including the adoption of a new Chart of Accounts and budget classification system, and the operation of an effective integrated financial information system (IFMIS).

The amendment to the FAA Act to enhance internal audit and control was broader than initially planned and this required a longer policy consultation process. Both Houses of Parliament passed the Bill in 2009 and it was recently submitted to the Governor General for signature to enact it. Therefore, the trigger for this second operation was revised to reflect progress achieved to the step prior to issuance of the regulations. In the case of the improved instruments for internal audit and control, the revised trigger is more specific and is a better indicator of the pace of implementation of the internal audit quality assurance program.

With regard to the instruments for financial management, the GOJ decided to go beyond the initial core IFMS modules and move toward an enterprise resource management system to include other key processes and systems (such as human resource management). This decision required the development of more complex technical specifications for acquiring the new information system. The decision also delayed the revision of the Chart of Accounts, since this revision required a prior definition on the design of the IFMS. Therefore, the triggers were revised; with respect to the IFMS to the stage of a call for bids rather than procured, and for the Chart of Accounts to revision initiated rather than completed. Again these are issues of timing and do not imply deviation from the program's original objective of modernizing the tools for improved public financial management. **As a condition for disbursement of the second operation, the GOJ will:** (i) (through Cabinet) issue drafting instructions to the Chief Parliamentary Counsel (CPC) for the regulations of the amended FAA Act; (ii) validate through the Internal Audit Directorate of the MOFPS the mandatory self assessments of at least two thirds of the Internal Audit Units of Ministries and departments to ensure the correct implementation of the quality assurance program; (iii) issue the call for bids for a new financial management information system; and (iv) initiate the revision of the Chart of Accounts and budget classification.

- c. *Public Procurement:* The program focuses on reforms to support standardization and enforcement of policies and procedures. Following the important reforms adopted during the first operation with the new regulations, new handbook and standard bidding documents, and an official e-government procurement (e-GP) strategy, the

second operation supports reform implementation. Following the analyses conducted by GOJ, it became apparent that laws had to be amended to separate the secretariats of the National Contracts Commission (NCC) and the Office of the Contractor General (OCG). Then, the trigger was changed to Cabinet approval of the proposed separation, as the key step prior to the proposed amendment. Other trigger changes in this area result from greater precision in their definition and additions to reflect better implementation progress of the procurement regulations. The e-tendering solution is not being procured but rather selected given that it is being financed with bilateral assistance. Therefore the trigger was changed accordingly. **As a condition for disbursement for the second loan the GOJ will:** (i) (through Cabinet) approve the separation of the General Secretariats of the National Contracts Commission and the Office of the Contractor General; (ii) complete the first phase of the training program for procurement officers of all ministries on the use of standard bidding documents; (iii) select the E-tendering system as the first step in implementing the GOJ's eGP strategy; (iv) (through the MOFPS) constitute the Procurement Appeals Board according to the mandates of the Procurement Regulations.

1.32 Component II: Performance Management. Under this component the program aims at establishing a Performance Management and Evaluation System (PMES) and enhancing the accountability framework for the improved functioning of the Executive Agency (EA) and Performance Based Institutions (PBIs) models. Specifically, the program interventions and targets under this component are:

- a. *Performance Management:* The overall program focuses on key elements for enhancing performance management: (i) the implementation of the first phase of the MTAP; (ii) the establishment of an institutional Performance Monitoring and Evaluation System (PMES); and (iii) the improvement of instruments to better link the planning and budgeting functions of government. Due to the number of issues that require Cabinet consideration, the timing of the triggers related to PMES and the project prioritization system were moved from Cabinet approval to Cabinet submission. **As a condition for disbursement of the second loan the GOJ will:** (i) implement the priority service delivery interventions in the areas of food safety & development applications according to the MTAP schedule, specifically, establish One-stop shop for food safety and implement a pilot system to track applications for development approvals in three Parishes; (ii) submit to Cabinet for its approval the proposed framework for the PMES that includes monitoring requirements and independent evaluations of Government programs; (iii) establish a PMES Unit at the Cabinet Office to lead implementation of the system; and (iv) submit to Cabinet a proposal for an enhanced system for project investment prioritization.
- b. *Accountability framework for EA and PBIs:* Performance management relies on improving the accountability framework, consequently the program focus is on: (i) the issuance of regulations for the EAs Act; (ii) development and approval of a detailed framework for improved performance and contract agreements for Permanent Secretaries (PSs) and CEOs of EAs and PBIs; and (iii) development of an improved governance and accountability framework for the Regional Service Delivery System. The trigger change is related to the Regulations of the Executive

Agencies Act; the wide-ranging consultations indicated the need for a careful Cabinet consideration of the proposed regulations, since there are issues that may require amendments to the Act. Consequently, the trigger was modified. **As a condition for disbursement of the second operation, the GOJ will:** (i) approve (through Cabinet) the framework for improving performance agreements and service contracts for PSs and CEOs of EAs and PBIs; (ii) submit to Cabinet the draft Regulations for the Executive Agencies Act; (iii) submit to the Steering Committee comprised of the MOFPS, Cabinet Office, the Attorney General's Chamber and the PS Board a draft technical proposal for a Corporate Governance Framework which includes procedures for appointing Boards of Directors and principles to improve accountability structures, capacities and responsibilities of Boards of PBs; and (iv) submit to Cabinet a proposal to improve the governance and accountability framework for the Regional Service Delivery System.

- 1.33 Cost. The program is under the programmatic reform loans modality with three sequential operations (see Policy Matrix in Annex II). This second operation consists of a series of policy and operational reforms whose compliance will be precedent for a sole disbursement of US\$60 million, and the forthcoming operation will be processed once the authorities reach the agreed triggers for the third operation.

E. Key Results Indicators

- 1.34 There are no changes regarding the expected results of the program as stated in the framework document for the programmatic series (PR-3330). There are, however, two changes regarding the timing of achievement of the immediate outcomes associated with the information systems for financial management and e-tendering. The Results Matrix (Electronic link #3) is updated to reflect this change and incorporate new information on baseline data for the indicators for service delivery.
- 1.35 The programs' results reflect GOJ's commitment to continue systemic changes aimed at ensuring that the reforms are sustainable, fiscal policy and management are consistent with principles of prudence, procurement and financial management processes are better integrated, and the regulatory framework consistent with international standards (see Optional Electronic Link #1 for a description of the results indicators).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing Instrument and Program Strategy

- 2.1 The operation is the second operation of the three-operation Programmatic Policy Based Loan each in the amount of US\$60 million from Ordinary Capital. In accordance with the framework document (PR-3330) approved by the Bank's Board of Executive Directors in November 2008, the programmatic approach is justified because the implementation of reforms to tackle the problems identified warrants a medium and long-term execution period. The strategy for this second operation is to support continuity and deepen the reforms initiated in 2008.

- 2.2 The strategy of the program considers the varying pace of reform and the degree of reform-readiness of the government entities involved. In some cases, such as procurement, the reforms are front loaded, focusing on the preparation of policy documents and new instruments for execution that support major policy reforms. The goal in subsequent implementation (second operation) is to gain experience before amending or proposing new legislation (third operation). In other cases, like internal audit and control, the program focuses on implementation after initial approval of legislation. In other fields, reforms are being developed during the program, such as in fiscal prudence and transparency. Critical elements in this case are the dialogue among the relevant stakeholders to create consensus around the proposed reforms and prepare the basic technical documents to support change in legislation. For the improved accountability framework for PBIs, the path of implementation requires technical adjustments, capacity building, and reform dissemination; each step deepens the reform and culminates in the approval of regulations. Finally, for implementation of mechanisms that operationalize some reforms, such as the performance management and monitoring and evaluation system, the program emphasizes the iterative processes for the design and testing, training and roll out to other entities.
- 2.3 Lessons learned. Evaluations and studies on the effectiveness and impact of policy-based loans suggest that the effectiveness of programs of this kind depends to a large extent on the degree of government commitment to the proposed reforms. The programmatic series was built on a reform agenda led by the GOJ itself. This agenda is being supported by several international development partners (IDP). The GOJ determined the overall policy matrix and each IDP supports a part of it and/or reinforces areas supported by others. This process follows a country-driven harmonized approach that clearly demonstrates government's commitment to the reforms. In this context, the Bank's programmatic approach and the complementary technical cooperation provided under PRODEV facility have been effective in promoting continuity in the reform process and the activities included in the program, as shown in the policy letter (Electronic Link #1).

B. Environmental and Social Safeguard Risks

- 2.4 Given the nature of the program involving institutional strengthening activities, no social or environmental issues are foreseen. Based on the afore-mentioned, according to Policy Directive B-13, and based on the results of the Safeguard Policy Filter Report applied to the framework document, no classification is required for this Program.

C. Other Key Issues and Risks

- 2.5 The European Union, World Bank and Caribbean Development Bank all are preparing budgetary support operations with a number of conditions consistent with targets in this programmatic operation, but with varying timelines for their achievement. Therefore, the Bank program supports GOJ efforts to achieve some of those conditionalities, particularly ones related to debt management, fiscal responsibility, and financial management and procurement.

- 2.6 In preparing this operation, the team has maintained a high level of multilateral coordination with specialists from the IMF and the World Bank, both at Headquarters and in Jamaica, as well as with the EU.
- 2.7 The GOJ has been advancing important reforms in others areas of public administration that have synergies with those supported by this Program. In particular, they have been working on tax reform and bureaucratic simplification, the former with the Bank through its competitiveness program and the latter with USAID through their Legislation and Regulation program.
- 2.8 The conditions for the disbursement of the operation represent the GOJ's long-term commitment to a reform agenda to improve effectiveness, transparency and responsibility in fiscal policy and management. Political commitment by this administration began long before it came into office.
- 2.9 Although some conditions include the enactment of legislation, which is already advanced in the legislative process, other conditions involve the drafting of policy and regulatory frameworks that will require further legislative drafting and enactment in the medium term and will be supported by the third operation in this programmatic series.
- 2.10 As of January 15, 2010, the GOJ complied with all the targets for the present operation, therefore there are no risks for compliance. However, one of the major risks for compliance with the programmatic series is related to targets requiring drafting of legislation and regulations, and its subsequent submission to Parliament. Given the Chief Parliamentary Counsel's Office (CPC) cumbersome procedures, backlog of drafting instructions and an insufficient number of staff, completion of drafting may suffer delays. To mitigate this risk the authorities have contracted experts to provide temporary support to CPC in the drafting process.
- 2.11 Other risks are related to the timing of implementation and the potential sustainability of the reforms supported by the programmatic series. The first risk is associated with the necessary coordination among the key agencies: MOFPS as implementing agency, the PIOJ and the PSMD at Cabinet Office. To mitigate this risk the reform program will continue to operate under the direction of the Steering Committee (SC) now led by the Financial Secretary and with the participation of the other institutions. The GOJ has had a very positive experience with the operation of the SC, led by the PSMD begun under PRODEV I and continued under PRODEV II. Currently the SC is used to discuss issues of mutual concern under those and other programs, including the budget support programs financed by other institutions.
- 2.12 There are also risks related to financing the implementation of the financial management information system and other technical tools that are triggers for the third operation. Given the limited fiscal funds available, the GOJ has sought complementary funding from other donors. For this operation the GOJ has also committed itself to the establishment of a set-aside fund for procurement of the necessary goods and specialized services.

- 2.13 Another risk is the country's vulnerability to external shocks given the already adverse effects of the global financial and economic crisis on this highly indebted country. Further deterioration may jeopardize the country's macroeconomic stability. Successful implementation of the reforms included in this program presupposes a stable macroeconomic environment that is compatible with the program's objectives. A related risk is the possible reversal of the performance orientation in favor of fiscal control if the fiscal situation does not improve.
- 2.14 To reduce the country's exposure to the current volatility in global financial markets, the GOJ has adopted a re-engagement strategy with the multilateral development banks and international financial institutions aimed at a gradual change of the country's debt profile and support for its reform agenda, which includes improved fiscal and performance management. Moreover, this strategy is complemented by negotiations with the IMF to elaborate a program to preserve macroeconomic stability, enhance the fiscal position and lay the basis for sustainable growth. The IMF anticipates to reach an agreement with the GOJ authorities in the last quarter of 2009.
- 2.15 The implementation of a number of very visible reforms supported by this program requires a high level of political commitment for the reforms to yield their full potential benefits in the medium- to long-term. The Policy Letter ratifies the GOJ's full commitment to these reforms in the long-term.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary Implementation Arrangements

- 3.1 The Executing Agency is the Ministry of Finance and Public Service (MOFPS) which will provide the needed evidence for compliance with the programs conditions and for the subsequent individual operations. A program Steering Committee (SC) will be established. The SC will be responsible for overall project guidance and oversight. The SC will review the progress on the execution of the policy reforms, and will interface with other institutional actors in order to facilitate the orderly implementation of the Program. The Finance Secretary or his deputy will chair the Committee, and its membership will include the representatives of the Planning Institute of Jamaica (PIOJ) and the Public Sector Modernization Division of the Cabinet Office (PSMD), as these institutions have specific responsibilities in the implementation of the reforms.
- 3.2 The MOFPS has appointed a Technical Coordinator that is responsible for: (a) monitoring the compliance of conditionalities and performance benchmarks set out in the policy and verification matrix; and (b) reporting on the compliance progress to the MOF, SC, and the IDB.

B. Summary of Arrangements for Monitoring Results

- 3.3 The implementation of the reform program will be monitored by the GOJ through the MOFPS and the SC with technical support from the project team. The Borrower and the Bank will hold semiannual meetings in order to review the progress achieved in implementing the Program and on the fulfillment of the conditions defined as triggers

for the subsequent operations. For these meetings, the Borrower will furnish, prior to each meeting, information and documentation requested by the Bank regarding the advancement of the program. The meetings will focus on: (a) verifying the degree of compliance with the indicators for the program and its components; (b) taking stock of the successes and shortcomings of Program design and execution and its effectiveness in working toward the country's development objectives; and (c) recommending corrective or monitoring measures for the third operation of the programmatic series.

C. Complementary Bank interventions and Technical support activities

- 3.4 Most of the activities to achieve the commitment for the first operation are in advance stage of completion, and it is expected that all commitments will be achieved before the end of the year. Some of the activities for achieving the goals of the third operation are being supported by the PRODEV II Technical Cooperation.

Development Effectiveness Matrix
Summary

Indicator	Score	Maximum Score
<i>I. Strategic Relevance</i>	Low-High	
1. IDB Strategic Development Objectives	2.2	10
Country Diversification	2.2	2
Corporate Initiatives	0.0	2.5
Harmonization and Alignment	0.0	3.5
Beneficiary Target Population	0.0	2
2. Country Strategy Development Objectives	9.6	10
Country Strategy Sector Diagnosis	6	6
Country Strategy sector objective & indicator	3.6	4
<i>II. Development Outcomes - Evaluability</i>	Partial Satisfactory	
3. Evidence-based Assessment & Solution	7.5	10
4. Evaluation & Monitoring Plan	5.1	10
5. Cost-Benefit or Cost-Effectiveness	0.0	10
6. Risks & Mitigation Monitoring Matrix	7.5	10
<i>III. IDB's Role - Additionality</i>		
7. Additionality	7	10
Technical Assistance provided prior the project	3	3
Improvements in management of financial, procurement, monitoring or statistics internal controls	4	4
Improvements in environmental, health and labor performance	0	3

I. Strategic Relevance: This operation is being executed in Jamaica, considered a Group C country of the Caribbean. It is a PBL. There is no evidence of the use of country systems. The program is aligned with the country strategy update approved in 2008 to address the external shocks experienced by Jamaica. The strategy expired at the end of 2009.

II. Evaluability: The project is clear in terms of its objectives and the intervention logic is sound. Empirical evidence is provided regarding the magnitude of the problem and the factors that contribute to the problem identified. There are indicators that are not specific.

The project has defined mechanisms for monitoring and budget for this activity. A reflexive (before and after) evaluation will be conducted, but there is no specific evaluation plan. There is no economic analysis.

Mitigation measurement have been identified but there are not indicators, baselines and targets to follow up the implementation of these mitigation measures.

III. Additionality: The Bank has provided technical assistance to support the government in this sector (JA-T1024 and JA-T1015). Actions in the PBL are directly linked to improving the performance of PFM and procurement, as well as management for results.

ANNEX II

Policy Matrix¹

Objective	First Operation: Policy Reforms	Second Operation: Policy Reforms	Third Operation: Triggers
1. Enhanced macroeconomic Stability	The macroeconomic framework of the borrower is consistent with the objectives of the program and the GOJ Policy Letter.	The macroeconomic framework of the borrower is consistent with the objectives of the program and the GOJ Policy Letter.	The macroeconomic framework of the borrower is consistent with the objectives of the program and GOJ Policy Letter.
2. Improve the efficiency of expenditure management by enhancing the legal framework for fiscal responsibility and the mechanisms for public financial management and procurement.	<u>Fiscal Responsibility</u> (a) Proposal for a new Framework for Fiscal Responsibility that includes amendments to the FAA and the PBMA Acts in the areas of fiscal responsibility, reporting and debt and cash management, submitted to Cabinet.	(a) Drafting Instructions for the Legislation to enable the New Framework for fiscal responsibility, which includes debt management related dispositions, issued by Cabinet to the Chief Parliamentary Counsel. (b) Ministry Paper stating Government's intention to enact legislation to establish a Fiscal Responsibility Framework within the current fiscal year, tabled in Parliament.	(a) Regulations of the legislation for fiscal responsibility, issued.
	<u>Public Financial Management</u> (a) An amendment to the FAA Act that enhances the framework for internal audit and internal control, submitted to Parliament.	(a) Drafting Instructions for the Regulations of the amended FAA Act, issued by Cabinet to the Chief Parliamentary Counsel.	(a) Regulations of the amended FAA Act applied.

¹ See optional electronic links for an explanation of any difference between the original triggers and current policy conditions for the second loan operation (optional electronic link #2), and between the original triggers and the revised triggers for a third possible loan operation (optional electronic link #3).

Objective	First Operation: Policy Reforms	Second Operation: Policy Reforms	Third Operation: Triggers
	(b) Internal audit quality assurance manual, issued and provisions that make its use mandatory, approved by the MOFPS.	(b) At least 2/3 of the Internal Audit Units of Ministries and Departments submit mandatory self-assessments following the quality assurance program. These assessments are validated by the Internal Audit Directorate of the MOFPS.	(b) Actions Plans to address the weaknesses identified in the self assessments under implementation. IT and VFM audits in major spending ministries and Executive Agencies, conducted.
		(c) Call for bids for a new financial management information system issued.	(c) Core model of the new financial management information system operational in pilot ministries and the MOFPS.
		(d) Revision of the Chart of Accounts and budget classification to comply with international standards initiated.	(d) Financial instructions for new budget classification and Chart of Accounts, issued, and New accounting manual, issued by the MOFPS.
	<p><u>Public Procurement</u></p> <p>(a) New regulations for public procurement that include sanctions for non-compliance, submitted to Parliament;</p> <p>(b) Provisions that increase procurement thresholds, approved by Cabinet.</p> <p>(c) Revised procurement Handbook, approved by Cabinet.</p> <p>(d) E-government procurement strategy, approved by MOFPS.</p> <p>(e) Standard bidding documents, approved and issued by the MOFPS.</p>	<p>(a) Proposal to separate General Secretariats of NCC and Office of the Contractor General approved by Cabinet.</p> <p>(b) E-Procurement program to be applied to all public sector entities submitted to Cabinet. E-tendering system selected.</p> <p>(c) Procurement Appeals Board constituted.</p> <p>(d) First phase of the training program for procurement officers of all ministries on the use of standard bidding documents</p>	<p>(a) Proposed Procurement Act submitted to Parliament.</p> <p>(b) E-tendering system under implementation. Pilots in operation in key spending Ministries or Departments.</p> <p>(c) Members of the Procurement Appeal Board appointed.</p> <p>(d) All NCC approved contracts use the</p>

Objective	First Operation: Policy Reforms	Second Operation: Policy Reforms	Third Operation: Triggers
		completed.	standard bidding documents for the procurement process.
3. Establish a public sector Performance Management and Evaluation System and enhance the accountability framework for the improved functioning of the Executive Agency and PBIs models.	<p><u>Performance Management</u></p> <p>(a) Implementation of the Medium Term Action Plan (MTAP) for Management for Results, initiated.</p>	<p>(a) Implementation of priority service delivery interventions contemplated in the MTAP on schedule, particularly:</p> <p>(i) One stop shop for Food Safety implemented; (ii) pilot system to track applications for development approvals under implementation in three Parishes.</p>	<p>(a) Implementation of priority service delivery interventions contemplated in the MTAP on schedule, particularly with respect to the one stop delivery centers. (Development Assistance Center established in NEPA, other center of one stop shop to be define)</p>
	<p>(b) Pilot Performance Monitoring and Evaluation system (PMES) in the Ministry of Transport and Works, implemented.</p> <p>(c) Draft proposal for an enhanced system for project prioritization for public investment, prepared by the Working Group appointed by the Cabinet Office.</p>	<p>(b) Proposed framework for the PMES that includes monitoring requirements and independent evaluations of Government programs, submitted to Cabinet; PMES Unit at the Cabinet Office to lead implementation of the system, established.</p> <p>(c) Framework for the enhanced system for project prioritization, submitted to Cabinet</p>	<p>(b) PMES Framework approved by Cabinet. PMES in two additional Ministries, implemented; Progress report on PMES implementation that includes an assessment of the effectiveness of the PMES based on the pilots, submitted to Cabinet.</p> <p>(c) Framework approved by Cabinet. criteria and standards for public investment analysis and prioritization, established and its use made mandatory. Three-year Public Investment Program based on the enhanced system for project prioritization and new standards, prepared.</p>
	<p><u>Enhancing the Governance and Accountability Framework</u></p> <p>(a) A detailed framework for improving performance agreements and service contracts for PSs and CEOs of Executive Agencies and PBIs, submitted to Cabinet.</p>	<p>(a) Framework for improving performance agreements and service contracts for PSs and CEOs of Executive Agencies and PBIs, approved by Cabinet.</p>	<p>(a) Mechanism to monitor the performance agreements for PSs and CEOs of Executive Agencies and PBIs, established in accordance to the new framework.</p>

Objective	First Operation: Policy Reforms	Second Operation: Policy Reforms	Third Operation: Triggers
	(b) Draft regulations of the Executive Agencies Act, submitted to the EAs Inter-sectorial Technical Advisory Body comprised of the Ministry of Finance, the Attorney General's Chamber, and CEOs.	(b) Proposed Regulations of the Executive Agencies Act submitted to Cabinet.	(b) Regulations of the Executive Agencies Act submitted to Parliament. Modernization plans for performance based institutions with framework documents reflecting requirements of the new regulations, developed.
		<p>(c) Draft technical proposal for a Corporate Governance Framework which includes procedures for appointing Boards of Directors and principles to improve accountability structures, capacities and responsibilities of Boards of PBIs, submitted to the Steering Committee comprised of MOFPS, Cabinet Office, the Attorney General's Chambers and the PS Board.</p> <p>(d) Draft Proposal to improve the governance and accountability framework for the Regional Service Delivery System, submitted to Cabinet.</p>	<p>(c) Corporate Governance Framework, approved by Cabinet, and implementation, initiated</p> <p>(d) Improved Framework for Regional Service Delivery System, approved by Cabinet and implementation, initiated.</p>