**FIDUCIARY ARRANGEMENTS**

**Country:** Jamaica

**Project:** JA-L1073 – Support to the Public-Sector Transformation Programme (SPSTP)

**Executing Agency:** Office of the Prime Minister (OPM)

**Fiduciary Team:** Naveen Umrao – Financial Management Specialist;

Rene Herrera – Fiduciary Procurement Senior Specialist; Leon Ferguson – Procurement Consultant and Martin Nesbeth – Financial Management Consultant

1. **Executive Summary**
   1. The fiduciary management evaluation of the program was performed during April and August 2017 using the Institutional Capacity Assessment System (ICAS) methodology, as well as through a series of meetings and interviews with the management team of the Office of the Prime Minister, OPM. The evaluation indicates that the program has a medium fiduciary risk, and as such, it is believed that the OPM: (i) based on the current structures and fiduciary systems in place; and (ii) once it has the Program Executing Unit (PEU) established, will have the capacity to execute the program.
   2. The Government of Jamaica continues, with assistance from major donors, to address key improvements to its fiduciary systems. The donor community is committed to working with the government to determine the extent to which the country fiduciary systems can be used for the administration of donor-financed projects.
   3. Currently, the portfolio of the Bank is managed through the establishment of special project execution units for most of the projects. In addition, the Bank conducts a close operational supervision on these Project Execution Units, and provides training as needed on Bank’s policies and procedures. At the country’s fiduciary management level, the employment of Financial Management Information System (FMIS) is implemented for treasury and financial administration. Regarding the country’s procurement systems, the Bank has approved the use of the Jamaican Procurement Sub-system of Limited Tender/Restricted Bidding, for all contracts for works below the Bank’s threshold for Price Comparison (up to US$150,000) and contracts for goods and non‑consulting services that fall within the Bank’s threshold for the said method (US$25,000).
   4. The program, totaling US$160 million (PBL: US$110 mil. and Investment loan: US$50 mil.), does not include local counterpart, nor financing from other multilateral organizations, and no sub-executors are envisaged.
2. **Fiduciary Context of the Executing and Implementing Agencies**
   1. The Office of the Prime Minister, OPM, will be the Executing Agency, (EA), in charge of executing this operation. Its mandate is to support the Prime Minister in meeting constitutional responsibilities to provide quality leadership, strategic direction and control for an efficient, effective and economical government. In addition, OPM is to ‘build a participatory framework for the creation of a quality society which galvanizes the entire nation to achieve its potential’.
   2. The OPM currently has four (4) functional areas focusing on; Planning and Development, Information and Telecommunications, Local Government Reform and State Protocol & National Awards. It is guided by the Financial Administration and Audit Act (FAAA) for financial management, with its allocations being approved in the national estimates and further its receipt and expenditure subject to an annual audit by the, Supreme Audit Institution, (SAI) of Jamaica. As a central government agency, the OPM uses the Financial Management Information System, (FMIS), as its accounting software system.
   3. Overall, the ICAS reveals that the OPM is at a Medium Development (MD) stage which can then be translated to having a medium level of risk associated with its execution of the operation. A general description of the fiduciary context therefore leads to a rating of medium risk, and includes the following:
3. The SPSTP has a Program Operating Manual, (POM) that outlines the applicable procurement procedures among other operational details;
4. The Financial Management Information System (FMIS) currently used by the OPM will not be able to satisfy some of the key functionality requirements of the SPSTP;
5. There are currently no financial management personnel assigned or employed by the SPSTP;
6. There is no authorized procedures manual in effect for financial management which is critical to the successful execution of the SPSTP.

1. **Evaluation of Fiduciary Risk and Mitigation Actions**
   1. The overall fiduciary risk of the program, which was evaluated using the ICAS methodology, is deemed to be medium. There were a few risks identified which are outlined below along with their respective risk rating and mitigation measures.

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| **Risk** | **Risk Rating** | **Mitigation Measures** |
| Timely financial information for decision making | Medium | Acquisition of an accounting software that meets IDB minimum requirements for program financial reporting.  **Responsible party**: PEU/Borrower  **Timeline for implementation:** Prior to 1st disbursement of the loan |
| Weak financial management capacity of the PEU | Medium | The Procurement Specialist and Financial Specialist personnel should be recruited and assigned to the program in a timely manner. Personnel should be suitably skilled and qualified and preferably with experience in managing donor funded projects. Capacity will also include identification of a dedicated area (physical space) to comfortably house the PEU, their operations and file retention  **Responsible party**: PEU/Borrower  **Timeline for implementation**: Prior to 1st disbursement of loan |
| Weak internal control of the capacity | Low | Inclusion of the program on the Internal Auditor’s work plan at least every other year of program’s life.  **Responsible party**: PEU/Borrower  **Timeline for implementation**: TBD |
| Lack of awareness of IDB procurement, disbursement and financial reporting procedures | Medium | Create capacity within the PEU through in house training in IDB’s procurement and financial management procedures and requirements  **Responsible party**: IDB  **Timeline for implementation**: During program design and throughout program execution |

1. **Aspects to be considered in the Special Conditions of the Loan Contract**
   1. In order to facilitate the negotiation of the operation, outlined below are agreements and requirements which will be incorporated into the special conditions:
2. **Rate of Exchange Agreed with the Executing Agency.** For purposes of the justification of expenditures to the Bank (including reimbursement/recognition of expenditures, and local counterpart) the equivalent amount to be reported in the project or disbursement currency will be determined using the effect exchange rate used to convert the funds denominated in the project's currency to the local currency.
3. **Financial Statements and Reports.** Annual Audited Financial Statements (AFS) for the program will be required, beginning with the fiscal year in which the first project expenditures were incurred. The AFS are to be submitted to the Bank within 120 days after the close of each fiscal period, in addition to Final Audited Financial Statements, which are due for submission to the Bank within 120 days of the close (last disbursement date) of the program. The AFS should report on the overall program, in the expressed currency of the Loan. The Audited Financial Statements of the program should include, in addition to the basic financial statements an internal control report. The audit must be conducted by a Bank approved/eligible independent external audit firm.
4. **Requirements and Agreements for Execution of Procurement**
5. **Procurement Execution**
   1. Procurements for the proposed project will be carried out in accordance with the Policies for the Procurement of Works and Goods Financed by the Inter‑American Development Bank (GN-2349-9) of March 2011, and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (GN-2350-9) of March 2011, with the provisions established in the Loan Contract and the procurement plan.
6. **Procurement of Goods, Works, and Non-Consulting Services:** The procurement plan for the Support to the Public-Sector Transformation Programme (SPSTP) covering the first 18 months of project execution will indicate the procedure to be used for the procurement of Goods, the contracting of Works and Non-Consulting Services. The review of technical specifications in all cases, during the process of selection is the responsibility of the sector specialist of the Project.
7. **Procurement of Consulting Services:** The procurement plan for the Support to the Public-Sector Transformation Programme (SPSTP) covering the first 18 months of project execution indicates the procedure to be used for the procurement of Consultancy Services, and the method of selecting Consultants. The Borrower is responsible for preparing and implementing the project, and therefore for preparing the TORs, short lists, selecting the Consultants, and awarding and subsequently administering the contract, with Bank supervision.
8. **Selection of Individual Consultants**: Individual Consultants are employed on assignments for which: (a) teams of personnel are not required; (b) no additional outside (home office) professional support is required; and (c) the experience and qualifications of the individual are the paramount requirement. Individual Consultants are selected on the basis of their qualifications for the assignment. Advertisement is not required[[1]](#footnote-2) and Consultants do not need to submit proposals. Consultants shall be selected through comparison of qualifications of at least three candidates among those who have expressed interest in the assignment or have been approached directly by the Borrower. Individual Consultants may be selected on a sole-source basis with due justification in exceptional cases. This will be carried out in accordance with Section V (Selection of Individual Consultants) of GN-2350-9 paragraphs 5.1‑5.4.
9. **Recurring Expenses:**Include payment of utilities and other office operating expenses of the PEU.
10. **Use of Country Procurement Systems:** The Bank has approved the use of the Jamaican Procurement Sub-system of Limited Tender/Restricted Bidding, for all contracts for works below the Bank’s threshold for Price Comparison (up to US$150,000) and contracts for goods and non-consulting services that fall within the Bank’s threshold for the said method (US$25,000).
11. **Retroactive financing**. The Borrower has expressed its interest in retroactive financing. The Bank may recognize, eligible expenses incurred by the Borrower prior to the date of loan approval up to the amount of US$800,000 (1.6% of the proposed loan), provided all the requirements are substantially similar to those set out in the loan contract requirements. The eligible expenses will be related mainly to: (i) PEU staff; and (ii) institutional capacity strengthening of the PSTIU. These expenses must have been incurred on or after July 25th, 2017 (approval date of the Project Profile) and under no circumstances shall expenditures incurred more than 18 months prior to the loan approval date be included.
12. **Domestic Preference:**Determining whether it is appropriate and necessary to use domestic preference in the evaluation of bids should be guided by Appendix 2 of GN-2349-9 paragraphs 1-6.
13. **Direct Contracting:** The Borrower has expressed its interest in advancing the direct contracting of the National Works Agency (NWA), a wholly owned government entity, to implement the activities under Component 1 that refer to the establishment of a government-wide communications network. NWA has the rights of way required and access to ducts and fiber laid as part of infrastructure projects across the country, including highways and telecommunications. Therefore, direct contracting is justified under Bank’s Policy (GN-2349-9), Paragraph 3.6 (c) and (d). The contract is estimated to be US$6MM. Contracting NWA has the advantage of building on the existing infrastructure laid and/or owned by the NWA along the Island. Additionally, and in conjunction with NWA, E-Gov Jamaica, a wholly owned government firm under the auspices of the Ministry of Science, Electricity and Technology (MSET), with the mandate of the implementation of ICT policies and projects for the Government of Jamaica, and a long history of providing ICT procurement services to government agencies, will be single sourced to establish a data center and extend and create a network connecting their data center to all ministries, departments and agencies (MDA) in Kingston Metropolitan Area (KMA) through fiber optics, creating a redundant, reliable, connectivity network across the government. Direct contracting is justified under Bank’s Policy (GN‑2349-9), paragraph 3.6 (c) and (d). The estimated contract sum for e‑Gov is US$3MM.

For Component 2, the Government has expressed their intention to engage Quidgest, the firm that is engaged to provide the HR Management System, on the basis of continuation of services and given the level of satisfaction of the Government with the company. Quidgest was selected through a competitive process under the Public Sector Efficiency Programme (JA‑L1046). Single-source selection is justified under Bank’s Policy (GN‑2350-9), paragraph 3.10 (a). The contract is estimated to be US$5MM.

Finally, the PEU consultants (Project Manager and Procurement Specialist) hired under the TC “Institutional Strengthening of the Office of the Prime Minister” (ATN/OC-16179-JA), will remain through the execution of the project. These consultants where hired through a competitive process to support the Office of the prime Minister in the implementation of the Public Sector Transformation Programme, including advancing in the design of some the activities envisaged in this operation. According to GN‑2350‑9, paragraph 5.4 (a), these are tasks that are a continuation of previous work that the consultant has carried out and for which the consultant was selected competitively.

**Country Threshold Table (US$)** [**www.iadb.org/procurement**](http://www.iadb.org/procurement)

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| **International Competitive Bidding Threshold \*** | | **National Competitive Bidding Range \*\***  **(Complex Works and non-common goods)** | | **Consulting Services** |
| **Works** | **Goods** | **Works** | **Goods** | **International Short List** |
| >1,500,000 | >150,000 | 150,000 – 1,500,000 | 25,000 -150,000 | >200,000 |

When procuring simple works and common goods and their amount is under the International Competitive Bidding thresholds, Shopping may be used.

\*\* When procuring complex works and non-common goods with amounts under the NCB range, Shopping shall be used.

1. **Procurement Plan (PP):** The procurement plan indicates the procedure to be used for the procurement of Goods, the contracting of Works or Services, and the method of selecting Consultants, for each contract or group of contracts. It also indicates cases requiring prequalification, the estimated cost of each contract or group of contracts and the requirement for prior or post review by the Bank. The procurement plan will be posted on the Bank’s website ([Bank Procurement](http://www.iadb.org/en/projects/procurement-plans,8180.html?keyword=&projectCountry=JA&ProjectNumber=&dateFrom_plan=&dateTo_plan)) and will be updated annually or whenever necessary, or as required by the Bank.
2. **Procurement Supervision:** The supervision method for procurement execution will be established ex ante until the PEU Procurement expert has gained experience observing and executing Bank policies, procedures, and use of standard bidding documents. The ex post modality may be recommended by the Procurement Specialist to the Team leader in accordance to outcomes of supervision visits, if appropriate evidence is presented to demonstrate capacity to perform under the ex post supervision modality. Supervision visits will be performed every 12 months and as indicated in the project supervision plan. When ex post review is recommended, the ex-post visits will be performed jointly with supervision visits. When the procurement processes are carried out through the country system, the supervision will also be carried out through the country system.
3. **Records and Files:** All records and files will be maintained by the PEU, according to accepted best practices, and be kept for up to 3 years beyond the end of the operation’s execution period.
4. **Financial Management**
5. **Programming and Budget**
   1. Each year, the Ministry of Finance and Planning publishes a Budget Circular requesting the submission of estimates of income and expenditure from ministries and other agencies for inclusion in the National Budget for the following fiscal year, April to March.
   2. The PEU will prepare annual estimates in the required format for the review and approval by the Permanent/Cabinet Secretary, which will be included in the Ministry’s overall budget estimates. The estimates will consider the total cost of financing required for execution of the program. The budget is presented to Parliament before the close of the fiscal year. Once the budget is approved, amendments are made through the submission of Supplementary Budget by the Minister of Finance.
   3. The Borrower has committed to allocate, for each fiscal year of project execution, adequate fiscal space to guarantee the unfettered execution of the project; as determined by normal operative instruments such as the Annual Operating Plan, the Financial Plan and the Procurement Plan.
   4. Even though no counterpart resources are contemplated in the original project budget, the Borrower will undertake to provide all required resources for the total and effective completion of the project activities.
6. **Accounting and Information Systems**
   1. Project accounting will be performed using a Bank approved accounting software, in accordance with the FAAA; IDB’s financial management requirements; the modified cash basis of accounting, which is a comprehensive basis of accounting other an International Financial and Reporting Standards (IFRS). It is expected that the accounting system will facilitate the recording and classification of all financial transactions, provide information related to: planned vs. actual financial execution for the project; the financial execution plan for the next 180 days that will be attached to each request for Advance of Funds. Additionally, the list of commitments will also accompany any request for Advance of Funds.
7. **Disbursements and Cash Flow**
   1. Whenever resources from the financing are requested through an Advance of Funds, they will be deposited into an account dedicated for the execution of this operation. The PEU commits to maintain strict control over the utilization of the Advance so as to ensure the easy verification and reconciliation of balances between the Executing Agency’s records and IDB records (WLMS1).
   2. Eligible expenditures, authorized by the PTL and incurred prior to the approval of this project will be reimbursed to the Borrower, in accordance with current Bank policy.
   3. The project will provide adequate justification of the existing Advance of Funds balance, whenever 80% of said balance has been spent. Advances will normally cover a period not exceeding 180 days and no less than 90 days. The following disbursement methodologies will be used for the program:
   4. Reimbursement of Payments Made (will be minimally used).
   5. Direct Payment to Supplier (for large foreign payments).
   6. Advance of Funds (to facilitate the day to operations).
   7. Generally, supporting documentation for Justifications of Advances and Reimbursement of Payments Made will be kept at the office of the PEU. Support documentation for direct payments will be sent to the Bank for processing. In light of the experience garnered from the current and former operations the modality for disbursement will be ex post.
8. **Internal Control and Internal Audit**
   1. The management of the project, at the level of both the Executing Agency and the PEU, will assume the responsibility for designing and implementing a sound system of internal control for the project. This will be bolstered with the addition of the program to the Ministry Internal Auditor’s audit plan (on an every other year basis).
9. **External Control and Reports**
   1. For each fiscal year during project execution, OPM will be responsible to submit Audited Financial Statements for the project. These Financial Statements will be audited by an independent external audit firm approved by the Bank. A final AFS is to be submitted to the Bank within 120 days from the date of last disbursement.
10. **Financial Supervision Plan** 
    1. Financial Supervision will be developed based on the initial and subsequent risk assessments carried out for the project. Financial, Accounting and Institutional Inspection visits will be performed at least once per year, covering, among other things, the following topics:
11. Review of the bank reconciliation and supporting documentation for Advances and Justifications.
12. Review of compliance with the Program Operations Manual.
13. Conducting Ex Post Reviews.
14. **Execution Mechanism**
    1. The OPM will serve as the Executing Agency of the Program and will be responsible for implementation in accordance with the terms and conditions of the loan agreement.  Execution function will include all aspects of planning, activity execution, operations monitoring and evaluation and reporting to the Bank and internal OPM management.
    2. The PEU will have four strategic positions: one Program Director from the OPM, one Project Manager, one Procurement Specialist and one Financial Specialist. The Program Director will enable smooth day-to-day operations of the program. The POM further describes the recommended PEU composition and their responsibilities. The PEU will be responsible for the administration of loan financing and procurement processes. Specific PEU duties include: (i) preparation of semi-annual progress reports; (ii) preparation, and implementation of the Annual Operating Plans (AOP); (iii) preparation of budgets, and disbursements; (iv) preparation of the Procurement Plan; (v) financial administration of the program according to accepted accounting principles and presenting audited financial statements; (vi) ensuring the quality and efficacy of procurement processes and their compliance with both the policies of the Bank and that of the government; (vii) ensuring the consistent alignment of expected program results with day-to-day program implementation as well as continuous data collection to enable the measurement of the indicators included in the Results Matrix; and (viii) being program liaison with the Bank.

1. However, in some cases Borrowers may consider the advantage of advertising at their option. [↑](#footnote-ref-2)