

Operational Input (OI)
JAMAICA
Support for the Implementation of the Fiscal Responsibility Framework
(JA-T1067)

Date	November 24, 2010
Relationship to Loan	This OI will support the implementation of the recently enacted Fiscal Responsibility Framework, a key reform policy supported by the Public Financial and Performance Management II Program. The objective of this second programmatic operation is to continue supporting the Government of Jamaica (GOJ) 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.
Project Team	Jorge Luis Von Horoch (ICF/ICS), Project Team Leader; Leslie Harper (ICF/ICS); Diego Buchara (LEG/SGO); Graham Williams (PDP/CJA); Magda Theodate (PDP/CTT ¹); Gregory Dunbar (CCB/CJA); and Nathalie Hoffman (ICF/ICS).
Responsible Division	Institutional Capacity of the State Division (ICF/ICS).
Beneficiary	Government of Jamaica (GOJ)
Executing Agency	The GOJ has requested through the Planning Institute of Jamaica (PIOJ) the Bank be the Executing Agency for the following two reasons. First, technical and financial independence of the control institutions (the Auditor General's Department, AGD, and the Public Administration and Appropriation Committee, PAAC) from the institution responsible for conducting fiscal policy (Ministry of Finance and Public Service, MOFPS) is essential, so as to guarantee the proposed accountability system's credibility and effectiveness. Secondly, there are other public finance and public management reforms taking place, which are competing for executive attention. Deployment rapidness and flexibility are therefore key requirements.
Unit of Disbursement Responsibility	ICF/ICS in coordination with the IDB's Country Office in Jamaica (CCB/CJA).
Source of Funding	Institutional Capacity Strengthening Thematic Fund (ICSF).
Objective	The objective of the program is to contribute to the improvement of the design, management and oversight of fiscal policy in Jamaica by supporting the implementation of the recently enacted Fiscal Responsibility Framework.
Description	Jamaica's high public debt constitutes one of the main sources of risk to the country's external stability and growth. The government recognizes the

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	<p>pressing need to address the debt problem in order to restore fiscal sustainability and thus reduce the country's vulnerability to exogenous shocks. In this context, the GOJ decided to introduce a legislated Fiscal Responsibility Framework (FRF) as an amendment to the Financial Administration and Audit Act (The Act). Parliament approved the FRF in March 2010. The new FRF contains several provisions aiming to improve the public expenditure management system. In particular, it will: (i) increase the focus on the medium-term fiscal framework; (ii) more tightly centralize the authority to borrow with the Minister of Finance (MOF); (iii) enhance the government cash management; (iv) and increase accountability in public bodies. The adoption of such a framework is considered an important step forward to mitigate the country's vulnerability to financial crises and increase fiscal sustainability. Preliminary evidence in countries that faced a similar situation (i.e. New Zealand 1994, Sweden 1997/98, Chile 2000, Peru 2000, Brazil 2001, Colombia 2001, and India 2004)² suggests that compliance with a well-designed fiscal responsibility framework would greatly contribute to fiscal sustainability and higher sustained growth in the medium to long term. The objective of this OI is to assist the GOJ in the implementation of the new FRF.</p>
Components	<p>The program will finance the following activities:</p>
	<p><u>Component 1: Capacity Building for the Minister of Finance (MOF) and the Public Administration and Appropriation Committee (PAAC).</u> Section 48B (2) of the Act mandates that the Minister of Finance should lay before both Houses of parliament, a "<i>Fiscal Policy Paper</i>" setting out a "<i>Macroeconomic Framework</i>"; a "<i>Fiscal Responsibility Statement</i>"; and a "<i>Fiscal Management Strategy</i>". In addition, Section 48G of the Act mandates that before the House of Representatives votes on any statement of excess or supplementary estimates, the Public Administration and Appropriation Committee of the House of Representatives shall consider and report to the House on the statement of excess or supplementary estimates. This component will provide technical assistance to both the MOF and the PAAC in order to fulfill these functions. This component will provide: (i) an international consultant to assist the MOF in the preparation of the Fiscal Policy Paper including the Macroeconomic Framework; the Fiscal Responsibility Statement; and the Fiscal Management Strategy mandated by the Act; and; (ii) a fiscal economist for the PAAC to train its staff in the analysis and preparation of fiscal reports as mandated by the Act.</p>
	<p><u>Component 2: Specialized advice for the design and implementation of the Central Treasury Management Systems/Treasury Single Account (CTMS/TSA).</u> The Act (section 48I) mandates the establishment of a CTMS and a TSA. To comply with this mandate, the MOF recently approved a time-bound action plan for the implementation of the CTMS. The CTMS/TSA will transfer the responsibility for all cash management and disbursement to the Accountant General. Ledgers will be used to manage the cash in a virtual single account, replacing hundreds of separate bank accounts. This will contribute to better control of all government cash and</p>

	<p>a reduction in banking costs. The results of using the CTMS will be daily, complete knowledge of the government's cash position; just-in-time (JIT) payments; reduction of delays and netting of revenues; reduction of payment float losses; increased use of electronic banking; reduced reconciliation effort. The combination of these results will save thousands of hours of staff time that can be redirected or redeployed. To implement the CTMS, the MOF will establish a CTMS team. This component will provide technical assistance to the CTMS team in the following areas: (i) Banking Automation (BA) to assure that the various banking links are secure and adequate to the needs; (ii) Treasury accounting to assure that the creation of the Treasury Ledger (TL) is adequate and that all ministries, departments and agencies (MDAs) make the needed adjustment for consolidation and accurate reporting; and (iii) Business Process Reengineering (BPR) to assist with needed changes to work flow and work processes.</p>			
	<p>Component 3: Specialized training to the staff of the Auditor General's Department (AGD). The Act mandates that the Auditor General shall, as soon as is practicable after the Fiscal Policy Paper is laid before both Houses of the Parliament, examine the components of the Fiscal Policy Paper and provide a report to the Houses indicating whether the conventions and assumptions underlying the preparation of the Fiscal Policy Paper comply with the principles of prudent fiscal management specified in section 48D of the Act. The AGD will need to develop new management audit capacity to fulfill the new obligations established in the Act. This component will support the AGD by providing technical assistance to develop a methodology to audit fiscal reports produced by the MOFPS as mandated by the FRF and train the staff of the AGD in the audit of fiscal reports.</p>			
Expected Outputs	<ol style="list-style-type: none"> 1. CTMS designed. 2. Fiscal Policy Paper prepared. 3. AGD and PAAC reports prepared as mandated by the FRF Act. 			
Expected Outcome	<ol style="list-style-type: none"> 1. Improved Fiscal Policy. 2. Enhanced oversight of fiscal accounts. 3. Better management and control of government cash. 			
Timeline	<p>Execution: 24 months from the date of approval of this OI. Disbursement: 26 months from the date of approval of this OI.</p>			
Estimated Administrative Budget of execution by year of the execution	Type	Year 1	Subsequent Years	Total
	Consultant	\$7,000		\$7,000
	Travel	\$5,000		5,000
	Other	\$0		\$0
	Total	\$12,000		\$12,000
Budget	Total, by proposed activity and by funding source (including counterpart):			
	DESCRIPTION	IDB	GOJ	
	1. Capacity Building for the MOF and the PAAC	\$90,000	0	

	2. Specialized advisory for the design and implementation of the CTMS/TSA.	\$175,000	0	
	3. Train to the Staff of the Auditor General's Department	\$50,000	0	
	TOTAL	\$315,000	0	
Detailed Budget	Annex I.			
Procurement/contracting plan	Annex II. The contracting of consulting services will be carried out by the Bank in accordance with its policies and procedures (document GN-2350-7).			
Conditions for disbursements	None			
Advance Fund	None			
Evaluation	A consultant will be hired to prepare the final evaluation. Resources have been allocated in the administrative budget to cover the preparation of the Final Evaluation Report.			
Reports	The OI will produce the following reports: 1) Report on the preparation of the Fiscal Policy Paper, the Fiscal Responsibility Statement and the Fiscal Management Strategy; 2) Report on the design of the CTMS/TSA, 3) Report on the training provided to the staff of the Auditor General's Department (AGD).			
Audits	N/A			
Terms of Reference	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=35465518			
Results Matrix	Annex III.			

Annex I
Detailed Budget

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COMPONENT 1: Capacity Building for the Minister of Finance (MOF) and the Public Administration and Appropriation Committee (PAAC)	Unit Cost	Number	Total
Consultant to assist the MOF in the preparation of the Fiscal Policy Paper including the Macroeconomic Framework; the Fiscal Responsibility Statement; and the Fiscal Management Strategy.			
Flight fare	1,041	3	3,122
IDB Per diem rate for Kingston, Jamaica	262	49	12,838
Consultant's Fee (US\$/DAY)	734	60	44,040
SUBTOTAL			60,000
Consultant to train PAAC staff in the analysis and preparation of fiscal reports as mandated by the FRF.			
Consultant's Fee (US\$/Month)	2,500	12	30,000
SUBTOTAL			30,000
TOTAL COMPONENT 1			90,000
COMPONENT 2: Specialized advice/advisory for the design and implementation of the Central Treasury Management Systems/Treasury Single Account (CTMS/TSA).	Unit Cost	Number	Total
Consultant to prepare the Banking Automation (BA) for the implementation of the CTMS/TSA Responsibility Statement; and the Fiscal Management Strategy.			
Consultant's Fee (US\$/DAY)	350	60	21,000
SUBTOTAL			21,000
Consulting firm to develop the treasury accounting for the CTMS/TSA.			
Service Fee (US\$/Month)	15,400	4	61,600
SUBTOTAL			61,600
Consulting firm to develop the Business Process Reengineering (BPR) for the CTMS/TSA.			
Service Fee (US\$/Month)	23,100	4	92,400
TOTAL COMPONENT 2			175,000
COMPONENT 3: Consultant to assist the AGD to develop a methodology to audit fiscal reports produced by the MOF as mandated by the FRF and train the AGD staff in the audit of fiscal reports.	Unit Cost	Number	Total
Flight fare	5,844	1	5,844
IDB Per diem rate for Kingston, Jamaica	262	38	9,956
Consultant's Fee (US\$/DAY)	900	38	34,200
SUBTOTAL			50,000
TOTAL COMPONENT 3			50,000
TOTAL			315,000

Annex II
Initial Procurement Plan
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Ref. No. ¹	Description of and category of procurement contract	Estimated cost in (US\$ thousands)	Procurement method ²	Source of financing and percentage		Prequalification ³ (Yes/No)	Estimated Dates		Status ⁴ (pending, in process, awarded, cancelled)	Comments
				IDB %	Local / Other %		Publication of specific proc. notice	Completion of contract		
1	Goods and works									
	Not applicable									
2	CONSULTING SERVICES (Individual)									
2.a	Consultant to assist the MOF in the preparation of the Fiscal Policy Paper including the Macroeconomic Framework; the Fiscal Responsibility Statement; and the Fiscal Management Strategy.	\$60,000	QCII	100	0		2 months after certification of funds.	6 months after selection of the consultant.	Pending	
2.b	Consultant to train PAAC staff in the analysis and preparation of fiscal reports as mandated by the FRF.	\$30,000	QCNI	100	0		2 months after certification of funds	12 months after selection of the consultant.	Pending	
2.c	Consultant to prepare the Banking Automation (BA) for the implementation of the CTMS/TSA.	\$21,000	QCNI	100	0		2 months after certification of funds	4 months after selection of consultant	Pending	
2.d	Consultant to assist the AGD to develop a methodology to audit fiscal reports produced by the MOF as mandated by the FRF and train the AGD staff in the audit of fiscal reports.	\$50,000	QCII	100	0		2 months after certification of funds	4 months after selection of the consultant	Pending	

Annex III
Results Matrix
(JA-T1067)

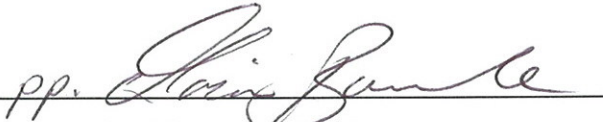
Project Objective	The objective of the program is to contribute to improve the design, management and oversight of fiscal policy in Jamaica.				
Indicators					Means of verification
	Baseline	Year	Value	Year	
<u>Component 1:</u> Capacity Building for the MOF and the PAAC. <u>Expected result 1:</u> Improved fiscal policy and parliamentary oversight of fiscal accounts.					
Existence of a Fiscal Responsibility Statement;	no	FY 2009/2010	yes	FY 2013/2014	GOJ Report.
Existence of a Fiscal management Strategy	no	FY 2009/2010	yes	FY 2013/2014	GOJ Report
<u>Component 2:</u> Advisory for the design and implementation of the CTMS/TSA. <u>Expected result 2:</u> Better management and control of government cash.					
Existence of a Central Treasury Management System at the Central Government.	no	FY 2009/2010	yes	FY 2013/2014	GOJ Report
Existence of daily report of the government’s cash position.	no	FY 2009/2010	yes	FY 2013/2014	GOJ Report
<u>Component 3:</u> Specialized training to the staff of the Auditor General’s Department. <u>Expected result 3:</u> Enhanced capacity of the AGD to audit fiscal reports.					
Existence of AGD report on the compliance of the Fiscal Policy Paper with the principles of prudent fiscal management.	no	FY 2009/2010	yes	FY 2013/2014	AGD Report.

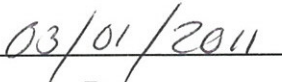
**SUPPORT FOR THE IMPLEMENTATION OF THE
FISCAL RESPONSIBILITY FRAMEWORK**


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CERTIFICATION

I hereby certify that this operation was approved for financing under the Institutional Capacity Strengthening Thematic Fund (ICS) through a communication dated on February 8, 2011 and signed by Kai Hertz (VPC/GCM). Also, I certify that resources from the Institutional Capacity Strengthening Thematic Fund (ICS) are available for up to US\$315,000 in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of twelve (12) calendar months counted from the date of signature below. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US Dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this document. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.


ph Marguerite S. Berger
Chief
Grants and Cofinancing Management Unit
VPC/GCM


Date


Carlos C. Pimenta
Division Chief (a.i.)
Institutional Capacity of State Division
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APPROVAL



Date