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# Jamaica

## Jamaica PFM Enhancement

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## ACRONYMS AND ABBREVIATIONS

CARTAC	Caribbean Regional Technical Assistance Centre
DFID	Department for International Development
FAA Act	Financial Administration and Audit Act
GOJ	Government of Jamaica
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
MDAs	Ministries, Departments and Agencies
MoFP	Ministry of Finance and Planning
MTRBB	Medium Term Results Based Budgeting
NLTA	None Lending Technical Assistance
OECS	Organization of Eastern Caribbean States
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIM	Public Investment Management
PIMC	Public Investment Management Committee
PIOJ	Planning Institute of Jamaica
PPP	Public-Private Partnership
RBB	Results Based Budgeting
TF	Trust Fund

## 1. INTRODUCTION

Public sector modernization and public financial management reforms are important areas of focus for Jamaica, particularly because of the impact that fiscal and budget-management practices and policies have on growth. Although the Government of Jamaica (GOJ) has undertaken several initiatives during the past few years aimed at strengthening management of its public finances, several fundamental issues continue to affect its fiscal performance. Fiscal management in Jamaica has been guided by a set of rules that does not support strategic approaches necessary for addressing its existing challenges. Budget planning is fragmented, especially for capital expenditures. Systems for ensuring that public investment allocations are clearly prioritized and aligned with strategic development plans and programs are inadequate. The weak link between government priorities, planning, and budget contributed to inefficient monitoring of public spending. The recent PEFA Assessment conducted in late 2012 confirms these conclusions. Addressing these impediments is the basis for the support provided by the current program.

This NLTA was designed to support the GOJ in implementing its ongoing public sector modernization agenda. Specifically, the Project aimed for public financial management (PFM) enhancement in Jamaica by strengthening the public investment management system, the budget preparation process and results based budgeting. The GOJ was already aware of the limitations of its PFM systems and was pursuing an ambitious reform program to strengthen PFM in support of its overall public sector reform and fiscal consolidation with a growth perspective. The PFM agenda is consistent with the recently enacted FRF/FRL which ultimately targets prudent fiscal management through a series of amendments to the Financial Administration and Audit (FAA) Act and the Public Bodies Management and Accountability (PBMA) Act. The Program focused on strengthening sequencing and ownership in the areas of public investment and budget management; this in order to help the GOJ maximize and leverage the overall benefit of its PFM reforms.

The Program was separated from a DFID financed trust fund (TF) – Jamaica Enhancing Institutional Capacity and Communication – into a child fund at the beginning of 2013. The DFID TF was initially signed between the World Bank and DFID in December 2010, but was amended in March 2012 to include two new technical assistance (TA) areas: (i) implementation of medium-term budgeting, and (ii) prioritization of public investments that were implemented under the Jamaica Public Financial Management Enhancement Project (P146170).

These two areas are closely linked and were expected to support the GOJ in linking budgeting with government policy priorities and long-term development goals through a gradual transition from annual expenditure planning to a medium-term and a results-based expenditure framework. It was reasoned that implementing Results Based Budgeting (RBB) and management processes in service delivery ministries, departments, and agencies (MDAs) will enhance service delivery information flows, and, thereby, benefit the prioritization of projects/programs and their appraisals. Doing this should also strengthen the accountability of managers in designing, appraising, selecting, and implementing projects and programs in these MDAs. In addition, implementing the RBB with the medium-term or strategic approach should assist in putting a focus of the longer-term funding requirements of programs. MDAs will be able to formulate clear sector policy objectives, and thus to develop comprehensive and realistic policies/strategies

with clear short and medium term objectives and projections for budget spending. Longer budget time horizons will improve the integration of capital expenditures and maintenance funding requests of the projects. It will demand a pipeline of programs with increased information about their economic impacts and benefits in order to develop priorities for a strategic development of capital budget.

Therefore, the interventions coupled with this Project aimed to enhance public financial management (PFM) by supporting efforts to improve strategic budget processes and public investment management through the provision of policy advice, technical assistance, and knowledge generation and dissemination. By doing that, it was intended to alleviate some of the PFM-based constraints, distortions and factors limiting growth such as inefficient budgeting processes, insufficient control over public investment planning process, and weak links between government priorities, planning, and budget.

## **2. ACTIVITIES SUPPORTED UNDER JAMAICA PFM ENHANCEMENT PROJECT**

### **2.1. Component 1: Strengthening Public Investment Management System**

Public investment planning in Jamaica has been treated and managed differently according to funding source. Projects were classified by Capital A (central government resources), Capital B (donor funded) and Public Bodies. As a result, investment planning was fragmented, and involved numerous agencies, conflicting procedures and differing motivations, limiting the capacity of the GOJ to have an overall view of its public investment goals. All these elements created a challenge to strategically plan and prioritize public investments for the best mix of investment projects for Jamaica. Additionally, the diversity of procedures made it difficult to follow up with the results and government performance in achieving the goals guided by the National Development Plan and the long term vision. In order to improve public investment planning, a more unified treatment of all public investments was needed, so that planning could be done in a more managed and consistent manner. In order to address these issues in part, the primary objective of this activity was identified as *strengthening the overall public investment management (PIM) system, which includes all public investment projects from the Consolidated Fund, donor funds, public bodies, and PPPs.*

Towards this objective, a Public Investment Improvement Action Plan was developed together with the counterpart in a workshop in June, 2013 to guide implementation of the measures which were submitted for Cabinet's consideration and approval. The Cabinet Submission to unify these procedures was drafted and approved by the Cabinet on October 2013. In March 2014, based on this approval and in line with the Action Plan, a new section was added to amend the Financial Administration and Audit Act, effective from April 2014, to establish the Public Investment Management System which 'provides a common framework for the preparation, appraisal, approval and management of public investments in Jamaica, irrespective of source of funding or procurement and implementation modalities'. This Act is the backbone of the new PIM System.

So far, the reform process has mainly concentrated on designing the framework, by fixing some basics, of a sustainable PIM System which will be completed under the World Bank Strategic Public Sector Transformation Program (see Annex 1: Amendment to the Financial

Administration and Audit Act for the governance framework of the new PIM System of Jamaica and Annex 2: Amend the Public Bodies Management and Accountability Act).

In addition to the technical support provided to the GOJ in designing the PIM System, the World Bank's engagement in moving critical components of the PIM System concentrated on the following outputs:

**i) Development of the First Phase of the PIM Information System**

The first phase of developing the PIM information system focused on the creation of a project database. This database is a web-enabled system that will serve as the repository of information on all public investment projects at the various stages of the project cycle (inclusive of concept, feasibility, approval, implementation and evaluation), thereby allowing access for the tracking of status and performance information on all projects as they move through the project cycle. The database is operational.<sup>1</sup> The main output of the database is monitoring reports that are used to inform the budget process of the Ministry of Finance and Planning (MoFP). During implementation of the World Bank Public Sector Strategic Transformation IPF, this database will be migrated to a more robust platform to manage all information about public investments across the project cycle and linked to the budgeting and financial systems of the country (expected to be integrated into IFMIS).

**ii) Development of a Draft of the PIM Guidelines**

The PIM Guidelines are the rules, procedures and requirements for governance of the entire public investment management system (inclusive of concept, feasibility, approval, implementation and evaluation). Technical assistance (TA) was provided inputs to draft PIM Guidelines, which will be further developed and finalized by a working group that will be comprised of key stakeholders that will manage the PIM process in the GOJ (see Annex 3: PIM System Guidelines). These Guidelines will then be approved by Cabinet and circulated to all Ministries. Related to this, a template and guidance for the Concept Note and Checklist in Jamaica for all capital projects has been prepared. This template is intended to serve as a Pre-Screening document to be used by all MDAs and Public Enterprises – regardless of funding source or means of implementation, including PPP.

**iii) Development and Dissemination of the Public Sector Investment Program Policy Paper**

The PSIP Policy Paper is the Cabinet-approved overall strategy that the PSIP will follow to achieve the short and medium term macroeconomic and development goals. This Paper includes the macroeconomic framework and expected impact that the overall PSIP (size and composition of the entire public investment portfolio) might have on growth. The PSIP Policy Paper will be tabled annually with the Budget documents and will include the past year's public investment performance, the current year's plans and projections and the medium term profile. The

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<sup>1</sup> Operationalization of the interim PIMS database was picked up by the IMF at the fourth review under the extended fund facility.

preparation of the 2014/15 PSIP Policy Paper was led by the Planning Institute of Jamaica (PIOJ) and the working group established by the GOJ. The World Bank team provided key inputs for this pivotal instrument. Going forward, it is critical that the development of the Policy Paper will need to be incorporated in the work function of the PIOJ, which has legislative responsibility for the preparation of the Paper. This activity was also included into the IMF's fourth review under the extended fund facility. The FY2014/15 – FY2018/19 version of the PSIP Policy Paper was submitted to and approved by the Cabinet in September, 2014 (see Annex 4: Policy Paper for the Government of Jamaica Public Sector Investment Program for Fy2014/15 – FY 2018/19).

#### **iv) Institutional Assessment of the Readiness for Implementation of the PIM System**

As a critical part of the support to the GOJ, TA was provided to complete an institutional assessment for the implementation of the PIM System. The assessment provided the following:

- Overview of the current roles of involved institutions;
- A structure to implement PIM system effectively;
- The roles of specific institutions;
- The specific roles and action plan of the PIM Committee and PIM Secretariat;
- Integrating public-private partnerships into the overall PIM System.

#### **v) Establishment of the Public Investment Management Committee**

The PIM Committee (PIMC) is a key body in the governance framework of the new PIM System. This committee, the membership of which will be appointed by the Cabinet, has the responsibility of screening investment proposals for feasibility and consistency with government's strategic objectives; reviewing all projects for technical, financial, economic and environmental feasibility; prioritizing projects for financing and recommending to Cabinet their inclusion in the PSIP; and reviewing project performance, monitoring risks to the achievement of objectives and continued relevance to government's policy priorities. Technical assistance was provided to the GOJ in order to draft a Terms of Reference of the PIMC which included key information such as rational and general features of the Committee, inputs for its decision making, institutional support to the Committee; and its membership, operational procedures and outputs (see Annex 5: Terms of Reference – Public Investment Management Committee). The PIM Committee is expected to be fully operational by April 2015, coinciding with the new fiscal year.

#### **vi) Establishment of the Public Investment Management Secretariat**

The PIOJ has been a vital part of the PIM system for many years. It operates under the Ministry of Finance and Planning. It is still central to processes involved in Public Investment Management with functions such as:

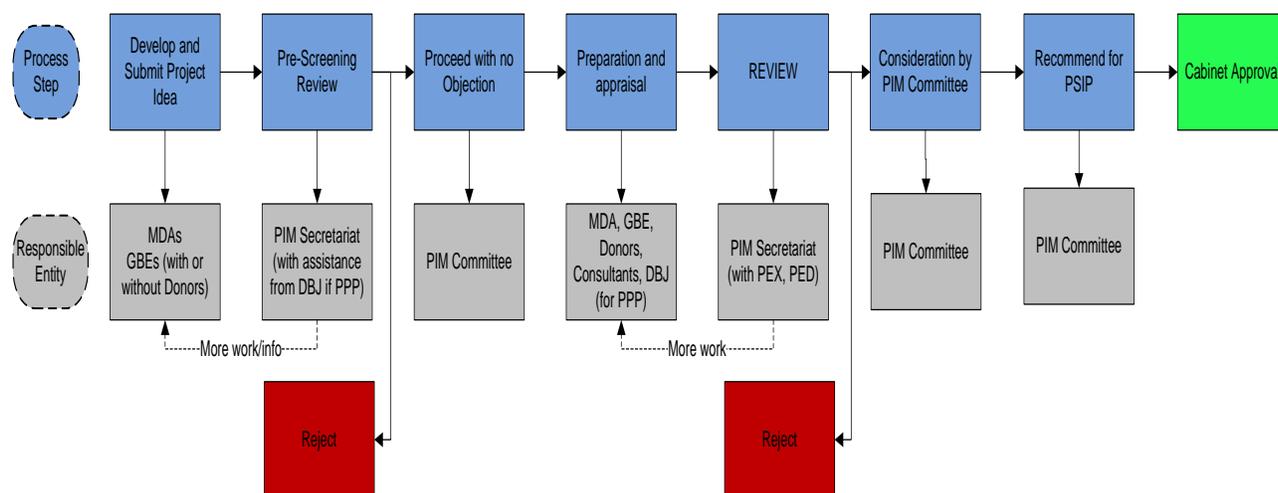
- The development of policies, plans and programmes for the economic, financial and physical development of Jamaica
- Collaboration with external funding agencies in the identification and implementation of development projects

- The development of the National Development Plan
- Commissioning Economic, financial and technical feasibility studies for new development projects
- Co-ordinating the implementation of development projects

The role of the PIOJ overall will be most affected by the new PIM System. In addition to the current roles that they will retain, the PIOJ will house the new PIM Secretariat. The Director of the PIM Secretariat will ensure that the PIM Secretariat fulfils all its statutory roles and meets the working requirements of its stakeholders that include, amongst others, all of Jamaica’s MDAs and PEs. The Director will also supervise the efficient functioning of the entire PIM system in Jamaica and ensure that the PIM Committee is provided with accurate, objective and concise information to allow the Committee to present rational and responsible recommendations to the Cabinet.

The PIM Secretariat is another central body in the new PIM System governance framework and will be established in the PIOJ as a gatekeeper. This will be a small unit of highly skilled and knowledgeable technicians who will support the PIMC and undertake independent reviews of project proposals presented for screening, appraisal, and, provide technical advice to the PIMC to facilitate its decision making process. The Institutional Assessment made recommendations on the organizational structure and the required skills, knowledge and abilities that will be necessary to support an effective and efficient unit. The Director position of the Secretariat has been advertised and is to be filled in the upcoming period. The Secretariat will be fully functional to support the PIMC once the funding needs are met through the Jamaica Strategic Public Sector Transformation Project; however, these functions are being undertaken by the Planning Institute of Jamaica in the interim.

**Figure 1: PIM System – Matching Process Steps with Responsible Entities: Project Idea to Approval**



The new PIM System, in order for it to work effectively, needs to match processes with responsible entities or institutions. Roles and responsibilities must be made clear if these are to be embraced by those institutions. Since a PIM System relies on the effective functioning of all

the parts, this is a critical input to the design of the overall PIM system. The structure for approving (or rejecting) implementing and monitoring PIM projects that would allow the PIM arrangements to evolve into a ‘system’ is shown in Figure 1 (See Annex 6: ‘Institutional Capacity Assessment of Government of Jamaica’s Readiness to Implement the PIMS’ for a narrative for institutional roles in the new PIM System).

## **2.2. Component 2: Strengthening Budget Preparation Process and Result Based Budgeting**

The GOJ’s current PFM reform program dates back to as early as 2010, when reforms to strengthen discipline and responsibility in budget management were enacted. On the one hand, a PMES was established at the Cabinet Office to ensure that medium term planning and budgeting were synchronized (the Strategic Business Plan). On the other hand, the 2013 PEFA assessment identified several weaknesses in the country’s PFM system, including inter alia the weaknesses in results-based budgeting. In response to the latest PEFA Assessment, the GOJ has promulgated its own PFM Action Plan which seeks to address the multiple and inter-connected PFM weaknesses, including multi-year results-based budgeting.

Past efforts at results-based budgeting have not succeeded because of structural weaknesses inherent in PFM policies. The underlying political dynamics of the budget process also undermined past efforts. The introduction of earlier reforms suffered mainly due to failure to first address PFM basics, such as ensuring credibility of the budget by, for instance, limiting adjustments to the budget during the budget execution phase<sup>2</sup> or reconnecting the budget process to priority setting and policy making.

The primary objective of this Component was to support the GOJ in linking budgeting with policy priorities through a gradual transition from annual expenditure planning to medium-term and a results-based expenditure framework. The activities supported in this area focused on addressing PFM basics and preconditions for successful implementation of medium-term results based budgeting. The Component was structured around providing TA in three main sub-activities: (i) development of a permanent budget calendar; ii) development of a virement policy; and (ii) providing TA for medium-term results based budgeting.

### **i) Development of a Budget Calendar**

The absence of a binding budget calendar along with weak internal controls and inadequate policy framework to limit virements and supplementary estimates are important constraints that led to the failure of the MoFP’s earlier pilot programs to reform the budget process for the 2011/2012 fiscal year.

Under this sub-component, the NLTA assisted the GOJ in taking the necessary step to approve a detailed interim budget calendar for FY14/15. Additionally, permanent binding budget calendar (envisaging budget approval prior to the fiscal year, starting with the budget for FY2015/16) was approved by Cabinet in May 2014. These items were triggers for the Economic Stabilization and

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<sup>2</sup> By imposing strict rules for the transfer of funds within the budget and constraining ex-post regularization of unbudgeted spending through supplementary budgets.

Foundations for Growth Development Policy Loan (P145995) that was being prepared and, in addition, were picked up by the IMF as structural benchmarks.

## **ii) Development of a Virement Policy**

Virement is the term used to describe the reallocation/reorganization of the approved budget of a MDA during the course of a financial year with the changes being regularized in subsequent parliamentary approval of supplementary budget estimates. Virement has been undesirable in Jamaica due to the fact that it changes spending relative to legislative intent; they do not receive the same scrutiny as regular appropriations; and they can change the budget baseline by substituting recurrent expenditures for one-time items. MDAs have faced limited restrictions on using virement within a head category. This has created fragmentation between budget planning and budget execution, and undermined the credibility of the budget as a planning tool to achieve the targeted fiscal balances under the fiscal rules.

In order to limit the use of virement, with cabinet level endorsement, the Financial Secretary issued instructions in October 2014 setting limits on Virement (See Annex 7: Changes to Virement Policy). The limiting of virements will reduce the ad-hoc increase of employee compensation, which had been the trend, as well as other recurrent spending, and encourage MDAs to engage in more careful budget planning.

## **iii) Technical Assistance for Medium Term Results Based Budgeting**

Implementation of medium term results based budgeting (MTRBB) was a key element of the GOJ's public financial management reform action plan.

The World Bank and the MoFP have jointly adopted a model of good practice for identifying gaps in the budget process of the GOJ. The core elements of such a model include:

- Medium term fiscal policy setting being applied “top-down” to guide the budget process.
- Linkages between development planning, PSIP and budget decision making.
- Use of rolling forward estimates to simplify the budget process and ensure that attention in the budget process is focused on the most appropriate suite of spending initiatives, savings options and revenue measures that together deliver development and policy goals within fiscal constraints.
- Enhance top-down priority setting processes, such as the Cabinet Retreat, that enable policy makers to engage earlier in the budget process to set policy priorities – having regard to the political dimension as well as technical policy analysis and information on past performance. This political level engagement is designed to shift the budget away from, what is currently, a largely bargaining approach towards one of stronger collective decision making at Cabinet level
- A performance management framework, which entails measuring performance against outcome targets, set in the budget as well as program evaluation and

performance audit, in order to assist all stakeholders to identify opportunities to improve the efficiency of government spending – thus improving the overall effectiveness of the budget process. Managing performance in the context of the overall development planning, management, reporting and accountability framework, as well as the budget, is designed to give broader relevance to performance management – recognizing that this is not simply a feature of good budgeting.

In this regard, substantial progress has been made by the NLTA in developing a medium term fiscal framework, including changes to the FAA Act that require publishing of a Fiscal Policy Paper with the Budget (see Annex 1). A planning framework was developed under the guidance of the Cabinet Office to integrate MTRBB in a results based management framework. A Cabinet retreat is now part of the annual budget cycle and, under the coordination of the PIOJ, this exercise creates linkages between development planning and budget planning early in the budget process.

Capacity building efforts for the introduction of rolling forward estimates were also supported under the NLTA. A pilot workshop focusing on Forward Estimates was conducted with selected MDAs. The workshops conducted sought to build capacity in the areas of: (1) the overall budget reform program, (2) aligning policies and programs, (3) improving capacity for costing programs, (4) capacity for identifying and addressing funding shortfalls as well as (5) the concept of rolling forward estimates. These workshops were overall useful in building an understanding of results based budgeting for the participants.

An action plan has been developed for the MoFP on the next steps in implementation of medium-term results based budgeting. Having regard to local capacities (including in line agencies), appropriate sequencing and necessary support for change management, the full implementation of MTRBB will need to take place of a number of successive budget cycles and be supported by follow-on technical assistance.

### **3. NEXT STEPS**

Based on the progress achieved through this Project, as well as on the request of the Client, follow up activities related from these two Components have been included into the new Loan signed between the Government of Jamaica and the World Bank; 'Jamaica Strategic Public Sector Transformation IPF'. This is in order to complete reforms in the areas of PIM and medium-term results-based budgeting. The DFID is going to co-finance these two Components under the Loan. The IPF has been effective since October 27, 2014.

It is expected these two areas in particular are of interest for Client demand and Bank support in the region. As a matter of fact, some OECS countries have raised interest in these areas. Implementation has already started, especially in the budgeting area in some countries such as Belize, St. Lucia, and Dominica through SEMCAR and/or CARTAC Programs. Also, introducing strategic budgeting tools, rolling forward budget estimates and multiannual budget ceilings, has been recognized as key elements for laying the foundations of better fiscal management. These areas have even been included as a part of the Regional Partnership Strategy of OECS under the public sector modernization component. Based on this experience, it is

expected that Antigua and Barbuda, St. Kitts and Nevis, and Grenada will, with support from the Bank, gradually introduce program budgeting.

#### 4. TEAM COMPOSITION

Name	Title
<b>Component 1</b>	
Diego Dorado	Sr Public Sector Specialist
Murat Vardal	Public Sector Specialist, TTL
Helen Martin	PPP Expert, GCPDR
Martin Darcy	Consultant
Sophia Whyte Givans	Consultant
Cristine Angella Clarke	Consultant
Maria Fernanda Cortes Garzon	Consultant
Sylfhen Ruiz Mcleod	Consultant
Angela Ann Marie Bedward	Consultant
Dena Ormelia Spence	Consultant
Joshua Jermev Rowe	Consultant
Dunstan Earl Bryan	Consultant
Jaime Alberto Osorio Sandoval	Consultant
<b>Component 2</b>	
Davide Zucchini	Public Sector Specialist, TTL
Murat Vardal	Public Sector Specialist, TTL
Kris Kauffmann	Consultant
Victor Zafra	Consultant
<b>Overall support</b>	
Marcelo Buitron	JPA
Richard Sutherland	JPA
Brianna Rojas-Elton	Program Assistant

Peer reviewers were Jay-Hyung Kim (Adviser, GGODR) and Rohan Longmore (Economist, GMFDR). The team received also valuable guidance from Kathy Lalazarian (Acting Country Representative) and Francisco Galrao Carneiro (Program Leader, LCC3C).

## **5. ANNEXES (in separate files)**

- Annex 1: Amendment to the Financial Administration and Audit Act for the governance framework of the new PIM System of Jamaica
- Annex 2: Amendment to the Public Bodies Management and Accountability Act
- Annex 3: PIM System Guidelines
- Annex 4: Policy Paper for the Government of Jamaica Public Sector Investment Program for Fy2014/15 – FY 2018/19
- Annex 5: Terms of Reference – Public Investment Management Committee (PIMC)
- Annex 6: Institutional Capacity Assessment of Government of Jamaica’s Readiness to Implement the PIMS
- Annex 7: Changes to Virement Policy
- Annex 8: Proposals for Strengthening GOJ’s Public Sector Investment Management System
- Annex 9: User’s Manual – Public Sector Investment Project Database