

Report N° 34962-JM

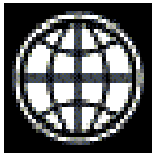
Jamaica

Joint Country Financial Accountability Assessment (CFAA) and Country Procurement Assessment (CPAR)

April 12, 2006

Caribbean Country Management Unit
Operations Services
Latin America and Caribbean Region
The World Bank

Regional Operations Department 3
Inter-American Development Bank



CURRENCY

Currency Unit = JMD
US \$1 = 61.10 JMD (as of June 12, 2005)

FISCAL YEAR

April 1 to March 31

ACRONYMS AND ABBREVIATIONS

AG	Accountant General
AcGD	Accountant General's Department
AC	Audit Committees
AuGD	Auditor General Department
BOO	Build Operate Own
BOT	Built, Operate, Transfer
BRS	Bank Reconciliation System
CAAT	Computer-Assisted Audit Techniques
CARICOM	Caribbean Community and Common Market
CBDMS	Computer Based Debt Management System
CFAA	Country Financial Accountability Assessment
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
CG	Contractor General
CG Act	Contractor General Act
CIDA	Canadian International Development Agency
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPAR	Country Procurement Assessment Report
CSME	Caribbean Single Market and Economy
DFID	UK Department For International Development
DMU	Debt Management Unit
eGP	Electronic Government Procurement
FAA Act	Financial Administration and Audit Act
FINMAN	New FMIS
FM	Financial Management
FMIS	Financial Management Information System
FPMU	Fiscal Policy Management Unit
FTAA	Free Trade Area of the Americas
GOJ	Government of Jamaica
IAD	Internal Audit Directorate
IAU	Internal Audit Unit
IDB	Inter-American Development Bank
IDP	International Development Partners
INTOSAI	International Organization of Supreme Audit Institutions

IPSAS	International Public Sector Accounting Standards
LOUs	Letters of Understanding
MDAs	Ministries, Departments and Agencies
MOFP	Ministry of Finance and Planning
MTEF	Medium-Term Expenditure Framework
MTSEPF	Medium-Term Socio-Economic Policy Framework
MTW	Ministry of Transport and Works
M&E	Monitoring and Evaluation
NCC	National Contracts Commission
NWA	National Works Agency
PAC	Parliamentary Public Accounts Committee
PBMA	Public Bodies Management and Accountability
PFM	Public Financial Management
PSMP	Public Sector Modernization Program
PSRU	Public Sector Reform Unit
PXPC	Public Expenditure Policy Coordination Division of MOFP
RNM	Caribbean Regional Negotiating Machinery
VFM	Value For Money
WB	World Bank

World Bank

Vice-President	Pamela Cox
Country Director	Caroline Anstey
Sector Managers	Bernard Becq/Roberto Tarallo
Co-Task Manager	Ahmadou Moustapha Ndiaye
Co-Task Manager	Enzo de Laurentiis

IDB

Regional Manager	Ciro De Falco
Division Chief	Dora Currea
Co-Task Manager	Julie Feinsilver

Table of Contents

PREFACE	I
EXECUTIVE SUMMARY	II
I. BACKGROUND	1
COUNTRY CONTEXT	1
HARMONIZATION	2
THE COUNTRY FINANCIAL ACCOUNTABILITY ASSESSMENT (CFAA) AND COUNTRY PROCUREMENT ASSESSMENT (CPAR)	3
<i>Objectives.....</i>	<i>3</i>
<i>Scope.....</i>	<i>4</i>
<i>Methodology and Process.....</i>	<i>5</i>
II. LEGAL AND INSTITUTIONAL FRAMEWORK.....	6
OVERVIEW.....	6
FINDINGS AND ISSUES	7
<i>Institutional Framework for Financial Management.....</i>	<i>7</i>
<i>Public Sector Entities.....</i>	<i>8</i>
<i>Institutional Environment for Public Procurement.....</i>	<i>8</i>
<i>Regional and International Trade Agreements</i>	<i>12</i>
RECOMMENDATIONS.....	12
III. BUDGET FORMULATION.....	15
OVERVIEW.....	15
FINDINGS AND ISSUES	15
<i>Corporate Plan/Strategic Objectives</i>	<i>15</i>
<i>Budget Allocation and Prioritization.....</i>	<i>16</i>
<i>Link with Procurement Planning.....</i>	<i>17</i>
RECOMMENDATIONS.....	17
IV. BUDGET EXECUTION.....	20
OVERVIEW.....	20
FINDINGS AND ISSUES	20
<i>Cash Management.....</i>	<i>20</i>
<i>Commitment Control.....</i>	<i>21</i>
<i>Institutional Changes</i>	<i>21</i>
RECOMMENDATIONS.....	22
V. PROCUREMENT MANAGEMENT AND CAPACITY	23
FINDINGS AND ISSUES	23
<i>Procurement Statistics</i>	<i>23</i>
<i>Supplier Registration</i>	<i>24</i>
<i>Procurement Performance.....</i>	<i>24</i>
<i>Procurement Capacity</i>	<i>25</i>
<i>Electronic Government Procurement.....</i>	<i>25</i>
RECOMMENDATIONS.....	26
VI. ACCOUNTING, FINANCIAL REPORTING AND INFORMATION SYSTEMS.....	28
OVERVIEW.....	28
FINDINGS AND ISSUES	28
<i>Accrual Accounting.....</i>	<i>29</i>
<i>Accounting Manual.....</i>	<i>30</i>
<i>Financial Reporting.....</i>	<i>30</i>
<i>Information System</i>	<i>32</i>
RECOMMENDATIONS.....	33
VI. FINANCIAL CONTROL AND OVERSIGHT	37
INTERNAL CONTROL.....	37

OVERVIEW	37
<i>Internal Audit Units</i>	37
<i>Audit Committees and Audit Commission</i>	37
<i>Internal Audit Directorate</i>	38
FINDINGS AND ISSUES	38
<i>Legal and Institutional Framework</i>	38
<i>Procurement</i>	39
<i>Coordination within Ministries</i>	39
RECOMMENDATIONS	39
EXTERNAL AUDIT	40
OVERVIEW	40
FINDINGS AND ISSUES	41
<i>Financial Independence and Accountability for the AuGD</i>	41
<i>Standards and Working Methods</i>	42
<i>Communication and External Relations</i>	43
<i>Procurement Oversight</i>	43
RECOMMENDATIONS	43
LEGISLATIVE OVERSIGHT	45
OVERVIEW	45
FINDINGS AND ISSUES	46
RECOMMENDATIONS	47
VII. PUBLIC DEBT MANAGEMENT	48
OVERVIEW	48
FINDINGS AND ISSUES	48
<i>Legal and Institutional</i>	48
<i>Cash Flow and Issuance of Debt</i>	49
<i>Guarantees and Contingent Investment and Liabilities</i>	49
<i>On-lending Practices</i>	50
RECOMMENDATIONS	51
VIII. CONCLUSIONS AND RECOMMENDATIONS	53
KEY FINDINGS	53
THE WAY FORWARD	55
ANNEXES	57
FIGURES	
Figure 1. Legal Framework for PFM	6
Figure 2. Institutional Framework for Public Sector Procurement	9
Figure 3. Recommended Linkage of Procurement Planning to Planning Process.	19
Figure 4. The Procurement Process	23
Figure 5. Procurement Risks Throughout the PFM System	55
ANNEXES	
1. List of Persons Interviewed	
2. List of Documents Reviewed	
3. Trade and Regional Integration Agreements	
4. Procurement Baseline Indicators	
5. Proposed Outline for Procurement Regulations	
6. Suggested Content for the Procurement Handbook	
7. Procurement Planning and Statistics	
8. Registration and National Preference	
9. Capacity Building in Public Procurement	

PREFACE

This Joint Country Financial Accountability Assessment (CFAA) and Country Procurement Report (CPAR) was prepared together by the World Bank (WB) and the Inter-American Development Bank (IDB) on the basis of findings from missions that visited Jamaica in November 2004 and February 2005. It incorporates comments received from the Government. Subsequent to the initial findings, the Government has initiated actions to address some of the issues raised. The CFAA/CPAR Team was led by Ahmadou Moustapha Ndiaye and Enzo de Laurentiis (WB) and Julie Feinsilver (IDB), and consisted of Gonzalo Afcha (IDB), Jamil Sopher (WB), Patricia McKenzie (WB), Norberto Diamanti (IDB), Joao Veiga Malta (IDB), Sabine Engelhard (IDB), Deborah Sprietzer (IDB), Ralph Denize (IDB Country Office), Hagop Angaladian (IDB Consultant), Alfonso Sanchez (WB Consultant) Hernan Pflucker (WB Consultant), Enrique Cosio Pascal (WB Consultant), Sid Siddhu (UK National Audit Office), David McDermott (WB consultant), Catherine Abreu (WB), and Gus Westring (WB consultant).

The CFAA/CPAR was conducted in close collaboration with International Development Partners present in Jamaica, in particular UK Department For International Development (DFID), Canadian International Development Agency (CIDA), and the European Union (EU), all of which have demonstrated strong support. In addition, DFID provided additional funding for the participation of the United Kingdom National Audit Office.

Quality assurance was provided through internal meetings at the IDB and WB, IDB's Management Review Committee (CRG), and by the peer reviewers consisting of Ivor Beazley, Errol George Graham and Joel Turkewitz (WB); and Oscar Spencer (IDB).

The preparation of the CFAA/CPAR also benefited from the support of the WB Country Director for Jamaica, Caroline Anstey; the IDB Division Chief for The Caribbean, Dora Currea; WB Regional Managers for Financial Management and Procurement, Roberto Tarallo and Bernard Becq; and Gilma Unda Zamora, Marianella Rivadeneira, Pollyanna Marie McHargh-Scott, Daniela Quiñones and Suzanne Snell.

Acknowledgements

The World Bank and the IDB are grateful for the support of the authorities and their readiness to make themselves available throughout the preparation of this report. The team has benefited from interaction with the Ministry of Finance and Planning; the Planning Institute of Jamaica; the Accountant General's Department; the Auditor General Department; the Ministry of Education, Youth and Culture; the Ministry of Health; the Ministry of Transport and Works; the National Works Agency; the Parliament Public Accounts Committee; the Office of the Contractor General and the National Contracts Commission. A list of persons interviewed is provided in Annex 1.

EXECUTIVE SUMMARY

1. The main objective of the Joint Country Financial Accountability Assessment (CFAA) and the Country Procurement Assessment (CPAR) is to contribute to the implementation of GOJ's Public Sector Modernization Vision and Strategy for 2002-2012 and its Medium Term Socio-Economic Policy Framework. It also provides the basis for further donor harmonization. Building on earlier analytical work, it focuses on specific initiatives that can directly result in improvements in the country's management of public resources and in reducing public debt.
2. The CFAA/CPAR is a joint product of the World Bank (WB) and the Inter-American Development Bank (IDB). Its recommendations are coordinated with those emerging from a regional effort to provide a common procurement framework for the 15 CARICOM countries financed by the IDB, Caribbean Community and Common Market (CARICOM) and CIDA. The CFAA/CPAR team coordinated closely with other development partners active in Jamaica: UK DFID, CIDA, the EU, USAID and UNDP.
3. The CFAA/CPAR recommendations have been formulated to support improved performance of the public financial management system (PFM) within the context of the Government of Jamaica's Medium-Term Socio-Economic Policy Framework for 2004-2007. This framework was prepared to address the country's economic challenges resulting from its very high level of indebtedness. Jamaica's strengths include strong democratic tradition and institutions, government stability, and a sound legal and institutional framework for fiscal management. However, the high public debt has severely restricted public investment and service delivery, and intensified the need to increase the efficiency of public expenditures. The two main drivers of the CFAA/CPAR, therefore, have been increasing fiscal space to reduce debt, and improving public sector operating efficiency.
4. The WB carried out a CFAA in Jamaica in 2001 and a CPAR in 2003. In 2004, the Caribbean Community (CARICOM), with financing from the IDB, CARICOM and CIDA, carried out country procurement assessment of all 15 member countries, including Jamaica, as part of a Regional Procurement Framework. In parallel with this work, the Government of Jamaica has undertaken steps toward reforming its PFM system following the adoption of a public sector vision and modernization strategy in 2002.
5. This CFAA/CPAR does not duplicate the detailed information on overall financial accountability and procurement systems and practices that is already available in the earlier diagnostics, but rather focuses on selected areas which the CFAA/CPAR team and the Government agreed required further improvement for the Government to meet its goal of establishing a modern PFM system. The present CFAA/CPAR confirmed the persistence of systemic issues which continue to affect the systems' performance, and identified opportunities for generating new momentum for the ongoing PFM reform in Jamaica. It incorporates comments received from the Government. Subsequent to presentation of the initial findings, the Government has initiated actions to address some of the issues raised.

Summary of Findings

6. **Legal and institutional framework.** A sound foundation for PFM is provided by the Constitution and the Financial Administration and Audit (FAA) Act, which set forth the basic

principles for efficient management of public resources, including procurement. In recent years, five major new pieces of legislation have been passed, governing public sector management and accountability, the role of the Contractor General (CG) in procurement, the creation of Executive Agencies, access to information, and prevention of corruption. A procurement handbook also has been issued, along with new Staff Orders for public servants, including a code of conduct. The impact of these reforms is, however, affected by the two major issues below.

7. The evolution of the institutional framework is outpacing that of its underlying accountability and business processes. Institutional changes supporting PFM reform have included creation of Executive Agencies and of a Public Sector Reform Unit (PSRU) within the Cabinet Office, along with several new policy formulation and monitoring units in the MOFP. The newly created Executive Agencies are taking over the management of a share of public resources from the central government ministries, but the new accountability mechanisms for these agencies are being implemented slowly and unevenly. In addition, the use of off-budget procurement associated with the deferred financing mechanism in the past has affected the effectiveness of the control framework under this institutional framework. However, this method of financing has been discontinued unless there is Parliamentary Approval.

8. The GOJ Procurement Handbook derives administrative authority from the Contractor General Act. However, there appear to be different views regarding this status and the Handbook's enforceability. In addition, the Handbook does not provide sanctions for non-compliance. No detailed procurement procedures are as yet embodied in laws or official regulations. The consensus is that preparation of comprehensive procurement regulations must be completed. Procurement is not yet globally recognized as a core aspect of PFM. The GOJ recognizes the need for procurement legislation, an exercise which may not be achievable in the short term. This cautious approach is also justified by the need to ensure consistency with the outcome of ongoing trade negotiations. In addition, the GOJ acknowledges the need to elevate the Procurement Handbook to the level of regulations to improve enforceability. The CG Act amendment of 1999 may have created an overlap with the mandate given by the FAA Act to MOFP to regulate procurement. The National Contracts Commission (NCC), the CG and MOFP work in consultation with each other, there should be a written delineation of responsibilities and functions by way of regulation. Policy leadership in procurement should be placed in the MOFP as the normative body. The development of key tools, such as standard bidding documents, is lagging and it is a priority for the MOFP which should take the lead in their development. The NCC depends on the technical services department of the CG to act as its secretariat; diverting some of the CG's resources from its core oversight mandate in the initial stage of the NCC. Since then, the budget and the CG have been restructured to provide for the NCC without diverting resources from the CG.

9. **Budget formulation.** Government has implemented a corporate planning process to link performance, priority outcomes, and costs within line ministries and Executive Agencies in order to improve the planning capabilities of these spending entities. However, current fiscal constraints limit the ability to meet the priorities defined in the corporate plans which also are not revised in-year to reflect available resources. This undermines the relevance of the corporate planning process and its relation to the budget formulation and related budget proposals. The cost estimates of most of the corporate plans are not revised to reflect the budget that is actually allocated to ensure successful implementation of the planned results. There is generally no proper linkage between the current and capital budgets or between stated objectives, costs, and outcomes. In the absence of a more detailed medium term expenditure framework that ties

Government policies to expenditures priorities, the Government may not be able to effectively allocate resources in line with its long term goals.

10. The planning and financial framework does not include clear links to procurement planning and, consequently, procuring entities are not required to prepare procurement plans. In addition, the procurement oversight arrangements do not generate the information that would be required to fully integrate procurement planning into corporate plans. Established international practice considers procurement planning as a key activity within the public financial management system to enhance the transparency and economy of procurement processes as well as the quality of the goods, works and services procured. In addition, the institutionalization of procurement planning can ensure that procurement inputs relate more effectively to corporate objectives and provide timely information on funding requirements.

11. **Budget execution.** Budget execution is mainly affected by the impact of cash management in the context of fiscal constraints, weaknesses in the commitment controls, and shortcomings in the procurement process. The limited functionality of the information system, the practices associated with the absence of commitment controls, the extensive use of partial payments, and the use of deferred financing limit the ability to comply with the legal mandates of the FAA Act. PFM practices and systems need to be adjusted to the new institutional framework. There is an urgent need for modernization of the information system, and the enhancement of expenditure controls given the ongoing institutional changes.

12. **Procurement management.** In addition to inadequate procurement planning, problems include lack of market information and procurement statistics. This environment creates risk. Some entities attempt contract fragmentation to meet cash flow constraints and, in some instances, to bypass oversight. Other problems include ambiguous contract terms and conditions, late payments, and frequent cost and time overruns, especially in works. These problems may lead to inflated bids to compensate for increased risk. As stated in the two earlier CPARs, the CFAA/CPAR found continuing major procurement capacity and training shortfalls.¹ The MOFP identified this need for training as a priority issue. However, serious resource constraints hamper the GOJ's ability to adequately address this priority.

13. **Accounting, reporting, and information systems.** The Government has initiated the implementation of a new financial management information system to support the introduction of accrual accounting. Government efforts to date have focused primarily on the implementation of the computer tools (FinMan) and less on improving the underlying business processes and on the full implications of accrual accounting. While the right computer tools are crucial to introducing accrual accounting, and the FMIS system needed to be replaced, the new software (FinMan) has been used to automate existing business processes rather than first adapting business processes to the needs of accrual accounting. Successful adoption of a fully integrated computerized business enterprise system which uses full accrual accounting, and asset and resource management in an integrated planning framework, requires a structured project management approach. Due to budget restrictions, separate project infrastructures for the implementation of accrual accounting and FinMan with earmarked budget and adequate human and capital resources, was not adopted. This has resulted in implementation delays for the pilot and underachievement of pilot objectives. In addition, the use of stand-alone systems to meet

¹ The scope of this assessment included the Government's overall procurement capacity and did not focus on externally funded projects.

functions not contemplated in FinMan because of resource limitations preventing the acquisition of an integrated resource management system, could result in the financial management system becoming fragmented in the long run, rather than converging. The MoFP has recently restructured its approach and is actively seeking funding to projectize the FinMan pilots and the conversion to accrual accounting.

14. Financial control and legislative oversight. Overall, Jamaica has a relatively comprehensive institutional and legislative framework for financial control and legislative oversight of PFM. During the past years, some measures have been implemented to strengthen the internal and external control bodies in terms of both developing staff skills and improving the processes.

15. Notwithstanding the achievements, the evolution of the legal and institutional framework for PFM is outpacing that of its underlying accountability processes, creating a risk of weakened control over the use of public resources. The actual scope and working methodologies of both the internal audit units (IAU) and the Auditor General Department (AuGD) do not adequately reflect modern practices. The current scope for internal audit is generally limited to examining financial transactions and accounts and does not consider the more general internal control environment, nor does it enable proper coverage of procurement activities. Although there are many things the Auditor General (AG) can do within the scope of the current legislation, the lack of financial independence of his department and control of human resources will continue to severely inhibit and constrain the AuGD's long-term development. The Auditor General is currently restricted in how he can operate in terms of human resources by both financial constraints, and the legal and regulatory framework governing his staff. Audit work currently undertaken by the AuGD is primarily of a compliance nature. Although the AG prepares an annual strategic work plan for the department, which is based on risk, a risk-based methodology at the detailed audit engagement level is not consistently prepared and documented.

16. In sum, Jamaica has several levels of oversight and each one believes it is fulfilling its mandate to the best of its ability under constrained circumstances. Each one indicates frustration on account of a lack of effective enforcement mechanisms, which result in a failure to address issues identified by various control bodies. The effectiveness of the judiciary is beyond the scope of this diagnostic study. However, the Government should consider assessing soon whether mechanisms for enforcement of laws are effective. Nevertheless, there are some issues outlined below that can be addressed without changing the legislation.

17. Public debt management. The Debt Management Unit within the MOFP has integrated the full responsibilities of a modern debt management office since April 1998. Overall, the efficiency of the debt management is affected by multiplicity of legislation, and use of deferred financing and letters of undertaking as mechanisms for financing public investment. The use of deferred financing and letters of undertaking mechanisms may undermine the Government's efforts to reduce the debt as these practices impose new rigidities on future budgets and planning.

Key Recommendations

18. One of the main objectives of the Government in fiscal management could be to continue to implement priority measures to address the fundamental issues of indebtedness and efficiency of expenditures in consideration of the fiscal situation. Moving forward, GOJ should focus on implementing key priority actions which are easy to achieve and can produce improved outputs in the short-term. At the same time, the Government should begin developing consensus on

systemic changes aimed at ensuring that the reforms are sustainable, procurement and financial management processes better integrated, and the regulatory framework consistent with trade agreements and international standards. Annex 10 includes a summary of key recommendations separating first and second phase actions.

19. Legal and institutional framework. With respect to financial management, as GOJ continues to reform public institutions, it needs to manage the transition very carefully to ensure that existing FM accountability mechanisms are not weakened before new ones commensurate with the new institutional framework are in place. Such a situation would make it difficult for the House of Representatives, accountability organizations, and the public to determine whether the benefits provided by the public bodies and Executive Agencies are in the public interest and outweigh their financial risks. Enhancing the mechanisms to enforce compliance on budget presentation and approval for public enterprises, and strengthening the follow-up mechanisms for budget execution of these entities is also of great importance.

20. On the procurement front, the MOFP and the NCC should continue to cooperate in improving the content and format of the Procurement Handbook. This action was identified as a priority for this fiscal year by the GOJ and will be carried out as a collaborative effort involving the MOFP, the NCC and representatives from other stakeholder entities. MOFP should eventually issue the Handbook's mandatory provisions as regulations under the FAA Act, and it should be clarified that the regulatory authority of MOFP applies to all public entities. It should be noted that the Public Bodies Management and Accountability Act is being amended to make it explicit that the body of procurement rules (handbook, circulars, and policy framework) applies to all public entities. Other provisions included in the revised procurement handbook should be utilized as a manual to provide procedural guidance and good practice advice to procuring entities.

21. While other recommended short-term actions begin to produce measurable results in terms of better value for money and increased transparency, GOJ should nominate a high-level Steering Committee to lead a comprehensive procurement strengthening initiative and provide a focal point and a champion for continuing reform. The Steering Committee should include MOFP, the Contractor General, the Auditor General, the Cabinet's Public Sector Reform Unit, the main procuring entities, and private sector representatives. The most important item on the Steering Committee's agenda should be to agree on more effective arrangements for key institutional responsibilities. As such, the NCC should continue to exercise independent review of bidders' complaints, and the Steering Committee should review the need to consider a different authority for endorsing large contracts. MOFP should exercise both policy and normative functions and should have adequate resources to produce tools and monitor the system's performance. Cabinet review should be progressively phased out and limited to approval of projects and not contracts.

22. Reform efforts in the medium-term should include close coordination with Caribbean Community partners within the CSME initiative to ensure that harmonized regulatory frameworks facilitate regional integration of public procurement markets, which is targeted for mid-2006. Additional actions include ensuring that the public is aware that the Access to Information Act applies to procurement, the Code of Conduct is widely disseminated, and the Commission for Prevention of Corruption has adequate resources to fulfill its mandate.

23. Budget formulation. The budget formulation process should continue to focus on identification of priority spending and cost-reduction procurement-related initiatives, and rely

less on the mechanistic setting of spending limits. The real gains in spending efficiency will come with the introduction of a three-year medium-term expenditure framework, which would require better forecasting for revenue and borrowing costs and tighter alignment of priorities and budget planning. The quality of corporate plans should be improved by being costed and incorporating procurement plans linked to the budget process and supported by statistics from previous years.

24. Most of these issues have been recognized by the Government as a result of a review conducted between Cabinet Office and the Public Sector Reform Unit. It is expected that the measures proposed, once completed, will contribute to a better alignment of priorities and budget allocation in consideration of the resource constrained environment.

25. **Budget execution.** In order to improve the effectiveness and efficiency of the Government PFM, the focus should be on more efficient cash management and commitment controls. In order for the warrant system to reach the goal of ensuring the correspondence between flows of revenues and expenditures to facilitate the management of the Consolidated Fund, there is need to ensure greater predictability of the release of funds to the spending units by specifying an adjustment mechanism that would relate the adjustment to the budget priorities in a systematic manner. There is also an urgent need to speed up the process of modernization of the FM information systems, to address problems relating to the absence of commitment controls and standard reporting of budgetary information, and to increase the overall effectiveness and efficiency of the government's financial management system. Reliable, timely, and accurate information are essential to support policies and processes and increase the capacity for strategic decision-making. Improving the information system is critical for better expenditure control and effective support to the output-based budget initiative.

26. **Procurement management.** Short-term actions which could lead to improved performance without requiring significant changes include the development of common standards (i.e. bidding documents, market information and quality standards) and reliable procurement statistics. In addition, MOFP should conduct market studies and assess the current supply management system to identify potential cost reduction strategies. Procurement planning should be incorporated into the overall planning process and corporate plans should include details of the costs of the activities that will be carried out throughout the year, linked to the underlying procurement and contracting processes (i.e., specific contract packages with selection methods and lead times for procurement actions following the critical path approach), so as to assess more accurately the time and cost efficiency implications. Adequate training and sensitization should be provided to budget and planning practitioners and heads of ministries and department agencies to ensure that the new approach is implemented successfully. Responsibility for Electronic Government Procurement (e-GP) development should be clearly assigned and a comprehensive strategic plan adopted and implemented in subsequent phases, focusing initially on information and use of a single government portal. MOFP should develop monitoring capabilities to measure the system's performance both in terms of compliance and ability to produce value-for-money and transparency. Finally, in the medium-term GOJ should intensify its efforts to create a cadre of qualified procurement officers. It also should establish a comprehensive capacity-building strategy in coordination with regional trading partners and in partnership with regional training institutions such as the University of West Indies, which currently offers no courses in procurement.

27. **Accounting, reporting, and information systems.** If carefully sequenced, the introduction of accrual accounting and a new financial management information system could provide more reliable and complete information over time. But given the capacity limitations, Government should consider a step-by-step implementation path starting with the aspects that are most critical and relevant to the country such as commitment monitoring, short-term debtors and creditors and public debt that would have a direct positive impact on the current budget situation. The following key activities should be given priority: (i) establish a separate project infrastructure, led by an inter ministerial steering committee supported with dedicated staff and the budget required to complete the pilot and rollout; (ii) undertake a review of the International Public Sector Accounting Standards (IPSAS) to determine the areas suitable for adoption and propose revisions to existing accounting rules and policies; (iii) devise the new accounting framework, standards, and rules, along with appropriate revisions to the chart of accounts; (iv) issue a revised Accounting Manual that consolidates the ad-hoc guidelines and instructions issued over the years and reflects the new accounting framework (v) analyze and implement reforms necessary to ensure that the business processes, organizational structure and staffing of each ministry can support the accounting reforms; and (vi) develop and revise the strategy for improving the functioning of FinMan.

28. In order to have a better control over budget execution and because the existing consolidation feature of the information system is not currently used, the actual expenditures of the ministries should be consolidated on a periodic basis to reflect the total picture for the central government, and an analysis undertaken comparing appropriated expenditures with budget, as a means of highlighting variances and providing information for resource allocation decisions. The results of such a review should be submitted to the Financial Secretary and Cabinet. Timely submission of appropriation accounts must be achieved before full implementation of accrual accounting.

29. **Financial control and legislative oversight.** The scope of internal audit units should be shifted from focusing on individual errors to identifying control failures and mitigating mechanisms. It should be expanded to encompass use of modern audit techniques involving risk analysis and sampling techniques based on the concept of materiality. Internal audit should cover procurement and focus not only on compliance but also on the entity's performance, including its ability to operate efficiently and control costs.

30. More value-for-money audits need to be undertaken, with a focus on measuring impacts—revenue maximization, waste reduction, effectiveness of procurement procedures and internal audit. More extensive use of parliamentary review would improve the degree of scrutiny. Funding for the AuGD should be prescribed by legislation in order to increase its financial independence. Greater use of risk-based modern audit techniques by the AuGD would significantly reduce the number of individual transactions audited and free up resources to be redirected to value-for-money work, IT audits, and audit of public companies. In addition, the Auditor General should continue to work to strengthen and train his staff in conducting financial statement audits in accordance with International Organization of Supreme Audit Institutions (INTOSAI) standards, for accrual-based statements to be prepared in accordance with IPSAS as is planned with the implementation of FinMan. Furthermore, he should further develop his staff and take on IT audits to identify control weaknesses in new and existing systems, such as FinMan.

31. The Contractor General has good potential for contributing to better integration of procurement within the PFM system, providing that his office begins to cooperate more closely

with the Auditor General's Department. To this end and to begin shifting emphasis to ex-post control, CG staff jointly with AuGD staff could conduct ex-post procurement reviews that would focus more on performance rather than compliance, such as those that are already being conducted periodically by the AuGD staff.

32. Legislative oversight can become fully effective by providing technical support to parliamentarians in financial matters through the creation of a small technical secretariat that would provide support to all members, and by ensuring that the Appropriations Committee meets more regularly.

33. **Public debt management.** The drafting of a new comprehensive Public Debt and Publicly Guaranteed Debt Act should be undertaken to harmonize all the different acts that refer to public indebtedness in Jamaica, and to define clearly effective debt management functions at the executive level. This would provide an opportunity to contemplate and design a clear mechanism for approval and disclosure of public indebtedness, direct and guaranteed. At the same time, it would provide a framework for the DMU to evaluate the costs and risk of guarantees and on-lending activities, foreseeing resources for this endeavor and providing a guarantee, since on-lending implies a financial risk for the Government's budget.

34. Fixing the yearly debt ceilings in net flows rather than in gross flows would contribute better to meeting the objectives to bring down the stock of public indebtedness. Also, the securities auctions should be programmed in regular periods during the fiscal year, rather than being decided on a weekly basis as at present, and their calendar announced well in advance. In particular the issuance dates should be chosen, as much as possible, in such a way that the debt service would be falling due in the periods where government revenue is forecasted to be higher.

SUMMARY OF KEY RECOMMENDATIONS

Areas	First Phase Actions	Second Phase Actions	Responsibility
Legal and Institutional	Accelerate implementation of the accountability mechanisms (Internal Audit Units within Executive Agencies, Audit Committees) to keep pace with new institutional framework.	Expand the role of the Parliamentary Public Accounts Committee in PFM oversight.	MOFP, Parliament
	Strengthen the Procurement Policy Unit's capacity to develop statistics and design appropriate performance indicators to assess the system and monitor its performance.	Nominate a high-level Steering Committee (MOFP, CG, AG, Cabinet, main procuring entities, private sector representatives.) to lead and coordinate a comprehensive fiduciary strengthening initiative.	MOFP to develop indicators and statistics.
	Assess the complaints mechanism.	Consider separating the roles of reviewing bidders complaints from the endorsement of contracts awards	MOFP in cooperation with NCC and AG
	Improve the format and content of the Procurement Handbook.	Issue the mandatory portion of the Handbook as regulations under the FAA Act. Consider the enactment of a comprehensive procurement law in the medium term.	NCC in cooperation with MOFP to improve Handbook. MOFP to issue regulations.
Budget Formulation	Move to a more detailed Medium Term Expenditure Framework as a way to improve predictability of the budget and strengthen the link between policy, planning, and budget allocation,		MOFP/Cabinet
	Continue the efforts to improve budget prioritization given the fiscal constraints.		MOFP/Cabinet
	Improve the quality of corporate plans by incorporating procurement plans supported by previous years' statistics into the budget process.	Carry out performance audits.	MOFP in cooperation with key procuring entities, AG & CG
Budget Execution	Strengthen commitment control to ensure adequate control of arrears.		MOFP
	Improve cash predictability by defining a transparent mechanism for warrant releases that maintains budget consistency with Government priorities.		MOFP
	Improve quality and timeliness of financial reporting to improve control of budget performance by the executive and the legislative branches of government.		MOFP
	Develop common standards: market standards, bidding documents, and quality standards including interface between procurement and financial management systems.	Create a critical mass of well-trained procurement specialists and establish a comprehensive regional capacity-building strategy.	MOFP with Caricom partners & regional training institutions (U. West Indies).
	Eliminate or improve registration of suppliers and contractors		NCC
	Assign responsibilities for e-GP development and adopt a strategic plan.	Implement subsequent phases of e-GP strategy, as appropriate.	MOFP
	Assess the Government's supply system.	Implement cost-reduction strategies.	MOFP

Areas	First Phase Actions	Second Phase Actions	Responsibility
Accounting and Information System	Establish a separate project infrastructure with dedicated staff and budget to complete the pilot and roll-out of Accrual Accounting and monitoring implementation of the new information system to the full central government in stages, with initial focus on the aspects that are most critical and relevant to Jamaica (commitment monitoring, short-term debtors and creditors, and public debt).	Issue a revised Accounting Manual for the GOJ that consolidates past ad-hoc guidelines and instructions and reflects the new accounting framework.	MOFP
		Adapt the organizational structure and staffing of each ministry to support the challenges of the reformed business processes.	MOFP/Cabinet
	Undertake a review of the IPSAS to determine the areas appropriate for and relevant to the GOJ.	Adopt a financial information system for a full enterprise management system that integrates systems held on different informatics platforms.	MOFP
	Devise a new accounting framework, standards and rules, along with appropriate revisions to the chart of accounts.		MOFP
Control and Oversight	Strengthen the capacity of the Internal Audit Directorate and expand the scope of the Internal Audit Units to the overall internal control environment, including a focus on procurement	Introduce new legislation to increase financial independence of the AuGD through direct funding from the Consolidated Fund, and to increase accountability by having its financial statements professionally audited	Cabinet/Auditor General/Parliament
		Phase out, or substantially reduce, ex-ante control, including Cabinet review.	MOFP in cooperation with CG and AG
	Adopt a more streamlined risk-based approach to work in the AuGD, in order to focus limited available resources on high-risk areas to audit.		Auditor General
	Strengthen the Public Accounts Committee and re-activate the Standing Finance Committee.		Cabinet/Parliament
	Expand oversight coverage of public enterprises by Parliament and the Auditor General.		Cabinet, MOFP, Auditor General, Parliament
	Initiate procurement post-reviews focusing on performance.	Improve cooperation between AG and CG. Strengthen anti-corruption commission.	CG in cooperation with AG

I. BACKGROUND

Country Context

1. Jamaica, the third largest island in the Caribbean, is a highly indebted lower middle-income country with a population of around 2.6 million and a per capita GNI of US\$2,990. Compared with other lower middle-income countries, Jamaica scores higher in international comparisons of democratic traditions and institutions, regulatory framework, the legal and institutional framework for fiscal management, and government effectiveness. In fact, its rating for government effectiveness improved more than twofold between 1998 and 2004.² However, its rating on five out of six basic governance and anti-corruption indicators dropped between 1998 to 2004, and was one of 14 countries where corruption was perceived to be greater in 2004 than in 2003; Jamaica's 2005 score was 3.6 in the Transparency International corruption perception index out of possible 10, ranking 64th out of 158 countries.³ This perception is likely to affect procurement prices, investment, and ultimately growth.

2. Jamaica's economic growth has been low for a long period, causing per capita income to stagnate for the last three decades. Liberalization and structural changes during the last decade have resulted in more openness and market-orientation but have yet to translate into significantly improved growth performance. Average measured GDP growth was actually negative between 1996 and 2001, but since then has turned positive although it has remained below 2 percent. Remittances constitute about 17 percent of GDP. Poor long-term growth performance has exacerbated distributional conflicts and complicated the political economy of policy formulation and implementation. Nonetheless, the Government of Jamaica (GOJ) was able to negotiate a Memorandum of Understanding with the Jamaican Trade Unions to put a moratorium on wage increases from 2004 to 2006.

3. Jamaica has a history of large fiscal deficits and high indebtedness but the level of debt was boosted sharply by the costs of resolving a financial sector crisis that surfaced in the mid-1990s. Despite having one of the highest primary fiscal surpluses in the world—11.8 percent of GDP—Jamaica also has one of the highest levels of public indebtedness—136.6 percent of GDP (March 2005).⁴ This level of indebtedness imposes high debt servicing costs; contributes to high real interest rates; along with wage and salary expenditures, crowds out public investment; and leaves the economy vulnerable to adverse shocks. In FY2004/05, interest payments were equivalent to 17 percent of GDP (or for 47 percent of government expenditures). Debt servicing for the same period totaled 67.3 percent of the budget. As a result, capital expenditures have declined from over four percent of GDP in the first half of the 1990s to a projected 2 percent of GDP in FY2004/05.⁵ This sharp decline in public investment has greatly restricted the ability of

² Kaufmann D., A. Kraay, and M. Mastruzzi 2005: *Governance Matters IV: Governance indicators for 1996-2004*. http://www.info.worldbank.org/governance/kkz2004/sc_chart.asp

³ Transparency International, *Corruption Perceptions Index 2005*. http://www.transparency.org/policy_and_resource/surveys_index/cpi/2005.

⁴ MOFP, *Memorandum on the Budget of Jamaica*. April 2005. <http://www.mof.gov.jm>

⁵ *Ibid.*, and Antonio Furtado, IMF, 18 May 2005.

the GOJ to promote development through public investment and has intensified the need to increase the efficiency of public expenditures.

4. In 2004, the GOJ articulated a Medium-Term Socio-Economic Policy Framework (MTSEPF) for 2004-07 to address the country's ongoing and emerging challenges. Under the Economic Framework of the MTSEPF, the Government proposes a mix of monetary, exchange rate and fiscal measures geared at achieving specific macroeconomic targets.⁶ The Government also proposed to pilot the Medium-Term Expenditure Framework (MTEF) in one of the major spending sectors (health, education or national security) in 2005. Specific policy measures under the Social Policy Framework of the MTSEPF include the prioritization of budgetary allocations, the release of funds to support the social sectors, and measures to reduce poverty. Improved performance of the public financial management (PFM) is consistent with the goals of the MTSEPF.

5. The most immediate driver for PFM reform for the GOJ is easing its fiscal burden by improving the efficiency of public expenditures. There is a pressing need to generate public savings to alleviate the fiscal situation and savings could be achieved by improving the efficiency of public procurement. Moreover, greater efficiency in the use and management of public resources in a tight fiscal context would also allow the GOJ to allocate much-needed resources to key priority areas.

6. The GOJ is engaged in reforming its public financial management system following the adoption of a Public Sector Vision and Modernization Strategy for 2002-2012. PFM policy and oversight functions have been enhanced with the relatively recent creation of several units within the Ministry of Finance and Planning (MOFP) and the adoption of important pieces of legislation. The reforms initiated by the GOJ so far have included the creation of semi-autonomous Executive Agencies to deliver public services, restructuring of debt management functions and responsibilities, some strengthening of the control environment, the improvement of corporate planning as a step toward adopting a Medium Term Expenditure Framework, piloting of new financial information system (FinMan), supporting the introduction of accrual accounting, and the development of a policy paper and a handbook on public procurement as well as the beginning of a dissemination process. Nonetheless, there are several areas where improvements are still needed for the Government to meet its goal of a modern PFM system. The present CFAA/CPAR confirmed the persistence of several fundamental systemic issues which affect the system's performance. It incorporates comments received from the Government. Subsequent to presentation of the initial findings, the Government has initiated actions to address some of the issues raised.

Harmonization

7. As part of global donor harmonization efforts, Jamaica is interested in increasing harmonization of donor policies and procedures in the areas of financial management and audit, procurement, environment and social safeguards, and a commonly agreed analytical framework and country strategy. Such a common framework would offer

⁶ The fiscal program targets a smaller deficit (3-4 percent of GDP in 2004/05) followed by a balanced budget in 2005/06 and small surpluses in 2006/07 and 2007/08.

opportunities for improved aid effectiveness, and other benefits in the delivery of development assistance. The CFAA/CPAR provides a framework to collaborate with the Government and other development partners in the harmonization and simplification of procedures to reduce transaction costs for Jamaica.

The Country Financial Accountability Assessment (CFAA) and Country Procurement Assessment (CPAR)

Objectives

8. The main objective of the (CFAA/CPAR) is to contribute to the implementation of GOJ's Public Sector Modernization Vision and Strategy for 2002-2012 and its Medium Term Socio-Economic Policy Framework. It also provides the basis for further donor harmonization.

9. The CFAA/CPAR is a joint product of the World Bank (WB) and the Inter-American Development Bank (IDB). Its recommendations are coordinated with those emerging from a regional effort to harmonize and reform procurement systems of the 15 CARICOM countries. The CFAA/CPAR team liaised closely with other development partners active in Jamaica: UK DFID, CIDA, the EU and UNDP.

10. The WB carried out a CFAA in Jamaica in 2001 and a CPAR in 2003. In 2004, the Caribbean Community and Common Market (CARICOM), with additional financing from the IDB and CIDA, carried out country procurement assessments of all 15 member countries, including Jamaica, as part of a Regional Procurement Framework. This CFAA/CPAR does not duplicate the detailed information on overall financial accountability, procurement, systems, practices and arrangements already available in these very recent diagnostics,⁷ but rather focuses on selected areas which the CFAA/CPAR team and the Government agreed required further review, addressing strengths and weaknesses of Jamaica's PFM in a more integrated manner, leveraging on the linkages between financial management and procurement, and identifying opportunities for generating new momentum for the PFM reform.

11. The emphasis on a consolidated approach to public sector modernization as well as on donor harmonization in Jamaica calls for a joint assessment of financial management and procurement in a single CFAA/CPAR report. Taking a joint approach has allowed the team to identify and address common systemic issues (especially in budget preparation and execution) and make recommendations that cut across all aspects of PFM, of which procurement is one component, in a consistent and coherent manner.

⁷ WB Country Financial Accountability Assessment, April 2001; WB Country Procurement Assessment Report, July 2003; IDB-financed CARICOM Country Procurement Assessment Report for Jamaica completed in August 2004; WB Public Sector Modernization Project Implementation Completion Report, December 2003; WB Public Expenditure Review, June 2003; D Artana & F Navajas, "Fiscal Policy Issues in Jamaica: Budgetary Institutions, the Tax System and Public Debt Management," Inter-American Development Bank, Region 3, Economic and Sector Study Series, July 2003; D. Artana and F. Navajas, "Fiscal Policy Challenge," in *Revitalizing the Jamaican Economy: Policies for Sustained Growth* (Washington, DC: Inter-American Development Bank, 2004):15-73.

Scope

12. The CFAA/CPAR builds on recent diagnostic studies and reviews of PFM systems that provide detailed information on overall financial accountability systems, practices and arrangements. The CFAA/CPAR team focused on the ongoing policy dialogue on governance and covered the following specific areas.

13. **Budget preparation and execution.** The CFAA/CPAR aimed to review how Government's latest initiative to pilot an MTEF and prioritize the budgetary allocations can work in Jamaica's cash-constrained environment. The CFAA/CPAR examined the gaps in the budget processes in the areas of budget setting, and expenditure authorization and monitoring. Specific emphasis was put on the effectiveness of the planning processes in relation to procurement and budget programming, with a view to identifying gaps between GOJ's development policy on the one hand, and budget decisions and actual implementation of the budget based on available cash flow on the other. This analysis covered the appropriateness of the institutional and operational arrangements for cash management and their impact on budget implementation.

14. With regard to sector ministries, the CFAA/CPAR looked into the balance between (i) the efforts in budget preparation and aligning budgets with policy outputs and outcomes, and (ii) the attention given to monitoring the achievement of budgetary outcomes. One important focus was the quality of the financial information that supports performance management. This part of the assessment specifically covered the effectiveness of expenditures control.

15. **Accounting and reporting.** The CFAA/CPAR reviewed the status of the GOJ plan to modernize its financial management systems, including the implementation strategy for a new software program (FinMan) and accrual accounting. In particular, the review examined the extent to which the accounting and expenditure reporting systems can support the needs of users in sector ministries who seek to assess and manage performance.

16. **Debt management.** The CFAA/CPAR covered the institutional arrangements for debt management, and the information system for both recording public debt and incorporating debt servicing into the budget. It focused on the adequacy and comprehensiveness of GOJ's debt management systems, and also evaluated the issue of contingent liabilities in sector ministries and public sector entities.

17. **Public sector fiduciary oversight.** The CFAA/CPAR reviewed the three areas of fiduciary oversight: internal audit within a sample of ministries, external audit under the purview of the Auditor General's Department (AuGD), and parliamentary oversight (the Public Accounts Committee). The review of internal audit examined the soundness of the control environment of the ministries and the capacity and competency of the internal audit units to carry out their responsibilities. The review of external audit updated the evaluation of the AuGD that was conducted in 2003 and assessed progress made in the main areas of weakness identified at that time. The role of the Parliamentary Public Accounts Committee was studied in order to review its contribution to the broad oversight framework.

18. **Public sector procurement.** The CFAA/CPAR updated findings on systemic weaknesses in the regulatory and organizational frameworks identified by recent analytical work. It also focused on specific procurement-related areas in which Government has expressed interest, including a strategy for e-procurement, a national capacity building plan, and the regulatory framework. The recent procurement analytical work, including this CFAA/CPAR, provides data to enable testing the baseline indicators for procurement developed by the donor community to support decisions on donor alignment with country systems. The indicators are provided in Annex 4 with an overview of the CFAA/CPAR's findings and should be used jointly with the Government.

19. **Public sector entities.** There are 148 active public sector entities,⁸ of which 66 or about 45 percent are either directly or indirectly dependent on government funding through the Consolidated Fund. The CFAA/CPAR examined their relationship with the budget and the performance of the institutional accountability mechanisms in place.

Methodology and Process

20. The CFAA/CPAR team based its work on a desk review of documents, meetings and interviews with key government and private sector stakeholders and international development partners, a review of the Auditor General Department working papers and reports, and a demonstration of FinMan software. The Planning Institute of Jamaica within the Ministry of Finance acted as the official counterpart of the CFAA/CPAR team. Meetings were also held with members of the WB and IDB country management units and local Country Offices. The main sources of information reviewed are listed in Annex 2. The findings of the CFAA/CPAR were discussed with the Government of Jamaica and the report was finalized jointly. The Government will be encouraged to follow up on implementation of CFAA/CPAR recommendations through a high-level, broad-based working group

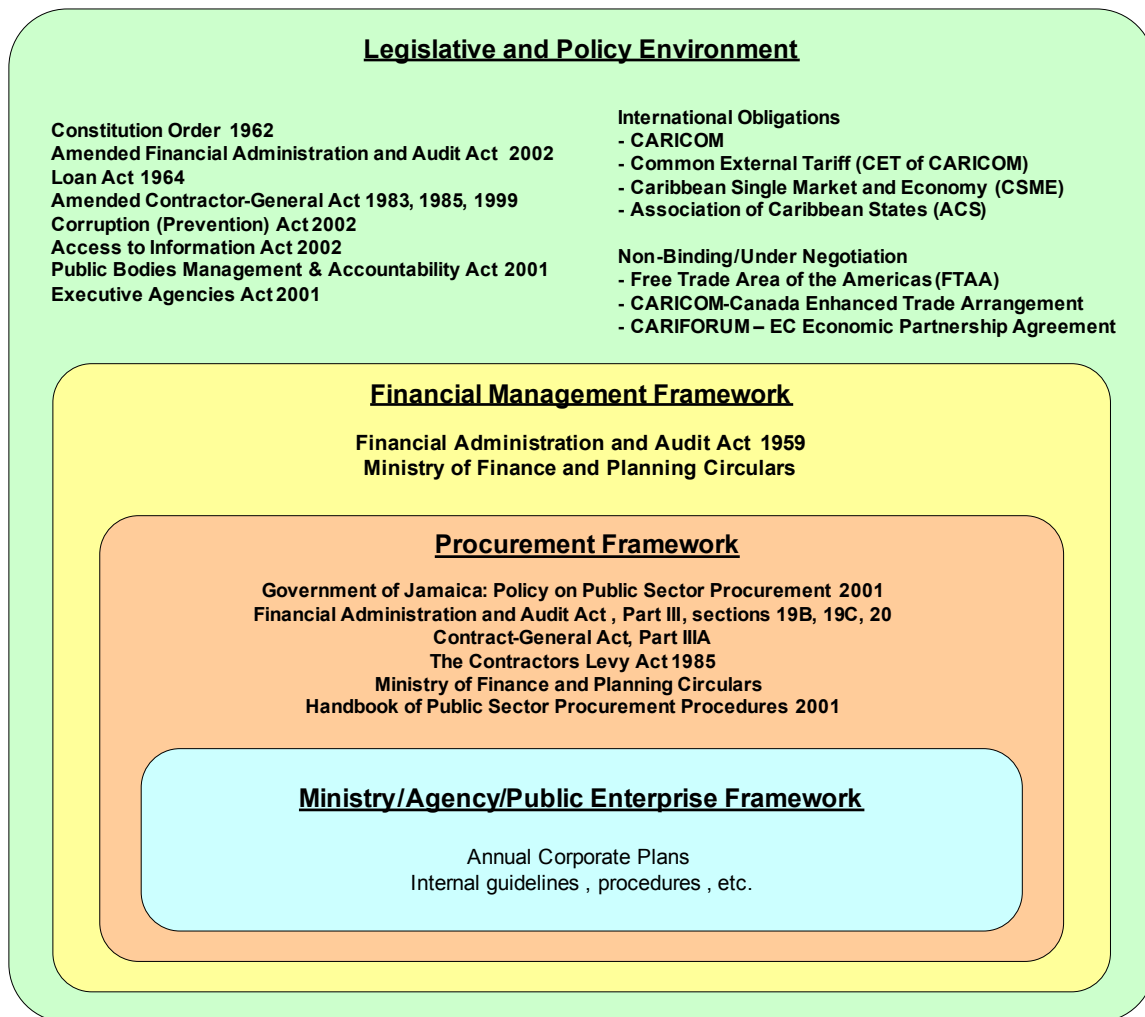
⁸ Jamaica Fiscal Consolidation For Growth and Poverty Reduction, A Public Expenditure Review, WB, 2004.

II. LEGAL AND INSTITUTIONAL FRAMEWORK

Overview

21. The foundations of the legal framework for public financial management and procurement are provided by the Constitution of Jamaica, which sets forth the basic principles for efficient management of public resources. Key aspects of PFM are covered by the 1959 Financial Administration and Audit (FAA) Act, and the 1983 Contractor-General Act, as amended, and further developed in other acts and regulations. Jamaica is also party to a number of international treaties with implications for financial management and procurement, including the CARICOM, the Association of Caribbean States (ACS), and the forthcoming Caribbean Single Market and Economy (CSME) and Free Trade Area of the Americas (FTAA). This framework is summarized in Figure 1 below. Details of the major trade and regional integration agreements are included in Annex 3.

Figure 1. Legal Framework for PFM



22. Several important pieces of legislation were adopted in the past few years. The Modernisation Vision and Strategy Paper that was presented by the Cabinet to Parliament in September 2002 established the Public Sector Reform Unit in the Cabinet Office and addressed the need for public sector reforms in several key areas of the PFM system, including procurement. As part of the modernization process, the Government introduced the Executive Agencies Act in 2002, the Public Bodies Management and Accountability (PBMA) Act in 2001, established a number of Executive Agencies, amended the Contractor General Act in 1999, and developed a National Procurement Policy and Handbook. Additional reforms included the 2002 Access to Information Act (amended 2003), the 2001 Corruption (Prevention) Act (amended 2002),⁹ and the new Staff Orders, issued by the MOFP, which aim at raising the quality and standing of public servants.

23. To support these changes, the main public financial management central control and policy functions of the MOFP were enhanced with the creation of internal units within divisions to advise the Minister and Cabinet on government policy, legislation, regulations, procedures, and their proper implementation and interpretation. These units include the Procurement Policy Implementation Unit, the Executive Agencies Monitoring Unit, the Internal Audit Directorate of the Public Expenditure and Policy Coordination Division, and the Debt Management Unit of the Economic Division.

Findings and Issues

24. Jamaica has relatively well-established traditions of institutions and rules. However, a number of issues have emerged regarding the implementation of the new institutional framework for financial management. In addition, shortcomings in the regulatory framework and institutional set-up for public procurement lead to difficulties in enforcement.

Institutional Framework for Financial Management

25. The legislative framework has evolved in step with the changes in the institutional framework to cover basic principles of sound and efficient management of public resources and accountability. This review of the overall framework highlights key issues, with detailed analysis of the individual acts and regulations and institutions provided in later sections of this report.

26. Public bodies and the Executive Agencies are subject to different accountability mechanisms as defined respectively in the Public Bodies Management and Accountability Act and in the Executive Agencies Act. The Public Bodies Act provides for improvements in corporate governance and accountability in the areas of reporting, exercising of borrowing powers, functioning of the internal and external audit

⁹ The Act establishes a Commission and requires public servants to provide to the Commission a declaration of their (and their families') assets, liabilities and income. The Commission may require further information and may conduct enquiries, and seek prosecution of public servants who committed acts of corruption, such as taking bribes and other illicit benefits.

mechanisms, and operations and responsibilities of the board of directors. However, these mechanisms are still being phased in across Executive Agencies.

27. For instance, a Memorandum of Understanding is being developed between the Ministry of Transport and Works and the National Works Agency (NWA) to lay down clear guidelines for management of contracts. In the Ministry of Education, there are about 13 agencies headed by their own boards but they still submit budgets to and receive monthly allocations from the Ministry. A clear definition of the respective roles of the portfolio ministry and the audit committee in the oversight of these entities should be developed.

Public Sector Entities

28. The current legal framework does not require that Parliament approve the budgets of public sector enterprises and other public entities as it does for ministries and agencies of central government. In addition, almost 50 percent of the 140 entities currently on record at the MOFP finance their operations from direct budget subventions.¹⁰ Although the MOFP presents the public entities' annual estimates of revenue and expenditures to the House of Representatives, these estimates cover only selected entities and are not voted by the House of Representatives. This reduces visibility of public sector operations and performance. While the Public Enterprises Division of the MOFP concentrates on the monitoring of over 50 self-financing public enterprises, oversight by Parliament is therefore only partial, as the budget covers only selected enterprises. Moreover, to the extent that the self-financing feature of public enterprises and other non-central government agencies does not act as an effective budget constraint, their borrowing autonomy may be a potential liability for the central government, as described in the debt management chapter of this report.

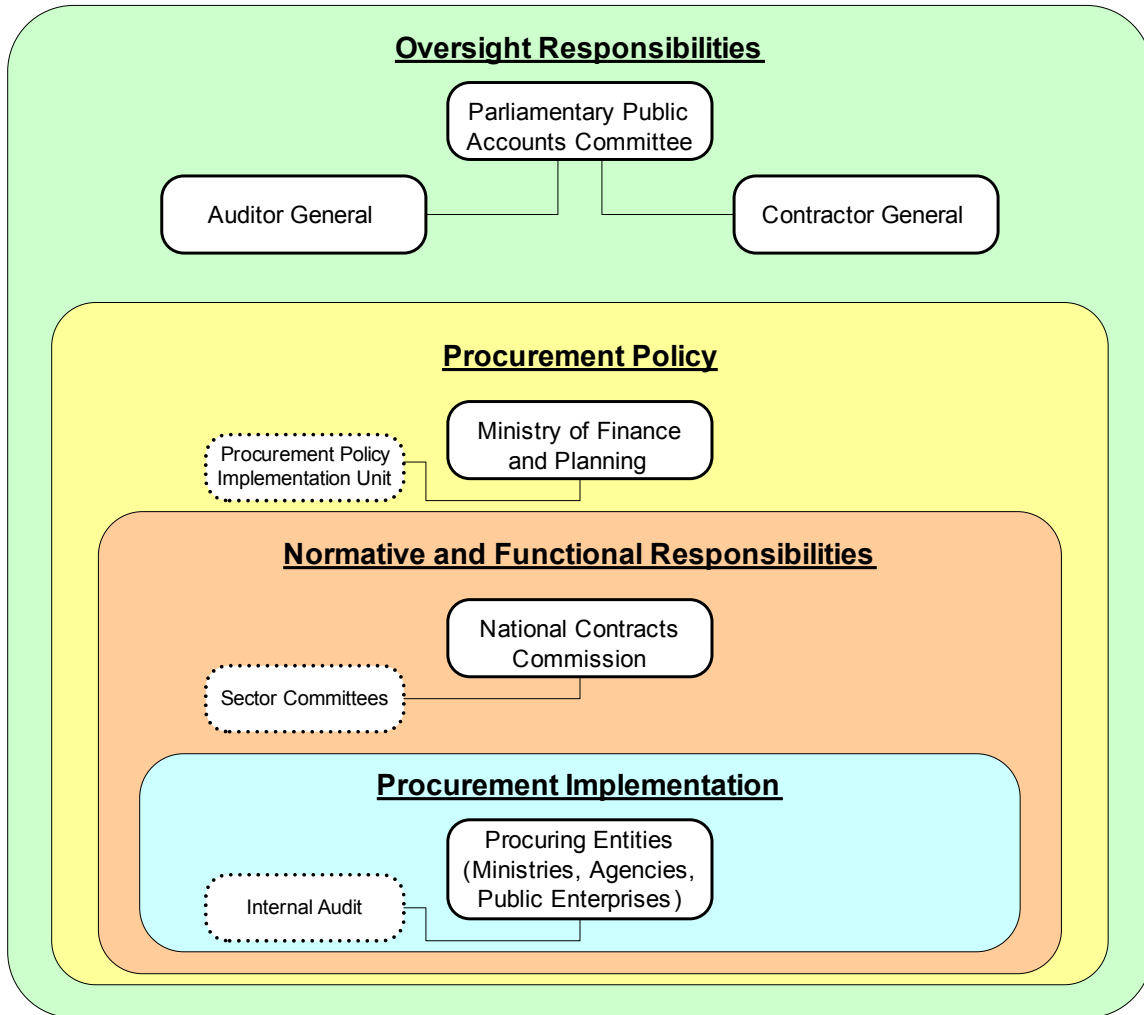
Institutional Environment for Public Procurement

29. The current PFM regulatory framework recognizes only in peripheral sections that public procurement is an important process in the administration of public funds.¹¹ All detailed references to the manner in which public procurement should be conducted are included in the Handbook of Public Sector Procurement Procedures which currently does not have legal status. Figure 2 below illustrates the current institutional framework for public sector procurement in Jamaica.

¹⁰ MOFP Corporate Plan 2002/03-2004/05.

¹¹ For example, Section 19B of the FAA Act, and Financial Management (Ministries and Departments) Regulations, 1996: "the accounting officer of each department has to certify that all prices are determined in accordance with prescribed procedures, and are incurred without waste or extravagance."

Figure 2. Institutional Framework for Public Sector Procurement



30. The way regulatory authority, oversight and operational responsibilities are assigned within the current legal framework may help explain, in part, the system’s recent evolution and the apparent slow progress in moving the procurement reform process further ahead. Annual reports of the Contractor-General (CG), during the years when the creation of a National Contracts Commission (NCC) was being debated, suggest that a consensus on the status and responsibilities of the new commission was difficult to reach.¹² However, plans are in place and initial actions are being taken to implement reforms. And a unifying, modern vision of the critical importance of procurement within the PFM system is still being developed.

¹² In the end, the NCC was not instructed, as is the case with the Contractor-General, to submit annual reports to Parliament. The Contractor-General was not — as had been at one stage the intention — assigned the role of chairman of the NCC, but was given only the responsibility to nominate the NCC chairman and head the NCC Secretariat.

31. Jamaica somewhat deviated from the classical PFM model found in most Anglophone countries in which there is clear separation of executive and oversight functions exercised on behalf of the legislative branch. This was done in response to concerns of political interference with the contract award process. The NCC is a commission of Parliament, but with powers to endorse contract awards, register contractors, review bidders' protests, and regulate procurement. Therefore, the separation between oversight, contracts award and regulatory function is difficult to maintain. Since the NCC and CG shared staff and resources in the initial stage of the NCC, the exercise of the NCC's key responsibilities and the CG's core mandate (specialized in external control and reporting to Parliament) were closely intertwined in practice. Since then, the budget and the CG have been restructured to provide for the NCC without diverting resources from the CG.

32. In addition, the amendment to the CG Act forming the NCC appears to have duplicated the mandate to regulate public procurement already given in broader terms to the MOFP under the Constitution and the FAA Act. Specifically, the authority to regulate procurement is given to the NCC under the amended CG Act with respect to: (i) contractors' qualifications and registration; (ii) procedure for submission of tenders; (iii) performance bonds; (iv) competitive bidding; and (vi) cancellation of registration. There is a tacit understanding that the NCC, which exercises mainly a control function, will continue to "regulate" procurement. The MOFP, which has a comprehensive vision of procurement (as articulated in the Policy Paper) and good technical leadership in the Procurement Policy Unit, continues to set policies, but does not exercise its normative mandate (i.e. issue regulations and oversee their implementation). As discussed before, this has been one reason for the limited focus on the quality of the system's outcomes and capacity building as well as slow progress in producing key implementing tools, such as standard bidding documents and a monitoring and evaluation system.

33. The NCC was created to improve transparency in the system through strict oversight of the procuring entities' decisions. Since the threshold for referral to the NCC is very low, this control is pervasive and procuring entities are subject to extensive prior review of contract awards. The present system thus tends to dilute the authority and accountability of procuring entities and this may have contributed to slow progress in building operational capacity. Another unwanted consequence of this originally well-intended centralization is that it creates a risk. Some procuring entities attempt to divide contracts into smaller ones to meet cash flow constraints and, in some instances, to avoid the NCC's involvement.

34. Consistent with its origins and primary mandate, the NCC is concerned with controlling legal compliance. Clearly, this mandate does not include assessing whether the system is efficient or capacity is developing at an acceptable pace. Consequently, the NCC focuses on the pre-award phase, and it is not required to delve into contract administration. However, the Auditor General has found that non-transparent practices and waste of funds occur more frequently in the contract execution phase, where contract variations are used to avoid competition. This approach embedded in the CG Act and the Procurement Handbook favor "control-based" oversight through ex-ante reviews and central registration of contractors over more modern approaches such as strong risk prevention and comprehensive management controls in procuring entities, ex-post

procurement reviews, performance-oriented audits, and pre- and post-qualification procedures. The latter approach would better serve the Government's overall procurement strategy. The Projects Unit within the Public Expenditure Division of the MOFP has the mandate to monitor contracts and projects and make recommendations to improve policy and procedures. However, the relationship between this unit and the Procurement Policy Unit is not sufficiently developed and there are no specific tools for monitoring and benchmarking procurement.

35. An additional complication is the routine involvement of the Cabinet in contract awards, potentially introducing a political element in the procurement decision-making process, which ideally should be based exclusively on transparent legal and technical considerations. In Common Law countries, it is generally accepted that Cabinet may intervene in procurement decisions that have major implications in terms of cost or national security. However, this practice in Jamaica is based on relative low thresholds and does not follow well defined criteria. It is not clear whether Cabinet can reverse an NCC decision only for procedural non-compliance or for other considerations as well.

36. ***Procurement Handbook.*** The 2001 Handbook of Public Sector Procurement Procedures was prepared by MOFP, and endorsed and issued by the NCC to fill the regulatory vacuum and provide procedural guidance. It is presented as a definitive document and updates and replaces all previous procedural guidelines and memoranda on public procurement. However, the Handbook lacks formal legal authority, as its regulatory content was never issued in the form of subsidiary regulations under the CG Act, tabled to Parliament, or published in the Official Gazette. There is no doubt that the provisions of the Handbook are not legally enforceable, and public officials are not accountable for non-compliance with its provisions. But, because of the nature of procurement which involves public expenditures, public officials are accountable under the provisions of the FAA Act and PBMA Act. The NCC posts the Handbook and its amendments on both the CG's and the NCC's websites.

37. There is general consensus that the content and format of the Handbook should be improved and revised on an ongoing basis to be consistent and reflect international good practice and standards. The Handbook is sectionalized to differentiate between broad policy statements, operational procedures and administrative directives issued by the MOFP.

38. ***Other transparency and accountability legislation.*** The Access to Information Act, enacted in 2002 and modified in 2003, represents a positive move toward increased transparency. However, it is still too soon to assess its impact on the procurement environment. The Corruption Prevention Act, enacted in 2001 and revised in 2002, also constitutes a step in the right direction. However, the Commission for Prevention of Corruption, established in 2002, lacks adequate staff and resources. The provision requiring civil servants to declare their assets has been effective since 2002, but it is not clear whether full compliance has been achieved.

39. The Code of Conduct for civil servants is embedded in the Staff Orders and addresses conflict of interest, inducements and other provisions which aim at increasing

transparency and accountability in the public sector. The Staff Orders are available upon request from the Public Service Establishment Division.

Regional and International Trade Agreements

40. Jamaica is undertaking important discussions under several international agreements that have significant relevance for public procurement and that require substantial procurement reform in member countries in order to be implemented (see Annex 3). Throughout the CARICOM, the public sector plays a significant role as a consumer of goods, services and public works, but government procurement has not yet been brought under the discipline of its regional integration program. This slow progress in reforming national government procurement systems is limiting the potential development of the Caribbean Single Market and Economy (CSME), because a significant portion of the regional market for goods, services and public works remains segmented. There is an understanding that a framework for government procurement in the CARICOM countries would facilitate greater intra-regional liberalization, enhancing the CSME's potential contribution to regional trade in goods and services, and significantly strengthening CARICOM countries' position in external trade fora.

Recommendations

41. ***Accountability mechanisms.*** As GOJ moves forward with reforming public institutions, it needs to manage the transition very carefully to ensure that existing FM accountability mechanisms are not weakened before new ones commensurate with the new institutional framework are in place. Such a situation would make it difficult for the House of Representatives, accountability organizations, and the public to determine whether the benefits provided by the public bodies and Executive Agencies are in the public interest and outweigh their financial risks.

42. The implementation of the accountability mechanisms defined in the Executive Agencies Act should be closely monitored, including a plan to move gradually from the existing to the new mechanisms of internal audit unit and audit committee of the created entities as these units are being built. Involvement of independent bodies like the Auditor General's Department or a high-level supervisory committee would increase the effectiveness of the transition process.

43. ***Public sector entities.*** Enhancing the mechanisms to enforce compliance on budget presentation and approval for public enterprises, and strengthening the follow-up mechanisms for budget execution of these entities may be of great importance in the near future. Monitoring should be extended to all 140 public enterprises. Although the Auditor General has the right to audit these public entities, he may also contract with private sector firms to conduct these audits. An annual comprehensive report should be produced for the Parliamentary Public Accounts Committee (PAC) on key audit findings in public enterprises.

44. ***Procurement regulatory and institutional frameworks.*** The MOFP should issue the mandatory portion of the Procurement Handbook as a statutory instrument under the authority of the FAA Act. Annex 5 includes a proposed outline for these regulations. Provided that negotiations of trade agreements have progressed sufficiently, there is a

possibility that the Government could consider sponsoring a Procurement Act in the medium term. However, this would require a strategic approach involving all key stakeholders, including legislators and civil society, to ensure adequate technical and to public debate and achieve reasonable compromise supported by wide-based consensus.

45. Additional actions required in the medium-term include: (i) strengthening the Commission established by the Corruption Prevention Act to ensure that it can carry out its mandate properly; (ii) promoting public awareness on the applicability of the Access to Information Act to public procurement; and (iii) ensuring that the code of conduct for civil servants is widely disseminated, and applied consistently throughout the public service.

46. **Procurement Handbook.** Pending consensus on the regulations, it would be useful to improve the format and content of the Procurement Handbook to incorporate international good practice. Further improvements to the handbook that could be considered are: (i) the elimination of the registration requirement or a clarification that that it is only a condition for contract signing and not bidding;¹³ (ii) inclusion of appropriate post-qualification criteria in the bidding documents; (iii) addition of more rigorous requirements for records management and retention, and for collecting and reporting on a wide range of procurement information (costs, suppliers, protests, claims, disputes, and overruns); and (iv) more detailed and effective provisions on bid protests. In particular, the Government could analyze the current bid protest mechanism to determine whether it is operating effectively as a watchdog for the system and is efficient, independent, and fair. Recommendations flowing from this analysis would serve as a basis for drafting new provisions for the Handbook. A suggested table of contents for a revised Handbook is included in Annex 6.

47. **Procurement reform leadership.** On the institutional front, the Government could nominate a high-level Steering Committee to lead and coordinate procurement reform in close coordination with the overall fiduciary strengthening efforts. Either the Cabinet's Public Sector Reform Unit or another unit within the MOFP could serve as the Secretariat of the Committee. The Steering Committee would report to the Cabinet on the basis of specific targets. The Steering Committee should comprise, as a minimum, the Minister of Finance and Planning, the Contractor General, the Chairman of the NCC, the Auditor General, the Public Sector Reform Unit, the major spending ministries, and representatives of the private sector.

48. One of the main aspects which could be discussed and clarified by the Steering Committee is the authority of the MOFP in formulating procurement policy and overseeing the procurement system under the FAA Act vis-à-vis the responsibilities of the NCC under the CG Act. Aspects which should be addressed in the medium-term include: (i) the NCC role in approving contracts and the possibility of shifting its focus to reviewing bidders' complaints exclusively; (ii) alternatives for transferring more decision-making responsibility to procuring entities and introducing a Public

¹³ According to the CG, this would reflect what is already often happening in practice, but the principle would be applied more consistently and transparently.

Procurement Board, chaired by a representative of MOFP and responsible for endorsing only very large contracts; and (iii) options for progressively reducing Cabinet intervention in approving contracts, eventually confining it to extremely large contracts or cases involving national security.

III. BUDGET FORMULATION

Overview

49. The overall budget formulation process is defined in the Constitution and the FAA Act, which require the preparation of a budget by the Minister of Finance showing estimates of revenue and expenditure for each financial year. The estimates are tabled in the House of Representatives and must be debated and approved by the House. Proposed expenditure is in the form of an Appropriation Bill, which once passed becomes the Appropriation Act. During the past few years, the Government has been implementing reforms to improve the planning capabilities of the spending entities through the introduction of corporate planning in line ministries and Executive Agencies.

Findings and Issues

50. The difficult fiscal situation in Jamaica in the presence of pressing needs in the social sectors calls for a clear and strong alignment of budget allocation with government development priorities, focusing resource allocation in the areas where funds are most needed. The sections below identify specific issues that might affect this alignment between priorities and actual budget allocations.

Corporate Plan/Strategic Objectives

51. The budget is formulated within a coherent macroeconomic framework, in an orderly manner and following strictly the legal mandates. During this phase, the MOFP provides adequate guidance to the spending ministries and agencies on the basic steps in the formulation process. The budget calendar is also largely adhered to. However, no capital budget ceilings are given to different spending entities nor is there consistent linkage between the current and capital budgets.

52. In spite of progress made in recent years by the Public Sector Modernization Program (PSMP) to improve the planning process and capabilities of the public entities, the link between planning and budget is still weak. Given the context of tight fiscal constraint in Jamaica, one of the key issues is the need to ensure adequate prioritization in the allocation of public resources. The goals and objectives included in the institutional annual plans and budgets are mainly descriptive and do not link output achievements with unit or activity costs, and there is limited ability to reconcile policy objectives and scarce resources. The preparation of the corporate and operational plans follows a standardized approach and the group of the recently formed executive agencies and the three pilot ministries that follow the program/performance budget initiative show an improved level of capability. However, the degree of development of these planning capabilities differs substantially between public entities.

53. In spite of GOJ efforts to improve the prioritization process, budgeting still reflects the application of incremental adjustment of spending and there is limited discussion during budget preparation on the possibility of eliminating potentially obsolete programs. Through the Public Expenditure Division Project Unit, efforts are made with the ministries to determine capital allocation for the medium term and revision for the current year. However, although there is some negotiation with the line ministries and agencies,

the rationale for in-year adjustment is not always transparent. The MTESPF recently adopted by the Government provides a framework to better link government policies to expenditure priorities. However, the current practice of incremental adjustment of spending during budget preparation limits the government's ability to successfully implement policy decisions that have multi-year implications.

Budget Allocation and Prioritization

54. The three-year corporate plan includes a first year operating plan that is supposed to be linked to the budget for that year. This is to ensure that the linkage between strategies for achieving performance standards against outputs on one hand, and priority outcomes on the other, is adhered to within the context of available resources. The corporate and operational plans are also meant to include details of the costs of the activities that will be carried out in connection with those strategies, and be presented in a format that can easily be analyzed by the Cabinet Office, which is responsible for coordinating policy and corporate planning, and by MOFP, which is responsible for coordinating the budget with corporate plans and operating plans.¹⁴

55. However, current fiscal constraints affect the effectiveness of the mechanisms above resulting in a disconnect between the priorities set in the corporate plans and the actual budget allocation. In fact, the level of the budget ceilings is not commensurate with the priorities and the level of funding needed to implement the corporate plans. Understandably, budget allocations are affected by fiscal revenue flows. But the mechanisms used for in-year reviews of projects/plans/programs in keeping with the stated priorities, flow of revenues and projected expenditure limits affect the predictability of budget execution. In addition, further rigidities on future budgets and planning are imposed by Government's use of legal guarantee instruments to finance infrastructure investments outside the parliamentary budget approval process that implicitly create future debt liabilities (see chapter on Debt Management).

56. Furthermore, because most of the corporate and operating plans are not adequately costed, they cannot be related to expenditures and revenues, whether at the budget formulation stage or during budget execution. Ministries, departments and agencies (MDAs) are encouraged to link their corporate plans to the indicative budget allocation sent in the Budget Call. Once prepared, MDAs do not systematically revise the corporate and operating plans to reflect the budget allocated by the MOFP and voted by Parliament or changes to budget allocations during the year. Incorporating information about expenditures and revenues into the annual operating plans would make them into a management tool. Incorporating expenditures and revenues into the corporate plan would turn it into a Medium Term Financing Plan, which is the corporate plan expressed in figures.

57. The corporate planning process could help direct limited resources to where they are most needed. However, several factors prevent the corporate plans from playing this important role. These are the lack of clear mechanisms to realign priorities defined in the plans, inconsistencies in their application across the public sector, and changes in the

¹⁴ Corporate Planning Guide and Template issued by the GOJ in 2002.

country's fiscal situation. The weak link between priorities and allocations presents the risk of disconnect between planning and budgeting, activities often performed as two parallel and separate tasks.

58. Recognizing the deficiencies affecting the linkages between the planning process and the budgeting process, GOJ has initiated a review between Cabinet Office and the MOFP with a view to improving the government planning process by:

- Strengthening and prioritization policy directives from Cabinet and institutionalizing Accountability Agreements to be signed by Permanent Secretaries for greater commitment;
- Proposing amendment to legislation for greater level of synergy and compliance between plans and budget;
- Proposing preparation of triennium budgets and revenue streams to support medium term policy directives;
- Revisiting monitoring systems for plans and reviews.

59. These measures are also accompanied by the establishment of a Priority Policy Committee to more adequately determine the priority objectives of government that will be actualized periodically and that can be fulfilled within the available finances.

Link with Procurement Planning

60. The planning and financial framework does not include clear links to procurement planning and, consequently, procuring entities are not required to prepare procurement plans. In addition, the procurement oversight arrangements do not generate the information that would be required to fully integrate procurement planning into corporate plans. Established international practice considers procurement planning as a key activity within the public financial management system to enhance the transparency and economy of procurement processes as well as the quality of the goods, services and works procured. In addition, the institutionalization of procurement planning can ensure that procurement inputs relate more effectively to corporate objectives and provide timely information on funding requirements.

Recommendations

61. ***Prioritization and cost reduction.*** Given the scarcity of financial resources and the limited room for discretionary spending, the budget formulation process should continue to focus on identification of priority areas for spending and promoting cost-reduction initiatives rather than setting spending limits.

62. ***Improve predictability of the budget.*** Budget processes will continue to be affected by the tight fiscal situation of the country. In the meantime, some actions can be implemented to better align the budget with Government development priorities and increase efficiency in public spending. The first step would aim at improving the predictability of the budget by accelerating activities that will allow the operation of a

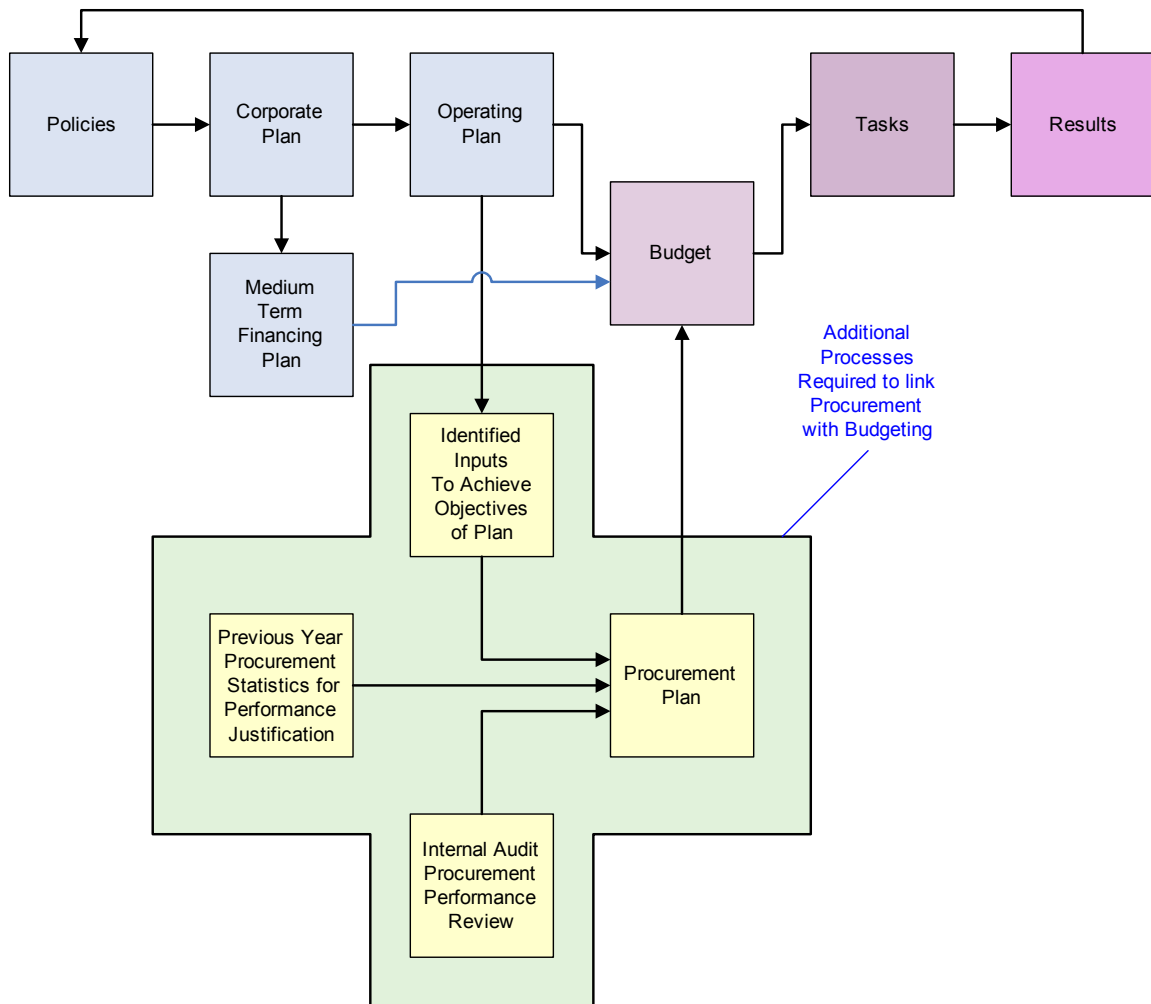
Medium Term Expenditure Framework with a three-year budget horizon building on costed corporate plans. The move to a medium term-framework that links policy, planning and budgeting will require strengthening of fiscal forecasts on the revenue side, but also on the cost of borrowing. These are the two aspects that most affect the predictability of the budget.

63. In addition, further efforts will be needed to move central government entities into output-based budgeting. The results achieved so far by the Executive Agencies and the three pilot ministries need to be consolidated and further enhanced. Also, it will be necessary to provide effective support to rollout the output-based budgeting practices to the rest of the central government entities under a clear and orderly plan.

64. The Government's efforts to improve the planning process as described in paragraphs 58 and 59 are in the right direction and once implemented will help resolve most issues identified as affecting the link between planning and budgeting.

65. ***Incorporating procurement plans.*** Procurement planning should be incorporated into the planning process and adequate training and sensitization provided to budget and planning practitioners and heads of ministries and department agencies to ensure that the new approach is implemented successfully. The quality of corporate plans should be improved by costing them and incorporating procurement plans linked to the budget process and supported by previous years' statistics, as illustrated by figure 3 below. The four additional processes required to link procurement with budgeting are framed in the lower part of the figure: starting with the year's operating plan, (i) obtain previous year's procurement statistics, (ii) identify inputs to achieve plan objectives, (iii) identify lessons from previous year's procurement performance review, and (iv) on the basis of (i) through (iii), formulate this year's procurement plan, which then is linked to this year's budget. Additional detail on procurement planning and statistics is included in Annex 7.

Figure 3. Recommended Linkage of Procurement Planning to Planning Process



IV. BUDGET EXECUTION

Overview

66. The execution of the approved budget is delegated to the ministries and other central government entities which implement the budget through a series of programs, sub-programs and activities. The Executive can change budget approval and cut spending after passage of the budget; revisions or virements to the budget can be made during the fiscal year. Generally, a Supplementary Appropriations Bill is approved by Parliament during the last quarter of the fiscal year.

67. The MOFP issues monthly warrants to authorize expenditures. Warrants are issued by the Public Expenditure Division on the basis of the approved budget subject to decisions taken by the Cash Management Committee. The Committee is composed of representatives from the Public Expenditure Division, the Economic Management Division, the Accountant General's Department (AcGD), and the Tax Administration Services. The Fiscal Policy Management Unit (FPMU) of the Economic Management Division is the coordinating body for cash management and the Chair of the Cash Management Committee. Given the tight cash conditions, the committee holds weekly meetings. The AcGD releases funds from the Consolidated Fund to ministries and other agencies up to the value of the issued warrants. The ministries and agencies are required to maintain systems and procedures to control and record the use of public funds according to legal regulations and prescribed procedures.

Findings and Issues

68. Budget execution is mainly affected by the impact of cash management in the context of fiscal constraints, weaknesses in the commitments controls, and shortcomings in the procurement process. The limited functionality of the information system, the practices associated with the absence of commitment controls, the extensive use of partial payments, and the use of deferred financing limit the ability to comply with the legal mandates of the FAA Act. Moreover, they do not provide consolidated information on the final use of resources, nor do they ensure that resources reach their intended destination. PFM practices and systems need to be adjusted to the new institutional framework.

Cash Management

69. Managing the budget mainly on the basis of austerity and cash rationing limits the predictability of the release of funds from the Consolidated Fund to the spending units. Given the cash constraints that govern budget execution, there is no certainty that the budget appropriation will be authorized in full through the warrants or that the warranted funds will be released in full. This uncertainty is further compounded by the lack of clear rules or guidelines for the in-year adjustments to budget appropriations to realign priorities across sectors to be funded as the fiscal situation evolves. This practice limits the achievement of program objectives, prevents and discourages managers from planning, and presents the risk of reducing ministerial ownership of budgets. This increases the perception that the budget is a tool for the MOFP, rather than one that helps spending ministries plan and commit expenditures in support of their goals and programs.

The permanent shortage of funds has pushed public entities to make extensive use of partial payments as a common practice for budget execution leading to the accumulation of arrears.

70. The release of funds through the warrant system is a key element of centralized control of the budgetary process. It aims to ensure the correspondence between flows of revenues and expenditures to facilitate the management of the Consolidated Fund. However, the potential of the warrant system to ensure that financial management operates in accordance with the law is not adequately fulfilled due to the limited functionality of the information system and the application of inadequate operational practices by budget executing entities. Expenditure control applied through cash releases is limited to the intended expenditure and does not cover the actual expenditure incurred by the public entities.

Commitment Control

71. The lack of controls over the rate at which budget commitments and accruals are made limits the ability to align budget commitments and obligations with revenues. Due to the lack of expenditure control and adequate reporting mechanisms on amounts owed, the volume of the floating debt is not known on a regular basis.¹⁵ It is produced only at the end of the fiscal year or whenever the expenditure monitoring unit of the MOFP requests it. In the absence of this control, line ministries and agencies have been able to continue making commitments. This results in over-expenditure and increasing accounts payables to contractors. In some cases, the over-expenditures have been funded partially through retention of the entities' employees' tax deductions. This irregular practice has been reported by the Auditor General for the last three years.

72. When no alternative funding was available, the cash rationing that was applied by the MOFP resulted in an accumulation of arrears and debt by several central government entities. This form of non-transparent financing must then be carried into the next fiscal year, affecting the execution of that year's allocation. There is no reliable information on the size of these arrears, which are rolled over from one fiscal year's budget to the next. These arrears are not part of the public debt, unless they remain unpaid and the Parliament authorizes their consolidation through a specific financial instrument. It is extremely important for the GOJ, for whom one of the major macroeconomic problems is the size of the public debt, to have accurate data on budgetary arrears in order to monitor them.¹⁶

Institutional Changes

73. The ongoing institutional changes resulting in transfer of resources to the new Executive Agencies requires that adequate budget execution control be applied to these agencies. Enhancing the expenditure control mechanism is critical to ensure that

¹⁵ This is partially due to an information system based on cash accounting.

¹⁶ Governments in other countries that have indirectly contracted debt in this way, through the creation of arrears by line ministries circumventing regular budgetary procedures, have found that this contingent public debt, after formal consolidation and securitization, has contributed significantly to public indebtedness.

Government's efforts to control the fiscal deficit are not undermined by weak budget execution practices in these agencies.

Recommendations

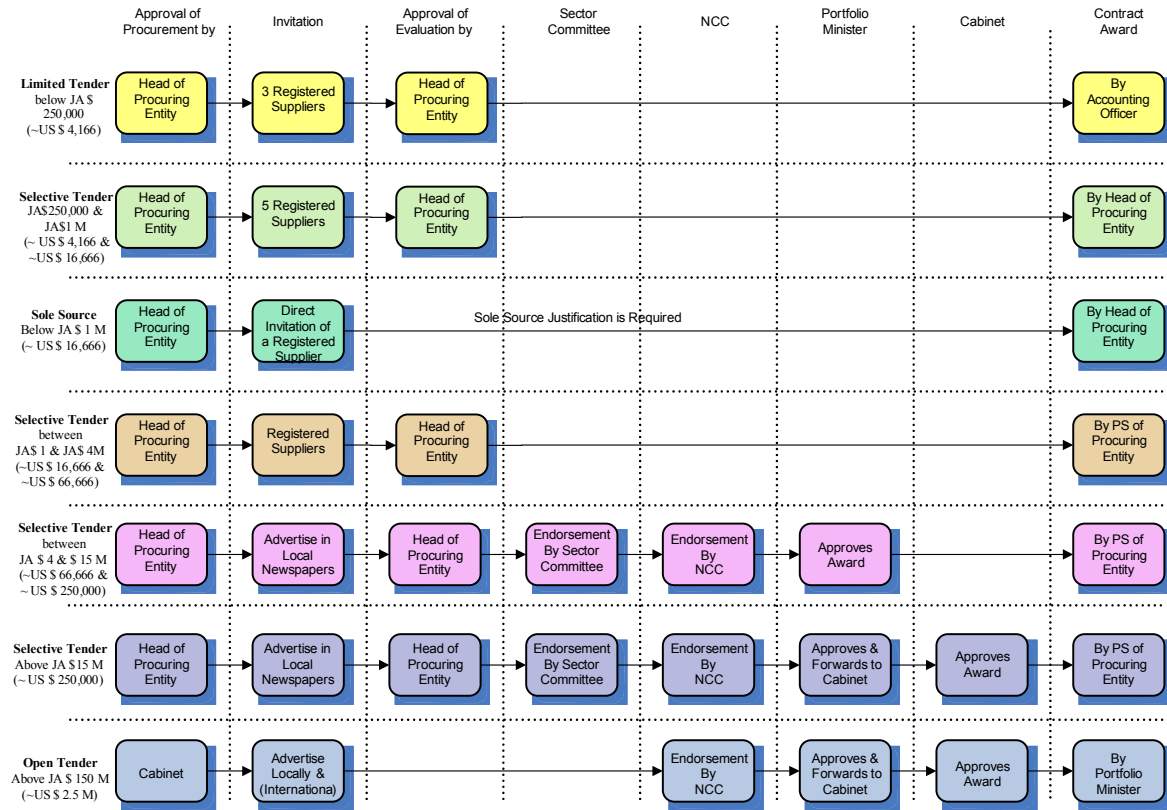
74. **Cash management.** In order for the warrant system to achieve the goal of ensuring the correspondence between flows of revenues and expenditures to facilitate the management of the Consolidated Fund, there is a need to make certain that there is greater predictability of the release of funds to the spending units. Understanding that the country's fiscal situation will continue to affect the predictability of the budget, some measures can be implemented in the short-term. In order to reduce the adverse impacts of in-year adjustments to the budget, it would be useful to specify a mechanism that would relate the adjustment to the budget priorities in a systematic manner. Such a mechanism based on prioritization should be disseminated in advance to all entities that depend on the central government budget. In addition, moving to a Medium Term Expenditure Framework, as recommended in the Chapter III on Budget Formulation, will also contribute to greater predictability of the budget.

75. **Commitment control.** There is an urgent need to speed up the process of modernization of the FM information systems, to address problems relating to the absence of commitment controls and standard reporting of budgetary information, and to increase the overall effectiveness and efficiency of the government's financial management system. Reliable, timely, and accurate information are essential to support policies and processes and increase the capacity for strategic decision-making. Improving the information system is critical for better expenditure control and effective support to the output-based budget initiative. The Government should also continue to ensure that all spending entities comply with the provisions of the FAA Act.

V. PROCUREMENT MANAGEMENT AND CAPACITY

76. The stages of the procurement process are diagrammed in Figure 4, which clearly shows the high degree of centralized decision-making for more competitive procedures. The NCC must endorse awards of contracts over JA\$4 million (US\$67,000) and the Cabinet must also endorse awards over JA\$15 million (US\$ 250,000).

Figure 4. The Procurement Process



Findings and Issues

Procurement Statistics

77. Although different sets of procurement data are available in procuring entities and the NCC, there is neither a central repository nor established processes for analysis. This is a major impediment for policymakers, procurement participants, and oversight institutions. Annual Government estimates of procurement volumes are based on budgetary estimates and do not relate to actual disbursements, making their reliability questionable.

78. An analysis of NCC endorsements of contracts awarded in 2004 by NWA, one of the most important procuring entities in terms of volume and capacity, shows that a total of JA\$122 million worth of contracts was approved out of JA\$762 million total procurement

reported by NWA.¹⁷ This seems to suggest that the difference, JA\$640 million worth of procurement, or approximately 84 percent of NWA's total procurement, escapes NCC control because a large number of contracts fall below the NCC threshold. While this analysis does not support any general conclusion, it points to the critical lack of a system to collect and interpret reliable data that could inform the policymaking process.

Supplier Registration

79. The NCC established a registration system for both domestic and foreign suppliers and contractors as a condition for bidding for domestic bidders and for contract signing for foreign contractors. Registered contractors are rated according to their financial and technical capacity and experience. The registry is updated on an annual basis. As in most countries which utilize central registries, keeping information up-to-date is difficult, and the process is less secure, objective and efficient than post-qualification procedures. The current registry may also limit competition, particularly with respect to foreign contractors, and further dilute the accountability of procuring entities, which often rely on outdated or incorrect information. Finally, the registry compounds several other upstream problems, such as poor procurement planning, the combined effects of which are frequent cost and time overruns, especially in works.

Procurement Performance

80. The CFAA/CPAR team carried out capacity assessments of the Ministries of Works, Education and Health, and the NWA to validate the findings of earlier procurement assessments concerning problems with procurement planning, lack of coordination with budgets, inadequate cost estimates and technical planning, contract fragmentation, ambiguous bidding and contractual terms and conditions, and inflated bids to factor increased risk and late payments. These entities were selected because they represent a significant share of government expenditures and, in the case of Health and Education, also potential operational links for the WB and IDB. The team confirmed that these problems are still widespread, particularly lack of planning, and internal controls do not include procurement or value-for-money aspects. In addition, procurement records examined in the Ministries of Health and Education were incomplete and difficult to access: information is found in different departments and is not well organized.

81. There is a general consensus that better efficiencies and economies of scale should be achieved and the MOFP is very interested in implementing cost-reduction programs, consistent with its overall mandate. However, there has been no market study or analysis of the government's procurement strategy to identify the most important savings opportunities and determine what packaging and contracting approaches could be implemented to take advantage of them. These might include potential for consolidation in demand across procuring entities, setting standards, benchmarks and specifications, and common public procurement demand patterns. The Government is currently exploring the possibility of instituting framework contracts.

¹⁷ Contractor-General's website for 2004, www.ocg.gov.jm/awardguide.php

Procurement Capacity

82. Both the 2003 and 2004 CPARs highlight a major procurement capacity problem, and the MOFP and almost all procuring entities visited by the CFAA/CPAR team expressed serious concerns about their lack of qualified staff. The Procurement Policy Implementation Unit of MOFP is carrying out training and is making a commendable effort to focus on actual weaknesses and needs identified, but the task is daunting. The MOFP estimates that at least 400 public sector staffs require introductory training—and both internal and external financial resources available for this important activity are severely limited. The national training agency, the Management Institute for National Development, includes only limited elements of procurement in its accounting program, and there are no courses in procurement offered at the University of the West Indies.

Electronic Government Procurement

83. The Government of Jamaica (GOJ) has taken some tentative steps towards the adoption of electronic government procurement (e-GP). The CFAA/CPAR team and the Government of Jamaica carried out a joint e-procurement readiness assessment that is being distributed in tandem with the CFAA/CPAR report. No significant technical barriers to the adoption of e-GP in Jamaica were found. An initial phase of information disclosure has been implemented, and there are now three government websites with limited information regarding tendering opportunities, procurement policy and guidelines, a supplier register, and information on contract recommendations.

84. In terms of what is available on paper, contract recommendations are published on a monthly basis but actual awards are not. The NCC is in the process of developing a system to capture contract award information, but little or no information has been provided by procuring entities over the last two years. The GOJ Procurement Notice Board also advertises current tender opportunities provided by the procuring entities on a voluntary basis.

85. The Government has not yet developed a strategic plan for implementing e-GP, which is a policy matter within the purview of the MOFP. However, it is not clear what resources would be made available to enable this function. While not having a formal strategy, the above mentioned activities contribute to the adoption of e-GP, even if it were not part of a deliberate plan. Further progress in the direction of e-GP would require Cabinet approval to mandate the use of a single government e-Procurement portal. Also needed are a unifying vision for public procurement and alignment of the current procurement policies with e-Government and e-Commerce policies, especially in relation to standards.¹⁸ Currently none of the existing institutions has the corporate structure required to manage e-GP. As a result, Jamaica is incurring high opportunity costs in terms of transparency and efficiency. In addition to the transparency resulting from a single comprehensive and reliable information portal, an effective system to collect and consolidate procurement data would provide useful information to plan future procurement and monitor trends. Subsequent transactional phases could generate

¹⁸ Jamaica's infrastructure and web services are developing rapidly, but there has been little focus on technology, management, or information standards.

significant procurement savings, provided that appropriate processes and controls are in place.

86. It is likely that e-GP will continue to progress slowly and will not have any significant impact on the system's performance unless a strategic plan is developed and decisions are made on key leadership responsibilities and resources needed. In addition, the future of the system also depends on better integration of the policy and regulatory functions. Regional integration within CARICOM countries is another important aspect that should be taken into account in developing policies, since the greatest benefits of the e-GP and other reform initiatives and tools are likely to come from harmonized implementation arrangements within the forthcoming Caribbean Single Market and Economy (see Annex 3 on Trade and Regional Integration Agreements).

Recommendations

87. **Supplier Registration.** The pre-registration practice should be reviewed to ensure that: (i) it functions as a market capacity information tool; (ii) registration is not a condition for bidding and is required only after award and before contract signature; (iii) review of financial and technical information for qualification is conducted during each bidding process; (iv) bidders are allowed to register and update information through the internet at any time with no deadlines imposed; and (v) registration does not become a substitute for advertisement of bids. Additional details on registration are included in Annex 8.

88. **Procurement performance and monitoring.** An important step to facilitate consistency and compliance, and enhance both transparency and efficiency, would be to adopt common procurement standards including: (i) market standards (goods catalogs and price lists); (ii) bidding documents; (iii) improved procedural guidance, building on the Handbook, but including more procedural detail; (iv) measurable evaluation criteria; (v) evaluation report formats; and (vi) quality standards (information standards, security, and full software interface between procurement and financial management systems). Adequate resources should be allocated to MOFP for the implementation of these measures.

89. Performance indicators should also be designed and specific tools for monitoring and benchmarking procurement should be developed to monitor procurement processes. The objective of the indicators would be not only to assess whether the rules are applied consistently, but whether they are conducive to achieving good value for money and transparency (private sector perception indicators should be used as well to monitor its response). A procurement monitoring and evaluation (M&E) system should be established and operated by the Projects Unit of the Public Expenditure Division. Specific training should be designed and provided to assessors who should visit the procuring entities periodically. The M&E system could also serve as a tool to collect and interpret procurement statistics and make them available to procuring entities. The relationship between this unit and the Procurement Policy Unit should be strengthened.

90. **Cost-reduction strategies.** Cost-reduction strategies based on studies of public sector purchasing systems and the supplying markets have generated annual savings of more

than 15 percent of the total procurement expenditures in other countries by introducing relatively simple changes. The first step in building such a strategy is to develop reliable and consistent statistics on procurement. Once a good data-collecting mechanism is in place, the GOJ should conduct a cost-reduction study, starting with a complete expenditures profile of the Government including, as a minimum, expenses by category (salaries, debt payments, mandatory tax revenues transfers, investments, and procurement), by government agency; and by procurement item group (civil works, hospital/medical services, hospital/medical equipment, IT equipment and systems, legal services, administrative support staff, printing, vehicles, and telecommunications). Procurement item groups which represent the largest share of the government's procurement expenditures should be identified, and potential approaches assessed to economize on purchasing those groups. The assessment should include procurement volumes, prices, present and future demand, supplier competitiveness, evaluation criteria, restrictions, specifications, and processes. Such a study could also help generate political consensus for improving institutional arrangements. Organizational changes required to implement the cost-reduction strategies should be agreed upon in the medium term.

91. **Contract fractioning.** Various actions recommended throughout this report would contribute to addressing the risk of contract fractioning. First, the revision of the regulatory framework should include a legally enforceable provision prohibiting contract fractioning for the sole purpose of avoiding competition. Second, the oversight framework should include a focus on the appropriate packaging of contracts (internal and external controls) as well as the monitoring of system-wide practices (policy oversight). Third, raising thresholds for ex-ante controls would reduce the incentive for fractioning of contracts. Finally, procurement planning methodologies and capacity should be improved to achieve greater efficiency through consolidation of contracts and better linkages to financial planning.

92. **Responsibility for e-GP development.** The Procurement Policy Unit or another appropriate agency should develop a strategic plan linked to the Government's policies on e-government and e-commerce. The initial phase should focus on transparency and the establishment of a single portal for the GOJ. Development of the e-procurement strategy should be closely coordinated with the CARICOM partner countries and the CSME initiative, with the objective of utilizing the e-procurement strategy as a tool to facilitate regional market integration. Subsequent transactional phases of the e-GP strategy could be implemented in the medium-term.

93. **Critical mass of procurement specialists.** In the medium term, the Government should intensify its efforts to create a cadre of qualified procurement officers, who should be hired at an appropriate professional level of the civil service. The Government should establish a comprehensive regional capacity-building strategy in coordination with CARICOM partners and in partnership with the main regional training institutions, such as the University of the West Indies. Annex 9 presents a proposal for development of procurement staff in Jamaica.

VI. ACCOUNTING, FINANCIAL REPORTING AND INFORMATION SYSTEMS

Overview

94. The legal and regulatory framework establishes a prominent role for accounting and financial reporting in promoting transparency of government operations. It provides for a clear division of responsibilities between the Financial Secretary, the Accountant General, and the Accountable Officers and Accounting Officers within line ministries and departments. The Financial Secretary is responsible for the issuance of financial instructions on the collection, custody, issue, expenditure, due accounting for, care and management of all public monies. The Accountant General is responsible for the management of the Consolidated Fund and for submission to the Minister of periodic statements on the position of the Consolidated Fund. Accounting Officers within the departments (line ministries) conduct day-to-day management of public funds. They assess, collect and account for revenue. They ensure that the purpose for which an appropriation is approved by Parliament is accomplished. They also make payments, ensure custody and proper use of public property, and administer department funds.

95. This framework is changing as a result of the Public Sector Modernization Vision and Strategy for 2002-2012. In support of the theory that implementation of an integrated financial management system would provide the essential infrastructure for required improvements in public financial management, the MOFP agreed to implement accrual accounting in phases beginning April 1, 2004. A Working Committee appointed in March 2004 drew up an implementation plan with 18 key activities, documented in the Ready-to-Go implementation guidelines, which would have led to live implementation of accrual accounting in the Ministries of Transport and Works and the MOFP. During the planning phase of the pilot, the committee sought to build understanding and ownership by the users of the changes to be adopted. The piloting of a new financial management information system (FinMan) to replace the current Financial Management Information System (FMIS) supports the implementation of accrual accounting. When the FinMan pilot was launched in 2004, the plan was to complete it by September 2004, but it was not until January 2005 that Cabinet approved the procurement of the FinMan extension required for accrual accounting. The original schedule envisaged a cycle of just under two years to complete full rollout to the central government between April 2004 and January 2006, with six sites to be implemented every six months, but the pilot has yet to be completed.

Findings and Issues

96. Implementation of an integrated financial management system using accrual accounting encompasses assessment of business needs, switching from cash to accrual accounting procedures, revision of administrative procedures to ensure the quality and timeliness of information being recorded in the system, and the use of computer software to implement the new procedures. Government efforts to date have focused primarily on the implementation of the computer tools (FinMan) and less on improving the underlying business processes and the full implications of accrual accounting. While the right computer tools are crucial to introducing accrual accounting, and the FMIS system needed to be replaced, the new software (FinMan) has been used to automate existing

business processes rather than first adapting business processes to the needs of accrual accounting. In fact, there is a risk that the financial management system becomes fragmented in the long run, rather than converging with the use of stand-alone systems to cover functions not included in FinMan (e.g. Treasury management). The bank reconciliation function is not currently part of FinMan. The web-enabled Bank Reconciliation System (BRS) currently deployed by MOFP will be linked to FinMan. Successful adoption of a fully integrated computerized business enterprise system, which uses full accrual accounting and asset and resource management in an integrated planning framework, requires a structured project management approach. The lack of a separate project infrastructure with earmarked budget and adequate human and capital resources for the implementation of accrual accounting and FinMan has resulted in implementation delays for the pilot and underachievement of pilot objectives. The current approach to implementation may not achieve the desired outcome or ensure the sustainability of the investment. Recognizing this, the MOFP has restructured its approach and is actively seeking funding to projectize the FinMan pilots.

Accrual Accounting

97. While adopting accrual accounting can help improve decision-making, the implementation process adopted in Jamaica suffers from a number of important gaps and the full dimensioning of the strategy to achieve complete rollout by 2012 is still unclear. The Government commissioned an Accrual Accounting Steering Committee to guide the adoption of the International Public Sector Accounting Standards (IPSAS) and to oversee the phased implementation of the system in 30 government ministries and departments over a three-year period. The committee was appropriately constituted with representation by high level officials, including the Accountant General's Department and the professional accounting associations. A technical working committee with the Director of Finance of the pilot and officers of the MOFP was also set up to deal with implementation issues on the ground.

98. The Accrual Accounting Steering Committee has not issued finalized pronouncements on the necessary accounting reforms, nor have its pronouncements included key areas necessary for a sound control environment and an efficient pilot. The underlying accounting standards and rules to allow the implementation of the IPSAS have not been issued. The Accounting Manual for the GOJ has not been comprehensively updated since its publication in 1977 (it has been revised on an ad-hoc basis). The official Chart of Accounts has not been revised in a comprehensive manner to align with the IPSAS. Instead, to minimize implementation risk and difficulty, the Chart of Accounts used for the pilot ministry was built around the existing codes. Extending accrual accounting to other ministries may well highlight deficiencies requiring further modifications, which could have been avoided by doing a thorough revision of the overall public sector Chart of Accounts at the outset. This approach was motivated by past experience regarding the time and effort required to revise the Chart of Accounts in the past, coupled with the decision to minimize the difficulty of the implementation of FinMan to reduce the risk of failure.

99. Analysis of the team composition reveals the absence of key interest groups fundamental to the successful implementation of an accounting reform—such as the

Accountant General and the Principal Finance Officers in the ministries. Although the MOFP has responsibility for policy formulation, the lack of direct involvement of key interest groups may not help foresee and address upfront implementation difficulties. This omission may have an impact on the outcomes of the pilot. It led to the exclusion of two important macro-level activities in the 18-step action plan: a comprehensive review of the IPSAS standards to determine the areas not suitable for adoption, and revision to align accounting rules and policies with the IPSAS. However, the implementation of IPSAS in the ministries was based on the instructions and guidelines substantially derived from IPSAS and issued to Executive Agencies by the MOFP.

100. The pilot also omitted a strategy for maintaining the functionality of the present FMIS during the transition period, in particular with regard to consistency between data from different sources.

101. The Government's decision to implement the full range of accrual accounting standards in the pilot ministries before the rollout to other ministries presents significant challenges with implications that have not been duly considered. Piloting the full range of standards would delay realization of short-term benefits because it requires time-consuming adaptation of business processes, improvement of inventories and warehouse administration (since accruals are related to the receipt of goods), updating of the accounting code (due to new information requirements), and valuation of fixed assets and improved asset management (since asset value needs to be properly reflected in accounting), among others. Accelerating the implementation of aspects that are directly relevant to the current budget situation, such as efficient commitments and arrears controls would yield immediate benefits, as compared to piloting the full range of standards upfront. In other words, the question is whether the initial scope should not be less ambitious and focused on key specific areas.

Accounting Manual

102. When issued in 1977, the Accounting Manual was structured to provide for an integrated approach to PFM and its scope extends beyond accounting to cover a broad range of PFM activities: budget preparation, execution, accounting, financial reporting and audit. As mentioned earlier, the manual has not been systematically updated since 1977. Instead, accounting instructions have been issued on an ad-hoc basis. The manual does not reflect the current range of accounting transactions, especially with regard to accrual accounting. However, a draft accounting manual and other procedural guidelines were developed for the pilots.

Financial Reporting

103. The FAA Act requires the Accountant General to submit to the Auditor General 11 Finance Accounts,¹⁹ one of which relates to the financial position of the Consolidated Account. This must be done within four months after the end of each financial year. In addition, the Financial Statements and Revenue Estimates for the following year are

¹⁹ The report contains (among others) the current assets and liabilities of the Consolidated Fund, revenues actually paid into the Consolidated Bank Account as compared with estimates, actual expenditure paid from the consolidated account as compared with estimates, public debt, loans and advances.

presented annually to Parliament as part of the budget process. The annual budget and supporting documents give a picture of fiscal forecast and budget out-turns. Although the report complies with the requirements of the FAA Act, it does not provide comprehensive and reliable information on contingent liabilities.

104. With respect to the departments and ministries, monthly financial reports are prepared on a regular basis, but with an average delay of two months. The monthly reports include a trial balance, bank account reconciliation, and statement of advances outstanding. The accounts also include statements of revenue and expenditure, but unlike those prepared by the Accountant General (on the basis of the cash warrants issued to the departments and ministries and direct payments made by the AG), the departments' and ministries' reports are prepared on the basis of actual expenses or appropriations. Submission of appropriation accounts by ministries and departments is not timely, with 47 appropriation accounts outstanding nine months after year's end at the time of the CFAA/CPAR review. This delay affects the usefulness of the reports in terms of both budget execution and monitoring and accountability. The MOFP is aware of this problem and intends to reduce the number of concurrent opened accounting periods that the FMIS will permit.

105. Despite the existence of a consolidation feature within the FMIS, interim consolidated accounting reports reflecting actual appropriations are not generated from the consolidated database. This is due to staffing constraints in the MOFP delaying process re-engineering and the implementation of a training program for users of the consolidated database. MOFP monitors ministries' expenditures individually on a monthly basis utilizing the expenditures reports generated from each departmental FMIS database. However, these reports are not submitted to the MOFP on a timely basis. The lack of this key control implies that an important function of accounting and financial reporting—to ensure that expenditures are kept in line with budget—is not being implemented. The significance of the absence of this control is magnified by the absence of commitment controls which have not been implemented in most ministries. Without timely and regular information on actual budget performance, overspending at the level of ministries and departments can go undetected and the MOFP and line ministries may not have adequate information to identify actions needed to get the budget back on track. Public access and transparency with respect to fiscal plans and the position and performance of public spending are greatly reduced.

106. The Annual Financial Statements are quantitative in nature and do not contain explanatory notes indicating the basis on which they have been prepared as required by the FAA Act. Annual Financial Statements are supported by variance reports required by the FAA Act. While the accounts may be self-explanatory under the cash basis of accounting, the inclusion of these explanatory notes should be considered under the revision of the Accounting Manual in order to be fully ready for implementation of accrual accounting and the IPSAS.

107. Reconciliations of fiscal data held in the Government's books and bank accounts with data held by the commercial banks are performed on a regular basis. The institutional capacity constraints of the AcGD caused by a lack of appropriate tools until

recently to automate the reconciliations and inadequate staffing slows the reconciliations by an average of up to four months at the central level. At the departmental level, those who use the current FMIS have a two-month backlog on average, but the delay can be up to four months for those piloting FinMan because the bank reconciliation module is not included. There is also a delay at the departmental level in clearing suspense accounts and advances, although the delays have been reduced from six to three months in recent periods.

Information System

108. The improvement of the financial management systems is a key element of the Government's modernization strategy, with long-term objectives to improve the institutional and budget management by implementing a comprehensive Enterprise Management Solution. The cost of the proposed final comprehensive solution in the context of tight fiscal situation motivated the option for a less expensive but less powerful interim solution (FinMan). Current implementation issues raise the question as to whether the desired outcome is likely to be achieved, and whether the investments will be sustainable.

109. As of January 2005, almost two years into the exercise, the implementation of FinMan has brought some improvement in the financial administration of the pilot entities, including the Ministry of Transport and Works (MTW). The pilot FinMan document contains some useful guidelines and financial instructions that arose from a business events analysis conducted by the working committee and which has allowed users to get started.²⁰ The committee successfully completed an inventory of all existing accounting processes, identified the accounting events to be recorded as they occur, the processes to be followed, and the information to be captured within the IT system. While the guidelines are useful working documents, they have not been subject to any quality control by the key stakeholders and are not complete.

110. Internal controls have been strengthened in the areas of accounts payable and disbursements (fully implemented in the pilots) and accounts receivables and receipting (70 percent implemented). Operational progress has been unsatisfactory in key areas that are at the heart of the accounting reform: accounting and financial reporting is 50 percent implemented, fixed assets 20 percent, inventory 20 percent, and staff restructuring to ensure sustainability and align organizational structures to the new business processes, only 20 percent. The pilot sites are still focusing on getting their monthly cash-based financial statements up-to-date. Much work is left to be done on the critical modules that would lead to accrual-based reporting.

111. Some benefits of the former cash-based system have been sacrificed because some key internal control features available under the FMIS—bank reconciliations, details of statements of advances to suppliers—that promote accuracy, accountability and

²⁰ The document describes the business events underlying the principal models of the system (accounting, cheque and fixed assets) as related to key financial management processes (budget process, warrant issue, warrant transfer, commitment requisition, purchase orders, accounts payables, receipts and lodgments and fixed assets). Some draft documents have been prepared (general ledger guidelines, financial instructions, an accounting manual, work procedures, job descriptions).

transparency and are key to efficient cash and treasury management, have yet to be implemented under FinMan. And some key control features such as commitment control have not yet been implemented in FinMan, although these features are part of the design. This has reduced the level of user acceptance. MOFP has opted for the use of the Bank Reconciliation System (BRS) system for bank reconciliation and not develop such a function within FinMan. At the time of the assessment, there was a back log of bank account reconciliation in some cases up to three months

112. Like the accrual accounting reform, the information system modernization also suffers from the lack of an adequately funded implementation structure which has caused delays impacting the predictability of FinMan rollout. Since GOJ was not able to implement a full enterprise risk system due to unavailability of funds, choosing FinMan meant that key treasury management needs of the AcGD were not considered, and would have to be contemplated outside the scope of the project. The use of other stand alone systems could result in the overall Information Technology (IT) framework becoming fragmented in the long run, rather than converging around an integrated financial management system.

113. As a result of the technical analysis of the actions needed to implement the IPSAS, FinMan has automated existing business processes without benefiting from the necessary underpinning of a technical reform on accounting issues. De facto, FinMan is an IT solution to generating accrual accounts, but the underlying accounting reforms have not taken place.

114. The implementation of a pilot program with the Ministry of Transport and Works to test a FinMan prototype and its new computerized procedures provided useful information to fine-tune the software, but other types of useful information are not being collected in a systematic way, such as the actual cost and implementation difficulties; the administrative impact of the introduction of accrual accounting procedures; the adequacy of the legal framework and of the accounting procedures; the scope of the training processes; and the managerial impact of the system and its effect on the decision-making processes.

Recommendations

115. **Accrual Accounting.** If carefully sequenced, the project could provide more reliable and complete information over time on the assets and liabilities for which each line ministry is responsible, and on its financial relationship with each supplier and in the medium term could serve as a platform for the financial implementation of multi-annual projects and commitments.

116. A detailed plan of implementation with the time and costs for each activity and each institution should be prepared, and the MOFP and each institution should provide for and assign a full measure of resources required to perform the task. As part of an overall stocktaking exercise, it is recommended that the following key activities be given priority:

- Establish a separate project infrastructure led by an inter-ministerial steering committee with the key interest groups as members. The project should be supported by dedicated staff and the budget required for completing the pilot and rollout.
- Undertake a review of the IPSAS to determine the areas suitable for adoption and propose revisions to existing accounting rules and policies.
- Devise the new accounting framework, standards, and rules, along with appropriate revisions to the chart of accounts.
- Issue a revised Accounting Manual that consolidates the ad-hoc guidelines and instructions issued over the years and reflects the new accounting framework.
- Analyze and implement reforms necessary to ensure that the business processes, organizational structure and staffing of each ministry can support the accounting reforms.

117. **Accounting Manual.** Financial instructions are a key tool in the creation of an adequate internal control environment that ensures that expenditure is kept within budget and complies with the financial rules. The GOJ should revise and update the current Accounting Manual to help reduce the level of discretion in the accounting and reporting of transactions. The regulations should be expanded to broaden the description of the responsibilities of the accounting officers to include the implementation of cash-flow forecasting tools and techniques.

118. **Financial Reporting.** On a periodic basis (semi-annually and annually), the actual expenditures of the ministries should be consolidated to reflect the total picture for the central government and an analysis undertaken comparing appropriated expenditures with budget as a means of highlighting variances and providing information for resource allocation decisions. Although the functionality for this is included in FMIS through the consolidation module, this option is not being used. The results of such a review should be submitted to the Financial Secretary and Cabinet. Using the International Public Sector Guidelines on Public Sector Financial Reporting as a benchmark, the GOJ should develop institutional capacity and tools that would allow the implementation of periodic cash flow reporting on a systematic basis. Timely submission of appropriation accounts must be achieved before full implementation of accrual accounting.

119. **Information system.** The current FinMan version must be understood as a transitory solution that will support the introduction of accrual accounting and improve the recording and reporting of FM operations. But this is just a first step to implementing a fully integrated financial management system. New technological and administrative improvements need to be planned to ensure that the budgetary and cash management procedures in use are compatible with best practices for a modern integrated FM system processing all FM transactions under accrual procedures.

120. To achieve the benefits from the financial management system and supporting IT systems, both FMIS and FinMan, financial rules will need to be changed to specify forms and procedures needed to tighten internal controls. Supporting organizational structures will also need to be revised to accommodate specific organizational points responsible for managing the current FMIS and supporting users and parallel teams dedicated to the

expansion of accrual accounting. In addition, sustaining an integrated financial management system is likely to increase requirements for technical support staff and ongoing financing (for example, to cover software, license fees, and IT support contracts), so specific financial resources should be earmarked for this purpose.

121. While it is recognized that adopting a fully integrated computerized business enterprise system that uses full cost and accrual accounting and asset and resource management within an integrated planning framework would promote efficiency and effectiveness, at this stage it is recommended that the GOJ focus its short-term efforts on fully integrating five basic activities of government financial management: budget preparation, budget execution, cash management and treasury, accounting, and financial reporting. A revision to the chart of accounts is key to both integration and interface with external systems. Once this is successfully achieved, there is a decision to be made by the GOJ on the tradeoff between the benefits of comprehensive integration and its costs and risks within the context of the GOJ fiscal constraints. It should carefully sequence integration of the other important financial management functions (debt management, payroll, procurement, and tax collection), keeping in mind that the greater the system's coverage, the greater the potential benefits, but also the greater the complexity, costs and risks of failure. In the final analysis, a possible option could be a dual system consisting of an accruals-based financial accounting system and a cash- and obligation-based budgetary accounting system.

122. The implementation of the new FinMan system needs to be organized and planned as a project with a team and resources dedicated exclusively to that activity. Prior to the implementation process, it will be necessary to make a diagnosis of the institutions where the system will be installed; establish the costs, needs and difficulties of the implementation process; and develop User Manuals. The process of implementation must include adequate training on system operation and the use of accrual accounting concepts.

123. A strategy and plan should be devised for the transition from FMIS to FinMan. These should pay particular attention to consistency between data from different sources as well as improvements in the functioning of FinMan.

124. The FinMan implementation process will probably require two or more years using the existing resources assigned by the MOFP. In this period both FMIS and FinMan will be operational and providing information to the core financial management institutions. This information will be produced by two different systems using different databases, but some of the information will have accrual accounting standards and others will have cash accounting standards. This duality could generate a challenge to the accounting, control and central cash management systems that will have to operate, consolidate and use the information provided by both sources. A strategy and an action plan are needed to manage this transition while maintaining successful FM operations and reporting systems.

125. The monitoring and continuous evaluation of the MTW FinMan pilot program is necessary to generate conclusions regarding its adequacy and efficiency. The diagnosis of

the institutions where the system will be implemented, and the adequate planning of its implementation process are critical and fulltime activities. The process of implementation will require the availability of resources in the agency where it will be implemented and in the agency responsible for implementation. The Financial Systems Unit of the Public Expenditure Policy Coordination (PXPC) Division of the MOFP is leading the FinMan implementation task, but it lacks sufficient resources to perform the job, and cannot assign fulltime resources to this activity. A task force exclusively dedicated to leading, planning and coordinating the FinMan implementation process must be created and provided with enough human and physical resources to perform the task.

VI. FINANCIAL CONTROL AND OVERSIGHT

126. In the Jamaican context where government resources for public investment and social sector programs are crowded out by the debt burden, the contribution of smoothly functioning public sector fiduciary oversight mechanisms to greater efficiency in the use of limited public resources is of particular importance. This section reviews the three areas of fiduciary oversight: internal control, external audit under the purview of the Auditor General's Department (AuGD) and the Contractor General (CG), and parliamentary oversight.

Internal Control

Overview

Internal Audit Units

127. The FAA Act requires each department to establish a system of internal audit to examine its financial transactions and accounts. Internal Audit Units (IAUs) are the units in charge of this function within a department or executive agency, and in Jamaica this function focuses more on the ex-post review. The FAA Act requires the officer in charge of internal audit in a department to submit on a regular basis reports to the designated accounting officer²¹ and make quarterly reports to the Financial Secretary. The accounting officer may assign additional duties and responsibilities to officers responsible for internal audit. IAUs are present in all government ministries and in most agencies and generally report to the minister through the permanent secretary. The Auditor General has full access to all reports prepared by the internal auditors.

Audit Committees and Audit Commission

128. Complementing the Internal Audit System, the FAA Act also makes it possible for a minister to require a public body²² under his portfolio to appoint an Audit Committee. This committee is responsible for (i) assessing the adequacy and scope of the arrangements for the internal and external audit of that body's accounts; (ii) examining the reports of internal and external auditors in relation to those accounts; and (iii) ascertaining what action has been taken to follow up recommendations contained in these reports. Audit Committees should provide independent, effective oversight on the financial reporting process, the internal controls, and the adequacy of audit arrangements (internal and external) in the organization.

129. In order to ensure the continued effectiveness of Audit Committees, an independent body, the Internal Audit Commission, is in the process of being created as a result of the issuing of the Audit Committee Policy by the MOFP. The Commission will

²¹ "The Accounting Officer is any person designated as such by the minister and charged with the duty of accounting for expenditure on any service in respect of which monies have been appropriated under the FAA Act or any other enactment." FAA Act, Section 2.

²² "A public body is a statutory body or authority or any company." FAA Act Section 2.

promote best practices in the operation of the Audit Committees by monitoring the performance of audit committees against the Audit Committee policy.²³

Internal Audit Directorate

130. The Internal Audit Directorate (IAD) was created within the MOFP about five years ago, with the responsibility to monitor and provide technical assistance in all matters pertaining to internal audit throughout government. The IAD has been active in issuing guidelines and procedures to standardize the way internal audit is conducted. It issued a comprehensive Audit Procedures Manual in May 2002, and a comprehensive policy document on the operation of Audit Committees in November 2004, following which audit committees should now be established in each ministry, department and executive agency to assist the accounting officer in carrying out his duties.

Findings and Issues

Legal and Institutional Framework

131. Though the existence of departmental internal audit functions is supported by current legislation, in practice the scope of some of the IAUs is limited to examining financial transactions and accounts. For example, in some cases the findings and recommendations were primarily of a financial and management control nature, related to issues pertaining to account reconciliations, verification of fixed assets, vacation leave, cash management, etc., and were not “operational” in nature. This limited scope does not reflect the changing role of internal audit and the wider corporate governance agenda, which extends to a more general assessment of the internal control environment. An Audit Committee Policy for Ministries, Departments, and Executive Agencies was issued in November 2004. This policy was established to provide guidance and basic standards to be applied by committee members. Although Audit Committees (ACs) exist and operate in most of the Executive Agencies, some committees in ministries or departments have yet to formally meet.

132. Through the IAD, the MOFP has made several efforts to strengthen the internal audit function, including the issuing of specific technical guidelines for Internal Audit Units (Internal Audit Policy) and the Audit Committee Policy. These recent positive developments have begun to modify the AuGD’s attitude towards the IAUs’ work and to place more reliance on it. The quality of IAU work should be improved by developing a better mechanism for monitoring their performance through a more standardized reporting format and best practice guidance based on experience with IAUs. The IAD currently has a standardized checklist and reporting format that is used to evaluate IAUs, when site visits are conducted. In addition, the IAD is considering an additional instrument to provide a comparative analysis of the IAUs’ performance, and is also obtaining quality assurance certifications through the Institute of Internal Auditors. Nevertheless, IAU capacity needs to be built up through training and greater use of IT

²³ The Internal Audit Commission is appointed by the Cabinet Secretary with representatives from the Office of the Cabinet Secretary, the Institute of Chartered Accountants of Jamaica (Public Sector Committee), the Institute of Internal Auditors – Jamaica Chapter, Ministry of Finance & Planning, and the Auditor General’s Department.

and of more modern audit techniques involving risk assessment and the use of sampling techniques.

Procurement

133. The role of IAUs in the control of procurement activities is limited in part due to poor capacity and enforcement. The Internal Audit Manual provides an adequate basis for value-for-money auditing and clearly relates to procurement performance, but in practice internal audits generally are confined to financial aspects, including contract variations and overruns, as well as deviations from procedures. Internal audits lack a full value for money analysis factoring economy, efficiency and the reliability of the procurement process (e.g., adequate planning, competitive environment, technical specifications, performance, etc.). Organized procurement data would enhance the ability to carry out the latter audits.

Coordination within Ministries

134. Every ministry and department throughout the GOJ has an IAU and an Audit Committee. The Executive Agencies that fall under the supervisory role of those ministries also have Internal Audit Units and some of them have Audit Committees. There is a potential overlap between the IAU at the level of the portfolio ministry and the IAUs at the level of the Executive Agencies in terms of responsibilities and scope of work if the relationship is not clearly defined. In all cases, a strong need for coordination exists and although in some cases some type of agreement has been reached, more needs to be done.

Recommendations

135. **Internal Audit Units.** The efficiency and impact of the IAUs' work can be significantly increased through the following:

Update/Modernize Legislation. We understand that the MOFP has taken steps to update legislation for strengthening and supporting the internal control system (providing a mandate for the IAD and the IAUs). This update to current legislation is important, as well as related guidelines for the needed coordination among the different levels of internal control within ministries and the Executive Agencies under their supervision. We recommend that the Chief Parliamentary Council provide its final approval on these updates, so that implementing guidance can be developed and implemented in a timely manner.

Expanding the scope of IAUs. IAU work should place greater focus on the wider issue of assurance on the internal control environment. Their work and reporting should shift from individual low-level errors to key control failures and mitigating mechanisms, and they should plan and allocate resources on the basis of risk audits as advised by the IAD.

Strengthening capacity. IAUs need to upgrade staff skills and productivity through training.

Modernizing methodologies and tools: Although the IAD currently has a standardized checklist and reporting format that is used to evaluate the IAUs when site visits are conducted, and a standardized risk matrix tool has been distributed to the IAUs, additional risk audit guides need to be developed for IAUs on cross-cutting issues, along with standardized formats for IAU reporting to strengthen consistency and facilitate monitoring. Best practice guidance needs to be developed based on internal and outsourced experience. IAUs need to make effective use of modern audit technologies through the direct application of training provided in IT audit and value-for-money audit (proper risk analysis, modern audit sampling techniques, and materiality concept). Training and monitoring efforts in these and other relevant areas will need to be continued as planned by the IAD, to help ensure that all IAUs conduct risk assessments and report on the results of their audit activities in a more consistent manner.

For these measures to be successful, the profile of IAU staff and their work, which continues to be held in low regard, will need to be raised.

136. **Audit Committees.** The introduction of “non-executive” directors in the audit committees, with ideally a chair position, would increase their efficiency and effectiveness. It is also important for Audit Committees to take in charge important projects such as introduction of FinMan.

137. **Internal control for procurement.** Internal controls should be based on comprehensive risk prevention and management controls at every level of the implementing agencies. Internal audit should include procurement and should focus not only on compliance, but also on the entity’s performance, including its ability to operate efficiently and prevent loss of resources. Strengthening internal audit should include a focus on commitment controls, shaping of procurement packages, contract administration, and in general review of systems for designing and conducting procurement operations. Annex 7 (points a. and b.) provides a more detailed discussion on the performance requirement which is to be subject to internal audit. Modern risk management approaches (e.g., the private sector Committee of Sponsoring Organizations (COSO) approach), are based on an ongoing process that is entity-wide in nature and focuses directly on the achievement of management’s objectives. Internal control is a means to provide management with reasonable assurance that their objectives are being met. Therefore, an approach to internal control from a risk management perspective is likely to generate more pressure for greater management involvement and accountability, a better definition of professional requirements and training needs, more efficient planning and contract administration methodologies, and streamlined procurement processes, which can have a direct impact on getting better value for money and on the quality of service delivery.

External Audit

Overview

138. The Constitution and the FAA Act, which define the duties and reporting responsibilities of the Auditor General, guarantee the Auditor General a high degree of

freedom in carrying out his duties in terms of access to information, and specify the Auditor General's reporting responsibilities to the House of Representatives, line ministries and the Financial Secretary.

139. The Auditor General's reporting responsibilities include examining and certifying the statements and accounts which the Auditor General is required to receive; issuing an annual report not later than December 31 following the end of each financial year setting out the results of his examination; and preparing special reports on any matters incidental to his powers and duties. Every report of the Auditor General has to be addressed to the Speaker, who should lay the report before the House of Representatives. The FAA Act also specifies that the Auditor General shall report the results of the annual audit of trust funds and accounts of the Deposit Fund to the portfolio minister as opposed to the House of Representatives, and irregularities such as losses or improper payments are to be reported to the Financial Secretary with no mention of reporting to the House of Representatives. Although the Auditor General's Department may sometimes perform, or be requested to perform, investigations of irregularities, it does not routinely perform forensic audits or criminal investigations, which is under the purview of other authorities.

140. The Auditor General may choose or be directed by the House of Representatives, to audit the accounts of any public body and report on his examination to the portfolio minister for presentation to the House of Representatives. He may appoint external auditors to inspect, examine or audit the books and accounts of any public body. The Minister of Finance can also require the Auditor General to examine and report to the Minister the results of his examination of the accounts of any person or organization who has received or who is seeking public funds.

141. The AuGD has adopted the International Organization of Supreme Audit Institutions' (INTOSAI) auditing standards. In addition, the AuGD has its own Audit Manual, which includes the AuGD's vision and mission statements, auditing standards and procedures to be applied in conducting statutory audits and value-for-money audits, requirements with respect to working papers, a code of professional conduct, and administrative items. The focus of the AuGD's audits has been primarily statutory compliance audits.

142. During the past few years, strengthening the AuGD has been part of the Public Sector Modernization Vision and Strategy, with increased capacity in terms of use of IT and value-for-money audit techniques. Some staff qualification levels have increased and the AuGD has been able to retain most of its professional staff in recent years.

Findings and Issues

Financial Independence and Accountability for the AuGD

143. Current legislation needs updating to reflect the needs of a modern Supreme Audit Institution (SAI). Although there are many things the AuGD can do within the scope of the current legislation, the lack of financial independence of his department and control of human resources will continue to severely inhibit and constrain the AuGD's long-term development. The Auditor General is currently restricted in how he can operate in terms

of human resources by both financial constraints and the legal and regulatory framework governing his staff. In terms of numbers of staff, even with the required concurrence of the MOFP, the Auditor General may not be allowed to fill vacancies due to lack of funds. The resources budget agreed at the outset of the financial year is not always available in full throughout the year. Currently, the AuGD is operating with 25 of 148 auditing posts vacant. This restriction leaves limited room for future staff development and may limit its ability to carry out the full scope of the Auditor General's mandate.

144. It is an anomaly that the accounts of the AuGD itself are not subject to a proper professional audit by appropriately qualified external auditors. At present, the MOFP's Internal Audit Unit performs the external audit task.

Standards and Working Methods

145. Audit work currently undertaken by the AuGD is primarily of a compliance nature, the aim of which is to ensure that payments are properly authorized and comply in every respect with financial legislation, rules and regulations. This focus is not surprising in an environment where internal control mechanisms are generally held to be weak. AuGD staffs have concluded that they cannot rely on strong financial control systems and robust internal audit units for assurance on the regularity of financial transactions. The AuGD therefore deploys significant resources in checking many individual transactions.

146. With the implementation of FinMan and the eventual preparation of traditional accrual-based government-wide financial statements that are in accordance with IPSAS, the AuGD's staff will need to be prepared to conduct financial statement audits in accordance with INTOSAI standards. This involves auditing fixed assets, complex actuarial calculations and estimates of liabilities, as well as appropriations and expenditures. Many of the AuGD staff do not have access to up-to-date reference materials. In addition, several staff do not have extensive, recent experience in conducting financial audits of accrual-based systems. Therefore, the staff will need more adequate, ongoing training in the IPSAS and INTOSAI standards and have access to up-to-date reference materials to help enhance the capabilities of the AuGD staff.

147. SAIs worldwide are increasingly seeking to adopt a more constructive approach by identifying ways in which the organizations they audit can improve performance, and through the dissemination of best practice with the aim of contributing to an improvement in the delivery of public services.

148. A very limited amount of value-for-money work has been undertaken by the AuGD as suggested by the FAA Act. More value-for-money audits need to be undertaken with a focus on delivering and measuring impacts—revenue maximization, reductions in waste, efficient and effective procurement procedures, and effectiveness of internal audit. Greater contact and closer work with the Financial Investigations Division and the Internal Audit Directorate may be beneficial in identifying report topics. To date, there has been no progress on making more extensive use of select parliamentary committees to provide for adequate scrutiny of departmental activities, particularly from a value-for-money perspective.

Communication and External Relations

149. The AuGD's primary external method of communication is its annual report. While these reports contain the results of the audit work conducted, they are not published on an AuGD website or via official press releases to the public. The Auditor General should work to make it known to the general public that the AuGD is a professional, independent, adaptable and authoritative organization at the heart of public administration, capable of holding those audited to account while bringing about genuine improvements in the way Government delivers services to the public. Effective communications tools might include publishing and widely circulating a Summary Annual Activity Report that highlights major impacts resulting from the Department's work, developing a website, producing a newsletter and a corporate leaflet, and issuing press releases with each report.

Procurement Oversight

150. The CG is a positive feature of the Jamaican system because of its independence and direct reporting to Parliament, and its good technical capacity. The CG's functions mirror those of the AuG, but with a specific focus on procurement. However, in addition to the issues discussed in Chapter II, its ability to impact procurement performance necessarily depends on the timeliness of its reports, which should alert the legislature and, through it, the public at large, on emerging systemic issues, and the degree and quality of its interaction with the AuG. Both aspects require further attention and improvement. The last CG report was published in 2001, with the 2002 report expected for mid-2005. There are no procedures for cooperation between the AuG and CG and interaction between the two institutions appears to be minimal. The CG Act mandates that the CG present its annual report to the Parliament, and the Parliament review it and follow-up on it, but this is not currently done.

151. MOFP's Procurement Policy Implementation Unit carries out some monitoring for control purposes, reviewing about four entities annually, but has limited staff and resources for this task and no established system to analyze the data and draw system-wide or even agency-wide conclusions.

Recommendations

152. **Greater financial independence and accountability.** New legislation could be introduced to allow funding of the AuGD direct from the Consolidated Fund. Another method of increasing financial independence and accountability to clients would be to consider charging for some or all of its financial audit work. The Auditor General should be encouraged to audit the accounts of all public enterprises, which may require additional resources either for new staff or to contract with private firms to undertake much of this work.

153. In addition, the Ministry of Finance and Planning should employ a private firm of auditors to conduct an external audit of the AuGD's accounts. In addition to this audit, the AuGD should consider having another reputable Auditor General from another country (perhaps a member of the Caribbean Organization of Supreme Audit Institutions) conduct an audit/peer review of the AuGD. In this case, the visiting Auditor General

could also conduct an evaluation of the AuGD's operations and procedures, including providing recommendations related to value-for-money audits or a particular aspect of the Department's work so there is a focus on continuous improvement.

154. ***More efficient audit methodology.*** A systematic approach for looking at the work of IAUs should be considered, with a view to relying more on it. The AuGD should gather evidence on the effectiveness of the internal controls through compliance testing or through some form of substantive testing based on an assessment of risk. Although the AuGD staff generally perform this work, it is not consistently performed and documented. In the case of accruals accounts, this testing will extend to assets and liabilities. For detailed testing, statistical techniques are frequently used both to reduce the number of individual transactions to be examined and to enable conclusions to be drawn about the entire population.

155. Although the Auditor General prepares an annual strategic work plan for the department, which is based on risk, the AuGD needs to consistently implement and document a more streamlined approach at the detailed audit engagement level for the audit of financial statements by adopting a risk-based methodology focusing on the materiality concept, modern sampling techniques, and associated extrapolation techniques. The underlying statistical theory for this approach is well established and has the significant benefit of reducing the number of individual transactions audited. Adopting this approach will result in significant resource savings that should be redirected to value-for-money work.

156. The AuGD will need to be more imaginative in gathering audit evidence for value-for-money work. At present, it relies almost solely on documentary evidence gathered from the auditee's files. While this will always be an important source, greater use of evidence from other sources should also be considered, such as gathering evidence from recipients of public services as a means of assessing the effectiveness of public services and service quality. Other techniques include a variety of modeling methods that allow the auditor to generate evidence based on raw data, and the more frequent use of surveys and benchmarking techniques.

157. In addition, the AuGD should have the ability to audit complex computer systems, such as FinMan, prior to, during, and subsequent to implementation of the system, to help ensure that adequate internal controls (general and application controls, such as security and change management) are in place in the system and the surrounding processes. This requires the use of technical audit staff, as well as tools to conduct audits of these systems. These persons could also be utilized in conducting the financial statement audits, by using computer-assisted audit techniques (CAATs) to select samples for testing from systems and search for data anomalies. In the past, the AuGD staff have audited around the computer systems or employed CAAT software packages such as IDEA and ACL. This use of CAATs should be increased, where possible, and consistently documented in the workpapers when used. Furthermore, although the Auditor General has hired a professional to manage and train staff in IT audits and CAATs, much of the person's time has been dedicated to other things, such as assisting staff with their IT needs, rather than conducting IT audits.

158. ***More effective communication and external relations.*** The Auditor General needs to improve communications and external relations by positioning the AuGD externally as a professional, independent, adaptable and authoritative organization at the heart of public administration, capable of holding those audited to account while bringing about genuine improvements in the way Government delivers services to the public. Effective communications tools include publishing and widely circulating a Summary Annual Activity Report that highlights major impacts resulting from the Department's work, developing a website, producing a newsletter and a corporate leaflet, and issuing press releases with each report.

159. ***Staff development and training.*** The Auditor General recognizes the need to train his staff in conducting financial statement audits, IT audits and Value-for-Money (VFM) audits. He has tried to take some actions, such as hiring an IT auditor, to resolve the problem, within his department's means. However, more can be done, of which some will take more resources, and others will not. For example, staff can be trained internally regarding INTOSAI and IPSAS standards. In addition, the IT auditor can provide more regular, ongoing training regarding IT audits. However, at least some of the key auditors will need to attend some annual training to keep up-to-date regarding IT audit techniques and systems, new audit and accounting standards, and VFM audits. Then the Auditor General will need to include these new audits within his annual audit plan. He should be involved at a minimum in auditing FinMan.

160. The Auditor General should also consider more frequent staff rotation, at all levels, so that staff remain up-to-date and motivated to learn new things and develop as professionals. This will also provide a fresh look at auditees. In the long-term, the Auditor General should try to obtain additional auditor positions so that he can perform the statutory, financial statement, IT, and VFM audits of the central government, Executive Agencies and public enterprises.

161. ***Greater role for the CG.*** In order to begin shifting emphasis to ex-post control in the short term, CG staff could initiate procurement post-reviews jointly with AuGD staff that would focus more on performance than compliance (such as those that are already being conducted periodically by the AuGD), and fine-tune an approach that would work well for Jamaica. The results of these post-reviews could be fed into the M&E system. In the medium term, the CG should intensify its cooperation with the Auditor General and focus exclusively on its core mandate of carrying out procurement audits and special investigations. This would be facilitated by shifting the NCC's attention to the review of bidders' complaints. The cooperation between the AuGD and the CG should include follow-up on contractual selection and administration problems identified by the Auditor General, as well as selected physical inspections of goods and works procured.

Legislative Oversight

Overview

162. The parliamentary system in Jamaica enables oversight of government activities by the House of Representatives. However, the effectiveness of that oversight depends on the vigor with which the opposition pursues issues.

163. Historically, Parliament conducted its oversight of resource allocation and public expenditure through two committees of the House of Representatives. The first, the Standing Finance Committee, considers the budget from the time the government delivers it to Parliament until shortly before its enactment by the House. The second, the Public Accounts Committee (PAC) chaired by the opposition party, considers the Auditor General's report for the recently completed fiscal year. In the mid-1990s, in response to concerns that the oversight mechanism considered these issues either too early or too late, Parliament decided to constitute an Appropriations Committee to monitor spending as it occurred during the year. The committee's membership is distributed similarly to the PAC, except that the Chair is held by the government party.

164. The PAC's deliberations begin shortly after the Auditor General's Report for a given fiscal year has been received, normally within 90 days of the end of the year; in principle, the report should be presented to Parliament during July/August, the PAC members should study the report during August/September, and the PAC should convene to discuss it between October and February. Although submitted within the statutory deadline, the timeframe established by law does not permit the annual audit report to be a truly effective and timely management tool for PAC legislative oversight.²⁴ PAC deliberations follow the list of concerns and queries developed for each department or agency by the Auditor General and for which the department or agency failed to provide a satisfactory answer. Once a department or agency appears before the PAC, committee members are free to raise questions that extend well beyond the list provided by the Auditor General.

Findings and Issues

165. The Standing Finance Committee mechanism works reasonably well because the government's MPs respect tradition, and thereby allow the opposition members to ask questions and expect the respective cabinet ministers to respond. The opposition MPs take advantage of this opportunity and do ask serious questions on the floor of the Parliament. Following the tradition of the Westminster model, these questions are also answered on the floor of Parliament. Moreover, because the committee mechanism is informal and less structured, members of Parliament are comfortable about speaking their piece. One concern cited by backbenchers and the opposition has been their inability to obtain technical guidance to assist their deliberations. The Budget Bill tends to be voluminous, and although it is summarized in the Government's Budget memorandum, neither the members nor the House as a whole has technical support that is competent to walk them through the details of the bill. The debate cannot always be expected to focus on the most critical technical issues, and once this committee's process is concluded, the budget is usually enacted unchanged.

166. In spite of the timeframe in which the annual audit report is presented, as required by law, the PAC works reasonably well because the majority party respects tradition. Its

²⁴ The most recent audit report discussed by the PAC during the latter part of 2004 covered the year ended March 31, 2003. Although the audit report for the year ended March 31, 2004 was received in late 2004, the committee members could not devote sustained time to study and discuss it before the conclusion of the budget process; therefore, the PAC will deliberate that audit report during May – July 2005.

members on the PAC allow the opposition to raise issues without undue interference, and ensure that the Government provides answers. Aggressively interested opposition members take time to do their homework and ask hard questions. In addition, the opposition has made good use of the media, in particular TV interviews and talk radio, and have succeeded in airing many of the problems to the broader Jamaican population. However, this committee's impact is necessarily limited: (i) the committee members are not provided with technical support, so their ability to ferret out the right issues depends on their being able to get pro bono help from friends and publicly minded citizens; (ii) the scope of the PAC's investigations is constrained by the scope of the Auditor General's report; and (iii) even if the PAC unearths serious problems, there are no reliable enforcement mechanisms to follow up its findings.

167. The Appropriations Committee is moribund: it has met only twice in recent memory, both times some five years ago, and both meetings dwelt on establishing the committee's role and procedures. This committee was established because a majority of Parliament considered it important that public spending be monitored in real time; its dormancy inhibits the Parliament's overall effectiveness as an oversight body.

Recommendations

168. Many of the issues related to Parliamentary oversight are rooted either in limitations of other agencies of the Government, such as the capacity of the AuGD or weaknesses in the mechanisms for enforcement, or in the Westminster Parliamentary model. Technical support should be provided to Parliamentarians in financial matters. The Parliament should consider providing its committees with a small technical secretariat, which could provide technical inputs to all members, including the government's MPs as well as the opposition. In addition, the Appropriations Committee should meet on a more regular basis.

169. Specific actions need to be taken to enlarge the role of the PAC as indicated in the Modernization Strategy: PAC should be provided with at least one full-time staff member; PAC should consider taking all value-for-money reports and relevant audit reports, including an annual fraud and corruption report. In addition, each select parliamentary committee should take a "mini-report" from the Auditor General for each ministry or department in its purview. Furthermore, the MOFP should initiate modification of the current legislation to expedite submission of the Auditor General's annual audit report to the PAC.

170. Jamaica has several levels of oversight and each one believes it is fulfilling its mandate to the best of its ability under constrained circumstances. Each one indicates frustration because of a lack of effective enforcement mechanisms, which result in a failure to address issues identified by various control bodies. The effectiveness of the judiciary is beyond the scope of this diagnostic study; however the Government should consider assessing soon whether mechanisms for enforcement of laws are effective.

VII. PUBLIC DEBT MANAGEMENT

Overview

171. Repayment of public debt is the first statutory expense defined in the Constitution. Public debt is also governed by the Loan Act of 1964, which provides the general framework, and practically an act for each type of creditor and financial instrument allowing the government to borrow, and an act for each one of the public sector national debtors that are authorized to borrow. There are 28 acts in Jamaica dealing with public indebtedness. The FAA Act was amended to deal with the notion of “agreement for deferred financing” that engages the government in incurring public debt for financing infrastructure projects and “credit agreement.” The Estimates of Expenditures generally referred to as the Budget also deals with public indebtedness as it details the debt servicing for the year. In addition, at the beginning of each fiscal year, the Debt Management Strategy is presented to Parliament. The Strategy reviews the implementation of the previous years’ strategies and outlines the plans and program to effectively manage the debt over the course of the year consistent with the medium-term objectives.

172. Responsibilities for all public debt management functions were transferred on April 1, 1998 from the Bank of Jamaica to MOFP. In addition to debt management functions that include debt-raising activities, registrar and payment functions for government securities and debt monitoring, the Debt Management Unit (DMU) of the MOFP is also in charge of formulation of debt policy and strategy. The Budget Memorandum contains a chapter on Debt and Capital Markets Developments for the relevant fiscal year. Central Government budgeted expenditure, including debt service projections, is reviewed monthly against the revenue forecasts to determine the financing requirement for the month. Debt payments are executed by the Accountant General’s Department (AcGD) on the basis of a warrant issued by the Public Expenditure Division. The Bank of Jamaica is the executing agency with respect to the remaining core debt management functions: primary market issues, including Treasury Bill auctions, and external debt payment.

Findings and Issues

173. The focus of this section is on public debt management and its relationship to the budget process in Jamaica. It does not address debt policy, which is beyond the scope of the Assessment.

Legal and Institutional

174. The existence of a large number of laws governing public indebtedness poses the challenge of ensuring their compatibility and coherence.

175. The DMU has integrated the full responsibilities of a modern debt management office and was utilized as one of the case studies in the 2001 IMF and the WB Guidelines for Public Debt Management. In particular, DMU has a well-defined objective and puts forward a comprehensive and consistent debt strategy for each year, accompanied by an evaluation of the strategy for the previous fiscal year. DMU publishes extensive data on public indebtedness.

176. The debt strategy in Jamaica aims to minimize debt service costs and to reduce the overall debt burden, which is measured as the Debt/GDP ratio. However, the Debt/GDP ratio is

an indicator that is sensitive to large variations in the domestic currency exchange rate, meaning that in order for the Debt/GDP ratio to be a meaningful indicator, the domestic currency exchange rate should be quite stable.²⁵

177. DMU does not have procedures manuals but has written operational and work plans for each officer. It also uses the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS), which provides Jamaica with a good and performing Computer Based Debt Management System (CBDMS). However, the current lack of plans for an electronic linkage between financial management systems currently in use and the CS-DRMS does not facilitate electronic linkage between GOJ's budget execution and debt management, although a link is provided by the FPMU through its coordinating role in cash management operations.

Cash Flow and Issuance of Debt

178. The issuance of debt is projected on an annual basis within the context of the budget for the respective year. During the year, adjustments to the annual projections are made monthly in relation to the revenue, expenditure and payments forecast for the respective month. Where necessary expenditure is therefore constrained to maintain the fiscal operations within the targeted objectives for fiscal and debt ratios. However, within year adjustments to debt issuance projections to meet cash flow requirements as necessary may not allow proper matching between debt service maturity and revenue projections. This may affect the objective of bringing down the debt/GDP ratio.

Guarantees and Contingent Investment and Liabilities

179. Given the fiscal constraints, GOJ has made use of a group of practices, explicitly authorized by law that could be construed as loan guarantees. The provisions of the FAA Act allow financing under an "agreement for deferred financing" or "credit agreement." The Loan Act allows financing through letters of comfort (letters of undertaking) issued by MOFP without prior approval by Parliament. In the case of comfort letters, the Government assures a financial institution that it will ensure that funds are in place for a third party (the borrower) to repay the loan.

180. Comfort letters and LOUs may take many forms. They may support public entities or even private projects related to public investment. In essence, however, they create a commitment on the part of the GoJ to make good on a loan contracted by a third party if the latter defaults. Recently, deferred financing as well as LOUs have come under closer parliamentary scrutiny. The AuGD indicated in his report for FY2003/04 that six loans totaling US\$6 million (J\$3.6 billion) carried by a private company and four public sector entities were taken over by the GoJ based on letters of commitment (comfort letters) given by the MOFP. The AuGD also expressed concern that the language of LOUs and comfort letters has become increasingly similar to that of letters of guarantee, which are submitted ex-ante for Parliamentary approval. The former are not. In the case of deferred financing, a private entity undertakes to build an asset at its own expense, and on completion the Government assumes ownership of the

²⁵ Fixing objectives like a given ratio of government debt to GDP imposes a constraint on the volatility of the debtor country domestic currency value of the total debt. See Coessens, Hiliana and de Montpellier, *Louis Debt Portfolio Management in the Kingdom of Belgium* in Nars, Kari. (ed.) (1998), *Excellence in Debt Management*, Euromoney Publications, London.

asset as well as the liability incurred by the private entity. MOFP is involved in the negotiations of the terms/conditions for the liability and makes the necessary provisioning – in the stock and in the debt servicing as well as the budget of the relevant ministry – consistent with the work plan for the delivery of the assets and the terms of the financing. These practices could undermine the Government's efforts to reduce the debt as they impose new rigidities on future budgets and planning.

181. Consequent to the AuGD report, the Minister of Finance now reports on Letters of Undertakings to Parliament. This situation calls for a more transparent and accountable policy for providing guarantees in order to create the legal and institutional framework that would ensure respect for Parliament's role in setting priorities.

182. The scope of this problem warrants attention. In discussing the budget for the current fiscal year, the Minister of Finance informed Parliament of some J\$16.9 billion in borrowings over a three-year period resulting from comfort letters alone. This amount is large relative to what is available to GOJ for discretionary spending.

183. In his April 14, 2005 Opening Budget Presentation,²⁶ the Minister of Finance announced that the Government is taking steps to improve transparency with regard to comfort letters and letters of undertaking. First, the Minister committed to submit to Parliament a full listing of LOUs and comfort letters during the first six weeks after the end of each quarter of the fiscal year. Second, the Minister arranged a meeting of senior public officials responsible for fiscal accountability, including the AuGD, to develop clear rules governing this type of operation. Third, the Minister committed to meet with private sector financial intermediaries to clarify their requirements of security for loans granted to public entities.

On-lending Practices

184. The way on-lent resources are provided presents two problems: (i) how the risk and cost of granting guarantees or providing on-lent resources are calculated and applied; (ii) on what terms and conditions the guarantees are granted and on what financial terms the on-lent resources are provided. In Jamaica, the on-lent resources are put at the disposal of the domestic beneficiaries in some instances at softer terms than the original loan, not only assuming the exchange rate risk, but also subsidizing the beneficiary. The explanation given to justify this practice is that the on-lent loan is used to develop basic infrastructure. Although this on-lending practice facilitates the development process, it can further affect the country's debt burden as this form of subsidy is not necessarily done with the GOJ's own resources. A review of this policy and its impact should be undertaken. Furthermore, DMU does not calculate and charge neither risk margins for on-lending nor primes for providing guarantees. This suggests that information is not available on the calculation of risk and its cost for GOJ when guaranteeing a loan or on-lending it, while assuming a guarantee or providing on-lent resources implies a financial risk for the Government's budget: a contingent liability in the case of a guarantee, and the risk that assets may become non-performing in the case of on-lending. MOFP has, however, noted that the Act covering guarantees specifies charging a fee of up to 1% of the face value of the transaction. By policy decision, a fee of 1/16th of 1% of the face value is charged.

²⁶ <http://www.mof.gov.jm/speeches/2005/open/open.pdf>

Recommendations

185. **Public debt and its legal framework.** The drafting of a new comprehensive Public Debt and Publicly Guaranteed Debt Act should be undertaken to harmonize all the different acts that refer to public indebtedness in Jamaica, and to define clearly effective debt management functions at the executive level (i.e., at the political and macroeconomic decision-making level). Some characteristics that need to be reflected in the new comprehensive Public Debt Act include the following:

- The indebtedness strategy depends upon the macroeconomic priorities of the country and the DMU's objectives and strategy should be set in function of those.
- The Act should contemplate and design a clear mechanism for approval of public indebtedness, direct and guaranteed, including sanctions in case of non-respect of the rules.
- The Act should provide a framework for DMU to evaluate the costs and risk of guarantees and on-lending activities, foreseeing resources for this endeavor and providing a guarantee, since on-lending implies a financial risk for the Government's budget. In addition to the fee being charged for guarantees, there is justification for the DMU to charge a margin above the base interest rate to the beneficiary for on-lending, in order to cover the evaluation costs and the risk incurred, unless the Parliament itself waives them. The Act should include a mechanism for disclosure of such operations.
- Fixing the yearly debt ceilings in net flows rather than in gross flows would contribute better to meeting the objectives to bring down the stock of public indebtedness. This should be mentioned explicitly in the Act, but without giving a pre-defined figure for the ceilings so as to allow the flexibility to change them in function of specific situations.

186. **Procedures manual.** In the short term, DMU needs to issue a procedures manual that would formalize current operational debt management procedures in line with the front, middle and back offices structure. The manual would support the steps being taken to restructure DMU along the lines of a modern debt office with front, back and middle offices. Once the new Public Debt Act is enacted, the manual should be revised to incorporate new procedures to fully support the implementation of the new Act.

187. **Cash flow and issuance of debt.** The securities auctions should be programmed in regular periods during the fiscal year, rather than being decided on a monthly basis as at present, and their calendar announced well in advance. In particular, the issuance dates should be chosen, as much as possible, in such a way that the debt service would be falling due in the periods where government revenue is forecasted to be higher.

188. **Improving DMU's capacity.** The need to improve the DMU capacity was identified in two fields: debt sustainability analysis and risk management. If the recommendations on guarantees and on-lending cost and risk analysis are accepted, DMU would have to either increase staff, hiring qualified staff in this field, or train existing staff in this middle-office responsibility. In this field, other debt offices around the world could be of valuable assistance to the GOJ. This is consistent with the MOFP position to restructure and modernize the DMU along the lines indicated in paragraph 188 above. It is also recognized by MOFP as necessary in order to achieve the stated medium term objectives for debt management for which minimizing the exposure to risks has been given increased focus.

189. **Debt Management database.** The ongoing assessment of the database presently available in the CS-DRMS should be maintained in order to assure its comprehensiveness and accuracy, including coverage of all public and publicly guaranteed loans, i.e., explicit and implicitly guaranteed. In line with this, a census of guaranteed and on-lent loans should be undertaken by DMU in order to ensure that all have been loaded into the CS-DRMS. The same should be done for loans that were originated by the FAA Act (amendment), as well as the implicit guarantees originated by the comfort letters issued by the Ministry of Finance. As the GOJ will fully implement accrual accounting, this will be essential information to prepare accrual financial statements and present a full picture of the Government's financial transactions.

190. **Contingent liabilities.** The issue of contingent liabilities related to LOUs and comfort letters goes beyond the scope of this diagnostic study. They are covered in the recent World Bank Public Expenditure Review, and can be addressed by the two participating Banks in the context of their macroeconomic dialogues with GOJ.

VIII. CONCLUSIONS AND RECOMMENDATIONS

Key findings

191. Although the Government of Jamaica has undertaken several initiatives during the past few years aimed at modernizing the PFM systems, several fundamental issues continue to affect its performance.

192. The recently introduced institutional changes are transferring management of public resources to newly created Executive Agencies outside the central government ministries. These entities are subject to a different set of accountability mechanisms, which are defined in the new legislation but are being phased in.

193. The evolution of the legal and institutional framework for PFM is outpacing that of its underlying accountability and business processes, creating a risk of weakened control over the use of public resources. The implementation of these new business processes (information system, accrual accounting, and audit committees) also faces a series of challenges. The lack of a proper implementation approach, structure and inadequate funding for the reform of the information system (FinMan) and implementation of accrual accounting, as well as the scope and pace of the reforms the Government is trying to implement, are likely to undermine the expected results.

194. Progress in procurement reform, which has focused primarily on improving external control and processes, has been slow due to limited recognition of procurement as a core aspect of PFM in the legal system, compounded by inherent conflicts in the legal framework. Indeed, the recent evolution of the legal and institutional frameworks may be contributing to the slow progress in the procurement reform process. The institutional set-up in particular seems to have contributed to unforeseen consequences that reduce procurement efficiency and consequently the ability of the PFM system to achieve Government's key objectives of creating more fiscal space and improving service quality.

195. Following the creation of the NCC, there is overlap in the legal framework among entities with key procurement responsibilities. This seems to have contributed to the lag in producing regulations and standard bidding documents.

196. MOFP retained policy-related procurement functions, but it is not exercising its statutory normative authority, and its ability to continue to develop the procurement system is curtailed because it is not focusing on the production of key implementing tools and has severely limited resources to carry out performance reviews. As a result, strategic policy development is lagging.

197. The weak link between government priorities, planning and budget, and the lack of timely information reflecting actual budget appropriations substantially contribute to the inefficient monitoring of public spending, along with a lack of budget monitoring that would contribute to better fiscal control and parliamentary oversight. The effectiveness of budget formulation is further limited because procurement oversight arrangements do not generate information to integrate procurement planning into corporate plans, leading to poor execution (with the risk of contract fractioning, frequent amendments, cost escalation, and other consequences of poor planning). In fact, the PFM system generally produces very limited feedback and few reliable statistics for planning, policy-making or effective oversight.

198. In the short run, it is critical to implement a mechanism for commitment control as well as to ensure a reduction in partial payments and the total elimination of the use of funds from tax retentions. PFM practices and systems need to be adjusted to the new institutional framework, emphasizing the enhancement of the expenditure control and monitoring mechanisms.

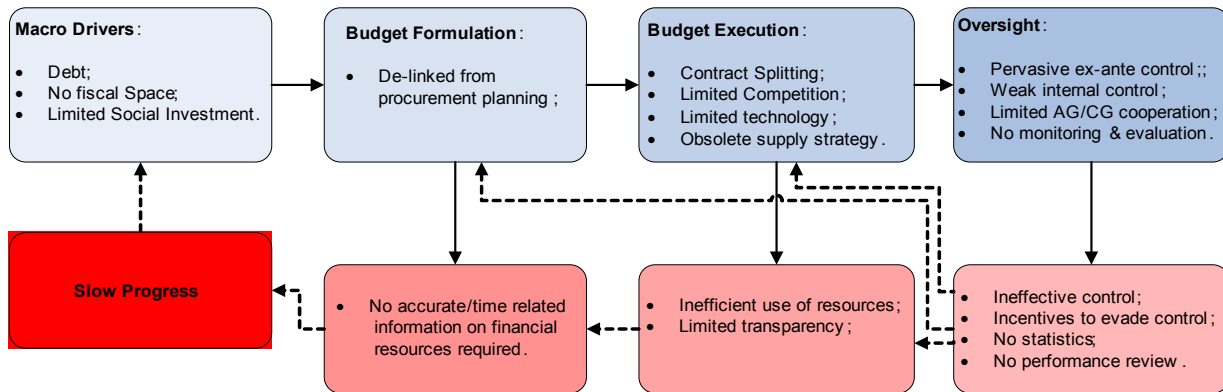
199. The MOFP has made several efforts to strengthen the internal audit function through the Internal Audit Directorate, such as the issuing of specific technical guidelines for IAUs and the recently released Audit Committee Policy. But the effectiveness of the internal audit function is still being affected by the methodologies and tools used, shortages in budget and staff, and staff resistance to changes in focus and procedures. The system as a whole continues to follow an outdated approach to control that favors pervasive ex-ante reviews over strong internal controls and ex-post audits, overlooking issues that affect planning and contract administration and may cause significant waste of funds.

200. The AuGD has been strengthened as part of the Government's Modernization Strategy, with increased capacity in terms of use of IT and value-for-money audit techniques and professional qualification. These positive achievements have yet to enter fully into effect because the audit work currently undertaken by the AuGD is primarily of a compliance nature; more attention needs to be devoted to transparency and efficiency of outcomes. There are also some restrictions in how the AuGD can operate in terms of human resources, including both financial constraints and the legal and regulatory framework governing staff.

201. The Contractor General is one of the most positive features of public procurement in Jamaica and has good potential for contributing to better integration of procurement within the PFM system, provided that it begins cooperating more closely with the AuGD. By not building more effectively on the synergies and complementarities of the two functions and institutions, the system is currently missing an important opportunity to enhance external control.

202. Parliament's overall effectiveness as an oversight body is limited in several ways. While the PAC functions reasonably well, the Appropriations Committee that was established to monitor public spending in real time is moribund. Members of Parliament have no access to in-house technical guidance. However, they have access to the support of the MOFP and the AuGD. The capacity of the PAC to ask questions is limited by the scope of the AuGD's report, and there are no reliable enforcement mechanisms to follow up PAC findings.

203. The impact of procurement weaknesses discussed throughout the report is illustrated in Figure 5 below.

Figure 5. Procurement Risks Throughout the PFM System

The Way Forward

204. While the modernization objectives of the public financial management system in Jamaica are sound, achieving greater efficiency in the use of public resources to alleviate current fiscal constraints and better alignment of budget allocation with government priorities will ultimately depend on how well the reforms are implemented in four major areas: (i) improving the institutional framework, (ii) developing the information system and implementing accrual accounting, (iii) strengthening public financial management oversight, and (iv) greater transparency and efficiency in public sector procurement.

205. To avoid undermining control and accountability in the use of public resources, the implementation of the accountability framework must be accelerated through the expansion of both internal and external audit beyond mere compliance audit, and methodologies and tools should be modernized by adopting a more risk-based approach. The impact of these changes on the role and responsibilities of the external oversight institutions (AGD, Parliament) and the internal control function needs to be considered to ensure that the oversight performed by these institutions is relevant and efficient.

206. The management of the overall change process will be critical to the success of the Government reform agenda. This will require greater focus on the implementation strategy and approach for accrual accounting and financial management information system reforms by putting in place proper and adequately funded implementation structures, involving all relevant stakeholders. Given the technical and financial constraints, the Government should consider a step-by-step implementation path, both for financial management information system and accrual accounting. As experience elsewhere has shown, the comprehensive recording of all assets and liabilities required under accrual accounting can be done in stages, with initial focus on the aspects that are most critical and relevant to Jamaica (commitment monitoring, short-term debtors and creditors, and public debt). Adopting such a gradual approach would require re-scoping and revisiting the target dates for full completion of the reform agenda.

207. The procurement system should be improved, inter alia by upgrading the legal status of the Handbook to make it more enforceable. Given the complexity of the process, there is a general

preference for postponing adoption of a procurement law. Political consensus on major procurement institutional changes is highly unlikely in the short-term. However, there is interest in initiating an effective internal dialogue on ways to improve the effectiveness of institutions.

208. The main thrust of the procurement reform process at this time should be on identifying ways to drive improved performance of the PFM system by focusing on the transparency and efficiency of its outcomes. It is likely that measurable results in terms of better value for money and improved private sector and investor perception will help develop consensus on the need to reform regulatory and institutional frameworks to make changes sustainable and improve enforcement basis, as well as consistency with international standards.

209. Taking into account the complexity of the reforms and the human and financial implementation constraints facing the Government, the way forward should be pragmatic and based on a two-phased approach. There are clearly a number of regulatory and institutional aspects that need to be addressed in the medium-term. But there are also several important actions that would be relatively easy to implement because they do not require regulatory changes yet can impact positively on the transparency and efficiency of outcomes. Such first-phase actions would primarily aim at accelerating implementation of the control framework for the Executive Agencies and the Public Bodies, improving the format and content of the procurement handbook, and establishing consistent standards that could be tested in practice and later be incorporated into the policy functions and/or the legal framework, as appropriate. Second-phase actions may deal with legal and systemic changes that would require more time to implement.

ANNEXES

1. LIST OF PERSONS INTERVIEWED
2. LIST OF DOCUMENTS REVIEWED
3. TRADE AND REGIONAL INTEGRATION AGREEMENTS
4. PROCUREMENT BASELINE INDICATORS
5. PROPOSED OUTLINE OF PROCUREMENT REGULATIONS
6. SUGGESTED CONTENT FOR THE PROCUREMENT HANDBOOK
7. PROCUREMENT PLANNING AND STATISTICS
8. REGISTRATION AND NATIONAL PREFERENCE
9. CAPACITY BUILDING IN PUBLIC PROCUREMENT

ANNEX 1 – LIST OF PERSONS INTERVIEWED

<u>Organization</u>	<u>Name</u>
Planning Institute of Jamaica	Wesley Hughes, Director General Leila Palmer, Director External Cooperation Management Division Barbara Scott, Manager, Project Development Unit Lasford Stone, Manager, Multilateral Financing Unit
Public Sector Reform Unit, Office of the Cabinet	George Briggs, Chief Technical Director Hillary Alexander, Modernization Programme Integrator Alberto Daley, Principal Director of Projects
Ministry of Finance & Planning	Robert Martin, Deputy Financial Secretary and Director of Public Expenditure Policy Coordination Division (PXPC) Rose Henry, Deputy Financial Secretary Rolda Grey, Acting Deputy Fin. Secretary and Director of Budget Hope Blake, Director, Internal Audit Directorate Debbie Moore, Audit Coordinator, Internal Audit Directorate Marcel Holder, IT Audit Specialist, Internal Audit Directorate Ann-Marie Rhoden, Deputy Financial Secretary, Public Enterprises Division Owen McKnight, Director, Executive Agencies Monitoring Unit Kathryn Thompson, Director, Legal and Public Sector Reform Murna Morgan, Senior Director, Debt Management Unit Shirley Gayle, Director, Procurement Policy Implementation Unit, Public Expenditure Policy Coordination (PXPC) Berome Edwards, Director, Financial Services Unit, Public Expenditure Policy Coordination (PXPC) Joseph Manley, Director, Information Technology Strategy Unit, Public Expenditure and Policy Coordination Division (PXPC) Claudette Wright, Corporate Planning
Accountant General's Department	Millicent Hughes, Acting Accountant General
Parliament Public Accounts Committee	Audley Shaw, Chairman
Ministry of Health	Grace Allen-Young, Permanent Secretary Diana Gayle, Head of Internal Audit Unit Lloyd Maxwell, Head of Planning & Dev. Nigel Logan, Head of Financial Management

Ministry of Education	Marguerite Bowie , Permanent Secretary Yvette Erskine, Chief Internal Auditor, Internal Audit Division Barbara Allen, Director, Planning & Development Jacqueline Lucie-Smith, Principal Financial Officer, Financial Management Claudette Martin - Project Accounts
Ministry of Transport & Works	Alwin Hales, , Permanent Secretary Elsa May Binns, Senior Director, Policy Planning & Evaluation Altius Williams, Principal Finance Officer Michael McFarlane, Chief Internal Auditor Shawn Grey, Director, Corporate Planning and Performance Monitoring
National Works Agency	Anthony Gibson, Director of Technical Services
Auditor General Department	Adrian Strachan, Auditor General
Office of the Contractor General	Derrick McKoy, Contractor-General
National Contracts Commission	Leo Lawson, Chairman Steve Sherman, Director of Technical Services
Ministry of Local Government, Community Development & Sport	Loraine Robinson, Permanent Secretary Patrick Wong, Technical Director Gloria Williams, Senior Financial Management Specialist
University of the West Indies	Christopher Malcolm, Lecturer, Faculty of law
CARICOM Regional Negotiating Machinery	Patrice Pratt-Harrison, Technical Advisor, Government Procurement and Competition Policy
Delegation of the EU	Carlo Petinato, Head, Economics, Trade & Politics Information Stefan Szepesi, Task Manager, Economics, Trade & Politics Information
DFID	Elizabeth Carriere, First Secretary (Development) Gordon Sagers, Second Secretary, British High Commission
CIDA	Stephen Gibbons, Counselor (Development), Canadian High Commission
United Nations Development Program (UNDP)	Juan Carlos Espinola, Resident Representative Ann-Marie Ali, Deputy Resident Representative Stephen Rodrigues, Programme Specialist Noel Watson, Executive Coordinator

Information Communications & Technology Sector	Garfield Campbell, Manager, Availability Services, IBM, World Trade Corporation Cuthbert S. Loyd, Adviser Client Representative Government, IBM, World Trade Corporation; Gregory Douet, Account Manager ILUMINAT New Thinking Michelle McNaughton, Account Manager FUJITSU Mercy Eyre, President & CEO, FUJITSU Transaction Solutions (Jamaica) Michael Duquesnay, CEO, Central Information Technology Agency of the Ministry of Commerce, Science & Technology
Jamaica Institute of Engineers	Howard Chin, President Hopeton Heron, President Winson Strachan, Project Coordinator, Airports Authority of Jamaica Harold Nembhard, Vice President, Power Delivery Services, JPS, Jamaica Public Service Company, JPC
The Incorporated Masterbuilders: Association	Raymond Cooper, Vice President Michael Archer, Member, Executive Council, Surrey Paving & Aggregate
Jamaica Chamber of Commerce	Keith Collister, Member, Economic Affairs & Taxation Committee
Clerk of the House	Shirley Lewis
Jamaicans for Justice	Carolyn Gomes, Executive Director Clifton Yapp, Architecture Planning, Transparency Consultant
The Gleaner Company Ltd (Newspaper)	Oliver Clarke, Chairman and Managing Director

ANNEX 2 – LIST OF DOCUMENTS REVIEWED

Attorney General of Jamaica, (1964), *Loan Act 1964*, 9th July.

CARICOM, *Revised Treaty of Chaguaramas establishing the Caribbean Community including the CARICOM Single Market & Economy*, July 5, 2001;

CARICOM/IDB, *Country Procurement Assessment Report (CPAR)*, Jamaica, 2004

Constitution of Jamaica of 1962, updated through Amendment Act 18/1999

Government of Jamaica (1959), *The Financial Administration and Audit Act*, Jamaica

Government of Jamaica (2001), *Handbook of Public Sector Procurement Procedures* (May, 2001)

Government of Jamaica (2002), *Public Sector Modernisation Vision and Strategy 2002-2012, Minister Paper No.2*, September, Jamaica

Government of Jamaica (2002), *Public Sector Reform Unit Annual Report 2003 – 2004*, September, Jamaica

Government of Jamaica (2003), *Ministry of Education, Youth and Culture Corporate Plan 2003-2004*, Jamaica

Government of Jamaica (2003), *Ministry of Finance and Planning, Debt Management Strategy FY 2003-04*

Government of Jamaica (2004), *Ministry of Finance and Planning, Memorandum on the Budget 2004/05. April 15*, Jamaica

Government of Jamaica, *Financial Instructions to Executive Agencies*, Final draft 31 March 1999

Government of Jamaica, *Access to Information Act* (2002, modified 2003)

Government of Jamaica, *Code of Conduct* (excerpts), Jamaica

Government of Jamaica, *Corporate Planning Guide and Template*, Jamaica

Government of Jamaica, *Audit Committee Policy for Ministries, Departments, and Executive Agencies, July 2004*, Jamaica

Government of Jamaica, *Internal Audit Manual, March 2002*, Jamaica

Government of Jamaica, *Internal Audit Site Visit Checklist, Risk Matrix, Sample of Internal Audit Reports*, Jamaica

- Government of Jamaica, *Ministry of Finance and Planning, Ministry Paper No. 20, Deferred Financing*, Jamaica
- Government of Jamaica, *Policy on Public Sector Procurement*; Jamaica
- Government of Jamaica, *The Contractor-General Act* (Acts 15 of 1983 | 17 of 1985 | 1 of 1999), Jamaica
- Government of Jamaica, *The Corruption (Prevention) Act* (May 1, 2001, revised 2002), Jamaica
- Government of Jamaica, *The Executive Agencies Act 2002*, Jamaica
- Government of Jamaica, *The Public Bodies Management And Accountability Act*, Jamaica
- Government of Jamaica, *Auditor General's Department Audit Manual*, Jamaica
- Government of Jamaica, *Auditor General's Department Questionnaires, Sample of Standard and Special Audit Programmes, Value for Money Audit Reports, and Audit Workpapers*, Jamaica
- Government of Jamaica, *Report of the Auditor General on the Appropriation and Other Accounts of Jamaica, for the Financial Year Ended 31 March 2004*, Jamaica.
- Inter-American Development Bank, (2002) *Fiscal Policy Issues in Jamaica: Budgetary Institutions, the Tax System and Public Debt Management*, Washington
- National Contracts Commission, *Award Endorsements, January to December 2004*, www.ocg.gov.jm/awardguide
- National Contracts Commission, *Information Brochure*;
- National Contracts Commission, *Procurement Matrix for Works Contracts*;
- The Office of the Contractor-General, *A quick Guide to Contract Awards*, November 2000
- World Bank (2001), *Jamaica Country Financial Accountability Assessment*, Washington
- World Bank (2004), *Jamaica: Fiscal Consolidation for Growth and Poverty Reduction-A Public Expenditure Review*, Washington
- World Bank (2004), *Public Sector Modernization Project, Implementation completion Report*, Washington
- World Bank, *Country Procurement Assessment Report (CPAR)*, Jamaica, 2003

ANNEX 3 - TRADE AND REGIONAL INTEGRATION AGREEMENTS

Association of Caribbean States (ACS)

ACS was signed on 1994 with the aim of promoting consultation, cooperation and concerted action among all the countries of the Caribbean (comprising 25 member States and three Associate members)²⁷. Article 2 of 2002 and 2003 Plan of Action of ACS focuses on “Development of Trade and External Relations” expanding in the areas of “reduction and elimination of obstacles to trade, for the promotion of investment and to consolidate an enhanced economic space for trade and investment”, “Convergence of positions of Member States and Associate Members in international negotiations with respect to the treatment of small economies in international agreements, particularly WTO and FTAA . . .”

CARICOM Single Market and Economy

Thirteen Member States of the Caribbean Community (CARICOM)²⁸ are currently in the process of establishing a Single Market and Economy, the CSME. This process entails, among other things, the intra-regional liberalization and integration of all national goods, services and factor markets and, as a result, the creation of a single, seamless market space within the Community.

Throughout CARICOM, the public sector plays a significant role as a consumer of goods, services and public works. To date, however, government procurement has not yet been brought under the disciplines of the Community’s regional integration program. Along with the cumbersome and often time-consuming nature of the public procurement process in most CARICOM countries, this limits the potential development of the CSME in that a significant proportion of the regional market for goods, services and public works remains segmented in favor of nationals and cannot, therefore, impact in full measure on the regional market and economy. A common regime for government procurement, based on greater intra-regional liberalization, would undoubtedly enhance the CSME’s potential contribution to regional trade in goods and services.

²⁷ Members: Antigua and Barbuda, The Bahamas, Barbados, Belize, Colombia, Dominica, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname and Trinidad and Tobago, Dominican republic, El Salvador, Honduras, Nicaragua, Mexico, Venezuela, Costa Rica, Cuba, Panama.

Associate members: Aruba, France (on behalf of the French Guiana, Guadeloupe and Martinique) and the Netherlands Antilles.

²⁸ CARICOM has 15 member states: Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname and Trinidad and Tobago. All except The Bahamas and Haiti are currently participating in the Community’s single market project. Haiti is expected to join the single market once it becomes a full member of the Community (it has applied for and has been accepted as a member but has not yet deposited its instruments of accession with the Community). The Bahamas participates in all Community affairs except those related directly to the single market.

Such a regime would also help CARICOM countries to develop unified positions in external trade fora and, as a Community, to conclude agreements on government procurement with third parties. Increasingly recognized for its important potential contribution to trade, government procurement now figures prominently on the agenda of both multilateral and regional trade initiatives. Besides being signatories to the agreement establishing the World Trade Organization (WTO)²⁹, CARICOM member states are participating in negotiations on certain transparency-related aspects of government procurement. Equally, the Plan of Action signed by CARICOM and the Dominican Republic and the Plan of Action under the Free Trade Agreement (FTA) between the parties stipulate the order of establishment to be: (a) the CSME regime on government procurement in the first instance, and (b) a government procurement agreement between the CARICOM and the Dominican Republic.

Along with the lack of a common approach on government procurement so far, there have also been notable deficiencies in data collection in this area in CARICOM, including Jamaica. This has hampered the Community's efforts to develop effective negotiating positions in external trade fora, where CARICOM interests are represented by the Caribbean Regional Negotiating Machinery (RNM), a body created by CARICOM governments in 1997 with their offices in Kingston, Jamaica. As part of the FTAA negotiations, for example, participating countries have been requested to submit statistical and other data to the Negotiating Group on Government Procurement, one of nine groups set up to negotiate the FTAA agreement. Although submissions were due by July 1999, only two CARICOM countries have so far submitted the requested information; all others have been unable to do so, primarily due to the lack of readily accessible data. Yet for CARICOM countries to effectively participate and adequately define their interests in the negotiations for an FTAA Agreement on Government Procurement (GPA), it is imperative that the region undertakes the collection of statistical data on government procurement as soon as possible.

The legal basis of CARICOM for Government Procurement Regime is provided through the Article 239 of the Treaty of Chaguaramas of 2001, Establishing the CARICOM and the Caribbean Single Market Economy. Presently the CSME has already established:

- Free movement of Goods, including Article 94, which restricts member State Governments from providing protection to domestic goods suppliers;
- Free movement of Services and Free movement of skills, including architectural, construction and engineering services, through temporary or indefinite presence.

The immediate plan for CSME elements are:

- Harmonized Fiscal Policy – by December 31, 2006 (some aspects of expenditure side of fiscal policy);
- Single Capital Market – by June 30, 2005;
- Financial Services Agreement – by June 30, 2005;

²⁹ All CARICOM member states except The Bahamas are members of the WTO.

- Harmonized Investment Policy (CARICOM Investment Code) – by December 31, 2005;
- Harmonized Incentives Policy – by June 30, 2005;
- Final Stages of Monetary Integration – Starting June 30, 2007.

The objectives of the CSME Regime on Government Procurement is to create a Single Market for Government Procurement which offer guarantees of access, predictability of participation and certainty of protection of negotiated rights and expected treatment of all Community suppliers. It also establishes a regional regime comprising obligations, rules, disciplines and of rights common to all CSME States, while promoting greater levels of economy and efficiency in use of economic resources.

In 2002, the CARICOM Secretariat, through a grant contribution and guidance of IDB, assisted by CIDA initiated the “Government Procurement Frameworks in the Caribbean Community, Towards a Regional Best-Practice Regime for the CSME” project that would:

Provide decision-makers in the region with an overview of existing national government procurement frameworks in CARICOM - including laws, regulations, procedures and practices – and recommendations for their improvement;

Ensure greater availability of government procurement statistics for national and regional policy-makers in CARICOM; and

Provide recommendations on the formulation and implementation of a regional government procurement framework that would facilitate the functioning of the CSME and strengthen CARICOM’s external economic relations.

To date, a Comparative Assessment Report under component “a” has been finalized, and the Best-Practice Report under component “b” is under review by the CARICOM Secretariat. Component “c” is under preparation.

The Comparative Assessment Report, through a series of matrixes, suggests that the opening of government procurement to an open competitive supply sources will only benefit the member States. The Best-Practice Report provides a series of recommendations to align government procurement to international best-practice approaches.

The tenth Special Meeting of Conference on CSME in November 2004 identified Government Procurement and Contingent Rights as priorities under CSME Article 239. Presently, CARICOM Secretariat is in the process of drafting a Protocol on Government Procurement (to amend the Treaty of Chaguaramas) to be submitted to member States for national Consultations, subsequent to which an inter-Governmental Task Force shall be convened to start negotiations on the text of Protocol, the agreed draft of which shall be submitted for consideration to Ministerial Organs, for final signature by the Conference and ratification by member States’ national legislatures. The target date for signature by the Conference is set for end 2006.

Free Trade Area of the Americas

FTAA is an effort to unite the economies of the Americas into a single free trade area that began in 1994 in Miami. The Heads of State and Governments of 34 countries in the region agreed to construct the FTAA, in which barriers to trade and investment will be progressively eliminated.

FTAA Negotiating Groups were created in the following areas: market access, investment, services, government procurement, dispute settlement, agriculture, intellectual property rights, subsidies, antidumping and countervailing duties, and competition policy.

As could be seen, reforms in the area of market access and government procurement are two of the pillars of FTAA, which imply that to have access to benefits created from such agreements, government procurement should be in –line with internationally accepted Best-Practices.

Other Agreements CARICOM intends to enter into preliminary negotiations with:

- The CARIFORUM-EC Economic Partnership Agreement (EPA), (target date is set for the beginning of 2008): CARICOM, as part of CARIFORUM, has entered into negotiations with the EC for an Economic Partnership Agreement (EPA). Both parties have agreed to the inclusion of negotiated commitments on Transparency;
- CARICOM-Canada Enhanced Trade Arrangement. The final scoping session was held in March 2005 in Barbados and presently is awaiting the Canadian mandate to commence negotiations.

ANNEX 4 - BASELINE INDICATORS

The following tables are based on the baseline indicators tool developed by the OECD-DAC/World Bank Roundtable on Strengthening Procurement Capacity in Developing Countries to broadly assess the key elements of a well functioning procurement system.

This tool has been developed in a highly consultative manner by donors, developing country governments, and implementing agencies and organizations. The objective of this annex is to test this tool jointly with the Government. Consequently, the tables are intended to provide a basis for discussion and measure progress on the specific elements and not, at this time, to make decisions on use of country system. The comments inserted by the CFAA/CPAR team closely reflect the discussions with government and private sector stakeholders during the fact finding mission. However, it is recommended that the Government revises the tables and completes the assessment including the rating. The completed tables could serve as a basis to facilitate one of the sessions at a forthcoming workshop to agree on the action plan.

Assessment Guide:

FA: Fully Achieves the requirements; all baseline elements are substantially met. SA: Substantially Achieves the requirements (i.e. 70% of the baseline indicators presented below); a large number of base line elements are substantially met). NA: It does not achieve the requirements; a large number of baseline requirements are not substantially met (i.e. more than 70%).

Key Areas and baseline indicators		Comments	Level of Achievement	Objective
Pillar I. The Legislative and Regulatory Framework				
1	<i>Procurement legislative and regulatory framework complies with applicable obligations deriving from national and international requirements</i>	The Procurement Handbook does not have legal basis and its enforceability is unclear. In addition, its content should be improved to increase transparency and efficiency in the procurement process and better separate policy, mandatory provisions and good practice guidance. Regulatory authority rests with both the NCC and the MOFP which leads to fragmentation in the system's leadership arrangements.		A modern regulatory system which incorporate established international practice to enhance the efficiency and transparency of public procurement and will likely facilitate consistency with trade agreements currently being negotiated by Jamaica.
2	<i>Availability of implementing regulations, documentation and tools to support implementation</i>	There are no regulations, subsidiary operational instructions for staff, or standard bidding documents. Other important implementing tools, such, for example, as an M&E system and bid protest mechanism, are either missing or ineffective.		A well coordinated regulatory framework with basic principles, methods, and procedures included in the law, procedural details in regulation, and further guidance in manuals, guidelines and other lower level sources. The regulatory framework should also be complemented by a complete set of tools which facilitate its consistent implementation and oversight.
Pillar II. The Institutional Framework and Management Capacity				
3	Degree of mainstreaming and integration into Public Financial Management System	Procurement and financial management are considered as separate processes. Limited coordination between procurement planning and the budget process, internal control does not include procurement aspects and there is no interface between financial and procurement systems.		Procurement planning linked to budget and operational plans, internal controls based on a comprehensive risk prevention strategy, and full interface between PR and FM systems generating information for control, performance monitoring, and planning future procurement. Procurement is considered a core aspect of PFM.

Key Areas and baseline indicators		Comments	Level of Achievement	Objectives
4	Existence of a Functional Management/Regulatory Body	There is a normative unit within MOFP with a good vision and mandate under the FAA Act. However, current institutional arrangements and limited resources are inhibiting the full exercise of its oversight functions, including the production of implementing tools and monitoring of the system's performance.		A central policy function, separate from control and operational functions, and supported by regulatory authority, that oversees the consistent development, maintenance and application of the regulatory requirements, monitors the efficiency and transparency of outcomes, and coordinates a comprehensive capacity building strategy.
5	Existence of Institutional Development Capacity	There have been some tentative steps toward e-procurement, but progress has been slow and leadership and a strategic approach are missing. No sustainable capacity building strategy, very limited procurement statistics, and no quality standards or performance monitoring.		Well defined system and process requirements and a clear strategy for an e-procurement system to be implemented in subsequent phases. Well defined and consistently applied standards (market, process, and quality.) A well trained cadre of procurement staff, selected and promoted based on merits and clear professional standards of competence and accountability and adequately paid. Key stakeholders, including institutions, private sector and civil society actors are also capable, well informed and efficient.
Pillar III. The Procurement Operations and Market Practices				
6	Efficiency of Procurement Operations and Practices	Weak internal controls, limited training and generally low capacity. Most procuring entities' capacity is limited to shopping as contracts are frequently fractioned.		Strong human resources and a system of incentives and controls which can impact positively human behavior and institutional performance.
7	Functionality of the Public Procurement Market	Private sector is fairly developed and well organized and there are no major systemic constraints that inhibit private sector access to the procurement market. However, registration and fractioning of contracts may be limiting factors to wider competition.		There is a well developed, competitive private sector capable to respond to procurement opportunities.
8	Existence of Contract Administration and	Overall weak contract administration systems are contributing to frequent cost and time overruns in		A contract administration system that provides strong oversight on quality, and

	Dispute Resolution Provisions	works contracts. However, adequate contract conditions are used, including dispute resolution, and generally applied fairly.		generates information needed for sound management.
Pillar IV. The Integrity of the Public Procurement System				
9	Existence of Effective Control and Audit Systems	External control is adequate, but requires further modernization. The CG is a very positive feature of the system which provides specialized control for procurement, but it should interact more with the AG to enhance its overall effectiveness. Internal control focuses primarily on financial aspects and pay limited attention to procurement. There is no value for money auditing and information is not used to improve planning or as feed back for policy making.		An effective and efficient control framework which provides timely information for management action, legislative oversight, performance monitoring, and planning purposes.
10	Existence and Efficiency of the Appeals Mechanism	There is a protest system but it is not well regulated. Independent review is provided by the NCC which is also involved in approving contracts.		A fair and efficient protest system which contributes to compliance and the integrity of the system.
11	Degree of Access to Information	There are adequate legal basis (Access to Information Act.) However, there are limited statistics and overall data on the system. A strategic vision and consistent use and standards are required for the e-GP to produce significant impact.		Systems exist to collect data, records are well maintained and reliable, and stakeholders' access is well defined and facilitates the exercise of the rights and/or responsibilities.
12	Existence of Ethics and Anti-corruption Measures	There are adequate legal basis (e.g. Corruption Prevention Act) and a Commission responsible for enforcement. However, the latter which requires further resources to operate effectively.		The procurement system provides for clear definition of unacceptable practices and is perceived to operate with integrity.

THE BASELINE INDICATORS SYSTEM

PILLAR	INDICATOR	BASELINE	Achieved/Not Achieved
1. Legislative Framework	<i>Public Procurement legislative and regulatory framework achieves the agreed standards and complies with applicable obligations</i>	<u>Scope of Application and coverage</u>	
		Contracting entities at all levels are covered	
		All areas of procurement are included	
		Procurement using public funds, irrespective if contract value, is included,	
		The legislative framework is structured, consistent, and accessible to users and interested stakeholders	
		<u>Procurement Methods</u>	
		Stated preference for open, competitive procurement, unless otherwise justified	
		ICB defined for specified contracts (monetary thresholds) consistent with international standards	
		Defined basis for the procurement method, other than open competition	
		Negotiated and direct purchasing only under well defined and justified circumstances, subject to control	
		<u>Advertising rules and times limits</u>	
		Mandatory and accessible publication of opportunities for competitive procurement	
		Mandatory publication of result information on contract awards based on defined thresholds	
		Minimum time limits for submission of tenders and applications, consistent with method of procurement, and, when applicable, international requirements	

THE BASELINE INDICATORS SYSTEM (Continued)

PILLAR	INDICATOR	BASELINE	Achieved/Not Achieved
1. Legislative Framework	<i>Public Procurement legislative and regulatory framework achieves the agreed standards and complies with applicable obligations</i>	<u>Rules on participation and qualitative selection</u>	
		Fair, predictable rules and defined rules for participation that rely on qualifications and ability to perform the requirement	
		Limited and controlled use of price preferential clauses	
		Debarment process on defined basis, allowing for due process and appeal	
		Rules for participation of government-owned enterprises that provide for equal treatment in competitive procurement	
		<u>Tender documentation and technical specifications</u>	
		The minimum content of the tender documentation is specified	
		Neutral technical specifications	
		Content of tender documents is relevant to meeting requirements and implementing the process	
		<u>Tender evaluation and award criteria</u>	
		Objective, fair and pre-disclosed criteria for evaluation and award of contracts	
		Clear methodology for evaluation of tenders based on price and other fully disclosed factors	
		Requirement to maintain confidentiality during the evaluation process	
		<u>Submission, receipt and opening of tenders</u>	
		Public bid opening in a defined manner	
		Clear requirement to maintain records of proceeding	

THE BASELINE INDICATORS SYSTEM (Continued)

PILLAR	INDICATOR	BASELINE	Achieved/Not Achieved
1.Legislative Framework	<i>Public Procurement legislative and regulatory framework achieves the agreed standards and complies with applicable obligations</i>	Requirement to maintain security and confidentiality of tenders prior to bid opening	
		Submission and modalities of tenders well defined	
		<u>Complaint review procedures</u>	
		Inclusion of complaint and remedy procedures that provide for fair, independent and timely implementation.	
	<i>Existence of implementing Regulations and Documentation</i>	Implementing regulation that provides defined processes and procedures not included in higher level legislation	
		Model tender documents for goods, works, and services	
		Procedures for pre-qualification	
		Procedures suitable for contracting for services or other requirements where technical capacity is a key criteria	
		User's Guide or Manual for contracting entities	
		General Conditions of Contracts for public sector contracts covering goods, works, and services consistent with national requirements and international requirements when applicable	
2.Institutional Framework and Capacity	<i>Mainstreaming Procedures into Public Financial Management</i>	Procurement planning and data on costing is part of the budget formulation process and contributes to multi-year planning	
		Budget law and financial procedures support timely procurement, contract execution and payment	
		No initiation of procurement actions without existing budget appropriations	

THE BASELINE INDICATORS SYSTEM (Continued)

PILLAR	INDICATOR	BASELINE	Achieved/Not Achieved
2. Institutional Framework and Capacity	<i>Mainstreaming Procedures into Public Financial Management</i>	Contract execution is subject to budgetary controls to ensure sufficient funding for contract	
		Budget system provides for timely release of funds to make payments against contractual obligations	
		Systematic completion reports are prepared for certification of budget execution and for reconciliation of delivery with budget programming	
	<i>Functional Management/ Normative Body (the Body)</i>	The status and basis for the functional normative bodies is covered in the legislative and regulatory framework	
		The responsibilities address a defined set of functions which include, but are not limited to, the provision of advice to contracting entities; drafting amendments to the legislative and regulatory framework and implementing regulations; providing monitoring of public procurement; providing procurement information; managing statistical data bases; reporting on procurement to other parts of government; developing and supporting implementation of initiatives for improvements of the public procurement system; and providing implementing tools and documents to support training and capacity development of implementing staff	

THE BASELINE INDICATORS SYSTEM (Continued)

PILLAR	INDICATOR	BASELINE	Achieved/Not Achieved
2. Institutional Framework and Capacity	<i>Functional Management/ Normative Body (the Body)</i>	Organization, funding and staffing and the level of independence and authority (formal power) of the bodies to exercise duties is sufficient and consistent with the responsibilities	
		Responsibilities provide for separation and clarity so as to avoid conflict of interest and direct involvement in the execution of procurement transactions	
	<i>Existence of Institutional Development Capacity</i>	A system exists for collection and dissemination of procurement information, including tender invitations, request for proposals and contract award information	
		A sustainable strategy and training capacity exists to provide training, advice and assistance to develop the capacity of government and private sector participants to understand the rules and regulations and the how they should be implemented	
		Systems and procedures exist for collection and monitoring of national procurement statistics	
		Quality control standards are disseminated and used to evaluate performance of staff and address capacity development issues	
3. Procurement Operations and Public Procurement Market Practice	<i>Efficient Procurement Operations Capacity and Practice</i>	The level of procurement competence among government officials within the entity is consistent with their procurement responsibilities	
		The procurement training and information programs implemented for government officials, as well as for private sector participants is consistent with demand	

THE BASELINE INDICATORS SYSTEM (Continued)

PILLAR	INDICATOR	BASELINE	Achieved/Not Achieved
3. Procurement Operations and Public Procurement Market Practice	<i>Efficient Procurement Operations Capacity and Practice</i>	The existence of administrative systems for public procurement operations, and information databases to support monitoring of performance and reporting to and responding to the information needs of other related government systems	
		The existence and implementation of internal control mechanisms for the undertaking of procurement operations at the contracting level, including a code of conduct, separation of responsibilities as a check/balance mechanism and oversight/ control of signature/approval authority	
		The existence of norms for safe-keeping records and documents related to transactions and contract management	
		Provisions exist for delegation of authority to others consistent with capacity to exercise responsibilities	
	<i>Functionality of the Public Procurement Market</i>	The quality and consistency of submissions by the private sector to the government enables the application of the process leading to the award and completion of contracts	
		The participation rate of bidders in response to competitive tender invitations is consistent with the capacity of the market place	
		The private sector confidence in the legal and regulatory framework governing the procurement process is evidenced by their participation and their use of complaints or protests mechanisms	

THE BASELINE INDICATORS SYSTEM (Continued)

PILLAR	INDICATOR	BASELINE	Achieved/Not Achieved
3. Procurement Operations and Public Procurement Market Practice	<i>Existence of Contract Administration and Dispute Resolution Provisions</i>	Procedures are defined for undertaking contract administration responsibilities which include inspection and acceptance procedures, quality control procedures and methods to review and issue contract amendments in a timely manner	
		Dispute resolution procedures are included in the contract document providing for an efficient and fair process to resolve disputes arising during the performance of the contract	
		Procedures exist to enforce the outcome of the dispute resolution process	
4. The Integrity and Transparency of the Public Procurement System	<i>Effective Control and Audit System</i>	A legal framework, organization, policy and procedures for internal and external control and audit of public procurement operations exists and operates to provide a functioning control framework	
		Enforcement and follow-up on findings and recommendations of the control framework provide an environment that fosters compliance	
		The internal control system provides timely information on compliance to enable management action	
		The internal control systems are sufficiently defined to enable performance audits to be conducted	
		Auditors are sufficiently informed about procurement requirements and controls systems to conduct quality audits that contribute to compliance	

THE BASELINE INDICATORS SYSTEM (Continued)

PILLAR	INDICATOR	BASELINE	Achieved/Not Achieved
4. The Integrity and Transparency of the Public Procurement System	<i>Efficiency of Appeals Mechanisms</i>	The existence and operation of a complaint review system that gives participants in the public procurement process a right to file a complaint within the framework of an administrative and judicial review procedure	
		Decisions are deliberated on the basis of available information and the final decision can be reviewed and ruled upon by a body (or authority) with enforcement capacity under the law	
		The complaint review system has the capacity to handle lodged complaints efficiently and a means to enforce the remedy imposed	
		The system operates in a fair manner, with outcomes of decisions balanced and justified on the basis of available information	
		Decisions are published and made available to the public	
		Administrative review body, or authority is separate from the regulatory body, executing agency and the audit/control agency	
		<i>Degree of Access to Information</i>	Access to information by stakeholders in the process is supported by publication and distribution of information through available media with support form information technology when feasible

THE BASELINE INDICATORS SYSTEM (Continued)

PILLAR	INDICATOR	BASELINE	Achieved/Not Achieved
4. The Integrity and Transparency of the Public Procurement System	<i>Degree of Access to Information</i>	Systems exist to collect key data related to performance of the procurement system and to report regularly	
		Records are maintained to validate data	
	<i>Ethics and Anti-Corruption Measures</i>	The legal and regulatory framework for procurement, including tender and contract documents, includes provisions addressing the issue of corruption, fraud, conflicting of interest and unethical behavior and states actions which can be taken with regard to such behavior (either directly or by reference to other laws)	
		The legal system defines responsibilities, accountabilities and penalties for individuals and firms involved in fraud or corruption cases	
		Evidence of enforcement of rulings and penalties exists	
		Special measures exist for the government to prevent and detect potential fraud and corruption in public procurement (e.g., procurement audits)	
		Stakeholders (private sector and civil society) support the creation of a procurement market known for its integrity and ethical behaviors	
		Existence of a secure mechanism to report fraudulent, corrupt or unethical behavior	
		Existence of Codes of Conduct/Codes of Ethics for participants that are involved in aspects of the public financial management systems that also provide for disclosure for those in decision making positions.	

ANNEX 5 - PROPOSED OUTLINE OF PROCUREMENT REGULATIONS

A. Proposed amendments to the Financial Administration and Audit Act

The definition of a “public body” in section 2(1) should be the same as that given to this expression in section 2 of the Contractor-General Act.

As a consequence, section 2(2) should be deleted and the expression “department”, whenever used in the Act, replaced by “public body”.

The purpose of this amendment would be to make all entities responsible for the administration of public moneys subject to the provisions of the Financial administration and Audit Act, including any regulations issued by the Minister under section 19B of the Act. The following outline is provided only as an example of what the minimum content of the procurement regulations could be. Clauses should be drafted taking into account the domestic legal system and traditions and additional clauses may be added, as appropriate.

A. Proposed outline for Procurement Regulations

1. *Preface*: define authority, objectives, principles, and scope of application.
2. *Definitions*: define all key terms utilized (e.g. construction, consultants, goods, procurement, etc).
3. *International Obligations*: (prevalence of rules under ratified international agreements, including loan and trade agreements, in case of conflict.)
4. *Oversight of Public Procurement*: define roles and responsibilities of key institutions including the Accounting Officer, Financial Secretary, Contractor General and NCC, cross-referencing to the CG Act for the latter, as appropriate. Procurement policy oversight should also be defined (e.g. monitor the system performance, prepare standard documents, coordinate capacity building, etc.)
5. *Public Accessibility of Legal Texts*: (e.g. “These Regulations as well as the Procurement Instructions shall be promptly made accessible to the public and systematically maintained, including through electronic means of communication, is available.”)
6. *Records of Procurement*: Define a complete range of documents and information for which a record should be maintained with respect to each transaction, availability to the public (specifying which information should be made available only to bidders and how information can be obtained), and retention period. Define information which should remain confidential to protect proprietary and legitimate commercial interests, unless disclosure is ordered by a competent court.
7. *Form of Communication*: (in writing, taking into account electronic communications.)
8. *Qualifications of prospective suppliers and contractors*: (technical, experience, legal, financial, etc.) The article should require that the criteria be specified in tender or

- prequalification documents, and that these criteria be applied exclusively and equally to all prospective supplier and contractors.
9. *Prequalification Proceedings*: Complete definition of the process including application (only for particularly large or complex contracts), documents, invitation, and decision (any applicant who meets the criteria should be prequalified.)
 10. *Technical Specifications* (avoid trade mark, commercial names, and specifications which are too narrowly defined and can be identified with a particular supplier or contractor.)
 11. *Rejection of All Tenders, Proposals, and quotations*.
 12. *Inducements*: Cross-reference to specific criminal provisions or, if they do not exist, define corrupt and fraudulent acts (specific acts such as bribery, collusion, and fraud could be included.) Specific sanctions (suspension and debarment) should be included specifying procedures for due process, investigation, and decision.
 13. *Procurement Plan*. Entities should prepare an annual procurement plan in coordination with the Corporate Planning Process.
 14. *Prohibition to Split Contracts to Avoid More Competitive Procedures*.
 15. *Procurement Procedures*. Open bidding should be default method. There should be a clear definition of when national or international bidding is to be used by referring to a threshold based on an appropriate multiplier.
 16. *Conditions for use of restricted tendering*: (small value and widely known existence of a limited number of prospective suppliers/contractor which should all be invited.)
 17. *Conditions for Use of Direct Contracting*: (limited and exceptional reasons.)
 18. *Conditions for Use of Requests for Quotations* (simple, off the shelf goods and small simple works to be defined by reference to a multiplier or procurement instructions.)
 19. *Basic Provisions for Open Tendering*: define process including invitation, documents, clarifications, and modifications thereof, tender and contractual securities, submission and receipt of tenders, opening, examination and evaluation, and award (evaluation based monetarily quantifiable criteria, evaluation on pass/fail criteria, as specified in the bidding documents.) Care should be taken to avoid mixing examination (responsiveness to the requirements including legal), evaluation (selection criteria), and qualification (financial, technical and experience aspects of capacity to perform the contract.) Inducements, collusive, fraudulent and coercive practices should be cause for rejection of a bid.
 20. *Process to be Confidential*.
 21. *Tenderers not to be requested to modify their tenders as a condition for award*.
 22. *Notification of award and signing of contract*.
 23. *Two stage Tendering*.
 24. *Slice and Package (Tendering by Lot)*.
 25. *Consultant Selection*: separate provisions/methods for consultant selection based on a shortlisting process and taking into account quality and cost considerations as appropriate for selection of intellectual services (to be defined under “Definitions”).
 26. *Bid Protests*: Detailed rules for administrative review by the procuring entity (in the first instance) and by an independent entity (the NCC) in appeal. Aspects such as standing, stringent times for protesting and making decisions, scope of the protestable matter (including the choice of procurement method), form of protests, and

suspension (when appropriate) pending the decision, should be defined, as a minimum.

Provisions on the following aspects would also be useful:

- Contract payment conditions.
- Amendments to the contract.
- Provisions related to award and selection of concession and Private Public Infrastructure Contracts (e.g., BOT, BOO)

ANNEX 6 - HANDBOOK OF PUBLIC SECTOR PROCUREMENT PROCEDURES

The present Public Procurement Policy Paper of GOJ transfers the basic provisions of the public procurement into the “Handbook of Public Sector Procurement Procedures”, replacing all previous procedural guidelines and memoranda issued on the public sector procurement.

The Handbook does not provide a structured flow through of the procurement process since it does not distinguish among Policy, Regulations and Procedures. Being in the form of a Manual, Policy/Regulations/Procedures and intertwined. A major impediment of the comprehensiveness of the Handbook is the absence of Standard Bidding Documents for Goods and Works, and Request for Proposals for services. In the absence of these in an Annex, the Handbook attempts to capture some elements of Bidding Documents, presents them the form of regulations and builds upon them to establish procedures. It should be noted, that the Handbook, apart from clearly presenting Policy, Regulations and Procedures under the present arrangements, should also serve as the first contact point for training of staff handling procurement, i.e. the Handbook shall be designed to facilitate the understanding of the Procurement Policies, Regulations and the Procedures of GOJ, by providing sufficient details and should be used as a training manual for personnel handling procurement.

To this effect it is recommended that the Handbook be structured in several sections: (a) Policy, (b) Regulations, (c) Procedures and Annexes related to each. Furthermore, each section should contain standard sections in terms of (i) Purpose of the Section, (ii) Scope of applicability of the Section, (iii) Roles and Responsibilities pertaining to the Section, (iv) Particulars of the Section.

As an example, For a Section pertaining to “Preparing Bidding Documents for Goods”:

- The purpose would be: to establish policy for use of Standard Bidding Documents for goods;
- The Scope would be: applicable to preparation of Bidding documents for all procurement involving goods (and/or exceptions noted);
- Roles and Responsibilities: would identify the responsibility level(s) of preparing the bidding documents, including the commercial and technical parts and their approval from pertinent levels of authority;
- The Procedures would be: choosing the applicable Standard Bidding Document in accordance with the procurement method and instructing the procurement staff how to adapt them to the particular procurement in question. This section will provide a comprehensive overview of the sections of the Standard Bidding Document and explaining the implications to the staff handling procurement.
- Other necessary sections could be added as deemed necessary.

Appended herein is a proposed Sample Table of Content for Handbook as a general guide.

It is deemed imperative that the National Contract Commission, as the normative and functional body in government procurement, develop a set of Standard Bidding Documents for goods and works and Standard Request for Proposals for services. It is

further suggested that for harmonization purposes, NCC utilize Master Procurement Documents as models, adopted by the Multilateral Development Banks. At a minimum, Standard Bidding documents should be developed for:

- Limited/Selective tendering – Shopping;
- Open Tendering - Procurement of Goods;
- Limited/Selective Tendering – Minor Works;
- Open tendering – Procurement of Works, Small Contracts;
- Open tendering – Procurement of Works, Large Contracts;
- Request for Proposals.

The Handbook would further provide, among others, sample formats of:

- Procurement Plan;
- Standard Bid evaluation report format for goods and works;
- Standard proposal evaluation report format for services;
- Format for maintaining procurement data;
- Transmittal forms, etc.

Proposed Table of Content
For
“Handbook of Public Sector Procurement Procedures”

- I. **PROCUREMENT HANDBOOK**
 - Purpose
 - Scope
 - Updating of this manual

- II. **PROCUREMENT POLICY**
 - Purpose
 - Scope
 - What is procurement
 - What is a procurement manual
 - Procurement policy
 - Definitions
 - Procurement objectives

- III. **PROCUREMENT RESPONSIBILITIES**
 - Purpose
 - Scope
 - Responsibilities

- IV. **CONFIDENTIALITY**
 - Purpose
 - Scope
 - General

- V. **CONFLICT OF INTEREST**
 - Purpose
 - Scope
 - General

- VI. **FRAUD AND CORRUPTION**
 - Purpose
 - Scope
 - General

- VII. **LEGAL CONTEXT**
 - Purpose
 - Scope
 - The legal framework

- VIII. **PROCUREMENT OF GOODS AND WORKS**
 - Purpose
 - Scope
 - Responsibility

- IX. **PROCUREMENT CYCLE FOR GOODS AND WORKS**
 - Purpose
 - Scope
 - Key elements of procurement cycle

- X. LOGISTICAL STUDY FOR GOODS AND WORKS**
Purpose
Scope
Contents of a logistical study
- XI. PROCUREMENT PLANNING FOR GOODS AND WORKS**
Purpose
Scope
Procurement planning process
Packaging
Procurement scheduling
 Procurement plan preparation
- XII. PROCUREMENT METHODS FOR GOODS AND WORKS**
Purpose
Scope
Procurement methods
Procurement of goods
Procurement of works
- XIII. PREPARING BIDDING DOCUMENTS FOR GOODS AND WORKS**
Purpose
Scope
Procedure
Content of standard bidding documents
Standard bidding documents
Procurement of Goods
Procurement of Works
- XIV. TECHNICAL SPECIFICATIONS FOR GOODS AND WORKS**
Purpose
Scope
 Procedure
- CONTRACT PROVISIONS IN STANDARD BIDDING DOCUMENTS FOR GOODS AND WORKS**
Purpose
Scope
Contract provisions in standard bidding documents
General Conditions of Contract (GCC)
Special Conditions of Contract
Contract Securities
- XV. OVERVIEW OF PROCUREMENT METHODS FOR GOODS AND WORKS**
Purpose
Scope
Procedure
Open Tendering (Goods and Works)
Types of OT Methods
Standing Offer Agreements (SOAs) or Framework Contracts
Pre-qualification of Bidders under OT (Goods and Works)
Selective Tendering (Goods only)
Local Competitive Tendering (Goods and Works)
Shopping (Goods only)
Minor Works (Works only)
Single Tendering (Goods and Works)

- XVI. BID OPPORTUNITY ADVERTISING FOR GOODS AND WORKS**
 Purpose
 Scope
 Procedure
Procurement of Goods
Procurement of Works
- XVII. PROCUREMENT NOTICES FOR GOODS AND WORKS**
 Purpose
 Scope
 Procedure
- XVIII. BID OPENING PROCESS FOR GOODS AND WORKS**
 Purpose
 Scope
 Procedure
 Opening Process
- XIX. EVALUATION PROCESS FOR GOODS AND WORKS**
 Purpose
 Scope
 Procedure
General
Bid Evaluation Committees
Preliminary Examination
Detailed Examination of Bids
Determination of Award
Cross-Discounts
Pre/Post Qualifications
Alternative Bids
Evaluation of Bids on the Basis of Price Only
Evaluation on the Basis of Life Cycle Cost
Additional Considerations for Evaluation of Bids for Works
Evaluation of Deviations in Bids for Works
Application of Domestic Preference for Goods
Application of Domestic Preference in Works Contracts
Extension of Bid Validity
Confidentiality
Rejection of All Bids
- XX. AWARD AND SIGNING OF CONTRACT FOR GOODS AND WORKS**
 Purpose
 Scope
 Procedure
- XXI. PROCUREMENT RECORD KEEPING FOR GOODS AND WORKS**
 Purpose
 Scope
 Procedure
- XXII. PROCUREMENT OF SERVICES**
 Purpose
 Scope
 General

- XXIII. PROCUREMENT METHODS FOR SERVICES**
Purpose
Scope
Procurement Methods
- XXIV. PROCUREMENT CYCLE FOR SERVICES**
Purpose
Scope
Key Elements of Procurement Cycle
- XXV. PROCUREMENT PLANNING FOR SERVICES**
Purpose
Scope
Procurement Planning Process
Procurement Plan Preparation
- XXVI. OVERVIEW OF PROCUREMENT METHODS FOR SERVICES**
Purpose
Scope
Procedure
Quality and Cost Based Selection (QCBS)
Quality Based Selection (QBS)
Selection under a Fixed Budget (SFB)
Least Cost Selection (LCS)
Selection Based on Consultant's Qualifications (SBCQ)
Single Source Selection (SSS)
Individual Consultants (IC)
- XXVII. PROPOSAL OPPORTUNITY ADVERTISING FOR SERVICES**
Purpose
Scope
Procedure
- XXVIII. PROCUREMENT NOTICES FOR SERVICES**
Purpose
Scope
Procedure
- XXIX. CONFLICT OF INTEREST SITUATIONS FOR SERVICES**
Purpose
Scope
Overview
Categories of conflicts of interest
Single source selection
Evaluation of technical proposals
- XXX. DEVELOPING TERMS OF REFERENCE FOR SERVICES**
Purpose
Scope
Overview
Drafting terms of reference
- XXXI. PREPARING REQUEST FOR PROPOSALS (RFP) FOR SERVICES**
Purpose
Scope
General

Letter of invitation (LOI)
 Information to consultants (ITC)
Introduction
Data Sheet
 Technical and financial proposal standard forms
 Standard forms of contract

XXXII. SETTING THE EVALUATION CRITERIA TO EVALUATE PROPOSALS FOR SERVICES

Purpose
 Scope
 Procedure
Specific Experience
Methodology and Work Plan
Qualifications and Competence of Key Staff
Transfer of Knowledge (Training)
National Participation (for International Assignments)
The Point System
Evaluation Criteria and Sub-criteria

XXXIII. EVALUATION OF PROPOSALS FOR SERVICES

Purpose
 Scope
 Procedure
Rating System
Specific Experience Of Consultants That Relates To The Assignment
Adequacy of Proposed Methodology And Work Plan
Qualifications and Competence of Proposed Key Staff
Transfer of Knowledge (Training)
Local Participation As Reflected By Nationals Among Key Staff
Evaluation Report

XXXIV. NEGOTIATION AND AWARD OF CONTRACT FOR SERVICES

Purpose
 Scope
 Procedure
Preparations for Negotiation
Items Subject To Negotiation
Outline of Negotiation Procedures
Limits of Negotiations
Negotiations of Technical Aspects
Negotiation of Financial Conditions
Negotiation of Contract Conditions

XXXV. RECORD KEEPING FOR THE PROCUREMENT OF SERVICES

Purpose
 Scope
 Procedure

Annexes

Standard Bidding Documents
Standard Bid Evaluation Report Formats
Standard Request for Proposals
Standard Proposal Evaluation Report Formats
Various forms and transmittals

ANNEX 7 - PROCUREMENT PLANNING AND STATISTICS

Jamaica has adopted a three-year Corporate Planning timescale. According to the Corporate Planning Guide and Template issued by the GOJ in 2002, “Corporate Plans should explain strategies for achieving performance standards against outputs, which are clearly linked to priority policy outcomes, and to include details of the costs of the activities that will be carried out in connection with those strategies. They must also be in a format that can easily be analysed by Office of the Cabinet (OOC), which is responsible for coordinating policy and corporate planning, and by MOFP, which is responsible for coordinating the Budget with Corporate Plans and Operating Plans.” To make a link to the Budget, which is annual, the Corporate Plans are broken down into an Operating Plan for its first year along with a roll-over projection for the subsequent two years. The Plans are updated through Annual Reports and rolled forward annually by updating the previous year’s roll-over projections incorporating actual performance. Corporate Plans contain information about the expenditures and revenues implicit in the Plan. These are often set out in a Medium Term Financing Plan (MTFP), which is the Corporate Plan expressed in figures.

Through the review of some Corporate Plans of various Ministries, it is apparent that procurement planning is not inscribed in such processes. Budgets available for procurement at any given year depend on several factors: available revenue, devaluation, and the needs of other sectors of the economy. Thus, procurement planning is ad-hoc and is not built around the synergies of Corporate Plan objectives and targets.

Why Procurement Plan?

Procurement planning is much more than just choosing which procurement method to use for various goods, works and services contracts and when to schedule activities. These are important parts of planning but are closer to the end of the process than the beginning. Before reaching this stage, a number of more fundamental decisions should have been made first:

- Corporate Planners must translate Ministry policies to finite inputs to achieve the outputs, outcomes and objectives set.

Example: Ministry of Education, Youth and Culture in its White Paper of 2001, sets Minimum Critical Targets to achieve the strategic objectives of the Government on education that among other include targets on: Early Childhood, attendance levels, teacher/student ratios, completion rates, increased provision of infrastructure, etc.

All of these set targets require finite inputs, which translate into procurement actions, in terms of goods, works and services. Training of teachers might be required to maintain the teacher/student ratios. Increased provision of infrastructure implies construction of schools. Increasing attendance levels might involve among others wider availability of didactic materials. All of these involve procurement.

- In general, once inputs are identified, estimates of all required procurement packages should be prepared. This would provide an early indication of the financing required to achieve the objectives/targets;

- Based on requirements, the local supply capabilities should be ascertained, along with the interest of foreign suppliers. Packages are bulked for “value for money”, as economy and efficiency should be goals of procurement staff;
- Upon bulking of the packages scheduling should be completed. Procurement scheduling should take into account the strengths and weaknesses of the procuring entity to arrive at a realistic schedule. A procurement schedule should include all the lead times required to complete the procurement according to the pre-scribed method.

Thus, a procurement plan shall provide the budget process with a time related financial resources required to carry out the procurement. Nonetheless, these plans should be realistic and viable. Annex 1 provides a sample Procurement Plan for reference purposes. The reference supporting the procurement plan should be provided from two sources:

- a. Each procurement plan should be supported with the procurement statistics of the previous year. These statistics must at a minimum provide:
 - Category of procurement (goods, works, services);
 - Method of Procurement;
 - Estimated amount;
 - Planned Procurement implementation dates;
 - Actual procurement implementation dates;
 - Awarded contract value;
 - Number of Bids/proposals received.
- b. Performance review report of the Internal Audit Department of the Procuring Entity. It appears that internal audits at procuring entities confine themselves only to financial audits. The Internal Audit Manual of GOJ, Section 5, elaborates on “Value-For Money Auditing”. This section directly relates to procurement and internal audit departments should organize to undertake such audits within their organization. The minimum performance requirements should evolve around the areas provided in “a” above. This approach also implies that procurement staff should constantly maintain, update and up-grade their procurement statistics on an on-going basis to allow the internal auditors to carry out their functions and vice versa, lack of data should not exclude the internal auditors to perform their functions.

Since, Ministry of Finance and Planning is the focal point of coordinating and managing the budget process, it is recommended that the format of the procurement plan, along with the statistics be initiated by them. These types of data are not extensive. Statistics could be compiled in a spreadsheet form, where fields can be allocated to mitigate them into a relational data base for various inquires.

Procurement Statistics

There are no organized and coherent procurement statistics in Jamaica. MOFP has attempted many times to obtain such data with no tangible results. Procurement statistics is not only essentials for financial control purposes but also for policy makers.

Compiling procurement statistics should at the initial stage be implemented by each procuring entity. These statistics, at a minimum should contain:

- Planned procurement packages by category, i.e. goods, works and services;

- Planned Procurement Method for each package;
- Budget for each package divided into Lots (if any);
- Number of bids/proposals received (per Lot - if any);
- Actual awarded contract value (including Lots – if any);
- Final disbursed amount (per Lot - if any);
- Number of extensions/variation (if any – including Lots).

These statistics should be submitted to MOFP along with the annual Corporate Plans, the provision of which within the Corporate Plan should be contingent to the validation of the requested Budget. The Procurement Policy Implementation Unit in turn should consolidate these statistics into a national data base broken down by category of goods, works and services. Consequently, the analysis of such statistics will allow the PPIU to propose the necessary policy orientation on public procurement.

Furthermore, at the national level, these statistics should also be one of the major indicators for the Contractor-General's office to carry out its monitoring functions in the award and implementation of Government contracts.

Finally, these statistics are vital to strengthen Jamaica's and CARICOM's position within regional agreements while negotiating/participating in international trade fora.

ANNEX 8 - REGISTRATION AND NATIONAL PREFERENCE

The use of approved registration lists of contractors, suppliers, and consultants to serve as eligibility for tendering, limits competition and leads to lack of transparency. Under current procedures it is a pre-condition for a contractor/supplier/consultant to be registered before consideration as a bidder, under all procurement methods, except under open tendering (ICB), where all interested local and foreign bidders are allowed to bid. Furthermore, registration is construed as pre-qualification.

Although the Handbook does not specifically at the onset exclude foreign participation, there are too many restrictions that are implicit of National Preference in public procurement. These are:

- NCC, Register of Public Sector Contractors, Grades 1 to 4, Application Form – mandatory provision of Tax Compliance Certificate: which implies that all foreign firms, seeking participation in public contract below the open tendering threshold, must be registered and active in Jamaica to be able to produce a tax Compliance Certificate. It should be noted that firms of the CARICOM member States fall under this category.

- Handbook

- Section 1.4 – Definitions:

<i>Contract Value Threshold</i>	<p><u>Internal</u>: Internal contract value thresholds are contract values above or below which specific procedures apply.</p> <p><u>International</u>: International contract value thresholds are contract values above which participation in procurement opportunities are open to both domestic and foreign contractors.</p>
<i>Offsets</i>	<p><u>Measures used to encourage local growth and development or improve balance of payments accounts by means of domestic content, licensing of technology, investment requirements, or similar arrangements.</u>³⁰</p>

- Section 2.1.5 - External Funding Agencies

A significant percentage of the larger GOJ contracts are often funded by agencies external to GOJ, e.g., World Bank, Caribbean Development Bank, etc. The Ministry of Finance and Planning is encouraged to negotiate with these agencies for the application of domestic content requirements in these contract actions, on the basis of the relative smallness of the economy and the need to encourage domestic growth and development.

- Section 3.1, 3.2, 3.3, 3.4 - Procurement of Works, Contract Value Thresholds

Where the estimated value is less than J \$ (contract value thresholds), participation shall be restricted to domestic concerns only, except where no such qualified concern is registered with the NCC.

³⁰ Underlining is the author's.

- Sections 3.5 – Procurement of Works, Contract Value from J\$15m to Less than the International Contract Value Threshold for Works

Where the estimated contract value is equal to or greater than J\$15M, but less than the international contract value threshold for works, participation opportunities shall be restricted to NCC registered domestic contractors only, except where no such qualified concern is registered with the NCC. Procuring entities shall advertise the procurement opportunity in national daily newspapers, or business magazines/periodicals pursuant to the nature and/or complexity of the procurement. Opportunities shall be offered through selective tender, where all interested domestic contractors appropriately qualified and registered by the NCC, are afforded the opportunity to tender. A contractor pre-qualification process shall be required for work in excess of J\$150 million. Authority to enter into contract must be obtained from the Cabinet, after reference to the NCC and the portfolio Minister for approval of award recommendation. See Section 6 “Tendering Procedures” for applicable procedures.

- Sections 4.1.1, 4.2, 4.3, 4.4, 4.5 – Procurement of Goods, Contract value Thresholds

Procuring entities may employ offsets, e.g., local manufacture restrictions, within this contract value range (for all thresholds except for threshold greater than international value).

- Section 5.1.2.3 – Advertising Guidelines, Procurement of Services

Under J\$4 Million

Advertising not required. Procuring entities should invite proposals from a minimum of three (3) appropriately qualified consultants registered with the NCC. Participation shall be restricted to domestic consultants only, except where no such qualified consultant is registered with the NCC.

From J\$4M to less than J\$15 Million

Advertise in a national newspaper. Participation shall be restricted to domestic consultants only, except where no such qualified consultant is registered with the NCC.

From \$15 Million to less than the International Contract Value Threshold for Services

Advertise in a national newspaper. Participation shall be restricted to domestic consultants only, except where no such qualified consultant is registered with the NCC.

Equal to or greater than the International Contract Value Threshold for Services

Advertise in a national newspaper. Participation shall be open to all domestic and foreign consultants who are appropriately qualified. Procuring entities should seek to employ offsets, such as domestic content requirements, as far as practicable.

Registration as a pre-qualification for participating in procurement is not a good practice and goes against the principles of competition and transparency in public procurement. In the present format and concept the NCC registry system of suppliers is not compatible with the procurement policies of both multi-lateral and bilateral Donors. Furthermore, the Handbook falls short of defining the criteria for National Preference Offsets in terms of “domestic content, licensing of technology, investment requirements, or similar arrangements” and leaves it to the discretion of procuring entities.

The practice of using registration lists, as eligibility for tendering should be discontinued to encourage open competition and transparency. Bidding should be open to all qualified, eligible bidders without regard to registration status. In principle, wherever appropriate, pre-qualification should be carried out during bidding stage, to ensure that only qualified bidders are permitted to submit bids. If the GOJ were to continue with the pre-registration practice, this should be reformulated to ensure that: (a) The registration scheme as a market capacity information registry, (b) that foreign bidders are allowed to bid without registration leaving registration for after award and before signature contract (implying to adopt Open tendering procedures as the default method, as per the recommendations of the CPARs); (c) financial and technical information for qualification be conducted during each bidding process and restricted only to works; (d) bidders be allowed to register through the internet for updating information at any time with no deadlines imposed; and (e) registration not be a substitute for advertisement, i.e. adopting open tendering method for thresholds warranted.

ANNEX 9 - CAPACITY BUILDING IN PUBLIC PROCUREMENT

Both CPARs of 2003 and 2004 have identified major shortfalls of knowledge among staff handling public procurement in Jamaica. This concern was also expressed by the MOFP and almost all Procuring Entities visited.

Not only procurement knowledge base is shallow in the country but there is a major gap in training capacity as well. The only exposure to procurement is limited to some elements of procurement, when public officials attend some accounting program training at the Management Institute for National Development (MIND). There are no courses in procurement offered at the University of West Indies. The situation is the same throughout the CARICOM and there are no regional institutions that offer training in public procurement.

There are no procurement professionals with in the public hierarchy of GOJ.

It is strongly recommended that GOJ embark on an accelerated program to create the critical mass of procurement personnel.

According to MOFP, the introductory level training would comprise some 400 individuals from various Ministries, Agencies and Public Enterprises.

The critical mass would also involve middle and higher managers that would include personnel from internal audit, decision makers, policy makers, etc. Training of this category of personnel would encompass much more advanced level of training that would provide insight in performance measurement issues, policy issues, etc.

Thus, the training would involve the creation of the following positions:

- Procurement officers: about 300 individuals, as first line professionals involved in procurement operations distributed among all Ministries, Agencies and Public Enterprises. This category would require a minimum of one month of training, where the objective is to enable the selected individuals to competently plan and execute procurement operations for acquisition of goods, works and services in accordance with the Handbook (preferably amended as proposed in section 2.4.2 Appendix 1);
- Procurement Managers: about 75 individuals, comprising department heads, internal auditors, staff of Contractor-General and Auditor General Office, for quality assurance and accountability purposes. This category would require further advanced training in areas covering compliance to legislative environment, change management environment, auditing techniques in procurement systems and enforcement of regulations;
- Procurement Analysts: about 25 individuals, to provide leadership in public procurement Best-Practice in Jamaica comprising first level managers from MOFP, PPIU, Contractor-General and Auditor General Office, NCC, Office of the Cabinet, etc. This category of training will enforce analytical and assessment methods at policy level for subsequent development of systems to achieve the objectives of GOJ public procurement policies and regulations.

It is suggested that the training program start from training of the trainers, who in turn should create the critical mass and roll out the personnel handling procurement. It is estimated that such a program would require around US \$ 0.75 to US \$ 1.0 million, broken down as follows:

- Program development: US \$ 0.15 – 0.25 million
- Training of trainers
(a cohort of 20 trainers): US \$ 0.10 – 0.15 million
- Creating the critical mass:
(300 persons) US \$ 0.30 – 0.40 million
- Advanced level training for managers:
(100 persons) US \$ 0.20 to 0.30 million

The Program Development involves the strengthening of MIND to enable it to provide the required training to create the critical mass. This program could eventually serve as a model to replicate this training throughout the CARICOM Member States, where procurement capacity is also shallow. Initial seed funds to create the critical mass in public procurement could be sought from Bilateral Donor Agencies who support Jamaica's developmental efforts. Such a proposal for Capacity Building in public procurement will no doubt enjoy the support of the World Bank and the Inter-American Development Bank.

The sustainability of such a program though, would only be achieved if each Ministry/Agency ear-mark a specific budget line item for continuous training every year, which in turn will drive MIND to further develop their training programs based on actual needs. It is estimated that an average annual allocation of around US \$ 50,000 across all Ministries and Agencies for upgrading and maintaining public procurement skills would provide the necessary sustainability. At the initial phases of implementation of such a Program, it would be advisable that MOFP insist such an allocation as a prerequisite for budget viability of each Ministry/Agency.

Considering the substantial cost savings that could be achieved in public procurement the investment in personnel training is worth while. In comparing to similar economies and Best-Practice approaches, it is estimated that economies of at least 10% could be achieved over the short period of time, if personnel handling procurement are trained. At the level of official estimates of JA \$ 33.25 billion, this would amount to approximately JA \$ 3 to JA \$ 4 billion.

Finally, GOJ must earmark and allocate a dedicated budget in tandem with other CARICOM Member States to instate an accreditation program of procurement professionals. This would be a medium term objective and it is one of the proposals put forth in the harmonization of the Government Procurement at the CARICOM level.

Training should not be a one time process. It is further suggested that GOJ embark on regular re-training programs of personnel based on identified lacunae and needs. Consequently, salaries must be adjusted and linked to performance levels.

Furthermore, apart from involving MIND as the official agency for public service training institute, a certification program must be initiated from University of West Indies. Since the University is accredited throughout the CARICOM, the program could be replicated through the member States with benefits far more reaching than Jamaica alone.

GOJ has expressed that in the present budgetary constraints it would be difficult to invest in such a training program. Bilateral Donors (DFID, CIDA) have expressed that they would be interested to assist Jamaica in the present Financial and procurement reforms. It is further recommended that GOJ, with the endorsement of the World Bank and IDB, plan and request the assistance of bilateral donors in this very essential training program.

