Government of Jamaica

Final Report on the PEFA Assessment

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ASSOCIES AUDIT & CONSEIL

Acknowledgements and Note

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Responsibility for the views expressed and for any errors of fact or judgement remains with the Consultant who takes the responsibility for the assessment of events, opinions and comments and for any misstatements that remain. The PEFA Assessment exercise and the Consultant aim to be as factual as possible and we hope we have fulfilled this requirement. Any inaccuracies, errors or misinterpretations that remain are the sole responsibility of the Consultant.

Note

Currency and Exchange Rates

Currency Unit – Jamaican Dollar (J$)
Euro 1 = J$ 86.70
US$1 = J$ 64.70

Fiscal Year

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PEFA Assessment Period

FY 2003/2004, FY 2004/2005, FY 2005/2006

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List of Acronyms and Abbreviations

Acronym	Full Title
ACCPAC	Accounting Package (ooff-the shelf)
AG	Accountant General's Department
BIZPAY	Payroll package
BNS	Bank of Nova Scotia
BOJ	Bank of Jamaica
BOO	Built-Operate-Own
BOT	Built-Operate-Transfer
BRS	Bank Reconciliation System
CBD	Cariibean Bank of Development
CFAA	Country Financial Accountability Assessment
CG	Contractor General's Department
COFOG	Classifcation of Functions of Government
CPAR	Country Procurement Accountability Review
DFID	Department for International Development - UK
DSA	Debt Sustainability Analysis
EC	European Commission
EDF	European Development Fund
FAA	Financial Administration and Audit Act
FINMAN	New Financial Management Information System
FMIS	Financial Management Information Systems
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GoJ	Government of Jamaica
IBRD	International Bank for Reconstruction and Development (World Bank Group)
ICTAS	Integrated Computerised Tax Administration System
IDB	Inter-American Development Bank
IFAC	International Federation of Accountant
IFRS	International Financial Reporting Standards
IIA	International Internal Audit Standards
IMF	International Monetary Fund
INTOSAI	International Supreme Audit Institution
IPSAS	International Public Sector Accounting Standards
IRD	Inland Revenue Department
JABIS	Jamaican Budget Information System
M&E	Monitoring and Evaluation
MDA	Ministry, Department, Agencies
MoE	Ministry of Educ
MoFP	Ministry of Finance and Planning
MoHTWW	Ministry of Housing, Transport, Water and Works
MoLG	Ministry of Local Government
MTEF	Medium Term Expenditure Framework
MTF	Medium Term Socio-Economic Framework
NCB	National Commercial Bank
NCC	National Contract Commission
NWA	National Works Agency
OSC	Office of the Services Commissions

Acronym	Full Title
P.A.Y.E	Paye-As-You-Earn income tax scheme
PAC	Public Account Committee
PBMA	Public Bodies Management Act
PEFA	Public Expenditure and Financial Accountability
PEO	Public Entreprises Oversight
PER	Public Expenditure Review
PEX	Public Expenditure Division
PFM	Public Financial Management
PMF	Performance Measurement Framework
PXPC	Public Expenditure Policy Coordination Division
RBTT	Royal Bank of Trinidad and Tobago
SERP III	Socio-Economic Reform Programme III (EDF)
SFC	Standing Finance Committee
TAAD	Taxpayer Audit and Assessmen Department
TAAD	Taxpayer Audit and Assessment Department
TAD	Tax Appeal Department
TAD	Taxpayer Appeals Department
TRN	Tax Registration Number
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WB	Worl Bank

SUMMARY ASSESSMENT

The Public Expenditure and Financial Accountability (PEFA) assessment, sponsored by the European Commission, has been undertaken as an exercise on behalf of the Donor Harmonization Group and in agreement with the Government of Jamaica (GoJ). The assessment was prepared on the basis of:

1. The Public Financial Management Performance Measurement Framework issued by the PEFA multi-donor programme in June 2005; and,
2. The demonstrated observable public financial management (PFM) practices in Jamaica at the time of the assessment as determined through interviews, reviews and analysis of official documents and reports.

A large amount of documentary evidence was provided by the government to support the study, where possible, corroborating evidence was sought from a variety of other sources. Discussions were held with stakeholders prior to determine the appropriate scoring for each indicator.

The purpose of the PFM Performance Report is to assess, at a given point in time, the status of the public financial management system in Jamaica. It should serve as a comprehensive and holistic measure of current PFM systems identifying both areas of strength and weakness. It is important to underline that the objective of the assessment has not been to evaluate and score the performance of specific institutions or any PFM officials, but rather to assess the performance of the PFM systems themselves. It also offers, by design, no assessment of policy but rather an assessment on the capacity of the PFM systems to deliver on policy, irrespective of its merit.

Through this, the first PEFA Assessment carried out for Jamaica, a baseline is to be set for the continued use and assessment of the set of 31 high-level indicators of the PEFA Performance Measurement Framework. It is anticipated that such PEFA Assessments shall be carried out every two to three years, and in so doing provide a clear and accessible basis for monitoring PFM progress over the long term.

This report, in keeping with the Strengthened Approach[1] to support PFM reform, neither articulates specific recommendations for PFM reform, nor details an action plan. It is anticipated, however that the results and the narrative herein presented shall assist in the Government defining its PFM reform priorities and subsequent reform activity sequencing and pacing schedule. Further, it should serve as a useful basis for supporting dialogue pertaining to a strengthened approach for harmonized Donor support of the Government's PFM reform efforts. It should, along with future PEFA assessments, provide a comprehensive and consistent basis for monitoring medium to long term progress of PFM performance in Jamaica.

INTEGRATED ASSESSMENT OF PFM PERFORMANCE

1. Credibility of the Budget

The aggregate revenue out-turn matches very well the budget projections, even in the year of Hurricane Ivan, and thus provides a sound starting point for the credibility of the budget. The taxation reforms have translated into greater transparency and accessibility of information for taxpayers which has led to greater

[1] The Strengthened Approach adopts (i) a country led (in contrast to merely owned) PFM reform strategy and action plan; (i) a harmonised and aligned donor support of the PFM reform strategy , and (iii) single shared information pool.

tax payer registration and compliance. However, the high level of tax arrears point to underlying problems with tax collections.

The aggregate expenditure out-turn figures matches the budget estimates reasonably well but not without having given rise to the substantial accrual of arrears, indicating that commitments are made outside of resource availability. Such transactions are not directly reflected in financial reporting when a modified cash accounting basis is applied[2] unless arrears are tracked explicitly. The reported expenditure data incorporate a bias that tends to overstate the degree of matching between aggregate expenditure out-turn and budget estimates. The reason is that the reported expenditure figures represent a mix of actual expenditure data and budget estimates where actual expenditure figures are not available. There are relatively high levels of variance of expenditure out-turn for the budget entities up and above aggregate expenditure deviation from aggregate budget estimates revealed. The bias introduced by reporting only provisional expenditure presents even greater difficulties for assessing accurately this measure.

High indebtedness appears to have coloured a number of aspects of PFM practice in Jamaica. Even with a fairly sound budget preparation process, and for the most part effective debt management (exclusive of arrears), there has been a direct impact upon budget execution in respect of the predictability of budget releases, the subsequent ineffectiveness of commitment controls, the negative impact on value for money objectives of sound procurement as the market compensates for late payments; and the accrual of arrears which in turn can undermine macroeconomic stability. The narrow fiscal space in which PFM operates in Jamaica, exacerbated by the high non-discretionary component of the budget (including the wage bill which comprises 60% of primary expenditure), has contributed to a decoupling between budget planning and the budget execution. Arrears are in practice paid out of the next year's budget thus constraining further the current year's resources and distorting even more budgetary outcome from budgetary intent. The accrual of arrears is an area of major concern since it serves as an informal debt acquisition mechanism that bypasses the budgetary debt management controls.

The budget process, while it occurs within a pre-announced resource envelope based upon credible fiscal forecasts and has strong bottom-up elements within the budget entities, is more characteristic of one based upon the development of a laundry list that incorporates top-down cuts and cherry picked projects, rather than being subject to a true reconciliation of top-down resource discipline and bottom-up inputs. A number of Budget Entities state that their budget estimates are based purely on an absolute needs basis which (without the policy basis or authority to close down service facilities or reduce staffing levels) is still far in excess of the available resources to present a realistic circumstance for reconciling their budgets to the resource envelopes. This process weakens credibility of the budget.

In spite of having many of the elements in place to achieve a fully credible budget, the assessment demonstrates a mismatch between budget needs (as defined by the current policy objectives) and the available resources. It would appear that this situation has been caused by the high levels of indebtedness having emanated largely from the absorbed losses from the financial crisis of the late nineties. These losses were absorbed without compensating short-term adjustments to service delivery levels. As a result the high non-discretionary component of the budget today does not readily permit tactical budget cuts at the implementation level of the budget and would require more fundamental policy and strategic decisions to bring the primary expenditure needs more in line with available resources.

[2] Jamaica adopts a modified cash accounting basis.

2. Comprehensiveness and Transparency

The very strong democratic traditions have evolved a fairly transparent and comprehensive budgetary process. Fiscal forecasts are realistic and debt management is based upon a clear and well articulated debt management strategy with a careful monitoring of the debt stock (exclusive of arrears). The budget documentation is fairly comprehensive and the government has adopted international standards for the budget formulation and execution, based on economic, administrative and sub-program classification that can produce consistent documentation according to GFS/COFOG standards. The budget classification is well capable of supporting a policy based budgeting process.

The budget cycle is well defined and the call circular issues clear guidelines providing a sound context for the budget process. The budget documents are quite detailed and are made available on the Internet, however certain basic data (whilst available internally) is not shown in the budget books.

The Ministry of Finance and Planning has the capacity to oversee transactions through daily bank reconciliation and to monitor the public entities plans and financial management. However, such an oversight capacity may be rendered ineffective by supporting policy implementations that do not take costs into account or incorporate a resource availability discipline.

The allocation of funds to local authorities is for the most part transparent and predictable, even though the effectiveness of such predictability is undermined by the delayed process of Sub National Government budget allocation to well after the start of the budget year. There remains a part of the Sub National Government transfers, specifically the General Assistance Grant (which covers personnel emoluments, pensions, utilities and other recurrent charges and programmes), that adopts a horizontal allocation across the parishes and the municipality that is somewhat ad hoc.

A culture of transparency with regards to budget documentation is clearly evident. There is a clear intent of transparency and a proactive sharing of useful budget process information, as reflected in the level of public oversight engagement. The public access to information is enshrined in the Access to Information Act. However, some simple steps could be taken to provide fuller information that actually exists, and the delays in the publication of financial statements render their transparency less relevant. Further, the use of provisional expenditure data obscures the actual implementation of the budget and in so doing undermines the intent of transparency.

3. Policy-Based Budgeting

The budget process is clearly set out in Call Circular and adhered to. Most ministries complete their submissions on time and many of them start the process before the receipt of the budget circular indicating the ceilings. While the executive completes its budget submissions prior to the start of the fiscal year, the legislature always approves the budget after the start of the fiscal year. This is largely due to the historical practice of Parliament with respect to their sitting schedule. Consistent with the requirements of the Constitution the Parliament approves the appropriations within one month of the start of the fiscal year after subjecting the budget proposals to vigorous debate.

Medium term fiscal aggregates forecasts including the budget year are prepared for a three-year horizon; however, the next budget year is not linked to the forecasts. Many of the elements of sound strategic planning are already evident and there are some important elements of multi-year budgeting that have been introduced, however these elements have not yet been integrated into an effective multi-year budget process. Sector strategies and detailed corporate plans are prepared but these are not always costed and if so, without the top-down disciple of a fiscal aggregate constraint, hence not fully facilitating a direct tie-in into the broader budget formulation process. This impacts negatively upon budget execution along with the implementation of the internal controls. It also serves as an obstacle to a successful implementation of national development policy.

4. Predictability and Control in Budget Execution

Revenue forecasts are realistic and tax collection is robust enough to serve as a key factor to achieving fiscal aggregate and budgetary allocation discipline. In practice however budget allocation discipline is not always achieved. The unpredictability of budget releases and the corresponding lack of effective commitment controls lead to expenditure profiles that do not closely match budgetary intent. Cash management is done through a centralised bank accounts monitoring mechanism that facilitates daily bank balance consolidation that informs budget releases. However, the tight cash constraints translate into a budget execution process based on 30-day warrants negotiated monthly. This lack of predictability, arising from the narrow fiscal space, undermines the effectiveness of controls in the budget execution. Two cases in point are the lack of effective commitment controls and the lack of the necessary funding exacerbated by poor predictability of funding undermines the ability of internal audit units to be fully operational[3].

The absence of sanctions in the legal and regulatory framework and the practice of PFM do not create an environment to ensure compliance with the legal and regulatory requirements as it pertains to budget execution. The narrow fiscal space and its impact on recurrent expenditure appear to be a constraining factor to the effectiveness of internal audit. The limited effectiveness of Audit Committees to ensure the full implementation of corrective measures derived from both internal and external audit findings exacerbates the problem further.

The assessment points to procurement as an area of weakness. The Handbook of Public Sector Procurement Procedures (2006) serves as the only regulatory instrument for the management of procurement. The procurement regulations do not include all of the requirements of a sound public procurement system including efficiency, fairness and transparency. For example, the regulations do not facilitate a fully effective procurement appeals mechanism. Further the regulations include some subjective criteria in the application of Selective Tendering, a widely applied procurement method that undermine the promotion of competition objective. With the high levels of arrears the PFM system, even where appropriate procurement methods are applied cannot guarantee value-for-money as the market adopts a pricing strategy that factors-in payment delays.

Approximately 60% of primary expenditure is the wage bill and so lack of effective controls in payroll processing has important risk consequences on a major part of overall expenditure. Fragmentation of personnel and payroll processing, weaknesses in software, lack of direct integration between personnel databases and the payroll function all point to weak payroll controls. This is in spite of a powerful establishment control process that misses the mark of its full potential because it is not well integrated into the budget process.

5. Accounting, Recording and Reporting

Although Government accounting standards are applied across all ministries consistently, the accounting, recording and reporting is characterised by extended delays. The monthly expenditure returns are

[3] The GoJ notes that several years ago, in an effort to mitigate these effects on control in budget execution, it instituted specific budget expenditure estimates for the internal audit units and ensures that they are fully funded.

comprehensive, distinguishing of commitments and expenditure, advances and payments and allow direct comparison of budget implementation to the original budget but the lateness of their submissions limit their effectiveness as a management tool. Further the lack of consolidation of Budget Entity submissions to an aggregate budget implementation profile limits the information available to policy decisions. The consolidation (as opposed to the summary) of accounts would impose an additional accounting discipline and ensure greater accuracy of fiscal data.

The annual appropriations accounts are typically well outside of the 4 month requirement of the FAA Act. Delays extend for some budget entities extend more than a year after the year-end. Beyond delays, the practice of reporting only provisional expenditure data, for which are significant proportion merely reflects budget estimates, undermines the credibility of fiscal data. In practice, this fragmentation and delays in the submission is reflected in the absence of actual audited expenditure figures being included in the Estimates of Expenditure passed by the House of Representatives. The only expenditure data reported in the budget documentation are provisional expenditures.

There is some indication that expenditure documentation is not complete and that for some MDAs there are not adequate storage facilities to properly file expenditure documentation.

6. External Scrutiny and Audit

Jamaica is characterised by historically strong democratic system and a vibrant public oversight of the government's financial management. Unfortunately, the late submission of the financial statements undermines the Auditor General's function and limits the level of information available to the House of Representatives on the financial management and execution of the previous fiscal year. Nonetheless, the Standing Finance Committee, i.e. the full House, and the Public Accounts Committee use the Auditor General report, and the Budget documents, for their debates. The Public Accounts Committee's hearings are thorough and the debate is open to the public, the press and is broadcasted on television. However, opportunities are missed to strengthen the PFM system as the recommendations made by the Auditor General and the Public Accounts Committee are not enforced through the full implementation of corrective measures. This may be in part due to the lack of effective sanctions application.

ASSESSMENT OF THE IMPACT OF PFM WEAKNESSES

When viewed from the perspective the three main objectives of a sound PFM system, namely aggregate fiscal discipline, strategic allocation of resources and the efficient delivery of services, Jamaica demonstrates clear potential to score well on all three, with many specific functions of PFM carried out very well, but does not quite live up to its full potential in practice. There may be pockets of excellence, but it is important to keep in mind the importance of linkages between PFM activities and the tendency for a PFM system to deliver overall at a level influenced significantly by the weakest links in the activity chain.

There are two main factors that colour PFM in Jamaica:

1. PFM in Jamaica is characterised by a number of very sound elements of PFM activity. There is much evidence of a long history of reform. However, the implementation of a holistic broad based strategy has been somewhat fragmented, without a great enough emphasis on reform activity prioritization, sequencing and coordination. This tendency to fragmentation in its reform implementation is further exacerbated because there is not single coordinated funding framework through which all donors active in the sector can extend their support, nor a single

reform monitoring and evaluation framework with both verifiable milestones as well as outcome indicators to inform and steer the pace, sequence, and emphasis of PFM reform.

2. The narrow fiscal space under which PFM is carried out appears to have placed much pressure on the country's PFM systems and may have contributed to a significant decoupling of the budget execution process from the budget formulation and preparation processes.

Aggregate fiscal discipline*:* With respect to aggregate fiscal discipline Jamaica's well developed debt strategy, and comprehensive transparent management of debt; credible three year fiscal forecasts along with realistic revenue forecasts and a comprehensive and policy-capable budget process all point to the ability to deliver on aggregate fiscal discipline. But these are hindered by the still nascent multi-year budget formulation systems (Medium Term Socio-Economic Framework); and the absence of a true reconciliation process between the top-down resource availability constraint and the bottom-up budget elements. The lack of effective commitment controls undermines the budget execution process capacity to deliver on expenditure as per budgetary intent.

Strategic Allocation of Resources: While definite steps towards that goal have been taken in recent years, Jamaica does not yet have in place all of the key elements to support the achievement of strategic allocation of resources through its budget process. There are still a number of important steps that remain to be implemented. There is a clear budget process in place guided by a Call Circular with clear opportunities for policy input by way of the Cabinet and the Parliament. The budget classification in Jamaica adopts the COFOG/GFS standard and so is well capable of supporting a policy based budgeting process. These provide two necessary inputs for achieving the strategic allocation of resources. However without a budget formulation process based upon fully costed sector strategies that properly link forward recurrent expenditure to recurrent expenditure and are subjected to the discipline of realistic sector based macro-fiscal forecasts that are properly integrated into the budget process through a medium term expenditure framework around which Donors may align their development support, the budget cannot incorporate a clear, strong strategic element.

Efficient Service Delivery: Many things point to Jamaica not achieving efficient service delivery in spite of having put in place a number of sound PFM elements. There is a high level of bottom participation within budget heads which, through such ownership, should enhance their abilities to deliver services efficiently. However, in practice budget execution fails to live up to such promise with subsequent impacts on the efficient delivery of service. The lack of predictability of budget releases (even with some important elements of a rule based budget release process, but weakened by the narrow confines of the fiscal space) reduces to a process with too short a forecast horizon. This has an ad hoc element to budget releases between the Ministry of Finance and Line Ministries, but even mores so between the Headquarters of the Line Ministries and their administrative regions and facilities. This negatively impacts on commitment control effectiveness with the subsequent result of the accrual of arrears. There is guidance on the requirement for procurement planning and on the use of appropriate tender methods for carrying out procurements. However, the high level of accrued arrears undermines the ability of Jamaica's PFM system to achieve value for money. The lack of direct data base tie-ins between approved establishment rolls, actual personnel rolls and payrolls signals the potential for significant payroll losses. For a country where personnel emoluments constitute 60% of primary expenditure, this is quite concerning.

A well functioning public expenditure management system requires an active continuous review of the adherence to controls. Indeed the greatest opportunities for corruption and mismanagement arise as a result of weakly implemented internal controls. However, there are internal audit staff concerns along with resource limitations that take away from the effectiveness of the internal audit function. The delays in budget implementation reports as well the delayed financial statements restrict the availability of useful management feedback information to ensure efficient service delivery.

PROSPECTS FOR REFORM PLANNING AND IMPLEMENTATION

There is clear commitment to PFM reform in Jamaica. There has been substantial reform undertaken in Jamaica since the nineteen-seventies. And PFM practice has benefited from these reform efforts. Initial reform PFM efforts were more selective and incremental in their scope. Recently the Government of Jamaica has embarked upon a holistic programme of broad Public Sector Reform enshrined in its Public Sector Modernization Vision and Strategy (2002–2012). The reform programme has buy-in from the highest levels of Government and was launched by the Prime Minister. The Public Sector Reform Unit (PSRU) within the Cabinet Office has been established to manage, implement, monitor and report on the reform activities. The reform strategy is comprehensive and incorporates a number of sections including Sustainable Development, Governance, Values and Principles and Regeneration of the Public Service, Customer Service, Resource Management and Accountability. The comprehensive aspect of the PFM reform programme embedded within the Public Sector Modernization Vision and Strategy makes it stand out from earlier efforts. While this approach is more demanding, its integrated approach provides an opportunity for achieving the significant improvements in the quality that have eluded many of the past efforts made at improving public expenditure management in Jamaica.

The centrality of sound PFM to Public Sector Reform emanates from its fundamental role in facilitating the business of Government across all of its core functions. The achievement of sound PFM serves as the enabler, the necessary condition, for a well functioning public sector. Effective PFM reform requires a holistic and comprehensive approach to developing reform strategy. There are many specific functions of public finance management that are inter-linked so that a carefully managed sequencing of reform steps, fully cognizant of the inter-linkages, serves as a pre-requisite for effective PFM reform.

While the Public Expenditure Policy Coordination Division is responsible for many aspects of PFM Reform, there does not appear to be a specific reform pillar set up to implement the reform strategy and to facilitate the close coordination and sequence across all PFM reform activities. Further there is not a single coordinated funding framework supported by a harmonised donor group to effectively support PFM reform. While a number of donor funded projects have been set up to support selected activities within the Public Sector Reform Programme that are PFM functions, these are not coordinated under a single implementation framework There does not appear to be a single consolidated reporting framework for monitoring and evaluating or providing feedback on the sequencing and pacing of reform activity implementation. This has led to some fragmentation of reform implementation and has possibly lessened their impact on overall PFM performance improvements.

Table 1
Summary of PFM Performance Scores

PFM Performance Indicator	Score
A. Credibility of the Budget	
1. Aggregate expenditure out-turn compared to original approved budget	B
2. Composition of expenditure out-turn compared to original approved budget	C
3. Aggregate revenue out-turn compared to original approved budget	A
4. Stock and monitoring of expenditure payment arrears	<NS>
B. Comprehensiveness and Transparency	
5. Classification of the budget	A
6. Comprehensiveness of information included in budget documentation	C
7. Extent of unreported government operations	C
8. Transparency of Inter-Governmental Fiscal Relations	C+
9. Oversight of aggregate fiscal risk from other public sector entities.	A
10. Public Access to key fiscal information	B
C(i) Policy-Based Budgeting	
11. Orderliness and participation in the annual budget process	B
12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+
C (ii) Predictability and Control in Budget Execution	
13. Transparency of taxpayer obligations and liabilities	B
14. Effectiveness of measures for taxpayer registration and tax assessment	C+
15. Effectiveness in collection of tax payments	D+
16. Predictability in the availability of funds for commitment of expenditures	D+
17. Recording and management of cash balances, debt and guarantees	B+
18. Effectiveness of payroll controls	D+
19. Competition, value for money and controls in procurement	C
20. Effectiveness of internal controls for non-salary expenditure	D+
21. Effectiveness of internal audit	D+
C (iii) Accounting, Recording and Reporting	
22. Timeliness and regularity of accounts reconciliation	D+
23. Availability of information on resources received by service delivery units	C
24. Quality and timeliness of in-year budget reports	C+
25. Quality and timeliness of annual financial statements	D+
C (iv) External Scrutiny and Audit	
26. Scope, nature and follow-up of external audit	C+
27. Legislative scrutiny of the annual budget law	B+
28. Legislative scrutiny of external audit reports	C+
D. Donor Practices	
D-1 Predictability of Direct Budget Support	B+
D-2 Financial information provided by donors for budgeting and reporting on project and program aid	C
D-3 Proportion of aid that is managed by use of national procedures	D

1. INTRODUCTION

1.1 OBJECTIVE OF THE PUBLIC FINANCIAL MANAGEMENT PERFORMANCE REPORT (PFM-PR) PROCESS

1.1.1.1 The purpose of this Evaluation has been to assess the current status of the Jamaica PFM systems. The approach has been to assess the current status of the GoJ's Public Finance Management (PFM) systems based on the PEFA indicators; a set of **28** high level performance indicators that measure the Central Government's PFM systems **plus 3** high level performance indicators that measure the performance of Donors involved in the Government's budgetary processes. This assessment is being carried out in order to set a baseline for the continued use and assessment of these indicators. The performance indicators, which are scored on a rating system from A to D is presented along with a narrative to provide a brief description of PFM processes and procedures adopted by the Government, and also to support and explain the scorings. In addition to the performance indicators the PFM performance report reviews the country context in which such PFM is carried out, the legal and regulatory framework and the institutional arrangements and the PFM Reforms being undertaken.

1.1.1.2 This evaluation is in keeping with the Strengthened Approach to supporting PFM reform[4]. It aims to achieve better public financial management systems in countries through effective engagement and support over PFM reforms – reducing the transaction costs of some practices and focusing on results. The three main objectives of the Strengthened Approach for Jamaica are:

- *Adopting a country-led agenda for reform for Jamaica* which is fully cognizant of its capacity constraints and being willing to accept second-best reform alternatives should that be the price to ensure Government leadership in the PFM reform process.
- *Promoting a coordinated program of Donor support and alignment around Jamaica's PFM reform agenda* through a dialogue between government and donors, and incorporates analytical and advisory work, technical assistance, funding support and training which are appropriately phased over a medium term time frame.
- *Monitoring Jamaica's PFM reform results through a common information pool*; This Performance Measurement Report is intended to serve as a common information pool on PFM performance in Dominica for government, donors and other stakeholders at country level. The report set out below and the baseline established will also serve as one element of the monitoring and evaluation (M&E) framework available for monitoring on a long term basis the outcomes of the PFM reform.

1.1.1.3 This assessment, sponsored by the EC, has been performed in close cooperation with a number of Donors active in the sector including the World Bank, DFID, and IDB. As a requirement for direct budget support from the EC it must be demonstrated that (i) the Public Financial Management systems in place in Jamaica are of sufficient quality and (ii) that progress is made in improving those systems. The EC's third Support to the Economic Reform Programme (SERP III) with Jamaica stipulates that the Government of Jamaica will continue a policy dialogue with

[4] For more information on the Strengthened Approach to supporting PFM reforms see for example Issues Paper No. 1 available off the PEFA Secretariat website at www.pefa.org.

the EC regarding its macro-economic reform programme (particularly regarding social expenditure) and reforms in the field of Public Finance Management (PFM).

1.1.1.4 The report set out below and the baseline established will also serve as one element of the monitoring and evaluation (M&E) framework available for monitoring on a long term basis the outcomes of the PFM reform. It is important to underline that the purpose of this evaluation has not been to evaluate and score particular institutions or responsible individuals in the Government. The focus of the PFM Performance Measurement Framework both with respect to intent and execution is solely on the PFM systems. The results of the evaluation should serve, not only as a baseline for coming evaluations, but also as an important input in the process of steering Jamaica's PFM reform efforts and should assist by way of guiding reform activity sequencing.

1.2 PROCESS OF PREPARING THE PFM-PR

1.2.1.1 This PEFA assessment was sponsored by the European Commission. In developing the Terms of Reference, they were shared with a wide number of stakeholders including the Government of Jamaica. Two workshops were presented on the Strengthened Approach to Supporting PFM Reforms and the PFM Performance Measurement Framework to a broad cross section of Government Officials both in the MoFP and across a number of Line Ministries. This draft report has been shared with the Government and its Development Partners. Copies have been sent to the PEFA Secretariat for review.

1.2.1.2 There was excellent cooperation from Government officials in terms of making time available on short notice. Officials were fully engaging during meetings and any information requested was provided promptly. An exit briefing based on the findings included in the draft report was made to about 30 Government Officials and a number of Donors. The draft report was shared with the Government and its Development Partners for their comment and input. Copies were also sent to the PEFA Secretariat for review. Comments were received from the Government, World Bank, IDB, the EC, DFID and the PEFA Secretariat and considered and responded to. The comments and responses are presented in Appendix 5

1.3 METHODOLOGY FOR THE PEFA EVALUATION

1.3.1.1 The PEFA Evaluation has been carried out in two phases; a desk study was carried out first followed by the field study. Both of which are described below:

The Desk Study

1.3.1.2 The Desk Study based PEFA evaluation was carried out between November 27th and December 8th, 2006. It formed a preliminary assessment of a more comprehensive evaluation performed on-site in Jamaica in January/February 2007. The evaluation was carried out by a core team of three consultants. The desk study PEFA evaluation involved:

- Reviewing the previous diagnostics and studies performed on Jamaica including the Jamaica Joint Country Financial Accountability Assessment (CFAA) and Country Procurement Assessment (CPAR) carried out by the World Bank and IDB, 2006 (WB Report No. 34962-JM); Jamaica Fiscal Consolidation for Growth and Poverty Reduction – A Public Expenditure Review (WB Report No. 29546-JM); Jamaica Debt Management Strategy, FY 2005/2006, Ministry of Finance and Planning;
- Analysing Budgetary and Expenditure documentation down loaded from the Ministry of Finance and Planning website at www.mof.gov.jm;
- Analysing the Tax and Revenue information posted on the Jamaica Revenue Services website www.jrs.gov.jm; and
- Assessing the requirements for further analysis and evaluation of PFM practice in Jamaica to develop a detailed work plan and unambiguously assign scoring to the indicators.

The Field Study

1.3.1.3 The Field Study was carried out between January 22nd and February 16th, 2007. It formed the primary basis for a more comprehensive evaluation. The evaluation was carried out by a core team of three consultants. The field study for the PEFA evaluation involved:

- Interviews with Government Officials, donors private sector organizations and NGOs;
- Quantitative analysis of official financial and budgetary data;
- Reviews and assessment of legal and regulatory documentation;
- Assessments of PFM procedures and systems; and
- The application of professional judgement

1.3.1.4 An important consideration in developing these indicators is an appreciation of the quality, comprehensiveness and accuracy of data that is used to determine the indicators. The reliability of the indicators can only be as good as the accuracy of the financial data upon which they were calculated. The consultants therefore emphasize the completeness and quality of financial data in determining the PEFA indicator measures.

1.4 SCOPE OF THE ASSESSMENT

1.4.1.1 The assessment of Jamaica's PFM covers all public expenditures of the central Government and the institutions responsible for such. Public expenditure in Jamaica is highly centralised, and the central government's budget covers approximately 76% of public sector expenditure. The public sector is made up of[5] the Central Government made up of 22 ministries and departments and

[5] To arrive at an estimate of the relative importance of the Central Government, Public Bodies and Sub-National Government within the overall Public Sector, the following data was utilised to establish a comparison over the fiscal year 2003/2004 to 2005/2006:

- Central Government budget, including amortisation and interest payments, recurrent and capital expenditures but excluding the General Assistance Grant to the parishes. The figures include all budget-funded public bodies.
- Transfers to Sub-national government including the General Assistance Grant, an estimate of the amounts of the share of the Property Tax and Vehicle License Registration Fees (these estimates were provided by the Ministry of Local Government)

including 59 budget funded public bodies; 13 parish councils and 1 municipality constituting Sub National Government which accounts for about 1% of public sector expenditure, the greatest proportion of which is provided by the Central Government through an allocation of 66.67% of the Vehicle License Registration Fees, 100% of Property Taxes and a General Assistance Grant; and 88 active State Owned Enterprises which account for approximately 23% of public sector expenditure.

1.4.1.2 The structure of the rest of the evaluation report is as follows:

- Section 2 provides background information and the economic and fiscal context for the evaluation;
- Section 3 explains the scores for individual performance indicators;
- Section 4 describes the government's reform programme; and
- A series of annexes provides more detailed reference information, including a summary of the scoring of the performance indicators (Appendix 1), the ToR for the evaluation (Appendix 2), and a list of the stakeholders visited by the team (Appendix 3), a list of the documentation reviewed (Appendix 4) and the Comments and Responses on the Draft PEFA Assessment Report.

- The expenses for all self-financed publics bodies reported in the "Jamaica Public Bodies, Estimates of Revenue and Expenditure for the year ending March 2006" and "Jamaica Public Bodies, Estimates of Revenue and Expenditure for the year ending March 2007"

2. COUNTRY BACKGROUND INFORMATION

2.1 DESCRIPTION OF COUNTRY ECONOMIC SITUATION

2.1.1.1 Jamaica is a highly indebted lower middle-income country with relatively well established democratic traditions and institutions with an effective legal and institutional framework for fiscal management. It has relatively well established democratic traditions and institutions with an effective legal and institutional framework for fiscal management. It is has been a member of the British Commonwealth since its independence in 1962. The Constitution establishes a Westminster-style parliamentary democracy under a unitary state. Executive authority lies with the Prime Minister and Cabinet, who are collectively responsible to Parliament The over-arching framework for short- term economic programmes is the Medium Tem Socio-Economic Policy Framework 2004/2005 to 2007/2008. The development framework targets real GDP growth of 3.6 percent, an inflation rate of 9% and balanced fiscal accounts. GDP growth rates have been significantly lower in the past three years and inflation in 2005 was 12.9% (Table 2.1). While there have been improvements a balanced fiscal account is yet to be achieved. With a per capita GDP of US$ 2,990, Jamaica's economic growth has been low with a consequent stagnation in the growth of per capita income. Poor long-term growth performance has complicated the political economy of policy formulation and implementation. 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-1 36.6 percent of GDP (March 2005)[6].

Table 2.1
Selected Economic Indicators 2001 to 2005

Year	2001	2002	2003	2004	2005
1. Population					
People (Millions)	2607600	2621500	2635700	2648200	2660700
Growth (%)		0.53%	0.54%	0.47%	0.47%
2. National Accounts					
GDP at Current Prices (J$ Million)					
GDP at Constant 1996 Prices (J$ Million)	227,460.9	229,975.7	235,166.9	237,374.9	240,752.9
GDP growth rate at Constant Prices (%)		1.11%	2.26%	0.94%	1.42%
Per Capita Income (US$)					
3. Domestic Saving and Investment					
Gross Domestic savings/GDP (%)					
Gross Domestic Investment/GDP (%)					
4. Balance of Payments (US$ million)					
Current Account Balance	-757.3	-1074.4	-763.8	-509.4	-974.5
Capital Account Balance	-23.6	-16.9	0.1	2.2	-11.1
Finance Account Balance	780.9	1091.3	763.7	507.2	985.6
5.Foreign Exchange Reserves(US$ million)					
Official Reserves					
Commercial Banks					
Official Reserves in months of imports					
6. Average annual inflation rate (%)	8.8%	7.3%	14.1%	13.7%	12.9%
7. 91 Day Treasury Bills Rates					
8. Average Exchange Rate (J$/US$)					

[6] MoFP, Memorandum on the Budget of Jamaica, April 2005

2.1.1.2 Its rating on five out of six basic governance and anti-corruption indicators dropped between 1998 and 2004. In 2006 Transparency International rated Jamaica 3.7 for a ranking of 61st on its CPI. This is below Turkey at 60 and Dominica at 53.

2.1.1.3 Jamaica's strengths include a strong democratic tradition and institutions, government stability, and to a large extent 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.

2.1.1.4 Jamaica has taken a conscious commitment to continue to service its debt, despite its high cost, reflecting its governance standards. Jamaica's commitment to debt service reflects constitutional provisions that debt service has a greater claim on government revenues than even civil service salaries. The degree of commitment also reflects Jamaica's strong legal and parliamentary framework pertaining to debt management.

2.2 DESCRIPTION OF BUDGETARY OUTCOMES

Fiscal Performance

2.2.1.1 Jamaica's ability to mobilize domestic resources has been impressive over the last three years with taxation revenues averaging between 30% per cent of GDP, leading to high primary surpluses (24% of Primary Expenditure, or 11% of GDP in 2005/2006). This has resulted from improved enforcement of tax legislation and broadening of the tax base. The effective debt management strategy has enabled the country to achieve a sustainable fiscal framework, as defined by a decreasing debt/GDP ratio. However, there remains some risk to the debt strategy arising from government bail outs and guarantees to public enterprises. The government's fiscal objective in the medium-term is to contain increases in overall expenditure, sustain the revenue to GDP ratio around 30 per cent and to limit the external debt stock to current levels. Table 2.2 below provides a summary of the central government's fiscal operations.

Table 2.2 A

Summary of Central Government Fiscal Operations (J$ Million)

Fiscal Year	2002/2003	2003/2004	2004/2005	2005/2006
Revenue and Grants	**79,184.3**	**100,777.4**	**122,296.7**	**127,510.4**
Expenditure	**112,598.9**	**135,593.8**	**151,617.9**	**156,643.8**
Recurrent Expenditure	106,430.5	131,428.9	145,489.8	145,021.3
Programmes	20,492.2	18,715.3	24,739.5	30,885.3
Wages and Salaries	38,486.5	45,403.5	47,572.2	47,046.4
Interest	47,451.8	67,310.1	73,178.1	67,089.6
Capital Expenditure	6,168.4	4,164.9	6,128.1	11,622.5
Fiscal Balance (Exclusive of Ammortization)	**- 33,414.6**	**- 34,816.4**	**- 29,321.2**	**- 29,133.4**
Primary Surplus/Deficit	**14,037.2**	**32,493.7**	**43,856.9**	**37,956.2**
Loan Receipts	81,508.8	100,548.9	130,108.3	135,177.7
Divestment	-	-	-	-
Ammortization	58,552.4	72,167.2	109,108.2	110,316.0
Overall Balance	**- 10,458.20**	**- 6,434.70**	**- 8,321.10**	**- 4,271.70**
Debt Service	106,004.20	139,477.30	182,286.30	177,405.60

The figures for the 2005/2006 fiscal year are preliminary. Source: Economic and Social Survey Jamaica, 2005

Table 2.2 B presents a summary of central government fiscal operations as a percentage of GDP as reported in the IMF Report for June 2006.

Table 2.2 B

Summary of Central Government Fiscal Operations expressed as a percentage of GDP

Fiscal Year	2003/2004	2004/2005	2005/2006	2006/2007
Budget Revenue	29.4	30.8	29	30.3
Budgetary Expenditure	36.8	36.3	32.6	33
Primary Expenditure	18.4	19.1	17.9	20.2
Wages and Salaries	12.2	11.4	9.8	10.1
Other Expenditure	5	5.8	6.3	6.4
Capital Expenditure	1.2	1.9	1.8	3.7
Interest	18.5	17.1	14.6	12.8
Budget	-7.4	-5.4	-3.6	-2.7
Primary Balance	11	11.7	11	10.1

Source: IMF Report June 2006.

2.2.1.2 Interest costs on government debt was 46% as a ratio of government tax revenues in the 2005/2006 budget. In this context, pressure on primary expenditure spending is a serious challenge to Jamaica's ambition to restore sustained economic growth and improve upon service delivery in its bid to meet the Millennium Development Goals. Jamaica's current debt problem stems in large part from the financial sector crisis which surfaced in the mid-1990s. There are though other factors that have included the rise in the public sector wage bill and the takeover of contingent liabilities from Public Enterprises. Despite strong fiscal control which has produced a primary surplus of 11.8% of GDP in FY 2004/2005, ranking it one of the highest in the world and continuing to reduce the debt to GDP ratio, the level of debt remains one of the highest in the world among countries borrowing on commercial terms (for FY 2004/2005, 138.6%)..

Allocation of Resources

2.2.1.3 On considering the ratios of personnel emoluments, other recurrent transactions and capital expenditure to primary expenditure (exclusive of interest and amortization payments) one observes a personnel emolument ratio though having decreased significantly in 2005/2006 and averaged 60% during the period of PEFA assessment. The results of the calculated budgetary ratios are presented in Table 2.3A

2.2.1.4 In keeping with the budgetary assessments carried out based upon primary expenditure the ratio of personnel emoluments, other recurrent charges and capital expenditure are presented in Table 2.3A. As depicted in Table 2.3A, the composition of expenditure by economic classification is still highly skewed towards recurrent items despite the restructuring efforts. Approximately 10 per cent of total expenditure is available to finance development activities, even though that figure has seen a significant increase in the 2005/2006 fiscal period. Salaries and wages, interest payments and pension payments continue to rise, keeping recurrent expenditures high.

Table 2.3A
Primary Expenditure Ratios of Personnel Emoluments, Other Recurrent Charges and Capital Expenditure

Fiscal Year	2002/2003	2003/2004	2004/2005	2005/2006
Personnel Emoluments Ratio	59%	66%	61%	53%
Other Recurrent Charges Ratio	31%	27%	32%	34%
Capital Expenditure Ratio	9%	6%	8%	13%
Totals	100%	100%	100%	100%

Source: Derived from Table 2.2A

2.2.1.5 It is also useful to express these ratios taking into account interest expenditure.

Table 2.3B
Primary Expenditure Ratios of Personnel Emoluments, Other Recurrent Charges, Capital Expenditure and Interest

Fiscal Year	2003/2004	2004/2005	2005/2006	2006/2007
Wages and Salaries	33%	31%	30%	31%
Other Expenditure	14%	16%	19%	19%
Capital Expenditure	3%	5%	6%	11%
Interest	50%	47%	45%	39%

Source: Derived from Table 2.2A

Support to Jamaica's Macroeconomic Reform Programme and Public Financial Management (PFM)

2.2.1.6 To assist Jamaica with its macroeconomic reform programme and its expenditure in the social sectors, International Development Partners (IDPs) such as the European Commission (EC) and the UK's Department for International Development (DfID) have provided macroeconomic support to the tune of € 91.7 million and £ 30 million respectively over the past six years. Direct budget support from the EC has been provided on the basis of the status of Public Financial Management systems in place in Jamaica and the progress is made in improving those systems. The EC's third Support to the Economic Reform Programme (SERP III) with Jamaica stipulates that the Government of Jamaica will continue a policy dialogue with the EC regarding its macro-economic reform programme (particularly regarding social expenditure) and reforms in the field of Public Finance Management (PFM).

2.2.1.7 Over the last few years, several assessments have been undertaken in the field of PFM, most notably the World Bank's CFAA (Country Financial Accountability Assessment) of May 2001, the EC audit mission of SERP I of November 2001, EC reports on PFM in 2003 and 2004 and the World Bank/IDB Joint Country Financial Accountability Assessment and Country Procurement Assessment Report (CFAA/CPAR) of April 2006. The main objective of the (CFAA) and the Country Procurement Assessment (CPAR) is to contribute to the implementation of the Government's Public Sector Modernisation Vision and Strategy for 2002-2012 and its Medium Term Social Economic Policy Framework. It also provides the basis for further donor harmonization. This CFAA/CPAR confirms the persistence of systemic issues which continue to affect the PFM systems' performance, and identifies opportunities for generating new momentum for the ongoing public financial management reform in Jamaica.

2.3 LEGAL AND INSTITUTIONAL FRAMEWORK FOR PFM

Legal Framework

2.3.1.1 *The Constitution:* The Jamaica (Constitution) Order of Council 1962 provides the basis PFM in Jamaica. Sections 114-118 of the second schedule set out the broad parameters for PFM. Sections 120-122 lay down the basis for the functioning of the Office of the Auditor General. The Constitution is quite detailed with regards to some specific elements of PFM including the timing of "money" bills though the Senate (Sec 56 – which states that money bills must be given to Senate one month in advance and if Senate does not consent to them within one month of receipt they can still be forwarded to the Governor General for assent).The most relevant section is 117 which states that funds can only be spent from the consolidated fund after the issue of a warrant and that warrants can only be issued in line with the appropriation law. The Constitution (Sec 116 (3) and (4)) also stipulates that "statutory expenditure" will be paid from the consolidated fund without having to be voted on by the House of Representatives. However such expenditure must still be laid before the House either in the form of an appropriation bill or a supplementary bill. Some observers interpret this as meaning that the country is constitutionally obliged to pay all its debt.

2.3.1.2 *Financial Administration and Audit Act 1959 (amended 2002):* This act and its regulations detail the management of the main elements of PFM in Jamaica including payments and withdrawals from the consolidated fund, the management of contingencies and also the administration of Government accounts and loans.

2.3.1.3 *Contractor General Act 1983 (amended 1999):* The Contractor General Act (as amended) and its associated regulations sets out the process of procurement. All contracts must be considered by the National Contracts Commission and be by open and competitive bidding unless another process is approved by that Commission. The Commission reports to and is responsible to the Cabinet, who are not legally obliged to accept the recommendations of the Commission. The Contractor General is required to present an annual report on all matters being investigated by his office to Parliament.

2.3.1.4 *Other:* The Customs Act, Income Tax Act and the General Consumption Tax Act set out the mandate of the Customs department and the administration of import duties, income tax and GCT respectively. Other Acts e.g. Stamp Duty Act, Tax Collection Act, Transfer Tax Act etc set out other licensing/charging requirements. Access to public information is governed by the Access to Information Act 2002. This sets out the guidelines for public access to Government information and is regularly utilised by sections of the public, especially the media. Public bodies and executive agencies are subject to the Public Bodies Management and Accountability Act 2001. This act governs various aspects of corporate governance relating to public bodies including audit (both internal and external), accountability, reporting and borrowing powers.

2.3.2 Institutional Framework for PFM

2.3.2.1 *The Executive:* The Head of State is Queen Elizabeth II (since 6 February 1952) who is represented by the Governor General Sir Howard Felix Cooke (since 1 August 1991). The Governor General appointed by the Head of State on the recommendation of the Prime Minister.

2.3.2.2 Executive authority is established in the office of the Prime Minister, who is responsible for the day to day running of government affairs. The leader of the majority party or the leader of the majority coalition in the House of Representatives is appointed Prime Minister by the Governor General following legislative elections; the deputy prime minister is recommended by the prime minister.

2.3.2.3 *The Legislature*: The Parliament is bicameral and consists of the Senate and the House of Representatives. The Senate is a 21-member body appointed by the Governor General on the recommendations of the Prime Minister and the leader of the opposition. The ruling party is allocated 13 seats, and the opposition is allocated eight seats. The House of Representatives consists of 60 members who are elected by popular vote to serve five-year terms. The elections were last held on 16 October 2002 and will next be held in October 2007.

2.3.2.4 *Judiciary:* The judiciary is constitutionally independent from the other two branches of government. It includes an appeal court. The judges to the Supreme Court are appointed by the governor General on advice from the Prime Minister.

2.3.2.5 *Auditor General:* The Office of the Auditor General mandate comes not from a specific act but rather from the Constitution, the FAA Act and various sundry pieces of legislation. In addition to its audit duties, it also conducts special investigations for the Cabinet, the Minister of Finance, and the PAC. This could lead to potential conflicts of interest, however, the Constitution provides a degree of independence for its operations but budgetary and operational independence. The Auditor General also performs the role of general paymaster and in that sense also manages the inflow and outflow of resources from the consolidated fund.

2.3.2.6 *The Office of the Contractor General:* The Office of the Contractor General mandate comes from the Contractor General Act. The office is responsible for procurement monitoring and investigations.

2.3.2.7 *The National Contracts Commission:* The Commission is responsible for the registration of contractors and the endorsement of contracts for Government procurement.

2.3.2.8 *Accountant General:* The Accountant General is responsible for all cash disbursements out of the Consolidated Fund. Accounting policy and guidelines are not dealt with the Accountant General but the Public Expenditure Policy Coordination Division of the Ministry of Finance. The Accountant General does not issue financial circulars.

2.3.2.9 *Ministry of Finance and Planning:* The Minister of Finance and Planning is responsible to the Cabinet and Parliament for ensuring compliance by the MoFP with its responsibilities under the FAA Act. These include the formulation of national economic policies and managing and co-ordinating the distribution of the Government's financial resources.

2.3.2.10 *Line Ministries and Sub National Levels of Government:* Permanent Secretaries of individual ministries are appointed as the administrative head of a Ministry. This assigns specific responsibilities including compliance with the FAA Act as well as sound economic and expenditure management of the Ministry's affairs. The Government apparatus in Jamaica is composed of nine constitutional bodies, thirteen Ministries and thirty nine sub-ministerial offices (as defined by the budget). In addition to this there are thirteen Parish Councils and one Municipal Council. The organizational structure of the Ministries is currently undergoing reform to reflect a clearer separation of policy, regulation and implementation. To this end five Executive Agencies have been set up as responsible for implementing their respective Line Ministry Policies.

2.3.2.11 *Finance Officers within Line Ministries:* Finance officers (budget officers, accountants, internal auditors and procurement officers) report both functionally and administratively to the Accounting Officer.

2.3.2.12 *Public Bodies and Statutory Authorities:* Under the Public Bodies Management and Accountability Act in 2001 the Ministry of Finance and Planning is empowered to oversee and to control the financial management of public bodies. The Executive Agencies Act was enacted in 2001 with a similar purpose. Executive Agencies Unit were created subsequently in the ministry. There are

88 active and 52 non-active self-financing public enterprises registered and monitored by the MoFP and 59 budget-funded ones, according to data held by the PEO Unit. The budget-funded bodies and Executive Agencies are managed through their "parent" ministries. Self-financing enterprises are directly managed by the Ministry of Finance and Planning.

2.3.2.13 Table 2.4 presents a matrix of institutional responsibilities for the different PFM functions including the institutional arrangements for carrying out PFM reform. It provides an "at a glance" view of the institutional arrangements under which public finance management is governed in Jamaica. The table also includes the oversight role of parliament and depicts the role that the integral role that the Donors play in PFM in Jamaica.

Table 2.4: Matrix of Institutional Responsibilities for PFM Functions

		Ministry of Finance										Line Ministries				Other Offices					PM Cabinet	Parliament	Donors
PFM Function	**Cabinet**	**FM**	**FS**	**PEX**	**ECON**	**PXPC**	**Est. Div.**	**Customs**	**TAAD**	**AGD**	**IAD**	**LM**	**PS**	**PC**	**IAU**	**OSC**	**CG**	**NCC**	**AG**	**PIOJ**	**PSRU**		
Policy Elaboration and Planning																							
Policy/Budget Approvals	✓	✓			✓							✓										✓	
Loan Approvals	Endorse	✓																				✓	
Supplemental Budgets	✓	✓		✓								✓	✓									✓	
National Development Plan	✓	✓										✓	✓							✓			Consult
Sector Development Plans												✓	✓										Consult
Annual Corporate Plans				✓								✓	✓										
Budget Formulation/Preparation																							
MTSF			✓	✓								✓	✓							✓			
Budget Memorandum		✓																					
Macro-Fiscal Framework	✓	✓	✓		✓																		
Annual Budget Estimates		✓	✓	✓								✓	✓										Consult/Data
Revenue Administration/Collections																							
Tax Revenue								✓	✓														
Grants/Loans					✓																		✓
Budget Execution																							
Debt Management					✓																		
Budget Allocation/Cash Management			✓	✓																			
Cash Release										✓													
Establishment Control				✓			✓																
Personnel Rolls							✓						✓			✓							
Payroll						✓				✓			✓		✓								
Procurement/Supply Chain			✓			✓							✓	✓	✓								
Non-Salary Recurrent Expenditure			✓	✓		✓							✓										
Capital Expenditure			✓	✓		✓							✓		✓								✓
Payments			✓			✓				✓			✓										
Financial Reporting				✓		✓							✓		✓								✓
Accounting						✓				✓													
Internal Audit			✓			✓		✓	✓		✓				✓								
External Scrutiny/ Budget Oversight																							
External Audit																			✓				
Budget Oversight																						✓	
Procurement Oversight																	✓	✓					
Expenditure/Audit Oversight																						✓	
PFM Reform																							
Reform Policy/Approval	✓																				✓		Consult
Reform Coordination/Monitoring																					✓		✓
Reform Implementation						✓																	

FM: Finance Minister; **FS**: Financial Secretary; **PEX**: Public Expenditure Division; **ECON**: Economic Division; **PXPC** : Public Expenditure Policy Coordination Division, **PSIP**: Public Sector Investment Program; **TA**: Tax Administration; **Est. Div**.: Establishment Division; **TAAD**: Taxpayer Assessment and Audit Department, **OSC**: Office of the Services Commission; **AGD**: Accountant General; **IAD**: Internal Audit Directorate; **IAU**: Internal Audit Units; **LM**: Line Minister; **PS**: Permanent Secretary; **PC** Procurement Committee; **CG**: Contractor General; **AG** : Auditor General; **PSRU**: Public Sector Reform Unit; **NCC** : National Contract Commission; **PIOJ**: Planning Institute of Jamaica.

The Key Features of the PFM system

2.3.2.14 The financial year for central and provincial government in Jamaica is from April 1 to March 31. Jamaica has a form single treasury account that is managed centrally but operated via individual Ministry accounts in private banks. Therefore, whilst there is no direct system of centralised payments – there is de-facto control via the funds control processes. There are a variety of payroll and financial management systems, although only one central database for budget submissions.

2.3.2.15 Over the past few years the Jamaican Government has been gradually rolling out a standardised (across the whole of government) financial management information system (FMIS). The FMIS is a proprietary software basically developed internally and delivered by an external company (MCS) and managed by the Fiscal Services Ltd., a government owned enterprise..

2.3.2.16 Financial reporting is facilitated through a variety of products depending on the agency of Government. These include FinMan a ledger reporting tool, ACCPAC and off-the-shelf accounting software package, and Excel.

3. ASSESSMENT OF PFM SYSTEMS, PROCESSES AND INSTITUTIONS

3.1 PFM OUTTURNS: CREDIBILITY OF THE BUDGET

Expenditure

3.1.1.1 The PEFA assessment covers the fiscal years 2003/2004, 2004/2005 and 2005/2006, 2005/2006 being the most recent completed budget year at the time of the assessment. The reporting formats of the financial statements permit an identification of debt service elements and donor contributions and so makes it possible to readily identify and measure primary expenditure estimates as well as primary expenditure achievements. The reporting clearly segregates both for budget estimates as well as for expenditure actuals, appropriations-in-aid figures. The estimates presented in Table 3.1 were derived from the published Estimates of Expenditure as passed by the House of Representatives.

3.1.1.2 The Government of Jamaica has adopted a modified cash accounting system with its fiscal year being April 1 to March 31. Outstanding payments for goods, works and services delivered by close of the fiscal year may be paid out of any unspent budget releases for a period of three months after the end of the fiscal year. These end-of-year procedures are facilitated through the use of two separate bank accounts for alternating years and so accommodate the segregation of funds from the previous and current fiscal years. This three month period, referred to as "Period 13," are accounted for under the expenditure for the previous fiscal year. One consequence of this implementation of the modified cash accounting system is that it facilitates the full spending of budget releases and so should better match expenditures to budget estimates than would be the case for a strict cash accounting system.

3.1.1.3 The Approved Estimates and Actuals presented in Table 3.1 exclude interest payments (Head 2018 Public Debt Charges (Interest Payments)), amortization payments (Head 2000A Ministry of Finance and Planning, Function 04 – Internal Debt and External Debt) and multilateral and bilateral items (Capital B). The only figures available are provisional expenditure figures. This is material to the analysis performed for the P1- 1 indicator because in compiling the provisional actual expenditures, the Ministry of Finance and Planning reports that where audited appropriation accounts figures were not available, budget estimates were used instead. Provisional Expenditures derived in this way would tend to give a lower measure of Budget Estimates to Actual Expenditure Deviation than actual expenditure figures would, and in so doing bias the scorings upwards[7]. Only incomplete provisional expenditure data was available at the time of the field assessment and so only incomplete analysis could be performed for 2005/2006[8].

[7] Given the scoring break points and the particular results obtained, it appears unlikely that for the data from two years reported in this PEFA Assessment this bias would have affected the final scoring. The analysis in the third year is less reliable and remains inconclusive as to what effect this data bias would have.

[8] 92% by volume of the expenditure data was provided by the Ministry of Finance during the field mission. The Budget Estimate to Actual Expenditure Deviation for this incomplete sample indicates a deviation of 9.2%. Given that the cut off point between a B grade and a C grade is 10%, there is a slim possibility that an analysis on a complete expenditure data sample would have resulted in a C. It would require a budget estimate to actual expenditure deviation of 19% or greater in the remaining 8% sample.

3.1.1.4 For both years for which complete provisional expenditure data is available, the actuals are in excess of the budget estimates. Revenues exceeded budget estimates in 2003/2005 (see indicator PI-3). During the 2004/2005 budget year Jamaica suffered the devastation by Hurricane Ivan but the revenue receipts were only marginally lower than the budget revenue forecast (Table 3.2). The analysis on incomplete expenditure data for 2005/2006 shows expenditure to be less than budgeted by 9.2%. That expenditure exceeded budget estimates in 2003/2004, and in 2004/2005 may be indicative of several factors including, budget releases in excess of estimates (revenues exceeded estimates by 14% in 2003/2004), the accounting for extra-budgetary funds, or inaccuracies in the provisional expenditure figures. The lower expenditure than estimated achieved in 2005/2006 (estimated) would be consistent with the lower than budgeted revenues achieved in 2005/2006(see PI-3).

Table 3.1

Comparison of Approved Budget Estimates against Actuals (Net of Appropriations-In-Aid) for the Budget Years 2003/2004, 2004/2005 and 2005/2006 (J$'000)

Fiscal Year	2003/2004		2004/2005		2005/2006	
	Estimates	Actuals	Estimates	Actuals	Estimates	Actuals
Recurrent	162,349,979	176,978,179	187,551,268	189,678,823	187,203,848	189,484,278
Less Interest	79,211,624	91,623,598	96,300,870	93,636,307	87,578,993	84,710,291
Primary Recurrent	**83,138,355**	**85,354,581**	**91,250,398**	**96,042,516**	**99,624,855**	**104,773,987**
Capital A	94,436,484	106,331,772	134,846,334	132,993,551	152,840,683	151,017,662
Less Ammortization	90,308,825	103,244,520	132,140,784	127,210,325	142,676,118	139,797,166
Primary Capital A	**4,127,659**	**3,087,252**	**2,705,550**	**5,783,226**	**10,164,565**	**11,220,496**
Total Primary	**87,266,014**	**88,441,833**	**93,955,948**	**101,825,742**	**109,789,420**	**115,994,483**
Budget/Actual Exp. Deviation		**1.3%**		**8.4%**		**5.7%**

3.1.1.5 To obtain a measure of how much the reallocations between budget lines have contributed to variance up and above the deviations in the overall levels of expenditure an analysis of budget deviations between budget estimates and actual out-turns by budget head was performed for the years 2003/2004, 2004/2005 and 2005/2006. The data set for 2005/2006 was incomplete. The budget to expenditure deviations for the largest 20 Budget Heads and an aggregate of all other ministries is presented in Table 3.2. An analysis of this table shows that the average weighted deviations have varied widely in the three years considered, with results between 1% and 20%. Given that the provisional expenditure data includes budget estimates where appropriations accounts figures are unavailable at the time of preparation of the Estimates of Expenditure, actual data fully derived from appropriations accounts would probably lead to even larger variances than Table 3.2 suggests.

3.1.1.6 The large variations shown in Table 3.2 is evidence of a weak coupling between the budget planning and preparation process, and the budget execution process. It makes a statement about Jamaica's PFM systems being able to deliver on the strategic intent. It may also be indicative of weaknesses in all or some of the PFM functions of budget releases, commitment control, procurement planning, and accounting and reporting. It may suggest the accrual of substantial arrears as well as may possibly point to in-year supplemental budget processes to be characterised more by ex-post virements rather than true mid-year budget reviews. It is also consistent with the reports received during the mission from some Line Ministries that capital expenditure sometimes remains unspent due to poor or no procurement planning.

Table 3.2B
Comparison of Budgeted and Actual Revenue Receipts (Domestic)

Code	Budget Entity	2003/2004		2004/2005		2005/2006	
		Budget	Actual	Budget	Actual	Budget	Actual
0100	The Governor General & Staff	Aggregated	Aggregated	Aggregated	Aggregated	Aggregated	Aggregated
0200	Houses of Parliament	359,625	349,471	362,631	373,549	373,000	377,182
0300	Office of the Public Defender	Aggregated	Aggregated	Aggregated	Aggregated	Aggregated	Aggregated
0400	Office of the Contractor General	74,605	75,869	72,544	71,877	88,701	84,714
0500	Auditor General	141,916	149,968	157,492	155,852	162,535	165,035
0600	Office of the Services Commission	83,103	85,769	86,697	86,862	87,250	87,250
1500	Office of the Prime Minister	548,600	566,860	576,512	583,091	612,580	692,370
1600	Office of the Cabinet	977,890	510,071	817,351	611,317	904,770	710,492
1700	Ministry of Industry and Tourism	2,219,087	1,927,562	1,938,780	2,107,693	2,278,170	2,404,915
2000	Ministry of Finance and Planning	19,658,269	13,993,968	15,217,350	17,511,330	20,146,530	19,834,623
2600	Ministry of National Security	14,239,150	15,416,334	14,800,381	15,691,427	17,032,353	19,046,438
2800	Ministry of Justice	1,891,428	1,697,543	1,910,818	1,940,861	2,017,762	2,172,423
3000	Ministry of Foreign Affairs and Foreign Trade	1,020,603	1,178,163	1,222,490	1,338,907	1,540,000	1,544,171
4000	Ministry of Labour` and Social Security	1,147,100	990,210	1,084,172	1,091,252	1,124,170	1,180,018
4100	Ministry of Education, Youth and Culture	23,074,453	28,925,401	29,730,800	30,747,119	37,434,780	37,434,780
4200	Ministry of Health	10,521,972	11,857,933	14,750,230	15,783,073	13,064,210	14,189,011
5100	Ministry of Agriculture	1,480,152	1,390,060	1,421,284	2,103,851	2,025,000	2,076,756
5200	Ministry of Commerce, Science and Technology	1,639,880	1,719,163	1,736,121	1,986,262	1,812,400	2,015,617
5800	Ministry of Land and Environment	861,740	1,047,148	996,171	396,954	350,000	427,769
6300	Ministry of Water and Housing	684,619	650,695	762,308	755,942	720,800	797,960
6500	Ministry of Transport and Works	1,925,425	1,708,723	1,751,094	1,882,886	2,509,159	3,265,355
6600	Ministry of Housing, Transport, Water and Works					437,230	489,075
7200	Ministry of Local Government, Community Development and Sport	4,625,359	4,115,729	4,474,927	6,074,669	4,625,359	6,884,199
C021	Aggregate of other Ministries	91,038	85,193	85,795	530,968	164,721	110,343

3.1.1.7 Table 3.3A shows the results of the analysis. The best result for the three budget years considered happens to be the one in which Hurricane Ivan hit and so it would appear that the large excess of variance over total deviation cannot be ascribed completely to external factors and may be the result of systemic difficulties.

Table 3.3A
Analysis of Budgeted to Actual Expenditure Variance of Budget Head to Total Budget Deviation

Year	2003/2004	2004/2005	2005/2006
Total Expenditure Deviation	1.3%	8.4%	5.7%
Total Expenditure Variance	18.8%	9.6%	6.9%
Variance in Excess of Total Variance	17.4%	1.3%	1.3%

3.1.1.8 While the data in table 3.3A on initial inspection would justify awarding an A, on closer inspection of the accuracy of the expenditure data for 2005/2006 it is clear that the results for 2005/2006 ought to be ignored. An analysis of the expenditure data for 2005/2006 shows that CAP expenditure data was based on budget estimates and do not reflect actual expenditures. Consequently the variance calculations for that year cannot be relied upon. Table 3.3B shows a comparison of actual expenditure against budget estimates for Government funded capital expenditure (Cap A) and demonstrates that in all cases the budget estimates were used as the entries for actual expenditure.

Table 3.3B

Comparison of Government Funded Capital Expenditure (Cap A) to Approved Budget Estimates. In all cases budget estimates were substituted for actual expenditure

	2005/2006	
functional head	Cap A - Budget	Cap A - Actual
1500	51,300.0	51,300.0
1600	112,599.0	112,599.0
1700	80,170.0	80,170.0
2000	3,258,015.0	3,258,015.0
2600	321,000.0	321,000.0
2800	50,000.0	50,000.0
3000	0	0
4000	1,270.0	1,270.0
4100	3,434,780.0	3,434,780.0
4200	29,844.0	29,844.0
5100	167,433.0	167,443.0
5200	47,314.0	47,314.0
5800	72,769.0	72,769.0
6300	178,000.0	178,000.0
6500	2,608,298.0	2,608,298.0
7200	807,694.0	807,694.0

Revenue

3.1.1.9 The principal sources of domestic revenue were from income tax, general consumption tax and customs duties. The revenue estimates and actual receipts include Taxation Revenue, Non-Tax Revenue and Capital Revenue, but exclude loan receipts. A comparison of budgeted versus actual revenues demonstrates actuals exceeding revenue estimates in 2003/2004 and actuals being less than estimated by 1.5% in fiscal year 2004/2005 and by 7.3% in fiscal year 2005/2006. Hurricane Ivan devastated parts of Jamaica in September 2004. In spite of this, that year still saw domestic revenue out-turns in line with revenue estimates for that year. There however was a 7.3% shortfall in out-turn versus the budgeted revenue estimate for fiscal year 2005/2006, a year in which there were no devastating natural disasters. It is of some interest to note that for the period under examination, tax revenues have typically been lower than budgeted (3%, 3% and 10% respectively), while capital revenues have typically been larger than budgeted

Table 3.4

Comparison of Budgeted and Actual Revenue Receipts (Domestic)

Fiscal Year	2003/2004	2004/2005	2005/2006
Estimated Reciepts (Billions J$)	132.22	175.72	192.13
Actual Receipts (Billions J$)	151.29	173.09	178.10
Variance (Billions J$)	19.07	- 2.63	- 14.03
% Variance	**14.4%**	**-1.5%**	**-7.3%**

Arrears

3.1.1.10 The high levels of indebtedness and the consequent on-going primary expenditure practice within the confines of a narrow fiscal space appears to have contributed to high levels of arrears. Unpaid bills (arrears) are defined as payments that remain unpaid thirty days after the date of invoice verification. Payments for expenditure arrears are sourced from the next year's budget. While there may be on-going monitoring of unpaid bills by the Line Ministries, and some indicated they regularly submitted updates on the status of arrears to the Ministry of Finance, there is no centralised reporting on the status of unpaid bills. Indeed it would appear that much of the impetus for wishing to adopt accrual accounting has been to better report on and monitor the level of unpaid bills.

3.1.1.11 In a recent audit assessment carried out by the Auditor General unpaid bills were characterized to be at high levels. Discussions with some Line Ministries suggest that the level of arrears remain high, with current levels for the Ministry of Health being in excess of 10% of their annual expenditure. This persistent state of high arrears is described as arising from a fundamental mismatch between available resources and the political and cultural demands placed upon the Line Ministries for the delivery of services. Given the very high proportion of primary expenditure taken up by the wage bill (approximately 60%), with the corresponding inflexibility it presents with respect to cut backs, there is not much margin for realistic and pragmatic budget cut backs within the context of implementation management. It is said that bringing expenditures in line with resource envelopes will require policy and strategic shifts, rather than just tactical implementation adjustments. Several Line Ministries characterised the situation to be one where a budget defined by the most basic needs (without having to resort to closing down facilities) are far in excess of the resource envelope. This mismatch has led them to undertaking a budget preparation process, which while inclusive of bottom-up participation is constrained by the Line Ministry's measure of need, rather than the resource ceilings. This in turn has led to the MoFP describing MDA budget submissions as unrealistic and requiring drastic cuts. It is claimed that discretionary elements of the budget such as maintenance and operational cost such as fuel have been so curtailed as to undermine the functions of such important expenditure control areas as Internal Audit. Given this funding gap, arrears are resorted to as an informal funding source.

3.1.1.12 These descriptions are corroborated by comments from the Auditor General that some Line Ministries accrue unpaid bills as an unwritten policy in response to the extremely narrow fiscal space under which they operate. Although Accounting Officers in MDAs are, under the Financial Administration and Audit Act, made responsible for ensuring expenditure control within approved budget estimates, it is not clear that sanctions are applied when there is failure to adhere to this financial regulation.

3.1.1.13 Without reliable data compiled for accrued arrears it is not possible to precisely state the seriousness of the problem, nor report on whether it is decreasing or increasing over time. There are a number of possible causative factors for the high levels of arrears accrued such as the weak links between the formulation processes and budget execution; the absence of a budget preparation process characterised by the reconciliation of top-down resource discipline and bottom-up inputs; relative short funding horizons employed under the Warrant Scheme (less than 30 days in practice between the MoFP and the Budget Heads, and often after the actual transfer of funds in the case of intra-ministry transfers); and the lack of commitment control systems

3.1.1.14 The presence of high levels of arrears would suggest that the Government is not achieving value for money with its procurement as the market would naturally tend to price in the cost of delayed payments. However, many officials insisted that they achieved value for money. There were no recent studies that had been carried out to establish whether procurement through Government systems were achieving value for money, however in an assessment done fours years ago, the Auditor General identified poor value for money as an area of concern. In the annual report for 2005 of the Contractor General it attributes cost overruns in part to delays in payments. Merely as an anecdotal comment, in conversations with a private sector employee, the mission learned that many in the private sector as a matter of policy use a higher price with the Government than with other private sector clients.

3.1.1.15 While no direct evidence of such practice was observed during the mission, high levels of arrears can and often does lead to incidences of rent seeking as vendors look to minimize time delays in the receipt of their payments by attempting to influence officers who can decide who does and who does not get paid from the limited resources.

Indicator /Dimension	Score	Brief Explanation
PI-1 Aggregate expenditure out-turn compared to original approved budget	B	Deviations between approved budget primary expenditure and provisional actual expenditure were: for 2003/2004 =1.3%, 2004/2005 = 8.4% and for 2005/2006 is 5.7% and so in two years were over 5% but less than 10%.
PI-2 Composition of expenditure out-turn compared to original approved budget.	C	The average variances in excess of overall deviations were: 2003/2004 = 17.4%, 2004/2005 = 1.3% and 2005/2006 = 1.3%. However, we note that the expenditure data for 2005/2006 is unreliable since for all capital expenditure, budget estimates were substituted for actual expenditure. Hence the scoring could be based on only expenditure data for two years. We note the data bias in even these to years.
PI-3 Aggregate revenue out-turn compared to original approved budget	**A**	Domestic revenue collection exceeded 97% in two of the last three budget years.
PI-4 Stock and monitoring of expenditure Payment arrears	**<NS>**	In all likelihood the rating should be a D, but this is uncertain.
(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and a recent change in the stock	<NS>	There is no monitoring of arrears being undertaken so the arrears cannot be quantified. However data from the Ministry of Health suggests it could be higher than 10%
(ii) Availability of data for monitoring the stock payment arrears	D	There is no reliable data maintained on the level of unpaid bills available from the past two years.

3.2 COMPREHENSIVENESS AND TRANSPARENCY

Classification of the Budget

3.2.1.1 In Jamaica the central government's budget is based on economic, administrative and program classification for formulation, execution and reporting. The Fiscal Framework is presented on the basis of international GFS reporting standards and on a cash accounting basis. The chart of accounts for the central Government budget monitoring is compliant with functions of government (COFOG) reporting standards. Both the chart of accounts for the centralised budget monitoring tool and the Fiscal Framework encompass program, subprogram and activity classification. The level of detail in the activity classification is equivalent to a sub functional level (COFOG).

3.2.1.2 The budget reporting system employs *JABIS* a proprietary database management system. Although the *JABIS* system does not incorporate direct GFS economic reporting capability, other systems in the Ministry of Finance can take the extracted information and produce consistent documentation according to those standards. In terms of reporting, the Fiscal Unit maintains separate Revenue, Expenditure and Financing data in the same format as the Fiscal Framework tables which is linked to *JABIS* data by account code and converted to the GFS presentation.

3.2.1.3 *Application of GFS and COFOG Standards:* All government budgeted expenditure is broken down by program, subprogram, activity and object code. The object codes are sufficiently detailed and standardised across Government to enable then to be easily coded in GFS using a bridging table. This is done by the Economic Management Division, Fiscal Policy Unit. The categorisation of sub-program and activity allows for classification of expenditure by function at the four digit (or sub-functional) level. This data can be extracted at any time by the Fiscal Policy Unit but is usually only done once a year as part of the budget process. Monthly reports showing aggregate expenditure by GFS are done by the Fiscal Policy Unit; Monthly reports by activities/projects, objects and subobjects are done by the Public Expenditure Division. Both reports are standard working documents used in the budget execution process.

3.2.1.4 *Ongoing and Planned Activities*: The Government of Jamaica is considering implementing accrual accounting. As such it would enable the move from the current GFS 86 templates to the more recent GFS 01 standards in the future – should it so wish.

Indicator	Score	Brief Explanation
B. Comprehensiveness and Transparency		
PI-5 Classification of the Budget	**A**	The budget formulation and execution is based on economic, administrative and sub-program classification using standards that can produce consistent documentation according to GFS/COFOG standards. Classification is also at sub functional level.

Comprehensiveness of the Budget

3.2.1.5 Budget documentation is fairly comprehensive, and consists of five main components:

- The “Budget Presentation” by the Minister of Finance (there is an opening and closing presentation)
- The “Memorandum on the Budget”
- The “Financial Statement and Revenue Estimates”
- The “Estimates of Expenditure” (both ‘as presented’ to Parliament and ‘as passed’)
- The Debt Strategy

3.2.1.6 The Budget Preparation and the Memorandum on the Budget underscores the policy priorities for the respective budget year and contain the information pertaining to the overall macroeconomic and fiscal framework in their various sections. These then form the basis for the Financial Statements and Revenue Estimates which contains a range of aggregate data for both projections for the budget and provisional actuals for the previous year. The Estimates of Expenditure is a detailed breakdown by program and subprogram of approved expenditure. It also contains narrative information for each head of approved expenditure. The table below summarises the availability of budget information.

Table 3.5
Summary of Budget Documentation

Elements of budget documentation	Availability	Notes
Macro-economic assumptions, incl. at least estimates of aggregate growth, inflation and exchange rate	no	Whilst it is possible to obtain much of this information from the narrative contained in the "Budget Presentation" and also the Memorandum on the budget there are important omissions including interest and exchange rate forecasts. These are excluded as they are deemed to be "market sensitive" and therefore whilst the Government does use them internally the actual forecasts are not made publicly available
Fiscal deficit, defined according to GFS or other internationally recognised standard	yes	Fiscal deficit is defined and presented in the "Memorandum on the Budget"
Deficit financing, describing anticipated composition	no	Whilst the debt projections are detailed it is not clear which elements are financing the deficit. There is no presentation of a GFS type financing table
Debt stock, incl. details at least for the beginning of the current year	yes	There is a reasonably detailed statement of outstanding public debt in Section C of the "Financial Statements and Revenue Estimates" document.
Financial assets, incl. details at least for the beginning of the current year	no	No information is included in the budget documents.
Prior year's budget out-turn, presented in the same format as the budget proposal	no	No, prior year's budget out-turn is not included, however out-turn information two years prior is included in the same format as the budget.
Current year's budget (revised budget or estimated out-turn), presented in the same format as the budget proposal	yes	The estimates of expenditure show the current years revised budget in the same format as the budget proposal.
Summarised budget data for both revenue and expenditure according to the main heads of the classification used, incl. data for current and previous year	yes	The "Memorandum on the Budget" includes revenue and data by GFS 86 standards for both the current year and one prior year.
Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs	no	Although the budget process should entail that new policy proposals be detailed there is no explicit presentation of impact of these (separate from the general revenue and expenditure funds) in the budget documentation.

Indicator	Score	Brief Explanation
B. Comprehensiveness and Transparency		
PI-6 Comprehensiveness of information included in budget documentation	**C**	Budget documentation fulfils 4 benchmarks. The Budget documents are quite detailed and available on the net but certain basic data (whilst available internally) is not shown in the budget books.

Extent of Unreported Government Operations

3.2.1.7 One element of government operations which affects the efficient allocation of resources is reflected by unreported government operations. Given their nature, it is difficult to quantify the extent of unreported government operations. The Government operates a de-facto single treasury account via the commercial banks using real time banking data. This means that when funds are expended the transaction is shown in the bank statements which the Ministry of Finance monitors. This makes unreported expenditure of directly managed Ministry accounts quite difficult and also unlikely. The major potential sources of unreported extra-budgetary government operations in Jamaica are:

- Payment to quasi-fiscal entities or parastatal bodies such as the Bank of Jamaica, Air Jamaica and the Sugar Company of Jamaica. The IMF reports substantial losses for Air Jamaica before government transfers in 2005 amounting to US$136 million (1.3 percent of GDP) and US$113 million in 2004. These losses add to the government debt burden as they are financed through a combination of government transfers and commercial loans contracted under government guarantee.
- Payments to other State Owned Enterprises are included in the budget and reported on in line with the PBMA Act.
- School charges, which are usually funds raised by the schools above the normal fees and used to supplement the schools income. The Ministry of Education reports concerns that even as these amounts increase, the level of monitoring and control remains weak.
- Bank of Jamaica losses covered by the Government.

Table 3.6

Estimates on Off-budget Expenditure

Fiscal Year	2003/2004	2004/2005	2005/2006	2006/2007
Budget Expenditure (USD)	182.4	201.8	210	238.7
Off budget items				
BOJ Losses	8.3	5.5	10	8.7
School Activities	<N/A>	<N/A>	<N/A>	<N/A>
Subsidies to Parastatals	<N/A>	<N/A>	<N/A>	<N/A>
Off-budget as percent of total	**>5%**	**> 3%**	**>5%**	**>4%**

3.2.1.8 Whilst most of the major donors provide basic income and expenditure reports to the Government and it is possible for the Government to obtain more detailed information, by and large this information is not included in all the fiscal reports. For example whist the capital budget is shown by COFOG there is no clear breakdown in the fiscal tables of the use of donor funds in the past and no presentation of this data by GFS for the budget year. Therefore, whilst all loan funded projects are included in the fiscal reports, in the case of grant funded projects there is no GFS presentation in either the in-year budget report or in the consolidated annual reports.

Indicator	Score	Brief Explanation
PI-7 Extent of Unreported government Operations	**C**	
(i) level of unreported extra-budgetary expenditure	C	Data on extra budgetary transfers to the BOJ was available. Data was not available on the size of school activity revenues or on Government transfers to parastatals. However, total extra –budgetary expenditure is estimated to be above 5%.
(ii) Income/Expenditure information on donor-funded projects	C	Data on donor project funding and basic income and expenditure breakdowns are shown in the budget. However, detailed information by GFS and consolidation into the overall fiscal data is not provided.

Transparency of Inter-governmental Fiscal Relations

3.2.1.9 Sub national government in Jamaica is limited in its functionality. It is primarily responsible for town planning, community amenities, maintenance of minor roads and water supply systems and street lightning. There are 13 Parish Councils and 1 municipality (Portmore). The Parish Councils are funded via three sources: General Assistance Grant from the Government, and assigned and fixed shares of Vehicle License Registration Fees and Property Tax, and also their own revenue collection through such avenues as business taxes, levies and fees. Funds being transferred from central government do not represent a significant percentage of total government expenditure (about 1%).

3.2.1.10 The allocations of funds for the Vehicle License Registration Fees and for the Property Tax are defined by Law as detailed in table 3.7. The Ministry of Local Government and environment provides the parishes and municipality budget allocations by July, four months after the start of the budget year. The General Assistance Grant covers personnel emoluments, pensions, utilities and other recurrent charges, and programmes. While there is some predictability for personnel emoluments and pensions, the balance expenditure under the grant is not subject to rules. The total Grant amount is determined during the budget preparation process. The detailed Grant allocations are made after the start of the budget year in April and for the vehicle registration fees and property taxes in July. During the first month of the financial year, the Ministry determines the horizontal allocation of the grant across the parishes and the municipality on a somewhat ad hoc basis which takes into account historical expenditures, submitted proposed budgets and a determination of needs based upon the local authority's other sources of revenue.

Table 3.7:
Allocation rules and proportions of sources of funds granted to Parish Council by GoJ

Source of Fund	Allocation rules	% share of GoJ contribution
General Assistance Grant	Personnel Emoluments, Pensions, Utilities and Programme	< to property tax + Vehicule License registration Fee (approx. 40%)
Property tax	90% to PC of origin 10% for equalisation amongst PC	> to Vehicle Licence registration Fee or approx. equal to GAG
Vehicule License Registration Fee	25% to PC of origin 75% based on amount of roads to service	< to property tax or < to GAG

3.2.1.11 The Government grants a General Assistance Grant (approximately 40% of Government transfers) to the parishes as well as a fixed share of the Vehicle License Registration Fees (66.7%) and Property Tax (90%) together accounting for approximately 60% of Government transfers. Part of the Grant is predictable (approximately half) since it goes to pay personnel emoluments and pensions, the balance is allocated on a rather ad hoc basis that includes some consideration of Parish Council budget requests, historical expenditure patterns and need as defined by availability of other resources. This suggests that approximately 80% of the Central Government transfers to the local authorities are based on transparent rules.

3.2.1.12 Parish councils and Municipalities share the same financial year as the central government. Theoretically therefore, central government contributions would not be known for sure by the Parish Councils prior to the approval of the budget by the Parliament. However, the budget for the Parish Councils and Municipality is subject to the same process as any other budget agency. There is no explicit indication given to Parish Councils in advance of the financial year as to their future budget. As stated above the complete allocation picture does not occur till July or 4 months after the start of the budget year. Officials though note that, it is possible for Parish Councils to have an indication as to their allocation for fees and taxes can be projected. Further the grant level can be estimated given its objective and composition: support the functioning of the parishes in terms of personnel emoluments, pensions, utilities and programmes.

3.2.1.13 Parishes submit monthly expenditure returns to the Ministry of Local Government, although there appear to be some problems with timeliness with some being a few months in arrears. The Internal Audit Unit of the Ministry is responsible fro auditing the parishes. Each parish and the municipality are audited by the Auditor General annually.

Indicator	Score	Brief Explanation
PI-8 Transparency of Inter-governmental fiscal relations	**C+**	
(i) Transparent and objectivity in the horizontal allocation among SN government	B	The Government grants a General Assistance Grant (approximately 40% of Government transfers) to the parishes as well as a fixed share of the Vehicle License Registration Fees (66.7%) and Property Tax (90%) together accounting for approximately 60% of Government transfers. Part of the Grant is predictable (approximately half) since it goes to pay personnel emoluments and pensions, the balance is allocated on a rather ad hoc basis that includes some consideration of Parish Council budget requests, historical expenditure patterns and need as defined by availability of other resources. This suggests that approximately 80% of the Central Government transfers to the local authorities are based on transparent rules
(ii)Timeliness of reliable information to SN government on their allocations	D	There is no explicit indication given to local authorities in advance of the financial year as to their budget. As stated above the complete allocation picture does not occur till July or 4 months after the start of the budget year. Officials suggest that, it is possible for Parish Councils to have an indication as to their budget allocation for fees and taxes as these can be projected. Further there is a limited degree of predictability for grants since grant levels can be estimated given its objective and composition i.e. personnel emoluments, pensions, utilities and programmes. However they recognise that an earlier budget allocation process needs to be introduced.
(iii) Extent of consolidation of fiscal data for government according to sectoral categories	B	All Parish Councils and the Municipality provide monthly accounts statements to the Ministry of Local Government and Environment. These are consolidated into the national accounts once a year as part of the expenditure reporting by function within 12 months of the end of the fiscal year.

Oversight of Aggregate Fiscal Risk from Other Public Sector Entities

3.2.1.14 The Jamaican Government introduced a Public Bodies Management and Accountability Act in 2001. A Public Enterprise Oversight Unit was subsequently created to provide oversight and guidance to the Public Enterprises. According to the Public Enterprise Oversight Division there are 88 active and 52 non-active self-financing Public Enterprises registered and 59 budget-funded ones.

3.2.1.15 The budget-funded bodies submit their budgets through their parent ministries. These enterprises have no borrowing authority. Self-financing enterprises have to submit corporate plans on a three-year rolling basis along with their annual budget to the Ministry of Finance. This allows, in principle, the full consideration of all major loans and guarantees into the annual budget process. Self-financing enterprises can borrow upon approval by the Minister of Finance with the endorsement of Parliament. The Government submits a revenue and expenditures document to parliament every year. In 2007 it was entitled "Jamaica Public Bodies, Estimates of Revenues and Expenditures for the Year Ending March 2007 as presented to the House of Representatives" for example. This contains a summarised financial statement of the previous year budget execution and of the Government liabilities.

3.2.1.16 This control may have been by-passed through the issuance of Letters of Undertaking by the Minister of Finance to banks to support loan applications from commercial banks by Public Enterprises. These Letters of Undertaking were interpreted as guarantees by banks but were not subject to scrutiny by the Parliament. However, this practice has stopped.

3.2.1.17 As a matter of policy, the Government has tended to bail out defaulting Public Enterprises. While there is an on-going restructuring process, it has not seemed to curb the substantial losses incurred by some Public Enterprises. Privatization efforts have not been significant and so in-spite of sound PFM oversight systems for the Public Enterprises they still pose a significant fiduciary risk.

3.2.1.18 All Public Enterprises are required to report quarterly to the Contractor General and monthly to the Procurement Unit of Public Expenditure Policy Coordination of the Ministry of Finance and Planning. In addition both budget-funded as well as self-financed Public Enterprises submit their financial statements at least quarterly to the MoFP. All Public Enterprises are required to have set up an internal audit unit and an Audit Committee that report directly to the Board of Directors (about 85% have done so according to the Ministry of Finance). The Public Bodies report annually to the Parliament. All Public Bodies are audited annually by an independent auditor and on a sample basis by the Auditor General. The International Financial Reporting Standards (IFRS) have been adopted and thus all public bodies using accrual accounting are supposed to apply these standards. The Government and the Institute of Chartered Accountants of Jamaica are reviewing the International Public Sector Accounting Standards (IPSAS) with a view to adopting them in 2007.

3.2.1.19 Local Authorities are directly supervised by the Ministry of Local Government. They have to provide annual budgets for the funds received from the GoJ but not for their self-raised funds. However they submit monthly statements of revenue and expenditure for all revenue and expenditure. They have no borrowing authority and are subject to the government financial management regulations and instructions.

Indicator	Score	Brief Explanation
PI-9 Oversight of Aggregate Fiscal Risk	**A**	
(i)Extent of central government monitoring of AGAs/PEs	A	The PBMA Act provides the legal authority for control and oversight to the MoFP , Contractor General and Auditor General. A unit within the MoFP is dedicated to the public bodies management. Quarterly reports are submitted to the MoFP. The borrowing by the self-financing enterprise is subject to MoFP approval. MoFP reports to the Parliament annually and present a summarised financial report including the GoJ liabilities.
(ii) Extent of central government monitoring of SN governments' fiscal position	A	The Local Authorities are monitored by the Ministry of Local Government through their annual budget process and monthly reports. They cannot borrow.

Public Access to Fiscal Information

3.2.1.20 Transparency will depend on whether information on the budget and its execution by the government is easily accessible to the general public or at least interested groups. Such transparency requires that the Government make relevant information available in a timely fashion, and selects outlets that are readily accessible by a wide section of the population. The Government of Jamaica is extremely transparent in terms of its financial and general government operations with much of the information updated regularly and made available directly via government websites. The Access to Information Act (2002) is a comprehensive guideline for public access to information and is effectively used particularly by the local print media. At the same time, demand for government accountability by the public in Jamaica seems well developed.

3.2.1.21 The FAA Act does not specify the need for in year reporting and general reporting on actuals tends to lag by a couple of years, with only provisional expenditure results being reported. While there is a lot of information made available by the Line Ministries to the MoFP, these are not always collated or consolidated into national figures. So for example there is no information readily available on the level of unpaid bills. Furthermore budget documents (and the approved budget) are in limited supply and therefore unavailable for the majority of the public who do not have access to the internet. However, the MoFP website does contain most of the essential information required to initiate budget discussion.

Table 3.8
Public Access to Information

Elements of information for public access	Availability and means
Annual budget documentation when submitted to the legislature	No
In-year budget execution reports within one month of their completion	Yes – they are usually placed on the web within one month of completion.
Year-end financial statements within 6 months of completed audit	No
External audit reports within 6 months of completed audit	Yes – these can be found on the web
Contract awards (app. USD 100,000 equiv.) published at least quarterly	Yes
Resources available to primary service unit at least annually	Yes – upon request

Indicator	Score	Brief Explanation
PI-10 Public Access to Fiscal Information	**B**	The government makes available to the public 3-4 of the 6 listed types of information. Only budget documentation has been made available to the public over the period. Part of the reason is that audited accounts and audit reports have not been produced in a timely fashion. Currently availability is also restricted by the limited supply in hard copy with other access being via the web only.

3.3 POLICY BASED BUDGETING

Orderliness and Participation

3.3.1.1 This indicator reflects the organisation, clarity and comprehensiveness of the annual budget process as well as participation of ministries, departments and agencies (MDA)[9] . The budget preparation process is clearly articulated in the legislative and regulatory framework of Jamaica. The FAA Act spells out the roles and responsibilities of different players in the budget process. The MoFP is responsible for preparation of operational regulations and guidelines consistent with the FAA Act.

3.3.1.2 The budget ceilings are determined by the MoFP. Based on this analysis the Minister of Finance and Planning will present his recommendations to Cabinet. The ceilings are set on the basis of the macroeconomic framework and to some extent take into account the government's policy objectives. However, there is no direct link between the Line Ministry corporate plans and medium term budget resource envelopes.

3.3.1.3 The Budget Call, including ceilings by ministry, is then distributed to Line Ministries. It is the responsibility of the Line Ministries to prepare their budgets within their overall ceiling. The budgets are then presented to and analysed by the Public Expenditure Division within the Ministry of Finance and Planning. The Minister of Finance and Planning will then take this analysis and use it as the basis of his presentation to Cabinet.

3.3.1.4 The budget calendar, allows reasonable time for the Line Ministries to prepare their budget submissions. In practice there are delays but it is understood that there is still more than a month for the ministries to prepare their submission. Line Ministries have the opportunities to defend their budget during the process of discussion with the Public Expenditure Division, the Financial Secretary and the Minister of Finance and Planning.

3.3.1.5 The Budget preparation process is principally a top-down approach. While there is a bottom-up element the Line Ministry submissions are far in excess of the budget ceilings and so makes the reconciliation process difficult; and so depends on the MoFP having to cut budgets to match the resource envelope.

[9] The scope of PEFA assessment covers only those MDAs which are directly responsible for implementing the budget and receive funds or authorisation to spend from the Ministry of Finance, rather than through a parent ministry.

3.3.1.6 It should be noted that in Jamaica the budget never gets its final approval until after the fiscal year has begun.

Indicator	Score	Brief Explanation
C(i) Policy-Based Budgeting		
PI-11 Orderliness and participation in the annual budget process	**B**	
(i)Existence of, and adherence to, a fixed budget calendar	B	The budget process is clearly set out. On the basis of the ceilings provided by MoFP, the Line Ministries prepare their submissions. Whilst there are some delays, there is sufficient time for the ministries to complete their submissions, particularly as many of them start the process before the receipt of the ceilings.
(ii) Guidance on the Preparation of budget submissions.	A	The Budget Ceilings/circulars for the last three years were approved by the Cabinet before the distribution of the circular to Line Ministries.
(iii) timely budget approval by the legislature	C	The legislature always approves the budget at the start of the fiscal year, during the first month. However, once an appropriation has been submitted to the legislature the Constitution determines that it must be approved within one month.

Multi-Year Perspective

3.3.1.7 At present fiscal forecasts of revenue and expenditure aggregates are presented for the two years following the budget year based on GFS standards. The link between forward estimates and subsequent budget ceiling is weak, since the estimates are based on historical information rather than on an assessment of policy implications for the budget. There is no explicit link between the medium term framework and budget since the budget is an annual document. The corporate plans are not costed but are not integrated into the Medium Term Socio-Economic Framework (MTF). The annual budgets are not yet bound by the medium term expenditure framework. The Government's priority objectives, along with sectoral policies and priorities, are set out in the MTF. Line Ministries prepare three-year corporate plans which clearly outline strategic objectives and provide for a monitoring and evaluation framework but none appear to be fully costed. Corporate plans are not costed, however costed sector strategies covering several sectors including education, health and public works but these are inconsistent with aggregate fiscal forecasts.

3.3.1.8 The development budget is broadly based on the MTF, however since this is a relatively recent document the link is minimal at the moment. The MTF is prepared by the Planning Institute of Jamaica. The process for obtaining approval for inclusion of a project in the Government investment program should be based on the MTF, however actual selection is based on analysis by the MoFP, and also donor and political willingness to fund them - rather than a prioritisation of investment plans according to resource availability and recurrent cost implications.

Indicator	Score	Brief Explanation
C(i) Policy-Based Budgeting		
PI-12 Multi-year perspective in fiscal planning, expenditure Policy and budgeting	**C+**	
(i) multi-year fiscal forecast and functional Allocations	C	Forecasts of fiscal aggregates are prepared for three years, including the budget year. The forecasts however are not linked to subsequent budget ceilings.
(ii) scope and frequency of debt sustainability Analysis	A	DSA for external and domestic debt is undertaken annually and published.
(iii) existence of costed sector strategies	C	Statements of sector strategies exist for several major sectors including education, health and public works but not all are fully costed. Costings are not always in line with aggregate fiscal forecasts – hence the need to negotiate retrospectively with the MoFP as part of the budget process.
(iv) linkages between investment budgets and forward expenditure estimates	C	Most of the important investment decisions are selected after analysis from the MoFP as part of the budget process. They are not fully costed and may not necessarily be in line with sector strategies.

3.3.1.10 *Ongoing and Planned Activities*: At the moment there is no Medium Term Expenditure Framework (MTEF) in place. The Government intends to develop an MTEF and sectoral resource ceilings that are in line with Government's MTF document. Baseline data (for the period 2000-2004) is being assembled for the total resource envelope and expenditure by sector and in order to calculate the necessary resource "gap".

3.4 PREDICTABILITY AND CONTROL IN BUDGET EXECUTION

Transparency and Taxpayer Obligations and Liabilities

3.4.1.1 The Revenue Administration in Jamaica has recently been restructured as part of a reform programme to move from an organisation by tax type to an organisation by function, and through consolidation of functions improving administrative efficiency. The new organisation was created by the Revenue Administration Act enacted in 2001. The Tax Administration is directed by the Director General who oversees Taxpayer Assessment and Audit, Tax Appeal, Inland Revenue, Customs and Tax Administration Services.

3.4.1.2 The complete set of tax legislation is available on line at www.jrs.gov.jm . The website provides a substantial amount of information on tax liabilities and administrative procedures. All the major steps for registration with the Tax Administration, taxes liabilities calculations, declarations of entry, objections and appeals are detailed in procedure guidelines for citizens and companies. The information includes detailed steps for General Consumption Tax and Pay-As-Your-Earn mechanisms where the employer is in charge of collecting the tax for the GoJ. Such procedures and other information are also presented in education campaign leaflets and during workshops. The Tax Administration Services Department organises education campaigns every year and respond to enterprises requesting for workshops.

3.4.1.3 The assessment and audit methodologies are detailed in manuals. The tax laws empower the Minister to waive off the tax principal and any penalties as he sees fit for all taxes (income, GCT, Transfer and Property taxes, Stamp and Customs duties)[10]. Although there are some requirements for gazetting the decision, the laws provide almost total discretionary powers to the Minister. The Minister is empowered by the legislation to establish the rules for varying the amount of taxes payable by moieties and instalments and the amount of penalties payable (Collection Tax Act, Section 40A). Waivers on duties and interest can be granted, by the Commissioner for Customs and the Commissioner for Taxpayer Assessment and Audit respectively. As a matter of administrative management, the Minister has delegated his discretionary powers up to J$1 million to the Commissioner for Tax Appeal. These particular processes are not guided by regulations and manuals.

3.4.1.4 The appeal process is comprised of three appeal mechanisms: objection, tax appeal and Revenue Court. An objection can be formed directly by a taxpayer to the Taxpayer Assessment and Audit Department within 30 days of receiving his or her assessment. Although there are manuals for managing objections, the complaint resolution resides solely with the Commissioner. The Tax Appeal Department has developed a manual for the administration of the appeals and decision making.

Indicator	Score	Brief Explanation
PI-13. Transparency of taxpayer obligations and liabilities (M2)	**B**	
(i) Clarity and comprehensiveness of tax liabilities	C	Legislation for all taxes exists and is accessible. Manuals and other education materials to the attentions of the users have been developed and indicate steps and procedures for registration, self-assessment and payment for citizens and companies. Manuals for the Tax Administration staff to guide their activities and decisions exist. The Minister is empowered by law to waive off the tax principal and any penalties as he sees fit. Although there are some requirements for gazetting, he has almost total discretionary power. Commissioners for Customs and Taxpayer Assessment and Audit are empowered by law to waive off customs' penalties and interest on income tax respectively. These decisions are not guided by regulations and manuals.
(ii) Taxpayer access to information on tax liabilities and administrative procedures	A	The taxpayer access to information is enshrined in the Public Access to Information Act. The Tax Administration and the Customs websites provide online support and downloadable manuals and guidelines. Education campaigns are supported by clear and accessible leaflets.
(iii) Existence and functioning of a tax appeals mechanism	B	Tax appeal comprises three levels: objection, appeal and Revenue Court. In addition, waivers can be requested. The Tax Appeal Department is functioning and receiving complaints. It has a documented process and is independent from the other departments. Its decision making process involves internal controls but no review panel. It is also in charge of administering the waivers to streamline the process and reduce time lag as an effort to reduce arrears.

Effectiveness of Measures for Taxpayer Registration and Tax assessment

3.4.1.5 A unique Tax Registration Number (TRN) has been created to uniquely identify each registered tax payer. The TRN Registration Office is the only office allowed to deliver a TRN and does so according to a specific documented procedure. A number of administrative entities require a TRN; for example for issuing a Motor Vehicle registration, a driving license, a National Health Insurance number, etc. Increasingly commercial banks require a TRN to open a bank account.

[10] The references to the Laws are: Income Tax Act, Section 86; General Consumption Tax Act, Section 47; Transfer Tax Act, Section 46; Customs Act, Section 11; Stamp Duty Act, Section 80B; Property Tax Act, Section 11; Education Tax Act, Section 10.

It should be noted though that many TRN registered persons remain inactive for tax purposes. Table 3.9 compares registered TRN Holders to the number of active tax payers.

Table 3.9
Comparison of Registered TRN Holders with Actual Taxpayers (IRD and TAAD data)

Statitics	Individuals	Companies	Organisations	Total
Registrations	1 498 068	131 043	63 522	1 692 633
Actual taxpayers	N/A	19 825	87 000	106 825
Of which GCT	N/A	30 000	-	30 000

3.4.1.6 Compliance with tax administration regulations is enforced by the Inland Revenue Department (with about 400 compliance officers) and the Taxpayer Assessment and Audit Department (TAAD - with about 850 staff which includes an active intelligence unit).

3.4.1.7 No specific penalties for-non compliance with tax registration exists. Officials point out that the strong inter-linkages with other administrative requirements such as Motor Vehicle registration ensure full compliance with Tax Registration so may make a specific non-compliance penalty for registration unnecessary. Penalties are charged for not filing tax returns, however the fee is small (maximum of J$ 5000)[11] and the taxpayer received fines from the Revenue Court as low as J$ 1,000. Interest is charged at 40% from the day the tax is due. This in principle should serve as a strong incentive to pay. However, in practice a taxpayer can object to the assessment, make an appeal and eventually take the case to the Revenue Court. The Revenue Administration fines levied by the Revenue Court are often the lowest possible. In addition, waivers on interests and charges are often issued. This seems to prompt the TAAD to resolve objections by agreeing on just principal amounts without applying any interest charges and penalties.

3.4.1.8 Tax assessment and audits are planned on risk assessment basis informed by both income levels and operational sector. A manual has been developed to detail the methodology to be used. The sampling target is 3% of the filed returns. The achievement rate during the on-going FY 06/07 was 71% of the target sample. The post-audit of the Customs Department is also risk-based and focused on large importers. In addition, all containers are scanned and random inspection of 20% of cargo is routinely carried out. The audit work is limited by several factors including staff retention.

Indicator	Score	Brief Explanation
PI-14. Effectiveness of measures for taxpayer registration and tax assessment	**C+**	
(i) Controls in taxpayer registration system	B	Taxpayers are registered using a unique Tax Registration Number maintained in a database by the TRN office. The TRN is required by other administrations and banking institutions thus supporting the registration process.
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	D	Penalties for non filing of returns are too low to be deterrent. Interest and charges on principal are set at 40% but their application has been hindered both by systemic problems and disincentive due to lack of enforcement through the Revenue Courts and the granting of waivers.
(iii) Planning and monitoring of tax audit and fraud investigation programs	B	Planning and monitoring of tax audit and fraud investigation programmes is done by the Taxpayer Assessment and Audit Department and the Customs Department using risk based techniques and sampling.

[11] 1USD = 65J$

Effectiveness in Collection of Tax Payments

3.4.1.9 The level of tax arrears in Jamaica is relatively high (see Table 3.10). ICTAS, the system designed specifically for the Jamaica Tax Authority, is not yet fully functional. This has affected the proper monitoring and reporting on tax arrears in a timely manner. There apparently been cases where companies have received Tax Clearance Certificate even with outstanding tax liabilities.

Table 3.10

Current arrears to total tax revenues (as of 30th June 2006, in J$ billions)

(Source IMF Report September 2006)

Type of Tax	Tax Revenue (2005/06)	Total Arrears	Percent (Total)
Corporate tax	15 016,7	15 239,7	101%
Personal income tax	36 561,6	49 103,0	134%
Domestic GCT	29 436,0	33 792,4	115%
PAYE	29 072,0	1 014,9	3%
SCT	3 238,9	498,9	15%
Education Tax	6 029,0	2 683,5	45%
Total	119 354,2	58 139,7	49%

3.4.1.10 The arrears situation is a compound of disincentives to file returns and to pay taxes as indicated above and of the ICTAS system dysfunctions. ICTAS calculated interests and penalties although returns were filed and taxes paid, thus artificially increasing the tax arrears stocks. The latest data for FY 06/07 should have been partially clean according to officials from Taxpayer Assessment and Audit Department. Nonetheless, the arrears stock is significant and the collection is not sufficiently high to significantly reduce the stock, although efforts are noticeable. The arrears and the revenue collection for the past three years are presented below in Table 3.11 and 3.12.

Table 3.11

Tax Arrears Stocks and Collection for FY 04/05 and FY 05/06

(Source: Office of the Director General, Tax Administration)[12]

	FY 04/05	FY 05/06	FY 06/07
Tax Arrears Stock at year end	69 522,16	73 480,06	60 801,16
Tax Arrears Stock Collectable*	49 692,39	54 608,93	46 480,62
Tax Arrears Collected during that year	N/S	18 489,54	15 307,86
% Collection		37%	28%
Tax Collection during that year	151 124,75	162 575,93	132 386,79
Ratio of arrears to collection	33%	34%	35%

Table 3.12

Total Tax Revenues (in J$ billions)

(Source ODG)

Tax Revenue	Forecasted	Collected	%
FY03/04	133502,4	130859,6	98%
FY04/05	155441,5	151124,75	97%
FY05/06	179516,4	162575,93	91%
FY06/07*	137031,5	132386,79	97%

*note that FY06/07 figure is given until December 06 only.

[12] As indicated, the arrears include a large component of interest and penalties that are not considered collectable by the Tax Administration, thus a discount of 50% on interest and penalties is applied.

3.4.1.11 Tax collected is transferred daily to the Consolidated Fund and transfer advices are sent to the Accountant General. Reconciled Monthly Revenue Statements, i.e. complete reconciliations, are sent to the MoFP within 30 days after the end of the month. The Customs Department has undertaken an exercise to bring its revenue accounts up to date and has succeeded for most accounts to reconcile up to December 2006. However one account is still reconciled only as of February 2006.

Indicator	Score	Brief Explanation
PI-15. Effectiveness in collection of tax payments	D+	
(i) Collection ratio for gross tax arrears, being percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year	D	The arrears stock is significant, even using the collectable arrears value calculated by the Tax Administration, at above 30%. Efforts are made to collect arrears but the level of collection remain insufficient and below 60%.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	Taxes are collected and paid into the Inland Revenue Department and Customs Department bank accounts daily. The transfers to the Consolidated Fund are made daily both by the Inland Revenue and Customs departments.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	D	Inland Revenue Department provides monthly complete reconciliations within 30 days to the Ministry of Finance. The Customs department reconciliations are delayed and a full reconciliation is available only for February 2006.

Predictability in the Availability of Funds for Commitment of Expenditures

3.4.1.12 There exist many of the elements for achieving substantial predictability with respect to budget releases and the commitment of expenditures, however closer inspection concludes that many of these elements are not working as well as they should. The Accountant General is responsible for budget releases to the Line Ministries in accordance with cash disbursement schedules prepared by the Public Expenditure Division. The budget release process is carried out under very tight cash constraints. There have been recent improvements[13] that have expanded the cash float from approximately 10 days to 30 days of expenditure. Warrants (authorities to incur expenditure) are issued on a monthly basis but are not typically received by the MDAs until after the first week of the month and so often do not provide a full 30 day fund availability forecast. Funds are disbursed on a weekly basis with salaries transferred on Wednesdays, other recurrent expenditures on Thursdays and capital expenditures on Fridays. The priority rankings are salaries, then other recurrent expenditures and then capital expenditure.

3.4.1.13 Cash Flows are prepared on an annual basis by the MDAs and are submitted at the beginning of each fiscal year. These are then updated on a quarterly basis. Given that there are no procurement plans prepared, the cash flows are probably better characterised as fund requests dominated for the most part by some period allocation of the budget estimates (e.g. 1/12 of the annual budget), rather than incorporating an explicit expenditure profile element. This has affected the credibility of the cash flows received by the Public Expenditure Division as reliable predictors of expenditure needs. This contributes to unpredictable budget releases.

[13] This is strictly speaking from a budget execution point of view. Such a float implies a higher level of debt, and there has been discussion therefore to lower the cash float.

3.4.1.14 The Public Expenditure Division has daily access to the bank account balances and so beyond providing the accurate and timely information on the daily status of each Ministry's Account, it also ensures that the Government does not have to borrow money while it has idle cash sitting in commercial banks. While many of the elements are there to base cash releases on a predictable cash flow basis, possibly adjusted by speed of expenditure (as measured by a daily monitoring of bank balances), the tight cash constraints makes the process often one of negotiation rather than being primarily rule based. Such negotiations carried out between the Public Expenditure Division and the Line Ministries introduce a rather ad hoc element into the budget release mechanism.

3.4.1.15 Within the MDAs the mechanism for cash disbursements somewhat mirrors the mechanisms for disbursements between the Ministry of Finance and Planning and the Line Ministries. The MDAs issue authorities to incur expenditure as a way of expenditure control. However, the persistent cash shortages result in intra Line Ministry budget releases to the regions and facilities sometimes being made prior to the issuance of internal authorities to incur expenditure. The regions and facilities receive their budget releases before the instruments authorising them to incur expenditure given that the mechanism for internal authorities to incur expenditure are based upon the warrants which only have a 30 day forward horizon. Under such arrangements there can be little predictability in the availability of funds for the commitment of expenditures at the level of the spending units.

3.4.1.16 Adjustments to budgetary allocations should be made by normal ex-ante virement procedures; or possibly by issuing a Supplementary Budget, once or so within the year; or alternatively it may occur by ex-post regularisation of unauthorised spending. In Jamaica, virements are routinely approved at the end of the year, i.e. after the spending ceilings set by the appropriations have already been exceeded. The frequent use of virements and ex-post regularisation is an indication of poor budgetary planning and undermines the authority and legitimacy of budgetary appropriations.

Indicator	Score	Brief Explanation
PI-16 Predictability in the availability of funds for commitment of expenditures	**D+**	
(i) Extent to which cash flows are forecast and monitored	B	Cash Flow forecasts are prepared annually and updated quarterly; but without incorporation of procurement plans tend to be more fund request notices than actual pro forma projections.
(ii) Reliability and horizon of periodic in-year information to Line Ministries on ceilings for expenditure commitment.	D	MDAs are provided with 30 day horizon Warrants but actual time of receipt by the MDAs makes it a commitment ceiling instrument with a horizon of less than one month.
(iii) Frequency and transparency of adjustment to budget allocations, which are decided above the management of Line Ministries	D	The frequent use of virements and ex-post regularisation is an indication of poor budgetary planning in Line Ministries and undermines the authority and legitimacy of budgetary appropriations

Recording and Management of Cash Balances, Debt and Guarantees

3.4.1.17 The GoJ has published a Debt Management Strategy 2006/2007 that clearly defines the Debt Management objective to be "to raise adequate levels of financing on behalf of the Government of Jamaica at minimum cost; develop and implement strategies to ensure long term sustainability of the public debt and to reduce the Government's exposure to risk". The Loans Act defines net borrowing ceilings with a requirement for the Auditor General to endorse the submitted evidence showing that such ceilings have not been exceeded. The Minister of Finance is the sole authority for the contracting of loans and the three year fiscal forecasts set clear debt targets. However, the already very high level of indebtedness, coupled with the modest levels of economic growth in recent years, severely restricts the margin for managing the debt and keeping it sustainable; sustainability being interpreted as maintaining a decreasing ratio of debt to GDP. The high levels of debt principally have arisen from the debt crisis of the late nineties.

3.4.1.18 All loan guarantees must be authorised by the Minister of Finance and must be endorsed by the Cabinet and approved by parliament. Guarantee levels for external loans is only subject to the constraints set by the lending institutions. The Debt Management Unit reports that all government guarantees issued are monitored, however no information pertaining to government guarantees is provided on its website.

3.4.1.19 It should be noted that in spite of the stated strategic objective of limiting borrowing to the level of amortization, there remain risks that threaten to undermine the debt management strategy. These primarily derive from[14] the periodic bail outs of loss making Public Enterprises by the Government (this is an issue of political will rather than necessarily a reflection of poor PFM practice); and the adoption of deferred financing (such as build-own-transfer (BOT) arrangements)[15]. Another potential leak has been the practice of issuing Letters of Undertaking signed by the Minister of Finance to commercial banks on behalf of Public Enterprises to serve as effective guarantee instruments, without Parliamentary scrutiny.

3.4.1.20 The recording and management of cash balances is carried out by the Cash Management Unit within the Public Expenditure Division. This role provides a critical component both for managing budget releases to the Line Ministries as well as serving as an important information input to the function of managing borrowings carried out by the Debt Management Unit within the Economics Division. The Debt Management Unit, having assumed responsibility in 1998 for all debt management functions previously undertaken by the Bank of Jamaica, monitors all domestic and external debt. It reports comprehensively on debt stock levels, debt maturity profiles, and creditor, rate and currency compositions. The Debt Management Unit prepares monthly updates of its debt position based upon internal reconciliations and twice a year carries out reconciliations based upon its external debt creditor records. The Debt Management Unit publishes monthly updates of debt information on the Ministry of Finance website at www.mof.gov.jm/dmu .

[14] There appears to be only a negligible incidence of MDA bank overdrafts. A review of the Statement of Bank Balances as at 04/11/2005 shows the value of overdraft to be 0.023% of a total balance of $6,315,974,956.87 91% stemming from a single ministry's salary account. The number of accounts showing any overdraft was 15 out of 391 bank accounts.

[15] These deferred financing arrangements have the significant potential advantage of properly matching areas of responsibility to the respective strengths of the public and private sectors and in so doing minimizing potential losses due to such factors as contract variations abuse and the consequent cost overruns; but require, for effective control, close integration of corporate plans (sector development programmes) into a clear and consistent national development framework fully reflected in the Medium Term Expenditure Framework fully constrained by a corresponding multi-year macro-fiscal framework. It should be noted that while the GoJ seeks the procurement advantages of deferred financing approaches, it recognises the risks of adopting such approaches without stronger macro-fiscal discipline and controls that can effectively address three to seven year project commitments and consequently has opted to cancel all new deferred financing arrangements. This is indicated in the IMF Report, June 2006.

3.4.1.21 A centralised bank account monitoring mechanism for both revenue and expenditure accounts is operated by the Public Expenditure Division that identifies and consolidates all public entities with a separate budget head. It includes both direct budgetary as well as government controlled project accounts. The bank account mechanism monitors the status of bank accounts held in three commercial banks – BNS, NCB and RBTT. The monitoring mechanism includes both alternate bank accounts: the current fiscal year bank account and the previous fiscal year's bank account used to facilitate end of year closing payments. The comprehensiveness of the centralised bank account mechanism is assured by the restrictions and controls on the opening of new bank accounts and the closing of bank accounts. New bank accounts may only be recommended by the Permanent Secretary/Principal Finance Officer/Director of Finance for Line Ministries, Departments and Agencies and must be approved by the Financial Secretary (Ministry of Finance and Planning) under advisement by the Public Expenditure Management Division.

Indicator	Score	Brief Explanation
PI-17 Recording and management of cash balances, debt and guarantees	**B+**	
(i)Quality of debt recording and reporting	B	Comprehensive records on domestic and external debt are compiled and are updated and reconciled on a monthly basis. Comprehensive statistical reports providing information on debt stocks, debt service and debt management operations are prepared annually.
(ii) Extent of consolidation of the Government's cash balances	A	The comprehensive centralised bank accounts monitoring mechanism is compiled and consolidated into a single report on a daily basis. This serves to facilitate budget releases and to inform debt management.
(iii) Systems for contracting loans And issuance of guarantees	B	The systems for contracting loans and issuing guarantees are bound by constraints and procedures set within the legal and regulatory framework. Clear loan level targets are defined within the fiscal framework that constrains the budgetary ceilings.

Effectiveness of Payroll Controls

3.4.1.22 The personnel emolument amounts to approximately 60% of the primary expenditures. There is a total a work force of 73,000 public servants in Central Government. The Statutory Bodies employ another 22,000 employees. The total public sector work force is estimated16 at approximately 100,000 employees including the Police and the Jamaican Defence Forces. Human resources management is decentralised. The Office of the Services Commissions serves as the administrative secretariat responsible for the five Commissions that supervise the employment of staff: the Public Service Commission, the Police Service Commission, the Judicial Service Commission, the Municipal Service Commission and the Parish Councils Service Commission. The Teachers Service Commission, the Health Regions, the Statutory Bodies and the Executive Agencies operate under separate rules.

3.4.1.23 As part of the Public Sector Reform Programme, the Human Resources Management is introducing performance contracts for all public sector employees and has delegated authority to hire and to retire employees to the MDAs.

[16] This is an informal estimate that was shared with the Consultant.

3.4.1.24 While these reforms provide for improved management by the separation of policy, regulation and implementation, it has been a real challenge for ensuring effective payroll controls. It has led to fragmented payroll management system. There are more than 12 separate payroll systems used, none of which integrated a personnel control database with the payroll. There is no standardization of software and in some cases electronic spreadsheets and paper files are used. Such a system is prone to errors and does not permit easy data queries.

3.4.1.25 The Civil Service Establishment Order, on the force of the Civil Service Establishment Act, establishes every year, by law, all authorised posts along with the salary scales. The creation of posts is subject to the approval of the Cabinet. Each Post is assigned a unique number by the Research and Establishment Unit and maintained on the database. The Establishment Order is a potentially powerful tool for control of the personnel employed and the payroll. However, as the establishment is not integrated into a linked personnel database-payroll system, that opportunity for control is missed.

3.4.1.26 The Civil Service Establishment Order is not directly linked to the budget formulation and preparation process. There are negotiations between the MDAs; the Cabinet Office (in charge of approving the new posts); the Research and Establishment Control Unit (power to veto the decision); and the Public Expenditure Division (power to veto the decision on the grounds of non availability of funds) but without the top-down discipline of budgetary constraints, there is a missed opportunity to bring budgetary discipline to the very large personnel emolument component of the budget.

3.4.1.27 The payroll is audited by the Internal Audit Unit of each MDA. However, for the Line Ministries visited, it appears that the internal auditors typically perform one annual audit on a sample basis. Given the level of fragmentation of the personnel management and in absence of an integrated personnel management database, even at the level of the MDAs, including establishment and payroll, sample audits are not effective control tools. The Auditor General audits the payroll every year as part of its statutory audit. Its reports contains finding on payroll such as overpayments, advances and unpaid arrears of statutory deductions made to employees salaries, albeit in a small proportion. There is no dedicated payroll audit carried out regularly but the Research and Establishment Control Unit perform regular operational audits of the MDAs' human resource management.

Indicator	Score	Brief Explanation
PI-18 Effectiveness of Payroll Controls	**D+**	
(i)Degree of integration and Reconciliation between personnel Records and payroll data	D	The establishment list, the staff list (nominal roll) and the payroll data are not integrated and there is no mechanism in place to collect all personnel data and to reconcile with the establishment list or the payroll.
(ii) Timeliness of changes to Personnel records and the payroll	B	It appears that the timeliness of changes is kept within one to two months in the MDAs visited. However, given that the staff list and payroll are not managed centrally, our sample is not necessarily representative.
(iii) Internal controls of changes to personnel records and the payroll	C	Controls are both carried out for the changes by the HRM unit in each MDA, using the Establishment Order as a basis and the personal files and by the Accountant General Department prior to printing the cheques. The rules are established for managing changes and for new posts. The extent to which these controls are efficient and effective would warrant a detailed test of a significant sample. The absence of integration between establishment, staff list and payroll does not

		permit testing for coherence easily. The segregation of staff lists and payroll does not permit centralised controls. Payments errors, albeit minor, were detected by the Auditor General.
(iv)Existence of payroll audits to identify control weaknesses and /or ghost workers.	C	Audits are carried out on the payroll but are not specifically designed payroll audit. The management of the human resources in each MDAs by the Research and Establishment Control Unit. Vacant posts are identified.

Competition, Value for Money and Controls in Procurement

3.4.1.28 Probably the most significant element of public procurement and its practice in Jamaica is that no detailed procurement procedures or institutional arrangements are directly embodied in laws and official regulations. The governing instrument for procurement is the GoJ Procurement Handbook of Public Sector Procurement Procedures, which derives its administrative authority from the Contractor General Act. There appear, however, to be different views regarding this status and the Handbook's enforceability. Most significantly, the Procurement Handbook does not provide sanctions for non-compliance.

3.4.1.29 While the handbook permits the use of other procurement methods not listed in the handbook, provided agreement of the NCC is obtained, without clear guidelines as well as legal and regulatory instruction there are risks introduced for rather complex if sometimes advantageous public private partnership procurement[17] arrangements associated with the deferred financing mechanism such as Build Own Transfer (BOT) and Build Own Operate (BOO) arrangements. Without an effective control framework even direct Parliamentary Approval being required when such procurement mechanisms are undertaken is not enough to mitigate risks sufficiently. The GoJ, acknowledging these risks has opted to reduce its reliance on deferred financing mechanisms as evidenced by the reducing deferred financing amounts reported in the IMF Report, June 2006 which shows a decrease in deferred financing levels from approximately J$4 Billion in the 2003/2004, 2004/2005 fiscal years to nothing in the current year and J$1.6 Billion projected for 2007/2008..

3.4.1.30 The Public Sector Procurement Procedures are very specific about the responsibility of Procuring Entities to perform forward planning for all procurement and properly links them to the budget process. However, as indicated in previous sections, in practice there is little effective application of procurement plans.

3.4.1.31 While the Public Sector Procurement Procedures are very clear on the institutions and officers responsible for making decisions about the different procurement procedures, the language used makes it less clear and sometimes ambiguous as to what procedures or procurement criteria shall be used. For example in reference to the conditions for the use of the different procurement methods it describes under Section 2.1.3 "Following are the methods that have proven to be effective, but additional methods may be used with agreement of the NCC" rather

[17] When properly operated within the context of an effective legal and regulatory framework, public private partnerships can be effective procurement vehicles for properly assigning the responsibilities to the sectors better able to manage the corresponding partnership elements and mitigate risks effectively. In particular it can be an effective way to avoid project cost over runs and contract variations abuse. It should be noted that the effective use public private partnerships also requires effective multi-year planning that is closely integrated into the medium term expenditure framework which in turn is closely linked to the budget process. Without first achieving this, public private partnerships with their ensuing deferred financing arrangements can readily deteriorate into off-budget procurement.

than proscribing specific procurement methods that shall be used under given circumstances. Selective Tender is GoJ's primary method for procurement. Under this procurement method all contractors who participate in a tender must be included in the GoJ Register of Approved Contractors. Open Tender is restricted to contracts whose value is greater than procurement thresholds set for international contracts by Cabinet Decision. Other procurement methods include Limited Tender (Restricted Tender Method, Request for Quotation) and Sole Sourcing.

3.4.1.32 The selective method seeks to address issues of compliance (much like the role of compliance criteria usually included in Standard Bidding Documents) to ensure that only fully tax compliant, licensed companies that have not been debarred participate in public procurement, with the advantage of ensuring greater transparency than with their inclusion solely in Standard Bidding Documents. Such an approach also promises greater efficiency since the compliance review is performed only once per company than the multiplicity of times required if such compliance testing is done as part of each bid evaluation. With regards to the adoption of selective tenders as a way of promoting competition, this objective could be undermined by the practice of using registration lists if the criteria used were subjective. The registration criteria listed in the Procurement Handbook includes objective criteria such as legal capacity to enter into a contract, tax compliance, professional qualifications, and experience but also include some more subjective criteria that are probably better addressed directly as part of the bid evaluation. These include the firm's performance record and its managerial and technical capacity.

3.4.1.33 The criteria for sole source and limited tenders (which do not promote competition) include unusual and compelling urgency. There is however no clear definition of unusual and compelling urgency made in the Handbook. Without clear and unambiguous definitions of unusual and compelling urgency that exclude urgent circumstances that have arisen out of the dilatory conduct of a Procuring Entity the promotion of effective competition can be undermined. The Annual Report of the Contractor General for 2005 submitted to parliament lists the use of sole source and limited tender methods in procurement without appropriate justification as an area of concern.

3.4.1.34 The Office of the Contractor General provides on its website www.ncc.gov.jm/contracts_endorsed a listing of all contracts it endorses (contracts above J$4 Million) indicating the recipient of the contract award and the amount of the contract. This listing does not indicate the procurement method utilized however, upon written request the Office of the Contractor General agreed to provide data on the procurement method utilised for each of the contracts. An analysis of the data shows that less than 50% of the contracts above the threshold adopt an open competition method[18].

3.4.1.35 Even though the Public Sector Procurement Procedures proscribes the process for submitting and addressing procurement process complaints, in practice there appear to be very few complaints lodged. The Head of the Procuring Entity is responsible for receiving complaints pertaining to procurement complaints. Receipt of a complaint requires that a copy be sent to the Sector Procurement Committee. There is a schedule defined for the period within which a contractor may lodge a complaint (20 days after the date of becoming aware, or should have become aware, of the circumstances upon which the complaint is lodged); the period for the Head of the Procuring Entity to come to a dispute resolution decision (14 days after the lodging of the complaint) allowing 14 days for the complainant to lodge an appeal to the NCC. The

[18] 27% of 361 contracts above the threshold adopted the Open Tender method.

NCC is allowed 14 days to recommend appropriate resolution to the Head of the Procuring Entity. In the case that the Head of the Procuring Entity fails to act upon the NCC recommended actions the contractor may resort to judicial review by the courts. The low incidence of complaints may arise because there is no separation of responsibilities between the implementation of the procurement procedures (the Head of the Procuring Entity) and the officer made responsible for dispute resolution (the Head of the Procuring Entity). Further, the period for lodging a complaint rather than being tied to an unambiguous start date such as the date of announcement of contract award, depends on a somewhat subjective date tied to when the complainant should have known about the breach of procurement procedure. The default position for dispute resolution (when no actions are taken by the Head of the Procuring Entity in response to the complaint) is judicial review which is not time bound, and so the design of the complaints process is not set up to ensure operation with the timely resolution of complaints.

3.4.1.36 While no recent studies on Value for Money are available an Auditor General Report from 2002 along with anecdotal information point to the GoJ not achieving Value for Money. It would seem that the primary driver for the high prices paid by the GoJ is the high level of arrears.

Indicator	**Score**	**Brief Explanation**
PI-19: Competition, value for money and controls in procurement (M2)	**C**	
(i) Use of open competition for award of contracts that exceed the nationally established threshold for small purchases	C	The Office of the Contractor General provides a listing of all contracts it endorses (contracts above J$4 Million) indicating the recipient of the contract award and the amount of the contract, however the listing does not indicate the procurement method utilized. No such data was made available, however the Office of the Contractor General agreed upon a written request to provide data on the procurement method utilised for each of the contracts. An analysis shows that less than 50% adopt the open tender method.
(ii) Justification for use of less competitive procurement methods	C	The Handbook of Public Sector Procurement Procedures provide justification for most less competitive procurement methods but is rather ambiguous in the application of sole sourcing, given its lack of definition of what constitutes unusual and compellingly urgent circumstances. The Contractor General though identifies the lack of appropriate justification for less competitive methods as an area of concern.
(iii) Existence and operation of a procurement complaints mechanism	C	The default position for dispute resolution (when no actions are taken by the Head of the Procuring Entity in response to the complaint) is judicial review which is not time bound, and so the design of the complaints process is designed to ensure operation with the timely resolution of complaints.

Effectiveness of Internal Controls for Non-salary Expenditure

3.4.1.37 The budget execution is initiated in the spending units by the issuance of warrants. A warrant is an authorisation to incur expenditure. The warrants are prepared by the Public Expenditure Division on the basis of the yearly cash flow projections supplemented by quarterly and monthly cash flow projections updates. A negotiation process is necessary as the cash availability does not always meet the budget allocations and the cash flow projections. The warrants are issued monthly; this is an indication of serious cash constraints and reduces the planning horizon of the spending units. It appears that the warrants were not always a strict indication of the cash releases to the MDAs; although this situation has improved significantly during the last financial year.

3.4.1.38 Expenditure commitment control can only be based upon timely and accurate projections on the availability of funds. Therefore, commitment control is weakened by the uncertainty of cash availability beyond a 30-day period for the warrant. The uncertainty is further exacerbated by delays in cash disbursements. Therefore, where expenditures are committed, this can only be done on the basis of the submitted budget (rather than the approved budget, since that is not printed in the Budget Estimates till the following year) and of the requirements for maintaining the spending unit's operations.

3.4.1.39 A number of MDAs use computerised systems for managing expenditure. These include FMIS, FINMAN and ACCPAC. The implemented FMIS does not include a commitment control module. FINMAN, the newly introduced integrated financial management information system being rolled out, includes such a module. However given that the planning horizon of one month and the uncertainty of the cash availability does not permit meaningful commitment control, spending units do not systematically apply commitment control nor maintain a commitments register.

3.4.1.40 The Public Expenditure Policy Coordination Division of the Ministry of Finance and Planning was set-up to provide guidance on and to strengthen the financial management in order to tackle the system weaknesses identified. Specifically, an Internal Audit Directorate was created. It provides oversight to the Internal Audit Units in the MDAs and Executive Agencies and controls their activities. A Financial Management unit provides support to establish financial management manuals and instructions in response to identified weaknesses. A Procurement Monitoring Unit has been also created. An Assets Management Unit and a Legal Unit complete the system.

3.4.1.41 The financial management rules and procedures are clear and accessible through manuals. A compendium of all financial management instructions has been drafted and shall be disseminated for FY 07/08. However, reports from the Auditor General and the internal audit units located in the ministries indicate the regular breach of rules. Delays in the preparation of the monthly financial management reports and in the keeping of accounting records undermine internal controls. Moreover, interviews revealed that rules are regularly breached for procurement, commitment after contracting and delivering. It appears that these practices are both a consequence of the lack of sanctions applicable for non compliance to rules and of the cash constrained environment in which the financial managers have to operate.

3.4.1.42 The Auditor General's report for FY 05/06 indicated "Failure by several entities to comply with the Government's financial rules continued to result in inadequate control over furniture and equipment, the custody of blank cheques and the purchase of petrol. Reconciliation of many bank accounts also remained in serious arrears, thereby creating an environment which facilitated the concealment of errors and fraud."

Indicator	Score	Brief explanation
PI-20: Effectiveness of internal controls for non-salary expenditure (M1)	**D+**	
(i) Effectiveness of expenditure commitment controls	D	The expenditure commitment control system exists but is not functional due to the cash constrained environment in which the MDAs operate. It is not maintained on the FMIS and the MDAs visited do not systematically apply commitment control nor maintain a register of commitments.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures	B	Other financial management rules and procedures exist and are well documented. These are updated and disseminated across the MDAs effectively.
(iii) Degree of compliance with rules for processing and recording transactions	C	The compliance to the rules is not high. Their effectiveness is reduced by the cash constraints as the usefulness of controls is diminished, and possibly some level of duplication.

Effectiveness of Internal Audit

3.4.1.43 The Internal Audit function is a compulsory requirement for all MDAs, Executive Agencies and Public Bodies. Their establishment is a requirement of the FAA, PBMA and Executive Agencies Acts.

3.4.1.44 The Internal Audit Directorate was created in 2001 as a unit of the Public Expenditure Policy Coordination Division of the Ministry of Finance and Planning, to provide oversight to the Internal Audit Units in the MDAs[19] and Executive Agencies and to control their activities. A manual has been elaborated and already reviewed once to provide detailed guidance to the Internal Audit Units to plan their activities, to assess and to analyse risk, to elaborate their work plans and to perform their audit. Special audit techniques such a Computer Assisted Audit Techniques and Value-for-Money are also explained in the manual. The International Internal Audit Standards have been adopted. While the Internal Audit covers all functions of central government, operations however are restricted by budgetary constraints and so in practice Internal Audit Units are unable to fulfil effectively their full responsibilities and coverage.

3.4.1.45 There are concerns about staff capacity. The Internal Audit Directorate is tackling the staff capacity constraints by organising training and supporting staff that take professional courses. The Internal Audit Directorate has also been working with the offices of the Offices of the Services Commission to raise the entry level requirements for Internal Audit. The narrative has been amended to highlight further the issue of staff capacity.

3.4.1.46 The Directorate operational plan indicates that each internal audit units is reviewed once a year. In most cases, these controls are one day visits. In cases of large spending ministries, the visit might take two days. In addition, selected internal audit units receive technical assistance from the Directorate for specific audit assignment and when guidance has been requested. The Financial Secretary can request special audits to the Directorate.

[19] There are 200 internal auditors in the MDAs. The Internal Audit Directorate comprises of seven staff.

3.4.1.47 The internal audit units prepare their work plans and share them with the Internal Audit Directorate. The audit planning comprises a risk assessment as prescribed in the manual They prepare monthly reports that are distributed to the Public Expenditure Division as the division in charge of managing budget execution and cash allocation to the spending units and to the Audit Committees. The Auditor General is also using the Internal Audit reports as part of its annual audit planning and system analysis.

3.4.1.48 Audit Committees and an Audit Commission have been created and are a legal requirement. A policy has been drafted emphasising their role in ensuring that internal controls are adequate and that management responds to audit queries and recommendations. The Audit Commission function is to supervise the work of the Audit Committees and to ensure management response to the audit queries and recommendations. The Internal Audit Directorate provides the secretariat functions to the Audit Commission. The Audit Committees report to the Audit Commission quarterly and annually.

3.4.1.49 Although the system exists, the lack of sanctions applicable for non-compliance to rules, including when recommendations and queries are made by the Auditor General and the Public Accounts Committee, raises questions on the effectiveness of the Audit Committees. The creation of the Audit Commission is an attempt to ensure that corrective measures are duly implemented. The effectiveness of the Internal Audit function effectiveness may also be constrained by the delays in preparing the monthly financial management reports, the accounting records which are affected by arrears and the poor record keeping and filing. Moreover, internal audit units in the Ministry of Health and in the Ministry of Education reported that they have insufficient budget to operate: in clear terms, this means that the scope and range of the internal audit function is physically limited to the headquarters at best.

PI-21. Effectiveness of Internal Audit	**D+**	**Brief Explanation**
(i) Coverage and quality of the internal audit function	C	The internal audit function covers all MDAs, executive agencies and public bodies and applies IIA standards. Operations however are restricted by budgetary constraints and so in practice Internal Audit Units are unable to fulfil effectively their full responsibilities and coverage. The manual and the work plans preparations adhere to the IIA standards. According to data reviewed, it appears that at least 20% of staff time is spent on systems review.
(ii) Frequency and distribution of reports	B	The report are produced monthly and distributed to the Audit Committees and to the MoFP. The Auditor General has access to the internal audit reports.
(iii) Extent of management response to internal audit findings	D	The management response to audit queries in general appears to be poor as the Auditor General reports and the internal audit report reviewed pick up similar issues. An Audit Commission has been created to support the work of the Audit Committees and obtain management responses and actions.

3.5 ACCOUNTING, RECORDING AND REPORTING

Timeliness and Regularity of Accounts Reconciliation

3.5.1.1 The Minister of Finance must approve the opening of all bank accounts for each Line Ministry. Three Commercial Banks are used in the main; Bank of Nova Scotia, RBTT and NCB. The cash management system requires the Line Ministries to submit fully reconciled Monthly Expenditure Returns by the 15th of each month. In practice the Monthly Expenditure Returns are submitted two months after the close of the month on average. In a sample of 273 Monthly Expenditure Returns for the 2006/2007 fiscal year, 72% were submitted before two months after the close of the month and 86% were submitted before three months after the close of the month. There are no sanctions applied for late submittals of Monthly Expenditure Returns. The Ministry of Finance through the Public Expenditure Division monitors all Line Ministry Bank Accounts on a daily basis. Bank reconciliation is undertaken directly by the Line Ministries as well as the Ministry of Finance with the submittal of monthly expenditure returns. The availability of detailed banking records on-line of all Budget Head Bank Accounts readily facilitates this.

3.5.1.2 Reconciliation and clearance of suspense accounts are done at the year end when Line Ministries submit their final accounts. Both the Auditor General and the Public Accounts Committee have identified un-cleared advances as a persistent problem that remains an area of concern.

Indicator	Score	Brief Explanation
PI-22 Timeliness and regularity of accounts reconciliation	**D+**	
(i)Regularity of Bank reconciliations	C	Bank reconciliation is undertaken directly by the Line Ministries as well as the Ministry of Finance monthly with the submittal of monthly expenditure returns.
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	D	Reconciliation of advances and suspense accounts usually take place only annually with some delays. The Auditor General as well as the Public Accounts Committee identify un-cleared advances as a persistent problem.

Availability of Information on Resources Received by Service Delivery Units

3.5.1.3 A Public Expenditure Review (PER) was undertaken in February 2005 to determine efficiency of public spending and the quality and quantity of services delivery. Given the severe constraints imposed by the high level of public debt, front line service delivery units, being furthest in the resource allocation chain, may be the ones to suffer most when overall resources fall short of budget estimates tracking of such information ascertain whether the PFM systems effectively support front-line service delivery. The report concludes that the resources allocated to primary education have not yielded adequate returns. Resources are not allocated optimally, delivery of services thus suffers and public expenditure is not distributed equitably. Efficiency in public health services have improved but there still persists a mismatch between demand and supply. Equity remains an issue in the public health delivery system.

3.5.1.4 The Public Expenditure Review includes tracking of expenditure in the social sectors and in particular including Health and Education. Chapters 4 (Education) and 5 (Health) detail expenditure at the primary, secondary and tertiary levels and analysis includes resources received by health and education facilities.

Indicator	Score	Brief Explanation
PI-23 Availability of information on resources received by service delivery units	**C**	A PER has been undertaken within the last three years that reviewed the level of services by basic education and health facilities. While some improvements were reported there are difficulties with the PFM systems capacity to provide service delivery efficiently or equitably.

Quality and Timeliness of in-year Budget Reports

3.5.1.5 Each month Line Ministries submit Monthly Expenditure Returns that are done accurately and are comprehensive. They provide statements of expenditure both by activity and by objects, a main ledger trial balance, statements of receipts and payments, bank reconciliation statements, cash book statements, summary of statements of advances outstanding, statements of deposits, receipts and payments, a summary of balances held in deposits and a statement of collection of department and other miscellaneous revenue. The Public Expenditure Division reviews and reconciles the Monthly Expenditure Returns against bank balances. The Monthly Expenditure Returns format is fully consistent with the budget format and facilitates expenditure statements by activity and object. It provides information on commitments, expenditure and uncommitted balances. All of the items of the budget estimates are included within the reporting format. The Monthly Expenditure Returns properly distinguish between advance and expenditure transactions and so can protect against such threats as double counting and the reporting upon precise and actual achievements rather than merely the intended purpose.

3.5.1.6 Detailed information available through the Monthly Expenditure Returns, and half yearly budget reviews and reports are produced for measuring budget implementation. However, not all of the available detailed information is consolidated. For example while Line Ministries provide information on the current status of arrears on a quarterly basis, these submittals are not consolidated into a national arrears position.

3.5.1.7 The Monthly Expenditure Returns are supposed to be prepared on a monthly basis and submitted within 15 days after the close of each month. However in practice there are substantial delays, typically as much as two months, in the submittal of the reports. It may be of some relevance that there are no sanctions applied for late submittals of Monthly Expenditure Returns.

Indicator	Score	Brief Explanation
PI-24 Quality and Timeliness of in-year budget reports	**C+**	
(i)Scope of reports in terms of coverage and compatibility with budget estimates	A	The Monthly Expenditure Returns allow a direct comparison of budget implementation to the original budget, and both commitments and expenditure are covered. Information included covers all of the budget estimates items.

Indicator	Score	Brief Explanation
(ii) Timeliness of the issue of reports	C	Reports are prepared month and on average are submitted 8 weeks after the close of each month, however there are a substantial number (approximately a third) that are submitted well after 8 weeks.
(iii) Quality of information	A	There are no real concerns regarding data accuracy.

Quality and Timeliness of Annual Financial Statements

3.5.1.8 Under the modified cash accounting system the source document for accounting entries is the payment voucher. Entries are dated using the date on the cheque except for "Period 13" where entries are assigned to the prior fiscal year. Two alternate bank accounts are used for succeeding years to manage and segregate funds during "Period 13" referred to the three month period after the close of the fiscal year. Cheques can continue to be issued for goods, works and services delivered in the prior year as long as the balance can cover payments. In practice any unpaid bills are carried over to the new fiscal year and paid for out of funds for the current fiscal year. The Line Ministries have reported that the unpaid bills carried over to be substantial. This of course undermines the budgetary intent and contributes further to decoupling budget execution from budget preparation. One consequence of the "Period 13" mechanism is that it postpones the completion of the Appropriations Accounts.

3.5.1.9 The Line Ministries independently prepare financial statements for submission to the Ministry of Finance and the Auditor General. Under Clause 24I of the Financial Administration and Audit Act, all Accounting Officers shall prepare, sign and transmit to the Minister of Finance and the Auditor General the Appropriations Accounts within 4 months. In practice, as evidenced by performance in the 2006/2007 fiscal year where 10 months after the close of the 2005/2006 fiscal year a number of appropriations accounts remain outstanding, most Line Ministries have been unable to submit their Appropriation Accounts in compliance with the Financial Administration and Audit Act. The Estimates of Expenditure are only able to present provisional expenditure information two years prior to the current budget year due to the late submissions of Appropriations Accounts. The provisional expenditure figures use budget estimates where final audited appropriations accounts figures are unavailable. The Ministry of Finance does not prepare a consolidated set of appropriation accounts. The account summary procedure adopted by the Ministry of Finance does not force the reconciliation discipline that a complete consolidation of accounts would require. There is no reference made to any suspense accounts or advances in the expenditure estimates.

3.5.1.10 The Government of Jamaica employs a cash based accounting system and has adopted its own accounting standards for all public service institutions. Standard and consistent formats have been adopted and are used across all Line Ministries.

3.5.1.11 The Government has moved to adopt the International Public Sector Accounting Standards (IPSAS). It commissioned an Accrual Accounting Steering Committee to guide the adoption of these standards and to oversee the phased implementation of the system in 30 government ministries and departments over a three-year period. While some progress has been recorded by way of the appointment of a committee with representation by high level officials, including the Accountant General's Department and the professional accounting associations, and 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 these standards are not integrated into the Accounting manual or the Chart of Accounts. The Accounting Manual for the GOJ has not been comprehensively updated since its publication in 1977 it has only been revised on an ad-hoc basis.

Indicator	Score	Brief Explanation
PI-25 Quality and timeliness of annual financial statements	**D+**	
(i) Completeness of the financial statements	D	National Estimates of Expenditure are prepared annually. No consolidated government accounts are prepared annually.
(ii) Timeliness of submission of the Financial statements	C	While the Financial Administration and Audit Act specify a four month deadline for the submission of Appropriations Accounts to the Auditor-General, in practice most submit within 10 months. It takes some Line Ministries over 12 months to submit their Appropriations Accounts after the end of the fiscal year. This has meant that the Estimates of Expenditures only include provisional Actual Expenditures
(iii)Accounting standards used	C	Government standards are applied across all Line Ministries and present in a consistent format over time.

3.6 EXTERNAL SCRUTINY AND AUDIT

3.6.1.1 The Office of the Auditor General is independent and his position is enshrined in the Financial Management and Audit Act. By the standards of independence set by INTOSAI for supreme audit institutions there are two areas in which the Auditor General falls short of complete independence. This is with respect to having an independent budget. The budget is set by the MoFP and the level of funding is also subject to the decision of the MoFP. The Auditor General does not have complete control on who is office hires. Employees are recruited by the Public Service Commission

3.6.1.2 It comprises 173 staff of which 20 possess an accounting or audit accreditation, and 100 employees possess at least a university degree. Although the auditors are located in the MDAs, their operational budget is the responsibility of the Office of the Auditor General

3.6.1.3 All central government agencies, MDAs, Executive Agencies, and Local Authorities are audited every year. Public Bodies are audited on a sample basis; these public bodies have to be audited, by law, by an independent external auditor and report to the Ministry of Finance and Planning. The scope of audit performed pertains to systemic issues, risks in class of transactions, regularity of transactions, timeliness of financial statements, compliance audits and follow-up on previous recommendations. A Value-for-Money audit was performed four years ago and elements of performance audits are being introduced, albeit performance auditing standards and the reference framework, indicators and targets, are not yet developed. The standards adopted are the International Organisation of Supreme Audit Institution standards for all central government agencies and the International Federation of Accountant standards for the Public Entities using accrual accounting.

3.6.1.4 The audited financial statements have to be submitted to the Parliament by 31^{st} December of the financial year ending 31^{st} March. The financial statements have to be submitted to the Auditor General by 31^{st} July of the financial year ending 31^{st} March. Therefore the audited financial statements are submitted to the Auditor General and on to Parliament throughout the year. The financial statements are submitted late with corresponding consequences on the submissions to parliaments. The table below shows a break-down of the certification of annual financial statements by the Auditor General. Although, the Auditor General submits its annual report to the Parliament in December every year, the certification of financial statement is delayed beyond one year in a number of cases.

Table 3.13
Statistics on Annual Financial Statements Submitted to the Auditor General their Certification by the Auditor General for FY 2003/2004; FY 2004/2005; FY 2005/2006
(sources Auditor General's Department)[20]

	Fiscal Year			Total
	2003/2004	2004/2005	2005/2006	
N° of Submissions	82	76	36	194
N° of Not Submitted	1	13	0	14
Average Delay in Submission	277	217	42	214
Maximum Delay in Submission	778	536	176	778
N° of submissions > 1 year	28	34	0	62
N° of submissions > 2 years	2	13	0	15
Average Delay in Certification	197	171	42	164
Maximum Delay in Certification	813	594	295	813
N° of certifications < 4 months	38	31	24	93
N° of certifications < 8 months	58	51	35	144
N° of Certifications > 4m and <8m	20	20	11	51
% < 12 months	83%	73%	100%	82%
N° of certifications < 12 months	69	65	36	170
N° of Certifications > 8m and < 12m	11	14	1	26
N° of certifications > 12 months	13	24	0	37
% > 12 months	16%	27%	0%	18%
Total N° of Records	83	89	36	208

3.6.1.5 The Auditor General's function is thus undermined by the delays in the submission of the financial statements, hence limiting the level of information available to the Parliament on the financial management and execution of the previous fiscal year. The recommendations made have a limited impact on the financial management by the Accounting Officers as surcharge is the only procedure applicable by law and only in cases of losses. Sanctions for non compliance to the regulations cannot be applied except for disciplinary actions. However, the Ministers and the Accounting Officers (or CEOs) may be called before the PAC and the Standing Finance Committee every year (see PI-28).

[20] Note that for non certified annual statements, the delay was calculated as of 15th February 2007. The date of certification by the Auditor General has been as the proxy for submission to Parliament.

Indicator	Score	Brief Explanation
PI-26. Scope, nature and follow-up of external audit	**C+**	
(i) Scope/nature of audit performed (incl. adherence to auditing standards)	B	All central government entities are audited annually. The audits cover financial statements and compliance audit. A Value-for-Money audit has been performed in the past and performance audits elements are being considered in the reports albeit implicitly. The audit standards adopted are the INTOSAI and the IFAC standards.
(ii) Timeliness of submission of audit reports to the legislature	C	The Auditor General's report is submitted by 31st December to the Parliament every year as requested by law. However, the certification of the annual financial statements is delayed up to more than a year after their submission by the ministries and departments.
(iii) Evidence of follow-up on audit recommendations	B	There is little evidence of the follow-up on the audit recommendations. Ministers and Permanent Secretaries may be called upon by the Public Accounts Committee but there is no sanctions applied and no capacity to press for corrective measures.

Legislative Scrutiny of the Annual Budget Law

3.6.1.6 The Constitution of 1962 establishes two chambers: the House of Representatives and the Senate. The Minister of Finance has to be a member of the House. The Standing Orders, 1964, define the functioning of the House and of the Senate. There have been changes to the Constitution during the last decade, some based on recommendations made by a Constitutional Reform Commission. The Budget Briefings is an exercise introduced by the current Government to inform the Parliament on the budget preparation. It is normally undertaken one month prior to the tabling of the annual budget. This information process is well appreciated by the House.

3.6.1.7 The Parliament is prorogued typically between mid-February and mid-March. The opening of Parliament signals the commencement of the new session around mid to late March. The annual budget, by practice, is presented to the House late March and tabled for the first session. This is traditional practice. The Standing Finance Committee, a committee of the whole House by Standing Orders, reviews the budget and makes recommendations to the House. The House approves the report and debates the Appropriation Bill. By convention the Senate approves, the budget. The overall process typically takes 3 to 4 weeks; hence it facilitates the voting of the budget within one month after the start of the financial year

3.6.1.8 The process of budget review, although starting late according to the PEFA measurement standard, is a vigorous process involving both the Government and the Opposition and during which the Ministers, supported by the Permanent Secretaries and the Chief Executive Officers, may be called to defend their budgets and to respond to queries by the Members. Further, the Constitution authorises in its Section 117(3), by way of Resolution to Vote, the Minister of Finance to request the House to approve house keeping expenditures for up to July.

3.6.1.9 The Supplementary Budget Estimates are normally presented and voted by the House between November and March of each fiscal year.

3.6.1.10 The House also debates the Civil Service Establishment Order every year. It should be noted that the Civil Service Establishment Order is not directly linked to the budget process. If this were to be done the parliamentary debate of the budget constrained establishment could potentially contribute more effective oversight and control of the personnel emolument component of the budget. The Ministry of Finance also presents to the House, concomitantly to the Budget, the estimates of the revenue and expenditures for the public bodies. Sectoral debates are held in the House later in the year on two sectors selected by the Minister of Finance and the Opposition Spokesman.

Indicator	Score	Brief Explanation
PI-27 Legislative Scrutiny of the Annual Budget Law	**B+**	
(i)Scope of the legislature's scrutiny	B	The Legislature reviews fiscal policies and aggregate for the budget year, detailed expenditure and revenues.
(ii)Extent to which the legislature's procedures are well-established and respected	A	The procedures are established in the Standing Order and the practices of the House and the Senate are well enshrined.
(iii)Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	B	The Legislature has at least one month to review the budget proposals.
(iv)Rules for in-year Amendments to the budget without Ex-ante approval by the legislature.	B	Rules for the in-year amendments exist and allow for extensive administrative re-allocations.

Legislative Scrutiny of External Audit Reports

3.6.1.11 The Auditor General sends his annual report every December to the House. The report is tabled during the first of January. Members of the Standing Finance Committee may make use of the Auditor General's report for the budget review.

3.6.1.12 The Public Accounts Committee is comprised of eleven members, six from the opposition and five from the Government party and is chaired by the opposition spokesman on finance. The Public Accounts Committee reviews the audit financial statements when these are submitted to the House and the Auditor General report. Given the calendar of the House, by custom the Public Accounts Committee normally meets from September onwards, usually for four months or more, depending on the nature and volume of the issues.

3.6.1.13 The Public Accounts Committee calls The Accounting Officer, who is the Permanent Secretaries or the CEOs, to account for their management and to respond to queries officially. The hearings are thorough and the debate is open to the public and the press and the broadcast media.

3.6.1.14 The Public Accounts Committee makes recommendations but it appears that sanctions are seldom imposed and thus there is no incentive for taking corrective measures on the deviant practices identified by the Auditor General and the Public Accounts Committee. It appears that the main sanction is the risk of going through the ordeal of being called to answer to the Public Accounts Committee or being surcharged[21].

3.6.1.15 The main and persistent weaknesses identified by the Auditor General and observed by the Public Accounts Committee were reported as:

- Late submission of annual financial statements and of monthly expenditure returns, including arrears in maintenance of records though some progress had been noted.
- Internal Control Weaknesses
- Unauthorised expenditures and irregularities: breaching rules undermines transparency and potentially jeopardize the ability to deliver services efficiently and effectively.
- Un-cleared advances
- Non remittance of statutory deductions. The Ministry of Finance and Planning now pays directly the statutory deductions for the National Insurance Scheme and the National Housing Trust.
- Breaches of the financial regulatory framework

Indicator	Score	Brief Explanation
PI-28. Legislative scrutiny of external audit reports	**C+**	
(i) Timeliness of examination of audit reports by legislature (for reports received within the last three years)	*C*	The Public Accounts Committee normally meets from September onwards (usually for four months or more) to review the Auditor General's report for the fiscal year ending 31st March of the previous calendar year, i.e. 9 months after the report submission.
(ii) Extent of hearings on key findings undertaken by legislature	*B*	In–depth hearings on the findings take place before the Public Accounts Committee. This is open to the public and excerpts are broadcasted on television. Accounting Officers may be called to respond to queries.
(iii) Issuance of recommended actions by the legislature and implementation by the executive	*C*	Actions are recommended but there is evidence that they are not substantially enforced.

3.7 <u>Donor Practices</u>

Predictability of Direct Budget Support

3.7.1.1 The EC is the only donor providing <u>planned</u> budget support at the moment, although DFID does provide GoJ with sector programmatic support and debt relief and the IDB provided general programmatic support until 2004.

[21] The following extract of the Auditor General's report for FY 05/06 illustrates the lack of correctives measures: "*But once more the most common infraction was the failure of many entities to invite the required competitive price quotations before awarding contracts for less than $4M. I was therefore often unable to determine how those organizations satisfied themselves that the prices paid were fair and reasonable. Other frequent violations were that business was done with suppliers who were not on the National Contracts Commission's approved list or who did not submit the required Tax Compliance Certificate. I again recommended that appropriate legal sanctions be instituted for breaches of the Government's procurement requirements.*"

3.7.1.2 The EC's budget support component of SERP III was delivered in three tranches. Each tranche has both fixed and variables elements for which funds are released after the achievements of performance against a pre agreed matrix. The financing agreement was amended with two riders – this analysis uses the second and final rider for the purposes of analysis. The first tranche was released in September 2004 (broadly in line with expectations) and the second tranche was for September 2005 but was released in December 2005. The amount released in the second tranche was lower than expected due to the fact that the variable indicators were being re-negotiated at the time. The 3rd tranche of the EC budget support was disbursed in Nov 2006 and the disbursement included an amount for the previously unreleased variable funds from the second tranche.

Table 3:14
Disbursement Analysis

Tranche	Amounts		Shortfall %	Delay
	Planned	Disbursed		
1st	12	11.10	7.50%	None
2nd	8	2.95	63.13%	One Quarter
3rd	7	10.47	0.00%	One Quarter
Average			**22.0%**	**<one quarter**

Financial information provided by Donors for Budgeting and Reporting on Project and Program Aid

3.7.1.3 In recent years, the major donors have been the EU, the CBD, the IDB, DFID and the IBRD. Substantial assistance is also provided by USAID, China and UN agencies such as UNDP. At the moment the GoJ does not have a donor co-ordination strategy and reliable and comprehensive information on the actual value and detailed composition of all donor assistance provided to the Government is not available.

3.7.1.4 Most of the donor assistance goes through accounts held by the government and is executed by a Government agency with the major exception of the EU. Since the Government is the executing agency it means that to an extent the timing of disbursement is partly a Government responsibility as is the reporting function.

3.7.1.5 GoJ does not have an accurate and reliable public investment database and so even though project data at an aggregate is readily available detailed breakdowns by expenditure category, function or sector are not readily available nor requested by the Government. The five largest donors do provide budget estimates in advance of the fiscal year but not in a format consistent with the government's budget classification. Donors are not requested to provide detailed budget estimates for disbursement of project aid after the initial project approval process

3.7.1.6 Project design and financial forecasts are based mainly on donors own financial years – many of which correspond to the Government financial calendar.

Proportion of aid that is managed by use of national procedures

3.7.1.7 Ongoing and Planned Activities: The UNDP is chairing a cross IDP group looking at ways to improve IDP coordination and harmonization. The IADB and the IBRD are also working on ways to harmonize their financial procedures.

3.7.1.8 Table 3:15 provides a calculation of the proportion of donor funds managed through national procedures. The methodology is based on obtaining information from the donors by programme types on whether they use each of the four categories of Government procedures. A percentage of usage of the government system is thus calculated and applied to the disbursements recorded for 2004 and 2005. This calculation provides an aggregate proportion of funds being disbursed, utilised and reported on using government procedures.

Table 3:15

Analysis of the flows of donor funds managed through national procedures

Donor and programmes type	Government Procedures				Use of systems %	Disbursement		Disbursement %	
	Procurement	Payment / accounting	Audit	Reporting		04/05	05/06	04/05	05/06
EU	×	×	×	×	0%	47.5	33.8	0%	0%
EU Budget Support	√	√	√	√	100%	11.1	3.0	8%	3%
UNDP	√	√	√	√	100%	1.5	1.9	1%	2%
USAID	×	×	×	×	0%	17.0	14.0	0%	0%
IDB	×	√	×	√	50%	52.4	14.2	18%	8%
World Bank	×	√	×	√	50%	6.0	17.3	2%	9%
DFID	√	√	√	√	100%	3.0	2.1	2%	2%
DFID Debt relief	√	√	√	√	100%	6.2	6.2	4%	7%
TOTAL						**144.7**	**92.4**	**35%**	**31%**

Indicator	Score	Brief Explanation
D-1 Predictability of Direct Budget Support	**B+**	
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body).	*B*	The shortfall in 2004 was 7.5%, in 2005 it was 63% and in 2006 there was no shortfall.
(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates	*A*	Disbursements estimates of the EC budget support were agreed upon before the beginning of the respective fiscal year, and actual disbursements were never delayed by more than one quarter or 25% of the fiscal year.
D-2 Financial information provided by donors for budgeting and reporting on project and program aid	**C**	
(i) Completeness and timeliness of budget estimates by donors for project support.	C	The Government of Jamaica does not have comprehensive and reliable information on the value and composition of all donor assistance provided to the Government. However, the five largest donors do provide budget estimates in advance of the fiscal year but not in a format consistent with the government's budget classification. Donors are not requested to provide detailed budget estimates for disbursement of project aid after the initial project approval process.

Indicator	Score	Brief Explanation
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.	C	Donors provide quarterly reports on actual disbursements to the Government but it is only at aggregate project level. The budget is also at program, sub program and functional level.
D-3 Proportion of aid that is managed by use of national procedures	**D**	
(i) Overall proportion of aid funds to central government that are managed through national procedures.	D	Although many of the major projects use Government bank accounts and Government agency to execute projects audit and procurement tend to be controlled by the IDP.

4. GOVERNMENT REFORM PROCESS

4.1 GENERAL DESCRIPTION OF RECENT AND ON-GOING REFORMS

4.1.1.1 The Government of Jamaica has embarked upon a programme of broad Public Sector Reform enshrined in its Public Sector Modernization Vision and Strategy (2002 – 2012). The reform programme has buy-in from the highest levels of Government and was launched by the Prime Minister. The Public Sector Reform Unit (PSRU) within the Cabinet Office has been established to manage, implement, monitor and report on the reform activities. The reform strategy incorporates a number of sections including Sustainable Development, Governance, Values and Principles and Regeneration of the Public Service, Customer Service, Resource Management and Accountability.

4.1.1.2 The centrality of sound PFM to Public Sector Reform emanates from its fundamental role in facilitating the business of Government across all of its core functions. The achievement of sound PFM serves as the enabler, the necessary condition, for a well functioning public sector. Effective PFM reform requires a holistic and comprehensive approach. There are many specific functions of public finance management that are inter-linked so that a carefully managed sequencing of reform steps, fully cognizant of the inter-linkages, serves as a pre-requisite for effective PFM reform. Consequently, any reform programme that does not address PFM in a holistic and comprehensive way, but just encompasses a single core element of sound public finance management is unlikely to live up to its full promise.

4.1.1.3 While there are a number of important cross-cutting reform objectives (with respect to public finance management reform) embarked upon, including promoting a performance based culture, emphasizing objectivity and accountability and that address a critical component of a sound public finance management system; namely, the cost effective delivery of high quality service through the achievement of value for money, it falls short of defining a strategic framework that specifically targets and prioritises the achievement of all three core elements of a sound Public Finance Management (PFM) system and seeks to implement activities in a carefully coordinated and sequenced manner . A sound PFM system should have the capability of providing aggregate fiscal discipline, the strategic allocation of resources, and the efficient delivery of services and value for money.

4.1.1.4 A carefully sequenced implementation schedule of PFM reform activities must be based upon full cognizance of the activity chains which in turn demands the adoption of a PFM reform framework that incorporates the complete scope of PFM functions, namely: macro-fiscal policy and planning, budget formulation, budget preparation, budget execution, payroll management, procurement, debt and guarantee management, revenue collection, external resources management, internal audit, accounting, reporting and records, external audit and parliamentary oversight.

4.1.1.5 While PFM reform under the Public Sector Modernization Vision and Strategy (2002 – 2012) contains many elements of a sound PFM Reform programme, they do not appear to be managed within a single coordinated framework of carefully sequenced activities nor set out under a specific PFM pillar with aligned institutional arrangements to ensure the close coordination of PFM reform activities necessary for the management of the linkages, the roll out of activities, the sequencing and the pacing.

4.1.1.6 The targets that have been set for PFM reform implementation are specified within the strategy document. The milestones to chart the programme's course and success criteria are listed as:

- To reduce net public debt and sustain it at a level of less than 100% of GDP, during 2003 to 2008;
- To implement a project/programme prioritisation system that will allocate resources to strategic priorities through improved "objective-outcome" planning, monitoring and management systems, by 2004;
- To design, procure, install, calibrate and commission an adequate and effective Integrated Financial Management Information System by 2005;
- To conceptualise, design, pilot, and implement in the Executive Agencies, a public sector-wide accountability mechanism prototype for full launch in all Government ministries, departments and public sector entities, by 2012;
- To ensure that Corporate Plans are linked to available resources/budget, providing a proper basis for resource allocation;
- To continue the process of implementation of performance based management;
- To maintain modern legal, financial and regulatory mechanisms to facilitate the sound management of all partnerships and their market regulators;
- To continue to strengthen sector-specific guidelines and procedures in respect of the procurement of all goods, services and capital works.

4.1.1.7 Consistent with the stated objectives of Public Sector Modernization Vision and Strategy 2002 – 2012, the strategy outlines reform policies that well address the objectives of the efficient delivery of services and value for money through the improvement and enhancement of: the efficiency of Government Procurement and contracting mechanisms; the accountability and strengthening of internal and external control mechanisms; and the improvement of financial management through computerised information systems.

4.1.1.8 The reform policy aims are less explicit about aggregate fiscal discipline, and the strategic allocation of resources. These omissions are significant given the very high levels of public indebtedness (aggregate fiscal discipline) and the findings of a Public Expenditure Review (PER) undertaken in February 2005 (strategic allocation of resources). The objective of this study was to determine the efficiency of public spending and the quality and quantity of services delivery in the health and education sectors. The report concludes that resources are not allocated optimally, delivery of services thus suffers and public expenditure is not distributed equitably.

4.2 INSTITUTIONAL FACTORS AFFECTING REFORM PLANNING AND IMPLEMENTATION

4.2.1.1 Jamaica has had a long tradition of undertaking PFM reform having started off with specific financial management projects such as the Administrative Reform Project (ARP 1) with support of the World Bank with a more localised reform agenda adopting an incremental approach to the more recent holistic reform programs such as Public Sector Management Programme (PSMP 2) in 2000. Jamaica has shown a strong commitment to PFM reform and indeed has made much progress in many elements of Public Finance Management.

4.2.1.2 Through its Public Sector Modernization Vision and Strategy 2002 – 2012 the Government of Jamaica has defined a holistic and comprehensive reform approach. The implementation however does not adopt a single monitoring and reporting framework, coordinated funding vehicle or institutional arrangements that readily facilitate close coordination between the different players responsible for the implementation of the reform, nor provides a consolidated perspective of PFM reform. Implementation in PFM Reform appears to have centred primarily on procurement and the introduction of accrual accounting. While such weaknesses as the accrual of arrears (unpaid bills) serve as strong justification for extending the cash accounting system to include many elements of accrual accounting, the still weak performance on the timeliness of appropriations accounts submissions (even after substantial improvements) might raise some questions in particular about the sequence of implementation.

4.2.1.3 Over the last few years, several assessments have been undertaken in the field of PFM, most notably the World Bank's CFAA (Country Financial Accountability Assessment) of May 2001, the EC audit mission of SERP I of November 2001, EC reports on PFM in 2003 and 2004 and the World Bank/IDB Joint Country Financial Accountability Assessment and Country Procurement Assessment Report (CFAA/CPAR) of April 2006. The main objective of the (CFAA) and the Country Procurement Assessment (CPAR) is to contribute to the implementation of the Government's Public Sector Modernisation Vision and Strategy for 2002-2012 and it's Medium Term Social Economic Policy Framework. Building on earlier analytical work, it focuses on specific initiatives that can directly result in improving the country's management of public resources and in reducing public debt. The two main drivers of the CFAA/CPAR are increasing fiscal space to reduce debt and improving public sector operating efficiency. This CFAA/CPAR 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 Public Financial Management system. This CFAA/CPAR confirms the persistence of systemic issues which continue to affect the systems' performance, and identifies opportunities for generating new momentum for the ongoing public financial management reform in Jamaica.

4.2.1.4 The introduction of a single coordinated funding framework supporting a comprehensive and consolidated set of work plans and costed estimates developed within a multi-year reform programme expenditure framework, implemented through institutional arrangements that well facilitate the close coordination of reform activity implementation, and monitored through a consolidated programme monitoring and evaluation framework made up of both verifiable milestones and PFM outcomes would allow closer alignment of implementation with the reform strategy's approach and could greatly enhance the impact of PFM reform. Such an approach would more readily facilitate a strengthened approach to donor support of the PFM reforms based upon donor harmonization working with a single pool of reform information. While continued donor support is crucial to the success of the PFM reform being undertaken, support purely on the basis of specific projects could further lead to the fragmentation of reform activity implementation, and undermine attempts at rational sequencing of reform activities.

APPENDIX 1:

SUMMARY OF PFM PERFORMANCE MEASUREMENT FRAMEWORK INDICATOR SCORINGS

Indicator /Dimension	Score	Brief Explanation
PI-1 Aggregate expenditure out-turn compared to original approved budget	B	Deviations between approved budget primary expenditure and provisional actual expenditure were: for 2003/2004 =1.3%, 2004/2005 = 8.4% and for 2005/2006 is 5.7% and so in two years were over 5% but less than 10%.
PI-2 Composition of expenditure out-turn compared to original approved budget.	C	The average variances in excess of overall deviations were: 2003/2004 = 17.4%, 2004/2005 = 1.3% and 2005/2006 = 1.3%. However, we note that the expenditure data for 2005/2006 is unreliable since for all capital expenditure, budget estimates were substituted for actual expenditure. Hence the scoring could be based on only expenditure data for two years. We note the data bias in even these to years.
PI-3 Aggregate revenue out-turn compared to original approved budget	A	Domestic revenue collection exceeded 97% in two of the last three budget years.
PI-4 Stock and monitoring of expenditure Payment arrears	<NS>	In all likelihood the rating should be a D, but this is uncertain.
(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and a recent change in the stock	<NS>	There is no monitoring of arrears being undertaken so the arrears cannot be quantified. However data from the Ministry of Health suggests it could be higher than 10%
(ii) Availability of data for monitoring the stock payment arrears	D	There is no reliable data maintained on the level of unpaid bills available from the past two years.
Indicator	Score	Brief Explanation
B. Comprehensiveness and Transparency		
PI-5 Classification of the Budget	A	The budget formulation and execution is based on economic, administrative and sub-program classification using standards that can produce consistent documentation according to GFS/COFOG standards. Classification is also at sub functional level.
PI-6 Comprehensiveness of information included in budget documentation	C	Budget documentation fulfils 4 benchmarks. The Budget documents are quite detailed and available on the net but certain basic data (whilst available internally) is not shown in the budget books.
PI-7 Extent of Unreported government Operations	C	
(i) level of unreported extra-budgetary expenditure	C	Data on extra budgetary transfers to the BOJ was available. Data was not available on the size of school activity revenues or on Government transfers to parastatals. However, total extra –budgetary expenditure is estimated to be above 5%.
(ii) Income/Expenditure information on donor-funded projects	C	Data on donor project funding and basic income and expenditure breakdowns are shown in the budget. However, detailed information by GFS and consolidation into the overall fiscal data is not provided.
PI-8 Transparency of Inter-governmental fiscal relations	C+	
(i) Transparent and objectivity in the horizontal allocation among SN government	B	The Government grants a General Assistance Grant (approximately 40% of Government transfers) to the parishes as well as a fixed share of the Vehicle License Registration Fees (66.7%) and Property Tax (90%) together accounting for approximately 60% of Government transfers. Part of the Grant is predictable (approximately half) since it goes to pay personnel emoluments and pensions, the balance is allocated on a rather ad hoc basis that includes some consideration of Parish Council budget requests, historical expenditure patterns and need as defined by availability of other resources. This suggests that approximately 80% of the Central Government transfers to the local authorities are based on transparent rules
(ii)Timeliness of reliable information to SN	D	There is no explicit indication given to local authorities in advance of the

Indicator /Dimension	Score	Brief Explanation
government on their allocations		financial year as to their budget. As stated above the complete allocation picture does not occur till July or 4 months after the start of the budget year. Officials suggest that, it is possible for Parish Councils to have an indication as to their budget allocation for fees and taxes as these can be projected. Further there is a limited degree of predictability for grants since grant levels can be estimated given its objective and composition i.e. personnel emoluments, pensions, utilities and programmes. However they recognise that an earlier budget allocation process needs to be introduced.
(iii) Extent of consolidation of fiscal data for government according to sectoral categories	B	All Parish Councils and the Municipality provide monthly accounts statements to the Ministry of Local Government and Environment. These are consolidated into the national accounts once a year as part of the expenditure reporting by function within 12 months of the end of the fiscal year.
PI-9 Oversight of Aggregate Fiscal Risk	A	
(i)Extent of central government monitoring of AGAs/PEs	A	The PBMA Act provides the legal authority for control and oversight to the MoFP , Contractor General and Auditor General. A unit within the MoFP is dedicated to the public bodies management. Quarterly reports are submitted to the MoFP. The borrowing by the self-financing enterprise is subject to MoFP approval. MoFP reports to the Parliament annually and present a summarised financial report including the GoJ liabilities.
(ii) Extent of central government monitoring of SN governments' fiscal position	A	The Local Authorities are monitored by the Ministry of Local Government through their annual budget process and monthly reports. They cannot borrow.
PI-10 Public Access to Fiscal Information	B	The government makes available to the public 3-4 of the 6 listed types of information. Only budget documentation has been made available to the public over the period. Part of the reason is that audited accounts and audit reports have not been produced in a timely fashion. Currently availability is also restricted by the limited supply in hard copy with other access being via the web only.
PI-11 Orderliness and participation in the annual budget process	B	
(i)Existence of, and adherence to, a fixed budget calendar	B	The budget process is clearly set out. On the basis of the ceilings provided by MoFP, the Line Ministries prepare their submissions. Whilst there are some delays, there is sufficient time for the ministries to complete their submissions, particularly as many of them start the process before the receipt of the ceilings.
(ii) Guidance on the Preparation of budget submissions.	A	The Budget Ceilings/circulars for the last three years were approved by the Cabinet before the distribution of the circular to Line Ministries.
(iii) timely budget approval by the legislature	C	The legislature always approves the budget at the start of the fiscal year, during the first month. However, once an appropriation has been submitted to the legislature the Constitution determines that it must be approved within one month.
C(i) Policy-Based Budgeting		
PI-12 Multi-year perspective in fiscal planning, expenditure Policy and budgeting	C+	
(i) multi-year fiscal forecast and functional Allocations	C	Forecasts of fiscal aggregates are prepared for three years, including the budget year. The forecasts however are not linked to subsequent budget ceilings.
(ii) scope and frequency of debt sustainability Analysis	A	DSA for external and domestic debt is undertaken annually and published.
(iii) existence of costed sector strategies	C	Statements of sector strategies exist for several major sectors including education, health and public works but not all are fully costed. Costings are not always in line with aggregate fiscal forecasts – hence the need to negotiate retrospectively with the MoFP as part of the budget process.
(iv) linkages between investment budgets and forward expenditure estimates	C	Most of the important investment decisions are selected after analysis from the MoFP as part of the budget process. They are not fully costed and may not necessarily be in line with sector strategies.

Indicator /Dimension	Score	Brief Explanation
PI-13. Transparency of taxpayer obligations and liabilities (M2)	B	
(i) Clarity and comprehensiveness of tax liabilities	C	Legislation for all taxes exists and is accessible. Manuals and other education materials to the attentions of the users have been developed and indicate steps and procedures for registration, self-assessment and payment for citizens and companies. Manuals for the Tax Administration staff to guide their activities and decisions exist. The Minister is empowered by law to waive off the tax principal and any penalties as he sees fit. Although there are some requirements for gazetting, he has almost total discretionary power. Commissioners for Customs and Taxpayer Assessment and Audit are empowered by law to waive off customs' penalties and interest on income tax respectively. These decisions are not guided by regulations and manuals.
(ii) Taxpayer access to information on tax liabilities and administrative procedures	A	The taxpayer access to information is enshrined in the Public Access to Information Act. The Tax Administration and the Customs websites provide online support and downloadable manuals and guidelines. Education campaigns are supported by clear and accessible leaflets.
(iii) Existence and functioning of a tax appeals mechanism	B	Tax appeal comprises three levels: objection, appeal and Revenue Court. In addition, waivers can be requested. The Tax Appeal Department is functioning and receiving complaints. It has a documented process and is independent from the other departments. Its decision making process involves internal controls but no review panel. It is also in charge of administering the waivers to streamline the process and reduce time lag as an effort to reduce arrears.
PI-14. Effectiveness of measures for taxpayer registration and tax assessment	C+	
(i) Controls in taxpayer registration system	B	Taxpayers are registered using a unique Tax Registration Number maintained in a database by the TRN office. The TRN is required by other administrations and banking institutions thus supporting the registration process.
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	D	Penalties for non filing of returns are too low to be deterrent. Interest and charges on principal are set at 40% but their application has been hindered both by systemic problems and disincentive due to lack of enforcement through the Revenue Courts and the granting of waivers.
(iii) Planning and monitoring of tax audit and fraud investigation programs	B	Planning and monitoring of tax audit and fraud investigation programmes is done by the Taxpayer Assessment and Audit Department and the Customs Department using risk based techniques and sampling.
PI-15. Effectiveness in collection of tax payments	D+	
(i) Collection ratio for gross tax arrears, being percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year	D	The arrears stock is significant, even using the collectable arrears value calculated by the Tax Administration, at above 30%. Efforts are made to collect arrears but the level of collection remain insufficient and below 60%.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	Taxes are collected and paid into the Inland Revenue Department and Customs Department bank accounts daily. The transfers to the Consolidated Fund are made daily both by the Inland Revenue and Customs departments.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	D	Inland Revenue Department provides monthly complete reconciliations within 30 days to the Ministry of Finance. The Customs department reconciliations are delayed and a full reconciliation is available only for February 2006.
PI-16 Predictability in the availability of funds for commitment of expenditures	D+	
(i) Extent to which cash flows are forecast and monitored	B	Cash Flow forecasts are prepared annually and updated quarterly; but without incorporation of procurement plans tend to be more fund request notices than actual pro forma projections.
(ii) Reliability and horizon of periodic in-year information to Line Ministries on ceilings for expenditure commitment.	D	MDAs are provided with 30 day horizon Warrants but actual time of receipt by the MDAs makes it a commitment ceiling instrument with a horizon of less than one month.

Indicator /Dimension	Score	Brief Explanation
(iii) Frequency and transparency of adjustment to budget allocations, which are decided above the management of Line Ministries	D	The frequent use of virements and ex-post regularisation is an indication of poor budgetary planning in Line Ministries and undermines the authority and legitimacy of budgetary appropriations
PI-17 Recording and management of cash balances, debt and guarantees	B+	
(i)Quality of debt recording and reporting	B	Comprehensive records on domestic and external debt are compiled and are updated and reconciled on a monthly basis. Comprehensive statistical reports providing information on debt stocks, debt service and debt management operations are prepared annually.
(ii) Extent of consolidation of the Government's cash balances	A	The comprehensive centralised bank accounts monitoring mechanism is compiled and consolidated into a single report on a daily basis. This serves to facilitate budget releases and to inform debt management.
(iii) Systems for contracting loans And issuance of guarantees	B	The systems for contracting loans and issuing guarantees are bound by constraints and procedures set within the legal and regulatory framework. Clear loan level targets are defined within the fiscal framework that constrains the budgetary ceilings.
PI-18 Effectiveness of Payroll Controls	D+	
(i)Degree of integration and Reconciliation between personnel Records and payroll data	D	The establishment list, the staff list (nominal roll) and the payroll data are not integrated and there is no mechanism in place to collect all personnel data and to reconcile with the establishment list or the payroll.
(ii) Timeliness of changes to Personnel records and the payroll	B	It appears that the timeliness of changes is kept within one to two months in the MDAs visited. However, given that the staff list and payroll are not managed centrally, our sample is not necessarily representative.
(iii) Internal controls of changes to personnel records and the payroll	C	Controls are both carried out for the changes by the HRM unit in each MDA, using the Establishment Order as a basis and the personal files and by the Accountant General Department prior to printing the cheques. The rules are established for managing changes and for new posts. The extent to which these controls are efficient and effective would warrant a detailed test of a significant sample. The absence of integration between establishment, staff list and payroll does not permit testing for coherence easily. The segregation of staff lists and payroll does not permit centralised controls. Payments errors, albeit minor, were detected by the Auditor General.
(iv)Existence of payroll audits to identify control weaknesses and /or ghost workers.	C	Audits are carried out on the payroll but are not specifically designed payroll audit. The management of the human resources in each MDAs by the Research and Establishment Control Unit. Vacant posts are identified.
PI-19: Competition, value for money and controls in procurement (M2)	D+	
(i) Use of open competition for award of contracts that exceed the nationally established threshold for small purchases	D	The Office of the Contractor General provides a listing of all contracts it endorses (contracts above J$4 Million) indicating the recipient of the contract award and the amount of the contract, however the listing does not indicate the procurement method utilized. No such data was made available, however the Office of the Contractor General agreed upon a written request to provide data on the procurement method utilised for each of the contracts.
(ii) Justification for use of less competitive procurement methods	C	The Handbook of Public Sector Procurement Procedures provide justification for most less competitive procurement methods but is rather ambiguous in the application of sole sourcing, given its lack of definition of what constitutes unusual and compellingly urgent circumstances. The Contractor General though identifies the lack of appropriate justification for less competitive methods as an area of concern.
(iii) Existence and operation of a procurement complaints mechanism	C	The default position for dispute resolution (when no actions are taken by the Head of the Procuring Entity in response to the complaint) is judicial review which is not time bound, and so the design of the complaints process is designed to ensure operation with the timely resolution of complaints.
PI-20: Effectiveness of internal controls for non-salary expenditure (M1)	D+	
(i) Effectiveness of expenditure commitment controls	D	The expenditure commitment control system exists but is not functional due to the cash constrained environment in which the MDAs operate. It is

Indicator /Dimension	Score	Brief Explanation
		not maintained on the FMIS and the MDAs visited do not systematically apply commitment control nor maintain a register of commitments.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures	B	Other financial management rules and procedures exist and are well documented. These are updated and disseminated across the MDAs effectively.
(iii) Degree of compliance with rules for processing and recording transactions	C	The compliance to the rules is not high. Their effectiveness is reduced by the cash constraints as the usefulness of controls is diminished, and possibly some level of duplication.
PI-21. Effectiveness of Internal Audit	D+	Brief Explanation
(i) Coverage and quality of the internal audit function	C	The internal audit function covers all MDAs, executive agencies and public bodies and applies IIA standards. Operations however are restricted by budgetary constraints and so in practice Internal Audit Units are unable to fulfil effectively their full responsibilities and coverage. The manual and the work plans preparations adhere to the IIA standards. According to data reviewed, it appears that at least 20% of staff time is spent on systems review.
(ii) Frequency and distribution of reports	B	The report are produced monthly and distributed to the Audit Committees and to the MoFP. The Auditor General has access to the internal audit reports.
(iii) Extent of management response to internal audit findings	D	The management response to audit queries in general appears to be poor as the Auditor General reports and the internal audit report reviewed pick up similar issues. An Audit Commission has been created to support the work of the Audit Committees and obtain management responses and actions.
PI-22 Timeliness and regularity of accounts reconciliation	D+	
(i)Regularity of Bank reconciliations	C	Bank reconciliation is undertaken directly by the Line Ministries as well as the Ministry of Finance monthly with the submittal of monthly expenditure returns.
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	D	Reconciliation of advances and suspense accounts usually take place only annually with some delays. The Auditor General as well as the Public Accounts Committee identify un-cleared advances as a persistent problem.
PI-23 Availability of information on resources received by service delivery units	C	A PER has been undertaken within the last three years that reviewed the level of services by basic education and health facilities. While some improvements were reported there are difficulties with the PFM systems capacity to provide service delivery efficiently or equitably.
PI-24 Quality and Timeliness of in-year budget reports	C+	
(i)Scope of reports in terms of coverage and compatibility with budget estimates	A	The Monthly Expenditure Returns allow a direct comparison of budget implementation to the original budget, and both commitments and expenditure are covered. Information included covers all of the budget estimates items.
(ii) Timeliness of the issue of reports	C	Reports are prepared month and on average are submitted 8 weeks after the close of each month, however there are a substantial number (approximately a third) that are submitted well after 8 weeks.
(iii) Quality of information	A	There are no real concerns regarding data accuracy.
PI-25 Quality and timeliness of annual financial statements	D+	
(i) Completeness of the financial statements	D	National Estimates of Expenditure are prepared annually. No consolidated government accounts are prepared annually.
(ii) Timeliness of submission of the Financial statements	C	While the Financial Administration and Audit Act specify a four month deadline for the submission of Appropriations Accounts to the Auditor-General, in practice most submit within 10 months. It takes some Line Ministries over 12 months to submit their Appropriations Accounts after the end of the fiscal year. This has meant that the Estimates of Expenditures only include provisional Actual Expenditures
(iii)Accounting standards used	C	Government standards are applied across all Line Ministries and present in a consistent format over time.
PI-26. Scope, nature and follow-up of external audit	C+	
(i) Scope/nature of audit performed (incl.	B	All central government entities are audited annually. The audits cover

Indicator /Dimension	Score	Brief Explanation
adherence to auditing standards)		financial statements and compliance audit. A Value-for-Money audit has been performed in the past and performance audits elements are being considered in the reports albeit implicitly. The audit standards adopted are the INTOSAI and the IFAC standards.
(ii) Timeliness of submission of audit reports to the legislature	C	The Auditor General's report is submitted by 31st December to the Parliament every year as requested by law. However, the certification of the annual financial statements is delayed up to more than a year after their submission by the ministries and departments.
(iii) Evidence of follow-up on audit recommendations	B	There is little evidence of the follow-up on the audit recommendations. Ministers and Permanent Secretaries may be called upon by the Public Accounts Committee but there is no sanctions applied and no capacity to press for corrective measures.
PI-27 Legislative Scrutiny of the Annual Budget Law	B+	
(i)Scope of the legislature's scrutiny	B	The Legislature reviews fiscal policies and aggregate for the budget year, detailed expenditure and revenues.
(ii)Extent to which the legislature's procedures are well-established and respected	A	The procedures are established in the Standing Order and the practices of the House and the Senate are well enshrined.
(iii)Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	B	The Legislature has at least one month to review the budget proposals.
(iv)Rules for in-year Amendments to the budget without Ex-ante approval by the legislature.	B	Rules for the in-year amendments exist and allow for extensive administrative re-allocations.
PI-28. Legislative scrutiny of external audit reports	C+	
(i) Timeliness of examination of audit reports by legislature (for reports received within the last three years)	C	The Public Accounts Committee normally meets from September onwards (usually for four months or more) to review the Auditor General's report for the fiscal year ending 31st March of the previous calendar year, i.e. 9 months after the report submission.
(ii) Extent of hearings on key findings undertaken by legislature	B	In–depth hearings on the findings take place during before the Public Accounts Committee. This is open to the public and is broadcasted on television. Officers may be called to respond to queries.
(iii) Issuance of recommended actions by the legislature and implementation by the executive	C	Actions are recommended but there is evidence that they are not substantially enforced.
D-1 Predictability of Direct Budget Support	B+	
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body).	B	The shortfall in 2004 was 7.5%, in 2005 it was 63% and in 2006 there was no shortfall.
(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates	A	Disbursements estimates of the EC budget support were agreed upon before the beginning of the respective fiscal year, and actual disbursements were never delayed by more than one quarter or 25% of the fiscal year.
D-2 Financial information provided by donors for budgeting and reporting on project and program aid	C	
(i) Completeness and timeliness of budget estimates by donors for project support.	C	The Government of Jamaica does not have comprehensive and reliable information on the value and composition of all donor assistance provided to the Government. However, the five largest donors do provide budget estimates in advance of the fiscal year but not in a format consistent with the government's budget classification. Donors are not requested to provide

Indicator /Dimension	Score	Brief Explanation
		detailed budget estimates for disbursement of project aid after the initial project approval process.
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.	C	Donors provide quarterly reports on actual disbursements to the Government but it is only at aggregate project level. The budget is also at program, sub program and functional level.
D-3 Proportion of aid that is managed by use of national procedures	D	
(i) Overall proportion of aid funds to central government that are managed through national procedures.	D	Although many of the major projects use Government bank accounts and Government agency to execute projects audit and procurement tend to be controlled by the IDP.

APPENDIX 2:

TERMS OF REFERENCE

Terms of Reference –Final Draft
First PFM Performance Report for Jamaica

1. Context

Macro-economic developments in Jamaica

Jamaica is a lower middle income country with a population of around 2.6 million and a per capita GNP of US$ 3,300 (2004). After high growth in the 1950s and 1960s, Jamaica's economy has stagnated over the last three decades. Growth in the 1990s was amongst other things negatively affected by the financial crisis of the mid 1990s which increased public debt significantly. Gradual recovery of growth began in 2000, when real GDP growth was positive for the first time in years, and rose to around 2% in FY 2002/2003 and FY 2003/2004 before coming down to 0.7% in FY 2004/2005.

Jamaica's current debt problem stems in large part from the financial sector crisis which surfaced in the mid-1990s, but other factors have been the rise in the public sector wage bill and the takeover of contingent liabilities. Despite strong fiscal tightening which raised the primary surplus to one of the world's highest (11.8% of GDP in FY 2004/2005) and reduced the debt to GDP ratio, the latter remains one of the highest in the world among countries borrowing on commercial terms (for FY 2004/2005, 138.6%). Interest costs on the debt represented some 46% of government tax revenues in the 2005/2006 budget. In this context, pressure on social and infrastructure spending due to interest costs, are serious challenges to Jamaica's ambition to restore sustained economic growth.

The Government of Jamaica has articulated a socio-economic Medium Term Framework (MTF) to address the ongoing and emerging challenges. Under the Economic Framework of the MTF, the government proposes a mix of monetary, exchange rate and fiscal measures geared at achieving specific macroeconomic targets which are regularly scrutinized under the IMF's Intensified Surveillance Program. One of the specific policy measures under the MTF is prioritizing the budgetary allocations and release of funds to support the social sectors and poverty reducing measures.

As in all sector of public expenditure, the effectiveness of policy measures is greatly affected by the performance of public financial management (PFM) and procurement systems.

Support to Jamaica's macroeconomic reform programme and Public Financial Management (PFM)

To assist Jamaica with its macroeconomic reform programme and its expenditure in the social sectors, International Development Partners (IDPs) such as the European Commission (EC) and the UK's Department for International Development (DfID) have provided macroeconomic support to the tune of € 91.7 million and £ 30 million respectively over the past six years.

Direct budget support from the EC has been provided on the precondition that (i) the Public Financial Management systems in place in Jamaica are of sufficient quality and (ii) that progress is made in improving those systems. The EC's third Support to the Economic Reform Programme (SERP III) with Jamaica stipulates that the Government of Jamaica will continue a policy dialogue with the EC regarding its macro-economic reform programme (particularly regarding social expenditure) and reforms in the field of Public Finance Management (PFM).

Over the last few years, several assessments have been undertaken in the field of PFM, most notably the World Bank's CFAA (Country Financial Accountability Assessment) of May 2001, the EC audit mission of SERP I of November 2001, EC reports on PFM in 2003 and 2004 and the World Bank/IDB Joint Country Financial Accountability Assessment and Country Procurement Assessment Report (CFAA/CPAR) of April 2006.

The main objective of the **(CFAA)** and the Country Procurement Assessment **(CPAR)** is to contribute to the implementation of the Government's Public Sector Modernisation Vision and Strategy for 2002-2012 and its Medium Term Social 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 improving the country's management of public resources and in reducing public debt. The two main drivers of the CFAA/CPAR are increasing fiscal space to reduce debt and improving public sector operating efficiency. This CFAA/CPAR 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 Public Financial Management system. This CFAA/CPAR confirms the persistence of systemic issues which continue to affect the systems' performance, and identifies opportunities for generating new momentum for the ongoing public financial management reform in Jamaica.

<u>It is worth noting that in the context</u> of the **Public Sector Modernisation Vision and Strategy 2002-2012**, the Government of Jamaica is taking concrete steps towards the strategic objective of "establishing mechanisms for effective decision-making, human and financial resource management, coordination and performance management". This includes plans to: implement a project/programme prioritisation system that will allocate resources to strategic priorities through improved "objective-outcome" planning, monitoring and management systems; ensure that Corporate Plans are linked to available resources/budget, providing a proper basis for resource allocation; continue the process of implementation of performance based management; maintain modern legal, financial and regulatory mechanisms to facilitate the sound management of all partnerships and their market regulators; continue to strengthen sector-specific guidelines and procedures in respect of the procurement of all goods, services and capital works.

Continuous monitoring and reviewing of PFM performance remains an essential part of the EC budget support programme with Jamaica and is of importance in the decision-making process where it regards future budget support programmes.

2. The Public Expenditure and Financial Accountability (PEFA) Programme

In 2001, the Public Expenditure and Financial Accountability (PEFA) Program was started in order to strengthen recipient and donor ability to (i) assess the condition of country public expenditure, procurement and financial accountability systems, and (ii) develop a practical sequence of reform and capacity-building actions, in a manner that:

- Encourages country ownership.
- Reduces the transaction costs to countries.
- Enhances donor harmonization.
- Allows monitoring of progress of country PFM performance over time.
- Better addresses developmental and fiduciary concerns.
- Leads to improved impact of reforms.

The initiative has been jointly financed by the World Bank, the European Commission (EC), the UK's Department for International Development (DFID), the Swiss State Secretariat for Economic Affairs (SECO), the Royal Norwegian Ministry of Foreign Affairs and the French Ministry of Foreign Affairs.

The International Monetary Fund (IMF) and the Strategic Partnership with Africa (SPA) are also partners. The PEFA Secretariat is located in the World Bank offices in Washington, DC.

Two key observations motivating the PEFA programme is that i) PFM is a central feature of public policy and therefore has a direct impact on development; and ii) the multiplicity of individual donor instruments to analyse PFM has many disadvantages, not in the least the burden it places upon the countries analysed.

Consequently, one of the key activities of the PEFA programme has been the development, in June 2005, of a PFM Performance Measurement Framework, which outlines the structure and content of the *PFM Performance Report*. The PFM Performance Report provides donors and partner countries with a standardised monitoring instrument of PFM, allowing measurement of changes in PFM performance over time. An important aspect of the report is that the external diagnosis does not include recommendations or an action plan. Rather, any PFM reform agenda should be country-led and country owned. The PFM Performance Report can however facilitate a coordinated programme of institutional support by donors on the basis of an action plan developed by national authorities.

3. The PFM Performance Report for Jamaica

In line with the work of the PEFA programme, the objectives of a PFM Performance Report for Jamaica are to:

a) in the short-term, establish a baseline study needed to start measurement of PFM performance over time, and to inform and strengthen the dialogue between the Jamaican Government and those IDPs on strengthening PFM;
b) in the medium term, assist Government and IDPs to assess current PFM reforms and to identify potential PFM areas where (further) institutional support is required;

c) in the short- and medium-term, assist IDPs in determining the eligibility of Jamaica for future macroeconomic support programmes such as (sectoral/general) budgetary support and debt relief;

4. Results to be obtained at the end of the assignment:

A PFM Performance Report for Jamaica drafted in accordance with the methodology as developed by the PEFA Secretariat (see point 6 below). The Report will analyse the performance of PFM in Jamaica and establish a reference point for future discussions between Government and IDPs.

5. Stakeholders involved: IDPs and national authorities

The following stakeholders are involved in the PFM Performance Measurement Framework:

- The Government of Jamaica[22]: (i) will indicate the names of the officials (ministry of finances) who will be the interlocutors of the experts during the assessment; (ii) will indicate whether a service of the administration will accompany the experts during the mission; (iii) will comment the draft and final reports and send its comments to the experts and the lead donor.

[22] In particular the Ministry of Finance, but also the Planning Institute of Jamaica (PIOJ), the Contractor General's Office, the Auditor General's Office and where necessary individual Line Ministries.

- The lead donor (European Commission): (i) prepares the TOR of the assignment in consultation with stakeholders; (ii) coordinates with Government the timetable for the assignment; (iii) finances the assignment and recruits the experts; (iv) is responsible, together with the team of experts and the Government, for the organisation and the follow up of the field mission; (v) checks the quality of the report in consultation with the Government, the IDPs involved, and if so required with the PEFA Secretariat[23]; (vi) consolidates the comments of the donors and of the PEFA Secretariat and sends them to the experts and the government; (vii) disseminates the draft and final report. The lead donor will indicate the names of its officials who, in HQs (DG Development and DG Aidco) and on the spot (EC delegation), will be the interlocutors of the experts.

- The International Development Partners (IDPs) that sponsor the PEFA initiative and other IDPs in Jamaica that wish to be a part of the exercise. The IDPs concerned will attend workshops and briefings organised by the team of experts. Also, they will provide comments to the (draft) reports produced by the experts. Aside from being involved at these various stages of the process, IDPs that wish to do so can, in coordination with the team leader, share their own PFM expertise for the assignment, whether in the form of their own previous reports related to PFM, or through their own staff expertise on PFM.

6. Methodology and work plan

The experts, in coordination with the government services concerned, will produce an analysis that strictly follows the structure, methodology and directions as established by the PEFA programme, titled: *Public Financial Management/Performance Measurement Framework*. This document is accessible at www.pefa.org. The use of 'PFM High-Level Performance Indicators' and the scoring methodology used shall be in keeping with Annex 1 of the abovementioned document. The justification of scoring shall be explicit in the reports of the experts and relate to this annex. Similarly, the structure of the PFM Performance Report shall follow the structure as outlined in Annex 2 of the abovementioned document.[24]

In their offer, the experts will provide a brief technical proposal (max. 5 pages) which demonstrates their understanding of the assignment and the methodology and provides a general outline of their proposed **work-plan** to achieve the desired results.

- The proposed **work-plan** will indicate to national authorities and IDPs concerned a list of local interlocutors they wish to meet, as well as a list of further information they require for the exercise.

- Within their proposed work-plan, the experts will allow for two phases. **Phase I** will concern a desk study of recent PFM assessments on Jamaica, of which the most important and most recent assessment is the World Bank/IDB CFAA/CPAR, carried out in 2005 and published in 2006. The experts will use the information in these studies to draft a preliminary and partial analysis on the basis of the PFM High-Level Performance Indicators as established by the PEFA program. The experts will submit a desk report at the end of phase I that will contain these preliminary and partial findings. Aside from the areas covered exhaustively by the CFAA/CPAR 2006, the experts will indicate clearly which PFM areas could not be assessed from previous documentation, and which areas could only be partially assessed and require further analysis during the field mission (phase II). At the end of phase I and before starting their field mission, the experts/team leader

[23] Should its advice be required.

[24] If the experts chose to deviate from the structure and/or methodology as referred to above, this should be accordingly justified and agreed to by Government services and the contracting authority (EC). Where issues of interpretation of the methodology are concerned, the experts can either address themselves to the PEFA Secretariat or the contracting authority.

will brief EC HQs in Brussels (DG Development and DG AIDCO) on the preliminary findings of the desk study.

- **<u>Phase II</u>** will concern the field mission and the drafting of the PFM Performance Report.

Before commencing on their field mission (Phase II), the team leader will submit to stakeholders involved their work-plan describing the main steps of the field mission, notably a list of interlocutors to meet and further information required.

The field mission will start by the organisation of **two workshops** for the parties concerned in order to raise awareness and understanding of the methodology. The workshops will be run by the experts who can use the didactic tools elaborated by the PEFA Secretariat.

- **One workshop** will involve IDPs and PIOJ staff with the aim to explain the global approach of the PEFA programme (non-technical).

- A **second workshop** will be aimed at the technical staff involved from various key government departments (Ministry of Finance, auditor general, contractor general, procurement officers/auditors from Line Ministries) and will deal more in-depth with the 28 High-Level-Level Performance Indicators used in the PFM Performance Report. The workshop will also highlight the principles of the PEFA programme, in particular country ownership over its reform programme.

In the field mission the experts will concentrate primarily on those areas that are not covered or not covered exhaustively in the CFAA. At the end of the field mission, the experts will make a presentation of their main findings which will be accompanied by an aide memoire (max. 10 pages) on their main findings, including a provisional scoring of the indicators. One week after the field mission, the experts will submit a draft PFM Performance Report. After a period allowing for comments by the parties involved[25], they will submit the (final) PFM Performance Report. The Final Report will contain in an annex, the observations of the Government on the points where the latter disagrees with the findings of the experts. After having submitted the final report, the team leader/experts will present the Final Report to stakeholders in Jamaica during a

Final Workshop.

Finally, the teamleader will brief EC HQs in Brussels (DG Development and DG AIDCO) on the main findings of the PFM Performance Report.

7. Composition of the team of experts

The team will consist of 3 experts

The <u>Team Leader</u> is an international expert in the area of PFM with as least 15 years experience in analysing PFM in developing countries. Previous experience with the PEFA methodology is considered an asset.
The <u>Procurement expert</u> will have at least 10 years experience in analysing procurement systems in developing countries.

[25] In particular: Ministry of Finance, auditor general, contractor general, and procurement officers/auditors from Line Ministries.

The Audit/internal control expert will have at least 10 years experience in analysing audit systems in developing countries.

Although this need not necessarily apply to each individual expert, for the team as a whole, considerable experience with (areas of) PFM in Jamaica or the English speaking Caribbean is considered a very important asset.

Where feasible, IDPs will add their own expertise to the assignment, whether through additional experts joining the field mission, or through their contributions to the reporting.

8. Reporting

All reporting will be done in English.

The (draft) PFM Performance Report shall clearly indicate the sources of information with regard to the analysis of the High-Level Performance Indicators as well as for other information presented. In an annex, the experts will describe the analytical work carried out for each of the indicators. Furthermore, the experts will report any particular difficulties they encountered with respect to particular indicators or areas of the report.

Within one week after the end of the mission to Jamaica, the experts will submit to the parties concerned (point 5) the draft PFM Performance Report which conform to the specifications as set out in annexes 1 and 2 of the *Public Financial Management/Performance Measurement Framework* (see point 3).

Upon receiving the draft report, the parties concerned have 15 working days to submit their comments to the experts. The comments of IDPs will be presented in consolidated form by the EC.

Upon receiving the comments, the experts have 5 working days to submit the final PFM Performance Report. The experts will include the comments by government authorities and IDPs in the annexes to the report.

APPENDIX 3:

LIST OF STAKEHOLDERS INTERVIEWED

Ministry or Department	Function and Unit / Division	Name
Auditor General's Department	Auditor General	Mr Adrian Strachan
Bank of Jamaica	Fiscal and Economic Programme Monitoring Dept., Research and Economic Programming Division	Ms. Gail Lue Lin
Cabinet Office	Chief Technical Officer, Public Sector Reform	Mr George Briggs
	Director Corporate Management and Development Section, Public Sector reform	Ms. Leone Harris
	Modernisation Programme Integrator, Public Sector Reform	Ms. Sue Ann Waite-Chung
	Senior Analyst Corporate Management and Development Section, Public Sector reform	Mr Eric Douglas
	Senior Analyst Corporate Management and Development Section, Public Sector reform	Ms. Constance Gray
	Senior Analyst Corporate Management and Development Section, Public Sector reform	Ms. Venice Wilby
Contractor General's Office	Contractor General	Mr Craig Beresford
Customs Department	Commissioner	Mr Hector Jones
Department for International Development UK	Senior Economist	Ms. Lindsey Block
EC Delegation	Ambassador, Head of the EC Delegation to Jamaica	Ambassador Marco Mazzocci-Alemanni
	Economist	Ms. Johanna Lindgren
	Economist, Economic Section	Ms. Francesca Romagnoli
	Head of Contract and Finance Section	Mr Jacques Stackenborg
	Head of Economic Section, EC Delegation	Mr Carlo Pettinato
House of Representatives	Clerk to the House	Ms. Heather Cook
	Committee Clerk, Public Account Committee	Ms. Rosemary Douglas
	Committee Coordinator	Ms. Monica Robinson
	Deputy Clerk to the House	Ms. Valerie Curtis
	Personnel Officer	Mr Ralph Montague
Inland Revenue Department	Acting Commissionner	Ms. Gay Mitchell
	Assistant Commissioner, Taxpayer Services	Ms. Venice Ricketts
	Chief Internal Auditor	Ms. Walker Warren
	Deputy Commissioner	Mr Freddy Gordon
	Deputy Finance and Administration	Mr Paddan Manning
	Director Revenue Accounts	Mr D. Bromfield
Inter-American Development Bank	Representative	Ms. Julie Feinsilver
	Senior Economist	Mr Ralph Denize
Ministry of Education	Acting Director of Projects	Ms. Julia Robinson
	Bugdet Director	Ms. Barbara Simpson
	Cheif Internal Auditor	Ms. Erskin
	Chief Procurement Officer	Mr Lewis Frazer
	Director of Project Management and Technical Service	Mr Lawston Wilson
	Director Project Finance	Mr Cedric Scott
	Principal Finance Officer	Ms. Marcia Carvalho
	Senior Budget Officer	Mr Michael Martell
	Strategic Planning, Chairman of the Procurement Committee	Ms. Cheryl Davis Ivey

Ministry or Department	Function and Unit / Division	Name
Ministry of Finance and Planning	Accountant General's Department	Mr Kelvin Donalson
	Accountant General's Department	Mr Leo Johnson
	Accountant General's Department	Ms. Rose McKay
	Advisor to the Director General, Tax Administration	Ms. Sharon Crooks
	Audit Coordinator, Internal Audit Directorate, Public Expenditure and Policy Coordination Division	Ms. Patrice Mitchell
	Cash Managment Unit	Dr. Taylor
	Chief Technical Director Public Expenditure and Policy Coordination Division	Mr Robert Martin
	Debt Management Unit	Mr Jonathon Brown
	Debt Management Unit	Ms. Pamela McClaren
	Deputy Financial Secretary, Establishment Division	Mr Denis Townsend
	Director Assets Management Unit	Ms. Sheila Wang
	Director Budget Division	Ms. Rolda Grey
	Director Executive Agencies, Public Expenditure Policy Coordination Division	Mr Owen McNight
	Director Financial Management Unit, Public Expenditure and Policy Coordination Division	Mr Berome Edwards
	Director General, Tax Administration	Ms. Vinette Keen
	Director Legal and Public Sector Reform Unit, Public Expenditute Policy Coordination Division	Ms. Garcia Brown
	Director Public Enteprise Oversight Unit	Ms. Anne Marie Rhodin
	Director, Internal Audit Directorate, Public Expenditure Policy Coordination	Ms. Hope Blake
	Director, Public Expenditure Division	Ms. Elith De Souza
	Director, Research and Establishment Control Unit	Ms. Hyacinthe Lewis
	Economic Division	Ms. Darlene Morrisson
	Manager, Project Cycle Unit	Ms. Dianne O'Connor
	Public Expenditure and Policy Coordination Division, Director IT Unit	Mr Joseph Manley
	Public Expenditure and Policy Coordination Division, Director Procurement Policy Implementation Unit	Ms. Shirley Gayle Sinclair
	Senior Director, Research and Establishment Control Unit	Ms. Valerie Henderson
Ministry of Health	Chief Internal Auditor	Ms. Diane Gayle
	Director of Budget	Ms. Evelyn Bloomfield
	Director of Finance	Mr Pauline Morrison
	Principal Finance Officer	Mr Nigel Logan
	Procurement Manager	Mr Clifton Allen
	Project Accountant	Ms. Annette Brawn-Pewter
Ministry of Housing ,Transport,Water and Works	Director Human Resources	Ms. Cadogan
	Principal Financial Officer	Mr. Williams
Ministry of Local Government	Director of Budget	Ms. Anniesha Gordon-McFarlane
	Financial Controller	Mr Ruppert Price
	Principal Financial Officer	Mr Carl Young

Ministry or Department	Function and Unit / Division	Name
National Works Agency	Director of Finance	Ms. Lois Neita
	Director of Human Resources Department	Ms. Jennifer Henry
	Manager of Financial Accounts	Ms. Pauline Dunstan
	Manager of Management Accounts	Ms. Sandra Grant
Office of the Services Commission	Accountant	Mr Antonio Crump
	Director Application Unit	Ms. Michelle Martinez
	Director Delegation Unit	Ms. Lois Walker
	Director General	Ms. Hinkson
	Director IT department	Mr Craig Douglas
	Human Resources manager	Ms. Shelley Ann Earl
Planning Institute of Jamaica	Director of External Relations	Ms. Barbara Scott, Director
	EC Desk Officer, External Relations	Ms. Monica Brown
	External Relations	Ms. Curlene Beckford
Tax Appeal Department	Appeal Manager	Ms. Rachael White
	Commissioner	Mr Herold Hudson
Taxpayer Audit and Assessment Department	Acting Commissioner	Mr Desmond Bachelor
	Acting Deputy Commissionner Planning	Ms. Marcia Copeland
	Acting Deputy Tax Fraud and Intelligence	Mr Jacqueline McFarlane
	Acting Director Audit	Ms. Monica Walker
	Assistant Commissioner Operation Support Services	Ms. Jean James
	Assistant Commissioner Region 2	Ms. Pamela Folkes
	Deputy Commissioner Finance and Administration	Mr Garth Wright
	Deputy Commissionner Stamp Operations	Mr Ainsley Poweel
	Technical Specialist	Mr Merick Sadler
UNDP	Country Team Coordination Assistance	Ms. Stacy-Ann Barnes
	Governance Adviser	Mr Jose Soler
	Procurement Assistant	Ms. Nicola Carpenter
	RC Coordination	Ms. Anya Cushnie
	UNDP	Mr Espinola
USAID	USAID	Mr James Harmon
World Bank, Kingston	Economist	Mr Wayne Henry
World Bank, Washington	Financial Management Specialist	Mr Moustapha Ndiaye
	Procurement Specialist	Mr Joao Veiga Malta

APPENDIX 4:

LIST OF DOCUMENTS

Title	Date	Origin
A Transformed Education System 2004, Report, Task Force on Educational Reform	September 2004	MoE
Agreed upon procedures for testin compliance by Public Bodies with Government of Jamaica Procurement Guidelines	February 07	PXPC/MoFP
Annual Report 2005, Bank of Jamaica	March 2006	BoJ
Audit Committee Policy, revised	January 07	PXPC/MoFP
Bank of Jamaica Quarterly Monetary Policy Report (Various)	Various	BoJ
Bank of Jamaica Quarterly Monthly Economic Statistics Report (Various)	Various	BoJ
Budget Call Guidelines 2006/2007	December 2005	MoFP
Budget Presentation (opening and closing) 2005 / 2006	April 2005	MoFP
Budget Presentation (opening and closing) 2006 / 2007	April 2006	MoFP
Circular N°6, 07/09/06, Policy on Contract Variations issued by PXPC Division	September 2006	MoFP
Complete set of Notes and Instructions for Income Tax	N/A	website
Dates to remember for tax declaration and payment	N/A	website
Debt Management Strategy FY 2005/2006	April 05	MoFP
Debt Management Strategy FY 2006/2007	April 06	MoFP
Details of Revenue Projections and Collections, 2003/2004	February 07	Tax Administration
Details of Revenue Projections and Collections, 2004/2005	February 07	Tax Administration
Details of Revenue Projections and Collections, 2005/2006	February 07	Tax Administration
Details of Revenue Projections and Collections, 2006/2007	February 07	Tax Administration
Early Childhood Education, Care and Development Sector Report	March 2005	MoE
Economic and Social Survey, Jamaica 2005	April 2006	PIoJ
Economic Update and Outlook April-June 2006	June 2006	MoFP
Estimates of Expenditure for the Year Ending 31st March 2006 as passed by the House of Representative, April 05	April 05	MoFP
Estimates of Expenditure for the Year Ending 31st March 2006 as presented to the House of Representatives, March 05	March 05	MoFP
Estimates of Expenditure for the Year Ending 31st March 2007 as passed by the House of Representatives, 10th May 2006	May 06	MoFP
Estimates of Expenditure for the Year Ending 31st March 2007 as presented to the House of Representatives, April 06	April 06	MoFP
Estimates of Expenditure for Year Ending March 2006 (as presented and as passed)	April 2006	MoFP
Estimates of Expenditure for Year Ending March 2006 (as presented and as passed)	April 2005	MoFP
EU Accounts Book for Jamaica	January 2007	EU
EU Sample Financial Summary for JaGov	August 2006	EU
Example of Internal Audit Report	N/A	IAD/MoFP
Example of Procurement Review Report	N/A	PXPC/MoFP
Extract report from the HRMIS	January 2007	OSC
Financial Statements and Revenue Estimates 05/06	April 2005	MoFP
Financial Statements and Revenue Estimates 05/06, adapted figures for Standing Finance Committee amandments	No date	MoFP
Financial Statements and Revenue Estimates 06/07	April 2006	MoFP

Title	Date	Origin
General Consumption Tax Guide	N/A	Tax Website
Government Invoice Certified by Manager (Sample)	February 07	PXPC/MoFP
Government of Jamaica FMIS Object Code List	April 2001	MoFP
Government of Jamaica Sample Warrant Release and Disbursement Schedules	Various	MoFP
Guide to New taxpayers	N/A	Tax Website
Handbook of Public Sector Procurement Procedures, May 2006	May 2006	NCC
IAD Operational Plan 06/07	N/A	IAD/MoFP
IMF Interim Staff Report Under Intensified Surveillance	September 2006	IMF
Inland Revenue Statement of Collections for December 2006	January 2007	IRD
Inland Revenue Statement of Collections for March 2004	April 2004	IRD
Inland Revenue Statement of Collections for March 2006	April 2006	IRD
Internal Audit Manual	May 2002	MoFP/IAD
Internal Audit Quarterly Report for quarter ending 31st December 2006, TAAD Department	January 07	IAD/MoFP
Internal file management and assignment records templates	No date	IRD
Jamaica Customs Department Accounts Branch, 3rd Quarter review, December 2006	December 2006	Customs Dept.
Jamaica Joint Country Financial Accountability Assessment (CFAA) and Country Procurement Assessment (CPAR)	April 2006	IDB / MoFP
Jamaica MTF	Jan 2007	MoFP
Jamaica Public Bodies, Estimates of Revenues and Expenditures for the Year Ending March 2006, as presented to House of Representatives, April 06	April 2005	MoFP
Jamaica Public Bodies, Estimates of Revenues and Expenditures for the Year Ending March 2007 as presented to the House of Representatives, April 06	April 2006	MoFP
Manual for Examination of Financial Statements	June 2000	MoFP
Memorandum of Understanding for the Public Sector	June 2006	MoFP
Memorandum on the Budget 05/06	April 2005	MoFP
Memorandum on the Budget 06/07	April 2006	MoFP
Monthly Expenditure Return for Head 2622-Police for November 2006	December 06	MoFP
Monthly Statement of Expenditure by Objects (summary) for Period 13 (FS6) FY 04/05	February 07	MoFP
Monthly Statement of Expenditure by Objects (summary) for Period 13 (FS6) FY 05/06	February 07	MoFP
MTF Policy Matrices	January 2007	MoFP
Office of the Contractor General and National Contracts Commission Information CD	January 2006	OCG
OSC information leaflets on delegation, OSC funtcions, etc.	Various	OSC
P.A.Y.E Employers' Guide	N/A	Tax Website
Performances Measures Reports for TAD, year 2005 and 2006	Various	TAD
Public Sector Reporting System - 1 , procurement reporting for public bodies, extract	February 07	PXPC/MoFP

Title	Date	Origin
Records of Ministries and Departments Annual Financial Statement Submission to and Certification by the Auditor General	February 07	Auditor General's Dept.
Records of Monthly Financial Statement Submissions to Public Expenditure Division for FY 2006/2007	January 2007	MoFP
Report of the Auditor General on the Appropriation and other Accounts 2003/2004	December 2004	Auditor General's Dept.
Report of the Auditor General on the Appropriation and other Accounts 2004/2005	December 2005	Auditor General's Dept.
Report of the Auditor General on the Appropriation and other Accounts 2005/2006	December 2006	Auditor General's Dept.
Review and Proposed Strategy for Tax and Customs Administration Reforms, IMF Report	September 2006	Tax Administration
Sample of Appointment, Separation and Disciplinary sanctions letters for human resources management	Various	OSC
Site Visit Form for Internal Audit Units Inspections	No date	IAD/MoFP
Statement of Payments from the Consolidated Fund as at March 2006	February 07	MoFP
Stock of Tax Arrears for FY 04/05, FY 05/06 and FY 06/07 and collection ration as at 5th February 2007	February 07	Tax Administration
Summary of Tax Arrears by Tax Type as at 5th February 2007	February 07	Tax Administration
TAAD Operational Plan 06/07	N/A	TAAD
Tax Administration, Inland Revenue, Customs and Taxpayer Audit and Assessment leaflets and informations documentations	Various	Tax Administration
Tax Appeal and Waiver Process Manual, January 2007 version	January 2007	Tax Appeal Dept.
Template of MoFP Letter of Approval	No date	POE/MoFP
Template of MoFP Letter of Undertaking	No date	POE/MoFP
Template of Tax Collected Transfer Request	No date	IRD
The Civil Service Establishment Act, 1975	1975	MoFP
The Civil Service Establishment Order, 2006	October 2006	MoFP
The Contractors Levy Act	December 1985	Tax Administration
The Customs Act, as amended in 2004	2004	Tax Administration
The Education Tax Act, as amended in 2003	2003	Tax Administration
The Financial Administration and Audit Act, 1959, as amended in 1992		MoFP
The General Consumption Tax Act, as amened in 2004	2004	Tax Administration
The Income Tax Act, as amended in 2005	2005	Tax Administration
The Ninetheenth Annual Report of the Contractor General - January to December 05	June 2006	OCG
The Public Bodies Management and Accountability Act	December 2001	MoFP
The Revenue Administration Act	2001	Tax Administration
The Stamp Duty Act, as amended in 2002	2002	Tax Administration
the Tax Collection Act, as amended in 1999	1999	Tax Administration
The Transfer Tax Act, as amended in 2003	2003	Tax Administration
Value-for-Money audit report: Tradionnal School Feeding Programme 2001/2002	July 2002	Auditor General's Dept.

APPENDIX 5:

COMMENTS AND RESPONSES ON THE DRAFT REPORT ON THE PEFA ASSESSMENT

Overall impression

PEFA Secretariat

Comment 1.1

A well prepared report which follows the PFM performance Report outline and guidance quite closely. It provides extensive detailed information both for background reading and understanding and also for providing evidence for scoring the individual indicators. The assessment was split into two phases. The first phase (a two week desk study of recent PFM assessments undertaken in Jamaica) appears to have been useful and probably contributed to the extensive collection of data which is demonstrated in the report in addition to that provided by the government during field mission.

Response 1.1

The Desk Study was a very useful process and provided a preliminary assessment of PFM systems in Jamaica which in turn provided the context for focused and beneficial interviews with Government Officials. The Workshops were also an important preparatory element for the mission (see Response 1.2) in which the field study was carried out.

DFID

Comment 1.2

This is a very accessible and clearly written report that should prove very useful to partners and donors alike. The workshops held in its preparation have also been very helpful and have succeeded in making a very technical subject interesting and clear even to non-specialists. Indeed we liked the first workshop so much we decided to organise one just like it in the Eastern Caribbean, jointly with the EC.

Response 1.2

It is the opinion of the Consultant that one outcome of the workshops was that it contributed to the excellent cooperation from the government during the PEFA Assessment exercises. It also placed specific PFM activities within the broader PFM performance and encouraged participants to recognize the role of their specific PFM functions in delivering on an overall sound PFM system. The PEFA Workshop provided an opportunity for participants to see their country's PFM performance holistically

Comment 1.3

One important issue that is not entirely clear in the report is the role of GoJ in the assessment and its endorsement of the findings to inform its own reform programme. An important element of the strengthened approach underpinning PEFA is the ability of the assessment to inform country-led reform strategies and action plans. The document seems to indicate that it is an official document from the government but section 1.2.1.1 seems to suggest that it has only been shared. This is an important issue that relates to the degree of government ownership of the findings, which is likely to affect the government's willingness to address the weaknesses identified.

Response 1.3

The PEFA Assessment is intended to be an independent assessment based upon the PFM Performance Measurement Framework developed by the PEFA Partners in collaboration with the OECD/DAC Joint Venture on PFM. Its approach involves extensive discussion of the findings with all stakeholders including a review by the PEFA Secretariat to ensure adherence to the PEFA methodology. While not specifically a Government document, it seeks to achieve credibility of the assessment outcome both with the Government and the Donors, to serve as a basis for dialogue on supporting a government led PFM reform programme, and its adoption to monitor progress in PFM over time. A helpful step for having the report fulfil its full potential would be its posting on a Government website and or on the PEFA Secretariat website.

Comment 1.4

Related to the first point (Comment 1.3), how is this assessment going to inform in-country discussions within government to adjust its reform strategy? How do you plan to support the Govt to use the PEFA to inform their PFM reform programme? The report notes that PFM to date has been somewhat fragmented and lacking in a coordinated donor approach.

Response 1.4

These are important issues raised with which to start off on the dialogue between Donors for supporting PFM reform in Jamaica. Given that the PEFA Assessment identifies clear areas of weakness, and provides insight into the context of PFM practice; the assessment should provide a framework within which to discuss the Government's reform strategy, prioritization and sequencing. There are many specific functions of public finance management that are inter-linked so that a carefully managed sequencing of reform steps, fully cognizant of these inter-linkages, serves as a pre-requisite for effective PFM reform. Consequently, any reform programme that does not address PFM in a holistic and comprehensive way, but just encompasses a single core element of sound public finance management is unlikely to live up to its full promise. The reform programme should define a strategic framework that specifically targets and prioritises the achievement of all three core elements of a sound Public Finance Management (PFM) system and seeks to implement activities in a carefully coordinated, sequenced and suitably paced manner and sensitive to the capacity constraints of the Government.

Comment 1.5

Another issue concerns the direction to travel. It is difficult from the report to ascertain the "trajectory of change" and whether the many reforms in the past years have been able to yield concrete results. Are things improving or worsening? It would be helpful if the report made this clearer.

Response 1.5

There are some comments within the narrative pertaining to recent reforms that have been undertaken; however the basis for measuring concrete achievements shall be consecutive PEFA Assessments where any changes in indicator scorings shall provide a clear and consistent measure of broad improvements in a country's PFM systems. This particular assessment should serve as the baseline study for mapping such progress.

IDB

Comment 1.6

The PEFA clearly represents a considerable and good effort by your team to establish a baseline by which we can evaluate progress in PFM in the future. I found the report to be well-written, although a bit more optimistic and positive than what we found. The World Bank has pointed out some very specific issues, with which we agree and which we will not repeat.

Response 1.6

The PEFA Assessment adheres very strictly to the PFM Performance Measurement Framework developed by the PEFA Secretariat and the draft has been reviewed by it to ensure adherence with the PEFA methodology and scoring standards. It is a measurement framework that focuses upon PFM outcomes rather than inputs and activities as is the approach typical of other PFM diagnostic tools. The PEFA Framework is broad and comprehensive in its scope, in that it covers all of the key areas of public finance management within a structure that is consistent with the standard organization of public finance management. It is however, somewhat limited with respect to its range of coverage; with a greater lean towards assessing the central ministry's top down functions and much less so the line functions carried out by the line ministries, departments and agencies (MDAs). A greater emphasis on detailed activities within MDAs such as reviewing adherence to the detailed expenditure cycle requirements would have called for far more complex sampling and statistical methodologies, which may have rendered a universal and comparable PFM assessment framework applicable across a wide number of countries impracticable. However it can and was designed to measure appropriately high-level indications of PFM practice. There is sometimes a tendency to impose a report card interpretation on the scorings, so that an A is thought of as an excellent rating rather than an acceptable or "benchmark met" rating. This has sometimes led to a description of a PEFA Assessment findings as more optimistic than might have been expected.

Comment 1.7

Also, given that the CFAA/CPAR was jointly produced and financed by both Banks, this should be stated, rather than just reference the World Bank document number without any reference to the IDB. This should be done in both the Executive Summary and the subsequent text.

Response 1.7

The text of the Draft PEFA Report has been amended to include the IDB along with the World Bank for any references made to the CFAA/CPAR.

Executive summary

PEFA Secretariat

Comment 2.1

The summary assessment is substantial and summarizes well the assessment across the six critical PFM dimensions. However, the low indicator ratings for PI-18, 19, 20, 21 and 22 suggest some rather fundamental and serious fiscal data and internal control problems which may need to be more specifically highlighted in the main story of the summary in 'assessment of impact of PFM weaknesses'.

Response 2.1

Additional material pertaining to internal controls, procurement and fiscal data problems has been included in the Executive Summary to better highlight these problems.

World Bank

Comment 2.2

In the Summary Assessment, Assessment of the impact of PFM weaknesses (page 10) - The reference to the "credible three fiscal forecasts with realistic revenue forecasts..." should be toned down.

Response 2.2

There are a number of isolated examples of PFM systems in Jamaica that indeed work very well but fail on their promise to deliver because other PFM functions that are linked do not work so well. It is important to emphasize that the PEFA Performance Measurement Framework does not involve fiscal or expenditure policy analysis. The framework rather focuses on assessing the extent to which the PFM system is an enabling factor for achieving such outcomes. So for example while there may be some questionable policy aspects of debt management in Jamaica, this does not necessarily reflect on the PFM quality of debt management practice. The debt management and macro-fiscal forecasts is an area of sound PFM achievement whose effectiveness is undermined by the only nascent implementation of a medium term expenditure framework as a means to introduce a more strategic element into the budget process. The Consultant considers it important to highlight both the high PFM standards achieved as well as the lack of effectiveness. No comment is made, nor should be made on the macro fiscal or debt management policies; for example, of bailing out loss making public enterprises. This observation is particularly important when PFM Reform is considered. A fragmented approach that achieves success in specific areas without a careful consideration of the PFM linkages may lead to disappointing outcomes.

IDB

Comment 2.3

Because the only section that most readers will read is the Executive Summary, it is important that the nature and relationship between the two documents be clear therein. Although this is briefly mentioned in the subsequent text as we had agreed in an earlier discussion, there is no reference in the Executive Summary.

Response 2.3

The PEFA PFM Performance Measurement Framework is very specific in the format and content of the Executive Summary and is limited to three to four pages and so gives no scope for explicitly introducing the nature and relationship between the PEFA Assessment and previous PFM diagnostics carried out in Jamaica. However, the report does address that in the introduction where the format is less constraining.

Comment 2.4

The PEFA is presented in the Executive Summary as a comprehensive analysis around which a reform agenda can be developed. However, the PEFA is a complementary set of baseline indicators to support subsequent evaluation of any reforms made. The value added of the PEFA is precisely the establishment of the baseline, something that is clearly critical. It is not a comprehensive analysis nor an institutional analysis and it does not present recommendations and an agreed action plan as does the CFAA/CPAR. Of course, one could establish a reform agenda based on the areas rated C or D, but this has been done already in the CFAA/CPAR, every line of which was agreed with GoJ. In the interest of harmonization among the IDP and alignment with the country's position, we need to ensure that both our products and our plans are truly complementary both in theory and in practice. As you know, we have been working with the GoJ on some of the actions recommended in CFAA/CPAR through our PRODEV TC.

Response 2.4

It is important to view the PEFA Assessment and the CFAA/CPAR in a complimentary manner as a way to promoting harmonization. Indeed the ToR for the PEFA Assessment was shared widely among IDPs and included a desk study in preparation for the field assessment that included a review of the joint CFAA/CPAR. The PEFA Assessment, based upon the PFM Performance Measurement Framework, was designed as a comprehensive framework to measure PFM performance of countries across a wide range of development over time. It is a tool that should provide reliable information on the performance of PFM systems, processes and institutions over time. It is one of the elements of a strengthened approach to supporting PFM reforms. It aims to achieve better public financial management systems in countries through effective engagement and support of PFM reforms – reducing the transaction costs of some practices and focusing on results. The three main objectives of the Strengthened Approach for Jamaica are:

- *Adopting a country-led agenda for reform for Jamaica* which is fully cognizant of its capacity constraints and being willing to accept second-best reform alternatives should that be the price to ensure Government leadership in the PFM reform process.
- *Promoting a coordinated program of Donor support and alignment around Jamaica's PFM reform agenda* through a dialogue between government and donors that incorporates analytical and advisory work, technical assistance, funding support and training which are appropriately phased over a medium term time frame.
- *Monitoring Jamaica's PFM reform results through a common information pool*; This Performance Measurement Report is intended to serve as a common information pool on PFM performance in Jamaica for government, donors and other stakeholders at country level. The report and the baseline established will also serve as one element of the monitoring and evaluation (M&E) framework available for monitoring on a long term basis the outcomes of the PFM reform.

In keeping with the Strengthened Approach the PEFA Assessment does not present recommendations nor does it include an action plan. This is a key aspect of ensuring Government leadership in setting its own reform priorities.

None of these differences that stand a PEFA as a separate approach from the use of other PFM diagnostic tools limit the complimentary aspects of PEFA and CFAA/CPAR. Indeed there is much overlap in the findings, and both together should serve as a helpful basis for supporting dialogue amongst Donors and with Government on the providing support to a Government led reform agenda.

Section 1 – Introduction

PEFA Secretariat

Comment 3.1

This section, with reference to the terms of reference, describes the general overall objective of the report as being to:-

a) in the short-term, establish a baseline study needed to start measurement of PFM performance over time, and to inform and strengthen the dialogue between the Jamaican Government and those IDPs on strengthening PFM;

b) in the medium term, assist Government and IDPs to assess current PFM reforms and to identify potential PFM areas where (further) institutional support is required;

c) in the short- and medium-term, assist IDPs in determining the eligibility of Jamaica for future macroeconomic support programmes such as (sectoral/general) budgetary support and debt relief;

The section could be improved by including a description of the public sector in terms of the number of institutions, financial importance and if possible transfers between the various parts such as central government ministries/department, autonomous agencies forming part of central government, public/state-owned enterprises and sub-national government levels/entities. Such information would be very valuable in understanding the coverage of several of the indicators and their relative importance.

Response 3.1

A section has been included to address the relative importance of the Central Government, the Public Bodies and Sub National Government.

Section 2 - Background

PEFA Secretariat

Comment 4.1

The draft report provides comprehensive and relevant background information about the budget outcomes and social and economic indicators which help the reader to understand important country issues and acquire greater knowledge of the PFM system.

A few minor improvements could be suggested:

- The table 2.2. on page 17 would be enriched by (i) showing the financing of the deficit and (ii) the finances being reflected as a % of GDP.
- The table 2.3 could be improved by reflecting the relevant interest charges separately

The sources of information for all the data and tables that are provided should be stated.

Response 4.1

Given that the PEFA is built upon an analysis of primary expenditure, consistency considerations and arguments pertaining to such aspects as the impact of narrow fiscal space on budget execution is better understood if the primary surplus, for example, is measured with respect to primary expenditure and thus the presentation in Table 2.2. We note that much of the PEFA Analysis has been done on primary expenditure which is exclusive of interest payments and that is what is reflected in the narrative. Consequently, it is also appropriate to present Table 2.3 on the personnel emoluments, other recurrent charges and capital expenditure as a proportion of primary expenditure. For example, to speak of 60% of primary expenditure being wages and salaries in the narrative of the effectiveness of payroll controls PI-18 and not be able to link that figure to Table 2.3 could be confusing.

It is appreciated though that many readers are more familiar with the standard presentation of these tables as a percentage of GDP so consequently Tables 2.2 and 2.3 are also presented as a percentage of GDP.

Tables have been added to reflect Tables 2.2 and 2.3 in the way suggested. Sources of data for all of the tables have been included.

World Bank

Comment 4.2

Under Country Background Information, item 2.1.1.4 (p. 16) the point is made that Jamaica's strong commitment to debt service reflects in part, the country's strong legal and parliamentary framework, yet on page 9 under Predictability and Control in Budget Execution the second paragraph points out that the absence of sanctions in the legal and regulatory framework and the practice of PFM do not create an environment to ensure compliance with the legal and regulatory requirements. A seemingly contradictory assessment on the country's legal framework. This should be clarified, particularly if the strong debt servicing record is to be partly attributable to it.

Response 4.2

The nature of debt service payments, being highly centralised and directly subject to law, is much more strongly and directly influenced by a country's strong legal and parliamentary framework than would be budget execution carried out across a myriad of ministries, departments and agencies which are more influenced by direct controls and the application of sanctions. The text has been amended to clarify the point and to remove any apparent contradictions by qualifying a strong legal and parliamentary framework pertaining to debt management.

Comment 4.3

In the Description of Budgetary Outcomes para (2.2.1.1, p 16) the primary surplus of 24% stated for 2005/2006 seems quite high. Jamaican primary surpluses typically range from 11 to 13%. A check with World Bank and IMF figures confirm the 11% - 13% surplus range. It would also be useful to tone down the analysis given that in past years, the debt/GDP ratio may not have adequately reflected other methods of financing that the Government resorted to in response to the limited fiscal space (i.e. deferred financing and contingent liabilities as detailed in the CFAA/CPAR).

Response 4.3

The primary surplus of 24% stated is as a percentage of primary expenditure, but without greater clarification in the text could be misinterpreted to read as 24% of GDP rather than the corresponding 11%. The text has been amended to clarify the point. The objective of expressing primary surplus as a percentage of primary expenditure is to point out how constrained primary expenditure has been made in order to achieve such high primary surpluses (as a percentage of primary expenditure). In doing so it helps to provide an explanation as to why there is so much pressure in Jamaica to resort to non conventional financing methods including the accrual of arrears and the application of not properly controlled deferred financing mechanisms.

Section 3 – Performance of systems, processes and institutions

PEFA Secretariat

Comment 5.1
This section follows very closely the proposed structure and content of the Performance Report and systematically indicates sources of information. We have nevertheless some observations on the need for additional evidence to support the scoring as well as on the correspondence between evidence provided and score given for some of the individual indicators, as highlighted in the table following:
Response 5.1
Each of the specific comments are addressed in the table following.

World Bank

Comment 5.2
In Table 3.1, do the estimates correspond to the original or the supplemental budget figures? The reason for asking this question is that the interpretation of the comparative figures can vary significantly depending on the basis used, especially in the context of in-year supplemental budget processes characterized more by ex-post virements than true mid-year budget reviews, as pointed out in para 3.1.1.6. In para 3.1.1.9, I would suggest to consider the impact that the level of and lack of precise information on arrears could have on the percentage of budget outturns as well as on our assessment of the quality and reliability of the government's fiscal forecasts.
Response 5.2
As specified in the PEFA PFM Performance Monitoring Framework the budget estimates in PI -1 and PI -2 refer to original approved estimates. This is as should be, as any supplemental budget processes are addressed under separately in PI-15. To enhance clarity the tables have been labelled as such. The lack of precise information on arrears is an important issue that is highlighted in the report. Arrears undermine the objective of value for money. Also, since payments of arrears occur in the following year, the build up of arrears undermine the budget as a policy implementation instrument and particularly the strategic allocation of resources.

Comment 5.3
Para 3.4.1.36 could be clarified especially the link between the first and second sentences. "*Expenditure commitment control can only be based upon clear availability of funds. Therefore, commitment control is weakened by the uncertainty of cash availability within and beyond the 30-day period of the warrant and by the lack of predictability of the release time, within that period*"
Response 5.3
Commitment control is critical to sound PFM. To be an effective mechanism, it relies on timely and reliable projections on cash availability in order to be able make a commitment. If such information is not available within a reasonable lead time frame, it is not possible to commit on the basis of a clear indication of funds availability. This is the case in Jamaica where warrants are not a strict guarantee of release and where warrants are released on a monthly basis for 30-day period. Such a practice does not permit the implementation of commitments over a multi-month period. This has led to a practice of commitments being made without cash availability constraints and thus inducing the creation of liabilities that cannot be honoured (i.e. arrears).

The narrative has been amended for greater clarity.

Comment 5.4
For PI-21 and in Para 3.4.1.42, in addition to the budgetary constraints, the issue of staff capacity and scope of the internal audit units could be highlighted as factors affecting the effectiveness and efficiency

of the internal audit function in Jamaica (see CFAA report). And since the internal auditors tend not to focus on systems, the rating may be on the high side. A C- or D+ might be considered. Also, under Predictability and Control in Budget Execution (page 9), it would be useful to clarify the meaning of the last sentence of the first paragraph. The lack of resources is certainly one factor effecting the capacity of the internal audit units. But there are bigger issues dealing with staff skills,

Response 5.4

There are concerns about staff capacity. The Internal Audit Directorate is tackling the staff capacity constraints by organising training and supporting staff that take professional courses. The Internal Audit Directorate has also been working with the offices of the Offices of the Services Commission to raise the entry level requirements for Internal Audit. The narrative has been amended to highlight further the issue of staff capacity.

This the last sentence of the first paragraph refers to what has been described under Response 5.3. Internal controls such as commitment control are undermined by the cash constraints faced by the Government to the extent that they have forced the application of short-horizon (30–day) warrants. Perhaps the example of commitment control is a clearer illustration of the impact of these cash constraints on the internal controls. As mentioned by the Ministry of Health and Education, these cash problems reduce their capacity to effectively audit their ministries departments and facilities throughout the country. Staff capacity are indeed an issue and the narrative for PI-21 does point out that the Internal Audit Directorate is committed to an active staff enhancement policy through training. The scoring definitions in the PEFA blue book already account for the staff capacity issue.

The last sentence of the first paragraph under Predictability and Control in Budget Execution has been amended to improve clarity.

DFID

Comment 5.5

The report could usefully provide further evidence to substantiate its judgments on the indicators measuring donor practices. In para 3.7.1.1. not sure what authors are referring to by DFID's 'general programmatic support'. DFID provides debt relief, which is unearmarked. We also provide sector programmatic support ie we provide funding behind GoJ led strategies and rely on GoJ financial management, procurement and auditing systems (support to JCF reform and Public Sector Modernisation).

Response 5.5

A table of data on donor practices has been added to the narrative. The text has been amended to state sector programmatic support and debt relief as opposed to general programmatic support.

Government of Jamaica

Comment 5.6

1.Para 3.2.5.1 - (A)Public Enterprise oversight is provided by a Division not a Unit; (B)The Division was not created subsequent to the passing of the PBMA Act. In fact the Division was instrumental in developing the legislation.

Response 5.6

A correction has been made to the narrative to change Unit to Division and the reference to the Division having been created subsequent to the PBMA Act has been deleted.

Comment 5.7

2. Para 3.2.5.5 - (A) "All public enterprises have an internal audit unit..." this should be changed to read "All public enterprises are required to have..." (B)IPSAS is acronym for International Public Sector

Accounting Standards.. not Auditing Standards. (C) IPSAS are not yet adopted but activities are underway for the adoption of these standards in 2007.

Response 5.7

The corrections have been made to the text.

Comment 5.8

3.6.1.6

1. Amend the sentence commencing with the words "There have been changes …" to read: *"There have been changes to the Constitution during the last decade, some based on recommendations made by a Constitutional Reform Commission."*.

Change Effected

2. Delete the words "This is a historical and a traditional practice". We are not certain to what reference is here being made.

Deleted

3 Amend the word "tabled" to read *"undertaken"*.

Change effected

Response 5.8

The corrections have been made to the text.

Comment 5.9

3.6.1.7

It is not accurate to say that the House goes into recess around mid-February to mid-March. At that time, Parliament is *prorogued*, and the Opening of Parliament signals the commencement of the new session.

Response 5.9

The text utilises the wording suggested.

Comment 5.10

3.6.1.8

Insert the words *"supported by"* before the words "the Permanent Secretaries and the Chief Executive Officers". At meetings of the Standing Finance Committee, only the Minister is allowed to answer questions – other Members of his team may only supply him with the answers.

Response 5.10

Correction made to text.

Comment 5.11

3.6.1.9

Insert the words *"are normally"* after the words "The Supplementary Budget". It should be noted that at the time of the interview we made the point that as at that date no supplementary estimates had yet been tabled in Parliament.

Response 5.11

Amendments have been made to text.

Comment 5.12

3.6.1.10

It is not clear to what reference is being made in respect of a review of Public Enterprises.

Response 5.12

The Government submits every year a document entitled "Jamaica Public Bodies, Estimates of Revenues and Expenditures for the Year Ending March 2007 as presented to the House of Representatives" for example. This covers the issues of self-financed public enterprises. The text has been amended to clarify what is submitted to the House.

Comment 5.13
3.6.1.11
1. In the second sentence, delete the word "full" before the word "House" and substitute therefore the word *"whole"*.
2. There is no debate in Committee and it is not accurate to say that the Standing Finance Committee uses the Auditor General's Report when they call Ministers *et al.* The point that was made to the consultants was that Members of Parliament who are not Members of the Public Accounts Committee sometimes take advantage of that forum to ask questions on issues which arose in the Public Accounts Committee in its examination of the Auditor General's Report.
Response 5.13
What is meant is that the Standing Finance Committee member may make use of the Auditor General's report during the budget review should they wish as it is available. The text has been amended and the section on the utilisation of the Auditor General's report deleted for clarity. Narrative amended for greater clarity and accuracy.

Comment 5.14
3.6.1.12
1. The correct name of the committee is Public Account***s*** Committee – please amend throughout text.
2. Delete the word "party" from line 2.
3. In line 5, after the words "the Public Accounts Committee normally meets…" insert the words "*from September onwards, usually for four months or more, depending on the nature and volume of the issues"*. Reference was made to the fact that the committee has been meeting on the Sandals Whitehouse Investigations since September 2006, and the deliberations had still not been concluded up to the time of the interview in early February 2007.
Response 5.14
Narrative amended for clarity and accuracy.

Comment 5.15
3.6.1.13
Insert the word *"and"* after the word "public".
Response 5.15
The amendment has been made.

Comment 5.16
3.6.1.15
In (i) of table:
1. In the first column headed "Indicator", delete the word "with" and substitute therefor the word *"within"*.
2. In the third column headed "Brief Explanation"
(a) Amend the wording and use wording proposed in 3.6.1.12.
(b) Delete the second sentence – this is false.
In (ii) of table:
1. In the third column headed "Brief Explanation", delete the words "Standing Finance Committee" and the word "debates" (see note above).
2. Delete the second sentence and substitute therefore the following: *"This is open to the public and broadcasted on television."*
Response 5.16
The proposed amendments have been made to the text.

	Comments on the rating	Response
PI-1	**World Bank:** For the PI-1 indicator (Aggregate expenditure out-turn compared to original approved budget) and Credibility of the budget (page 7) - It would be useful to review the nature of the in-year budget adjustments and consider the impact of the supplemental budgets on the assessment. In fact, comparing the actual outturns to the supplemental budgets could be misleading by reducing the actual variances. Comparing the outturns to the original budgets could tell more about the quality of the budget forecasts. The findings in para 3.4.1.14 referring to adjustments to budgetary allocations could also affect the rating. In Table 3.1, do the estimates correspond to the original or the supplemental budget figures? The reason for asking this question is that the interpretation of the comparative figures can vary significantly depending on the basis used, especially in the context of in-year supplemental budget processes characterized more by ex-post virements than true mid-year budget reviews, as pointed out in para 3.1.1.6. **PEFA Secretariat:** The award of a "B" score appears uncertain on the basis of the evidence provided. FY06 cannot be checked as actual expenditure not entered in Table 3.1. On the known data, therefore B is probable, but uncertain. Will remaining data be available in time for the final report?	As prescribed in the PEFA PFM Performance Monitoring Manual original approved budget estimates are employed for the PI-1 indicator. The issue of supplemental budgets is addressed separately in PI-16. The adjustments to budgetary allocations are measured in PI-16 and in Dim(iii) a D is assigned. In Table 3.1 the estimates refer to original approved estimates and have been so indicated in the title of the table to clarify the point. The 2007/2008 Budget year which includes provisional expenditure data for 2005/2006 was released in the period between the completion of the draft report and the preparation of the final report. The new data has been analysed and incorporated into the report. The scoring remains a B
	Changes made to the narrative and / or scoring: No changes made to the scoring. Changes made to the Table title to clarify the use of original approved budget estimates.	
PI-2	**PEFA Secretariat:** The award of a "C " score appears uncertain on the basis of the evidence provided, for the reasons as stated above	The data expenditure data for 2005/2006 provided in the 2007/2008 clearly includes a significant proportion of budget estimate data as demonstrated by Table 3.3B and hence such data is even less reliable than the analysis based upon incomplete data used for the draft report. While it is acknowledged that the award of a C appears uncertain without reliable expenditure data for 2005/2006, it has been left unchanged.
	Changes made to the narrative and / or scoring: No changes have been made to the scoring. New analysis based upon now available 2005/2006 expenditure data presented in the 2007/2008 Budget has been included.	
PI-3	**World Bank:** For the PI-3 indicator (revenue out-turn compared to original budget) the score of A seems a bit high when one assesses the data more closely. For the period under examination, tax revenues have typically been lower than budgeted (3%, 3% and 10% respectively), while capital revenues have typically	The PEFA PFM Performance Monitoring Manual is very specific in the scoring of this indicator. As titled, it is an indicator that scores on aggregate performance of revenue. Considering the capital and recurrent tax revenues separately provides further understanding of the underlying factors. The narrative of course is free to point to underlying factors that may well be masked by

	Comments on the rating	Response
	been larger than budgeted. The two thus combine to minimize the overall revenue deviations. Given the typically underperformance of tax revenues (exacerbated by the high level of informality in the Jamaica economy, and the relative ease to transition to and operate in informal economy) the A-score is somewhat pronounced. However, the measure generally looks at all revenue, so the A score may be de facto justified, but may raise some eyebrows. **PEFA Secretariat:** The award of a "A " score appears correctly awarded on the basis of adequate evidence provided in the table. However there is a contradiction in the wording of para 3.1.1.8: actual revenue is said to exceed budget in FY04 and FY06, but last line refers to a 7.3% shortfall in FY06. In either case, A rating is agreed.	the aggregate performance. The narrative has been amended to add a comment on the performance of the component revenues. Amendments have been made to the narrative
	Changes made to the narrative and / or scoring: No changes made to the score. Amendments have been made to the narrative.	
PI-4	**PEFA Secretariat:** An overall "D" score based on dimensional ratings of "no score" and "D" is not correctly awarded. Whereas the dimensions are correctly evaluated based on adequate evidence, the overall "D" score can not be awarded as dimension (i) could not be scored.	As an M1 indicator the overall score is given by the lowest score to indicate the weakest link in the sub dimensions. Even without a scoring of the first dimension we can still conclude that a D represents the lowest score. Under these specific circumstances it would seem that a D rather than a overall No Score can be justified. This is especially problematic where an overall no score emanates because the PFM systems, which have the capacity to report on arrears, do not do so and thus hide the almost certain practice (as commented on by the Auditor General) of using arrears as an informal debt instrument. However a no score is provided in the final version in conformity with the PEFA Secretariat comment.
	Changes made to the narrative and / or scoring: Change made to the overall scoring.	
PI-5	**World Bank:** For PI-5 indicator (Classification of the Budget) in para 3.2.1.3, it seems based on previous diagnostic that entities do not follow the classification system described at the same level of detail, which could affect relevance of consolidated data. What is the scope of this problem and how does it affect the rating A, which could be a bit on the high side. In other terms, looking at the actual implementation of the classification system could help revise the rating. **PEFA Secretariat:** A "A " score appears correctly awarded on the basis of adequate evidence provided.	This particular indicator looks solely at the budget classification system and makes no comment on the adherence by entities to such classification. Other indicators look at the quality of the data. Therefore, while there may be data accuracy issues, the classifications adopted are consistent with an A rating. No changes made to the scorings or the narrative.

	Comments on the rating	Response
	Changes made to the narrative and / or scoring: The indicator's scoring is left unchanged.	
PI-6	**World Bank:** For PI-6 indicator (Comprehensiveness of Information included in budget documentation) and PI-7 (Extent of Unreported Government Operations), the CFAA report (see para 28) highlighted that: (i) the budgets of public sector enterprises and other public entities are excluded for Parliament's approval when 50% of the 140 public entities finance their operations from direct budget subventions, (ii) only the estimates of selected public entities are presented to Parliament. How would this affect the current rating?	This indicator looks specifically at a fixed list of nine information elements. A C is assigned if 3 to 4 of the nine information elements are met. Jamaica meets 4 of the requirements. The information gathered (see PI-7 and PI-9) indicates that budget- funded SOEs are included in the budget. Self-financing public enterprises are not as they do not receive contributions from the budget, thus a specific report is prepared and presented to the House to that extent.
	PEFA Secretariat: A "C" score appears adequately supported by 4 benchmarks being met. The wording for "Prior year budget out turn" needs to be expounded upon to clarify why it doesn't qualify	The language of the PEFA Blue Book is quite clear and unambiguous in making reference to the prior year (i.e. year -1). The PEFA "Blue Book" states for item 6 "Prior year's budget outturn, presented in the same format as the budget proposal". Budget Year – 1 is not included and so this benchmark is not met if a strict interpretation of the PEFA Blue Book is adhered to. The narrative however does point out that it includes information from 2 years prior if not from the prior year, which seems important to point out. Changes made for clarity "No, prior year's budget out-turn is not included, however out-turn information two years prior is included in the same format as the budget". No changes made to the scoring.
	Changes made to the narrative and / or scoring: The indicator rating is not changed. The text has been modified as indicated to improve readability.	
PI-7	**PEFA Secretariat:** An overall "C" score based on dimensional ratings of "C,C" is not adequately supported. Dim (i) requires the quantification of the percentage of unreported extra budgetary expenditure. This expenditure has not been quantified. Dim (i) rated C on the basis of the size of BoJ losses (para 3.2.1.7). However, this indicator applies only to CG and EBAs of CG, not to State-Owned-Enterprises or PFIs. Para 2.3.2.12 refers to 59 other bodies managed by MDAs. These sound like EBAs. Para 3.2.1.7 says that their transactions fall within the STA (monetary reporting). It needs to be confirmed that they are reconciled with the fiscal records. If not, the larger ones need to be researched, and their expenditure added to an estimate of unreported school fees in order to gauge the rough magnitude of unreported expenditure. Transfers to SOEs should be in the budget, ie. they are reported. Rating uncertain. . Dim (ii) also rated C, as "by and large this information is not	Almost by definition, unreported extra-budgetary expenditures cannot be measured with accuracy and certainty. The PBMA Acts and the practice are that the SOEs directly managed by the line ministries are included into the budget estimates and thus transfers to these activities are reported. Only self-financing SOEs have a specific reporting mechanism (see PI-9). However, these SOEs and the self-financing ones represent contingent liabilities to the GoJ who might decide to bail them out. Such operations might go unreported, although the political pressure around such operations as the bailing out of the sugar industry makes this very improbable. These SOEs are not EBAs. With regards to the BoJ, this was a transfer made separately from the budget by the Government and so constitutes extra-budgetary expenditure and was quantified and presented in a table. Please note that the figures are for BoJ losses covered by the Government and so is a CG expenditure. Donor funded expenditure is shown in the budget using COFOG classification and there are in-

	Comments on the rating	Response
	included in all the fiscal reports". Not clear if donor-funded project expenditure is included in in-year budget reports and annual financial statements, as well as in the budget. Uncertain	year financial statement available on donor funding. However, there is no consolidation into the annual financial statements.
	Changes made to the narrative and / or scoring: The text has been amended to clarify the issues raised on the SOEs status and integration in the budget and on the donor funding reports. The scores for each dimension remain unchanged.	
PI-8	**PEFA Secretariat:** An overall "C+" score awarded based on dimensional ratings of "C, B, B" is not adequately supported based on the evidence given.. As regards dim (i), the text refers to 50% of the overall budget of the Parish Councils whilst it should be in relation to the level of the actual transfers from central government. Dim(ii) The text does not explain whether the PC governments are provided with information on the allocations before they complete their budget proposals. Dim (iii) rating of B agreed on the assumption that only 75-90% of PC expenditure is reported. If > 90%, this would be rated A.	The Government grants a General Assistance Grant to the parishes as well as a fixed share of the Vehicle License Registration Fees (66.7%) and Property Tax (100%) together accounting for approximately 60% of Government transfers. The horizontal allocation of the vehicle registration fees and property tax is rule-based. Only part of the total General Assistance Grant (40% of transfers) is determined by rules. The grant's amount is determined during the budget preparation as a share of the Ministry of Local Government budget and is lumped for all parishes. The detailed Grant allocations are made after the start of the budget year in April and for the vehicle registration fees and property taxes in July. Part of the Grant is predictable (approximately half) since it goes to pay personnel emoluments and pensions, the balance is allocated on a rather ad hoc basis that includes some consideration of Parish Council budget requests, historical expenditure patterns and needs as defined by availability of other resources. This suggests that approximately 80% of the transfers are based on transparent rules. There is no explicit indication given to PC in advance of the financial year as to their future budget. As stated above the complete allocation picture does not occur till July or 4 months after the start of the budget year. Officials though note that, it is possible for Parish Councils to have an indication as to their allocation for fees and taxes. Further the grant level can be estimated given its objective and composition: support the functioning of the parishes in terms of personnel emoluments, pensions, utilities and programmes.
	Changes made to the narrative and / or scoring: The indicator's scoring has been changed to B,D,B for an overall of C+. The text has been modified to reflect the additional information provided and the changes.	
PI-9	**World Bank:** For PI-9 indicator (Oversight of Aggregate Fiscal Risk), in light of the comments for PI-6 and PI-7 above and given the fact that the Public Enterprises Division of MOFP focuses its oversight on 50% of self-financing PEs, the A rating seems optimistic. There is room for improvement and this should be reflected in the rating. The actual impact could be related to the amounts involved, which could be confirmed with the MOF. In para 3.2.1.16, it would be useful to look at the degree of application of the IFRS and IPSAS.	The PEFA framework focuses on the reporting and consolidation of the fiscal risk into an annual report for all the major AGAs/PEs. The public bodies that are budget-funded are all reported in the budget documents and report to the Public Expenditure Division of the MoF on a monthly basis. The self-financing public bodies report to the Public Enterprise Oversight Division of the MoF. So, all public bodies are captured by the oversight system which is the requirement for an A.. The degree of application was not been measured. The PEFA framework does not use this

<table>
<tr><th></th><th>Comments on the rating</th><th>Response</th></tr>
<tr><td></td><td><u>PEFA Secretariat:</u>
An overall "A " score awarded based on dimensional ratings of "A ,A" is not adequately supported based on the evidence given –Dim (i) This dimension requires the fiscal risk issues to be consolidated into a report at least annually. The text does not indicate the preparation of such a report which makes the award of an "A" or "B" score not possible. Dim (ii) is adequately supported.</td><td>information for the scoring. The PEO Division clarified that the IFRS had been adopted and hence the public bodies were supposed to apply these standards. With regards to IPSAS, the Government and the Institute of Chartered Accountant of Jamaica are reviewing them prior to adopting them. What appears critical here is that the PFM oversight system is in place to monitor the application of these standards. For example, about 85% of all public bodies have established an Internal Audit Unit and an Audit Committee according the MoF and the MoF is working towards ensuring full compliance.

All public bodies submit financial reports annually that are audited by an independent external auditor as well as on a sample basis by the auditor general.

The Government submits every year a document entitled "Jamaica Public Bodies, Estimates of Revenues and Expenditures for the Year Ending March 2007 as presented to the House of Representatives" for example. This report contains a consolidation of the financial execution of the previous year's budget and of the liabilities of the GoJ. The Public Bodies submit an annual report to the Parliament once a year.</td></tr>
<tr><td></td><td colspan="2"><u>Changes made to the narrative and / or scoring:</u>
The indicator rating is not changed. The narrative has been amended for greater clarity.</td></tr>
<tr><td>PI-10</td><td><u>PEFA Secretariat:</u>
An "B" score awarded based on 4 benchmarks assessed as having met the necessary criteria appears adequately supported based of the evidence.</td><td>No changes have been made to the scoring or the narrative.</td></tr>
<tr><td></td><td colspan="2"><u>Changes made to the narrative and / or scoring:</u></td></tr>
<tr><td>PI-11</td><td><u>PEFA Secretariat:</u>
A "B" score award based on dimensional ratings of "B,A,C," does not appear to be adequately supported due to the lack of clarity of the score to award to dimension (iii). The explanation given for the award of a "C" score is that the legislature always approves the budget at the start of the fiscal year whilst the narrative under paragraph 3.3.1.6 states that the budget never gets its final approval until after the fiscal year has begun. Clarification is therefore required.</td><td>Indeed, the Parliament approves the budget at the start of the fiscal, during the first month, due to the Parliament's calendar. Hence technically the budget is only approved after the fiscal year has started.</td></tr>
<tr><td></td><td colspan="2"><u>Changes made to the narrative and / or scoring:</u>
The scoring remains unchanged. The text for dimension (iii) scoring has been amended to clarify the timing of the approval of the budget.</td></tr>
<tr><td>PI-12</td><td><u>World Bank:</u>
For PI-12 indicator (Policy-Based Budgeting), sub-indicator (iii), the rating is closer to D than C for two reasons: 1. relevance of the sector strategies/corporate plans in the context of the limited fiscal space as discussed in the budget section; 2. fact that the corporate plans are not costed.</td><td>For D rating, the PEFA blue book states that only a few sectors strategies would have been prepared and none would be substantially costed. It appears that in Jamaica, costed strategies cover several sectors including education, health and public works but these are inconsistent with aggregate fiscal forecasts. This warrants a "C" score according the PEFA framework.</td></tr>
</table>

	Comments on the rating	Response
	<u>PEFA Secretariat:</u> A "C+" score appears correctly awarded on the basis of adequate evidence provided.	No change has been made to the scoring.
	<u>Changes made to the narrative and / or scoring:</u> The scoring remains unchanged. The narrative and the text for dimension (iii) scoring have been clarified.	
PI-13	**<u>Government of Jamaica:</u>** Please clarify what is meant by "Its decision making process involves internal controls but no **review panel**" in your report. **<u>World Bank:</u>** For the indicator PI-13, under item (i), the fact that the Minister and Commissioner can grant exemptions without reporting requirements has been a source of major criticism in recent times. A C score on this item would move the overall rating from B+ to B, perhaps more indicative of this issue. **<u>PEFA Secretariat:</u>** A "B+" score appears correctly awarded on the basis of adequate evidence provided.	Although the appeal review process is documented in a manual and involves an appeal officer, there is not an independent review panel hearing the case and settling on a decision. The review process is confined to the reporting administrative line: the Officer, the Appeal Manager and ultimately the Commissioner who decides. The tax laws empower the Minister to waive off the tax principal and any penalties as he sees fit for all taxes (income, GCT, Transfer and Property taxes, Stamp and Customs duties)[26]. Although there are some requirements for gazetting the decision, the laws provide almost total discretionary powers to the Minister. The Minister is also empowered by the legislation to establish the rules for varying the amount of taxes payable by moieties and instalments and the amount of penalties payable (Collection Tax Act, Section 40A). Waivers on duties and interest can be granted, by the Commissioner for Customs and the Commissioner for Taxpayer Assessment and Audit respectively. As a matter of administrative management, the Minister has delegated his discretionary powers up to J$1 million to the Commissioner for Tax Appeal. These particular processes are not guided by regulations and manuals. The score has been changed from "B" to a "C". The text has been reworked to clarify the level of discretion of each of the Government Entities and to highlight the evidence. The PEFA Blue Book is very specific: A "D" score would indicate that there is no system in place for tax assessment thus leaving administrative discretion to the officers in charge of the assessment. Only score A to C deal with the existence of a specified system based on laws and regulations but with discretionary powers for the Government Entities involved. The scoring has been changed and the narrative has been amended for greater clarity.
	<u>Changes made to the narrative and / or scoring:</u> The scoring has been changed and the narrative has been reworked to clarify the level of discretion of the Government Entities	
PI-14	**<u>World Bank:</u>** For PI-14, given the difficulties the authorities face around ensuring	The tax audit plans are prepared on the basis of data mined in the previous years' tax data and

[26] The references to the Laws are: Income Tax Act, Section 86; General Consumption Tax Act, Section 47; Transfer Tax Act, Section 46; Customs Act, Section 11; Stamp Duty Act, Section 80B; Property Tax Act, Section 11; Education Tax Act, Section 10.

	Comments on the rating	Response
	compliance, the C+ rating may be a bit generous. For sub-item (iii) on planning and monitoring tax audits, complaints arise where the perception is that persons who have been audited are subjected to a repeat audit before others are audited for the first time, as it appears easier to do repeat audits than to assess first timers. An investigation of this might possibly lead to a reduction in the B score, and thus the overall C+.	audit data. The Taxpayer Audit and Assessment Department prepares a tax audit plan that takes into accounts risk areas in terms of volume and industries and applies standard criteria such as non-filers, stop-filers or previously under-reporters. It also uses data mining techniques such as cross-referencing datasets. It turns out that this is an area is the focus of efforts by the Revenue Administration to gain efficiency. A Large Case Unit to handle the risk associated to volume is now being established.
	PEFA Secretariat: A "C+" score appears correctly awarded on the basis of adequate evidence provided.	No changes have been made to the scoring or the narrative.
	Changes made to the narrative and / or scoring: The scoring and the text remain unchanged.	
PI-15	**PEFA Secretariat:** A "D+" score appears correctly awarded on the basis of adequate evidence provided	No changes have been made to the scoring or the narrative.
	Changes made to the narrative and / or scoring: The scoring and text remain unchanged	
PI-16	**PEFA Secretariat:** A "D+" score based on dimensional ratings of "C,D,D" appears correctly awarded on the basis of adequate evidence provided. The narrative provided for dim (i) is adequate for the award of a "B"- however this will not change the overall score award.	In spite of the quality concerns of the pro forma cash flows, there is no firm basis for assigning a C and so Dim(i) has been assigned a B.
	Changes made to the narrative and / or scoring: Dim(iii) has been changed from a C to B with no change in the overall scoring. The narrative remains unchanged.	
PI-17	**World Bank:** For PI-17, please revisit the statement in footnote 10 in page 40. It is not clear how the use of deferred financing has the significant advantage of properly matching areas of responsibility to the respective strengths of the public and private sectors. It seems that this is more a financing mechanism than a division of responsibilities between the public and the private sectors. For sub-indicator (iii) taking account of the on-lending practices could lead to slightly lowering the rating to B- or C+.	A number of countries including the UK, South Africa and Kenya are adopting Public Private Partnerships, some based upon deferred financing arrangements, to address their development budgets. The rationale, as is probably best articulated in the case of the UK, is premised upon properly matching the respective strengths of the public and private sectors. For example in a publication by Her Majesty's Treasury "Public Private Partnerships: The Government's Approach" it states "*With public private partnerships, the Government seeks to harness the innovation and disciplines of the private sector, by introducing private sector investors who put their own capital at risk. This is achieved either by introducing private sector ownership into a state-owned asset or business, or by contractual arrangements in which the private sector bears the financial risk involved in delivering a particular service or other form of specified output. If the business or service provider operates in a competitive market, market disciplines will provide an incentive to maximise quality of service. If such disciplines do not exist, and cannot easily be introduced, quality standards can be enforced through regulation or by performance requirements in the contract with the public sector. By harnessing private sector disciplines in this way, PPPs can help to improve value for money, so enabling*

<table>
<tr><th></th><th>Comments on the rating</th><th>Response</th></tr>
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<u>PEFA Secretariat:</u>
A “B+” score appears correctly awarded on the basis of adequate evidence provided</td><td>the Government to provide more public services and to a higher standard within the resources available. The private sector is normally far more skilled in running business activities and some elements of service delivery, including managing complex investment projects to time and budget, and assessing the commercial opportunities of potential new business ventures”.

With cost overruns often well over 100% on a number of public works contracts, properly managed BOTs, which remove the risk of cost overruns, can become an important mechanism for achieving efficiency in the delivery of services and value for money. Jamaica has not yet demonstrated the capacity to effectively manage deferred financing arrangements, true, but that does not take away from the advantages of the approach. Pointing that out could serve as an incentive to better address the strategic aspects of budget formulation and the strengthening of the procurement processes to place it in a position to take advantage of such Public Private Partnership approaches.

No changes made to the scoring or narrative.</td></tr>
<tr><td></td><td colspan="2"><u>Changes made to the narrative and / or scoring:</u>
The scoring and the text remain unchanged.</td></tr>
<tr><td>PI-18</td><td><u>World Bank:</u>
For PI-18, sub-rating (ii) seems a bit on the high side given the issues raised.

<u>PEFA Secretariat:</u>
A “D+” score appears correctly awarded on the basis of adequate evidence provided</td><td>The B is justified because MDAs typically update changes to personnel and payroll files within two months and do not report a significant proportion of retroactive adjustments.

No changes have been made to the scoring.</td></tr>
<tr><td></td><td colspan="2"><u>Changes made to the narrative and / or scoring:</u>
The scoring and the text remain unchanged.</td></tr>
<tr><td>PI-19</td><td><u>World Bank:</u>
For PI-19, sub-rating (ii) could consider the impact of used of deferred financing now discontinued. In addition, the Report seems to indicates that BOT is a good option for Jamaica as "in so doing minimizing potential losses due to such factors as contract variations abuse and the consequent cost overruns" when in reality the low capacity to manage complex procurement processes/arrangements means that the risk to the GOJ increases dramatically as opposed to traditional procurement methodologies.</td><td>Please see the response to comment in PI -17.</td></tr>
</table>

	Comments on the rating	Response
	PEFA Secretariat: An overall "D+" score awarded based on dimensional ratings of "D,C,C" appears to be correct. However, clarity is called for as regards the evidence supporting dim(ii). The narrative provided states that selective Tender is the GOJ's primary method for procurement with open tender being restricted. The clarification sought is whether regulatory requirements establish selective tendering or open competition as the preferred method of procurement.	The regulatory requirements state that "Procuring Entities should employ competitive procedures best suited to the circumstances of the contract action as guided in the Handbook and consistent with the need to fulfil GoJ's requirements efficiently and effectively" thus leaving it somewhat open to interpretation. The justification for the use of less competitive methods is at best not clear and at worst weak or missing. Additional data was analysed and showed that 26% of the qualifying contracts adopted the open tender method. The dimensional ratings were thus changed from D,C,C to CCC fro an overall rating of C.
	Changes made to the narrative and / or scoring: The scoring and narrative were changed to reflect the analysis of additional evidence.	
PI-20	**PEFA Secretariat:** A "D+" score appears correctly awarded on the basis of adequate evidence provided	No changes have been made to the scoring or the narrative.
	Changes made to the narrative and / or scoring: The scoring and text remain unchanged	
PI-21	**World Bank:** For PI-21 and in Para 3.4.1.42, in addition to the budgetary constraints, the issue of staff capacity and scope of the internal audit units could be highlighted as factors affecting the effectiveness and efficiency of the internal audit function in Jamaica (see CFAA report). And since the internal auditors tend not to focus on systems, the rating may be on the high side. A C- or D+ might be considered. **PEFA Secretariat:** An overall "D+" score awarded is correct, however, not based on a dimensional ratings of "C,B,D" but instead with a possibility of dim(i) being scored a "D" - because of the need to clarify whether systems review take up at least 20% of staff time as required for a "C" score.	We note that under the PEFA PFM Performance Monitoring Framework C- are not facilitated and D+ can only be applied to overall scorings subject to very specifically prescribed circumstances. A "C" score requires that the internal audit function be operational in the most important ministries, that at least 20% of staff time be spent on systems but the blue book also points out that professional standards might not be met. Thus the issue of the limitation due to the staff capacity is taken into account the rating "C" for dimension (i). There some issues with regards to staff capacity. It is indicated that the Internal Audit Directorate is supporting staff development. This has been further clarified in the narrative. The data obtained from the Internal Audit Directorate and reviewed suggests that at least 20% of staff time was dedicated to systems' audit in the previous year and that this trend, initiated and pursued by the Internal Audit Directorate, is progressing.
	Changes made to the narrative and / or scoring: No change in scoring narrative amended to introduce additional evidence.	
PI-22	**PEFA Secretariat:** An overall "D+" score based on dimensional ratings of "C,D" appears not to be adequately supported because of the need for the text to clarify whether for	It would be false to state or imply, as a D assignment would do, that bank reconciliations for all Treasury managed bank accounts take place less frequently than quarterly OR with back logs of

	Comments on the rating	Response
	dimension (i) the reconciliation is performed within 8 weeks after the quarter end, which is required for a "C" score; otherwise a default "D" will apply. Dim (ii): the annual reconciliations takes place with more than two month delay.	several months. The Ministry of Finance and the line ministries perform reconciliations on the basis of the Monthly Expenditures Return. In the majority of cases the Monthly Expenditure Returns submissions from the line ministries to the Ministry of Finance are delayed by less than two months. Therefore, for the most part, line ministries quarterly expenditures are reconciled with their bank accounts within 8 weeks after the end of the quarter. Under these circumstances it would seem that a C would be more appropriate than a D.
	Changes made to the narrative and / or scoring: No changes have been made to the scoring or the narrative.	
PI-23	**PEFA Secretariat:** A "C" score appears uncertain as no information on availability of data on resources received by primary schools and health centers is availed. Did the cited PER include a Public Expenditure Tracking Survey? Further clarification is sought	The Jamaica Fiscal Consolidation for Growth and Poverty Reduction: A Public Expenditure Review includes tracking of expenditure in the social sectors and in particular including Health and Education. Chapters 4 (Education) and 5 (Health) detail expenditure at the primary, secondary and tertiary levels and analysis includes resources received by health and education facilities.
	Changes made to the narrative and / or scoring: No change made to scoring. Narrative amended to make more clear.	
PI-24	**World Bank:** For PI-24, the ratings are on the high side. The CFAA identified the issue of lack of consolidation of actual appropriation accounts, raising the concern of quality of information. You may want to revisit sub-rating (i) and (iii). **PEFA Secretariat:** A "C+" awarded based on dimensional ratings of "A,C,A" is adequately supported.	The monthly expenditure reports reviewed shows that the classification of the data allows direct comparison with the budget and covers both commitment and expenditure stages. The problems observed had to do mainly with the timeliness. This indicator makes no comment on appropriations accounts. The issue of appropriation accounts is dealt with in PI-25 and there an overall score of D+ was assigned. No changes made to scoring or narrative.
	Changes made to the narrative and / or scoring: No changes made to scoring or narrative.	
PI-25	**PEFA Secretariat:** A "D+" score appears correctly awarded on the basis of adequate evidence provided	No changes made to scoring or narrative.
	Changes made to the narrative and / or scoring: No changes made to scoring or narrative.	
PI-26	**World Bank:** For PI-26 (i), the rating seems a bit too generous. The work done by the Auditor general tends to focus on the financial aspects and is transactions oriented in spite of some attempts to do value-for-money audits. Therefore, it does not necessarily and systematically focus on significant and systemic issues as required by the guidelines. A rating of B- or C+ could be justified in this context	The PEFA framework is clear on the dimension (i) 'Scope/ nature of audit performed (incl. adherence to auditing standards)", the main difference between A and B scores is on the extent of the government entities covered, and all are covered in Jamaica. The scope of audit requires full range of financial and some aspects of performance audits. The type of audits carried out by the Auditor General and the content of his reports focus on systemic issues such as internal controls, risks in class of transactions, timeliness of financial statements and regularity of

	Comments on the rating	Response
	PEFA Secretariat: A "C+" awarded based on dimensional ratings of "A,C,B" is adequately supported. It would be helpful to clarify for dimension (iii) whether the formal response is timely and complete as required for a "B" score or delayed and not very thorough which would suggest a "C" score. (Note : An award of a "C" score for dimension (iii) would not change the overall score for the indicator)	transactions. The performance audit practice is being introduced but lack an explicit performance reference framework. A C score would indicate a lower coverage of government entities and an audit approach that focuses mainly on transactions testing with unclear standards. The rating of dimension (i) has been changed from A to B to better reflect the practice and the narrative has been clarified to indicate the current state of affairs and the direction taken by the Auditor General to improve its audit scope and standards. The response is timely and complete, for most ministries, and submitted to the Auditor General and to the Public Accounts Committee. The Permanent Secretaries may be called by the PAC.
	Changes made to the narrative and / or scoring: The scoring was changed from "A" to "B" score for dimension (i) and the text was amended.	
PI-27	**World Bank:** For PI-27, please consider the level of legislative scrutiny on executive agencies and public enterprises. This aspect seems to be more limited, which could affect the sub-rating (i).	This is indeed an important factor, although the PEFA blue book focuses on fiscal policies, medium term fiscal framework and priorities and details of revenue and expenditures and also indicates that PI-6 already scores the adequacy of the budget documentation. Nonetheless, the Government submits every year a document entitled "Jamaica Public Bodies, Estimates of Revenues and Expenditures for the Year Ending March 2007 as presented to the House of Representatives" for example. This covers the issues of self-financed public enterprises; the budget-funded public bodies are part of the budget.
	PEFA Secretariat: A "B+" score appears correctly awarded on the basis of adequate evidence provided. Dim (iii) would be better supported if the narrative was consistent. It refers to a time period of 3-4 weeks taken for the process (para 3.6.1.8) but then advise that the legislature have a period of at least one month.	The House is normally prorogued between mid-February and mid-March and a new session commences around mid to late march. This is a practice by custom. The Standing Finance Committee, composed of the whole House, takes a few days for the budget review and the House takes up to 3 weeks for the budget debate. However there is not constraint on the House calendar, thus in practice the House has at least one month as it takes up to 4 weeks to review and to debate the budget prior to its approval. This is provided for in the Constitution; under what is referred to as "Period 13", in section 117(3) that empowers the Minister of Finance to table a Resolution for Vote to request the House to approve sums for house keeping (recurrent expenditures) up to July. We note an error in the PEFA Blue Book with regards to the B and C scores being described identically for dimension (iii). It would be useful to define the principle to be applied in selecting the score and include this as an addendum to the Blue Book.
	Changes made to the narrative and / or scoring: The scoring remains unchanged. The text has been amended to reflect the GoJ comments and further clarify the budget review and debate processes.	
PI-28	**PEFA Secretariat:** An overall "C+" score awarded is doubtful as the reason for a "no score"	The additional information obtained from the House now enables us to score dimension (i) as

	Comments on the rating	Response
	rating for dim (i) is not explicit in the brief explanation provided. The time /date of completion of the legislative scrutiny is not provided. It would appear from the narrative that the legislative process entails the PAC submitting a report to the House. The House however appears to review the report to prepare the budget process hearing (which is not the intention of the audit report/ PAC report ?). The narrative needs clarity.	"C" as it is confirmed that the PAC reviews the Auditor General Report from September onwards while the AG submits its report in December. The members of the Standing Finance Committee may make use of the Auditor General's Report as it is available.
	Changes made to the narrative and / or scoring: The scoring has been completed and the narrative has been amended.	
D-1	**PEFA Secretariat:** An overall B score based on dimensional ratings of "B,A" using scoring method M1 is not correct. The indicator score should be B+. The evidence to support the award of a "B" score for dim (i) needs to be substantiated. Dim (ii) is adequately supported	The score has been amended to B+. The evidence for substantiating the scoring has been collected from donors. A summary table has been inserted to provide the reader with the results of the calculations.
	Changes made to the narrative and / or scoring: The scoring has been changed and additional evidence has been provided.	
D-2	**PEFA Secretariat:** The award of a "C" based on dimensional ratings of "C,C" appears not to be adequately supported. Dim (i) narrative states that GOJ does not have comprehensive and reliable information whilst the requirement for a "C" score is that complete budget estimates must be available(for at least the five largest donors).	The five largest donors do provide budget estimates in advance of the fiscal year but not in a format consistent with the government's budget classification.
	Changes made to the narrative and / or scoring: The scoring is unchanged. The text has been amended.	
D-3	**PEFA Secretariat:** A "D" score is uncertain in the absence of adequate evidence being provided	The evidence has been added in the form of a summary table detailing the data collected and the calculations made to arrive at the scoring. The methodology is based on obtaining information from the donors by programme types on whether they use each of the four categories of Government procedures. A percentage of usage of the government system is thus calculated and applied to the disbursements recorded for 2004/2005 and 2005/2006. This calculation provides an aggregate proportion of funds being disbursed, utilised and reported on using government procedures.
	Changes made to the narrative and / or scoring: The scoring remains is unchanged. Additional evidence has been added in the form of a table.	

Section 4 – Reform Efforts

PEFA Secretariat

Comment 6.1

This section gives a very useful and well summarized description of recent and on-going reforms. It is recognized that Jamaica has a long tradition of undertaking PFM reform and has over the years made substantial improvements in many elements of public financial management. However despite all these efforts a strategic framework is missing which specifically would target and prioritize the achievement of all three core elements of a sound PFM system and seek to implement activities in a carefully coordinated and sequenced manner. The Public Sector Modernization Vision and Strategy (2002-2012) does not also appear to offer the solution and instead focuses on procurement and the introduction of accrual accounting without possibly addressing the need to sequence and prioritize activities.

Response 6.1

In defining priorities and specifying sequencing it shall be important to consider pacing as well that takes into consideration capacity constraints, made even more challenging when reforms are undertaken within the confines of a narrow fiscal space.

DFID

Comment 6.2

Paras 4.2.1.2 - 4. Largely agree with the comments in these paras. Not sure if authors of report are aware that over the past three years DFID has been supporting public sector modernisation with flexible financial support aligned behind the Public Sector Reform Unit's own plan and in close collaboration with CIDA, which has adopted a more projectised approach. The DFID way of working has proved challenging, partly because our resources have been clearly inadequate to the scale of the challenge and also because the Public Sector Reform Unit has found it difficult to articulate their strategic priorities and achievements in a way that gives us the assurances we need as a donor that our funds are having a pro-poor impact. Important that any future efforts take account of lessons learned along the way.

Response 6.2

It would appear that PFM reform outcomes would be enhanced by expanding such collaboration, as has occurred between DFID and CIDA to all Donors active in the sector. The introduction of a single coordinated funding framework supporting a comprehensive and consolidated set of work plans and costed estimates developed within a multi-year reform programme expenditure framework, implemented through institutional arrangements that well facilitate the close coordination of reform activity implementation, and monitored through a consolidated programme monitoring and evaluation framework made up of both verifiable milestones and PFM outcomes would allow closer alignment of implementation with the Government's strategy's approach and could greatly enhance the impact of PFM reform.

Such an approach would more readily facilitate a strengthened approach to donor support of the PFM reforms based upon donor harmonization working with a single pool of reform information. It is anticipated that the PEFA Assessment report shall assist in better defining the Government's strategic priorities and allowing a simpler and more straightforward articulation of such priorities. It should also provide a basis for dialogue on PFM reform both between Donors active in the sector as well as with Government. The centrality of sound PFM to Public Sector Reform emanates from its fundamental role in facilitating the business of Government across all of its core functions. The achievement of sound PFM serves as the enabler, the necessary condition, for a well functioning public sector which in turn is a key prerequisite for implementing an effective poverty reduction programme to assure donors that their funds are having a pro-poor impact.

PFM Performance Indicator	Draft	Final
A. Credibility of the Budget		
1. Aggregate expenditure out-turn compared to original approved budget	B	B
2. Composition of expenditure out-turn compared to original approved budget	C	C
3. Aggregate revenue out-turn compared to original approved budget	A	A
4. Stock and monitoring of expenditure payment arrears	D	<NS>
B. Comprehensiveness and Transparency		
5. Classification of the budget	A	A
6. Comprehensiveness of information included in budget documentation	C	C
7. Extent of unreported government operations	C	C
8. Transparency of Inter-Governmental Fiscal Relations	C+	C+
9. Oversight of aggregate fiscal risk from other public sector entities.	A	A
10. Public Access to key fiscal information	B	B
C(i) Policy-Based Budgeting		
11. Orderliness and participation in the annual budget process	B	B
12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+	C+
C (ii) Predictability and Control in Budget Execution		
13. Transparency of taxpayer obligations and liabilities	B+	B
14. Effectiveness of measures for taxpayer registration and tax assessment	C+	C+
15. Effectiveness in collection of tax payments	D+	D+
16. Predictability in the availability of funds for commitment of expenditures	D+	D+
17. Recording and management of cash balances, debt and guarantees	B+	B+
18. Effectiveness of payroll controls	D+	D+
19. Competition, value for money and controls in procurement	D+	C
20. Effectiveness of internal controls for non-salary expenditure	D+	D+
21. Effectiveness of internal audit	D+	D+
C (iii) Accounting, Recording and Reporting		
22. Timeliness and regularity of accounts reconciliation	C+	D+
23. Availability of information on resources received by service delivery units	C	C
24. Quality and timeliness of in-year budget reports	C+	C+
25. Quality and timeliness of annual financial statements	D+	D+
C (iv) External Scrutiny and Audit		
26. Scope, nature and follow-up of external audit	C+	C+
27. Legislative scrutiny of the annual budget law	B+	B+
28. Legislative scrutiny of external audit reports	C+	C+
D. Donor Practices		
D-1 Predictability of Direct Budget Support	B	B+
D-2 Financial information provided by donors for budgeting and reporting on project and program aid	C	C
D-3 Proportion of aid that is managed by use of national procedures	D	D