

## Project Profile

### I. BASIC DATA

<b>Project name:</b>	Public Sector Efficiency
<b>Project number:</b>	JA-L1046
<b>Project team:</b>	Jorge von Horoch (IFD/ICS), Project Team Leader; Mariano Lafuente (IFD/ICS); Miguel Porrua (IFD/ICS); Maria Jose Jarquin (IFD/ICS); Mariel Fiat (ICS/CJA); Brodrick Watson (CCB/CJA); Lila Mallory (FMP/CJA); Graham Williams (FMP/CJA); Francisco Mejia (SPD/SDV); Monica Lugo (LEG/SGO); Leslie Harper (IFD/FMM); and Alan Girón (IFD/ICS)
<b>Borrower:</b>	Jamaica
<b>Executing agency:</b>	Cabinet Office – Public Sector Modernization Division (PSMD)
<b>Financing plan:</b>	IDB (Ordinary Capital): US\$14,000,000 China Co-financing Fund US\$6,000,000 <sup>1</sup> European Union (EU) Grant US\$6,650,000 <sup>2</sup> Total: US\$26,650,000
<b>Safeguards:</b>	Policies triggered: N/A      Classification: C

### II. GENERAL JUSTIFICATION AND OBJECTIVES

- 2.1 **Background.** Jamaica is at a crossroads to reverse the protracted trend of fiscal deficits, high debt, and low growth. The overall annual public sector deficit from 2007 to 2011 averaged 8.76 percent of GDP. Jamaica's public debt stock has been consistently on the rise since the late 1990s and is now at close to 150% of GDP. Debt servicing costs have also increased over the years limiting the fiscal space for the provision of key services. Over the last 20 years, its economy grew on average less than 1% per year, significantly below the average for Latin American and the Caribbean countries (3.8% and 2.0% respectively)<sup>3</sup>.
- 2.2 Aware that fiscal and debt sustainability are necessary conditions for macroeconomic stability and economic growth, the Government of Jamaica (GOJ) has embarked on a comprehensive fiscal consolidation program. Supported by a 48-month International Monetary Fund (IMF) Extended Fund Facility (EEF), approved by the IMF on May 1<sup>st</sup> 2013, the GOJ is committed to improve the overall public sector deficit from 4.3% of GDP in FY 2012/13 to a surplus slightly above 1% of GDP by FY 2016/17<sup>4</sup>.
- 2.3 This situation poses a double challenge for the GOJ. Eliminating the fiscal deficit is imperative to reducing the debt burden, restoring fiscal sustainability, and facilitating growth. On the other hand, it is essential to improve public sector efficiency to preserve a given quality in service delivery in the midst of necessary spending cuts and austerity measures.

<sup>1</sup> Resources from the China Co-financing Fund for Latin America and the Caribbean allocated to this operation will be contingent to non-objection of the Government of China

<sup>2</sup> Resources to be received from the European Commission through a Project-Specific Grant. The EC is expected to commit Euros 5 million, which is equivalent to 6.650 million U.S. Dollars, based on the exchange rate of 1.33 US\$/Euro. This amount includes the administration cost. Final resources in US\$ will be dependent on the exchange rate of the date when the resources are received by the Bank from the EC in Euros and converted into US Dollars.

<sup>3</sup> Sources: 2013 PEFA Report and IMF staff estimates. Fiscal years cover the period from April 1 to March 31.

<sup>4</sup> Memorandum of Economic and Financial Policies - April 2013. Jamaica: program with the IMF.

- 2.4 **The problem.** A public sector that costs less and delivers better services is perhaps one of the biggest challenges facing the GOJ. The Global Competitive Index 2012-13<sup>5</sup> published by the World Economic Forum, ranks Jamaica 101th out of 144 countries in the world on “*Wastefulness of Government Spending*”, an indicator that measures the efficiency in the provision of goods and services. Jamaica has lost five positions in the latest “Doing Business Report”<sup>6</sup> after moving from the 85<sup>th</sup> to the 90<sup>th</sup> in 2013, suggesting further erosion in the government capacity to deliver key services to businesses in an efficient manner.
- 2.5 There are several causes explaining the relatively low efficiency of the Jamaican public sector. Certainly, the GOJ cannot provide services efficiently if it has to make high-interest payments on its debts as a result of high debt levels. Debt servicing has taken up nearly 50% of total budgeted expenditures over the last four fiscal years<sup>7</sup>. Other relevant causes of the problem are: the excessive bureaucracy and red tape, high wage bill relative to GDP, duplication and overlapping mandates and functions, antiquated systems and structures, complex processes and silo operations resulting in high transactional costs and the absence of economies of scale, archaic statutes, and lack of or insufficient use of Information and Communication Technologies (ICT)<sup>8</sup>. Furthermore, weaknesses in the control systems and accountability mechanisms also hamper a more efficient use of public resources<sup>9</sup>.
- 2.6 As seen in the previous paragraph, numerous factors need to be addressed to improve the efficiency of the Jamaican public sector. However, empirical evidence in other countries suggests that the mismatch between unrealistic expectations about the pace of government’s capacity to introduce complex and ambitious reforms, and the actual capacity of prevailing administrative systems to adopt those could lead to premature load bearing and implementation failure<sup>10</sup>. To avoid this outcome, prioritization is necessary. This operation, therefore, will address government capacity weaknesses in the following three priority areas: (i) human resources management (HRM); (ii) information and communication technologies management (ICTM); and (iii) control systems and accountability mechanisms.
- 2.7 *1. Weak government capacity for HRM:* GOJ central government’s wage bill, the main category of expense after debt services, accounted for over 10.7% of GDP in FY 2011/2012, one of the highest in the region. During 2000-12, it consumed on average close to one third of total public expenditures. This high level of personnel spending, driven both by a relatively high number of government employees as a percentage of the population (4.5%) as well as by pay increases granted in the 2000’s, has crowded out public investment and posed a continuous challenge to fiscal sustainability.
- 2.8 As part of the letter of intent related to the IMF program in April 2013, the GOJ announced its intention to reach a ratio of wages/GDP for the central government of no more than 9% by fiscal year 2015/2016. To do this, the GOJ has embarked on different rationalization and long-term saving initiatives, which include an attrition program, a temporary wage freeze and the implementation of shared corporate services (sharing of back-office administrative

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<sup>5</sup> <http://www.weforum.org/issues/competitiveness-0/gci2012-data-platform/>

<sup>6</sup> <http://www.doingbusiness.org/data/exploreconomies/jamaica/>

<sup>7</sup> Repeat PEFA Report – March 2013.

<sup>8</sup> Public Sector Master Rationalization Plan - May 2011.

<sup>9</sup> Repeat PEFA Assessment: Jamaica (March 2013).

<sup>10</sup> Pritchett, Woolcock, Andrews. Looking Like a State: Techniques of Persistent Failure in State Capability for Implementation. WP No. 240. CID - June 2012.

functions)<sup>11</sup>. The effectiveness of these efficiency measures, however, will depend on the government's capacity to exercise three key functions: (i) measure progress and forecast wage bill reductions; (ii) control the existing payroll, so as to make this effort sustainable in time; and (iii) redeploy current staff, maximizing existing skills in the public service. Current capacity to carry out these three functions is weak due to two main factors: weak governance and lack of appropriate management tools.

- 2.9 First, HRM governance in the Jamaican public sector has been fragmented for many years with dispersed responsibilities, and limited enforcement capacity over ministries, departments and agencies (MDAs) and, in particular, on the over 200 existing public bodies. Second, the government lacks appropriate management tools for controlling the payroll and managing its human resources. Despite the important efforts to put together a central database of all public sector employees during 2009-13 which provided the real number of employees on the payroll and some basic data (called E-Census), the manual update of that very basic information (name, title, date of birth, entry on duty date, remuneration) is not sustainable.
- 2.10 *2. Weak government capacity for ICTM:* In order to meet the challenge of delivering “better for less”, the GOJ sees significant opportunity for reducing the costs of service provision and the transaction costs for citizens and businesses in engaging with government by promoting the electronic delivery of services. The increased use of electronic services would free up staff currently engaged in these processes for redeployment. As part of its ICT policy, the GOJ seeks to leverage ICT facilitating data sharing integration across-government and online service delivery as well as access to information thereby enhancing the customer experience and increasing operational efficiency<sup>12</sup>. However, the GOJ has been slow in taking advantage of these new technologies to transform and rationalize the public sector. The Government lacks an e-government strategy and the governance framework for ICT is still evolving. In the adoption of ICT to modernize the public sector, Jamaica has clearly lagged. The United Nations e-Government Survey 2012<sup>13</sup> places Jamaica in the 108<sup>th</sup> position (down from 89 in 2010) just above Cuba and Haiti in the Caribbean Region. In the Online Service Component of this index Jamaica scored 0.31 out of 1, below the 0.46 average for the Americas, suggesting that the Jamaican public sector still predominantly operates with paper documents and files.
- 2.11 *3. Weak control systems and accountability mechanisms:* In spite of the significant progress made by the GOJ in the management of its public finances over the past six years<sup>14</sup>, some important weaknesses remain. Recent assessments reveal that weaknesses in the control systems and accountability mechanisms still hamper the management of budget resources and pose challenges to efficient service delivery<sup>15</sup>. Capacity for performance and information technology audits is incipient. Public procurement is also affected by the weak control environment resulting mainly from the lack of: (i) a consolidated and modernised procurement law; (ii) transparency in procurement processes; (iii) adequately trained procurement officers; (iv) a sanctioned institution to oversee contract award processes; and (v) well-constructed and adequate procurement planning. Lastly, parliamentary scrutiny of

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<sup>11</sup> Memorandum of Economic and Financial Policies (April 2013). Jamaica: program with the IMF.

<sup>12</sup> Government of Jamaica: Information and Communications Technology (ICT) Policy. March 2011.

<sup>13</sup> <http://unpan3.un.org/egovkb/>

<sup>14</sup> The GOJ showed progress in budget credibility, the introduction of program and results-oriented budgeting, the move towards the centralization of treasury management, as well as some measures in public procurement, and internal and external audit.

<sup>15</sup> Repeat PEFA Assessment (2012) and EU PFM Report (2013)

the budget process is limited due to capacity constraints. These deficiencies explain in part the low score (D+) received by Jamaica in the 2012 PEFA performance indicators (PI) on the effectiveness of internal controls for non-salary expenditure (PI-20), the effectiveness of internal audit (PI-21); and the legislative scrutiny of the annual budget law (PI-27).

- 2.12 **Justification.** These interventions have been prioritized because: (i) they are issues identified by the GOJ as priorities for their great potential for efficiency gains and long-term savings (ii) they support initiatives included in the EEF with the IMF<sup>16</sup>; and, (iii) they are cross-cutting issues with strong strategic coherence among themselves. The program is aligned with Jamaica's National Development Plan, Vision 2030<sup>17</sup>, and the Country Strategy of the Republic of Jamaica (2013-14)<sup>18</sup>. This operation also bolsters the objective of the Report on the Ninth General Increase in the Resources of the IDB to support IDB-classified small and vulnerable countries. The 2013 Country Programming Document (CPD) as well as the 2013 Operational Program Report (document GN-2696) for Jamaica includes the present operation. Lastly, the project is aligned with the Sector Strategy Institutions for Growth and Social Welfare (GN-2587-2), and the Strategy for the Strengthening and Use of Country Systems (GN-2538).
- 2.13 **Objective and Expected Results:** The general objective of the program is to improve the efficiency of the Jamaican public sector by strengthening government capacity in: (i) HRM; (ii) ICTM; and (iii) control systems and accountability mechanisms. The program will finance the following activities:
- 2.14 **Component 1: Human Resources Management (HRM). (US\$14,000,000).** This component will finance activities aimed at improving efficiency of personnel expenditures and strengthening the government's capacity for more efficient HRM. These will include: (i) Strengthening the capacity of the newly created Strategic Human Resources Management Division (SHRMD) within the Ministry of Finance and Planning<sup>19</sup> for: (a) strategic HR planning; (b) coordination with HR units in MDAs and public bodies; (c) quantitative and qualitative analyses of the data generated by the Human Capital Management Enterprise System (HCMES)<sup>20</sup>, and, (d) the adoption of a communication strategy of wage bill contention efforts; and (ii) Implementation of a Human Capital Management Enterprise System (HCMES) covering the entire public sector<sup>21</sup>.
- 2.15 **Component 2: Information and communication technologies management (ICTM). (US\$4,000,000).** This component will finance activities aimed at strengthening the government's capacity to lead and implement ICT policy and improve efficiency in service delivery by adopting innovative e-government solutions. These will include: (i) institutional strengthening of the new ICT governance framework; (ii) design and implementation of two emblematic e-government projects with high impact and visibility: (a) a digital solution to reduce the time and cost associated with the application and delivery of electricity permits, and; (b) a digital solution to streamline the process to register a business; and

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<sup>16</sup> Specifically, the streamlining of the business registration process, the implementation of activities included in the PFM reform action plan and the introduction of the HR system and shared corporate services.

<sup>17</sup> Specifically, the program is aligned with National Strategy 6-5: Strengthen accountability and transparency mechanism; and National Strategy 6-7: Strengthen public institutions to deliver efficient and effective public goods and services.

<sup>18</sup> See Expected Result of the Strategy "Improved efficiency and effectiveness of the Public Sector".

<sup>19</sup> SHRMD, located within the Ministry of Finance and Planning, consolidates HR functions previously assigned to different entities .

<sup>20</sup> HCMES refers to an IT solution that can scale up and automate and integrate processes like payroll, performance reviews, and employee information such as professional experience, academic background, as well as demographic features in a single database for the entire public sector.

<sup>21</sup> For FY2012/2013, there is a total a work force established of 117,125 personnel. 2013 Repeat PEFA.

(iii) introduction of Shared Services seeking to reduce the costs of providing corporate services over time<sup>22</sup>.

- 2.16 **Component 3: Control systems and accountability mechanisms (US\$6,650,000)**<sup>23</sup>. This component will finance activities to address weaknesses in control systems and accountability mechanisms<sup>24</sup>. These will include: (i) strengthening the internal and external control systems through: (a) capacity building for the Auditor General's Department staff for performance and information technology (IT) audits; (b) capacity building for the Parliament's Public Account Committee (PAC) and the Public Administration and Appropriations Committee (PAAC); (c) capacity building and training for internal auditors; (d) updating of the internal audit manual; (e) automation of the internal audit process; and (ii) strengthening the control environment for public procurement through: (a) training and certification courses for procurement staff; (b) technical assistance to amend the Procurement Handbook; and (c) improve the contractor registration system.
- 2.17 Program administration, contingencies, audit and evaluation are estimated at **US\$2 million**.
- 2.18 **Expected results:** It is expected that the operation will contribute to improving public sector efficiency through the following outcomes: (i) enhanced HRM contributing to maintaining a fiscally sustainable wage bill; (ii) efficiency gains in public sector operations and a more cost-effective delivery of public services; and (iii) enhanced control and accountability of public resources.

### III. TECHNICAL ISSUES AND SECTOR KNOWLEDGE

- 3.1 The lending instrument is an investment loan that includes a grant contribution. The Public Sector Management Division (PSMD) is the Executing Agency (EA). During the project preparation, the execution mechanism and the EA's institutional capacity will be analyzed.
- 3.2 At this stage, the project team identified the following possible risks: (i) weak inter-agency coordination; (ii) resistance to change in the public administration; (iii) further deterioration of the fiscal situation; and, (iv) limited technical capacity. Their occurrence could lead to implementation delays, jeopardize reforms sustainability, and undermine efficiency gains. These risks will be analyzed with stakeholders.

### IV. SAFEGUARDS AND FIDUCIARY SCREENING

- 4.1 There are no environmental or social risks associated with the activities outlined in this operation. In accordance with the results of the "*Safeguards Policy Filter Report*," it is proposed that the transaction be classified as category "C." [IDBDOCS-#37959868](#)

### V. RESOURCES AND TIMETABLE

- 5.1 It is expected that the POD distribution to QRR will take place in October 2013. Approval by the Board is estimated to take place in December, 2013. The resources needed for project preparation are estimated to be USD\$67,000 (from administrative funds). The staff time needed for project preparation will be 1.117 FTEs (see Annex V).

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<sup>22</sup> This cost reduction is expected to be achieved by realizing economies of scale through the aggregation, standardization and centralization of common 'back office' corporate functions such as finance, human resources, payroll, IT, and procurement.

<sup>23</sup> To be financed with resources to be received from the European Commission. See footnote 1.

<sup>24</sup> See GOJ's new PFM Reform Action Plan, prepared with the support of the IMF Regional Technical Assistance Centre CARTAC.

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## SAFEGUARD POLICY FILTER REPORT

<b>PROJECT DETAILS</b>	<b>IDB Sector</b>	REFORM / MODERNIZATION OF THE STATE-REFORM AND PUBLIC SECTOR SUPPORT
	<b>Type of Operation</b>	Investment Loan
	<b>Additional Operation Details</b>	
	<b>Investment Checklist</b>	Institutional Development Investment
	<b>Team Leader</b>	von Horoch, Jorge Luis (JVONHOROCH@iadb.org)
	<b>Project Title</b>	Public Sector Efficiency Program
	<b>Project Number</b>	JA-L1046
	<b>Safeguard Screening Assessor(s)</b>	Giron, Alan (agiron@iadb.org)
	<b>Assessment Date</b>	2013-08-12
<b>Additional Comments</b>		

<b>SAFEGUARD POLICY FILTER RESULTS</b>	<b>Type of Operation</b>	Loan Operation	
	<b>Safeguard Policy Items Identified (Yes)</b>	The Bank will make available to the public the relevant Project documents.	(B.01) Access to Information Policy– OP-102
		The operation is in compliance with environmental, specific women’s rights, gender, and indigenous laws and regulations of the country where the operation is being implemented (including national obligations established under ratified Multilateral Environmental Agreements).	(B.02)
		The operation (including associated facilities) is screened and classified according to their potential environmental impacts.	(B.03)
		The Bank will monitor the executing agency/borrower’s compliance with all safeguard requirements stipulated in the loan agreement and project operating or credit regulations.	(B.07)
		Suitable safeguard provisions for procurement of goods and services in Bank financed projects may be incorporated into project-specific loan agreements, operating regulations and bidding documents, as appropriate, to ensure environmentally responsible procurement.	(B.17)

	<b>Potential Safeguard Policy Items(?)</b>	No potential issues identified	
	<b>Recommended Action:</b>	Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s). Complete Project Classification Tool. Submit Safeguard Policy Filter Report, PP (or equivalent) and Safeguard Screening Form to ESR.	
	<b>Additional Comments:</b>		

<b>ASSESSOR DETAILS</b>	<b>Name of person who completed screening:</b>	Giron, Alan (agiron@iadb.org)
	<b>Title:</b>	
	<b>Date:</b>	2013-08-12

### SAFEGUARD SCREENING FORM

<b>PROJECT DETAILS</b>	<b>IDB Sector</b>	REFORM / MODERNIZATION OF THE STATE-REFORM AND PUBLIC SECTOR SUPPORT
	<b>Type of Operation</b>	Investment Loan
	<b>Additional Operation Details</b>	
	<b>Country</b>	JAMAICA
	<b>Project Status</b>	
	<b>Investment Checklist</b>	Institutional Development Investment
	<b>Team Leader</b>	von Horoch, Jorge Luis (JVONHOROCH@iadb.org)
	<b>Project Title</b>	Public Sector Efficiency Program
	<b>Project Number</b>	JA-L1046
	<b>Safeguard Screening Assessor(s)</b>	Giron, Alan (agiron@iadb.org)
	<b>Assessment Date</b>	2013-08-12
	<b>Additional Comments</b>	

<b>PROJECT CLASSIFICATION SUMMARY</b>	<b>Project Category:</b> C	<b>Override Rating:</b>	<b>Override Justification:</b> <b>Comments:</b>
	<b>Conditions/ Recommendations</b>	<input type="checkbox"/> No environmental assessment studies or consultations are required for Category "C" operations. <input type="checkbox"/> Some Category "C" operations may require specific safeguard or monitoring requirements (Policy Directive B.3). Where relevant, these operations will establish safeguard, or monitoring requirements to address	



		<p>environmental and other risks (social, disaster, cultural, health and safety etc.).</p> <p><input type="checkbox"/> The Project Team must send the PP (or equivalent) containing the Environmental and Social Strategy (the requirements for an ESS are described in the Environment Policy Guideline: Directive B.3) as well as the Safeguard Policy Filter and Safeguard Screening Form Reports.</p>
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<b>SUMMARY OF IMPACTS/RISKS AND POTENTIAL SOLUTIONS</b>	<b>Identified Impacts/Risks</b>	<b>Potential Solutions</b>
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<b>ASSESSOR DETAILS</b>	<b>Name of person who completed screening:</b>	Giron, Alan (agiron@iadb.org)
	<b>Title:</b>	
	<b>Date:</b>	2013-08-12

### **Environmental and Social Strategy**

- 1.1 The general objective of the program is to improve the efficiency of the Jamaican Public Sector by strengthening government capacity in: (i) Human Resource Management (HRM); (ii) Information and Communication Technologies Management (ICTM); and (iii) Control Systems and Accountability Mechanisms.
- 1.2 According to the results of the “*Safeguards Policy Filter Report*”, this operation has been classified as category “C” (see Annex II [IDBDOCS-#37959868](#)).

## ANNEX IV

## Index for completed and proposed sector work

Issues	Document Number	Description	Expected Dates	References & hyper links to Technical files
Technical options and design	1	Public Sector Master Rationalization Plan Recommendations for the Restructuring of Ministries, Departments and Agencies Public Sector Transformation Unit Cabinet Office Revised May 2011	Completed	<a href="#">IDBDOCS-#37960326-DOC 1_Report on the Recommendations for the Restructuring of Ministries Revised May 2011</a>
	2	Repeat Public Expenditure and Financial Accountability (PEFA) Report	Completed	<a href="#">IDBDOCS-#37960333-DOC 2_Repeat Public Expenditure and Financial Accountability (PEFA) Report</a>
	3	Jamaica's Memorandum of Economic and Financial Policies & Technical Memorandum of Understanding. Submitted to the IMF. 17 April 2013	Completed	<a href="#">IDBDOCS-#37960337-DOC 3_Jamaica's Memorandum of Economic and Financial Policies &amp; Technical Memorandum of Understanding</a>
	4	Public Financial Management Reform Action Plan (PFM-RAP) 2013/14-2015/16. May 01, 2013.	Completed	<a href="#">IDBDOCS-#37960340-DOC 4_Public Financial Management Reform Action Plan</a>
	5	Shared Corporate Services Implementation Strategy. April 2013	Completed	<a href="#">IDBDOCS-#37960342-DOC 5_Shared Corporate Services Implementation Strategy</a>

Issues	Document Number	Description	Expected Dates	References & hyper links to Technical files
	6	Draft Request for Proposal (RFP) Document for the procurement of a Enterprise Human Capital Management (HCM) Solution For Government Of Jamaica. March 25, 2013	Completed	<a href="#">IDBDOCS-#37960347-DOC 6 Draft Request for Proposal (RFP) Document for the procurement of a Enterprise Human Capital Management (HCM) Solution For Government Of Jamaica</a>
	7	Inventory of E-Government Projects.	Completed	<a href="#">IDBDOCS-#37960350-DOC 7 Proposed Projects for e-Government-Public Sector Transformation</a>
	8	Cost Benefit Analysis For An Economic Analysis Indicating The Benefits and Costs Of Implementing A Data Sharing Policy Across All government of Jamaica Ministries, Departments And Agencies	Completed	<a href="#">IDBDOCS-#37960352-DOC 8_Cost Benefit Analysis</a>
	9	Consultancy to (1) to assist the Government of Jamaica (GOJ) in their discussions and deliberations on the key issues to take into consideration for the acquisition and implementation of a Human Capital Management Enterprise System (HCMES) and the implementation of shared services, and; (2) to provide the bank's project team with valuable input for the design of the components dealing with the HCMES and shared services	Pending	
Analysis of project cost and economic viability	10	Document estimating the economic viability of the proposed reform program.	Pending	

<b>Issues</b>	<b>Document Number</b>	<b>Description</b>	<b>Expected Dates</b>	<b>References &amp; hyper links to Technical files</b>
Institutional analysis/personnel, procedures other aspects of implementation capacity	11	Consultancy to assess the implementation capacity of the Executing Agency and the involved government agencies and propose recommendations to enhance implementation capacity.	Pending	

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