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STUDY OF FISCAL POLICY IN JAMAICA

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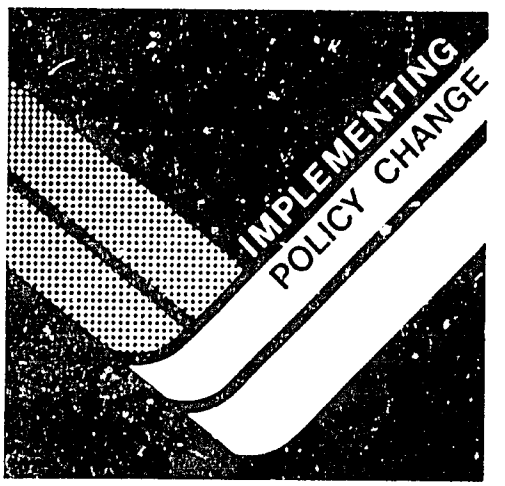

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STUDY OF FISCAL POLICY IN JAMAICA

EXECUTIVE SUMMARY

1. Objectives of the Study

- Review fiscal analysis needs,
- Review fiscal policy formulation process,
- Assess present and potential complementarity among institutions over fiscal policy,
- Assess capacity to carry out future roles, and
- Prepare action plan to strengthen the capacity of the Ministry of Finance in fiscal policy.

2. Conduct of the Study

- The study was carried out by a team of two economists, one political economist, and a management consultant between November 1991 and May 1992.

- Meetings were held with senior officials, donors and experts on fiscal policy in Jamaica and the United States; these included the Minister of Finance, the Financial Secretary, the Governor of the Bank of Jamaica, the Directors of the Planning Institute of Jamaica and STATIN, the Jamaican Ambassador to the United States and the President of the Private Sector Organization of Jamaica.

- All Deputy Financial Secretaries and their senior staff met with the consultants to discuss fiscal policy and management.

- A literature search was carried out to enable the team to draw upon the fiscal policy experience of other countries.

3. Components of Fiscal Policy

- There are four broad functional themes addressed in fiscal policy:
  - -- allocation of resources,
  - -- redistribution of income,
  - -- stabilization of the economy, and
  - -- promotion of economic growth.

- Fiscal policy **should**:
  - -- efficiently mobilize resources,
  - -- develop an effective public investment program,

-- provide essential public goods, and
-- generate incentives for private investment.

Fiscal policy **should avoid**:
-- disincentives to investment,
-- wasteful public enterprise expenditure, and
-- regulations which encourage corrupt practices.

4. Fiscal Policy and Monetary Policy

- Independent central banks lead to lower inflation.
- LDCs tend to entangle fiscal and monetary policy.
- Central bank independence cannot occur by fiat.
- The road to central bank independence comes in various stages of separation of fiscal and monetary policy.
- The BOJ has taken on quasi-fiscal roles which should be eliminated.
- Sound monetary policy depends upon improved fiscal policy.

5. Fiscal Policy and Exchange Rate Liberalization

- Before liberalization, the impact of fiscal deficits are partially masked through the government's control over the exchange rate. The economic costs are postponed and spread out over time.
- After liberalization, government loses its ability to postpone the costs of fiscal deficits, and their negative effects show up immediately as inflation, pressure on the exchange rate, and speculation.

6. Evolution of Fiscal Policy in Jamaica

The 1970s

- The public sector expanded dramatically, during which time the growth of expenditures far outstripped the growth in revenues.
- The expansionary fiscal policy exacerbated, rather than mitigated, the impact of external shocks resulting in very poor economic performance.

- Fiscal policy responsibilities became diffused among several administrative units, as the Ministry of Finance lost its coordinating role in the economy.

The 1980s

- Despite commitments to diminish the role of government in favor of the private sector, Jamaica has had great difficulty making the transition to private-sector led growth.

- Fiscal efforts have been much more successful on the revenue side than they have been on the expenditure side.

- Off-budget expenditures led to a very murky fiscal situation. Changing BOJ/GOJ accounting procedures have facilitated continued fiscal expansion.

- The BOJ emerged as the dominant economic institution while the Ministry of Finance was even further weakened.

7. IMF Targets as a Source of Fiscal Discipline

- Despite fifteen years of almost continuous participation in IMF programs, each of which included fiscal performance targets, there has been little overall improvement in fiscal policy.

- IMF fiscal performance targets have had little impact because they:
  - -- promote a "meet the target at any cost" mentality,
  - -- shorten the time-horizon for budgeting,
  - -- substitute external pressure for a domestic process,
  - -- encourage a focus on avoiding program disruption rather than on long-term improvement, and
  - -- the lesson of this is that budgetary norms are not self-implementing, but depend upon the political will and technical capacity of the government.

8. Summary of Critical Fiscal Policy Issues for Jamaica

- **The liberalization of the economy has made it even more important than ever to improve fiscal policy.** Before liberalization of the exchange rate, the costs of fiscal indiscipline could be partially masked and spread out over time. Now the cost of fiscal deficits show up immediately as inflation, pressure on the exchange rate, and incentives for corrosive speculation.

- **The IMF programs have not resulted in long term improvements in fiscal policy.** These programs have concentrated on the fulfillment of short-term macroeconomic targets, for example, the fiscal deficit and have not given due attention to the qualitative aspects of fiscal policy. The very imposition of this fiscal discipline from outside the country has given fiscal responsibility a poor image within Jamaica. Almost all the fiscal policy energy has been directed towards meeting targets that cover only a small part of the range of the fiscal policy responsibilities that are listed above.

- **The enhancement of fiscal policy analysis, formulation and monitoring capacity is essential for improved economic performance.** The achievement of fiscal policy goals requires a combination of political will and technical capacity. Experience of IMF economic stabilization programs elsewhere has shown that success is highly correlated with the government's ability to provide quality analytical input to the process. While this sometimes makes the negotiations with the IMF more complicated, it almost always leads to better program design and a greater likelihood of effective implementation.

9. Need to Improve Fiscal Policy Management at the Ministry of Finance

- The Ministry has clear overall legal responsibility for all the fiscal responsibilities listed above. It is also the supervising ministry for the other key organizations who now exercise fiscal responsibilities.

- The Ministry's Draft Corporate Plan clearly states the Ministry's fiscal policy objectives:
  - -- formulate policies which will direct the economy towards growth and balanced development,
  - -- operate a level of overall deficit consistent with a manageable debt profile,
  - -- encourage efficient planning, use of resources, financial discipline, and accountability at all levels of public administration, and
  - -- be better equipped to manage the government's financial affairs in the new environment.

- **The central problem is that the Ministry has not for some years been at the center of fiscal policy formulation and therefore has a weak institutional capacity for policy analysis, formulation, implementation and monitoring.**

- There has been no clear articulation by the Ministry on the role of fiscal policy management in a market economy.
  - -- Others have taken the lead in many instances: fiscal functions have been reallocated to other institutions over the past 20 years.
  - -- The current IMF driven policy focus is excessively short term to achieve long term economic development goals.

- -- Too little attention is being given to carefully considered qualitative goals as opposed to simple quantitative goals.

- The staff of the Ministry are dedicated and hardworking. However, although many of the senior staff see the need to improve fiscal policy formulation and management, few ever have the opportunity to discuss fiscal policy issues. Immediate, fiscal management concerns take up most of their time.

- In addition, very few staff are technically qualified to analyze fiscal policy issues.

- New, highly qualified staff will have to be recruited. These staff would focus on fiscal policy analysis.

- The quality of information is very poor:
  - -- Some important data are not collected.
  - -- More and better analytical and forecasting models required. The staff thought that revenue forecasting is particularly weak. Anticipating revenue flows is one of the Ministry's most difficult tasks.
  - -- There is no comprehensive MIS for fiscal policy.
  - -- There is only weak capacity to check the veracity of data supplied by agencies outside MOF.
  - -- Very often there are differing interpretations of the same data from different sources.

- Coordination on fiscal policy should be improved:
  - -- There is no clear view on what the institutional interactions should be in a market oriented economy.
  - -- The Ministry does not now manage those relationship strategically; there is no outreach activity from the Ministry to explain its role.
  - -- There is little contact at the technical level between the analytical staff in different public and private sector institutions concerned with economic policy; contact mainly takes place only at the most senior level.

- As a support to the implementation of fiscal policy, fiscal management needs to be improved:
  - -- Staff within the Ministry and staff of some of the associated agencies strongly expressed the view that improvements in fiscal policy formulation must be complemented with operational improvements at the Ministry.
  - -- A number of donors are ready to fund support for improvements to fiscal management.

- All of the Ministry's staff contacted by the consultants said that they would welcome the formation of a unit to focus on fiscal policy management. The Unit would make their activities more effective and raise the status of the ministry.

10. **Principal Recommendation: Establish a Fiscal Policy Management Unit in the Ministry of Finance.**

- The overall objective of the Fiscal Policy Management Unit (FPMU) would be to provide high quality advice to the Minister and the Financial Secretary so that they can implement policies that will meet the Ministry's and the Government's mission "to promote growth and investment and ensure the availability of funds for public services," to quote the Corporate Plan.

- The Unit would be fully integrated within the Ministry and report to the Financial Secretary and the Minister.

- The two principal activities of the unit would be:

  1. Establish the Ministry as the manager of fiscal policy.

  2. Provide high quality analysis and information for decision-makers.

- Two supporting activities would be:

  1. Hold workshops to discuss the role of government in a market economy and reorient staff in the Ministry:
     - -- redefine policy-related jobs,
     - -- clarify links between the Ministry's existing divisions and fiscal policy needs, and
     - -- initiate training programs.

  2. Advise the Minister and the Financial Secretary on improving coordination on economic management, particularly at the technical level:
     - -- encourage the Ministry's managers to think and act more strategically,
     - -- assertively explain and promote the Ministry's policies and procedures to other institutions, and
     - -- deepen institutional interactions among those concerned with economic policy.

11. Staffing and Operations of the Proposed Fiscal Policy Management Unit

- Fiscal Policy Management Unit (FPMU) to be fully integrated within the Ministry.

- FPMU will be staffed by contracted specialists and counterparts from the Government.

- Donor support for these key staff will be required for first 2 years:
  -- This is principally because the highly qualified professionals needed for the Unit will have to be paid higher than current civil service salaries.

- Assume that in meantime new Administrative Reform Program will establish close to market salaries for top staff throughout Government.

- Contracted Specialists:

  Team Leader/Director: substantial worldwide ministry of finance/fiscal policy experience: manage establishment of FPMU, advise Financial Secretary and Minister on policy issues.

  Fiscal Economist: set-up routine analysis of fiscal policy issues; liaise with other policy analysts inside and outside Government.

  Data Management Specialist: improve MIS and forecasting.

- A strategic management specialist would also be available on an intermittent basis to help to redefine relationships and hold strategic management workshops.

- Some donor support would be required for a transitional third year; to give access to technical assistance.

- Counterpart Ministry staff need to be assigned to the FPMU from the start. These staff should have a good understanding of the way the Ministry works.

- FPMU and other parts of MOF should have access to short term technical support, Jamaican and foreign to improve specific aspects of fiscal policy formulation and management.

- FPMU should be well equipped with computers, other office support equipment and transport.

- Funds should be provided for the staff of the FPMU and the rest of the Ministry to attend courses and seminars abroad and to undertake study tours abroad.

- Workshops would also be organized within MOF to discuss the role of the unit, reorient staff and improve coordination.

- FPMU could be fully staffed and operational by August/September of 1992.

1. INTRODUCTION

1.1 Background

The Government of Jamaica is currently undertaking a series of economic policy reforms with the objective of establishing a more market oriented economy. The Government's objectives were clearly set forth in a recent speech made by the Prime Minister.

> We intend to deal firmly and drastically with the public sector deficit which, over the next year will be reduced from the current level of two and one-half percent of gross domestic product to one half of one percent. This will mean that the whole government, including government enterprises and the Bank of Jamaica, will have to live within their means and set an example to the whole country of steady and firm management of resources. This is what good housekeeping is all about.

In recent years fiscal policy has been driven by the need to meet IMF targets and to bolster and overvalued foreign exchange rate. Little attention has been given to fiscal policy as a means to influence the distribution of income and the allocation of resources between the public and private sectors, and to promote sustainable long term economic growth.

The institution of Government charged with the management of the economic and with the formulation and implementation of fiscal policy has been progressively weakened over a number of years, partly by its inability to pay sufficiently high salaries to attract and keep suitably qualified staff and partly by the relocation of many fiscal functions to other institutions.

The Government now believes that the time has come to give due attention to all aspects of fiscal policy and to restore to the Ministry of Finance the role that it once had in the management of the economy. The recent liberalization of the exchange rate has made it all the more important to focus attention on fiscal policy since fiscal indiscipline will result in rising inflation and a continued devaluation of the currency.

Steps are already being taken to improve the administrative efficiency of the Ministry and the rest of Government through the Administrative Reform Program (ARP), which is supported by the World Bank.

What remains to be done is to strengthen the capacity of Government to analyze fiscal policy options, to formulate policies that will assist in the achievement of stabilization goals and promote sustainable long term economic growth based largely on the private sector, to implement those policies effectively, and to monitor performance and adjust the policies accordingly.

1.2 Objectives of the Study

As part of its Economic Support Fund Program, USAID is funding a study of Fiscal Policy in Jamaica that will help the Government to identify what needs to be done to improve fiscal policy capacity.

The objectives of the study are as follows:

- to review the fiscal analysis needs and the fiscal policy formulation process of the Government
- assess the roles of the Ministry of Finance (MOF), the Bank of Jamaica (BOJ), Planning Institute of Jamaica (PIOJ), and the Statistical Institute (STATIN)
- Assess the capacity of these institutions to carry out their future roles

The Ministry of Finance is the focus of the study, which will assess Ministry's capacity to carry out fiscal analysis and fiscal policy formulation, and to monitor the implementation of fiscal policy. [See Annex 3 for the full terms of reference for the study.]

1.3 Conduct of the Study

The study was carried out by a team from USAID's Implementing Policy Change Project (IPC). The objective of this worldwide project is to help Government to implement critical policy reforms by applying strategic management methods.

The team consists of Harry Garnett, an economist and the Team Leader; Trevor Hamilton, a management specialist who is the President of Jamaica's first Jamaican-owned management consulting firm; and David Gordon, a political economist. These three were the authors of this report. A literature search was carried out by Charles Stathacos, an economist.

The team spent three weeks in Jamaica meeting with a wide range of senior officials, experts, donors, and private sector leaders. Dr. Hamilton also spent considerable time with the institutions listed above, especially the Ministry of Finance, to examine their roles and activities. Many meetings were also held in Washington with prominent Jamaicans now working there, donors and experts on fiscal policy. A list of the persons contacted appears in Annex 2.

1.4 Organization of the Report

The report begins with a review of the importance of fiscal policy, giving particular attention to fiscal policy needs in a market oriented economy. Changes in fiscal policy in Jamaica over the past 30 years are then discussed, with a focus on recent developments. The Institutional framework for fiscal policy in Jamaica is outlined in the next chapter. The role of the Ministry of Finance in fiscal policy is then assessed; institutional development strategies are identified.

Recommendations to improve fiscal policy analysis, formulation, implementation and monitoring center on establishing a Fiscal Policy Unit in the Ministry are made in the final chapter. This chapter concludes with an action plan to implement the recommendations. The action plan was prepared by the team in collaboration with the Government.

2. THE IMPORTANCE OF FISCAL POLICY

International experiences with economic reform programs have demonstrated the importance of effective fiscal policy as a necessary condition for the success of policy reforms in other issue areas, especially exchange rate liberalization, trade liberalization and export promotion. Effective control over fiscal deficits will be essential for Jamaica as it embarks upon fundamental liberalization efforts centered around the freeing up of the exchange rate.

By depreciating the value of the currency, the exchange rate liberalization increases the local currency value of import taxes and debt service payments. There will be strong tendencies to apply the incremental revenues to expand expenditures in order to offset the increase in interest payments. Such fiscal expansion in the Jamaican context in which public expenditures constitute a high proportion of GDP will make it more difficult to lower the rate of inflation and stabilize the exchange rate, which in turn, will limit new investment and job creation. Thus, fiscal discipline will be one of the keys to the success of Jamaica's overall liberalization efforts.

Effective fiscal policy has a qualitative dimension in addition to a quantitative one. Qualitative fiscal improvement, especially in the allocation of public expenditures and in the allocation of resources between the private and public sectors, will also be essential in facilitating the success of the liberalization efforts. Here the emphasis will need to be on the allocative aspects so as to redirect public expenditures for improving capacity utilization, for the promotion of exports, and for providing infrastructure to support private investment. Unless these improvements are put in place in the near future, the impact of liberalization efforts are likely to be limited.

2.1 The Components of Fiscal Policy

The term "fiscal policy" refers to the use of public finance instruments to influence the working of the economy so as to maximize economic performance and public welfare over the long term. Admittedly, this is a fairly vague concept. From a policy-maker's perspective the activities of the public finance authorities can be generally classified into four broad functions:

1. the allocation of resources,
2. the redistribution of resources,
3. the stabilization of the economy, and
4. the promotion of economic growth.

The <u>allocation of resources</u> involves both the broad division between the private sector and the public sector, as well as the distribution of resources to the various public sector responsibilities, i.e. defense, education, infrastructure, et.al. The <u>redistribution of income</u> concerns the commitment by government to provide for the social welfare of the population, especially the poor, and the realization that the working of the economy, by itself, would not achieve these goals. The <u>stabilization of the economy</u> refers to the idea that government can and should try to stabilize the level of aggregate demand through its public finance activities. The <u>promotion</u>

of economic growth derives from the need, especially in developing countries, for government to facilitate maximum investment, especially by the private sector.

Fiscal policy concerns both what government should do to maximize economic performance and welfare, and what government should avoid doing, lest it unwittingly hinder economic performance. Between the 1930s and the 1960s, discussions of fiscal policy focused on the first element, focusing on issues such as the role of government in mobilizing resources, in raising investment and in creating economic and social infrastructure. In the past twenty years, discussions of fiscal policy have emphasized the limitations of an overly "activist" public role, and the risks created for the economy when the government attempts to do too much. For instance, it is now almost universally conceded that, during the 1970s, the public sector in Jamaica grew too rapidly and attempted to do far too much.

Restoring and maintaining a fiscal balance is now seen as the sine qua non of effective fiscal policy. Fiscal deficits are a major source of inflationary pressures in LDCs, as governments finance the deficits by monetary creation that is faster than the growth of demand for money. Fiscal restraint does not necessarily imply a balanced budget. Rather it involves a deficit (or surplus) that is consistent with other macroeconomic objectives, such as controlling inflation and promoting external credit worthiness. In general, over the long term, a fiscal policy that generates growth and stability will require bringing public spending in line with the average level of revenue expected over time. While fiscal deficits can be partially addressed by raising revenue, a sustainable reduction in the fiscal deficit must come largely from a reduction in the level of public spending. The budget cannot do much good for the economy unless its own structural problems are first addressed through expenditure stabilization and deficit reduction. Thus the quantitative dimension of fiscal reform logically precedes the qualitative dimension. An effective fiscal policy in developing countries such as Jamaica should include both "active" functions and "protective" functions. On the "active" side, fiscal policy should:

1. efficiently mobilize resources to be used for public expenditure;

2. develop and implement an effective public investment program designed to facilitate and supplement, rather than substitute for, private investment;

3. ensure the efficient provision of public goods, i.e. goods and services whose characteristics make their provision by the private sector unprofitable; and,

4. provide incentives for capital formation by the private sector.

On the "protective" side, an appropriate fiscal policy for Jamaica should avoid:

1. tax-created disincentives to investment;

2. wasteful expenditures, both in the investment and recurrent budgets and in the public enterprises; and,

3. regulations that provide too much discretion to civil servants and thus encourage corrupt practices.

Prudent fiscal policy is especially important to developing countries, because LDCs are prone to economic instability due to their vulnerability to external shocks. Bouts of economic instability, with their high rates of inflation and balance-of-payments problems, hinder private sector investment and lower economic growth. The unpredictable external environment is also a direct source of fiscal imbalances. Public expenditures have a "built-in" tendency to increase. During periods of external buoyancy, government expenditures increase, financed by the short-term revenue gains. This expansion creates future commitments and is, in general, extremely difficult to cut back once the revenue increase has stopped. Fiscal adjustment becomes necessary, but at the same time very hard to achieve. Fiscal targets in IMF programs have been more difficult to implement than other targets. Jamaica is one of many developing countries that has experienced this syndrome of long-term fiscal difficulty.

2.2 Fiscal Policy and Monetary Policy

In the industrialized democracies of Western Europe, North America and Asia, fiscal policy and monetary policy tend to be institutionally separated. Fiscal policy is the responsibility of Treasuries or Ministries of Finance. while monetary policy is the responsibility of the central banks. A number of studies have shown that countries that fully separate fiscal and monetary policy by granting central banks legal independence from central government control are likely to experience lower levels of inflation over time than are countries that do not. Between 1951 and 1988, Switzerland and Germany, which have the most independent central banks, had average rates of inflation of about 3 percent, while Spain, Australia, Britain and France, which have less independent central banks, had inflation rates of between 6 and 8 percent. The United States, whose central bank is partially independent, fell between the two groups in terms of average rate of inflation.

These findings are consistent with the theory that inflation and the credibility of monetary policy are linked. According to this theory, governments are tempted to "loosen" monetary policy in order to gain short-term political objectives, especially to position themselves for elections. Over time, this generates inflationary expectations among the public, creating higher prices in the absence of increases in output and/or employment. Placing monetary policy under an independent authority that the public perceives as less prone to such practices provides an institutional mechanism to mitigate the "credibility problem" and to avoid expectation-driven inflation.

But there is some evidence that effective fiscal policy is as important as nominal central bank independence as a factor influencing the ability of a country to control inflation. Japan, whose central bank lacks real independence, has had the lowest rates of inflation among industrialized countries in recent years. Of course, Japan has run a fiscal surplus during much of this time. One might conclude that if the government can bring the fiscal deficit under control, then an independent central bank is not needed.

Historically, most developing countries, including Jamaica, have not clearly separated fiscal policy from monetary policy. Monetary policy has generally accommodated government fiscal deficits, even where nominal limitations on such practices exist. (For instance, under law, the Government of Jamaica is supposed to repay the Bank of Jamaica for advances by June 30 of the following year. In practice, because of its lack of funds, it repays this debt, if at all, by issuing long-term low-interest government bonds, called Local Registered Stock.) The more power the Treasury has to demand direct financing from the central bank, the less latitude the bank has in pursuing monetary policies aimed at maintaining long-term price stability. Thus, while central banks in developing countries are often the most influential source of economic and financial analysis, they are generally less capable of operating independently than are central banks in the industrial countries. Paradoxically, in LDCs, the institutional influence of a central bank in economic policy-making has little connection with its ability to pursue an independent monetary policy. Jamaica is a perfect example of this.

Influenced by the record of countries with independent central banks, a number of advanced developing countries are seeking to give their central banks more formal independence from the government in conducting monetary policy. Chile enacted legislation to this effect in 1989; similar proposals are currently being considered in Argentina. The legal status of central banks is emerging as a major institutional issue in Eastern Europe and the countries of the former Soviet Union.

But effective central bank independence in developing countries is unlikely to be brought about by legislative or administrative fiat; nor will it come about quickly. Rather, it will be the outcome of a rather lengthy process of policy reform and financial market deepening. In its early phases, this process will depend very much upon improving fiscal policy performance. The first stage of such a process is the separation of fiscal policy from monetary policy. In practice, the only way that this can be accomplished is by bringing all governmental fiscal operations onto the central government books, generating a sustainable fiscal balance, and eliminating the ability of the central bank to undertake quasi-fiscal operations. The central bank can then undertake an independent monetary policy aimed at controlling the money supply.

The second stage of the process is full financial liberalization and the development of a set of market-based tools by the central bank that gives them real influence over both bank and non-bank financial institutions, and thus an ability to control monetary expansion. Finally, as financial markets deepen and as the central bank develops new sets of norms and operating procedures based on its role in influencing the overall monetary aggregates, more formal legal instruments of authority might be given the bank to reinforce its new behavioral orientation, and to limit the ability of the political authorities to intervene into central bank operations for their own short-term gain.

In Jamaica, the central bank has never been able to pursue a fully independent monetary policy and generally has had little influence over the money supply. In recent years, monetary policy has been the outcome of the Bank of Jamaica financing fiscal deficits and intervening in the market to prop up the value of the Jamaican dollar. Since 1985, GOJ/BOJ policies and

accounting procedures have led to a huge run-up in BOJ losses[1] as it borrows at high rates of interest through issuing CDs (at the same time squeezing private sector access to capital), while lending to the government at low interest. These quasi-fiscal operations have both failed to achieve their goal of defending the exchange rate (as witnessed by the growing gap between the official rate and the parallel market rate in the period preceding the liberalization of the exchange rate in late 1991), and they have been a major source of monetary expansion.

The second source of monetary expansion has been the Government's and BOJ's failure to influence overall credit expansion in the Jamaican financial sector. In the second half of the 1980s, total loans and advances in the financial sector grew at a very rapid rate defeating the BOJ's efforts to run a tight monetary policy in order to mop up excess liquidity. More recently, the BOJ found itself vulnerable to political pressure from the private sector. Last year, interest rates were reduced to below market levels, which both sent a confusing signal and exacerbated the monetary overhang. The combination of the need to accommodate fiscal deficits, a limited ability to influence credit expansion in the financial sector (which are linked phenomena), and vulnerability to political pressure are graphic evidence of the BOJ's lack of an independent and effective monetary policy. It will not be able to develop one until its losses are transferred to the central government accounts and until overall fiscal discipline is improved.

The broad conclusion of this brief examination of the relationship between fiscal policy and monetary policy is very simple. The costs to developing countries of fusing fiscal and monetary policies are high. Jamaica is a good example of the scope of these costs. The road to greater central bank independence, which makes sense as a long-term goal for developing countries, including Jamaica, is through the separation of fiscal and monetary policy. This, in turn, is dependent upon achieving a sustainable fiscal balance. As long as central banks are forced to continually finance government deficits, effective monetary policy will be impossible.

2.3 Fiscal Policy and Exchange Rate Liberalization

Thus far, we have addressed the overall importance of fiscal policy and have discussed the dependence of effective monetary policy on achieving a sustainable fiscal balance. In this section, we explore the special importance of fiscal policy in the transition to a more market-oriented economy, focusing on the relationship between the liberalization of the exchange rate and fiscal deficits. As will be discussed later in this report, during the 1980s, fiscal policy in Jamaica became much less transparent, with the growth of a range of off-budget expenditures. Especially important were the revamped BOJ/GOJ accounting operations and procedures that have permitted the government to treat the interest due on CDs, IMF obligations, and balance-of-payments loans as off-budget expenditures financed through the BOJ overdraft.

[1] Since the BOJ is not independent, it is not possible to distinguish between GOJ policies and BOJ actions. Governors have had substantial influence on economic policies and the Bank itself has been subjected to substantial political pressure. The so-called BOJ losses are GOJ losses.

Extensive use of this mechanism facilitated an expansionary fiscal policy that has been, in turn, the source of major monetary growth.

Before the freeing up of the exchange rate, the costs of this fiscal indiscipline were partially masked, both by the lack of transparency in the fiscal accounts and by the government's control over the rate of exchange of the Jamaican dollar. Essentially, the fixed exchange rate allowed the government to postpone and spread out over time the costs of the fiscal deficits that had been run up. However, the mechanism for postponing and spreading out these costs -- the BOJ's open-market operations to defend the value of the Jamaican dollar -- was, at the same time, exacerbating the fiscal imbalance, which served to make them self-defeating over the medium-term. In 1991, BOJ operations became substantially less effective in defending the Jamaican dollar as the parallel rate increasingly diverged from the official rate. This was a factor -- along with the government's own determination, and the encouragement of important parts of the financial and international community -- that led to the government's decision to free up the exchange rate.

One of the results of the liberalization of the exchange rate is that the government loses its ability to mask and postpone the effects of fiscal deficits. This is not necessarily a bad thing; but it does have a series of negative short-term economic effects. Once the market is determining outcomes and the accounting inconsistencies in fiscal operations can no longer mask the deficit, there is a sort of market-driven transparency generated. The negative effects of fiscal indiscipline immediately appear in the form of inflation and further downward pressure on the exchange rate. These are further exacerbated by the incentives for speculative transactions given the overall disequilibria in the market. The pathway out of this economic problem will be predominantly through improved fiscal discipline.

Fiscal policy takes on increased importance in the context of the freeing up of the exchange rate for an additional reason. The liberalization of the exchange rate -- and the subsequent depreciation of the Jamaican dollar -- is, in and of itself, inflationary. It is up to fiscal discipline to counter that inflationary impact so that the economy can be stabilized and the downward pressure on the currency can be eased. If this does not take place, the chances of generating increased investment, both domestic and foreign, diminish. Thus, for several reasons, in the absence of more effective fiscal policy, the government is highly unlikely to achieve the goals of the exchange rate liberalization.

3. THE EVOLUTION OF FISCAL POLICY IN JAMAICA

What are the origins of the current fiscal policy difficulties in Jamaica? How did the Ministry of Finance lose its ability to play a more forceful role in providing direction to the financial operations of government? Why have the targets provided in IMF programs not served to generate greater improvement in fiscal policy? These questions all must be addressed before relevant institutional solutions to Jamaica's fiscal policy problems can be formulated.

3.1 The 1970s

During the 1970s, the public sector in Jamaica expanded dramatically as the government became the driving force in the economy. Total expenditure of the non-financial public sector climbed from around 30 percent of GDP in the early 1970s to 60 percent by 1980. During that period, the growth of government expenditures far outstripped the growth of government revenues. The government's fiscal policy was openly and aggressively expansionary. In 1977, existing Bank of Jamaica regulations that had placed limits on government indebtedness were lifted.
The BOJ, for its part, accommodated itself to these changes. The resources from the Bauxite Levy -- that were originally conceived as a fund that would stabilize government revenues over the long-term -- were instead used to finance a broad expansion in the role of the state.

Between 1973 and the end of the decade, Jamaica's economic performance deteriorated significantly, with per capita income falling by one-fifth over the course of the period. Many of the nation's best educated people emigrated. While the oil price shocks and the falling demand for bauxite and alumina were perhaps the major source of the country's poor economic performance in the latter half of the 1970s, this fiscal policy orientation, in practice, reinforced and exacerbated the external shocks, rather than countered them. The confidence of the private sector was lost, the incentives to produce and earn foreign exchange were eroded, and an increasing proportion of national output was shifted from investment to consumption.

The period between the early 1970s and early 1980s also saw significant changes in the institutions responsible for macroeconomic policy and advice to government. In the 1960s, the Ministry of Finance dominated economic policy in Jamaica, both institutionally and intellectually. A remarkable group of young economists, many of whom have made their mark both in the region and in the wider international financial community, worked in the Economic Division of the Ministry, which was headed by Horace Barber, who was later to become Financial Secretary and Governor of the BOJ. But, as time wore on, the ministry's ability to attract and retain top talent was eroded due to salary limitations imposed on ministry staff as civil servants.

The government's response to this was to hive off Ministry of Finance functions onto "statutory bodies" who were able to pay higher salaries. Thus, the Bank of Jamaica strengthened its economic analysis capacity, while taking on some of the Treasury and Accountant General functions that had formerly been housed in the ministry. The National Planning Authority was

set up within the Prime Minister's Office, then later the Planning Institute was formed and, later, the Revenue Board was established. Under the PNP government the Planning Institute was placed directly in the Office of the Prime Minister and was given primary responsibility for macroeconomic planning and policy.

By the late 1970s, then, the Ministry of Finance had already been considerably weakened. The ministry had lost its overall coordination role, the budget process had become disorderly and heavily geared to responding to political demands from key politician/ministers, and even taxation matters were largely out of the ministry's control. The influence of the Financial Secretary came to increasingly depend upon personal stature as much as institutional position.

The sustained period of expansionary fiscal policy in the 1970s also changed the role of the central bank. Due to the large fiscal deficits, monetary policy had lost its independence. The role of governor evolved to that of senior economic advisor to government, rather than its traditional one of protector of the value of the currency.

3.2 The 1980s

During the 1980s and continuing to the present, the Jamaican government has been committed to diminishing the role of the public sector in order to free up resources for the private sector. Despite this general commitment, progress in transforming Jamaica to a private-sector led economy has been slow and inconsistent. In particular, every government has found it very difficult to formulate and implement an effective fiscal program designed to facilitate such a transition.

In 1981, the government concluded a three-year Extended Fund Facility (EFF) arrangement with the IMF that was designed to reduce both external imbalances and the enormous fiscal deficit. Implementation of this accord was especially weak on the fiscal side. The ratio of government expenditure to GDP continued to rise, while tax revenues remained flat. The confluence of this trend and the liberalization of imports exacerbated the current account deficit in the balance-of-payments leading to a sharp rise in external borrowing.

Beginning in late 1984, the government initiated the first serious effort to gain control over public expenditures. The public employment roster was substantially pruned and the capital budget was slashed. Real wages of public sector employees was allowed to erode. But the political commitment to sustain these actions, and to translate them into long-term procedures for restricting expenditure growth was lacking.

Government's efforts on the revenue side have been more sustained and successful. The Personal Income Tax, which consolidated rates, was introduced in 1986. Levies were also raised on cigarettes, beer and rum and a windfall profits tax was levied on the state-owned petroleum company to capture the benefits of lower oil prices. In 1991, the General Consumption Tax, a value-added tax, was introduced. While implementation of these taxes

continues to be erratic, there has been a dramatic increase in current revenues as a percentage of GDP from 31 percent in 1987 to 37 percent in 1990.

In mid-1986 a sharp conflict ensued between the government and the international financial institutions about the pace of stabilization efforts. The IFIs recommended that only through intensifying the pace and scope of the reform program could sustained growth be renewed. The government, for its part, felt that such an approach would result in unacceptably low growth rates in the short term, and felt that the limits of popular endurance of austerity had already been reached. In July, 1986, the IMF canceled its Stand-by arrangement with Jamaica.

While the conflicts between the government and the IFIs was soon resolved (by the end of the year a new program was put into place), the latter 1980s were marked by a growing lack of transparency in the fiscal accounts. The combination of continued IFI pressure to reduce fiscal deficits, the government's continued dependence upon resource flows from the IFIs, and the weak commitment of the government to sustain strict fiscal reforms led to the growth of a variety of off-budget expenditures as government sought to reconcile these competing pressures.

The most important of these off-budget expenditures have been the losses by the Bank of Jamaica, the result of the interplay between their "open-market" operations to defend the Jamaican dollar and the new accounting procedures set up in 1987 to regulate BOJ advances to the government. Beginning in 1986, the BOJ began to use "open-market" operations (the issuing of Certificates of Deposit) in place of direct controls. The purpose of these "open-market" operations was to make monetary policy more effective, and more independent from fiscal policy. Exactly the opposite has happened.

In the latter 1980s, the Ministry of Finance increasingly used its BOJ overdraft facility to finance public sector deficits. Government repaid the BOJ (very belatedly) in low-interest Local Registered Stock (LRS). The government's deficit spending created excess bank liquidity, generating inflationary pressure and downward pressure on the exchange rate. To counter these, the BOJ "mopped up" the excess liquidity through the issuance of CDs. Far from being an instrument of independent monetary policy, the "open-market" operations were increasingly fiscal in nature, a new way to accommodate the deficit. The combination of high interest rate payments from the CDs and low interest rate income from LRS has led to huge losses by the BOJ. Through this mechanism, since 1987, the fiscal deficit has been basically transferred to the BOJ. The Bank's losses, in themselves, are inflationary and require the issuance of more CDs at ever-higher interest rates. And the vicious circle continues.

In recent years, economic management has become especially vulnerable to political pressure from the private sector, as the PNP government has bent over backwards to overcome its anti-business reputation acquired when it was last in power in the 1970s. This has led to a lack of consistency in macroeconomic policy. Under pressure from manufacturers, government instructed the BOJ to lower interest rates on CDs and Treasury Bills. Rates came down by as much as 6 percent in two months. This rapid reduction in rates sent confusing signals to businesses. Some borrowed heavily in order to pay off foreign debts. Pressure was placed on

the exchange rate, inflation soared, and foreign reserves were depleted. Finally, the BOJ had to re-introduce even higher interest rates than those that had been in place earlier. The entire episode diminished the credibility of government policy and limited the investment response to the government's liberalization efforts.

The growth of various off-budget expenditures has made it very difficult to evaluate the current fiscal situation in Jamaica. While the official figures appear to indicate a dramatic reduction in the overall fiscal deficit in the past two years, including BOJ losses, this is hard to reconcile with the continuing high rates of inflation and the "liquidity overhang" that has forced the depreciation of the liberalized Jamaican dollar. Government officials themselves admit the weakness of the fiscal data, while the Prime Minister, far from patting himself or the government on the back for fiscal achievements, has bluntly admitted that very little has been accomplished in restraining spending.

Institutionally, the 1980s saw a continuation of the weakening of the Ministry of Finance and the diffusion of fiscal policy responsibilities that began in the 1970s. In 1982, Horace Barber, then the Financial Secretary, was appointed as Governor of the Bank of Jamaica. The BOJ's role in macroeconomic policy became increasingly predominant. This was reinforced by the fact that Jamaica had become increasingly involved with the IMF, whose resident representative was based in the BOJ, and who were comfortable in dealing with that institution. This pattern was also consistent with the style of the JLP government, in which the Prime Minister was also the Minister of Finance. Thus, on the governmental side, the technical leadership was directly fused with the political leadership, while the BOJ became the technical arm of policy. The Ministry of Finance increasingly became a shell of its former self, little more than a check-writing and accounting center.

The personalization of economic policy-making has been endemic in Jamaica, a not uncommon occurrence in small countries. In such a situation, it is the individuals rather than the institutions that matter. What is uncommon about Jamaica is the weakness of the Ministry of Finance. While central banks are typically powerful institutions in developing countries, ministries of finance are also usually also very influential, with much of their power derived from their role as the principal point of contact with external donors. This is not the case in Jamaica, where the PIOJ plays that role. Also, since 1980 and up until very recently, the individual holding the finance portfolio was at the same time either Prime Minister or Deputy Prime Minister. In practice this meant that his influence was not dependent upon an effectively-operating ministry and little effort was made to revive the Ministry.

Several observers believe that, over time, the costs of such an approach have risen for Jamaica. As both the international economy and the domestic market become more complicated, a heavy price is paid for the lack of institutionalized competence and coherence, especially in fiscal policy. The natural home for that competence and coherence is the Ministry of Finance. The fiscal policy weaknesses that have plagued Jamaica in recent years give support to this hypothesis.

3.3 IMF Targets as a Source of Fiscal Discipline

Jamaica has been under IMF programs almost continually for the past fifteen years. Each of these programs has included specific targets for the limitation of the fiscal deficit. In a sense, the IMF has sought to set overall fiscal policy for the country. Despite these efforts, fiscal policy (in its broad sense as described in Chapter 2 of this report) has not really improved very much, if at all. Fiscal targets have not been achieved often; more importantly, a set of norms and procedures geared to creating and sustaining an appropriate fiscal balance have not been developed. IMF officials admit that they have had very little impact in generating an overall improvement in Jamaica's fiscal policy environment. Why have the fiscal targets incorporated in IMF programs for Jamaica failed to generate a more substantial improvement in fiscal policy? What are the implications of this for government efforts to improve fiscal policy?

Our examination of fiscal policy in Jamaica leads to the conclusion that IMF targets are a weak instrument for improving fiscal policy for four interrelated reasons:

1. they promote a "meet the target at any cost" mentality;

2. they shorten the time-horizon for budgeting;

3. they substitute external pressure for a domestic process; and,

4. they encourage both the government and the IMF to focus on avoiding program disruption rather than on creating a long-term fiscal balance.

We have already discussed the growth of off-budget expenditures since the mid-1980s, and the deleterious effects that these have had on the overall fiscal performance of the economy. The government also operates an "on-again : off-again" expenditure pattern designed to meet quarterly targets. Cash payments are delayed and expenditures are postponed so that fiscal performance targets can be met. In addition to being deceptive, this practice undermines the quality of overall government performance, especially the ability to implement the public investment program.

IMF targets provide an overwhelming incentive to concentrate on only the short-term requirements of budgeting. Actions that allow the immediate target to be met are deemed appropriate, despite their long-term cost, even in budgetary terms. The emphasis on meeting short-term targets leads to a compression of expenditures across the board, resulting in a serious misallocation of resources that is counterproductive to the overall objectives of government. Non-wage operating expenses are especially targeted for cuts, limiting the ability of the public service to fulfill its mission.

The concentration on IMF quantitative fiscal targets has not resulted in a domestic process that would lead to improved fiscal policy. The performance targets create the illusion that fiscal policy is being "taken care of" by the IMF. While both the BOJ and the Ministry of Finance

pay attention to monitoring fiscal performance and very broad financial programming, no one appears to address the broader and longer-term issues involved. IMF fiscal targets also give a negative connotation to fiscal responsibility, associating it with external pressure on the country rather than a goal whose achievement is critical for the country's long-term economic performance. This association makes it more difficult to generate an effective domestic process.

Finally, the focus on performance targets leads both the IMF and the government to be more concerned with maintaining the program rather than with improving performance in a long-term and sustainable way. The government has a powerful incentive to focus on maintaining the program both because of the resources it generates and the "signal" it sends to other multi-lateral institutions, bi-lateral donors, and the private sector. The IMF has a powerful incentive to focus on maintaining the program because of its financial exposure to Jamaica and, since 1980, its broad agreement with the overall goals of government.

The lessons of this are that budgetary targets are not self-implementing and, by themselves, do not necessarily lead to improved procedures and the establishment of effective norms. Targets can be useful instruments for achieving short-term goals, but need to be supplemented by other activities to have a longer term impact. Performance targets have a built-in tendency to sacrifice the long-term interests of the country to short-term imperatives. IMF targets in Jamaica have much in common with Gramm-Rudman-Hollings budgetary targets in the United States. In both cases, their ability to influence actual fiscal performance has been more apparent than real;, and each actually creates incentives for behavior that is inconsistent with the overall goals of the programs. It is important to move beyond crude quantitative IMF targets to generate a broader process of creating a sustainable fiscal balance and effectively utilizing the budget to support the transition to a private-sector led economy. In such an effort, externally-imposed targets can be no substitute for long-term political commitment to financial responsibility and the domestic technical capacity to transform that commitment into an effective and sustainable process.

4. INSTITUTIONAL FRAMEWORK FOR FISCAL POLICY

This chapter will focus on the current and planned role of the Ministry of Finance in fulfilling the fiscal policy functions that were described in Chapter 2. The Ministry's capacity to analyze fiscal policy options will be explored. The report will draw heavily upon interviews with the Financial Secretary and senior staff in the Ministry and with outside observers, many of whom have a formal relationship with the Ministry, and upon the Ministry's own recent Corporate Plan. This chapter will also summarize the current responsibilities of the key related organizations BOJ, PIOJ, STATIN and PSOJ.

4.1 Current Responsibilities of the Ministry of Finance

The Ministry of Finance has clear overall political and legal responsibility for fiscal policy. The detailed responsibilities of the Ministry of Finance are laid out Exhibit 4.1, which is taken from the Ministry's 1991-93 Corporate Plan. The overall mission is stated to be: manage economy to promote growth and investment and ensure availability of funds for public services. This mission echos the fiscal policy functions outlined in Chapter 2. Many of the individual program responsibilities are fiscal policy responsibilities since they cover the allocation and redistribution of resources, stabilization of the economy, and the promotion of economic growth. These responsibilities include those listed in Exhibit 4.1 under "Economic Management": develop appropriate fiscal policy, macroeconomic strategies, microeconomic strategies, and liaison with international agencies. Fiscal policy activities are also listed under "Expenditure Budget": to ensure efficient management of loan repayments, long term investments, and recurrent and capital expenditure. Many of the other responsibilities listed in this figure under other headings have linkages with fiscal policy.

The management structure of the Ministry is shown in Exhibit 4.2. Many of the sections and divisions have direct or indirect fiscal management responsibilities.

The Economic Management Section has the clearest fiscal policy responsibilities. In fact the Corporate Plan identifies this as one of its two prime responsibilities. However, responsibility does not necessarily imply activity. For example, there is a Fiscal Policy and Monitoring Unit in the Economics Division, which in effect has quite a narrow function, to monitor compliance with IMF agreements. The Economics Management Section advises the Government on domestic and external resource flows to the budget and prepares public sector expenditure estimates. The section is responsible for the Ministry's input into the management of the public debt and for loan negotiations. There are strong linkages with some organizations outside the Ministry and other divisions in the Ministry. Data is provided for the Economics Division by BOJ, PIOJ, STATIN, the revenue agencies, the Budget Division of the Ministry, and, on the bauxite levy, JBI.

EXHIBIT 4.1
SPECIFIC PROGRAMME RESPONSIBILITIES OF THE MINISTRY OF FINANCE

Economic Management

To develop appropriate
- fiscal policy
- macro economic strategies
- micro economic strategies
- liaison with international agencies

Non-tax, Capital Revenue

To identify opportunities for
- cost recovery
- appropriate sales

Assets

To ensure proper management of Government's assets

Other Revenue

To develop appropriate
- taxation programmes
- loan programmes

The Mission

Manage economy to promote growth and investment and ensure availability of funds for public services

Expenditure Budget

To ensure efficient management of
- loan repayments
- long term investments
- recurrent and capital expenditure

Projected revenue for 1992/93 = J$16.6 billion

Projected expenditure for 1992/93 = J$15.7 billion

Regulation

To ensure integrity in private sector financial management practices

Accounting

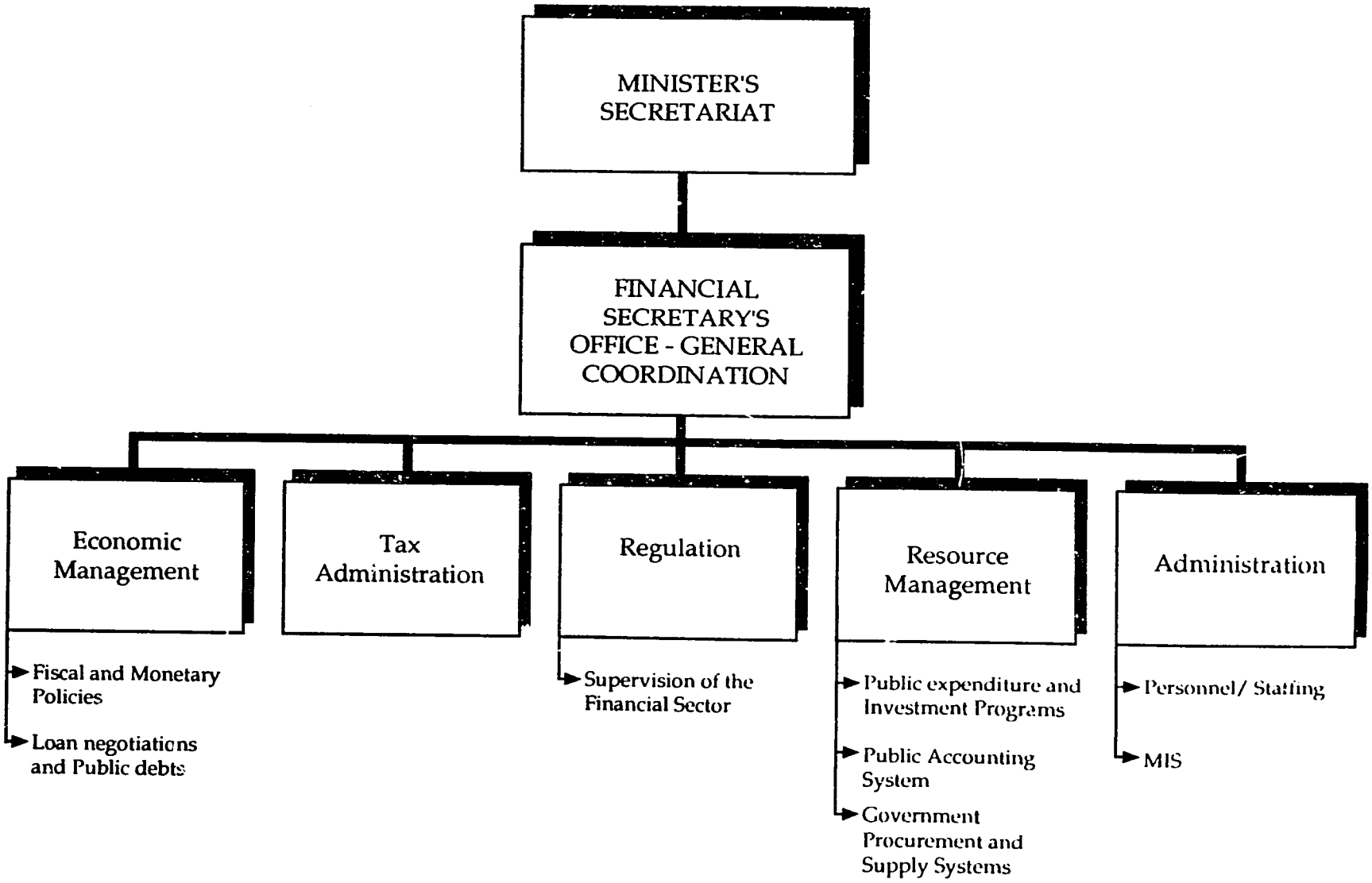
To ensure timely, accurate and reliable financial accounting by government ministries, agencies and companies

Supplies

To purchase and supply goods economically to ministriesl; and appropriately dispose of unserviceable goods

Source: Corporate Plan, Ministry of Finance, October 1991 - March 1993, Diagram 1, with lastest estimates for revenue and expenditures taken from IMF Staff Report for the 1991 Article IV Consultation, March 20, 1992; Table 5, "Summary of Operations of the Central Government."

EXHIBIT 4-2 MOF : FUNCTIONAL ORGANIZATION STRUCTURE



Other sections also have fiscal policy responsibilities. The Tax Administration Section carries out the analysis required to formulate tax policy. The Resource Management Section is responsible for expenditure allocations, public enterprise monitoring, procurement and accounting systems.

4.2 Responsibilities of Other Institutions

As well as the Ministry of Finance, there are six key public sector institutions engaged in fiscal policy and related activities in Jamaica. They are:

- The Planning Institute of Jamaica (PIOJ)
- The Bank of Jamaica (BOJ)
- The Statistical Institute of Jamaica (STATIN)
- The Project Administration and Monitoring Company (PAMCO)
- The Line Ministries of Central Government
- The Revenue Board, which used to be an independent body, but is now being integrated into the Ministry.

Table 4-1 summarizes the key functions in fiscal policy formulation, analysis, monitoring and other related activities and the extent to which each key player is involved. Organizations outside the MOF are active in macro-economic analysis, public sector investment programming, generation of economic data and revenue projections. The PIOJ and BOJ are engaged in macro-economic analysis and generation of economic data bases. The STATIN is a prime player in generating economic data base. BOJ and line ministries are active in the preparation of the public sector investment program, BOJ establishing the macro targets.

Exhibits 4-3, 4-4 and 4-5 summarize the functional organizational structures of the three key players: the Planning Institute of Jamaica, the Bank of Jamaica and the Statistical Institute.

4.3 Problems with the Current Institutional Framework

The institutional network for fiscal policy formulation, analysis and monitoring has four key shortcomings.

First, no single institution effectively coordinates fiscal policy formulation, analysis and monitoring. Although staff within the Ministry do review the advice, analysis and data prepared by BOJ, PIOJ and STATIN, few are in a position to review the data critically. The BOJ does

Table 4.1 - Jamaica Analysis of Institutional Arrangements for Fiscal Policy Formulation, Analysis and Monitoring

Key Functions and Respective Levels of Involvement of Each Institution

Institutions	Macro-economic Analysis	Generation of Economic Data Base	Generation and Management of Fiscal Data	Strategic Fiscal Programming	Budget Programming	Public Sector Investment Programming	Revenue Projections	Fiscal Policy Analysis	Debt Management	Financial Programming	Capital Budget Performance Monitoring	Fiscal Policy Coordination	Cash Management	Management of Sensitizing & Collaborative Activities with Pvt. Sector
Ministry of Finance	L	L	M	N	M	H	H	N	M	L	L	L	H	L
Planning Institute	H	M	M	L	L	H	M	L	L	L	L	L	N	L
Bank of Jamaica	H	M	M	N	L	N	L	N	H	H	N	N	N	M
Statistical Institute	L	H	M	N	N	N	M	N	N	N	N	N	N	N
PAMCO	M	N	N	N	N	N	M	N	N	N	M	N	N	N
Revenue Board	N	N	L	N	N	L	H	N	N	N	M	N	L	N
Line Ministries	N	N	N	N	N	H	L	N	N	N	N	N	M	N

LEGEND ON LEVEL OF INVOLVEMENT: H -- Significant M -- Moderate L -- Low N -- None or negligible

EXHIBIT 4-3 PIOJ : FUNCTIONAL ORGANIZATIONAL STRUCTURE

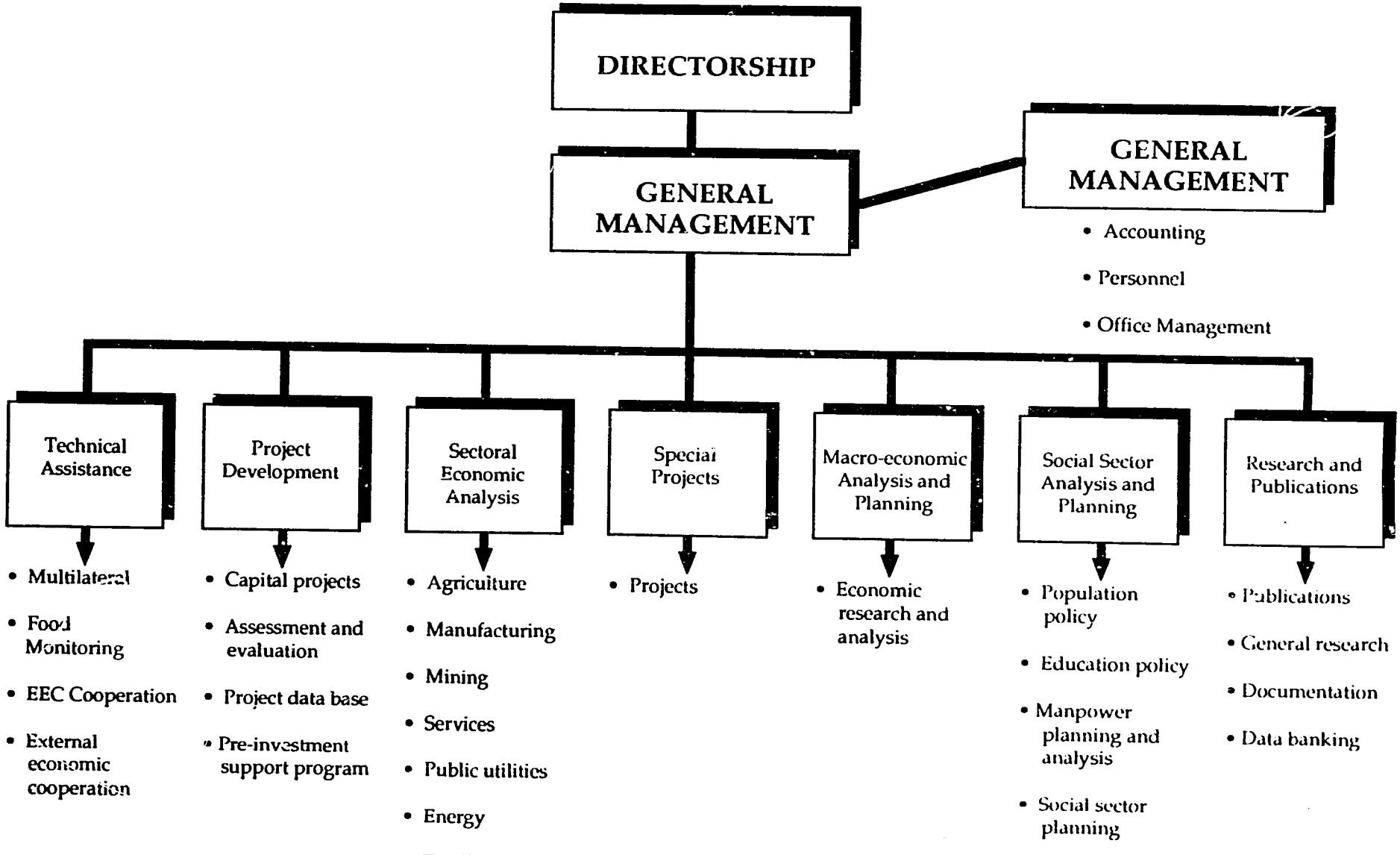


EXHIBIT 4-4 BANK OF JAMAICA : FUNCTIONAL ORGANIZATIONAL STRUCTURE

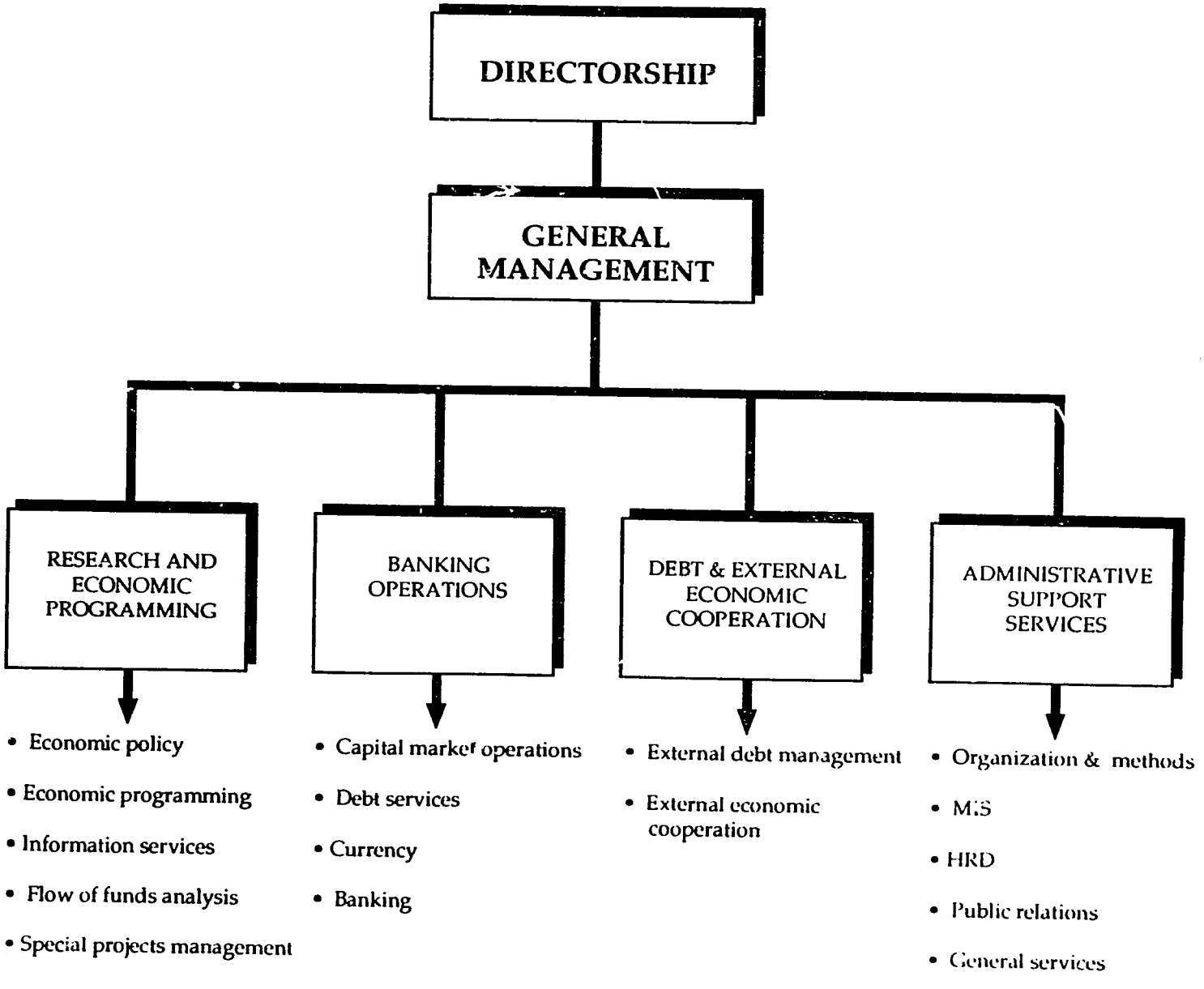
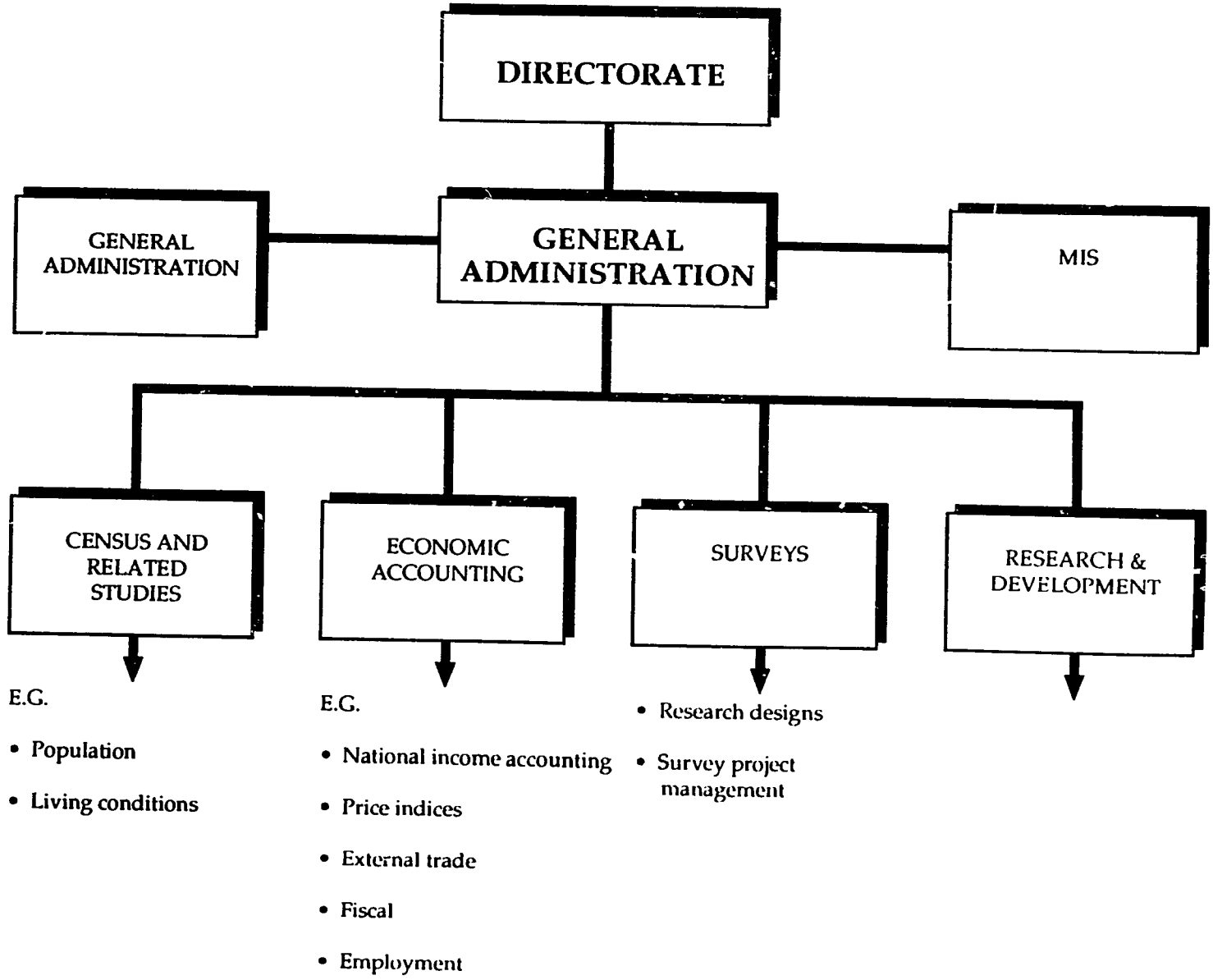


EXHIBIT 4-5 STATISTICAL INSTITUTE OF JAMAICA : FUNCTIONAL ORGANIZATIONAL STRUCTURE



routinely study the macroeconomic situation and makes recommendations on the overall level of public versus private expenditure. Coordination is carried out by a group of three: the Governor of the BOJ, the Financial Secretary, and the Director of PIOJ. However, no institution carries out a detailed analysis of fiscal policy analysis.

The level of interactions between the institutions is therefore concentrated at the Chief Executive Officer level. There is indeed frequent dialogue between the Heads of PIOJ, BOJ, STATIN and MOF. This is a good approach for strategic planning, however it offers very limited opportunity for data verifications, technical analysis and comprehensive analysis of major developments. The three do not always manage to agree in their interpretations of the data, meaning that the Ministry sometimes finds it difficult to formulate the Government's official position at negotiations with institutions such as IMF and the World Bank.

Second, the Ministry needs to assume a stronger managerial role to eliminate any unnecessary duplication of activities. PIOJ and BOJ both carry out macro economic analyses. PIOJ, BOJ, and STATIN are all compile economic data. Although there is no harm in more than one organization examining critical policy issues, time is required to resolve disagreements, especially over the interpretation of data. The Ministry lacks technical capacity to act as a manger in this process. This is not so much that the staff do not appreciate the need to manage incoming data and advice, it is mainly that they lack the time to do so.

A third problem is that there is no effective collaborative working arrangement between the public sector agencies and the private sector. The Private Sector Organization of Jamaica, which reviews policy developments and prepares policy position papers for dialogue with Government, rarely had interactive working sessions with the Planning Institute of Jamaica, The Bank of Jamaica or the Ministry of Finance. PSOJ tends to have a direct relationship with the Prime Minister's Office in promoting the private sector's position on economic policy. Consequently they sometimes promote their policy positions without understanding fully the macroeconomic implications.

Fourth, the personalization of the institutional framework has progressively weakened the Ministry of Finance in executing its legal responsibilities. The locus of power in economic management moved from the Ministry of Finance to the Bank of Jamaica many years ago when a powerful Financial Secretary became Governor. Similarly when a former Director General of the PIOJ went to BOJ, he built up BOJ's capacity to undertake macroeconomic analysis.

4.4 The Ministry's Corporate Objectives

The Minister, the Financial Secretary, and all the senior staff consulted by the team are well aware of the need to reform and strengthen the Ministry. The Ministry is now giving considerable attention to its own reform. It has prepared a Corporate Plan covering the period 1991 to 1993. The Ministry has a Corporate Planning Division, albeit with only one staff member. The Ministry also has a "Reform Cell," which is linked to the financial management

aspects of the ARP II Project. The Cell is helping to introduce program budgeting and better accounting systems in the Ministry and in the Government as a whole.

The commitment to improved fiscal policy management is clear from the following stated objectives of the Ministry's Corporate Plan:

- Formulation and introduction of fiscal policies to stimulate sustainable growth
- Operation of a fiscal deficit that is consistent with a manageable debt profile
- Maximization of revenue collection given the tax laws and the overall economic environment
- Facilitation and promotion of prudent fiscal and resource management
- Promotion of sound financial management practices
- Promotion of a climate to enhance the integrity and viability of private investments
- Improvement of its institutional capacity to manage public financial affairs in the new market economy environment
- Execution of the initiatives to improve financial management under the ARP

Under the Corporate Plan the Ministry's medium term performance goals are linked to these objectives as follows:

- Macro-economic policies stimulate private investment and expansion of production
- The budget deficit is manageable and the budget is sustainable
- Revenue inflows are sufficient to underwrite the target levels of Government provided services
- Resources for public sector investment programs are appropriately allocated and efficiently administered
- Public enterprises are financially viable
- Public sector services are provided cost-effectively

- The financial sector facilitates economic growth and maintains good business practices

- The management systems at MOF are modernized and are efficient

- The financial management systems throughout the public sector are improved

The Corporate Plan is more a statement of intent rather than of current practice. The staff of the Ministry clearly do aim to achieve many of the above objectives. It is equally clear that many of the performance goals are not attained. This means that the Ministry has to be organizationally transformed so that it will be able to meet its objectives and performance goals. To do so a number of issues will have to be addressed. These will be discussed in the next section.

4.5 Fiscal Policy Management Issues

The Corporate Plan outlines some of the problems faced by the staff in carrying out their program responsibilities. As indicated in Chapter 3, many of these problems have been building since at least the early 1980s. Many of the same issues were identified by member of staff in their discussions with the authors of this report. The following quotations are taken from the Corporate Plan and, where specified, from the staff of the Ministry.

Quality of Economic Advice

The need to improve economic advice is made under "Economic Management" in the Corporate Plan:

> The Ministry of Finance is expected to be the Government's major source of economic advice . . . . The Ministry needs to strengthen its capability to do the job . . .

The importance of research into key issues is made clear later in that section:

> During the coming financial year a number of important economic issues will need to be thoroughly researched. Foremost is the impact of the principles of liberalization and a free market economy . . . . Unless sensible strategies are pursued, the effects on foreign exchange earnings and employment rates may be less than desirable.

The problem is that although many of the staff contacted by the fiscal policy team do think about these issues, and all confirm their importance, almost none has any time to spare to carry out the necessary research. All those who are interested are very busy carrying out other essential activities of the Ministry. The Ministry is under, rather than over, staffed: there are many vacant posts in the Ministry. For example, the Budget Division recently proposed that it should have a complement of 58 staff; has an approved establishment of 49; and actually has 38 staff.

This understaffing, plus the employment of some underqualified staff, means that the best qualified staff, those that could devote some of their time to fiscal policy, have to work particularly hard to meet their current responsibilities.

The redistributive functions of fiscal policy are referred to under "Tax Administration" in the same section of the Corporate Plan:

> It is recognized that the taxation base is too narrow and so funding for development programs and the provision of social services is inadequate. The result of this narrow base is that the burden of taxation is not shared equitably by all Jamaicans.

The implication here is that the main burden of taxation does not fall on the rich. That is certainly the case with a general consumption tax. Many staff mentioned to the consultants that they did not know in detail the impact of taxes and changes in tax rates on different segments of the community and therefore could not predict the impact of taxes on growth, except at the most aggregate level. Referring to the equity issue, it may also be that the rich are expert at avoiding or even evading taxes. The Plan does mention the compliance issue.

Financial Management

Efficient financial management is required in support of effective fiscal policy. The Ministry's staff interviewed by the team all felt that their activities could be supportive of fiscal policy just as better fiscal policy would make their activities more meaningful.

The linkage is probably clearest in the resource management activities of the Ministry. The Plan identifies many resource management problems. Data problems are referred to throughout the Plan and were frequently mentioned to the team by Ministry staff:

> [There] will....be a need for adequate quantitative data when establishing the total pool of money to be made available in the budget.

The Financial Secretary identified inadequate resource management systems as possibly the most important deficiency in the Ministry. Budget cuts made to meet IMF targets tended to be crude and across the board. The FS feared that development goals suffer greatly from such a process. The Plan places considerable reliance on the introduction of program budgeting, on the basis of "valid and reliable data" of course. It states that the Government needs such a "logical tool." Program budgeting is not in fact new to the Ministry--it was introduced many years ago. However, as one senior staff member said to the team, "It needs to be upgraded."

There is also a strong desire to modernize the accounting as well as financial management systems. The Plan states: "There is a general lack of financial discipline and accountability at most levels of the public sector.... For the most part, financial regulations and instructions have been ignored leading to weak financial control systems."

Quality of Data

Possibly the most frequent data-related complaint of all made by the staff to the consultants was about the information provided by outside agencies on the likely flow of revenue. The staff from the Ministry's Reform Cell identified the quality and timeliness of data on the revenue side as the most serious problem of all. They reported that there are "no sustainable numbers." The Ministry staff have little time to check the data themselves and the outside agencies do not give them enough information on how the estimates are prepared for the Ministry later on to adjust the estimates if business conditions change. It is thought that the outside agencies themselves do not make the forecasts with much sophistication. They may need to be helped in that regard by experts from the Ministry, experts who do not as yet exist. Good estimates of revenue are essential for efficient fiscal policy formulation and fiscal management.

The Plan also refers to the need to have more up-to-date information on the performance of public enterprises: "It is....incumbent on Government to be constantly aware of these enterprises' performance." Public enterprise assets are in excess of $6 billion. Their losses certainly have a substantial impact on fiscal policy, as does the fact that their activities are somewhat outside the control of the Ministry. The drain on the budget is considerable. The Plan concludes: "All these factors justify the need to have a specialized area vested with responsibility for turning around loss making concerns and seeing that profitable entities remain viable and contribute where appropriate to the Consolidated Fund." There is a strong public enterprise group in the Ministry but it simply does not have the time or personal and other resources needed to take on all these essential responsibilities.

Data Management

Data management is in urgent need of improvement. This is probably the key to making existing staff more productive and perhaps help them to take on more fiscal policy responsibilities. The quality of data is poor and its storage and manipulation mainly manual. There are no econometric forecasting or analytical models.

Communications

Personal communications should be improved. The most frequent complaint made to the consultants was that staff are asked to carry out some tasks in a rush, sometimes meaning working long hours, but often do not know what is done with the information they provide. One senior officer said that "they meet to decide something...and you feel that you could be part of the meeting...your contribution is not fully tapped."

There is a general lack of clarity on how a person's responsibilities fit in with the overall responsibilities of the Ministry. The Plan states that the relatively independent operation of the divisions and departments contributes to this feeling of isolation. One senior officer in the Ministry told the team that the Ministry is too "compartmentalized."

Communications with outside agencies needs to be improved too. The Plan complains that contacts with the private sector are minimal. The team confirmed that this is the case. PSOJ complained that there is virtually no contact between their technical staff and the technical staff in public sector agencies. There are few contacts at the technical level even with other Government agencies such as BOJ and PIOJ. Contact tends to be limited to those at the very top. One aspect of better communication with outside agencies is the need to keep them well informed about what the Ministry does and needs from them. One senior member of the staff said that the Ministry needs to train the outside agencies about its needs.

Along the same lines, some staff felt that there were not enough "pats on the back," for a job well done. However such expressions of gratitude are not entirely lacking. Many staff did appreciate the personal interest the Secretary takes in their work.

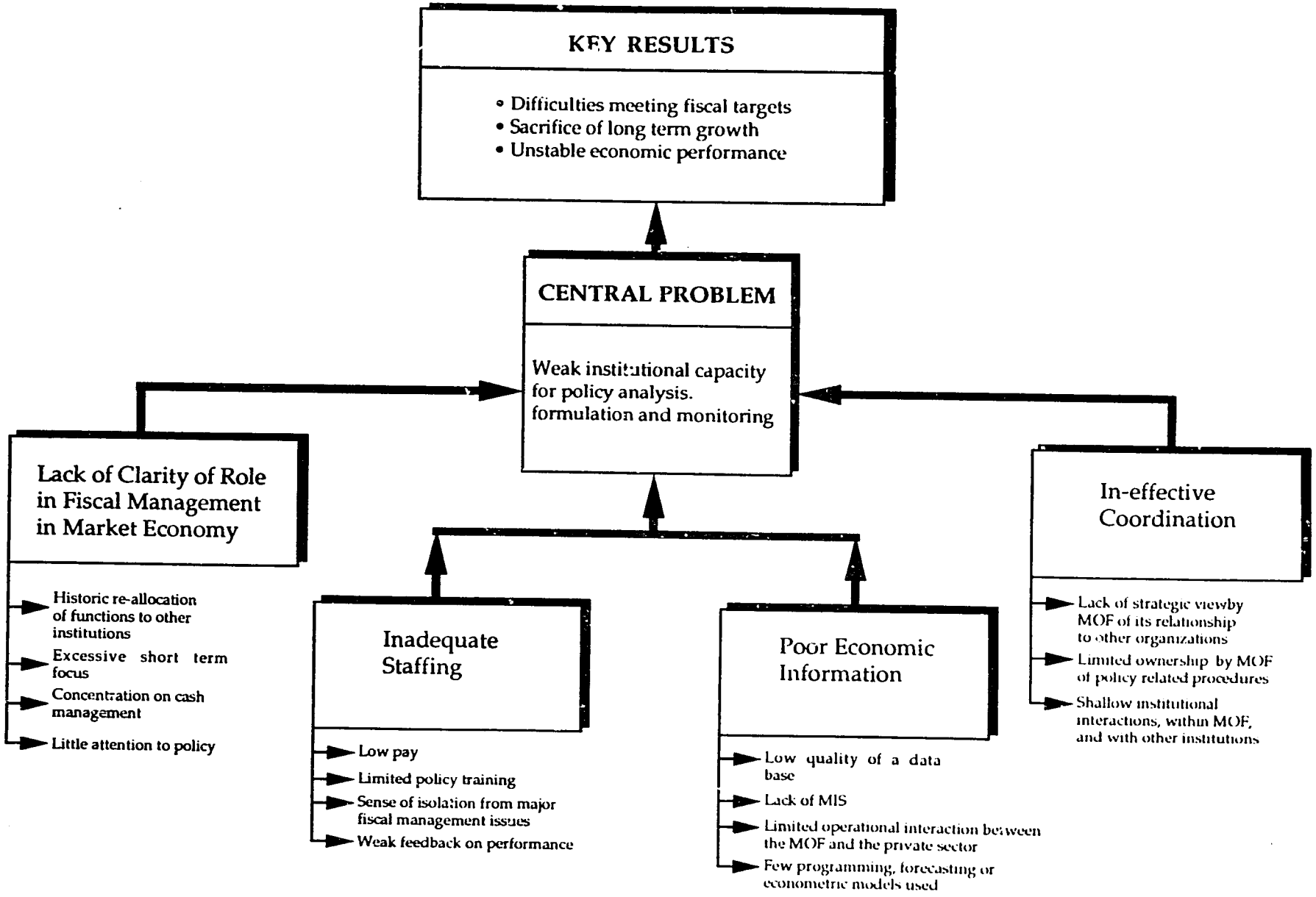
New Mission

Staff believe that more thought should be given to the impact of the reform process, the move towards a more market oriented economy, on the Ministry's mission and activities. Many staff believe that a quite radical upgrading and refocusing of the Ministry is required. One of the divisional directors said that an earlier draft of this report was "painful reading...but a reasonable assessment." Another director agreed that the effectiveness of the Ministry had been reduced over time and that "it needs to recover its prime position." There is a "firefighting policy... driven by IMF targets." No one looks at the "global situation," this director said, "There is tunnel vision." The Ministry was referred to as a "date driven organization," not one that analyses policy options and implements the chosen policies. Another senior member of the staff said that there is now "a new dimension....work is more complex...much sharper skills are required."

4.6 Summary

The critical fiscal policy management problems are illustrated in Exhibit 4-6. There is a lack of clarity on the role of fiscal management in a market economy, in fact, on the role of Government generally. There are not enough staff who (a) are qualified and (b) have the time to analyze fiscal policy issues and options. This weakness can only be overcome with recruitment, training, better pay for the highly qualified staff needed, and more attention to the motivation of staff. The quality of the information on which policy decisions are taken is very poor: the data are insufficient, unreliable, late, uncertain, and unclear. Virtually no analytical models are employed by the Ministry. The manual nature of the data management system makes data retrieval and manipulation very time-consuming. Coordination is not as effective as it should be, inside and outside the Ministry. There is little coordination at the technical level among the organization that have fiscal policy responsibilities. The Ministry has not yet established itself and the pre-eminent manager of the economy. The consequences of the Ministry's lack of capacity for policy analysis, formulation and monitoring is that the

EXHIBIT 4-6 : FISCAL MANAGEMENT PROBLEMS AT MOF



Government is not able to promote long term economic growth as effectively as it might, that there continue to be problems in managing revenue and expenditure flows, and that there is much more instability in the economy than is necessary.

To make the Ministry once again as the key economic management institution by reestablishing its fiscal policy capacity, will require additional human and other resources. Some additional capacity can be acquired from the existing resource base of the Ministry by improving data management systems and by training key staff. Even this will require some external inputs, such as funds for training and better data management equipment. However staff will have to be added to the Ministry partly because the existing staff who are qualified to take on fiscal policy responsibilities full-time, in terms of their experience and training (and there are few in that category), already have important positions in the Ministry. Even if these valuable staff were reassigned to fiscal policy, others would have to hired or acquired from elsewhere in Government to take their places.

The thrust of the argument made in this chapter is as follows:

1. There is widespread recognition that fiscal policy needs to be given much more attention.

2. Fiscal policy is clearly the responsibility of the Ministry of Finance.

3. Discussions with staff and a review of the Ministry's Corporate Plan have confirmed that the Ministry believes that it should be active in fiscal policy. The intent to be active is clear.

4. The Ministry has some staff who do or could think about fiscal policy issues, but they are so busy doing other essential financial management tasks that they cannot give due attention to fiscal policy.

5. There is also the problem that very few of the staff in the Ministry are technically qualified to analyze critical fiscal policy issues. New, highly qualified staff will have to be recruited.

6. The quality of data, inadequate data, management systems, and an almost total absence of analytical models severely handicap the staff of the Ministry. The existing and new staff need to be much better supported in these respects.

7. There is widespread support from within the Ministry and from related outside agencies to establish within the Ministry a group of highly qualified staff that would advise the Financial Secretary and the Minister on fiscal policy.

8. The focus on supporting the development of fiscal policy analysis, formulation, implementation and monitoring capacity is necessary but not sufficient for the Ministry to fulfill its central mission, to manage the economy to promote growth and investment

and ensure the availability of funds for public services. Complementary support to improve the efficiency of the Ministry's other activities is required. Such support is already planned with help from a number of donors.

The Fiscal Policy Team feels strongly that institutional reform is more effective if it is built around the reform of key policies. That is the principal finding of The World Bank's research into the institutional development of public agencies (Lamb, 1987). It is the very act of reforming policies and trying to implement them that defines the mission of the organization. The Ministry of Finance is having difficulty in beginning to meet the policy oriented goals laid out in its own Corporate Plan because its does not have a group of people who are able to give all their attention to policy issues, in particular "the impact of the principles of liberalization and a free market economy," to quote from the Corporate Plan. As long as no one gives due attention to fiscal policy, the Ministry will remain essentially an administrative organization, and there will be weaker economic policy leadership than is needed.

5. RECOMMENDATIONS TO IMPROVE FISCAL POLICY ANALYSIS, FORMULATION, IMPLEMENTATION AND MONITORING

This chapter will discuss what needs to be done to improve fiscal policy analysis, formulation, and implementation in the Ministry of Finance. The team believes that the establishment of the Fiscal Policy Management Unit is central to the transformation that is required at the MOF. The objectives and characteristics, staffing and operations of the Unit will be described in this chapter. Some of the issues that will have to be resolved in the design and implementation of the Unit will also be suggested and an initial agenda for the Unit will be outlined. The report will conclude with an Action Plan to implement the recommendations made in this report.

5.1 Establishing a Fiscal Policy Management Unit

It is recommended that the Ministry establish a Fiscal Policy Management Unit (FPMU). The Unit would be fully integrated within the Ministry and would report to the Financial Secretary and the Minister.

The overall objective of the Unit will be to provide high quality advice to the Minister and Financial Secretary so that they, with support from the staff of the Ministry and other staff in Government, can implement policies that will meet the Ministry's and the Government's mission "to promote growth and investment and ensure the availability of funds for public services" (Corporate Plan, Diagram 1). The Unit will help the Minister and the Government to carry out the fiscal policy functions outlined in Chapter 2: allocate resources with greater economic efficiency, take systematic account of redistributive needs, help to stabilize the economy, and facilitate economic growth.

To achieve these objectives, the Unit will undertake two principal activities: establish the Ministry of Finance as the leader in fiscal policy and economic management; and analyse fiscal policy issues.

Establish the Ministry of Finance as the manager of fiscal policy. The corporate plan identifies economic management as a major program area. Although responsibility will continue to be shared with BOJ and PIOJ, the Ministry is determined to reestablish its leadership in economic management, in line with its legal responsibilities to the Cabinet and Parliament. The Ministry not only needs to develop a clear understanding of its new role but it also needs to communicate that understanding to the rest of Government, the parastatals, the private sector and the general public. The FPMU would also advise the Minister and the Financial Secretary on the relationships the Ministry should have with BOJ, PIOJ, STATIN and the private sector and their respective responsibilities.

Provide high quality analysis and information for decision-makers. Almost no fiscal policy analysis is currently being carried out in the Ministry and there is almost universal agreement that the quality of information on which to base any such analysis and decision-making is very poor. The FPMU would, as stated in the Corporate Plan, thoroughly research a number of

important economic issues. "Foremost is the impact of the principles of liberalization and a free market economy....research is needed to identify the policies and programs to enhance [Jamaica's] position within the international economy." (Corporate Plan, Ministry of Finance, 1991-92, page 8) Effective relationships will have to be established between FPMU and other Ministry of Finance staff, and between the Ministry and other groups of economic and management analysts in BOJ, PIOJ, PSOJ, STATIN, the University, and elsewhere.

Two sets of supporting activities will be required. As discussed below, both will help to establish effective linkages between the FPMU and other parts of the Ministry and with outside organizations.

The FPMU will advise the Minister and the Financial Secretary on the need to **reorient the staff** of the Ministry to be effective in a more market oriented economy, and in a Ministry that will be exercising stronger economic leadership within Government. This will involve holding workshops with the staff of the Ministry. Substantial investment in training and retraining inside and outside the Unit will be required.

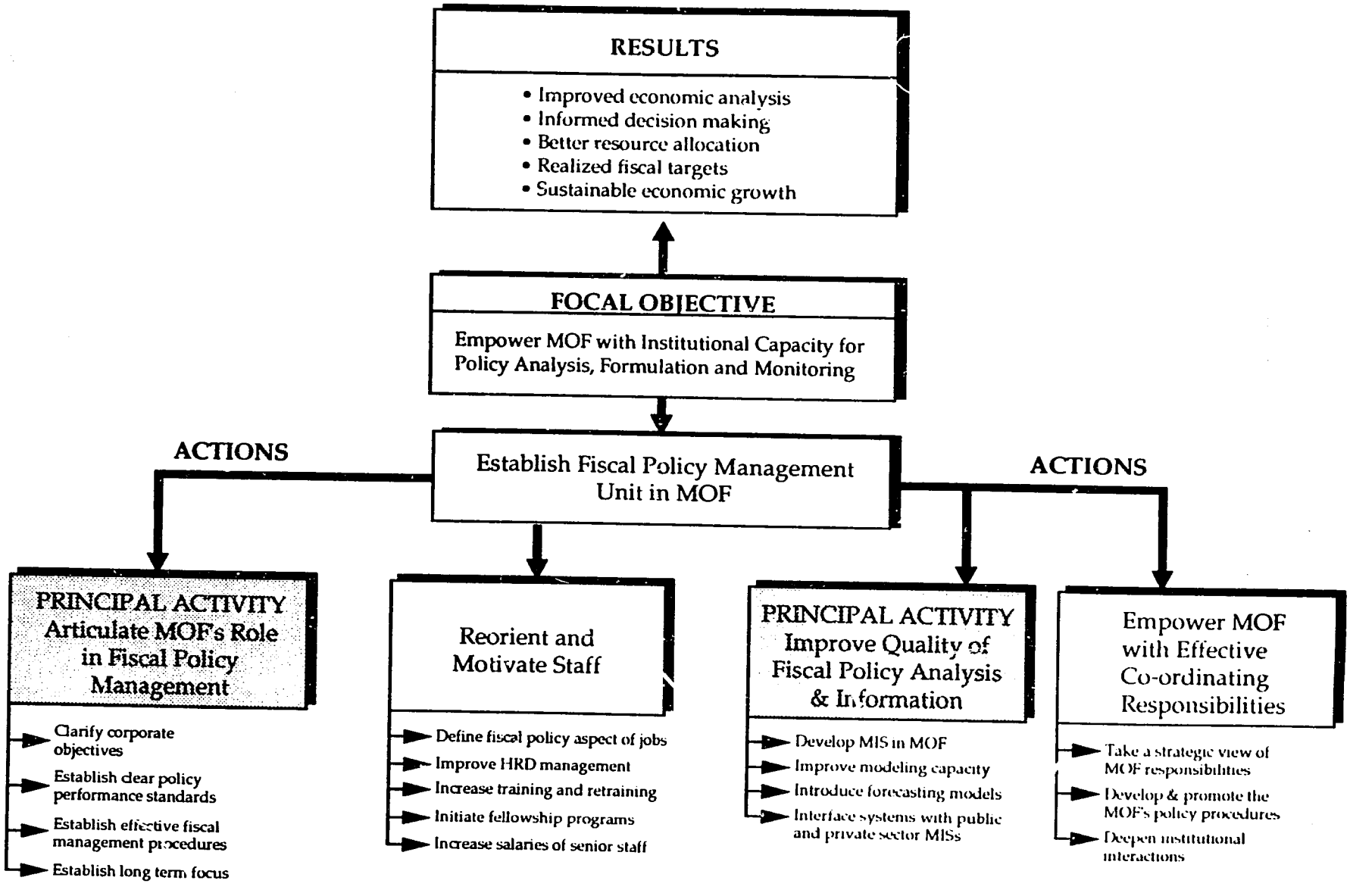
The FPMU will advise the Minister and the Financial Secretary on the Ministry's role in **coordinating** economic management in general and fiscal policy in particular. There will have to be improved coordination within the Ministry. At the moment the informal relationships between managers and staff and among managers appear to work well, but a greater degree of formality may be required, and certainly more attention to flows of information will be essential, in the light of the Ministry's reassertion of its full responsibilities. And, as stated above, coordination with outside organizations will need to be improved. PIOJ, STATIN, PSOJ and BOJ have all said that they want the Ministry to perform its functions more effectively. The flows of information have to be improved in both directions between the Ministry and these organizations. There also needs to be greater clarity on where respective economic and fiscal management responsibilities lie.

The principal and supporting activities of the Unit are illustrated in Exhibit 5.1.

5.2 Staffing the FPMU

The FPMU will need to be staffed by highly qualified professionals. These staff will have a blend of strong technical skills and experience of fiscal policy in government. To meet the second of these staffing objectives, staff from the Ministry itself and/or from related organizations will have to be assigned to the Unit. These staff will help the Unit to "find its way" in the early years and to have an early impact on fiscal and economic management within the Ministry and in the Government as a whole. Although there are staff within the Ministry who are very interested in fiscal policy and who do explore fiscal policy issues, the consensus is that it will be necessary to bring into the Unit from outside professionals who have advanced

EXHIBIT 5-1 : FUTURE FISCAL POLICY MANAGEMENT OBJECTIVES AT MOF



academic qualifications in fiscal economics and macroeconomics and many years of experience of fiscal policy. Access to specialists in strategic management and data management will also be required.

The most critical skills to be represented within the Unit are macroeconomics and fiscal policy. In addition, for the policy analyst to be effective, support will be required from a data management specialist. The poor quality of data has most often been mentioned as the greatest weakness of all in the Ministry. The Unit will also need help to link its activities to the demands of other directorates within the Ministry and outside agencies such as BOJ, PIOJ, PSOJ and the line ministries. It should therefore, have access to strategic management advice.

The key staff of the FPMU will be as follows:

> Team Leader/Director. He or she would have substantial world wide experience of the activities of ministries of finance, fiscal and monetary policy, and macroeconomics.
>
> Fiscal Economist. He or she would be a well qualified macroeconomist (Masters or PhD) with a good grounding in fiscal theory and practice and about 5 years' experience.
>
> Management Specialist. He or she should have an MBA and at least 5 years experience in the public or private sector, especially with strategic management.
>
> Statistical/Data Management Specialist. He or she should have a higher degree in economics or statistics, with a good grounding in statistics and forecasting and 5 years' experience.

The Team Leader, Fiscal Economist and Data Management Specialist should be full-time. The Management Specialist could be part-time. Further detail on the team's responsibilities is given in 5.3 below.

The staff of the Fiscal Policy Management Unit should be fully integrated into the Ministry. However, the unit key staff will have to be hired on a contract basis initially since public service salaries are too low. Eventually that limitation will be overcome as the current policy to increase the salaries of top civil servants to be competitive with private sector salaries is implemented (this was discussed with the Permanent Secretary at the Ministry of Public Service).

It is proposed that there be donor support for the key staff for two years plus a lower level of support for a transitional third year. The contracted staff would fully become part of the civil service after two years. Donor funding would be available to give the Unit access to short-term technical support for a third, transitional year.

All contracted staff could be Jamaican. However, one very senior Jamaican advisor to the team thought it would be difficult to find four suitably qualified Jamaicans who would be prepared to accept these positions; he thought that one or two might have to be foreigners. Whether or

not the Team Leader is Jamaican, he or she must have had substantial worldwide fiscal policy experience.

Counterpart staff should be assigned to the Unit by the Ministry. If the contracted staff do not chose to remain with the Unit after 2 years, the counterpart staff should fill their positions. This assumes that there will be considerable on-the-job training.

The FPMU will have access to Jamaican and foreign short term technical assistance. For example, experts may be required to set up a monitoring and evaluation system; to design, test and implement appropriate econometric models; to advise on an effective relationship between the Ministry and the BOJ; to guide the management of the Ministry in propagating their missions internally and externally; to facilitate workshops to discuss roles, relationships, procedures, and various aspects of fiscal policy; and so on.

The FPMU should be well equipped with computers, office support equipment, and transport. The Ministry is now quite well equipped with computers, printers and copying machines.

Funds will be required for staff in the Ministry as a whole to attend courses and seminars on fiscal policy and management in Jamaica and abroad. It is assumed that most of these funds would be given to staff outside the FPMU since the staff of the FPMU should already be well trained.

5.3 Operations of the Fiscal Policy Management Unit

The Fiscal Policy Management Unit will act as a technical unit in direct support of the Financial Secretary and the Minister of Finance. The team leader/director will directly supervise the work of all members of the FPMU. He or she, in turn, will report directly to the Financial Secretary, who will provide overall guidance to the unit. The team leader/director will be responsible for channelling the results, findings, and recommendations of the unit to the Financial Secretary and the Minister of Finance. The team leader/director will also act as a senior advisor to the Financial Secretary and the Minister on the entire range of fiscal policy issues, including policy analysis and management.

The team leader/director will work with the Financial Secretary and other ministry officers in setting up the FPMU and in developing an overall workplan for the unit. In subsequent years, the team leader/director will develop an annual workplan which must be approved by the Financial Secretary. The team leader will work with the Financial Secretary to develop a strategy for ensuring that the unit is fully integrated into the ministry, with staff as members of the public service, by the end of the two-year period of donor support and a third transitional year.

The team leader/director and the fiscal economist will develop a research and analytical agenda for the FPMU. The fiscal economist will be responsible for undertaking a series of analyses related to a broad range of fiscal policy and financial management issues (some such issues are

suggested in 5.5 below). The fiscal economist will provide technical leadership for the overall program of economic analysis undertaken by the Ministry of Finance, and will be particularly concerned with establishing qualitative and quantitative fiscal policy targets.

The strategic management specialist will be responsible for defining the relationships between the FPMU and other parts of the Ministry of Finance and related agencies. He or she will hold a series of strategic management workshops.

The data management specialist will be responsible for the development of a coordinated economic data base that will facilitate reconciliation of economic analyses among various government agencies (MOF, BOJ, PIOJ). The data management specialist will also develop a management information system (MIS) that will facilitate information flows within the ministry and will enable the ministry leadership to more effectively supervise manage the day-to-day operations of the ministry.

The FPMU will undertake their work in cooperation with other units in the Ministry. In particular, the team leader/director will work with the Economic Management Unit, who are responsible for fiscal and monetary policy, public debt management and loan negotiations. The fiscal economist will work with the Tax Administration Unit on revenue issues and with the Resource Management Unit on expenditure and financial management issues. The management specialist will work with the Administration Unit who are responsible for personnel, while the data management specialist will also work with the Administration Unit on the management information system and with the Economic Management Unit on developing a data base to support improved fiscal policy and management.

The FPMU will also work with staff in other government agencies, especially the Bank of Jamaica, the Planning Institute of Jamaica, and STATIN. In working with these other units, the FPMU will strive to involve, to as great an extent as possible, permanent Ministry of Finance staff and not only members of the donor-supported core technical team.

A detailed terms of reference for the FPMU, as well as individual terms of reference for the four specific positions in the core technical team, are included as appendices to the report.

5.4 Conditions for Success

It is important that there be strong political commitment to strengthening the Ministry of Finance role as the manager of the economy in general, and of fiscal policy in particular. Only then will the FPMU be as effective as it should be. If the FPMU has to struggle for recognition, it will have difficulty in attracting good staff and will dissipate much of its energy on the gaining recognition rather than advising effectively on long and short term issues. In reality the FPMU is likely to encounter few problems in gaining the support of a Minister who is determined to improve his Ministry's capacity to lead the economic management team. The Unit, and the Minister will however have to win the support of the other organizations discussed in Chapter 4 and of the Cabinet and Parliament. The FPMU will win recognition by carrying out analysis

of the highest quality and by giving advice that proves to be effective in meeting economic and fiscal policy goals.

The team believes that the FPMU will be most successful if it becomes fully integrated into the Ministry of Finance. A number of other "locational" models were considered by the team. The FPMU could be entirely external to the Government, along the lines of the Korea Development Institute (KDI). This would make its advice somewhat more objective, removing it from significant political "interference" Such a location would stress its advisory rather than executive role. Attaching FPMU to PIOJ, which is a partially independent statutory body, might have the same effect. However, it seemed important to locate the unit where help is most needed. If there were already strong policy capacity within the Ministry then, paradoxically perhaps, it might be worthwhile setting up an independent Jamaican KDI. But as things stand, if the Unit were external, there would be none in the Ministry with the skills and experience needed to respond to its advice.

Another option that was considered is to make the FPMU an advisor to the political rather than administrative leadership: to the Minister or even the Prime Minister rather than the Financial Secretary. This might give the FPMU more influence. However, many prominent Jamaican observers of fiscal policy over the past 30 years urged that fiscal, and in fact all economic policy, become more institutionalized and less personalized. It is sufficiently important to have strong fiscal policy formulation and implementation in the Ministry of Finance to eliminate as many temptations as possible to eliminate or relocate the Unit in the future. As one of these Jamaican observers said, " The Jamaican economy was once so simple and internally focussed that it could be comprehended and managed by strong individuals, and where that management took place did not matter. But it is now so complex and externally oriented that management has to be institutionalized and depersonalized." The Minister himself is very keen fully to institutionalize fiscal policy within his Ministry.

The salary issue is an important one and the main reason why the Unit has to be contracted for outside the structure of the Ministry initially. Under the Administrative Reform Program, salaries were brought to within 85 per cent of "market" salaries in 1990, but then the gain was eroded away by rapid inflation. During the 6 months following the salary increase, good quality staff were attracted to the upper levels of the public service. However, civil service salaries are well below even parastatal levels. As the overall recurrent expenditure and salary bill is reduced, resources will become available to pay the top staff higher salaries. This process will begin to take place over the current budget cycle.

There is a precedent for bringing young high quality staff into high levels of the civil service which may be possible to use to recruit staff for the Ministry and the FPMU. Under the Administrative Cadet Program, young graduates with Masters degrees were given one year's training and then entered the civil service at a high level. Staff could be recruited for FPMU on a contract basis and after three years fully become members of the civil service at a high grade. Their entry at a high level and with the salary at that level raised by the ARP process will increase the chances that these highly qualified staff will remain with the Ministry.

As has been stated earlier, success in fiscal policy requires complementary improvements elsewhere in the Ministry. Some observers contacted by the team even believe that these complementary measures are more important than improving fiscal policy capacity, as discussed below.

Some representatives of agencies outside the Ministry which have some fiscal policy responsibilities, while welcoming actions to strengthen of the capacity of the Ministry of Finance, feel that the first priority is to improve the Ministry's capacity to do what is does now, the management of the flows of revenue and expenditure. A new fiscal policy unit would in any case be ineffective if the Ministry cannot manage revenue and expenditure flows better than it does now. Two control problems were most frequently mentioned: first, the expenditure requirements are reasonably predictable and steady over time but revenue flows not only fluctuate but do so somewhat unpredictably; second, foreign flows typically arrive later than expected, against a fairly rigid expenditure pattern. It was alleged by one observer that the Government "is not really on top of the budget." These commentators firmly believe that, as a first priority, the Ministry should be given support to increase the technical capacity of its staff to manage the Government's finances more effectively. That would require training, technical assistance and better data management systems.

The Ministry itself would welcome such support, and some staff inside the Ministry also believe that to improve existing activities is the first priority.

However, our understanding is that there will be separate arrangements to upgrade the cash management and financial administration activities of the Ministry, with support from the World Bank, IDB and possibly UNDP. None of these donors, all of whom were interviewed by the consultants, some on more than one occasion, indicated that fiscal policy was to be the focus of their support. However each one felt very strongly that the Ministry had to be more assertive in the management of the economy and that its fiscal policy formulation and management capacity should be upgraded.

It is therefore assumed that support will be forthcoming from donors to improve the management of the Ministry as a whole. The Inter-American Development Bank is planning to provide technical assistance to the Ministry covering customs administration, GCT, tariff reform, monetary and fiscal policy administration, and computers systems. The Administrative Reform Program is now in its second phase, under a different name. ARP II is currently focusing on expenditure management, according to the staff of the Ministry's Reform Cell.

There is another argument to support this report's recommended focus on fiscal policy capacity. The current activities of the Ministry will be more effective if fiscal policy is given more attention and is, in fact, a focal point in the Ministry. One the divisional directors in the Ministry said to the team that to set up a Fiscal Policy Management Unit will "compel interfacing" and "overcome the compartmentalization problem." The team was told again and again that the introduction of such a unit would give all staff a much stronger sense of purpose, a clearer mission. No one at all opposed the formation of the unit, even though some staff

suspected that it would have a somewhat special status, with highly paid staff. Each felt that the Unit could enhance his or her job, and certainly make the organization for which they work a much more significant and important one, as it once was (some have worked in the Ministry long enough to remember).

5.5 Immediate Agenda for the FPMU

The FPMU will have no difficulty in drawing up an immediate agenda. Some of the issues needing immediate attention include the following:

- How large should the government deficit be? The deficit is now recorded at 2.5 per cent and the current objective is to reduce it to 0.5 per cent. This would make Jamaica's deficit lower than almost every other country in the world. And yet inflation is much higher than in many countries with much higher deficits. This may be because such a high proportion of the deficit is the purely inflationary Bank of Jamaica losses (incurred in order to fund past deficits) rather than less inflationary public expenditure that is directly or indirectly backed by increases in productive capacity. Could Jamaica operate with a higher deficit if the losses were eliminated? Could a higher deficit be tolerated if the composition of public expenditure were changed so that programs attracting foreign exchange were favored?

- Should the deficit be closed, if it has to be, by raising taxes or reducing expenditure, or by eliminating the public enterprise losses and accelerating the privatization program? It is important to know the impact of existing taxes, and varying the rates of those taxes, on the incentives of business people to invest and individuals to work hard in order to judge the final impact of taxes on economic growth.

- How should the flow of information within the Ministry and between the Ministry and other organizations be rationalized to support improved policy formulation, implementation and monitoring?

- How can the Ministry have more impact on recurrent and capital budget priorities? How should the Ministry establish the priorities or advise the Cabinet in the priorities? At the moment most of the work on the development budget is carried out by PIOJ; the Ministry has little capacity to enter into meaningful discussions on priorities with PIOJ or the sector ministries. How should the development and recurrent budgets be linked?

- How can the Ministry make mid-year adjustments to contain expenditure without sacrificing long term development? At the moment cuts are made to meet IMF target on a very crude basis, often by reducing GOJ counterpart expenditure to

foreign loans, which in turn reduces the flow of foreign currency and weakens long term development.

-- What should be done about the Bank of Jamaica losses? How should the Government take them over? What should the Government do about eliminating those losses in real terms? How quickly can it be done without sacrificing to many essential public expenditure programs?

-- What will be the fiscal implications of making the BOJ more independent? What impact will this have on the operations of the Ministry of Finance?

5.6 Action Plan

An Action Plan was prepared following consultation with the Minister, the Financial Secretary and senior staff of the Ministry. The main components are outlined in Table 5.1.

The principal objective should be to have the Unit in place and active by September/October. It might be wise to have interim support in place earlier, mainly to begin to work on some of the key issues and help the Ministry to make arrangements for the introduction of the Unit. This early action would respond to the Minister's and the Financial Secretary's request for immediate support.

A number of steps to be taken to establish an effective Fiscal Policy Management Unit are already underway:

1. Draft the Terms of Reference for the FPMU. A draft is enclosed in Annex 4.

2. Draft job descriptions for the key staff. They are enclosed in Annex 5.

3. Identify counterpart staff. Some have already been identified by the Financial Secretary.

4. Identify the four key specialists. Some candidates have already been identified.

5. Access funding to support the specialists. Potential bilateral and multilateral sources have been identified.

Activity 5 in Table 5.1 is "determine reporting relationships." This is, in the end, the responsibility of the Ministry. The consultants did, however, discuss with senior staff how their divisions might benefit from and relate to the FPMU. It is important to clarify these relationships further before the Unit is actually set up and as the role of the Unit becomes clearer. Many of those interviewed by the consultants who are interested in fiscal policy, but who work for organizations outside the Ministry, said that the consultants should specify in more detail than has been possible for this report the working relationships between the Unit and other divisions of the Ministry, and outside organizations such as PIOJ and BOJ.

Table 5.1
ACTION PLAN TO ESTABLISH FISCAL POLICY MANAGEMENT UNIT

Activity	Timing	Responsibility	Comments
1. Finalize report	May 1992	Team of Consultants	
2. Clarify contribution ADP, IDB, NATCAP to institutional strengthening in MOFP	May 1992	MOFP/USAID	FPMU will be most effective if there is complementary strengthening elsewhere in MOFP. Salary issue important.
3. Prepare detailed terms of reference for FPMU	March-May 1992	Consultants/MOFP	Include identification of equipment needs
4. Prepare job descriptions for contract and counterpart staff	March-May 1992	Consultants/MOFP	
5. Determine reporting relationships	May-June1992	MOFP/Consultants	This will show how FPMU will be fully integrated within MOFP and how it will relate to outside agencies
6. Organize funding for FPMU	May-June 1992	MOFP/USAID	Determine contracting mechanisms

Table 5.1 (cont.)
ACTION PLAN TO ESTABLISH FISCAL POLICY MANAGEMENT UNIT

Activity		Timing	Responsibility	Comments
7.	Search for contracted specialists	March/May 1992	Consultants	There are already a number of candidates from Jamaican and U.S. sources
8.	Identify office space	April-May 1992	MOFP	Expected to be in MOFP building
9.	Review candidates	June 1992	MOFP/USAID	
10.	Recruit selected contract staff	June-Aug. 1992	Consulting firm(s)	
11.	Team leader discusses detailed plans/agenda	September 1992	Team leader/ MOFP/USAID	
12.	FPMU team in place	October 1992	Consulting firm(s)	
13.	Procure equipment	June-Aug. 1992	Consulting firm(s)	
14.	Counterpart staff assigned to FPU	August 1992	MOFP	Consultation with team leader
15.	Workshop on role of FPMU	October 1992	FPMU/MOFP/other invited agencies/ USAID	Possibly two workshops: one within MOFP, another with outside agency.

ANNEX 1 - BIBLIOGRAPHY

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ANNEX 2 - PERSONS INTERVIEWED DURING THE STUDY

Ministry of Finance: the Minister, the Financial Secretary, and many staff at all levels

Bank of Jamaica: the Governor and Deputy Governor, plus economic analysis staff

PIOJ: the Director and senior staff

STATIN: the Director and senior staff

PSOJ: President and Executive Director

Presidents or senior staff of a number of banks

Ministry of the Public Service: the Permanent Secretary

Staff of the World Bank, IMF, IDB in Jamaica and Washington

Jamaican experts now based in Washington

The Jamaican Ambassador to the United States

The UNDP NATCAP institutional development team

USAID and US Embassy staff in Jamaica

USAID staff in Washington

ANNEX 3 - TERMS OF REFERENCE FOR THE STUDY

(1) BACKGROUND

In 1991 the Government of Jamaica embarked on an extensive array of economic policy reforms, perhaps the most significant of which was the complete liberalization of the foreign exchange regime on September 25. These policy reforms are the outgrowth of an earlier set of reforms that were themselves ambitious.

The sustainability of the 1991 reforms will require a clearer definition of the roles of the Bank of Jamaica and the Ministry of Finance. This has been the subject of discussion between U.S.A.I.D. and the Government. Further, the Government's request for an I.M.F. Stand-by Arrangement discusses the promotion of budgetary transparency and greater independence of the Bank of Jamaica.

In recent years fiscal policy has been driven largely by stabilization considerations and the need to bolster an administered and overvalues foreign exchange regime. The other functions of fiscal policy, such as influencing the distribution of income, the allocation of resources between public and private uses, and the aggressive fostering of economic growth have played a secondary role to short-term stabilization.

The feedback from the reforms, particularly the effects of foreign exchange liberalization on the domestic economy, will determine the most appropriate roles for the Bank of Jamaica and the Ministry of Finance, probably along the lines of their counterparts in other countries. A corollary of the changing role of the Bank of Jamaica noted by the Government in its letter to the IMF should be the strengthening of the fiscal policy role in the Ministry of Finance.

In order to perform its expanded role and help to sustain the Government's fiscal and monetary policy reforms, the Ministry of Finance will improve its technical budgeting and cash management capacity, which it will do with the assistance of the World Bank. The Ministry will also have to assume a much more active and assertive fiscal policy in Jamaica, and as appropriate strengthen the fiscal analysis and policy formulation capacity of the Ministry of Finance.

(2) OBJECTIVE

To review the fiscal analysis needs and fiscal policy formulation process of the Government of Jamaica (GOJ) in the context of the Government's policy agenda with the Multi-lateral Financial Institutions; assess present and potential complementarity among and between the relevant Government of Jamaica (GOJ) economic institutions such as the Bank of Jamaica (BOJ), Planning Institute if Jamaica (PIOJ) and Statistical Institute (STATIN); assess their capacity to carry out present and future roles, including responsibility for necessary analytical outputs.

Central to this is to assess the Ministry of Finance's (MOF) current fiscal policy role, and, under the Government's policy agenda with Multi-lateral Financial Institutions, assess their capacity to carry out fiscal analysis, fiscal policy formulation, and monitor the implementation of fiscal policy debt management and borrowing decisions, revenue projections, spending targets, forward budgeting, cash management, and current versus capital spending.

As appropriate, recommend specific analyses under the policy agenda the MOF will need to be doing on a regular bases that are not being done now, and develop an action plan on how that capacity can be strengthened. Specifically, would this require a distinct fiscal analysis/policy unit under the Financial Secretary, and what form, staffing, facilities, and responsibilities would this unit have?

(3) TASKS

A. Perform a literature search to determine the nature and extent of the changes in central government fiscal and monetary institutions in other developing countries attendant to major economic policy reforms and liberalization, particularly liberalization of the foreign exchange regime. Where possible, special attention should be paid to the different analytical needs, changes in institutional relationships, the policy formulation process, and policy implementation and sustainability, What were the outcomes of these changes?

B. Interview appropriate staff working on Jamaica for the World Bank, International Monetary Fund, and InterAmerican Development Bank to seek their views on the issues raise in the Background section, (1) above and in the Objective section, (2) above. Discuss the findings and conclusions resulting from Task A and determine what parallels there are for the situation in Jamaica.

C. Review existing MOF, BOJ, PIOJ, and STATIN input to GOJ fiscal policy and other macro-economic decisions in terms of appropriate depth and analytical quality. Emphasis should include not only gaps, but how the institutions and their input complement one another, and how complementarity can be improved.

D. Review present structure of the four institutions, the fiscal and economic analytical capabilities of each relevant analysis/policy formulation division in each institution, and the kinds of analysis each does. Again, emphasis should be on appropriate level analytical quality, usefulness to the fiscal policy formulation process, and complementarity among and between institutions.

E. Review with leadership and senior staff of each institution what they think their institution and the others should be doing differently or better in terms of the Objective set out in (2) above. Particular emphasis should be on the role and capabilities of the MOF.

F. Review the economic analysis capabilities of the four institutions, including recent and/or anticipated technical assistance. Assess needs in terms of potentially expanded fiscal analysis/policy formulation roles. For instance, can the MOF presently do macro-economic projection and GOJ multi-year budget projects using independent economic assumptions and data of its own choosing (not to circumvent, the policy process, but to provide a range of analytically based policy options)? Or, can the MOF test a range of income or price elasticities, or alternate multiplier assumptions for long-range planning purposes? Should they? And if not, what institution or institutions should have this role and capacity?

G. Discuss with other institutions -- private banks, private consultants, Revenue Board, economics faculty at UWI, etc., -- their perception of the fiscal analysis and fiscal policy role played now by the MOF, if the role and responsibilities need to be changed or strengthened in the context o the GOJ's policy agenda with the Multi-lateral financial institutions, and if so, how can this be done and sustained?

H. Discuss with other institutions -- BOJ, private banks, PIOJ, Revenue Board, STATIN, etc., -- their technical need from the MOF and their technical input into the MOF's processes. Discuss the same issues with MOF technical staff. Determine to what degree MOF is meeting the needs of these other institutions, and how well it is using their inputs for analysis and policy formulation.

I. Review with World Bank, IMF, and IDB their technical assistance, where applicable, to the MOF, their assessment of the MOF fiscal analysis and fiscal policy formulation capabilities, how the technical assistance relates to those capabilities, and what changes or strengthening of the institutions they recommend.

J. Discuss with Ministry of the Public Service and the project managers of the World Bank's Financial and Program Management Improvement Project, potential MOF skill, staff, and resource needs if the MOF were to create a new or expanded fiscal analysis/policy formulation unit or function. Particular attention will be paid to constraints to strengthening and sustaining improved institutional capacity, including GOJ salary structure and salary limitations. Recommended options for dealing with those constraints should be outlined.

(4) OUTPUT

A. The consultant will report on his/her findings, summarizing the present fiscal analysis/policy formulation capabilities and roles of the MOF, BOJ, PIOJ, and STATIN. The consultant will take particular care to illustrate strengths and weaknesses with concrete examples.

B. The consultant will draw conclusions about where the MOF needs to be strengthened in light of the GOJ policy agenda, and if so, in what ways. Recommendations for action

must be workable, concrete, realistic, and clearly lined to the over-all GOJ economic policy formulation process.

C. If the consultant concludes that strengthening of the MOF is called for, the consultant will conclude his/her report with an action plan. Expected results of the recommended actions in terms of the role and capabilities of the affected institutions with respect to fiscal analysis, policy formulation and implementation should be specified. Approaches to sustaining the recommended roles and capabilities should be analyzed and discussed.

(5) REPORTS

A. During their time in Jamaica the consultant will inform USAID/Jamaica of his progress and impressions at least once a week in oral meetings.

B. Prior to departing Jamaica the consultant will conduct with USAID/Jamaica and GOJ officials a full briefing of his/her findings and conclusions, and will leave with USAID a preliminary draft of no less than ten pages.

C. Within two weeks (ten working days) of departing Jamaica the consultant will provide USAID/Jamaica via a recognized courier service with ten copies of a final draft of the report for review by USAID staff and GOJ officials.

D. The consultant will provide USAID/Jamaica via a recognized courier service with ten copies of the final report no later than one week (five working days) after receiving comments from USAID and the GOJ.

ANNEX 4 - Draft Terms of Reference

Fiscal Policy Management Unit
Ministry of Finance
Government of Jamaica

Background

As part of its overall program of economic liberalization and in order to facilitate the creation of a private sector - based economy, the Government of Jamaica, with assistance from the United States Agency for International Development, is creating a Fiscal Policy Management Unit. Effective management of fiscal policy will be an important determinant of the success of economic liberalization and the transition to an economy based upon private enterprise. In order to achieve effective fiscal policy management, the Ministry of Finance needs to improve its institutional capacity for policy analysis, formulation, implementation and monitoring. The Fiscal Policy Management Unit will play a major role in achieving such institutional strengthening. The Unit will be fully integrated into the Ministry of Finance and will report to the Financial Secretary and the Minister of Finance. The overall purpose of the Unit is to strengthen fiscal policy analysis and management in Jamaica and, in particular, to enhance the capacity of the Ministry of Finance to play a leading role in economic management, in line with its legal responsibilities to the Cabinet and to the Parliament.

Objectives of the Fiscal Policy Management Unit

The overall objective of the FPMU will be to provide high quality advice to the Minister and Financial Secretary in order to enable them to achieve the Ministry's and Government's mission of promoting growth and investment and the effective and efficient use of public resources. To achieve this objective the Unit will undertake two principal activities:

First, to establish the Ministry of Finance as the manager of fiscal policy within the Government of Jamaica; and

Second, to advise the Minister and Financial Secretary on a wide range of fiscal policy issues.

Two sets of supporting activities will be also be undertaken by the Unit. The FPMU will advise the Minister and the Financial Secretary on the need to reorient the staff of the Ministry to be effective in a more market-oriented economy. The Unit will also advise the Minister and the Financial Secretary on the Ministry's role in coordinating economic management and, especially, fiscal policy formulation and implementation.

Staffing of the Fiscal Policy Management Unit

In order to accomplish its tasks, the FPMU will be staffed with a four-person donor assistance-supported core technical team. At least two, and if possible three, members of the donor-supported team should be Jamaican nationals while the others will be expatriates. It is proposed that there be donor support for the key staff for two years, with a third year of transitional support. From the very outset, the FPMU will be fully integrated into the operations and organization of the Ministry of Finance. At the end of the three years of donor support, it is expected that some of the Jamaican contracted specialists will become members of the public service and remain on the FPMU.

The FPMU core technical team will consist of:

1. A team leader/director, who shall be an individual with substantial international experience in ministries of finance dealing with fiscal policy. The team leader/director will manage the establishment of the Unit as well as serving as senior advisor to the Finance Minister and the Financial Secretary on fiscal policy issues.

2. A fiscal economist, who should have graduate training in economics and/or public finance. The fiscal economist will create a system for periodic analysis of a range of fiscal matters and will liaise with other economists and policy analysts in and out of government.

3. A management specialist, who should have advanced training in strategic planning and organizational behavior. The management specialist will streamline financial management operations and programming and will improve the linkages between the various units within the Ministry and between the Ministry and other government agencies.

4. A data management specialist, who should have graduate training in statistical methods and computer software design. The data management specialist will improve the overall quality of the information available to the Ministry as well as enhance the Ministry's ability to monitor the fiscal situation and forecast both revenue and expenditure trends.

The team leader, fiscal economist, and data management specialist will be full-time positions. The management specialist might be part-time.

In addition to the donor-supported technical team, the FPMU will be staffed by a set of counterparts drawn from the Ministry's permanent professional roster. The exact make-up of the counterpart group will be determined by the Financial Secretary in consultation with the team leader/director of the FPMU. The FPMU, through donor support, will also have access to

short-term technical assistance, both Jamaican and international, to work on specific aspects of fiscal policy formulation and management.

Relationships and Responsibilities

The Fiscal Policy Management Unit (FPMU) will act as a technical unit in direct support of the Financial Secretary and the Minister of Finance. The team leader/director will directly supervise the work of all members of the FPMU. He or she, in turn, will report directly to the Financial Secretary, who will provide overall guidance to the unit. The team leader/director will work with the Financial Secretary and other ministry officers in setting up the FPMU and in developing an overall workplan for the unit. In subsequent years, the team leader/ director will develop an annual workplan which must be approved by the Financial Secretary.

The FPMU will undertake their work in cooperation with other units in the Ministry. In particular, the team leader/director will work with the Economic Management Unit, who are responsible for fiscal and monetary policy, public debt management and loan negotiations. The fiscal economist will work with the Tax Administration Unit on revenue issues and with the Resource Management Unit on expenditure and financial management issues. The management specialist will work with the Administration Unit who are responsible for personnel, while the data management specialist will also work with the Administration Unit on the management information system and with the Economic Management Unit on developing a data base to support improved fiscal policy and management.

The FPMU will also work with staff in other government agencies, especially the Bank of Jamaica, the Planning Institute of Jamaica, STATIN and the Revenue Board. In working with these other units, the FPMU will strive to involve, to as great an extent as possible, permanent Ministry of Finance staff and not only members of the donor-supported core technical team.

Detailed Scope of Work

The Fiscal Policy Management Unit will undertake the following tasks:

- Define the major elements involved in fiscal management, specifying their role in a market-based economy.

- Establish a strategic framework for fiscal policy formulation and implementation.

- Examine and revise the functions of various units in the Ministry of Finance and associated agencies.

- Examine and revise financial management procedures.

- Develop a set of qualitative goals for fiscal policy and performance criteria with which to measure progress towards these goals.

- In conjunction with PIOJ staff, develop an economic model for budgetary allocation.

- In conjunction with BOJ staff, develop a fiscal stabilization model based on the one used by the IMF.

- In conjunction with the Revenue Board staff, develop a model for projecting government revenue.

- Establish a methodology by which the Ministry can set quantitative fiscal targets.

- Provide analytical support and policy advice to the Financial Secretary and the Minister of Finance in their negotiations with international financial institutions.

- Improve the linkages between fiscal policy formulation and financial management efforts.

- In conjunction with the Ministry of the Public Service and the Ministry Reform Cell, re-classify Ministry posts in order to rationalize pay levels.

- Undertake a set of "in-house" workshops for Ministry of Finance professional staff in order to generate an "institutional culture" oriented towards policy issues and concerns.

- Develop a set of procedures that encourage and reward staff for outstanding work.

- Develop a set of procedures for rationalizing the interactions among the various units of the Ministry of Finance.

- Develop a human resource development action plan that grows out of a strategic assessment of the personnel needs of the Ministry of Finance.

- Develop and coordinate an in-house program of staff development training seminars as well as a fellowship program for longer-term training.

- Develop and implement a program of overseas study tours.

- In conjunction with STATIN, establish a coordinated economic data base to support fiscal policy efforts.

- Develop a management information system to facilitate information flows within the Ministry and to enable senior managers to monitor progress on achieving organizational goals.

-- Establish arrangements for deepening interactions between the Ministry of Finance and private sector organizations, especially on analytical issues related to fiscal policy.

ANNEX 5 - DRAFT JOB DESCRIPTIONS FOR FPMU CORE STAFF

JOB DESCRIPTION
Director - Fiscal Policy Management Unit
Ministry of Finance, Government of Jamaica

Background

As part of its overall program of economic liberalization and in order to facilitate the creation of a private sector - based economy, the Government of Jamaica, with assistance from the United States Agency for International Development, is creating a Fiscal Policy Management Unit. The Unit will be fully integrated into the Ministry of Finance and will report to the Financial Secretary and the Minister of Finance. The overall purpose of the Unit is to strengthen fiscal policy analysis and management in Jamaica and, in particular, to enhance the capacity of the Ministry of Finance to play a leading role in economic management, in line with its legal responsibilities to the Cabinet and to parliament.

Objectives of the Fiscal Policy Management Unit

The overall objective of the FPMU will be to provide high quality advice to the Minister and Financial Secretary in order to enable them to achieve the Ministry's and Government's mission of promoting growth and investment and the effective and efficient use of public resources. To achieve this objective the Unit will undertake two principal activities:

First, to establish the Ministry of Finance as the manager of fiscal policy within the Government of Jamaica; and

Second, to advise the Minister and Financial Secretary on a wide range of fiscal policy issues.

Two sets of supporting activities will be also be undertaken by the Unit. The FPMU will advise the Minister and the Financial Secretary on the need to reorient the staff of the Ministry to be effective in a more market-oriented economy. The Unit will also advise the Minister and the Financial Secretary on the Ministry's role in coordinating economic management and, especially, fiscal policy formulation and implementation.

In order to accomplish its tasks, the Unit will be staffed with a four-person donor assistance-supported technical team. It is proposed that there be donor support for the key staff for two to three years. This team will consist of a team leader/director, a fiscal economist, a management specialist, and a national accounts/data management specialist. The team leader, fiscal economist and national accounts/data management specialists will be full-time. The management specialist may be part-time. In addition, counterparts from the ministry's permanent professional staff will also be attached to the unit.

Role of the Team Leader/Director

The team leader/director will provide overall direction and supervision to the Fiscal Policy Management Unit. The individual will be responsible for channelling the results, findings and recommendations of the unit to the Financial Secretary and to the Minister of Finance. The individual will act as a senior advisor to the Financial Secretary and Minister on the entire range of issues concerning fiscal policy and fiscal policy analysis and management. The individual will also be responsible for ensuring that the work of the unit is effectively coordinated with the ministry as a whole and with other key economic agencies within the Government of Jamaica. Finally, the individual will be responsible for developing a strategy for and ensuring the implementation of a program to fully integrate the unit into the ministry as members of the public service by the end of a three year period. The individual will report directly to the Financial Secretary.

Qualifications and Skills

- graduate training (preferably at the Ph.D. level) in macro-economics and/or public finance.
- at least ten years experience in fiscal policy analysis and the management of fiscal policy.
- at least five years experience in a developing country setting.
- substantial experience in advising senior government officials on fiscal policy matters.
- experience in the strategic planning and management of organizational reform in the context of a multiplicity of affected agencies and counterparts.
- highly developed interpersonal skills and the ability to effectively motivate and manage highly trained subordinates.
- demonstrated ability to develop and direct a research program on a range of fiscal policy issues.
- outstanding written and oral communications skills.

Detailed Scope of WorK

The team leader/director of the Fiscal Policy Management Unit will:

- supervise the work of all members of the FPMU;

- -- work with the Financial Secretary to ensure that the efforts of the FPMU effectively support the overall work of the ministry;

- -- be responsible for the development of the strategic framework for promoting fiscal management as a critical tool in public administration;

- -- work with the fiscal economist to establish qualitative and quantitative fiscal policy targets;

- -- develop approaches and procedures for improving the management of fiscal policy;

- -- work with the Financial Secretary and the Minister to develop, and generate a broad-based consensus for, an effective government-wide fiscal policy management system;

- -- articulate the research agenda for the FPMU and develop a strategy for implementing the studies;

- -- coordinate advice on policy and management from the FPMU to the Financial Secretary and the Minister;

- -- coordinate analyses by the FPMU in support of the Financial Secretary and the Minister in negotiations with the international financial institutions;

- -- in conjunction with the management specialist, develop a human resource development strategy and action plan for the ministry;

- -- in conjunction with the national accounts/data management specialist, develop a strategy and action plan for improving data availability and management in support of effective fiscal policy;

- -- work with the Financial Secretary to develop a three-year plan for fully integrating the FPMU, as public service officials, into the ministry.

JOB DESCRIPTION
Fiscal Economist - Fiscal Policy Management Unit
Ministry of Finance, Government of Jamaica

Background

As part of its overall program of economic liberalization and in order to facilitate the creation of a private sector - based economy, the Government of Jamaica, with assistance from the United States Agency for International Development, is creating a Fiscal Policy Management Unit. The Unit will be fully integrated into the Ministry of Finance and will report to the Financial Secretary and the Minister of Finance. The overall purpose of the Unit is to strengthen fiscal policy analysis and management in Jamaica and, in particular, to enhance the capacity of the Ministry of Finance to play a leading role in economic management, in line with its legal responsibilities to the Cabinet and to parliament.

Objectives of the Fiscal Policy Management Unit

The overall objective of the FPMU will be to provide high quality advice to the Minister and Financial Secretary in order to enable them to achieve the Ministry's and Government's mission of promoting growth and investment and the effective and efficient use of public resources. To achieve this objective the Unit will undertake two principal activities:

First, to establish the Ministry of Finance as the manager of fiscal policy within the Government of Jamaica; and

Second, to advise the Minister and Financial Secretary on a wide range of fiscal policy issues.

Two sets of supporting activities will be also be undertaken by the Unit. The FPMU will advise the Minister and the Financial Secretary on the need to reorient the staff of the Ministry to be effective in a more market-oriented economy. The Unit will also advise the Minister and the Financial Secretary on the Ministry's role in coordinating economic management and, especially, fiscal policy formulation and implementation.

In order to accomplish its tasks, the Unit will be staffed with a four-person donor assistance-supported technical team. It is proposed that there be donor support for the key staff for two to three years. This team will consist of a team leader/director, a fiscal economist, a management specialist, and a national accounts/data management specialist. The team leader, fiscal economist and national accounts/data management specialists will be full-time. The management specialist may be part-time. In addition, counterparts from the ministry's permanent professional staff will also be attached to the unit.

Role of the Fiscal Economist

The fiscal economist will be responsible for undertaking a series of analyses related to a broad range of fiscal policy and financial management issues. The individual will provide technical leadership for the overall program of economic analysis undertaken by the Ministry of Finance, and will be particularly concerned with establishing qualitative and quantitative fiscal policy targets. The individual will play a major role in representing the ministry in technical discussions with counterparts in the Reserve Bank, the Planning Institute and the Revenue Board. The individual will work closely with the team leader/director in providing advice to the Financial Secretary and Minister on a wide range of fiscal policy issues. The individual will report directly to the team leader/director of the FPMU and indirectly to the Financial Secretary.

Qualifications and Skills

- graduate training in economics and/or finance, with an emphasis on public finance and fiscal policy and management.
- at least five years professional experience.
- practical experience in public financial management is highly desirable.
- very strong analytical and research abilities.
- excellent writing and oral communications skills.
- knowledge of fiscal policy and financial management issues in Jamaica is highly desirable.

Detailed Scope of Work

The fiscal economist in the Fiscal Policy Management Unit will:

- help define the major elements and main performance factors involved in improved fiscal management.
- work with the team leader/director to establish qualitative and quantitative fiscal policy targets.
- work with the team leader to provide policy advice to the Financial Secretary and the Minister of Finance.
- develop a fiscal model for use in both long-range planning and in negotiations with the IFIs.

- work with the Revenue Board to improve the quality of revenue projections.
- undertake analyses examining the revenue implications of alternative taxation programs.
- undertake analyses examining the relationship between the rate of taxation and the incidence of taxation.
- examine the public finance implications of proposed trade policy reform measures.
- work with the PIOJ to improve the projection of recurrent expenditures as a result of the public investment program.
- undertake analyses examining the revenue-generation potential of alternative investments.
- liaise with economists at the Reserve Bank in developing GOJ responses to donor conditionality on fiscal matters.
- work with the national accounts/data management specialist to establish the data needs for improving fiscal policy.
- assist the management specialist in developing a strategy and action plan for improving the analytic capacity of the ministry.

JOB DESCRIPTION
Management Specialist - Fiscal Policy Management Unit
Ministry of Finance, Government of Jamaica

Background

As part of its overall program of economic liberalization and in order to facilitate the creation of a private sector - based economy, the Government of Jamaica, with assistance from the United States Agency for International Development, is creating a Fiscal Policy Management Unit. The Unit will be fully integrated into the Ministry of Finance and will report to the Financial Secretary and the Minister of Finance. The overall purpose of the Unit is to strengthen fiscal policy analysis and management in Jamaica and, in particular, to enhance the capacity of the Ministry of Finance to play a leading role in economic management, in line with its legal responsibilities to the Cabinet and to parliament.

Objectives of the Fiscal Policy Management Unit

The overall objective of the FPMU will be to provide high quality advice to the Minister and Financial Secretary in order to enable them to achieve the Ministry's and Government's mission of promoting growth and investment and the effective and efficient use of public resources. To achieve this objective the Unit will undertake two principal activities:

First, to establish the Ministry of Finance as the manager of fiscal policy within the Government of Jamaica; and

Second, to advise the Minister and Financial Secretary on a wide range of fiscal policy issues.

Two sets of supporting activities will be also be undertaken by the Unit. The FPMU will advise the Minister and the Financial Secretary on the need to reorient the staff of the Ministry to be effective in a more market-oriented economy. The Unit will also advise the Minister and the Financial Secretary on the Ministry's role in coordinating economic management and, especially, fiscal policy formulation and implementation.

In order to accomplish its tasks, the Unit will be staffed with a four-person donor assistance-supported technical team. It is proposed that there be donor support for the key staff for two to three years. This team will consist of a team leader/director, a fiscal economist, a management specialist, and a national accounts/data management specialist. The team leader, fiscal economist and national accounts/data management specialists will be full-time. The management specialist may be part-time. In addition, counterparts from the ministry's permanent professional staff will also be attached to the unit.

Role of the Management Specialist

The management specialist will be responsible for examining the entire range of organizational issues involved in the formulation, implementation, management and monitoring of fiscal policy and the central financial operations of government. The individual will work with the team leader/director and the Financial Secretary to develop a strategic plan for improving organizational linkages within the Ministry of Finance and between the Ministry and other key governmental agencies. The individual will be responsible for streamlining the financial management and financial programming operations of the Ministry.

The individual will also develop and implement a human resource development "action plan" for the Ministry that will diffuse a policy-oriented institutional culture. The individual will report directly to the team leader/director of the FPMU and indirectly to the Financial Secretary.

Qualifications and Skills

- graduate training in business administration, public affairs management and/or organizational behavior.
- at least five years professional experience.
- practical experience in the management of public institutions and human resource development is highly desirable.
- very strong inter-personal abilities.
- excellent writing and oral communications skills.
- computer literacy
- a working knowledge of the Jamaican civil service system is desirable.

Detailed Scope of Work

The management specialist in the Fiscal Policy Management Unit will:

- undertake a full-fledged institutional assessment of the Ministry of Finance, including its relationships with other key economic agencies, in particular the Bank of Jamaica and the Planning Institute.
- on the basis of the institutional assessment, revise the functions of the various units of the Ministry of Finance

- develop a set of procedures to rationalize the relationships between the various Ministry of Finance units in order to streamline operations and facilitate achievement of the Ministry's corporate objectives.

- organize a series of workshops for other key economic agencies (BOJ, PIOJ, STATIN) in which the new internal and external relationships of the Ministry of Finance will be presented and discussed.

- establish measurable performance criteria for the various units of the Ministry.

- undertake a full examination of the financial management and financial programming procedures in the Ministry and make recommendations for improvement to the Financial Secretary.

- develop an approach for improving the linkages between fiscal policy formulation and financial management efforts.

- undertake a strategic assessment of the human resource needs of the Ministry of Finance.

- on the basis of this assessment, develop a human resource development "action plan."

- as part of the HRD "action plan", develop a plan for both "in-house" and extramural training for Ministry permanent staff.

- work with the Ministry's "Reform Cell" to re-classify Ministry posts in order to facilitate the rationalization of pay levels.

- develop a set of procedures whereby Ministry staff can be rewarded for outstanding contributions.

- develop a set of workshops for Ministry of Finance seni staff on strategic management principles and practices.

- in coordination with the fiscal economist, develop a strategy for improving the analytic capacity of the Ministry.

- in coordination with the data management specialist, develop a management information system that enables senior Ministry staff to more effectively monitor and supervise Ministry operations.

JOB DESCRIPTION
Data Management Specialist - Fiscal Policy Management Unit
Ministry of Finance, Government of Jamaica

Background

As part of its overall program of economic liberalization and in order to facilitate the creation of a private sector - based economy, the Government of Jamaica, with assistance from the United States Agency for International Development, is creating a Fiscal Policy Management Unit. The Unit will be fully integrated into the Ministry of Finance and will report to the Financial Secretary and the Minister of Finance. The overall purpose of the Unit is to strengthen fiscal policy analysis and management in Jamaica and, in particular, to enhance the capacity of the Ministry of Finance to play a leading role in economic management, in line with its legal responsibilities to the Cabinet and to parliament.

Objectives of the Fiscal Policy Management Unit

The overall objective of the FPMU will be to provide high quality advice to the Minister and Financial Secretary in order to enable them to achieve the Ministry's and Government's mission of promoting growth and investment and the effective and efficient use of public resources. To achieve this objective the Unit will undertake two principal activities:

First, to establish the Ministry of Finance as the manager of fiscal policy within the Government of Jamaica; and

Second, to advise the Minister and Financial Secretary on a wide range of fiscal policy issues.

Two sets of supporting activities will be also be undertaken by the Unit. The FPMU will advise the Minister and the Financial Secretary on the need to reorient the staff of the Ministry to be effective in a more market-oriented economy. The Unit will also advise the Minister and the Financial Secretary on the Ministry's role in coordinating economic management and, especially, fiscal policy formulation and implementation.

In order to accomplish its tasks, the Unit will be staffed with a four-person donor assistance-supported technical team. It is proposed that there be donor support for the key staff for two to three years. This team will consist of a team leader/director, a fiscal economist, a management specialist, and a national accounts/data management specialist. The team leader, fiscal economist and national accounts/data management specialists will be full-time. The management specialist may be part-time. In addition, counterparts from the ministry's permanent professional staff will also be attached to the unit.

Role of the Data Management Specialist

The data management specialist will be responsible for improving the quality and availability of economic data pertinent to fiscal policy formulation and management. The individual is also responsible for improving the quality of the information available to Ministry of Finance senior management for monitoring the overall performance of the Ministry. The individual will work with counterparts in STATIN, the Bank of Jamaica, and the Planning Institute to reconcile and unify the data sources that go into economic analysis. The individual will work with the fiscal economist to improve the Ministry's ability to forecast both revenues and expenditures. The individual will report directly to the team leader/director of the FPMU and indirectly to the Financial secretary.

Qualifications and Skills

- extensive training, preferably at the post-graduate level, in information management and/or computer software design. A basic background in economics and statistics is also required.
- at least five years professional experience.
- practical experience in the management of economic data bases and national accounting systems is highly desirable.
- excellent writing and oral communications skills.
- well-developed research design skills.

Detailed Scope of Work

The data management specialist in the Fiscal Policy Management Unit will:

- analyze the sources of data discrepancies and inconsistencies in MOF, BOJ, and PIOJ economic analyses.
- in conjunction with STATIN, establish a coordinated economic data base to support fiscal policy efforts.
- develop a system to promptly retrieve relevant data from STATIN and other government agencies, including the government's spending ministries.
- work with counterparts in BOJ and PIOJ to ensure that a unified economic data base is made operational for all government economic analysis.

- in conjunction with the management specialist, improve the performance of the Ministry's financial management operations.

- undertake an assessment of the support equipment and software needs of the Ministry of Finance.

- coordinate the systematic installation of technology needed for supporting the fiscal management process.

- assess the training needs and, in conjunction with the management specialist, develop a training strategy for improving the data management capacity of the Ministry of Finance.

- develop a management information system to facilitate information flows within the Ministry and to enable senior managers to monitor progress on achieving organizational goals.

- in conjunction with the fiscal economist, work with the Revenue Board to develop a methodology for improving revenue forecasting.