

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BAHAMAS

PERFORMANCE MONITORING AND PUBLIC FINANCIAL MANAGEMENT REFORM

(BH-L1035)

PROJECT PROFILE

The project team consisting of prepared this document: Robert Pantzer (IFD/ICS), Project Team Leader; Leslie Harper (IFD/FMM), Alternate Team Leader; Janine Perfit (IFD/ICS); Mariano Lafuente (IFD/ICS); Daniel Sanchez (IFD/FMM); Mario Castaneda (FMP/CBH); Roy Parahoo (FMP/CBH); Camille Thompson (CCB/CBH); Wilshire Bethel (CCB/CBH); Guillermo Eschoyez (LEG/SGO); and Blanca Torrico (IFD/ICS).

Under the Access to Information Policy, this document is subject to Public Disclosure.

PROJECT PROFILE (PP)

I. BASIC DATA

Project Name:	Performance Monitoring and Public Financial Management Reform ¹ .		
Project Number:	BH-L1035		
Project Team:	Robert Pantzer (IFD/ICS), Project Team Leader; Leslie Harper (IFD/FMM), Alternate Team Leader; Janine Perfit (IFD/ICS); Mariano Lafuente (IFD/ICS); Daniel Sanchez (IFD/FMM); Mario Castaneda (FMP/CBH); Roy Parahoo (FMP/CBH); Camille Thompson (CCB/CBH); Wilshire Bethel (CCB/CBH); Guillermo Eschoyez (LEG/SGO); and Blanca Torrico (IFD/ICS).		
Borrower:	The Commonwealth of The Bahamas (GoBH)		
Executing Agency:	Ministry of Finance (MoF)		
Financial Plan:	IDB: Ordinary Capital (OC)	US\$45 million	
Safeguards:	Policies triggered: N/A; Classification: “C”		

II. GENERAL JUSTIFICATION AND OBJECTIVES

- 2.1 **Rationale for intervention and main challenges to be addressed.** The Bahamas experienced continuous economic growth since the late 1990's, reaching a relatively high per capita income of US\$23,000 in 2007. However, beginning in 2008, economic growth stalled, and to date per capita incomes are still 8.2% below 2007 levels and growth rates remain subdued². The global economic crisis exposed structural weaknesses that inhibit economic growth and increase vulnerability, affecting key sectors of the economy such as tourism that represents at least 50% of GDP. With 350,000 inhabitants, the internal market of this archipelagic nation is small, the production base is narrow and it relies almost totally on one trading partner- the United States. Fiscal adjustments as well as sound financial management systems can stabilize the debt build up and maintain current credit rating. Measures are required to reverse falling income, while avoiding a negative effect on public sector efficiency.
- 2.2 In that regard, the GoBH is seeking to become more efficient and effective in the allocation and use of public resources. This is especially important given the window of opportunity provided by the National Development Plan³ under preparation that will require sound planning and implementation monitoring, and the Tax Reform under way that will expand the revenue base, thereby generating additional resources that will need to be effectively managed.

¹ The team acknowledges the contributions of Mario Sangines (IFD/ICS); Giberto Moncada (ICS/CBO); Jorge Kaufmann (IFD/ICS); and Carlos Pimenta (IFD/FMM)

² Article IV Consultation The Bahamas. IMF 2013.

³ The National Development Plan was supported by the IDB Technical Assistance program "Strengthening Institutional Capacity of the Office of the Prime Minister (BH-T1034).

- 2.3 However, limited quality, production and use of information are undermining the GoBH capacity to determine priority actions. Cumbersome processes and inconsistent practices in public financial management (PFM) and procurement have reduced capabilities to align resources accordingly. The information presently available is of limited quality, difficult to access and consequently not widely used for evidence-based policy and decision-making⁴. More importantly, it also undermines the development of a coherent narrative of government actions.
- 2.4 To address these issues, the GoBH has requested financing from the Bank for support in two main areas: (i) strengthening of public performance monitoring; and (ii) the modernization of public financial management and procurement.

Public Performance Monitoring

- 2.5 In the area of public performance monitoring, the availability of high quality and relevant data is critical and, therefore a solid statistical system is central. Some of the areas where immediate attention is required relate to the institutional capacity of the DoS. Improvements are needed in internal coordination, human and technical resources, data dissemination, and the legal and normative environment (the current Statistics Act dates to 1973). Additionally, the outdated IT systems have hindered efforts to improve data production, create awareness of the importance of the DoS and the need to use statistics in the country for evidence-based policymaking.
- 2.6 In addition, a platform is needed to analyze and monitor progress in the implementation of public policies. Through the National Development Plan, the GoBH has undertaken an effort to develop a comprehensive and publicly consulted strategy for the country's economic development. Once the plan becomes effective, it will require a sound implementation, monitoring and evaluation platform that will provide the Office of the Prime Minister the tools to oversee and adjust policies with the respective key line ministries.

Public Financial Management

- 2.7 In the area of PFM, the GoBH faces the challenge of increasing efficiency in the allocation and use of resources and in producing actionable data for decision making. The MoF has a set of financial management systems that are outdated and have reached their capacity for expansion. Their main function is basic cash management and payment, but there lacks integration among any of the subsystems that manage budget, payroll, procurement, etc⁵. The treasury and payroll systems do not share data, resulting in information being entered manually, which produces inconsistencies, is time consuming and labor intensive⁶. Overall the PFM systems have limited interfaces that result in the duplication of efforts to enter and retrieve information⁷. The GoBH has undertaken a process to modernize and improve PFM; currently the MoF is conducting a Business Process

⁴ While a variety of social, economic and demographic statistics are produced in The Bahamas, they are of limited quality. In statistical terms, quality refers to timeliness, reliability, accessibility and relevance—meaning that statistics should be useful to decision makers and used for informed decision making.

⁵ Score 1.9/5 on PFM indicator. Sistema de Evaluación PRODEV (SEP) Bahamas September, 2009

⁶ Optimizing HR and Payroll delivery – Current State Assessment Report. March, 2012

⁷ Country Fiduciary Profile: The Bahamas VPC/FMP 2013.

Analysis to streamline expenditure management. This analysis will result in the technical requirements to start a request for proposals for an Integrated Financial Management Information System (IFMIS).

- 2.8 In the area of public procurement, although records and information regarding value and method of selection of procurement exist⁸, these data are not reported or analyzed⁹. The existing electronic system for public procurement is more of a payment authorization system than a platform for tendering, bidding and business intelligence which would provide valuable data to generate value for money. There is an absence of consolidated, unifying instruments at the statutory level able to promote high standards in line with international best practices. There is no designated entity responsible for the development, oversight and functioning of the procurement system. Open competitive methods are used, but there is limited guidance available for line ministries on evaluation criteria. The GoBH has initiated some actions in procurement modernization, including the development of a new supplier registry. A new financial Act awaits ratification by the MOF after being approved in Parliament.

III. TECHNICAL ISSUES AND SECTOR KNOWLEDGE

- 3.1 **Bank strategy with the country and sector.** The program is aligned with Country Strategy (CS) 2013-2017 (GN-2731), which includes the area of public finances and management, one of the five priority sectors. In addition, the program is consistent with the “lending to small and vulnerable countries” target of the GCI-9. The Bank has supported the GoBH with three technical cooperation programs, which have been key to advance activities in the areas that will be prioritized in this loan: “PRODEV - Management for Results” (ATN/OC-12185-BH); “ICT4GP - Support to the Bahamas Public Procurement System through ICT and MSMEs” (ATN/ME-12661-BH); and “Strengthening the Capacity of the Office of the Prime Minister” (ATN/FI-13792-BH).
- 3.2 **Program objective.** The overall objective of this operation is to increase efficiency in the use of public resources. The specific objectives are to: (i) enhance the capacity to produce and provide access to quality information for evidence-based policy-making; and (ii) improve the ability to better allocate and track public funds. The four components of the loan are aligned along these specific objectives: Components I and II support modernization of performance monitoring, while components III and IV address reform in public financial management¹⁰.
- 3.3 **Component I. Performance monitoring (US\$3 million).** The objective of this component is to strengthen the government’s capacity to effectively design and implement public policy. This support will include (i) the design and implementation of a management model at the Office of the Prime Minister (OPM); and (ii) implementation of a monitoring tool and information systems,

⁸ Score D+ on indicator PI 19: Competition, value for money and controls for non-salary expenditure. The Bahamas: PEFA Assessment 2010 (finalized not published).

⁹ Idem 6

¹⁰ US\$2 million dollars will be allocated for the setup of an implementation unit in the Ministry of Finance and communication and awareness activities of the operation.

that will entail deployment of a technological platform within OPM and line ministries¹¹. Thus, supporting the development of sector strategies and annual operational plans in three specific sectors which ideally should be identified from the plan, but that could be selected based on the government's priorities if the plan is not formally approved. This component has been specifically assigned by the Office of the Prime Minister (OPM) to the Ministry of Investments (MOI).

- 3.4 **Component II. Statistics Modernization (US\$5 million).** The objective of this component is to promote the availability of high quality information and the effective use of these data, in line with regional and international standards. Based on previous Bank work to analyze statistical capacity, this support will address the modernization of the DoS and strengthening the NSS¹², including: (i) drafting a Statistics Act to be considered by Parliament; (ii) creating and implementing a National Strategy for Statistical Development (NSDS) that involves all stakeholders within the NSS; (iii) development of a data dissemination plan and a policy for access to statistical information, (iv) evaluation of business processes including staffing, IT, work flow and administrative procedures to make them more efficient and cost effective; (v) development and implementation of the information systems plan; (vi) creation of an awareness campaign; (vii) recommendation and implementation of a new organizational structure for the DoS; and (viii) training and institutional strengthening activities and for both the DoS and the NSS. The activities planned are not contingent on Parliamentary approval of a new Statistics Act.
- 3.5 **Component III. Integrated Financial Management Information System (IFMIS) (US\$30 million).** The objective of this component is to modernize and streamline public financial management at the MoF in order to ensure better allocation of resources. The Bank will support the development of a (i) conceptual design, (ii) technical specifications and procurement process for an IT solution to serve as an IFMIS; (iii) IFMIS implementation and (iv) change management activities such as institutional assessment, training and internal communications. The new IFMIS would replace and consolidate seven IT systems currently in use within the MOF and would have interoperability with other systems such as revenue (tax and customs) and statistics.
- 3.6 **Component IV. Public Procurement Modernization (US\$5 million).** The objective of this component is to strengthen and modernize the public procurement system in order to create a fair and transparent public procurement market. The Bank will support the following areas: (i) updating the Public Procurement Action Plan, (ii) establishment of the new Public Procurement Unit,

¹¹ The Bahamas capacity to monitor the execution of Cabinet decisions is inadequate. The IDB's 2005 diagnostic signaled that the Government did not possess a suitable system for tracking and enforcing Cabinet decisions (IDB, 2005). The PRODEV Evaluation confirmed these findings (IDB, 2009 and 2013):

Monitoring Institutions (SEP ME1), 2009	0.5 out of 5
Scope of Program and Project Monitoring (SEP ME2), 2009	1 out of 5
Use and Dissemination of Monitoring Information (SEP ME3), 2009	0 out of 5

¹² The results of the Tools for Assessing Statistical Capacity (TASC) (ATN/FI-12878-RG) that was carried out in The Bahamas in November 2013 show that the Department of Statistics/National Statistical System is weak in several key areas. (i) Institutional capacity (42.3/100), (ii) Dissemination of data (47.5/100), (iii) Sampling (53.8/100), Cartography (55.4/100), Data analysis (56.0/100).

(iii) technical assistance to support the modernization process; (iv) development of procurement tools associated with the Financial Act; (v) development of a career path for public procurement officials; and (vi) change management activities.

3.7 **Expected results and impact.** The program is expected to have a positive impact on the performance of the Bahamas public sector, in line with the following expected results:

- a. Better capacity of the Office of the Prime Minister to monitor performance in the implementation of public policies in key line ministries in accordance with the NDP.
- b. Improved quality of statistical production, increased access to official statistics and a more effective use of statistics for policymaking in line with regional and international standards¹³.
- c. A more efficient PFM with an IFMIS fully implemented and functional in line ministries and relevant public entities.
- d. A public procurement system with fair and transparent rules, generating savings and value for line ministries and relevant public entities.

IV. SAFEGUARDS AND FIDUCIARY SCREENING

4.1 In accordance with the Directive B.13 of the Bank's Environment and Safeguards Compliance Policy (GN-2208-20 and OP-703), the environmental and social classification for this program is "C". An Operations Manual will be required to address the multiple roles and responsibilities on fiduciary matters for the different agencies involved (see Annexes II and III).

V. RESOURCES AND TIMETABLE

- 5.1 Annex V describes the project preparation timeline and prospective activities. Distribution of the Proposal for Operation Development (POD) to the Quality and Risk Review (QRR) is expected by July, 2014, Operation Policy Committee (OPC) is expected by September, 2014, and Board approval by October, 2014. The estimated amount allocated for mission travel and consultancy is US\$74,100.
- 5.2 Given the inclusion of important components supporting public financial management and procurement reforms, specialists from the Fiscal and Municipal Management Division (IFD/FMM) have been participating in the design of this project. It is the team's recommendation that this operation will be double-booked between IFD/ICS and IFD/FMM.

¹³ International statistical practices are detailed in the United Nations' Fundamental Principles of Official Statistics. In this vein, the Statistical Office of the European Communities (EUROSTAT) developed the European Statistics Code of Good Practice. Based on the European experience, the member countries of CARICOM have drafted a "CARICOM'S Statistics Code of Practice" consisting of 15 principles and indicators of good practices. The statistical capacity building activities proposed in this operation will support the statistical system of The Bahamas to meet these regional and international standards.

CONFIDENTIAL

¹ The information contained in this Annex is confidential and will not be disclosed. This is in accordance with the "Deliberative Information" exception referred to in paragraph 4.1 (g) of the Access to Information Policy (GN-1831-28) at the Inter-American Development Bank.

SAFEGUARD POLICY FILTER REPORT

PROJECT DETAILS	
IDB Sector	REFORM / MODERNIZATION OF THE STATE-REFORM AND PUBLIC SECTOR SUPPORT
Type of Operation	Other Lending or Financing Instrument
Additional Operation Details	
Investment Checklist	Institutional Development Investment
Team Leader	Pantzer, Robert (ROBERTPA@iadb.org)
Project Title	Public Sector Management
Project Number	BH-L1035
Safeguard Screening Assessor(s)	Torrico, Blanca (blancat@IADB.ORG)
Assessment Date	2014-01-27

SAFEGUARD POLICY FILTER RESULTS		
Type of Operation	Loan Operation	
Safeguard Policy Items Identified (Yes)	The Bank will make available to the public the relevant Project documents.	(B.01) Access to Information Policy– OP-102
	The operation is in compliance with environmental, specific women's rights, gender, and indigenous laws and regulations of the country where the operation is being implemented (including national obligations established under ratified Multilateral Environmental Agreements).	(B.02)
	The Bank will monitor the executing agency/borrower's compliance with all safeguard requirements stipulated in the loan agreement and project operating or credit regulations.	(B.07)
Potential Safeguard Policy Items(?)	No potential issues identified	
Recommended Action:	Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s). Complete Project Classification Tool. Submit Safeguard Policy Filter Report, PP (or equivalent) and Safeguard Screening Form to ESR.	
Additional Comments:		

ASSESSOR DETAILS

Name of person who completed screening:	Torrico, Blanca (blancat@IADB.ORG)
Title:	
Date:	2014-01-27

COMMENTS

No Comments

SAFEGUARD SCREENING FORM

PROJECT DETAILS	
IDB Sector	REFORM / MODERNIZATION OF THE STATE-REFORM AND PUBLIC SECTOR SUPPORT
Type of Operation	Other Lending or Financing Instrument
Additional Operation Details	
Country	BAHAMAS
Project Status	
Investment Checklist	Institutional Development Investment
Team Leader	Pantzer, Robert (ROBERTPA@iadb.org)
Project Title	Public Sector Management
Project Number	BH-L1035
Safeguard Screening Assessor(s)	Torrico, Blanca (blancat@IADB.ORG)
Assessment Date	2014-01-27

PROJECT CLASSIFICATION SUMMARY		
Project Category: C	Override Rating:	Override Justification:
		Comments:
Conditions/ Recommendations	<ul style="list-style-type: none"> No environmental assessment studies or consultations are required for Category "C" operations. Some Category "C" operations may require specific safeguard or monitoring requirements (Policy Directive B.3). Where relevant, these operations will establish safeguard, or monitoring requirements to address environmental and other risks (social, disaster, cultural, health and safety etc.). The Project Team must send the PP (or equivalent) containing the Environmental and Social Strategy (the requirements for an ESS are described in the Environment Policy Guideline: Directive B.3) as well as the Safeguard Policy Filter and Safeguard Screening Form Reports. 	

SUMMARY OF IMPACTS/RISKS AND POTENTIAL SOLUTIONS	
Identified Impacts/Risks	Potential Solutions

DISASTER RISK SUMMARY	
Disaster Risk Category: Low	
Disaster/ Recommendations	<ul style="list-style-type: none"> No specific Disaster Risk Management is required.

ASSESSOR DETAILS

Name of person who completed screening:	Torrico, Blanca (blancat@IADB.ORG)
Title:	
Date:	2014-01-27

COMMENTS

No Comments

Environmental and Social Strategy

- 1.1 The overall objective of this operation is to increase efficiency in the use of public resources. The specific objectives are to: (i) enhance the capacity to produce and provide access to quality information for evidence-based policy-making; and (ii) improve the ability to better allocate and track public funds. The four components of the loan are aligned along these specific objectives: Components I and II support modernization of performance monitoring, while components III and IV address reform in public financial management.
- 1.2 The environmental and social classification for this program is “C” based on the Safeguard Policy Report and the Safeguard Screening Form of the Environmental Classification Toolkit.

BACKGROUND ECONOMIC AND SECTOR STUDIES

Description	Date	Reference or links
IMF. Article IV Bahamas	2013	http://www.imf.org/external/pubs/ft/scr/2013/cr13100.pdf
Sistema de Evaluación PRODEV (SEP) Bahamas Septiembre 2009	2009	IDBDOCS-#38569658-Sistema de Evaluación PRODEV (SEP) Bahamas Septiembre 2009
Optimizing HR and Payroll Delivery – Current State Assessment Report, March 2012	2012	IDBDOCS-#38569521-Optimizing HR and Payroll Delivery – Current State Assessment Report, March 2012
Country Fiduciary Profile; The Bahamas VPC/FMP August 2013	2013	IDBDOCS-#38569615-Country Fiduciary Profile; The Bahamas VPC/FMP August 2013
The Bahamas: Public Expenditure and Financial Accountability (PEFA) Assessment 2010 (draft)	2010	IDBDOCS-#38569439-The Bahamas: Public Expenditure and Financial Accountability (PEFA) Assessment 2010 (draft)
Public Sector Management Note. IFD/ICS March, 2013	2013	IDBDOCS-#38061526-Nota Sectorial 2013 - Bahamas - Public Sector Management Note
Tool for Assessing Statistical Capacity (TASC).November, 2013	2013	IDBDOCS-#38569571-Tool for Assessing Statistical Capacity (TASC).November, 2013
Doing Business Index: Economic Profile The Bahamas. World Bank and IFC 2014	2014	

CONFIDENTIAL

¹ The information contained in this Annex is confidential and will not be disclosed. This is in accordance with the "Deliberative Information" exception referred to in paragraph 4.1 (g) of the Access to Information Policy (GN-1831-28) at the Inter-American Development Bank.