



## Strengthening Debt Management in Jamaica

### Background to the impact assessment

Evaluations in the Commonwealth Secretariat are designed to fulfil a number of key functions. As an instrument of accountability to member governments, they provide an objective assessment of the effectiveness in delivering results, the efficiency of implementation and the impact of the Secretariat's projects and programmes in member countries; at the management level, they help in making policy and planning decisions; at the programme level, they inform decisions related to the design and implementation of projects and activities; and, finally, they provide an opportunity to build on experiences to establish corporate lessons that can guide the future work of the Secretariat.

In 2014, the Secretariat initiated a series of rapid impact assessments to determine the results of its efforts. These impact assessments have been designed to assess the relevance of the Secretariat's work to member country needs and its alignment with the Commonwealth Secretariat Strategic Plan and results, and to enable informed judgements about the work delivered, its impact and the sustainability of the Secretariat's efforts. An essential element of this exercise is 'organisational learning' to improve the sustainable impact of the Secretariat's contribution to member countries.

This impact assessment, which is the second in the series, reports on the relevance and impact of Secretariat assistance to Jamaica on debt management. The assessment was conducted by the Strategic Planning and Evaluation Division (SPED) of the Secretariat, using its in-house evaluation expertise.

### Summary

1. Prudent debt management practice in many Commonwealth countries remains a challenge. The reasons for this are multiple and include lack of holistic and sound policy framework on debt management, lack of adequate management information systems, lack of clear governance and institutional structures and lack of capacity among staff.
2. In 2009, the Government of Jamaica recognised that its decentralised system of cash management – with a number of public bodies maintaining large cash balances in the banking system – needed to be reformed if savings were to be made. Following a request for assistance from Jamaica's Ministry of Finance and the Public Service, the Secretariat carried out a review and proposed key recommendations for changes to institutional and functional structures to enable Jamaica to establish a Central Treasury Management System. The Secretariat also provided advice on the drafting of a new Public Debt Management Act and on the restructuring of the Debt Management Branch in the Ministry of Finance and the Public Service.
3. The goal of the Secretariat's support was to facilitate the establishment of effective cash and public debt management in the country,

which is key to reducing the cost of borrowings and the risk of debt distress and to establishing a healthy environment for sustainable national development.

4. The assessment identified three key areas of impact, namely institutional strengthening, establishment of the requisite legal framework and debt restructuring. It noted that the policy support from the Secretariat facilitated the establishment of a reorganised Debt Management Office, with modern and functional job responsibilities, helped with the enactment of a comprehensive Public Debt Management Act that promotes prudent debt management and governance, and paved the way for efficient public financial management through the establishment of a Central Treasury Management System.
5. The assessment found that Secretariat's advice also delivered other policy, institutional and legal reforms that have been put in place by the Ministry of Finance and the Public Service. These included the successful completion of the market-led National Debt Exchange process, concluded in March 2013. The debt exchange had a very high participation rate of 99 per cent from domestic bondholders. It is expected that the debt restructuring will result in an annual cost saving of 17 billion Jamaican dollars (J\$) and reduce the public debt burden by 8.5 per cent of GDP by 2020. Overall, the Government of Jamaica was highly appreciative of the Secretariat's support on debt management.

## Methodology

6. The impact assessment took a twin-track approach to collecting data and information; this was triangulated by stakeholder interviews and a field mission. The project was assessed in accordance with the standard Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) evaluation criteria, covering relevance, effectiveness, efficiency, impact and sustainability, with a greater focus on relevance and impact. Data was collected using a systematic review of reports and existing evidence. This included rigorous analysis of project documents, the project design and planning documents from the Secretariat's Programme Management Information System

(PMIS), project completion reports, back-to-office reports, consultant reports from the commissioned projects, and news and press reports.

7. This was supplemented with primary research consisting of semi-structured in-depth interviews with the Secretariat staff involved in the provision of debt management support to Jamaica. The findings of the assessment were triangulated and validated by a field visit to Jamaica to assess the results and impact of the Secretariat's interventions. During the field visit, semi-structured and focus group discussions were held with relevant officials in the Office of the Minister and the Debt Management Branch at the Ministry of Finance and Planning; in the Multilateral Technical Cooperation Unit, Planning Institute of Jamaica; and at the PetroCaribe Development Fund, as well as with an independent debt management consultant, who had also been advising the Government of Jamaica on debt management.

## Overview of assistance to Jamaica

8. Prudent debt management practice remains a challenge in many Commonwealth countries. The reasons for this are multiple and include lack of adequate management information systems, lack of clear governance and institutional structures and lack of capacity among staff.
9. Most of the Commonwealth member countries in the Caribbean region have some of the highest debt burdens in the world, with average public debt levels for Caribbean small states amounting to approximately 84 per cent of GDP (Sanders, 2014; [www.sirronaldsanders.com](http://www.sirronaldsanders.com)). A major challenge is that all Caribbean small states (with the exception of Haiti) have 'graduated' to middle-income status and therefore have very limited access to concessional borrowing.
10. Therefore, the need for assistance to strengthen capacity on debt management remains a high priority for Caribbean member countries.
11. With its core competence in this area, the Commonwealth Secretariat has played a leading role in providing support to member countries in the area of debt management.

- The central feature of the Secretariat's debt management programme is to strengthen debt management and build capacity in member countries through policy advisory support, debt management systems and training.
12. Policy advice is provided to reform the debt management framework, structures and operations, covering institutional and legal aspects of debt management, the development of local currency bond markets and the formulation and implementation of debt strategies.
  13. Support through debt management systems is provided by recording, monitoring and reporting debt liabilities in the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS). Support on risk analysis and planning the formulation and implementation of debt management strategy is provided through the newly launched Horizon system. As part of capacity building, in-country and regional/pan-Commonwealth training is also provided, and this is complemented by an e-learning programme.
  14. In 2009, the Government of Jamaica recognised that its decentralised system of cash management and inefficient organisation of public debt management operations required comprehensive reforms. Public debt management lacked many aspects of internationally recognised sound debt management practices. Similarly, with a number of public bodies maintaining large cash balances in the banking system, there was significant scope for monetary savings.
  15. Following a request for assistance from Jamaica's Ministry of Finance and the Public Service, the Secretariat carried out a review and proposed key recommendations for changes to institutional and functional structures to enable Jamaica to establish a Central Treasury Management System and an efficient institutional arrangement for public debt management. Subsequently, over the years the Secretariat provided in-depth advice on a number of areas in relation to reforming public debt management, which included the drafting of a new Public Debt Management Act and the restructuring of the Debt Management Unit (DMU) of the Ministry of Finance and the Public Service, the formulation

of a Medium-Term Debt Management Strategy (MTDS) and supporting the implementation of a comprehensive debt restructuring.

16. The overall goal of the assistance was to facilitate the establishment of effective public debt management in the country, which is key to reducing the risk of debt distress and establishing a healthy environment for sustainable national development.

## Assessment findings

### Medium-term debt strategy

17. In 1999, Jamaica developed its first Medium-Term Debt Management Strategy, which has been renewed and pursued annually as part of the Government of Jamaica's debt management programme. However, the DMU lacked the quantitative analysis and cost and risk trade-offs associated with different debt management strategies for managing the risk exposure embedded in the debt portfolio.
18. In collaboration with the World Bank and the International Monetary Fund (IMF), the Secretariat enhanced Jamaica's MTDS using an analytical tool developed by the IMF and the World Bank. The MTDS, published in April 2011, provides a framework for formulating and implementing a debt management strategy for the medium term. It is primarily focused on determining the appropriate composition of the debt portfolio, taking into account macroeconomic indicators and market environment. Since then, an annual MTDS policy document has been published by the government to guide its borrowing decisions, based on prudent considerations. Stipulation of clear targets for the debt structure has enabled the government to move gradually towards a debt structure that mitigates the risks associated with the debt portfolio.

### Institutional arrangements for public debt management

19. In 2011, Cabinet gave approval for the reorganisation of the DMU in the Ministry of Finance and the Public Service. The Secretariat provided terms of reference for the new unit and developed the organisational chart, which conformed to the international best practice of front, middle and back offices. The duties, responsibilities and functions of each

office were developed to coordinate with the Ministry's timeline to establish the new unit by May 2011. High-level objectives and minimum requirements for each position within the DMU were also developed and a training programme was created for each officer to strengthen the new unit.

20. The outcome of this assistance was the transformation of centralised debt management offices into modern structures with front, middle and back offices, able to perform specialised functions in relation to debt management through relevant staff skillsets and well-defined roles and responsibilities. A better organised debt management office staffed with people with the appropriate skillsets for various specialised debt management functions has made it possible for the Government of Jamaica to improve the effectiveness of its debt management functions and reduce key operational risks. The growing capacity of the debt management office is also reflected by the formulation of successive MTDS, in 2011, within a cost–risk framework and of an Annual Borrowing Plan to guide the implementation of Jamaica's debt management strategy. The government published its annual debt management report for the first time in 2014; the report provides a performance review of debt management operations and enhances the transparency of debt statistics.

### Legal framework for debt management

21. The Government of Jamaica also sought assistance from the Commonwealth Secretariat to review its legal framework for debt management in order to enact an updated and comprehensive Public Debt Management Act. The Secretariat commissioned an assessment mission to review the legal implications arising from the current public debt management framework. Based on the assessment, recommendations were made by the Secretariat for the appropriate changes to the Public Debt Management Act in Jamaica. The legal framework of public debt management was overhauled and reformed through a comprehensive revision of the Public Debt Management Act reflecting sound governance practices in relation to debt management.

### Debt management software

22. In addition, as part of the debt management programme, the Debt Management Section (DMS) of the Commonwealth Secretariat has developed and continuously maintains the CS-DRMS to record and manage loans contracted by the Government. CS-DRMS was installed in the Development Bank of Jamaica in 2009 to manage and monitor loans from Venezuela under the PetroCaribe facility. In 2010, on the request of the PetroCaribe Development Fund that capacity in the use of CS-DRMS be strengthened, a consultant was engaged to deliver CS-DRMS training, which resulted in improved reporting on PetroCaribe loans and compliance with reporting requirements under the IMF Stand-By Arrangement.

### Electronic upload of securities data from Central Depository System (CDS) and E-Gate to CS-DRMS

23. The Commonwealth has also been working with the Government of Jamaica on the Electronic Upload of Securities Data project from May 2012 to present. This project aims to establish an electronic link for the automated upload of securities data from the CDS and E-Gate systems into the CS-DRMS database located in and maintained by the Ministry of Finance. The project will have tremendous benefits for Jamaica in that it will (i) achieve a single point of entry of domestic debt data, removing the need to manually input data into CS-DRMS, as it will already have been recorded through another tool which will minimise input error and duplication of data entry; (ii) enable the data reporting to provide a comprehensive view of debt information, covering both domestic and external debt liabilities; (iii) support risk analysis by covering both domestic and external debt instruments in CS-DRMS; and (iv) get Jamaica ready for the use of the Horizon software, a public debt analytical tool recently released by the DMS.

### Advisory assistance on debt restructuring

24. In 2012, Jamaica was exposed to risk of high debt distress, with public debt at about 140 per cent of GDP. With a view to restoring public

debt sustainability, Jamaica, on the advice of the IMF, wanted to undertake restructuring of its debt.

25. The Secretariat, at the request of the Government of Jamaica, provided technical assistance on the formulation of an appropriate debt restructuring strategy. Experts, while reviewing the debt management policy framework and institutional arrangements to manage debt, examined and made recommendations on a number of plausible debt restructuring/ re-profiling options, together with their impact on three important policy issues: (i) savings to the government in terms of a reduction in the debt burden; (ii) impact on the holders of the restructured bonds, mainly the banking sector and public sector bodies, from a financial stability perspective; and (iii) the future debt path over the next ten years.
26. The debt exchange programme implemented by the Government of Jamaica in February 2013 had a very high participation rate of 99 per cent from domestic bondholders. This is expected to result in estimated annual cost savings of J\$17 billion and an expected reduction in public debt burden by 8.5 per cent of GDP by 2020. At the end of March 2015, the debt stock is projected to have declined by 3.5 per cent of GDP. Similarly, interest payments, which drained away 41.6 per cent of tax revenue in 2011, are projected to have declined by 5.8 per cent at the end of March 2015.

'On behalf of the Government of Jamaica, I would like to take this opportunity to thank the Commonwealth Secretariat for the continued support to Jamaica. In particular, the assistance... on Jamaica's debt sustainability over the medium to long term.

'The assessment was a critical component in the recent restructuring of the domestic debt portfolio.... Recommendations provided.... were incorporated in developing the structure for the National Debt Exchange which had a participation rate of approximately 99 per cent, which will realise a reduction of 8.5 per cent of debt-to-GDP by 2020 and savings on an annual basis of J\$17 billion.'

*Peter D Phillips, PhD, MP, Minister of Finance,  
Kingston, Jamaica*

## Conclusion

27. The evaluation found that the assistance provided by the Secretariat within the framework of its Strategic Plan was highly relevant – and continues to do so – and is in line with the needs, priorities and policies of the Government of Jamaica in addressing its national interest and needs in the strengthening of debt management practices. It took into consideration the Secretariat's comparative strengths as well as the work of other development partners in the country and the region.
28. The assessment noted that the assistance was highly effective in achieving its stated objectives and outcomes and was delivered in an efficient manner, with a total expenditure of about £100,000 over five years. This was widely recognised and acknowledged by the partners and stakeholders, who appreciated the support from the Secretariat and the outcomes that resulted.
29. Overall, the assessment noted that the assistance has made a meaningful impact and has been highly successful in strengthening debt management practices in Jamaica. Policy and advisory support from the Secretariat have significantly improved the governance of public debt management in terms of accountability and transparency; enhanced the effectiveness of debt management operations through better institutional arrangements, capacity and use of management information system; and supported the progression towards a less risky debt structure. Policy advisory support also enabled Jamaica to successfully complete a market-led national debt exchange process in 2013, leading to significant reductions in debt burden and debt service costs.
30. The assessment reaffirmed the positive contribution that the Commonwealth Fund for Technical Co-operation is making at country and pan-Commonwealth levels.

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