Jamaica
Memorandum on the Budget 2010/11

8th April 2010

Ministry of Finance and the Public Service

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BUDGET MEMORANDUM FY 2010/11

FOREWORD

The FY 2010/11 Budget Memorandum provides an overview of the Central Government's performance during FY 2009/10 and of the FY 2010/11 programme. The revised FY 2009/10 fiscal programme and the FY 2010/11 programme reflect the Government's recently articulated Medium Term Economic Programme (MTEP) against which the International Monetary Fund (IMF) approved a 27-month Stand-By Arrangement for Jamaica.

Implementation of the MTEP commenced in FY 2009/10 with the institution of new revenue and expenditure measures geared towards increasing revenue and reducing expenditure over the medium term to ensure sustainability of the fiscal operations. A major element of the MTEP during FY 2009/10 was the execution of a voluntary debt exchange programme marketed as the Jamaica Debt Exchange (JDX). The JDX achieved an unprecedented 99.2% participation rate resulting in a significant reduction in projected interest payments and smoothing of the maturity profile of the debt thereby effectively reducing amortization levels over the two year period of FY 2010/12. The success of the JDX represents the beginning of fiscal sustainability and has set the stage for successful achievement of the MTEP.

Another element of the MTEP in the thrust to practice prudent fiscal management is the fiscal responsibility legislation which has been enacted through amendments to two existing acts – the Financial Audit & Administration (FAA) Act and the Public Bodies Management & Accountability (PBMA) Act. These two Acts seek to instil greater discipline in how both Central Government and Public Bodies operate.

The legislation gives the Minister with responsibility for Finance sole authority to borrow and holds Public Bodies accountable by requiring that they seek the requisite permission from the referenced Minister before entering into preliminary discussions to borrow, or to actually borrow. For the first time, the budgets of Public Bodies, in addition to summaries of their corporate plans, have been subject to Parliamentary debate.

There have also been amendments to the FAA Act that effectively put an end to deferred financing. The Minister of Finance is now held accountable, through the Fiscal Responsibility Statement, for the performance of the country with respect to key fiscal indicators and will have to give an account to Parliament for performance with respect to these and other indicators. This represents a fundamental shift in the financial management of the country.

The divestment of Air Jamaica and the three remaining sugar companies, the rationalization of other public bodies, the rationalization & restructuring of the public sector are all aimed at improving and optimizing the operational efficiencies of the Government of Jamaica. Improvements in efficiency result in improvements in productivity and save the Government valuable resources that can be diverted to other areas of need.

The Government's MTEP though difficult represents the Government's resolve to accept responsibility for the challenge the country faces and to make a concerted effort to undertake the structural adjustments that are necessary for transformation of the economy.

The Government's commitment to this transformation is supported by the country's other international development partners who have committed an unprecedented level of loan/grant resources over the medium term to assist the process. The loans are mainly budget support loans that are linked to conditionalities of the SBA with the IMF. Achieving SBA conditionalities are therefore critical to disbursement of these loans over the medium term.

Jamaica, despite the commitments from the multilaterals, anticipates re-entry into the international capital market, however, the manner in which this is achieved, as indicated in the Debt Management Strategy FY 2010/11 will not be in contradiction to the MTEP but will be consistent with the aim of attaining the most economical borrowing rates as well as reducing the debt stock to below 120 percent of GDP over the medium term.

Over the medium term, it is expected that economic growth will be raised; inflation will be reduced to 6 – 7 percent of GDP; the current account deficit will be narrowed to around 5 percent of GDP and gross international reserves will be maintained at about 3.75 percent to achieve balance of payment surpluses; the public sector deficit will be reduced to 1 percent; the wage bill will be reduced to less than 10 percent of GDP; and primary spending will be consistently reduced.

This Budget Memorandum charts the beginning of a new chapter in the country's fiscal affairs, one that will not end in 27 months but will continue long into the future as we work to achieve a Jamaica that is the place of choice to live, work, raise families and do business. Prudent management of the country's finances is a first step and will go a long way toward putting Jamaica on the sustainable path of macroeconomic stability and growth. While the Government has taken the lead in this process, success requires the support and participation of the rest of the country.

Wesley Hughes
Financial Secretary

MACROECONOMIC OVERVIEW – FY 2009/10

OVERVIEW

Against the background of a challenging international economic environment featuring a recession in most of the major world economies, the Jamaican economy contracted by 2.7% in CY 2009 and preliminary estimates indicate a real decline of around 3.0% for FY 2009/10.

The Government's economic strategy for FY 2009/10 was geared towards reducing interest rates, containing the deficit on its fiscal operations, containing inflation to between 11% and 14% and maintaining a healthy net international reserves (NIR) position. A contraction in real GDP of 2.5%-3.5% was forecast for FY 2009/10.

The adverse effects of the global economic crisis on the Jamaican economy precipitated lower than programmed revenues and cutbacks in budgeted expenditure. In an effort to limit the adverse effects of the shocks on its economic programme, the Government requested assistance from the International Monetary Fund (IMF) through a Stand-By Facility. This facility was buttressed by the ongoing support from the other multilateral agencies, (the World Bank (WB), Inter-American Development Bank (IDB), the Caribbean Development Bank (CDB)) and the European Union (EU)).

Under a voluntary debt exchange programme termed the Jamaica Debt Exchange (JDX) announced on January 14, the Government of Jamaica offered to exchange $701.4bn of its outstanding debt securities (excluding Treasury bills) issued in the local market for new lower interest rate, longer maturity notes. Immediately after the official launch of the JDX programme, the rating agency Standard & Poors (S&P) downgraded Jamaica to "selective default". All the bonds included in the JDX were then rated 'D' indicating that they were regarded as being in default under S&P's methodology (although not under Jamaican law). However, those bonds not part of the offer, mainly Jamaica's Eurobonds, remained at the previous rating of "CCC'.

Moody's downgraded the bonds to Caa1 from B2, among the lowest assignment to a sovereign nation, arguing that it reflected significant concerns about the government's ability to honour obligations given the limited policy options to deal with the economic downturn. High levels of public debt and vulnerability to interest and exchange rate movements were identified as limiting factors for the country's flexibility in meeting these challenges. Fitch Rating agency also downgraded Jamaica's long-term foreign- and local-currency debt ratings to CCC from B.

Following the extremely successful execution of the JDX and approval of the IMF SBA S&P assigned a 'B- 'sovereign credit rating and 'B' debt rating to the new bonds. Moody's and Fitch rating agencies also revised Jamaica's rating upward.

The 27-month Stand-By Facility for US$1.27bn approved by the International Monetary Fund (IMF) on

February 4, 2010, included execution of the JDX as a prior conditionality. With approval of the IMF SBA Jamaica was able to obtain disbursement of the first tranche of US$2.4bn in low cost funding referenced in the IMF SBA from the IMF, WB, IDB and the CDB. The disbursed IMF resources are for establishment of the Financial System Support Fund while that of the other multilaterals represent budgetary support.

S&P noted that the domestic efforts alongside ongoing support from the multilateral agencies should help Jamaica manage its long-standing fiscal and structural problems going forward.

MONETARY DEVELOPMENTS

During FY 2009/10, the Bank of Jamaica (BOJ) continued its monetary policy actions aimed at containing inflationary impulses and maintaining stability in the financial and foreign exchange markets. The BOJ also pursued the objectives of the wider economic programme by gradually adjusting interest rates downward throughout FY 2009/10. Over the first 10 months of the fiscal year, the bank reduced interest rates on six discrete occasions on the broad spectrum of their open market instruments from 17.00% (30-days) to 21.50% (180-days) to a range of 10.5% (30-days) to 15% (180 days). The BOJ further cut its one-month rate on February 9 from 10.50% to 10%. These adjustments took place against the background of notable declines in inflation and relative stability in the foreign currency market.

In the context of inflation containment and prudent interest rate reductions, the nominal value of the J$ depreciated by 0.8% to J$89.51=US$1.00 by end-March 2010 relative to its position at end-March 2009. The NIR had previously slipped by US$68.9mn between March 2009 and February 2010 as the Bank smoothed demand pressures and maintained orderly trading in the f/x market. However, the NIR was subsequently augmented by inflows from the multilateral agencies to record US$1,751.9mn by end-March 2010.

The success of the JDX, favourable trends in inflation, exchange rate and the current account of the balance of payments, as well as increased access to concessionary external financing, facilitated by the IMF Stand-by Arrangement, plus dialogue between the Government and investors allowed for a credible downward trend in Treasury bill rates. The average rate on 6-month T/bill instruments fell to 10.49% in March 2010, from a significantly higher rate of 16.80% in December 2009.

Inflation

The inflation rate was 12.8% for the FY to February 2010, compared to the 11.5% inflation rate recorded for the comparable eleven-month period in FY 2008/09. However, the inflation rate for CY 2009 at 10.2% was considerably lower than the 16.8% inflation outturn for CY 2008.

Lower inflation of 8.8% for the April to December 2009 period compared with the 11.0% outturn in the corresponding period of CY 2008 was mainly due to increased domestic agricultural supplies, especially ground provisions, as well as the impact of weakened consumer demand and a relatively stable exchange rate. However, some pick up in inflation occurred in the first two months of CY 2010 consequent on the direct and pass-through effects of revenue-enhancing measures as well as from the ongoing effects of severe drought conditions affecting agricultural output.

All categories within the overall Consumer Price Index (CPI) contributed to the inflation outturn. However, the combined influences of upward adjustments in fuel & rental charges, as well as electricity and water rates were instrumental in the 30.0% price increase in the 'Housing, Water, Electricity, Gas and Other Fuels' sub-group in the eleven-month review period, while price increases of 25.3%, 19.8% and 8.4% were recorded within the 'Alcoholic Beverages and Tobacco', 'Transport' and 'Food and Non-Alcoholic Beverages' sub-groupings, respectively.

A pickup in economic activities in Jamaica's major trading partner economies pushed imported oil and food prices upward in the domestic market. Average inflation in the economies of Jamaica's main trading partners (US, UK and Canada) for the 12-month period to February 2010 was estimated at 2.2% compared with a 1.6% inflation outturn in the corresponding period to February 2009. However, consumer prices in the Euro zone economies were relatively lower at 0.9%, on average, for the 12-month period to February 2010 compared to a 1.2% increase for the same period to February 2009.

EXTERNAL SECTOR DEVELOPMENTS

Balance of Payments

Provisional data for April-November 2009 indicate a US$1,589.0mn improvement in the current account deficit to US$646.5mn relative to the corresponding period in 2008. A US$1,437.3mn improvement in the merchandise sub-account emanated from a US$2,322.3mn reduction in imports, which was only partially offset by a US$885.0mn decline in export earnings.

Lower oil import prices was a major factor behind reduced import spending, while the decline in export earnings was largely precipitated by a US$630.9mn reduction in alumina exports. In the services account, there was a US$279.9mn increase in the surplus, largely associated with reduced freight costs from lower import levels. The income account revealed an increased net income outflow primarily related to higher debt interest payments by the Government. Concomitantly, current transfers fell by US$65.7mn, and were associated with a US$108.5mn fall-out in net private inflows through remittance companies and building societies.

Within the financial account, net private and official investment inflows were sufficient to finance the current account deficit, and resulted in a US$176.6mn increase in the NIR during the April-November 2009 review period.

External Trade

The trade deficit improved by US$2,072.7mn (37.9%) in the April-November 2009 period relative to its position in the corresponding period of 2008. This improvement was largely due to lower import spending and reduced export earnings. Import spending (cif) declined by US$3,387.5mn (41.9%), largely as a result of reduced spending on fuel and food imports, while there was a US$1,314.8mn (50.5%) fall-out in export (fob) earnings influenced mainly by reduced alumina exports.

Exports
Total export earnings for April-November 2009 amounted to US$1,290.2mn, as all export groupings recorded reduced earnings, with the sole exception of Other Traditional Exports. Major traditional export earnings declined by US$882.0mn (64.6%) to US$482.7mn, largely as a result of lower earnings from alumina (↓US$822.2mn or 71.1%) and bauxite (↓US$27.8mn or 26.8%) exports. Other Traditional Exports improved by US$8.0mn (10.3%), while Non-traditional Export earnings fell by US$399.7mn (44.2%).

Imports
Total spending on imports amounted to US$4,689.5mn for April-November 2009, representing a US$3,387.5mn (41.9%) decline relative to April-November 2008, mainly the result of lower spending on oil & food imports.

Tourism

During the April-January period of FY 2009/10, the tourist industry operated within an international leisure travel environment featuring reduced air passenger traffic, most significantly from the US and Europe, Jamaica's largest tourist markets. Additionally, Jamaica and other Caribbean destinations saw a fall-out when the British Government introduced an air passenger duty regime in November 2009, which imposed higher environmental charges on British passengers to the Caribbean than those levied on passengers to Florida and Hawaii. However, the industry received a short-term fillip in arrivals during the summer months as traffic to Mexico was diverted due to a swine flu outbreak.

Provisional data from the Jamaica Tourist Board (JTB) indicate that for the April-January period of FY 2009/10, tourist arrivals amounted to 2,205,855 persons, reflecting a 0.5% decline relative to the comparable 10-month period in FY 2008/09. This was as a result of a 10.3% decline in cruise arrivals offsetting a 5.2% increase in stopover arrivals. Concomitantly, provisional data for April-December 2009 revealed that visitor expenditure was flat relative to the corresponding nine-month period in 2008, increasing by just 0.1% to US$1,395.3mn.

For CY 2009, total visitor arrivals amounted to 2,753,446 persons, reflecting a 3.7% decline when compared with arrivals in CY 2008. This performance was the result of a 3.6% increase in stopover arrivals being negated by a 15.6% decline in cruise passenger arrivals. Despite relatively higher stopover arrivals evidenced in CY 2009, there was a 1.8% decline to US$1,731.6mn in earnings relative to earnings in CY 2008.

International Commodity Prices

Jamaica remains a price taker for a variety of internationally traded primary commodities such as alumina, coffee, cocoa and sugar, which are important foreign exchange earners for Jamaica. At the same time, Jamaica spends considerable amounts of foreign exchange on commodities such as oil, soybean, corn/maize and wheat.

The prices of soybean meal and maize/corn are of critical importance to

Jamaica as these are some of the main inputs in animal feed, especially poultry feed. Poultry (chicken meat) is heavily weighted in the basket of goods and services (Consumer Price Index) and movement in the prices of inputs for poultry feed influence inflation in Jamaica. Crude oil price is also critical as it affects every aspect of the production process in Jamaica, mainly via electricity costs and gas prices at the pumps. When the dimension of adverse J$ foreign exchange rate movements is added, it brings into sharp focus the need to sustain relative stability in the foreign exchange market.

Export Prices

Cocoa prices moved to an average of US307.14 cents/kilogram (c/kg) in the April-February period of FY 2009/10, representing a 17.5% increase over the US261.41 c/kg average price in the corresponding period of FY 2008/09. Coffee prices (Arabica variety, which comprises 95% of the beans grown in Jamaica) increased by 10.0% relative to the eleven-month period of FY 2008/09, moving from an average of US295.65 c/kg to US325.12 c/kg. Sugar prices in the EU fell by 8.3% when average prices for the April-February review period are compared to prices in the corresponding period in FY 2008/09. Conversely, world sugar prices increased by 70.7% in the review period to US46.73 c/kg from US27.37 c/kg recorded during the same period last year.

The price of sugar on world markets has soared this year as parts of Brazil, the largest exporter, had rainfall four times more than normal, making the cane too wet for milling. Of note, the price of raw sugar has increased to its highest level since 1981, as supply concerns grow. Growing demand for sugar to be used for ethanol in Brazil, coupled with a 45% year-on-year decline in sugar output from India prompted supply worries. India had less rainfall in the 2009 monsoon season and the rainfall was also uneven, damaging a number of agricultural crops. There is now considerable debate about whether the run-up in sugar prices is a sign of a looming supply crisis.

Import Prices

The average price of soybean meal improved by 1.1% to US$360.55/mt for the April-February FY 2009/10 review period relative to US$356.54/mt in the corresponding period of FY 2008/09, while maize/corn prices declined by 22.8% to US$165.22/mt during the review period from US$214.09/mt last year. Corn prices could keep falling, as according to the U.S. Department of Agriculture (USDA), farmers should harvest their second-largest corn crop ever, which would make for "sharply lower summer price prospects for corn.” The recession continues to hit fuel demand, however, and could cut the amount of corn used to make ethanol for this marketing year by 100 million bushels, to 3.65 billion bushels, according to the USDA forecast. These reduced prices filter through to lower domestic prices for various food products, as well as feed for livestock, including dairy cattle, pigs/hogs and chickens. There was also a 24.2% decline in the price of wheat as this commodity’s price moved from US$285.55/mt in FY 2008/09 to US$216.52/mt in the current review period.

Crude oil prices decreased in the current review period, by 21.1% on average, relative to prices in FY 2008/09, moving from US$87.61/barrel to

US$69.15/barrel. The context of oil prices in the comparative periods must be viewed against the background of the turmoil that existed in the immediate aftermath of the global economic crisis, which triggered relatively higher increases in international oil and other commodity prices in FY 2008/09. Prices were on a steady decline from the all-time high of US$147/barrel in July 2008 as the full effects of the world economic downturn then led to a fall-out in demand and prices. The current revival in global economic activity and the recent depreciation of the US$, as well as the usual price drivers including speculation by investors, ongoing tensions in the Middle East, sabotage of oil pipelines in Nigeria and supply uncertainties in Venezuela, have contributed to renewed demand and another round of increased prices for the product.

REAL SECTOR DEVELOPMENTS

GDP Performance

The Jamaican economy showed no sign of recovery during FY 2009/10, as the effects of the global recession precipitated a fall-off in external demand for Jamaican goods and services. Consequently, real GDP is projected to decline by 3.0% relative to last fiscal year. According to the Statistical Institute of Jamaica, the economy contracted by 2.7% in CY 2009 as the goods producing and services industries recorded declines of 8.6% and 0.8%, respectively. Most sectors registered declines, with Agriculture performing creditably.

Mining

Mining was the main contributor to the downturn in the goods producing industry with a 50.2% decline in calendar year 2009, which reflected the deleterious effects of the fall-out in the global demand for aluminium and alumina on the local industry. Both alumina and crude bauxite output fell during 2009.

Agriculture

Agriculture performed creditably, growing by 11.8% in calendar year 2009 as a result of more favourable weather conditions (despite the current drought), new entrants to the sector and the Ministry of Agriculture's Productivity Programme. This growth was largely driven by increased output in both Traditional Export and Other Agricultural crops.

Services

Declines in Transport, Storage & Communication (4.4%) and Wholesale & Retail Trade: Repair and Installation of Machinery (WRTRIM) (1.2%) were the main contributors to the decline in the performance of the services industry. Improvements were recorded for Electricity (2.1%), while modest improvements of 1.0% and 0.8% were recorded in the Hotels & Restaurants and Finance & Insurance Services, respectively.

OUTLOOK

International

The global economy is clearly rebounding from the late 2008 and early 2009 recession, with continued positive signals coming from the manufacturing and services sectors, but serious threats remain. Among the downside risks are the mounting and potentially unsustainable public debt in the most advanced economies, a deteriorating fiscal position which could influence OECD governments to tighten fiscal and monetary policy, despite rising unemployment, weak demand, persistent global imbalances and rising protectionism.

The latest World Economic Outlook (WEO) reports that there are increasingly hopeful signs to indicate a sustainable economic recovery has begun, led by vibrant activity in emerging and developing economies. According to John Lipsky, First Deputy Managing Director of the IMF, projections are for point-to-point global growth of around 4.0% in 2010 and a faster pace in 2011. According to the IMF official, Asian developing economies will grow at a pace two times faster when compared to the global economy with China and India being the growth locomotives.

The February U.S. Jobs Report showed lower than expected unemployment figures as the report from the Bureau of Labor Statistics of the United States Department of Labor showed an unemployment rate unchanged from the January rate of 9.7%. Investors took this as a sign of economic revival with the U.S. President Obama describing the jobs report as "better than expected". Other signs of optimism appeared on the manufacturing front as the Commerce Department announced that factory orders rose by 1.7% in January mainly due to increased aircraft orders. In addition there was a 2.6% increase in 'durable goods' orders while business confidence improved.

At the OPEC meeting held on March 17, 2010, the membership decided to maintain the current oil production ceiling and to make no changes in the output quotas, but reaffirmed their readiness to swiftly respond to any developments, which might place oil market stability in jeopardy. At the same time, major groups, like the International Energy Agency (IEA) and Energy Information Agency (EIA), have projected strong demand for oil in the near future. According to Barclays, oil prices are likely to rise to the $80-$90 range.

Domestic

On February 24, 2010, the international ratings agency, S&P, raised Jamaica's sovereign foreign currency debt to 'B-minus', up from selective default with a stable outlook following the success of the JDX programme. This came one week after another rating agency, Fitch, upgraded the country's long-term local and foreign currency Issuer Default Ratings to B minus.

Future sovereign rating actions by S&P will depend on its view of the Government's ability to benefit from interest cost savings and smoother debt amortization. According to the agency, multilateral assistance to address the country's many fiscal/structural rigidities and inefficiencies and efforts to decrease its high debt burden will also determine future ratings by the agency. The ratings agency also believes that Jamaica's fiscal performance should improve this year as the Government implements a series of fiscal reforms in line with the conditions under the IMF's SBA.

The SBA, alongside other multilateral arrangements, provides a platform for macroeconomic stability and encourages some restoration in business confidence going forward. However, economic growth will hinge to a large extent on external competitiveness of local goods and services and continued growth in the economies of our major trading partners.

Despite forecasts for low growth in the domestic economy, there are good reasons for optimism. Vibrant growth prospects in China, India and Russia in CY 2010 could provide some potential spill over benefits especially for the mining, tourism and agro-processing industries, albeit in the medium to long term. Also, stronger economic growth in the US and European markets will ultimately provide a boost via augmented visitor arrival levels, export earnings and remittance flows to the economy.

CHAPTER 2

CENTRAL GOVERNMENT BUDGET FISCAL YEAR 2010/11

OVERVIEW

The FY 2010/11 Budget has been developed within the context of the Government's Medium Term Economic Programme against which the International Monetary Fund (IMF) approved a Stand-By Arrangement for Jamaica on February 4, 2010. Unlike prior IMF programmes, where the fiscal deficit was a critical performance criterion, the current SBA utilizes the Central Government's primary balance (revenue & grants less non-interest expenditure) as one of the main quantitative performance targets. The SBA includes an adjustment to the primary surplus target for expenditure associated with divestment of Air Jamaica.

Budgeted expenditure for FY 2010/11 is $503,970.4mn. The Budget reflects above-the-line expenditure of $407,136.2mn and amortization payments of $96,834.2mn. As in previous years debt-servicing, of $238,983.6mn, accounts for the largest portion of the budget, 47%, followed by education services $71,605.2mn (14.2%), national security services $35,424.1mn (7.0%) and health services $31,623.4mn (6.3%). Salient features of the budget are presented below.

Debt Servicing

Total debt servicing for FY 2010/11 is projected at $238,983.6mn or 47.4% of the budget. This compares to $359,106.3m or 60.6% for FY 2009/10. The breakout of the debt service is as follows:

	2009/10 $m	**2010/11 $m**	**Variance $m**
Interest Payments	**186,820.9**	**142,149. 4**	**(44,671.5)**
Amortization	**172,285.3**	**96,834.3**	**(75,451.0)**
Total	**359,106.2**	**238,983.6**	**(120,122.6)**
% of Budget	**60.6%**	**47.4%**	**20.3%**

Projected debt service for FY 2010/11 shows a reduction of $120,122.6mn or 20.3% when compared with the FY 2009/10 outturn. This reduction is due to the highly successful Jamaica Debt Exchange Programme (JDX), which was settled in February 2010.

RECURRENT BUDGET

The overall recurrent expenditure is projected to decrease to $343,929.9mn in FY 2010/11 from $385,972.4mn in FY 2009/10, representing a reduction of $42,042.5mn or 10.9%. Public debt (interest payments) is expected to move to $142,149.4mn in FY 2010/11 from $186,820.9mn in FY 2009/10, a reduction of $44,671.5mn or 24.0%. Non-debt recurrent expenditure is budgeted to move to $201,780.5mn in FY 2010/11 from $199,151.5mn in FY 2009/10, a marginal 1.3% increase.

A provision of $2,500.0mn has been made for contingencies and it is expected that this will be utilized for part payment of salary arrears for various public sector groups, as well as to minimize the effects of the increased cost of living on pensioners.

***Non-Debt (Wages & Salaries/Programmes*)**

The main contributors to the increase in allocations for non-debt recurrent expenditure include:

- Provision of $2,000.0mn for part payment of outstanding salary settlements;
- Provision of $500.0mn to minimize the effects of the increased cost of living on pensioners;
- An allocation of $493.9mn for increase in health insurance payments.
- $1,710.13mn increase in pension benefits arising from the number of persons retiring and the higher salary base of these persons;

CAPITAL BUDGET

The projected capital expenditure in FY 2010/11 is $160,040.6mn, of which $96,834.2mn is for amortization and $63,206.4mn for capital programmes including. $22,500.0mn to meet payments associated with the divestment of Air Jamaica. Overall, the capital budget has decreased in FY 2010/11 by 22.7% (inclusive of provision for Air Jamaica divestment costs) from the $207,091.9mn in FY 2009/10. When Air Jamaica is excluded, the reduction is $69,551.3mn or 33.6%.

The budgetary provision for amortization decreased by 43.8% in FY 2010/11, from $172,285.3mn spent in FY 2009/10. Simultaneously, spending on capital programmes is budgeted to increase to $63,206.35mn in FY 2010/11 (including Air Jamaica) from $34,806.57mn in FY 2009/10, representing a $28,399.8mn or 81% increase. Adjusting for Air Jamaica, the baseline capital programme has increased by 17% over FY 2009/10, to $40,706.4mn. Some major projects being funded within the capital programmes are listed below.

Constituency Development Fund

An allocation of $1,200.0mn has been made to undertake work in all 60 constituencies. The main thrust of the Fund is to promote human and infrastructure development by catalyzing economic activities at the constituency level; fostering local governance including good environmental stewardship; improving service delivery by bringing Government and the people closer together; and increasing the effectiveness of the elected representatives.

Purchase of Buses

An allocation of $6,538.71mn has been made to pay for 100 buses for the JUTC that were ordered two (2) years ago and for the acquisition of 100 additional buses during this fiscal year.

Capital B (Multilateral/ Bilateral Projects)

Jamaica Social Investment Fund (JSIF)

A provision of $2,359.6mn has been made to JSIF to undertake expenditure under the following programmes/activities:

- Inner-city Basic Services;
- Basic Needs Trust Fund;
- Poverty Reduction Programme II;
- Rural Economic Development Initiative;
- Community Crime and Violence Prevention;

- Special Projects;
- European Banana Project;
- Community Investment Project; and
- Hurricane Dean Rehabilitation.

JSIF was established as a demand-driven mechanism to:

- deliver basic services and infrastructure to the poor;
- provide resources in the areas of basic social and economic infrastructure; and
- expand the Government's institutional capacity to identify, implement, manage and sustain community-based sub-projects.

During FY 2010/11, JSIF will continue implementation of the Inner City Basic Services Project aimed at improving access to basic services in twelve (12) targeted inner city communities, which have been identified in the parishes of Kingston, St. Andrew, St. James, Clarendon and St. Catherine. Basic services being provided include: clean water; sanitation; road infrastructure; solid waste management and related community-based services; enhanced public safety through mediation and conflict resolution; vocational and skills training; job placement; youth programmes; and family support programmes.

Montego Bay Convention Centre

An allocation of $2,945.7mn in the FY 2010/11 budget has been provided for the Montego Bay Convention Centre to complete works on the facility within the stipulated time. This will allow the Center to commence hosting of events thereby generating foreign exchange earnings and providing employment.

Social Protection Project - (IBRD)

The objectives of this project are to (i) ensure greater social protection of the poor, vulnerable and at-risk persons by strengthening the long-term impact of social assistance to poor families and (ii) establish a viable effective system for public sector pensions.

The main areas for project support will be:

- Benefits designed to motivate educational attainment and retention in secondary schools;
- Intervention to enable greater participation of household members in meaningful employment;
- Comprehensive analysis and review of public sector pension systems; and
- Support social investigation of various types, examination of needs assessment methodologies and development of response options.

An amount of $3,721.56mn has been allocated this fiscal year, which will provide for increased differential payments as well as increasing the number of registered beneficiaries under the Programme of Advancement Through Health and Education (PATH) up to the targeted 360,000.

Palisadoes Shoreline and Road Project

The objective of this project is to make the corridor less susceptible to flooding, whilst protecting the Kingston Harbour from storm surges. The $1,000.0mn provided is to complete 60% of the revetment works, with funding provided by a loan from the China Exim Bank.

Bogue Road Rehabilitation Project

Rehabilitation of Bogue Road is expected to enhance productivity by reducing:

- the economic loss to the country caused by traffic congestion;
- the high fuel consumption due to traffic congestion; and
- vehicle operating costs due to poor road quality.

Approximately $500.0mn has been provided to complete: land acquisition, construction of boundary fences, and civil works for sections 1 and 2, and, to provide payment for variations.

Natural Disaster Management – Tropical Storm Gustav Rehabilitation Works

The aim of this project is to rehabilitate, restore and protect critical sections of physical infrastructure in Jamaica and reduce the vulnerability and difficulties, which have arisen for the entire Kinston Metropolitan Area (KMA).

The FY 2010/11 allocation is for continuation of the rehabilitation of major drainage channels in the KMA; remedy all defects identified in the construction packages and complete the remaining 5% of drainage rehabilitation works.

Washington Boulevard Corridor Widening

An amount of $1,040.0mn has been provided to complete widening of the Washington Boulevard from the Molynes Road intersection to the Dunrobin Avenue/Constant Spring Road intersection. Activities slated for completion during FY 2010/11, include the construction of boundary fences and relocation of utility poles, as well as 90% of the civil works.

Kingston Metropolitan Area (KMA) Water Supply Project

The objective of the KMA Water Supply project is to provide an improved water supply system to the Kingston Metropolitan area (, Kingston & St. Andrew and South East St. Catherine) to keep pace with the rapid industrial and housing developments in these areas. Provision in the FY 2010/11 budget for these activities amounts to $1,555.0mn.

Citizens Security and Justice Project

The main priorities for the Ministry of National Security for FY 2010/11 as they relate to the Citizens Security and Justice Project are to:

- Prevent and reduce violence;
- Strengthen crime management capabilities; and
- Improve the delivery of the judicial services.

The allocation of $683.9mn for FY 2010/11 is for**:**

- Continuing the implementation of the Integrated Management Information System (IMIS);
- Implementing three (3) rapid impact projects in three (3) communities;
- The Department of Cooperatives and Friendly Societies to develop and implement training programmes for twelve (12) Community Action Committees;
- Non-Government Organizations (NGOs) to continue the delivery of violence prevention services to approximately 1,500 residents;

- Provision of vocational training to 400 at-risk persons and tuition to fifty (50) needy students;
- Creating safe community spaces in three (3) communities by the provision of playground equipment and the development of community gardens;
- Providing furniture and equipment for a community centre being constructed by Jamaica National Building Society in Savanna-la-Mar, Westmoreland.

The FY 2010/11 Budget has been crafted during one the most challenging period in recent years. The challenges arise against the backdrop of a less than favourable international economic and financial climate resulting from lower levels of economic activity in the world's major economies, which contributed to a sharp decline in the domestic economy.

The expectations of Jamaica's citizenry for increased efficiency in the delivery of public goods and services, especially during this critical time, present additional challenges for the budget. At the same time multilateral organizations, including the IMF, rating agencies and international financial institutions (IFI's) have subjected Jamaica's fiscal profile to closer scrutiny. Access to the international capital market remains a challenge. Consequently, a sound programme of fiscal consolidation that entails improvement in the primary balances, as well as the reduction of the fiscal deficit will be critical to addressing the medium term debt dynamics.

The FY 2010/11 Budget reflects above-the-line expenditure of $407,136.3mn and accordingly, achievement of the primary balance target of $83,300.0mn will therefore require revenue & grants of at least $325,786.9mn.

Revenue and Grants

For FY 2010/11 revenue and grants are projected at $326,282.1mn. This represents an increase of 8.5% over FY 2009/10 and is broken down as follows:

(in millions of dollars)	2009/10	2010/11	Change (%)
I. REVENUE & GRANTS	**300,817.2**	**326,282.1**	**8.5**
Tax Revenue	265,882.6	287,211.4	8.0
Non-tax Revenue	21,245.5	20,018.0	-5.8
Bauxite Levy	1,588.2	728.9	-54.1
Capital Revenue	5,208.8	2,708.2	-48.4
Grants	6,891.4	15,615.7	126.6

The revenue and grants projection for FY 2010/11 is 26.1% of GDP, compared to 27.1% in FY 2009/10.

Tax Revenue

Tax revenue of $287,211.4mn is budgeted to grow by 8.0% over collections in FY 2009/10. The estimated tax revenue for FY 2010/11 is about 23.0% of GDP, which is 1.0% lower than the 24.0% in the previous fiscal year. The main contributors to the projected decline as a percent of GDP is Tax on Interest, at 1.5% of GDP relative to the 2.5% of GDP in FY 2009/10 and PAYE, at 4.6% of GDP relative to the 5.0% of GDP in FY 2009/10.
The lower projection for Tax on Interest is due to the significant reduction in interest costs arising from the JDX. With respect to PAYE, the public sector wage freeze coupled with job losses in the economy contributes to the reduction in expected PAYE intake.

These reductions in Tax on Interest and PAYE are expected to be partly offset however by (i) the full year impact of the recent (December 2009) tax package (ii) intensification of the tax administration effort by the tax authorities.

Non-tax Revenue

Non-tax revenue is projected at $20,018.0mn, which is $1,227.5mn (5.8%) below collections in FY 2009/10. Receipts in FY 2010/11 are expected to be lower as a result of: (a) reduced buoyancy in miscellaneous receipts across some Ministries, Departments and Agencies (MDA's) and (b) lower interest income on GOJ balances in the banking system.

Bauxite Levy

The downturn in the bauxite/alumina industry that continued in FY 2009/10, occasioned largely by the fallout in global demand and prices, as well as higher input costs, is expected to be evident in FY 2010/11 as well. It is anticipated that the industry will however experience some recovery in production as a result of new ownership and a new corporate system configuration. This anticipated improvement will translate into increased levy inflows over FY 2009/10 (when arrears are excluded). Projections are for levy receipts of $728.9mn.

Capital Revenue

Capital revenue estimates of $2,708.2mn are $2,500.6mn less than collections in the previous fiscal year. Receipts in FY 2009/10 were however bolstered by financial distributions from some public bodies.

Grants

The FY 2010/11 forecast for Grants amounts to $15,615.7mn. This forecast represents a 126.6% increase over receipts in FY 2009/10, including significant amounts to be received from the EU for budgetary support. The major grant-funded investment projects budgeted for FY 2009/10 are listed below.

	J$mn
HIV/AIDS Treatment – Global Fund	905.0
Sugar Transformation (EU)	856.4
Poverty Reduction Project II (PRP2)	574.0
Banana Support (EU)	430.8

Loan Receipts

In FY 2010/11, the Government proposes to borrow $176,288.4mn to cover the fiscal deficit and amortization payments. Of this total $117,971.5mn is programmed to be raised from the domestic market. The remainder of $58,317.0mn is to be raised from external sources, in the form of investment project loans and policy based/development policy loans. The borrowing profile for FY 2010/11 represents a marked 41.6% decrease in gross receipts over the previous fiscal year. This reduction stems from a significantly lower fiscal deficit (6.5 % of GDP down from 10.9% in 2009/10) and lower amortization payments due to the impact of the JDX programme.

CHAPTER 3

PUBLIC SECTOR ENTITIES

OVERVIEW

Public Bodies, comprising statutory bodies, authorities and government companies constitute a significant element of the overall public sector. The functions carried out by Public Bodies cover a wide spectrum of activities including developmental, regulatory and commercial. Despite the diversity, Public Bodies are instruments of public policy and therefore operate either as facilitators or direct actors in the process of development and growth of the economy.

The list of Public Bodies consisted of 195 active entities at the end of FY 2009/10. Subventions from the Consolidated Fund fully support 58 or 30% of these Public Bodies, while another 47 or 24% supplement their subventions with earnings. The largest segment of 90, representing 46% of the group, is expected to generate adequate revenues to fully finance their operations. The Jamaica Public Bodies Estimates of Revenue and Expenditure for the Year Ending March 2011, contains summary corporate plans and budgets of 67 of these self-financing Public Bodies (up from 54 Public Bodies in FY 2009/10).

The self-financing Public Bodies are divided into two groups, namely the Selected Public Bodies (SPBs) and the Other Public Bodies (OPBs). The SPBs have been 'selected' for closer monitoring by the Ministry of Finance and the Public Service (MOFPS) mainly on account of their size, importance and impact on the economy. During FY 2009/10, eight entities were added to the list of SPBs, resulting in a total of twenty. The additions are Air Jamaica, Caymanas Track Limited (CTL), Clarendon Alumina Production Limited (CAP), Jamaica Urban Transit Company (JUTC), National Road Operating and Constructing Company (NROCC), PetroJam Ethanol Limited (PEL), Sugar Company of Jamaica Limited (SCJ) and Wallenford Coffee Company Limited (WCC).

Air Jamaica will not be included in the group of SPBs as of FY 2010/11 due to its impending divestment, while SCJ will be replaced by SCJ Holdings Limited, which has assumed management of the remaining three sugar factories.

Public Bodies partially funded from the Consolidated Fund are to be brought into the MOFPS's detailed monitoring framework during FY 2010/11. Assistance has been obtained through the World Bank to strengthen the MOFPS's monitoring capacity. Work has already begun in this regard and completion is expected during FY 2010/11.

Contribution of Public Bodies

Total assets of the group of sixty-seven (67) Public Bodies contained in the FY 2010/11 Estimates of Revenue & Expenditure are projected at $773,518.0mn (FY2009/10: $701,620.0mn). The combined employment level is expected to be

15,783 persons (FY 2009/10: 15,223 persons). With the utilization of these resources, the group is expecting to generate total revenues of $315,196.0mn from which profits before tax of $25,235.4mn will be derived and $22,899.0mn transferred to the Central Government as corporate and other taxes.

The Public Bodies' contribution to development is expected to continue to grow in FY 2010/11 with expenditure on infrastructure and other capital projects programmed to exceed $64,000.0mn. The outlay on infrastructure by five (5) Public Bodies, namely the National Housing Trust (NHT), the Port Authority of Jamaica (PAJ), National Water Commission (NWC), Urban Development Corporation (UDC) and the Jamaica Urban Transit Company (JUTC) is budgeted at $50,450.0mn for the year.

In its ongoing efforts to fulfill its mandate of providing quality and affordable housing, the NHT plans to spend $25,148.0mn on capital projects during FY 2010/11. The NHT plans to complete 4,047 housing solutions by March 2011, inclusive of 1,556 solutions for which construction commenced in FY 2009/10. The NHT expects payroll contributions to remain flat, given the current economic climate, while mortgage payments are expected to increase due to a larger loan portfolio.

The PAJ will continue to pursue implementation of its Infrastructure Development Programme to expand capacity to meet anticipated increases in demand and to facilitate modernization of Jamaica's Ports to world-class standards.

The major infrastructural development scheduled to be undertaken is the construction of a cruise ship pier in Falmouth, Trelawny, which is being pursued under a joint-venture agreement between the PAJ and Royal Caribbean Cruise Line. Construction of the pier commenced in FY 2009/10 and is scheduled to be completed in January 2011, to facilitate the docking of the Oasis of the Seas (the World's largest passenger vessel). Cost related to this project is budgeted at $6,947.2mn, approximately 92% of the PAJ's total capital programme for the year.

The NWC has outlined specific revenue enhancement and cost containment measures in its quest for financial viability whilst seeking to meet the growing need for potable water by the population. To this end, the externally funded Jamaica Water Supply Improvement Project will be implemented at a cost of $4,500.0mn during FY 2010/11. Included in this project are: replacement of the existing Rio Cobre asbestos pipeline, rehabilitation of selected water treatment plants, meter installation and the drilling of two (2) new wells. There are also plans to undertake pipeline replacement works on the Greater Mandeville Water Supply System and rehabilitation works on the Twickenham Park Sewage Treatment Plant at budgeted costs of $43.0mn and $40.0mn, respectively.

The UDC plans to continue to focus on its mandated core business of orderly development and the renewal of urban areas in an effort to stimulate economic growth and development in Jamaica. Consequently, the UDC plans to expend $5,129mn on its capital programme for FY 2010/11. This includes Joint

Venture and Specially Funded projects ($410.0mn), GOJ/Agency Projects ($4,198.0mn) and Fixed Assets/Other ($521.0mn). GOJ/Agency projects to be funded include the Montego Bay Convention Centre, Montego Bay Sports Complex, Port Maria Civic Centre, Simon Bolivar Cultural Centre and the provision of seating for the GC Foster College.

The UDC will continue to embark on the implementation of investment projects with earning potential to maintain its self-financing status. In this regard, a number of projects have been identified at a budgeted cost of $1,476.2mn with the main ones being the redevelopment of the Machado complex ($395.3mn), Caymanas Primary Infrastructure ($313.2mn), Caymanas Golf Estate-Road 'D' ($256.1mn) and the Success Sewage Treatment Plant ($226.7mn).

The JUTC is projecting significantly improved revenue for FY 2010/11. This improvement is underpinned by planned recovery in passenger trips from 49 million in FY 2009/10 to 62 million, as well as an average fare increase of approximately 50%. The recovery in passenger trips is predicated on the addition of 100 new buses to the fleet to facilitate a bus run of 365 buses per day by the end of the year. The buses are expected to cost approximately $3,450mn for FY 2010/11.

Corporate Governance and Fiscal Responsibility

In its ongoing effort to improve the governance framework within which Public Bodies operate, MOFPS has taken steps to amend the Public Bodies Management and Accountability (PBMA) Act for greater effectiveness. These amendments will address improved governance practices in Public Bodies by requiring higher levels of transparency and accountability from directors and managers. Regulations are also being developed to give effect to various provisions of the Act, including the Financial Distribution Policy, Acquisition of Shares, Code of Conduct for Directors and Code of Audit Practices. The process to amend the legislation, although not as timely as was envisaged, is far advanced and should be concluded before the end of FY 2010/11.

Through the collaborative efforts of the MOFPS, the Cabinet Office and the Inter-American Development Bank, further improvements to the governance and accountability framework of Public Bodies are being pursued. To this end, consultants were engaged by the Cabinet Office and studies concluded with respect to a Governance Framework for Chief Executive Officers and a Clarification of the Governance Framework for Public Bodies. Another consultancy to strengthen the Governance Framework for Public Bodies is now being pursued. This focuses on two areas, namely (i) harmonising the enabling legislation of statutory bodies to the PBMA Act and (ii) developing the regulations.

The MOFPS continued its programme of training for directors and other senior management personnel of Public Bodies in the areas of corporate governance, as well as compliance with the MOFPS's reporting requirements. Over the two-year period from FY 2008/09 to FY 2009/10, governance workshops were held in collaboration with twelve Ministries, which saw participation from at least 320 directors. Representation at training workshops during FY 2009/10 included over 110 officers and 62 Public Bodies. These efforts are expected to result in heightened awareness of governance principles and improved compliance by Public Bodies during FY 2010/11.

The MOFPS, in its various agreements with multi-lateral agencies, has agreed to the introduction of a Fiscal Responsibility Framework (FRF). This is being effected through amendments to the PBMA Act and the Financial Administration and Audit (FAA) Act. Amendments on account of the FRF have been enacted by Parliament in March 2010. One of the most significant changes to the PBMA Act is that the corporate plans and budgets of public bodies as contained in the Estimates of Revenue and Expenditure of Public Bodies will now be approved by Parliament. Formerly, the Estimates were only required to be tabled, hence were not subject to debate. Changes to the corporate plans and budgets of these public bodies, will also require Parliamentary approval.

As a group, the Public Bodies manage a significant amount of resources. Their combined capital expenditure now exceeds that of the Central Government. Accordingly, such a major portion of public expenditure should be subject to greater Parliamentary scrutiny and approval as a means of enhancing accountability.

Under the Stand-by Arrangement that Jamaica has signed with the International Monetary Fund (IMF), Public Bodies will be held to even stricter levels of performance reporting, as together they represent a critical sector in the Government's overall programme. Timely and accurate reporting will therefore be crucial elements of the accountability requirements.

Rationalization and Restructuring

The Government's ongoing efforts to rationalize the public sector has taken on an added dimension, as well as renewed vigour. A Transformation Unit has been established within the Office of the Prime Minister to spearhead the programme. Rationalization of Public Bodies, although only an element of the overall programme, is a key factor in the process of 'right-sizing' the public sector. The achievement of operational efficiencies and synergies is one of the desired outcomes, whereby Public Bodies deemed to be non-critical, will be subject to divestment, restructuring or winding-up.

Divestment activities are underway for the Sugar Company of Jamaica (SCJ) and Air Jamaica. Two of the five sugar estates operated by the SCJ have been privatized and negotiations continue with a view to divesting the remaining three. Agreements have been reached for the sale of Air Jamaica and Clarendon Alumina Production Limited (CAP). Expectations are that these divestments will be concluded during FY 2010/11.

A total of 31 of the 74 inactive Public Bodies identified to be wound-up were removed from the list during 2009. There are 35 Public Bodies that have been recommended for mergers while others will be subject to ongoing reviews to determine their optimal mode of operation.

Sustainable Development Strategy

In FY 2010/11, the MOFPS will continue efforts to increase Public Bodies incorporation of environmental awareness in their operations. Public Bodies are expected to continue training staff in identifying and developing environmental preservation measures, including pollution prevention, appropriate waste disposal, energy efficiency and conservation measures.

CHAPTER 4

REVIEW OF SELECTED PROJECTS

The Government of Jamaica (GOJ) in collaboration with its Multilateral/Bilateral partners is committed to the task of national development through the implementation of programmes in the priority areas of education, health, security, agriculture and infrastructure.

SOCIAL SECTOR

Education

Education Transformation Project

The GOJ obtained financing for the Education Transformation Project from the World Bank (US$16.0mn) and the Inter-American Development Bank (US$15.0mn) to address deficiencies in the education system at the early childhood, primary and secondary levels as set out in the Task Force Report on Education of 2004. The six components of the Project are:

- Modernisation of the operations of the Ministry of Education;
- School infrastructure and facility upgrade;
- Curriculum development and learning support;
- School governance and management;
- Behaviour and Community Management Strategy;
- Communication and stakeholder participation.

Some of the key achievements during FY 2009/10 include:

- Approval received from Cabinet to revise the existing boundaries and number of Regional Education Entities (formerly Regional Offices);
- Refurbishing of the Lewisville High School in St. Elizabeth;
- Development of a National Numeracy and Literacy Policy;
- Establishment of partnerships with the National Parent Teachers Association and the National School Boards Association.

During FY 2010/11, the following activities will be undertaken:

- Establishment of Regional Education Entities in Regions I and II;
- Acquisition of software for the Education Management Information System;
- Upgrading of 16 schools islandwide;
- Inspection of 150 schools by the National Education Inspectorate.

Youth Development Programme

On December 5, 2008, the GOJ and the Inter-American Development Bank (IDB) signed a Loan Agreement for US$11.0mn to facilitate the transition of unattached youth to adulthood and the world of work through training, on-the-job experience, information dissemination and labour intermediation services.

The Youth Development Programme is being implemented jointly by the Ministries of Education and Youth, Sport & Culture and will facilitate the expansion and strengthening of the National Youth Service (NYS) Corps Programme. During FY 2009/10, furniture and equipment were purchased for NYS Parish Offices islandwide and the Statisical Institute of Jamaica (STATIN) was contracted to conduct a National Youth Survey.

The following activities are programmed for FY 2010/11:

- Upgrading of the NYS Parish Offices and rehabilitation of the NYS Campsite;
- Refurbishing of 2 buildings for the Youth Information Centres in St. Catherine and Clarendon;
- Upgrading of the National Centre for Youth Development website;
- Engaging the services of a consultant to revise the National Youth Policy;
- Undertaking of the National Youth Survey by STATIN.

Primary Education Support Programme (PESP)

The Programme is funded by a loan from the IDB and seeks to improve the performance, efficiency and equity of the primary education system through institutional development and the construction and rehabilitation of school facilities. In January 2009, the Government of Jamaica obtained a Supplemental Loan of US$14.0mn from the IDB to complete the schedule of activities under the civil works component of the Project.

During FY 2009/10, the physical infrastructure was upgraded at the following schools:

- Gordon Town All Age (A/A) in St. Andrew;
- Guys Hill A/A in St. Catherine;
- Christiana Leased Primary in Manchester;
- Mayfield A/A in St. Elizabeth;
- Lucea Primary in Hanover;

The activities to be undertaken during FY 2010/11 include:

- Construction of two new primary schools at Hellshire in St. Catherine and Red Hills in St. Andrew;
- Completion of works on Mansfield Primary in St. Ann and Sheffield A/A in Westmoreland.

Health

HIV/AIDS Treatment, Care and Prevention Services – Global Fund

In June 2008, a grant of US$12.22mn was obtained from the Global Fund to support the HIV/AIDS Awareness and Prevention Programme being implemented by the Ministry of Health. The Programme seeks to strengthen the multi-sector national response to the prevention of the HIV/AIDS epidemic in Jamaica by:

- Reducing the transmission of new HIV infections and mitigate the impact of the HIV epidemic;
- Providing universal access to Anti-Retroviral (ARV) treatment, care and support;
- Protecting fundamental human rights and empowering Jamaicans to make healthy choices.

The achievements of the programme during FY 2009/10 include:

- Information dissemination to 289,626 students through life-skills based Health and Family Life Education Intervention in schools;
- Counselling and testing for HIV of 568,747 persons;
- Provision of antiretroviral combination therapy to 6,459 adults and 436 children with HIV;
- Adoption of policies to address HIV/AIDS by 179 institutions;
- Free distribution of 1,745,202 condoms at selected intervention sites;
- Redress of approximately 17% of reported cases of discrimination.

Programme targets for FY 2010/11 include:

- Training of 800 service deliverers on HIV/AIDS prevention;

- Provision of ARV drugs to 7,300 persons with advanced cases of HIV;
- Testing of 600 infants born to HIV positive mothers;
- Counselling of 160,000 persons on HIV prevention;
- Participation of 350,000 students in life-skills based Health and Family Life Education;
- Distribution of 1,000,000 condoms for free at selected intervention sites.

Social Safety Net/Social Protection Support Project

The GOJ secured funding from the World Bank (US$40.0mn) and the IDB (US$15.0mn) to finance programmes geared toward protecting the most vulnerable groups in the society.

The Project seeks to improve the welfare of beneficiaries under the Programme of Advancement Through Health and Education (PATH) by increasing the amount of the subsidy, enrolling additional vulnerable households to the Programme and increasing human capital levels of poor families through attendance at school and health centres.

In FY 2009/10, the number of registered persons with PATH was 327,145 while 325,833 received monthly benefit payments. Compliance in school attendance was at 81% and attendance at health centres for infants ages 0 - 11 months was at a 90% compliance rate.

Activities to be undertaken during FY 2010/11 include:

- On-going registration of persons to PATH;
- Training of staff in preparation for implementation of the 'Steps to Work' Programme which will enable beneficiaries to enter/re-enter the world of work;
- Conducting workshops on the administration of PATH for 400 Medical Records Officers;
- Training of 200 social workers in the re-certification process for PATH beneficiaries.

Jamaica Social Investment Fund (JSIF)

JSIF was established in 1996 to spearhead a number of projects aimed at alleviating the social and economic needs at the community level. An overview of the Projects is provided below:

(i) Inner City Basic Services (ICBS) – IBRD Loan

The Project seeks to improve the quality of life in 12 innercity areas through improved access to basic infrastructure, enhanced community capacity and improvement in public safety. During FY 2009/10, infrastructure work was completed at a total cost of $303.6mn in 5 communities in Kingston, St. Andrew and St. James. A number of social intervention programmes were also carried out, involving the participation of 206 youth (109 males and 97 females) in the ICBS Mentorship Programme. During FY 2010/11, infrastructure work will be carried out in the remaining 7 communities and the social intervention programmes will continue with the assistance of Non-Governmental Organizations (NGOs).

(ii) Emergency Recovery Project – IBRD Loan

Following the passage of flood rains in 2007, funding was obtained for the rehabilitation of 41 basic and primary schools, 19 health centres and 16 parochial/feeder roads. At February 2010, 23 schools, 14 health centres and 11 roads had been rehabilitated. During FY 2010/11, the remaining 18 schools and 5 health centres will be rehabilitated.

(iii) Basic Needs Trust Fund – CDB Grant

The project is aimed at improving skills training, strengthening community-based organizations and upgrading social infrastructure in poor communities. In FY 2009/10, a total of 12,759 persons benefited from the 14 projects, which were completed.

For FY 2010/11, rehabilitation work will take place on the Mavis Bank Health Centre in St. Andrew, the parochial market in Gayle, St. Mary and the Homestead Place of Safety in St. Catherine.

(iv) Jamaica Violence Action Fund (JAVA) – Japan/World Bank Grant

A grant of US$2.65mn was obtained from the Japan Social Investment Fund for the Project, which is being administered by the World Bank. The Project seeks to build on the achievements of the ICBS Project by supporting sub-projects in the areas of:

- Mediation and conflict resolution;
- Social programmes for at-risk youth;
- Social support services for vulnerable families.

During FY 2010/11, 16 sub-programmes are scheduled to be undertaken, which will benefit approximately 93,500 residents of high-risk neighbourhoods.

(v) Rural Economic Development Initiative (REDI) – IBRD Loan

In January 2010, a loan of US$15.0mn was obtained from the World Bank for the REDI Project. The Project is aimed at reducing rural poverty by providing financial and technical support through grants for eligible projects in agriculture, tourism and small-scale public infrastructure.

The following activities will be undertaken during FY 2010/11:

- Grants of up to J$4.5mn/project to be disbursed for eligible projects in agriculture and tourism;
- Grants of up to J$17.8mn/project to be disbursed for eligible projects in small-scale public infrastructure;
- Technical assistance to be offered to organisations such as Rural Agriculture Development Authority (RADA), Parish Councils, Tourism Product Development Company (TPDCo) and Jamaica Agricultural Society (JAS).

National Security

Citizens Security and Justice Programme II (CSJP II)

In December 2009, the Government of Jamaica secured a loan of US$21.0mn from the IDB to continue the work done under the first phase of the Programme. Under Phase II, strategic intervention programmes will be implemented to reduce crime and violence in 28 vulnerable communities.

Under the programme, vocational skills training was provided through HEART and educational instruction was provided to residents of 15-targeted communities with the assistance of a number of NGOs.

The activities that are programmed for FY 2010/11 include:

- Provision of tuition support to 3,500 needy students;
- Design and delivery of vocational skills training programmes to 600 at-risk persons;

- Training programmes for Community Action Committees;
- Implementation of Rapid Impact Projects in 4 communities;
- Implementation of the Integrated Management Information System (IMIS) at the Ministry of National Security under the capacity building component of the Project.

AGRICULTURE

Centre of Excellence for Advanced Technology in Agriculture (CEATA)

In January 2010, the GOJ received a grant of US$2.0mn from the Government of Spain for the development of a Centre of Excellence for Advanced Technology in Agriculture (CEATA) at Bodles Research Station in St. Catherine. The overall objective is to increase the competitiveness of agricultural production in order to meet local demand for high quality fruit and vegetables and to boost export of these food items. CEATA will serve as the focal point for the agricultural sector where research, development and innovation will be applied to business development and promotion.

The first phase of the Project will involve:

- The construction of two green houses for conducting experiments on a range of crops suitable for protected agriculture;
- Training of staff of RADA and other agricultural stakeholders in the use of technology adapted to the local conditioning agro-climatic and social factors;
- The establishment of the tutorial website: www.ceata.gov.jm.

Hurricane Gustav Agricultural Rehabilitation Project

Against the background of damage caused by Tropical Storm Gustav in 2008, the United States Agency for International Development (USAID) approved a grant of US$3.2mn to assist with the recovery of the agricultural sector, including improvement to rural roads. Specifically, the Project seeks to:

- Rehabilitate 100 km of rural roads in Portland and St. Thomas;
- Increase production and productivity of 9 selected crops by the provision of agricultural inputs and training;
- Provide technical assistance in the processing and marketing of produce;
- Assist in the rehabilitation of selected coffee farms in the Blue Mountain region of St. Andrew, Portland and St. Thomas.

The achievements during FY 2009/10 include:

- Completion of road designs and receipt of the necessary approvals for road work to begin;
- Distribution of approximately 47,000 coffee seedlings to selected coffee farmers in the Blue Mountain region;
- Distribution of 1,500 bags of fertilizer to selected farmers;
- Establishment of approximately 672 hectares of domestic crops, benefiting 1,743 farmers.

The activities to be undertaken during FY 2010/11 include:

- Rehabilitation of approximately 100 km of rural roads in Portland and St. Thomas;
- Distribution of approximately 38,000 coffee seedlings to selected coffee farmers in the Blue Mountain region;
- Establishment of approximately 162 hectares of domestic crops.

INFRASTRUCTURE

Kingston Metropolitan Area (KMA) Water Supply Project

The Project is funded by a loan from the Japan International Cooperation Agency (JICA) and seeks to improve the supply of potable water to the rapidly growing communities in the Kingston Metropolitan Area (KMA) which includes Greater Spanish Town (GST) and South East St. Catherine (SESC). The National Water Commission, the implementing agency, has successfully completed rehabilitation of existing facilities in Kingston and St. Andrew. Some 95 Bulk Flow Meters were purchased and 57 meters installed for the non-revenue water reduction and control programme. Construction is 50% complete on the development of a new water source (Lot No. 2A) in the GST region.

During FY 2010/11, the National Water Commission will install the remaining 38 Bulk Flow Meters, complete work on Lot No. 2A in the GST area and commence work on a new water source (Lot No. 2B) in the SESC area.

Washington Boulevard Corridor Widening

In December 2007, the Government of Jamaica obtained a Loan of US$14.78mn from the Caribbean Development Bank (CDB) for the reconstruction and widening of the eastern end of the Washington Boulevard/Dunrobin Avenue corridor.

The project commenced in FY 2008/09 and the following activities were undertaken during FY 2009/10:

- Compulsory acquisition of 37 parcels of land;
- Reconstruction of boundary fences - 88% complete;
- Relocation of utility poles - 90% complete;
- Contract awarded for the road and bridge construction;
- Commencement of excavation works and the laying of storm drains.

During FY 2010/11, the following activities will be undertaken:

- Reconstruction of boundary fences will be completed;
- Relocation of utility poles will be completed;
- Realignment of the NWC water and sewage systems;
- Completion of 90% of the civil works;
- Procurement of traffic management equipment.

Palisadoes Shoreline and Rehabilitation Works

On February 3, 2010, the Government of Jamaica secured a Loan of US$58.1mn from the People's Republic of China to continue the revetment works on the Palisadoes Peninsula to protect the Kingston Harbour from storm surges. Designs have been completed and a contractor selected in keeping with the GOJ procurement guidelines. Approximately 60% of the revetment works will be completed during FY 2010/11.

Transportation Infrastructure Rehabilitation Programme

On October 10, 2008, the Government of Jamaica and the IDB signed a Loan Agreement in the sum of US$50.0mn for the rehabilitation of vital sections of the primary road network, which were damaged by the passage of recent tropical storm systems.

The following activities were undertaken during FY 2009/10:

- River training works in the Yallahs River in St. Thomas;
- Revetment works at Roselle in St. Thomas;
- Contract awarded for the design and construction of the Dry River Bridge at Harbour View, St Andrew.

For FY 2010/11, the following activities are programmed:

- Continuation of river training works in the Yallahs River in St. Thomas;
- Continuation of revetment works at Roselle in St. Thomas;
- Construction of the Dry River Bridge at Harbour View;
- Feasibility study on the southern highway corridor;
- Engagement of the services of a consultant to conduct an investigative study on the drainage network in the Kingston Metropolitan Area.

The Government of Jamaica (GOJ) in collaboration with its Multilateral/Bilateral partners is committed to the task of national development through the implementation of programmes in the priority areas of education, health, security, agriculture and infrastructure.

SOCIAL SECTOR

Education

Education Transformation Project

The GOJ obtained financing for the Education Transformation Project from the World Bank (US$16.0mn) and the Inter-American Development Bank (US$15.0mn) to address deficiencies in the education system at the early childhood, primary and secondary levels as set out in the Task Force Report on Education of 2004. The six components of the Project are:

- Modernisation of the operations of the Ministry of Education;
- School infrastructure and facility upgrade;
- Curriculum development and learning support;
- School governance and management;
- Behaviour and Community Management Strategy;
- Communication and stakeholder participation.

Some of the key achievements during FY 2009/10 include:

- Approval received from Cabinet to revise the existing boundaries and number of Regional Education Entities (formerly Regional Offices);
- Refurbishing of the Lewisville High School in St. Elizabeth;
- Development of a National Numeracy and Literacy Policy;
- Establishment of partnerships with the National Parent Teachers Association and the National School Boards Association.

During FY 2010/11, the following activities will be undertaken:

- Establishment of Regional Education Entities in Regions I and II;
- Acquisition of software for the Education Management Information System;
- Upgrading of 16 schools islandwide;
- Inspection of 150 schools by the National Education Inspectorate.

Youth Development Programme

On December 5, 2008, the GOJ and the Inter-American Development Bank (IDB) signed a Loan Agreement for US$11.0mn to facilitate the transition of unattached youth to adulthood and the world of work through training, on-the-job experience, information dissemination and labour intermediation services.

The Youth Development Programme is being implemented jointly by the Ministries of Education and Youth, Sport & Culture and will facilitate the expansion and strengthening of the National Youth Service (NYS) Corps Programme. During FY 2009/10, furniture and equipment were purchased for NYS Parish Offices islandwide and the Statisical Institute of Jamaica (STATIN) was contracted to conduct a National Youth Survey.

The following activities are programmed for FY 2010/11:

- Upgrading of the NYS Parish Offices and rehabilitation of the NYS Campsite;
- Refurbishing of 2 buildings for the Youth Information Centres in St. Catherine and Clarendon;
- Upgrading of the National Centre for Youth Development website;
- Engaging the services of a consultant to revise the National Youth Policy;
- Undertaking of the National Youth Survey by STATIN.

Primary Education Support Programme (PESP)

The Programme is funded by a loan from the IDB and seeks to improve the performance, efficiency and equity of the primary education system through institutional development and the construction and rehabilitation of school facilities. In January 2009, the Government of Jamaica obtained a Supplemental Loan of US$14.0mn from the IDB to complete the schedule of activities under the civil works component of the Project.

During FY 2009/10, the physical infrastructure was upgraded at the following schools:

- Gordon Town All Age (A/A) in St. Andrew;
- Guys Hill A/A in St. Catherine;
- Christiana Leased Primary in Manchester;
- Mayfield A/A in St. Elizabeth;
- Lucea Primary in Hanover;

The activities to be undertaken during FY 2010/11 include:

- Construction of two new primary schools at Hellshire in St. Catherine and Red Hills in St. Andrew;
- Completion of works on Mansfield Primary in St. Ann and Sheffield A/A in Westmoreland.

Health

HIV/AIDS Treatment, Care and Prevention Services – Global Fund

In June 2008, a grant of US$12.22mn was obtained from the Global Fund to support the HIV/AIDS Awareness and Prevention Programme being implemented by the Ministry of Health. The Programme seeks to strengthen the multi-sector national response to the prevention of the HIV/AIDS epidemic in Jamaica by:

- Reducing the transmission of new HIV infections and mitigate the impact of the HIV epidemic;
- Providing universal access to Anti-Retroviral (ARV) treatment, care and support;
- Protecting fundamental human rights and empowering Jamaicans to make healthy choices.

The achievements of the programme during FY 2009/10 include:

- Information dissemination to 289,626 students through life-skills based Health and Family Life Education Intervention in schools;
- Counselling and testing for HIV of 568,747 persons;

- Provision of antiretroviral combination therapy to 6,459 adults and 436 children with HIV;
- Adoption of policies to address HIV/AIDS by 179 institutions;
- Free distribution of 1,745,202 condoms at selected intervention sites;
- Redress of approximately 17% of reported cases of discrimination.

Programme targets for FY 2010/11 include:

- Training of 800 service deliverers on HIV/AIDS prevention;
- Provision of ARV drugs to 7,300 persons with advanced cases of HIV;
- Testing of 600 infants born to HIV positive mothers;
- Counselling of 160,000 persons on HIV prevention;
- Participation of 350,000 students in life-skills based Health and Family Life Education;
- Distribution of 1,000,000 condoms for free at selected intervention sites.

Social Safety Net/Social Protection Support Project

The GOJ secured funding from the World Bank (US$40.0mn) and the IDB (US$15.0mn) to finance programmes geared toward protecting the most vulnerable groups in the society.

The Project seeks to improve the welfare of beneficiaries under the Programme of Advancement Through Health and Education (PATH) by increasing the amount of the subsidy, enrolling additional vulnerable households to the Programme and increasing human capital levels of poor families through attendance at school and health centres.

In FY 2009/10, the number of registered persons with PATH was 327,145 while 325,833 received monthly benefit payments. Compliance in school attendance was at 81% and attendance at health centres for infants ages 0 - 11 months was at a 90% compliance rate.

Activities to be undertaken during FY 2010/11 include:

- On-going registration of persons to PATH;
- Training of staff in preparation for implementation of the ‘Steps to Work’ Programme which will enable beneficiaries to enter/re-enter the world of work;
- Conducting workshops on the administration of PATH for 400 Medical Records Officers;
- Training of 200 social workers in the re-certification process for PATH beneficiaries.

Jamaica Social Investment Fund (JSIF)

JSIF was established in 1996 to spearhead a number of projects aimed at alleviating the social and economic needs at the community level. An overview of the Projects is provided below:

(i) Inner City Basic Services (ICBS) – IBRD Loan

The Project seeks to improve the quality of life in 12 innercity areas through improved access to basic infrastructure, enhanced community capacity and improvement in public safety. During FY 2009/10, infrastructure work was completed at a total cost of $303.6mn in 5 communities in Kingston, St. Andrew and St. James. A number of social intervention programmes were also carried out, involving the participation of 206 youth (109 males and 97 females) in the ICBS Mentorship Programme. During FY 2010/11, infrastructure work will be carried out in the remaining 7 communities and the social intervention programmes will continue with the assistance of Non-Governmental Organizations (NGOs).

(ii) Emergency Recovery Project – IBRD Loan

Following the passage of flood rains in 2007, funding was obtained for the rehabilitation of 41 basic and primary schools, 19 health centres and 16 parochial/feeder roads. At February 2010, 23 schools, 14 health centres and 11 roads had been rehabilitated. During FY 2010/11, the remaining 18 schools and 5 health centres will be rehabilitated.

(iii) Basic Needs Trust Fund – CDB Grant

The project is aimed at improving skills training, strengthening community-based organizations and upgrading social infrastructure in poor communities. In FY 2009/10, a total of 12,759 persons benefited from the 14 projects, which were completed.

For FY 2010/11, rehabilitation work will take place on the Mavis Bank Health Centre in St. Andrew, the parochial market in Gayle, St. Mary and the Homestead Place of Safety in St. Catherine.

(iv) Jamaica Violence Action Fund (JAVA) – Japan/World Bank Grant

A grant of US$2.65mn was obtained from the Japan Social Investment Fund for the Project, which is being administered by the World Bank. The Project seeks to build on the achievements of the ICBS Project by supporting sub-projects in the areas of:

- Mediation and conflict resolution;
- Social programmes for at-risk youth;
- Social support services for vulnerable families.

During FY 2010/11, 16 sub-programmes are scheduled to be undertaken, which will benefit approximately 93,500 residents of high-risk neighbourhoods.

(v) Rural Economic Development Initiative (REDI) – IBRD Loan

In January 2010, a loan of US$15.0mn was obtained from the World Bank for the REDI Project. The Project is aimed at reducing rural poverty by providing financial and technical support through grants for eligible projects in agriculture, tourism and small-scale public infrastructure.

The following activities will be undertaken during FY 2010/11:

- Grants of up to J$4.5mn/project to be disbursed for eligible projects in agriculture and tourism;
- Grants of up to J$17.8mn/project to be disbursed for eligible projects in small-scale public infrastructure;
- Technical assistance to be offered to organisations such as Rural Agriculture Development Authority (RADA), Parish Councils, Tourism Product Development Company (TPDCo) and Jamaica Agricultural Society (JAS).

National Security

Citizens Security and Justice Programme II (CSJP II)

In December 2009, the Government of Jamaica secured a loan of US$21.0mn from the IDB to continue the work done under the first phase of the Programme. Under Phase II, strategic intervention programmes will be implemented to reduce crime and violence in 28 vulnerable communities.

Under the programme, vocational skills training was provided through HEART and educational instruction was provided to residents of 15-targeted communities with the assistance of a number of NGOs.

The activities that are programmed for FY 2010/11 include:

- Provision of tuition support to 3,500 needy students;
- Design and delivery of vocational skills training programmes to 600 at-risk persons;
- Training programmes for Community Action Committees;
- Implementation of Rapid Impact Projects in 4 communities;
- Implementation of the Integrated Management Information System (IMIS) at the Ministry of National Security under the capacity building component of the Project.

AGRICULTURE

Centre of Excellence for Advanced Technology in Agriculture (CEATA)

In January 2010, the GOJ received a grant of US$2.0mn from the Government of Spain for the development of a Centre of Excellence for Advanced Technology in Agriculture (CEATA) at Bodles Research Station in St. Catherine. The overall objective is to increase the competitiveness of agricultural production in order to meet local demand for high quality fruit and vegetables and to boost export of these food items. CEATA will serve as the focal point for the agricultural sector where research, development and innovation will be applied to business development and promotion.

The first phase of the Project will involve:

- The construction of two green houses for conducting experiments on a range of crops suitable for protected agriculture;
- Training of staff of RADA and other agricultural stakeholders in the use of technology adapted to the local conditioning agro-climatic and social factors;
- The establishment of the tutorial website: www.ceata.gov.jm.

Hurricane Gustav Agricultural Rehabilitation Project

Against the background of damage caused by Tropical Storm Gustav in 2008, the United States Agency for International Development (USAID) approved a grant of US$3.2mn to assist with the recovery of the agricultural sector, including improvement to rural roads. Specifically, the Project seeks to:

- Rehabilitate 100 km of rural roads in Portland and St. Thomas;
- Increase production and productivity of 9 selected crops by the provision of agricultural inputs and training;
- Provide technical assistance in the processing and marketing of produce;
- Assist in the rehabilitation of selected coffee farms in the Blue Mountain region of St. Andrew, Portland and St. Thomas.

The achievements during FY 2009/10 include:

- Completion of road designs and receipt of the necessary approvals for road work to begin;
- Distribution of approximately 47,000 coffee seedlings to selected coffee farmers in the Blue Mountain region;
- Distribution of 1,500 bags of fertilizer to selected farmers;
- Establishment of approximately 672 hectares of domestic crops, benefiting 1,743 farmers.

The activities to be undertaken during FY 2010/11 include:

- Rehabilitation of approximately 100 km of rural roads in Portland and St. Thomas;
- Distribution of approximately 38,000 coffee seedlings to selected coffee farmers in the Blue Mountain region;
- Establishment of approximately 162 hectares of domestic crops.

INFRASTRUCTURE

Kingston Metropolitan Area (KMA) Water Supply Project

The Project is funded by a loan from the Japan International Cooperation Agency (JICA) and seeks to improve the supply of potable water to the rapidly growing communities in the Kingston Metropolitan Area (KMA) which includes Greater Spanish Town (GST) and South East St. Catherine (SESC). The National Water Commission, the implementing agency, has successfully completed rehabilitation of existing facilities in Kingston and St. Andrew. Some 95 Bulk Flow Meters were purchased and 57 meters installed for the non-revenue water reduction and control programme. Construction is 50% complete on the development of a new water source (Lot No. 2A) in the GST region.

During FY 2010/11, the National Water Commission will install the remaining 38 Bulk Flow Meters, complete work on Lot No. 2A in the GST area and commence work on a new water source (Lot No. 2B) in the SESC area.

Washington Boulevard Corridor Widening

In December 2007, the Government of Jamaica obtained a Loan of US$14.78mn from the Caribbean Development Bank (CDB) for the reconstruction and widening of the eastern end of the Washington Boulevard/Dunrobin Avenue corridor.

The project commenced in FY 2008/09 and the following activities were undertaken during FY 2009/10:

- Compulsory acquisition of 37 parcels of land;
- Reconstruction of boundary fences - 88% complete;
- Relocation of utility poles - 90% complete;
- Contract awarded for the road and bridge construction;
- Commencement of excavation works and the laying of storm drains.

During FY 2010/11, the following activities will be undertaken:

- Reconstruction of boundary fences will be completed;
- Relocation of utility poles will be completed;
- Realignment of the NWC water and sewage systems;
- Completion of 90% of the civil works;
- Procurement of traffic management equipment.

Palisadoes Shoreline and Rehabilitation Works

On February 3, 2010, the Government of Jamaica secured a Loan of US$58.1mn from the People's Republic of China to continue the revetment works on the Palisadoes Peninsula to protect the Kingston Harbour from storm surges. Designs have been completed and a contractor selected in keeping with the GOJ procurement guidelines. Approximately 60% of the revetment works will be completed during FY 2010/11.

Transportation Infrastructure Rehabilitation Programme

On October 10, 2008, the Government of Jamaica and the IDB signed a Loan Agreement in the sum of US$50.0mn for the rehabilitation of vital sections of the primary road network, which were damaged by the passage of recent tropical storm systems.

The following activities were undertaken during FY 2009/10:

- River training works in the Yallahs River in St. Thomas;
- Revetment works at Roselle in St. Thomas;
- Contract awarded for the design and construction of the Dry River Bridge at Harbour View, St Andrew.

For FY 2010/11, the following activities are programmed:

- Continuation of river training works in the Yallahs River in St. Thomas;
- Continuation of revetment works at Roselle in St. Thomas;
- Construction of the Dry River Bridge at Harbour View;
- Feasibility study on the southern highway corridor;
- Engagement of the services of a consultant to conduct an investigative study on the drainage network in the Kingston Metropolitan Area.

CHAPTER 5

DEBT AND CAPITAL MARKET DEVELOPMENTS

INTRODUCTION

During FY 2009/10, Jamaica's Debt Management, within the context of a world economy recovering from a global recession, successfully achieved its objective of raising adequate levels of financing to satisfy budgetary requirements at relatively minimum cost.

The overall borrowing programme included the drawdown of budgetary support funds from several multilateral institutions, during the fourth quarter of the fiscal year. Successful completion of negotiations with the International Monetary Fund (IMF) for a 27-month Stand-By Arrangement (SBA) facilitated the multilateral disbursements.

There were significant achievements emanating from the FY 2009/10 Debt Management Strategy. Outstanding among the achievements was the successful liability management programme involving a voluntary debt exchange marketed as the Jamaica Debt Exchange (JDX) initiative. With the advent of the JDX, several of the FY 2009/10 Debt Management Strategy objectives were achieved. These include the reduction of interest rates on domestic debt instruments, the realignment (extending and smoothing) of the domestic debt maturity profile, an increase in the fixed-rate proportion of the portfolio, minimization of the foreign currency exposure in the portfolio and implementation of the dematerialization of domestic securities.

The average yields on Jamaica's Global Bonds during the review period showed mixed results, as during the first half of the fiscal year investors trading activities on the bonds was not as robust due largely to the uncertainty and time delays surrounding the Government's negotiations with the IMF SBA. However, following approval of the SBA by the IMF and success of the JDX, the trading performance of the Global Bonds improved significantly in the last quarter of FY 2009/10, signaling renewed investor confidence in Jamaica's macro-economic programme.

Jamaica's credit standing was reviewed several times during the year by rating agencies Standard and Poor's (S&P), Moody's Investor Services (Moody's) and Fitch Ratings. The country's ratings declined during the period August 2009 to February 2010, when the three agencies placed it in the "C" category. The rating actions were prompted by the deterioration in the country's fiscal and debt dynamics, the contemplated domestic debt exchange and the protracted negotiation with the IMF. Announcement of the JDX resulted in all three agencies placing Jamaica in the default category. However, following IMF Board approval of the 27-month Stand-By Arrangement and the successful execution of the JDX, the three rating agencies reinstated Jamaica's rating to the "B" category.

At the end of March 2010, total public debt stood at $1,434.8 billion or 129.4% of GDP compared with 115.7% at the end of March 2009. Domestic interest payments for FY 2009/10 accounted for 54.8% of tax revenues and 37.4% of recurrent expenditure, compared with 36.1% and 27.5%, respectively, for FY 2008/09.

Domestic Debt

PERFORMANCE SUMMARY

The global economic crisis of FY 2008/09 that continued into FY 2009/10 manifested itself in local investors maintaining short positions and choosing to remain liquid. By the end of the third quarter, higher than programmed interest rates resulted in higher than programmed costs for debt financing and an associated rise in projected interest costs.

Given the negative impact of the global economic crisis on the fiscal operations and in particular on the debt operations, the Government of Jamaica took the strategic decision to execute a comprehensive Liability Management Programme (LMP) with respect to its domestic debt, through the JDX initiative. The objectives of the JDX were to enable the lowering of borrowing costs, smoothing of the maturity profile, improvement in the liquidity of the domestic bond market and the reduction of a significant amount of the risks inherent in the domestic debt portfolio. The JDX was executed through the issuance of New Notes with a variety of payment terms, designed to build more liquid benchmark issues and enhance risk management. The JDX, which had a participation rate of 99.2%, has been described as the most successful voluntary debt exchange ever executed.

The JDX assisted in the achievement of a significant number of the stated strategy objectives as follows:

- reduction of interest rates on domestic debt instruments;
- realignment of the portfolio;
- an increase in the fixed-rate proportion of the portfolio;
- extending and smoothing of the maturity profile of the debt to better manage refinancing risk;
- minimizing of the foreign currency exposure of the portfolio; and
- implementation of the dematerialization of securities.

By the close of the financial year, there was measured success in containing the growth rate of the domestic debt, which remained relatively flat when compared with the previous period. Foreign currency exposure was reduced consequent on the reduction of the stock of foreign currency debt in the portfolio. There was considerable success in reducing borrowing costs as the average yield on the benchmark 6-month Treasury Bill moved from 21.77% p.a. at the beginning of the review period, to close the financial year at 10.49% p.a., the lowest in over twenty years. The decline in interest rates over the year was significantly facilitated by dialogue between the Government and investors.

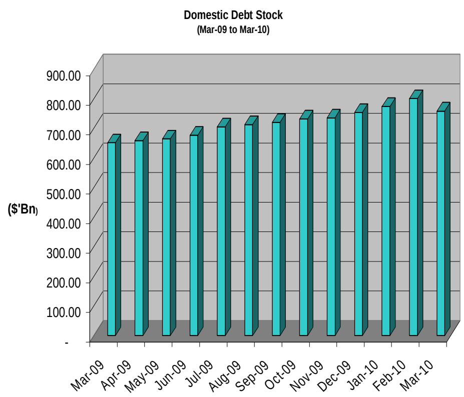
Stock Composition

The stock of domestic debt increased from $651,657.4mn (or 59.1% of GDP) at the end of FY 2008/09 to $758,700.4mn (or 68.4% of GDP) at the end of the review period, representing a net increase of

$107,043.0 or 16.4%, compared to the 15.9% at the end of March 2009. The average monthly movement in the stock for the review period was approximately 1.3%.

The factors contributing to the increase were:

- Financing of the fiscal deficit; and
- Adverse foreign exchange rate movements during the review period



At the end of the third quarter the Investment Bonds/Debentures category accounted for 59.6% of the debt stock, while the Local Registered Stocks (LRS) category represented 23.9%. US$-Denominated Bonds and US$-Indexed Bonds together accounted for 15.1%, while Commercial Bank loans and other loans accounted for the remaining 1.4%.

By the end of March 2010, the structure of the domestic debt had changed significantly as a result of the JDX.

On February 24, 2010, the Government settled the JDX offer to exchange Old Notes for new, lower priced, longer dated and more liquid New Notes converting three hundred and fifty smaller-sized registered securities, totaling $695.6 billion into twenty five large benchmark issues effectively changing the structure of the domestic debt. Of significance under the exchange, was the introduction of CPI-Indexed Bonds and the discontinuation of the US$ Indexed Bonds, which previously contributed to the substantial foreign exchange exposure in the domestic portfolio. The new debt structure will facilitate better management of risks across the portfolio.

At the end of FY 2009/10, the new JDX Benchmark Notes accounted for 91.7% of the domestic debt stock while outstanding 'Old Notes' represented 7.0%. Commercial Bank loans and other loans accounted for the remaining 1.3%. Of the New Notes, Fixed Rate Notes accounted for 42.8%, Variable Rate Notes represented 43.6%, US$ Fixed Rate Notes accounted for 10.6% and CPI-Indexed Bonds accounted for the remaining 3.0%. The structure of the domestic debt will undergo further changes as the Government of Jamaica has exercised its call option with respect to the remaining JDX eligible Old Notes that were not exchanged.

Structure of Domestic Public Debt
March 2009 - March 2010
(J$mn)

	F/Y 2008/09	**%age**	**F/Y 2009/10**	**%age**
JDX FR Notes	**0.0**	**0.0**	**297,818.4**	**39.3**
JDX VR Notes	**0.0**	**0.0**	**303,153.0**	**40.0**
JDX US$ Notes	**0.0**	**0.0**	**73,253.5**	**9.7**
JDX CPI-Indexed Notes	**0.0**	**0.0**	**21,165.0**	**2.8**
LRS	201,936.1	31.0	168.1	0.0
Debentures	328,268.2	50.4	27,115.9	3.6
Treasury Bills	4,094.5	0.6	4,000.0	0.5
US$-Indexed Bonds	29,743.4	4.6	419.3	0.1
US$-Denominated Bonds	79,567.5	12.2	25,539.2	3.4
Commercial Bank Loans & Other	8,047.7	1.2	6,068.0	0.8
Total Domestic Debt	**651,657.4**	**100**	**758,700.4**	**100.0**

Holdings

There was a notable shift in the holdings of registered securities during the fiscal year. Among the institutional investors, Insurance companies recorded the most significant shift, increasing from 12.9% at the end of FY 2008/09 to 15.5% at the end of FY 2009/10. This group represented the second largest holder of Government of Jamaica (GOJ) securities at the end of FY 2009/10. Merchant banks, trust companies and brokers continued to play the major role as market makers for GOJ securities during FY 2009/10, although their holdings decreased from 35.2% of the debt portfolio at the end of FY 2008/09 to 31.8% at the end of FY 2009/10. The holdings of commercial banks decreased from 13.2% at the end of FY 2008/09 to 11.1% at the end of FY 2009/10.

Maturity Profile

The challenging domestic market conditions that hindered the successful implementation of the debt management strategy in FY 2008/09 continued into FY 2009/10. Faced with persistent uncertainty in the macroeconomic environment, market players responded by exhibiting a preference for short dated investments. Despite these challenges, the Government was still able to issue long dated securities with maturities ranging from ten to thirty years.

A total of $30,804.2mn or 12.4% of new debt issues had maturities in excess of five (5) years, compared with 25.6% at end FY 2008/09. New domestic debt issued in FY 2009/10 had 87.6% maturing within 5 years, compared with 74.5% in FY 2008/09. Within this five-year period, 84.6% will mature within 3 years, while 3.0% will mature in 3-5 years. Securities with maturities between 5 and 10 years decreased from 11.1% at the end of March in FY 2008/09 to 9.1% at the end of March in FY 2009/10.

The JDX had the desired effect of smoothing maturities along the yield curve. By the end of FY 2009/10, 52.3% of the total domestic debt outstanding was scheduled to mature in 5 years, compared with 67.4% in FY 2008/09, while 22.2% had maturities of 10 years and over, a significant increase when compared with 14.5% at the end of FY 2008/09. The weighted average maturity of the domestic debt portfolio at the end of the review period was 8.9 years for J$ securities and 2.9 years for US$ denominated securities, compared to 5.7 years for J$ Securities and 8.49 years for US$ denominated securities at the end of FY 2008/09.

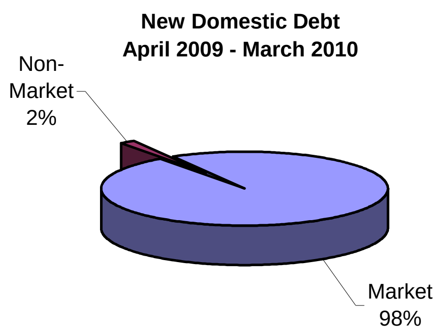
Maturity Structure of New Debt
By Original Maturities
(%)

Years to Maturity	F/Y 2007/08	F/Y 2008/09	F/Y 2009/10
<1 & up to 5	63.4	75.0	87.6
Of which <1 & up to 3	*28*	*70.4*	*84.6*
Of which 3-5	*35.4*	*4.6*	*3.0*
5-10 yrs	28.6	10.3	9.1
10-20 yrs	4.9	11.4	0.0
20-30 yrs	3.1	3.4	3.3
Total	**100.0**	**100.0**	**100.0**

Debt Raising

Gross new debt issued during FY 2009/10 amounted to $248,845.27mn, compared with budgeted financing requirement of $186,378.5mn. The total raised during this period represented an increase of $62,466.6mn or 33.5% over the budgeted financing compared with the 24.4% increase at the end of FY 2008/09.

In keeping with the stated strategy objective of greater transparency, $244,901.3mn or 98.4% was issued directly to the market, while $3,943.8mn or 1.6% represented non-market issues. Financing from non-market sources included a commercial bank loan for the purchase of motor vehicles for the Jamaica Constabulary Force. A total of $217,626.2mn or 87.5% was issued as fixed rate debt, while $31,218.9mn or 12.5% was issued as variable rate. As a consequence of the gradual but consistent interest rate reduction during the period, fixed rate debt issued during the year increased significantly to 87.5%, up from 54.5% in FY 2008/09.



Interest Rate Structure

During the review period, challenging domestic market conditions resulted in market players demonstrating a preference for short dated fixed rate investments, which gradually led to a shift in the interest rate structure by the end of the third quarter of the fiscal year. The interest rate composition at that time showed variable rate securities amounting to 51.1% of the portfolio and fixed rate securities at approximately 48.9%. However, at the close of the fiscal year, following the successful completion of the JDX, the fixed interest rate component of the domestic portfolio had increased to 56.4% up from 40.8% at the end of FY 2008/09.

The weighted average interest rate of J$ debt in the portfolio at the end of the review period was 11.74% p.a., down from 15.32% p.a. at the end of FY 2008/09. The weighted average interest rate for the US$ denominated local bonds and the US$ indexed bonds fell to 7.71% p.a. at the end of FY 2009/10 down from 8.49% p.a. at the end of FY 2008/09.

Domestic Debt Interest Rate Composition
March 2008 – March 2010
(%)

	F/Y 2007/08	F/Y 2008/09	F/Y 2009/10
Fixed Rate	37.6	40.8	56.4
Variable Rate	62.3	59.2	43.6
Non Interest-Bearing	0.1	0.0	0.00
Total Debt	**100.0**	**100.0**	**100.0**

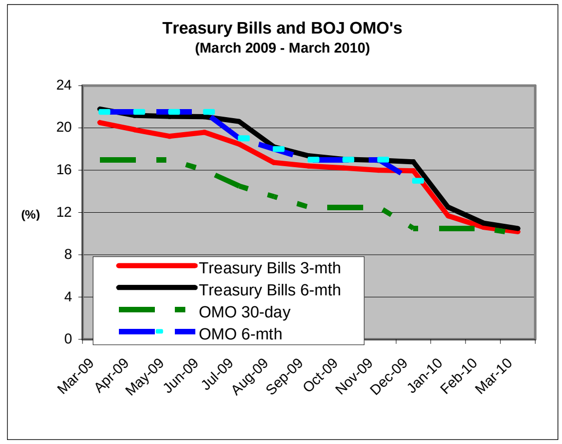
Interest Rates

The global economic crisis and instability in the local foreign exchange market contributed to the high domestic interest rates during the review period.

The Government's decision to request a 27-month SBA from the IMF, led to the expectation of additional inflows from other multilateral institutions, coupled with improved prospects for inflation and macroeconomic stability. Positive trends in key monetary policy indicators facilitated the move by the BOJ towards an aggressive rate reduction on all tranches of its monetary policy open market instruments, by the second quarter of the fiscal year. The rate reduction, which began on April 8, 2009, culminated on February 12, 2010 with significant changes and reductions to the interest rates on all BOJ open market instruments. By the end of February 2010, the interest rate on the signal BOJ 30-day open market instrument had moved from 17.00% p.a. at the end of March 2009, to 10.00% p.a. All other tenor instruments were suspended.

Concurrently, the market responded to both the rate reduction signal sent by the BOJ and dialogue with the Government as evidenced by the average yields on the 3 and 6-month Treasury Bills trending downwards moving from 20.51% p.a. and 21.77% p.a. respectively at the end of April 2009, to 15.95% p.a. and 16.80% p.a. respectively at the end of December 2009.

Launch of the JDX was coordinated with timing of the BOJ rate reductions. The BOJ 30-day tenor saw a further rate reduction to 10.00% p.a. on February 9, 2010. Through a well executed marketing strategy, and the combined efforts of the domestic market players and the BOJ, the Government was able to achieve its debt strategy objective of reduced interest costs over the medium term through significantly reduced interest rates. By the end of March 2010, the interest rate on the 30-day open market instruments stood at 10.00% p.a. and the average yields on the 3-month and 6-month Treasury Bills stood at 10.18% p.a. and 10.49% p.a. respectively.



Liability Management Programme

The Government, having indicated in the Debt Management Strategy 2009/10 its intention to realign the domestic debt portfolio, executed this activity through the JDX. The main characteristics of the JDX which sought to exchange all market issued Jamaica and United States Dollar local securities were:

- A par-for-par exchange offer with "no haircuts";
- Voluntary exchange of approximately $701.5 billion in market issued domestic debt;
- Voluntary exchange of short dated high yielding interest bearing securities for longer dated securities with significantly lower yields;
- Introduction of new benchmark securities;
- Extension of the maturity profile of the domestic debt portfolio in order to lower the refinancing risks;
- Achievement of substantial cost savings;
- Issue of an appropriate mix of fixed, variable and USD securities; and
- The introduction of new CPI-Indexed Investment Bonds.

Prior to the JDX, the domestic debt maturity profile was characterized by the bunching of maturities within a three year period, which would have had an adverse effect on the fiscal operations.

The JDX was launched on January 14, 2010 and settled on February 24, 2010. Citigroup Global Markets Inc. was engaged as Sole Lead Arranger and Citifinance Limited, as Dealer Manager for the transaction. Following execution of the JDX, the results revealed a participation rate of 99.2% from investors. This included 100% participation from the financial institutions and represented $695.60 billion of the total eligible bonds. The immediate benefits of the JDX are the realignment of the domestic debt portfolio, which saw a significant reduction in maturities over the next three years, reduction in the projected interest cost for FY 2010/11, high liquidity in the 25 new benchmark bonds and introduction of new CPI- Indexed Bonds.

Dematerialization of Domestic Securities

Following the launch of the JDX, the Government Securities Dematerialization Act 2010 ("the Act"), was passed into law effective February 16, 2010, under which all new Government of Jamaica securities are required to be issued and registered electronically in the Central Securities Depository ("CSD") managed by the Bank of Jamaica.

The Act requires all participants in the JDX who made offers to exchange their Old Notes for New Notes, to receive those New Notes in electronic format in the CSD. Interest and principal payments in respect of the New Notes and all future issues of Government of Jamaica securities will be made electronically under the provisions of the Act.

Domestic Debt Indicators

At the end of FY 2009/10 the domestic debt as a percentage of GDP was approximately 68.4%, compared with 62.2% at the end of FY 2008/09.

Domestic interest payments accounted for 54.8% of tax revenue and 37.4% of recurrent expenditure at the end of fy 2009/10, compared with 36.1% and 27.5%, respectively, at the end of fy 2008/09.

External Debt

Performance Summary

Instability in the international financial markets continued throughout FY 2009/10. External fundraising efforts were therefore focused on a continuation of the strategy to seek budgetary support financing from the multilaterals under their Policy Based/Development Policy Loan portfolios. As these loans were based on the prevailing low LIBOR rates, this facilitated the achievement of the interest cost reduction objective of the FY 2009/10 Debt Management Strategy.. International interest rates remained low during FY 2009/10 and external debt benefited from this decline recording a marginal reduction in interest costs.

During the year, Jamaica re-established a borrowing relationship with the International Monetary Fund (IMF) by means of a 27-month SBA, for an amount of US$1.27 billion. Approval of the SBA served as a catalyst for the disbursement of loans from the other multilaterals and an upgrade of Jamaica's credit rating by

Standard & Poor's (S&P), Moody's Investor Services (Moody's) and Fitch Ratings (Fitch) agencies to the 'B' category.

These upgrades represented the final rating action for the fiscal year and were subsequent to earlier downgrades arising from the initiation of the domestic debt exchange and the deterioration in the fiscal and external position of the country.

STOCK

At the end of FY 2009/10, the stock of public and publicly guaranteed external debt peaked to its highest recorded level, at US$7,553.0 million (J$676,055.4 billion) or 60.95% of GDP. In US$ terms, the external debt increased by 22.3% compared to 0.13% in FY 2008/09. However, in J$ terms the rate of growth of the external debt was 23.2% compared to 25.1% in FY 2008/09. The increase in the stock was due primarily to:

- Increase in loans from multilateral and bilateral creditors which exceeded gross amortization for the fiscal year;
- Re-establishment of a borrowing relationship with the IMF; and
- Increases in Government Guarantees mainly in support of the National Road Operating and Constructing Company (NROCC).

New loans contracted during the fiscal year included:

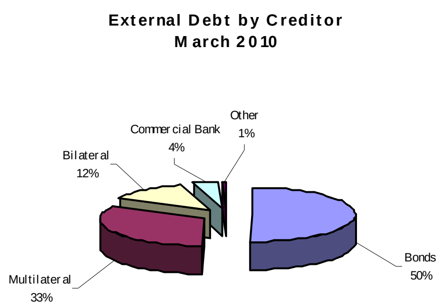
- Human Capital and Protection Programme
- Public Finance and Performance Management
- Education Transformation Capacity Building
- First Programmatic Fiscal Development Policy Loan
- Jamaica Economical Housing Project
- Palisadoes Shoreline Protection
- Preferential Buyer Credit Loan Agreement on Jamaica Road Improvement and Rehabilitation Works Project

Creditor Composition

The composition of the external debt portfolio was realigned during FY 2009/10, as a result of a marked shift in the representation of official creditors. These creditors comprising bilateral and multilateral credits, moved from 30.8% of the debt stock at the end of FY 2008/09 to 45.1% at the end of FY 2009/10. The increase in the proportion of official creditors is attributable to the continuation of the strategy to re-engage the multilateral institutions and other bilateral creditors, for financing.

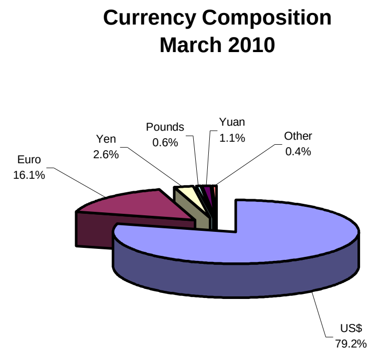
Private creditors comprising bondholders, suppliers' credit and commercial banks constitute the major component accounting for 54.9% in the period under review compared to 67.1% in the previous year. Despite the decline, the segment representing bondholders within this category continues to represent the most significant category of the external debt stock. At the end of FY 2009/10 this segment accounted for 50.4% of the stock relative to 61.9% at the end of FY 2008/09. The significant reduction in the share of this segment reflects the Government's focus on securing more funding from official sources. The shift in the creditor composition serves to reduce the Government's exposure to the more expensive commercial type credits which are priced based on market rates. It will also contribute to maintaining the maturity profile of the external debt portfolio as the loans are secured at long tenors and carry lower interest rates than those obtained from the International Capital Markets (ICM).

Commercial bank credits as a percentage of the external debt stock at the end of FY 2009/10 remained flat at 4.0% compared to 4.6% at FY 2008/09.



Currency Composition

The risk arising from cross currency parity changes was minimized as the US$, the currency in which the external debt is reported, maintained its prominence as the principal currency in which loans in the portfolio are denominated. At the end of FY 2009/10 the US dollar accounted for 79.2% of the debt compared with 81.9% at the end of FY 2008/09. The proportion of the debt denominated in Euros represented 16.1% compared to 13.0%, Yen denominated loans represented 2.6% of the external stock, while other currencies accounted for 2.1% at the end of FY 2008/09.



During FY 2009/10, international interest rates remained low as a result of the prolonged global recession. This however had a positive impact on interest payments on variable rate loans, resulting in lower than projected interest payments. Base interest rates such as the US three month LIBOR was reduced to the historically low level of 0.25% as at January 2010.

Over the years, the external debt portfolio has consisted predominantly of fixed rate loans facilitating insulation of the external debt from adverse interest rate movements. However, during the current fiscal year, in order to benefit from the prevailing low rates and also based on the outlook for interest rates over the medium term some multilateral loans were contracted on a variable rate basis. This resulted in a marginal increase in the variable rate component.

At end-March 2010, 77.5% of the external debt carried a fixed interest rate and 22.5% was variable compared to an 77/23 proportion of fixed to variable at end-March 2009. Bilateral and Multilateral loans attract highly concessional interest rates and have long tenors. Loans within these categories have average interest rates in the range of 2% - 4%.

EXTERNAL DEBT INTEREST RATE STRUCTURE
FY 2007/08 – FY 2009/10

	March 2008	March 2009	March 2010
Fixed-Rate Debt	81.2	76.9	77.5
Variable Rate	18.8	23.1	22.5
TOTAL	100.0	100.0	100.0

Maturity Structure

Consistent with the debt strategy objectives of extending the maturities of the debt and minimizing rollover risk, the external debt was contracted mainly on a long term basis during fy 2009/10. of the new debt contracted 88.4% was at the long end of the curve. the external debt portfolio therefore continues to be largely long-term and consistent with the strategy to minimize rollover risk; that is the risk of having to refund at higher costs, is effectively managed.

Of the total external debt outstanding at the end of FY 2009/10 27.2% had maturities of up to 5 years, compared with 18.9% at the end of FY 2008/09; 23.6% had maturities of 5-10 years down from 30.6% in FY 2008/09; and 49.2% had maturities in excess of 10 years up from 47.3 % in FY 2008/09.

Debt Forgiveness

The United Kingdom has over the years provided debt relief to Jamaica under its various debt initiatives. For FY 2009/10 the Government of the United Kingdom provided debt forgiveness to the value of £2.5 million under the renewed Commonwealth Debt Initiative (CDI). This amount covers principal and interest payments falling due on eligible loans from the United Kingdom Government Overseas Development Assistance (ODA) Programme. This compares to £5.4 million forgiven in the previous year.

Jamaica was granted this debt forgiveness having satisfied the CDI criteria and in recognition of its commitment to the internationally agreed Millennium Development Goals and Policies promoting transparent and accountable government, and economic policies that promote sustainable development.

International Capital Markets

The international capital markets were not approached for financing during FY 2009/10 as the continued financing strategy was to engage the multilaterals for financing under their Policy Based and Development Policy loan windows. Additionally, market conditions were not conducive to an issuance by low rated issuers such as Jamaica and there was no immediate refinancing needs as there were no bullet maturities of global bonds falling due in the fiscal year. The government notwithstanding ensured that it met the statutory requirements of the US Securities and Exchange Commission by filing its annual return on Form 18k in December 2009. This will facilitate re-entry to the international capital markets and will provide updated macroeconomic information on the country.

For the first half of the fiscal year the trading levels of Jamaica's global bonds remained depressed. On the successful execution of the JDX and conclusion of the negotiation for the SBA with the IMF in the last quarter of FY 2009/10, there was improved investor confidence in Jamaica. This contributed to heightened interest in Jamaica's bonds evidenced by the significantly improved return to exceptional performance on the international capital markets. The overall effect on the trading levels of the bonds was reflected in the improved prices and the tightening of the wide spread in yields relative to the corresponding benchmark US Treasury Bonds. Movements in the yields on the global bonds between April 2009 and March 2010 are detailed in the table below:

Trading Levels of Jamaica Bonds April 2009 vs. March 2010

Bond	April 2009	April 2009	March 2010	March 2010
	Price US$	Yield %	Price US$	Yield %
11.75% due 2011	105.00	7.55	105.50	3.94
€ 11%due 2012	87.00	14.14	101.00	8.49
€ 10.5% due 2014	87.00	12.55	101.00	9.09
9.0% due 2015	85.00	11.29	102.50	7.69
10.625% due 2017	87.00	12.19	110.50	8.07
8.0% due 2019	68.00	13.38	97.00	8.07
11.625% due 2022	96.00	11.17	135.00	6.87
9.250% due 2025	71.00	12.77	103.0	8.54
8.50% due 2036	57.00	13.94	98.00	8.40
8.0% due 2039	55.00	13.53	93.00	8.46

Country Rating

Jamaica's credit standing was reviewed several times during FY 2009/10 by the rating agencies Standard and Poor's (S&P), Moody's Investor Services (Moody's) and Fitch Ratings.

In August 2009 S&P lowered Jamaica's long-term foreign and domestic currency ratings to "CCC+" from "B-" and assigned a "Negative" outlook. The downgrade and negative outlook reflected S&P's view that Jamaica's vulnerable fiscal profile combined with difficult financing conditions could compel the government to undertake a debt exchange that would be categorized as a selective default under that agency's distressed debt exchange criteria. The ratings were again revised by S&P in November 2009 to "CCC" from "CCC+" with a "Negative" outlook.

On the announcement of the JDX in January 2010, Jamaica's foreign and local currency ratings were further revised from "CCC" to "Selective Default" (SD). In February 2010, following the successful execution of the JDX and conclusion of the IMF SBA, S&P raised the long-term foreign and local currency sovereign credit ratings to "B-" from "SD".

Moody's, in November 2009, lowered Jamaica's long-term foreign and domestic currency government bond ratings to "Caa1" from "B2" and assigned a "Negative" outlook. The rating was issued on the basis of the agency's perception that the options to restore debt sustainability without a debt restructuring were limited and also its concerns regarding the delays in reaching an agreement with the IMF. In January 2010, Moody's further downgraded Jamaica's country ceiling rating for foreign currency bonds and notes from "Caa2" to "Caa1" with a "Stable" outlook. The anticipated debt exchange constituted an event of default in keeping with Moody's policy. Jamaica's rating was again revised in

March 2010 to "B3" from "Caa1" for the foreign currency and "Caa2" local currency to reflect the diminished credit risks following the domestic debt exchange.

Fitch also exercised rating actions by lowering its sovereign rating on Jamaica in November 2009. The long-term foreign and local currency Issuer Default Ratings were reduced to "CCC" from "B", a "Negative" outlook was assigned. In February 2010 the rating agency placed Jamaica's foreign currency rating at "SD". The foreign currency denominated securities issued in the international capital markets were not affected by the exchange and were affirmed at "CCC". On the announcement of the preliminary success of the JDX at a participation rate of 99.2%, Fitch upgraded its rating on Jamaica to "B-" with a "Stable" outlook. The ratings were also supported by the approval of the SBA with the IMF.

DEBT STRATEGY FY 2010/11

The objective of the *Debt Management Strategy* will continue to be:

> ***"To raise adequate levels of financing on behalf of the Government of Jamaica at minimum costs, to develop and implement strategies to ensure the long-term sustainability of the public debt while maintaining risk at an acceptable level"***.

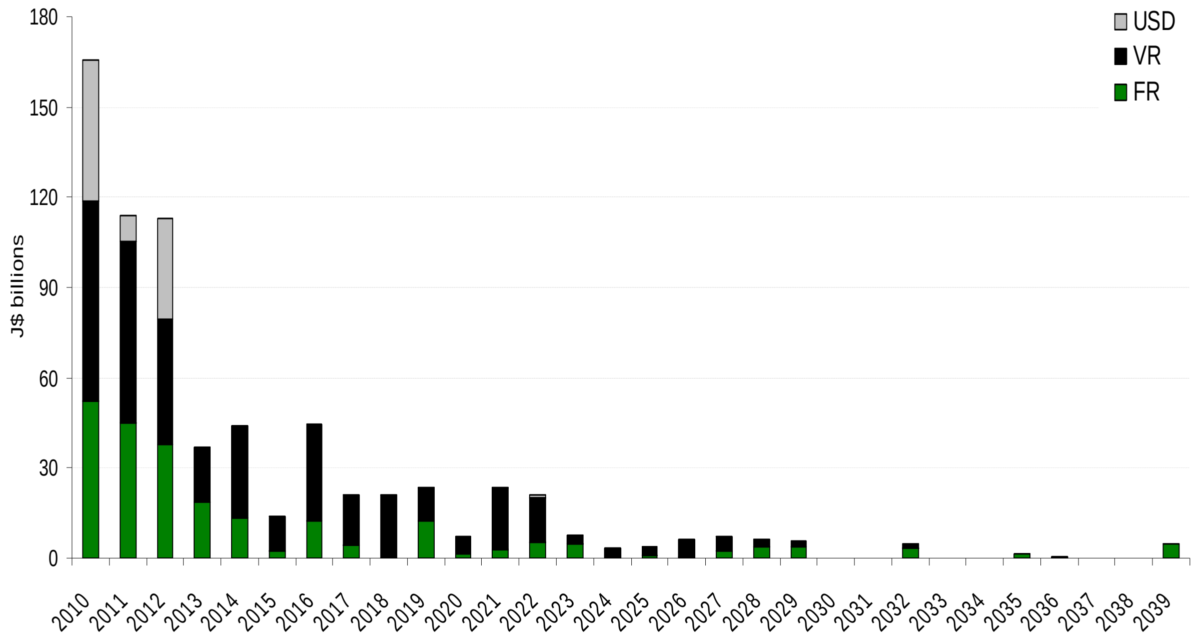
The *Debt Management Strategy* will be to:

- Minimize debt service cost;
-
- Increase the fixed-rate proportion of the domestic debt portfolio;
- Maintain the maturity profile of the debt;
- Minimize foreign currency exposure of the domestic debt portfolio;
- Maintain the number of benchmark bonds;
- Support and improve the development of the secondary market;
- Increase the transparency and predictability of debt issuance and operations;
- Continue to engage the multilateral institutions and the bilateral creditors;
- Enhance consultation with market players and rating agencies;
- Restructure the Debt Management Unit; and
- Implement legislation governing debt management.

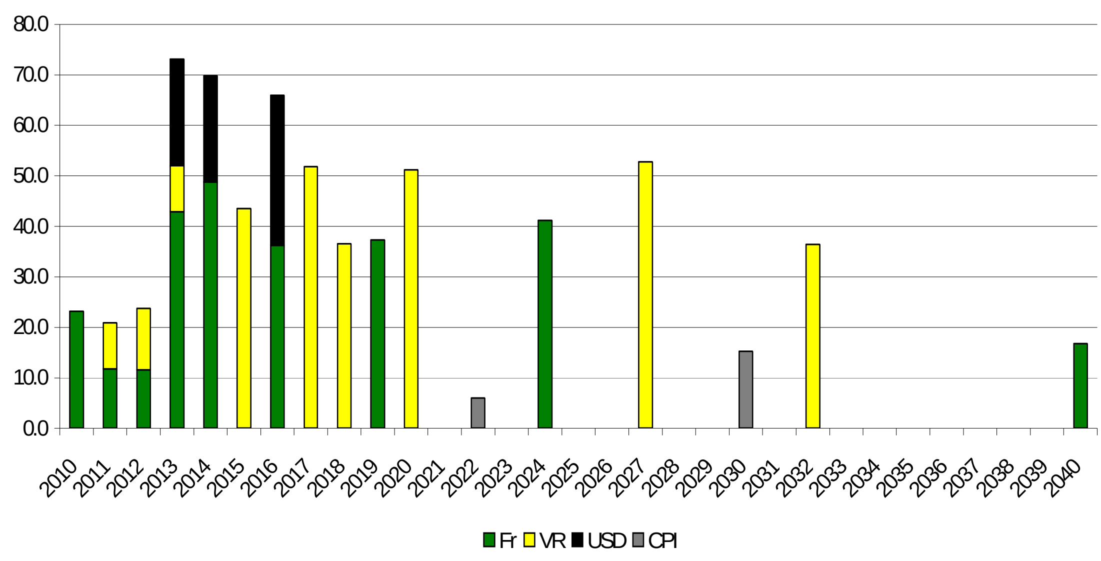
Medium-Term Goals

The objectives of the Medium Term, FY 2010/11 – FY 2014/15 Debt Management Strategy are to minimize the cost of debt and maintain a prudent debt structure consistent with the Government's tolerance for financial risk. The major strategies to be pursued to support the objectives will be (i) cost-risk analysis of alternative portfolio options (ii) reducing debt to sustainable levels (iii) reducing financial risk to prudent levels, and (iv) developing the secondary market for government securities to increase competitiveness. These objectives will support the Fiscal Responsibility Framework (FRF).

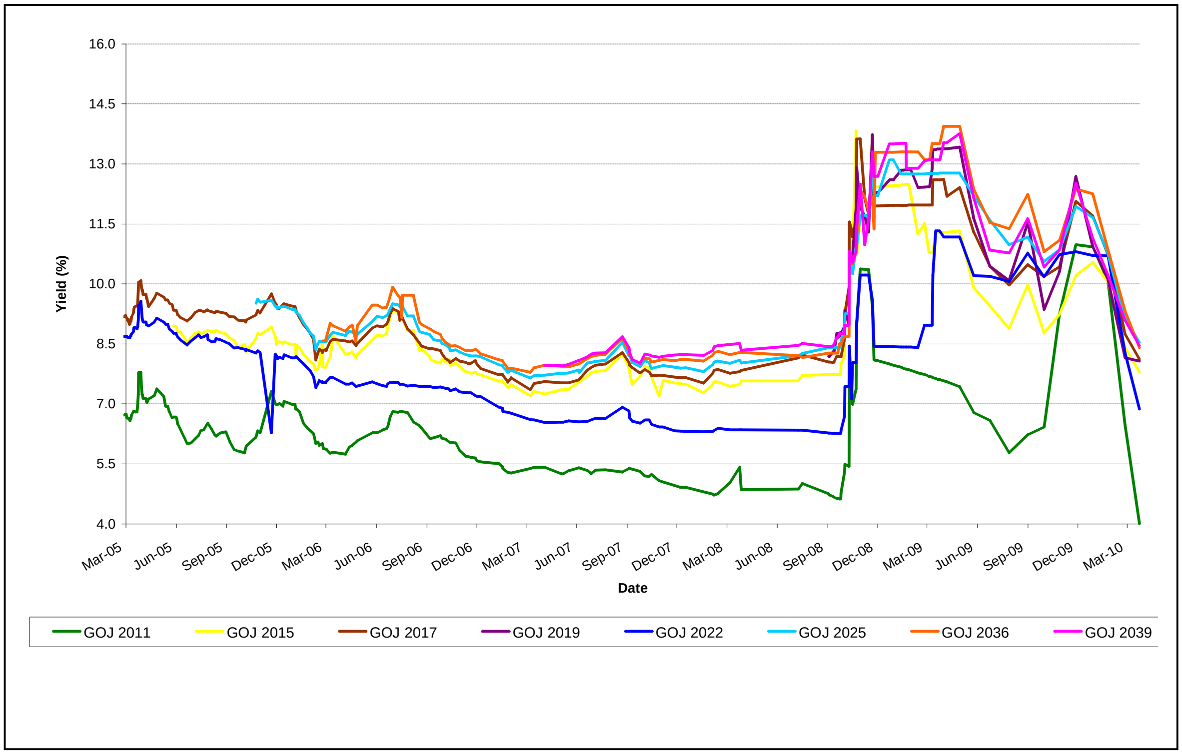
Maturity Profile Pre JDX

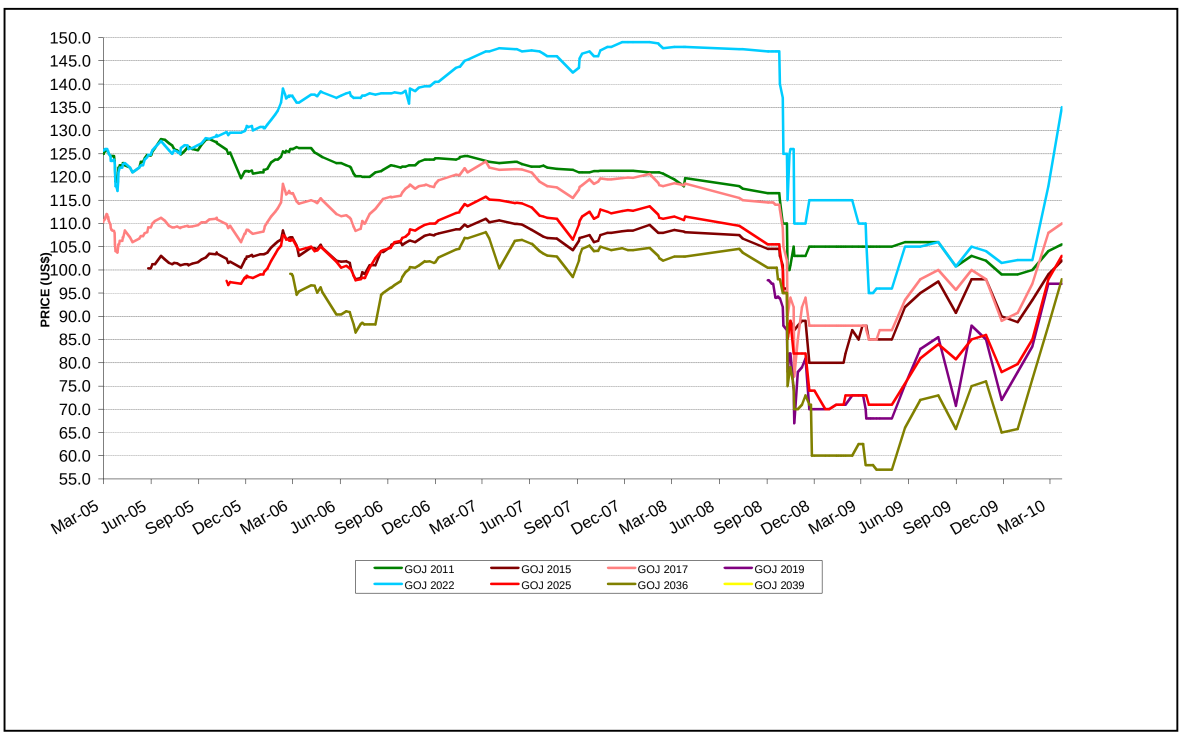


Maturity Profile Post JDX
(J$ billions)

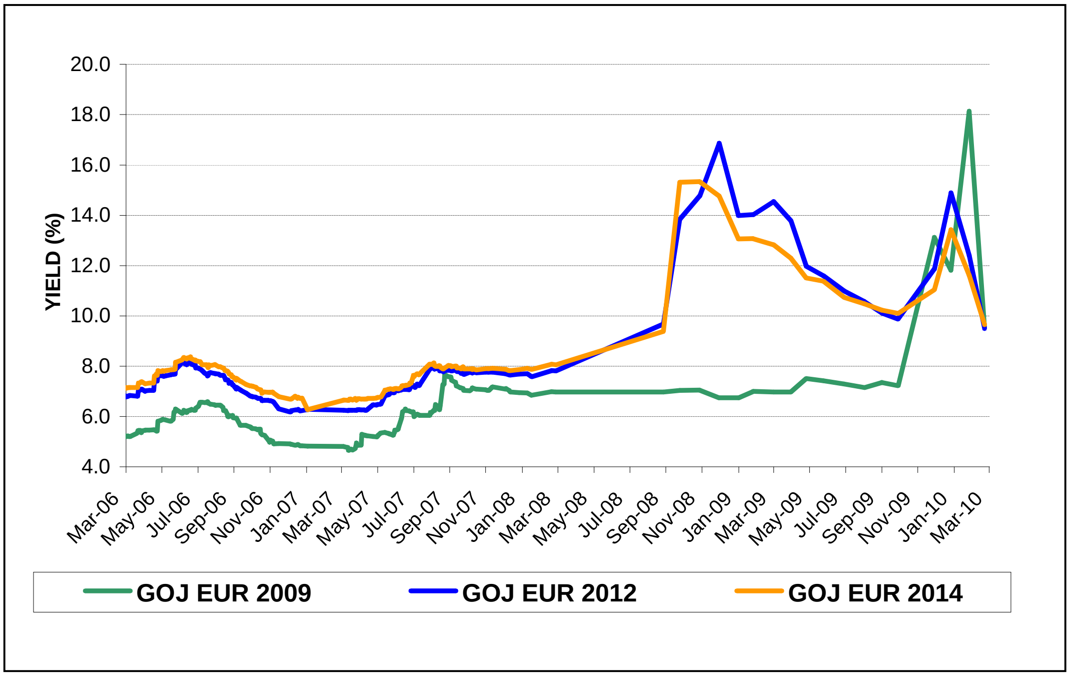


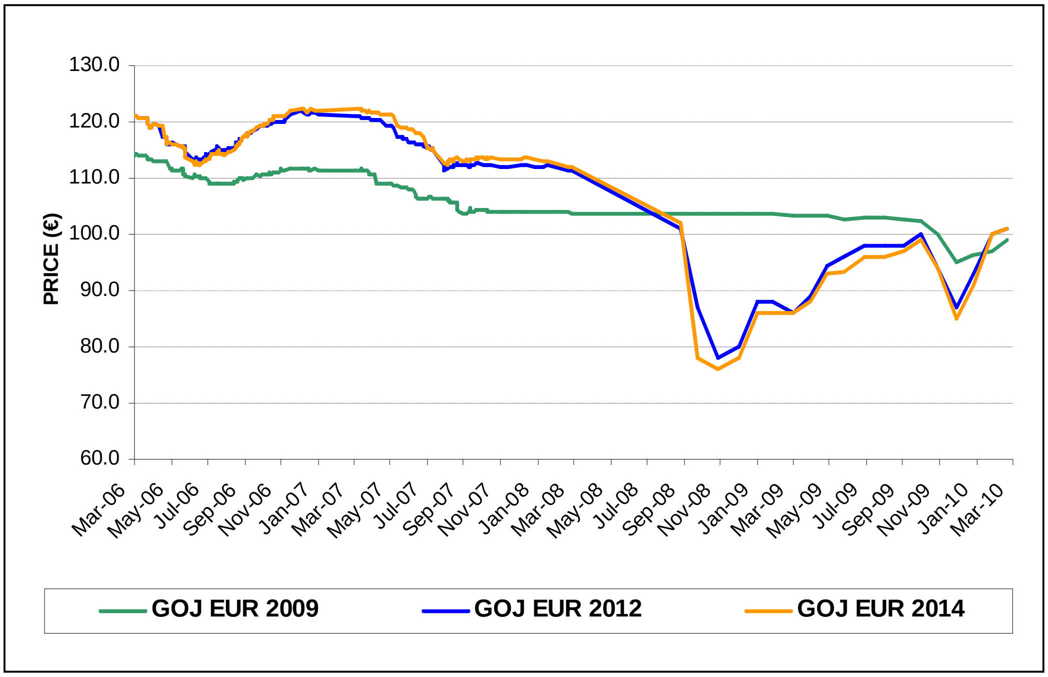
TRADING LEVELS OF GOJ US$ GLOBAL BONDS





TRADING LEVELS OF GOJ EURO DENOMINATED BONDS

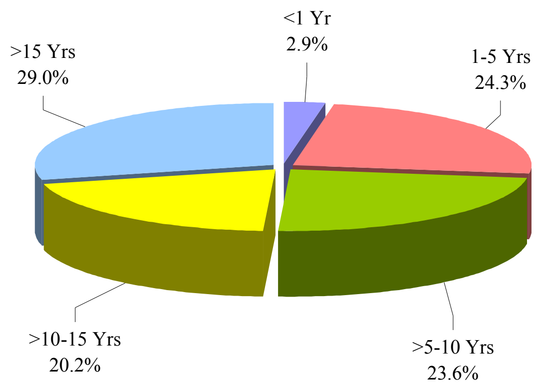




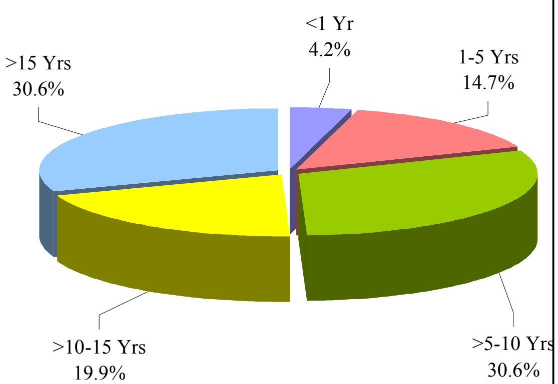
MATURITY PROFILE OF THE DEBT
(Remaining Maturity)

EXTERNAL DEBT

March 2010

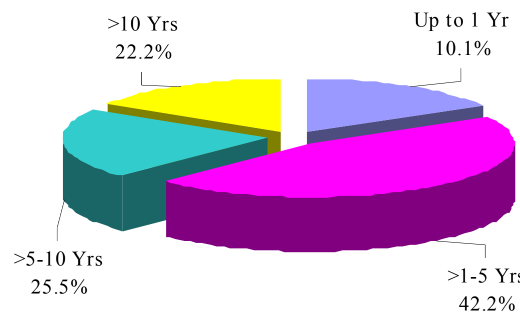


March 2009

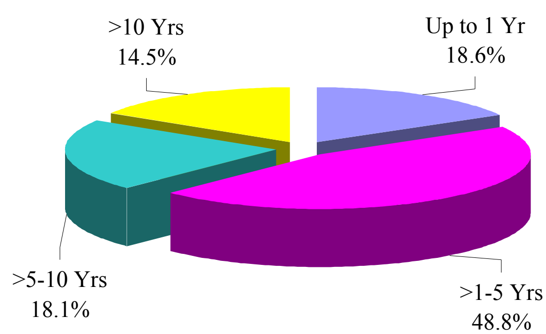


DOMESTIC DEBT

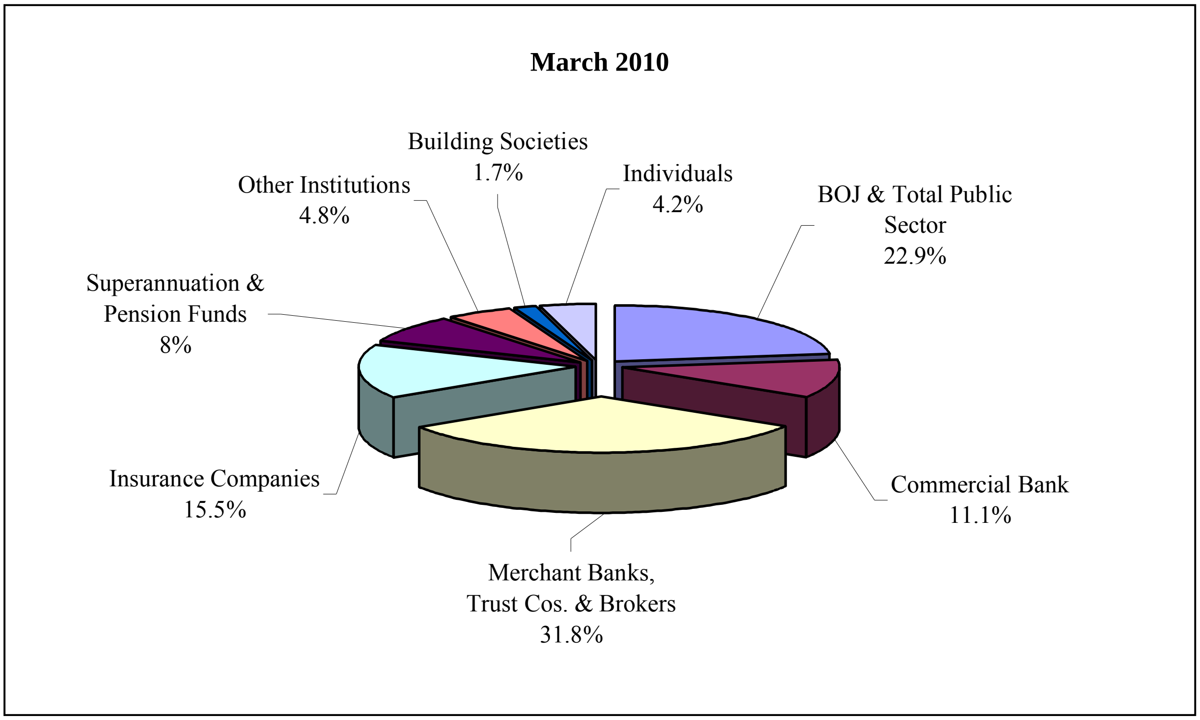
March 2010

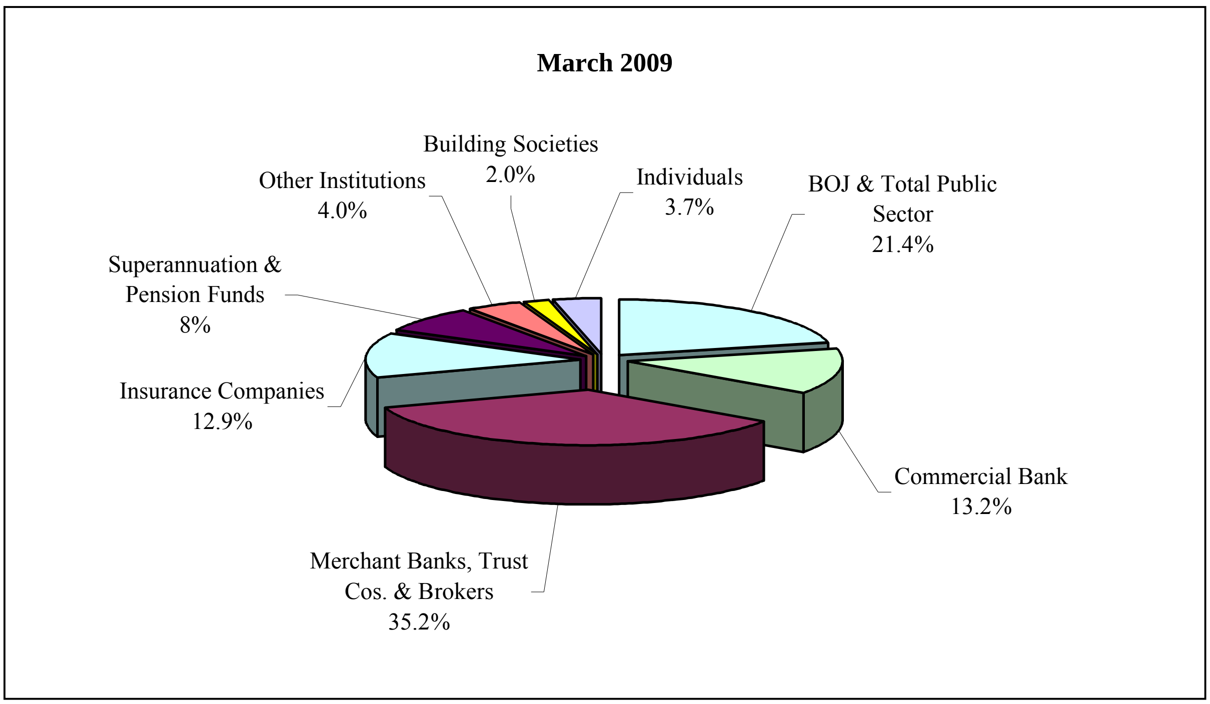


March 2009



HOLDINGS OF GOJ REGISTERED SECURITIES





APPENDIX 1

PUBLIC SERVICE ESTABLISHMENT PROGRAMME

Public Sector employment policies in Jamaica are formulated around Human Resource Management (HRM) best practices. The policies are implemented though the Public Service Establishment Programme (PSEP), which encompasses compensation and industrial relations policies; employee benefits programmes, scholarships and assistance; research and establishment control; public sector employment and pensions administration.

PENSIONS ADMINISTRATION

Public Sector Pension Reform

The Public Sector Pension Reform project, which commenced in FY 2008/09, continued through FY 2009/10. This project is aimed at improving the pension administration system so as to execute the payment of pension in a more timely manner. With this reform, record keeping should be enhanced, as a computerized database for tracking career history is to be developed along with a modern IT infrastructure.

A review of the existing legislation that governs public sector pensions is in its early stage. The review is being done with a view to make amendments to harmonize the pension schemes for public sector workers.

Increase to Pensioners

For FY 2009/10 an amount of $500mn was provided for the granting of increases to pensioners. Approximately 22,000 pensioners benefited from the increases. For the second year in a row the minimum pension for persons age 55 and over was increased. The increase was as follows:

- Persons with service of between 10 & 20 years – from $96,000 per year to $180,000 per year; and
- Persons with service of 20 or more years – from $144,000 per year to $228,000 per year.

SCHOLARSHIPS & ASSISTANCE

During FY 2009/10, various Scholarships and Assistance programmes were undertaken in relation to:

- The Civil Service Training Programme;
- Donor Programmes;
- Skills Training/Capacity Building under the MOU; and
- Bonding and Compliance

Civil Service Training Programme

The Scholarships and Assistance Unit (SAU) of the Ministry of Finance and the Public Service (MOFPS) continued to provide for ongoing awards as well as to provide book grants and tuition assistance for new awards. Approximately 300 ongoing and 150 new awards were administered during FY 2009/10.

Donor Programmes

During FY 2009/10, scholarship offers were received from approximately 20 bi-lateral and multi-lateral donors with the most active being the following: Singapore, Malaysia, India, Japan, China, Cuba, Russia, the Organization of American States (OAS), Commonwealth Fund for Technical Cooperation (CFTC), UK Commonwealth and New Zealand Commonwealth. Scholarships were advertised in the press and posted on the Scholarships page of the MOFPS's website as well as sent directly to interest groups.

The Cuban and Russian scholarships continued to take the most significant portion of the budget. There are currently 268 students in Cuba, 17 in Russia and 14 in China.

Skills Training/Capacity Building

During FY 2009/10, courses were delivered in 30 disciplines with 1351 participants attending. Among the areas in which training was offered were; Counseling, Speech Writing and Public Speaking, Cosmetology, Cake Baking, Food Preparation, Computer Graphics, Computer Repairs, Web Page Design, Computer Literacy, Advanced Microsoft, Entrepreneurship, Customer Service, Interior Decorating, Drapery Making, Floral Arranging and Garment Construction.

Bonding and Compliance

The SAU continued to act as the National Bonding Agency and provided guidance and advice to awardees and guarantors as well as to external stakeholders. Approximately 542 awardees signed bond agreements during FY 2009/10.

The SAU continued to sanction defaulters by issuing demand letters to awardees and guarantors. Approximately $9m had been collected from defaulters during FY 2009/10.

INDUSTRIAL RELATIONS

The Industrial Relations (IR) function of the MOFPS is aimed at maintaining and enhancing industrial harmony within the Public Sector through the establishment and implementation of sound Industrial Relations policies and practices.

FY 2009/10 was the second year of the third Memorandum of Understanding (MOU III) Agreement. However the negotiated 7% salary increase for that period was not implemented due to fiscal constraints. The Industrial Relations Unit nevertheless concluded negotiations for allowances and other benefits with 15 bargaining units in Central and Local Government making a total of twenty-seven (27) settlements of the thirty-five (35) claims received for the contract period 2008-2010.

The request for salary increases for the 2008/10 contract period ranged from twenty-five percent (25%) to one hundred percent (100%). Late submissions of claims and demands by some groups for amounts outside of budgetary allocation, contributed to the delay in settlements.

The IR Unit continued to provide technical advice on policy matters to

Parastatal Bodies to guide their wage negotiations and strove at all times to establish a channel conducive to meaningful dialogue with Trade Unions and Staff Associations.

In an effort to increase awareness among stakeholders of the benefits of good industrial relations practices, the IR Unit collaborated with the Management Institute for National Development (MIND) to develop and implement the training in Human Resource Management in the Public Sector for Public Sector Managers and Human Resource Practitioners in keeping with Section (12) of the MOU III signed with the Jamaica Confederation of Trade Unions. This training began in January 2009 and is scheduled to end in June 2010.

Additionally, the IR Unit participated in a number of conciliation meetings and hearings at the Ministry of Labour and Social Security and the Industrial Disputes Tribunal. During FY 2009/10, there were five (5) reported cases of industrial action within the Public Sector with one group having three incidences of action.

RESEARCH AND ESTABLISHMENT CONTROL

During FY 2009/2010, two Civil Service Establishment General Amendment Orders were published. The Civil Service Establishment (General) (Amendment) Order, 2009 and Civil Service Establishment (General) (Amendment)(No, 2) Order, 2009. They were tabled and approved in Parliament on June 30, 2009. The 2010 General Order is far advanced and will be printed as soon as the necessary administrative activities are completed. The number of established posts stands at 42,521, up from 41,353 in the previous year, a change of 2.8%.

For the year under review, research data on strategic sectors in central government were updated, providing for database updating and compliance with the World Bank Development Policy Loan expected outcomes.

The main establishment control activities during FY 2010/11 will include:

- Providing support for World Bank and IMF programme outcomes;
- Finalising one Civil Service Establishment (General) Order, 2010;
- Conducting one Wage Bill Report on Ministries and Departments and Government funded statutory bodies; and
- Preparing one Amendment Order.

COMPENSATION

The compensation function of the PSEP involves overall responsibility for public sector job evaluation and wages policy. Within this policy, the mission is to maintain a rational, equitable and competitive pay system and modern classification standards for Government employees.

During FY 2009/10 considerable work was undertaken in the following areas:

- Pay revisions/Negotiations/Plans;
- Policy Issues/Research;
- Pay cases and Traveling Allowance adjudication; and

- Classification Issues

Health Sector Reclassification

The major activities under the health sector reclassification exercise involved the creation of a three-member review panel whose mandate it was to examine the Nursing Personnel Group. The panel submitted its report to the Ministry of Finance and the Public Service on August 27, 2009.

Following this review, stakeholders were advised that the final report would be completed by December 18, 2009 and in order to facilitate this, a panel consisting of representatives of the Ministries of Health, Finance and the Public Service and Cabinet Office was created to complete the report.

The report was completed within the stated timeline and distributed to stakeholders on February 9, 2010. A five-member team consisting of three technical officers from the MOFPS, one from the Cabinet Office and the Chief Medical Officer of the Ministry of Health was established and is in the process of reviewing the comments of the stakeholders.

EMPLOYEE BENEFITS

During FY 2009/10 public sector employees continued to access benefits in the form of loans and grants, group health insurance and staff transportation.

A total of $15mn was paid out to individuals for refund of tuition cost. Under the tertiary assistance programme an amount of $180mn was paid out over the review period. There was also an increase in the motorcar loan ceiling amounts from $800,000.0 to $1,100,000.0 for new motor vehicle and from $500,000.0 to $800,000.0 for used motor vehicles. The increase took effect in July 2009.

APPENDIX 2

PUBLIC SECTOR REFORM

The Public Sector Modernization Vision and Strategy 2002-2012 has completed its seventh year of implementation, having commenced in FY 2003/04. The commissioned review of Ministry Paper 56/2002 in 2006 provided a consolidated report on the status of achievements of the modernization program since inception. The review proposed a new Medium Term Action Plan (MTAP), to sharpen focus on the priority actions aligned to the overall development agenda. The significant achievements of the modernization programme are highlighted below.

The new MTAP is better prioritized, more focused on the objectives of modernization and will be communicated throughout government and among the citizenry to facilitate regular and fundamental reviews. It is also expected that the new MTAP, driven by clear targets and expected outcomes, will assist with the achievement of the national goals articulated in Vision 2030 Jamaica: National Development Plan, which are similar to the goals articulated in Ministry paper 56/2002. The priorities of the modernization programme and the MTAP encompass four key strategic directions, which are expected to contribute to national development as follows:

A. Focusing on Service Delivery

The key focus of the modernization programme for the next five years and beyond will be to improve the provision and quality of service delivery to citizens whilst being realistic about what can be achieved within existing resource constraints. This will require localized public sector management innovation to constantly re-examine the way in which resources are utilized and to generate savings for use in improving service delivery.

B. Improving Governance and Accountability

The MTAP for implementation of the modernization programme emphasizes a comprehensive approach to issues of governance and accountability including interrelated strategies and activities on enhancing performance management systems; strengthening accountability across government; decentralizing functions; increasing citizen participation and oversight; improving human resource management and performance; and promoting a performance culture.

C. Managing for Results

This is a comprehensive concept that means improving efficiency, effectiveness and probity in the utilization of scarce resources by adopting modern financial, audit, planning and monitoring systems and greater decentralization of management decision making.

D. Improving Change Management and Communication

As a means of increasing the Government's capacity for modernization, there will be increased communication of good practice and innovation. The engagement of citizens and civil society in modernization efforts will also be enhanced.

FY 2009-2010 REVIEW

The Public Sector Modernization Division (PSMD) continued to concentrate its efforts on core modernization activities centered on four strategic directions as recommended in the Revised Medium Term Action Plan (MTAP), 2008-2012. Cabinet approved the MTAP in November 2009. The activities being implemented are in large part, strategies to improve Results-Based Management across government while ensuring the programme directly supports Governments articulated priorities. Below is an outline of the PSMD performance during FY 2009/10.

A: Focusing on Service Delivery

With improvement in service delivery across government as its primary theme, the activities of the modernization programme continued to focus on simplifying business processes, introducing and boosting existing mechanisms to monitor and evaluate customer service and the continuous strengthening of performance based institutions' capacity to deliver high quality services.

Customer Service Improvement & Business Facilitation

The Jamaica Import/Export Inspection Centre (JIEIC**)** was opened on June 23, 2009 by the Prime Minister. The Centre provides a central location from where all the regulatory agencies operate, offering a more efficient process for the inspection of traded goods. The JIEIC houses under one roof, the regulatory agencies with responsibility for public health and safety, including animal and plant health. The centre spans the operations of three (3) Ministries - Agriculture & Fisheries, Industry, Investment & Commerce and Health.

The Jamaica Customs Department is also accommodated under this arrangement.
The JIEIC is referred to as a *"One Stop Shop"* as it affords its customers/ stakeholders the opportunity to access multiple government services in a single location. *"One Stop Shop"* modalities are being introduced across government to eliminate duplication of processes and to

make doing business convenient and efficient.

Through collaboration among six major trade related entities, inspection processes were streamlined to allow faster and more efficient inspections. During FY 2009/10, the new facility endeavoured to:

- Serve as a central location to coordinate inspections of imported goods;
- Achieve quicker inspection processing time;
- Make representatives of regulatory agencies more accessible;
- Keep pace with global trends in trade facilitation to boost trade competitiveness and attract investment;
- More effectively protect Jamaica's border and safeguard animal, plant and public health.

The opening of the facility marked a significant step towards creating a more friendly business environment and it is expected to continue to play a pivotal role in attracting new investment whilst better meeting the needs of existing customers. Its opening is the first phase of the larger plan to integrate the trade system and move towards a paperless environment.

Plans to create a permanent and more comfortable service area commenced during the review year. A similar "One Stop Shop" is to be established in Montego Bay in FY 2010/11.

Public Sector Customer Service Competition

The Public Sector Customer Service Competition is staged biennially. The competition seeks to recognize and reward excellence in service delivery and in so doing, encourage continuous improvement throughout Ministries, Departments and Agencies (MDAs).

Major awards during FY 2009/10 were presented to the following agencies:

- The National Land Agency – Best Customer Service Agency
- ⇨ National Housing Trust – Most Improved Agency
- ⇨ The Percy Junor Hospital – Most Creative/Innovative Agency

Participation by the public and the public sector increased significantly this year as a result of heightened communication surrounding the activity.

The activities of the National Customer Service Programme centered around introducing entities to the aims of the programme through sensitization sessions and promoting a more active participation by existing entities on the national customer service grid. The programme now ranks government entities on four levels, depending on the level of customer service being delivered and the entities' position on the national customer service grid. Appropriate service delivery measures have been introduced to improve ranking.

During FY 2009/10, the programme improved the tracking and measurement of service delivery and therefore provided a basis for evidence-based adjustments in operations. All government entities, over time, will undergo a series of processes culminating in the introduction of a customer service monitoring and evaluation framework designed to help organizations identify critical service delivery shortcomings and put in place measures to address and track service delivery progress over time.

Citizen's Charters

The number of entities with Citizen's Charters rose from 121 to 127 in FY 2009/10. Approximately 60 entities were introduced to the programme this year, including health centres and infant schools and most commenced preparatory work for the development of individual citizens' charters. The Citizens Charter Programme involves establishing service standards for public sector organizations to which the public can hold the organizations accountable.

Testing for the *Customer Service Monitoring and Evaluation Framework for Public Sector Entities* commenced during FY 2009/10 and testing continued in approximately twelve (12) entities. The implementation of the framework will provide avenues for customers' inputs and influence the improvement of Government services. Through detailed and measurable information on entities' performance, service improvements and policy changes can be informed by evidence-based performance measurement.

National Customer Service Policy

Work continued on the draft National Customer Service Policy developed in FY 2008/09. This is expected to be finalized and submitted to Cabinet for approval in the first quarter of FY 2010/11. Consultations and review of the policy remained ongoing during FY 2009/10. The policy will strengthen the overarching framework governing the National Customer Service Programme, by which all public sector entities will operate in relation to service delivery. It will also provide the foundation for promoting a strong customer service focus throughout government.

Data Sharing and Transfer Pricing Policy

Advanced work was completed towards the development of a Data Sharing and Transfer Pricing Policy to improve the ability of the public sector to deliver quality and timely service to citizens through the sharing of data between government entities. The Public Sector Modernization Division (PSMD) completed a Draft Gap Analysis Position Paper and a Harmonization Framework for the following purposes:

- To identify major administrative, legislative and policy obstacles to data sharing in government; and
- To establish basic standards and procedures to facilitate sharing.

Additionally, an "*Economic and Pricing Strategy*" was prepared this year. The strategy made recommendations for the pricing of data to enable access to data for policy development and service delivery. The information from this study will inform the drafting of the policy now underway.

Work towards revamping the entire application process for Development Approvals continued towards the achievement of a strict ninety (90) day response timeframe for all applications. The Cabinet Office continued its partnership with key agencies including the Local Government Department, National Environment and Planning Agency (NEPA) and other key stakeholders in the public and private sectors, towards achieving a number of targets.

Piloting of the *AMANDA* (*a web-enabled tracking and monitoring software - in this instance it is being used to store and track applications pertinent to development permits*) system commenced the storing and tracking of applications made for development permits in the Parish Council, NEPA and other commenting agencies. When fully implemented, it will accelerate the development applications approval process by monitoring and tracking all information related to applications for

development permits and assist officers to detect glitches in the application process.
The software will also enable applicants to check the status of applications online. The AMANDA system is being piloted in four Parish Councils, i.e. Manchester, Kingston & St. Andrew Corporation (KSAC), St. James, St. Catherine, and, in the Manchester Fire Department. Implementation will be completed by the first quarter of FY 2010/11. The Clarendon, St. Ann, Trelawny and St. Elizabeth Parish Councils along with four referral agencies are slated to be next for AMANDA implementation.

The PSMD continued to provide monitoring of the Master Project Plan developed for streamlining of the Development Applications Process (DAP), and technical support as required.

Preparation of the National Spatial Plan

The Government of Jamaica (GOJ) has recently completed a long term National Development Plan (NDP), Vision 2030. The need for an up-to-date Physical Spatial Plan has been identified as an integral component of the NDP. The development of the plan requires the collection of spatial data sets to provide the spatial framework for guiding the location and regulation of planned developments. This will have benefits for local and foreign investment decisions and will also benefit the streamlining of the DAP.

In keeping with the theme of business facilitation, the PSMD initiated a project in conjunction with key stakeholders, to collect and convert the numerous existing digital spatial data sets held by various public and private sector entities, within the socio-economic, political, and environmental sectors.

During FY 2009/10, Mona Informatix Limited (MIL) was contracted by the Office of the Cabinet to undertake the collection and conversion of these geospatial data sets to support the Preparation of the National Spatial Plan. The project will be completed in the first quarter FY 2010/11.

Creation of Additional Executive Agencies and other PBIs

Under the 'modernization programme', there was ongoing establishment of Performance Based Institutions (PBIs) across the Public Sector. These PBIs are in the form of Executive Agencies, policy-focused Ministries and other types of entities. The PBIs are specifically structured to ensure the highest quality in service delivery.

During FY 2009/10, implementation of modernization plans continued in the Forestry Department, Fisheries Division, Ministry of Education and the Ministry of Justice.

Recommendations coming out of a strategic review of the Forestry Department and Fisheries Division are being implemented. Modernization of these entities is expected to:

- encourage sustainable development of the sectors;
- promote the preservation of natural resources, food security; and
- create job opportunities.

The recommendations cover a two-year period commencing 2009/10.
During FY 2009/10, the PSMD worked closely with the Ministry of Education (MOE) to support implementation of the Ministry's modernization plans, in relation to:

1) The establishment of the National Education Inspectorate (NEI);

2) The development and implementation of a Human Resource (HR) Transition Strategy and Plan; and
3) The development of capacities for the operation of regional education entities.

Accordingly, the PSMD was able to provide support to the MOE in accomplishing the following:

1) Engagement of technical assistance to support the transfer of technical capacities for the operation of the NEI was initiated in July 2009. Since then the following deliverables were completed:

⇨ Training material developed for school management team and training delivered to more than 100 schools;

⇨ Inspection training manual;

⇨ Inspection training delivered to 40 trainee inspectors;

⇨ 10 pilot inspections conducted.

2) Engaging of technical assistance in July 2009 to modernize the core Ministry. Since then the following deliverables have been completed:

⇨ Development of a draft Quality Assurance framework for the Ministry; and

⇨ Development of a Framework for Shared Corporate Services among four education entities.

3) Engaging of technical assistance in May 2009 to support the development and implementation of the HR transition strategy and plan, as well as the development of capacities for the regional education entities. Since then the following deliverables have been achieved:

⇨ HR Transition Policy developed;

⇨ Culture analysis conducted for the MOE;

⇨ Communications strategy and plan drafted;

⇨ Functional profiles and Job Descriptions (JDs) developed for the NEI and the Jamaica Teaching Council (JTC);

⇨ Competency framework and recruitment instruments developed for the NEI;

⇨ Education delivery model drafted.

The PSMD continued to support the Ministry of Justice (MOJ), in preparing to implement the recommendations made in the Justice System Reform Task Force Report of June 2007. During FY 2009/10 work continued on:

⇨ The operationalization of the Court Management Services entity to facilitate more efficient operations of the Court system by relieving the Judiciary of its administrative services;

⇨ The transformation of the MOJ into a policy focused Ministry. The functions of a Policy and Modernization Directorate were developed, and approval for its establishment and the operation of the post of Head of Division were received. Consequently implementation activities are anticipated to proceed apace in FY 2010/11.

During FY 2009/10, plans for the National Public Health Laboratory, the Immunology Laboratory, and the Blood Bank to ultimately operate as a unified performance-based, modernized entity were finalized and approved for implementation.

In FY 2010/11, the PSMD will work with the Ministry of Health and the target entities to begin the implementation process.

Jamaica Customs

Work commenced during FY 2009/10 with the aim of transforming the Customs Department into an Executive Agency. A Scheme of Management is being prepared for implementation to commence in FY 2010/11.

B: Improving Governance and Accountability

The "Regulations for the Executive Agencies Act" were developed and approved by Cabinet. Approval was given for the amendment of the Executive Agencies Act to allow for, inter alia; pensions portability among Executive Agencies (EAs). The regulations and proposed amendments to the Executive Agency Act will strengthen the EA Model, increase efficacy and facilitate the creation of new EAs.

In keeping with efforts to strengthen the accountability frameworks and mechanisms for the Government's senior executives, an Accountability Framework for Permanent Secretaries and Chief Executive Officers in Executive Agencies and Public Bodies (which include standardized performance agreements) was finalized and approved by Cabinet. Implementation of the framework commenced during FY 2009/10.

In FY 2009/10, Cabinet gave approval for the development of a Decentralization Policy to provide guidance on improving access and responsiveness of government services to local clients.

In addition, a Draft Corporate Governance Framework for Public Bodies (PBs) was prepared for wide consultation. The framework included procedures for appointing Boards of Directors, and, principles to improve accountability structures, capacities and responsibilities of Boards of PBs.

C: Managing For Results

I. Public Financial Management

A major thrust of the GOJ continued to be an aggressive effort to maximize the use of resources to reduce waste and improve overall efficiency. Through the "Managing for Results Program for Development" (PRODEV) - a GOJ and Inter-American Development Bank (IDB) partnership - key targets were pursued as outlined in the Medium Term Action Plan (MTAP) under four primary areas:

Linking, Planning and Budgeting

In November 2009, Cabinet approved a Public Investment Prioritization Framework for prioritizing Government investment projects. The framework establishes a mechanism for ranking investment projects for budgetary support.

Modernizing Procurement and Financial Management Systems

Negotiations are significantly advanced for acquisition of an E-procurement system. Of note, standard bidding documents were introduced in 22 Ministries, Departments and Agencies. Additionally, new Procurement Regulations have been included in the Contractor General's Act.

Performance Monitoring and Evaluation

Further development of a 'Monitoring and Evaluation' system in the Ministry of Transport and Works continued in FY 2009/10 and will remain ongoing in FY 2010/11.

The PSMD commenced development of a Government-wide Performance Monitoring and Evaluation System (PMES). The Performance Monitoring and Evaluation Unit (PMEU) was established within the Cabinet Office and full operation will get underway in FY 2010/11.

Capacity Building & Dissemination

To enable the smooth rollout of the MTAP, over twelve hundred (1,200) technical officers were trained in a cross-section of areas. Training programmes conducted during FY 2009/10 included:

- ✓ Operational Advanced and IT Audit - 60 Auditors were trained;
- ✓ Performance Management, Procurement, Audit and Financial Management - over 200 persons were trained;
- ✓ Medium Term Expenditure Framework, Design & Implementation and Results - Based Management Implementation and Performance Indicators - 42 Chief Technical Directors and Senior Directors were trained;
- ✓ Financial Management - laboratory upgrade for training of over 2,000 officers;
- ✓ Procurement related areas-approximately 1,000 officers trained.

II. Managing Human Resources

Since implementation of the Performance Management and Appraisal System (PMAS) commenced in 2004, most line ministries have received technical assistance to support implementation of a PMAS, focused on managing performance at the individual level.

During FY 2009/10, focus was placed on the development of a framework for institutionalizing PMAS. A policy proposal has been developed, for consultation during the first quarter of FY 2010/11. In addition, support was provided for the Department of Cooperative and Friendly Societies, Consumer Affairs Commission, and the Ministry of Justice to prepare staff for the implementation of PMAS within these entities.

The introduction of the new PMAS is intended to support the Government's objective of building an efficient public service in which individual work is directly aligned to identified priorities and where individuals are made accountable for performance.

Work has begun towards the establishment of a strategic human resource management function within the Cabinet Office. The introduction of strategic human resource management will allow for the linking of the human resource function to agreed strategic objectives to support the achievement of those objectives in a coordinated and coherent way.

D. Improving Change Management and Communication

A *Draft Dissemination and Communication Plan* for the Revised MTAP has been developed to facilitate awareness and ownership of modernization initiatives across government. While some of the proposed public awareness activities have commenced, full roll-out of the plan was programmed to commence in March 2010. The plan outlines communication strategies that will seek to:

- Clarify the role and function of the modernization programme;
- Increase visibility for the activities and achievements of the PSMD;
- Encourage buy-in for the Government's overall modernization programme;
- Distribute and communicate the objectives of the MTAP.

Strategies recommended to heighten awareness and promote public sector activities and the public's buy-in into the GOJ's modernization programme include:

- ⇨ Strategic partnerships;
- ⇨ Branding;
- ⇨ Face-to-face communication;
- ⇨ Sustained public education/public awareness activities involving the staging of sensitization sessions, workshops and special events;
- ⇨ Use of publicity and advertising.

Efforts to intensify the communications programme continued with greater utilization of the mass media to promote modernization achievements and activities. As a result, activities initiated through the PSMD have received wider media coverage including, print and electronic media.

The PSMD also sought to maximize use of other multi-media mechanisms to better engage its stakeholders. Accordingly, video capture of PSMD workshops and conferences are been used for capacity building and knowledge transfer efforts. An informational 20-minute video on the modernization programme is to be finalized to be utilized as a tool for sensitization workshops and other informational sessions.

Plans to implement a Government-wide change programme commenced with the development of a Government-wide Change Management Plan. This plan is inclusive of, *inter alia*, a Framework for Public Sector Mergers and Strategies for Managing Resistance to Change.

KEY ACTIVITIES FOR FY 2010/11

The PSMD will continue to concentrate its efforts on core modernization activities centered on the four strategic directions as recommended in the Revised MTAP, 2008-2012. Key activities under the four strategic directions are:

(i) Service Delivery

- Establish a Food Safety "One Stop Shop" in Montego Bay similar to the one established in Kingston;
- Improve the Development Approval Process, by implementing the web based tracking System (AMANDA) in 4 additional Parish Councils and the referral agencies;
- Establish Central Depository for geospatial data and collect detailed spatial data at parish level, for preparation of 4 parish plans, namely, St. Thomas, St. Catherine, St. James and Trelawny;

- Roll out of the National Customer Service Programme, including training sessions and seminars to build capacity to enable excellence in service delivery;
- Ongoing establishment of Executive Agencies and other Performance Based Institutions (PBIs) to include: Forestry Department, Fisheries Division, Ministry of Education, National Public Health Laboratory, and Jamaica Customs.

(ii) Improve Governance and Accountability

The Government will continue to improve governance and accountability to ensure probity of the management of public resources. This will include:

- Development of a Corporate Governance Framework;
- Implementation of Accountability Framework developed for senior executives;

- Development of Regulations for Executive Agencies Act;
- Development of a Decentralization Framework for regional service delivery.

(iii) MANAGING FOR RESULTS

Key activities under the Managing for Results strategy will be implemented during FY 2010/11, with funds provided under the PRODEV II Project. The IDB and GOJ have jointly funded this project. The project is focused on putting systems in place to optimize the use of resources and increase governments' capacity to assess and monitor organizational performance. Key activities will include:

- Implementation of Performance Monitoring and Evaluation framework;
- Design and Implementation of a Medium Term Expenditure Framework to assist strategic medium term decision making on planned development within given resource envelope;
- Redesign of the GOJ chart of Account to comply with international accounting standards;
- Development of standard procedures and methodologies for Value for Money (VFM) Audits;
- Establishment of a Strategic Human Resource Management function within the Cabinet Office;
- Collaboration with Ministry of Finance and the Public Service (MOFPS) in the acquisition and implementation of an integrated Enterprise Resource Management System (ERMS). One objective of this system is to facilitate more effective management of human resources across the public sector.

(iv) Change Management and Communication

Key activities to be undertaken include:

- Implementation of a dissemination plan for the MTAP to share elements of the modernization programme across the public sector and among the wider public; and

- Development of a Change Management Plan for the GOJ.

APPENDIX 3

DEVELOPMENTS IN THE FINANCIAL SECTOR

Jamaica's financial sector remained stable during FY 2009/10 despite the challenges that emerged with the prolonged global economic recession. The Government reinforced its commitment to maintaining stability in the financial sector as it continued its efforts to improve the legislative framework for various segments of the sector.

During the period, the Financial Investigations Division (FID) continued to pursue its mandate of dealing with matters relating to financial crimes, including money laundering; while the Financial Institutions Services (FIS) continued the process of winding down operations on behalf of the Financial Sector Adjustment Company (FINSAC).

Strengthened Legislative Framework

In its efforts to maintain stability in the financial sector, the Government through the MOFPS and the regulatory authorities, undertook various initiatives throughout FY 2009/10 to improve the legislative framework for the financial sector in the following areas:

Enactment of Credit Reporting Legislation

During FY 2009/10, the legislative process to facilitate the establishment of a Credit Reporting Bureau was advanced. The Credit Reporting Act was passed, with amendments made by the Joint Select Committee, in the Lower House of Parliament. The next step is for the Bill to be debated and passed in the Upper House.

The accompanying Credit Reporting Regulations were revised and finalized to be consistent with the Credit Reporting Act. The next step is for the 'Regulations' to be debated in the Houses of Parliament. It is expected that credit information which will become available through the Credit Bureau (with the permission of the borrower), will assist financial institutions in improving their assessment of the credit risk of their clients.

The Payment Clearing And Settlement Act

During the period under review, the legislative process to facilitate the regulation of Jamaica's National Payments System was further advanced following the submission of a Bill entitled "The Payment Clearing and Settlement Act" to the Legislation Committee of Cabinet for consideration. If the Bill is approved by the Legislation Committee, Cabinet's approval will be sought, in order to have it tabled in the Houses of Parliament, in keeping with legislative procedure.

The Bill seeks to establish a legislative framework for regulation of the National Payments System. This is with a view to protecting the Clearing and Settlement Systems from disruptions that may lead to risks to the stability of the financial system. The Bill provides for the Bank of Jamaica to be designated as Regulator of the Payments System.

Pension Reform

Following the review of the first and second drafts of the Pensions (Superannuation and Retirement) Schemes Bill, additional drafting instructions were issued to the Chief Parliamentary Counsel. The Bill was subsequently redrafted and circulated to stakeholders for review.

The amendments to the Act seek to provide for:

- Revision of the licence fees to be paid by investment managers on the initial grant of a licence and on subsequent renewal;
- Conditional registration of a superannuation fund or retirement scheme in certain circumstances; and
- Revision of the contribution limits for members' and sponsor's contributions to approved superannuation funds.

These amendments precede the extensive changes to the legislation that will allow for vesting, portability and indexation of pensions.

Combating Terrorist Financing

The Terrorism Prevention (Reporting Entities) Regulations, which deals with preventing the financing of terrorism was passed in the Houses of Parliament in March 2010.

The Regulations impose various requirements on financial institutions that have a duty to report under the Terrorism Prevention Act. The FID will be responsible for enforcing the reporting requirements with respect to the financing of terrorism in accordance with the Regulations under the Terrorism Prevention Act.

Financial Investigations Division Legislation

During FY 2009/10, a Joint Select Committee of Parliament continued discussions on the FID Bill.

In light of the importance of the Bill, stakeholder groups such as the Jamaica Bankers Association, the Bar Association, and a representative from the Norman Manley Law School were given the opportunity to make presentations at the sittings of the Committee.

The report of the Joint Select Committee on the FID Bill was tabled and passed in the Lower House of Parliament on March 16, 2010. The Bill was subsequently passed in the Senate on March 26, 2010.

The passage of the FID Legislation will provide the Division with the authority to address the multifaceted problem of financial crimes.

Amendment to The Industrial And Provident Societies Act

Amendments to the Industrial and Provident Societies Act and accompanying Regulations were finalized and printed. The Bill and accompanying Regulations were tabled in the Houses of Parliament.

The Industrial and Provident Societies Act and Regulations are being amended to strengthen the overall supervisory framework governing these societies and also to update certain fees, which have become outdated. Whilst it was passed in the Lower House, it is yet to be passed in the Upper House.

Deposit Insurance (Amendment) Act

Following the review of the Deposit Insurance (Amendment) Act, additional amendments to the draft Bill were proposed by stakeholders. As such, additional drafting instructions were issued to the Chief Parliamentary Counsel. Subsequently, a second draft of the Bill has been prepared and circulated to stakeholders.

The amendment to the Act seeks to address weaknesses in the legislation and give recognition to certain categories of persons, when making a determination on depositor insurance entitlement.

The Insurance (Amendment) Act

Legislation was drafted to facilitate amendments to the Insurance Act, in keeping with the objective of ensuring that the legislative framework governing the insurance industry keeps pace with developments in the sector.

The first draft of the Insurance (Amendment) Act was circulated to stakeholders for review. The Bill seeks to address weaknesses identified in the legislation and harmonize the procedures for hearings, appeals and the treatment of unclaimed balances, with other financial sector legislation.

The Bank of Jamaica (Amendment) Act

During FY 2009/10, the Bank of Jamaica (Amendment) Act was passed by the Houses of Parliament. This amendment increased the amounts for which coined denominations constitute legal tender, in any one transaction. The new limit is the face value of a maximum of fifty (50) coins (in any combination of denominations in current circulation).

Other Legislative Actions

During the period under review, the legislative process with respect to several other pieces of legislation was advanced. The Bank of Jamaica (Credit Unions) regulations were finalized and approved by Cabinet for tabling in the Houses of Parliament and a draft proposal for improving the legislative framework governing money lending institutions was prepared.

Activities undertaken by the Financial Investigations Division

During FY 2009/10, the FID continued to work closely with the Jamaica Constabulary Force, the Counter Narcotics and Major Crimes Investigations Task Force and the Contraband Enforcement Team of the Customs Department.

The FID also continued to carry out its mandate of protecting the integrity of the financial sector. The Division received 91,599 and 91,856 Threshold and Suspicious Transaction Reports, respectively. The Division also conducted background checks for government agencies on potential investors for government assets.

Success in completing cases in money laundering, cash seizures and requests for cooperation from international counterparts were also achieved during the period. The Cross Border Movement of Funds form was finalized and submitted to the Ministry of National Security for gazetting. The aim of the form is to record and monitor the transportation of currency or bearer negotiable instruments (BNI) exceeding

US$10,000 or its equivalent in any other currency entering or leaving Jamaica.

The Division welcomes the passage of the FID Legislation and the Terrorism Prevention (Reporting Entities) Regulations, as this will allow it to:

(i) become a member of the Egmont Group – the international group of Financial Intelligence Units; and
(ii) combat the financing of terrorism.

Financial Institutions Services Limited (FIS)

The Financial Institutions Services Limited continued with the winding up of residual activities on behalf of FINSAC during FY 2009/10. In this regard, FIS is to liase with the relevant fund managers and actuaries with a view to winding-up the Mutual Life Pension Schemes. This matter has been inordinately delayed as a result of the late submission of information from the fund managers. It is expected that this exercise will be completed by the end of June 2010.

With respect to divestment, FIS continued efforts to sell the remaining properties under its control. Based on current economic conditions, this process has not been very successful. It is hoped that the divestment exercise will be more successful during FY 2010/11. The FIS on behalf of FINSAC received US$3.9mn for its share of loans sold to the Jamaica Redevelopment Foundations.

Audits for FINSAC and FIS for financial years ended March 2007, 2008 and 2009 were completed. However, the Auditor's Reports have been delayed pending the finalization of an issue relating to the settlement and confirmation of loan details. It is expected that this issue will be resolved shortly.

Following the handing down of the judgement of $1,000mn against Eagle Financial Network, the FIS has received $9mn from the sale of four properties and net rental collections totalling $21.4mn. Discussions have commenced on the settlement of the liability.

In May 2009, a FINSAC commission of enquiry was appointed. The Commission's mandate includes the review of FINSAC's operations to determine whether debtors were treated fairly and equally and what were the causes of the meltdown of the financial sector in the 1990s. In order to assist the Commission in its work, temporary staff has been engaged to assist with researching the files and collating information, as required. The Enquiry is expected to continue in FY 2010/11.

Proposed Areas of Focus for FY 2010/11

During FY 2010/11, efforts will concentrate on the following:

- Facilitating the enactment of pensions legislation to provide for conditional registration of superannuation funds and retirement schemes;
- Developing legislation to provide for the establishment of a monitoring regime for money lending institutions;
- Developing policy to address unregulated financial institutions;
- Creating an Omnibus Legislation for the financial sector;
- Developing Anti-Money Laundering/Combating Terrorist Financing (AML/CFT) framework for Designated Non Financial Businesses and Professions;

- Electronic filing of the Threshold Transaction and Suspicious Transaction Reports;

- Implementing the Cross Border Currency Transactions Reports;

- Training the reporting entities on their new roles and responsibilities under the Terrorism Prevention Regulations;

- Divesting/disposing of assets under FIS's control;

- Finalizing and Resolving outstanding pensions and litigation matters.

APPENDIX 4

TAX ADMIMNISTRATION

FY 2009/10 REVIEW

FY 2009/10 proved to be a challenging year for Tax Administration (TA) as the global economic recession had a negative effect on tax revenue. In response to a significant revenue fall-out and in an effort to achieve the budgeted revenue flow, a combination of additional administrative and new revenue measures were developed and implemented.

Revenue Collections

Provisional data for FY 2009/10 indicate that revenue collections of $265,882.6mn were 91% of target. This represents an increase of 8.0% over collections for FY 2008/09. The Large Taxpayer Office (LTO) accounted for approximately 28% of the revenues collected.

Improvements in Compliance

For the fiscal year to March 17th, 2010, 14,272 new taxpayers were identified. This compares favourably with FY 2008/09 when 11,340 new taxpayers were identified.

As a result of a strategic shift in operations during the year to improve revenue collections, audit coverage was reduced by 14% below FY 2008/09. Consequently, at the end of February 2010, 918 taxpayers were audited, compared with 1,066 audits done for the same period in FY 2008/09, resulting in additional tax intake of $1,228.0mn.

Customs audits were below target by 60% as auditors were required to conduct the Authorized Economic Operator (AEO) System sensitization drive and background checks during the period May-September 2009.

Tax fraud investigations covered 36 cases involving delinquent taxpayers from which $826.3mn was identified as outstanding taxes, with penalties of $30.3mn levied against them.

Through customs interception and examination of passengers and cargo, approximately 1,000 detections were made and 44 persons arrested. Due to increased investigations and examination of high-risk importers, Custom Officials also detected further breaches from which additional revenues of $5.6mn was collected.

During FY 2009/10, various strategies were implemented to improve arrears collections and overall compliance. TA continued to emphasize early intervention and engagement with taxpayers. Through these efforts, $14,980mn was collected during FY 2009/10.

TA continues to carry out public education programmes, informing the tax-paying public about their rights and obligations. For FY 2009/10, over 350 programmes were delivered including 50 lectures (School Tax Education Programme) and 41 seminars.

Improvements in Information & Communication Technology

During FY 2009/10, TA successfully expanded its offerings of e-services to the public by making available the following electronic options:

- The filing of Annual Returns for payroll deductions, i.e. Pay As You Earn (PAYE), Education Tax, Human Employment And Resource Training (HEART) and National Insurance Scheme (NIS);
- The filing of Annual Returns for Corporate and Individual Income Tax.

Taxes collected via the internet showed significant growth moving to $2,100mn in FY 2009/10 from $1,280mn in FY 2008/09.

In July 2009 a Tax Reminder System (TRS) was introduced to send brief messages (SMS) to taxpayers who registered for the service. The service initially covered General Consumption Tax (GCT), Motor Vehicle Registration and Fitness Certificates. In March 2010 this service was further expanded to include reminders for Income Tax, Stamp Duty and Tax Compliance Certificate (TCC).

Customs Initiatives and Policy Changes

Amidst the decline in international trade, which has been reflected in a general reduction in: the number of domestic cargo landed by 38%; motor vehicle imports by 56%; cargo tonnage by 82% and invariably revenue collections fell below target. The Customs Department proposed and got approval to institute two policy changes, namely the Motor Vehicle Stimulus Package and the Barrel Initiative. This resulted in the lowering of the Special Consumption Tax (SCT) rate on imported motor vehicles and a flat fee of J$5,000.00 being charged on barrels containing personal effects.

Following the lowering of the SCT on motor vehicles, there was a marginal increase in the number of vehicles on which duty was paid and a corresponding increase in revenue collected. However, when compared to the corresponding April-February period of FY 2008/09, the volume of motor vehicles (with duty paid) and the revenue generated declined by 38% and 37%, respectively.

With respect to the Barrel Initiative, a record 33,000 barrels (approx) were cleared during the month of December 2009. Revenue generated from the initiative amounted to J$164mn. Under this new system, as many as 1,000 barrels were being cleared per day thus generating much needed revenue.

The major administrative initiatives pursued by the Customs Department during FY 2009/10 include:

1. Implementation of the Authorized Economic Operator (AEO) System. The AEO is a World Customs Organization (WCO) system designed to encourage compliance and hence reduce security risks by certifying all relevant personnel within the importation and exportation chain. As at the end of February 2009, 260 clients had registered, with approximately 10,844 entries processed and $6,995mn collected;

2. Establishment of the Centralized cashiering and manifest areas;

3. Institution of Pre- Inspection at Kingston Container Terminals;

4. Launching of the E-manifest System.

Implementation of the Tax Administration Reform Project

During FY 2009/10, TA continued with the implementation of its reform project aimed at enabling the institutional strengthening of TA with respect to improving voluntary tax compliance. Within the current operating environment, the existing organizational structure will co-exist alongside the new emerging structure, in that, the new compliance units are housed within the Director General's Executive Office. Five (5) new units were introduced during FY 2009/10 under the reform project. These units incorporated staff from the old structure.

Customer Care Centre

The Customer Care Centre (CCC) is one of the fundamental pillars of TA's mechanism to revolutionize taxpayer service and improve compliance. It is designed to be the central point of taxpayer contact for information and education. The CCC operations are categorized into three groups, namely inbound, outbound and promotions & education.

Forensic Data-mining Intelligence Unit

The Forensic Data-mining Intelligence Unit (FDIU) seeks to ensure that every person who is liable to pay taxes is compliant so that the revenues due are identified, assessed, and collected. The major activities of the Unit are to:

- identify persons who are already on the tax roll but are delinquent in filing (stop-filers);
- identify persons who have filed tax returns but have understated their correct tax liabilities (under-filers); and
- identify persons who have never filed tax returns but are liable to pay taxes based on intelligence gathered (non-filers).

These activities are done by obtaining, investigating and analyzing appropriate data; developing compliance programmes for field operation and monitoring of those programmes through to the collections stage or other final action.

For the period April-December 2009, 4,563 new taxpayers were identified and 10,540 notices, requesting /advising taxpayers to file, were issued.

High Intensity Tax (HIT) Team and Special Enforcement Team (SET) Units - Special Collections Project

The special collections project is being used to pilot the design and methodology of the compliance programme to be institutionalized in the reformed TA. The programme will pull together the skill set within the compliance management chain (audit and assessment, compliance and enforcement, including prosecution).

The aim of the project is to improve the execution of the business processes necessary to advance the collection of overdue taxes. The High Intensity Tax (HIT) collection Team will be authorized to use all available collection strategies including court orders to collect amounts due.

For the period June-December 2009, 571 tax accounts were assessed resulting in $1,100mn being collected. Some 34 cases were taken to Court resulting in $15.9mn being collected.

The Special Enforcement Unit (SET) is vested with district constabulary powers and supported by bailiffs. The team pursues the collection of taxes, penalties and interest that are long overdue and are considered difficult for regular compliance officers to collect. It is the last rung in the compliance escalation machinery. The Unit has been active since July 2009 and for the period ending December 2009 has collected $99mn and seized one hundred and four (104) items with an estimated value of $42.8mn.

Large Taxpayer Office (LTO)

One of the early deliverables of the tax reform, the LTO, aims to provide a full range of services at a single location for the 450 largest taxpayers who contribute approximately 80% of total revenue.

The LTO is being implemented in three phases. Phase 1 started on April 1, 2009 with a clientele of eighty (80) taxpayers from six (6) selected industries including the subsidiaries and holdings of the selected principal companies. Phase 2 will seek to expand the clientele by another one hundred and twenty (120) principal companies and this began in October 2009. Phase 3 will see the clientele increasing to the 450 principal large taxpayers (and their subsidiaries) by March 31, 2010. For the April-December 2009 period, total collections by the LTO stood at $45,400mn, of which $624.6mn constituted arrears.

Technical Assistance and Training

During the months of April - May 2009, training in Team Building and the Use of Information & Communication Technology (ICT) systems, was conducted for staff in the LTO.

The U.S. Department of Treasury, through its Office of Technical Assistance, is providing technical assistance and training to the auditors in the LTO and regional offices. The first set of formal classroom training for field auditors, was conducted in July 2009.

The Jamaica Tax Administration Reform Project (TAXARP) has received technical assistance from the US Treasury during the period March 2009 to September 2009. This assistance, deemed as Phase 1 of the Technical Assistance Programme was funded by United States Agency for International Development (USAID) and consisted of:

- Visits in March 2009 and June 2009 to advise on the establishment of the LTO and provide operational guidelines and general audit training;

- Visits to advise on debt management (outstanding taxes) structure and to establish a pilot project at the Constant Spring Collectorate regarding separation of field and office activities and personnel and to address accounts reconciliation;

- Visits by an advisor (June 29 to July 3, 2009) to review the procedures and policies of submissions, processing, and operations and to advise on a way forward.

Phase 2 has since been developed and is funded by USAID through the "Legs and Regs" programme that is managed by the Jamaica Chamber of Commerce. The first activity under Phase 2 was a training programme on Auditing Financial Institutions, which began in February 2010. Participants included auditors from the LTO, regional offices, and Customs Department. This activity will be followed by two (2) on-the-job training visits during the March – June 2010 period, as the auditors of the LTO proceed with a number of cases.

A major training initiative has been the development of a programme entitled "Data Analysis for Managing Service Operations". The Mona School of Business, University of the West Indies, developed the programme after detailed consultation with the Project Unit of the Planning Institute of Jamaica (PIOJ). This programme was specifically designed for senior management in TA and the training of the first batch of managers was financed by the Project Unit. The Project Unit has already secured financing for the next two (2) iterations. This initiative is critical as it supports the technical assistance programmes with the appropriate follow up in performance management.

With respect to the CCC, the staff has undergone several training interventions, including:

- Customer Service training;
- Telephone and Business Communication Skills;
- Voice and Speech training;
- Introduction to Tax Laws and Tax Administration;
- ICTAS and related systems.

PROPOSED STRATEGIES FOR FY 2010/11

The primary focus for TA for the next two (2) years will be in three (3) main areas namely:

- accelerating the reform project;
- institutionalizing the compliance model (including HIT and SET methodologies) across all collectorates; and
- mobilizing the FDIU and other programmes geared at broadening the tax base.

Other strategies aimed at strengthening TA's capabilities include:

(a) Widening the tax base through, a critical assessment of geographical areas showing significant growth in economic activity but no commensurate growth in revenue contributions, and, implementing appropriate compliance strategies.

(b) Arrears management strategy through application of the appropriate compliance strategy based on the attitude of the taxpayer. Included in the compliance strategy is the continuum for handling cases: Taxpayer Service, Risk Management, Arrears Management and Enforcement.

In order to improve the service to taxpayers, further enhancements will be made to business functions and computer system upgrades to enable the following:

- Interface between Departments – implement interfaces with Stamp and Customs computer systems;

- Audit – improve the accounting for assessments, objections and appeals;
- Automate the process for the efficient functioning of the revenue accounting unit within Inland Revenue;
- Taxpayer Accounting – resolve outstanding taxpayer accounting issues inclusive of withholding tax.

A request for proposals (RFP) will be issued for the expansion of the CCC. The objective of this upgrade is to increase the efficiency and effectiveness of the Centre through applied customer contact management technologies. This system will provide the Centre with the following functionalities:

- Customer Relationship Management (CRM) software with an emphasis on collections management;
- Automated or self service for clients through an Interactive Voice Response (IVR) System;
- Call recording and quality monitoring;
- Multi-channel access or service delivery support (voice, email, web chat, fax and SMS);
- Criterion-based automatic call distribution.

Work will continue on the design and development of the Forensic Data Mining and Intelligence System (FDMIS). The system will assist the FDIU to efficiently carry out the following tasks:

- Consolidate and analyze payment data for selected expenditures across all ministries, departments and agencies (MDAs) and use this information to verify taxpayers' gross income. Utilize information from third party sources to widen the tax net through new tax payer identification;
- Use available data to drive Classification and Risk Management programmes.

Other deliverables targeted for FY 2010/11 include:

- Expansion of the LTO;
- Increases in the active taxpayer population;
- Improved customer service and taxpayer awareness/education;
- Implementation of the continuum strategy for arrears management;
- Strengthening the interrelationship between tax policy and tax administration;
- Development and implementation of a programme for small enterprise and self assessment.

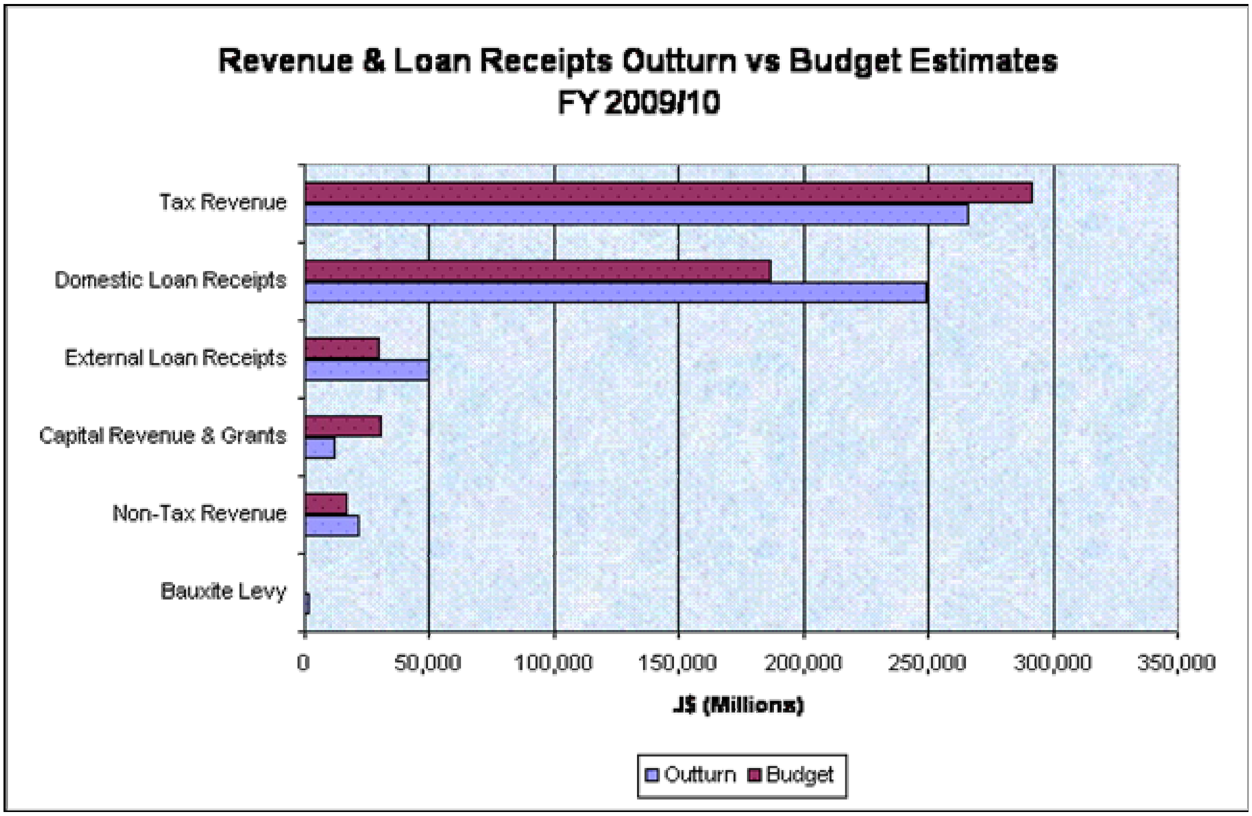
Transformation of Customs into an Executive Agency

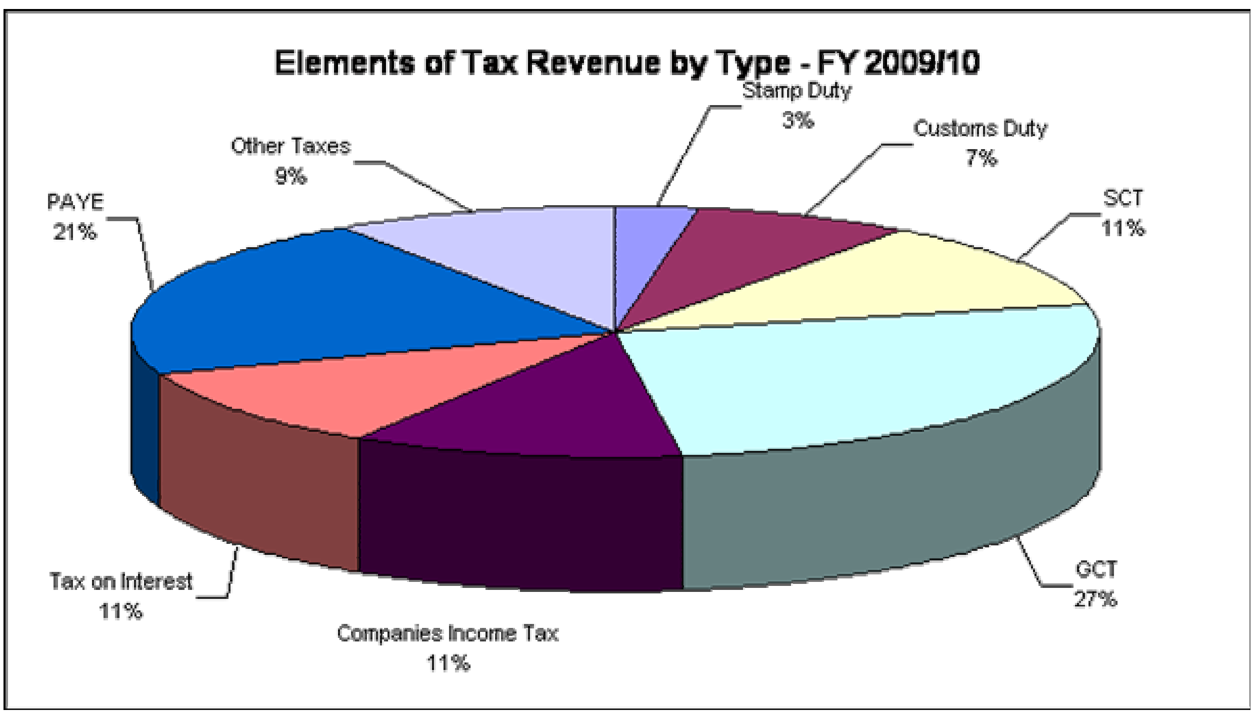
The foundation is currently being laid for the transition of Customs to Executive Agency status. The transition process will be in three phases:

- The Strategic Review;
- Implementation Plan; and
- Scheme of Management.

The Strategic Review is currently in progress. This phase includes Unit Reviews and workshops to review the "Strategic Direction" and performance framework for the new Customs Executive Agency.

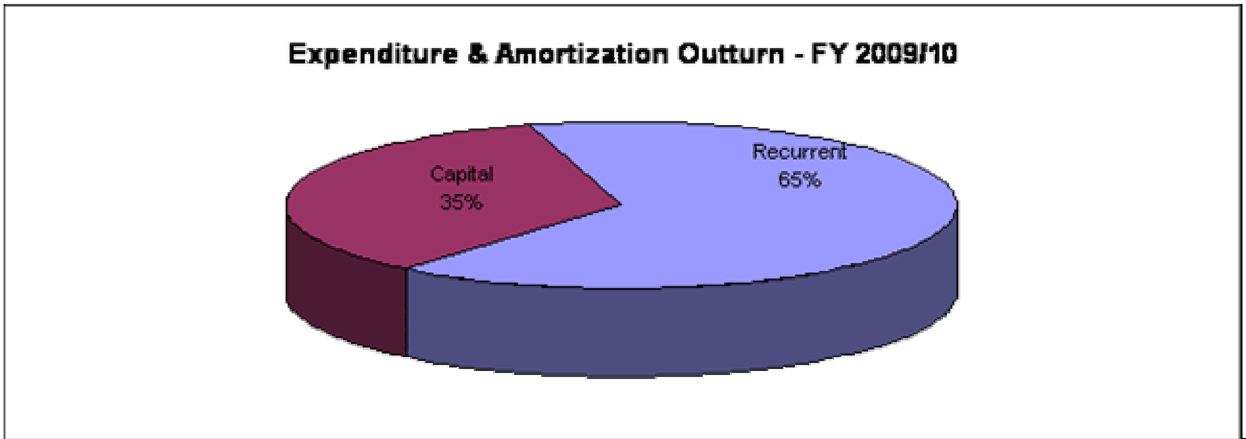
2010/2011 JAMAICA BUDGET
Revenue & Loan Receipts Outturn - FY 2009/10

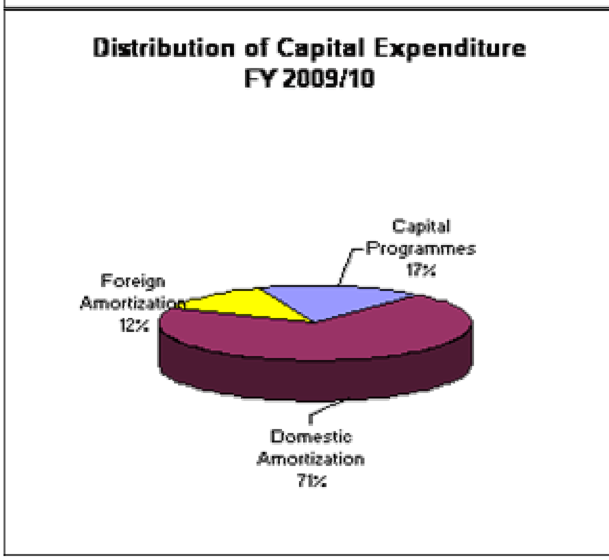


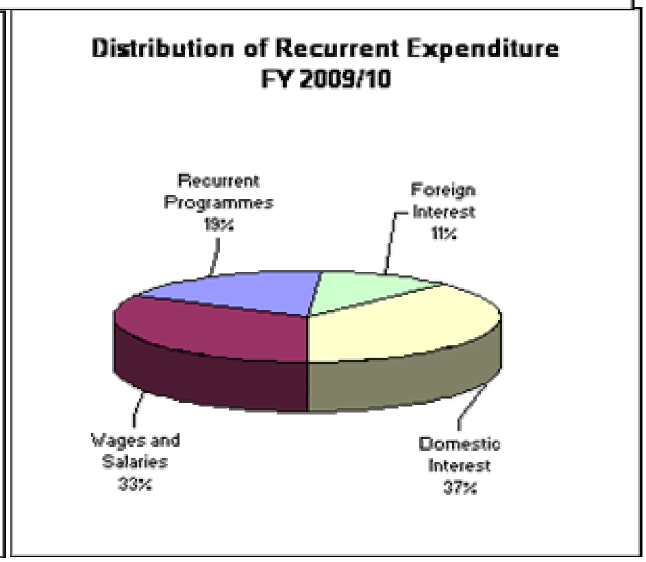


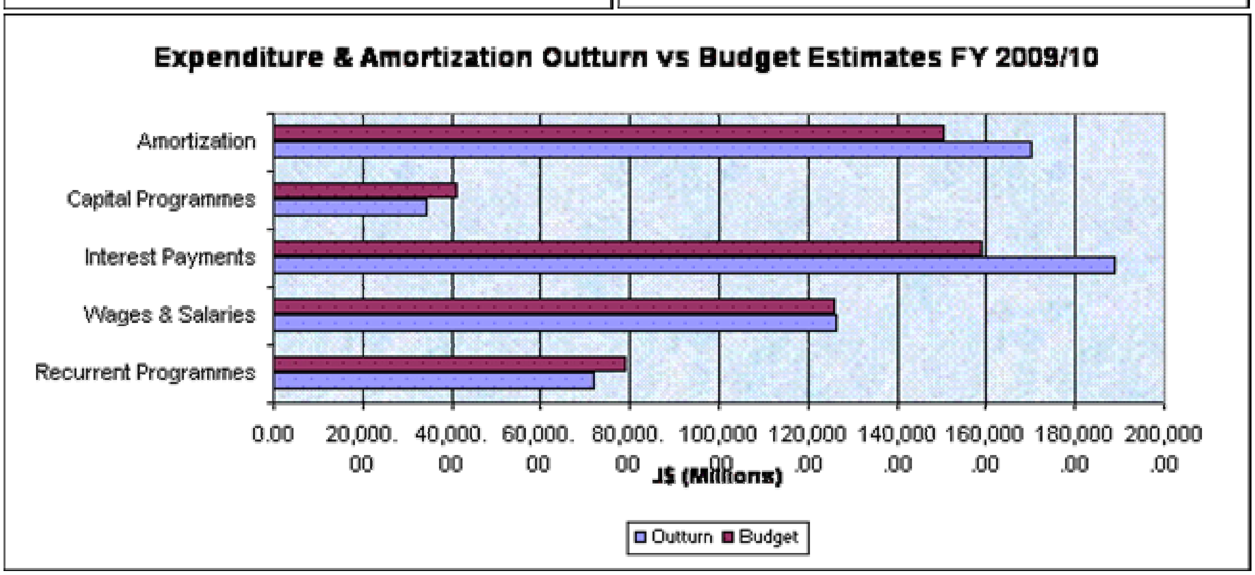
Ministry of Finance and the Public Service

2010/2011 JAMAICA BUDGET
Expenditure & Amortization Outturn - FY 2009/10



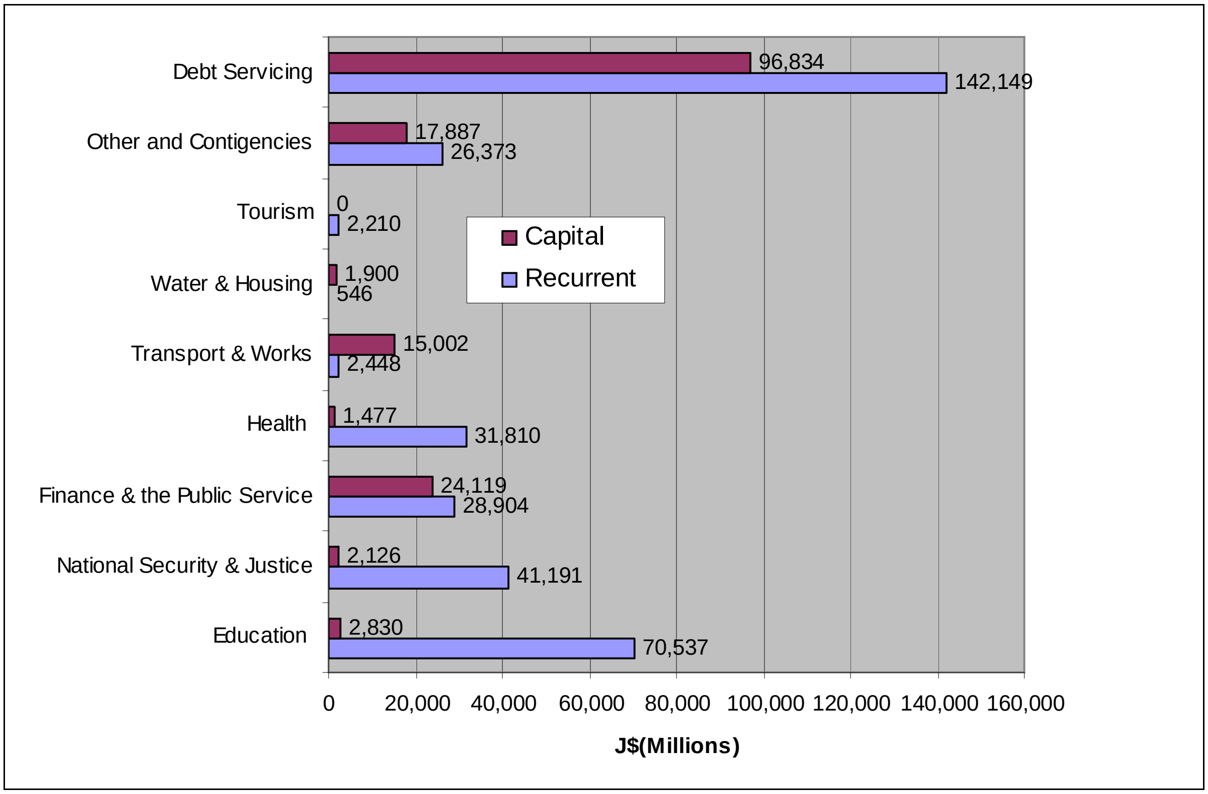




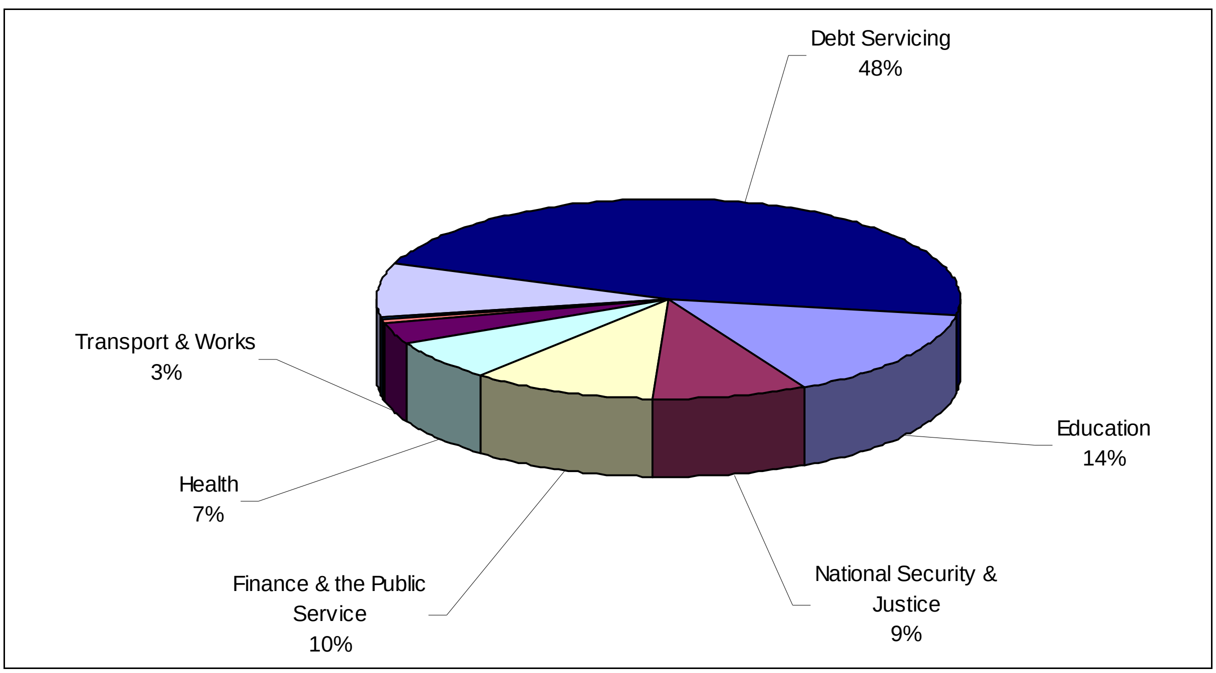


2010/2011 Jamaica Budget
Estimates (Gross) by Selected Ministry Groups – Part 1

TOTAL

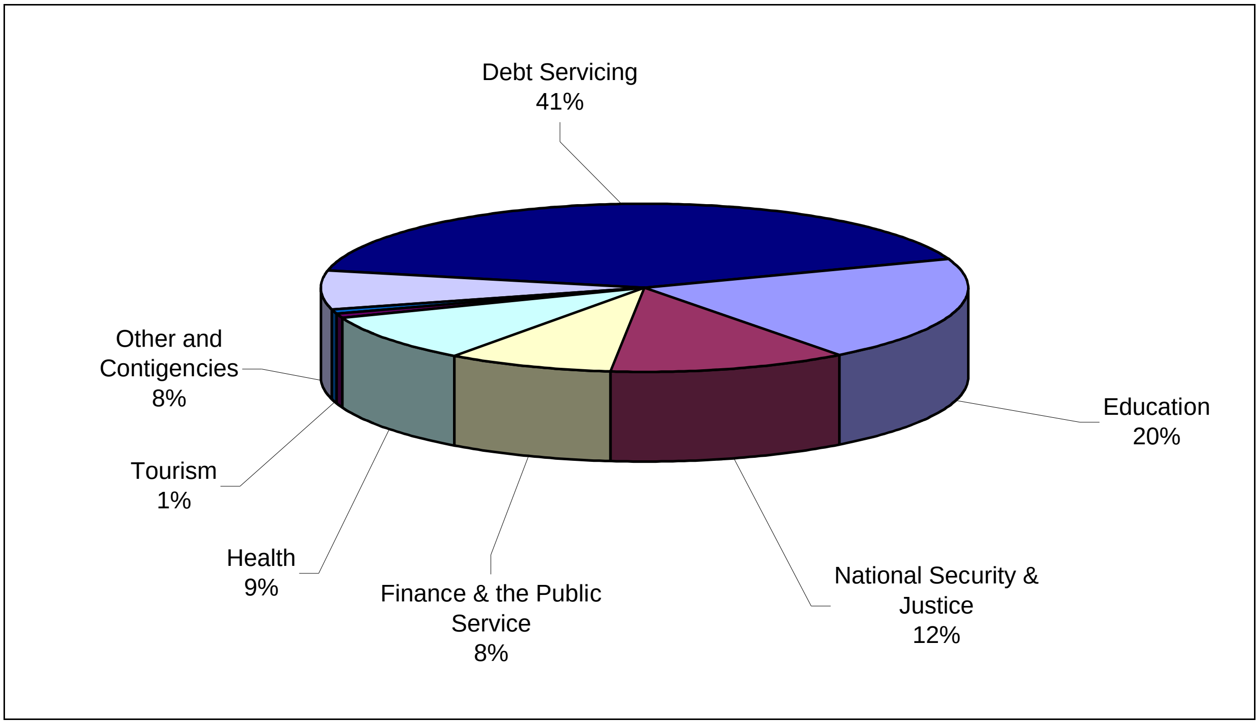


RECURRENT & CAPITAL

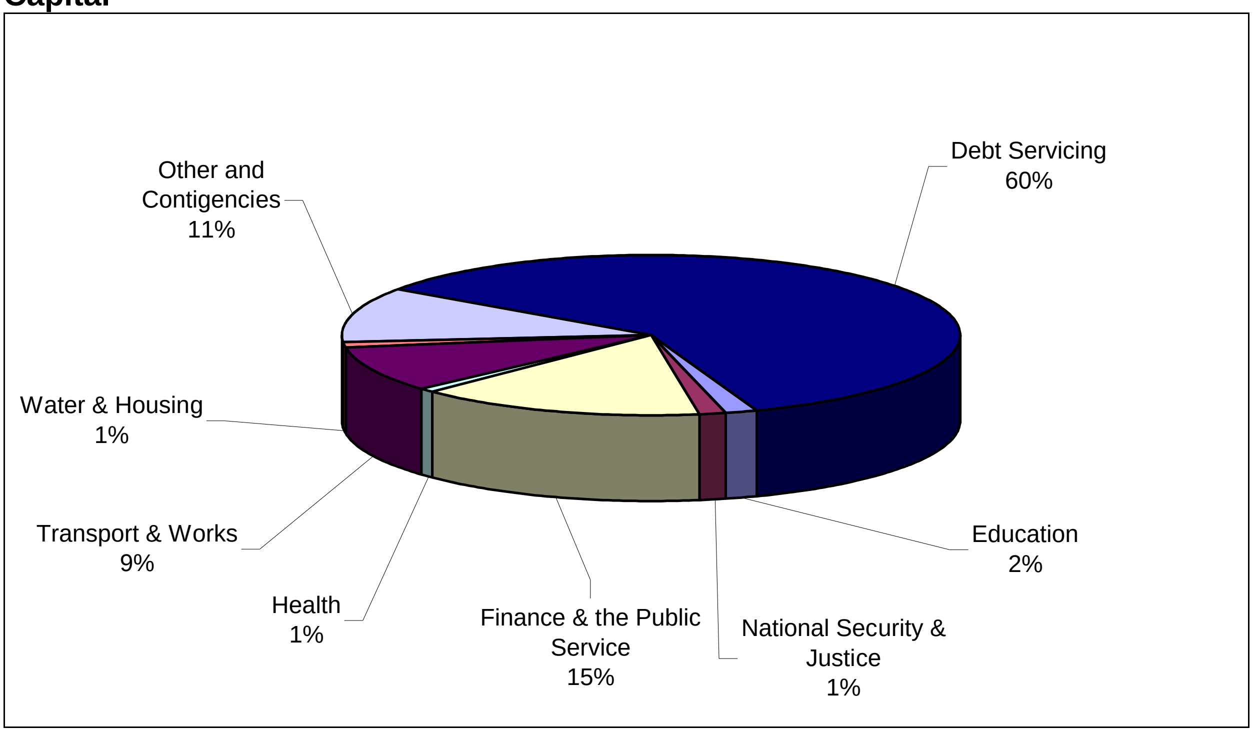


2010/2011 Jamaica Budget
Estimates (Gross) by Selected Ministry Groups – Part 2

Recurrent

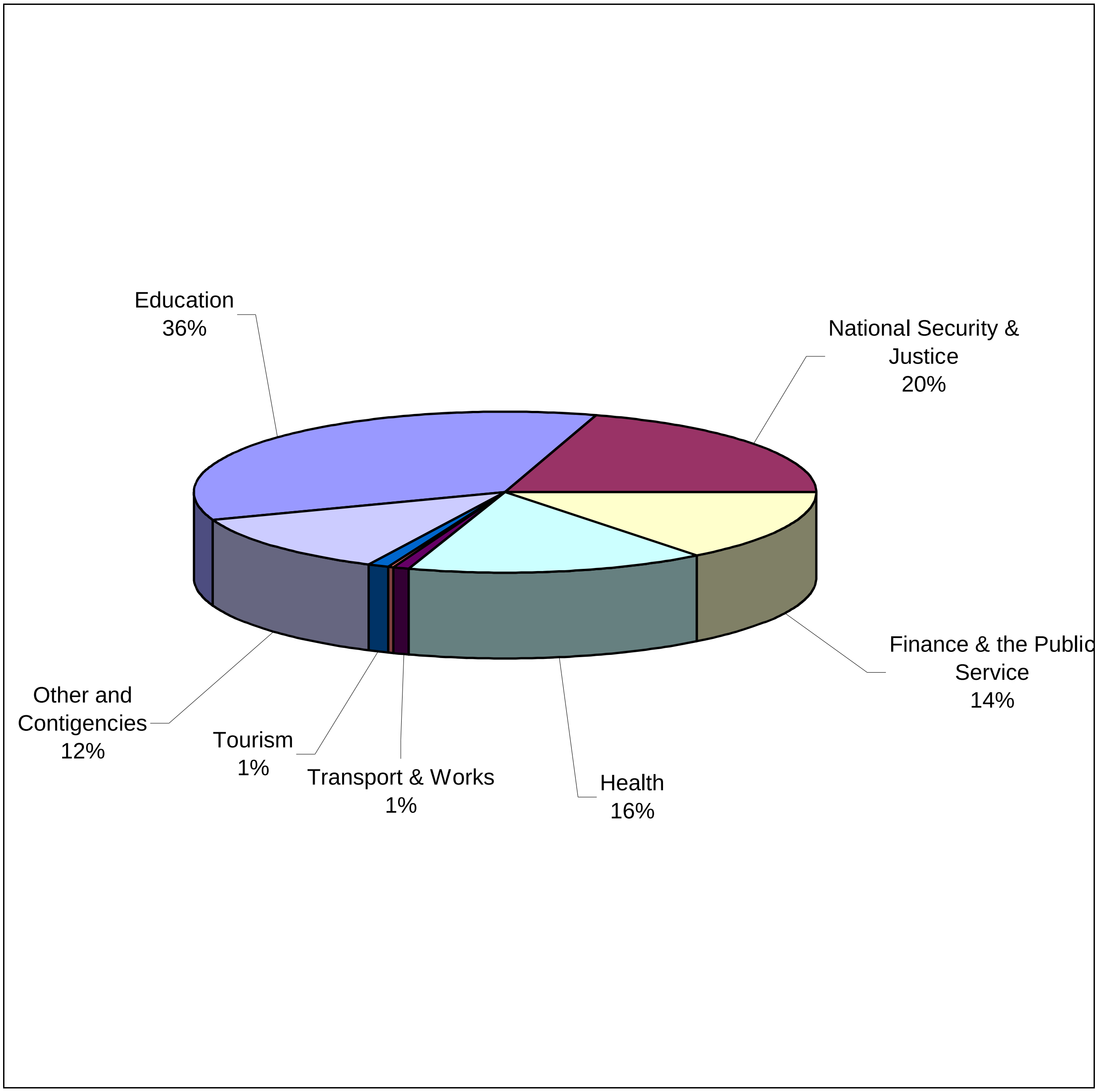


Capital



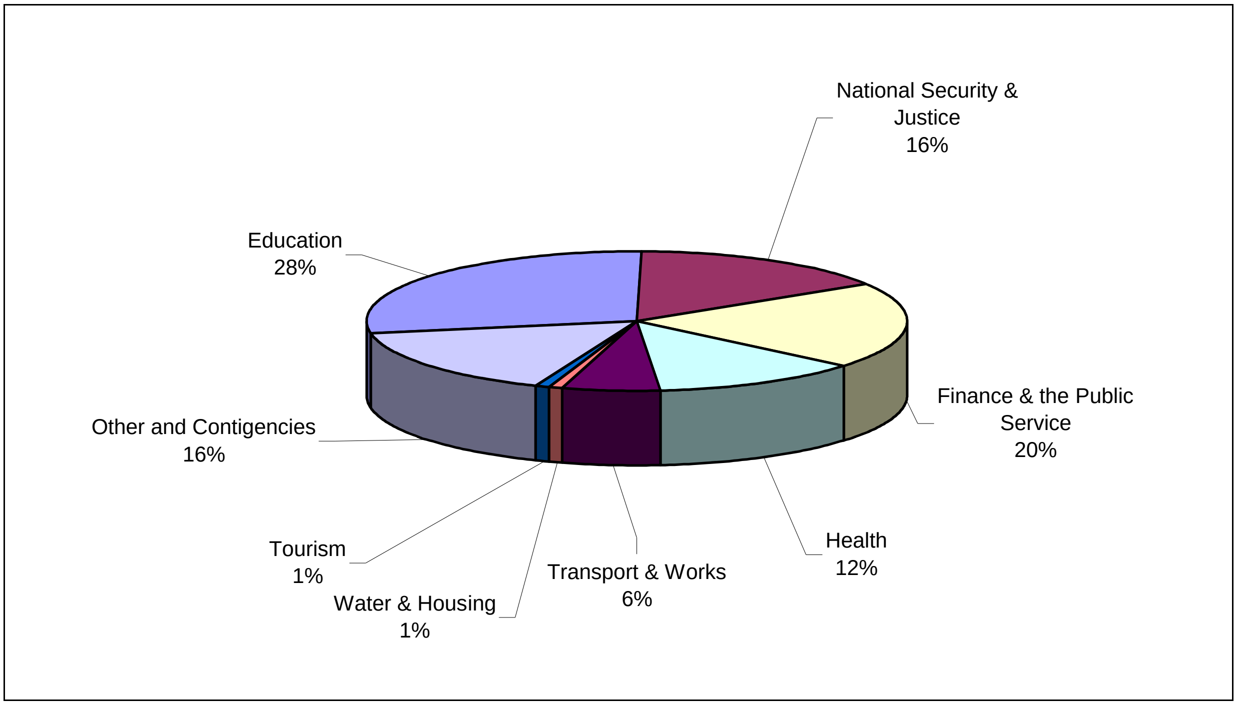
2010/2011 Jamaica Budget
Estimates (Net of Debt) by Selected Ministry Groups – Part 1

Recurrent & Capital

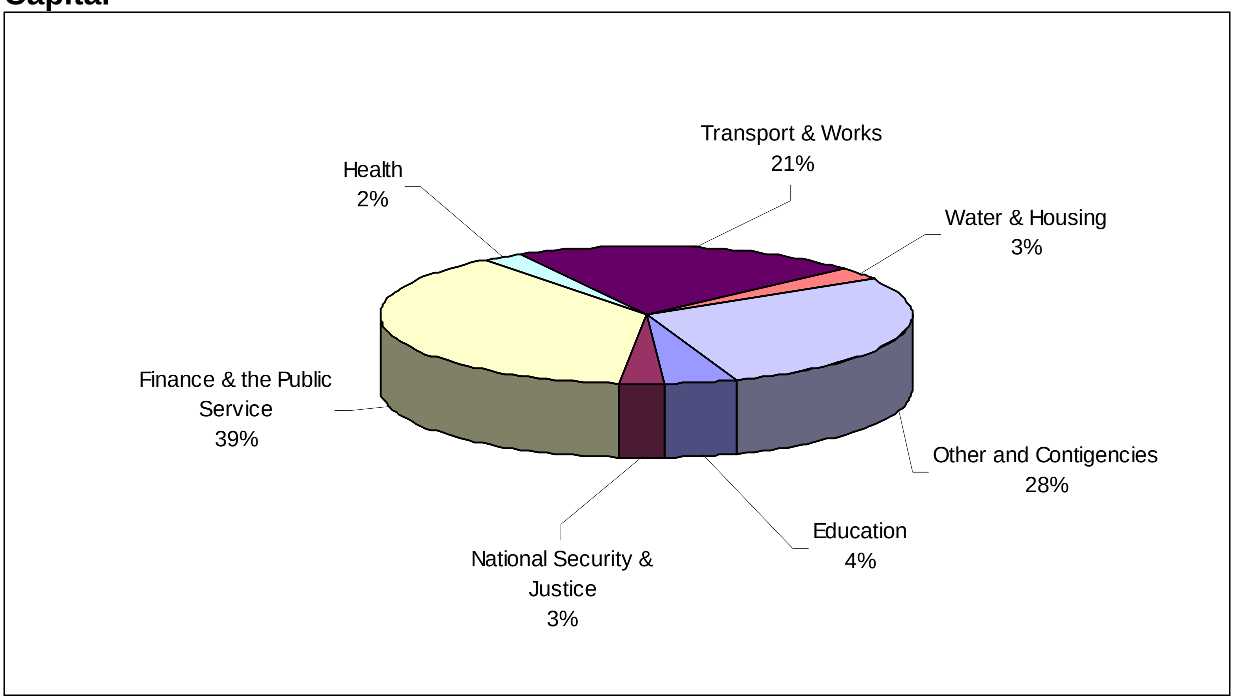


2010/2011 Jamaica Budget
Estimates (Net of Debt) by Selected Ministry Groups – Part 2

Recurrent



Capital



Ministry of Finance and the Public Service

GLOSSARY

Amortization
Amortization refers to principal repayments on loans. These repayments reduce the borrowed money by portions, which are usually fixed amounts expressed as a percentage of the whole. Most of the domestic debt has a bullet repayment - the entire principal is repaid at maturity rather than gradually over the term of the loan.

Auction
An auction is a system by which securities are bought and sold on a competitive bidding process. The auctions are conducted on a multiple-price-bidding basis, which means that the successful investor will receive stocks at the price he bids.

Benchmark Issues
Issues of securities that are sufficiently large and actively traded, such that their prices serve as reference for other issues of similar maturities.

Budgeting, Performance
Performance budgeting relates input factors such as expenditures for man-hours and materials to measured outputs. These output measures and their relationship to inputs may take various forms. By compiling such measures, then comparing them with those of similar activities and studying their movements over time, the efficiency and the effectiveness of activities can be assessed.

Budgeting, Programme
Programme budgeting focuses on the prioritization and productivity of expenditure. The allocations for expenditure are cast in terms of programmes, activities and projects and presents a breakdown of the financial allocation according to specific purposes and objectives.

Capital 'A'
Capital 'A' projects are funded solely from local sources.

Capital 'B'
Capital 'B' projects are at least partially funded from foreign sources - grants and/or loans from multilateral/bilateral institutions.

Commonwealth Debt Initiative
A programme of the Government of the United Kingdom launched in 1997 to cancel the debt of poor to middle-income Commonwealth countries that are committed to international development targets.

Consolidated Fund
The Consolidated Fund is the principal Government account to which all Government revenues must be deposited and from which expenditure, via warrants, is withdrawn.

Contingent Liabilities
The potential obligations of the Government, as guarantor, having provided a form of security to the lender for a loan or credit facility on behalf of a public sector entity.

Debt Service Payments
Debt service payments cover interest charges on a loan. Some sources also include amortization under debt service payments. These payments liquidate the accrued interest (and loan obligations if amortization is included).

EMBI+
The Emerging Markets Bond Index Plus (EMBI+) is a benchmark index for measuring the total return performance of international government bonds issued by emerging market countries. Inclusion in the

index requires that the debt be more than one year to maturity, have more than $500 million outstanding, and meet stringent trading guidelines to ensure that pricing inefficiencies don't affect the index.

Eurobond
A bond underwritten by international investors and sold in countries other than the country of the currency in which the issue is denominated. Jamaica issued a five-year, US$200mn Eurobond in July 1997, its first ever.

Executive Agencies
An Executive Agency is a Government entity, which focuses primarily on service delivery with a resource orientated approach to governance. In exchange for delegated managerial autonomy, the Chief Executive Officer (CEO) is held accountable for achieving stated results economically, efficiently and effectively.

Expenditure, Statutory
Statutory expenditure refers to those expenditures provided for in the Budget, which receive their authority from the Constitution. These expenditures are regarded as statutory obligations and therefore do not require prior approval of Parliament; for example, debt servicing, pension payments and the salaries of certain public officers such as the Auditor General and Judges of the Court of Appeal.

Expenditure, Voted
Voted expenditure refers to those expenditures provided for in the Budget, which require Parliamentary approval and include expenditure for normal housekeeping expenses and project implementation.

FINSAC
The Financial Sector Adjustment Company (FINSAC) was created by Government in January 1997 to manage the intervention and rehabilitation of the financial sector. FINSAC is also responsible for disposal of the assets acquired during the process.

FIS
The Financial Institutions Services Limited (FIS) was incorporated in September 1995. The company was established to take over the operations, assets and liabilities of Blaise Trust Company and Merchant Bank Limited, Blaise Building Society and Consolidated Holdings Limited. FIS also took over the operations, assets and prescribed liabilities of Century National Bank Limited, Century National Building Society and Century National Merchant Bank and Trust Company Limited.

FMIS
The Financial Management Information System (FMIS) is an accounting and information management system, which encompasses all activities related to the management of Government expenditure. The FMIS comprises accounting procedures and regulations within the framework of Programme Format Budgeting and Accounting. The scope of the FMIS includes the accounting and reporting activities of line ministries as well as the centralized functions of the Ministry of Finance and Planning and its agencies involved in managing the Consolidated Fund.

HRMIS
The Human Resource Management Information System (HRMIS) is a database system designed to assist Government to manage the civil service by providing

proficient automated records management systems. The system enables personnel managers and central agencies such as the Office of the Prime Minister to make effective personnel decisions.

Inflation-Indexed Bonds
Inflation-Indexed bonds are securities with the principal linked to the Consumer Price Index. The principal changes with inflation, guaranteeing the investor that the real purchasing power of the investment will keep pace with the rate of inflation. Although deflation can cause the principal to decline, at maturity the investor will receive the higher of the inflation-adjusted principal or the principal amount of the bonds on the date of the original issue.

Local Registered Stock (LRS)
The term refers to medium and long term debt instruments issued by Government. LRS is issued both to finance Government operations and to support macroeconomic and monetary objectives. Since October 1999, LRS has been offered to the market using the auction system.

Par
Par is the nominal or face value of a security. A bond being issued at par, for example at $100, is worth the same $100 at maturity.

Project Loan
The term refers to loans, which fund capital development activities. The term capital refers to lasting systems, institutions and physical structures. Project loans are typically funded from foreign sources by bilateral/multilateral institutions.

Public Debt Charges / Public Debt
Public debt refers to the loan obligations of Central Government. The obligations of Government entities are also included if such entities are unable to meet their obligations. The entities, however, are then indebted to the Central Government. Public debt charges are interest payments on the loan obligations and include related incidental expenses such as service fees, late payment penalties and commitment fees.

Schedule B/Shelf Registration Statement
A facility with the US Securities Exchange Commission, which allows for the registration of securities intended to be issued in the future.

Sovereign Rating
A sovereign rating is an assessment of the default risk for medium and/or long-term debt obligations issued by a national Government (denominated in foreign currency), either in its own name or with its guarantee. Ratings are produced by independent agencies (Moody's Investors Service, Standard & Poors and others). The ratings provide a guide for investment risk to capital market investors.

Treasury Bill
Treasury Bills are instruments designed to provide Government with short-term financing to meet temporary cash needs arising from fluctuations in cash revenue. Treasury Bills are no longer limited in use to this strict interpretation. They are now being used by Government as a tool in its open market operations for liquidity management.

US Dollar Indexed Bonds
Interest and principal are protected from adverse changes in the exchange rate as adjustments are made for movements in Jamaica dollar vis-à-vis the US dollar.

Interest payments are made on a fixed rate basis on the exchange rate adjusted principal.

The index for measuring the applicable rate of exchange has been the 10-day moving average selling rate as published by the Bank of Jamaica 10 days prior to the respective due dates. Interest and principal are generally payable in Jamaica dollars. US Dollar Indexed Bonds were introduced in July 1999.

Warrants

A warrant is a written authority over the signatures of the Minister of Finance and the Financial Secretary authorizing the Accountant General to transfer from the Consolidated Fund Account to the various accounts listed, the amount stated in the warrants. There are two broad categories of warrants: Statutory and General. Statutory warrants are for expenditure, which is provided for by law and does not require the approval of Parliament e.g. Public Debt. General warrants relate to expenditure of a general nature as approved by Parliament. General warrants are broken down into Capital and Recurrent. Normally, recurrent warrants are issued at the beginning of each month. Capital warrants are issued at the beginning of each quarter.

Yield Curve

A line graph showing the interest rates at specific points in time by plotting the yields of all securities with the same risk but with maturities ranging from the shortest to the longest available. The resulting curve shows if short-term interest rates are higher or lower than long-term interest rates