Jamaica Memorandum on the Budget 2012/13

24th May 2012

Ministry of Finance and Planning

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BUDGET MEMORANDUM FY 2012/13

FOREWORD

The Government of Jamaica's commitment to fiscal prudency and discipline is codified through two major pieces of legislation - the Financial Administration and Audit (FAA) Act and the Public Bodies Management and Accountability (PBMA) Act. Successive legislative amendments to these Acts have signaled, through intent and implementation, an agenda that progressively concretizes the strengthening of the country's financial management framework. ***A central pillar underlying this framework is the Fiscal Policy Paper (FPP)***.

The FPP represents a legislated obligation that articulates how, and when the Government of Jamaica will achieve specified quantitative and structural adjustment targets over a five-year medium term period. These targets reflect a policy and implementation agenda that will provide macro-economic stability and promote economic growth. The FPP roadmap for 2011 – 2016 medium term cycle charted a progressive economic agenda to achieve, *inter alia*, a significant reduction in the debt to GDP ratio and comprehensive reform of the tax system.

Indeed, it was within this context that a 27-month Stand-By Arrangement (SBA) with the International Monetary Fund (IMF) was successfully negotiated in 2010. Despite successful completion of the first three reviews under the SBA, mounting fiscal challenges during FY 2011/12 presented significant hurdles to the sustainability of the SBA to realize the scheduled conclusion of May 2011.

Notwithstanding the suspension of the remaining quarterly reviews under the SBA, ***the Government of Jamaica remains committed to the achievement of the medium term quantitative and structural adjustment targets***.

This commitment reflects the Government's firm resolve to continue a programme that will place Jamaica on a sustainable path of economic stability and ultimately growth. Indeed, ***policy***

consistency and certainty are critical components to continue the track of profound macroeconomic and fiscal adjustments that are necessary.

FY 2012/13 will require a redoubling of efforts to undertake the adjustments required to realize the final targets of this medium-term cycle. The necessary ***recalibration of the intermediate targets over the medium term will be significant***.

FY 2012/13 will mark Jamaica's fiftieth year of Independence. Robust economic development and growth has proven to be elusive during this first half century. Notwithstanding, inroads have been made during the previous fiscal year through newly initiated and ongoing initiatives that will establish the ***core ingredients for a better financial management framework***:

- Improved transparency of Government operations through the Tax Expenditure Statement and the Fiscal Policy Paper;
- Improved accountability through amendments to the FAA and PBMA Acts and Regulations;
- Improved fiscal discipline through implementation of the Central Treasury Management System (CTMS).

This Budget Memorandum 2012/13 allows the opportunity to assess the previous year's performance and view the Government's planned path for sustainable economic growth and development.

Wesley Hughes, CD, JP
Financial Secretary

MACROECONOMIC OVERVIEW – FY 2011/12

Jamaica's growth prospects for FY 2011/12 were predicated on an anticipated recovery in the global economy, as the economies of the country's main trading partners were showing signs of improvement. This boded well for an expansion in Jamaica's exports, particularly mining and tourism, as well as for increase in remittance flows. Additionally, growth was anticipated from agriculture and construction. It was against this background that the economy was projected to grow by 1.6% in FY 2011/12. However, downside risks from increased international oil prices, growth slowdown in the US and European economies and adverse weather conditions cautioned this growth outlook.

Following three consecutive years of negative growth, real gross domestic product (GDP) grew by 1.5% in CY 2011, albeit at a slower pace than originally forecasted, primarily from increases in agriculture and bauxite/alumina production supported by favourable weather conditions and improving global and domestic demand. This GDP performance was buoyed by increased real value added in the 'Goods Producing' industry which increased by 5.0%, while the Services industry grew modestly by 0.4%. Within the 'Goods Producing' industry, all sub-industries recorded growth, led by expansions in agriculture and mining. The performance of the Services industry reflected growth in all sub-industries, with the exception of transport (down 0.4%) and finance (down 1.2%). For FY 2011/12, real GDP was estimated to grow by 1.3%.

MONETARY DEVELOPMENTS

Within the context of financial market uncertainties, the Bank of Jamaica (BOJ) maintained its accommodative policy stance during FY 2011/12 given the continued positive outlook for inflation and downside risks to economic growth. Externally, these uncertainties surrounded the non-resolution of the European financial market crises and slower growth in the US economy. Additionally, these concerns were heightened domestically toward the end of 2011 in the context of delays in the quarterly reviews of the Stand-By Arrangement by the International Monetary Fund (IMF) alongside the General Elections in December 2011.

Despite increases in global commodity prices, stability of the Jamaica Dollar (J$) and relative weakness in domestic demand continued to dampen inflationary impulses. Against the background of this domestic macroeconomic environment, continued improvements in remittance and tourism receipts positively impacted the domestic financial market.

Within this macroeconomic environment the BOJ maintained its 30-day repurchase rate at 6.25% over the last half of FY 2011/12. The value of the J$ depreciated by 1.8% to J$87.30=US$1.00 at end-March 2012 from J$85.75=US$1.00 at end-March 2011. Also, the 6-month Treasury bill rate fell to 6.47% at end-March 2012 from 6.70% at end-March 2011. This compares favourably with the 7.48% Treasury bill rate at end December 2010. At end-March 2012, the Net International Reserves (NIR) stood at US$1.8bn, a decline of US$0.7bn relative to end-March 2011.

Inflation

The All Jamaica Consumer Price Index (CPI) for March 2012 stood at 1,559.5. This represents a slowdown in the pace of inflation for FY 2011/12 to 7.3% relative to the 7.8% inflation outturn in FY 2010/11. The major contributors to this inflation outturn in FY 2011/12, were "Food and Non-Alcoholic Beverages" (9.9%) and "Housing, Water, Electricity, Gas and Other Fuels" (8.4%). Inflation of 6.0% recorded for calendar year

(CY) 2011 represented a marked reduction in inflation when compared with the 11.3% recorded in CY 2010.

The relatively lower fiscal and calendar year inflation outturns were mainly the result of weak domestic demand, increased supplies of some domestic agricultural produce and relative exchange rate stability. However, inflationary impulses were generated from higher prices for processed food and energy, associated with the increase in the cost of crude oil. Price increases recorded in the "Food and Non-Alcoholic Beverages" and "Housing, Water, Electricity, Gas and Other Fuels" stemmed from the effects of imported oil price volatilities and the subsequent impact on utility rates, transportation and food costs.

Inflation in the economies of Jamaica's major industrialized trading partners, (US, UK and Canada), remained relatively low, averaging 2.5% in 2011 and 2.2% for the 12-month period to January 2012 while inflation in the Eurozone was 2.7% for the 12-month period to January 2012.

EXTERNAL SECTOR DEVELOPMENTS

Balance of Payments (BOP)

The current account deficit for the period April-December 2011 was US$1,734.5mn, which represented a deterioration of US$832.9mn relative to the corresponding period in 2010. This higher current account deficit emanated from both the goods and services sub-accounts.

In the goods sub-account, there was a deficit of US$3,289.4mn, a deterioration of US$723.7mn when compared with the April-December 2010 period. This resulted from a US$967.8mn increase in imports being only partially offset by a US$244.1mn increase in exports. The increase in imports was primarily driven by a US$636.0mn increase in mineral fuel purchases while the growth in exports came mainly from an increase of US$134.0mn in alumina exports.

The surplus on the services sub-account fell by US$93.6mn during the April-December 2011 period due to higher freight costs, while the income sub account declined by US$25.0mn, resulting from lower compensation inflows from Jamaican residents working overseas. Current transfers increased by US$9.4mn to US$1,550.5mn due to a US$105.6mn increase in net private transfers.

Higher capital inflows from official and private sources were insufficient to finance the deficit on the current account and the US$587.0mn decline in NIR is partially due to this financing requirement.

External Trade

A trade deficit of US$3,907.2mn was recorded for the April-December 2011 period representing a US$823.4mn widening of the deficit. This deterioration in the trade deficit was due mainly to higher import spending that was only partially offset by an improvement in export earnings. Imports (cif) increased by US$1,067.9mn or 26.1% largely as a result of the higher spending on fuel, which outweighed the US$244.5mn or 24.4% improvement in export (fob) earnings.

For CY 2011, the trade deficit widened by US$1,134.7mn (20.6%) as a result of the combined effects of a US$294.9mn (21.5%) increase in export earnings being offset by a US$1,429.6mn (27.0%) increase in imports.

Exports (f.o.b)

Total export earnings for the April–December 2011 review period amounted to US$1,247.5mn, which represents an increase of US$244.5mn (24.4%) relative to the corresponding period in 2010. All export groups, with the exception of other traditional exports, recorded higher earnings. The value of the major traditional exports improved by US$157.1mn (36.0%) mainly as a result of increased domestic mining output largely reflecting the continued impact of the reopening of the Windalco Ewarton plant and increased bauxite production by Noranda Bauxite Company in St. Ann, combined with favourable pricing (as compared to 2009) for alumina and bauxite in the international commodity markets. During the nine month period under review, the export value of other traditional exports fell by US$1.1mn (1.9%) to US$57.2mn as citrus, rum and gypsum export values declined. There was a US$12.3mn (21.8%) increase in the value of free zone exports.

Imports (c.i.f.)

Total spending on imports amounted to US$5,154.7mn for the April-December 2011 period, which represented a US$1,067.9mn (26.1%) growth relative to the corresponding period of 2010. This increased level of imports was dominated by a US$633.5mn or 54.1% increase in spending on oil imports to US$1,804.3mn, while import value for other raw materials and food went up by US$316.2mn and US$53.6mn, respectively.

Tourism

Provisional data from the Jamaica Tourist Board (JTB) indicates that for FY 2011/12, total visitor arrivals increased over FY 2010/11 by 14.4% to 3,282,778 persons. This resulted from 0.5% and 43.7% increases in stopover and cruise passenger arrivals, respectively. Estimated tourism receipts increased marginally by 1.6% to US$2,039.9mn in the period.

For CY 2011, visitor arrivals increased by 8.7% to 2,831,297 passengers, as stopover and cruise passenger arrivals increased by 1.6% and 23.7%, respectively. Estimated receipts for 2011 amounted to US$2,012.5mn which was a mere 0.6% improvement above receipts in 2010.

Visitor arrivals to Jamaica in 2011 improved against the background of strong Brand Jamaica marketing activities overseas and an inflow of visitors interested in the more diverse theme and adventure-oriented activities on offer in the island. Also, relatively higher cruise passenger arrival levels during the review period was mainly influenced by the opening of the new port facilities in Falmouth, Trelawny, built to accommodate the largest Royal Caribbean Cruise Line vessels, including the 'Oasis of the Seas', the world's largest cruise ship. Jamaica also benefited from a fall-out in the Mexican market.

However, visitor arrivals from the US and Canada recorded marked declines in the early months of the winter season within the context of unusually warm weather in North America. Visitor arrivals have also been negatively impacted by Britain's Air Passenger Duty (APD) which was increased by 8% effective April 1, 2012 and precipitating a dramatic fall-out in the number of visitors to the island emanating from the UK. Additionally, Caribbean, Canadian and Mexican travelers have to pay a US$5.50 tax if they enter the US by air or sea. The new US-Colombia free-trade deal, signed into law in October 2011, includes a clause that removes an exemption from the tariff for travelers from the Caribbean, Canada and Mexico. The return of the tariff comes as Canada and the US are finalizing the details of the 'Beyond Borders' deal, which officials say will improve trade and security at the same time.

THE INTERNATIONAL ENVIRONMENT

World Output

World output grew by 3.9% in 2011, following a 5.3% growth in 2010, reflecting declines in growth rates for both advanced and developing economies. For advanced economies, real GDP grew by 1.6% in 2011 down from 3.2% in 2010, while real GDP for emerging and developing economies grew by 6.2% in 2011, a slower rate than the 7.5% recorded for 2010.

Of note, real activity in Europe slowed sharply during the fourth quarter of 2011, with output contracting in many economies. This was a reflection of the increased risks for growth, competitiveness, and sovereign solvency in crisis-hit periphery countries and Italy; the situation was intensified as the banking sector insolvency risk played a key role in spreading the ‘contagion’ throughout the region. Countries in the Euro Area that remain at the heart of the crisis are Greece, Ireland, Portugal, Italy and to a lesser extent, Spain. The United States economy saw increased activities, as consumption and investment strengthened and the labour market began to show signs of expansion. Japan on the other hand saw contraction in economic activities related to supply disruptions resulting from the earthquake and tsunami in Japan, floods in Thailand and weaker global demand.

Overall, economic recovery has been weak and vulnerable owing largely to spill-offs from the financial crisis and other factors. These factors include: design flaws of the Economic and Monetary Union (EMU) in the Euro area; the debate on fiscal consolidation in the US, which undermined confidence within financial markets; and in other regions, natural disasters as well as high oil prices resulting from supply-side disruptions.

The IMF’s World Economic Outlook (WEO) April 2012 is projecting 3.5% global economic growth for 2012, with 1.4% growth expected for advanced economies (**Table 1**). Real GDP in the Euro area is expected to contract by about 0.3% because of weak confidence and tight fiscal conditions in a number of economies. U.S. economic growth is projected at 2.1% in 2012 reflecting ongoing weakness in house prices, pressure to deleverage, and a weak labour market. Similarly, Japan is projected to grow at 2.1% in 2012, reflecting reconstruction efforts.

Table 1: Industrial Economies Real GDP

	Annual % change)		
	2010	**2011**	**2012**
Advanced Economies	3.2	1.6	1.4
of which			
United States	3.0	1.7	2.1
Euro Area	1.9	1.4	-0.3
Japan	4.4	-0.7	2.0
United Kingdom	2.1	0.7	0.8
Canada	3.2	2.5	2.1

Source: World Economic Outlook, April 2012

Emerging and developing economies are expected to grow at 5.7% reflecting the offsetting of negative spillovers from the Euro area by monetary easing and reduced fiscal policy tightening.

Inflation

There was a general increase in global inflation rates in 2011. In advanced economies, inflation rates increased to 2.7% from the 1.5% recorded for 2010. Inflation rates among emerging and developing economies increased to 7.1% in 2011 from 6.1% in 2010. The increase in consumer prices was largely associated with higher fuel prices. The IMF’s WEO April 2012 is projecting reductions in 2012 inflation rates for both advanced and emerging and developing economies to 1.9% and 6.2% respectively.

Commodity Prices

Primary commodity prices, as measured by the IMF’s Index of Primary Commodity Prices (IPCP), grew by 26.3% for 2011, approximately the same as in 2010 (**Table 2**). The significant increase in the growth rate of crude oil to 31.6% in 2011 was offset by a deceleration in the growth rate in the non-fuel sub-index.

Oil prices rose sharply during 2010 and early 2011 despite lower than projected demand for 2011, consistent with weaker than expected global activity. This resulted from supply disruptions in major oil producing economies (especially Libya) and longer than expected maintenance and other outages in other Organization of Petroleum Exporting Countries (OPEC) and non-OPEC producers. It is projected that oil prices will decline during 2012-2013 in line with prices in futures markets. However, the current environment of low stocks and limited spare capacity presents important downside risks.

Table 2: Primary Commodity Prices

	2010	2011
	Annual Avg. % Change	
All Primary Commodities	**26.1**	**26.3**
(a) Non-Fuel	**26.4**	**17.8**
Edibles	11.8	19.4
Food	11.5	19.7
Beverages	14.1	16.6
Industrial Inputs	43.2	16.4
Agricultural Raw Materials	33.3	22.7
Metals	48.2	13.5
(b) Energy	**25.9**	**31.7**
Petroleum	27.8	31.6

Source: World Economic Outlook, April 2012

Overall, with the exception of crude oil prices, commodity prices declined during 2011. The main factors which resulted in the overall declines in commodity prices in 2011 include:

(1) uncertainty about near-term global economic prospects;

(2) lower growth than expected in emerging and developing economies as well as the slow down in the Chinese real estate market; and

(3) doubts about the continued sustainability of the boom in commodity prices which started a decade ago, given that the high prices have begun to elicit supply responses, especially for some major grains and base metals.

OUTLOOK

International

The IMF is projecting that the global economy is set to expand by a modest 3.5% in 2012 as a still-smoldering euro zone debt crisis and a relatively slow US recovery continue to leave Asia as the main driver of growth. That would mark a slowdown from the IMF's reported 2011 growth of 3.9%. The IMF is however projecting a 4.1% growth for 2013, based on expectations that the euro zone crisis fades, the US picks up steam and Asia finds its stride again.

While powerhouses China and India will not have the double-digit growth seen before the global financial crisis, both economies are expected to rebound in 2013, supported by policy easing, robust domestic demand, reviving exports and a stabilization in the long-drawn out European debt crisis. China's economy is expected to grow by 8.4% in 2012 and 8.6% in 2013 and analysts expect growth in India to be around 7.1% this fiscal year, slightly lower than the 7.3% in the January poll.

A slowly improving US job market and reasonably solid expansion at the start of the year brightens the outlook somewhat, and the world's biggest economy is now set to grow 2.3% in 2012 and 2.4% in 2013. A swathe of better-than-expected data in the first months of 2012 pushed growth estimates for the first quarter up to an annualized rate of 2.2% from the 1.9% expected in March's poll. Partially responsible for the lift in optimism for growth is the resilience of US consumer spending, despite rising gasoline and oil prices. In spite of this, however, first quarter growth is expected to be somewhat lower than the 3.0% rate of the final quarter of 2011.

There have also been signs that the pace of growth in the US may have cooled heading into the second quarter, with jobs growth and manufacturing output both slowing in March. The Fed has held interest rates close to zero since late 2008 and, with no more room on rates, has purchased more than US$2 trillion in long-term securities as part of its efforts to bolster the economic recovery.

In the UK however, the Office for National Statistics reported that GDP fell by 0.2% in the first three months of 2012 relative to the 0.3% dip in the previous quarter, indicating that the economy has fallen back into recession for the first time since 2009. It is apparent that the debt crisis afflicting the 17-country Eurozone has impeded Britain's recovery efforts, but the Treasury intends to stick with the "credible plan" to cut the country's budget deficit. Growth in the UK is expected to rise to 1.5% in 2013 and 2.6% in 2014 as emergency measures by the Bank of England, European Central Bank and US Federal Reserve have been implemented to boost confidence and stabilize financial markets.

The Economist Intelligence Unit's (EIU) food, feedstuffs and beverages (FFB) price index rose by 30% in 2011 on an annual average basis, following a surge in agricultural commodity prices in the first half of the year.

The EIU expects the supply of most agricultural commodities to improve in 2012-13 (assuming more normal weather conditions), and generally market surpluses are expected to return, allowing prices to ease. Prices for grains were particularly strong in 2011 largely due to speculative buying by investors. Global wheat prices eased in the second half of the year, spurred by the resumption of exports from Russia and Ukraine, but still rose by an average of 36% in 2011. Wheat prices are expected to decline by over 13% in 2012 owing to improving output and, in particular, increased supplies of higher-grade wheat.

Domestic

The near-term outlook for the Jamaican economy features single-digit inflation of 6-8 percent for FY 2012/13, with downside risks stemming from the fiscal consolidation measures to be announced in the Budget. Notwithstanding the fact that these measures are expected to impact inflation in FY 2012/13, inflation is expected to normalize at pre-budget rates thereafter. Volatility in oil prices could exacerbate inflationary pressures in FY 2012/13, particularly if geo-political tensions become heightened in 2012.

On the growth side, real GDP is projected to slow in FY 2012/13, but remain positive, in the range of 0-1.0 percent. Expectations are for continued weak demand, particularly in the context of a tighter fiscal budget. The US economy is anticipated to continue with its steady recovery, which augurs well for Jamaica's tourism, goods exports and remittance flows.

CHAPTER 1
CENTRAL GOVERNMENT BUDGET PERFORMANCE FISCAL YEAR 2011/12

OVERVIEW

The FY 2011/12 Budget was formulated against the background of a very challenging FY 2010/11 and within the context of the Government's Medium Term Economic Programme (MTEP). The fiscal programme for FY 2011/12 was geared towards, inter alia, achieving a primary surplus of $69,264.0mn, equivalent to 5.2% of GDP, up from the 4.5% attained in FY 2010/11, as a precursor towards a sustained reduction in the debt/GDP ratio over the medium term. The fiscal balance was programmed at a deficit of $61,819.9mn (4.6% GDP).

The Budget for FY 2011/12 amounted to $544,721.2mn, with an 'above the line' expenditure of $412,461.8mn and amortization payments of $132,259.4mn. The 'above the line' expenditure represented an increase of 6.1% above the FY 2010/11 level, and comprised $352,046.4mn for recurrent expenditure and $60,415.4mn for spending on capital programmes. The provision for the recurrent Budget represented a nominal increase of 5.7% (a real decrease of 1.6%), when compared to the out-turn for FY 2010/11. Budgeted capital expenditure in FY 2011/12 represented an 8.7% increase over actual capital expenditure for the previous fiscal year, and included payments associated with legacy costs for Air Jamaica and Sugar Company of Jamaica (SCJ).

Debt servicing in FY 2011/12 increased significantly over that of the previous fiscal year, and constituted 48.3 percent of the FY 2011/12 Budget. The increase was largely attributable to the maturity of a US$400.0mn external bond in May 2011.

During the course of the fiscal year, several developments necessitated adjustments to some of the fiscal targets. Among these developments were:

(i) lower than programmed revenue and grants resulting in part from lower than programmed inflows from administrative efforts;
(ii) reduced grant flows from the European Union (EU);
(iii) payment of a 7% increase to public sector employees;
(iv) slower than anticipated depreciation of the Jamaica dollar; and
(v) faster than expected fall in domestic interest rates which reduced revenue flows from tax on interest.

Against the backdrop of continued weak economic and fiscal outturns, the Central Government's primary surplus target for FY 2011/12 was thus adjusted downwards (Supplementary Estimates), to compensate for the unforeseen factors that impacted both revenue and expenditure during the fiscal year.

Provisional data indicates that, for FY 2011/12, the Central Government primary surplus amounted to $39,662.6mn, which was $29,601.4mn (42.7%) below the budgeted primary balance. The primary balance outturn was however $517.9mn better than projected in the Third Supplementary estimates.
For FY 2011/12, Central Government operations generated a fiscal deficit of $80,734.3mn, or 6.2% of GDP, which was the same as recorded for FY 2010/11. The outturn was influenced by revenue and grants, which

fell from 26.4% of GDP in FY 2010/11 to 24.9%, and expenditure, which decreased from 32.6% to 31.1% of GDP.

NOTABLE FISCAL DEVELOPMENTS

Fiscal Responsibility Framework

Additional amendments governing the Fiscal Responsibility Framework (FRF) were introduced during FY 2011/12. The amendments to the FRF, by way of amendments to the FAA and the PBMA Acts in September 2011, were designed to strengthen the provisions and provide for better fiscal outcomes. In addition, in April 2012, Parliament approved supporting Regulations to both the FAA and PBMA Acts, including a raft of sanctions for non-compliance.

In April 2011, the inaugural Fiscal Policy Paper (FPP) and Tax Expenditure Statement (TES) were tabled in Parliament. The FPP was audited by the Auditor General and the report tabled in Parliament, in accordance with the provisions of the FAA Act.

Revision to Primary Balance Targets – Supplementary Estimates

The First Supplementary Estimates was tabled on August 30, 2011 to address the emerging challenges that were impacting realization of the fiscal targets. The main contributors to the challenges were: the Government's agreement with the pubic sector unions to pay the outstanding 7% wage increase effective April 1, 2011; and, a significant shortfall in revenue and grant receipts. To accommodate the 7% wage increase, the GOJ made compensatory adjustments to both recurrent and capital programmes. Also, based on discussions with the IMF, the GOJ adjusted the primary surplus target for the year from 5.2% to 5.0% of GDP. The First Supplementary Estimates reflected this adjusted target.

The revenue shortfall that occurred during the first half of the fiscal year, continued through to December 2011. Expectations for a continuation of the shortfall through to the end of the FY 2011/12, resulted in the tabling of the Second Supplementary Estimates on February 21st 2012. These Estimates involved an adjustment in the projected primary balance to 3.6% of GDP as the estimated decrease in Revenue and Grants of $24,268.3mn (2.0% GDP) could only be partially offset by a $7,361.2mn (0.6% GDP) reduction in non-debt expenditure.

A Third Supplementary Estimate for FY 2011/12 was crafted & tabled on March 20th 2012 in order to clear up expenditure arrears of $11,298.1mn (0.9% of GDP). This increase was estimated to result in a lowering of the Central Government primary surplus to $39,144.7mn, or 3.0% of GDP. The upside to including the arrears in FY 2011/12 are:

(a) Satisfied creditors and removal of these significant obligations from the GOJ's books; and
(b) Greater fiscal space in FY 2012/13 and over the medium term to undertake contemporary activities.

Tax Reform

A Green Paper on Tax Reform, which was tabled on May 11, 2011, has elicited significant discussion and comment from stakeholders. Submissions were made by various interest groups to a Parliamentary Committee on Tax Reform. The Committee deliberated on the issue and the White Paper reflecting the outcome of the Committee's deliberation is currently being prepared. It is expected that the white paper will be tabled in Parliament during the first quarter of FY 2012/13.

Pensions Reform

A Green Paper on the options for Reform of the Public Sector Pension System was tabled in September 2011. The need for the Green Paper resulted from the recognition that the current pension system poses several challenges, including that of fiscal sustainability and administrative inefficiencies. The Green Paper sought to find the best mix of reform options that would meet the objective of fiscal sustainability and affordability, while ensuring that benefits are adequate for the retiree.

Reform of the Public Sector Pension System is therefore currently subject to a parliamentary process through which it is expected that a White Paper on the reform will be tabled during FY 2012/13. The impact of the reforms is expected to represent an upside risk to the budget in the long run.

Wage Agreement

Arising from discussions with unions representing public sector workers, including the umbrella group, the Jamaica Confederation of Trade Unions (JCTU), there was an agreement with the GOJ to pay the outstanding 7.0% wage increase effective April 2011, with payment commencing in September 2011. It was also agreed that a one-off payment equivalent to two years of the 7% increase would be paid in 5 equal installments over the three-year period FY 2012/13 to FY 2014/15. The unions and the GOJ have continued to have discussions regarding the contract period FY 2010/12 and the medium term.

BUDGET OUTTURN

Central Government operations generated a fiscal deficit of $80,972.4mn, or 6.2% of GDP, compared to the originally budgeted deficit of $61,819.9mn or 4.6% of GDP. The deviation of the fiscal deficit target resulted mainly from the lower than budgeted revenue and grants receipts which outweighed the gross reduction in expenditure.

The primary surplus amounted to $39,662.6mn, which was lower than originally budgeted by $29,601.4mn or 42.7%. The primary surplus is equivalent to 3.1% of GDP, compared to the 4.5% of GDP registered in the previous fiscal year. Notably, the primary surplus outturn was better than the revised target (Third Supplementary Estimates) of $39,144.7mn by $519.7mn or 1.3%.

Revenue and Grants

The FY 2011/12 Budget programmed revenue growth of 11.5% over the previous fiscal year. The growth in revenue was predicated on: (1) the elasticity of the tax system; (2) continuation of an aggressive revenue enhancement programme by the Tax Authorities; and (3) the inclusion of one-off flows from the Sugar Company of Jamaica (SCJ) & Air Jamaica legacy payments - which added 3.1% to the budgeted increase in tax revenue.

Revenue collections underperformed relative to the target with total revenue and grants of $322,149.8mn falling below Budget by $28,492.1mn, or 8.1%. All categories of receipts, with the exception of Capital revenue (15.3%), performed below target. Of note, revenue and grants increased nominally by only 2.4% over receipts in FY 2010/11, a real decline of about 5.0%.

Tax Revenue

Tax revenue totalled $289,882.2mn, which was $18,333.1mn or 5.9% below the amount budgeted. The shortfall was influenced by lower collections from most categories of tax revenues. The items chiefly responsible for the shortfall in tax revenue collections in absolute terms were: Corporate Taxes (Other Companies); GCT (Local and Imports); Customs duty; SCT (Imports); and Tax on Interest.

While the economy remained weak during 2011, the main macro-economic indicators that underpinned the revenue forecasts have performed broadly in line with budget. Tax revenue performance in FY 2011/12 was impaired by the lower than programmed flows from international trade taxes, occasioned by the slower than anticipated depreciation in the FX rate coupled with lower import value of consumer goods and lower than projected receipts from administrative efforts. In addition, collections from a few large companies reflected a significant reduction below estimated levels. Of note, the faster than programmed reductions in domestic interest rates led to lower revenue intake on Tax on Interest.

When compared to FY 2010/11, there was a nominal increase in tax revenue of 3.6%, representing a decline of approximately 3.7% in real terms. When legacy flows of $5,969.6mn are excluded, collections for the year were only 1.4% higher than collections in the previous year. Most items registered nominal increases over last year, with the notable exceptions being Other Companies, Tax on Interest and SCT (imports).

Income & Profit Taxes

Income and Profit Taxes continue to be the largest tax category, accounting for 36.7% of total taxes in FY 2011/12. However, this was below the 37.6% of total taxes in FY 2010/11 as well as the average contribution of 43.4% over the last three years.

Receipts from the Income and Profit tax category amounted to $106,422.8mn, which was $5,848.9mn, or 5.2% below target. All items, with the exception of PAYE and Bauxite/alumina taxes, registered shortfalls, with Other Companies, Tax on Interest and Other Individuals being the contributors to the unfavourable performance of this category.

Corporate taxes performed below expectations as receipts of $29,035.2mn deviated from target by $6,477.2mn (18.2%) partly as a result of lower than targeted flows from administrative efforts and weaker than anticipated base revenue growth. Collections were also $3,445.6mn or 10.6% below the outturn for FY 2010/11.

Indications are that there was an increase in the incidence of non-compliance. Accordingly, throughout FY 2012/13 and over the medium term, renewed emphasis will be placed on the continued strengthening of administrative capacity in an effort to limit evasion and increase compliance.

Tax on Interest recorded a $2,284.1mn (15.3%) shortfall against Budget, due mainly to lower than anticipated interest incomes occasioned largely by a faster than anticipated decline in interest rates within the economy.

Other individuals (self employed) taxes, at $3,786.5mn, were $1,095.3mn (22.4%) lower than Budget. This shortfall was due largely to the lower than anticipated receipts from administrative efforts. Collections were also $215.3mn or 5.4% below the outturn for FY 2010/11.

Tax on Dividend of $805.9mn was below Budget by $319.8mn or 28.4%. This represented a 21.9% reduction on receipts of the previous fiscal year. The decrease against the budget was influenced by lower dividends declared by firms, while the decline relative to the previous year resulted from a significant dividend payout by a large entity in FY 2010/11.

With respect to PAYE, there was a $4,326.1mn (7.7%) over performance when compared to Budget, due mainly to the 7.0% wage increase payments. Stepped-up compliance activity also helped to buoy PAYE collections.

Overall, Income and Profit tax collections increased nominally by $1,304.1mn (1.2%) over the previous fiscal year, a real decrease of approximately 6.0%. The marginal nominal improvement arose from receipts from PAYE ($8,612.3mn) outweighing the declines registered by all the other items in this category.

Production and Consumption Taxes

Production and Consumption tax receipts of $84,628.9mn were $3,973.5mn (4.5%) below Budget, as the under-performance in some items (primarily GCT) outweighed the better than targeted performances on the other items.

Receipts from the GCT amounted to $47,973.2mn and were $4,887.8mn (9.2%) below target. The outturn was affected primarily by the slower than anticipated growth in the base and lower than targeted receipts from administrative efforts. Collections were however $1,583.3mn (3.4%) higher than the outturn in FY 2010/11, reflecting a real decline of about 4.0%. Similar to Corporate Taxes, there are indications that GCT collections could improve significantly with intensified administrative/compliance efforts and action toward this end has already begun.

Receipts from SCT performed below expectations relative to Budget. SCT inflows of $9,238.1mn were $359.5mn (3.7%) below target. The outturn was affected primarily by a reduction in the manufacture and consumption of some spirits and liquors. However, receipts were $590.2mn (6.8%) higher than the outturn in FY 2010/11 due mainly to increased flows from petroleum products.

Notwithstanding the shortfalls within the Production and Consumption tax category, Stamp Duty, Education Tax and Contractors levy performed well relative to Budget. Collections from the Stamp Duty of $7,494.5mn exceeded target by $646.1mn (9.4%) and were 23.6% more than the amount received in FY 2010/11. The increase occurred mainly from a significant commercial share transfer.

Education Tax receipts totalled $14,465.6mn, which were $530.1mn, or 3.7% above target and $1,899.2mn (14.5%) higher than in FY 2010/11. Similar to PAYE, this increase stemmed largely from the payment of the 7% wage increase.

Contractors levy at $1,171.1mn was $246.3mn (26.6%) higher than Budget. Increased activity on infrastructural works, including on the Jamaica Development Infrastructure Programme (JDIP), was partially responsible for the improvement. Receipts were also 47.6% higher than in FY 2010/11.

When compared to collections in the previous fiscal year, collections from Production and Consumption taxes were $6,057.5mn (7.7%) higher, with Education tax, GCT and SCT being the main contributors to the increase. In real terms, Production and Consumption taxes increased only marginally over collections in FY 2010/11.

International Trade Taxes

Receipts from the International Trade category totalled $96,511.6mn, which were $8,626.5mn (8.2%) below budget. All sub-categories of taxes with the exception of Travel tax registered decreases relative to the budget. Collections increased over FY 2010/11 by 2.5%, mainly as a result of one off inflows associated with legacy payments for Air Jamaica.

Customs Duty receipts of $20,769.1mn were $3,654.9mn (15.0%) lower than Budget as a result of lower than anticipated consumer goods imports as well as the slower than anticipated depreciation in the value of the Jamaican dollar. In addition, revenue arising from institutional strengthening was also below target.

SCT (Imports) collections of $27,500.5mn were $3,067.4mn (10.0%) below target. The outturn was affected primarily by a reduction in the importation of some spirits and liquors, as well as cigarettes. The shortfall was also impacted by the slower

than expected depreciation of the Jamaica dollar *vis a vis* the US dollar as well as the slower than anticipated increase in oil prices.

SCT collections were $2,311.3mn (7.8%) lower than collections for FY 2010/11, due primarily to a reduction in the *ad valorem* rate on petroleum from 15% to 10%.

Within the International Trade category, all tax types, with the exception of SCT, registered increases in FY 2011/12 when compared to FY 2010/11, with GCT collections and travel tax being the main contributors. In real terms, receipts from International Trade taxes decreased by approximately 5.0% relative to the previous fiscal year.

Environmental Levy

The Environmental Levy performed above expectations as total collections of $2,318.9mn were $115.9mn (5.3%) above budget. This resulted from the higher than expected (2.7%) US-dollar value of imports despite the slower than expected depreciation of the Jamaica dollar vis-à-vis the United States dollar. Compared to the previous fiscal year, collections from the Levy were $278.8mn (13.7%) higher, reflecting higher imports values.

Non-tax Revenue

Non-tax revenue performed below expectations with total collections of $16,709.2mn being below target by $1,370.6mn, or 7.6%. Receipts from the Customs User Fee (CUF) were primarily responsible for the under-performance compared to Budget. The 2% CUF contributed approximately 46.5% to total non-tax revenue collections. CUF receipts of $7,770.3mn were $755.6mn (8.9%) below target partly as a result of the slower than expected depreciation of the Jamaica Dollar. Receipts from departmental and miscellaneous revenues were also below projections. In comparison to FY 2010/11, receipts from non-tax revenue declined by 16.9%. Receipts in FY 2010/11 were bolstered by inflows of profits from BOJ, amounting to $4,000.0mn.

Bauxite Levy

Bauxite Levy receipts of $1,524.5mn fell below Budget by $261.6mn (14.6%). The out-turn versus Budget was due to lower than projected flows from mining operations, as output was below target, as well as to the slower than anticipated depreciation of the currency. Total receipts were above collections in FY 2010/11 by $1,103.4mn.

Capital Revenue

Capital revenue totaled $10,585.1mn, an excess of $1,402.7mn (15.3%) relative to budget, due to collections from loan repayments being $1,229.3mn higher than budgeted. The higher than projected increase in capital revenue was attributable mainly to a payment from the Development Bank of Jamaica (DBJ).

Lower than targeted intake from royalties was occasioned in part by the slower than anticipated increase in mining activities as well as the slower than expected depreciation of the Jamaican currency. Collections in FY 2011/12 increased by $6,920.6mn compared to the previous fiscal year mainly due to the one-off payment by DBJ.

Grants

Grant receipts amounted to $3,448.8mn, a shortfall of $9,929.5mn (74.2%) against budget. This shortfall was due mainly to the delay in programmed proceeds from the European Union (EU) as these flows were linked to successful reviews of the GOJ/IMF

SBA programme. In addition, the lower than planned GOJ capital spending led to delays in the disbursement of planned inflows. The inflows during the review period were $6,355.6mn lower than the previous fiscal year.

Expenditure

Total spending for FY 2011/12 of $403,122.2mn was $9,339.6mn (2.3%) less than originally budgeted with both Recurrent Expenditure (0.6%) and Capital Expenditure (11.9%) being lower than target. The decline in recurrent spending was due primarily to interest costs which outweighed the increases in wages and salaries and recurrent programmes, while the lower than programmed capital expenditures resulted from GOJ's attempt to rein in spending in the face to falling revenues and grants. Compared to FY 2010/11, total spending during FY 2011/12 increased by 3.7%, a 4.6% decrease in real terms.

Recurrent Expenditure

Recurrent Expenditure totalled $349,891.3mn, a reduction of $2,155.1mn or 0.6% below the original budget. The main contributor to the reduction was lower than programmed interest payments, as spending on recurrent programmes and wages and salaries exceeded budget. This level of recurrent expenditure represented an increase of 5.0% over FY 2010/11, a real decrease of approximately 2.3%.

Recurrent Programmes

Spending on Recurrent Programmes (goods and services) of $89,699.4mn was $2,484.3mn (2.8%) more than the amount budgeted and 16.6% more than the previous fiscal year. The higher spending on recurrent programmes in FY 2011/12 stemmed in part from the costs associated with the holding of general and local government elections. Real spending on Recurrent Programmes was 9.3% higher than FY 2010/11.

Wages and Salaries

Expenditure on Wages & Salaries for FY 2011/12 was programmed to increase mainly as a result of retroactive payments (back-pay) due to certain groups of public sector workers, performance based increments, and the recruitment of police and correctional officers. However, payment of the 7.0% increase to public sector workers resulted in Wages and Salaries of $139,556.9mn being $5,809.5mn (4.3%) above Budget. Wages and salaries increased by $11,655.7mn (9.1%) relative to the previous fiscal year.

Interest Payments

Interest cost of $120,635.0mn was $10,448.9mn (8.0%) below budget, with both domestic and external interest payments being less than budgeted. When compared to the previous fiscal year, interest payments decreased by 6.0% with domestic and external interest payments decreasing by 7.4% and 3.0%, respectively.

Lower domestic interest payments resulted from, inter alia, lower than anticipated interest rates, the slower than anticipated depreciation in the value of the Jamaica dollar, later than anticipated assumption of debt and lower than budgeted contingency payments. Savings from lower external interest payments emanated from the slower than anticipated depreciation in the value of the Jamaica dollar and lower than anticipated loan raising expenses.
Interest costs as a proportion of GDP decreased significantly to 9.3%, relative to 10.8% recorded in FY 2010/11. As a share of total expenditure (less amortization), interest payments stood at 29.9% in FY 2011/12 compared to 33.0% in FY 2010/11. Interest payments to tax revenue ratio continued to trend downwards in FY 2011/12, representing 41.6% of tax revenue compared to 45.9% of tax revenue in FY 2010/11.

Interest costs as a proportion of total revenue amounted to 37.4% in FY 2011/12 compared to

40.8% in FY 2010/11, and an average of 49.7% for the last three years.

Capital Expenditure

Expenditure on Capital Programmes of $53,230.9mn was $7,184.5mn (11.9%) below budget. The lower capital expenditure was mainly as a result of the GOJ’s attempt to contain spending in the face of lower than budgeted revenue. Capital spending was also $2,363.2mn (4.3%) lower than in FY 2010/11. However when one-off payments are removed from FY 2011/12 (legacy payments) and FY 2010/11 (Air Jamaica divestment), capital expenditure increased by $1,816.9mn (4.6%).

Loan Receipts

The Central Government financed the FY 2011/12 fiscal deficit of $80,972.4mn through net borrowing of $35,147.3mn (loans of $163,520.5mn less amortization payments of $128,373.2mn), and utilization of cash balances of $45,825.0mn for FY 2011/12.

Gross loan receipts of $163,520.5mn were 24.9% more than the amount originally budgeted and comprised: domestic receipts of $142,752.5mn which were $45,749.7mn (47.2%) above target; and loans from external sources of $20,768.1mn which fell $23,007.5mn (52.6%) below target. The lower than anticipated external loan receipts resulted from the non-receipt of programmed Policy Based Loans (PBLs) that have been delayed as a result of the issues relating to macro-economy and the SBA with the IMF. This resulted in the borrowing of a higher than programmed loan amount from domestic sources.

Amortization

Amortization payments of $128,373.2mn were below budget by $3,886.2mn (2.9%), with external payments being responsible for the lower than budgeted outturn. External payments of $60,553.0mn were below budget by $5,675.5mn (8.6%) as a result of deferral of the planned liability management programme, the slower than anticipated depreciation of the Jamaica dollar, and the positive impact of cross-country movements of major currencies. Overall, amortization payments were $26,215.7mn (25.7%) higher than in the previous fiscal year.

CENTRAL GOVERNMENT SUMMARY ACCOUNTS - Fiscal Monitoring Table

FY 2011/12

(in millions of Jamaica dollars)

Item	Prov Apr-Mar	Budget Apr-Mar	Diff	Diff %	FY10/11 Apr-Mar	Diff	Diff %
Revenue & Grants	**322,149.8**	**350,641.9**	**-28,492.1**	**-8.1%**	**314,558.5**	**7,591.3**	**2.4%**
Tax Revenue	289,882.2	308,215.3	-18,333.1	-5.9%	279,874.2	10,008.0	3.6%
Non-Tax Revenue	16,709.2	18,079.8	-1,370.6	-7.6%	20,473.9	-3,764.8	-18.4%
Bauxite Levy	1,524.5	1,786.1	-261.6	-14.6%	421.1	1,103.4	262.0%
Capital Revenue	10,585.1	9,182.4	1,402.7	15.3%	3,664.5	6,920.6	188.9%
Grants	3,448.8	13,378.3	-9,929.5	-74.2%	10,124.8	-6,676.0	-65.9%
Expenditure	**403,122.2**	**412,461.8**	**-9,339.6**	**-2.3%**	**388,768.0**	**14,354.2**	**3.7%**
Recurrent Expenditure	349,891.3	352,046.4	-2,155.1	-0.6%	333,173.8	16,717.5	5.0%
Programmes	89,699.4	87,215.1	2,484.3	2.8%	76,917.9	12,781.5	16.6%
Wages & Salaries	139,556.9	133,747.5	5,809.5	4.3%	127,901.3	11,655.7	9.1%
Interest	120,635.0	131,083.9	-10,448.9	-8.0%	128,354.7	-7,719.6	-6.0%
Domestic	81,547.9	88,610.0	-7,062.1	-8.0%	88,049.5	-6,501.6	-7.4%
External	39,087.1	42,473.9	-3,386.8	-8.0%	40,305.2	-1,218.1	-3.0%
Capital Expenditure	53,230.9	60,415.4	-7,184.5	-11.9%	55,594.1	-2,363.2	-4.3%
Fiscal Balance (Surplus + / Deficit -)	**-80,972.4**	**-61,819.9**	**-19,152.5**	**31.0%**	**-74,209.5**	**-6,762.9**	**9.1%**
Loan Receipts	**163,520.5**	**140,778.2**	**22,742.4**	**16.2%**	**212,968.9**	**-49,448.4**	**-23.2%**
Domestic	142,752.5	97,002.8	45,749.7	47.2%	122,478.7	20,273.7	16.6%
External	20,768.1	43,775.4	-23,007.3	-52.6%	90,490.2	-69,722.1	-77.0%
Amortization	**128,373.2**	**132,259.4**	**-3,886.2**	**-2.9%**	**102,157.5**	**26,215.7**	**25.7%**
Domestic	67,820.2	66,031.0	1,789.2	2.7%	79,393.5	-11,573.3	-14.6%
External	60,553.0	66,228.5	-5,675.5	-8.6%	22,764.0	37,789.0	166.0%
Overall Balance (Surplus + / Deficit -)	**-45,825.0**	**-53,301.1**	**7,476.1**	**-14.0%**	**36,602.0**	**-82,427.0**	**-225.2%**
Primary Balance (Surplus + / Deficit -)	**39,662.6**	**69,264.0**	**-29,601.4**	**-42.7%**	**54,145.2**	**-14,482.6**	**-26.7%**

DETAILS OF REVENUE

FY 2011/12

(in millions of Jamaica dollars)

Item	Prov. Apr-Mar	Budget Apr-Mar	Diff	Diff %	FY10/11 Apr-Mar	Diff	Diff %
Revenue & Grants	**322,149.8**	**350,641.9**	**-28,492.1**	**-8.1%**	**314,558.5**	**7,591.3**	**2.4%**
Tax Revenue	**289,882.2**	**308,215.3**	**-18,333.1**	**-5.9%**	**279,874.2**	**10,008.0**	**3.6%**
Income and profits	106,422.8	112,271.8	-5,848.9	-5.2%	105,118.7	1,304.1	1.2%
Bauxite/alumina	1.3	0.0	1.3	-	866.3	-865.0	-99.9%
Other companies	29,035.2	35,512.4	-6,477.2	-18.2%	32,480.9	-3,445.6	-10.6%
PAYE	60,164.8	55,838.7	4,326.1	7.7%	51,552.6	8,612.3	16.7%
Tax on dividend	805.9	1,125.7	-319.8	-28.4%	1,032.3	-226.4	-21.9%
Other individuals	3,786.5	4,881.8	-1,095.3	-22.4%	4,001.8	-215.3	-5.4%
Tax on interest	12,629.1	14,913.2	-2,284.1	-15.3%	15,184.9	-2,555.8	-16.8%
Environmental Levy	2,318.9	2,203.0	115.9	5.3%	2,040.1	278.8	13.7%
Production and consumption	84,628.9	88,602.5	-3,973.5	-4.5%	78,571.4	6,057.5	7.7%
SCT	9,238.1	9,597.6	-359.5	-3.7%	8,647.9	590.2	6.8%
Motor vehicle licenses	1,737.7	1,944.0	-206.3	-10.6%	1,782.7	-45.0	-2.5%
Other licenses	377.8	289.5	88.2	30.5%	265.5	112.2	42.3%
Betting, gaming and lottery	1,640.8	1,671.5	-30.7	-1.8%	1,532.8	108.0	7.0%
Education Tax	14,995.7	14,465.6	530.1	3.7%	13,096.5	1,899.2	14.5%
Contractors levy	1,171.1	924.8	246.3	26.6%	793.6	377.5	47.6%
GCT (Local)	47,973.2	52,861.1	-4,887.8	-9.2%	46,389.9	1,583.3	3.4%
Stamp Duty (Local)	7,494.5	6,848.4	646.1	9.4%	6,062.4	1,432.0	23.6%
International Trade	96,511.6	105,138.1	-8,626.5	-8.2%	94,144.0	2,367.6	2.5%
Custom Duty	20,769.1	24,424.0	-3,654.9	-15.0%	20,487.7	281.4	1.4%
Stamp Duty	1,470.4	1,504.5	-34.1	-2.3%	1,393.2	77.1	5.5%
Travel Tax	5,086.8	5,044.6	42.2	0.8%	3,930.6	1,156.2	29.4%
GCT (Imports)	41,684.8	43,597.1	-1,912.3	-4.4%	38,520.6	3,164.2	8.2%

Item	Prov. Apr-Mar	Budget Apr-Mar	Diff	Diff %	FY10/11 Apr-Mar	Diff	Diff %
SCT (imports)	27,500.5	30,567.9	-3,067.4	-10.0%	29,811.8	-2,311.3	-7.8%
Non-Tax Revenue	**16,709.2**	**18,079.8**	**-1,370.6**	**-7.6%**	**20,473.9**	**-3,764.8**	**-18.4%**
Bauxite Levy	**1,524.5**	**1,786.1**	**-261.6**	**-14.6%**	**421.1**	**1,103.4**	**262.0%**
Capital Revenue	**10,585.1**	**9,182.4**	**1,402.7**	**15.3%**	**3,664.5**	**6,920.6**	**188.9%**
Grants	**3,448.8**	**13,378.3**	**-9,929.5**	**-74.2%**	**10,124.8**	**-6,676.0**	**-65.9%**

CHAPTER 2

CENTRAL GOVERNMENT BUDGET FISCAL YEAR 2012/13

OVERVIEW

The Central Government's FY 2012/13 Budget was formulated within the medium term framework that seeks to first reduce, then eliminate, the fiscal deficit by March 2016, as prescribed under the Fiscal Responsibility Framework (in the FAA Act). This medium term objective supports the Government's efforts to reduce the public debt to a sustainable level, thereby contributing to the achievement of the overarching goal of sustainable economic growth**.**

The medium term plan for FY 2012/13 programmes the Central Government primary surplus and fiscal deficit targets at 6.0% and 3.8% of GDP, respectively. Against this background, total expenditure, net of Appropriations-in-Aid, is $612,428.2mn. This is comprised of above-the-line expenditure of $414,258mn and amortization payments of $198,170.2mn. Consistent with previous years, debt-servicing at $334,703.7mn accounts for the largest portion of the budget, 54.7%, followed by education services $77,756,6mn (12.7%), national security services $45,958.0mn (7.5%) and health services $35,030.0mn (5.3%). Salient features of the 2012/13 budget are presented below.

Debt Servicing

Total debt servicing for FY 2012/13, projected at $334,703.7mn, is 54.7% of the net budget. This compares to $248,777.1mn, or 46.4%, in FY 2011/12.

The breakout of the debt service is as follows:

	2011/12	2012/13	Change
Interest Payments ($m)	120,718.0	136,533.5	15,815.5
Amortization ($m)	128,056.1	198,170.2	70,113.1
Total ($m)	248,774.1	334,703.7	85,929.4
% of Budget	46.4%	54.6%	8.2pp

Projected debt servicing for FY 2012/13 shows an increase of $85,926.6mn, or 34.5%, over the Revised Estimates 2011/12. The increase in interest costs is due largely to the higher debt stock. With respect to amortization, a bullet Eurobond maturity is the main factor behind the increased provision.

RECURRENT BUDGET

The overall recurrent expenditure is projected to increase by $22,481.9mn or 6.4%, from $352,282.8mn in FY 2011/12, to $374,764.6mn in FY 2012/13. Public debt (interest payments) is expected to increase by $15,815.5mn or 13.1%, from $120,718.0mn in FY 2011/12, to $136,533.5mn in FY 2012/13. Non-debt recurrent expenditure is budgeted to increase by $6,666.4mn or 2.9%, from $231,564.7mn in FY 2011/12, to $238,231.1mn in FY 2012/13.

A provision of $12,038.8mn has been made under the category of contingencies to be utilized mainly for payment of salary arrears for teachers and other public sector workers.

Non-Debt (Wages and Salaries/Programmes)

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

- Provision of $9,510.6mn for payment of outstanding salary settlements;
- $2,336.0mn increase in pension benefits;
- Provision to accommodate an adjustment to the motor vehicles allowances paid to public sector workers;
- A 10% increase in the allocation to the PATH School Feeding Programme.

CAPITAL BUDGET

The capital budget is projected to increase from $184,156.3mn in FY 2011/12 to $237,663.6mn in FY 2012/13. The FY 2012/13 capital budget is comprised of $198,170.2mn for amortization (a 54.8% increase over the $128,056.1m of FY 2011/12) and $39,493.4mn for capital programmes (a 29.6% decrease on the Revised Estimates of $56,100.2mn in FY 2011/12.

Some of the major projects being funded within the capital programme are listed below.

Constituency Development Fund

An allocation of $988.3mn has been provided for Members of Parliament in the 63 constituencies to provide direct/immediate response to constituents needs. The main thrust of the Fund is to:

- promote human and infrastructure development by catalyzing economic activities at the constituency level;
- foster local governance including good environmental stewardship;
- improve service delivery by bringing Government and the people closer together; and
- increase the effectiveness of the elected representatives.

Purchase of Buses

The budget includes an allocation of $2,500.0mn to meet the cost of acquiring new buses for the Jamaica Urban Transit Company, which will be delivered during FY 2012/13.

Capital B (Multilateral/Bilateral Projects)

Jamaica Social Investment Fund (JSIF)

An allocation of $2,043.2mn has been made to the JSIF to undertake expenditure under the following programmes/activities:

- Inner-city Basic Services;
- Basic Needs Trust Fund 5 & 6;
- Poverty Reduction Programme II and III;
- Rural Economic Development Initiative;
- Community Crime and Violence Prevention; and
- Community Investment Project.

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 2012/13 JSIF will continue implementation of the Inner City Basic Services Project aimed at improving access to basic services in 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 skill training; job placement; youth programmes; and family support programmes.

Other JSIF sub projects will implement activities aimed at improving roads, including farm roads, upgrading water supply facilities, improving agriculture, and upgrading basic and primary schools across the island.

During FY 2012/13, JSIF will commence implementation of a school sanitation programme, to be funded by the PetroCaribe Development Fund, which will result in improved sanitary facilities being provided in several schools island-wide.

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;
- Interventions to enable greater participation of household members in meaningful employment;
- Comprehensive analysis and review of public sector pension systems; and
- Support for social investigation of various types, examination of needs assessment methodologies and development of response options.

An amount of $4,027.6mn has been allocated this fiscal year to the PATH programme. This will facilitate grant payments to 390,000 beneficiaries up from 375,000 at the beginning of fiscal year 2011/12; and an increase of 5% ($169.0mn) for the re-instatement of 10,000 beneficiaries.

Education System Transformation Programme (ESTP)

The project is designed to support the Education Transformation Programme in the Ministry of Education and its main objectives are to:

- Provide support to the MOE's policy to expand compulsory education for persons aged 16 to 18 by providing approximately 2,100 additional secondary school spaces;
- Operationalize the new agencies that are key to improving capacity for delivering high quality education;
- Set up mechanisms to mobilize additional resources for the education sector; and
- Garner stakeholder support for the Education System Transformation Programme

The $1,069.1mn allocation for FY 2012/13 is to continue the process of establishing the entities critical to making the transformation process a reality. The main entities are:

- The National Education Trust (NET), which was incorporated as a company responsible for the Ministry's infrastructural development. The NET has commenced operations and among its targets for FY 2012/13 is the start of construction of two high schools;
- The Jamaica Teaching Council is operational. Standards for the licensing regime for teachers are to be finalized and

the appropriate legislation passed to facilitate the Council's licensing of teachers;

- The National Education Inspectorate (NEI), which is established and in operation. A total of 300 school inspections are to be conducted by NEI in FY 2012/13;
- The National College of Education Leadership (NCEL), which has responsibility for the professional development of school leaders. NCEL has received Cabinet approval for its establishment but is not fully operational. Its primary targets for the FY 2012/13 are to obtain the services of key personnel and develop at least 4 professional development programmes.

Citizens' Security and Justice Programme

The main priorities of the Ministry of National Security for FY 2012/13 as they relate to the Citizens' Security and Justice Project are to:

- Prevent and reduce violence in 50 volatile and vulnerable communities;
- Strengthen crime management capabilities; and
- Strengthen the Restorative Justice Programme.

The allocation of $1,078mn for FY 2012/13 will focus on:

- Integrating the Traffic Ticketing System, the Automated Palm and Finger Print Information System, the Crime and
- Intelligence Management System and the Integrated Justice Enforcement Management System through a single Web Portal; and
- Implementation of violence prevention programmes in 50 vulnerable communities -programmes such as educational and skills training, employment internship, on-the-job training and the introduction of the Restorative Justice Programme to new communities and strengthening of the programme already introduced in 4 pilot communities.

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) in order to keep pace with the rapid industrial and housing developments in the area. The provision in the FY 2012/13 budget amounts to $907.0mn.

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 $1,870.0mn, provided through a China EXIM Bank loan, is to:

- complete the revetments 1 and 2 works;
- complete the road rehabilitation works;
- complete construction of 2km of water line;
- relocate electrical pole lines; and
- achieve 80% completion of the total works.

Jamaica Economical Housing Project

The objectives of this project are to:

- upgrade infrastructure works (water, sewage and roads) in rural communities in St Ann and St Elizabeth;
- alleviate the deficit of housing solutions in St Ann, by providing a mix of affordable housing solutions, primarily for tourism industry employees; and

- provide affordable housing solutions in St Elizabeth.

The allocation of $1,354.0mn is to commence the construction and upgrading of 443 new housing solutions in St Ann.

Northern Jamaica Development Project

The project has already met its objective of developing the infrastructure along Jamaica's North Coast, to improve vehicular and pedestrian safety; reduce overall transportation cost and alleviate congestion along the corridor. The provision of $2,256.8mn in FY 2012/13 is to continue providing payments for lands acquired and provide part payment to the contractor for works already completed.

Transportation Infrastructure Rehabilitation Programme

An amount of $1,342.5mn has been provided for:

- completion of the Hope River Bridge and related protective works,
- commencement and construction of phase 2 of the Yallahs River Training Works
- continuation of construction works on the Belmont to Ferris Cross Corridor; and
- commencement of overlay/paving works on the Red Hills to Santa Maria Corridor in St. Andrew.

Tropical Storm Nicole Rehabilitation (Natural Disaster Management; KMA Drainage Project)

The objective 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 Kingston Metropolitan Area (KMA) to improve the mitigation of flood. A provision of $1,200.0mn has been made to undertake critical repairs to sections of the Sandy Gully to protect the property and lives of the citizens and business in the locality.

Energy Efficiency and Conservation Loan Programme

The objective of the project is to enhance Jamaica's energy efficiency (EE) and energy conservation (EC) potential through the design and implementation of cost saving EE and EC measures in the public sector.

The allocation of $396.0mn in FY 2012/13 will be used to:

- commence the replacement of inefficient lighting and air conditioning systems in selected public sector buildings; and
- retro-fit and insulate selected public sector buildings to reduce energy consumption by the air conditioning systems.

Energy Security and Efficiency Enhancement Project

This project aims to:

- promote private sector investments in the energy sector by updating the regulatory framework for the energy sector and promoting the increased use of renewable energy in electricity generation; and
- improve energy efficiency and security in key areas of the economy by implementing fuel diversification via the development of a liquid natural gas (LNG) strategy and fuel switching.

The allocation of $595.8mn will be used primarily to provide lines of credit for Small and Medium Size Enterprises (SMEs) and develop the legal and regulatory framework for the LNG sector.

Sugar Transformation Project

The objectives of this project are to:

- Develop a sustainable private sector-led sugar cane industry by 2015; and
- Coordinate the smooth and effective implementation of the Jamaica Country Strategy for the adaptation of the Sugar industry 2006-2020.

An allocation of $1,800mn is made to the project for FY 2012/13 to:

- Rehabilitate rural cane roads and clean regional drains in the St Thomas and Westmoreland Sugar Dependent Areas;
- Relocate residents of the Sugar Estates Barracks in Frome and Monymusk to new housing settlements; and
- Support improvements to social, economic and environmental infrastructure in seven (7) Sugar Dependent Areas.

Agricultural Support Project

This project aims to foster an increase in small farm agricultural production by providing access to credit for small farmers and small-scale agricultural entrepreneurs to increase agricultural production and competitiveness.

The allocation of $457.6mn is for on-lending to farmers, chiefly for irish potato and onion production as part of the country's food importation reduction strategy.

(in millions of dollars)	**2012/13**	**2011/12**	**Change**
I. REVENUE & GRAN	**341,919.5**	**322,149.8**	**6.1**
Tax Revenue	316,262.1	289,882.2	9.1
Non-tax Revenue	18,555.2	16,709.2	11.0
Bauxite Levy	1,681.4	1,524.5	10.3
Capital Revenue	1,008.9	10,585.1	-90.5
Grants	4,412.0	3,448.8	27.9

FINANCING FY 2012/13 BUDGET

Formulating the FY 2012/13 Budget has been extremely challenging particularly given the less than favourable international economic developments resulting from the slow pace of global economic recovery, especially in the USA, the significant economic and financial challenges in Europe (including the threat faced by the Euro zone) as well as the rising and unstable oil and commodity prices.

The expectations of Jamaica's citizenry for the efficient delivery of public goods and services represents an additional challenge for the budget. Multilateral organizations and rating agencies are also focused on the country's fiscal profile. Given the international environment, accessing international financing sources could be challenging, therefore a sound programme of fiscal consolidation that targets a reduction of the fiscal deficit and a higher primary surplus is critical for addressing the medium term debt dynamics.

For FY 2012/13, the Central Government is targeting a primary surplus of 6.0% of GDP, which is equivalent to $83,558.4mn. With primary (non-debt) expenditure of $277,724.2mn, achievement of this target requires revenue and grants of $361,282.5mn.

Revenue and Grants

The projection of revenue and grants for FY 2012/13 amounts to $341,919.5mn. This represents an increase of 6.1% over FY 2011
represents an increase of 6.1% over FY 2011/12 and is broken down as follows:

The revenue and grant estimate for FY 2012/13 is 24.6% % of GDP, compared to the 24.8% of GDP for FY 2011/12. Revenue in

FY 2011/12 however included significant one-off receipts equivalent to about 1.2% of GDP.

Tax Revenue

Tax revenue projections of $316,262.1mn represents an increase of 9.1% over collections in FY 2011/12, and accounts for 92.5% of projected revenue and grants for FY 2012/13. This projected growth in tax revenue is underpinned by (i) the elasticity of the tax system, and (ii) an intensive and profound tax administration programme.

The tax administration programme will focus on strengthening operations by making them more customer-focused and risk based, improving compliance, increased utilization of information & communication technology (ICT), improving organization and management, enactment of legislation and enforcement.

Tax revenue for FY 2012/13 is estimated at 22.6% of GDP, relative to the 22.3% of GDP attained during the previous fiscal year. The main contributors to the projected increase as a percent of GDP are Corporate Income Taxes (Other Companies), GCT, Customs Duty, and PAYE.

Non-tax Revenue

Non-tax revenue is projected at $18,555.2mn, which is $1,846.0mn (11.0%) above collections in FY 2011/12. The estimate for non-tax revenue amounts to 1.3% of GDP, similar to the outturn registered for FY 2011/12. Receipts in FY 2012/13 are expected to be higher as a result of: (a) dividends/financial distributions from Public Bodies, (b) higher receipts from the CUF and some of the other fees charged at Customs, arising from stepped-up enforcement activities, as well as expected higher imports, (c) increased buoyancy in miscellaneous receipts across some Ministries, Departments and Agencies.

Bauxite Levy

The bauxite/alumina industry is expected to continue to reflect moderate improvement in FY 2012/13. It is anticipated that the industry will continue to experience modest recovery in production and exports. This projected increase in production is expected to translate into higher levy inflows. Projections are for levy receipts of $1,681.4mn compared to $1,524.5mn in FY 2011/12.

Capital Revenue

Capital revenue estimates of $1,008.9mn are $9,576.2mn less than collections in the previous fiscal year. Collections in the previous fiscal year were buoyed by a one-off payment of $9,678.4mn from the Development Bank of Jamaica (DBJ). When these one-off inflows are removed, capital revenue is projected to increase by 11.3%. The forecast for FY 2012/13 includes an increase in royalties from the bauxite/alumina industry over collections in FY 2011/12.

Grants

The FY 2012/13 forecast for Grants amounts to $4,412.0mn. This forecast represents a 27.9% increase over receipts in FY 2011/12. The major grant-funded investment projects budgeted for FY 2012/13 are:

- HIV/AIDS Treatment – Global Fund for 744.2mn;
- Citizens Security and Justice (IDB/DFID) for $567.4mn;
- Basic Needs Trust Fund (CDB) for $293.1mn;
- HIV reduction (USAID) for $287.0mn; and

- Climate change/disaster risk management (EU) for $237.5mn.

Loan Receipts

The revenue forecast outlined above, of $341,919.5mn, and the required payments, of $612,428.2mn, as approved by Parliament generates a financing need of $270,508.7mn. Loan inflows are programmed to cover $251,145.7mn of this total. Of the budgeted loan inflows, $141,806.8mn is programmed to be raised from the domestic market and $109,338.9mn is to be raised from external sources, in the form of investment project loans, multilateral policy loans and loans from the international capital market. The borrowing profile for FY 2012/13 represents a 53.6% increase in gross receipts relative to the previous fiscal year, largely due to a significantly higher amortization requirement (14.2% of GDP, up from 9.9% of GDP in 2011/12).

New Revenue Measures

Given the target of 6% of GDP for the primary surplus, the revenue forecast outlined above and the primary (non-debt) expenditure, as approved by Parliament, there is a fiscal gap of $19,363.0mn or 1.4% of GDP. Achievement of the 6.0% of GDP primary surplus target therefore requires additional revenue enhancement measures.

Consequently, revenue measures that generate $19,363.0mn have been identified and will be implemented to enhance the revenue flows and close the fiscal gap. The revenue measures are outlined in a Ministry Paper for tabling in Parliament.

CHAPTER 3

PUBLIC SECTOR ENTITIES

Overview

Public Bodies, defined as statutory bodies, authorities or government companies, continue to play a critical role in stimulating economic activity and promoting development. Their functions cover a wide spectrum of activities including developmental, regulatory, social and commercial. Given the size of some Public Bodies and the diverse nature of activities they undertake across various sectors of the economy, their contribution to development at both the macro and micro-economic levels has over the years been significant.

Of the 195 active Public Bodies currently on register, 90 or 46.2% are characterized as self-financing. Summarized corporate plans and budgets of 65 of these self-financing Public Bodies are contained in the Jamaica Public Bodies Estimates of Revenue and Expenditure.

Contribution by Public Bodies

Total assets of the group of 65 contained in the Estimates of Revenue & Expenditure of Public Bodies are estimated at $917,313.0mn for FY 2012/13 as against $831,787.0mn for FY 2011/12. The combined employment level is expected to be 12,965 persons (FY 2011/12 was 12,706). With the utilisation of these resources, the group is expecting to generate total revenues of $362,418.0mn from which profits before tax of $7,839.0mn will be derived. Amounts to be transferred to the Government of Jamaica (GOJ) by way of corporate and other taxes are projected at $19,156.0mn and about $1,000.0mn in financial distributions (dividends). Net transfers to GoJ in respect of programme support, is projected at $5,869.0mn.

The Public Bodies' contribution to economic growth and development has been significant over the years and this trend is expected to continue in FY 2012/13. Expenditure on infrastructure and other capital projects is programmed at approximately $74,855.0mn for FY 2012/13 (2011/12 was $60,743.0mn). Of note, this includes $17,300.0mn (2011/12 was $17,673.0mn) to be spent on roads, bridges, etc. by the Road Maintenance Fund (RMF), which is reflected in the current budget of the RMF.

The expenditure by 4 self-financing Public Bodies in the critical sectors of housing, roads and water, namely the National Housing Trust (NHT), Housing Agency of Jamaica (HAJ), Road Maintenance Fund (RMF) and National Water Commission (NWC), is projected at approximately $58,000.0mn or 78% of the total capital expenditure.

The **NHT** plans to expend $25,468.9mn on its capital programme for FY 2012/13, in support of its mandate to provide quality, affordable housing solutions for citizens.

Key deliverables projected for the year include the following:

- Disbursement of 9,172 new loans to beneficiaries;
- Completion of 2,819 units; and
- Construction to commence on 2,247 units.

The NHT aims to reduce the real cost of delivering housing solutions to its beneficiaries, as such the use of alternative building materials which will allow for more competitive pricing without compromising quality is being examined. There are also plans to explore partnerships with local donor agencies to construct low income housing. To encourage acceptance and use of alternative building materials, the NHT will stage low cost housing competitions. The NHT also plans to increase the provision of grants and subsidies to

$3,173.0mn which will benefit contributors in the lowest income band.

The **HAJ,** in an effort to rebrand and reposition the organization in the housing sector, seeks to satisfy the demand for shelter, primarily in the low income market. Projections for FY 2012/13 assume achievement of the following key targets:

- Housing Solutions Starts – 6,837
- Housing Solutions Delivery from 20 schemes – 4,263
- Finalized Sales – 1,797

The projected expenditure for FY 2012/13 is $2,698.4mn. This includes 14 projects at different stages of development in several parishes.

In order to address some of the financing issues, HAJ has entered into Private-Public-Partnership arrangements with developers/contractors for the construction of housing developments island-wide. These are expected to commence during FY 2012/13

The mandate of the **RMF** is to overhaul, upgrade and improve the main and parochial road networks across the island. The RMF implements projects/activities in two main areas:

- Routine Maintenance Programme - aimed primarily at road infrastructure maintenance; and
- The Jamaica Development Infrastructure Programme (JDIP) - geared towards the rehabilitation of roads, drains, retaining walls and the construction of prioritized bridges across Jamaica.

The RMF plans to undertake 585 projects under the two project areas at a cost of over $17,300.0mn**.**

The **NWC** embarked on a programme of transformation in FY 2011/12 aimed at addressing existing challenges. In line with the new strategic direction, NWC plans to bolster on-going capital projects aimed at improving, extending and restoring water and sewerage services in various parts of the country. The primary objectives of the projects include: (a) improving operational efficiencies and optimizing production volumes and consistency; (b) developing and expanding water supply systems to other areas.

The NWC is expected to implement capital projects in FY 2012/13 at a cost of $10,744.0mn. The list of projects includes:

- Components of the Jamaica Water Supply Improvement Project (JWSIP), costing $2,066.0mn. The JWSIP is aimed at addressing the medium to long term problems of access to potable water in the Kingston Metropolitan Area (KMA), Stony Hill and other areas.
- KMA–IDB Water Supply Improvement Projects costing $2,816.4mn.
- KMA-JICA Water Supply Project estimated at $902.0mn. This project has been contributing significantly to improving the availability, reliability and quality of the water supply services in St. Catherine.
- The Kingston Water and Sanitation (KWS) Project costing $1,266mn. Key components include rehabilitation of the Mona and Hope water treatment plants, rehabilitation of water supply facilities and construction of the new Darling Street pumping station.

Corporate Governance

A strategic decision was taken by the Government in the late 1990's to improve corporate governance in public bodies, consequent on general dissatisfaction with their levels of efficiency, transparency and accountability. As a result, umbrella legislation for public bodies was enacted, namely the Public Bodies Management and Accountability (PBMA) Act, 2001.

Since then, efforts have been made to update and improve the governance framework within which public bodies operate. To this end the PBMA Act has been amended in 2003, 2010 and 2011. The amendments in 2010 and 2011 incorporate elements of the Fiscal Responsibility Framework (FRF) applicable to public bodies. The FRF requires improved levels of fiscal prudence, transparency and behaviour on the part of the central government and public bodies. A significant change that is included in the raft of legislative amendments is the requirement for the corporate plans and budgets of public bodies to be debated and approved by the Parliament, instead of merely being tabled as was done previously. This elevates the plans and budgets to a higher level of Parliamentary scrutiny similar to what obtains for the central government.

During the 2011/12 legislative year, 3 Regulations intended to give effect to the provisions of the PBMA Act and the FRF were approved by Parliament. These are:

1. The Public Bodies (Financial Distribution) Regulation 2012;
2. The Public Bodies Management and Accountability (Information and Particulars) Regulation 2012; and
3. The Financial Administration and Audit (Fiscal Responsibility Framework) Regulation 2012.

Within the context of strengthening the accountability systems of government to facilitate, among other things, greater transparency and efficiency in the functions of government, the MOFP in collaboration with the Cabinet Office has sought to define and clarify the accountability and corporate governance frameworks in order to strengthen Government's capacity to manage for results. This has led to the development of (i) the Accountability Framework which was approved by the Cabinet in January 2010 and (ii) the Corporate Governance Framework (CGF) in 2011.

The CGF for public bodies seeks to promote effective systems of control and accountability, as well as a more responsible attitude on the part of those handling Government resources.

Additional Regulations will be developed to enhance the effectiveness of the PBMA Act, including the Code of Conduct for Directors and the Code of Audit Practices. The strengthened accountability systems of Public Bodies will allow for greater probity, transparency and efficiency in the functions of government.

The MOFP has been providing training in corporate governance to the leadership of Public Bodies since 2007. The training, which is delivered through workshops and seminars, serves to heighten awareness on corporate governance principles and best practices. In 2010 and 2011, the MOFP conducted sensitisation seminars to explain the amendments made to the PBMA Act and to highlight the implications for stakeholders. With the recent change in Administration and the consequent renaming of Boards, additional seminars will be conducted during FY 2012/13 to ensure that directors are sufficiently aware of their roles and responsibilities under the changing governance landscape.

Public Private Partnerships (PPPs)

Over the past 2 decades, the GOJ has been engaging the private sector in various forms of procurement arrangements for the execution of public infrastructure projects. However, Jamaica has had mixed results with the development and implementation of these projects. Due to fiscal constraints and the competing demands for limited resources, the GOJ will engage the private sector for execution of public infrastructure projects and provision of services to the public.

A PPP is a long-term procurement contract between the public and private sectors, in which the proficiency of each party is focused in designing, financing, building and operating an infrastructure project or providing a service to the public, through the appropriate sharing of resources, risks and rewards.

The PPP methodology may be applied to develop new (greenfield) or existing (brownfield) public infrastructure assets or services and is hybrid in nature. The private sector may receive availability payments from the Government, for the services provided, or user fees from the users or a combination of both.

The early PPPs featured significant weaknesses such as the lack of effective monitoring and inadequate co-ordination within Government. Recognizing the need to have a policy framework, the GOJ through the MOFP and the Planning Institute of Jamaica requested of the Inter-American Development Bank (IDB) technical assistance to engage a consulting firm to assist in designing a policy and institutional framework for PPPs. The IDB engaged international management consultants, CASTALIA, to provide the GOJ with the necessary assistance. As a result, a draft PPP Policy is currently before the Cabinet for review and approval.

The PPP Policy seeks to formalize the engagement of the private sector in a more structured manner. It is intended to provide a framework for GOJ to identify, develop, and implement PPPs. Of note, PPPs are currently being utilized in Latin America, Australia, Asia, Africa and Europe as one of the principal methods of developing and improving infrastructure and delivering basic services to the public more effectively and efficiently.

The PPP Programme will be guided in all cases by 4 over-riding principles:

- Optimal risk transfer to the party that is better able to manage, control and bear the impacts of that risk;
- Obtaining value for money for the public;
- Being fiscally responsible; and
- Maintaining probity and transparency.

A PPP Unit, to be established within the Development Bank of Jamaica, will be responsible for the day-to-day co-ordination and management of the programme. A PPP Node planned for the MOFP, will be responsible for: (i) the co-ordination of activities within the Ministry (ii) ensuring GOJ obtains value for money and (iii) management of the attendant fiscal risks.

Rationalization and Restructuring

The rationalization of Public Bodies to achieve greater operational efficiencies has been an ongoing activity since 1999 when consultants were hired to review the sector and make recommendations for change. Much has been achieved since then with a number of public bodies being privatized, wound-up or merged.

Privatizations that were completed in FY 2011/12 include the: SCJ Holdings Limited (the remaining three sugar estates); Pegasus Hotel and Mavis Bank Coffee Company Limited. The functions of Health Corporation Limited have now been fully subsumed into the National Health Fund.

The Clarendon Alumina Production Limited and the Wallenford Coffee Company are yet to be privatized and efforts to this end will continue in FY 2012/13.

CHAPTER 4

REVIEW OF SELECTED PROJECTS

The Government of Jamaica (GOJ) is committed to programmes that provide social protection for vulnerable groups in the society, promote community renewal and foster youth development. Additionally, programmes for HIV/AIDS treatment and prevention, energy efficiency and security, agricultural competitiveness and physical infrastructure improvements will be undertaken with the assistance of Multilateral/Bilateral partners during FY 2012/13.

SOCIAL SECTOR

Support for Social Safety Net

Programme of Advancement Through Health and Education (PATH)

FY 2011/12 marked the tenth (10th) anniversary of the Programme of Advancement through Health and Education (PATH).

PATH offers assistance in the form of grants to two (2) categories of beneficiaries: (i) children/students ages 0 – 19 years and (ii) adult poor including the disabled, elderly, pregnant and lactating mothers and the destitute. The Steps-to-Work (StW) programme, a new initiative, targets working age members of PATH eligible households for referral to relevant support services to assist them in obtaining employment.

PATH is supported by two loans: US$40.0mn from the World Bank and US$15.0mn from the Inter-American Development Bank (IDB). Additionally, grant assistance was secured from the World Bank (US$2.5mn) and IDB (US$0.572mn), respectively, to support activities to improve the livelihood of the elderly and persons living with disabilities.

During FY 2011/12, the number of beneficiaries registered with PATH increased from 377,709 to 394,014 which is approximately 9% above the base target of 360,000 beneficiaries, as defined by the Ministry of Labour & Social Security. Grant payments to beneficiaries amounted to $3.4bn and included bonus payments of $15,000 to each student enrolled in specified post secondary institutions. The pilot of the StW programme resulted in remedial education and training of 6,492 participants island-wide.

Activities to be undertaken during FY 2012/13 include:

- On-going registration of persons to the PATH Programme;
- Provision of 120 social housing units to PATH families;
- Enhancement of the Beneficiary Management Information System (BMIS) to accommodate a case management and appeals module;
- Engagement of partner agencies to provide training for 5,000 clients under the StW programme;
- Diagnostic study on the current and emerging vulnerability in Jamaica within the context of risks to income, poverty and food security.

Jamaica Social Investment Fund (JSIF)

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

(i) Inner City Basic Services for the Poor (ICBSP) Project – IBRD Loan

This project seeks to improve the quality of life in twelve inner-city areas through improved access to basic infrastructure, enhanced community capacity and improvement in public safety. During FY 2011/12, three integrated infrastructure sub-projects (water, sanitation, and drainage and road works) were completed at Lauriston, Central Village and Knollis in the parish of St. Catherine. Mediation and conflict resolution workshops were conducted in ten communities and after school homework programmes were implemented in nine communities.

During FY 2012/13, integrated infrastructure sub-projects in four communities will be completed and social intervention programmes will continue with the assistance of non-governmental organizations (NGOs).

(ii) Community Investment Project (CIP) – CDB Loan

The objective of this project is to improve the socio-economic conditions in poor, rural communities by increasing access to basic social and economic infrastructure, social services and organizational strengthening interventions.

During FY 2011/12, three projects were completed under the Economic Infrastructure Component of the Agreement:

- Bog Walk to Lime Walk Road – St. Catherine (2.6 km);
- Bonny Gate Road rehabilitation – St. Mary (2.0 km);
- Top Quarter Road rehabilitation – Clarendon (2.0 km).

Under the Social Infrastructure Component, the playing field at Fruitful Vale Cultural Centre, Portland was upgraded at a cost of J$11.7mn. Twenty four sub-projects are scheduled to be implemented during FY 2012/13.

(iii) Basic Needs Trust Fund (BNTF) – CDB Grant

This project seeks to reduce the vulnerability of the poor using gender sensitive, participatory and environmentally sustainable approaches to expand the stock of basic infrastructure, improve the human resource base through skills development and strengthen community organizations.

During FY 2011/12, rehabilitation work on Haddington Basic School in Hanover was completed. For FY 2012/13, rehabilitation work will take place on the Homestead Place of Safety (Kingston), Port Maria Market (St. Mary) and the water supply system in Thornton (St. Thomas).

(iv) Poverty Reduction Programme(PRP) II

This project is aimed at poverty alleviation through mechanisms to achieve sustained growth.

The expansion and renovation of a number of schools, the rehabilitation of Community Centres as well as rehabilitation of several roadways are among the targets reached under the project. The third phase of the Poverty Reduction Programme (PRP III) is expected to commence in the 2012/13 financial year

(v) Community Crime and Violence Prevention Project – Japan/World Bank Grant

The project is funded by a grant of US$2.65mn from the Japan Social Development Fund and administered by the World Bank. The project seeks to reduce the incidence of crime and violence in twelve targeted inner-city communities.

During FY 2011/12, ten summer camps were held which benefited 730 “at-risk” youth and provided activity based programmes that focused on career guidance, self esteem building, conflict resolution and sexual reproductive health education. For FY 2012/13, sixteen intervention sub-programmes will be carried out in the targeted communities.

(vi) Rural Economic Development Initiative (REDI) Project

The main objective of the project is to improve market access for micro and small-scale rural agricultural producers and tourism product and service providers.

This objective is achieved largely through providing financial and technical support to small scale agricultural and rural tourism enterprises; assisting in the development of critical market-oriented small scale infrastructure; increasing access to technical innovation and business support services; and enhancing financial management of rural enterprises.

The project has strengthened rural economic development over the 2011/12 financial period.

Youth Development Programme

In 2008, the GOJ secured a loan from the IDB 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 project provides support to education and training programmes offered by the National Youth Service (NYS), the Jamaica Foundation for Lifelong Learning (JFLL) and the Career Advancement Programme (CAP).

During FY 2011/12:

- Ten schools received grant assistance under the CAP;
- Two Youth Information Centres (YICs) were constructed in St. Catherine and Clarendon;
- Furniture and equipment were purchased for NYS Parish Offices island wide;
- The YIC website was launched;
- A National Youth Survey and a Labour Market Study were completed.

A number of activities will be undertaken during FY 2012/13, including the:

- Provision of grant assistance to ten selected schools under the CAP;
- Construction of two YICs in Trelawny and Hanover;
- Procurement of equipment for existing YICs;
- Development of an operational model for YICs and commencement of pilot programmes in two (2) YICs;
- Revision of the National Youth Policy.

Health

HIV/AIDS Prevention and Control Project

The Jamaica HIV/AIDS Prevention and Control Project II is funded primarily by a loan from the World Bank of US$10.0mn. The project aims to assist in the implementation of Jamaica's National HIV/AIDS Programme through achievement of the following objectives by 2017:

- Reduction by 50% of new HIV infections;
- Medication with Anti-Retroviral (ARV) drugs to cover 90% of persons with advanced cases of HIV;
- Proportion of persons living with HIV on anti-retroviral treatment one year after initiating therapy, increased to 95%;
- Reduction by 25% in the number of HIV/AIDS related deaths.

In addition, elimination of mother to child HIV transmission and congenital syphilis by 2015 is another important objective of the programme.

The following activities were accomplished during FY 2011/12:

- 27,718 attendees of public sector ante-natal clinics tested for HIV;
- ARV treatment was provided to 98% of HIV-exposed infants, as well as to 84.9% of HIV-infected pregnant women for the Prevention of Mother-To-Child Transmission (PMTCT);
- 87% of schools implemented the revised Home and Family Life Education (HFLE) curriculum reaching 418,517 students;
- 95% of contact investigators, social workers and public health nurses trained in voluntary counselling and testing protocol.

In FY 2012/2013 the following targets will be pursued:

- Distribution of ARV's to 8,308 adults and 499 children with advanced HIV;

- Administration of PCR tests to 3,247 HIV exposed infants;
- Expansion of the life-skills based HFLE programme from 87% to 91% of schools;
- Targeting 52,000 youth for prevention and outreach activities;
- Distribution of 6 million condoms at different intervention sites across the island.

Security and Justice

Citizens Security and Justice Programme II (CSJP II)

The Government of Jamaica (GOJ) secured a loan of US$21.0mn from the IDB in December 2009, to assist in the implementation of strategic intervention programmes to reduce crime and violence in twenty-eight vulnerable communities by addressing identified individuals, family and community risk factors. The Department for International Development (DFID) provided a grant of US$1.2mn to expand the reach of the programme to eleven additional communities.

Additional grant funding was also received from the European Union under the PRP II to support implementation activities during FY 2011/12.

During FY 2011/12, the following were achieved:

- Educational, life skills and parenting programmes were accessed by 2,659 persons;
- Tuition support at the tertiary level was provided to 2,518 students while 19 students benefited from on-the-job training following completion of vocational skills training;
- A small infrastructure project was completed in Salt Spring, St. James and two others are in progress in Fletcher's Land and Tower Hill, Kingston;
- Three (3) Rapid Impact Projects were completed in Canaan Heights and Farmville/Effortville in Clarendon and Tawes/Ellerslie Pen, St. Catherine;
- Four (4) multi-purpose centres were repaired in Cassia Park, Matthews Lane and Tivoli Gardens in Kingston, as well as March Pen in St. Catherine;
- Four (4) Restorative Justice Centres were established in Tower Hill, May Pen, Spanish Town and Granville in St. James
- Eighty seven (87) facilitators were trained through the Justice Training Institute;
- A three (3)-minute testimonial video was aired in prime time slots on local television stations as part of the public education campaign.

The activities to be undertaken during FY 2012/13 will aim to:

- Provide tuition support for 630 students;
- Provide vocational skills training for 1,891 students;
- Place 290 persons in the Employment Internship Programme;
- Complete five (5) small infrastructure projects;
- Implement seven (7) Rapid Impact Projects to build community buy-in for the programme in new communities;
- Renovate four (4) multi-purpose centres;
- Establish five (5) Restorative Justice Centres
- Train 130 facilitators through the Justice Training Institute;
- Continue public education and outreach activities to promote the benefits of pursuing an alternative peaceful lifestyle.

ENERGY EFFICIENCY AND SECURITY

The GOJ secured loans of US$20.0mn from the IDB and US$15.0mn from the IBRD to assist the effort to curtail the country's increasing energy bill.

Energy Efficiency and Conservation Programme (IDB)

This Programme seeks to enhance energy efficiency and energy conservation potential through the design and implementation of cost saving energy efficiency and energy conservation measures in the public sector.

During FY 2011/12, the project execution unit in the Ministry of Science, Technology, Energy and Mining (MSTEM) was established and a steering committee formed. The investment plan to retrofit public sector facilities was also completed in FY 2011/12.

In FY 2012/2013, the following activities will be carried out:

- Procurement and deployment of energy efficient equipment;
- Replacement of inefficient lighting and air conditioning systems in public buildings;
- Workshops on energy efficiency management in the public sector.

Energy Security Efficiency Enhancement Project (IBRD)

This project started in August 2011 and will promote private sector investment in energy efficient and renewable energy projects as well as the implementation of fuel diversification through the development of the Liquefied Natural Gas strategy and fuel switching.
During FY 2012/13, the following activities will be carried out:

- Development of the Legal and Regulatory Framework for the natural gas sector;
- Promulgation of the Electric Power Sector Policy;
- Establishment of a line of credit by the Development Bank of Jamaica for onlending to SMEs for energy efficient and renewable energy projects.

AGRICULTURE

Agriculture Competitiveness Programme

On November 25, 2010, the Government of Jamaica and the IDB signed a loan agreement for US$15,000,000 to assist the agriculture sector. The programme seeks to increase the competitiveness in the agricultural sector by improving the capacity of small and medium-sized farmers to access national and international markets. The Agro-Investment Corporation (AIC) is the executing agency for the project.

During FY 2011/12, the programme implementation unit, the AIC, was made fully operational with the recruitment of technical staff and purchase of furniture and equipment.

The activities that will be undertaken during FY 2012/13 include the:

- Completion of ten (10) workshops on marketing negotiations and skills for producer organisations;
- Provision of training material on marketing and agribusiness for front-line extension staff;
- Procurement of post harvest kits for thirteen (13) marketing extension officers;
- Renovation of the Research & Development Plant Health Laboratory (Bodles), construction of a canine holding area at the Norman Manley International Airport (NMIA) and a contraband room at the Sangster International Airport (SIA);
- Procurement of laboratory equipment for the Veterinary Services Division of the Ministry of Agriculture & Fisheries.

INFRASTRUCTURE

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 120 meter 4-lane Dry River Bridge at Harbour View was completed and officially opened on November 9, 2011.

During FY 2012/13, the following activities will be undertaken:

- River training works in the Yallahs River in St. Thomas;
- Revetment works at Roselle in St. Thomas;
- Resurfacing of the Red Hills to Santa Maria road (St. Andrew) and the Scott’s Cove to Ferris road (Westmoreland);

- A feasibility study on the southern highway corridor.

Palisadoes Shoreline and Rehabilitation Works

In 2010, the Government of Jamaica secured a Loan of US$58.1mn from the People's Republic of China to carry out revetment works on the Palisadoes Peninsula to protect the Kingston Harbour from storm surges while reducing the susceptibility of the corridor to flooding.

During FY 2011/12 the following were achieved:

- Approximately 60% of revetment works were completed;
- Approximately 36% of core filling works were completed;
- Mangroves were relocated to a storage nursery.

Activities to be undertaken during FY 2012/13 include:
- Completing revetment works;
- Raising of the roadway by 3.2 meters above sea level;
- Laying asphalt along the 2-lane roadway from the Harbour View round-about to the Airport round-about (4.38 km);
- Relocating utility poles;
- Installing a 2.0 km water pipeline;
- Replanting of the mangroves.

Jamaica Economical Housing Project

On February 3, 2010, the Governments of the People's Republic of China and Jamaica signed a concessional loan agreement in the sum of RMB Yuan 487,000,000 (approx. US$62.7mn) for the provision of affordable housing solutions to low income earners and workers in the tourism industry.

During FY 2011/12, infrastructure works commenced with the construction of three (3) sewer lift stations at Belle Aire in St. Ann.

Activities to be undertaken during FY 2012/13 include:
- Commencement of infrastructure works to include road rehabilitation, drainage and the installation of water and sewage pipes;
- Provision of 180 service lots at Bell Aire and 342 service lots at Mount Edgecombe in St. Ann;
- Design and construction of 23 one-bedroom units and 10 two-bedroom units at Bell Aire, St. Ann.

CHAPTER 5

DEBT AND CAPITAL MARKET DEVELOPMENTS

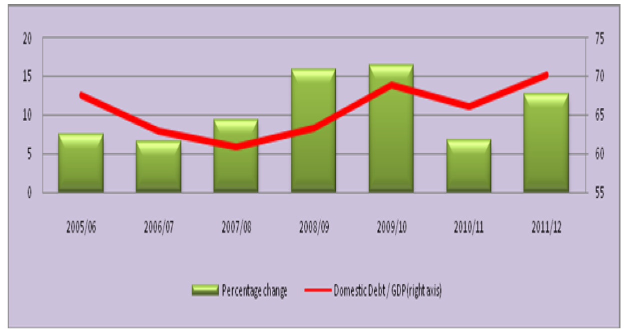
Introduction

During FY 2011/12, the Debt Management Strategy was geared towards ensuring that the funding requirements of the Government were met at minimum cost, while keeping risks in the debt portfolio at acceptable levels and promoting the development of the domestic debt market. The following objectives were achieved:

- A modest lengthening of external debt maturities, thereby reducing refinancing risk;
- An increase in the US dollar share of the external debt currency composition, limiting the exposure to other non-US dollar currencies; and
- A reduction in new issuances of short term debt in the domestic market, thereby reducing refinancing risk.

At the end of FY 2011/12 the stock of public debt amounted to $1,662.3 billion or 128% of Gross Domestic Product (GDP). This compares to $1,570.4 billion or a debt-to-GDP ratio of 131.6% at end FY 2010/11.

Figure 1 : Percentage Change in the Domestic Debt Portfolio



Source: Ministry of Finance and Planning

The increase in the debt stock was due mainly to the following:

- Financing the fiscal deficit which included;
  - Assuming of debts related to Air Jamaica, which accounted for 18.5% of the increase;
  - Issuing securities to Bank of Jamaica in respect of capitalized interest on former FINSAC bonds, which represented 2.0% of the increase; and
- Depreciation of the Jamaica dollar vis-à-vis the United States dollar and other currencies.

Domestic

Key Trends

Stock Composition

At the end of FY2011/12 Jamaica's domestic debt stood at $912,642.3mn or 70.3% of GDP, representing an increase of 12.8% when compared to the previous fiscal year which was $809,369.9mn or 66.1% of GDP.

Table 1: Change in Composition of Total Domestic Debt, FY 2011/12, reported in millions of Jamaica Dollars

	31-Mar-12		31-Mar-11		Change	
	($)	(%)	($)	(%)	($)	(%)
Fixed Rate Notes	333,462.4	36.5	347,143.7	42.9	-13,681.3	13.2
Variable Rate Notes	399,753.7	43.8	320,657.0	39.6	79,096.6	76.6
CPI Notes	25,269.4	2.8	23,573.7	2.9	1,695.7	1.6
USD Notes	80,997.8	8.9	79,561.1	9.8	1,436.7	1.4
Treasury Bills	4,000.0	0.4	4,000.0	0.5	-	-
Land Bonds	200.1	0.0	260.0	0.0	-59.9	0.1
Loans	4,758.6	0.5	4,452.5	0.6	306.1	0.3
Euro Denominated Loan	222.5	0.0	466.5	0.1	-244.0	0.2
US$ Denominated Debt	63,977.8	7.0	29,255.3	3.6	34,722.5	33.6
Perpetual Annuities	0.2	0.0	0.0	0.0	0.2	0.0
Total Domestic Debt	**912,642.3**	**100.0**	**809,369.9**	**100.0**	**103,272.5**	

Source: Ministry of Finance and Planning

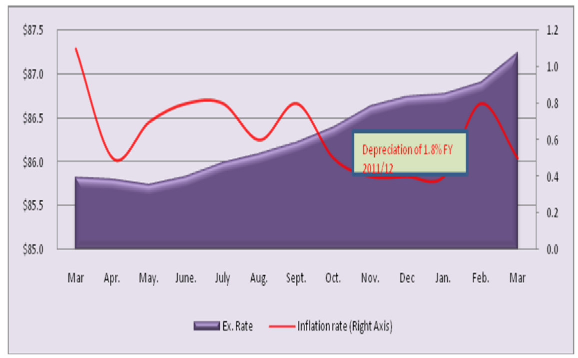
At the end of FY 2011/12 Variable Rate Benchmark Investment (VR BMI) Notes increased by 24.7%, accounting for 76.6% of the total change in the portfolio. This change represented a nominal increase of $399,753.7mn in FY 2011/12 from $320,657mn in FY 2010/11. The proportion of the VR BMI Notes in the domestic portfolio increased to 43.8% in FY 2011/12 from 39.6% in FY 2010/11.

The increase in the share of the VR BMI Notes in the portfolio was accommodated by a decrease in the value of the Fixed Rate Benchmark (FR BMI) Notes, from $347,143.7mn (42.9%) in FY 2010/11 to $333,462.4mn (36.5%) in FY 2011/12. The shift in demand from fixed-rate notes to variable-rate securities reflected investors' uncertainties regarding the prevailing macroeconomic environment.

In FY2011/12 US$ Investment Notes and other US dollar denominated loans of J$144,975.6mn increased by J$36,159.2mn (33.2%) relative to FY 2010/11, representing the second largest increase (35%) of the total change in the portfolio. This increase was due primarily to new borrowings and depreciation of 1.8%.

The nominal value of CPI Investment Notes increased to $25,269.4mn in FY 2011/12 from $23,573.7mn in FY 2010/11. However, the percentage share decreased from 2.9% in FY 2010/11 to 2.8% in FY 2011/12. The nominal value of CPI notes increased as a result of increases in the inflation rate (see Figure 2).

Figure 2: Trend of Inflation and Exchange rate for FY 2011/12



Source: Bank of Jamaica

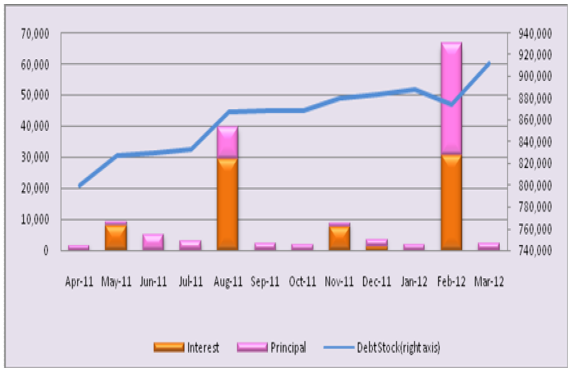
Holders of Benchmark Investment Notes

Merchant Banks, Trust Companies and Brokers continued to play major roles as market makers for GOJ securities in FY 2011/12, with their holdings increasing to 27.7% in FY 2011/12 from 27.4% in FY 2010/11. In addition, insurance companies' holdings decreased to 22.2% in FY 2011/12 from 23.0% in FY 2010/11. Holdings of the Bank of Jamaica and other public sector entities decreased to 22.0% in FY 2011/12 from 22.7% in FY 2010/11.

Principal and Interest Payments

Domestic debt service for FY 2011/12 amounted to $148,823.6mn or 27.7% of the expenditure budget. This amount comprised amortisation of $67,183.7mn and interest of $81,639.9mn. The main drivers for the amortisation were the maturity of the VR BMI Note - Due 2011 and FR 12.0% BMI Note - Due 2012 in the amounts of $9,176.3mn and $32,988.0mn respectively.

Figure 3: Debt Service and Debt Stock, Reported in millions of Jamaica



Source: Ministry of Finance and Planning

Domestic Debt Indicators

Maturity

The maturity structure of a debt portfolio indicates the refinancing risk that has to be managed. The greater the debt that matures in the short-term, the greater the refinancing risks.

Table 2 presents the change in the composition of the maturity structure by short and long-term debt for the domestic debt portfolio.

The remaining maturity is an important debt indicator. The more heavily a country relies on short-term debt, the more exposed it becomes to refinancing risk and therefore to adverse market conditions. Strategies to mitigate this risk may include issuing long-dated securities.

Table 2: Remaining Maturity Profile of Domestic Debt, reported in millions of Jamaica dollars

	31-Mar-12		**31-Mar-11**		**Change**
	($)	(%)	($)	(%)	($)
Up to 1 Year	109,121.3	12.0	47,214.2	5.8	61,907.1
> 1 - 5 Years	399,936.4	43.8	413,522.8	51.1	-13,586.5
> 5- 10 Years	175,240.0	19.2	164,204.6	20.3	11,035.4
>10 Years	228,344.7	25.0	184,428.4	22.8	43,916.3
Total	**912,642.3**		**809,370.0**		**103,272.3**

Source: Ministry of Finance and Planning

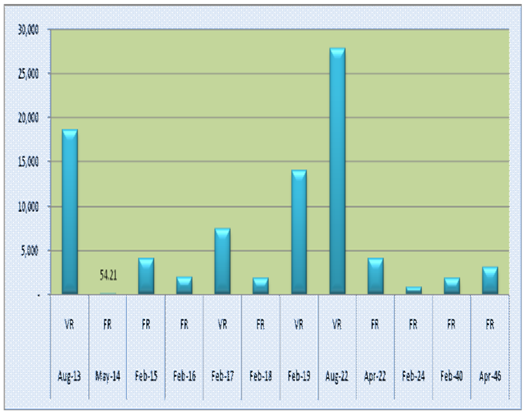
By end-March 2012, 44.0% of the debt fell in the 1-5 years segment of the maturity structure compared to 51.0% at end-March 2011. Debt with maturities of greater than 10 years represented 25.0% of the stock while maturities up to 1 year accounted for 12.0%, an increase over the 6.0% represented in FY 2010/11. Maturities greater than 10 years increased by $43,916.3mn or 5.4% to $228,344.7mn (25.0%) in FY 2011/12 from $184,424.43mn (22.8%) in FY 2010/11.

The significant increase of short-term debt in the portfolio has contributed to a higher level of refinancing risk. Notwithstanding, steps have been taken to mitigate refinancing risk by issuing debt at the longer-end of the yield curve.

New domestic debt was issued in FY 2011/12 for budgetary support. Analysis of the new issues indicated that 39.0% had a fixed interest rate, as depicted in Figure 4 Additionally, the maturity profile of the new issues shows that there is no short-term[1] debt for FY 2011/12 which compares with 16.4% for FY 2010/11. Another change in the maturity profile of the new issues was a decrease of the maturity between 1-5 years to 23.7% in FY 2011/12 from 53.5% in FY 2010/11. However, there was an increase of new issues of debt maturing in greater than 10 years to 51.5% in FY 2011/12 from 15.4% in FY 2010/11. The shift in the structure of new issues attests to the Government's commitment to minimizing refinancing risk in the portfolio.

[1]Short-term debt is securities with maturities of less than one year

Figure 4: Maturity Profile of New Market Issues as at March 31, 2012, reported in millions of Jamaica dollars



Source: Ministry of Finance and Planning

Currency Composition

At end-March 2012, domestic debt denominated in local currency increased to $767,444.3mn from $700,087.1mn in FY 2010/11. This represents a decrease in this category's share of the portfolio from 86.5% in FY 2010/11 to 84.1% in FY 2011/12.
Changes in the currency composition have increased the currency risk in the domestic portfolio. The increase in the US dollar component resulted from a depreciation of the Jamaica dollar and the addition of US dollar financing from the PetroCaribe Development Fund (PDF) to the stock.

Table 3: Currency Composition reported in millions of Jamaica Dollars

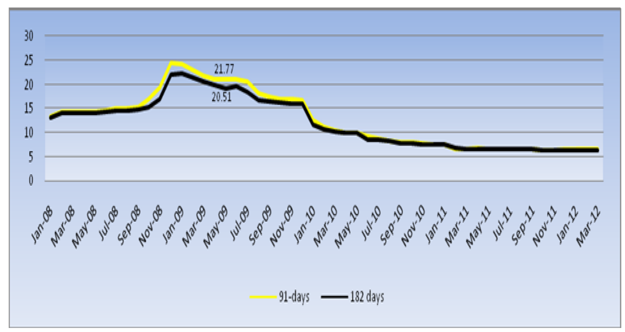
	FY2011/12		FY2010/11		Change
	$	%	$	%	$
Local Currency	767,444.3	84.1	700,087.1	86.5	67,357.2
US Currency ($ Equivalent)	144,975.6	15.9	108,816.5	13.4	36,159.1
Euro ($ Equivalent)	222.5	0	466.5	0.1	-244.0
TOTAL	**912,642.4**		**809,370.0**		**103,272.3**

Source: Ministry of Finance and Planning

Interest Rate Structure

During the review period, the portfolio benefited from reduced interest costs on existing variable rate debt. The reduction was due to the continued decline of Treasury bill rates, which commenced in the first quarter of FY 2009/10. The downward trend occurred on the 1-, 3- and 6-month Treasury bills, which are used as reference rates to re-price domestic variable rate instruments. The 3-month Treasury bill rate decreased from a high of 20.51% in March 2009 to a low of 6.46% in March 2011, falling further to 6.27% in March 2012. This is illustrated in Figure 5.

Figure 5: Movement of the 91 and 182 days Treasury Bills Rates



Source: Bank of Jamaica

In FY 2011/12, the Government was unable to issue the planned amount of fixed-rate instruments in newly contracted debt. This outcome contrasts with the debt strategy objective of increasing issues of fixed rate instruments in the local market to minimize interest rate risk.

Fixed rate debt decreased to 55.7% in FY 2011/12 from 59.8% a year earlier. At end FY 2011/12 variable rate debt in nominal terms increased by $79,096.7mn, representing a 24.0% increase over the FY 2010/11 position of $320,657.0mn or 39.6% of the portfolio. This resulted in a change in the fixed/variable rate mix of the portfolio.

Table 4: Interest Rate Structure

	FY 2011/12		FY 2010/11		Change
	$mn	%	$mn	%	$mn
Variable Rate Debt	403,642.00	44.2	325,402.10	40.2	78,239.90
Fixed Rate Debt	508,003.20	55.7	483,919.90	59.7	24,083.30
Non Interest -Bearing Debt	1,004.20	0.1	48	0	956.20

Source: Ministry of Finance and Planning

The weighted average interest rate of most categories decreased in FY 2011/12 as illustrated in Table 5. However, the weighted average interest rate on US$ Investment Notes remained flat at 7.0%. The overall impact of the weighted average interest rate changes is a decline in the cost of the sovereign debt.

Table 5: Weighted Average Interest Rates

	FY 2011/12	FY 2010/11
Weighted Average Interest Rate on J$ Benchmark Investment Bonds	9.6	9.8
Weighted Average Interest Rate on US$ Investment Notes	7.0	7.0
Weighted Average Interest Rate on J$ Domestic Debt Portfolio	9.6	9.9
Weighted Average Interest Rate on US$ Domestic Debt Portfolio	5.4	8.9

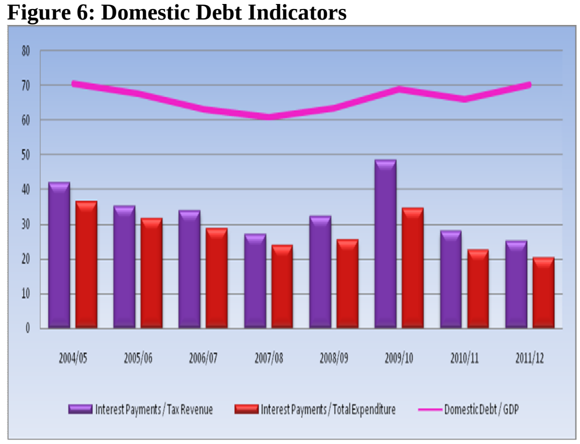
Source: Ministry of Finance and Planning

Domestic Debt Indicators

Although there was an increase in the Domestic debt-to-GDP ratio to 70.3% in FY 2011/12 from 66.1% in FY 2010/11, all other major debt indicators recorded improvement at the end of FY 2011/12 over FY 2010/11. Interest payments to total expenditure decreased from 27.9% in FY 2010/11 to 25.3% in FY 2011/12. Domestic interest payment to tax revenue decreased from 31.4% in FY 2010/11 to 28.2% in FY 2011/12.

Figure 6 indicates the change of the three main ratios and shows the change in various domestic debt indicators.

Figure 6: Domestic Debt Indicators



Source: Ministry of Finance and Planning

Table 6: Domestic Debt Indicators

	FY 2010/11	FY 2011/12
Domestic Debt/GDP	66.1	70.3
Debt Service/Total Revenue	53.2	46.4
Debt Service/Total Expenditure	43.0	37.0
Interest Payments/Total Revenue	27.9	25.3
Interest Payments/Tax Revenue	31.4	28.1
Interest Payments/Recurrent Expenditure	26.3	23.3
Interest Payments/Total Expenditure	22.6	20.2
Amortisation/Total Revenue	25.2	21.1
Amortisation/Total Expenditure	20.4	16.8

Source: Ministry of Finance and Planning

External

Key Trends

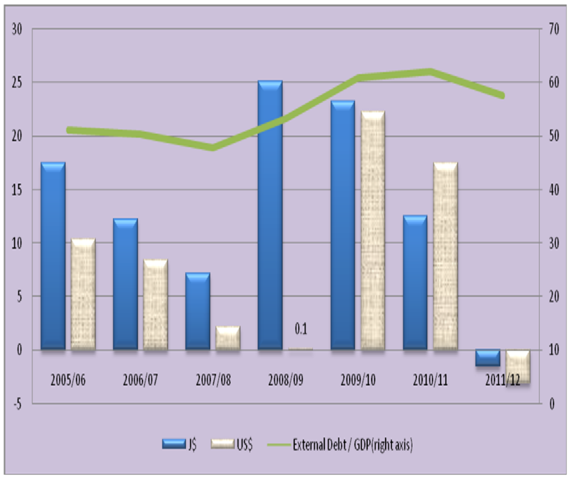
Stock Composition

At the end of FY 2011/12, Jamaica's external debt stood at US$8,586.8mn or 57.7% of GDP, a decrease of 3.2% in US$ terms or 1.5% in J$ terms, when compared to the previous fiscal year, which recorded US$8,874.8mn or 63.8% of GDP. This is the first decrease since FY 1999/00. FY 2008/09 recorded the highest increase when measured in Jamaica dollars and the lowest non-negative change of 0.1% when measured in US dollars since FY 2005/06 (See **Figure 7**).

The decrease in the external debt stock over the previous fiscal year was due mainly to:

- Repayment of a US$400mn bond due May 2011; and
- Cross-currency changes vis-à-vis the Jamaica dollar and the US currency.

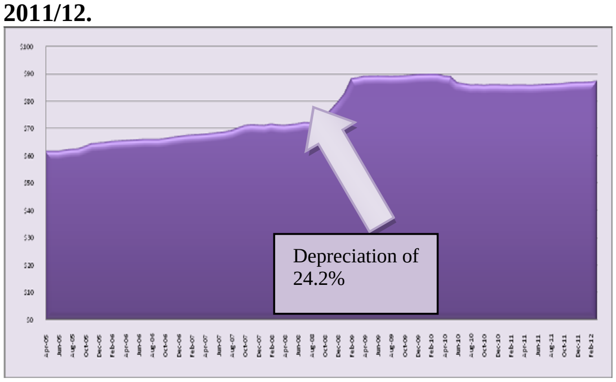
Figure 7: Percentage Change of Debt Stock in US and Jamaica Dollar



Source: Ministry of Finance and Planning

Exchange rate movements in the debt stock indicated that in FY 2008/09 there was a change of 25.0% when measured in Jamaica dollars. However, on analysis of the change in US$ terms, this was less than 1.0%. This disparity signifies the effect of the movement in exchange rates on the external debt portfolio.

Figure 8: Jamaica's Exchange Rate: FY 2005/06 – FY 2011/12.



Source: Bank of Jamaica

Creditor Composition of External Debt

At the end of FY 2011/12 there was a decrease of the debt stock for Bilateral and Private creditors to US$763.0mn or 23.4% and US$4,522.9mn or 4.8% respectively, from US$1,015.1mn and US$4,750.3mn, respectively. The repayment of a US$400mn bond in May 2011 contributed to a reduction in the private creditor category, while the reclassification of the NROCC €204mn, guaranteed by the Government of Jamaica, contributed to a decrease in the bilateral debt. These changes were the primary contributors to the net decrease of the total debt stock.

Table 7: Components of External Debt, reported in millions of US dollar

	FY 2011/12		FY 2010/11		Change
	($)	(%)	($)	(%)	($)
Bilateral	763.0	8.9	1,015.0	11.4	(252.0)
OECD	372.5	4.3	447.0	5.0	(74.5)
Non-OECD	390.5	4.5	568.0	6.4	(177.5)
Multilateral	3,300.9	38.4	3,109.5	35.1	191.4
IDB	1,271.6	14.8	1,227.2	13.8	44.4
IBRD	651.1	7.6	559.2	6.3	91.9
IMF	850.0	9.9	850.0	9.6	-
Other	528.2	6.1	473.1	5.4	55.1
Private Creditors	4,522.9	52.7	4,750.3	53.5	(227.4)
Commercial Banks	467.4	5.4	507.9	5.7	(40.5)
Bonds	4,023.0	46.9	4,200.2	47.3	(177.2)
Other	32.5	0.4	42.1	0.5	(9.6)
Total	**8,586.8**		**8,874.8**		**(288.0)**

Source: Ministry of Finance and Planning

In FY 2011/12 the Government continued its mandate to access low cost funding from multilateral and bilateral sources. The objective of seeking funding from these sources is to diversify and realign the creditor composition of the debt as well as to access lower interest rate loans with longer tenors.

At the end of March 2012, multilateral financing increased by 6.2% from US$3,109.5mn in 2010/11 to US$3,300.9mn. The new loans from the Inter-American Development Bank (IDB) and International Bank for Reconstruction and Development (IBRD) were primarily used for budgetary support and socio-economic development. New multilateral loans signed by the Government of Jamaica were:

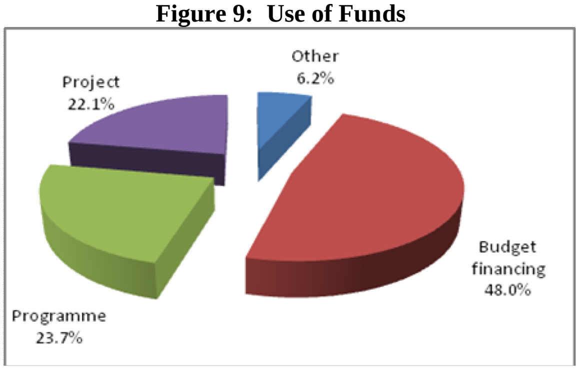
- Energy Security and Enhancement Project;
- 2nd Programmatic Fiscal Sustainability Development loan; and
- Energy Efficiency and Conservation Programmed.
-

The share of multilateral loans increased from 35.1% in FY 2010/11 to 38.4% in FY 2011/12. Private creditors' proportion of the external debt decreased from 55.5% in FY 2010/11 to 52.7% in FY 2011/12.

External Debt by Use of Funds

At the end of FY 2011/12, the utilization of funds for budgetary support represented the largest proportion of the external debt portfolio at 48.0%, followed by programmed support and project support at 23.7% and 22.1% respectively. Analysis of the utilization of funds by creditor indicates that the category of budgetary support is primarily from bond holders. Project and programmed support are primarily from multilateral and bilateral sources.

Figure 9: Use of Funds

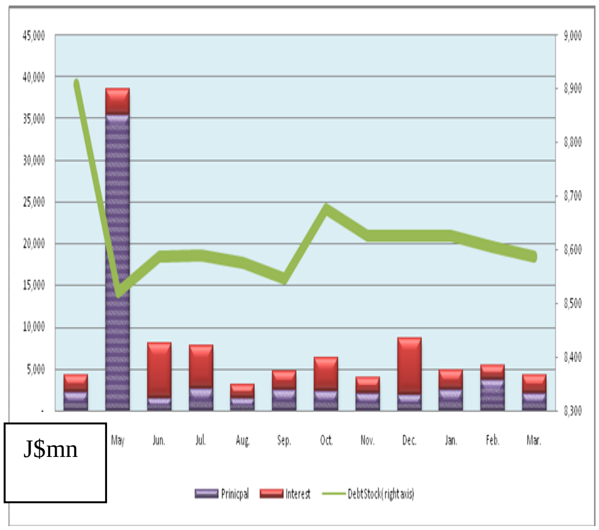


Source: Ministry of Finance and Planning

Debt Servicing

Debt service on external obligations for FY 2011/12 totaled $181,590.4mn, of which $60,872.4mn was principal repayments and $120,718.0mn interest payments. Principal repayments were $5,356.0mn or 8.1% lower than budgeted and interest payments were $39,078.1mn or 8.0% lower than budgeted, due mainly to the fact that the programmed amount for a liability management exercise was not utilized.

Table 8: Debt Service and Debt Stock reported in millions of US dollar



Source: Ministry of Finance and Planning

Interest Rate Structure

The variable interest rate debt exposes the portfolio to changes in international interest rates. Variable rate debt increased by US$352.2mn from US$2,112.2 in FY 2010/11 to US$2,464.4mn in FY 2011/12. This led to a year-on-year increase in the variable rate share from 23.8% to 28.7%.

Though the US dollar LIBOR rate increased (see Figure 15), it remained relatively low when compared to prior years. The increase in US dollar LIBOR rates resulted in an increase in demand for variable rate instruments by international investors. US dollar 6-Month LIBOR rates closed the 2011/12 fiscal year at 0.75%. The low interest rate environment coupled with the presence of variable rate debt contributed to interest cost savings in the external debt portfolio.

Table 9: Interest Rate Structure

	FY 2011/12		FY 2010/11		Change
	($mn)	(%)	($mn)	(%)	($mn)
Fixed Rate Loans	6,122.4	71.3	6,762.6	76.2	-640.2
Var. Int. Rate Loans	2,464.4	28.7	2,112.2	23.8	352.2
	8,586.8		**8,874.8**		**-287.9**

Source: Ministry of Finance and Planning

Currency Composition

At the end of FY 2011/12, the US dollar share of the external debt increased to 86.8% in FY 2011/12 from 82.4% in FY 2010/11. This increased the exposure of the portfolio to movements in the US dollar. The Euro share in the portfolio decreased from 13.6% in FY 2010/11 to 9.3% in FY 2011/12. The decrease in the share of Euro was primarily attributable to the refinancing of Euro 204mn through a US dollar denominated debt.

Table 10: Currency composition

	FY 2011/12		FY 2010/11		
	($)	**%**	**($)**	**%**	Change
United States Dollars	7,456.0	86.8	7,309.3	82.4	146.7
Euro	798.6	9.3	1,209.6	13.6	(411.0)
Japanese Yen	161.4	1.9	188.1	2.1	(26.7)
Great Britain Pounds	25.8	0.3	33.7	0.4	(7.9)
Chinese Yuan	119.4	1.4	104.7	1.2	14.7
Other	25.8	0.3	29.3	0.3	(3.5)
Total	**8,586.8**	**100.0**	**8,874.8**	**100.0**	**(288.0)**

Source: Ministry of Finance and Planning

Maturity Structure

The Government's objective is to extend maturities and minimise rollover risk in the debt portfolio.

Table 11 indicates the changes in the maturity composition.

The largest change in the maturity composition was debt maturing within 1 - 5 years, which decreased from 14.4% in FY 2010/11 to 10.4% in FY 2011/12. This was due to a maturing bond of US$400 million in May 2011.

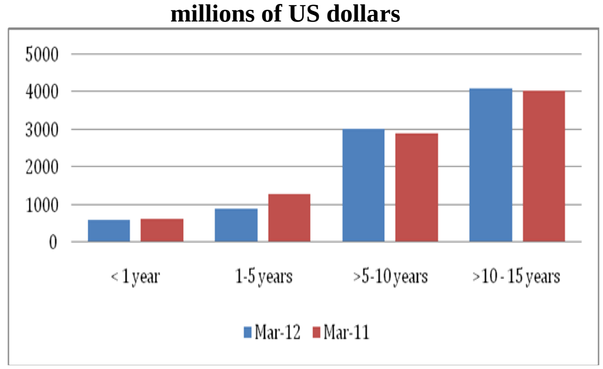
There were moderate increases in debt maturing in 5-10 years and over 10 years. The 5-10 year category increased from 32.8% in FY2010/11 to 35.2% in FY 2011/12. Debt maturing in more than 10 years increased from 45.6% in FY 2010/11 to 47.9% in FY 2011/12.

Table 11: Remaining maturity profile, reported in millions of US dollars

	FY 2011/12		FY 2010/11		Change
	($)	(%)	($)	(%)	($)
< 1 year	567.0	6.6	636.2	7.2	-69.2
1-5 years	888.7	10.4	1,277.2	14.4	-388.5
>5-10 years	3,020.1	35.2	2,913.6	32.8	106.5
>10 years	4,110.9	47.9	4,047.8	45.6	63.1
Total	**8,586.7**	**100**	**8,874.8**	**100**	**-288.1**

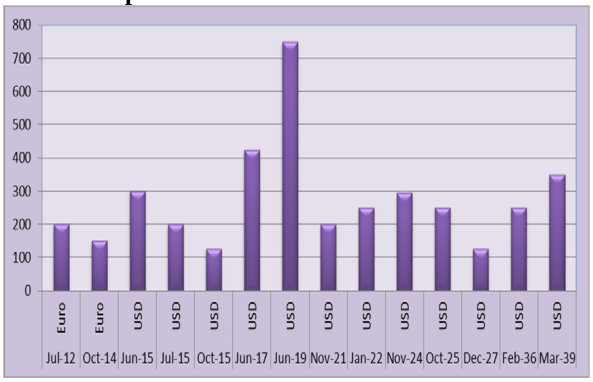
Source: Ministry of Finance and Planning

Figure 10: Remaining maturity profile, reported in millions of US dollars



Source: Ministry of Finance and Planning

Figure 11: Maturity Profile of Global Bonds, reported in millions of US dollars

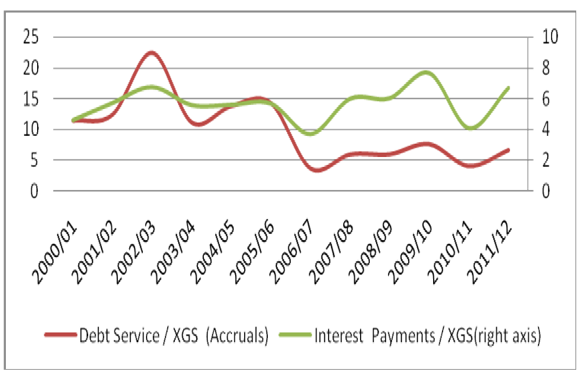


Source: Ministry of Finance and Planning

External Debt Indicators

Consistent with the decline of the debt stock, the external debt-to-GDP ratio decreased from 63.8% in the previous year to 57.7% in FY2011/12. The ratio of international reserves to external debt decreased to 20.7% in FY 2011/12 from 28.8%. This decrease resulted from a decline of the gross international reserves. However, other indicators of external indebtedness showed improvement indicating the progress being made in debt management.

Figure 12: Debt Indicators



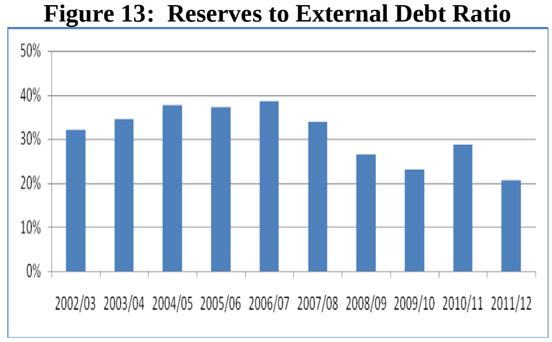
XGS denotes export of goods and services
Source: Ministry of Finance and Planning/Bank of Jamaica

Table 12: Debt Indicators

	2010/11	2011/12
External Debt / GDP	63.8	57.7
External Debt / XGS	35.0	38.3
Multilateral / Total Debt	11.6	17.0
Debt Service / XGS (Actuals)	11.5	17.4
Interest Payments / XGS	4.1	6.9
Disbursement/External Debt	16.0	7.8

Source: Ministry of Finance and Planning

Figure 13: Reserves to External Debt Ratio



Source: Ministry of Finance and Planning

Government of Jamaica Credit Rating Profile

The three main rating agencies, Moody's Investor Services (Moody's), Fitch Ratings and Standard and Poor's (S&P) conducted reviews of the Jamaican economy during FY 2011/12. Moody's maintained its stable outlook on the Jamaican economy and the country's long-term foreign and local currency sovereign with a "B3" rating. Fitch Ratings maintained the country's sovereign rating with a stable "B", while S&P reaffirmed Jamaica's long-term foreign and local currency sovereign debt rating of "B-", with a negative outlook.

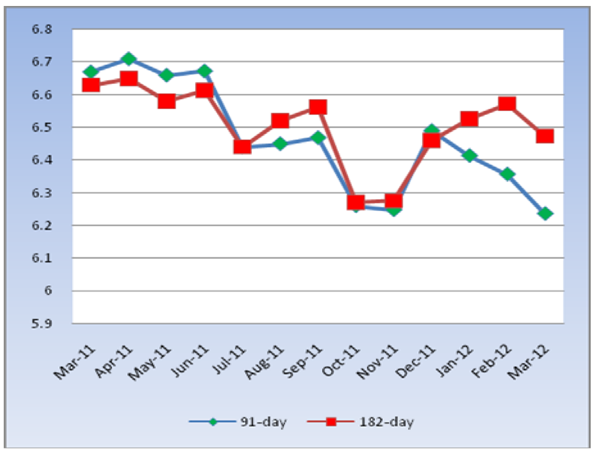
The ratings were underpinned by the country's relatively high level of institutional strength, its resilience to withstand external shocks, the population's acceptance of measures of austerity, and the Government's commitment to maintain fiscal discipline. The ratings were further supported by the Country's unwavering commitment to pay its debt obligations as well as its political stability and highly democratic election process.

Table 13: Government of Jamaica Credit Ratings

Rating Agency	Term	Domestic Currency	Foreign Currency	Outlook	Last Rating Action
Moody's	Long term	B3	B3	STABLE	December 2011
Standard and Poor's	**Long term**	**B-**	**B-**	**NEGATIVE**	**October 2011**
Fitch Rating	Long term	B-	B-	STABLE	February 2012

Appendix

Figure 14: Treasury Bill Yield, FY 2011/12



Source: Ministry of Finance and Planning

Figure 15: US Dollar 6 month LIBOR Rate

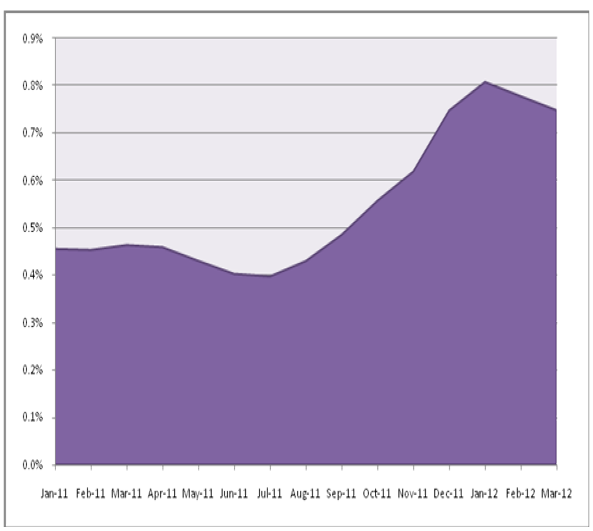


Figure 16: Holders of Benchmark Notes March 2012

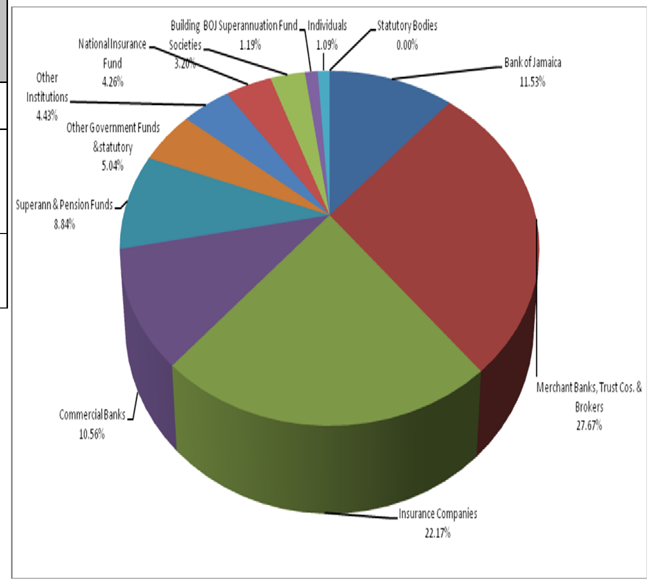
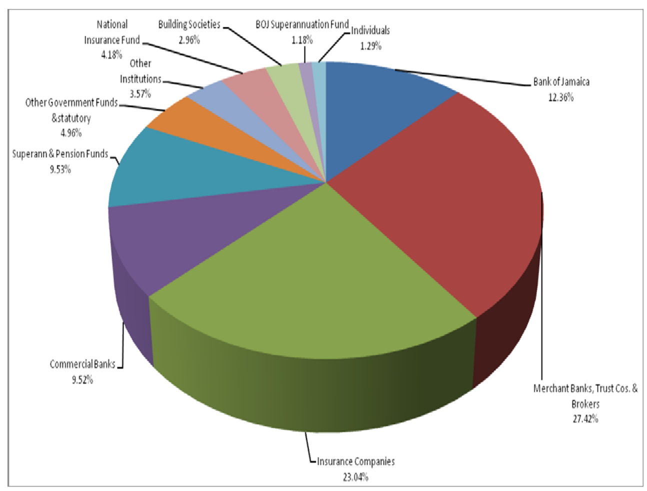


Figure 17: Holders of Benchmark Notes March 2011



Source: Debt Management Branch Database
Note: March 2012, provisional

PROFILE ON THE STOCK OF PUBLIC DEBT
(J$ millions)

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
DOMESTIC DEBT	**215,084.1**	**300,201.5**	**366,158.1**	**417,571.3**	**449,247.6**	**482,712.5**	**513,958.1**	**562,108.1**	**651,657.4**	**758,700.4**	**809,370.0**	**912,642.3**
Percentage of total debt	56.5%	60.4%	60.9%	60.2%	59.1%	57.0%	55.7%	56.2%	54.3%	52.9%	51.5%	54.9%
Local Registered Stocks	159,734.8	212,110.0	240,923.0	220,819.2	218,412.6	235,632.7	226,693.9	223,581.6	201,936.1	168.1	-	-
Treasury Bills	6,950.0	4,250.0	2,950.0	3,750.0	4,050.0	3,800.0	4,200.0	4,200.0	4,094.5	4,000.0	4,000.00	4,000.00
Investment Debentures	27,499.5	32,399.3	41,189.6	86,844.5	128,974.2	155,905.6	200,676.8	261,459.9	328,268.2	27,115.9	-	-
US$-Indexed Bonds	7,723.2	20,751.6	42,315.6	51,515.5	37,189.7	25,575.1	24,588.9	17,843.2	29,743.4	419.3	-	-
US$-Denominated Bonds	9,707.6	25,571.1	30,579.3	45,312.6	47,533.3	51,163.7	49,958.1	49,894.3	79,567.5	25,539.2	29,255.34	63,977.79
J$ Benchmark Bonds	-	-	-	-	-	-	-	-	-	600,971.4	667,800.70	733,216.07
US$ Benchmark Bonds	-	-	-	-	-	-	-	-	-	73,253.5	79,561.13	80,997.79
CPI-Indexed Bonds	-	-	-	-	-	-	-	-	-	21,165.0	23,573.70	25,269.41
Commercial Bank Loans	2,466.1	3,527.2	6,322.6	7,450.1	12,219.3	9,111.6	6,785.7	4,187.8	7,125.0	5,160.6	4,452.5	3,764.49
Other Loans	1,002.9	1,592.2	1,878.0	1,879.4	868.5	1,523.8	1,054.7	941.2618	922.7	907.4	726.6	1,416.78
EXTERNAL DEBT	**165,556.7**	**196,881.2**	**235,083.2**	**276,315.4**	**310,451.6**	**364,637.4**	**409,196.1**	**438,568.4**	**548,668.5**	**676,055.4**	**760,998.24**	**749,631.08**
Percentage of total debt	43.5%	39.6%	39.1%	39.8%	40.9%	43.0%	44.3%	43.8%	45.7%	47.1%	48.5%	45.1%
Bilateral	52,598.2	49,903.4	56,316.2	59,744.0	54,970.9	49,199.9	47,660.01	49,403.87	60,884.52	84,143.97	87,040.54	66,609.38
Multilateral	50,798.4	53,796.0	69,115.4	70,273.8	80,735.4	81,947.5	81,982.29	85,422.43	119,306.48	220,990.38	266,631.41	288,169.62
IBRD	18,899.2	21,015.1	26,999.2	26,852.9	26,087.2	25,733.0	24,831.75	24,207.87	35,594.71	51,528.98	47,953.19	56,836.40
IDB	21,878.0	22,773.8	29,884.6	30,060.8	38,981.8	38,792.7	38,205.03	38,250.75	55,612.01	78,071.74	105,228.11	111,014.43
IMF	-	-	-	-	-	-	-	-	-	57,285.25	72,884.17	74,202.82
CDB	3,659.4	3,448.4	4,761.3	5,498.2	7,145.2	8,658.5	8,916.99	11,791.50	16,138.01	22,084.36	24,989.80	29,547.03
EEC	3,185.7	4,048.8	5,349.1	6,370.7	7,052.9	6,418.5	7,370.74	8,502.22	7,423.31	8,555.19	11,479.08	12,175.64
Other	3,176.1	2,510.0	2,121.2	1,491.1	1,468.3	2,344.7	2,657.78	2,670.10	4,538.43	3,464.86	4,097.07	4,393.29
Bonds	45,942.7	78,664.1	90,691.6	120,908.40	145,421.85	208,916.27	258,203.76	280,550.53	339,756.85	340,646.73	360,162.98	351,204.41
Other	16,217.3	14,517.7	18,960.0	25,389.21	29,323.33	24,573.66	21,350.05	23,191.61	28,720.63	30,274.36	47,163.30	43,647.68
TOTAL DEBT	**380,640.8**	**497,082.6**	**601,241.3**	**693,886.8**	**759,699.2**	**847,349.9**	**923,154.2**	**1,000,676.5**	**1,200,325.9**	**1,434,755.8**	**1,570,368.2**	**1,662,273.4**

Figure 18: Government of Jamaica Global bonds trading levels

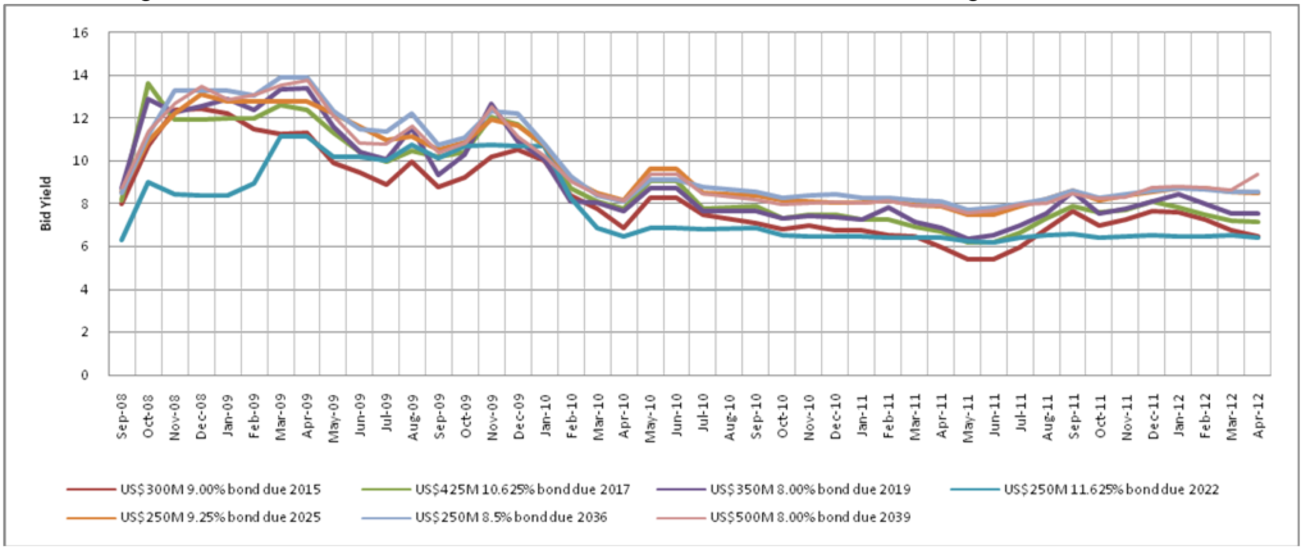


Figure 19: Government of Jamaica Guaranteed bonds trading levels

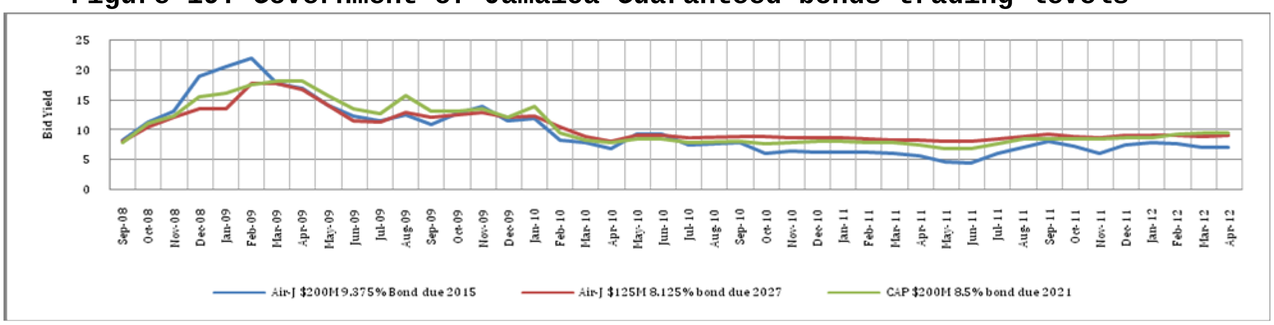
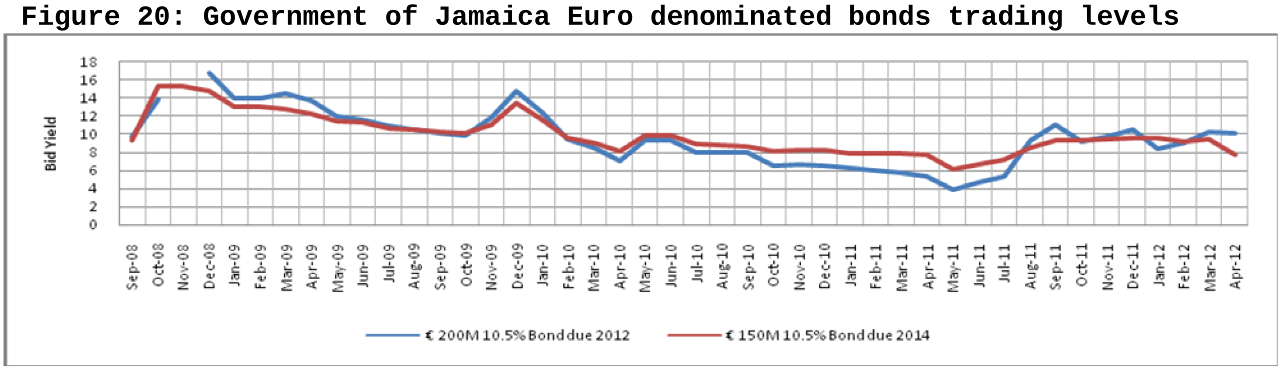


Figure 20: Government of Jamaica Euro denominated bonds trading levels



APPENDIX 1

PUBLIC SERVICE ESTABLISHMENT PROGRAMME

PENSIONS ADMINISTRATION

Public Sector Pension Reform

During FY 2011/12 work continued on the coordination and implementation of activities under the Public Sector Pension Reform component of the Social Protection Programme, which is supported by the World Bank. These activities are discussed below.

Green Paper on Pension Reform

Following extensive simulations of pension systems by the MOFP's technical team and feedback from critical stakeholders, Green Paper No. 2-2011 entitled "Options for Reform of the Public Sector Pension System" was submitted to Cabinet, then tabled in Parliament in September 2011 for discussion. A Joint Select Committee of Parliament was appointed to consider the Paper and stakeholder groups were invited to make presentations to the Committee as part of the consultation process. As at end March 2012, critical stakeholders, including the main public sector bargaining units, Caribbean Actuarial Association and Social Protection Specialists from the World Bank had made presentations to the Committee. Once presentations are complete, the Committee will begin its deliberations, which should form the basis of the White Paper to be tabled in FY 2012/13.

Business Process Re-engineering

This activity is nearing completion. In September 2011, training in the new programme for processing pension applications was conducted with representatives from the Pensions Administration Unit of the Ministry of Finance and Planning, the Accountant General's Department, Auditor General's Department and Human Resource Units of Ministries and Departments.

In March 2012, the final report for re-engineering of the pension payment process was reviewed and comments were submitted to the Consultants.

The re-engineering of the business processes is aimed at, *inter alia:*

- improving the pension administration system such that the processing of pension applications (calculation, awarding and payment) is facilitated within 30 days;

- allowing individuals to have on-line access to their personal information, including the amount of pension they are entitled to receive.

- increasing the automation of procedures and eliminating the need to audit each file; and

- allowing for improvements in the forecasting and budgeting of pension expenditure.

Establishment of Earnings Database

To complement the Business Process Re-engineering, an earnings database is being developed to keep track of career histories. The Terms of Reference for the earnings database was developed and in March 2012, the procurement process commenced with the receipt of seven (7) Expressions of Interest. During FY 2012/13, the consultant to develop the database will be selected and the redesigned process implemented.

Legal Analysis

Phase II of the Legal Analysis Consultancy began in October 2011 and is aimed at analyzing the legal implications, if any, of the proposed Business Process Re-engineering. From the analysis, a few legal issues were identified however these will not hinder the implementation of the re-engineered process.

During FY 2012/13, the combined results of Phases I and II of the Consultancy will be submitted to Cabinet for discussion and approval. This will pave the way for the enactment of new legislation to provide for a harmonized pension system for public sector workers.

Legislation Programme

Retiring Allowances (Legislative Service) Amendment Act

During FY 2011/12 the Bill to provide for the amendment of the Retiring Allowances (Legislative Service) Act was re-submitted to Cabinet for approval to allow for tabling in the Houses of Parliament. The amendment will allow service as a Parish Councillor to be taken into account in determining a Legislator's retiring allowance.

Increase to Pensioners

For FY 2011/12, $550mn was provided for the granting of increases to pensioners, including spouses and dependents of deceased officers. The increases, which became effective July 1, 2011, benefited 23,995 pensioners. The increases are applicable to pensioners who:

(a) retired no later than January 1, 2009;

(b) were not less than 55 years of age at June 30, 2011;

(c) retired on the grounds of ill health regardless of their age as at June 30, 2011; and

(d) were in receipt of a widows/widowers and dependents pension which commenced prior to July 1, 2011.

The increases granted ranged from $1,150.00 per month to $3,000.00 per month. The minimum pension for widows/widowers was also increased from $5,000.00 per month to $7,500.00 per month.

STRATEGIC SUPPORT

Strategic and technical support focuses on the areas of public sector human resource policy review and compliance, and the implementation and monitoring of public sector programmes and initiatives. The Strategic Support Unit functions as the secretariat for the Public Sector Monitoring Committee (the Monitoring Committee), which was launched in October 2010 to replace the MOU Monitoring Committee whose term expired in March 2010.

During FY 2011/12, a symposium put on by the Monitoring Committee was hosted, under the theme "A Partnership Approach to True Solutions." A wide cross section of public and private sector leaders participated in the event, which was aimed at forging consensus on the ideal approach to be adopted in setting the parameters of public sector wages and conditions of employment. The process of dialogue between the Government of Jamaica and unions representing public sector workers, to address the various issues impacting public sector workers and the Jamaican economy, was facilitated through this aspect of the programme.

Under the directives of the Monitoring Committee, there was continued vigilance to ensure that the guidelines governing separation of employment in the public sector through restructuring or mergers of entities were adhered to. A total of 5 restructuring/redundancy proposals from public bodies were received by the secretariat and assessed by the 'Monitoring Committee' during the year. Of the proposals received, only 2 were granted approval, while reinstatement of employees was recommended in the remaining cases due to breaches of the restructuring/redundancy guidelines of the MOU.

Several human resource policy manuals were reviewed and technical advice provided to public sector functionaries during FY 2011/12. The ongoing review of the Staff Orders for the Public Service continued during the year, and the first draft is now being perused by the Monitoring Committee.

SCHOLARSHIPS & ASSISTANCE

During FY 2011/12 the following activities were pursued under the scholarship and assistance function of the Public Service Establishment Programme (PSEP):

- Civil Service Training Programme;
- Donor Scholarship Programmes;
- Education Grants; and
- Bonding and Compliance.

Civil Service Training Programme

Assistance was provided to approximately 600 persons pursuing skills training in a variety of areas in Kingston & St Andrew, Manchester, St James and Hanover.

Donor Programmes

The Scholarship & Assistance Unit (SAU) acted as point of contact for the bi-lateral and multi-lateral scholarship programmes. Scholarship offers were received from approximately 20 donors with the most active being Malaysia, Malta, Japan, China, Russia, Cuba, the Organization of American States (OAS), the Commonwealth Fund for Technical Cooperation (CFTC), UK Commonwealth, and New Zealand Commonwealth. Scholarship awards from Australia also came back on stream.

Approximately 100 new awards (long and short term) were taken up during FY 2011/12. Scholarships were advertised in the press and posted on the "Scholarships Page" of the MOFP's website as well as sent directly to interest groups.

The Cuban and Russian scholarships continued to account for the largest share of the SAU's budget. There are currently 200 students benefiting from scholarship programmes in Cuba, 35 in Russia and 23 in China.

Education Grants

The SAU processed and issued Education Grants to members of public sector unions, as agreed under the various Heads of Agreement. Some 362 individual and 2 group awards were processed at a cost of $16.0mn during FY 2011/12.

Bonding and Compliance

The SAU served as the 'national bonding agency' and provided guidance and advice to awardees and guarantors, as well as to external stakeholders. Approximately 550 awardees signed bond agreements during FY 2011/12.

The SAU continued sanctioning defaulters by issuing demand letters to awardees and guarantors, allowing/disallowing waivers and suspensions and conveying approval for the issuing of Letters of No Objection.

Approximately $8.4mn was collected from defaulters during FY 2011/12.

ESTABLISHMENT/EMPLOYMENT

During FY 2011/12, The Civil Service Establishment (General) (Amendment) 2011 Order was published. The Civil Service Establishment (General) (Amendment) (No. 2) Order 2011 was tabled and approved in Parliament on October 18, 2011. The preparation of another Amendment Order – the Civil Service Establishment (General) (Amendment) Order 2012 has been completed and will be tabled in Parliament in FY 2012/13.

The number of established posts in the Civil Service now stands at 41,890 up from the previous year's 41,858.

For FY 2011/12, employment data for Central Government Agencies, Schools and Colleges, Parish Councils, Executive Agencies, self financing and non-self financing Public Bodies were collected in compliance with Ministry of Finance and the Public Service Circular #32 and in keeping with the World Bank Development Policy Loan expected outcomes.

The main Establishment Control activities for the FY 2012/13 will include:

- Providing support for multilateral programme outcomes;
- Finalizing the Civil Service Establishment (General) (Amendment) Order 2012;
- Updating the establishment database for Central Government, Schools and Colleges, Parish Councils, Executive Agencies, self-financing and non-self financing Public Bodies in compliance with Ministry of Finance and the Public Service Circular #32;
- Preparing one (1) Civil Service Establishment (General) Order;
- Improving the information system in the Research and Establishment Control Unit of the MOFP to enhance data collection and storage.

INDUSTRIAL RELATIONS

The Industrial Relations Unit (IRU) of the MOFP focuses on maintaining and enhancing industrial harmony within the public sector through the establishment and implementation of sound industrial relations policies and practices.

During FY 2011/12, 7 claims were received, 5 from Central Government and 2 from Para-statal Agencies taking the total claims for the contract period 2010/12 to 18.. Meetings were held with individual bargaining units however no increases were proposed in conformity with Government's fiscal policy for the period. Consequently, discussions with the unions/associations which occurred at the level of the Public Sector Monitoring Committee are on-going and should culminate in a general agreement for the 2010/12 contract period for all Public Sector employees, early in FY 2012/13.

Among the other issues deliberated by the Government and the Public Sector Monitoring Committee was payment of the 7% increase in salaries contractually due from April 1, 2009. Agreement was reached and payment of the 7% effective April 1, 2011 commenced in September 2011, with a schedule for the payment of a one-off amount equivalent to two years of the 7% increase in 5 equal installments over a two and a half year period.

During F/Y 2011/12, 1 of 3 outstanding wage negotiations was concluded, making a total of 33 settlements out of the 35 claims received for the contract period 2008-2010. The 2 outstanding groups are the Medical Consultants and the Veterinary Officers. However dialogue continues with these groups in order to conclude the negotiations. In addition, provision of technical advice on policy matters to public bodies to guide their wage negotiations has been on-going.

The industrial relations programme strives at all times to establish a channel conducive to meaningful dialogue with trade unions and staff associations. In this regard, the IRU is represented on the Public Sector Monitoring Committee and provides chairmanship for several of the Special Sub-Committees. The IRU also facilitates dialogue with individual employees, ministries, departments and other public bodies in respect of the interpretation, clarification and implementation of agreed benefits and conditions of service and has been continually addressing outstanding items of agreement from past negotiations.

The IRU led and provided technical advice and attended a number of conciliation meetings at the Ministry of Labour and Social Security (MLSS) and the Industrial Disputes Tribunal (IDT). The Unit also participated in 13 conciliation meetings at MLSS and 2 meetings at the IDT. There were five 5 reported cases of industrial action in the public sector which resulted in less than 1% of man hours lost. These incidents were related to salaries, allowances, and permanent tenure issues. Despite these incidents, the level of industrial harmony was maintained above 98% during FY 2011/12.

In an effort to enhance the awareness of stakeholders on the terms and conditions of agreements, the IRU in conjunction with the Ministry of Health, conducted 5 workshops on “Grievance Handling, Conflict Management” with the regional health authorities. Additionally, 84 participants attended the IRU’s annual workshop which was held in March 2012 over a three (3) day period and themed ***“Contract Employment: Relief or Burden”***. The IRU will continue to support the Ministry’s objectives to promote harmony and goodwill in the public sector.

COMPENSATION

The compensation function of the PSEP has responsibility for public sector job evaluation and wages policy. The essence of this policy is to have modern classification standards and maintain a rational, equitable and competitive pay system within the Jamaican Public Service.

During FY 2011/12 work continued in the following areas:

- Pay-revisions/ Cases/Plans/Negotiations;
- Policy Issues/Research/Reviews of Consultancy Reports;
- Adjudication on Travelling Allowances; and
- Identification of Classification Groups for Pay Adjustments.

Health Sector Job Evaluation/Reclassification Project

During FY 2011/12, the following activities regarding the health sector job evaluation/reclassification exercise were undertaken:

- Assessment of the report of the second ‘Independent Review Panel’ and preparation of a comprehensive report outlining the way forward; and

- Preparation of a Cabinet Submission informing on the outcomes of the Independent Review Panels as well as providing a status report on the project.

In FY 2011/12 Cabinet gave approval for implementation of the Health Sector Job Evaluation/Classification Exercise.

EMPLOYEE RELATIONS/BENEFITS

During FY 2011/12, public sector workers continued to access benefits in the form of group health insurance, staff transportation, loans and grants.

Approximately 300 central government officers were refunded tuition fees amounting to $58.5mn under the Refund of Tuition Cost Programme.

In addition, the MOFP added 4 buses to the fleet that transports public sector workers to and from work on a daily basis at a subsidized cost. The cost to provide the service in FY 2011/12 was $50.9mn.

During FY 2011/12, 1,590 public sector workers accessed loans amounting to $600mn for emergency purposes, for tertiary level school fees and to purchase computers and motor vehicles. . The interest rate on these loans was reduced from 8% to 5% with effect from April 1, 2011.

The GOJ paid $3.5mn in the form of funeral grants to relatives of 44 officers who died while still employed in the public service.

With respect to health insurance, there are 80,15l public servants plus 118,555 dependents on the GEASO Plan. This is a co-payment plan where employees pay 20% and the Government pays 80% of the premium rates. The cost of Government's portion of the plan during FY 2011/12 was$2.8bn.

APPENDIX 2

PUBLIC SECTOR REFORM

The Public Sector Modernization Vision and Strategy 2002-2012 is in its final year of implementation. An evaluation of its implementation to date has been commissioned, and should provide valuable information for designing the new phase of Public Sector Modernization. A mid-term review of Ministry Paper 56/2002 was conducted in 2006 which provided a consolidated report on the status of achievements of the modernization programme 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. It is important to note that the modernization programme has made significant achievements as highlighted in annual reports available on line at http://www.cabinet.gov.jm/doc-archive.asp.

The MTAP, driven by clear targets and expected outcomes, is assisting with the achievement of the many 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 is to improve the provision and quality of service delivery to citizens whilst being realistic about what can be achieved within existing resource constraints. This requires public sector management innovation to constantly re-examine the way resources are utilised 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:

- Inter-related 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;
- 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 effecting 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 2011-2012 REVIEW

The Public Sector Modernization Division (PSMD) of the Cabinet Office continued to concentrate its efforts on core modernization activities centred on four strategic directions as recommended in the MTAP, 2008-2012. The activities being implemented are in large part, strategies to improve Results Based Management across Government while ensuring the programme directly supports Government's articulated priorities.

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

In 2009, the Jamaica Import/Export Inspection Centre (JIEIC) was opened in Kingston to provide a central location for the inspection of traded goods. The JIEIC houses, under one roof, all the regulatory agencies with responsibility for human health and safety, animal health and plant health. The centre spans the operations of 3 Ministries:

- Agriculture & Fisheries;
- Industry, Investment and Commerce; and
- Health

The JIEIC:

- Serves as a central location to coordinate inspections of imported goods;
- Enables quicker inspection processing time;
- Makes representatives of regulatory agencies more accessible;
- Keeps pace with global trends in trade facilitation to boost trade competitiveness and attract investment; and
- More effectively protects the Jamaican border and safeguards animal, plant and public health.

A similar centre is being established in Montego Bay. A comprehensive needs assessment has been completed and work is progressing toward opening the centre to the public early in FY 2013/14.

Public Sector Customer Service Competition

The Awards Ceremony for the fifth staging of the Public Sector Customer Service Competition was held in May 2011. It was initiated as a means of recognizing observed commitment to service excellence in the public sector. The inaugural staging of the competition was in 2001, and it has been staged biennially since. The competition is viewed with much anticipation by public sector entities, especially those with Citizen's Charters. There was a significant turnout and fierce competition for the main and special awards given at the 5th staging. Over 28,000 votes were received from members of the public, an increase of approximately 22,000 votes. Recognition and reward were given in relation to the following main categories:

- Best Customer Service Entity;
- Most Improved Entity;
- Most Creative/Innovative Entity; and
- Best Customer Service Officer.

Awards were also given for the *Best of "Like" Entities*. Prizes were awarded for:

- Best Modernised Entity;
- Best Post Office;
- Best Inland Revenue Office;
- Best Hospital;
- Best Health Centre;
- Best NIS Office; and
- Best Parish Council Office.

Individual *Honourable Mentions* and special awards such as *Best Implementer of the*

Customer Service Monitoring and Evaluation System were also given.

The National Customer Service Programme became fully integrated into all initiatives to modernise public sector entities. Consequently the PSMD facilitated the development of Citizen's Charters in Jamaica Customs, as well as in the St. Catherine, St. James, Manchester, St. Elizabeth and St. Thomas Parish Councils.

In FY 2011/2012 greater emphasis was also placed on building the internal capacity of entities to be able to deliver products and services. In order to promote and facilitate this continuous improvement in public sector performance, a number of interventions were pursued including:

- regular consultations with clients;
- institutionalizing and sponsoring training at the Management Institute for National Development (MIND) for approximately 180 officers from 26 entities; and
- exposing 23 officers from 7 entities to a 4 ½ day workshop on business process re-engineering.

Citizen's Charters

The PSMD continued to actively promote the formulation of Citizen's Charters to ensure a more informed public and increased accountability by public sector entities. As at end March 2012, over 130 government entities have implemented basic customer service measures and minimum standards for service delivery.
Since March 2011, 6 entities have completed the implementation of the Customer Service Monitoring and Evaluation System, and have been submitting performance scorecards each quarter to the PSMD. The Customer Service Monitoring and Evaluation System is designed to help organizations identify critical service delivery shortcomings and put in place measures to address and track service delivery progress against established indicators, over time. Implementation of the system will provide avenues for customers to make recommendations and thereby influence the improvement of government services. Through detailed and measurable information on the performance of entities, 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. The draft policy is being reviewed to incorporate alternative service delivery and additional policy elements which have been identified. 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.

National Assessment Feedback Tool Kit

A National Assessment Feedback Tool Kit has been developed to provide a standardized basis for organizations to assess their service performance. It is envisaged that this Tool will also be supplied in the planned Enterprise Content Management Software, for which specifications have already been defined and procurement initiated.

Data Sharing

During FY 2011/2012 a cost benefit analysis was conducted on the proposals for Data Sharing across the Public Sector, the findings of which are being compiled for presentation to Cabinet. The Data Sharing Policy is being proposed to improve the ability of the public sector to deliver quality and timely service to citizens through the sharing of data among government entities.

Development Approvals

Work towards revamping the entire application process for Development Approvals continued toward the achievement of a 90 day response timeframe for all applications. The Cabinet Office continued its partnership with key agencies, including the Local Government Department/Ministry of Local Government, National Environment and Planning Agency (NEPA) and other key stakeholders in the public and private sectors, toward achieving a number of targets. Through this project, Standardized Building Application Forms and a Completeness Checklist have been developed and operationalized through the ***AMANDA***[2] system.

Implementation of the ***AMANDA*** system was completed in an additional 4 local authorities, namely, Clarendon, St. Elizabeth, Trelawny and Hanover. This system will store and track applications made for development permits in the Parish Council, NEPA and other referral agencies. It is expected to accelerate the development applications approval process by monitoring and tracking all information related to applications for development permits and helping officers to determine glitches in the application process. The system also allows applicants to track the status of their applications online throughout the process.

National Spatial Plan

The Central Depository for Geospatial data, which was established in the Spatial Data Management Division as an output of the PSMD project to collect and convert geospatial data, was slated to be supported in the collection of detailed spatial parish data for 4 parishes. However, the PSMD committed to redirect the funds to provide support to the project being led by another agency to produce the updated National Spatial Plan**,** which is an integral component of the National Development Plan (NDP), Vision 2030. Preparation toward the collection of parish geospatial data continued however with the facilitation by the PSMD.

Creation of additional Executive Agencies and other Performance Based Institutions

Under the Public Sector Modernization Programme, there has been on-going establishment of Performance Based Institutions (PBIs) across the public sector. These PBIs are in the form of Executive Agencies, policy-focused Ministries and other type entities. These PBIs are specifically structured to ensure a focus on service delivery, the achievement of desired results and accountability.

During FY 2011/12, the PSMD provided support to the Forestry Department, the most recently established Executive Agency, in a number of areas related to the implementation of its Modernization Plan. The PSMD continued to support the Jamaica Customs in its transition to Executive Agency designation with respect to inter alia, change management, finalization of the structure, job classification and the development of the human resource transition policy.

The PSMD continued to work closely with the Ministry of Education to support implementation of the Ministry's modernization plans, in relation to:

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

2) The modernization of the central ministry; and

3) Defining the institutional framework for the governance and operation of the Regional Offices and the development of the related Human Resource Transition Policy.

[2] The AMANDA System is web-enabled tracking and monitoring software. In this instance it is being used to store and track applications pertinent to development permits

The PSMD continued to support the Ministry of Justice (MOJ), in its preparation to implement the recommendations made in the Justice System Reform Task Force Report of June 2007. During FY 2011/12 work continued on:

- ⇨ The efficient operationalization of the Court Management Services entity by facilitating an ICT Needs Assessment and assisting with the acquisition of ICT equipment. Work is also underway to develop an ICT strategy.
- ⇨ The transformation of the MOJ into a policy focused Ministry and the implementation of the National Customer Service System. The development of a Draft Citizen's Charter was facilitated and reviewed by the PSMD.

The PSMD also provided assistance to the Ministry of Health with the pre-implementation work required to transition the National Public Health Laboratory and Blood Transfusion Service into a PBI, with specific focus on conducting an equipment audit, skills audit, infrastructure audit and change management.[3]

B: Improving Governance and Accountability

The PSMD provided support for the drafting of instructions, to the Chief Parliamentary Council, for the amendments to the Executive Agencies (EA) Act**.** The proposed amendments to the EA Act will strengthen the EA Model, increase efficacy and facilitate the creation of new EAs.

The Corporate Governance Framework for Public Bodies (PBs) which includes procedures for appointing Boards of Directors and principles to improve accountability structures, capacities and responsibilities of Boards of PBs, was approved by Cabinet in September 2011. Following the change in administration, the new Cabinet is reviewing the *'Framework'* with a view to strengthening its potential for implementation.

The PSMD has been charged with providing leadership in the development of a Decentralisation Policy. Following consultation workshops held in early 2011, a draft document has been developed to provide the basis for producing a Green Paper on Public Sector Decentralisation.

The PSMD began the process to develop a White Paper in relation to the establishment of the Environmental Regulatory Authority (ERA). The proposed ERA will have the primary responsibility for environmental policy, compliance, monitoring and enforcement. It is proposed that the ERA will regulate both the private and public sector with regard to all projects with significant environmental concerns. Internal consultations were held and a decision on the way forward is being awaited.

C: Managing for Results

I. Public Financial Management

A major thrust of the GOJ continued to be an aggressive effort to optimize the use of its resources so as 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 MTAP under 4 focus areas:

(a) *Linking Planning and Budgeting*

A Public Investment Prioritization Framework for prioritizing Government investment projects was approved by Cabinet in November 2009. The framework establishes a mechanism for ranking investment projects for budgetary support. During FY 2011/12 the prioritization framework, including indicators and weights, was applied to the budget process to

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[3] A modernised public health lab and blood transfusion service will be equipped to detect national health threats early and therefore inform proactive steps to combating health risks.

prioritize allocations under the Capital B Estimates of Expenditure.

The Medium Term Expenditure Framework (MTEF) and Performance Monitoring and Evaluation System (PMES) Steering Committee comprising representatives from the Cabinet Office, Ministry of Finance & Planning and the Planning Institute of Jamaica continued to guide the formulation of sectoral MTEF and PMES in 6 Ministries. Cabinet has also approved a new Budget Cycle to support the MTEF budget and planning framework. MTEF Guidelines were developed and included in the FY 2011/12 Budget Call to the pilot MDAs for updating their medium term (3-year) budgets.

(b) *Modernizing Procurement and Financial Management Systems*

The Chart of Accounts and the Budget Classification Code, as well as accompanying training manuals were finalized and accepted by the Ministry of Finance and Planning during FY 2011/12.

(c) *Performance Monitoring and Evaluation*

A Performance Monitoring & Evaluation Unit (PMEU) was established within the Cabinet Office in June 2010. The PMEU will lead the Whole-of-Government Planning Process, support the identification and interpretation of government strategic priorities and lead the design of monitoring and evaluation systems across Government. Work continued with the acquisition of computers and strengthening of institutional capacity to effectively roll out the PMES across Government.

(d) *Audit System*

The National Audit Office of the United Kingdom provided training to the staff of the Auditor General's Department (AGD) in Fiscal Responsibility Auditing, as this was a new requirement for the AGD during FY 2011/12. Under the Fiscal Responsibility Framework, the Auditor General is required to audit the Fiscal Policy Paper (FPP).

(e) *Capacity Building & Dissemination*

The International Law Institute of United States of America trained 40 senior officers in Public Private Partnership. The training targeted persons within ministries, as well as in agencies and departments of Government, including the Airports Authority of Jamaica, and the Urban Development Corporation. Officers from the Cabinet Office undertook a study visit in order to gain a more in-depth understanding of the British experience in public sector reform, specifically the decentralisation of Government operations; the improvements in customer service systems and standards; and the sharing of data across Government to improve service delivery and decision making.

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.

Support and guidance for the continued roll-out of PMAS was provided to the Consumer Affairs Commission, National Library of Jamaica, Jamaica Constabulary Force, Ministry of Justice, Ministry of Tourism, Ministry of Youth, Sports and Culture, the Forestry Department and the Early Childhood Commission**.** During FY 2010/11, a Project Implementation Guideline Template was developed to assist entities in the implementation process and to assist the PSMD in monitoring the agencies implementing PMAS.

Work continued 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.

KEY ACTIVITIES FOR 2012/13

The PSMD will continue to focus on core modernization activities centred on the strategic directions as recommended in the revised MTAP, 2008-2012 as under:

(i) Service Delivery

- Implement an Import/Export One Stop Shop in Montego Bay;
- Support re-engineering of the E-trade System;
- Implement PMAS and roll-out AMANDA in local authorities and referral agencies to further improve the development approvals process;
- Implement the Development Approvals Process Fee Policy and undertake a public education campaign to inform stakeholders;
- Procure and support implementation of an Enterprise Content Management System (ECM) in Cabinet Office and three other MDAs;
- Launch the 6th Customer Service Competition Awards Ceremony;
- On-going review of MDAs and establishment of more PBIs;
- Prepare a Green Paper for a Comprehensive Framework to improve Service Delivery across the Public Sector; and
- Prepare a Green Paper on Public Sector Data Sharing.

(ii) Improving Governance and Accountability

In its efforts to improve transparency and ensure prudent management of public resources, the GOJ plans to:

- Implement a Corporate Governance Framework;
- Finalise the ERA White Paper;
- Initiate a Review of the EA Model as a first step to developing a Policy and Procedures Manual for the operation of EAs;
- Support continuing implementation of the PMAS.

(iii) Managing for Results

Key activities to be undertaken under this strategy include the following**:**

- Continue to support efforts toward implementation of the PMES framework;
- Complete research for the development of an Integrated Performance Management Policy;
- Continue to provide support toward the rollout of the MTEF; and
- Continue to support the development of an implementation strategy for a
- shared corporate services environment for the Jamaican public sector.

(iv) Change Management and Communication

Key modernization activities to be pursued include:

- Development of a Modernization Tool Kit; and
- Conducting an evaluation of the Public Sector Modernization Vision & Strategy 2002-2012 and designing the strategy and plan for the next phase of Public Sector Modernization.

APPENDIX 3

DEVELOPMENTS IN THE FINANCIAL SECTOR

During FY 2011/12, the Government of Jamaica (GOJ) continued its commitment to maintain stability in the financial sector, as it proceeded with efforts to improve the legislative framework and strengthen institutional capacity to supervise financial institutions. As a consequence, various pieces of legislation were advanced in the legislative process.

The change in administration following the December 2011 General Elections, led to the need for a review of the proposed legislation to ensure that the priority legislation and policy direction are in keeping with the programme of the new administration. This requirement involves the re-submission of proposed legislation for amendment/enactment to the Cabinet for approval.

During FY 2011/12, the Financial Investigations Division (FID) of the Ministry of Finance and Planning (MOFP) continued to carry out its mandate of dealing with matters relating to financial crimes, including money laundering; while the Financial Institutions Services (FIS) continued the winding down operations of the Financial Sector Adjustment Company (FINSAC).

Improved Legislative Framework

The following are the main activities and improvements in key legislations that were achieved during FY2011/12:

Pensions Legislation

The latest draft of the Pensions Bill, which seeks to deal with issues of conditional registration, investment manager fees and harmonization of contribution limits, was circulated to stakeholders for review. The circulation elicited concerns about certain issues, which remained unresolved at the end of FY 2011/12. Once a viable solution to address the concerns raised is identified, an appropriate policy outlining the additional proposed amendments will be developed and submitted to Cabinet. These amendments are intended to precede an extensive change to the legislation that will allow for vesting, portability and indexation of pensions.

Insurance (Amendment) Act

The Insurance (Amendment) Bill was considered in May 2011 by the Legislation Committee of Cabinet. The committee recommended that further consultation be carried out with the Financial Services Commission (FSC) and relevant stakeholders to resolve certain issues. With the change in administration, the proposed amendments to the Insurance Act are being prepared for re-submission to Cabinet for approval. However, the Cabinet Submission has been delayed, pending certain issues being resolved by the FSC. The proposed amendments seek to address, *inter alia*, weaknesses identified in the legislation and to harmonize, the procedures for hearings, appeals and unclaimed balances, with other financial sector legislation.

Bank of Jamaica (Amendment) Act

Legislation to give the Bank of Jamaica (BOJ) the institutional responsibility for the stability of Jamaica's financial system was drafted.. The draft Bill was reviewed by the MOFP and BOJ. However, with the change in administration, a Cabinet Submission was duly prepared and re-submitted to Cabinet toward the end of FY 2011/12.

Omnibus Legislation

A consultant was contracted to draft the Omnibus Legislation during FY 2011/12. However, the drafting of the Bill was delayed because (i) more detailed information was required from the BOJ and (ii) the need for a new Cabinet Submission. The proposed Omnibus Legislation was a structural benchmark under the country's Stand By Arrangement (SBA) (2010) with the International Monetary Fund (IMF). It seeks to merge the provisions of the Banking Act, Financial Institutions Act and the Bank of Jamaica (Building Societies) Regulations into one piece of legislation and to make amendments to existing provisions to enhance the supervision of deposit taking institutions. In undertaking the task of providing more details to facilitate further drafting instructions, the BOJ has indicated that there will be a need to include additional provisions to address emerging issues. Consequently, completion of a consultative paper is being awaited, to inform preparation of a new Cabinet Submission.

Proposed amendments to the Securities Act

A proposal submitted by the FSC, seeks to amend the Securities Act to enhance the framework for regulation of the securities industry in order to combat the establishment of unregulated financial organizations (UFOs) and to correct other deficiencies in the regulatory framework of the securities industry. The FSC also submitted an additional proposal for the modernization of the framework for the regulation of Collective Investment Schemes (CIS). A draft Cabinet Submission taking into account concerns raised by the AGC with respect to the proposed amendment to the Securities Act and incorporating the proposal of the FSC for a CIS regime has been prepared. Once the AGC provides a "no objection" to the contents of the draft Cabinet Submission, the MOFP will then proceed to seek the approval of the Cabinet for the amendment of the Securities Act. The proposed amendment to the Securities Act with respect to combating UFOs was included as a structural benchmark under the country's 2010 SBA with the IMF.

Enactment of new legislation for a Secured Transactions Framework

During FY 2011/12, the Office of the Chief Parliamentary Counsel prepared a discussion draft bill for the MOFP to clarify certain policy issues. The draft Bill is being reviewed by the MOFP and other relevant stakeholders. With the change in administration, a Cabinet Submission is being prepared for re-submission of the proposed new legislation to Cabinet to ensure that it is in accordance with the policy direction of the new administration. The proposed legislation seeks to modernize the framework for secured transactions and create a collateral registry of pledged assets. The modernization of the secured transactions framework will allow the use of personal property (movable property) as collateral by a borrower to secure debt obligation to a creditor. Examples of movable property include equipment, accounts receivables, inventory, warehouse receipts and livestock. It is expected that the reform will improve access to finance, particularly for small and medium enterprises. The proposed secured transactions framework is part of the Jamaica Competitiveness Enhancement Programme (JCEP) agreed with the IDB.

Activities of the Financial Investigations Division

With the passage of the FID Act, the Division resubmitted its application for membership in the Egmont Group, which is an association of financial intelligence units formed to facilitate international co-operation especially in the areas of information exchange, training and the sharing of expertise. As part of the process, representatives from Canada and the Bahamas, the sponsors for FID's membership application, carried out an on-site examination during FY 2011/12 to determine if the FID is operating at the requisite standards. The FID is presently awaiting a response from the Egmont Group.

The FID continued to work with the Jamaica Constabulary Force (JCF), Jamaica Customs Department and other local Entities, as well as international counterparts, during FY 2011/12. The FID also continued to carry out its mandate of protecting the integrity of the financial sector. During FY 2011/12, the FID received 247,272 and 84,950 suspicious transaction reports and threshold transaction reports respectively, in keeping with the Proceeds of Crimes Act (POCA).

FID's operations during the year include the provision of due diligence checks for the BOJ and other government agencies. The FID conducted 394 fit and proper checks, on behalf of the BOJ, on Directors, Shareholders and Senior Managers of financial institutions supervised by the Central Bank.

The FID continued to aggressively pursue financial investigations aimed at identifying money laundering offences, instituting civil recovery proceedings and confiscating cash.

Activities of the Financial Institutions Services Limited

During FY 2011/12, the FIS continued with the winding up of residual activities of FINSAC including selling remaining properties, sundry assets and artwork under its control.

The FIS reported net collections from loans sold to the Jamaican Redevelopment Foundation (JRF) of US$7.6mn, from which FINSAC received US$2.9mn in FY 2011/12. This brings to US$72.8mn, the total received by FINSAC since the loans were sold to JRF, including the initial deposit of US$23.0mn.

Consequent on the judgement against Eagle Financial Network, FINSAC received funds totalling $13.9mn from the sale of 3 properties and net rental collections from September 2006 to January 2012.

As part of the out-of-court settlement with the former chairman of Blaise, a 60% shareholding in Greenlight Car Rental and Transport Limited was transferred to FIS. Greenlight owned 19.8% of United Motors Limited shares, which were sold to the majority shareholder. The sale was completed in December 2011.

FINSAC continued to interface with fund managers and actuaries with a view to winding-up the Mutual Life Pension Schemes. Resolution of the schemes has not yet been finalized, as some additional information required from Guardian Life Limited is yet to be submitted.

During FY 2011/12, the General Manager of FINSAC appeared before the Commission of Enquiry (COE) to give evidence and for further questioning. The COE had its last sitting in November 2011 and its report is being awaited.

The audited financial statements for the year ended March 2011 for FIS and FINSAC were completed and submitted to the MOFP.

Proposed Areas of Focus for FY 2012/13

For FY 2012/13, efforts will concentrate on the following:

- Facilitating the amendment of pensions legislation to provide for conditional registration, investment manager fees, and harmonization of contribution limits;
- Facilitating amendment of the Insurance Act to address weaknesses identified in the legislation and to harmonize the procedures for hearings, appeals and unclaimed balances with other financial sector legislation;
- Facilitating amendment of the Bank of Jamaica Act to give the BOJ institutional responsibility for the stability of the financial sector;
- Creating an Omnibus Legislation for the institutions supervised by the BOJ;
- Facilitating amendment of the Securities Act to enhance the framework for regulation of the securities industry in order to combat the establishment of UFOs, modernize the framework for the regulation of CIS and correct other deficiencies in the regulatory framework of the securities industry;
- Facilitating the enactment of legislation for modernization of the Secured Transactions Framework;
- Facilitating the FID gaining membership in the Egmont Group;
- Disposing of the remaining assets under FIS's control;
- Settling the issues in disputes arising from the sale of the loan portfolio to JRF; and
- Finalizing and resolving outstanding pension and litigation matters.

APPENDIX 4

TAX ADMINISTRATION

Tax Administration Reform

The operations of the Inland Revenue Department (IRD), Taxpayer Audit and Assessment Department (TAAD) and the Tax Administration Services Departments (TASD) were consolidated to form a single Department called Tax Administration Jamaica. Tax Administration Jamaica (TAJ) was established on April 1, 2011 under the Revenue Administration (Amendment) Act 2011 and commenced operations on May 1, 2011.

The operations of TAJ have incorporated the following core facets: acquisition of a new computer system; establishment of the Semi-Autonomous Revenue Authority (SARA); and legislative changes; Compliance programmes, such as the Revenue Enhancement and Arrears Project (REAP) and the National Recovery Programme, which started under the reform have transitioned to normal operations.

Considerable emphasis is being placed on improving operations by making them more customer-focused and risk based. The TAJ has made significant strides in making it easier for persons to do business with the tax authorities. Companies, self-employed persons, partnerships, provident societies, other organisations and the general public now have additional options to access information, file returns and pay their taxes. Additionally, with the introduction of the Customer Care Centre (CCC), Tax Cheat Hotline, Large Taxpayer Office (LTO), TAXREM - text message reminders, and the expansion of online services, the synergy with taxpayers has improved.

FY 2011/12 REVIEW

During FY 2011/12 the transition to TAJ added another dimension of challenge to the issues of tax administration.

Risk Management

Recent years have seen heightened concern about and focus on risk management, and the need for a robust framework to effectively identify, assess and manage risks in organizations has been clearly determined. As such, a risk management unit was established to bolster the TAJ's ability to effectively utilize a risk-based approach in its operations. The unit is responsible for identifying risks and continuously updating risk profiles. The unit will facilitate refinement of TAJ's policies, processes and actions through the improved management of risks.

TAJ has developed an Enterprise Risk Management (ERM) model which, through SEMCAR[4] is proposed for adoption by member countries of the Caribbean.

A risk scoring model to risk-assess income tax returns from companies and individuals has also been developed and a model for GCT is currently being developed.

Large Taxpayer Office

There were several notable developments in the LTO during FY 2011/12. In recognition of the significant risk to which non-compliance in the large taxpayer sector exposes the revenue, the number of auditors in the LTO was significantly increased. In addition, the capacity of the auditors in the LTO was strengthened with the engagement of international experts in selected sectors

[4] SEMCAR: Support for Economic Management in the Caribbean

Further, with the assistance of the Inter-American Centre of Tax Administrations (CIAT), a new unit was established in the LTO to focus on exchange of information with other tax administrations. This will be an avenue through which tax information on Jamaican taxpayers who operate in foreign jurisdictions, as well as non-resident taxpayers who operate partially in Jamaica, will be obtained. Finally, the LTO was further configured to include a unit that will be responsible for high net-worth and high-profile individuals for whom prudence demands special sensitivity and confidentiality of treatment.

Legislation

Legislative activity during FY 2011/12 focused on the following:

(i) Tax Administration and Governance

- establishment of TAJ as a single department (separate from Jamaica Customs);
- incorporation of the Revenue Appeals Department into the MOFP; and
- establishment of TAJ as a Semi-Autonomous Revenue Administration (in progress).

(ii) Tax Collection

- Phase 2 of the amalgamation of payroll taxes project - submission of electronic returns.

(iii) International Tax Matters

- Tax information exchange agreements now in development with 11 countries;
- Double Tax Treaty with Curacao - negotiations complete and awaiting approval by Cabinet.

Compliance

For FY 2011/12, 10,141 new taxpayers were registered, bringing the taxpayer register (active taxpayers) to 148,061.

The TAJ has been trying to reverse the negative compliance trend being experienced. The REAP was implemented specifically to address the issue of poor PAYE compliance. Of note, PAYE on-time payments moved from 15.3% in FY 2010/11 to 21.6% in FY 2011/12. Some 1,467 assessments were raised for PAYE with a value of $0.4bn.

Overall audit yield was $4.0bn with LTO[5] accounting for $2.1bn.

Collections

Domestic tax revenue collections of $191.1bn were 5.1 below the original projections of $200.9bn but 4% more than last year. Of the $191.6bn collected, $18.8bn represented arrears. As is customary, the majority (43%) of arrears collections came from PAYE. There was an increase in the usage of electronic channels to make payments. A total of $71.0bn was collected through the e-portal and direct banking channels.

Simplification of Service

In keeping with an objective to simplify the filing of Annual Returns, a new single Employer's Annual Return (S02) Form was introduced. This consolidated form replaced the Employers Annual Return PAYE (Income Tax) – IT06, Employer's Annual Return: Declaration and Certificate (NIS / NHT) – C4, Education Tax Self-Employed Annual Return – ET02 and Education Tax Organization Annual Return – ET03, as well as the relevant schedules and deduction cards.

[5] LTO – Large Taxpayer Office

STRATEGIES FOR FY 2012/13

TAJ will continue with its modernization programme which focuses on business process re-engineering, enhancing communication and information technology, simplifying the tax system and improving the tax infrastructure. The TAJ remains committed to its strategic direction of achieving increased revenue collections through improved levels of voluntary compliance.

The strategic direction will continue to focus on improvements in the following areas:

1. ***Developing and refining a risk management system*** utilizing the TAJ data-mining function to identify areas of high non-compliance for increased tax revenue collections. The risk management system will be utilized for selecting taxpayer entities for audit examinations, identifying and prioritizing tax arrears for collection and areas for taxpayer education intervention. Taxpayers will be appropriately segmented and programmes developed to target each group with specific actions.

2. ***Developing an arrears management framework*** aimed at prioritizing tax arrears for immediate action to collect. The increased utilization of data mining functions will also identify additional non-filers for appropriate compliance action. Activities will include implementing new work flows for returns processing and more importantly, implementation of the compliance continuum strategy that addresses the escalation mechanism for handling arrears.

3. ***Reviewing and drafting legislation*** for facilitating specific changes in the collections and arrears management processes. Proposed legislative changes will involve requiring payers of interest, dividends, and certain other payments to file information returns showing the names of the payees, their Taxpayer Registration Number (TRN) and the amount of the payments. This information will be useful in arrears management to identify non-filers and locate sources where garnishments can be served. The information is also important for auditing purposes, as it will help to identify taxpayers who underreport their income. Another legislative review will focus on authorizing liens to be filed to encumber delinquent taxpayers' property and establish the tax agency's priority versus other creditors. The TAJ will also pursue legislative changes to authorize garnishment to collect all types of unpaid taxes, and provide for consequences for failing to comply with a garnishment.

4. ***Introduction of a compulsory filing programme***. Under this national filing programme all residents of Jamaica will be required to file an annual income tax return on their world income once the aggregate is above the threshold. Non-residents will also be required to file returns for all income earned in Jamaica.

5. ***Mandatory Tax Compliance Certificate (TCC) requirement for licensing with professional bodies***. The TAJ will be advocating for legislation mandating TCC by all professionals who are applying to be registered/re-registered/licensed by their respective professional bodies.

Customer Service and Education

In an effort to improve service to customers, TAJ will provide targeted assistance to professionals who will be required to file tax returns, even where they are on the PAYE system. The rights and obligations of these professionals will be clearly communicated in planned sessions developed specifically for them.

'*Filing centres'* will be established across the island to facilitate persons using e-portal to conduct transactions. These centres will be located within specific Revenue Service Centres, namely St. Andrew, Kingston, May Pen and Montego Bay, where kiosks will be provided, along with trained personnel to assist in e-payments and e-filing.

The TAJ will also focus on promotion of e-services, especially for high volume transactions for payment types such as Property Taxes and Traffic Tickets. Additionally all large entities will be encouraged to file all their obligations on-line.

Each Revenue Service Centre will host a quarterly exposition based on the needs of the locale. This will be done in the 'banking hall' or in tents outside the facility.

The TAJ's school-based educational programme will be bolstered through collaboration with the Ministry of Education. The intention is to ensure that information on taxation is appropriately included in the school curriculum.

Improvement in the quality of taxpayer enquiry services will be done through application of the Frequently Asked Questions database across the tax offices. Accurate and consistent responses will thus be received for similar queries.

Additionally, a special Public Relations (PR) campaign aimed at reducing tolerance of the '*shadow economy*' will be launched. The negative effect of tax evasion and the role of taxes in providing public services will be emphasized.

TAJ Modernization

The implementation of a new integrated computerized tax system and a number of other IT Systems (e.g. for HR, Asset and Inventory, and Records Management), as well as upgrading of the physical facilities in TAJ is being supported by an IDB investment loan which was approved during FY 2011/12. An amount of US$33.4mn is expected to be disbursed over 3 years toward the modernization of the TAJ.

In addition to financing the Integrated Tax Application and a new ICT infrastructure platform for tax administration buildings and other facilities, the loan will finance a comprehensive training programme for staff, as well as acquisition of a new training centre.

Information and Communication Technology

A major accomplishment of the TAJ relates to improvements made to e-services. The strategy going forward will primarily see TAJ continuing its re-engineering of business processes to provide support for core business functions and office automation. With the planned funding from the IDB project, the following major projects are to be undertaken over a five year period:

- Expansion and upgrade of the CCC that will increase the efficiency and effectiveness of the centre through applied customer contact management technologies. A Terms of Reference has already been developed and a specific product is being considered.
- Upgrading of the Forensic Data Mining Unit with equipment that will consolidate and analyse payment data for selected expenditures across all Ministries, Departments and Agencies (MDA's) and use this information to verify taxpayers' gross income. The system will also be able to utilize information from third party sources to widen the tax net through new taxpayer registration.
- Implementation of a management reporting model supported by technological application.

Risk Management

The newly introduced concept of enterprise risk management within TAJ will also find prominence in FY 2012/13. Accordingly, during FY 2012/13 TAJ will seek to:

- define its internal risk environment;
- identify the major enterprise risks; and

- embed risk management in the processes and functions of TAJ.

Legislation

During FY 2012/13, TAJ will focus on the development of a Jamaican tax procedures statute governing all tax types. Elements to be introduced into the Revenue Administration Act (RAA) are as follows:

Information Gathering – strengthening of existing provisions regarding:

- public authorities;
- financial institutions;
- third parties; and
- taxpayers.

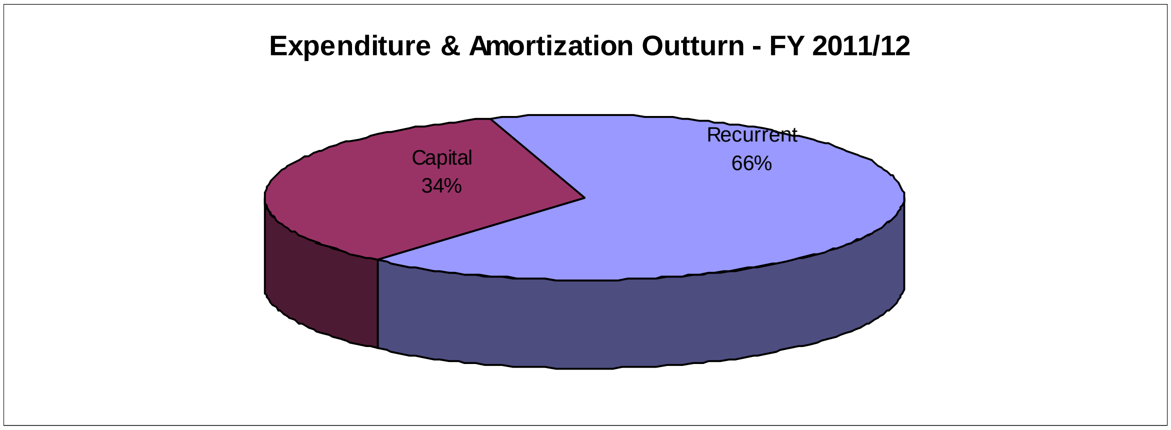
Exchange of Information – institutionalization of information exchange between TAJ and other tax departments, as well as between TAJ and certain other Government agencies.

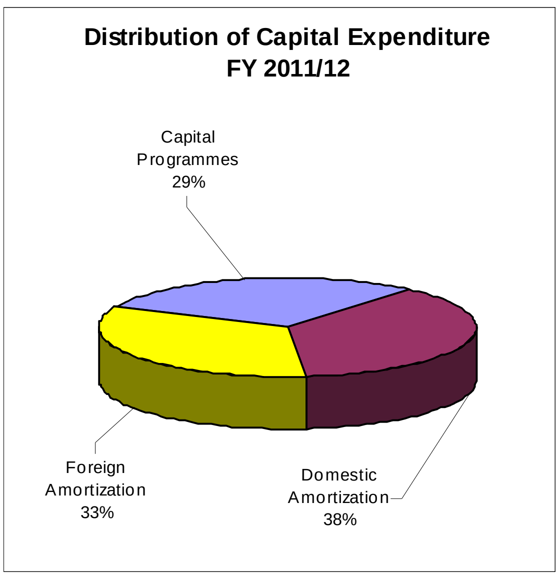
***Reporting Requirements* –** introduction of a regime to empower the Commissioner General to apply specially designed reporting requirements for specific taxpayers.

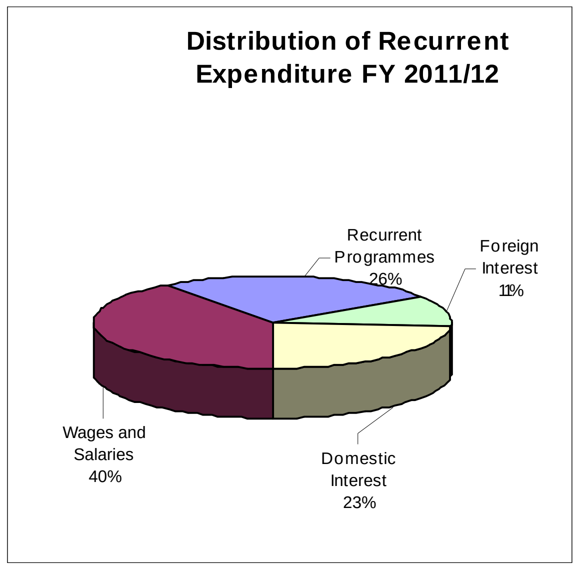
***Arrears Management*:** Powers and mechanism currently in specific tax statues will be refined, strengthened and included in the RAA, with extensive procedural detail, to provide for, in respect of all tax types:

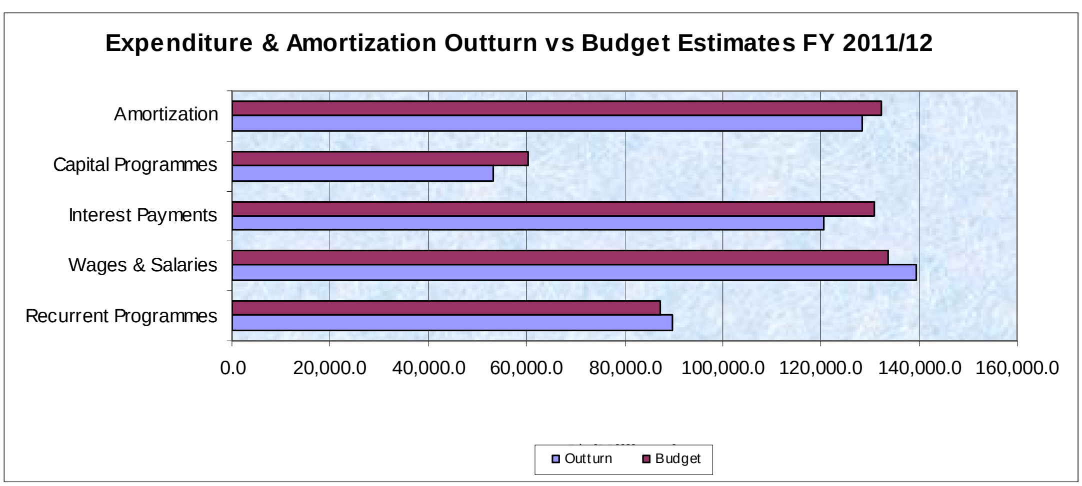
- levy warrant procedure;
- collection from third parties;
- preservation/collection of tax "at risk"; and
- amalgamation, re-organization, liquidation, and receivership.

2012/2013 JAMAICA BUDGET
Expenditure & Amortization Outturn - FY 2011/12

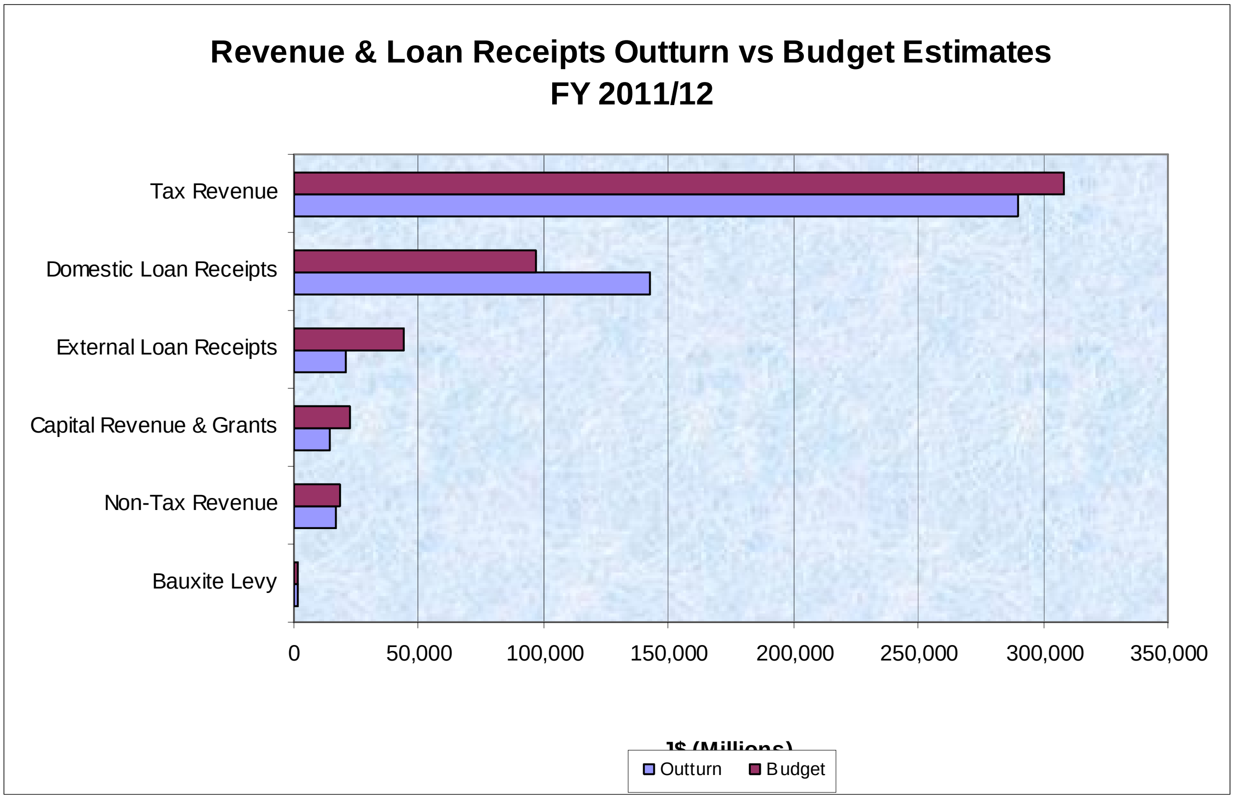


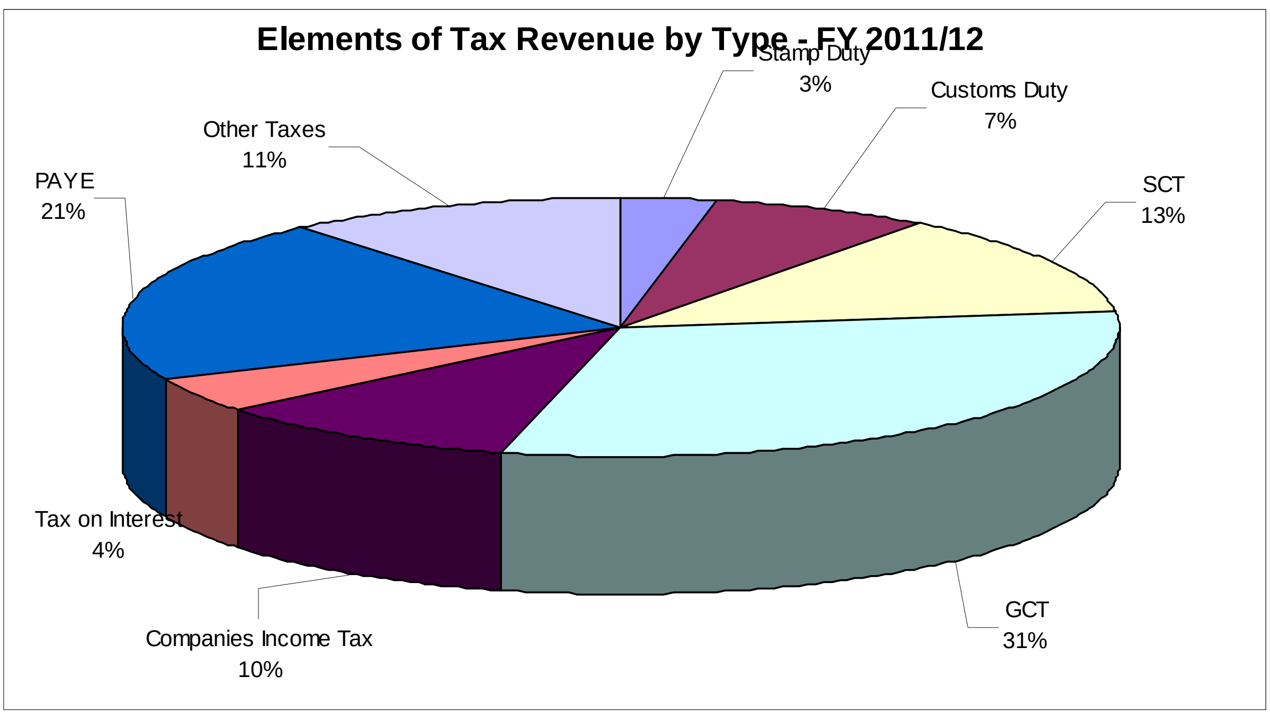






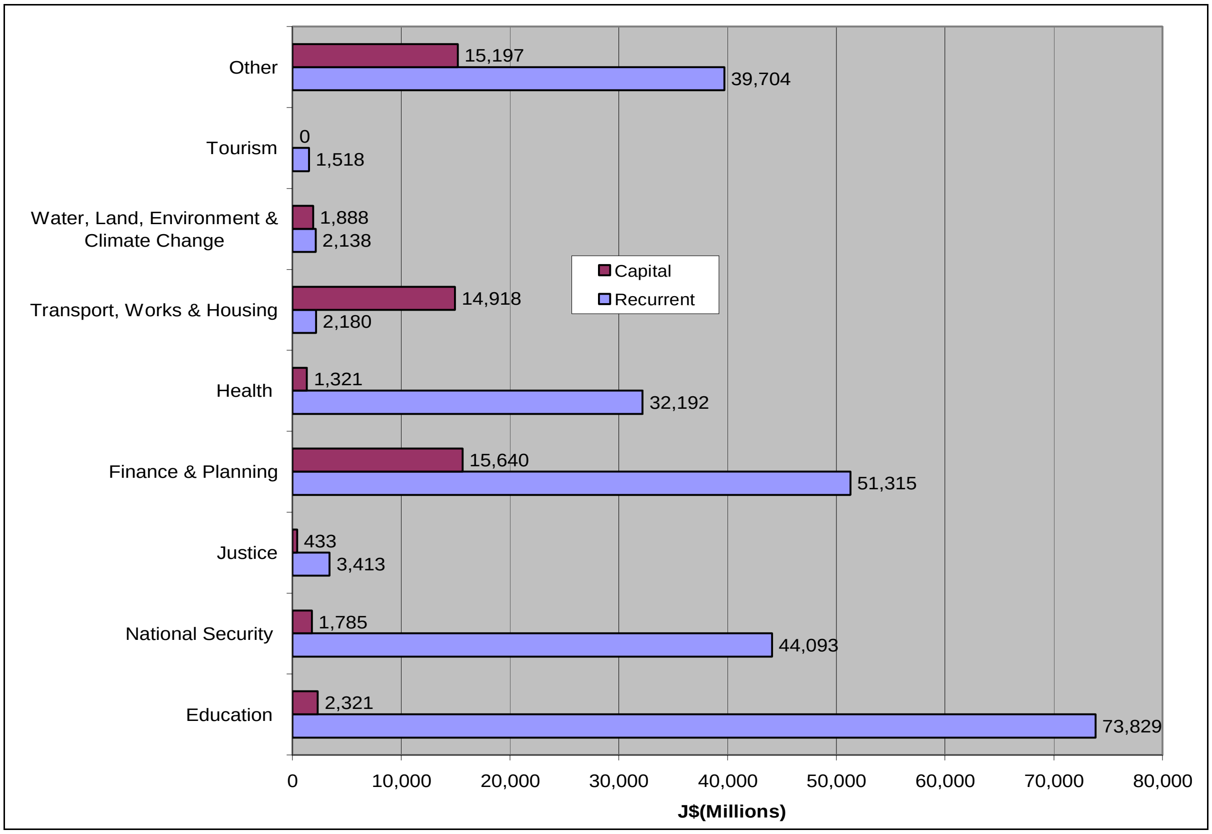
2012/2013 JAMAICA BUDGET
Revenue & Loan Receipts Outturn - FY 2011/12



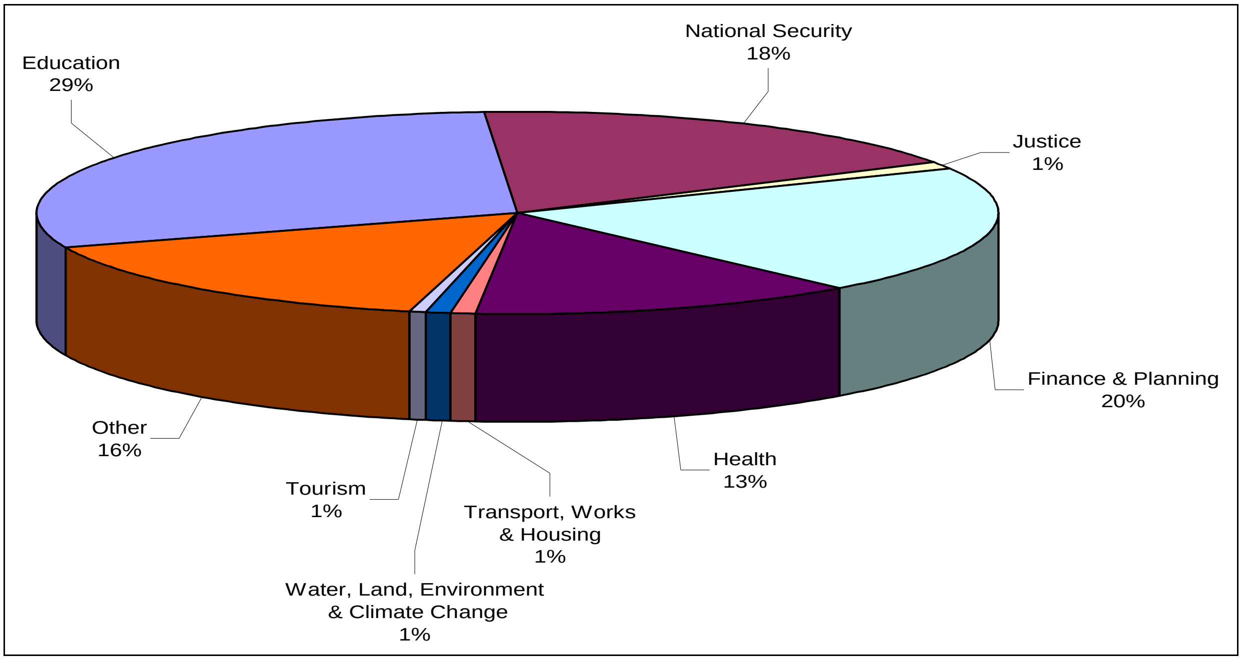


Estimates (Net of Debt and Appropriations-in-Aid) by Selected Ministry Groups

Net Recurrent & Capital Expenditure



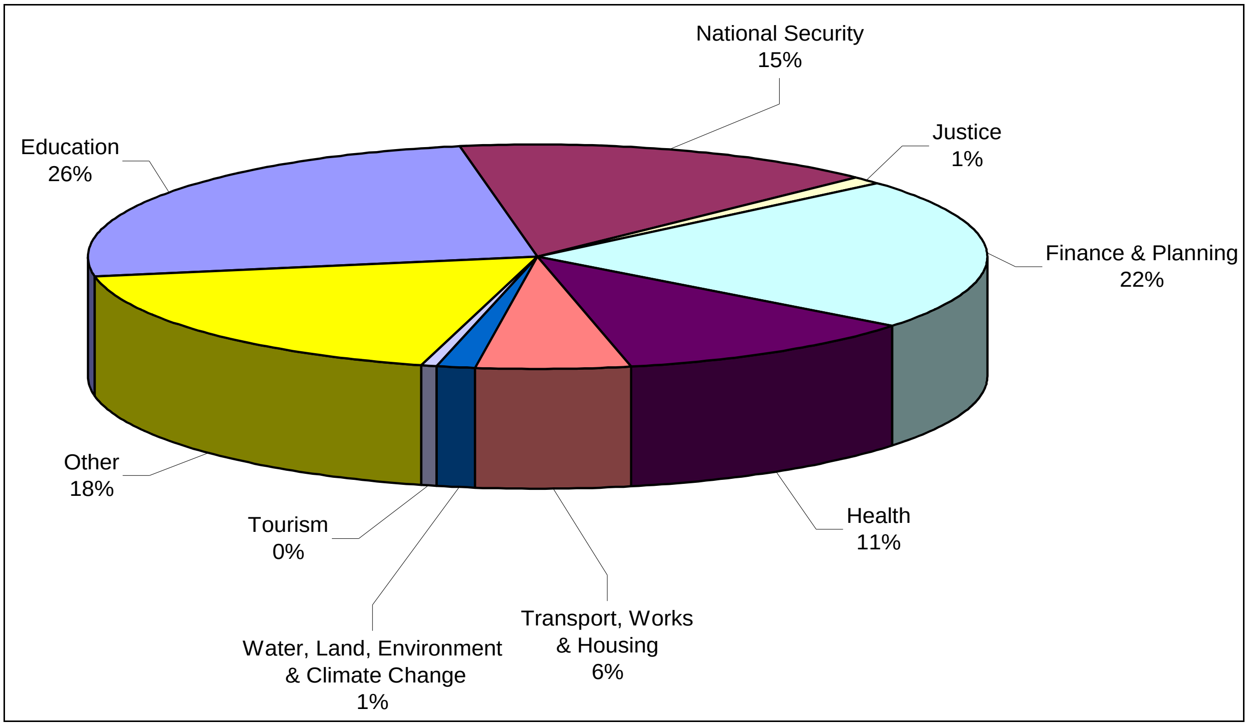
Distribution of Net Recurrent & Capital Expenditure



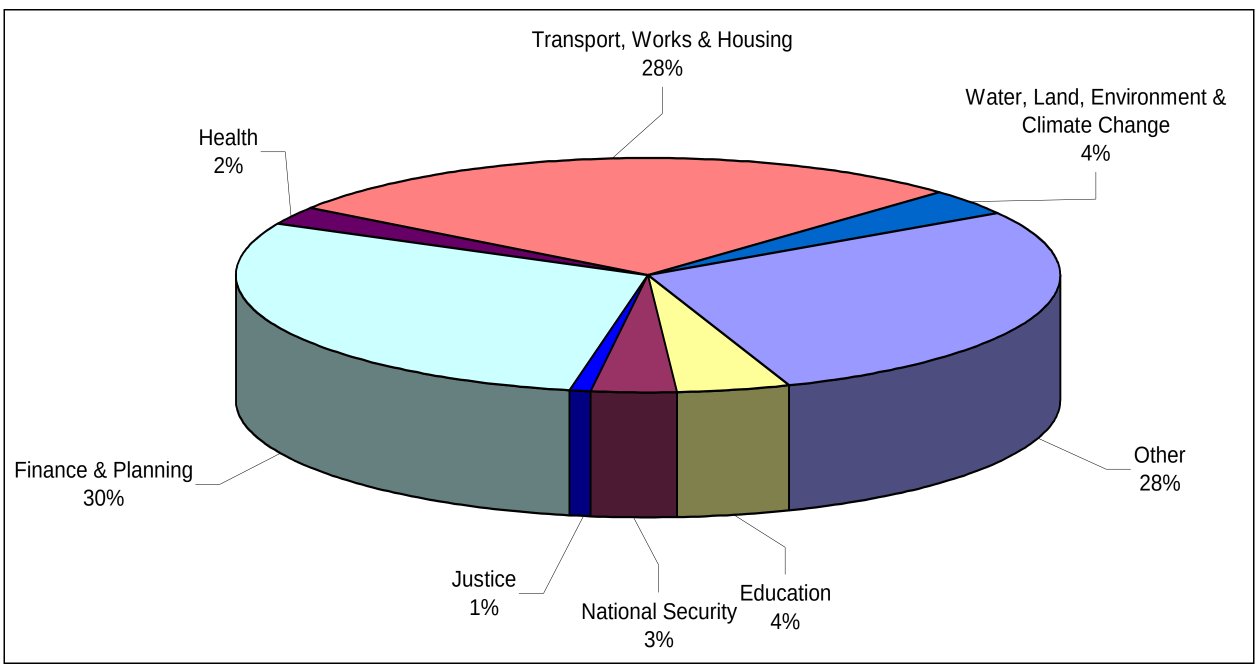
2012/2013 Jamaica Budget

Estimates (Net of Debt and Appropriations-in-Aid) by Selected Ministry Groups

Distribution of Net Recurrent Expenditure



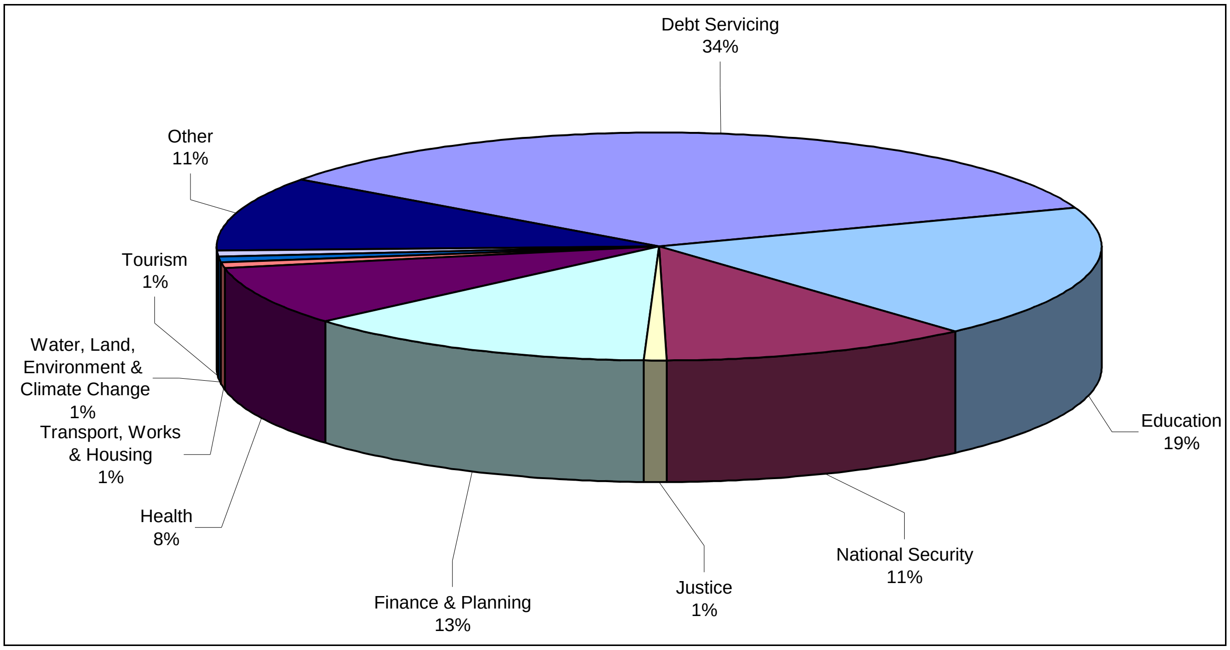
Distribution of Net Capital Expenditure



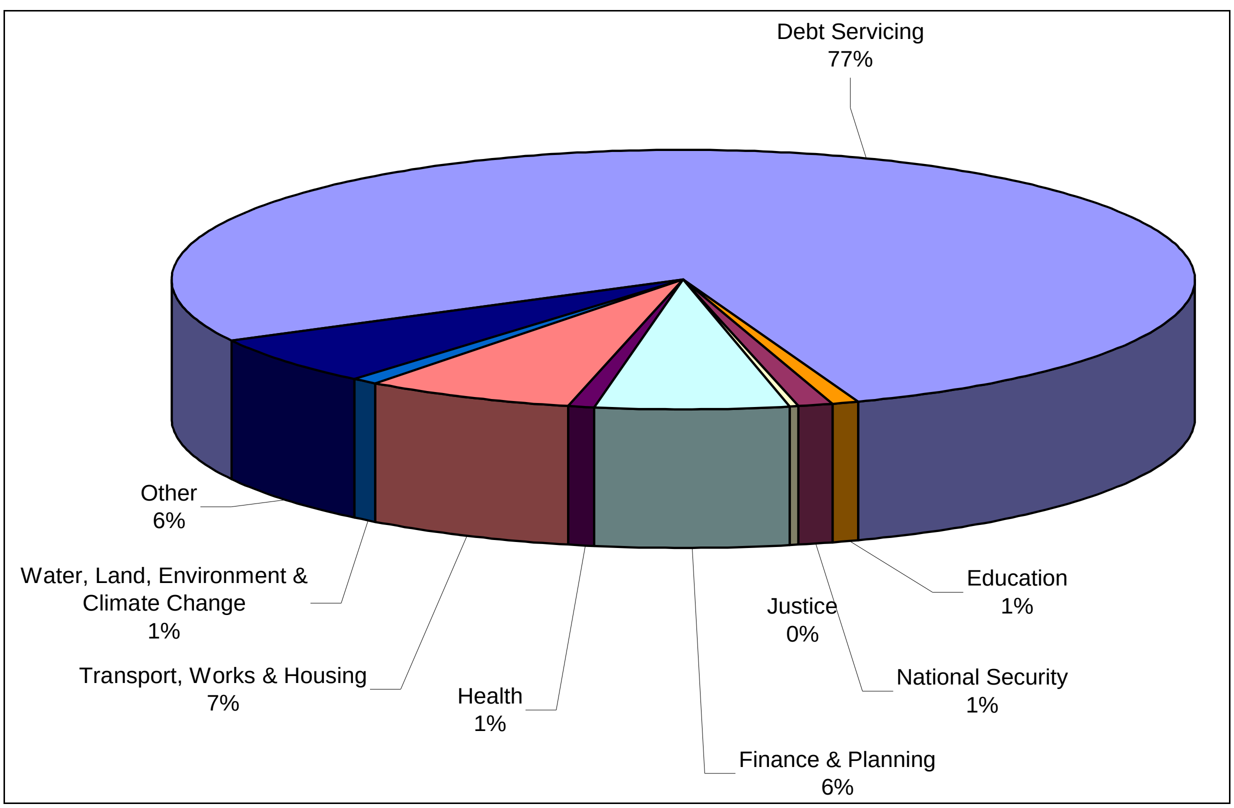
2012/2013 Jamaica Budget

Estimates (Gross) by Selected Ministry Groups

Distribution of Gross Recurrent Expenditure

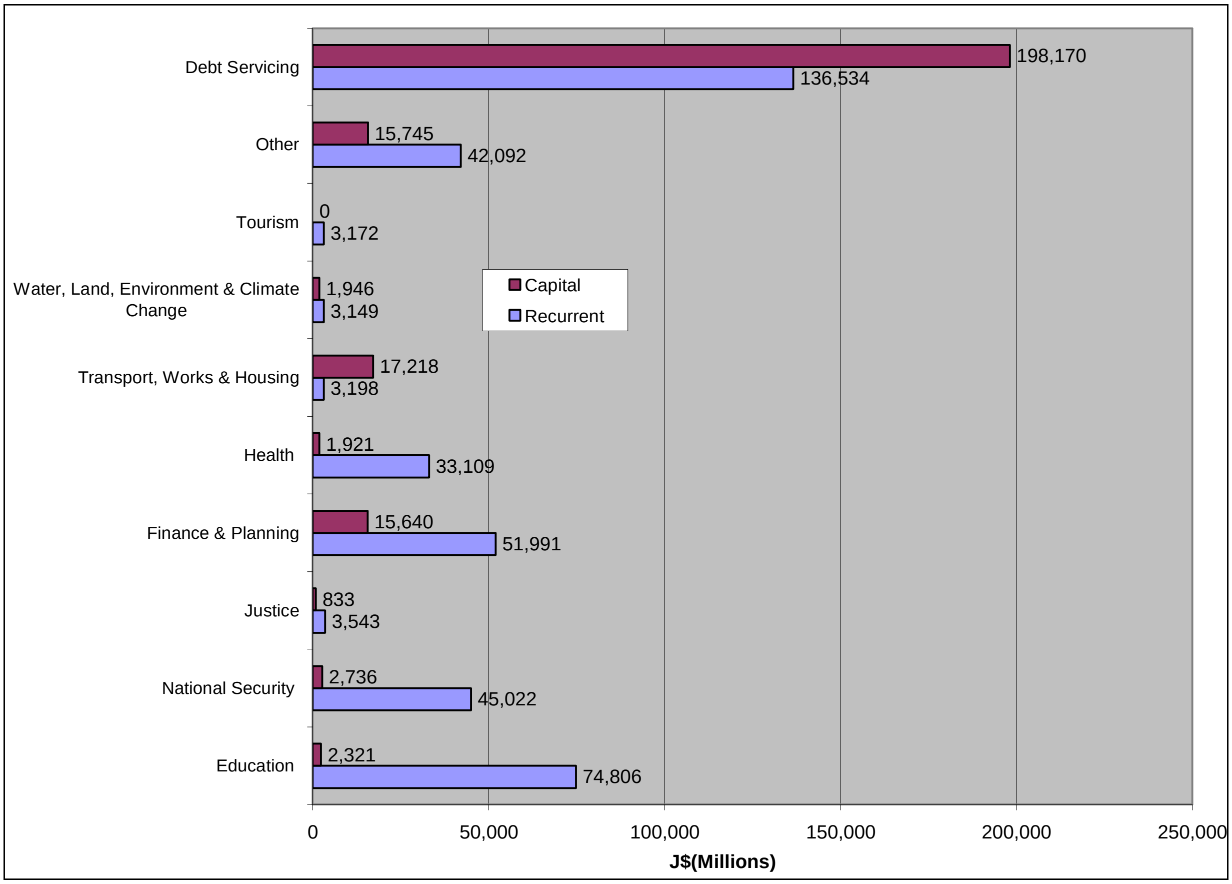


Distribution of Gross Capital Expenditure

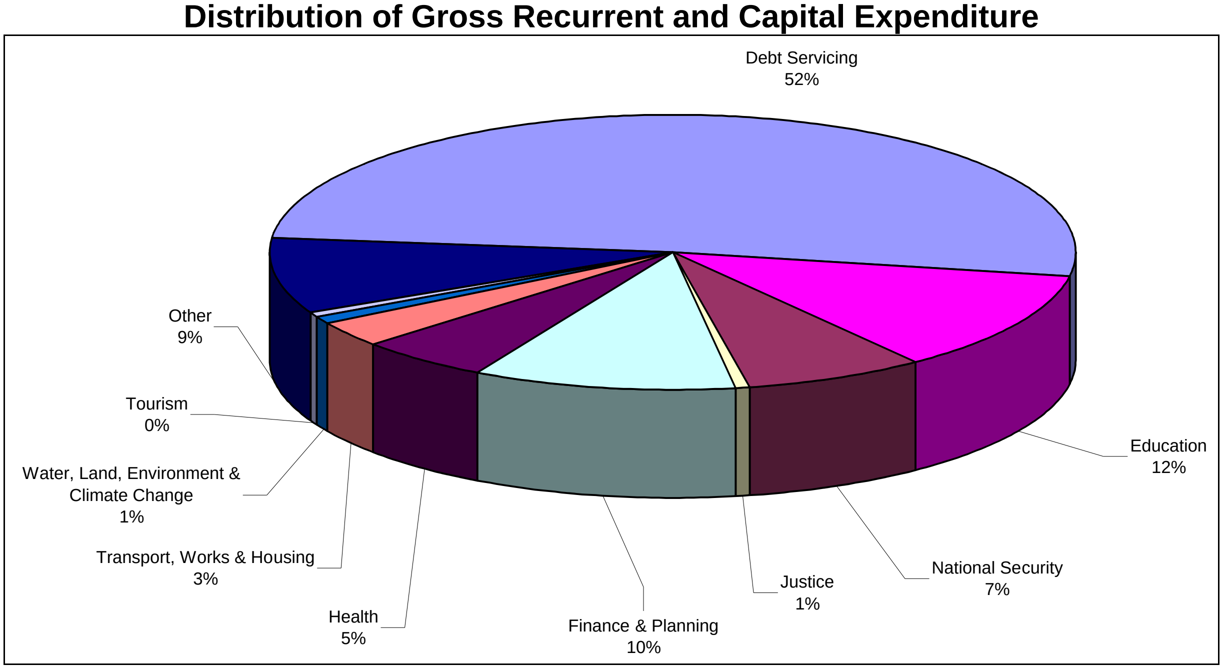


2012/2013 Jamaica Budget
Gross Estimates (including Debt and Appropriations-in-Aid) by Selected Ministry Groups

Gross Expenditure Recurrent and Capital



Distribution of Gross Recurrent and Capital Expenditure



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.

Central Treasury Management System (CTMS)
The CTMS is a fundamental aspect of the GOJ's Public Financial Management reform programme that will allow for the centralization of GOJ's cash management function in the Accountant General's Department. The FRF (FAA Act) creates the legal basis for establishment of a CTMS.

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 JP Morgan Emerging Markets Bond Index (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.

Fiscal Policy Paper (FPP)
A medium term policy document that the Minister of Finance is required to table in Parliament, upon presentation of the annual Estimates of Revenue and Expenditure. The FPP covers the central government and public bodies and includes a: Macroeconomic Framework; Fiscal Responsibility Statement; and Fiscal Management Strategy. The Auditor General is required to examine the components of the FPP and provide a report to Parliament.

Fiscal Responsibility Framework (FRF)
The FRF is a tool used by several countries that require Government to act in a fiscally transparent and prudent manner. The institution of a FRF in Jamaica required the enactment of legislation. Rather than introducing new legislation, in March 2010, the FRF was appropriately integrated into the Financial Administration and Audit (FAA) Act as a new Part, while the Public Bodies Management and Accountability (PBMA) Act was amended to ensure consistency with the FRF. The FRF is the centerpiece of a series of reforms being undertaken to improve the management of public finances. Jamaica’s FRF establishes quantitative ceilings on the Debt Stock (100%), Fiscal Balance (0%) and Wages (9%), in proportion to GDP, by March 2016.

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.

Tax Expenditure Statement (TES)

This is a statement that the Minister of Finance is required to table in Parliament, upon presentation of the annual Estimates of Revenue and Expenditure, giving details of, inter alia, waivers, exemptions and other revenue foregone in the calendar year preceding the previous financial year.

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.

Treasury Single Account (TSA)

The TSA is a set of linked/unified government bank accounts, domiciled at the Central Bank, which gives an overall position of government's cash resources. The TSA allows for the separation of cash management from control at the transaction level. The establishment of the CTMS enables the cash resources of the Government to fall within the TSA.

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.

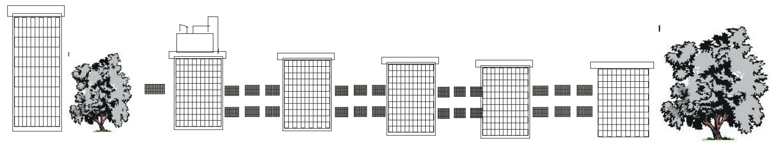
The index for measuring the applicable rate of exchange has been the 10-day moving average selling rate as published by the Bank of Jamaica 10 days prior to the respective due dates. Interest and principal are generally payable in Jamaica dollars. US Dollar Indexed Bonds were introduced in July 1999.

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.



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