



CLOSING
PRESENTATION

BUDGET DEBATE

2013



A New Direction
for **Hope & Opportunities**

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MINISTER OF FINANCE & PLANNING

MAY 1, 2013
GORDON HOUSE

INTRODUCTION:

- Mr. Speaker, we have come to the end of our budget process which began on the 4th of April, 2013 with the presentation of the Estimates of Expenditure. Let me thank the Members of this Honourable House who have made contributions in the Standing Finance Committee and to the Debate which I opened on April 18th, 2013.
- Mr. Speaker, Members of this Honourable House will recall that on that occasion, I paid a well deserved tribute to the bondholders and especially the pensioners whose participation in the National Debt Exchange (NDX) programme helped to make it possible for Jamaica to meet the prior actions stipulated by the International Monetary Fund (IMF) and enabled us to meet our fiscal targets. We must also acknowledge the sacrifices made by the public sector workers, as both groups led the national effort to support the nation's Economic Reform Programme.
- Their sacrifices were not in vain and it is with a great sense of satisfaction that I now advise the House that this morning, as conveyed to me by our representative on the Executive Board of the IMF, **Jamaica's application for a four year Extended Fund Facility ("EFF") with the IMF was approved in the amount of SDR615.4 million or approximately US\$958 million.** In addition, this will unlock more than US\$1 billion of loan support from the World Bank and the Inter-American Development Bank. **The first drawdown from the IMF of over US\$200M should be completed in the next few days.**

- The Leader of the Opposition also claimed that there is a *“US\$1 billion dollar loan ceiling agreed between the World Bank and the IDB over the life of the EFF”*. Mr. Speaker, there is no such loan ceiling set by either the World Bank or the IDB. Mr. Speaker, I go further, the release from the IDB and World Bank says that *“they have each preliminarily allocated US\$510M in financing over the next four years”*. The US\$1 billion represents an initial commitment and there is nothing that prevents us from seeking additional support. However, given the failure of the 2010 Stand-by Arrangement (SBA), we want to establish for ourselves a track record of performance as the context for requesting further support as needed.
- In order to prevent the circulation of any further misinformation we have authorized the Fund to publish all the documentation related to this agreement. However, it is only appropriate that an agreement with such far-reaching consequences should be laid on the Table of this Honourable House without delay.

Laid on the Table of the House, Ministry Paper # entitled ‘Request for an Extended Fund Facility: Letter of Intent, Memorandum of Economic and Financial Policies; and Technical Memorandum of Understanding.’

- The laying of this paper marks the culmination of an extremely challenging process and I want to take this opportunity to recognize the contribution of the staff in the departments and agencies which underpin the work of the Ministry and in particular, I would also like to recognize the contribution of the Governor of the Bank of Jamaica; the Financial Secretary and the Director General of the Planning Institute of Jamaica (PIOJ) along with the members

of my advisory group, the Hon. Shirley Tyndall, Mr. Dennis Morrison and Mr. Colin Bullock for their role in bringing the IMF negotiations to successful conclusion.

- I would also like to thank the Prime Minister and the members of the Cabinet – who to a man/woman – stood together with me through the toughest decisions – this truly was “team work in action.”
- Mr. Speaker, in opening the debate I expressed the view that the fiscal year, 2012/13 will be remembered as Jamaica’s year of decision; when as Jamaicans we collectively decided that we were going to fundamentally change the economic direction of our country and definitively chart a course to reduce the burden of the public debt which had become the single greatest barrier to the nation’s progress. The signing of the IMF agreement signals a new direction which in turn requires a paradigm shift in how we conduct the nation’s business.
- We are not at the “end” as far as challenges are concerned; neither could it be said that we are at the beginning of end. At best, we are at the end of the beginning
- It is in the context of a new direction that I urge every Jamaican to read the agreement carefully, so as to understand fully what will be required of each of us to advance the economic reform and allow the nation to successfully complete its obligations under the programme.

Key Policy Provisions of the Extended Fund Facility

- I now want to begin this process by alerting you to the key provisions of the comprehensive set of policies aimed at reforming our economic and social life and placing us firmly on the path of growth and prosperity by the time this agreement with the Fund ends in 2017.
- The first point to note is that most of the reform measures aimed at placing public finances and debt on a sustainable course have already taken place. Some of them were originally identified as '*prior actions*' to take place before the planned March Board meeting while others had been earmarked for completion by March 31. **We have completed all of those actions**, the most difficult of which were the implementation of the debt exchange and the forging of an agreement with public sector workers.
- The performance criteria to be achieved by 31st March included targets for the primary balance, the overall public sector balance, the level of arrears, the debt level, the Net International Reserves (NIR) and the Net Domestic Assets (NDA) of the Bank of Jamaica.
- Also, there were structural benchmarks such as the passage of legislation on tax debt write-offs and the transformation of Tax Administration Jamaica into a semi-autonomous revenue agency. **MR. SPEAKER, THESE TARGETS AND BENCHMARKS WERE ALL MET.**
- Consequently, the foundation for achieving the budget targets for this year are firmly in place and the document sets out the quarterly targets for revenue, the primary balance,

ceilings on debt and related measures, all consistent with the Estimates of Expenditure already presented to this House. They have been closely examined by all the Members and I shall shortly move for its approval.

- The second point to highlight is that there is an important difference in this arrangement from previous or even regular arrangements with the Fund. A part of the first drawdown, US\$90 million of the US\$200 million that will become available in a few days, will represent direct budget support for the Government. Under normal circumstances, Fund resources are only available for balance of payments support.
- We are happy that the Fund has agreed to break with custom, though not in an unprecedented way, and devote a portion of the resources to direct budget support, particularly because the support pledged by the other multilaterals will not begin to flow until after this first quarter of the fiscal year. One alternative would have been to approach the domestic market in the interim, but having regard to the concern about crowding out the private sector and putting upward pressure on interest rates, **we did not favour that option**. The inflows from the Fund are reflected in the financing plans for this budget and will add to the commitments already announced by the IDB and the World Bank.

The Letter of Intent

- Readers of the Letter of Intent will find few surprises as I have been at pains to outline the reform agenda as it relates to fiscal consolidation, and the prioritization of our spending

commitments. There are details on the reform of the public sector, debt management, labour market reforms and strategic investments which all dovetail into achieving the objectives for growth, social stability and the enhancement of the welfare of Jamaicans including a special focus on the most vulnerable.

Monitoring the IMF Agreement

- The key challenge now is implementation and faithful adherence to our commitments. The administration of the programme has been strengthened by the staffing of a Coordination and Implementation Unit in my office which will furnish reports to a GOJ Programme Monitoring Committee that meets weekly. Progress towards the goals will be reported to Cabinet with the same regularity so that all branches of the Administration remain conversant with the state of implementation and their responsibilities in the process.
- There is also a strong role for the private sector. A committee comprising public sector officials and leaders from the Jamaica Bankers Association and other elements of the financial community, the JCTU, the PSOJ and the membership of the MSME sector has already held a preliminary meeting as the first step in implementing arrangements for the monitoring of the performance targets, reform legislation and policy implementation. **FULL TRANSPARENCY, AS PROMISED.**
- It is of the utmost importance that we all understand that the signing of this agreement does not represent a solution to the challenges that we presently face as a country but moreso the

opportunity to embark on a sustained programme of economic transformation. Transforming the economy means changing our basic style and approach to the management of our affairs.

- In practical terms, this change must be reflected in:
 - increased productivity of our labour force;
 - the development of a culture of tax compliance;
 - improved levels of service delivery from the public sector;
 - a more business/investor friendly environment; and,
 - equally importantly, how we conduct the nation's business in our Parliament and at the political level generally.

THE BAGGAGE OF MISINFORMATION AND FALSEHOOD

- No one can deny that an objective assessment of the Budget debates over the last two weeks reveal that we still have a far way to go in adopting a more meaningful and sincere approach to our political discourse. Rather than clarifying the realistic options facing the country in the midst of crisis, we were too often treated to a repertoire of petty political point scoring

and gimmickry from the Opposition which for the most part diverted from the few serious ideas that were forthcoming from them.

- Mr. Speaker, we are the first to acknowledge that the process of economic adjustment will be difficult for the nation as a whole, and for all of us citizens who are the stakeholders in Jamaica's future. Indeed, the bondholders, the public sector workers, and the ordinary citizens who have had to face increased tax burdens already know this. But, it is nevertheless a crass, and I dare say, a callous dereliction of duty for neither the Leader of the Opposition nor the Opposition Spokesman on Finance to recognize the simple fact that the country as a whole is experiencing an unsustainable level of public debt which constitutes the central impediment to Jamaica's capacity to grow. This is particularly strange, and self-serving given their role in raising the stock of public debt – which increased from \$922B in 2007 to \$1.6 trillion in 2011.
- The Leader of the Opposition and the Opposition Spokesman on Finance blame the global economic crisis of 2008 for the sharp increase in the public debt stock between 2007-2011. Yes, there was a crisis, but they should not divert from the fact that the policy of the then administration worsened the situation significantly. I mention this because it highlights to my mind some of the errors rooted in the narrow-mindedness that is part of our political culture.

- We should not forget for example, that with the debt in 2007 being 107 per cent of GDP and with debt and wages consuming some 80.7 per cent of our budgetary resources, the Opposition Spokesman was promising 200 per cent increase in wages in the face of the warnings of the more realistic and sober-minded that the public accounts simply could not afford this. Indeed, Mr. Speaker, it could be argued that those reckless “campaigning comments” planted the seeds of distrust among the workers for the then government. When after walking away from the agreements that they promised and signed, they “threatened” the workers with “take it or leave it” bombast.
- Then, as late as May 2009 when the crisis deepened, the then government delayed going to the IMF claiming there was no need to pursue a borrowing arrangement and refused to implement fiscal reforms. Ultimately, as a consequence of a weak budget in 2008-2009 and 2009-2010, missed fiscal targets and a weak economy undermined those claims, and the then government was compelled to negotiate a 27 month agreement with the Fund which was approved in February 2010.
- On the basis of the Stand-by Arrangement a generous front-loading from the IMF and others, a US\$2.4B loan package was negotiated. Within months however, the Agreement was in difficulty and virtually abandoned by the end of 2010 to the extent that since May of 2011 there had been no formal discussions between the government and the Fund. Lest we forget, Mr. Speaker, the previous administration committed:

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- To begin implementation of public sector reform by December 2010. **THAT COMMITMENT WAS BREACHED.**

- They agreed that by September 2011 they would have prepared and announced a plan for tax incentives. **THAT COMMITMENT WAS BREACHED.**

- The Government was also committed to having a Central Treasury Management System operational *“by end-December 2010 in order to support the implementation of the FY2011/12 budget”*. **THAT COMMITMENT WAS ALSO BREACHED.**

- It is also the case, Mr. Speaker, that after three successful end-quarter assessments for March, June and September 2010 which in some cases benefited from the granting of technical waivers and revisions to the original targets, all the subsequent tests were not satisfied and targets not met.

- Against that sorry backdrop of non-performance Mr. Speaker, the Opposition now proclaims new found insight and wisdom which were so sadly lacking. The Leader of the Opposition says the *“delay”* in concluding an agreement has caused hardship in the foreign exchange markets. If the negotiations were as simple as he puts it, and all that should have been done is to restart the old agreement, why didn't he do it before he called an election? Why was he promising *“bitter medicine”* to Jamaica in November 2011 having not even started negotiations with the IMF?

- Mr. Speaker, I can only say that the Jamaican people deserve a higher level of political discourse and debate. I am disappointed in the Leader of the Opposition – this borders on rank hypocrisy. How could he or the Opposition Spokesman on Finance discuss the deterioration in the NIR without acknowledging that their abandonment of the Standby Agreement denied Jamaica in excess of US\$700m of inflows which would have otherwise been due to country? These inflows would have boosted gross reserves at the Bank of Jamaica.
- Mr. Speaker the Opposition cannot get away by suggesting that there is an easy and painless path to the economic adjustments that the country must tackle.
- They ought not to be allowed to propound the view that the world economy is “*booming*” as compared to 2008 when there is evidence all around that the world-economy is still feeling the effects of the global crisis.
 - The Euro Zone has negative growth this year. Unemployment there is at its highest levels ever;
 - U.S. growth is slow and spasmodic; and,
 - Asia’s growth rate has also slowed down.
- The country also deserves an Opposition that does not seek every opportunity and employ every device to talk down the country’s economy and its prospects for growth. In November,

the Opposition Spokesman declared that the country will get only US\$400M as part of the IMF Agreement. Events have shown there was no basis for the assertion, unless it was simply another attempt to create panic in the markets. Jamaica deserves better than that.

- They complain about the tax packages, but oppose the NHT drawdown. What it would mean, Mr. Speaker is the imposition of a higher tax-package because we have to pay down the debt. Mr. Speaker Jamaica deserves a better approach from the Opposition.

MR. SPEAKER I WOULD LIKE TO NOW ADDRESS SOME SPECIFIC ISSUES.

FOREIGN EXCHANGE RATE AND ATTENDANT ISSUES

- The gestation period between our initial re-engagement of the IMF (in the wake of the abandoned/aborted SBA) and today's approval of this EFF, structured in terms that we wanted, has been a long and difficult process. In that period, morale has been sapped, rumour has been rife and hedging has been the dominant theme behind investment decisions.
- Much has been made by the Opposition of the deterioration in the NIR. The first thing to note is that the deterioration is a direct consequence of there being no drawdowns of official funding from the multilateral financial institutions (including the IMF) because the 2010 SBA went off-track. In excess of US\$700M of official flows were not received because of this. One way to deal with this kind of sudden drop in inflows is to sharply "*jack up*" interest rates. We

rejected this approach and we can take note that since then the economy has continued to earn foreign exchange with a narrowing in the size of the current account deficit.

- During 2012, the current account deficit of the balance of payments improved by about 10% relative to the year before. All the sub-accounts containing the main categories of foreign transactions improved: trade, services, income and transfers. That trend continued into the first quarter of 2013. However, during the period private capital flows also fell sharply as confidence, already heavily strained by the failure to complete the SBA, was talked down by the Opposition. This behaviour hurts. It hurts the Jamaican people. It had a clear negative impact on the exchange rate and we had to struggle, further using up some of the NIR, in order to stabilise it.
- The sentiment that drove the hedging and uncertainty only exhibited some change after the announcement of medium-term support by the multilateral institutions and the Fund's own announcement that it would be recommending Jamaica's programme to the Board. In that context, the Bank of Jamaica introduced a special indexed instrument as an investment option as well as other instruments to manage Jamaica dollar liquidity. The market is now quite stable and the average exchange rate has in fact been appreciating since April 15th, 2013.

INTEREST PAYMENT REDUCTION AS A RESULT OF THE NATIONAL DEBT EXCHANGE

- The National Debt Exchange (NDX) is estimated to have, on average, reduced annual interest payments by \$17 billion across the seven year period 2013/14 through 2019/20.
- The \$17 billion reduction is with respect to the interest that would have been due in each year of the seven year period starting 2013/14 under the pre-NDX bond terms. The \$17 billion is the annual average across the seven year period – It should be noted that the reduction in 2013/2014 on the pre-NDX estimate is approximately \$20.7 billion.
- The Ministry has always used the correct comparison of Pre-NDX costs of 2013/2014 and post NDX costs of 2013/2014 to arrive at the relevant savings.
- The reduction of \$10 billion being referenced by the Opposition Spokesman on Finance is the difference between the post-NDX interest payments due in 2013/2014 and the actual interest payments made in 2012/2013. **THIS WAS NOT THE COMPUTATION OF SAVINGS.**

TAX REFORM

- Mr. Speaker, the Opposition has spoken at some length on the issue of tax reform; but they seemed to have missed the point. The Opposition however, seems to concentrate simply on changing the rates on consumption taxes. Indeed, Mr. Speaker let me declare, as I said in the Debate, tax reform is much more comprehensive, it involves more than changing rates, it

involves changes in policy; legislative measures and institutional reform. As I said earlier, policy reform to which we are committed include:

- Widening the tax base for corporate and consumption taxes;

- The reduction or elimination of distortions in the system with regard to tax incentives and waivers;

- Lowering the rates of personal income tax and corporate tax to competitive levels subject to improvement in revenue flows;

- We also have already begun, Mr. Speaker, an ambitious legislative programme in relation to the tax treatment of charities;

- The establishment of Tax Administration Jamaica as a semi-autonomous revenue authority;

- The debt write-off of tax arrears; and,

- The granting of access to third party information – legislation will come to the Parliament later this year

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- It is an ambitious programme, and given the expressed commitments of the Opposition to tax reform we are expecting their support.
- We have, Mr. Speaker, undertaken important additional reforms:
 - Customs as of April 1 has been converted to an Executive Agency – a process which should be completed in six months; and,
 - Tax Administration Jamaica will shortly, be semi-autonomous within the ambit of the new legislation – a Board will be set up and a new operations system will be put in place to modernize the new operations.
- In addition, over the next month an additional 120 auditors will be appointed to the enlarged Tax Payers Office to reduce and eliminate tax evasion activities.
- In light of the comments of the Opposition, I want to make two points absolutely clear.
- First, we are committed to a new Omnibus Incentives Act. A committee has been established with private sector and public sector representatives under the chairmanship of Mr. Dennis Morrison who has been having dialogue with relevant and affected stakeholders. So contrary to the suggestions of the Opposition Spokesman, there is no unilateral approach being followed on this side, neither will we be paralyzed and not act as we are obligated to under the IMF agreement and as good sense dictates.

- Secondly, it seems that the basic commitment of both the Leader of the Opposition and the Opposition Spokesman on Finance in relation to tax reform is to remove all exemptions attributable to basic food items. That may be their view, but it is not the policy position of the government.

We believe that at this time such an approach would cause undue and unnecessary hardship on the poorest segment of the population and on a significant segment of the working class who would not necessarily qualify for PATH benefits. A simple increase in PATH benefits would not alleviate the hardships caused and, in any event, this House agreed unanimously, I believe, when it considered the White Paper on Tax Reform that any elimination or exception to basic food should be dependent on the identification of a set of triggers to be achieved before any such measure could be undertaken. It appears though that this is a fundamental difference between the Opposition and the Government – **THEY WANT TO TAX BASIC FOOD AT THIS TIME – WE DO NOT.**

PUBLIC SECTOR TRANSFORMATION

- Mr. Speaker, relying now more on the comments of the Leader of the Opposition, the issue of public sector transformation represents one area in which there is a convergence of view, not only as to its desirability, but as to the measures to be undertaken.
 - We both agree to reduce the size of the public sector establishment;

- We both agree on the need for the merger of departments and agencies;

 - We both agree on the need for a comprehensive privatization programme; and,

 - We also agree on the need for centralized corporate service.
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- We are establishing a Central Treasury Management System which will give effect to the Leader of the Opposition's call for a central payroll platform – that is already underway. It is always the case, as I indicated, that we believe that there are important efficiencies to be gained from the establishment of a new technical office to drive e-government and to provide new ICT systems and reduce the cost of communication within government and enable the greater utilization of electronic transactions. The decision has already been taken, although the Leader of the Opposition has chosen to ignore it.

 - The establishment of a Strategic Human Resource Unit to serve the entire government. That decision has already been taken.

 - This issue of public sector transformation is one on which both sides in this Parliament should further collaborate to ensure that we collectively deliver to Jamaica a much more efficient user friendly, and growth oriented public sector to the country.

- I want to single out in particular the Leader of the Opposition's suggestion that parliament should be involved in providing oversight and perhaps approval for strategic investments so that they can be fast-tracked.
- This is an issue that we certainly would want to explore further because I believe the entire country should recognize that growth represents the urgent imperative to be pursued **NOW**, if we are not to squander the opportunities provided by the Extended Fund Facility that we have concluded with the IMF.

CLARENDON ALUMINA PARTNERS LIMITED

- Since taking office in early 2012 we have been engaged in negotiations with both GLENCORE and the majority partner in the JAMALCO joint venture, ALCOA, with a view to achieving the objectives of:
 - a) Relieving the financial burden on the GOJ in supporting CAP in the joint venture;
 - b) Keeping production going at the plant at full capacity; and,
 - c) Modernizing the plant including converting its fuel use from expensive fuel oil to less expensive coal and or oil.

ALCOA

- Two possible options were discussed with ALCOA, one was a long term lease of the facilities from CAP and the other was an immediate purchase. After consideration of the proposals ALCOA declined both.

GLENCORE

- GLENCORE made two proposals, an outright purchase now and an option to purchase between January 2015 and December 2020. The purchase now offer was taken off the table as the price offered was significantly below the value of an efficiently producing asset. CAP had no choice but to accept the other offer and to continue producing until GLENCORE exercised its option to purchase.
- The option is exercisable by GLENCORE between the period 1 January 2015 and 31 December 2020. In the interim, GLENCORE will provide funding to CAP through a line of credit. Repayment of the amounts drawn down under the line of credit will be made by withholding amounts due to the Government for sale of alumina supplied by CAP, consistent with the terms of the two existing alumina supply agreements and a third agreement to be negotiated.
- Full payment of principal and interest is to be made by December 31, 2020 unless previously prepaid by the Government under the Option to Purchase arrangements. All three supply contracts will be modified to ensure that the obligations of CAP will not incur additional

costs to the budget even while we keep the plant operational. Mr. Speaker, the above provides the broad parameters of the negotiations which we are occurring now and which we expect to be concluded soon.

NATIONAL HOUSING TRUST

- Mr. Speaker, the NHT has sufficient assets supported by substantial annual cash inflows to enable the transfer of the \$11.4 billion to the Government annually over the next four years. The 2013/2014 NHT Budget shows total revenue of \$35.7 billion, which indicates that after the transfer of \$11.4 billion to the Government, \$24.3 billion together with sufficient cash balances will still be available to finance recurrent and capital expenditure of \$32.1 billion. As I said in my statement to the House on March 5th, 2013 the NHT has accumulated funds which could be accessed to assist in the fiscal consolidation effort.

- Despite your best efforts, the annual average expenditure on housing construction over the five year period 2007/2008 to 2011/2012 was \$19.9B. This year we have provided \$23.1B for housing construction.

- The reality, Mr. Speaker is that the ability of the Trust to increase capital expenditures on housing is limited by:
 - The capacity of the country to build houses over and above the NHT's normal programme;

- The capacity of the market to absorb these houses - every mortgagee has to meet certain conditions and there is a limit to the number of individuals that can meet the age and the income requirements;
- The capacity of the budget to support the infrastructure required;
- It is clear that the NHT has enough assets and annual revenue flows to expand housing construction over the four year period that it will be providing budgetary support to the Consolidated Fund.

ENERGY LENDING PROGRAMME – DEVELOPMENT BANK OF JAMAICA

- A proposal was made by the Opposition Spokesman on Finance regarding the establishment of an Energy Support Fund. Both Government and Opposition agree on the centrality of Energy- the fact is however that the DBJ is already providing the support for businesses through its energy lines of credit.

Reducing the Cost of Energy for Businesses

- The DBJ currently has *“attractive energy lines of credit”* to implement energy efficiency, conservation and renewable energy projects, to reduce large electricity costs which threaten MSMEs sustainability. Business can access up to \$30 million at a low interest rate of 8%, and up to 90% financing with up to 7 years to repay.

- In 2012/2013, DBJ approved \$657 million in energy loans to businesses, a 227% increase relative to the previous financial year. Since the creation of the “*energy line*” in 2009 just under 1 billion (\$958.6M) of credit was approved for energy management projects.

- DBJ’s “*energy line*” is supported by:
 - A specially designed loan guarantee programme for energy loans under DBJ’s Credit Enhancement Fund;

 - An SME grant programme for energy audits; and,

 - A DBJ/IDB sustainable energy conservation, efficiency and renewable energy solutions project aimed at influencing SMEs to invest in energy management projects.

Credit Guarantees for Energy Loans

- A challenge that SMEs face in accessing energy loans is collateral, as the energy equipment by itself is not readily accepted by banks as collateral. The DBJ in recognizing this barrier offers credit guarantees for energy loans to address collateral deficiencies. Therefore an SME who wants an energy loan can benefit from a guarantee to cover up to 80% of the loan up to a maximum project cost of \$10 million.

- **In the 2012/13 financial year, DBJ issued 39 energy loan guarantees valued at \$124 million, which enabled \$165 million in credit for SMEs in the Manufacturing, Agro-processing, Agriculture and Professional Services Sectors.**

Energy Grants

- According to DBJ/IDB's energy demand study (2012), SMEs are very interested in accessing financing and implementing energy programmes in their businesses but find the cost of conducting energy audits prohibitive. To address this problem, the DBJ launched a grant programme for energy audits which will cover up to \$200,000 towards the cost of the audit. The audit provides data on the current energy usage by a business, as well as provides recommendations for energy savings measures. So far three grants have been accessed from the Services, Manufacturing and Agro-Processing sectors.

IDB/DBJ Support To Promote The Energy Efficiency, Conservation & Sustainable Energy In Jamaica

- The Development Bank of Jamaica and the Inter-American Development Bank (IDB) collaborated on a project to promote sustainable energy conservation, efficiency and renewable energy solutions among SMEs in Jamaica. The total project was valued at US\$807,000 with contributions of US\$593,000 and US\$214,000 from the IDB and the DBJ respectively.
- The project's main objectives are:

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- To facilitate the use of energy efficiency practices and technology measures in Jamaica; and,
 - To support the operation of the DBJ's Energy Fund, by demonstrating the benefits of energy efficiency measures within small and medium-sized enterprises in Jamaica.
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- A critical part in achieving these objectives was the development of seven (7) demonstration projects. The demonstration projects implemented focused on the use of energy efficiency and renewable energy solutions in four sectors of the economy; (i) Tourism (ii) Agro-Processing (iii) Agriculture and (iv) Services. A total investment of J\$40M was made on these projects with projected savings of J\$13M and 300,000 kwh per annum. On average these businesses will recoup the investment for the energy efficiency projects within 4 years, and for renewable energy projects within 6 years.

Specific success stories from this project include:

Pioneer Meat Products

- Pioneer Meats is a Meat Processing, Packaging and Distribution Plant which is located at 5 Melrose Avenue, Kingston 5. The major energy use areas include Refrigeration, Air Conditioning, Air Compressor and Diesel Smoke Houses and Boiler. Pioneer Meats saw a 20% reduction of their electricity from changing their rate structure to "Rate 40 – Time of Use" and shutting down their refrigerators during the highest rate period (between 6pm and 10pm during the weekdays). A total investment of \$3.0M was made in the

facility contributing to \$4.0M savings per annum. The energy savings are estimated at 70,000 kwh per annum. The agro-processing facility will see a return on their investment from this project within 1 year.

Footprints on The Sand Hotel

- Footprints on the Sands Hotel is a small hotel located on the coasts of Norman Manley Boulevard, Negril. A number of initiatives were implemented to reduce this hotel's energy consumption including replacing air-conditioning units in the rooms with more efficient ones, installing solar water heaters for hot water consumption and an energy management system to remove power from the rooms whenever they are not occupied. (The energy management system mentioned would require guest to insert their hotel key card in the relevant slot to power their rooms...once the card is removed the power is turned off). A total investment of \$11M was made in the facility which allows them to save about \$2.5M per annum. The energy savings are estimated at 66,000 kwh per annum. The hotel will see a return on their investment from this project within 5 years.

DBJ Residential Energy Loans

- As a result of the Government's commitment to easing the pain of high energy costs to all citizens, the DBJ has an energy line for residential households. Residential customers can access energy loans up to \$3 million through their financial institutions at 9.5% repayable over 8 years.

- So far 6 residential energy loans have been issued valued at \$8.9 million

Going forward

- DBJ will continue its successful energy management strategy in 2013/14 and will explore and implement other energy projects in partnership with the Inter-American Development Bank (IDB) to reducing energy cost and drive concessionary energy lending in the market. DBJ projects to commit up to \$360 million in loans to all sectors for energy efficiency and renewable energy projects.

CUSTOMS ADMINISTRATION FEE

- Members of the House will recall the tabling of Ministry Paper #15/13 which spoke to the implementation of a Customs Administration Fee (CAF) to replace Customs User Fee (CUF) and other processing fees charged at the ports. Immediately following the announcement, the Jamaica Customs Department and the Ministry of Finance and Planning started discussions with representatives from the various sectors affected. A number of recommendations for amendments to be made to the CAF came out of the discussions and the following have been or are to be adopted.

Adjustments to the rate structure of the CAP for the Manufacturing Sector

- Mr. Speaker, the implementation of the CAF has indicated that there is a bias towards finished goods over raw materials for the productive sector. In that regard, the decision was taken to provide the manufacturing sector with a 50% reduction to the Processing Fee and

the Examination Fee on raw materials being imported by all manufacturers. This is contrary to concerns expressed that the reduction only relates to large manufacturers.

Removal of Exemptions for Charities and Bauxite Companies

- Amendments are also to be made, Mr. Speaker, in relation to the treatment of charities and the bauxite companies. Jamaica Customs will issue the necessary information about this as soon as the discussions are finalised, and a Ministry paper detailing the amendments will be laid in the House.
- There have been difficulties arising from the failure of the Jamaica Customs IT systems to adequately process transactions with respect to the CAF. I am advised, Mr. Speaker, that these have been resolved for the most part.

CASINO

- Mr. Speaker, there has been a suggestion that there is a need for additional regulations before the Requests for Proposals (RFPs) are issued. This is not the case Mr. Speaker. The regulations that have been promulgated are all that is needed to issue the RFPs. Other regulations to be made pursuant to Section 72 of the principal act will be required in order to operationalize casinos – they do not however prevent either RFPs or applications pursuant to Section 9 of the Act.

- **I want to reiterate, Mr. Speaker, that as of June 1, 2013, the Government of Jamaica will be receiving Requests for Proposals inclusive of applications under the Casino Gaming (Application for Declaration of Approved Integrated Resort Development) Regulation 2012.**

PENSIONS REFORM

- The Public Sector Pension Reform is a component under the World Bank funded Social Sector Project which began in 2008. It is intended to improve the administration of the pension system and build the capacity of the Ministry to more effectively analyze the current system and to propose options for reform given the fiscal and welfare implications. So far the following has been achieved:
 - The review of the administrative process for payment of a pension – a business process has been developed and will be implemented over two (2) years;
 - Legal Analysis of laws governing pension entitlement was completed. This was in the context of the development of an Omnibus Pension Legislation designed to harmonize pension provisions in each group; and,
 - Tabling of the Green Paper “*Options for Reform of the Pension System*”.

- The report of the recommendations of the Joint Select Committee that deliberated on the Paper was tabled in November 2012. Some of the recommendations of the report included the retention of the Defined Benefit Scheme, the gradual increase of the retirement age to 65, retention of the option to take a lump sum on retirement and the compulsory contribution of five percent (5%) by employees. The report also recommended that a contribution rate of 5% should be applicable to new employees with effect from January 1, 2013. This matter is still under consideration.
- During the consultation, a number of groups requested the establishment of a Fund comprised of both employer and employee contributions. In order to have a funded scheme, the figures contained in the Joint Select Committee Report conservatively estimates Government's contribution at more than 1% of GDP or \$17B on an annual basis in addition to 3½% of each employee's salary.
- Whilst this principle is desirable, both the Government and the IMF agree that in the context of the need for fiscal consolidation, the GOJ could not fund their contribution and at the same time meet current pension obligations. In the course of this fiscal year, the White Paper will be presented setting out the options to be pursued.

CONCLUSION

- As I said Mr. Speaker, the past year was a year of decision. All the critical stakeholders – [workers, trade union leadership, bondholders, pensioners, the public officials and the administrative leadership of the public sector who managed their budget, and the general public] - have determined that as a country we would do what was necessary to re-establish the foundations for sustained economic growth, development and job creation. This is what will restore hope and this is the route to expand opportunities.
- I want to take the opportunity, Mr. Speaker, to recognize the commitment of the thousands of Jamaicans who have been making the effort to pay their taxes at the Tax offices. A part of the tax reform agenda is to make sure that the process of paying taxes becomes easier so that the long lines will be unnecessary. I want to thank those who are making the effort to pay their taxes on behalf of the country.
- That indeed, Mr. Speaker highlights the central challenge that we face, and that is to carry through our commitment to growth, the expansion of opportunities and the restoration of hope. This budget makes that commitment. It is a tight budget, but it **moves in the right direction.**
 - Reducing debt servicing cost by more than 30 per cent and as a percentage of the budget, from 54 per cent to 43 per cent – **that is moving in the right direction.**

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- Pursuing fiscal consolidation and maintaining low interest rates so that producers will get access to resources to expand the economy – **that is moving in the right direction.**
- Expanding non-debt expenditure to 57 per cent, up from 46 per cent; **that is moving in the right direction.**
- Increasing the payment to PATH beneficiaries which will commence in August of this year – **that is moving in the right direction**
- Expanding the Poor Relief Programme and School-feeding Programme – **that is a step in the right direction**
- Raising the level of non-debt capital expenditure by more than \$6 Billion – **that is moving in the right direction**
- Providing additional resources for the Students Loan Bureau - **that is moving in the right direction**
- Providing \$2.5 Billion for major infrastructure development - **that is moving in the right direction**

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- Providing \$2.0 Billion for the removal of sugar workers barracks – **that is moving in the right direction**

- Providing \$240 Million for Jeep – **that is moving in the right direction**

- Providing \$23 Billion to the National Housing Trust to build houses for middle and income workers - **that is moving in the right direction**

- Providing \$2 Billion for small businesses – **that is moving in the right direction**

- That is restoring hope and **moving in the right direction.**

- Mr. Speaker, we have indicated that our growth agenda is fixed, first of all, on maintaining fiscal consolidation and including a commitment to the Logistic HUB, and making Jamaica one of the main central transshipment ports.

- We are committed to expanding the AGRO Parks and reducing our import bill.

- We are committed to expanding the ICT sector by US\$20 Million.

- We are committed to receiving proposals this year for the Integrated Resort Development under the Casino Gaming Act; and we are expanding other tourism infrastructure.

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- We are committed to transforming the public sector by establishing more Executive Agencies and easing the pressure on doing business for investors both local and foreign, and for citizens generally who need to do business with government agencies.
- We are committed to further reducing the cost of telephone rates and energy.
- We are committed to using technology to enhance the educational opportunities of our children.
- Mr. Speaker, the programme of economic reform that we are embarked upon will be challenging. It involves sacrifice, and it will involve different choices for the future, but I am confident that with the guidance of the Almighty and with confidence in ourselves as a people, we will continue **to move in the right direction** and expand opportunities for all and restore hope in Jamaica's bright future.
- May God bless Jamaica and I move that the House approve the resolution and approve the Budget for 2013/14.

- **THANK YOU**