

MINISTRY PAPER 2/04

Government Guarantee under the Approved Organizations and Authorities Loans (Government Guarantee) Act in respect of a loan of US\$75 million to National Road Operating and Constructing Company Limited (NROCC) to finance Phase 1 of the Highway 2000 Project.

Introduction

1. The Honourable House of Representatives is invited to consider and approve the guarantee of payment obligations of NROCC under the loan agreement for US\$75 million from Wachovia Bank, National Association to NROCC.

Background

2. The Honourable House of Representatives having considered Ministry Paper #3 dated January 21, 2003 will recall that on 28th January 2003 it approved the issue of Government of Jamaica Guarantees:
 - (a) to secure a loan for interim financing of Forty Million United States Dollars (US\$40,000,000.00) to the National Road Operating and Constructing Company (NROCC) from ABN AMRO Bank N.V.; and
 - (b) to secure the issue of Seventy-Five million United States Dollars (US\$75,000,000.00) in Infrastructure Bonds by NROCC for the financing of Phase 1 of the Highway 2000 Project.
3. The Guarantee in respect of the loan of US\$40 million to NROCC by ABN AMRO Bank N.V. was issued on January 31, 2003.
4. ABN AMRO Bank N.V. was requested by NROCC to act as arranger for the proposed issue of US\$75 million Infrastructure Bonds. The terms of which would include:

Loan Amount:	US\$75 million
Tenor:	15 years (3 years moratorium on Principal)
Benchmark Interest Rate:	US Treasury (Then approx. 4.1%)
Insurer	Overseas Private Investment Corporation
Margin:	1.20%
Security:	Parliamentary Guarantee



Subsequent Development

5. Subsequent to the House's approval, NROCC decided to cease negotiation with ABN AMRO which was mandated to arrange the Infrastructure Bond facility, as that institution was not satisfactorily fulfilling the terms of their mandate. Additionally, the high effective pricing of the transaction arising primarily from an increase in OPIC's insurance premium, and an increase in the benchmark US Treasury Bond rate resulted in the overall cost of the facility increasing from 7.93% to 8.76% as at 31 July 2003 for a 15-year tenor. The Facility was subsequently rated AA
6. NROCC subsequently received and accepted a proposal from WACHOVIA BANK, N.A. the terms of which include the following:
 1. Amount US\$75 M
 2. Tenor 15 years (with 5-year moratorium on Principal)
 3. Interest Rate 5.80% (with benchmark LIBOR interest rate)
(6.26% inclusive of interest rate cap)
 4. Interest Payable semi-annually in arrears
 5. Security Parliamentary Guarantee
 6. Insurer Overseas Private Investment Corporation
 7. Guarantor Government of Jamaica
7. An interest rate cap may be purchased by NROCC at an annualised cost of 0.46% over five years. After three years, the Loan may be prepaid and the OPIC Insurance Contract terminated without attracting penalty.
8. Since the source of the funding has changed from an infrastructure bond to a bank loan The Attorney General's Department has advised that a new guarantee will be required

Recommendation

9. The Honourable House of Representatives is accordingly being asked to approve the issue of a Government of Jamaica Guarantee under the provisions of the Approved Organizations and Authorities Loans (Government Guarantee) Act to guarantee a loan of US\$75 million from Wachovia Bank, National Association to NROCC on the terms outlined in paragraph 6 above.

I will move the appropriate Resolution at a later date.

Omar Davies M.P.
Minister of Finance and Planning
January 13, 2004