

MINISTRY PAPER NO. 2/00

Government Guarantee of Loans to Fund the Programme of Support to the Sugar Industry

1. The Honourable House of Representatives is being advised of the request for the provision of a Government Guarantee for loan facilities totalling Euro 84 million to the Agricultural Credit Bank of Jamaica Ltd. under the provision of the Approved Organisations and Authorities Loan (Government Guarantee) Act. The Guarantee will supercede that which was approved by the House in March 1999.
2. It is recalled that based on the submission contained in Ministry Paper No. 6/99 of March 1, 1999, the House approved the guarantee to Ratoon Ltd., for a loan of Euro 65 million to the Agricultural Credit Bank of Jamaica Ltd. The proceeds of this loan were used to provide loans to sugar cane farmers to undertake additional replanting occasioned by the extended period of drought experienced in 1997 and loans to sugar manufacturers to finance factory rehabilitation. This facility is being serviced from the proceeds of sugar exports to Europe.
3. In June 1999, an additional loan of Euro 16 million was obtained by the Agricultural Credit Bank to finance the normal annual working capital needs of the industry. These two facilities were essential to meet the short and medium term capital requirements of the industry.
4. Based on representations by farmers for a longer repayment period for their replanting loans, and to provide a longer term solution to the financing needs of the sugar industry in Jamaica, the Agricultural Credit Bank has negotiated a new transaction with KBC Bank N.V and a syndicate of European Banks.
5. These facilities, which total Euro 84 million and designated as the Multiple-Operating Credit Facility (MOF), and their respective major terms are listed as follows:

1) **Euro 50 million**

- (i)Term: Five (5) year term facility which will replace the balance outstanding on the loan of Euro 65 million
- (ii)Interest rate : 2.75 % per annum over fixed rate EURIBOR (currently at approximately 3.9% per annum)
- (iii) Agency Fee : 0.10% flat annually to be paid in advance to the Facility Agent, KBC Bank N.V. London.

2) **Euro 3 million**

- (i) Term: Five (5) year term loan facility as down payment financing for an Export Credit Agency (ECA) backed supply of capital goods for the industry
- (ii) Interest rate : 2.75% per annum over maturity matched EURIBOR with no terminus maturities
- (iii) Agency Fee : 0.10% flat annually to be paid in advance to the Facility Agent, KBC Bank N.V. London.
- (iii) Repayment : Five (5) equal annual installments commencing the last business day of July 2000 and then the last business day of July each year until July 2004.

3) **Euro 11 million ECA backed Bill Purchase**

The purchase of supplier credit bills of exchange drawn on the Agricultural Credit Bank by suppliers of capital goods to the industry on a non-recourse basis up to a value of Euro 11 million.

This facility will enjoy up to 100% ECA coverage of the face value of the bills from agreed agencies.

- (i)Term: Up to Seven (7) years

(ii) Interest Rate: 0.20% per annum over the ECA supported rate (currently in the range of 5% and 6% per annum)

(iii) Agency Fee : 0.10% flat annually to be paid in advance to the Facility Agent, KBC Bank N.V. London.

4) **Euro 20 million.**

Revolving, short term loan facility which will support the annual working capital requirements of the industry. This will replace the Euro 16 million obtained by the Agricultural Credit Bank in June 1999.

(i) Interest Rate : 2.0% per annum over up to 12 month EURIBOR interest rate (currently at approximately 3.9 % per annum)

(ii) Annual Re-drawing
Fee : 0.12% flat to be distributed to the Lenders by the Facility Agent.

(iii) Agency Fee : 0.10% flat annually to be paid in advance to the Facility Agent, KBC Bank N.V. London.

6. The source of repayment of these facilities will be the proceeds of sale to Tate and Lyle under the ACP/EU Sugar Protocol Sugar and to other purchasers in the European Union under the Special Preferential Sugar Sales Agreement, commonly referred to as the SPS Quota.
7. The first loan of Euro 65 million used Ratoon Ltd., a Special Purpose Company domiciled in Gibraltar, which was established to facilitate the transaction. The second facility of Euro 16 million used another Special Purpose Company, Bagasse Limited. The essential terms and conditions of the sale of the Rights to the proceeds of sugar exported to the European Union being already in place, it is only the basis on which the payment for the purchase is made by the primary financing vehicle (Ratoon), that is being changed.

8. Ratoon Limited will redeem its existing outstanding floating rate notes representing the balance outstanding on the initial Euro 65 million loan and establish, in association with Bagasse Limited, a new set of credit usage reflected in accordance with the new financing package - the Multiple-Operating Credit Facility. Hence the Government Guarantee given in March 1999 will be superseded by the new guarantee of Euro 84 million.
9. The main advantages of the new financing package are as follows:
 1. A reduction in the interest margins from a weighted average, under the two earlier facilities of 3.97% per annum, to a weighted average under the Multiple-Operating Credit Facility of 3.42% per annum;
 2. An extension of the repayment period of the original Euro 65 million loan which will lower the annual debt servicing cost to both farmers and manufacturers;
 3. The replacement of the Euro 16 million one year facility with a revolving Euro 20 million facility; and
 4. The inclusion of a new component - the ECA backed low cost facility which will provide longer term financing for the capital needs of the sugar industry.
10. Accordingly, the House of Representatives is being requested to approve the guarantee to Ratoon Limited for the obligations of the Agricultural Credit Bank of Jamaica Limited in support of funding totalling Euro 84 million for financing of the sugar industry.

Omar Davies
Minister of Finance and Planning
January 24, 2000