



MINISTRY PAPER.....#71/06

**Government Guarantee of a Line of Credit Agreement  
amounting to US\$5,000,000 between the Development Bank  
of Jamaica Limited and the Organization of Petroleum Exporting  
Countries (OPEC) Fund for International Development for on-  
lending to Approved Financial Intermediaries**

---

### **Introduction**

The Honourable House of Representatives is invited to consider the request for a government guarantee of a loan of US\$5,000,000 to the Development Bank of Jamaica Ltd (DBJ) by the OPEC Fund for International Development (the Fund) under the provisions of the Approved Organizations and Authorities Loans (Government Guarantee) Act.

### **Background**

1. The DBJ, in keeping with its mandate to mobilize resources, to provide affordable loan products to the productive sectors of the economy, has secured a funding facility through the OPEC Fund. This will be used to provide development financing to small and medium sized enterprises, through Approved Financial Intermediaries. This is the second Line of Credit from the OPEC Fund for on-lending to this sector. Based on the success of the first programme, which was implemented in the year 2002 and the overwhelming demand for additional funding from this sector a second application was made to ensure a continuation of the facility.
2. On September 27, 2004, an application was submitted to the OPEC Fund by the DBJ for a US\$5 million Line of Credit to provide on-lending to Approved Financial Intermediaries. Approval of the Line of Credit was obtained on December 20, 2005.
3. The OPEC Fund is a multilateral development financial institution which seeks to promote cooperation between member states of the Organization of the Petroleum Exporting Countries (OPEC) and other developing countries. It does this mainly by providing financial resources to assist the developing countries in their economic and social advancement.

### **Eligibility Requirements of Financial Intermediaries**

4. Approved Financial Intermediaries eligible to receive funding under this facility include commercial and merchant banks, people's cooperative banks and credit unions:
  - (a) duly established and operating under the laws of Jamaica;
  - (b) that are majority privately owned or controlled and in which the state or public sector participation does not exceed, directly or indirectly, forty-nine per cent (49%) of the voting share capital, with the exception of such publicly owned entities governed by commercial principles and from time to time approved by the Fund;

- (c) that are not engaged in Precluded Projects- defined as any project which, pursuant to the Laws of Jamaica or at the sole determination of the Fund, has the potential to be environmentally injurious or which is in support of gambling or gaming, the production of instruments of war or intoxicating spirits intended for human consumption.
- (d) in which the Borrower (DBJ), directly or indirectly holds no more than twenty-five percent (25%) ownership and in which any of the Borrower's directors and their families, directly or indirectly, hold no more than ten percent (10%) of the share capital;
- (e) with management experienced in its line of business and specifically in the carrying out of the Eligible Project for which financing, in the form of a Sub-Loan, is being sought; and
- (f) the business of which is conducted consistent with the Laws of Jamaica.

**Term of Sub-Loan**

- 5. The loan to the financial intermediaries (Sub-Loan) should be:
  - a. adequately secured;
  - b. denominated in United States dollars; and
  - c. should not exceed One Million United States Dollars (US\$1,000,000).
- 6. The tenor of the Sub-Loan is a minimum of 3 years and a maximum of seven (7) years, inclusive of a provision for a maximum grace period of two (2) years.

**Loan Beneficiary**

- 7. Beneficiaries of the proceeds of the Line of Credit should be small or medium-sized incorporated entities duly established and operating under the Laws of Jamaica, and undertaking an Eligible Project in the agriculture, agro-processing, manufacturing, mining and quarrying or tourism sectors.

**Financing Terms**

- 8. The financing terms of the Line of Credit include:
 

Loan Amount:	US\$5 million
Tenor:	7.5 years (inclusive of a 2-year moratorium)
Repayment:	Eleven (11) equal and consecutive semiannual instalments commencing on the second anniversary of the first disbursement.

Interest: At the rate of six- month United States LIBOR plus a margin of 2% per annum.

Fees

Commitment: Payable semiannually at the rate of 0.5% of the undisbursed balance.

Front End: US\$25,000 payable within (15) days of the effective date.

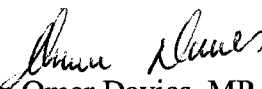
Security: Government Guarantee

9. The financial position of the Development Bank of Jamaica Limited has been assessed by this Ministry and all indications are that DBJ is in a position to service this loan. Attached is copy of the report and analysis on the financial position of the DBJ at Appendix 1.

### **Recommendation**

10. The Honourable House of Representatives is being asked to approve:

- a) The guarantee of a Line of Credit in the amount of US\$5 Million to the Development Bank of Jamaica Limited by the OPEC Fund, under the provisions of the Approved Organizations and Authorities Loans (Government Guarantee) Act; and
- b) I will move the appropriate Resolution in due course.

  
Omar Davies, MP  
Minister of Finance and Planning  
July 24 2006

File # 285/067

**Overview of the Financial Position of the DBJ in light of a request for a Government Guarantee to access a US\$5 million line of credit from the OPEC Fund for International Development**

---

**Background Information**

The Development Bank of Jamaica (DBJ) has requested a Government Guarantee for a loan of US\$ 5 million dollars from the OPEC Fund for International Development. The loan facility will be for a period of seven years, inclusive of a 2-year moratorium on principal repayment. Interest payment will be US 6-months LIBOR plus a margin of 2%.

The proceeds of this facility will be used to provide financing through Approved Financial Institutions and People's Co-operative Banks to small and medium scale enterprises in the Agricultural, Agro-Processing, Manufacturing, Mining & Quarrying and Tourism Sectors.

**FINANCIAL HIGHLIGHTS**

Table 1 overleaf provides highlights of the Bank's financial performance over the 5-year period 2001/02 to 2005/06.

**Profitability**

The DBJ's operating income has fluctuated over the period as a result of changes in the value of its interest earning assets due to the early repayment of GOJ Infrastructural loans. As a result, profit has declined, moving from \$605.87 million in 2001/02 to a low of \$153.83 million estimated for the 2005/06 financial year. However, the forecast for financial year 2006/07 indicates an operating profit of \$160.37 million and it is expected that DBJ will remain profitable for the foreseeable future. Of note, in 2002/03 the DBJ realized a gain of \$582.23 million from the sale of investment securities which gave a significant boost to that year net profit which totalled \$1,174.83 million compared to \$605.87 million in the prior financial year. Over the 5-year period, the DBJ's ability to cover its interest payments has steadily declined, moving from a high of 2 times in 2001/02 to a low of 1.1 times estimated for 2005/06. The estimated interest cover for 2006/07 is 1.2 times inclusive of the additional interest charges for the new loan. Of note, over years the DBJ has honoured all its debt service obligations due to available cash resources

**Table 1 – Financial Highlights – 5-Year Performance**

Particulars (J\$'000)	AUDITED				Estimated
	2001/02	2002/03	2003/04	2004/05	2005/06
Total Assets	14,559.23	22,421.15	23,745.08	19,716.15	19,048.95
Total Liabilities	11,279.76	17,967.17	18,643.76	14,420.18	13,605.21
Cash	360.22	210.11	215.88	238.48	197.49
Shareholders' Equity	3,279.47	4,453.98	5,101.33	5,295.98	5,443.74
<b>Earnings – J\$M</b>					
Total Revenue	1,492.48	2,766.25	3,321.11	1,996.63	1,634.32
Total Expenses	886.61	1,591.42	2,935.77	1,800.68	1,480.49
Net Profit	605.87	1,174.83	385.33	195.95	153.83
<b>Financial Ratios (%)</b>					
Return on assets	4.16	5.24	1.62	1.00	0.81
Return on Equity	18.47	26.38	7.55	3.69	2.83
Net Profit Margin	40.59	42.47	11.6	9.81	9.41
Debt to Equity	3.4:1	4.0:1	3.6:1	2.7:1	2.5:1
Long-term debt to total Capital	0.58:1	0.65:1	0.69:1	0.52:1	0.43:1
Interest Cover	2 times	1.9 times	1.2 times	1.1 times	1.1 times
Solvency	1.29 times	1.25 times	1.27 times	1.37 times	1.4 times

### Solvency and Liquidity

For the 4-year period to March 31, 2005, DBJ recorded moderate solvency levels which was evidenced by a steady increase in net assets from \$3,279.47 million in financial year 2001/02 to \$5,295.98 million in 2004/05. The estimate for 2005/06 is \$5,443.74. This achievement was also supported by improvements in the solvency ratios and despite a marginal decline in financial year 2002/03 and 2003/04, the ratio was increased to 1.4 times in 2005/06. The forecast for 2006/07 is 1.45 times and indicates that the Bank has the ability to cover its total obligations if there was a need to do so.

Over the 5-year period 2001/02 to 2005/06, the DBJ recorded an overall improvement in its equity position as a result of the profits generated. However, despite a high of 5.24% in the returns on assets ratio in 2002/03, it declined to 1.62% in 2003/04 and 1% in 2004/05 as a result of early loan repayments made under the GOJ Infrastructure Loan Programme that reduced the Bank's interest earning loan portfolio. The return on shareholders equity also saw a reduction from 7.55% to 3.69% in 2004/05.

### Gearing

DBJ's debt to equity ratio has improved significantly over the period to 2004/05 and is estimated at

was below the stipulated 2:1 guideline. The DBJ is solvent and continues to retain the capacity to access additional funding to facilitate financing of national development projects and programmes.

### **Cash flow forecast**

The DBJ forecasts a cash surplus of \$100.98 million at the end of the 2006/07 financial year. With a 2-year moratorium on principal repayment, the Bank will be required to pay interest charges of \$24.99 million (estimated) during the 2006/07 financial period. The DBJ is therefore expected to comfortably service the additional loan liability being sought from the OPEC Fund.

### **Conclusion**

Despite a decline in the Bank's profitability and other indicators over the 5-year period, it is anticipated that DBJ will continue to be in a position to satisfy its debt service obligations to all creditors. The funds being sought will increase the Bank's income generating capacity as a result of projected additions to its interest earning loan portfolio. In light of the DBJ's past and projected performance, it should be able to honour its debt obligation without any demand being made on the Consolidated Fund.