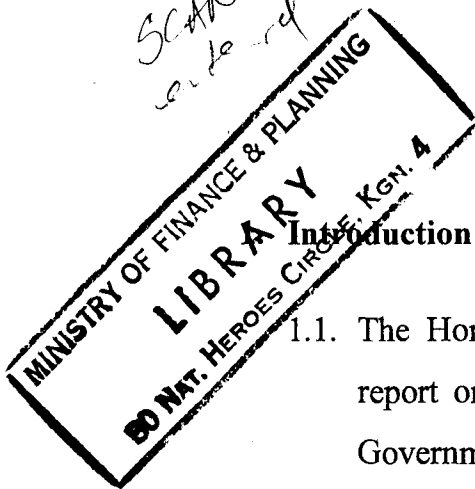


Ministry Paper No. _____

**Status Report on Letters of Undertaking
As At March 31, 2006**



1.1. The Honourable House of Representatives is asked to note the current report on the status of the Letters of Undertaking (LOUs) issued by the Government, in keeping with the commitment given to provide information to this House.

1.2. The Honourable House will recall that at March 31, 2005, outstanding Letters of Undertaking issued by the Ministry of Finance and Planning amounted to approximately **\$16.9 billion**. Of this amount, approximately **\$6.3 billion** represented Jamaica Dollar facilities and the remaining **\$10.6 billion** represented the Jamaica Dollar equivalent of US Dollar denominated loan facilities.

2. Current Status

2.1. The total LOUs outstanding at end-March 2006 was **\$8,825.09 million**, 52% below the amount outstanding at the start of the fiscal year 2005/2006. Of this amount, approximately **\$4,571.39 million** represented Jamaican Dollar facilities and the remaining **\$4,253.70 million** represented Jamaican Dollar equivalent of US Dollar denominated loan facilities. A detailed Report is attached at **Annex 1**.

2.2. The main contributing factors to the reduction are:

- a) The repayment by Air Jamaica of its obligations;
- b) The assumption by the government of JUTC's obligations;
- c) The ongoing debt service by public sector entities;
- d) No new issue of LOUs since June 2005.

3.3. The Honourable House should note that the Ministry of Finance and Planning has taken all the necessary steps to effectively manage the procedures and processes in relation to the issue of LOUs, and in consultation with the Attorney General's Chambers, has instituted a system whereby any charge likely to arise from any future LOU will be satisfied from sources other than the Consolidated Fund, or the prior approval of Parliament sought and obtained.



Omar Davies M.P.
Minister of Finance and Planning
April 21, 2006

- 2.3. During the first quarter of fiscal year 2005-2006, the Government issued three (3) LOUs in the aggregate amount of the Jamaica Dollar equivalent of \$3,436.8 Million. One (1) was issued in respect of the Sugar Company of Jamaica for working capital support, and two (2) on behalf of Air Jamaica for debt consolidation and working capital support. However, those issued in respect of Air Jamaica have subsequently been removed from the list, as the airline repaid its outstanding obligations.
- 2.4. Additionally, fifteen (15) LOUs were also removed from the list, as the respective public sector entities repaid their obligations.

3. Purpose of Letters of Undertaking

- 3.1. LOUs are forms of security provided by the Ministry to financial institutions, and essentially provide assurance to the lenders that the Government, as secondary obligor, will service the facility in the event that the Public Sector Entities are unable to do so from their own resources.
- 3.2. From time to time, public bodies require immediate financial assistance to satisfy working capital requirements and urgent capital investment needs. The support of the Ministry has been sought, as financial institutions require that the facilities be secured by LOUs. A competitive process is in place to ensure that entities benefit from the most cost effective financing terms available. The financing proposals to public sector entities are reviewed and approved by the Ministry of Finance & Planning, and LOUs issued where proposals are sound and financing options without Government support are unavailable. The House should be aware that the majority of LOUs do not normally become a direct liability on the government, as the public bodies consistently service their loans.