Jamaica Memorandum on the Budget 2008/09

10th April 2008

Ministry of Finance and the Public Service

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FOREWORD

While presenting a comprehensive overview of Central Government performance during FY 2007/08, the Budget Memorandum is designed to provide an insight into the objectives and broad parameters of the Government's 2008/09 fiscal programme.

The FY 2007/08 budget targeted a deficit of 4.5% of GDP, developed within a medium term objective of achieving a balanced budget by FY 2009/10. Higher expenditure, in the main occasioned by the ravages of Hurricane Dean followed by a protracted period of flood rains led to the tabling of supplementary estimates and a revision of the targeted fiscal deficit in November 2007. The deficit outturn for the fiscal year was within the revised target, reflecting lower capital expenditure and revenue & grants increasing 5.4% over the original budget target.

Revenue performance reflected enhancement efforts of the Tax Directorate throughout the year. Compliance was boosted by improved visibility of Tax Administration through a public education program and improved quality in customer service. Opportunities for tax evasion and fraud were reduced through the undertaking of audits and tax fraud assessments.

Tax reform represents a major objective under the new political directorate. A strategic administrative reform effort will be executed over the next three fiscal years, starting with the development of new tax compliance strategies during FY 2008/09.

The management of the public debt still remains important towards the medium term objective of achieving a balanced budget by 2010/11. Government debt raising activities in FY 2007/08 were challenged by the prevailing international and domestic conditions, which included natural disasters, increasing world oil and commodity prices, inflationary pressures and increasing domestic market interest rates. In FY 2008/09, strategies aimed at cost minimization and reduction of risk to the debt portfolio will be pursued. The focus will be on liability management in the form of replacing high cost debt with more concessionary type financing and extending of the maturity profile of the domestic debt thereby freeing fiscal space for non-debt expenditure.

The Ministry of Finance and the Public Service shall exercise its responsibility for leading the public sector in enhancing organizational and operational efficiency, and in enhancing the transparency and integrity of public sector financial management and accounting. In this regard, there is an urgency to ensure that all elements of public expenditure are properly budgeted, authorized, reported and accounted for as they occur. There is also an imperative to cauterize the massive and unpredictable drain on the public finances represented by under-performing public entities.

Colin Bullock
Financial Secretary

MACROECONOMIC OVERVIEW

The macroeconomic programme for FY 2007/08 envisaged the achievement of accelerated economic growth of 3-4%, a fiscal deficit of 4.5% of GDP, an inflation outturn in the range of 6-7% within the context of an environment of competitive interest rates, relative exchange rate stability and strong net international reserves. This broad macroeconomic framework was enunciated against the background of a relatively strong growth platform in FY 2006/07.

Macroeconomic conditions remained generally favourable in the first six months of calendar year 2007. However, the onslaught of Hurricane Dean in August, subsequent incessant rainfall, and the record-high international oil and other commodity prices served to weaken economic performance in FY 2007/08. Preliminary estimates from the Planning Institute of Jamaica (PIOJ) indicate that economic growth slowed, in real terms, to 0.9% in FY 2007/08 relative to the 2.4% growth achieved in FY 2006/07. The factors impacting growth also contributed to a significant increase in inflation, which recorded 18.5% for the period April 2007 - February 2008.

FISCAL DEVELOPMENTS

The FY 2007/08 budget was developed within a medium-term framework that sought to build on the real GDP growth of FY 2006/07, maintain single digit inflation, reduce interest rates and sustain foreign exchange market stability. The fiscal programme for FY 2007/08 was geared towards, inter alia, achieving a fiscal deficit of 4.5% of GDP as another step toward a balanced budget by FY 2009/10. Provisional figures indicate that Central Government operations generated a fiscal deficit for FY 2007/08 of $37,638.8mn, or 4.7% of GDP. This represents an improvement on the 5.3% deficit recorded for FY 2006/07 and was within the revised target of 5.5% of GDP.

MONETARY DEVELOPMENTS

During FY 2007/08, the central bank intervened at discrete intervals in the foreign currency market in an effort to ease demand pressures, resulting in a net loss of US$510.2mn in foreign reserves between March 2007 and January 2008. This obtained within a context of high Jamaica dollar liquidity levels in the financial system.

Upward adjustments to the broad spectrum of repurchase (repo) rates, re-issuance of the 365-day instrument and offers of variable rate (VR) Certificates of Deposit (CD) were also utilized as tools to stabilize the foreign currency market. Some measure of stability was restored to the market with an appreciation of the currency during the last quarter of the fiscal year. Contributing to this were strong foreign currency reflows and buoyant visitor spending, which led to the NIR improving to US$2,083.4mn by end-March 2008.

Average interest rates on six-month Treasury bills (T/bill), which had declined since December 2005 before settling at an all-time low of 11.65% in March 2007, increased to 14.29% in September before gradually declining to 13.33% in January 2008. As a result of the upward adjustments to the repo rate structure in the last quarter of the fiscal year, the average six-month T/bill interest rate increased to 14.22% in February, remaining stable in March.

Inflation

The decline in agricultural output following Hurricane Dean's passage in August, a sustained period of heavy rainfall in October and November, the slide in the value of the J$ relative to its US counterpart and rapid increases in international oil and other commodity prices were the main factors behind the rapid rise in inflation during the eleven-month period April 2007 to February 2008. For that review period inflation was 18.5%, as compared to the 6.8% outturn recorded in the corresponding period of FY 2006/07. Inflation was 16.8% in CY 2007 relative to 5.4% for CY 2006.

Higher inflation was mainly driven by a 26.4% increase in the heavily weighted "Food and Non-Alcoholic Beverages" main group, which resulted from higher prices for food, vegetables, starchy foods and non-alcoholic beverages. The "Alcoholic Beverages & Tobacco" group increased by 16.2% in, and the "Housing, Water, Electricity, Gas & Other Fuels" group by 29.0%, the latter mainly influenced by significantly higher costs for electricity, water supply and miscellaneous services. "Transport" also went up by 7.2% with higher import prices for fuel, motor vehicles, tyres, batteries and other transport-related products.

Domestic inflation was influenced by externally generated inflationary pressures, as average inflation in the economies of Jamaica's main trading partners (US, UK and Canada) for the 12-month period to January 2008 was estimated at 2.9% compared with a 2.0% inflation in the corresponding period to January 2007. Meanwhile, consumer prices in the Euro zone economies also rose by 3.2%, on average, for the 12-month period to February 2008 compared to a much slower 1.8% rate in the same period to February 2007.

The Statistical Institute (STATIN) released a consumer price index using weights from an updated consumer survey as of September 2007. The new series was based on a 2004 consumer expenditure survey and replaced the previous index that was based on a 1984 survey.

EXTERNAL DEVELOPMENTS

Balance of Payments

Provisional data for April-November 2007 indicate a current account deficit of US$1,471.3mn, which represents a US$535.1mn widening relative to that recorded in the corresponding eight-month period of calendar year 2006. This higher deficit resulted from deteriorations in the balances of the merchandise, services and income accounts, while there was a US$154.9mn improvement in the net transfers account.

The increased deficit on the merchandise trade account mainly reflected the combined effects of increased import expenditure on fuel, food and machinery & transport equipment, which was only partially offset by higher earnings derived from alumina and sugar exports. Within the services account, there was a US$53.0mn decline in gross travel receipts that resulted from a decline in visitor arrivals, while in the income account the higher deficit was due to higher imputed profit outflows of direct investment companies. On the other hand, increased current transfers were mainly associated with growth in private inflows through remittance companies and building societies.

Within the capital and financial accounts, net private and official investment inflows were insufficient to finance the deficit on the current account, thus resulting in a US$521.0mn drawdown on the net international reserves for the eight-month period ending November 2007.

External Trade

The trade deficit widened by US$501.9mn (19.9%) to US$3,023.4mn for April-November 2007 relative to that for the corresponding period of the previous year. Imports (cif) increased by US$565.6mn (14.4%) largely as a result of higher import spending on fuel, food, machinery & transport equipment, chemicals and manufactured goods, which outweighed the US$63.7mn (4.5%) improvement in export (fob) earnings.

For the first eleven months of CY 2007, the trade deficit widened by 15.1% to US$3,947.8mn as a result of the combined effects of a US$139.2mn (7.1%) increase in export (fob) earnings being outweighed by a US$657.2mn (12.2%) increase in imports (cif).

Exports

Total export earnings for April to November of 2007 amounted to US$1,481.6mn, which represented an increase of US$63.7mn (4.5%) relative to the corresponding period in 2006. All export groups, with the exception of non-traditional exports, recorded higher earnings. Major traditional export earnings increased by US$53.7mn (6.5%) to US$880.8mn, largely as a result of higher earnings from alumina (up US$48.8mn or 7.0%) and sugar (up US$9.9mn or 21.7%) outweighing declines in other traditional exports. Alumina exports continue to derive benefits from favourable international price trends, mainly driven by strong demand from the BRIC (Brazil, Russia, India and China) countries to satisfy their infrastructure, automobile and aircraft construction requirements. Other traditional exports increased by US$2.0mn (3.5%), but non-traditional export earnings declined by US$14.3mn (3.5%).

Imports

Total spending on imports amounted to US$4,505.1mn in the eight-month review period to November 2007, representing a US$565.6mn (14.4%) growth relative to the corresponding period of 2006. This increase was dominated by fuel imports, as international oil prices increased to unprecedented levels, sometimes above US$100/barrel, as well as by increased prices for food, machinery and transport equipment, chemicals and manufactured goods imports.

Tourism

According to data from the Jamaica Tourist Board, total visitor arrivals for CY 2007 amounted to 2,880,289 persons, reflecting a 4.5% decline relative to CY 2006 as the 1.3% increase in stopover arrivals was negated by an 11.8% fall-off in cruise visitors. For FY 2007/08 to January 2008, total visitor arrivals amounted to 2,328,947, which represented a 4.8% decline when compared with arrivals in the corresponding period of FY 2006/07, as a 3.2% stopover increase was similarly offset by a 15.1% decline in cruise arrivals.

Tourism industry officials remain optimistic however, as forward hotel bookings point to a strong rebound during the winter tourist season currently underway. Cruise passenger arrivals were negatively impacted by dislocation from Hurricane Dean's passage, as cruise lines tend to divert their ships from itinerary destinations with the advent of, or knowledge of, any pending adverse weather. In fact, six (6) cruise ships were diverted from Jamaica's ports during the month of August alone.

This general decline in visitor arrivals was influenced by negative developments affecting the US market, Jamaica's main source of visitor arrivals including: (a) the new passport regime initiated by the US government in January 2007 requiring all US citizens, travelling by air, to have a valid passport; (b) the severe consumer credit crunch occasioned by the sub-prime mortgage market situation; and (c) the return to the leisure market of Jamaica's main travel resort competitor destination, Cancun in Mexico, which was closed for an extended period following significant infrastructure damage by Hurricane Wilma in 2005. The closure of this popular resort location had redounded to Jamaica's benefit by significantly increasing visitor arrivals in 2006.

International Commodity Prices

In general, international commodity prices increased during 2007 compared to the previous year. There was a 14.1% increase in average crude oil prices and imported inputs such as maize/corn, wheat and soybean meal all experienced price increases thereby negatively impacting Jamaica's BOP. However, aluminium, coffee, cocoa and sugar export earnings benefited from price increases.

REAL SECTOR DEVELOPMENTS

GDP Performance

Most recent GDP estimates from the PIOJ indicate that economic growth slowed to 0.9% in FY 2007/08 from 2.4% in FY 2006/07, with the goods producing sector declining by 0.2% and the services sector experiencing growth of 1.7%. The agriculture, mining and the electricity sectors were the only sectors to have declined as productive activity in these sectors was constrained by the prolonged effect of Hurricane Dean and heavy rain during October and November. These three sectors detracted from the growth outturn of the economy, while the main growth areas were the construction, finance and miscellaneous services sectors.
The decline in agriculture was largely due to the deleterious effects of Hurricane Dean and also the effects of sustained heavy rains for several weeks following the hurricane's passage. Extensive hurricane-related damage to Jamalco's export facility at Rocky Point in Clarendon was a main inhibiting cause of the below-par performance in the mining sub-sector.

Increased non-residential building and critical infrastructure development were key contributors to growth in the construction sector. The miscellaneous services sector continued its recovery with a 1.6% growth rate (of which "hotels, restaurants & clubs" increased by 1.5%). This modest performance related to a fall-out in stopover visitor arrivals following the imposition of the new passport regime by the US Government in January 2007. In manufacturing (up 1.4%), the food category grew by 2.3%, while the other manufacturing component grew by 0.5%, boosted mainly by increased production of aluminium sulphate and paint. Output of most petroleum products declined.

Manufacturing

Preliminary data from the PIOJ for the April-December 2007 period indicate growth in the food processing sub-group relative to the corresponding nine-month period in 2006, as increased output especially in sugar, poultry meat, condensed milk, edible fats, molasses and dairy products outweighed the production declines in animal feed, edible oils, flour, and cornmeal, respectively. Food processing was influenced in part by adverse weather conditions in the aftermath of the hurricane, as well as by relatively high imported input and production costs, which served to restrict production.

Within the beverages and tobacco sub- group, all categories recorded increased levels of output. The chemicals and chemical products sub-group had increases in the output of paint (5.1%), detergent (13.7%) and aluminium sulphate (13.7%), while fertilizer, sulphuric acid and sulphonic acid declined by 10.5%, 12.2%, 30.2%, respectively. The lower output of sulphonic acid (used in swimming pools) was mainly due to the adverse weather conditions. Cement production declined by 0.9% to 567,891 metric tones in the non-metallic minerals sub-group, as output gradually resumed normalcy following disruptions caused by the adverse weather. Meanwhile, the output of boots increased by 4.1%, while the output of other plastic products declined by 8.2% in the review period.

Closure of the petroleum refinery plant for routine maintenance purposes, a complete shutdown at the Petroleum refinery in the days prior to and just after the passage of Hurricane Dean in August, as well as the plant in general operating below full capacity and efficiency levels during August and September were the primary inhibiting factors associated with lower output levels in the April-December 2007 review period. As a result, there were declines in the output of gasoline (10.8%), liquid petroleum gas (LPG) (22.4%), turbo fuel (27.2%) and automotive diesel oil (26.7%), respectively. However, output of fuel oil and other petroleum products increased in the review period.

Mining

In the context of weather related disruptions, crude bauxite output and exports declined by 3.1% and 3.2% to 3,687,485 metric tonnes and 3,711,599 metric tonnes respectively, in the April-January period of FY 2007/08 relative to the corresponding ten-month period in FY 2006/07. Despite significant restorative work to Jamalco's Rocky Point shipping facility, which required significant repairs and temporary logistical support in the wake of the hurricane's passage, alumina exports underwent a 4.5% decline to 3,239,463 metric tonnes. Despite lower bauxite and alumina output and export levels following the weather-induced disruption, the industry continued to be positively impacted by favourable international market prices, largely driven by strong economic growth in China and India.

Agriculture

Preliminary data from the PIOJ indicate that the Agricultural Production Index (API) declined by 10.8% during the period April through December 2007 relative to the corresponding nine-month period in calendar year 2006. Agricultural output suffered under the deleterious effects of the weather in 2007 with output of export and domestic crops declining by 13.0% and 13.5%

respectively. Fisheries declined by 17.3% in the review period, while livestock fell by 0.1% largely the result of adverse weather conditions and increased imported input costs.

OUTLOOK

The impact of Hurricane Dean's passage in August and the sustained rainfall during the months of October and November, directly affected Jamaica's output performance in the critical areas of agriculture, mining, electricity generation and tourism. Consequently, the economy is estimated to have grown by 0.9% in FY 2007/08.

On the inflation front, the pass-through effects of higher prices on imported oil and commodity inputs continued to influence domestic market prices in the food, utility and transportation components of the CPI, with these factoring heavily in the inflation outturn for FY 2007/08. Any persistence of drought conditions may pose a significant challenge for inflationary moderation.
Economic growth in the US deteriorated considerably as a result of worsening problems in the housing market leading to cautious consumer spending. The economy nearly stalled in the December 2007 quarter with a growth rate of just 0.6% as fears of a recession grew, and this marked a big loss in momentum from the brisk 4.9% showing in the third quarter. This fourth quarter performance was also much weaker than the 1.2% pace that most economists had anticipated.

US consumer prices rose at the fastest pace in 17 years in 2007, by 4.1%, up sharply from a 2.5% increase in 2006. In CY 2008, the Fed is faced with the combination of rising inflation pressures and a weak economy that represent a dilemma over whether to further cut rates to boost economic growth even at the risk of increasing inflation. In his most recent testimony before the Joint Economic Committee of Congress, Fed Chairman Ben Barnanke adopted a more pessimistic tone amid economic slumps in the housing, credit and financial markets. However, the Fed remains generally optimistic that previous interest rate reductions and the government's US$168bn economic stimulus plan, involving personal tax rebates and business tax breaks, will serve to re-energize the economy in the second half of calendar year 2008.

Meanwhile, high international oil prices prevail in the face of ongoing geopolitical tensions in the Middle East and supply uncertainties from several OPEC member states, especially Venezuela and Nigeria. Additionally, the recent cold weather spell in the Northern U.S. bolstered consumption of natural gas and heating oil, as the two most-used heating fuels and for home-heating demand in mid-western states. Oil prices are currently hovering at or just under the US$100/barrel mark. High energy prices can further dampen overall economic growth by restricting consumer spending.

Externally generated influences, including spiraling international oil and commodity import prices and the slowdown in the US economy, will continue to negatively impact the Jamaican economy by way of higher inflation and a further widening in the current account deficit.

Planned and ongoing investment projects in tourism, construction, mining and manufacturing - especially within the agri-processing & beverages sub-sectors - provide reasonable grounds for economic growth optimism in the near to medium term despite the developments in the external environment.

It is within this international context that the Jamaican economy must quickly adjust to a new paradigm in the short term, in the face of current overriding realities of slower economic growth in the US and European economies, continuing uncertainties surrounding oil supplies and prices, as well as the growing cost of air and sea travel juxtaposed with a declining travel allure of the Caribbean. The Jamaica Tourist Board, in recognizing the deleterious effects of the fallout in the US travel market on the economy, embarked on a programme by increasing the visibility of its promotional material toward the European and Asian travel markets.

Medium term growth prospects for the Jamaican economy appear upbeat in light of the massive investments and on-going construction of Spanish-chain hotels, roads, airport and seaport infrastructure developments, expansion in ethanol production and favourable international alumina prices. Additionally, improved Euro spending power as well as increased airlift into the island should bring additional visitors thus providing a more positive outlook for exponential growth in the tourism sector in the medium term.

Chapter 1

CENTRAL GOVERNMENT BUDGET PERFORMANCE FISCAL YEAR 2007/08

Overview

The FY 2007/08 budget was developed within a medium-term framework that sought to build on the real GDP growth momentum from 2006, maintain single digit inflation, reduce interest rates and sustain foreign exchange market stability. The fiscal programme for FY 2007/08 was geared towards, inter alia, achieving a fiscal deficit of 4.5% of GDP as another step toward a balanced budget by FY 2009/10.

The FY 2007/08 budget profile programmed revenue growth of 15.0% over the previous fiscal year, to be driven largely by the elasticity of the tax system, combined with aggressive revenue enhancement measures. These measures included a menu of administrative and legislative initiatives geared towards improving the tax system, reducing the incidence of non-compliance and increasing collections. Achievement of these objectives was expected through the undertaking of forensic and other large audits, implementation of plans geared at efficiency improvements in tax departments and intensification of the arrears collection programme.

In addition to the administrative measures outlined above, a new tax, an Environmental Levy, was introduced and the SCT rate on cigarettes was increased. These tax measures were estimated to yield additional revenue of $1,700mn.

(Note that comparisons to targets are to the original budget targets).

Budgeted expenditure of $278,181.0mn represented an increase of 18.7% over FY 2006/07, comprising $239,300.0mn for recurrent expenditure, and $38,881.0mn for spending on capital programmes. The provision for the recurrent budget represented a nominal increase of 12.6% and a marginal decline in real terms. Budgeted capital expenditure represented a 76.1% increase over actual capital expenditure for the previous fiscal year. This increase was due in part to payments carried over from previous fiscal years. These payments were being formally recorded as expenditure in the Budget, in accordance with the recommendations of the Auditor General.

This fiscal profile was designed to sustain the reduction in the Debt/GDP ratio in FY 2007/08 and over the medium term. The Central Government borrowing requirement was programmed to fall by $47,449.8mn (29.4%) over the previous year, due to a combination of:

- a programmed reduction in the fiscal deficit;
- significantly lower amortization payments resulting from a lower volume of debt maturing in FY 2008/09 relative to FY 2006/07; and
- the raising of US$350.0mn on the international capital market in March 2007 as part of the financing plan to cover external amortization due in FY 2007/08.

Faced with higher than programmed expenditure outlay, arising from, inter alia, costs associated with increased pensions, holding of General and Local Government Elections, hurricane and flood damage, the new administration tabled the First Supplementary Estimates in November 2007, increasing the FY 2007/08 total expenditure. This resulted in a revised fiscal deficit target of 5.5% of GDP.

Provisional data for FY 2007/08 indicates that the Central Government generated a fiscal deficit of $37,638.8mn, or 4.7% of GDP. This represents an improvement over the 5.3% recorded for FY 2006/07.

This outturn is 0.2 percentage points ($2,549.5mn) higher than the 4.5% target. The deviation from target occurred on the expenditure side as total spending of $294,279.6mn was $16,098.5mn, or 5.8% higher than budgeted. This significant deviation on the expenditure side was substantially countered by revenue and grant inflows of $256,640.7mn, which were $13,549.0mn, or 5.6% higher than budgeted.

The primary surplus (revenue and grants less non-debt expenditure) was also lower than programmed. Provisional data indicates a primary surplus of $64,084.6mn, or 8.1% of GDP, compared to the target of 8.5% of GDP.

The Central Government financed the fiscal deficit through net borrowing of $29,124.9mn and the utilization of cash balances from the previous fiscal year.

Fiscal Developments

New Tax Measures

New tax measures announced for FY 2007/08 were expected to generate additional revenue of $1,700.0mn as outlined below:

- The Environment Levy, effective June 1, 2007, was estimated to result in a revenue gain of $1,200.0mn. The tax is a 0.5% levy on the CIF value of all imported goods.
- Effective April 13, 2007, SCT on cigarettes was increased by 20%. The revenue yield from this change was estimated at $500.0mn.

Revision to Fiscal Target

Deviation of key macroeconomic variables from targets, arising mainly from the unprecedented oil and other commodity price increases, Hurricane Dean and other unfavourable weather conditions, alongside additional expenditure demands on the Central Government, adversely impacted the fiscal programme and informed the Government's decision to revise the fiscal deficit target upwards.

As a result of the First Supplementary Estimates tabled in November 2007 and updated revenue projections, the fiscal deficit target of 4.5% of GDP was revised to 5.5% of GDP. Contributing to this additional 1.0 percentage point was a 7.5% increase in expenditure, which outweighed the projected 5.1% increase in revenue and grants. These changes also impacted the primary surplus target, which was revised to 7.5%, down from 8.5% of GDP.

Budget Outturn

Central Government operations generated a fiscal deficit of $37,638.8mn, or 4.7% of GDP. This compares to the budgeted deficit of $35,089.3mn or 4.5% of GDP. The larger deficit occurred as higher than programmed revenue inflows were outweighed by higher than budgeted expenditure.

The primary surplus was lower than programmed, with the $64,084.6mn generated being $2,295.9mn or 3.5% below target. This level of primary surplus is equivalent to 8.1% of GDP, 0.4 percentage points short of the 8.5% targeted and also lower than the 8.8% recorded for the previous fiscal year. Although the primary surplus has declined somewhat from the levels of prior years the Government remains committed to fiscal consolidation.

Revenue and Grants

Revenue performance throughout FY 2007/08 was generally positive, with collections surpassing the previous fiscal year by $45,276.2mn or 21.4%, a real increase of approximately 2%. Collections consistently exceeded projections throughout the fiscal year, culminating in total revenue and grants of $256,640.7mn, surpassing the target by 5.6%. All the major items performed better than target with capital, non-tax and tax revenue contributing most significantly to the over-performance in nominal terms.

Tax Revenue

Tax revenue totaled $219,517.6mn, which was $1,887.3mn or 0.9% above the amount budgeted. The increase was influenced by higher collections from the Income & Profit and Environmental Levy categories that outweighed lower than expected receipts from the Production and Consumption and International Trade categories. The items chiefly responsible for the tax increase in absolute terms were PAYE, Other Companies (Corporate taxes), Tax on Dividends, GCT (Imports) and Other individuals (self-employed). Tax revenue performance was enhanced by, inter alia:

- higher than projected receipts from administrative measures;
- inflows from a cigarette company court settlement;
- higher than programmed growth in nominal income.

Compared to the previous fiscal year, tax revenue increased by 16.5%, representing a real decrease of about 3.0%. Most items registered nominal increases, with the exception of Bauxite/Alumina Income Tax, SCT (Local and Imports) and the Contractor's Levy.

Income and Profit tax continue to be the largest tax category, contributing 42.1% of total taxes for the FY. This compares to 40.5% last FY and was above the average contribution of 41.4% over the FY's 2003/04 to FY 2005/06.

Income & Profits Tax

Receipts from the Income and Profit tax category amounted to $92,625.7mn, which was $3,683.9mn, or 4.1% above target. All items with the exception of Tax on Interest and

Bauxite/Alumina tax registered increases, with PAYE and Other Companies being the most significant contributors.

PAYE exceeded the budget by $2,499.1mn or 5.5%. Collections were also 17.6% above last fiscal year. The increase in PAYE occurred within the context of higher wages in the economy. The higher intake was also partly due to the success achieved by the administrative efforts of the tax authorities, geared toward improving compliance and the collection of arrears, through the Accounts Receivables Conversion (ARC) programme. PAYE receipts from the ARC programme were 13.2% above target.

Other Companies (corporate) taxes were $2,371.7mn or 13.1% ahead of budget and 21.3% more than collections in FY 2006/07. This buoyancy stemmed from higher corporate profits in the economy and the success of the ARC programme, as collections under the programme were 22.4% ahead of target.

A positive performance was also registered by Tax on Dividend, with receipts surpassing the target by $1,693.4mn due to a payment by a cigarette company following a court ruling in favour of the GOJ. Tax on Interest at $18,038.6mn was $3,001.2mn (14.3%) below budget as a result of higher than programmed refunds. Collections were however $3,569.0mn or 24.7% above the outturn for FY 2006/07.

Overall, Income and Profits tax collections increased by $16,304.6mn, or 21.4% over the previous FY. This buoyancy arose from a combination of higher nominal income, in particular wage income, as well as the impact of the ARC programme. Approximately 39% of the increase in Income and Profit taxes was accounted for by the ARC programme, which realized collections of $11,982.3mn, from Income and Profit compared to $10,540.6mn in FY 2006/07.

Production and Consumption Taxes

Production and Consumption tax receipts of $64,268.9mn were short of target by $1,301.9mn or 2.0%. SCT (local) and GCT (local) were largely responsible for the shortfall in absolute terms.

Receipts from the GCT amounted to $37,446.9mn, which were $419.6mn, or 1.1% less than budgeted. The budget forecast for GCT included amounts to be gained from administrative measures through a programme to improve compliance and collection of arrears. Collections under the ARC were in line with the target (0.1% higher). GCT receipts were 12.4% higher than in FY 2006/07. This however represents a real decline of about 7.0%.

SCT receipts totalled $3,523.7mn, which were $1,295.0mn, or 26.9% below target and $519.1mn (12.8%) less than in FY 2006/07. The shortfall on budget was mainly influenced by lower than expected collections from the state–owned refinery, Petrojam Limited.

Collections from the Contractors Levy of $814.3mn fell below target by 9.4% and were 2.5% less than the amount received in FY 2006/07. This decline occurred despite an increase in construction activity during FY 2007/08, following the fallout the previous year. The Contractors Levy will receive particular focus in FY 2008/09, with the tax authorities moving aggressively to improve compliance within the sector.

Notwithstanding the above-mentioned shortfalls within the Production and Consumption tax category, Education tax and Stamp Duty performed well relative to budget. Education tax collections amounted to $10,261.0mn, an increase of $284.0mn (2.8%) above target and $1,051.8mn (11.4%) more than for the previous year. The increases arose chiefly from higher wage payments as well as increased collections from the ARC programme. Stamp Duty inflows of $9,645.6mn were $207.6mn (2.2%) ahead of target and were $967.7mn (11.2%) higher than the outturn in FY 2006/07. The transfer of several high-value properties contributed to this buoyancy.
When compared to collections from the previous fiscal year, collections from Production and Consumption Taxes were $5,811.9mn (9.9%) higher, with GCT (Local), Education Tax and Stamp Duty being the main items showing significant increases. However, collections from the ARC programme were $324.1mn (10.3%) below target.

International Trade Taxes

Collections under the International Trade category totalled $60,925.0mn, which were $992.7mn (1.6%) below budget, with SCT on imports being the main contributor to the shortfall. Collections for SCT on imports of $9,029.0mn were $1,929.6mn (17.6%) below target. The shortfall in SCT on imports compounded the overall decline in the SCT as a result of the shortfall that was registered by the SCT (local). As a result, total SCT was $3,224.6mn (20.4%) behind budget and was $702.2mn (5.3%) below the previous fiscal year due mainly to the decline in collections from the petroleum sector.

With respect to GCT, collections of $29,250.1mn exceeded budget by $1,024.3mn due to higher than expected imports. GCT collections were $4,916.9mn (20.2%) higher than collections for FY 2006/07.

Compared to the previous fiscal year, all items within the International Trade category, with the exception of SCT, registered increases in FY 2007/08. These increases stemmed from increased importation, depreciation in the value of the Jamaica dollar and efficiency improvements at Customs.

Environmental Levy

The Environmental Levy exceeded projections with total collections of $1,698.0mn, surpassing target by $498.0mn, or 41.5%. This performance was partly influenced by higher levels of imports than anticipated. Proceeds of the levy introduced in June 2007 will contribute to meeting the cost of cleaning the country, restoring environmental assets and assisting in the management of solid waste disposal.

Non-tax Revenue

Non-tax revenue performed well with total collections of $18,235.0mn surpassing target by $3,894.4mn, or 27.2%. While the 2% Customs User Fee (CUF) contributed approximately 38% to total non-tax revenue collections, receipts from the Universal Access Fund (UAF) of $3,518.5mn was primarily responsible for the over-performance compared to budget. The UAF is a special fund set up to receive levy payments from international telecoms companies for international calls terminating on the local exchange. The funds are to be utilized to finance an E-Learning project. The CUF exceeded target by $365.8mn or 5.6% as a result of higher import value, largely from petroleum due to the significant increase in the price of oil.

Compared to FY 2006/07, non-tax revenue increased by 29.8%, with the UAF and the CUF together accounting for approximately 93% of the increase.

Bauxite Levy

The bauxite/alumina sector has been generating significant levy receipts in recent years and this continued during FY 2007/08 despite lower total bauxite production and exports relative to FY 2006/07. The decrease in output and exports was offset by higher prices on the London Metal Exchange (LME) for aluminium. As a result, bauxite levy receipts of $4,998.3mn surpassed collections in FY 2006/07 by $828.4mn, or 19.9%. Bauxite levy inflows were 17.1% higher than budgeted.

Capital Revenue

Capital revenue totaled $9,350.4mn, an increase of $5,788.0mn relative to the budget. The favourable outturn arose mainly from the GOJ's decision to sell 49% of its stake in Petrojam Limited, which realized $4,546.2mn. Collections were also buoyed by higher than expected receipts from Financial Institutions Services (FIS) and loan repayments.

In FY 2007/08 capital revenue increased by $6,057.2mn over the previous year, primarily due to receipt of proceeds from the Petrojam divestment and higher loan repayments.

Grants

Grant receipts amounted to $4,539.4mn, an increase over budget of $1,249.2mn. This increase was due mainly to Hurricane Dean Relief support of $756.0mn from the European Union (EU) and $218.3mn from the Republic of Trinidad and Tobago. The increase was also consistent with the higher capital outlay. The inflows during the review period were $3,040.1mn higher than the previous fiscal year, which is in part reflective of the increase in capital expenditure over FY 2006/07.

Expenditure

Total spending for FY 2007/08 of $294,279.6mn was 5.8% higher than budgeted with both recurrent and capital expenditure increasing above target. Compared to the previous fiscal year, spending during FY 2007/08 was relatively flat in real terms, with a nominal increase of 18.7%.

It is important to note that in comparison to the previous three (3) fiscal years, capital projects in FY 2007/08 (infrastructure spending) constituted a greater share of total expenditure with the share of expenditure on recurrent payments declining. The share of total expenditure devoted to capital projects in FY 2007/08 was recorded at 10.4%, compared to an average of 4.7% over the three-year period 2004 - 07.

Recurrent Expenditure

Recurrent expenditure totaled $252,877.9mn, which was $13,577.9mn, or 5.7% more than budget due largely to higher spending on recurrent programmes. This level of recurrent spending represented an increase of 12.6% over FY 2006/07, a real decline of approximately 7.0%.

Programmes

Spending on recurrent programmes of $64,918.7mn was 31.6% more than the amount budgeted and 35.2% above the previous fiscal year. Major areas of increases in the recurrent programmes were, inter alia:

- higher pension payments;
- increased subvention to schools;
- higher payments to public sector travelling officers;
- higher outlays to local government authorities for solid waste management and street lighting;
- increased utility costs;
- costs associated with holding General and Local Government Elections;
- additional costs associated with removal of health fees for children under age 18 and secondary school tuition fees.

Wages and Salaries

Expenditure on wages & salaries for FY 2007/08 was programmed to increase mainly as a result of the MOU II agreement between the GOJ and the unions representing public sector workers and the reclassification of health sector workers.

However, the reclassification exercise did not occur in FY 2007/08 and as a result wages and salaries at $86,235.6mn was $2,274.4mn (2.6%) below budget. When compared to the previous FY, wage costs recorded an increase of $7,574.9mn (9.6%) over payments in FY 2006/07, with the increase mainly reflecting new rates for various public sector groups arising out of MOU II.

Interest Payments

Interest cost of $101,723.4mn was on track with budget, deviating by only 0.2%. External payments were $718.4mn (2.3%) above budget while domestic payments were $464.7mn (0.7%) below target. Compared to the previous fiscal year, interest payments increased by 4.0%, with external payments increasing by 19.5% while domestic costs were 1.8% lower. The higher external costs arose from, inter alia, a larger debt stock, assumption of debt servicing costs for Air Jamaica and depreciation in the value of the Jamaica dollar.

Interest costs as a proportion of GDP declined to 12.8% compared to an average of 14.9% over the previous three (3) fiscal years. As a share of total expenditure interest payments stood at 34.6% in FY 2007/08 compared to 39.4% in FY 2006/07. With respect to consumption of fiscal resources, there has been a trend decline in the interest payments/revenue ratio. Interest costs consumed 39.7%

of total revenue in FY 2007/08, compared to 46.3% in 2006/07 and an average of 53.1% over the previous three fiscal years. This is a positive trend, as it creates more fiscal space for the provision of public goods.

Capital Expenditure

Expenditure on capital programmes of $41,401.7mn, was $2,520.6mn above budget. The higher capital expenditure was partly the result of un-programmed demand to address weather related damage to infrastructure.

Capital spending was $17,895.3mn, or 76.1% higher than in the previous fiscal year. The most significant contributors to this increase were accounting transactions of representing expenditure from prior fiscal years that were reflected in FY 2007/08 in conformity with recommendations from the Auditor General. Other notable factors that influenced the increase were, inter alia, additional expenditure demands necessitated by damage from Hurricane Dean and floods, support to Air Jamaica, as well as spending on various infrastructure projects.

Loan Receipts

In light of the need to finance a larger than programmed fiscal deficit and higher amortization payments, the Government's borrowing requirement for FY 2007/08 exceeded budget by $21,392.9mn, or 18.8%. Loan inflows totaled $135,240.3mn, consisting of $118,404.8mn from domestic sources and external receipts of $16,835.5mn.

While external loan receipts were below budget by $397.5mn (2.3%) due to lower than programmed loan inflows from multilateral/bilateral partners, domestic loans exceeded budget by $21,790.4mn as the higher fiscal deficit and amortization payments were financed from the domestic market.

Amortization

Amortization payments of $106,115.4mn exceeded budget by $3,931.7mn with domestic payments being on target and external payments increasing above budget. External payments of $37,293.4mn exceeded budget by $3,847.1mn (11.5%).

Overall amortization payments were $15,934.3mn (13.1%) lower than in the previous fiscal year.

Chapter 2

CENTRAL GOVERNMENT BUDGET FISCAL YEAR 2008/09

OVERVIEW

The FY 2008/09 Budget was developed within a medium term framework formulated around the following assumptions:

	2007/08	2008/09	2009/10	2010/11
Real GDP Growth (%)	0.9	3.0	3.5	3.5
Fiscal Deficit/GDP	-4.7	-4.5	-2.5	0.0
Inflation Rate (%)	19.2	10.0	8.0	7.0
Exchange Rate (J$/US$avg)	69.70	Constant real effective rate		

Within the context of this medium term framework an expenditure budget of $489,529.4mn was tabled in Parliament on March 27, 2008. The FY 2008/09 Budget reflects above-the-line expenditure of $349,242.4mn and amortization payments of $140,287.0mn. As in previous years debt servicing accounts for the largest portion of the budget, 54%, followed by education services 12%, national security services 7% and health services 5%.

The targeted fiscal deficit for FY 2008/09 is 4.5% of GDP ($43,195.7mn), to achieve which, given the programmed expenditure requires revenues and grants of $306,046.8mn**.** Salient features of the budget are presented below:

Expenditure

Debt Servicing

Total debt servicing for the fiscal year is projected at $263,930.5mn or 54% of the budget. This compares to $210,853.0mn or 52% for FY 2007/08. The breakout of the debt service is as follows:

	2007/08 $mn	**2008/09 $mn**	**Variance**
Interest Payments	**103,480.4**	**123643.5**	**20,163.1**
Amortization	**107373.0**	**140287.0**	**32914.0**
Total	**210853.4**	**263930.5**	**53.077.1**
% of Budget	**52.0%**	**54.0%**	**2.0%**

Total debt service shows an increase of $53,077.1mn or 25.1% over the FY 2007/08 outturn. This increase is due mainly to higher interest rates, depreciation of the Jamaica dollar and the Central Government's assumption of contingent liabilities.

Recurrent Expenditure

The overall recurrent expenditure increased from $254,703.3mn in FY 2007/08 to $304,594.0mn in FY 2008/09, representing an increase of $49,890.7mn or 19.6%. Public debt (Interest payments) is expected to move from $103,480.4mn in FY 2007/08 to $123,643.5mn in FY 2008/09, an increase of 19.5%. Non-debt recurrent expenditure has moved from $151,223mn in FY 2007/08 to $180,950mn in FY 2008/09, a 19.7% increase. When the new provision for salaries is removed, the overall increase is only 10.0%, which is due mainly to reorganization within Ministries, Departments and Agencies and the effect of inflation.

Approximately $14,500mn has been provided for contingencies and it is expected that this will be utilized for the MOU III settlement as well as costs associated with reclassification within the health sector. It should be noted that MOU III negotiations are ongoing and this allocation will be transferred to other Heads of Estimates in the First Supplementary Estimates, based on the settlement reached.

***Non-Debt (Wages & Salaries/Programmes*)**

The main projected contributors to the increase in the non-debt recurrent expenditure include:

- Provision of $14,500mn for salary settlements;
- Provision of $2,300mn to meet Employer's contribution to NHT;
- $300mn for increased Employer's contribution to Blue Cross;
- $1,000mn increase in pension benefits based on the number of persons retiring and at higher salaries;
- $1,000mn for the police to cover increments, restructuring and new recruits;
- $250mn for trained teachers for 560 basic schools;
- $1,400mn to provide for fee assistance to, and increased spaces in, secondary schools;
- $300mn for increased fees for overseas examinations and for independent schools with respect to spaces purchased at the secondary level;
- $1,000mn for tertiary education - arrears to UWI for salaries;
- $500mn in nutritional grants for schools;
- $3,800mn for Ministry of Health to provide for free health care and certain other facilities at all public hospitals.

Capital Expenditure

The projected capital payment for FY 2008/09 is $184,935.4mn, of which $140,287.0mn is amortization and $44,648.4mn is for capital programmes. Overall, capital has increased from $150,651.9mn in FY 2007/08 to $184,935.4mn in FY 2008/09, a 22.3% increase. Amortization moved from $107,373mn in FY 2007/08 to $140,287mn in FY 2008/09, a 30.7% increase reflecting a higher maturity of debt inclusive of a significant bullet payment on the external debt. Capital programmes moved from $43,309mn to $44.648.4mn, a 3.1% increase. Some major projects being funded within the capital programmes are listed below.

Constituency Development Fund

An allocation of $2,400mn has been made to undertake work in all 60 constituencies. The main thrust of the fund is to promote human and infrastructure development at the community and constituency levels by catalyzing economic activities at the constituency level; fostering local governance including good environmental stewardship, improving service delivery by bringing Government and the people closer together and increasing the effectiveness of the elected representatives.

Education Transformation Project (ETP)

The Ministry of Education has aligned its activities to the Task Force recommendations to guide, direct and contribute to the sustainability of educational improvements. The activities are being implemented through six strategic areas namely: Ministry Modernization; Schools Facilities and Infrastructure; Schools Leadership and Management; Curriculum, Teaching and Learning; Behaviour Change and Transformation and Communication and Stakeholder Participation. The allocation made to the ETP is $2,655mn.

Ministry Modernization

This component of the project is aimed at decentralizing the administrative functions of the Ministry of Education.

Schools Facilities and Infrastructure

This aspect of the project will provide improvement to the physical plant through upgrading and expansion. The Ministry has commenced the process of ending the shift system, reducing class and school sizes and rationalizing the school system into only primary and secondary institutions. Construction work is currently underway for 23 schools (new and expanded), which are at varying stages of completion. These schools will provide an estimated 5,150 school spaces. A further 11 schools are at the contract approval stage, i.e., Cabinet approval is either being sought or the contracts have already been signed. These schools will provide an additional 5,110 spaces.

Schools Leadership and Management

This will provide support for training programmes which are aimed at expanding school leadership competencies. Training will be provided to members of school boards and principals on Delegated Authority and Taking Responsibility and they will be held fully accountable for the total performance of their schools.

Curriculum, Teaching and Learning

Work is currently underway on a re-examination of all school assessments undertaken for Grades 1 to 9. Other areas of focus are literacy and numeracy strategies, and expanding Information and Communications Technology into the education system.

Behaviour Change and Transformation

This aspect of the project will include the following areas: Peer Counselling and Mentorship; Citizenship Education Programme; Behaviour Management Workshops (Regions); Male Teacher Forum; Guidance Counsellor Training and Direct Intervention in Schools.

Communication and Stakeholder Participation

The aim of this component of the ETP is to keep teachers, principals, school boards, parents and the community informed through regular meetings at the regional levels with these stakeholders. This workstream is linked with the Communications Unit in the Ministry of Education.

Construction and Improvement of Police Stations and Other Buildings

This allocation of $2,087mn is to facilitate repairs and maintenance of selected police stations island-wide.

Construction of a Public Mortuary

The capital budget provision includes an allocation of $200mn to facilitate the construction of a public mortuary for Kingston and St. Andrew.

Universal Access Fund (UAF)

The UAF has been provided with an allocation of $1,500mn. This allocation is to facilitate the implementation of ICT projects including the E-Learning project.

Petrojam Refinery Upgrade

The upgrading of the Petrojam refinery is a major project expected to be undertaken in FY 2008/09. To this end, an allocation of $2,000 has been made in the budget.

Rural Electrification

This allocation of $80mn is to effect the expansion of 65km of distribution power lines in rural Jamaica; wire 1,230 houses under the Rural Electrification Programme; complete distribution and installation of 250,000 light bulbs in Kingston, St. Andrew and St. Catherine.

Emergency Repairs to Roads - $482.760mn

The FY 2008/09 Budget makes provision of $482.8mn for emergency road repairs. This allocation is to develop a comprehensive system for dealing with disasters, whether natural or manmade, by preventative measures, public education and planning emergency operations so as to mitigate the human and economic impact of disasters. Implementation of the works will be effected through the National Works Agency.

Bridge Development and Construction Project

The provision of $700mn to this project is to allow for commencement of work on ten bridges slated for repairs and maintenance in 7 parishes.

Capital B (Multilateral/ Bilateral Projects)

Jamaica Social Investment Fund (JSIF)

A provision of $1,176mn has been made to JSIF to undertake expenditure under the following programmes/activities:

- Inner-city Basic Services;
- Basic Needs Trust Fund;
- Poverty Reduction Programme;
- National Community Development Project;
- Institutional Strengthening

JSIF was established as an efficient and demand driven mechanism to deliver basic services and infrastructure to the poor; provide resources in the areas of basic social and economic infrastructure and social services and expand the Government's institutional capacity to identify, implement, manage and sustain community-based sub-projects.

During FY 2008/09 JSIF will implement 12 civil works demand-driven projects and 12 special services demand projects. Eleven (11) schools (primary, all-age and junior high), ten (10) health facilities and several roads in 8 communities will be rehabilitated under the Hurricane Dean Rehabilitation Project. They will complete payments on 43 existing contracts under the National Community Development Project. Under the Inner City Basic Services Project, JSIF will construct community centres, wire households in pilot communities, contract wastewater treatment plant, conduct land tenure regularization exercises and construct roads in 12 inner-city communities.

Reduction of Fluctuation in Export Earnings (FLEX)

Funded by a European Union Grant, this project seeks to rehabilitate 65km of flood damaged parochial roads with farming activities in 6 parishes - St Ann, St Thomas, Clarendon, St Catherine, Manchester and St. Elizabeth, as well as to rehabilitate 20km of flood damaged farm roads in 5 parishes, namely - St Thomas, St Catherine, Manchester, St Elizabeth and Clarendon.

The allocation for 2008/09 of $128.5mn is to complete implementation and administrative functions; to award contracts for road works; to supervise rehabilitation works and to complete implementation of eight (8) road-packages.

Development of Sports and Recreational Facilities

The FY 2008/09 allocation of $609.5mn represents funding for 5 projects within this category, according to the Government's priorities for the Office of the Prime Minister. These are the Port Maria Civic Centre (Phase II) - $120.8mn, Montego Bay Sports Complex (Phase III) - $342.4mn, Stadium East Practice Field - $3.5mn, GC Foster College Seating/Football Field - $20.0mn, and Simon Bolivar Cultural Centre - $122.6mn.

The objectives of the category are :

- To expand and develop existing and new cultural and sports facilities;
- To enhance the blossoming of the country's creative talent;
- To promote a cultural fraternity in the Caribbean Basin;
- To stimulate and deepen cultural exchanges with countries in the basin;
- To design training programmes and develop human resources in the countries in sub-regions.

The targets for FY 2008/09 are as follows:

Independence Park – (Stadium East Practice Field) to complete construction of the practice field which will complement the completed changing room and spectator-seating facilities to provide improved training facilities for sports personnel in the Kingston and St. Andrew area.

GC Foster College - to complete installation of the spectator stand and the football field.

Port Maria Civic Centre - to complete restoration works on Phase II of the structure.

Montego Bay Sports Complex (Phase III) - to complete project implementation by September 2008. This will entail activities such as: spectator seating, bathroom facilities and perimeter fencing in order to bring the facilities to an acceptable standard to facilitate development of sports and other recreational activities in the western region of the country.

Simon Bolivar Cultural Centre - to award a contract to commence implementation of civil works. The complex is to achieve approximately 70% completion in this fiscal year and upon completion will serve to enhance the cultural nature of the Jamaican citizens.

Montego Bay Convention Centre

The FY 2008/09 allocation of $2,674mn for the Convention Centre is to undertake the planned implementation of actual construction based on the pre-contractual activities that were undertaken in FY 2007/08. The allocation is to obtain planning approval and commence implementation of civil works with a target 60% completion in FY 2008/09.

Social Safety Net - PATH (IBRD)

The Social Safety Net Programme of Advancement through Health and Education (PATH) project is the major contributor to the Ministry of Social Security's public assistance programme. The Ministry, through this project, will be making payments every two months to beneficiaries starting with 215,000 persons, and thereafter increasing gradually to 360,000 persons during the FY 2008/09.

In FY 2007/08, 248,890 beneficiaries received payments under PATH and benefits increased from J$530 to J$580 per beneficiary per month. The Ministry also implemented the alternative beneficiary payment method using "key card cash", an automated cheque paying system and improved case management among other things to improve the management of the programme

The project's major targets for FY 2008/09 include the following:

- make payments to approximately 360,000 eligible beneficiaries;
- implement a content management system;
- complete establishment of an information system to support the efficient management of the programme;
- continue the institutionalization phase of the PATH;
- continue the re-certification exercise of all PATH beneficiaries;
- complete the legislative framework of the PATH; and,
- implement a new Beneficiary Identification System (BIS) to select persons for PATH benefits.

Social Protection Project

This is a new project that will include activities of the present PATH project. This new project has been allocated $118.6mn and is scheduled to commence operations in October 2008.

The objectives of the project are to improve the effectiveness of the PATH, develop a structured system for assisting working-age members of PATH-eligible households to obtain and retain employment and enable the formulation of a reform programme for public sector pension schemes

During FY 2008/09, the project will make payment grants based on differentiated payment levels to motivate secondary school students to higher educational attainment; pilot a 'Steps to Work' programme.

Revitalization of the Dairy Sub-Sector ($140mn)

The objective of this activity is to support the revitalization of the dairy sub-sector as part of a national drive to enhance food security, livelihood protection and rural development. The funding is to facilitate loans, equity investments and grants to cattle producers for herd expansion, productivity enhancement and farmer training. In addition, the national school-feeding programme will be used as the vehicle for providing market stability to an expanding dairy sector. The amount allocated to the project is $140mn.

Hurricane Dean Rehabilitation (CDB)

The GOJ, through the Ministry of Transport and Works, is implementing a programme that will address flood-damaged roads. The Palisadoes peninsula has long been a challenge to Government and the Hurricane Dean Rehabilitation Project seeks to address this problem. The amount provided for the project is $981.6mn.

Emergency Assistance for Hurricane (IADB) $900mn

During FY 2008/09, the emphasis of the programme will be on the restoration of roads and drainage structure, in the flood/hurricane damaged areas of Bog Walk, Roselle and Manchioneal. Civil works will also commence in these areas. The allocation made for this project amounts to $900.0mn.

Road Rehabilitation Project II (OFID)

This project is funded by GOJ and OFID. For FY 2008/09, it is expected that 90.2km of road network will be done in 4 parishes. The provision in the budget to undertake this project is $419mn.

Road Rehabilitation Project (Kuwait II)

The provision made for this project is $150mn and during FY 2008/09 it is expected that 47km of road network will be done in 3 parishes.

National Road Services Improvement Programme (IDB)

One of the main objectives of this project was to promote the creation of a self-sustainable system for the provision of a safe and reliable road network. Some of the achievements up to March 2008 are:

- Rehabilitation of road sections damaged by hurricane;
- Routine maintenance (Phase I) contract signed and work in progress;
- Project Implementation Unit (PIU) established and staff identified;
- All loan agreements pre-conditions met; and,
- Infrastructure and institutional strengthening components 80% completed.

Targets anticipated for FY 2008/09 with a budget provision of $651mn are:

- Completion of the infrastructure and institutional strengthening components;
- Procurement of goods and services;
- Completion of the routine maintenance (Phase 1) civil works contracts; and,
- Enhancement of the road maintenance and management system.

Northern Jamaica Development Project

The main objective of this project in FY 2008/09, for which an allocation of $2,669mn has been made to improve infrastructure in tourism centres on the northern coast of Jamaica are as follows:

Segment 1 – Negril to Montego Bay: - Complete land acquisition inclusive of payments for consultancies.

Segment 2: Section 1 – Montego Bay to Greenside - Commence implementation of the environmental mitigation plan; provide final payments; provide payments for engineering consultancy; and provide payments for land acquisition, inclusive of final payments.

Segment 2a – Greenside to Ocho Rios - 100% completion of utilities relocation; 100% of legal acquisition of land; to provide payment for supervisory consultancy and outstanding amounts; and complete all outstanding civil works.

Segment 3 – Ocho Rios to Port Antonio - Provide payments for land acquisition; complete resettlement of informal settlers; provide payments for engineering consultancy; and continue implementation of the civil works.

Washington Boulevard Corridor Widening

The project is to enhance productivity by reducing the economic loss to the country that arises from traffic delays; reduce fuel consumption due to the congestion and also reduce vehicle operating costs (VOC) due to poor ride quality. At end-March 2008, 30% of required lands had been acquired.

The target for FY 2008/09 is to complete land acquisitions; complete construction of boundary fences; select consultancy services and contractor; complete utilities relocation and implement civil works up to approximately 20%. The budget allocation for this project is $470.3mn.

Information and Communication Technology Project (ICT)

This project, with allocation of $352mn, aims to promote Jamaica's e-readiness and to support the development of the ICT sector, in order to increase competitiveness, diversify exports and expand productive employment. The purpose of the project is to promote enhanced efficiency and access, thereby reducing transaction costs and increasing ICT use in the private/public sectors and civil society.

Kingston Metropolitan Area Water Supply Project (KMA)

The objective of this project is to provide an improved water supply system to the Kingston metropolitan area (including south east St. Catherine, Kingston & St. Andrew) to keep pace with the rapid industrial and housing developments in these areas. A provision of $1,200mn has been made in the budget toward this project.

Targets set for FY 2008/2009 are as follows:

- completion of the engineering and hydrogeological designs;
- procurement of all 5 construction contracts and completion of rehabilitation works (Lot no.1);
- completion of installation of bulk flow meters;
- implementation of 40% of the new source development works in greater Spanish Town (Lot 2a);
- commencement of the new source development works for south east St. Catherine (Lot 2b);
- completion of 50% of aquifer sustainability works;
- continuation of work on the NWC operational efficiency programmes.

Rural Water Supply Project

The objective of this project is to continue improving the basic sanitary/health conditions by increasing the coverage and sanitation services in poor rural areas and $179mn has been allocated to meet this objective.

The targets for FY 2008/09 are:

- construction of office building for the Cotterwood Water Supply Scheme;
- construction of office building for the Pamphret/Botany Bay and White Horses Water Supply Scheme;
- award of civil works contract for the Gravel Hill Water Supply Scheme;
- constructuon of the Mile Gully/Warwick Castle Water Supply Scheme;
- construction of 15 sanitation solutions.

Port Antonio Water, Sewage and Drainage $516.616mn

The objectives of this project are to:

- rehabilitate and expand the water supply and distribution system in Port Antonio;
- improve the existing drainage system;

- introduce a new central wastewater collection and treatment system in Port Antonio.

The project has been allocated $516.6mn for FY 2008/09 and the following activities will be undertaken: Implementation of leakage control contract; procurement of works construction services; and commencement of works contracts.

Ministry Of National Security – Citizens Security and Justice Project - $682.8mn

The main priorities for the Ministry of National Security for FY 2008/09 as they relate to the Citizens Security and Justice Project are to:

- prevent and reduce violence;
- strengthen crime management capabilities;
- improve the delivery of the judicial services.

The allocation of $682.8mn for FY 2008/09 is to:

- substantially complete the implementation of the Integrated Management Information System;
- complete the Drewsland community multi-purpose centre and renovate and equip Denham Town, August Town, Waterhouse and Parade Garden's multi-purpose centres;
- complete 7 rapid impact projects;
- provide certified skills training (HEART/NTA certification) to approximately 1,000 persons taken from all 15 communities;
- deliver educational/conflict resolution services through 6 NGOS to approximately 3,000 persons;
- strengthen 10 parenting groups and establish 4 cultural groups;
- provide tuition support to approximately 150 secondary and tertiary students and back-to-school assistance for 150 primary school students;
- provide administrative support for 15 community action committees;
- complete design work and begin construction/refurbishment work on the transformation centre;
- continue violence prevention programmes in the communities of Granville, Farm Heights, Mount Salem, Salt Spring, North Gully and Flankers in St. James and Russia in Savanna-la-Mar.

FINANCING FY 2008/09 BUDGET

The FY 2008/09 Budget has been one of the most challenging in recent years. The challenges arise against the backdrop of less than favourable international economic developments, with a potential recession in the world's largest economy, aggravated by rising oil and commodity prices.

Expectations of the Jamaica public for the efficient delivery of public goods and services represent a further challenge to the budget.

At the same time the external capital market and international financial institutions are paying particular attention to Jamaica's medium term fiscal profile. Access to international financing sources at reasonable cost will depend to a large extent on investor's perception of the Government's fiscal programme. Consequently a sound programme of fiscal consolidation that entails a reduction of the fiscal deficit and eventual balancing of the budget in 2010/11 is critical to addressing the medium term debt dynamics.

For FY 2008/09 the Central Government is targeting a fiscal deficit of 4.5% of GDP, equivalent to $43,195.7mn. The Budget of $489,529.4mn reflects above-the-line expenditure of $349,242.4mn and amortization payments of $140,287.0mn. Achievement of the fiscal deficit target of 4.5% of GDP will therefore require revenue & grants of $306,046.8mn.

Revenue and Grants

The projection of revenue and grants for FY 2008/09, represents an increase of 18.3% over FY 2007/08 and is broken down as follows:

	2007/08	**2008/09**	**Change**
	(in millions of dollars)		**(%)**
REVENUE & GRANTS	256,640.7	303,696.8	18.3
Tax Revenue	219,517.6	262,721.6	19.7
Non-tax Revenue	18,235.0	18,229.3	-0.0
Bauxite Levy	4,998.3	8,645.1	73.0
Capital Revenue	9,350.4	8,569.1	-8.4
Grants	4,539.4	5,531.6	21.9

This increase is however less than the 21.4% that occurred in the previous fiscal year. Additionally, the revenue and grant estimate for FY 2008/09 is 31.6% of GDP, slightly down from 32.3% in FY 2007/08.

i. Tax Revenue

Tax revenue of $262,721.6mn is budgeted to grow by 19.7% over collections in FY 2007/08. The estimated tax revenue for FY 2008/09 is about 27.4% of GDP, marginally lower than the 27.7% in the previous fiscal year. This projected growth in tax revenue is underpinned by (i) the elasticity of the tax system, which will result in a natural increase in tax revenue arising from buoyancy in economic activity (ii) the implementation of a robust revenue enhancement programme. The revenue enhancement measures will entail a profound administrative/compliance plan with a menu of initiatives geared toward improving the tax system, reducing the incidence of non-compliance and increasing collections.

Administrative/Compliance Measures

In its thrust to achieve the programmed reduction in the fiscal deficit in FY 2008/09 as a precursor to eventual elimination by FY 2010/11, the GOJ through the tax authorities will be adopting an aggressive strategy toward increasing revenue collections. The main pillars of the strategy are indicated below with further details outlined in Appendix 4.

Improved Compliance

Compliance strategies to buoy revenue in FY 2008/09 will focus on:

- Audit and Assessment
- Collections
- Issuance of Tax Compliance Certificates
- Tax Fraud
- Taxpayer Education.

Improved Information and Communication Technology

There will be continued and increased focus on leveraging technologies to improve the Tax Administration's services to its clients. Among the expected improvements are enhancements to the business functions and systems modules of the Integrated Computerized Tax Administration System (ICTAS). This will be augmented by continued expansion of E-payment facilities and introduction of E-filing of tax returns to allow for an increase in the number of taxes that can be paid online.

Improved Organization and Management

Tax Administration will step up the drive to develop a cadre of professionals with the requisite technical competences to satisfy the dual objective of delivering quality service to stakeholders and boosting revenue collections. To this end a comprehensive human resource programme will be adopted with focus on auditors, compliance officers and taxpayer service personnel in the various tax departments. To support these human resource initiatives, the requisite legal framework will be established with amendment to specific Acts being expedited to allow tax authorities to optimize revenue collections.

ii. Non-tax Revenue

Non-tax revenue is projected at $18,229.3mn, which is just about the same as collections in FY 2007/08. However receipts in FY 2007/08 were buoyed by a significant transfer of $3,518.5mn from the Universal Access Fund (UAF). The UAF is funded by the Universal Service Levy, which was introduced in 2005 as a levy on incoming telephone calls that terminate on the local exchange. The transfer in FY 2007/08 represents collections since inception of the levy.

For FY 2008/09, the amount estimated to be collected from the levy is $1,368.0mn.

iii Bauxite Levy

A strong rebound is expected in the bauxite/alumina industry in FY 2008/09, following the fallout in 2007 occasioned partly by the vagaries of the weather. This anticipated rebound augurs well for increased levy inflows. Projections are for a 73% increase in levy receipts to $8,645.1mn.

iv. Capital Revenue

Capital revenue estimates of $8,569.1mn are 8.4% less than collections in the previous fiscal year. The collections in FY 2007/08 were buoyed by proceeds of $4,546.2mn from the divestment of shares in Petrojam, as well as inflows of $2,220.0mn from the Financial Institution Services (FIS). While the capital revenue base is projected to increase over the previous fiscal year, this growth is expected to be negated by a significant reduction in receipts from the FIS, which has already disposed of most of the assets under its control. The capital revenue estimates for FY 2008/09 also includes $6,000.0mn expected from divestment of various GOJ assets.

v. Grants

The FY 2008/09 forecast for Grants amounts to $5,531.6mn. This forecast represents a 21.9% increase over receipts in FY 2007/08. The major grant-funded projects budgeted for FY 2008/09 are:

	J$mn
Northern Coastal Highway (EU)	1,718.6
Sugar Transformation (EU)	1,251.6
Hurricane Dean Rehab/Palisadoes (CDB)	687.1
Banana Support (EU)	303.4

vi. New Revenue Measures

The combination of the revenue forecast (inclusive of the baseline and administrative component) outlined above and the expenditure budget approved by Parliament leaves a fiscal gap of $2,350.0mn or 0.2% of GDP. Achievement of the 4.5% of GDP fiscal deficit target will therefore require additional revenue enhancement measures. Consequently, a revenue package of this amount has been identified and will be implemented to enhance the revenue flows and close the fiscal gap.

vii. Loan Receipts

In FY 2008/09, the Government proposes to borrow $183,482.7 to cover the fiscal deficit and amortization payments. Of this total $130,751.7mn is programmed to be raised from the domestic market and the remaining $52,731.0mn from external sources. The programmed external borrowing includes $9,009mn from multilateral/bilateral sources for capital projects and the equivalent of $43,722.0mn from the international capital market.

The borrowing profile for FY 2008/09 represents a 35.7% increase in gross receipts over the previous fiscal year but this is mainly due to a 32.3% increase in amortization payments. In terms of net borrowing therefore the programme for FY represents only a marginal increase over FY 2007/08.

Chapter 3

PUBLIC SECTOR ENTITIES

Overview

Public Bodies consisting of statutory bodies, Government companies and agencies are integral to the execution of Government's policies. By providing capital and technology to strategic areas, they stimulate economic growth and development through capital formation and employment generation.

There are currently 156 active Public Bodies on register. Given the size of some Public Bodies and the diverse nature of activities they undertake across various sectors of the economy, their contribution to development at both the micro and macro levels has over the years been significant.

Approximately 40% of Public Bodies are fully or partly funded from the Consolidated Fund, while the remainder finance their operations from internally generated funds. A total of 65 of these Public Bodies are subject to rigorous monitoring by the Ministry of Finance and the Public Service (MFPS). The MFPS' programme of intensive monitoring, which encompasses finance, operations and governance, is to be extended to the remaining Public Bodies during FY 2008/09. Work is currently underway to strengthen the Ministry's capacity to undertake the increased monitoring.

At the same time, the MFPS, in collaboration with the Cabinet Office and the Inter-American Development Bank (IADB), under a second *Program to Implement the External Pillar of the Medium Term Action Plan for Development Effectiveness (PRODEV 2),* is taking steps to enhance the accountability and governance framework within which Public Bodies operate.

Accountability will be enhanced as the MFPS implements measures to increase levels of compliance with requirements under the Public Bodies Management and Accountability (PBMA) Act. In addition, the Ministry will seek to increase the accountability of Chief Executive Officers of Public Bodies with the introduction of Performance Agreements/Contracts.

Estimates of Revenue and Expenditure

The Public Bodies' Estimates of Revenue and Expenditure for year ending March 31, 2008 incorporates corporate plans and budgets for 61 self-financing Public Bodies. These entities are expected to employ total assets of approximately $121,000 million and will generate revenue of over $225,000 million compared to $210,000 million in FY 2007/08.

Contribution by Public Bodies

Public Bodies continue to play a critical role in the development of the country's physical infrastructure. Each year, significant expenditure takes place to improve and expand capacity at air and sea ports, increase quantity and quality of the nation's housing stock, improve water and sewerage facilities, construction of new roads and rehabilitation of the island's road network, construction of schools and hospitals, among others. This group, which includes the National Housing Trust (NHT), the Port Authority of Jamaica (PAJ), the Airports Authority of Jamaica

(AAJ), the National Water Commission (NWC), the Urban Development Corporation (UDC), and the National Road Operating and Constructing Company Limited (NROCC), is expected to spend $47,103 million on infrastructural works in FY 2008/09, a significant increase over the $31,118.85 million spent in FY 2007/08

The NHT is primarily responsible for the provision of funding to expand the island's housing stock. For FY 2008/09 the NHT plans to incur capital expenditure of $21,430.83 million, of which $19,618 million will be allocated to the provision of housing benefits. Construction of 7,296 housing solutions will commence by the beginning of the fiscal year and it is expected that 4,139 or 56.7% of these will be completed by the end of the year. Of the number to be completed, it is expected that 1,782 will be handed over during the year.

The PAJ is currently implementing Phase V of a Port Development Programme, which began in FY 1995/96. Through this programme, it has succeeded in upgrading and repositioning the Kingston Trans-shipment Terminal, which now ranks third in the Caribbean/Latin American Region and 55th in the world's top one hundred container ports.

The PAJ's capital expenditure for FY 2008/09 is budgeted at $8,886.03 million, the main component of which is the planned development of the Falmouth Cruise Ship Pier. This development is budgeted at $7,529 million and will incorporate dredging of the access channel and harbour basin to accommodate the draught of the Genesis class vessels. The project is being undertaken in partnership with Royal Caribbean Cruise Lines. Royal Caribbean Cruise Lines will be responsible for the land-side development works.

At the same time, the PAJ is forging ahead with the Phase V expansion of the Kingston Container Terminal (KCT). Approximately $700 million is to be spent on this activity, inclusive of $550 million for soil improvement works and $149.58 million for civil works. The PAJ will be seeking to acquire land at Fort Augusta for the continued expansion of the KCT.

The AAJ is in the process of implementing a 20-year Capital Development Programme at the Norman Manley International Airport (NMIA). This programme is scheduled for implementation in three (3) phases at a total cost of US$139 million. Phase 1A, which is currently being executed, is projected to cost US$98 million and is to be completed in FY 2008/09.

The AAJ's capital expenditure for FY 2008/09 is projected at $2,353.83 million, of which $2,237.36 million will be spent on completing Phase 1A of the expansion project at the NMIA. The project will be financed with a combination of Airport Improvement Fees and loans. Major deliverables will include:

- A fully renovated departure concourse;
- Seven (7) additional x-ray machines to enhance the level of security at the Airport;
- Five (5) additional passenger boarding bridges at the new pier to bring the total to nine (9); and
- An upgraded primary electrical infrastructure.

Another major deliverable, which is external to Phase 1A, will be an upgraded terminal arrivals area.

The NWC is responsible for the provision of water and sewerage facilities throughout Jamaica. Its capital development programme is principally driven by the Water Sector Policy and is aimed at increasing the capacity and adequacy of facilities to provide universal access to potable water by CY 2010.

The NWC's proposed capital expenditure of $3,513.52 million in FY 2008/09 is substantially earmarked for continuation of work on the following projects: Kingston Metropolitan Area (KMA); Major Rural Water Supply; Port Antonio Wastewater and Sanitation; and, the Martha Brae to Harmony Hall Water Supply Project. In addition, the NWC will be acquiring meters to reduce the level of unaccounted for water and installing a new Customer Improvement System to improve customer service delivery and eliminate business inefficiencies.

The UDC has been involved in planning, managing and implementing projects on behalf of GOJ and its agencies/departments since its inception, with the objective being to stimulate urban renewal and economic growth.

In FY 2008/09 the UDC's capital programme is expected to cost approximately $5,919.35 million, of which work to be executed on behalf of Government ministries and agencies will account for approximately $3,887.55 million. Among the GOJ/Agency projects are: Montego Bay Convention Centre; Montego Bay Sports Complex; refurbishing of the Jamaica Conference Centre; and the Port Maria Civic Centre. The balance will be spent primarily on construction of the Transportation Centre (Down-town, Kingston), refurbishing of St. William Grant Park and preparatory works toward construction of a new Parliament building.

NROCC is the holder of the toll concession for Highway 2000. Its core functions include:

- overseeing the design, construction and maintenance of the highways and related facilities to ensure compliance with the Concession Agreement and environmental preservation;
- ensuring strong linkages to encourage development activities and safety on the roads; and
- planning the implementation of the Highway.

In FY 2008/09, NROCC will continue the expansion of the road network across the island. Phase 1a of the project, which covers the highway from Kingston to Sandy Bay in Clarendon, as well as the Portmore Causeway toll roads, is now complete. Ground was broken for commencement of Phase 1b, specifically the Mount Rosser By-pass (25km) during FY 2007/08. Construction will commence on the Sandy Bay to Williamsfield (39km) link by the second quarter of the fiscal year, the Spanish Town/Rio Cobre Bypass (17km) and the Bog Walk to Linstead Bypass (7km) by the second half of the year. In addition, NROCC will continue the improvement work on Marcus Garvey Drive to alleviate traffic congestion. These projects are expected to incur total cost of US$64.32 million during the year.

Corporate Governance

The governance framework, within which the Public Bodies operate, was changed significantly with the passing of the PBMA Act, 2001 and subsequent amendment in 2003. The Act seeks to improve corporate governance in Public Bodies by increasing transparency in organizational systems and accountability of Directors and Managers. Amendments to the Act will become effective this year and will enhance the provisions for good governance. Under PRODEV 2, the MFPS will receive assistance in developing a Code of Conduct for Directors as well as a Code of Audit Practices for the Public Sector.

Accrual Accounting/ International Public Sector Accounting Standards (IPSAS)

Central Government Ministries, Departments and some Public Bodies prepare financial statements on a cash/modified-cash accounting basis. It is expected that the public sector will complete the conversion to accrual accounting in keeping with the Government's thrust articulated in the Public Sector Modernisation-Vision and Strategy: 2002 – 2012.

The conversion will facilitate higher levels of transparency in public sector financial reporting as well as the use of International Public Sector Accounting Standards. The presentation of financial statements under these standards will facilitate greater levels of transparency and comparability of financial information.

The Public Sector Committee of the Institute of Chartered Accountants of Jamaica (ICAJ) is expected to conclude its review of the IPSAS during FY 2008/09, after which the Government is expected to formulate policy for their adoption. Public Bodies that do not operate as business enterprises and rely on Government funding to meet operational needs will be required to prepare financial statements using IPSAS.

Rationalization and Restructuring

The Government will continue to rationalize/restructure Public Bodies for greater efficiency and effectiveness in the delivery of services to the public. A formal plan for the complete rationalization of the Public Bodies sub-sector is being prepared and is to be completed by the end of April 2008. The rationalization exercise will incorporate the winding up and removal of inactive entities from the Companies Register, merging compatible entities for greater efficiency and effectiveness in the delivery of public services, restructuring financial statements and privatising entities where appropriate.

Efforts are underway to privatise the Sugar Company of Jamaica (SCJ) and Air Jamaica Limited and to rationalize the functions of the National Health Fund and Health Corporation Limited. In addition, the MFPS will continue to impose stringent conditionalities on Public Bodies seeking grants or loans from the Consolidated Fund.

Sustainable Development Strategy

In FY 2006/07, the MFPS began sensitising Public Bodies on the need to identify and incorporate sustainable development strategies in their Corporate Plans. The MFPS will continue the thrust in FY 2008/09 to increase environmental awareness and the extent to which these are practised in Public Bodies. Expectations are that Public Bodies will continue to train staff in identifying and developing environmental preservation measures, including pollution prevention, appropriate waste disposal and energy efficiency and conservation measures.

Chapter 4

REVIEW OF SELECTED PROJECTS

The Government, along with its multilateral/bilateral partners, is committed to improving the social sector and the infrastructure network, tackling the problem of crime and revitalizing the agricultural sector. A brief review of some of the projects being implemented is presented below.

SOCIAL SECTOR

Education

Reform of Secondary Education (ROSE II)

The ROSE project is financed jointly by the World Bank and the Government of Jamaica. The major objective is to improve the quality of secondary education through reform, capacity building and infrastructure development.

For FY 2007/08, some of the achievements include:

- Training of 932 teachers in ROSE I curriculum;
- Training programme implemented in independent schools over 3 years, where 197 students benefited;
- Procurement of 1,760 Supplementary Readers;
- Completion of the extension of Annotto Bay High School;
- Cabinet award of a contract for the extension of the Paul Bogle High School.

The project is expected to be completed in FY 2008/09 with the:

- Full implementation of school improvement plans in 99 schools;
- Completion of training of teachers in the use of diagnostic tools and strategies (Language Arts and Mathematics);
- Printing of students' booklets and the revising and reprinting of school improvement manuals;
- Completion of the construction/extension work at Paul Bogle High School;
- Procurement of furniture and equipment for Paul Bogle High School.

Enhancement of Basic Schools

This project is designed to enable young children to learn and develop optimally. It is jointly funded by the Caribbean Development Bank and the Government of Jamaica.

Since its inception in 2002 several targets have been met, including:

- Completion of the Manchester Resource Centre;
- Construction of the Yallahs Basic School, the DRB Grant Basic School and the St. James Resource Centre;
- Ninety percent (90%) completion of the construction of the St. Thomas Resource Centre and 20% completion of the Stephen James Basic School and Trelawny Resource Centre;

- Completion of fellowships by Early Childhood Officers and the training of 680 Level II Practitioners and 80 Education Officers.

The Enhancement of Basic Schools Project will continue in 2008/09 with the:

- Completion of construction of the St. Catherine Resource Centre;
- Construction of Fern Grove Basic School, the St. Ann Resource Centre and Shortwood Infant School;
- Commencement of construction of a number of basic schools and resource centres across the island.

Health

HIV/AIDS Prevention and Control Programme

The aim of this programme is to assist in curbing the spread of HIV through improved treatment, care and support.

Since its commencement in 2003, there has been an increased awareness of the HIV/AIDS epidemic. Under this programme:

- Thirty thousand pregnant women have been tested for HIV;
- It is estimated that approximately one million adults have been informed through 44 media awareness campaigns;
- Training Workshops in the treatment and prevention of HIV have been held for 200 Health Community Workers;
- A surveillance system has been developed, which includes case reporting and Sentinel Surveillance of high-risk groups.
- The National HIV/AIDS Strategic Plan 2007 to 2012 has been drafted and circulated.

Activities to be undertaken in FY 2008/09 include:

- Distribution of two million condoms at various intervention sites;
- Provision of anti-retroviral drugs (ARVs) for prevention of mother to child transmission of retroviruses;
- Improving the diagnostic capacity of the health sector by training community health workers and lab technicians;

- Training of the Programme Coordinating Unit staff and regional staff in programme management and evidence based interventions;
- Establishing a Medical Waste Management Plant for the South Eastern Regional Health Authority (SERHA).

Social Safety Net (PATH)

This programme was designed to assist the poor and most vulnerable in the society. The original target was for 236,000 needy persons to benefit by December 2005, the date for final disbursement of funds from the World Bank to the programme.

An extension of the loan was however approved by the World Bank to enable the continuation of the programme to March 2008, when it is estimated that 251,500 persons would have benefited.

The number of beneficiaries under the Programme of Advancement through Health and Education (PATH) has increased from 183,000 in April 2006 to 229,000 in October 2007.

Among the other achievements of the programme are:

- Increased interventions by social workers to reinstate individuals who have been suspended from the programme;
- Finalization of the Health Compliance Study and the introduction of a series of "Parenting Workshops" for family heads;
- Mass retraining of health care staff;
- Increased cooperation in problem schools and health centres as a result of the intervention of education and health liaison officers;
- Introduction of an alternative method of payment of grants to beneficiaries, using a "Prepaid Cash Card".

The Government will enhance its social protection programme with the commencement of a Social Protection Project. It is anticipated that this programme will be undertaken in partnership with the World Bank.

The Social Protection Project will commence in FY 2008/09 and will seek to improve the effectiveness of the PATH, develop a structured system for assisting working-age members of PATH-eligible households to obtain and retain employment and enable the formulation of a reform programme for public sector pension schemes.

Jamaica Social Investment Fund (JSIF)

JSIF was established to assist the needs of the most vulnerable groups in the society.

In FY 2008/09 the main areas of focus will be through the:

- Poverty Reduction Programme (PRP2);
- Hurricane Dean Emergency Recovery Project;

- National Community Development Project;
- Inner City Basic Services Project.

Twenty-five projects covering the areas of civil works and social services will be implemented under the Poverty Reduction Programme.

The Hurricane Dean Emergency Project will entail rehabilitation of 27 schools (Primary, All Age, and Junior High), 23 health centres and roads in 13 communities.

The National Community Development Project and Inner City Basic Services Project should lead to the improvement of basic services such as reliable potable water, sanitation, solid waste management, road infrastructure and related community based services. Public safety will also be enhanced through mediation and conflict resolution.

Vocation and skills training, job placement, youth programmes and family support programmes, geared toward reducing the incidence of crime and violence and the strengthening of community capacity to develop, manage and maintain basic infrastructure, will be pursued.

The activities to be undertaken by JSIF in FY 2008/09 include:

- Development of integrated basic infrastructure and the refurbishing of three community centres;
- Construction of a waste water treatment plant;
- Installation of street lights;
- Implementation of solid waste management activities; and
- Increased youth education and recreation in the communities.

National Security

Citizens Security and Justice

The objectives of this programme are to:

- Prevent and reduce crime and violence;
- Strengthen crime management capabilities; and
- Improve the delivery of judicial services.

The project has been progressing satisfactorily and significant achievements have been made. Of note are the:

- Completion of the requirements for the Traffic Ticketing System;
- Delivery of computer equipment and software for the National Investigation Bureau and Narcotics Unit of the JCF;

- Delivery and installation of network software in 20 pilot sites (Jamaica Constabulary Force – 10 sites; Department of Corrections – 10 sites);
- Improvements in the criminal justice system with the training of 51 persons for the Board of Visitors Programme; training of 14 investigators for the Public Complaints Authority and five (5) Social Workers for the Victim Support Unit;
- Completion of 20 rapid impact projects in 13 inner city communities, with two (2) still in progress (Mountain View and Cassia Park).

The programme will continue in FY 2008/09, with implementation of all three phases of the Integrated Management Information System (IMIS). The IMIS includes (i) turnkey solutions for the JCF and the Department of Corrections; (ii) data entry services and (iii) a secure internet portal infrastructure.

Other activities to be undertaken involve completion of design work for the Transformation Centre at Tamarind Farm Correctional Facility and consolidation of the Community Action programmes in the Kingston Metropolitan Region.

Agriculture

The European Union (EU) continues to assist the Government of Jamaica in its drive to revitalize the agricultural sector, through funding for the banana and sugar industries.

EU Banana Support Project

The objective of this project is to promote sustainable development in the traditional banana-growing areas of Jamaica, by improving productivity and marketability, while reducing the cost of production.

There will also be on-going technical and financial assistance to improve the viability of both export and domestic banana producers.

Activities to be undertaken in FY 2008/09 will include:

- Establishment of a database with up-to-date information on all registered banana and plantain farmers;
- Conducting of relevant research, provision of extension services, requisite knowledge and skills training, and technology transfer;
- Conducting surveys of the non-export banana industry to determine the true value;
- Maintaining a general marketing and promotional campaign in both export and domestic markets;
- Implementation of rural enterprise development initiatives subject to availability of market information and the conduct of feasibility/market studies;
- Pursuing partnerships with local and new foreign investors;
- Provision of infrastructure support.

Sugar Transformation

The aim of this project is to develop a sustainable Private Sector-led sugarcane industry by the Year 2015. This will be accomplished utilizing three components:

- Support for the privatization of Public Sector sugar assets (Sugar Company of Jamaica Ltd.);
- Implementation of actions for area development programmes in sugar development areas;
- A public awareness campaign for the sugar industry.

Agricultural Support Services Project (ASSP)

This project was designed to improve the quality of agricultural research, upgrade the existing system for safeguarding animal and plant health and stimulate agri-business development in rural areas. Significant improvements have been made in all three areas.

A contract was signed in February 2008 to supply and install an irrigation system for South Bodles. This system will support the Hay/Forage project, which will provide hay for the burgeoning sheep industry.

Producers and Farmers Organizations have been strengthened with the training of 28 producers in mastering cultural transformation and 108 farmers in the areas of fertilization, principles of irrigation and hot pepper and sweet potato production.

In fulfilling its mandate to enhance the competitiveness of the agricultural sector, industry plans were developed by the ASSP for hot peppers, escallion, sweet potato, cassava and beekeeping/honey production.

Other achievements include construction of the Plant Quarantine Office at the Montego Bay Port and refurbishing of the Fumigation Centre at the Export Complex in Montego Bay.

At end-February 2008, 26 productive projects had been approved by the ASSP. Local pig farmers have been utilizing artificial insemination methods, using semen obtained from the genetic stock procured by the project. The project is scheduled to end in FY 2008/09.

Cabinet approval will be sought for the following:

(a) Implementation of the Food Safety Policy and the establishment of the Food Safety Secretariat;
(b) Plant Health and Animal Health Policy covering:

- Expansion of the Export Complex Warehouse at the Norman Manley International Airport;
- Construction of a cold room at the Montego Bay Export Complex (Sangster International Airport);
- Refurbishing of the Animal Quarantine Station at Plumb Point;

- Implementation of a National Animal Identification Programme.

INFRASTRUCTURE

Northern Jamaica Development

The Northern Jamaica Development Project was designed to improve the road infrastructure from Negril to Port Antonio.

Segment I of the Highway from Negril to Montego Bay has been completed.

Segment II (2&2A) runs from Montego Bay to Ocho Rios. With respect to Segment 2A, work on the roadway from Montego Bay to Greenside is 99% complete. Construction has been completed on Segment 2, Greenside to Ocho Rios.

Construction work on Segment III, which runs from Ocho Rios to Port Antonio, is in progress and is projected to conclude during FY 2008/09.

Kingston Metropolitan Water Supply

It is anticipated that this project will provide improved water supply to the Kingston Metropolitan Area (including Greater Spanish Town, Southeast St. Catherine, Kingston and St. Andrew). During FY 2007/08, substantial progress was made to effect improvements to the domestic water supply in Greater Spanish Town and South St. Catherine. Work that has been undertaken already involves rehabilitation of all production sources, storage tanks and pipelines. At end March 2008 this contract is estimated to be approximately 70% complete.

During FY 2008/09, contracts will be awarded/work will commence on the two remaining aspects of the project: (a) the development of new supplies for South East St. Catherine and (b) the artificial recharge of the ground water aquifer.

Chapter 5

DEBT AND CAPITAL MARKET DEVELOPMENTS

Introduction

The Government made moderate achievements with respect to the objectives outlined in the "*Debt Management Strategy FY 2007/2008*". The Government's debt management programme is designed to achieve public debt sustainability, ensuring that the overall borrowing requirement is satisfied at minimum cost and consistent with a prudent degree of risk.

Management of the public debt was challenged by the prevailing international and domestic conditions, which included natural disasters, increasing world oil and commodity prices, inflationary pressures and increasing domestic market interest rates.

Despite the constraints and challenging market conditions, the Government was nevertheless able to extend maturities by successfully issuing debt instruments with up to 20 and 25 years to maturity on the domestic market and 32 years in the international capital markets.

In October 2007, the Government re-opened the US$350mn 8.0% Bond due 2039, issued in March 2007, for an additional US$150mn, creating a large and liquid bond with eligibility to the JP Morgan Emerging Market Bond Index+ (EMBI+).

During the fiscal year, Jamaica's credit ratings were reviewed by the rating agencies Moody's Investors Service (Moody's), Fitch Ratings (Fitch) and Standard and Poor's (S&P).

The growth rate of the public debt was contained to 8.4%, down from 9.0% recorded in FY 2006/07 and the foreign currency component of the domestic debt portfolio was reduced.

At end-March 2008, the stock of public debt stood at $1,000.7bn, a nominal increase of 8.4% over the $923.1bn recorded at end-March 2007. As a percent of GDP, however, the stock of public debt at end-March 2008 is recorded at 126.1%, which represents a 6.3 percentage point decline over the 132.4% of GDP recorded at end-March 2007.

The main factors contributing to the nominal increase were the:

- financing of the fiscal deficit;
- issue of government securities to cover Bank of Jamaica (BOJ) losses;
- the capitalization of interest on previously issued securities to the BOJ;
- increase in Government guarantees mainly in support of Air Jamaica Limited;
- disbursements on existing project loans; and
- adverse movements of exchange rates of currencies in the portfolio, namely Euro vis-à-vis the US$, Yen vis-à-vis the US$ and the US$ vis-à-vis the J$.

DOMESTIC DEBT

Performance Summary

The Government's medium-term debt strategy continued to guide the country's debt management activities during FY 2007/08. The major objective of raising adequate levels of financing for budgetary requirements at minimum cost was pursued within the context of continued efforts to extend the maturity structure and contain interest costs. The achievement of these objectives was severely challenged during the year by a number of elements, inclusive of higher than anticipated inflation, increasing domestic market rates and market preference for variable rate securities, at the shorter end of the curve.

Despite the constraints and challenging market conditions, the Government was able to successfully issue debt securities with up to 20 and 25 years to maturity. The objective of maintaining transparency and predictability in debt issuance was achieved through the provision of up-to-date information to the market via regular updates on the Ministry's web site.

The growth rate of domestic debt was contained and foreign currency risk was minimized by significantly reducing the foreign currency component of the portfolio.

Stock Composition

At end-March 2008, the stock of domestic debt stood at $562,108.1mn or 70.8% of GDP, down from 73.7% of GDP at the close of FY 2006/07. The debt stock increased by $48,177.2mn or 9.4% over the stock at end FY 2006/07, and compares with the previous increase of 6.5% at end FY 2006/07 over FY 2005/06 and 7.5% at end FY 2005/06 over FY 2004/05.

The increase in the domestic debt stock is attributable to financing of the fiscal deficit, the issue of government securities to cover Bank of Jamaica (BOJ) losses, and the capitalization of interest on previously issued securities to the BOJ. During the review period the Government issued Local Registered Stocks (LRS) to the Central Bank in the amount of $5,303.5mn for the capitalization of interest on the Bank's holdings of former FINSAC Bonds and $1,050.7mn for realized losses for the period ended December 2006.
At end FY 2007/08, LRS and Investment Debentures/Bonds, the Government's medium to long-term debt instruments, represented approximately 86.3% of the domestic debt portfolio compared with 83.2% at end-March 2007 and 81.1% at end-March 2006. US$ denominated and indexed issues accounted for 12.1% compared with 14.5% at end-March 2007 and 15.9% at end-March 2006. Treasury Bills, the Government's short-term instrument, Commercial Bank Loans and other debt accounted for the remaining 1.6% compared with 2.3% at end-March 2007, and 3.0% at end-March 2006.

During the review period, the market continued to favour variable rate instruments, and to a lesser extent, short-term fixed rate securities over long-term fixed rate instruments, reflecting the prevailing macroeconomic environment. This resulted in a net increase of 30.3% in the Investment Debentures/Bonds category, the component of the debt stock showing the highest level of increase.

This was the main category of securities used to execute fund raising activities during the review period. This category includes short to medium-term Fixed Rate Investment Debentures, medium to long-term Fixed Rate Registered Bonds, and Variable Rate Investment Bonds.

The stock of LRS, traditionally the largest share of the debt portfolio, decreased by 1.4%. The Investment Debentures/Bonds category has, since August 2007, represented the largest share of the debt stock, and continues to increase while the LRS category continues to decrease proportionately. Consistent with the debt strategy of reducing exchange rate exposure and risk, the foreign currency component as a share of the domestic debt stock also decreased by 9.2%.

Structure of Domestic Public Debt
2006/07 – 2007/08
(J$mn)

	FY 2006/07	**%**	**FY 2007/08**	**%**
LRS	226,631.1	44.1	223,581.6	39.8
Debentures	200,676.8	39.1	261,459.9	46.5
Treasury Bills	4,200.0	0.8	4,200.0	0.7
US$ Indexed Bonds	24,588.9	4.8	17,843.2	3.2
US$ Denominated Bonds	49,993.7	9.7	49,894.3	8.9
Commercial Bank Loans & Other	7,840.4	1.5	5,129.1	0.9
Total Domestic Debt	**513,930.9**	**100.0**	**562,108.1**	**100.0**

Holdings

Merchant banks, trust companies and brokers continued to be the main holders of Government securities, accounting for 37.8% of the total portfolio as at end FY 2007/08. The Bank of Jamaica was the second largest holder, accounting for 14.1%. Holdings by Commercial Banks decreased from 15.3% to 13.5% at end FY 2006/07. Holdings by insurance companies and pension funds, including the National Insurance Fund, increased from 22.9% at end FY 2006/07 to 25.2% at end FY 2007/08.

Maturity Profile

During FY 2007/08, the Government was constrained in its efforts to extend the maturity profile of the debt consistent with its debt strategy, as only approximately 8.0% of new debt securities issued had maturities of over 10 years. This compared with 41.0% in FY 2006/07 and 20.9% in FY 2005/06. New domestic debt issued in FY 2007/08, had 63.4% maturing within 5 years, a significant increase when compared with 22.9% in FY 2006/07. Within this five-year period, 28.0% will mature within three (3) years, while 35.4% will mature in 3-5 years.

Debt issues with maturities between five (5) and ten (10) years decreased to 28.6%, down from 36.1% in FY 2006/07 and 35.7% in FY 2005/06. The major change in the maturity structure occurred in the issue of securities with maturities between ten (10) and 20 years. During FY 2007/08 the issue of new debt securities with maturities between 10 and 20 years declined significantly to 4.9%, from 37.6% during FY 2006/07, and 17.4% during FY 2005/06. Issues with maturities of over 20 years comprised 3.1% of new issues and compares with 3.4% in FY 2006/07 and 3.5% in FY 2005/06. This was consistent with the Government's strategy to issue debt at the longer end of the yield curve and to satisfy the segment of the market demanding long-term instruments.

Of the total domestic debt outstanding at end FY 2007/08, 62.4% had maturities of up to five (5) years, compared with 55.7% in FY 2006/07, while 16.1% had maturities of ten (10) years and over, a decrease when compared with the 21.5% at end FY 2006/07.

Maturity Structure of New Debt
By Original Maturities
(J$mn)

Years to Maturity	**FY 2005/06 %**	**FY 2006/07 %**	**FY 2007/08 %**
Up to 5 yrs	43.4	22.9	63.4
Of which up to 3 yrs	*16.3*	*8.4*	*28.0*
Of which 3–5 yrs	*27.1*	*14.5*	*35.4*
5 – 10 yrs	35.7	36.1	28.6
10 – 20 yrs	17.4	37.6	4.9
20 – 30 yrs	3.5	3.4	3.1
Total	**100.0**	**100.0**	**100.0**

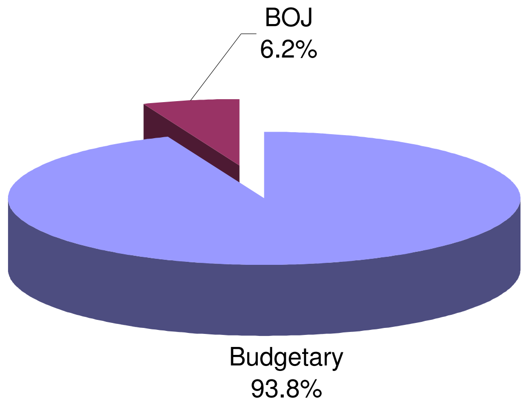
Debt Raising

Gross new domestic debt issued during FY 2007/08 amounted to $111,054.7mn, compared with budgeted financing of $96,614.8mn. The total recorded during this period represented $14,439.9mn or 14.9% higher than budgeted financing.

In keeping with the thrust towards greater transparency and accurate pricing of domestic debt securities, $104,193.3mn or 93.8% was issued through the market mechanism while $6,861.4mn or 6.2% represented non-market issues. The non-market issues comprised LRS issued to BOJ as capitalization of interest on special securities issued to BOJ for losses and in place of FINSAC liabilities.

A total of $37,817.5mn or 34.1% was issued as fixed rate debt, while $73,237.2mn or 65.9% was issued as variable rate.

New Domestic Debt
April 2007 – March 2008



Interest Rate Structure

During FY 2007/08, market sentiments and preferences challenged achievement of the debt strategy objective of increasing the ratio of fixed rate debt to variable-rate debt. Despite strong demand for variable-rate debt, the share of fixed rate debt issued during the year increased from 28.3% in FY 2006/07 to 34.1% in FY 2007/08. This was, however, not sufficient to maintain the fixed/variable rate ratio as, of the total outstanding domestic debt at end-March 2008, 37.6% had been contracted on a fixed interest rate basis down from 40.0% at end-March 2007 and 47.0% at end-March 2006.

Total Domestic Debt Interest Rate Composition
March 2006 – March 2008
(%)

	FY 2005/06	FY 2006/07	FY 2007/08
Fixed Rate	47.0	40.0	37.6
Variable Rate	52.9	59.9	62.3
Non Interest-Bearing	0.1	0.1	0.1
Total Debt	**100.0**	**100.0**	**100.0**

Interest rates

During the first half of FY 2007/08, the average yields on the 3- and 6-month Treasury Bills, the benchmark rates to re-price variable rate government debt instruments, gradually and consistently trended upwards from 11.55% p.a. and 11.65% p.a., respectively and peaked at 14.34% p.a. and

14.29% p.a., respectively, at end-September 2007. Between September 2007 and January 2008, the average rates on the 3- and 6-month Treasury Bills declined to 12.97% p.a. and 13.33% p.a., respectively.

The average yield on the 3- and 6-month Treasury Bills increased significantly, from 12.97% p.a. and 13.33% p.a. to 13.93% p.a. and 14.22% p.a. at end-February, and closed FY 2007/08 at 13.97% p.a. and 14.22% p.a. respectively.

Contributing to the increase in rates during the last two months of the fiscal year were adjustments in the Bank of Jamaica rates on open market securities. The Bank of Jamaica, in a bid to better position itself to manage the re-flow of Jamaica Dollar liquidity after Christmas, increased rates on January 9, 2008 on all tranches of its open market securities, the first time since December 2006, when the rates on its signal 30-day and 180-day instruments were reduced to 11.65% p.a. and 12.00% p.a., respectively. A further adjustment on February 4, 2008, resulting from the rising trend in inflation and its impact on the attractiveness of Jamaica Dollar investments, increased the signal 30-day and 180-day rates to 13.50% p.a. and 14.20% p.a., respectively, up from 12.65% p.a. and 13.00% p.a., respectively, at the end of January 2008.

The Weighted Average Interest Rate on the domestic debt portfolio at the end of the review period was 14.76% p.a. for J$ instruments and 9.42% p.a. for US$-denominated instruments. These compared with 14.22% p.a. and 9.80% p.a. for J$ and US$ denominated instruments, respectively, at end FY 2006/07.

Domestic Debt Indicators

At end FY 2007/08, domestic debt as a percentage of GDP was 70.8% compared with 73.7% at end FY 2006/07. Domestic interest payments accounted for 31.9% of tax revenue and 27.7% of recurrent expenditure, compared with 37.9% and 31.6%, respectively, at end- March 2007.

EXTERNAL DEBT

Performance Summary

FY 2007/08 was a challenging year for players in the international financial markets. Despite the volatility in the markets, the Government was able to take advantage of a window of opportunity in October 2007 to re-open the US$350mn 8.0% Bond due 2039, which was raised in March 2007 to pre-fund the 2007/08 financing requirements. An additional US$150mn was raised, increasing the size of the Bond to US$500mn, thereby making it liquid and eligible for the EMBI+. The Government was able to successfully execute its external borrowing programme within the first seven months of the fiscal year.

In keeping with its policy of transparency the Government, in June 2007, filed its annual returns for fiscal year ended March 31, 2007 with the United States Securities and Exchange Commission. The annual returns, filed on Form 18k, comprise debt, fiscal and balance of payments information.

In February 2008, consistent with the *Debt Management Strategy* of increased transparency by way of regular market consultation, the Government participated in non-deal roadshows in Europe and the United States of America. Meetings were held with international investors to update them on the performance of the Jamaican economy, introduce the new administration and outline the medium-term framework.

Stock Composition

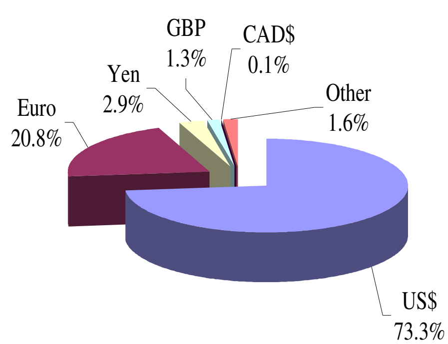
The stock of public and publicly guaranteed external debt stood at $438,567.4mn (US$6,169.3mn) or 55.3 % of GDP at end- March 2008. This represented an increase of 7.2% compared with the level at end-March 2007, but a reduction to 55.3% of GDP from 58.7% at end-March 2007. In US$ terms, the external debt increased by 2.2%. The rate of growth of the external debt in J$ terms was 7.2%, compared to 10.9% recorded in FY 2006/07. This increase in the external debt stock was attributable to:

- Increase in Government guarantees mainly in support of Air Jamaica Limited;
- Disbursements on existing loans for the execution of a range of projects including the Northern Coastal Highway Improvement Project, the Bridges Programme, the Half-Way-Tree Transportation Centre and the Kingston Water and Sanitation Project; and
- Adverse movements of exchange rates of currencies in the portfolio, namely Euro vis-à-vis the US$, Yen vis-à-vis the US$ and the US$ vis-à-vis the J$.

Currency Composition

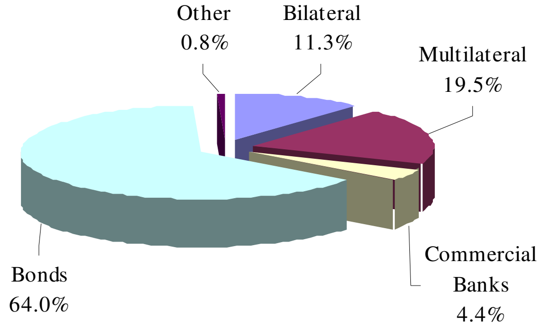
The currency composition of the external debt has maintained its profile over the years with the US$ being the principal currency in which external loans are denominated. At end FY 2007/08, 73.3% of the external debt was denominated in US$, compared with 75.3% at end FY 2006/07. The Euro comprised 20.8% of the external debt portfolio, maintaining its position as the second largest currency component of the debt. The Euro's share increased to 20.8% from 18.8% at end FY 2006/07, due to exchange rate movements. The Yen ranked third and represented 2.9% of the external debt.

Currency Composition
March 2008



Creditor Composition

Over the years, the composition of the external debt has changed from predominantly official creditors to that of private creditors. The share of loans from official creditors, comprising multilateral and bilateral creditors, accounted for 30.8% of the stock compared to 31.6 % at end-March 2007. At end FY 2007/08, loans from official creditors accounted for 30.8% of the external debt portfolio, compared to 31.6% at end FY 2006/07, 36.0% at end FY 2005/06, and 43.7% at end-March 2005, and have declined steadily over the last ten (10) years. Loans from private creditors, comprising bond-holders, commercial banks and suppliers credit, represented 69.2% of the outstanding external debt stock. At end-March 2008, Eurobond issues in the international capital markets represented the major component of the external debt stock, accounting for 64.0%.



Interest Rate Structure

At end FY 2007/08, 81.2% of the external debt was contracted on a fixed rate basis while 18.8% was contracted on a variable rate basis. The mix of fixed and variable rate debt reflects the Debt Management Strategy objective of maintaining an appropriate mix of fixed rate and floating rate debt and provides a level of insulation to the portfolio against adverse interest rate movements. An appropriate mix also facilitates greater predictability in the planning and policy decision process. Of the new debt contracted during the period under review, 77.8 % was fixed rate and 22.2% on a variable rate basis.

External Debt Interest Rate Structure
FY 2005/06 – FY 2007/08

	FY 2005/06	**FY 2006/07**	**FY 2007/08**
Fixed Rate	77.4	78.9	81.2
Variable Rate	22.6	21.1	18.8
Total	**100.0**	**100.0**	**100.0**

Maturity Structure

A main tenet of the *Debt Management Strategy* is maintaining a prudent debt structure by extending and smoothing the maturity profile of the debt to better manage refinancing risk. The predominantly long-term tenor, concessionality and graduated repayment profile of the external debt are consistent with the main tenet of a prudent debt structure. Of the total external debt outstanding at end FY

2007/08, 47.3% had maturities in excess of ten (10) years, compared with 51.9% at end FY 2006/07; 30.8% had maturities of 5-10 years up from 26.3% in FY 2006/07; and 21.9% had maturities of up to five (5) years compared to 17.1% in FY 2006/07.

Debt Forgiveness

The Government of the United Kingdom, under the renewed Commonwealth Debt Initiative (CDI), continued to provide debt forgiveness in the form of a write-off of principal and interest payments falling due in the fiscal year, on eligible loans from the United Kingdom Government Overseas Development Assistance Programme (ODA) and Commonwealth Development Corporation (CDC). Eligibility for this assistance is based on the satisfaction of mutually agreed targets established in the Medium Term Socio-Economic Policy Framework that the Government formulated in collaboration with its development partners. The three (3) main criteria used as benchmarks for eligibility are poverty reduction, respect for human rights and a commitment to strengthen financial management and accountability.

For FY 2007/08, the Government of the United Kingdom provided debt forgiveness to the value of £5.4mn, representing £2.7mn in respect of payments on ODA loans and £2.7mn for payments due to CDC. This compares with £5.6mn in the previous year when £2.9mn was allocated for ODA payments and £2.7mn for CDC loans. In debt service terms this represented 0.5% of the total for FY 2007/08 and compared with 0.9% in FY 2006/07.

External Debt Indicators

At end-March 2008, external debt as a percentage of GDP was 55.3% compared to 58.7% at end FY 2006/07. Debt service as a percentage of export of goods and services increased to 13.5% for FY 2007/08 from 9.3% for FY 2006/07. The current debt service ratio remains at an internationally accepted level.

INTERNATIONAL CAPITAL MARKETS AND DEVELOPMENTS

International capital market conditions were volatile and not attractive to issuers who were exposed to higher pricing of issues and therefore, payment of higher premiums to investors.

However, the Government was able to take advantage of a window of opportunity in October 2007 to re-open the US$350mn 8.0% Bond due 2039 issued in March 2007 for an additional US$150mn, creating a large and liquid bond with eligibility to the EMBI+. The bonds carry a coupon of 8.0% p.a. and will be amortized over the last three (3) years of the tenor, with final maturity in March 2039.

During FY 2007/08, despite persistent volatility in the markets, Jamaica's bonds performed well compared to those of other emerging market issuers. The trading prices of the Government's Eurobonds were sustained at relatively high levels demonstrating a high level of investor confidence in Jamaica's credit.

During the fiscal year, Jamaica's credit ratings were reviewed by the rating agencies Moody's, Fitch and S&P. Moody's re-affirmed Jamaica's long-term foreign currency credit rating of "B1" and its long-term local currency rating of "Ba2", and maintained its "Stable" outlook. Fitch also reaffirmed

Jamaica's foreign and local currency default rating of "B+" and maintained a "Stable" outlook. The ratings were supported by the country's political stability, the Government's willingness to pay its debt and its continued unwavering commitment to fiscal discipline despite exogenous shocks. S&P, in March 2008, conducted its annual due diligence meetings with key officials from the public and private sectors. The rating decision is expected during the first quarter of FY 2008/09.

DEBT MANAGEMENT STRATEGY FY 2008/09

In FY 2008/09, the objective of the Debt Management Strategy will continue to be:

"To raise adequate levels of financing on behalf of the Government of Jamaica at minimum costs, to develop and implement strategies to ensure the long-term sustainability of the public debt while maintaining risk at an acceptable level".

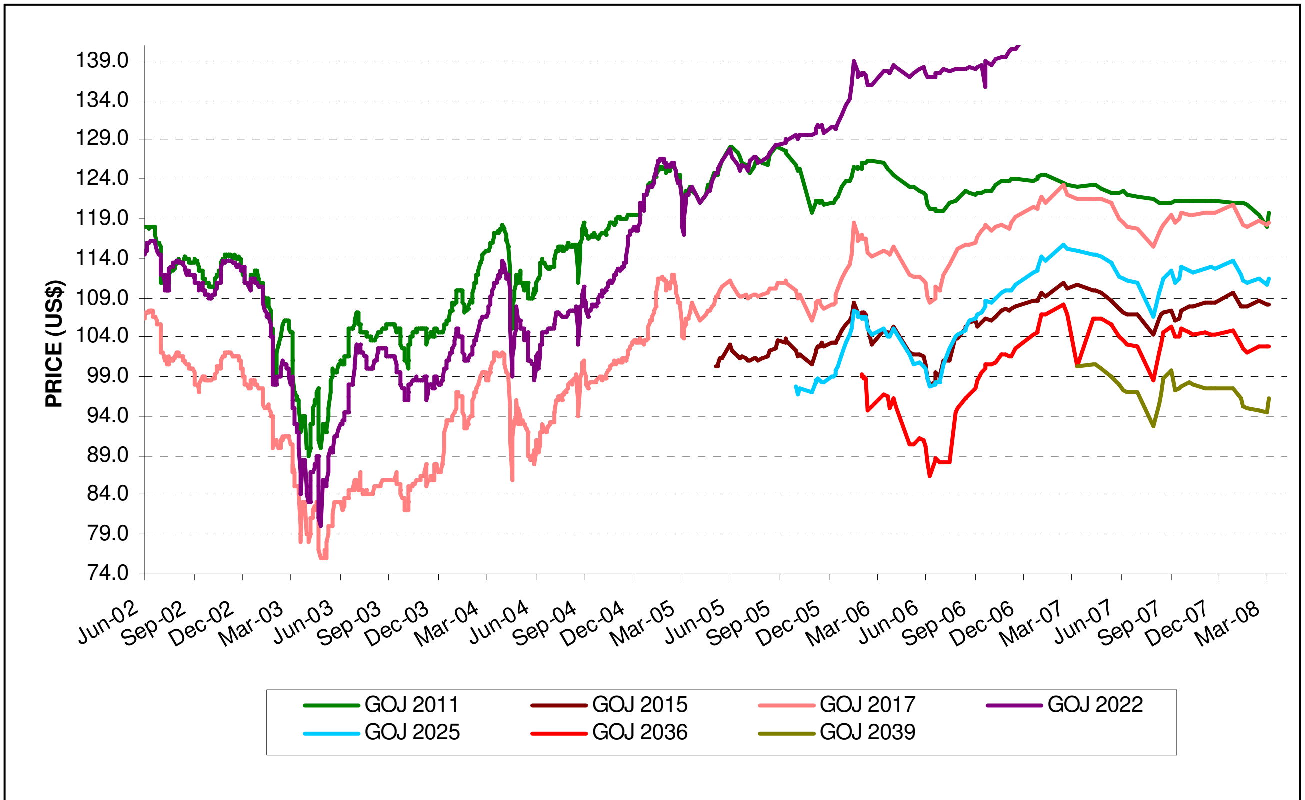
The *Debt Management Strategy* will:

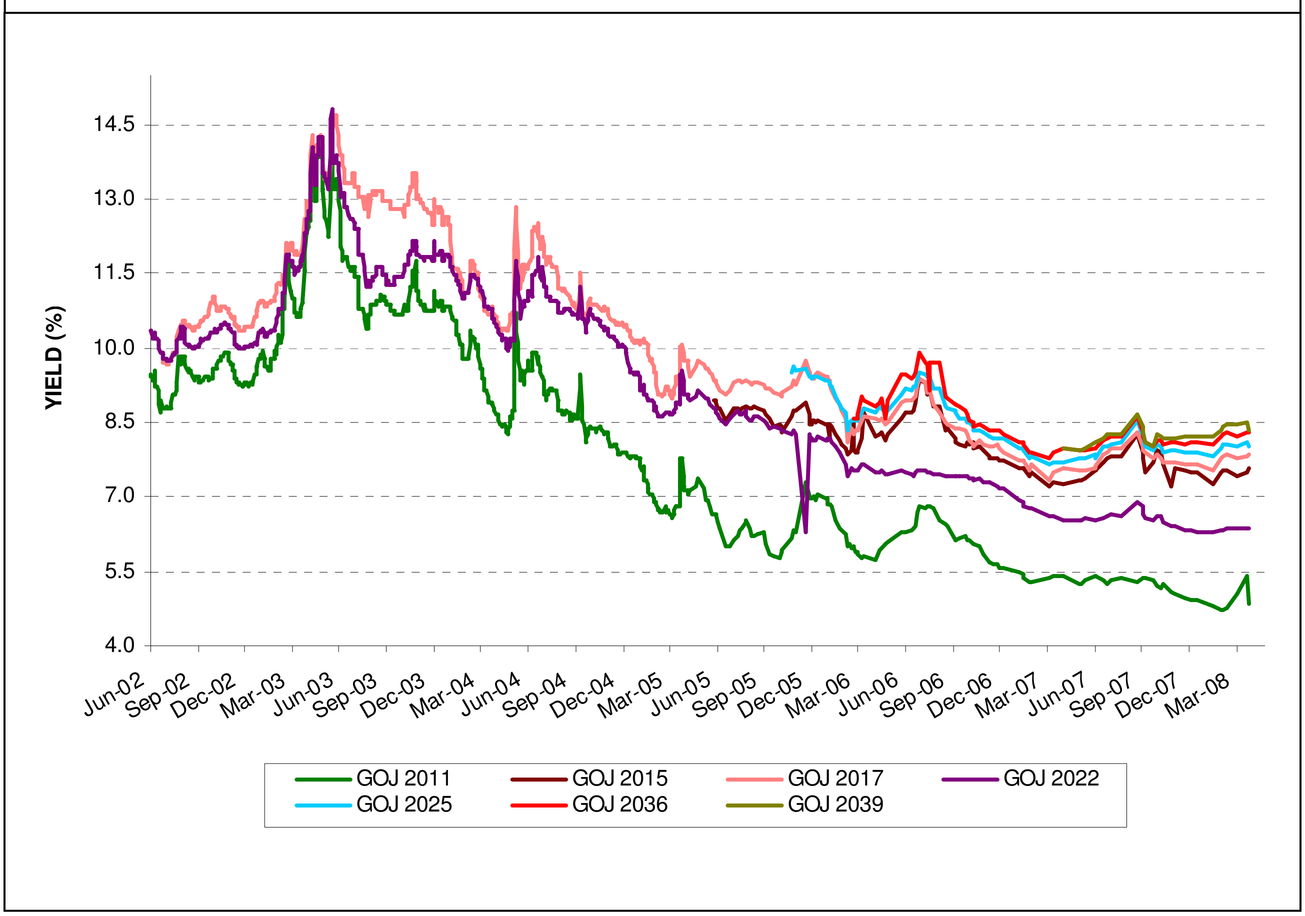
- Include aspects of liability management geared towards market-based re-organization of maturity structure and interest rate profile;
- Increase the fixed rate proportion of the domestic debt portfolio;
- Minimize foreign currency exposure of the domestic debt portfolio;
- Maintain the use of the auction mechanism for issuance of domestic securities;
- Increase the transparency and predictability of debt issuance and operations;
- Foster a more interactive relationship with the market;
- Engage the multilateral institutions to seek more cost effective borrowing; and
- Issue debt in the external markets to the level of external amortization.

Medium-term Goals

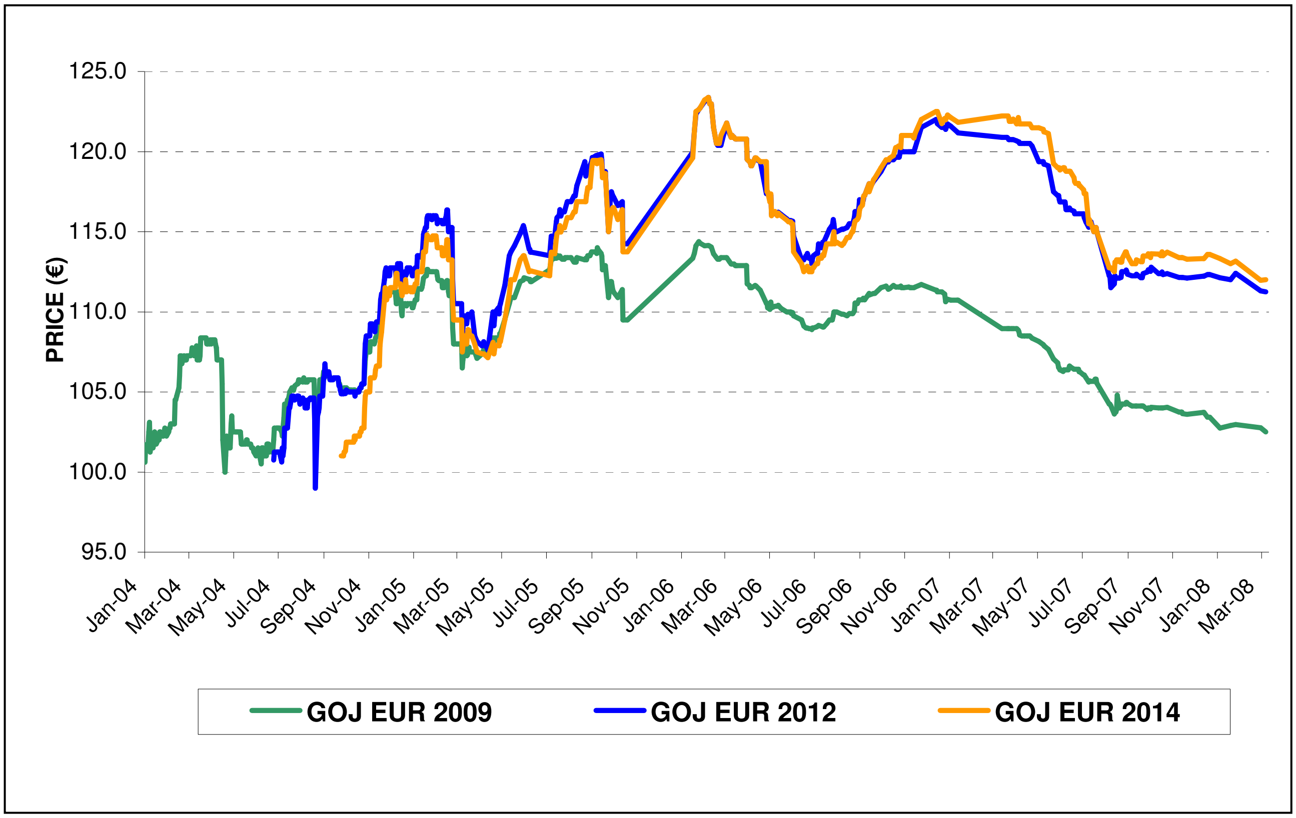
Strategies aimed at cost minimization and reduction of risk to the debt portfolio will be pursued. Liability management, in the form of replacing high cost debt with more concessionary type financing and extension of the maturity profile of the domestic debt, will be the main focus of cost containment thereby providing fiscal space for social and developmental issues.

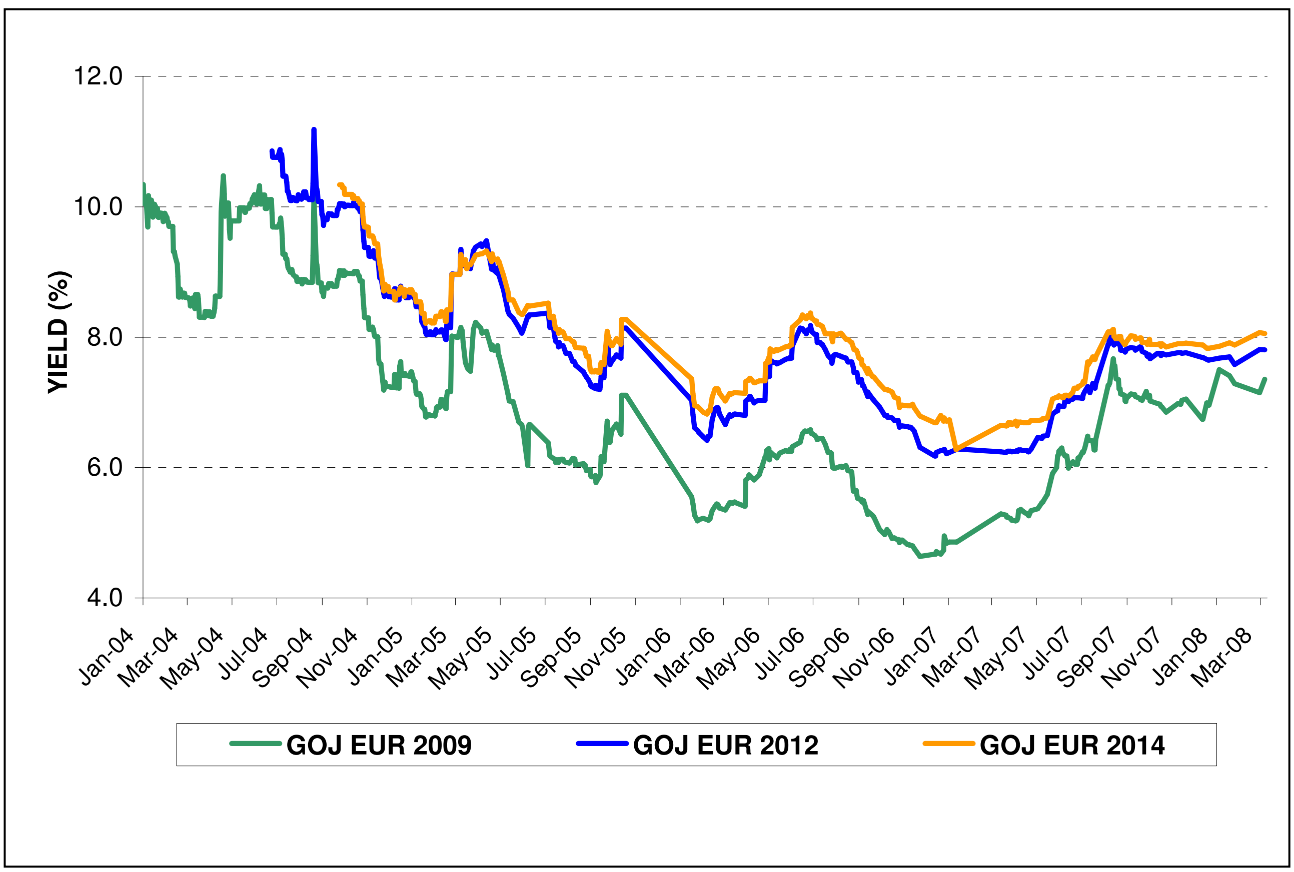
TRADING LEVELS OF GOJ US$ GLOBAL BONDS





TRADING LEVELS OF GOJ EURO-DENOMINATED BONDS

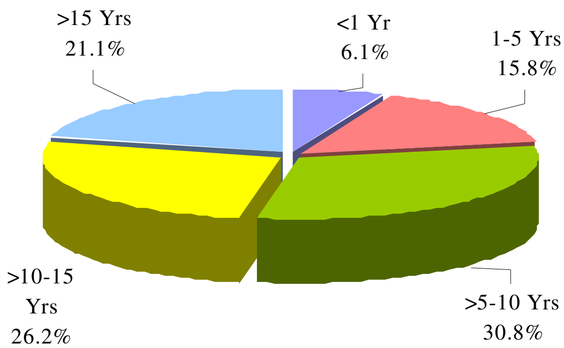




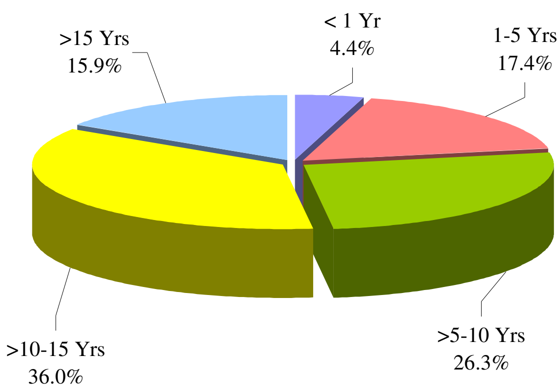
MATURITY PROFILE OF THE DEBT
(Remaining Maturity)

External Debt

March 2008

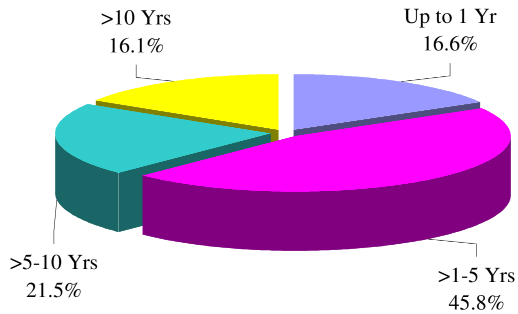


March 2007

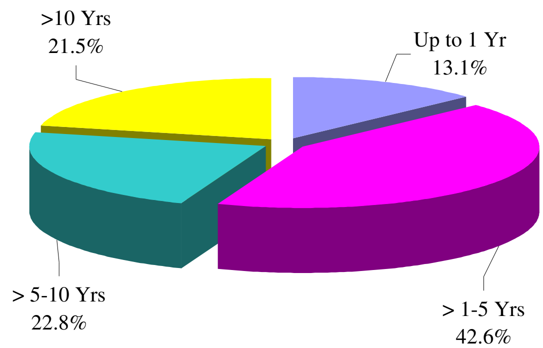


Domestic Debt

March 2008

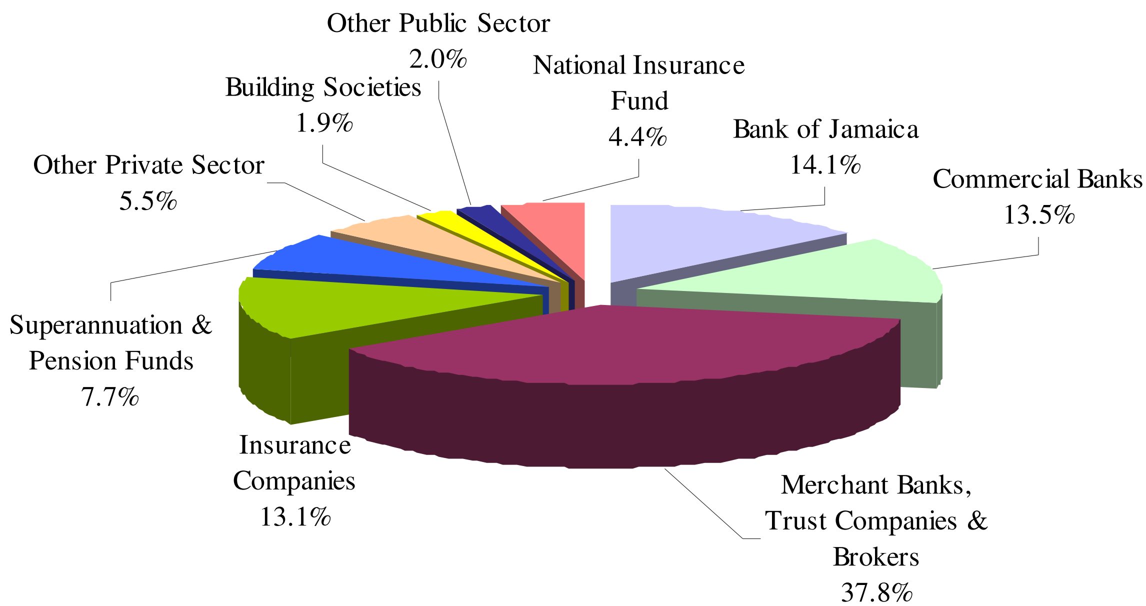


March 2007

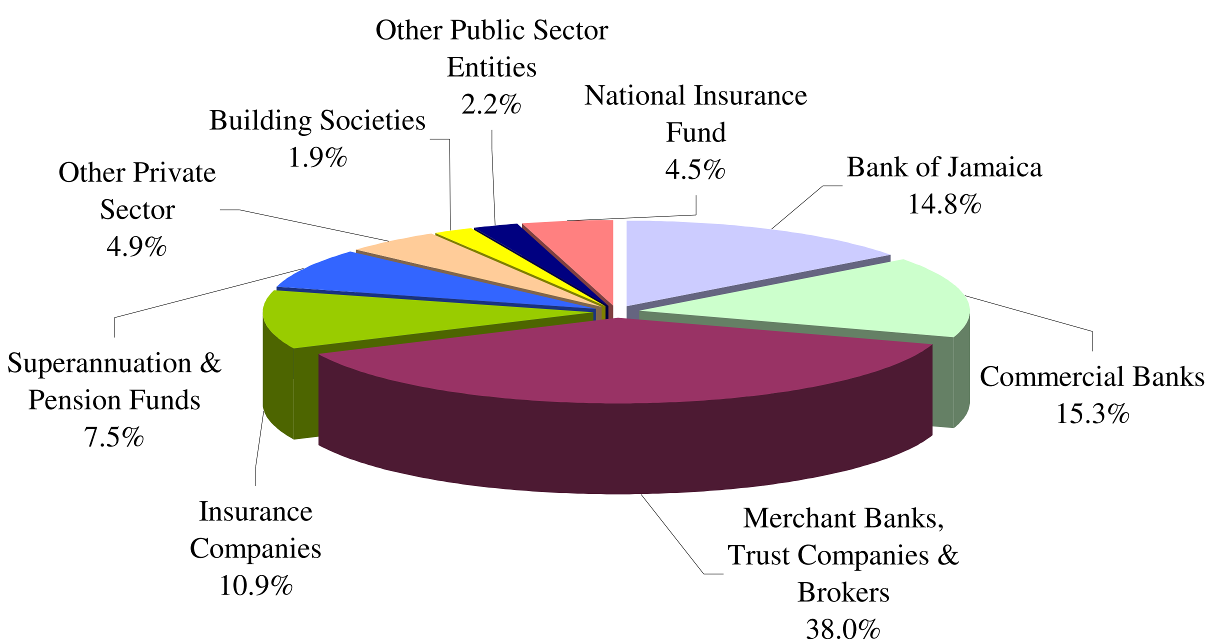


HOLDINGS OF GOJ REGISTERED SECURITIES

March 2008



March 2007



Appendix 1

PUBLIC SERVICE ESTABLISHMENT PROGRAMME

Public Sector employment policies are supported by human resource management strategies geared toward the delivery of efficient and cost effective public services. The policies are implemented though the Public Service Establishment Programme (PSEP), of the Ministry of Finance and the Public Service (MFPS), which encompasses wages and industrial relations policies, employee benefits programmes, public sector employment and pensions administration.

Memorandum of Understanding

Since FY 2004/05, the Government and the Jamaica Confederation of Trade Unions (JCTU) have operated within the context of Memoranda of Understanding with respect to such areas as employment, wages and the training of employees.

In order to ensure that the provisions of the first Memorandum of Understanding (MOU) were implemented, the Public Sector Monitoring and Evaluation Committee was created by Cabinet and vested with responsibility to oversee the process. This body was retained for the second Memorandum of Understanding (MOU II). A Secretariat was created to facilitate implementation of the outcomes and decisions of the Monitoring Committee and its various sub-committees.

MOU II expired on March 31, 2008, and negotiations for MOU III are at an advanced stage.

During FY 2008/09 operations of the Secretariat will include the following main activities:

- Development and coordination of the Work Programme for the successor MOU III. Undertaking a new, continuous programme of public education in furtherance of the aims of MOU III.
- Coordinating the meetings of the Monitoring and Evaluation Committee and its sub-committees.
- Liaising with the relevant entities seeking clarification on issues for the Monitoring and Evaluation Committee.
- Monitoring and facilitating the implementation of particular areas of the MOU provisions by the responsible public sector entities.

Employee Benefits

During FY 2007/08, the Government continued to provide benefits to employees. These included loans, grants, health insurance and staff transportation. The cost of this provision was in the region of $2.5 billion. The Tertiary Assistance Programme, which facilitates loans to employees to pursue studies at tertiary institutions, continued to generate much interest.

Between September 2006 and March 2008, 1,070 persons benefited from the programme. Civil Servants and Police Officers also benefited from computer loans.

In FY 2008/09, the Government will continue to provide existing, as well as additional benefits to employees. It is estimated that the demand for the Tertiary Assistance Programme will increase as more and more public sector workers seek to advance their education.

Pensions

The Ministry of Finance and the Public Service continues to work towards approving pension benefits within four (4) months of receiving all relevant information/documents. Of a targeted 2,400 cases to be completed for FY 2007/08, 1,885 were completed.

The number of pensioners increased from approximately 23,000 to approximately 26,000 during FY 2007/08. This resulted in the pension cost for retired public officers moving from $9.6 billion in FY2006/07 to $12.2 billion for 2007/08, an increase of 27%. This figure also includes the normal annual increase to pensioners, which amounted to $300 million.

During FY 2007/08, an amendment to "The Constabulary Force Act" to allow for the linking of service in the Island Special Constabulary Force to service in the Jamaica Constabulary Force was passed. The proposed amendment to the Constables (Special) Act to give a member the option of retiring after 30 years of service progressed and is to be referred to the Legislation Committee.

Amendment to the Retiring Allowance (Legislative Service) Act commenced. The amendment is to allow for a legislator who applies for and receives a refund of his pension contribution after serving for one (1) term, to repay such refund and be eligible for pension, should the person be re-elected for another term.

During FY 2007/08, proposals geared towards pension reform in the Public Service were conceptualized. Currently, the Government is pursuing negotiations with the World Bank to undertake, under a social protection project, the formulation of a reform programme for public sector pension schemes. The concepts, issues and proposals emanating from the programme will be introduced to stakeholders.

Industrial Relations

The MFPS is committed to maintaining and enhancing industrial harmony within the public sector, through the establishment and implementation of sound industrial relations policies and practices. The success of these policies will be measured by the extent to which industrial harmony is achieved.

The Public Service Establishment Division (PSED) will seek to facilitate meaningful dialogue with management, trade unions and staff associations in Central Government, Local Government and Parastatal Bodies with respect to labour management relations. The Division will also assist in the interpretation, clarification and implementation of agreed benefits and conditions of service. This role is facilitated by the Division's active representation on the MOU Technical Committee, a sub-committee of the Monitoring and Evaluation Committee of the MOU.

In collaboration with the Jamaica Confederation of Trade Unions, the PSED convened workshops on: (i) the MOU; (ii) Building a Strong Union/Management Relationship and (iii) the Labour Code. Participants were drawn from a wide cross-section of human resource management and industrial relations practitioners in the Public Service.

The PSED led and provided technical advice at a number of conciliation hearings at the Ministry of Labour and Social Security and at disputes at the Industrial Disputes Tribunal (IDT). Between April 2007 and February 2008 there were only five (5) reported cases of industrial action within the Public Sector.

Within the context of the second Public Sector Memorandum of Understanding (MOU II), which was signed on May 30, 2006, negotiations within Central & Local Government were concluded with ten (10) additional bargaining units. This brought the total number concluded for the 2-year contract period to 29, following conclusion of 19 settlements during FY 2006/07.

For the 2008-2010 contract period, the PSED has so far received 17 claims from Central & Local Government groups and one (1) claim from a bargaining unit within the Parastatal Bodies. Discussions are ongoing for a successor Memorandum of Understanding (MOU III).

Establishment

During FY 2007/08, two (2) Civil Service Establishment (CSE) (General) (Amendment) Orders were published. The adjustments listed in the Amendment Orders resulted in an increase in the number of posts in Ministries and Departments from 40,502 in the 2006 General Order to 41,308.

The most recent Civil Service Establishment (General) (Amendment) Order, 2007 was tabled in Parliament on January 29, 2008. The Amendment Orders reflected changes that took place in Ministries and Departments – the creation of posts in some cases and the abolition of posts in others.

The main factors leading to the need for additional posts were:

- Expansion of the Jamaica Constabulary Force, with the creation of a Human Resource Division and a Medical Services Section;
- Continued modernization of the Ministry of National Security;
- Establishment of the Rent Services Unit in the Ministry of Water and Housing;
- Additional demands on the staff of some of the Overseas Missions;
- Setting up of an Information Technology Unit in the Post & Telecommunications Department;
- Strengthening of the Offices of the Services Commission.

Censuses are now being conducted to accurately ascertain the status of employment and posts in the Public Sector. A census was completed for the Central Government in FY 2007/08, and fieldwork was completed for educational institutions, for which a database is now being finalized. Censuses are being conducted in the Executive Agencies and will be conducted in the Parish Councils and Statutory Bodies thereafter.

The main activities for FY 2008/09 will be:

- Post and Employment Censuses for Executive Agencies, KSAC and Parish Councils;
- the publication of one (1) CSE General Order with establishment of new Ministries and Departments and one (1) CSE Amendment Order;
- the focus of the PSED on all Statutory Bodies, with a view to conducting employment and post censuses in FY 2009/10.

Appendix 2

PUBLIC SECTOR REFORM

Implementation of the Public Sector Modernization Vision and Strategy 2002-2012 has completed its fifth year, having been tabled in Parliament in September 2002. Within this time the modernization programme has made significant achievements as highlighted in the annual reports available online at http://www.cabinet.gov.jm/doc-archive.asp.

During FY 2007/08, the Public Sector Reform Unit (PSRU) commenced its transformation into the Public Sector Modernization Division (PSMD). This change was initiated by a Strategic Review of the Cabinet Office completed in CY 2006 that made recommendations for increased focus on core priority areas of the modernization. This activity was complemented by a comprehensive review of the modernization programme already implemented. The review provided an assessment of the achievements of the modernization since 2002 and the challenges encountered. Following the assessment, a revised strategy for ongoing implementation of the programme was developed and designed to ensure a stronger focus on modernization outcomes and greater ownership of the programme across the public sector. The new action plan is based on lessons from the past experiences in implementation and seeks to ensure better prioritization, greater focus on the objectives of modernization, improved communication and regular results monitoring.

The modernization programme is currently being undertaken under the following components:

- *Focusing on Service Delivery*
- *Improving Governance and Accountability*
- *Managing for Results*
- *Improving Change Management and Communication*

FY 2007/08 Review

Below is an outline of the Government's achievements in implementing the modernization programme during FY 2007/08.

a. Focusing on Service Delivery

Creation of Executive Agencies and Other Performance-Based Institutions (PBIs)

The current modernization programme follows on the successes of the World Bank funded Public Sector Modernization Programme (PSMP) 1996-2003, in establishing a number of Executive Agencies across the Public Sector. As such, the key focus of modernization continues to be the provision of high quality services designed around the needs of the customer. Under the modernization programme a number of Performance-Based Institutions (PBI's) have been established throughout Government. These PBIs are in the form of Executive Agencies, policy-focused Ministries and other entities.

The transformation of these entities is scheduled on a phased basis and includes:

- the transformation of Ministries to focus on policy development, strategic planning and management of outputs with outcomes
- the transformation of the departments, divisions and agencies to more efficiently and effectively deliver services to their customers.

During FY 2007/08, implementation of modernization plans continued in two (2) entities – the Ministry of National Security and the Immigration, Citizenship and Passport Services Division. Implementation commenced in an additional six (6) MDAs – Forestry Department, Fisheries Division, Ministry of Education, Ministry of Justice, Cabinet Office, and Island Traffic Authority. Below is a brief description of the work that the PSMD has been doing to transform these Ministries, Departments and Agencies into PBIs.

(i) The modernization of the Ministry of National Security (MNS) began in April 2005, when strategic reviews assessing the key constraints on the ministry were carried out. Considerable progress has been made towards the transformation of the MNS into a policy-focused ministry. Critical improvements include:

- implementation of performance management systems towards strengthening institutional and individual capacity;
- implementation of change management arrangements;
- establishment of an effective transformation team; and
- development of a revised personnel security vetting policy.

A new structure has also been developed for the Ministry of National Security to support increased capacity for strategic management, as well as the management and administration of the Ministry and its portfolio entities. Following complete implementation of the modernization plans, the Ministry will have increased capacity for evidence-based policy-making around crime prevention, organised crime, border control and other key national security issues.

(ii) The Immigration Citizenship and Passport Services Division (ICPSD) of the MNS has been transformed into the Passport Immigration and Citizenship Agency (PICA), the tenth (10th) Executive Agency established by the GOJ. The scheme of management, inclusive of a Modernization Plan (MP), a Medium Term Financing Plan (MTFP), a Framework Document (FD) and a Performance Agreement (PA), has been completed and is being implemented. Full recruitment to the new organizational structure is in progress. The newest Executive Agency aims to ensure its clients are offered world class customer service and has made advancements in improving customer service, including improved application processing turn-around times, additional electronic payment options, introduction of systems to reduce application backlogs and the redesign of the organization's website.

(iii) The Cabinet Office is currently being modernized to more effectively: advise on the coordination of Government policy; monitor implementation of Cabinet Decisions; lead the modernization of Government; and provide strategic direction to the development and management of the Civil Service. A strategic review of the organization was completed in October 2006 and modernization plans have been developed. Preliminary activities towards implementation of the modernization plans have commenced with the establishment of posts and the recruitment of senior staff, including a new Chief Technical Director, responsible for providing technical support and policy advice to Cabinet. A Performance Monitoring and Evaluation Unit is to be established to monitor, evaluate and report on the performance of MDA's.

(iv) The GOJ has assigned a high priority to improving the Jamaican Justice System as part of the modernization programme. The Ministry of Justice (MOJ), with the support of the Public Sector Modernization Division, has carried out a review of the justice sector. The Jamaican Justice System Reform Task Force, a civil society group representing a cross section of interests, was established to lead a comprehensive strategic review into the state of the justice system. The review will inform the development of strategies and mechanisms to facilitate modernization so that the justice system is better able to meet the current and future needs of the country. A Jamaican Justice System Reform Task Force report has been submitted and is now being reviewed by the MOJ. Work has commenced on the:

- transformation of the MOJ into a Policy Ministry;
- establishment of a 'Courts Services Agency" to facilitate more efficient operations of the Court system by relieving the Judiciary of its administrative services;
- modernization of the Director of Public Prosecutions' (DPP) office;
- introduction of the Case Management System;
- replication of the Justice Enforcement Management System (JEMS) across all courts;
- establishment of a Modernization Division within the Ministry to drive implementation of the modernization plan.

(v) In addition to PICA, the Forestry Department and Fisheries Division of the Ministry of Agriculture are slated to become Executive Agencies, numbers 11 and 12 respectively, and are to be established during FY 2008/09.

Modernization plans have been finalized for both entities. A CEO has been appointed in the Forestry Division to lead modernization of the entity, while recruitment is underway for a CEO for the Fisheries Agency. New legislation is being drafted to take into account the transformation of these entities into Executive Agencies.

(vi) The Ministry of Education is being transformed into a policy-focused ministry, in an effort to improve the governance framework within the education sector, as recommended by the National Task Force on Education. Through the establishment of the Education Transformation Team (ETT) in March 2005, in addition to the modernization of administration, other critical activities have commenced towards implementation of the recommendations of the Task Force, under the following work streams:

- infrastructure and facilities;
- school leadership and management;

- curriculum, learning and teaching;
- behaviour and community; and
- communication and stakeholder involvement.

Under the modernization of administration work stream, the first phase of implementation of the modernization plan has been completed and a detailed blue print has been developed to facilitate the transformation of the Ministry of Education into a policy centre and define its relationships with its new agencies and authorities. As a policy centre, the Ministry will be better able to facilitate and coordinate evidence-based policy making for improving education outcomes across the society.

A review of the Institute for Lifelong Learning was conducted and modernization plans developed to support the establishment of new Executive Agencies, including:

- The National Education Inspectorate, an independent body responsible for the inspection of schools and regional operations;
- The Curriculum and Assessment Agency, with responsibility for providing strategic curriculum leadership, ensuring synergy between curriculum and assessment, and reviewing and updating the national curriculum framework;
- The National Teaching Council, responsible for maintaining and enhancing professional standards, regulating, registering and licensing teachers and ensuring the provision of professional leadership for teachers.

A detailed plan has also been developed for the devolution of service delivery functions to Regional Education Authorities (REAs). The establishment of REAs will allow for the decentralisation of the management of schools across the island, the closer monitoring of performance and the timely provision of technical and other resources necessary for the effective operation of the schools, challenging schools to higher levels of performance.

Customer Service Improvement & Business Facilitation

Simplification of business processes to facilitate speedy service delivery and greater customer satisfaction forms the primary basis for the re-engineering of a number of Government services. The PSMD has been instrumental in documenting and communicating information on a number of key life events.

(i) Some services have been ‘joined up’ and ‘One-Stop Shop’ facilities have been created to reduce the number of agencies and agents with which/whom a customer has to interface;

- The replacement of lost or stolen Driver’s Licenses has been made easier by allowing clients to visit one agency, the Inland Revenue Department, to make an application, rather than multiple visits to various agencies as previously required;
- Application for a Tax Compliance Certificate is now a one-stop process that can also be carried out online;
- Advanced work has been done to streamline the inspection processes related to the export and import of food items, through the establishment of a Health and Food Safety One-Stop Shop now in partial operation at APM Terminal Ltd (Customs). The new facility, which is being implemented on a phased basis, allows for speedier

transactions by reducing the number of visits traders are required to make to various agencies, and significantly shortens the time required for the inspection and release of goods. When fully operational, the 'One-Stop Shop' will serve as a central location to coordinate all inspection processes. The facility is scheduled to be fully operational in FY 2008/09.

(ii) The Development Approval Process is being completely re-designed to focus on attracting investment and promoting business development. A model Local Planning Authority Framework has been developed and submitted to Cabinet for approval. The model identifies best practices to be replicated across all Parish Councils. The Cabinet office has partnered with key agencies including the Local Government Department, NEPA and other key stakeholders, towards achieving the following during FY 2008/09:

- Re-engineering Business Processes such as simplifying and streamlining the approval process through the revision of forms and procedures;
- Establishing a web-enabled tracking and monitoring system for applications. The system will allow for public access to information on the status of applications and will facilitate data sharing by eliminating the need for manual correspondence among participating agencies, and minimizing delays in application assessment;
- Developing a 'One-Stop Shop' facility; a single point of entry for application submissions, fee payments and responses, to eliminate the need for multiple agency visits, as is currently required;
- Reforming existing legislations and seeking new legislations and/or regulations;
- Improving inter-agency co-ordination through the implementation of a centralized Geographic Information System (GIS), which will establish data sharing linkages between all major stakeholders in order to enable speedier processing times.

(iii) The sharing of data across Government to support service delivery is a key component of the modernization programme. Current development of a Data Sharing and Transfer Pricing System is one approach to improving the ability of the public sector to deliver quality and timely service to citizens. The policy will provide a consensus-based and sustainable approach for the sharing of data among entities. It will also address the issue of pricing, in order to ensure cost-effectiveness of the fee structures. A steering committee has been convened to oversee the preparation of the policy and a concept paper and research guide developed to provide conceptual guidelines for the policy and to identify subject areas for further research.

(iv) The PSMD has continued to lead the introduction and monitoring of Citizens Charters across the public sector. Citizens Charters have been developed for approximately 106, of approximately 212 entities. In a move to ensure that service standards remain relevant and to ensure sustainability of the programme, MDAs are being facilitated to revise existing charters, ensure full dissemination of charters throughout their organizations and to the public, and commence service standards self-evaluation. At the same time, standardized approaches to service improvement are being introduced on an on-going basis. There has been considerable revision of reporting arrangements in order to encourage accountability to charter commitments, improve complaints management systems and identify trends in the system strengths and weaknesses. The introduction of service risk registers has also aided MDAs in evaluating risks to the delivery of quality services, and in formulating pro-active solutions.

(v) As part of developing systems to measure and improve on quality of service delivery, a comprehensive Customer Service Monitoring and Evaluation Framework for public sector entities has been developed and is slated for pilot-testing in 13 select entities during FY 2008/09. The framework will help support the various customer improvement initiatives now underway by:

a. providing detailed and measurable information that will aid closer monitoring of quality of service;
b. ensuring evidence-based investigation and metric-measurement in order to make specific improvements within the organization and policy changes that will affect the entire sector;
c. providing greater opportunity for customers to influence the improvement of Government services; and
d. providing a common measuring tool which can be replicated across agencies.

b. Improving Governance and Accountability

Strategies have been implemented to encourage citizens to take responsibility for their own governance through greater involvement in decision-making and service delivery, as outlined below:

(i) A draft Comprehensive Sustainability Assessment Policy (CSAP) has been developed to improve responsiveness of public policies to the needs of the public. The CSAP tool seeks to establish a standard for ensuring that public policies across ministries are comprehensive and reflect consistently high quality. The tool will also guide ministries in assessing the sustainability of policies prior to approval and implementation.

(ii) Over a period of five years (2002-2007), the Jamaica Social Policy Evaluation Project (JASPEV) has supported and promulgated a wide range of innovations and mechanisms for participatory governance that have generated significant and positive results, especially in youth related policy issues. From this project, lessons and practices have been identified for institutionalization across Government, including mechanisms for:

- joined-up and participatory policy development and programme analysis;
- monitoring policy impact;
- community participation in policy implementation and monitoring; and
- encouraging stakeholder participation in resource planning to support Government priorities.

c. Managing For Results

Public Financial Management

A central element of the Public Sector Modernization Vision and Strategy is the establishment of a performance culture across the operations of the public sector. Managing for results is about putting systems in place to optimize the use of resources, while monitoring and assessing both individual and organizational performance.

The 2005 discussions between the IDB and the GOJ focused on implementation of the modernization programme and development of a medium term action plan that would identify realistic and achievable actions geared toward strengthening GOJ's capacity for results-based management. Given the number of capacity strengthening activities already being undertaken in the modernization programme, it was agreed to provide these areas with additional support through the PRODEV project. The first phase of implementation of the PRODEV project commenced in June 2007 and will end in June 2008.

As a first step, a complete review of the implementation of the Public Sector Modernization Vision and Strategy 2002-2012 was conducted to assess the achievements and challenges of the modernization programme and to make recommendations for improvement. Emerging from the assessment was a Medium Term Action Plan, with actions to address strategies for improving results based management. This Plan now forms the basis for implementation of the modernization programme over the next five (5) years.

Additionally, work was completed in the Ministry of Finance and the Public Service, the Ministry of Transport and Works, and the Auditor General's Department to support 'on the ground' activities related to Public Financial Management and Performance Monitoring as follows:

- In supporting the transition of the Government's financial management system from cash-based to accrual accounting, a financial management software was developed and pilot-tested in the Ministry of Finance and Public Service and its Revenue Agencies, as well as in the Ministry of Transport and Works, one of the Government's most resource-intensive ministries. The pilots have been assessed and plans are now underway to further refine the software to be institutionalized throughout the public sector. The project has also provided the necessary training and legislative review to facilitate the institutionalization of the system and roll-out to the rest of the public sector. Work has also begun to ensure the integration of the various financial management systems used by Government, in support of the implementation of accrual accounting.

- A Performance Monitoring and Evaluation Model has been developed within the Ministry of Transport and Works. An electronic performance monitoring system has also been implemented in the Ministry to further strengthen its ability to monitor performance.

- Training in standards, procedures and methodology for IT Audit has commenced in the Auditor General's Department.

- Training and information dissemination in managing for results is also an important component of the project with a training strategy being developed, and a comprehensive social marketing programme being designed, to support implementation of the Medium Term Action Plan.

Improving Information Technology

The E-transactions Bill, enacted April 2, 2007, will revolutionize business practices and facilitate cashless transactions. The Bill will facilitate electronic transactions and eliminate barriers to e-commerce, including the acceptance of digital signatures. The Act provides legal recognition and protection of all electronic transactions conducted in Jamaica and with Jamaican businesses.

Managing Human Resources

In 2004 the GOJ developed and commenced implementation of the Performance Management and Appraisal System (PMAS) for the public sector. Since its introduction, PMAS has been implemented in 12 Government organizations, with six completed in FY 2007/08. Implementation is currently being facilitated in the MNS, Department of Correctional Services, Post and Telecommunication, Auditor General's Department, Institute of Jamaica, Early Childhood Commission and the National Library. Projections are that all Ministries will implement the PMAS by 2010.

In a follow-up to the previous year's programme, the Government implemented the Public Sector Employee Training Programme for a fourth year, in accordance with the second GOJ/JCTU Memorandum of Understanding. FY 2007/08 segment of the programme has recorded nearly 2,000 public sector workers trained in vocational skills training and 'institutional capacity building'. The programme has provided an opportunity for some persons at higher levels of the organization structure to participate in work related training, such as strategic negotiations, public speaking, writing skills, and conflict resolution, which will directly contribute to improved job performance.

d. Improving Change Management and Communication

There have been significant efforts to communicate the activities and achievements of the modernization programme, with special emphasis on publicizing information on how to access Government services widely used by the public. Through various dissemination channels such as print, radio and electronic media, the modernization programme has given significant boost to its internal and external communications programme. Communication strategies have included periodic newspaper placements, promotional radio advertisements, widespread distribution of the 'Transformation Pages' quarterly newsletter, and distribution of information pamphlets in key service centres. Information has been publicized on:

- how to apply for citizenship, a passport, a Tax Compliance Certificate, and an import/export certificate;
- registering births and deaths and applying for related certificates;
- accessing the National Health Fund;
- accessing Jamaica Trade Point;
- the introduction of a Food Safety One-Stop Shop;
- modernization exercises in the Passport Immigration and Citizenship Agency and the Justice Sector.

With a social marketing strategy now being designed, the communications programme will focus on a 360-degree approach to implementing a more effective programme. The programme will seek to establish brand identity for modernization and will better inform about the activities of the programme on a wide scale.

The Strategy for Further Modernization Implementation - FY 2008/09

Below is outlined some of the key activities for the Modernization Programme in FY 2008/09.

i. Focussing On Service Delivery

The PSMD intends to build on the gains of FY 2007/08 by accelerating efforts to establish the Forestry Department and Fisheries Division of the Ministry of Agriculture as Executive Agencies during the financial year. It will also support modernization implementation, starting with Management Services. Similarly new performance-based institutions will be established through the implementation of modernization plans for the Ministry of Education. Modernization plans will also be completed for the National Public Health Laboratories.

Additionally, the PSMD will work closely with the Ministry of Finance and the Public Service to rationalize the revenue administration functions. Work will also continue with the Ministry of Health to rationalize operations of the Regional Health Authorities and other key entities under the Ministry, such as the Health Corporation Limited and the National Health Fund, with the establishment of the new Court Management Services. Similarly, new performance-based institutions will be established through the implementation of modernization plans for the Ministry of Education. Modernization plans will also be completed for the National Public Health Laboratories.

Improving Governance and Accountability

The Government will work to improve the accountability of public servants to ensure probity in the management of public resources.
Related activities to be implemented include:

- Development of Regulations for the Executive Agencies Act;
- Development of a Corporate Governance Framework for public sector entities;
- Formalization and implementation of an accountability framework for Permanent Secretaries, CEOs, and Heads of Agencies and Public Bodies; and
- Development and rollout of a framework for regionalizing public sector service delivery.

ii. Managing For Results

Improving resource utilization requires modernized systems of decision-making and management of resources. These activities will build on diagnostic studies completed under PRODEV and will support development of new systems and frameworks to strengthen internal and external financial management controls. Related activities to be implemented in FY 2008/09 include:

- Development of technical requirements for an integrated financial management information system to support the roll-out of accrual accounting and results-based expenditure management;
- Re-design of the Government's Chart of Accounts;
- Development of a framework for operationalizing IT and Value for Money (VFM) Audit;
- Selection of an E-procurement System;
- Development of regulations for the FAA Act to support E-procurement;
- Formalization and rollout of the new Capital Project Policy Framework;
- Development and implementation of the use of Medium Term Expenditure Frameworks;
- Finalization and further roll-out of a Performance Management System within the Ministry of Transport and Works;
- Formalization of roll-out of a new Performance Management and Evaluation Framework; and
- Establishment of a Performance Management and Evaluation Unit within the Cabinet Office.

Appendix 3

DEVELOPMENTS IN THE FINANCIAL SECTOR

Introduction

During FY 2007/08, the Ministry of Finance and the Public Service, in collaboration with the regulatory authorities – the Bank of Jamaica (BOJ), the Financial Services Commission (FSC) and the Jamaica Deposit Insurance Corporation (JDIC) – intensified efforts to improve the legislative framework governing the financial sector and to facilitate the stability of the sector. The Financial Investigations Division (FID) of the Ministry continued the active pursuit of its mandate of deterring and investigating alleged breaches of relevant Acts, while the Financial Institutions Services (FIS) Ltd continued to wind up its operations and that of the Financial Sector Adjustment Company (FINSAC).

Strengthened Legislative Framework

In order to improve the regulatory framework for the financial sector, in accordance with international best practice, work continued on several initiatives, which are at varying stages in the legislative process.

Reform of the National Payments System

In keeping with the objectives to reform and upgrade Jamaica's National Payment System, legislation is presently being drafted to facilitate the regulation of the National Payments System and to provide the Bank of Jamaica with regulatory oversight of the system. Among other things, the new legislation will make provisions for:

- the determination of standards with which designated clearing houses and participants must comply;
- the audit and inspection of clearing houses;
- the settlement rules made among participants to be valid and binding;
- the netting of payment obligations; and
- the establishment of a management body, the National Payments Council.

Pension Reform

During FY 2007/08, two major areas of concern under the Pension Reform programme were addressed.

The first area of concern dealt with the lag that existed between the enactment of the Pensions (Superannuation Funds and Retirement Schemes) Act 2004 and amendments to the Income Tax Act with regard to pension funds and retirement schemes. This was addressed through the completion of the legislative process, which resulted in the passing of the Income Tax (Amendment) Bill in the Houses of Parliament. The amendment harmonized the relevant provisions of the Income Tax Act with the Pensions (Superannuation Funds and Retirement Schemes) Act, and increased the maximum lump sum pension payable.

The second area of concern was the need for the continuation of Phase II of the Pension Reform initiative. Against this background, the legislative process was further advanced over the second half of the fiscal year with Cabinet approval for the continuation of drafting of legislation to amend the Pensions (Superannuation Funds and Retirement Schemes) Act 2004 and accompanying Regulations. The amendments to the Pensions Act 2004 and accompanying Regulations will cover areas such as vesting, portability and indexation.

The mandatory licensing and registration process of all superannuation funds, retirement schemes and pension providers, which began in September 2006, continued in FY 2007/08. At the end of FY 2007/08, the Financial Services Commission had received 2,583 applications for licensing and registration. Of this number, 63 of the applications were for the licensing of administrators and investment managers, and the remaining 2,520 applications were for the registration of responsible officers, superannuation funds, retirement schemes and trustees.

At the end of FY 2007/08, the FSC had approved 46 applications for licensing from corporate entities. Of this number, 23 of the approvals were for investment managers and the remaining 23 for pension administrators. The asset holdings of corporate entities account for 90% of the value of assets in the private pensions industry.

During FY 2007/08, the FSC received 537 applications for the registration of superannuation funds and retirement schemes. However, only 104 or 19% of the applications were properly completed and satisfied the requirements as set out in the Act. The FSC is working closely with the trustees and the professional advisors of the remaining funds and schemes to amend their application documents to ensure their compliance with the law.

With respect to registration of individual trustees, the FSC received 1,212 properly completed applications and has subsequently done fit and proper assessments of 1,164 persons. The approval process was significantly hampered by the large number of incomplete applications rather than the quantity of applications received.

Combating Money Laundering and Terrorist Financing

The provisions of the Money Laundering Act were incorporated in the Proceeds of Crime Act (POCA), enacted in March 2007, and came into effect on May 31, 2007. The revised Anti-Money Laundering (AML) provisions can now be found at Part V of the POCA and in the POCA (Money Laundering Prevention) Regulations, 2007. The Money Laundering Act (1996) was subsequently repealed as of that date.

The new legislation helps to strengthen the regulatory framework by expanding the offences that fall under the Money Laundering Act. It also increased the roles and responsibilities of financial institutions, which require that they report and seek consent for certain types of transactions before completing them.

The Money Laundering provisions of the POCA has reduced the reporting threshold limit for financial institutions from US$50,000.00 or its equivalent in any other currency to US$15,000.00 or its equivalent in any other currency. A new reporting limit of US$5,000.00, or its equivalent in any other currency, has also been introduced for remittance companies. The reporting limit for cambios and bureaux de change remains at US$8,000.00.

The Terrorism Prevention (Reporting Entities) Regulations, which deals with preventing the financing of terrorism, is being reviewed by stakeholders prior to finalization. The Regulations impose various requirements on financial institutions that have the duty to report under the Terrorism Prevention Act. The FID will be responsible for enforcing reporting requirements with respect to the financing of terrorism in accordance with the regulations under the Terrorism Prevention Act.

Financial Investigations Division (FID) Bill

During FY 2007/08, the Technical Task Force completed the comprehensive review of the Financial Investigations Division Bill, which was subsequently redrafted. This was necessary to ensure consistency with the POCA. The Bill has been finalized by the Task Force and will be submitted to the Legislation Committee for consideration, after which it will be recommended to Cabinet for tabling in Parliament. This remains the only outstanding requirement for securing FID's membership to the Egmont Group. The Egmont Group of Financial Intelligence Units (FIUs) was formed in 1995 and is an informal international gathering of FIUs.

It should also be noted that a policy decision has been made to re-establish the Revenue Protection Division outside of the FID. Consequently, drafting instructions have been issued to give effect to this decision. The Draft FID Bill will therefore be amended to reflect the change.

Credit Reporting Legislation

The Credit Reporting Legislation will facilitate the establishment of Credit Bureaux. Since the initiation of the legislative process, there has been significant debate on whether credit information should be shared among credit providers without the consent of the consumer. Following discussions with stakeholders, it was finally agreed that the consumer's consent should be obtained.

Although this debate had been ongoing, efforts were made to ensure that the legislative process continued. Following the Legislation Committee's approval of the Credit Reporting Bill and the receipt of Cabinet's approval for the tabling of the Bill, guidelines that formed the basis for the regulations were developed. These guidelines were reviewed by stakeholders and used to issue drafting instructions to the Chief Parliamentary Counsel to draft the Regulations. The Credit Reporting Legislation is seen as an important element of managing credit risk in the financial sector.

Amendment to the Industrial and Provident Societies Act

The legislation that provides for the amendment of the Industrial and Provident Societies Act has sought to make the existing legislation more modern and enhance the supervision of Industrial and Provident Societies. These institutions will be supervised by the Registrar of Cooperatives and Friendly Societies.

The requisite Regulations are being drafted and, once finalized, the Bill will be submitted for approval by Cabinet and tabling in Parliament.

Amendment to the Bank of Jamaica Act

A proposal seeking an amendment to the Bank of Jamaica (BOJ) Act, to increase the limit for the legal tender of coins, has been approved by Cabinet. Once approval is granted for the continuation of drafting by the Office of the Parliamentary Counsel, the Bill will be finalized and forwarded to the Legislation Committee for consideration and approval in accordance with legislative procedure.

Notwithstanding the progress made in enhancing the legislative framework, the authorities were faced with the challenge of dealing with the existence of over 20 Unregulated Financial Organizations (UFOs) during the review period. The FSC, with the support of other regulatory agencies, embarked on an extensive public campaign in a bid to increase the public's awareness of factors that should be taken into consideration before investing. This was accompanied by investigations into the business operations of these UFO's. Following investigations by the FSC, the entities were deemed to be in contravention of relevant laws governing the sector. In an effort to protect the interests of the public, the entities were served with Cease and Desist Orders. A Cease and Desist Order is an instruction to an entity, requiring it to discontinue any business transactions, or any actions that are in contravention of any of the Acts that have provisions for the regulation of the financial sector.

To prevent the execution of these Orders, some of these entities brought legal action against the FSC. However, in all the court rulings so far, the FSC has been successful in its bid to issue and enforce the Cease and Desist Orders.

Financial Investigations Division

In an effort to carry out its mandate of investigating and facilitating the prosecution of financial crimes, including fraud, breaches and money laundering, protecting the Government's revenue and supporting an equitable tax system, the following activities were undertaken by the FID during FY 2007/08:

Anti-Money Laundering

The FID continued to build partnerships with financial institutions and their staff to strengthen Jamaica's anti-money laundering regime. Since the designation of the FID as the Asset Recovery Agency, it has been developing the institutional framework within which it will carry out this new function. In addition, FID has been receiving technical assistance from bilateral partners to strengthen its capability to administer the relevant provisions of the POCA.

During the period under review, the Division received 175,956 threshold reports from 241 entities as compared to 102,091 reports received in 2006. The overall compliance rate of financial institutions was 80% for the period. Seventeen money-laundering cases valued at $224 million were referred for investigation. Three (3) money-laundering convictions were obtained during the year, in addition to the receipt and processing of 8,763 intelligence requests. In addition, the FID completed the investigation of four (4) new cases of money laundering, which resulted in charges being laid against the relevant persons.

In October 2007, Jamaica's update on the progress made since its 2005 Mutual Evaluation Report was delivered to the Caribbean Financial Action Task Force Plenary.

Anti-Terrorism Financing

During the period, Jamaica's anti-terrorism framework, inclusive of its anti-terrorism financing regime, was reviewed by the United Nations Counter Terrorism Executive Directorate (CTED) in the form of interviews with various stakeholders. Jamaica was lauded for its efforts in combating the financing of terrorism and the high level of collaboration that exists among the entities involved.

Law Enforcement Collaboration

The FID continued to work closely with the Jamaica Constabulary Force and the Jamaica Customs Department to combat organized crime. These law enforcement efforts resulted in 34 cases of seizures and forfeiture totaling US$31,400.00. The Division worked with other relevant authorities in executing restraint orders and other measures that are used to solve cases.

Revenue and Corruption Investigations

During the period under review, 15 new revenue cases were identified, of which the investigation of 14 have commenced. In addition new allegations of misconduct in the revenue service were referred to the FID for investigation.

Asset Recovery Agency

The first successful forfeiture under the POCA was registered seven (7) months after the new legislation became effective. However, the decision is being appealed.

Financial Institutions Services (FIS) Limited

During FY 2007/08, FIS continued to deal with a number of residual activities, such as divestment, liquidation, and litigation. The staff complement was reduced by 25% during the period reflecting the continued winding up of operations.
A number of commercial properties were divested, including the Reading Heights Property in Montego Bay. This divestment netted over $310 million. In addition, FIS received approximately US$8.25 million, on behalf of FINSAC, for its share of collections for loans sold to the Jamaican Redevelopment Foundation (JRF).

Prosecutorial work continued against persons deemed to be responsible for losses suffered by some of the failed financial institutions. All cases are now being handled by the Attorney General's Chambers.

The Privy Council handed down a judgment of approximately $6 billion, inclusive of interest, against the managing director of Century Financial Entities. In addition, properties have since been sold from which the net proceeds, for the review period, totaled $113 million. Efforts to dispose of remaining properties continue.

With respect to another entity, Blaise, FIS continued to sell properties arising from the out of court settlement, which was reached on June 06, 2007. This resulted in the transfer of all properties owned by Blaise (excluding vehicles & supplies) and shares to FIS.

The liquidation of the dormant companies under FIS's control is almost complete, with less than five (5) companies remaining. The liquidation of 18 companies has been placed on hold, as eight (8) companies are incorporated overseas. Given that these companies are domiciled overseas, liquidation will have to be done in the country of registration. The other ten (10) companies have outstanding litigation matters.

During FY 2008/09, it is expected that the few remaining assets will be divested. Thereafter, the primary residual activities will involve: finalizing the liquidation of dormant companies; completing the financial accounts for FINSAC, FIS and intervened entities; coordinating outstanding litigation matters; and finalizing all outstanding issues for the sale of loans to JRF.

AREAS OF FOCUS FOR FY 2008/09

During FY 2008/09, efforts will concentrate on the following:

- Completion of Phase II of the Pension Reform;
- Completion of the legislative framework to facilitate credit reporting;
- Facilitating the enactment of legislation for the regulation and operation of the National Payments System;
- The enactment of legislation for the revision of legal tender limits;
- Extensive use of the provisions of POCA to enhance the fight against financial crimes;
- Completion of implementation of the Electronic Case Management System to achieve online reporting by financial institutions;
- Continued efforts by the FID to become a member of the Egmont Group;
- Completing the set up and staffing of the Asset Recovery Agency (ARA);
- Completing the winding-up operations of the FIS; and
- Initiating work on the Secured Transactions Legislation.

Appendix 4

TAX ADMINISTRATION

FY 2007/08 Review

Improved Compliance

Improvement of compliance through the implementation of programmes under taxpayer service, public education and enforcement will represent a major objective of Tax Administration. Performance results of these programmes in FY 2007/08 are outlined below.

Taxpayer Service

- Customer satisfaction increased by 2.4% during the April – December period of FY 2007/08 compared with September – March of FY 2006/07.
- Of the 17 selected service areas monitored, six (6) or approximately 35% were on or above target, eight (8) or approximately 47% were behind target and three (3) or approximately 18% were not addressed.

Public Education

Improved visibility of Tax Administration (TA) was achieved through enhanced marketing, utilizing a mix of increased advertising, improved media presence and the expansion of direct contact with interest groups. TA was able to enhance and diversify its promotions programme through partnership arrangements that complemented its educational programmes.

Several campaigns were launched by TA to promote compliance of taxpayers with different tax types and tax dates. This began in April 2007 with a mini-campaign to encourage property tax payments and culminated in March 2008 with a major campaign to promote income tax filing and payment. Data for the period up to the March 17 due date showed that income tax collected, and returns filed, increased by 38% and 34% respectively in FY 2007/08 when compared with the corresponding period of FY 2006/07. The various campaigns improved public awareness of tax obligations and had a positive impact on payments.

Among the marketing strategies utilized were partnerships with media houses to provide tax information through interviews, the airing/publishing of press releases, the airing of radio and publishing of print features such as the newly introduced weekly “Tax Tip in 60 Seconds” radio series and the monthly “Tax News and Views” print column.

Public education activities, such as expos, publications and seminars geared towards informing the public about various aspects of paying taxes were expanded, with special focus on specific interest groups. The Schools Tax Education Programme (STEP), which focuses on creating a positive tax culture among secondary and tertiary level students, was expanded through partnership with RJR in their weekly “*Radiocation*” promotion. During the last fiscal quarter, a structured Pension & Retirement Education Programme (PREP) was introduced, focusing on tax implications for pensioners and employed persons approaching retirement. E-mail channels were fully utilized to advise business associations and their members of due dates and to provide other pertinent tax information.

Enforcement

Tax Administration sought to encourage compliance by reducing the opportunities for tax evasion and fraud through audits and assessments and tax fraud investigations. The performance of this programme against targets is as follows:

- Of a targeted 1,538 audits, 980 or 64% have been completed with a tax liability of $4 billion identified;
- Forty (40) Customs audits have been completed for FY 2007/08 with assessments of $88.5 million;
- Three (3) fraud cases were taken to Court. One has been settled in favour of TA while the other two are still in progress;
- Other tax investigations (29 completed cases) resulted in penalties of $58.6 million levied against offenders and assessments of $671 million.

Improved Information & Communication Technology

- The Automated Motor Vehicle System (AMVS) was rolled out to all 28 Collectorates, bringing on-line all points for the registering and transferring of motor vehicles. This has resulted in improvements to the accuracy and security of motor vehicle transactions.
- Work continued with integration of the Customs systems with a number of Government bodies (i.e. Ministries of Health, Agriculture, National Security and Justice, as well as the Bureau of Standards and Trade Board) to facilitate sharing of data among these agencies.
- Work to integrate the electronic manifest with cargo processing commenced during the year. The system is now operational at Berth 11 (at Customs), and will be supplemented by the use of handheld devices.
- The Valuation, Intelligence and Risk Management System (VIRMS) was modified to further integrate it with cargo processing as well as allowing for updating of the database.

Improved Organization and Management

A review and reclassification of the compliance function and other technical positions in the Inland Revenue Department (IRD) was conducted. This was done with a view to ensuring adequate numbers and appropriate classifications and grades to satisfy the needs of Tax Administration. The Compliance positions have been approved and established and are awaiting approval of the Post Operations Committee (POC).

To ensure that Customs fulfils its mandate of adequately protecting the borders of Jamaica as well as complying with standard operating procedures for a modern containerized cargo inspection area, an X-ray Unit with 28 positions (yet to be approved by the POC) was created.

Planned Activities - FY 2008/09

The strategic compliance model has been utilized to define strategies during FY 2008/09 and beyond to significantly increase tax revenue. These strategies will be within the context of a strategic administrative reform effort which is planned for execution over the next three (3) years. There will be a comprehensive risk-based approach that examines risk and complexity, and selects the appropriate set of actions.

Improved Compliance

Compliance strategies are to be implemented throughout FY 2008/09 in the areas outlined below.

Audit and Assessment

(i) Reconstitution of Large Case Teams:

- With responsibility for auditing, monitoring and collections for specified large taxpayers;
- Utilizing auditors and compliance officers with the requisite qualifications, interest and orientation;
- Rotating staff among Large Case Clients;
- Collaborating with large taxpayers to structure operational relationships.

(ii) Segmentation of the market and development of specialized sector competencies among Audit Teams. The market segments will include:

- Financial institutions;
- Professionals (established groups);
- Construction Industry and Trucking Services;
- Tourism;
- Car Dealers

(iii) Re-definition of field supervisors' roles to include:

- Monitoring, supervising and assisting team members to meet team goals;
- Making early determination with respect to detailed audits;

(iv) Other Strategies to be pursued include:

- Maintaining comprehensive automated assessments and notices with clear assignment of responsibility for monitoring results;
- Making greater use of third party sources, including data from The Companies Office of Jamaica, Ministry of Finance and the Public Service, Local Government/Parish Councils and the National Water Commission;
- Establishing a team to analyze, manage and take appropriate auditing action on nil returns;
- Reorganising the returns processing function to have returns processed at Collectorates.

Collections

The main initiatives to drive the collection strategy will include:

- Assigning of technical specialists from the Director General's (DG) Office to a Research and Development Unit (RDU) that will carry out comprehensive analyses of audit results, collections and arrears and formulate specific performance improvement programs to be approved by the DG, executed in the appropriate line department and monitored by the RDU;
- Incorporation of the relevant Intelligence and Investigation positions in Tax Fraud into a reorganized IRD Compliance Structure;
- Establishment of special compliance teams in each region to deal with large or difficult to collect tax arrears;

- Implementation of strict accounting for arrears (active and dormant), and arrangement of management programs in each Collectorate;
- Incorporation of the procedures of the existing Revenue Enhancement Programme into normal operations within each Collectorate;
- Integration of IRD, Customs and Taxpayer Audit and Assessment Department's (TAAD) collections data into operational reports and making these available at the regional management level;
- Establishment of a single inbound/outbound call center in the Tax Administration Services Department (TASD), which focuses on payment/filing due reminders to taxpayers and on facilitating taxpayer enquires and need for assistance, and, in general, projecting a responsible, courteous and good image of Tax Administration;
- Augmentation of the call center operations with automated cell phone reminders to taxpayers who elect to utilize this facility;
- Improvement of Taxpayer Registration Centre's (TRC's) capacity to maintain the integrity of the Taxpayer Registration Number (TRN) database;
- Establishment of strict procedures and time-lines for enforcement actions at the Collectorate level with appropriate reporting to ensure that these are maintained. This will ensure equity/fairness by dealing consistently with non-compliant behaviour across the board;
- Implementation of Third Party revenue collection arrangements (through banks and bill payment companies) as a means of increasing the payment options of taxpayers;
- Undertaking and acting on a cost/benefit analysis of expanding the use of automated receipt drop boxes across Collectorates and secure locations within or outside of Tax Administration;
- Strengthening the content and use of the VIRMS;
- Issuance of Tax Compliance Certificates (TCC)
- Strengthening the procedures for issuing of TCC by instituting more stringent compliance requirements that enhance collections and removing the provision of "soft" arrangements; and
- Rewarding "always compliant" TCC applicants by automatically renewing, issuing and delivering annual TCC's in advance of the expiry date;

Tax Fraud

- Refocusing Tax Fraud to its single, principal objective of obtaining prosecution of Tax Fraud Cases;
- Reviewing Tax and Customs Laws to impose stiffer fines and penalties/imprisonment on any tax official arrested and convicted of aiding and abetting a taxpayer to evade taxes or commit fraud.

Taxpayer Education

This will entail:

- Carrying out a comprehensive and systematic expansion of TA's outreach and education portfolio by developing and implementing programmes for specific market segments/groups e.g. professionals, small businesses, large corporate entities, artisans;
- Encouraging the development of private sector tax preparation groups/companies to assist Tax Administration in fostering voluntary compliance and creating a business opportunity for these groups/companies to generate income by getting and assisting persons to file returns and pay taxes.

Improved Information and Communication Technology

A significant amount of work is being done in leveraging technologies to better support the strategic objectives of TA. In order to improve TA's services to its clients, the business functions and system modules of the Integrated Computerised Tax Administration System (ICTAS) will be enhanced with respect to:

- Audit – to improve recording of accounting for assessments, objections, appeals;
- Compliance – to improve the process for PAYE, Corporate and Individual Income Tax, Asset Tax and Education Tax compliance;
- Revenue Accounting – to automate the process to facilitate the efficient functioning of the Revenue Accounting Unit of IRD;
- Taxpayer Accounting – to resolve all outstanding taxpayer accounting issues.
- Case Tracking – to review, enhance and implement the Case Tracking System;
- Interface – to review and implement interfaces with Stamp Duty & Transfer Tax and Customs Systems;

Expansion of E-payment facilities will continue and E-filing will be introduced through:

- an expansion in the number of taxes and deductions that can be paid on line;
- the introduction of E-filing of returns for GCT/SCT, to be followed by Income Tax, PAYE and Withholding Tax.

A Tax Administration Business Intelligence System (TABIS) will be acquired in FY 2008/09 and deployed during FY 2009/10. This system will provide TA with additional capability to:

- Consolidate and report on collections from all TA revenue points;

- Establish a Decision Support System utilizing taxpayer information;
- Utilize information from third party sources, e.g. utility companies;
- Undertake classification and risk management.

The current call centre concept is to be expanded into a more integrated facility with the use of a state-of-the-art telephone system, allowing for both inbound and outbound calls, with the capability to queue and route calls and record service levels. The acquisition and deployment of a Customer Relationship Management (CRM) system will be a critical enabling tool for this facility.

The current Driver's Licence system is now six (6) years old and its technological infrastructure is obsolete. Negotiations have concluded with the supplier to migrate the system to a new platform and to enhance some features, including establishing a link with the TRN system.

Additional business systems improvements will include:
Enhancement of the Stamp Duty & Transfer Tax office systems to include electronic cross stamping, resulting in an improved turnaround time for legal documents;

- Customs –E-manifest:
    i. Automation of Breach Mitigation and Write Off systems;
    ii. Expansion of the e-manifest system to include all ports;
    iii. Further integration of the Valuation, Intelligence and Risk Management system with e- manifest and cargo processing;
    iv. Completion of the Trade Facilitation system;
    v. Enhancement of the Revenue Accounting System.

Improved Organization and Management

With the ever-increasing need to enhance efficiency, TA will continue the drive to offer training that enhances performance and creates a profile of excellence, which will enable the organization to deliver superior quality output to its stakeholders while improving revenue collection. Strategies to achieve these results will include:

- Developing and delivering training for staff, particularly auditors and compliance officers, in accordance with the revised compliance structure and procedures;
- Developing, and implementing programmes for the new orientation and development of Taxpayer Education/Outreach and call centre operations;
- Developing, implementing and sustaining a programme of comprehensive training for taxpayer service personnel to provide improved and consistent taxpayer service throughout all Collectorates and other service stations;
- Developing and delivering supervisory training programmes that are specific to occupational groups, including techniques for maintaining integrity of services through analysis of reports, placement/rotation of staff and appropriate scheduling of staff, based on analyses of service requirements;
- Implementing continuous cashier training for revenue collection officers and other personnel who can be utilized at peak periods as "relief" revenue collection officers to optimise collection services.

An IMF/CARTAC team, under the aegis of a Technical Assistance Programme, proposed an operational restructuring of TA. This will be implemented as it relates to reconstituting the large case audit teams, as work will now involve across-department-functions for auditing, monitoring and collections for specified large taxpayers.

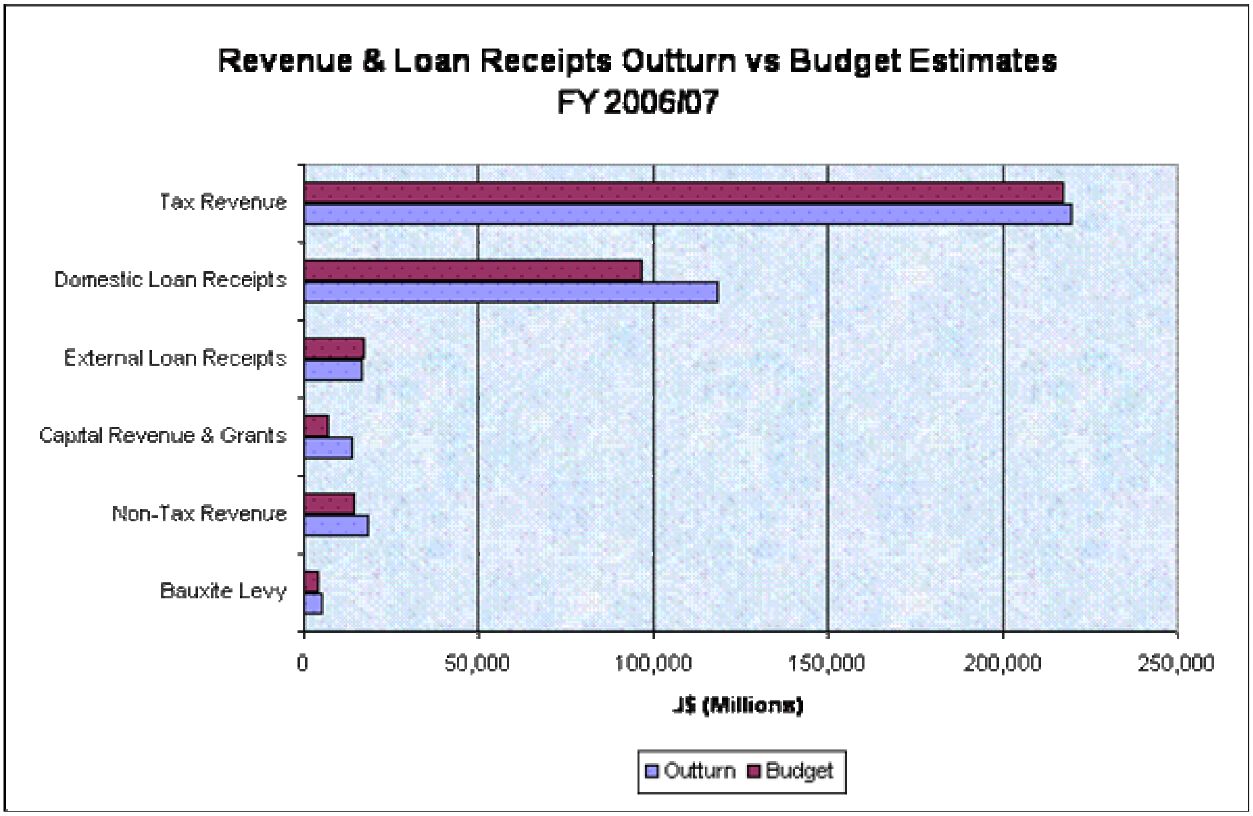
Other human resource strategies to improve the organization and management component of TA include:

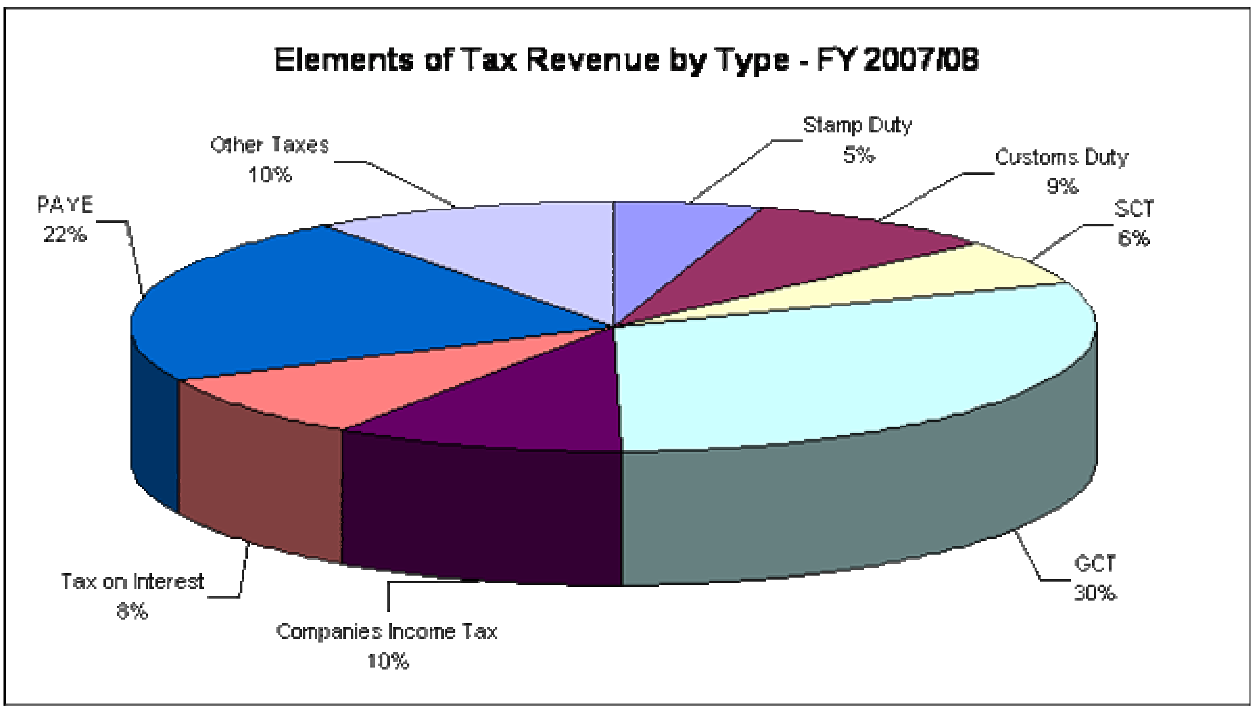
- Implementation of the reclassification of Compliance and Revenue Collection Officers by ensuring appropriate reclassification of posts to remove anomalies;
- Modification of the staff establishment to reflect the requirements agreed on during FY 2007/08;
- Developing an implementation plan for the agreed recommendations of the CARTAC/IMF and the IBM Re-engineering recommendations.

The TA initiatives outlined are to be supported by the necessary legal framework, which will include:

- Finalizing regulations to implement the Electronic Transactions Act by permitting the acceptance of electronically generated tax returns and receipts;
- Amending the administrative and penal provisions of the GCT Act;
- Amending the Fast Track Refund Form;
- Introducing statutory provisions to combat fraudulent voluntary liquidation;
- Amendment of Section 58 of the Income Tax Act to make it mandatory for declaration of interest income received on behalf of residents and non-residents; and
- Introducing legislation requiring selected professional categories to be tax compliant as a condition for annual registration.

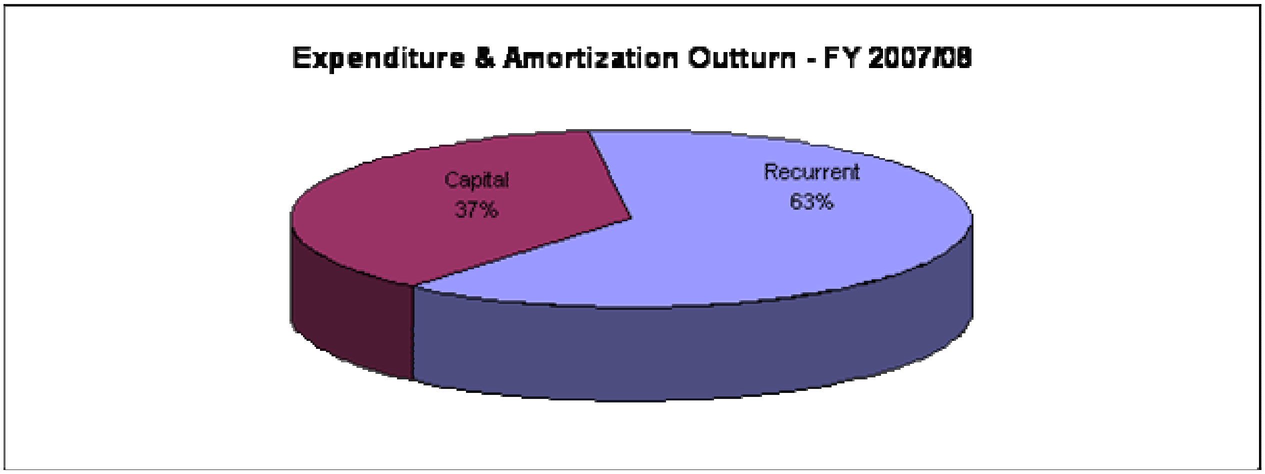
2008/2009 JAMAICA BUDGET
Revenue & Loan Receipts Outturn - FY 2007/08

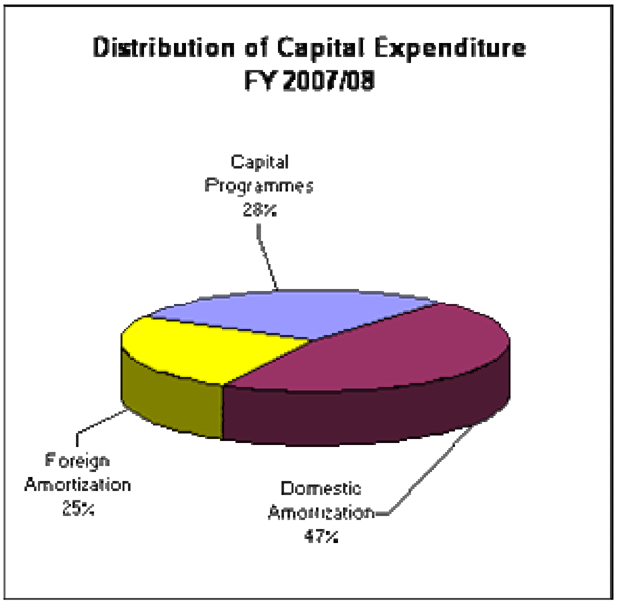


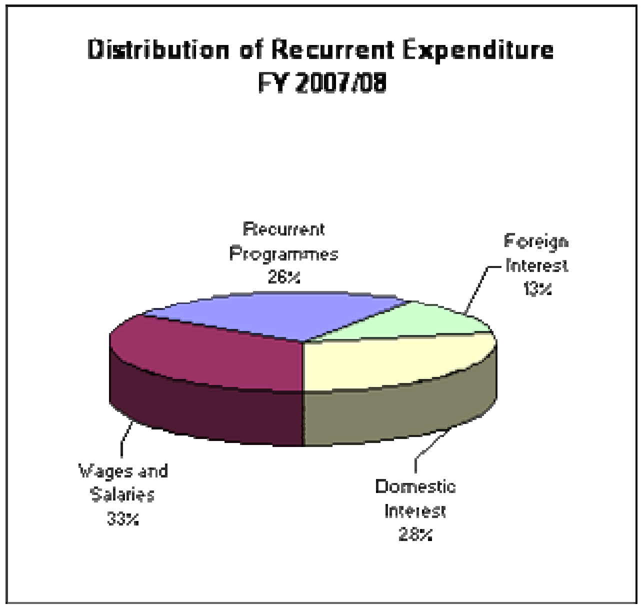


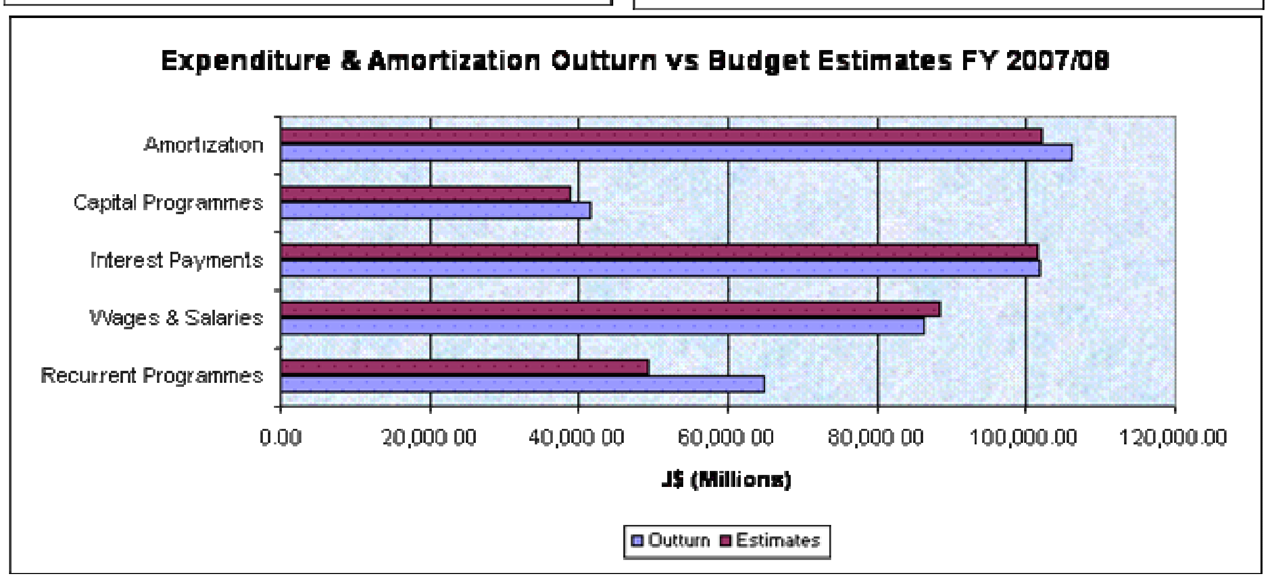
Ministry of Finance and the Public Service

2008/2009 JAMAICA BUDGET
Expenditure & Amortization Outturn - FY 2007/08



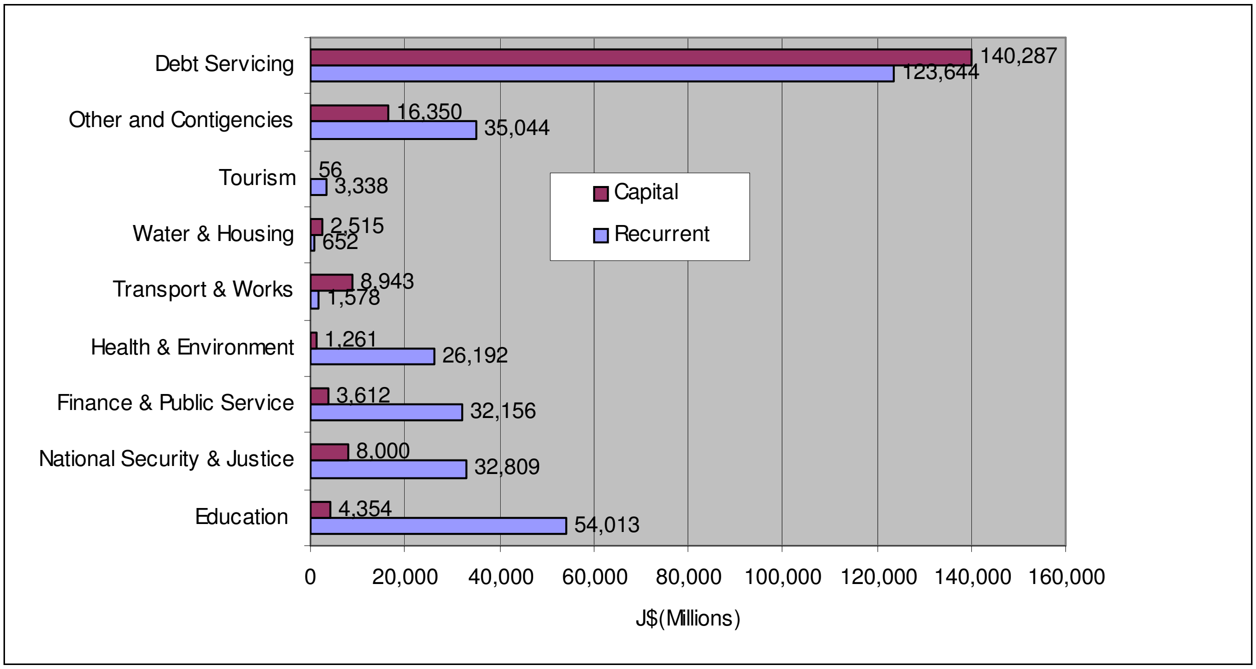




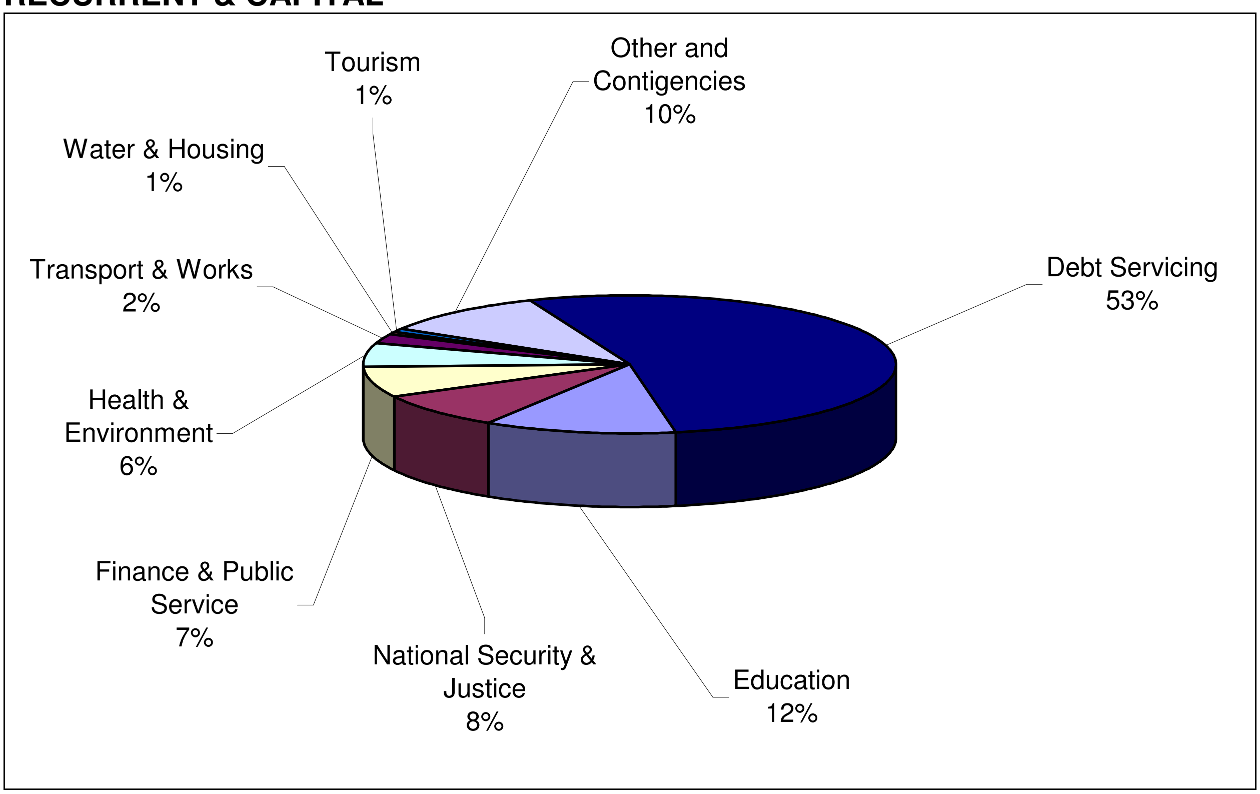


2008/2009 Jamaica Budget
Estimates (Gross) by Selected Ministry Groups – Part 1

TOTAL

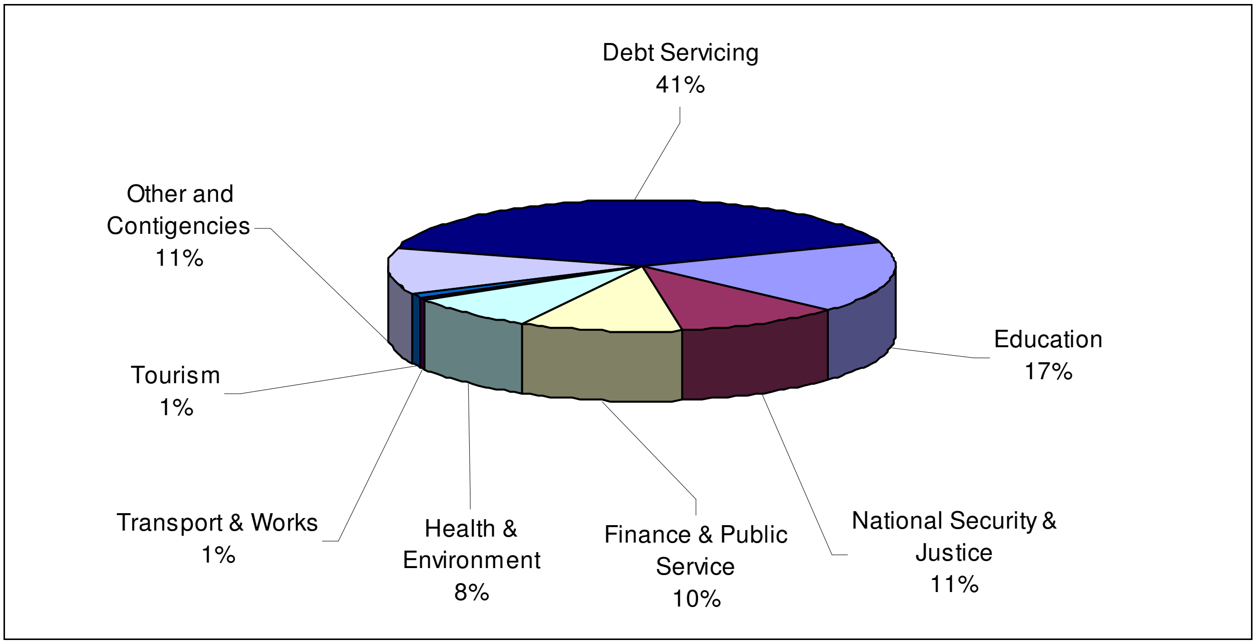


RECURRENT & CAPITAL

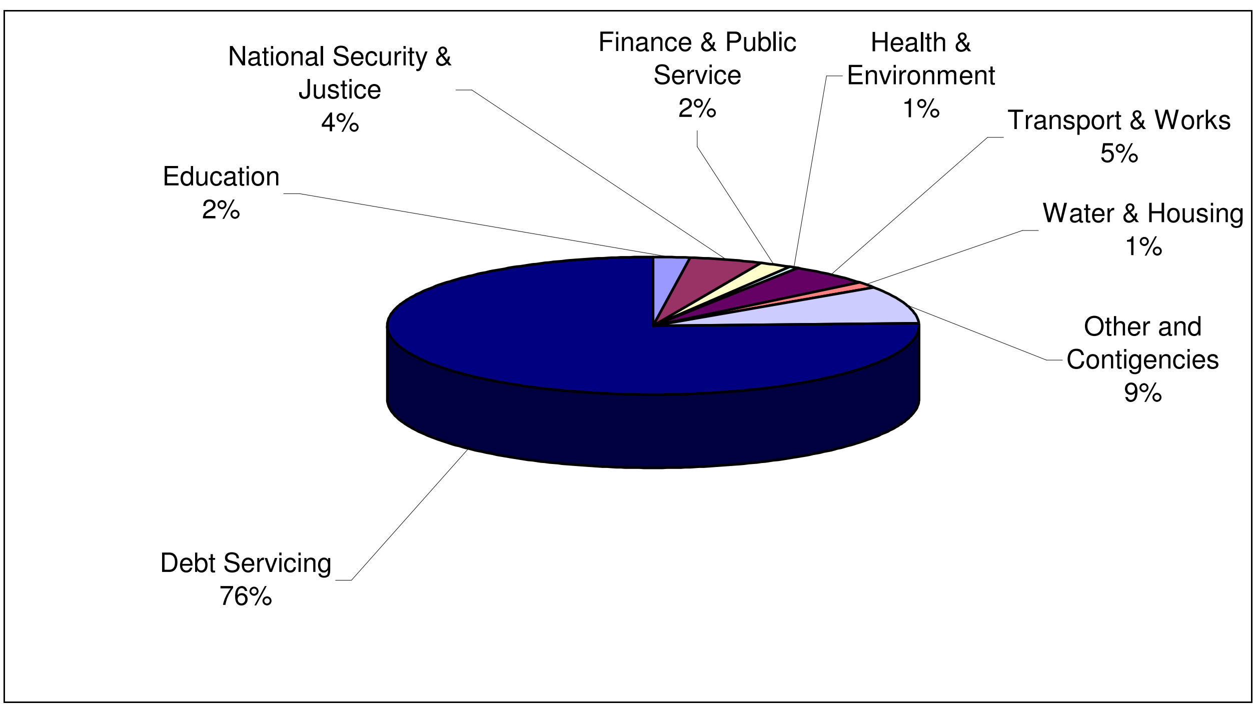


2008/2009 Jamaica Budget
Estimates (Gross) by Selected Ministry Groups – Part 2

Recurrent

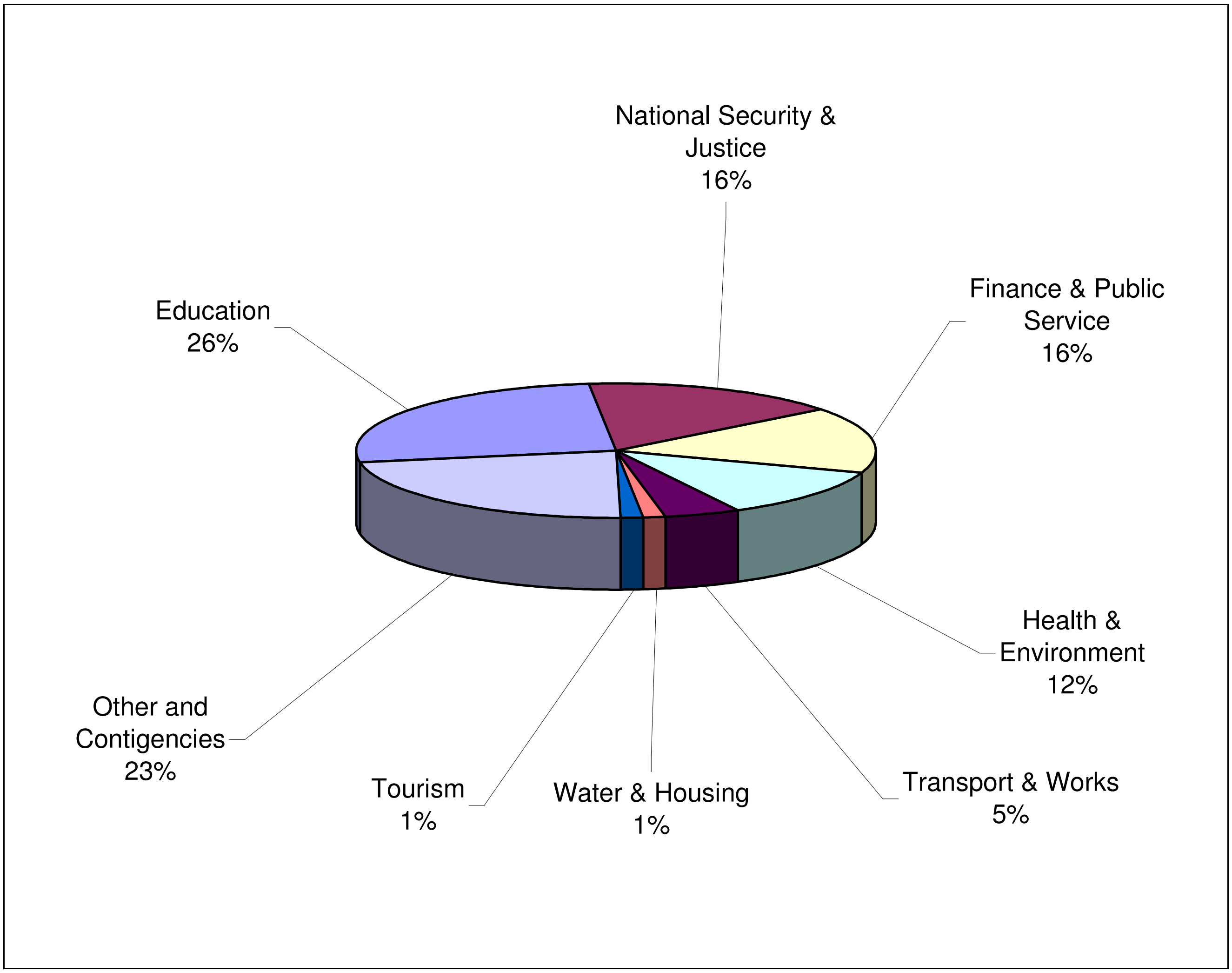


Capital



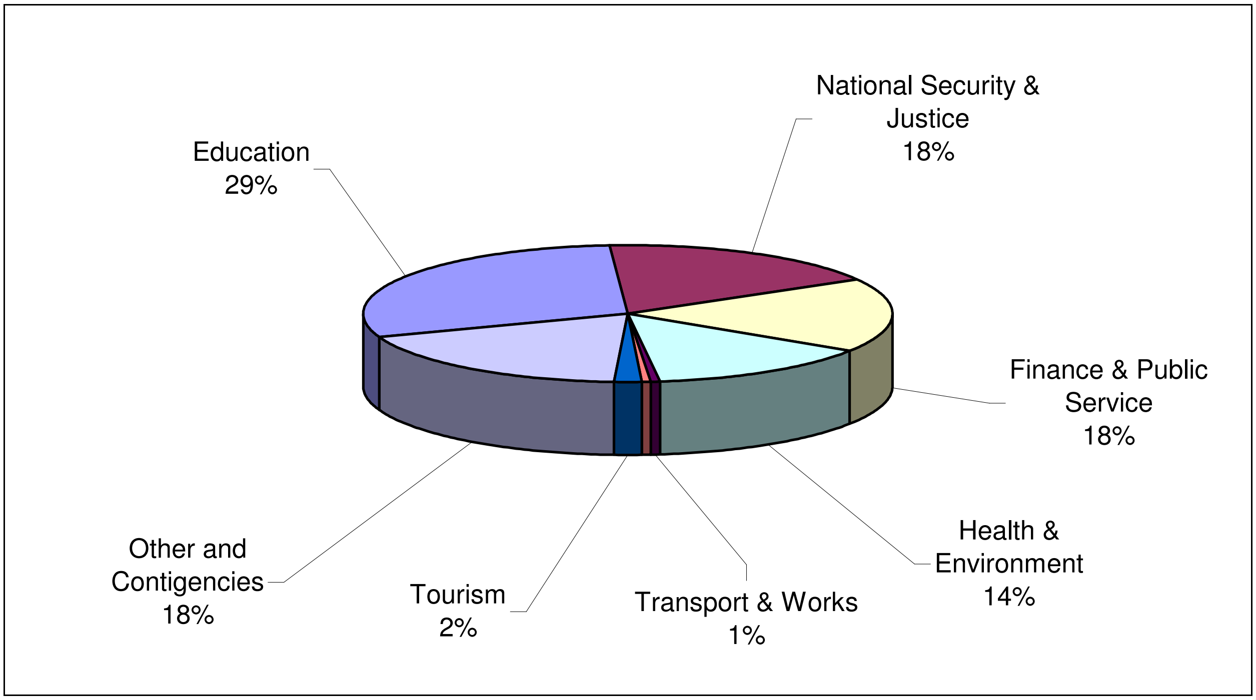
2008/2009 Jamaica Budget
Estimates (Net of Debt) by Selected Ministry Groups – Part 1

Recurrent & Capital



2008/2009 Jamaica Budget
Estimates (Net of Debt) by Selected Ministry Groups – Part 2

Recurrent



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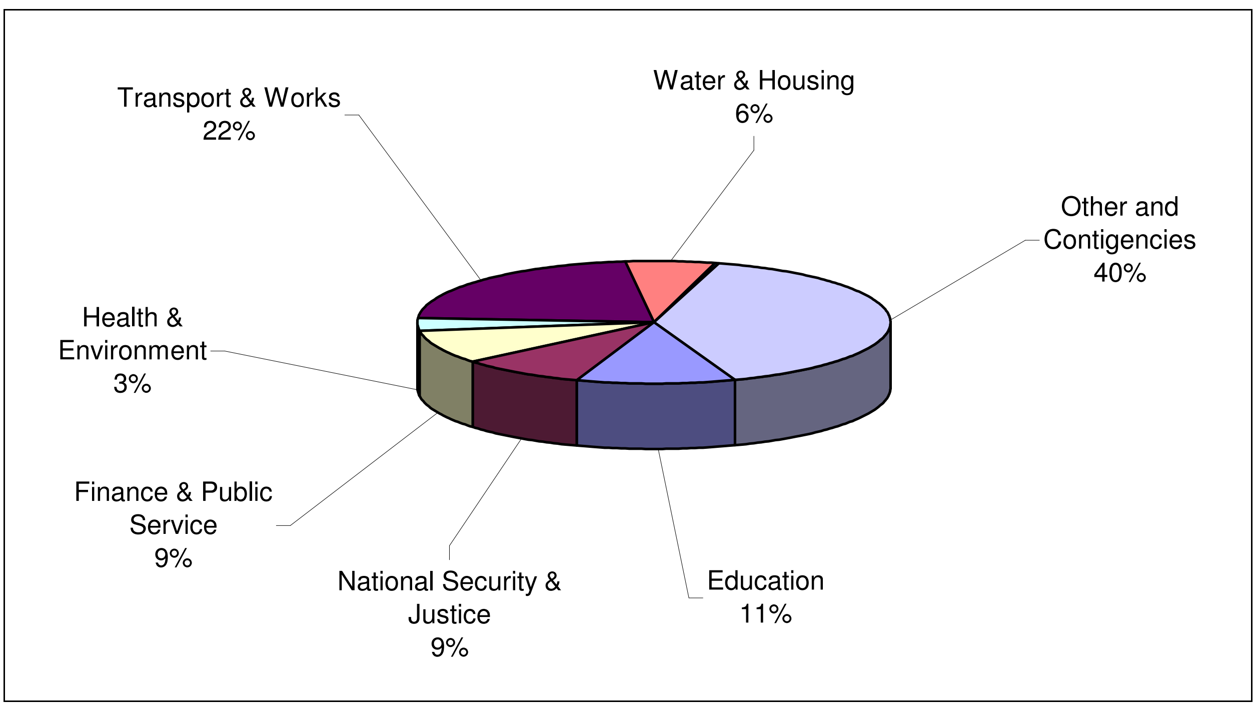

GLOSSARY

Amortization
Amortization refers to principal repayments on loans. These repayments reduce the borrowed money by portions, which are usually fixed amounts expressed as a percentage of the whole. Most of the domestic debt has a bullet repayment - the entire principal is repaid at maturity rather than gradually over the term of the loan.

Auction
An auction is a system by which securities are bought and sold on a competitive bidding process. The auctions are conducted on a multiple-price-bidding basis, which means that the successful investor will receive stocks at the price he bids.

Benchmark Issues
Issues of securities that are sufficiently large and actively traded, such that their prices serve as reference for other issues of similar maturities.

Budgeting, Performance
Performance budgeting relates input factors such as expenditures for man-hours and materials to measured outputs. These output measures and their relationship to inputs may take various forms. By compiling such measures, then comparing them with those of similar activities and studying their movements over time, the efficiency and the effectiveness of activities can be assessed.

Budgeting, Programme
Programme budgeting focuses on the prioritization and productivity of expenditure. The allocations for expenditure are cast in terms of programmes, activities and projects and presents a breakdown of the financial allocation according to specific purposes and objectives.

Capital 'A'
Capital 'A' projects are funded solely from local sources.

Capital 'B'
Capital 'B' projects are at least partially funded from foreign sources - grants and/or loans from multilateral/bilateral institutions.

Commonwealth Debt Initiative
A programme of the Government of the United Kingdom launched in 1997 to cancel the debt of poor to middle-income Commonwealth countries that are committed to international development targets.

Consolidated Fund
The Consolidated Fund is the principal Government account to which all Government revenues must be deposited and from which expenditure, via warrants, is withdrawn.

Contingent Liabilities
The potential obligations of the Government, as guarantor, having provided a form of security to the lender for a loan or credit facility on behalf of a public sector entity.

Debt Service Payments
Debt service payments cover interest charges on a loan. Some sources also include amortization under debt service payments. These payments liquidate the accrued interest (and loan obligations if amortization is included).

EMBI+
The Emerging Markets Bond Index Plus (EMBI+) is a benchmark index for measuring the total return performance of international government bonds issued by emerging market countries. Inclusion in the index requires that the debt be more than one year to maturity, have more than $500 million outstanding, and meet stringent trading guidelines to ensure that pricing inefficiencies don't affect the index.

Eurobond
A bond underwritten by international investors and sold in countries other than the country of the currency in which the issue is
denominated. Jamaica issued a five-year, US$200mn Eurobond in July 1997, its first ever.

Executive Agencies
An Executive Agency is a Government entity, which focuses primarily on service delivery with a resource orientated approach to governance. In exchange for delegated managerial autonomy, the Chief Executive Officer (CEO) is held accountable for achieving stated results economically, efficiently and effectively.

Expenditure, Statutory
Statutory expenditure refers to those expenditures provided for in the Budget, which receive their authority from the Constitution. These expenditures are regarded as statutory obligations and therefore do not require prior approval of Parliament; for example, debt servicing, pension payments and the salaries of certain public officers such as the Auditor General and Judges of the Court of Appeal.

Expenditure, Voted
Voted expenditure refers to those expenditures provided for in the Budget, which require Parliamentary approval and include expenditure for normal housekeeping expenses and project implementation.

FINSAC
The Financial Sector Adjustment Company (FINSAC) was created by Government in January 1997 to manage the intervention and rehabilitation of the financial sector. FINSAC is also responsible for disposal of the assets acquired during the process.

FIS
The Financial Institutions Services Limited (FIS) was incorporated in September 1995. The company was established to take over the operations, assets and liabilities of Blaise Trust Company and Merchant Bank Limited, Blaise Building Society and Consolidated Holdings

Limited. FIS also took over the operations, assets and prescribed liabilities of Century National Bank Limited, Century National Building Society and Century National Merchant Bank and Trust Company Limited.

FMIS

The Financial Management Information System (FMIS) is an accounting and information management system, which encompasses all activities related to the management of Government expenditure. The FMIS comprises accounting procedures and regulations within the framework of Programme Format Budgeting and Accounting. The scope of the FMIS includes the accounting and reporting activities of line ministries as well as the centralized functions of the Ministry of Finance and Planning and its agencies involved in managing the Consolidated Fund.

HRMIS

The Human Resource Management Information System (HRMIS) is a database system designed to assist Government to manage the civil service by providing proficient automated records management systems. The system enables personnel managers and central agencies such as the Office of the Prime Minister to make effective personnel decisions.

Inflation-Indexed Bonds

Inflation-Indexed bonds are securities with the principal linked to the Consumer Price Index. The principal changes with inflation, guaranteeing the investor that the real purchasing power of the investment will keep pace with the rate of inflation. Although deflation can cause the principal to decline, at maturity the investor will receive the higher of the inflation-adjusted principal or the principal amount of the bonds on the date of the original issue.

Local Registered Stock (LRS)

The term refers to medium and long term debt instruments issued by Government. LRS is issued both to finance Government operations and to support macroeconomic and monetary objectives. Since October 1999, LRS has been offered to the market using the auction system.

Par

Par is the nominal or face value of a security. A bond being issued at par, for example at $100, is worth the same $100 at maturity.

Project Loan

The term refers to loans, which fund capital development activities. The term capital refers to lasting systems, institutions and physical structures. Project loans are typically funded from foreign sources by bilateral/multilateral institutions.

Public Debt Charges / Public Debt

Public debt refers to the loan obligations of Central Government. The obligations of Government entities are also included if such entities are unable to meet their obligations. The entities, however, are then indebted to the Central Government. Public debt charges are interest payments on the loan obligations and include related incidental expenses such as service fees, late payment penalties and commitment fees.

Schedule B/Shelf Registration Statement
A facility with the US Securities Exchange Commission, which allows for the registration of securities intended to be issued in the future.

Sovereign Rating
A sovereign rating is an assessment of the default risk for medium and/or long-term debt obligations issued by a national Government (denominated in foreign currency), either in its own name or with its guarantee. Ratings are produced by independent agencies (Moody's Investors Service, Standard & Poors and others). The ratings provide a guide for investment risk to capital market investors.

Treasury Bill
Treasury Bills are instruments designed to provide Government with short-term financing to meet temporary cash needs arising from fluctuations in cash revenue. Treasury Bills are no longer limited in use to this strict interpretation. They are now being used by Government as a tool in its open market operations for liquidity management.

US Dollar Indexed Bonds
Interest and principal are protected from adverse changes in the exchange rate as adjustments are made for movements in Jamaica dollar vis-à-vis the US dollar.

Interest payments are made on a fixed rate basis on the exchange rate adjusted principal.

The index for measuring the applicable rate of exchange has been the 10-day moving average selling rate as published by the Bank of Jamaica 10 days prior to the respective due dates. Interest and principal are generally payable in Jamaica dollars. US Dollar Indexed Bonds were introduced in July 1999.

Warrants
A warrant is a written authority over the signatures of the Minister of Finance and the Financial Secretary authorizing the Accountant General to transfer from the Consolidated Fund Account to the various accounts listed, the amount stated in the warrants. There are two broad categories of warrants: Statutory and General. Statutory warrants are for expenditure, which is provided for by law and does not require the approval of Parliament e.g. Public Debt. General warrants relate to expenditure of a general nature as approved by Parliament. General warrants are broken down into Capital and Recurrent. Normally, recurrent warrants are issued at the beginning of each month. Capital warrants are issued at the beginning of each quarter.

Yield Curve
A line graph showing the interest rates at specific points in time by plotting the yields of all securities with the same risk but with maturities ranging from the shortest to the longest available. The resulting curve shows if short-term interest rates are higher or lower than long-term interest rates.