Jamaica Memorandum on the Budget 2009/10

23rd April 2009

Ministry of Finance and the Public Service

TABLE OF CONTENTS

BUDGET MEMORANDUM 2009/10

FOREWORD

In fiscal year 2008/09, adverse developments in the global economy presented unprecedented challenges in the management of the fiscal deficit within budget. The recession that arose in the major developed economies had an adverse impact on Government spending, while revenue inflows fell below expectations. Additionally, inflation rose above the targeted level, the rate of economic growth slowed considerably and there was deterioration in the value of the Jamaica Dollar against the major currencies of the world.

The Country's debt management strategy was somewhat derailed as debt was raised at higher interest rates than projected in the domestic market within the framework of a tightening in credit conditions and a volatile foreign exchange market. However, on the external side, the Government was able to secure lower cost debt from the Multilateral Lending Agencies to satisfy its external borrowing requirements.

Notwithstanding the ongoing fiscal pressures occasioned by negative economic growth and reduced export earnings, every effort has been made to ensure that budgetary allocations are appropriately aligned with the Government's strategic and policy priorities. Importantly, the Government is taking needed adjustments to ensure that the fiscal balance does not become unsustainable. By containing the fiscal deficit, the Government will do its part in assisting the process of a gradual reduction.

It is my hope that this publication will provide a better understanding of the challenges that the Fiscal Authorities faced in 2008/09 and of the budget and fiscal strategy for 2009/10.

Sharon A. Crooks
Financial Secretary

MACROECONOMIC OVERVIEW – FY 2008/09

OVERVIEW

The macroeconomic programme for FY 2008/09 encapsulated the preservation of relative exchange rate stability within a competitive market environment, economic growth of 3%, a fiscal deficit of 4.5% of Gross Domestic Product (GDP), inflation in the range of 9% - 10.0% and a strong net international reserves (NIR) position of US$1.5bn.

Provisional data for FY 2008/09 indicates that the Central Government generated a fiscal deficit of $75,321.6mn, or 6.8% of GDP. This represents a deterioration over the 4.0% recorded for FY 2007/08. The unfavourable performance relative to target occurred primarily as a result of revenue and Grants of $276,199.8bn being $29,847.0mn, or 9.8% lower than budgeted while spending of $351,521.4mn was $2,279.0mn, or 0.7% higher than budgeted.

The primary surplus (revenue and grants less non-debt expenditure) was also lower than programmed as the primary surplus of $49,983.6mn represented 4.5% of GDP, compared to the target of 8.4% of GDP.

The anticipated improvements in economic activities during FY 2008/09 were compromised by damage to infrastructure and agriculture from Tropical Storm Gustav in August as well as the vagaries of an increasingly challenging international economic environment, which worsened during the second half of the fiscal year. This unfavourable external environment had its genesis in the United States (US) sub-prime market meltdown. The negative repercussions of the subsequent international financial crisis have reverberated through all developed and developing economies. Jamaica, being an open, import-dependent and vulnerable economy, has seen its growth efforts thwarted by the resultant fallouts spawned from these rapidly unfolding developments in the international financial marketplace.

Rising oil and other commodity prices, particularly in the first half of the year led the Bank of Jamaica (BOJ) to adjust their inflation forecast upward on two occasions in FY 2008/09. With a considerable slowing in price movements over the second half of the year, inflation for the FY 2008/09 was 12.4%.

Excessive demand pressures in the foreign exchange market that resulted largely from the global financial market fallout, necessitated interest and foreign exchange (FX) intervention measures by the monetary authorities to counteract the heightened US$ demand and sharp depreciations in the value of the local currency. The value of the Jamaica dollar depreciated by approximately 25% against the United States dollar over the course of FY 2008/09.

Real GDP declined by 0.6% in CY 2008, the first annual decline in 10 years, compared to 1.4% growth rate recorded in CY 2007. The Planning Institute of Jamaica (PIOJ) estimates that the economy contracted in real terms by 1.0% in FY 2008/09, in contrast to real economic growth of 0.7% in FY 2007/08.

MONETARY DEVELOPMENTS

The BOJ maintained its firm commitment toward the containment of strong inflationary impulses, the preservation of a strong NIR position and relative exchange rate stability. This was evidenced by frequent foreign currency market interventions as well as upward adjustments to interest rates on the full spectrum of instruments at discrete intervals during the year. Additionally, fallouts in tourism and remittance flows exacerbated the demand/supply imbalances in the FX market and as such the thrust of the BOJ's policy measures were concentrated on containing inflationary impulses and maintaining macroeconomic stability.

In light of the global financial market meltdown, the BOJ joined other central banks around the world in providing liquidity support to domestic financial institutions. The provision of US$300.0mn liquidity support window in October served to offset the exposure of financial institutions to overseas margin calls and repurchase payments on Government of Jamaica (GOJ) global bonds. These liquidity support facility, along with other monetary tightening measures, were applied to induce stability in the local financial and foreign exchange market.

On December 1, 2008, the BOJ sought to contain demand pressures in the FX market by increasing interest rates on all tenors of their repos, with rates ranging from 17.0% (30-days) to 24.0% (365-days), up from rates of 14.65% and 16.70%, respectively. These demand pressures stemmed from the financial fallout in the US market, as local brokerage houses exposed to the crisis received margin calls after massive declines in share values in overseas markets.

As a result of the more restrictive monetary policy environment, interest rates on 6-month Treasury bills (T/bills) increased to a high of 24.45% in December 2008, from 15.35% in September. Consequent on these market demand/supply dynamics, the nominal value of the J$ depreciated by 18.2% to J$88.82=US$1.00 at end-March 2009 relative to its position at end-September 2008 (J$72.67=US$1.00), while the NIR position declined by US$622.5mn to US$1,628.6mn at end-March 2009 relative to end-September 2008 (US$2,251.1mn). However, relative order and stability were restored in the FX market and interest rates began to trend slowly downward in the last quarter of FY 2008/09 as the interest rates on 6-month T/bills issued in January, February and March were 24.26%, 23.13% and 21.77%, respectively.

Inflation

The pace of inflation slowed markedly to 1.9% for the seven-month period from September 2008 to March 2009 and compares favourably with a 14.6% inflation rate for the corresponding period to March 2008. This occurred within the context of the combined influences of more restrictive monetary initiatives and relatively lower oil and commodity prices, which served to temper the pace of inflation to 12.4% for FY 2008/09, compared to 19.9% in FY

2007/08. Inflation for CY 2008 and 2007 were similar at 16.8%.

For FY 2008/09, prices within the "Food & Non-Alcoholic Beverages" group increased by 17.4% mainly induced by higher prices for bread & cereals, oils & fats as well as vegetables & meat. This main group carries the heaviest weighting in the overall CPI and therefore provides the strongest impetus for inflationary impulses. "Housing, Water, Electricity, Gas & Other Fuels" prices edged upward by 4.6% as a result of higher water supply & miscellaneous service charges (up 41.9%) and increased maintenance & repair costs (up 14.9%), while "Transport" costs grew by 8.2% during FY 2008/09.

The impact of the global economic slowdown assisted in containing oil and other vital commodity price pressures on the domestic inflation front, as average inflation in the economies of Jamaica's main trading partners (US, UK and Canada) for the 12-month period to March 2009 was 1.2% relative to a 2.6% outturn for the corresponding period to March 2008. Similarly, average consumer prices for the 12-month period to March 2009 were lower at 1.2% in the Euro zone economies when compared with a 3.3% annual average inflation outturn to March 2008.

EXTERNAL SECTOR DEVELOPMENTS

Balance of Payments

Provisional data for April-October 2008 indicate a current account deficit of US$2,293.9mn, which represents a US$1,032.1mn widening relative to the corresponding period of FY 2007/08. This higher deficit resulted from deteriorations in the balances on the goods and services accounts, while the net transfers and income accounts improved by US$58.1mn and US$42.6mn, respectively.

The merchandise account deficit grew by US$1,008.2mn to US$3,258.9mn. This was influenced by a US$1,382.3mn increase in imports which far outweighed the US$374.1mn increase in export earnings. Higher import spending was registered for mineral fuel, machinery & transport equipment, food, chemicals and miscellaneous manufactured goods, in the services account, there was a US$124.6mn decline in the surplus, which resulted primarily from the relatively higher freight costs associated with increased imports. The income account revealed a US$45.0mn decrease in net income outflows to US$384.5mn, related to reductions in profit remitted by foreign investment companies to their parent organizations, while a US$58.1mn increase in current transfers, mainly represented growth in private inflows through remittance companies and building societies.

Within the financial account, net private and official investment inflows were insufficient to finance the deficit on the current account, thus necessitating a US$280.7mn drawdown in the NIR for the April-October period of FY 2008/09.

External Trade

The trade deficit widened by US$1,145.7mn (41.7%) to US$3,891.6mn in the April-October period of FY 2008/09 relative to the position recorded in the corresponding period the previous fiscal year. This deterioration was largely due to higher import spending that was only partially offset by improved export earnings. Imports (cif) increased by US$1,520.1mn (37.1%) largely as a result of higher spending on fuel, food, machinery & transport equipment, chemicals and manufactured goods, which outweighed the US$374.4mn (27.6%) improvement in export (fob) earnings.

For the first ten months of CY 2008, the trade deficit widened by US$1,540.3mn or 41.1% when compared to the corresponding period of CY 2007 as a result of the combined effects of a US$521.7mn (26.7%) increase in export earnings (fob) that was more than offset by a US$2,062.0mn (36.2%) increase in imports (cif).

Exports

Total export earnings for the April-October period of FY 2008/09 amounted to US$1,729.0mn, which represented an increase of US$374.4mn (27.6%) when compared with the corresponding seven-month period in FY 2007/08. Major traditional export earnings increased by US$87.1mn (10.9%) to US$889.0mn, largely as a result of higher earnings from alumina (up US$92.1mn or 13.7%) and bauxite (up US$2.0mn or 3.0%) outweighing declines in other traditional exports. Other traditional exports improved by US$4.6mn (8.9%), while non-traditional export earnings increased by US$216.4mn (56.5%).

Imports

Total spending on imports amounted to US$5,620.5mn in the seven-month review period of FY 2008/09, representing a US$1,520.1mn (37.1%) growth relative to the corresponding period of FY 2007/08. This increased level of spending was dominated by fuel imports, as well as from increased import prices for food, machinery and transport equipment, chemicals and manufactured goods.

Tourism

Provisional data from the Jamaica Tourist Board (JTB) indicate that up to February of FY 2008/09, total visitor arrivals of 2,462,264, declined by 6.0% relative to the corresponding period in FY 2007/08. This resulted from a 1.2% increase in stopover arrivals being outweighed by a 16.8% decline in cruise passenger arrivals. Estimated gross earnings fell 1.1% to US$1,761.6mn for the FY to February 2008/09 relative to earnings in the corresponding period of FY 2007/08.

For CY 2008, total visitor arrivals amounted to 2,856,172 persons, reflecting a marginal 0.8% decline compared to arrivals in CY 2007. This performance was the result of a 3.9% increase in stopover arrivals being offset by a 7.7% decline in cruise passenger arrivals. However, higher stopover arrivals, evidenced especially in the first five months of CY 2008, was the main factor behind the overall 3.4% increase in earnings over CY 2007. Earnings in CY 2008 amounted to US$1,975.4mn. .

International Commodity Prices

Jamaica remains a price taker for a variety of internationally traded goods that impact the domestic economy. Commodities such as alumina, coffee, cocoa and sugar are important foreign exchange earners for Jamaica. At the same time, Jamaica spends considerable amounts of foreign exchange on commodities such as oil, soybean, corn/maize and wheat.

The prices of soybean meal and maize/corn are of critical importance to Jamaica as these are some of the main inputs in animal feed, especially poultry feed. Poultry (chicken meat) is heavily weighted in the basket of goods and services (Consumer Price Index) and movement in the prices of inputs for poultry feed impact inflation in Jamaica. Crude oil prices are also critical as it affects every aspect of the production process in Jamaica, mainly via electricity costs and fuel at the pumps. When the dimension of adverse J$ foreign exchange rate movements is added, it brings into sharp focus the need to sustain relative stability in the foreign exchange market.

Export Prices

Cocoa prices moved to an average of US260.41 cents/kilogram (c/kg) in FY 2008/09, representing a 22.8% increase over the US212.06 c/kg average price for FY 2007/08. Coffee prices (Arabica variety, which comprises 95% of the beans grown in Jamaica) declined by 4.5% relative to FY 2007/08, moving from an average of US286.17 c/kg to US273.35 c/kg. Sugar prices in the EU declined by 14.5% when average prices for the FY 2008/09 are compared to prices in the previous year.

Import Prices

The average price of soybean meal increased 17.3% to US$353.11/mt for FY 2008/09 relative to US$300.95/mt in FY 2007/08, while maize/corn prices increased by 19.6% to US$209.96/mt during the review year from US$175.62/mt last year. Relatively higher corn prices were driven primarily by the increasing demand for corn in ethanol production in the US, which affected the price of Jamaica's imports, as corn is a major input in the manufacture of animal feed. These increases subsequently filter through to higher domestic prices for various food products. However, there was an 8.9% decline in the price of wheat as this commodity's price moved from US$308.47/mt in FY 2007/08 to US$281.00/mt in FY 2008/09.

Crude oil prices increased in the current review year, on average, by 3.8% relative to prices in FY 2007/08, moving from US$81.17/barrel to US$84.22/barrel. Among the major factors that contributed to the rise in oil prices, were speculation by investors, tension in the Middle East, sabotage of oil pipelines in Nigeria, supply uncertainties in Venezuela, as well as from an Organization of Oil Producing Countries (OPEC) decision not to raise quotas. Oil prices peaked at US$147.27/barrel in July 2008, and gradually retreated to US$48.41/barrel by March 2009 on a stronger US$ and waning thirst for energy in the context of a global economic slowdown.

REAL SECTOR DEVELOPMENTS

GDP Performance

Real GDP declined by 0.6% in CY 2008, the first annual decline in 10 years, compared to 1.4% growth rate recorded in CY 2007. According to preliminary estimates from the PIOJ, the Jamaican economy contracted by 1% during FY 2008/09, with declines recorded in the goods producing (3.1%-3.6%) and services (0.1%-0.3%) sectors. Real GDP increased by 0.7% in FY 2007/08.

All industries suffered declines with the exception of agriculture, electricity and real estate which recorded growth within the range (1.2%-1.9%), (0.7%-0.8%) and (0.4%-0.6%), respectively. The poor overall economic performance was greatly impacted by the downturn in global economic conditions.

Mining

During FY 2008/09, the mining sector operated within an international aluminium marketplace severely impaired by the general fallout in the US automobile and housing industries, as well as discrete intervals of weather-related disruptions and equipment failures at some refineries. These external and domestic influences provided the backdrop for declines of 7.7% and 3.8% in crude bauxite output and alumina exports, respectively.

Manufacturing

Preliminary data from the PIOJ indicate a negative output performance in the manufacturing industry during FY 2008/09 relative to FY 2007/08, as lower output especially for sugar, poultry meat, condensed milk, edible oils, cornmeal, molasses and dairy products far outweighed production increases in animal feeds, edible oils and edible fats.

Within the beverages and tobacco sub-group, output was mixed with output of rum & alcohol increasing, while beer and carbonated beverages suffered production declines. The chemicals and chemical products sub-group experienced declines in the production of fertilizer, paint, sulphuric acid, aluminium sulphate and salt, while output of detergent and sulphonic acid increased. Cement production declined as output activities gradually returned at the plant following disruptions occasioned by adverse weather conditions in August and September. Production of cement was also impacted by the global recession, which has curbed demand for residential and non-residential properties and curtailed private and public sector projects, as well as competition from cheaper cement imports. Within the rubber & plastic products group, output of boots and other plastic products declined.

All petroleum product lines suffered declines in output levels in FY 2008/09, with the exception of turbo fuel, which increased. Generally lower output of petroleum and its derivates suggests a fall-out in domestic demand and some efforts at conservation as a consequence of the global recession coupled with relatively higher prices for the fuel-based commodities.

Agriculture

Preliminary estimates from the PIOJ indicate that agricultural activities rebounded in FY 2008/09 after suffering from the effects of a spate of weather-related phenomena in August and September 2008, as well as the previous year's devastating visitation of Hurricane Dean. Improved weather conditions and significantly lower import costs for fertilizer assisted in restoring output levels in the March quarter to build on some of the gains achieved in the earlier period of 2008.

OUTLOOK

International

The International Monetary Fund (IMF), in a recent report, warned that international financial markets remained under considerable strain despite unprecedented intervention by major central banks and that a troublesome macroeconomic environment has now further compromised this situation. The IMF forecasts that the global recession will be much deeper and more protracted than previously envisaged, with global economic growth now expected to fall to 0.5% in 2009, as advanced economies are expected to suffer their deepest recession since World War II. Collectively, advanced economies are expected to contract by 2.0% in 2009 - the first annual contraction in the post-war period, while emerging economies are also expected to slow sharply, growing by 3.3% in 2009.

The IMF revised its economic growth forecast downward for China by almost 2 percentage points to 6.7% for 2009 - just half the rapid rate recorded in 2007, while calling on governments around the world to undertake further action to support economic growth. The US Federal Reserve (Fed) slashed a key interest rate to a record low range of 0.0%-0.25% in December 2008 and signalled it would utilize other unconventional tools to turn the economy around. On February 17, US President Barack Obama signed into law a US$787.0bn stimulus package that provides tax breaks and government spending designed to resuscitate the economy.

Estimates from the US Bureau of Economic Analysis indicate that real GDP declined by an annual rate of 3.8% in the December 2008 quarter following a 0.5% contraction in the September 2008 quarter. The impact of the shrinking US economy has reverberated throughout the world as Japan, the world's second largest economy, saw its economy contracted by 3.3% in the fourth quarter from the previous quarter, the worst performance since 1974.

Domestic

Global financial market uncertainties and the world economic slowdown have adversely affected the domestic economy. Jamaica’s economic performance, inextricably linked to developments in the US markets, and already burdened by sluggish growth over the years, will continue to be exposed to these external uncertainties.

It is against the background of this challenging international environment and in a context of rapidly falling tourism and remittance earnings that “steadied” policy actions are required to deliver workable solutions to unravel the raft of growth inhibiting realities. These include: relatively high interest rates; increased foreign competition; exchange rate instability; a widening merchandise trade deficit; increasing unemployment and underemployment; and, a large debt stock.

The fiscal programme for 2009/10 will be challenged on both the revenue and expenditure fronts. For FY 2009/10 the Central Government is targeting a fiscal deficit of 5.5% of GDP a notable reduction from the 6.8% outturn in FY 2008/09.

Despite these potential and emerging challenges, it is very important that the ground- work be laid for the eventual rebound of the global economy in order to capitalize on the opportunities that will abound when the crisis is over. GOJ must therefore continue to exhibit prudent allocation and utilization of resources. In this regard, where additional and unavoidable spending might have to be accommodated, some reallocation of expenditure within budgeted ceilings would have to be considered. Additionally, the tax authorities must remain resolute in their thrust to expedite the requisite administrative and legislative measures to improve the tax system and boost revenue collections.

Inflation decelerated to 1.2% in the first quarter of 2009 under the combined influences of a 0.3% decline in January and 0.8% increases in February and March, respectively. This was a continuation of the declining inflation trend evidenced since September and followed a flat inflation outturn for December 2008 quarter. However, some caution must be observed on the inflation front. Benchmark crude oil prices hovered around the US$50/barrel mark in April on hopes of a possible second-half recovery in crude demand and upbeat US earnings, despite recent dismal economic data and growing US inventories. A possible catalyst for this envisioned upturn in oil prices is the potential production cut by OPEC, which next meets on May 28. OPEC announced output quota reductions of 4.2mn barrels a day since September and prefers prices above US$70/barrel.

Externally generated influences, including relatively higher international oil prices and the dramatic slowdown in the US economy, will continue to negatively impact the Jamaican economy by way of a further widening in the current account deficit. Additionally, the fallout in earnings from bauxite/alumina, sugar and coffee exports will compound the difficulties posed by the impact of possible higher import costs for oil, food and other commodities. The Balance of Payment (BOP) concerns are further heightened by the slowdown in remittance flows occurring within the context of the slowdown in the world economy, particularly the US economy.

Chapter 1

CENTRAL GOVERNMENT BUDGET PERFORMANCE FISCAL YEAR 2008/09

OVERVIEW

The FY 2008/09 budget was developed within a medium-term framework that sought to build on the real GDP growth momentum from FY 2007/08, moderation in the rate of inflation to 10%, reduced interest rates and sustained foreign exchange market stability. The fiscal programme for FY 2008/09 was geared towards, inter alia, achieving a fiscal deficit of 4.5% of GDP, which would pave the way for a balance budget by FY 2010/11.

The FY 2008/09 budget profile programmed revenue growth of 19.3% over the previous fiscal year. The growth in revenue was predicated on the buoyancy of the tax system and aggressive revenue enhancement measures by the tax authority. These measures included: an improved tax compliance programme; administrative reform with special emphasis on Jamaica Customs Department; reintroduction of the Revenue Protection Division; introduction of a Tax Amnesty programme and a new tax package.

Budgeted expenditure of $349,242.4 represented an increase of 25.5% over FY 2007/08, comprising $304,594.1mn for recurrent expenditure, and $44,648.4mn for spending on capital programmes. The provision for the recurrent budget represented a nominal increase of 27.3% or 17% in real term, when compared to the outturn for FY 2007/08. Budgeted capital expenditure in FY 2008/09 represented a 7.8% increase over actual capital expenditure for the previous fiscal year. The Government of Jamaica (GOJ) adopted a fiscal stance that was geared, inter alia, towards a sustained reduction in the debt/GDP ratio over the medium term.

Faced with a significant shortfall in revenue flows and higher expenditure outlay, arising from, inter alia, costs associated with increased utility, pensions and infrastructural repairs emanating from hurricane and flood damages the First Supplementary Estimates were tabled on January 27, 2009. These Estimates reflected a revision in the fiscal deficit target to 5.8% of GDP.

For FY 2008/09 Central Government operations generated a fiscal deficit of $75,321.6mn, or 6.8% of GDP. This represents a deterioration from the 4.0% deficit recorded for FY 2007/08. The deviation from target occurred primarily on the Revenue and Grants side as total receipts of $276,199.8mn were $29,847.0mn, or 9.8% lower than budgeted. On the expenditure side, spending of $351,521.4mn was $2,279.0mn, or 0.7% higher than budgeted.

The primary surplus (revenue and grants less non-debt expenditure) was lower than programmed with an outturn of $49,983.6mn, or 4.5% of GDP, compared to the target of $80,447.8mn (8.4% of GDP).

NOTABLE FISCAL DEVELOPMENTS

New Tax Measures

New tax measures announced for FY 2008/09 programmed additional revenue of $2,980.0mn. Among the measures was a restructuring of the tax regime for motor vehicles, which entailed introduction of a Special Consumption Tax (SCT) and simplification of the General Consumption Tax (GCT) rate structure, as part of the general thrust by the GOJ to simplify tax administration overall. There were other revenue enhancing measures; however, the Government also reduced taxes in some areas. The full list of measures is outlined below:

SUMMARY OF TAX MEASURES

	J$mn
1. Tax on Tobacco	288
2. Increase in Motor Vehicle Licence	1,165
3. Increase in Motor Vehicle Examination, Drivers Licence	250
4. Increase in Gun Licences	100
5. Motor Vehicle Rate Structure	985
Revenue Gain	**5,380**
6. **Less** Threshold Increase	575
7. **Less** Reduction in Transfer Tax and Stamp Duty	1,525
8. **Less** Eliminating Withholding Tax on Dividends	130
9. **Less** Customs User Fee as Tax Credit	170
Revenue Foregone	**-2,400**
Total of New Tax Measures	**2,980**

Revision to Fiscal Target

Deviation of key macroeconomic variables from targets emanated mainly from unprecedented increases in the price of oil and other commodities, the global financial crisis exacerbated by a slowdown in global economic activities, Tropical Storm (TS) Gustav and other unfavourable weather conditions. These events had an adverse impact on revenue collections. On the other hand, expenditure, in particular on Wages and Salaries, deviated unfavourably from budget. The planned fiscal programme was modified and the decision was taken by the Government to revise the fiscal deficit target upwards.

As a result of these developments the First Supplementary Estimates were tabled in Parliament in January 2009. The Estimates entailed an upward revision to the expenditure. The fiscal deficit target of 4.5% of GDP was revised to 5.8% of GDP. These changes also impacted the primary surplus, which was revised to 7.1% of GDP, down from 8.4%.

BUDGET OUTTURN

Central Government operations generated a fiscal deficit of $75,321.6mn, or 6.8% of GDP. This compares unfavourably to the budgeted deficit of $43,195.7mn or 4.5% of GDP. The larger deficit occurred due to a combination of lower than programmed revenue inflows and higher than budgeted expenditure.

The primary surplus was lower than programmed, with the $49,983.6mn generated being $30,464.2mn or 37.9% below target. This level of primary surplus is equivalent to 4.5% of GDP, 3.9 percentage points short of the 8.4% targeted and also lower than the 6.9% recorded in the previous fiscal year. Although the primary surplus has declined significantly from the levels of prior years, it nevertheless remains large by international standards and is testament to the Government's commitment to fiscal consolidation.

Revenue and Grants

Revenue performance in FY 2008/09 was impaired by the decline in the domestic economy, occasioned by the global financial and economic crisis. Collections underperformed relative to target with total revenue and grants of $276,199.8mn falling below target by 9.8%. All the major items performed below target with only grants exceeding budget. Despite the shortfall revenue and grants increased by 7.6% over receipts in FY 2007/08.

Tax Revenue

Tax revenue totalled $246,216.6mn, which was $18,885.0mn or 7.1% below the amount budgeted. The decrease was influenced by lower collections from all the major categories of tax revenues. The items chiefly responsible for the decrease in tax revenue collections in absolute terms were: GCT (local and imports), SCT (Imports), Bauxite/Alumina profit taxes, Customs duty and Stamp duty.

When compared to FY 2007/08, there was a nominal increase of 12.2%, representing a very marginal decline in real terms. Most items registered nominal increases over last year, with the notable exceptions being Tax on dividend, Stamp duty (local), Bauxite/Alumina taxes and Travel tax.

Income and Profit tax continues to be the largest tax category, accounting for 43.6% of total taxes for the FY 2008/09. This performance was above the 42.2% recorded in FY 2008/09, and was also above the average contribution of 41.1% over the last three years.

Income & Profits Tax

Receipts from the Income and Profit tax category amounted to $107,394.9mn, which was $1,915.1mn, or 1.8% above target. All items with the exception of Bauxite/alumina taxes and Tax on dividends registered increases, with Tax on interest and Other Companies being the most significant contributors to the favourable performance of this category.

Tax on Interest exceeded the budget by $2,682.4mn or 16.7%. Collections were also 3.9% above last fiscal year. The increase in Tax on Interest was influenced by higher than programmed interest rates and lower withholding tax refunds.

Other Companies (corporate) taxes were $1,506.2mn or 5.9% above budget, and were 31.3% more than collections in FY 2007/08, representing a real increase of about 19%. This over-performance stemmed largely from the Amnesty programme, as well as other administrative efforts of the tax authorities.

Other Individuals (self employed) taxes at $4,155.7mn was $77.0mn (1.9%) higher than budget, and, $850.4mn or 25.7% above the outturn for FY 2007/08, reflecting a real increase of about 13%. This buoyancy was due largely to the tax Amnesty. Of note the Amnesty programme contributed to the addition of over 7,000 new taxpayers, with a significant number being in the category of Other Individuals.

Bauxite/alumina taxes performed below expectations as receipts fell below target by $1,767.3mn. The global recession adversely impacted the price, production and demand for bauxite/alumina, and products intensive in the use of aluminium. Collections were $731.4mn lower than the outturn for FY 2007/08.

With respect to Tax on dividend there was a $1,763.5mn (91.5%) decline from FY 2007/08 due mainly to the new tax measure which removed withholding tax on dividends payable by local registered companies to their shareholders.

Overall, Income and Profits tax collections increased by $14,769.2mn, or 15.9% over the previous FY, representing a real increase of 3.5%. The better than programmed performance arose primarily from higher wage income and administrative efforts.

Production and Consumption Taxes

Production and Consumption tax receipts of $69,253.2mn fell short of target by $11,827.2mn or 14.6%. With the exception of SCT all other categories from this tax sub-group recorded declines. GCT (local) and Stamp Duty (local) were largely responsible for the shortfall.

Receipts from the GCT amounted to $40,415.7mn, which were $9,468.1mn, or 19.0% less than budgeted. The budget forecast for GCT included amounts to be gained from the Amnesty programme, as well as administrative measures through continued strengthening of programmes to improve compliance and collect arrears. However, the slowdown in economic activities coupled with rising commodity prices - including oil - contributed to a weakening in consumption. GCT receipts were 7.9% higher than in FY 2007/08. This, however, represents a real decline of about 4.5%.

Stamp Duty receipts totalled $8,318.5mn, which were $1,520.2mn, or 15.5% below target and $1,327.1mn (13.8%) less than in FY 2007/08. The shortfall was mainly influenced by a slowdown in property transfers, in part due to the contraction in the construction sector.

Collections from the Contractors Levy of $785.7mn fell below target by 43.0% and were 3.5% less than the amount received in FY 2007/08. This decline occurred as a direct result of a fall-out in construction activities during FY 2008/09.

Education tax collections amounted to $11,773.6mn, a shortfall of $506.1mn (4.1%) below target. Collections were however $1,512.6mn (14.7%) more than the previous fiscal year, mainly the result of higher salary payments and the positive impact of the Amnesty programme.

Notwithstanding the above-mentioned shortfalls within the Production and Consumption tax category, SCT performed well relative to budget. SCT inflows of $4,611.8mn were $892.3mn (24.0%) ahead of target and $1,088.1mn (30.9%) higher than the outturn in FY 2007/08. A substantial increase in receipts from Petrojam due to greater than anticipated production of refined petroleum products influenced the buoyancy in FY 2008/09.

When compared to collections in the previous fiscal year, collections from Production and Consumption Taxes were $4,984.2mn (7.8%) higher, with GCT (Local), Education Tax and SCT being the main contributors to the increase.

International Trade Taxes

Collections under the International Trade category totalled $67,275.3mn, which were $9,016.4mn (11.8%) below budget, with all sub-categories of taxes recording declines when compared to target. The budget had programmed increased collections from the reintroduction of the Revenue Protection Division (RPD), however activities at the RPD did not get off at the anticipated time and pace, which affected the expected inflows.

With respect to GCT, collections of $29,352.7mn were below budget by $3,911.0mn, due in part to lower than expected importation of 'taxable goods', notably motor vehicles. The shortfall in imports was also occasioned by the contraction in the domestic economy, influenced by the fallout in the world economy, and, higher commodity and oil prices during the first half of the year that stymied consumption.

Collections for SCT on imports of $14,255.2mn were $2,231.4mn (13.5%) below target. The shortfall in SCT on imports outweighed the increase in SCT (local), resulting in an overall decline in SCT receipts. The shortfall in SCT (imports) resulted from lower than anticipated increases in importation of motor vehicles and refined petroleum products by Petrojam and petroleum marketing companies. Total SCT was $1,339.1mn (6.6%) behind budget but was $6,314.3mn (50.3%) above the previous fiscal year, due mainly to the increase in collections from motor vehicle imports occasioned by the imposition of a SCT on motor vehicles, as well as the depreciation in the value of the Jamaica dollar.

Customs duty at $20,823.0mn was $1,578.4mn (7.0%) below budget as a result of lower than anticipated imports. Compared to FY 2007/08 Customs duty was $1,615.5mn (8.4%) higher due primarily to the higher than anticipated movement in the exchange rate (J$ vis-à-vis US$).

All items within the International Trade category, with the exception of Travel Tax, registered increases in FY 2008/09 over the FY 2007/08. These increases stemmed largely from depreciation in the value of the Jamaica dollar.

Environmental Levy

The Environmental Levy exceeded projections as total collections of $2,293.6mn, surpassed target by $73.9mn, or 3.3%. The faster than anticipated depreciation in the value of the Jamaica dollar contributed to the higher intake.

Non-tax Revenue

Non-tax revenue performed below expectations with total collections of $16,081.3mn falling below target by $2,148.0mn, or 11.8%. While the 2% Customs User Fee (CUF) contributed approximately 44.3% to total non-tax revenue collections, receipts from departmental and miscellaneous revenues were primarily responsible for the under-performance compared to budget. The CUF fell below target by $638.5mn or 8.2% as a result of lower than anticipated importation, which stemmed from the slowdown in economic activity and a significant reduction in the price of oil during the second half of the FY.

Compared to FY 2007/08, non-tax revenue decreased by 11.8% however collections in 2007/08 were buoyed by inflows of $3,518mn from the Universal Access Fund (UAF).

Bauxite Levy

The bauxite/alumina sector has generated significant receipts from the Levy in recent years, but this trend was interrupted during FY 2008/09 as a result of significantly lower prices and demand for the commodity globally. In addition, higher input costs and adverse weather conditions negatively impacted domestic production. The decrease in output and exports was compounded by lower prices on the London Metal Exchange (LME) for the commodity. As a result, Bauxite Levy receipts of $4,446.7mn fell below budget by $4,198.5mn (48.6%) and were below collections in FY 2007/08 by $551.6mn, or 11.0%.

Capital Revenue

Capital revenue totalled $1,878.5mn, a shortfall of $6,690.6mn relative to budget. This shortfall stemmed mainly from the fact that the GOJ was stymied in its efforts to execute some of its planned divestment activities, due partly to the global economic downturn. Collections in FY 2008/09 declined by $7,472.0mn compared to the previous fiscal year. However receipts in FY 2007/08 included proceeds from the divestment of shares in Petrojam amounting to $4,541.0mn as well as buoyant proceeds from FINSAC.

Grants

Grant receipts amounted to $7,576.7mn, an increase over budget of $2,045.1mn (37.0%). This increase was due mainly to unprogrammed budgetary support from the European Union (EU). The inflows during the review period were $3,037.3mn higher than the previous fiscal year.

Expenditure

Total spending for FY 2008/09 of $351,521.4mn was broadly in line with budget, increasing by just 0.7%.

Recurrent expenditure increased over budget by 1.8%, which was partly offset by a 7.3% reduction in capital spending. Compared to FY 2007/08 spending during FY 2008/09 increased by 19.5%.

It is important to note that in comparison to the last three (3) fiscal years, capital expenditure in FY 2008/09 (infrastructure spending) constituted a greater share of total expenditure while the share of expenditure on recurrent payments declined. The share of total expenditure devoted to capital projects in FY 2008/09 was 11.8%, compared to an average of 10.7% over FY 2004/05 - 2007/08.

Recurrent Expenditure

Recurrent expenditure totalled \$310,149.5mn, which was \$5,555.4mn or 1.8% more than budget due to higher spending on wages and salaries and interest payments. This level of recurrent spending represented an increase of 22.6% over FY 2007/08, a real increase of approximately 10%.

Programmes

Spending on recurrent programmes of \$73,310.4mn was \$620.0mn (0.8%) less than the amount budgeted and 12.9% above the previous fiscal year.

The higher Recurrent Programme in FY 2008/09 was due in part to higher pension payments, increased subvention to schools, higher payments to public sector traveling officers and higher utility costs.

Wages and Salaries

Expenditure on Wages & Salaries for FY 2008/09 was programmed to increase mainly as a result of the MOU III agreement between the GOJ and the unions representing public sector workers, and the reclassification of health sector workers.

However, while the reclassification exercise of health sector workers did not materialize in FY 2008/09, the GOJ signed agreements with the Jamaica Teachers Association (JTA) which resulted in the movement of teachers' salaries to 80% of market determined rates in the private sector, as well as implemented a 40-hour work week for members of the Jamaica Constabulary force (JCF) and the Island Special Constabulary Force (ISCF). The aforementioned resulted in Wages and Salaries at \$111,533.9mn being \$4,513.8mn (4.2%) above budget.

Interest Payments

Interest cost of \$125,305.20mn was broadly on track with budget, increasing by just \$1,661.7mn (1.3%), with lower than anticipated external payments being outweighed by higher than programmed domestic interest payments. When compared to the previous fiscal year, interest payments increased by 22.8% with domestic and external interest payments increasing by 27.0% and 13.6%, respectively.

Higher domestic interest payments resulted from, inter alia, larger debt stock due mainly to the need to finance a larger fiscal deficit, higher than anticipated interest rates and depreciation in the value of the Jamaica dollar. Lower external interest payments emanated from lower than anticipated loan raising expenses, as the GOJ had anticipated flows of US$600.0mn from the international capital markets; however, only US$350mn was realized as a result of unfavourable conditions in the international capital market during the second quarter and beyond. The external debt stock also benefited from a reduction in international interest rates, mainly on multilateral loans.

Interest costs as a proportion of GDP increased marginally to 11.4% relative to 11.0% recorded in FY 2007/08. However, when compared to the previous three (3) fiscal years (FY 2005/06 - 2007/08), there was a decline in interest costs as a proportion of GDP (from 11.8%). As a share of total expenditure, interest payments stood at 35.6% in FY 2008/09 compared to 34.6% in FY 2007/08. Interest payments/revenue ratio has trended downwards in recent times. While interest costs consumed 45.4% of total revenue in FY 2008/09 compared to 39.6% in 2007/08, when matched against FY 2005/06 - 2007/08, interest costs in FY 2008/09 fell below the average of 49.1% for those years. This trend is welcomed, as it indicates that more resources have been made available for the provision of public goods and services.

Capital Expenditure

Expenditure on capital programmes of $41,371.9mn was $3,276.5mn (7.3%) below budget. The lower capital expenditure was partly the result of the GOJ's attempt to reign in spending in the face of lower than budgeted revenue. Capital spending was flat relative to FY 2007/08 ($29.8mn, or 0.1% higher) however, actual cash expenditure in FY 2008/09 was greater than 2007/09 by about $14,000.0mn. Capital expenditure in FY 2007/08 included the recording of expenditure from previous periods, in conformity with the recommendations of the Auditor General.

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 2008/09 exceeded budget by $28,665.6mn, or 15.6%. Loan inflows totalled $212,148.6mn, consisting of $155,786.1mn from domestic sources and external receipts of $56,362.5mn.

Domestic loan receipts exceeded budget by $25,034.4mn (19.1%) as the higher fiscal deficit and amortization payments were financed mainly from the domestic market. External loan receipts were above budget by $3,631.5mn (6.9%) due to higher than programmed loan inflows from multilateral partners.

Amortization

Amortization payments of $148,733.2mn exceeded budget by $8,446.2mn (6.0%) with external and domestic payments being above budget. Domestic payments of $98,907.2mn were $4,654.3mn (4.9%) above programme due to the early redemption of a Sugar Company of Jamaica (SCJ) debt guaranteed by GOJ. External payments of $49,826.1mn exceeded budget by $3,791.9mn (8.2%) as a result of unplanned payments on behalf of Clarendon Alumina Partners (CAP) and higher than anticipated movements in the FX rates.

Overall, amortization payments were $42,617.8mn (40.2%) higher than in the previous fiscal year.

CENTRAL GOVERNMENT SUMMARY ACCOUNTS - Fiscal Monitoring Table

FY 2008/09

(in millions of Jamaica dollars)

Item	Prov Apr-Mar	Budget Apr-Mar	Diff	Diff %	FY07/08 Apr-Mar	Diff	Diff %
Revenue & Grants	**276,199.8**	**306,046.7**	**-29,847.0**	**-9.8%**	**256,640.7**	**19,559.1**	**7.6%**
Tax Revenue	246,216.6	265,071.6	-18,855.0	-7.1%	219,517.6	26,699.0	12.2%
Non-Tax Revenue	16,081.3	18,229.2	-2,148.0	-11.8%	18,235.0	-2,153.7	-11.8%
Bauxite Levy	4,446.7	8,645.1	-4,198.5	-48.6%	4,998.3	-551.6	-11.0%
Capital Revenue	1,878.5	8,569.1	-6,690.6	-78.1%	9,350.4	-7,472.0	-79.9%
Grants	7,576.7	5,531.6	2,045.1	37.0%	4,539.4	3,037.3	66.9%
Expenditure	**351,521.4**	**349,242.4**	**2,279.0**	**0.7%**	**294,279.6**	**57,241.8**	**19.5%**
Recurrent Expenditure	310,149.5	304,594.1	5,555.4	1.8%	252,877.9	57,271.6	22.6%
Programmes	73,310.4	73,930.4	-620.0	-0.8%	64,918.7	8,391.7	12.9%
Wages & Salaries	111,533.9	107,020.2	4,513.8	4.2%	86,235.8	25,298.1	29.3%
Interest	125,305.2	123,643.5	1,661.7	1.3%	101,723.4	23,581.8	23.2%
Domestic	89,522.8	87,051.3	2,471.5	2.8%	70,022.8	19,500.0	27.8%
External	35,782.4	36,592.2	-809.8	-2.2%	31,700.7	4,081.8	12.9%
Capital Expenditure	41,371.9	44,648.4	-3,276.5	-7.3%	41,401.7	-29.8	-0.1%
Fiscal Balance (Surplus + / Deficit -)	**-75,321.6**	**-43,195.7**	**-32,125.9**	**74.4%**	**-37,638.8**	**-37,682.8**	**100.1%**
Loan Receipts	**212,148.6**	**183,482.7**	**28,665.9**	**15.6%**	**135,240.3**	**76,908.4**	**56.9%**
Domestic	155,786.1	130,751.7	25,034.4	19.1%	118,404.8	37,381.3	31.6%
External	56,362.5	52,731.0	3,631.5	6.9%	16,835.5	39,527.0	234.8%
Amortization	**148,733.2**	**140,287.1**	**8,446.2**	**6.0%**	**106,115.4**	**42,617.8**	**40.2%**
Domestic	98,907.2	94,252.9	4,654.3	4.9%	68,822.1	30,085.1	43.7%
External	49,826.1	46,034.2	3,791.9	8.2%	37,293.4	12,532.7	33.6%
Overall Balance (Surplus + / Deficit -	**-11,906.2**	**0.0**	**-11,906.2**	-	**-8,514.0**	**-3,392.2**	**39.8%**
Primary Balance (Surplus + / Deficit	**49,983.6**	**80,447.8**	**-30,464.2**	**-37.9%**	**64,084.6**	**-14,101.0**	**-22.0%**

DETAILS OF REVENUE
FY 2008/09

(in millions of Jamaica dollars)

Item	Prov. Apr-Mar	Budget Apr-Mar	Diff	Diff %	FY07/08 Apr-Mar	Diff	Diff %
Revenue & Grants	**276,199.8**	**306,046.7**	**-29,847.0**	**-9.8%**	**256,640.7**	**19,559.1**	**7.6%**
Tax Revenue	**246,216.6**	**265,071.6**	**-18,855.0**	**-7.1%**	**219,517.6**	**26,699.0**	**12.2%**
Income and profits	107,394.9	105,479.9	1,915.1	1.8%	92,625.7	14,769.2	15.9%
Bauxite/alumina	0.2	1,767.5	-1,767.3	-	731.5	-731.4	-
Other companies	26,859.5	25,353.4	1,506.2	5.9%	20,463.3	6,396.2	31.3%
PAYE	57,473.1	57,415.3	57.7	0.1%	48,160.1	9,313.0	19.3%
Tax on dividend	163.3	804.4	-641.0	-79.7%	1,926.8	-1,763.5	-91.5%
Other individuals	4,155.7	4,078.7	77.0	1.9%	3,305.3	850.4	25.7%
Tax on interest	18,743.1	16,060.7	2,682.4	16.7%	18,038.6	704.5	3.9%
Environmental Levy	2,293.2	2,219.6	73.5	3.3%	1,698.0	595.2	35.1%
Production and consumption	69,253.2	81,080.4	-11,827.2	-14.6%	64,268.9	4,984.2	7.8%
SCT	4,611.8	3,719.5	892.3	24.0%	3,523.7	1,088.1	30.9%
Motor vehicle licenses	1,682.3	2,011.7	-329.4	-16.4%	1,020.3	662.1	64.9%
Other licenses	379.9	479.0	-99.2	-20.7%	313.4	66.4	21.2%
Betting, gaming and lottery	1,285.7	1,489.4	-203.7	-13.7%	1,243.8	41.9	3.4%
Education Tax	11,773.6	12,279.6	-506.1	-4.1%	10,261.0	1,512.6	14.7%
Contractors levy	785.7	1,378.5	-592.8	-43.0%	814.3	-28.5	-3.5%
GCT (Local)	40,415.7	49,883.8	-9,468.1	-19.0%	37,446.9	2,968.9	7.9%
Stamp Duty (Local)	8,318.5	9,838.7	-1,520.2	-15.5%	9,645.6	-1,327.1	-13.8%
International Trade	67,275.3	76,291.7	-9,016.4	-11.8%	60,925.0	6,350.4	10.4%
Custom Duty	20,823.0	22,401.4	-1,578.4	-7.0%	19,207.5	1,615.5	8.4%
Stamp Duty	1,274.6	1,422.2	-147.6	-10.4%	1,190.8	83.9	7.0%
Travel Tax	1,569.9	2,717.9	-1,148.0	-42.2%	2,247.6	-677.8	-30.2%
GCT (Imports)	29,352.7	33,263.7	-3,911.0	-11.8%	29,250.1	102.6	0.4%
SCT (imports)	14,255.2	16,486.6	-2,231.4	-13.5%	9,029.0	5,226.2	57.9%
Non-Tax Revenue	**16,081.3**	**18,229.2**	**-2,148.0**	**-11.8%**	**18,235.0**	**-2,153.7**	**-11.8%**
Bauxite Levy	**4,446.7**	**8,645.1**	**-4,198.5**	**-48.6%**	**4,998.3**	**-551.6**	**-11.0%**
Capital Revenue	**1,878.5**	**8,569.1**	**-6,690.6**	**-78.1%**	**9,350.4**	**-7,472.0**	**-79.9%**
Grants	**7,576.7**	**5,531.6**	**2,045.1**	**37.0%**	**4,539.4**	**3,037.3**	**66.9%**

Chapter 2

CENTRAL GOVERNMENT BUDGET FISCAL YEAR 2009/10

OVERVIEW

The FY 2009/10 Budget amounts to $555,040.1mn. The Budget reflects above-the-line expenditure of $404,642.6mn and amortization payments of $150,397.5mn. As in previous years debt servicing accounts for the largest portion of the budget, 55.7%, followed by education services 13.1%, national security services 7.6% and health services 5.5%.

The targeted fiscal deficit for FY 2009/10 is 5.5% of GDP ($65,388.8mn), which, given the programmed expenditure, requires revenues and grants of $339,253.7mn**.** Salient features of the budget are presented below:

Expenditure

Debt Servicing

Total debt servicing for the fiscal year is projected at $309,405.0mn or 55.7% of the budget. This compares to $274,038.4mn or 54.8% for FY 2008/09. The breakout of the debt service is as follows:

	2008/09 $mn	**2009/10 $mn**	**Variance $mn**
Interest Payments	**125,305.2**	**159,007.5**	**33,772.3**
Amortization	**148,733.2**	**150,397.5**	**1,664.3**
Total	**274,038.4**	**309,405.0**	**35,366.6**
% of Budget	**54.8%**	**55.7%**	**0.9%**

Total debt service shows an increase of $35,366.6mn or 12.9% over the FY 2008/09 outturn. This increase is due mainly to a higher debt stock, depreciation in the value of the Jamaica dollar and the Central Government's assumption of contingent liabilities.

Recurrent Expenditure

The overall recurrent expenditure increased from $310,149.5mn in FY 2008/09 to $363,788.1mn in FY 2009/10**,** representing an increase of $53,638.6mn or 17.2%. Public debt (Interest payments) is expected to move from $125,305.2mn in FY 2008/09 to $159,007.5mn in FY 2009/10, an increase of $33,772.3mn or 26.9%. Non-debt recurrent expenditure has moved from $184,444.3mn in FY 2008/09 to $204,780.6mn in FY 2009/10, a 10.8% increase.

A provision of $9,000.0mn has been made for contingencies and it is expected that this will be utilized for salary settlement for the nurses, retroactive payments for the teachers and the Jamaica Defence Force as well as to minimize the effects of the cost of living on pensioners and other social sector adjustments. It should be noted that this allocation will be transferred to other Heads of Estimates in the First Supplementary Estimates.

Non-Debt (Wages & Salaries/Programmes)

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

- Provision of $5,200.0mn for salary settlements;
- Provision of $500.0mn to minimize the effects of the cost of living to pensioners;
- $747.0mn for support to the Sugar Company of Jamaica to provide for shortfall in operations for 4 months;
- $439.0mn to cover Catastrophe Risk Insurance to include flood rains;
- $509.0mn increase in pension benefits based on the number of persons retiring and at higher salaries;

- $3,000.0mn for new rates being paid to the Jamaica Defence Force;
- $1,000.0mn for the police to cover recruitment of 960 regular police, 300 special constables and 500 district constables;
- $3,162.5mn to provide for the full cost of tuition in secondary schools;
- $932.1mn in nutritional grants for schools;
- $1,094.1mn for provision of primary and secondary school textbooks.

Capital Expenditure

The projected capital payment for FY 2009/10 is $191,251.9mn, of which $150,397.5mn is amortization and $40,854.4mn is for capital programmes. Overall, capital has been increased from $190,105.1mn in FY 2008/09 to $191,251.9mn in FY 2009/10, a 0.6% increase. Amortization increased by 1.1% from $148,733.2mn in FY 2008/09 to $150,397.5mn in FY 2009/10. Simultaneously, spending on capital programmes is budgeted to fall marginally from $41,371.9mn to $40.854.4mn, a $517.5mn or 1.3% reduction. Some major projects being funded within the capital programmes are listed below.

Constituency Development Fund

An allocation of $2,400.0mn has been made to undertake work in all 60 constituencies. The main thrust of the fund is to promote human and infrastructure development 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 (MOE) has aligned its activities to the Task Force recommendations (2004), and is moving apace with the implementation of transformation activities. Modernization of the MOE is the most critical and immediate activity, as this will establish the mechanisms which will guide, direct and contribute to the sustainability of educational improvements. The activities are being implemented through six strategic areas, which are discussed below.

Ministry Modernisation

This project will focus on decentralizing the administrative functions of the MOE. The following activities are to be completed in FY 2009/2010:

- The development of a web-enabled infrastructure database (Local Area Network) for the Caenwood Centre and Wide Area Network for the Regional Offices;
- The electrical upgrading of the Head office and Caenwood Centre;
- The development of a web-enabled personnel database to span both central and regional offices.

The heads of the National Education Inspectorate (NEI) and Jamaica Teaching Council (JTC) have been appointed. These are 2 of the 3 new agencies formed under the restructured education system (Curriculum Assessment is the third). Some $169.0mn in salaries has been provided for staff to facilitate the expansion of both agencies in FY 2009/2010.

The JTC will be the administrative body to oversee quality assurance and regulate the teaching profession. Its function will entail, but is not limited to, licensing, disciplining, standards setting, teacher competencies and performance, recruitment, deployment and conditions of service, as well as advocacy and the promotion of professional development for teachers.

The NEI is the body charged with the responsibility for inspecting schools, and, over time, the regional education authorities (when established) as well as teacher colleges. The NEI will hold school leadership and management teams accountable for meeting specified goals and standards of operation. The NEI has commenced the development of the framework document for the evaluation of the education system, including the inspection of primary and secondary schools.

Schools Facilities and Infrastructure

Through the upgrading and expansion of the physical plant, the MOE has been able to begin the process of ending the shift system, reducing class and school sizes and rationalizing the school system into only Primary and Secondary institutions. Activities include schools expansion and construction. There are 50 schools under this programme, of which 12 are new, 16 expanded/upgraded and 22 prototypes, which upon completion will provide an additional 13,860 spaces in the school system.

Governance and Management

This provision is for training programmes, which are aimed at expanding school leadership competencies. Training will be provided to school boards and principals on delegated authority, i.e. taking responsibility and being fully accountable for the total performance of their schools.

Performance instruments for principals, guidance counselors, education officers and teachers were developed and rolled out in schools in Regions 4 and 5.

Special Education – Activities completed include the development of a Special Education Policy, a study on special education needs in the country (which is to be a planning guide for the development of special education programmes), and the engagement of a special education consultant to assist with the implementation of the policy.

Region 1 conducted a 'Child Find', which identified students with undiagnosed learning disabilities in schools in the region. Collaboration was fostered with teachers colleges, with regards to the early identification of special needs.

Curriculum, Teaching and Learning

Literacy - The activities are led by a National Literacy Coordinator, 8 regional coordinators and 800 school-based coordinators (or one per school). In addition, 50 cluster based literacy specialists were assigned to 212-targeted poor performing schools to support the classroom-based teachers. Workshops have been held, diagnostic testing conducted and the results are used in the planning of customized programmes for underperforming students.

Behaviour Change and Transformation

Activities to be undertaken under this project include:

- Implementation of Home/School Agreements in 122 schools;
- Student Solution Symposium;
- Behaviour Management workshops for Principals and Teachers

Communication and Stakeholder Participation

In order to keep teachers, principals, school boards, parents and the community informed, regular meetings are held at the regional levels with these stakeholders. This work stream is linked with the Communications Unit in the Ministry of Education.

Rural Electrification

This allocation of $150.0mn is to effect the expansion of 50km of distribution power lines in rural Jamaica as follows: wire 900 houses; install 47km of distribution power lines and complete wiring of 850 houses currently in progress under the Rural Electrification Programme.

Flood Damage Rehabilitation – River Training

The FY 2009/10 allocation is to undertake river training works and sea defence where serious erosion has taken place in flood prone areas. The works undertaken will 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 $438.7mn to this project is to allow for commencement of work on 5 bridges in 4 parishes, namely – Fairfield Bridge in St James, Martha Brae and Troy Bridges in Trelawny, Springfield Bridge in Clarendon and Waterloo Bridge in St Andrew.

Capital B (Multilateral/ Bilateral Projects)

Jamaica Social Investment Fund (JSIF)

A provision of $1,056.5mn has been made to JSIF to undertake expenditure under the following programmes/activities:

- Inner-city Basic Services;
- Basic Needs Trust Fund;
- Poverty Reduction Programme II;
- National Community Dev Project;
- Special Projects;
- European Banana Project; and
- Hurricane Dean

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 2009/10 JSIF will continue the implementation of the Inner City Basic Services Project. This project is aimed at improving access in twelve targeted inner city communities, which have been identified in the parishes of Kingston, St. Andrew, St. James, Clarendon and St. Catherine, to basic services namely - clean water, sanitation, road infrastructure, solid waste management and related community-based services; enhanced public safety through mediation and conflict resolution, vocational and skills training, job placement, youth programmes and family support programmes.

Hurricane Dean (Emergency Relief Programme)

This project is a US$10.0mn emergency recovery loan funded by the World Bank to support the GOJ in implementing its sustainable rehabilitation and reconstruction plan for recovery from the Hurricane Dean disaster, and, to strengthen its ability to respond to future adverse natural disaster. The project will finance rehabilitation of education, healthcare and feeder roads infrastructure facilities. Refurbishing work will continue during FY 2009/10.

Montego Bay Convention Centre

The FY 2009/10 allocation of $1,259.2mn for the Convention Centre is to commence the planned implementation of the civil works to achieve approximately 30% completion of the construction.

Social Protection Project - (IBRD)

The objectives of the project are to ensure greater social protection of the poor, vulnerable and at-risk persons by strengthening the long-term impact of social assistance to poor families and establishing a viable effective system for the public sector pensions.

The main areas for the project support will be:

- Benefits designed to motivate educational attainment and retention in secondary schools;
- Intervention to enable greater participation of household members in meaningful employment;
- Comprehensive analysis and review of public sector pension systems; and
- Support social investigation of various types, examination of needs assessment methodologies and development of response options.

Social Protection Support to Food Price Crisis Project (IDB)

This is a new project, which is funded by an IDB loan. The duration of the project is January 2009 to January 2011.

The project will contribute to the government's strategy to reduce the intergenerational transmission of poverty by increasing human capital levels of the poor via the further consolidation of its social safety net reform programme. The two objectives of this project are:

- To increase the welfare of PATH beneficiaries by increasing the amount of the subsidy and incorporate additional vulnerable households to the PATH Safety Net; and
- To increase human capital levels of poor families through attendance at school and health clinics.

Northern Jamaica Development Project

The main activities for this project in FY 2009/10 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 – to provide payments for 40 parcels of land that were acquired.

Segment 2a – to provide payments for 30 parcels of land that were acquired.

Segment 3 – Ocho Rios to Port Antonio – to provide payments for land acquisition, completion of highway and provide payments for engineering consultancy.

Natural Disaster Management – Tropical Storm Gustav Rehabilitation Works

The aim of this project is to rehabilitate, restore and protect critical sections of physical infrastructure in Jamaica and reduce the vulnerability and difficulties, which have arisen for the entire Kinston Metropolitan Area (KMA).

The FY 2009/10 allocation is to rehabilitate major drainage channels in the KMA. The works will include demolition and removal of damaged retaining walls and base slabs, reconstruction of retaining walls and base invert slabs, back filling and the restoration of adjacent properties, engineering consultancy and project management services.

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Kingston Metropolitan Area (KMA) Water Supply Project

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.

Ministry Of National Security – Citizens Security and Justice Project

The main priorities for the Ministry of National Security for FY 2009/10 as they relate to the Citizens Security and Justice Project are to:

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

The allocation of $964.6mn for FY 2009/10 is to**:**

- Complete substantially the implementation of the Integrated Management Information System (IMIS);

- Complete Drewsland Community Multi-purpose centre and renovate and equip August Town and Parade Garden's multi-purpose centres, and one (1) in Montego Bay;

- Complete seven (7) rapid impact projects;

- Provide certified skills training (HEART/NTA certification) to approximately 1,200 persons taken from all 15 communities;

- Allow 4 NGOs continue to deliver educational/conflict resolution services to approximately 2,000 persons; strengthen ten (10) parenting groups and establish four (4) cultural groups;

- Provide scholarship/ tuition support to approximately 300 secondary and 150 tertiary students in Kingston and 20 tertiary and 100 secondary students in Montego Bay;

- Provide administrative support for 4 community action committees;

- Complete construction of phase 1 works of the transformation centre; and

- Continue similar violence prevention programmes in the communities of Granville, Farm Heights, Mount Salem, Salt Spring, North Gully and Flankers in St. James and Russia in Westmoreland (zinc fence removal, upgrading of community centres, parenting programmes, etc.).

FINANCING FY 2009/10 BUDGET

The FY 2009/10 Budget has been the most challenging in decades. These challenges arise against the backdrop of less than favourable international economic developments resulting from recession in the world's largest economies, aggravated by a financial crisis that had its antecedents in the sub-prime mortgage debacle in the United States (US) and relatively high oil and commodity prices.

The expectations of Jamaica's citizenry for the efficient delivery of public goods and services present further challenges for the budget. At the same time multilateral organizations, rating agencies and international financial institutions are paying closer attention to Jamaica's fiscal profile. Access to international financing sources will be severely challenged by the current global financial imbroglio. Consequently, a sound programme of fiscal consolidation that entails a reduction of the fiscal deficit is critical to addressing the medium term debt dynamics.

The FY 2009/10 Budget reflects above-the-line expenditure of $404,642.5mn and accordingly, achievement of the fiscal deficit target of 5.5% of GDP will therefore require revenue & grants of $339,253.7mn.

Revenue and Grants

The projection of revenue and grants for FY 2009/10 represents an increase of 16.3% over FY 2008/09 and is broken down as follows

:

(in millions of dollars)	2008/09	2009/10	Change (%)
I. REVENUE & GRANTS	**276,199.8**	**321,122.7**	**16.3**
Tax Revenue	246,216.6	274,943.5	11.7
Non-tax Revenue	16,081.3	15,457.2	-3.9
Bauxite Levy	4,446.7	139.4	-96.9
Capital Revenue	1,878.5	20,336.9	982.6
Grants	7,576.7	10,245.8	35.2

The revenue and grant estimate for FY 2009/10 is 27.0% of GDP, compared to 25.1% in FY 2008/09.

Tax Revenue

Tax revenue of $274,943.5mn is budgeted to grow by 11.7% over collections in FY 2008/09. The estimated tax revenue for FY 2009/10 is about 23.2% of GDP, marginally higher than the 22.4% in the previous fiscal year. This projected growth in tax revenue is underpinned by (i) the elasticity of the tax system, (ii) implementation of an intensive and profound tax administration programme.

The programme will focus on:

- Improving Compliance;
- Improving Information & Communication Technology;
- Improving Organization and Management;
- Enforcement

Non-tax Revenue

Non-tax revenue is projected at $15,457.2mn, which is $624.1mn below collections in FY 2008/09. Receipts in FY 2008/09 are expected to be lower as a result of: (a) projected decline in the CUF and some of the other fees charged at Customs, arising from lower imports, (b) lower interest income on GOJ balances in the banking system (c) reduced buoyancy in miscellaneous receipts across some Ministries, Departments and Agencies.

Bauxite Levy

The downturn in the bauxite/alumina industry that occurred in FY 2008/09 occasioned largely by the fallout in global demand and prices, as well as higher input costs, is expected to accelerate in FY 2009/10. This anticipated decline will translate into decreased levy inflows. Projections are for a 96.9% decrease in levy receipts to $139.4mn.

Capital Revenue

Capital revenue estimates of $20,336.9mn are $18,458.4mn more than collections in the previous fiscal year. The collections in FY 2008/09 were below budget as the anticipated flows from the divestment of various government entities, which were projected at $6,000.0mn, did not materialize. While the capital revenue base is projected to decline relative to FY 2008/09, this reduction will be outweighed by flows from divestment proceeds, loan repayments from the Development Bank of Jamaica (DBJ) and receipts from the Financial Institution Services (FIS).

Grants

The FY 2009/10 forecast for Grants amounts to $10,245.8mn. This forecast represents a 35.2% increase over receipts in FY 2008/09, including grants for budgetary support. The major grant-funded investment projects budgeted for FY 2009/10 are:

	J$mn
Sugar Transformation (EU)	922.4
Banana Support (EU)	720.1
Northern Jamaica Development – Segment III	700
TS Gustav Rehabilitation/Improved Governance (USAID)	624.6

Loan Receipts

In FY 2009/10, the Government proposes to borrow $215,786.4mn to cover the fiscal deficit and amortization payments. Of this total $186,378.5mn is programmed to be raised from the domestic market. The remainder of $29,407.9mn is to be raised from external sources, in the form of investment project loans and policy based/development policy loans.

The borrowing profile for FY 2009/10 represents a marginal 1.7% increase in gross receipts over the previous fiscal year.

New Revenue Measures

The combination of the revenue forecast outlined above and the expenditure budget approved by Parliament leaves a fiscal gap of $18,131.0mn or 1.5% of GDP. Achievement of the 5.5% 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.

Chapter 3

PUBLIC SECTOR ENTITIES

Overview

Public Bodies, comprising statutory bodies, statutory authorities and Government owned companies, are an important segment of the public sector. The Public Bodies represent a diverse group undertaking activities in virtually every sector of the economy, under the umbrella of broad Government policies and objectives. As instruments of public policy, Public Bodies, have the critical role of stimulating economic activity and promoting development. These entities have made significant contributions to improvement of the physical and social landscape of Jamaica either as active participants in the development process, or in the role of facilitator or regulator.

Investment in infrastructure and development by the twelve (12) Selected Public Bodies (SPBs) over the last five years exceeded \$100,000mn. Over \$41,385mn was spent during the same period on social welfare - (NIS benefits) and skills training (HEART Trust/NTA). Projections for the fiscal year ending March 2010 indicate that the SPBs will have gross total assets of \$427,069mn, an increase of \$58,546mn over the March 2009 asset level.

Of the 200 Public Bodies on register at the end of FY 2008/09, 95 or 47.5% are characterized as self-financing. Sixty-five (65) of these self-financing Public Bodies are subject to close monitoring by the Ministry of Finance and the Public Service (MOFPS). Summarized corporate plans and budgets of 54 of these self-financing Public Bodies are contained in the Jamaica Public Bodies Estimates of Revenue and Expenditure.

The MOFPS in its continued efforts to strengthen its monitoring capacity has obtained assistance through the World Bank to increase the coverage and scope of monitoring of the Public Bodies. Collaborative efforts with the Cabinet Office to improve the accountability and governance framework for Public Bodies also continues under the Inter American Development Bank's (IDB) second *Program to Implement the External Pillar of the Medium Term Action Plan for Development Effectiveness (PRODEV II).*

Contribution by Public Bodies

The Estimates of Revenue and Expenditure of Public Bodies for the year ending March 2010, project that the 54 Public Bodies should have combined total assets of \$604,147mn (FY 2008/09: \$525,241mn) and a labour force of 12,583 persons. With the utilisation of these resources, the group is expecting to generate total revenues of \$224,475mn from which profits before tax of \$16,036mn will be derived and \$12,661.9mn transferred to Government as corporate and other taxes.

The Public Bodies' contribution to Jamaica's development is expected to continue to grow in FY 2009/10 with expenditure on infrastructure and other capital projects programmed to exceed \$65,000mn. The outlay on infrastructure by seven (7) Public Bodies, namely the

National Housing Trust (NHT), the Port Authority of Jamaica (PAJ), Petrojam Limited (Petrojam), Airports Authority of Jamaica (AAJ), National Water Commission (NWC), National Road Operating and Constructing Company Limited (NROCC) and the Urban Development Corporation (UDC), is budgeted at $54,288mn for the year.

The NHT's mission is the provision of quality, affordable housing solutions for the Jamaican population. During FY 2009/10, the Trust plans to spend approximately $22,000mn on housing. Expenditure will be focussed in the areas of Non-home Owners' Loans ($10,880mn), Joint Mortgage Financing ($5,000mn) and Project Financing ($3,367mn). Included in the expenditure is funding for the commencement of construction on 6,456 housing solutions. The NHT targets 7,001 new mortgages during the fiscal year.

The PAJ will continue to pursue implementation of its Infrastructure Development Programme to increase capacity to meet anticipated increases in demand and to facilitate modernization of Jamaica's ports to world-class standards. Capital works to complete Phase V of the expansion of the Kingston Container Terminal (KCT) is budgeted at $618.0mn and is expected to facilitate the final stages of land reclamation and acquisition.

An agreement was signed between the PAJ and Royal Caribbean Cruise Line (RCCL) for a joint venture arrangement to develop a cruise ship pier in Falmouth, Trelawny to facilitate docking of Genesis Class vessels as of May 2010. This project is budgeted at $11,666mn, 91% of PAJ's capital expenditure for the year.

Petrojam was negatively impacted during FY 2008/09 by the volatility in world oil prices. Measures are currently being implemented to improve operational efficiency and profitability, as this will help to reduce the impact of oil price volatility. In order to enhance competitiveness and secure long-term viability, Petrojam is upgrading its refinery. This involves the expansion of refinery capacity from 35,000 barrels/day to 50,000 barrels/day. Total capital expenditure for the year is programmed at $3,894mn. The project is expected to be concluded in FY 2011/12.

The AAJ has been implementing transformation of the Norman Manley International Airport (NMIA) into a world-class facility under its 20-year Capital Development Programme (CDP). Phase 1A of the project, which commenced in FY 2003/04, should be completed in FY 2009/10. Expenditure on this project for the year is budgeted at $1,115mn and accounts for 76% of the AAJ's total capital expenditure. The AAJ's capital expenditure also includes the upgrading of the Boscobel Airport in St. Mary to an international port of entry. Phase 1 of this project is budgeted at $80.0mn for the year.

The NWC will continue to improve its customer service standards as well as develop long-term programmes for growth, sustainability and the replacement of aged infrastructure. A new Customer Information System is scheduled to be rolled out in August 2009. The new system is expected to reduce business inefficiencies and provide improvements in billing, collections and timely responses to customers' requests. The Kingston Metropolitan Area (KMA) Water Supply and the Port Antonio Water Supply Projects are the two major projects to be undertaken during FY 2009/10 at a projected cost of $1,497mn. The Kingston Water and

Sanitation Project is programmed to receive funding of $418.0mn to rehabilitate water supply infrastructure and sewage treatment facilities.

The NROCC represents the Government of Jamaica as "*grantor*" of the toll concession for Highway 2000. Phase 1A of the Highway 2000 project, which has already been completed, consist of the highway from Kingston to Sandy Bay. Construction of the Mount Rosser By-pass (25 km), which commenced in FY 2007/08, is more than 25% complete while construction of the Sandy Bay to Williamsfield (37.7 km) segment is projected to commence during the first quarter of FY 2009/10. These two segments comprise Phase 1B of the project which is estimated at US$296.0mn (US$126.0mn for Mount Rosser and US$170.0mn for Sandy Bay). Expenditure on Phase 1B during the year is projected at US$45.0mn.

The UDC, under its strategic thrust to focus on its core business, will pursue the development and implementation of a comprehensive plan for designated areas with the goal of stimulating economic development. The provision of housing solutions, resort attractions, commercial and community development projects are targeted.

The UDC's programmed capital expenditure of $6,155mn for the year includes joint venture and specially funded projects ($2,106mn) and GOJ/Agency Projects ($2,109mn). GOJ/Agency projects to be funded include Montego Bay Convention Centre, Montego Bay Sports Complex, Port Maria Civic Centre, Simon Bolivar Cultural Centre and refurbishing of the Jamaica Convention Centre. The specially funded projects will involve mainly housing developments such as Caymanas Village, Cardiff Hall developments and Success South Housing.

Corporate Governance

The need to improve the governance framework within which Public Bodies operate led to the development of the Public Bodies Management and Accountability (PBMA) Act in 2001 and its subsequent amendment in 2003. The Act targets improvement in the corporate governance practices of Public Bodies through the provision of transparent operational procedures and the requirement for higher levels of accountability by Public Bodies through their directors and managers.

Further amendments to the Act will be submitted for Parliamentary approval during FY 2009/10. Approval will also be sought for at least four Regulations: the Financial Distribution Policy; Acquisition of Shares; Code of Conduct for Directors; and Code of Audit Practices. Both sets of legislative changes will enhance the governance framework within which Public Bodies operate.

FY 2009/10 marks the fifth anniversary of the implementation of the PBMA Act. Over the five-year period, the MOFPS has promoted awareness of the Act and signaled the need for compliance. The MOFPS has provided training in corporate governance to the leadership of Public Bodies since FY 2007/08. During the twelve month period to December 2008, the MOFPS conducted governance workshops with ten Ministries and over 100 Public Bodies. At least 250 participants attended these workshops, including directors and other senior management of Public Bodies as well as Ministry officials.

During FY 2009/10, improving the level of compliance, especially as it relates to the reporting requirements will be pursued by the MOFPS.

Rationalisation and Restructuring

There has been a renewed focus on rationalization and restructuring of Public Bodies. Improving efficiency and effectiveness of Public Bodies and reducing dependence on the Central Government are critical objectives of the rationalization and restructuring effort. The Rationalization Plan developed in FY 2008/09, classifies Public Bodies under three action areas: to be wound up; to be merged; or to be privatized. Under these areas, 52 inactive Public Bodies have been identified to be wound-up, 35 to be merged and 21 to be privatized. The remaining Public Bodies will be subject to on-going reviews aimed at improving operational efficiency.

Efforts to privatize Air Jamaica Limited and Sugar Company of Jamaica Limited (SCJ) will continue in FY 2009/10.

Sustainable Development Strategy

In FY 2006/07, the MOFPS began sensitisation of Public Bodies to the need for identification and incorporation of sustainable development strategies in their corporate plans. The MOFPS, in FY 2009/10, will continue efforts to increase Public Bodies incorporation of environmental awareness. Public Bodies are expected to continue training staff in identifying and developing environmental preservation measures, including pollution prevention, appropriate waste disposal, energy efficiency and conservation measures.

CHAPTER 4

REVIEW OF SELECTED PROJECTS

Notwithstanding the downturn in the Jamaican economy due mainly to the global recession the Government of Jamaica (GOJ), with the continued assistance of Multilateral and Bilateral Agencies is committed to continue its mandate of improving the social sector, the infrastructure network and reducing poverty. A brief review of some of the projects being undertaken is presented below.

SOCIAL SECTOR

Education

Primary Education Support Programme (PSEP)

The GOJ will continue with projects geared at improving the performance, efficiency and equity of the primary education system. This will be done through institutional development and the construction and rehabilitation of school facilities. The PSEP was started in CY 1997 with an Inter-American Development Bank (IDB) Loan of US$59.5mn.

Significant improvements have been made under the programme including:

- The training of 730 principals under the Principal's Diploma Programme;
- Completion of construction of five Schools: Gordon Town and Guy's Hill All Age, Branley Primary, Mayfield Primary and Christiana Primary;
- Construction work is in progress on the following five schools: Fruitful Vale, Chester Castle and Sheffield All-Age, as well as Mansfield and Lucea Primary.

The funds approved for the project were exhausted by December 2008, with remaining activities to be completed. A Supplemental Loan Agreement of US$14.0mn was signed with the IDB in January 2009. The supplemental funds will finance the remaining activities under the programme in FY 2009/10 as follows:

- Complete construction of five schools: Fruitful Vale, Chester Castle and Sheffield All-Age, and Lucea and Mansfield Primary.
- Commence construction of Hellshire and Red Hills Road Primary Schools.

Early Childhood Development Project

A Loan Agreement of US$15.0mn was signed between the International Bank for Reconstruction and Development (IBRD) and the Government of Jamaica (GOJ) in June 2008 for the financing of the Early Childhood Development Programme. This will be implemented over an approximate five-year period from February 2009 – September 2013.

The objectives of the programme are:

- To improve the monitoring of children's development, the screening of household risks affecting such development and early intervention systems to promote such development.

- To enhance the quality of Early Childhood schools and care facilities.
- To strengthen Early Childhood organizations and institutions.

Implementation of the programme will commence in FY 2009/10 with the following activities:

- Effective parenting educational activities and support for early childhood development, example public awareness campaign.
- Provision of preventative health care for 0-6 years old, the organization of child clinics and nutritional programmes to sustain achievements in reducing malnutrition.
- Screening, diagnosis and early intervention for at-risk-children and households.
- Ensuring availability of safe learner-centers and well maintained early childhood facilities.

Enhancement of Basic Schools

This project was designed to enable young children to learn and develop optimally.

Several activities have been undertaken since inception in CY 2002, including:

- Renovation of the Manchester Resource Centre;
- Construction of the Yallahs Basic, Hope Village Basic and DRB Grant Basic Schools;
- Ninety Five (95.0%) completion of construction of the St. Catherine Resource Centre, while Shortwood Practising is 50.0% complete.
  The project is expected to be completed by December 2009 with the following activities:
- Construction of the Shortwood Infant Department, and Shortwood Practising School;
- Furnish and equip the Fern Grove and Shortwood Basic Schools.

Health

HIV/AIDS Prevention and Control Programme

The objective of this programme is to assist in curbing the spread of HIV through improved treatment, care and support. A second Loan of US$10.0mn was signed between the Government and the IBRD in June 2008 for the continued financing of the HIV Programme.

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

- An estimated 30,000 pregnant women have been tested for HIV;
- Approximately 80.0% of the HIV infected pregnant women and 90.0% of HIV exposed infants received anti-retroviral drugs (ARVs);
- The diagnostic capacity for regional laboratories has improved;
- The National Strategic Plan 2007 to 2012 was drafted and circulated;
- Workshops for training of Health Community workers in treatment and prevention of HIV have been held.
- The National Waste Management Policy was drafted and waste disposal supplies procured.
- Close to 100.0% of clinic attendees have been screened for syphilis.

Activities to be undertaken in FY 2009/10 include:

- Provision of ARVs for HIV infected pregnant women and at least 90.0% of HIV exposed infants;
- Outreach activities to be held for approximately one million adults;
- Continuation of HIV testing for attendees in the public clinics;
- Distribution of two million condoms at various intervention sites;
- Improving the diagnostic capacity of the health systems by training Health Community workers and lab technicians;

Social Safety Net/Social Protection Support Project

This project seeks to enhance the GOJ's social protection programme and is being financed by loans of US$40.0mn from the IBRD and US$15.0mn from the IDB.

The objectives are:

- To further improve the effectiveness of the Programme of Advancement through Health and Education (PATH), to increase welfare of the current beneficiaries by increasing the amount of subsidy and to incorporate additional vulnerable households to the PATH Safety Net;
- To increase the levels of human capital development of poor families through attendance at schools and health centres;
- To develop a structured system for assisting working age members of PATH households to seek and retain meaningful employment;
- To enable a comprehensive analysis/review of the public sector pension system.

The following activities of the project will be undertaken in FY 2009/10:

- Payments will be made to 360,000 registered PATH beneficiaries on a quarterly basis;
- Provision of bonus payments to 2,500 students;
- The retraining of 200 Social Workers in the general operational areas of PATH, including the certification process;
- Conducting refreshers' course in forms management and customer service;
- Training 400 Medical Records officers on administration of PATH at Ministry of Social Security sponsored Parish Workshops;
- Reviewing of the Public Sector Pension System.

Jamaica Social Investment Fund (JSIF)

JSIF was established to assist in improving the needs of the most vulnerable groups in the society by:

- Establishing an efficient and demand –based mechanism to deliver basic services to the poor;
- Providing resources to areas of social and economic infrastructure;
- Expanding the government's institutional capacity to identify, implement, manage and sustain community based sub-projects.

The success and achievements of JSIF can be measured islandwide. The lives of thousands of Jamaicans have been improved through social services, social and economic infrastructure and organizational strengthening.

The second National Community Development Programme is aimed at reducing rural poverty by increasing the earning potential of rural communities. This project will be implemented in two phases - (i) projects in agriculture and (ii) community-based tourism.

As at February 2009, 1,127 projects valued at J$4.8bn have been approved, of which, 762 have been completed.

It is projected that in FY 2009/10, nine (9) projects valuing approximately US$2.0mn will be completed under the second phase of the Poverty Reduction Programme. In addition, one hundred and twelve (112) projects valuing approximately US$6.0mn are expected to be completed under the Hurricane Dean Emergency Recovery programme.

NATIONAL SECURITY

Citizens Security and Justice

The objectives of this programme are to:

- Prevent and reduce crime and violence;
- Strengthen crime management capabilities;
- Improve the delivery of the Judicial Services.

This programme was started in CY 2001 and was scheduled to be completed by March 2009. In light of the continuing crime challenge the GOJ has taken the decision to continue the programme into FY 2009/10.

Significant strides have been made and notably among these are:

- The former Jamintel building at Duke Street has been refurbished to facilitate the relocation of the Kingston Family Court;
- Conflict Resolution Services were delivered to approximately 7,000 persons in 15 communities;
- Four thousand eight hundred (4,800) persons were provided with training opportunities;
- Violence prevention programmes were implemented in six (6) communities in St. James and one (1) in Westmoreland;
- Nine hundred and fifty (950) out- of-school youth (high school graduates) have been enrolled in skills training programmes.

The programme will continue in FY 2009/10 with:

- Continuing violence prevention programmes in the St. James communities of Granville, Farm Heights, Mount Salem, Salt Spring and Russia in Westmoreland;
- The provision of certified skills training (HEART/NTA) to approximately 1,200 persons;
- The completion of the Drewsland Community Multi-purpose Centre and renovation and refurbishing of the August Town and Parade Garden's Multi-purpose Centres.

AGRICULTURE

Agricultural Support Services (ASSP)

The project was designed to improve the quality of agricultural research, upgrade the existing system for safeguarding animal and plant health and stimulating agribusiness development in rural areas.

This project was slated for completion in March 2009 but had been extended to May 2009.

The Agricultural Sector has benefited significantly from this project in several ways, including:

- Approximately 1,584 farmers, marketers, agro-processors and producers organizations have been strengthened;
- Computers and equipment have been acquired and distributed to the Veterinary Services Division;
- Electronic plant health surveillance and pest-response database have been installed in Kingston and Montego Bay;
- The establishment of a "One Stop Shop" at the port in Kingston to deal with food safety matters.

The extension of this project to May 2009 will allow for the completion of activities and procurement procedures that are at advanced stages. Some of these are:

- Completion of the expansion of the fumigation facility at the Montego Bay Export Complex.
- Complete construction of a Pepper/Escallion Mash Semi-processing Facility in Clarendon.
- Completion of the establishment and functioning of the Investment Centre to develop business plans and provide support to investors.

INFRASTRUCTURE

Transportation Infrastructure Rehabilitation Programme

The objective of this programme is to rehabilitate the main road system, ensuring physical continuity of the primary network, and minimizing the impact of flooding on the road system. Implementation will begin in FY 2009/10 with rehabilitation work on the Hope River Bridge.

Washington Boulevard Corridor Widening

The aim is to improve the carrying capacity of the corridor thus reducing the travel time for motorists.

The achievements at the end of FY 2008/09 include:

- The acquisition of 37 parcels of land to facilitate the civil works;
- Completion of prequalification of contractors.

The project will continue in FY 2009/10 with the following activities:

- Completion of construction of boundary fences;
- Completion of utilities relocation;
- Awarding of civil works contract;
- Commencement of civil works.

Kingston Metropolitan Water Supply

It is expected that this project will provide improved water supply to the Kingston Metropolitan Area (including Greater Spanish Town, South East St. Catherine, Kingston and St. Andrew).

Works on the project is progressing satisfactorily, as reflected in the following achievements:

- The National Water Commission (NWC) diagnostic study and improvement plan are completed;

- The detailed engineering designs and tender documents for Lot 2B (South East St. Catherine) are completed;
- The 95 Bulk Flow meters for non-Revenue Water Reduction and Control Programme have been procured;
- Thirty-one (31) of the 95 Bulk Flow meters for non-revenue water reduction and control programme have been installed;
- Contract for Lot 2A Development of New Ground Water has been awarded.

Activities for FY 2009/10 will include:

- The tendering and award of contract for Lot 2B;
- Commencement of civil works on Lot 2B;
- Installation of the remaining Bulk Flow meters.

Northern Jamaica Development Project

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 and Segment II from Montego Bay to Ocho Rios have been completed.

Construction work on Segment III from Ocho Rios to Port Antonio is still in progress and is projected to be completed in FY 2009/10.

Chapter 5

DEBT AND CAPITAL MARKET DEVELOPMENTS

INTRODUCTION

The Government's medium term *Debt Management Strategy* is designed to attain and maintain public debt sustainability, and, ensure that the overall borrowing requirements are not only met at minimum cost but are also achieved with a prudent degree of risk.

Although there was some degree of success in attaining certain of the targets set in its *Debt Management Strategy* for FY 2008/09, the Government closed the fiscal year with limited achievements in its execution. One of the achievements of the Government's *Debt Management Strategy* was meeting its principal objective of financing its budgetary requirements.

On the domestic side, the Government was able to issue a higher proportion of longer term debt than in the previous year. On the external side, within the first quarter of the fiscal year the Government was able to raise US$350mn of its targeted US$600mn financing. Against the background of a virtual shut down of the financial markets caused by the global financial meltdown the Government was able to achieve its total external borrowing requirements at relatively low interest rates and long maturities by having engaged the multilateral institutions as part of its funding strategy.

These achievements were, however, overshadowed by the impact of the global economic crisis which resulted in a volatile foreign exchange market and unfavourable domestic and external capital market environments.

In the domestic market, relative interest rate stability early in the fiscal year subsequently gave way to significant interest rate increases resulting in higher than projected interest costs. In the face of the uncertainty underlying the macroeconomic fundamentals, investors in general demonstrated a reluctance to invest in long-term fixed rate instruments. There was an increase in the foreign currency component of the domestic debt portfolio, which exceeded the target established in the debt strategy.

The management of the external debt was also challenged, primarily by the effects of the global recession and in particular the financial melt down in the United States of America. During the fiscal year, there was heightened focus by the three major credit rating agencies, which all revised Jamaica's credit rating downwards, following the actual and perceived unfavourable effects on Jamaica's fiscal and external accounts by the deteriorating economic situation.

The nominal value of the public debt grew by 20.0% in FY 2008/09, compared to 8.4% in FY 2007/08. The stock of public debt at the end of FY 2008/09 was $1,200,325.9mn compared to the $1,000,676.5mn recorded at the end of FY 2007/08.

The main factors contributing to the nominal increase in the stock were:

- Financing of the fiscal deficit;

- Adverse movements in the foreign currency rates vis-à-vis the J$; and
- The assumption by the Government of liabilities of the Sugar Company of Jamaica.

During the fiscal year the Government, through the Statistical Institute of Jamaica (STATIN) revised the System of National Accounts and the Gross Domestic Product (GDP) was rebased. The rebasing of the GDP revealed that the size of the economy was actually larger than previously recorded. This meant that as a percentage of GDP, total public debt at the end of FY 2007/08 was revised to 108.2% from 126.1%. At the end of FY 2008/09 this ratio had slipped slightly to 108.9%.

DOMESTIC DEBT

Performance Summary

FY 2008/09 was characterized by a deepening global economic crisis, which manifested itself in local investors holding short positions and choosing to remain liquid. Relative interest rate stability in the first half of the fiscal year gave way to significant increases in interest rates, resulting in a higher than programmed cost of debt financing and a subsequent rise in interest costs.

In the face of persistent high interest rates and the uncertainty underlying the macroeconomic fundamentals, the market continued to exhibit a preference for short-term variable rate instruments. These developments, coupled with a lowering of Jamaica's credit ratings, had a negative impact on the cost and structure of domestic financing and consequently the achievement of many of the objectives of the *Debt Management Strategy.*

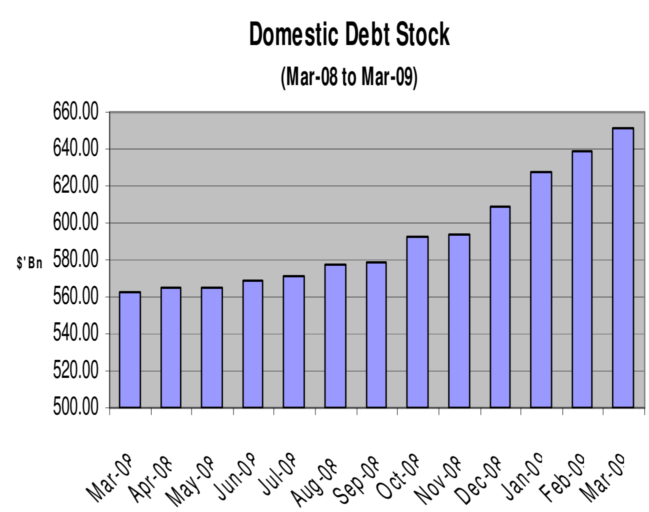
Despite the constraints and challenging market conditions, the Government was able to satisfy its budgetary financing requirements and issue a higher proportion of longer term debt than in the previous year.

Stock Composition

The stock of domestic debt moved from $562,108.1mn at the end FY 2007/08 to $651,657.4mn at the end of the review period, representing a net increase of $89,549.3mn or 15.9%. The average monthly movement in the stock for the period was approximately 1.3%.

The main factors contributing to the increase were:

- Financing of the fiscal deficit;
- Loans of the Sugar Company of Jamaica assumed by the Government;
- The adverse foreign exchange rate movements during the review period; and
- The consolidation of loan financing made by PetroCaribe Development Fund to Central Government.



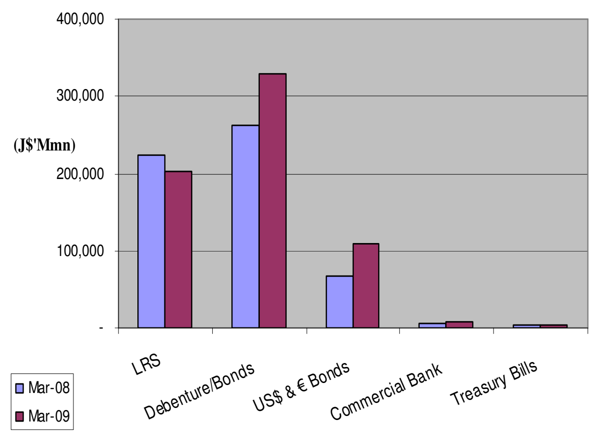
There was a continuation, from the previous year, of the shift in the structure of the domestic debt portfolio from medium term instruments to short term instruments. Of significance was the increase in the category of Debenture/Bonds, which moved from 46.5% at the start of the fiscal year, to 50.4% at the end of the review period. The corollary of this change was the decrease in the holdings of Local Registered Stocks, which moved from 39.8% at the start of the fiscal year to 31.0% at the end of the review period.

Similarly, there was an increase in the stock of US$ local denominated and US$ indexed bonds by 61.4%. The combined stock of US$ denominated local bonds and US$ indexed bonds increased from 12.1% at the start of the fiscal year to 16.8% of the portfolio at the end of FY 2008/09. These changes will potentially increase both roll over and foreign exchange risks of the portfolio.

Structure of the Domestic Debt Portfolio March 2008 – March 2009

	Mar-08	%	Mar-09	%
LRS	223,581.6	39.8	201,936.1	31.0
Debentures/ Bonds	261,459.9	46.5	328,268.2	50.4
Treasury Bills	4,200.0	0.8	4,094.5	0.70
US$ Indexed Bonds	17,843.2	3.2	29,743.4	4.6
US$ Denominated Bonds	49,894.3	8.9	79,567.4.1	12.2
Commercial Bank & Other Loans	5,129.1	0.8	8,047.6	1.2
Total Domestic Debt	**562,108.1**	**100.0**	**651,657.4**	**100.0**

Structure of the Domestic Debt Portfolio



Holdings

Merchant banks, trust companies and brokers remained the main holders of Government securities. Their holdings however, decreased from 37.8% at the end of FY 2007/08 to 35.2% at the end of FY 2008/2009. The Bank of Jamaica was the second largest holder accounting for 13.5%. Commercial banks accounted for 13.2% of the portfolio. Holdings by insurance companies and pension funds, including the National Insurance Fund, decreased from 25.2% at the end of FY 2007/08 to 20.4% at the end of FY 2008/09 while holdings by individuals increased from 1.8% at the end of FY 2007/08 to 3.7% at the end of FY 2008/09.

Maturity Profile

In spite of the market environment and investor preference for short and liquid investment, the Government was able to increase the issue of new debt with maturities greater than 10 years. At the end of FY 2008/09 the issue of new debt securities with maturities greater than 10 years had increased to 14.4% compared with 8.0% at the end of FY 2007/08.

The Government was also successful in meeting its target of 3-4% of new issues with maturities of 20 years and over. The issuance of these securities provided investors with long term investment solutions to support their asset/liability needs.

A total of $41,568.4mn or 25.5% of the new debt issues had maturities in excess of five (5) years, compared with 36.9% at end FY 2007/08. New domestic debt issued in FY 2008/09, had 74.5% maturing within 5 years, compared with 63.4% in FY 2007/08. Within this five-year period, 70.0% will mature within 3 years, while 4.5% will mature in 3-5 years. Debt issues with maturities between 5 and 10 years decreased to 11.1% from 28.6% in FY 2007/08.

Maturity Structure of New Debt
By Original Maturities
(%)

Years to Maturity	**F/Y 2006/07**	**F/Y 2007/08**	**F/Y 2008/09**
Up to 5 yrs	22.9	63.4	74.5
Of which up to 3 yrs	*8.4*	*28.0*	*70.0*
Of which 3-5 yrs	*14.5*	*35.4*	*4.5*
5-10 yrs	36.1	28.6	11.1
10 – 20 yrs	37.6	4.9	11.1
20 – 30 yrs	3.4	3.1	3.3
Total	**100.0**	**100.0**	**100.0**

Of the total domestic debt outstanding at the end of FY 2008/09, 67.4% had maturities of up to 5 years, compared with 62.4% in FY 2007/08, while 14.5% had maturities of 10 years and over, a decrease when compared with 16.1% at the end of FY 2007/08.

The weighted average maturity of the domestic debt at the end of the review period was 5.2 years. This compared with the 5.5 years reported at the end of FY 2007/08.

Debt Raising

Gross new debt issued during FY 2008/09 amounted to $162,714.84mn, compared with budgeted financing of $130,751.7mn. The total recorded during this period represented an increase of $31,963.1mn or 24.4% over the budgeted financing when compared with the 14.9% increase at the end of FY 2007/08.

Guided by the objective of greater transparency, $131,789.5mn or 81.0% was issued directly to the market, while $30,925.3mn or 19.0% represented non-market issues (Non-market issues related to loans from the PetroCaribe Development Fund, and financial institutions for budgetary financing and the assumption of the Sugar Company of Jamaica loans). Debt raised for budgetary financing totaled $145,564.0 or 89.5%, while non-budgetary financing represented the remaining 10.5%.

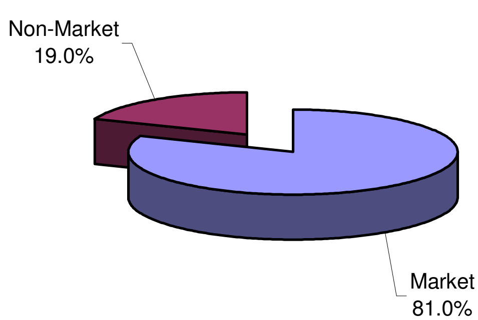
The issuance of US$ denominated and US$ indexed bonds totaled $38,824.1mn or 23.9% of the new debt issued during the period.

The total stock of foreign currency denominated debt represented 16.8% of the domestic debt portfolio. This resulted in an increase in the risk inherent in the foreign currency exposure of the domestic debt portfolio and was a reversal of the proposed reduction in the foreign currency component of the debt. The specific factors contributing to the increase were:

- The requirement to partially finance the repayment of the maturing €200 million bond from
- the domestic market in the context of the closure of the international capital markets;
- Consolidation of loan financing made by PetroCaribe Development Fund to Central Government ;
- Loans from PetroCaribe Development Fund for budgetary financing; and
- The assumption of liabilities of the Sugar Company of Jamaica.

A total of $88,605.7mn or 54.5% was issued as fixed rate debt, while $74,109.1mn or 45.5% was issued as variable rate. Despite strong demand for variable rate debt, the share of fixed rate debt issued during the year increased to 54.5%, from 34.1% in FY 2007/08.

New Domestic Debt
March 2009



Interest Rate Structure

During FY 2008/09 debt management was faced with challenging market sentiments and preferences that affected the debt strategy objective of increasing the ratio of fixed rate to variable rate debt of the portfolio. Of the total outstanding domestic debt at the end of FY 2008/09, 40.8% had been contracted on a fixed interest rate basis up from 37.6% at the end of FY 2007/08 and 40.0% at the end of March 2007.

The weighted average interest rate of J$ debt in the portfolio at the end of the review period was 15.32% p.a., up from 14.76% p.a. at the end of FY 2007/08. However, for the US$ denominated local bonds and the US$ indexed bonds, the weighted average interest rate fell to 8.49% p.a. at the end of FY 2008/09 from 9.42% p.a. at the end of FY 2007/08.

Interest Rate Composition
March 2007 – March 2009
(%)

	FY 2006/07	**FY 2007/08**	**FY 2008/09**
Fixed Rate	40.0	37.6	40.8
Variable Rate	59.9	62.3	59.1
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 2008/09, the average yields on the 3 and 6-month Treasury Bills remained relatively stable showing a trend of very moderate increases.

The average yield moved from 13.97% p.a. and 14.22% p.a. on the 3 and 6-month Treasury Bills, respectively at the end of FY 2007/08, to 20.51% p.a. and 21.77% p.a. respectively at the end of FY 2008/09. The global economic crisis had an unfavourable impact on both the foreign exchange market and the domestic interest rate environment. In an effort to contain inflation and maintain macroeconomic stability the Bank of Jamaica adjusted interest rates on its Certificate of Deposit on December 1, 2008. The 3-month Treasury Bill peaked at 22.33% p.a. in January 2009 and the 6-month Treasury Bill peaked at 24.45% p.a. in December 2008.

EXTERNAL DEBT

Performance Summary

External debt management was challenged in its fundraising efforts in the International Capital Market (ICM) in FY 2008/09, due mainly to the global recession and in particular the financial melt down in the United States of America. Notwithstanding, due to a proactive approach and proper timing, the Government with a sovereign credit rating of "B", was able to access US$350mn of the planned amount of US$600mn in June 2008 from the ICM. Consequently, before the end of the first quarter of the fiscal year, the Government successfully raised over 58.3% of its external financing requirement for the year. Given prevailing market conditions the bond issue was attractively priced and the Government was again able to achieve the lowest coupon of 8% for its external bonds, having first done so in FY 2006/07. The issuance of the bond also offered the Government the opportunity of maintaining a presence in the markets and widening its investor base, despite unfavourable market conditions.

Preparatory to approaching the markets and in order to expedite the fund raising process, the Government completed the annual updating of its base prospectus filed with the United States Securities and Exchange Commission.

In response to the challenge and in light of the outlook for future debt issuances, the Government effected its strategy for raising the additional amount to include that of engaging the multilateral institutions for financing under the policy based/development policy loan facilities. This proved beneficial to the Government, as these loans were contracted at tenors at the longer end of the yield curve and at interest rates lower than those obtainable by other "B" rated issuers on the ICM.

The Government achieved its policy objective of raising external funding for FY 2008/09 to the extent of external amortization from a mix of funds from both the ICM and multilateral institutions and was able to maintain a prudent debt structure by the realignment in the proportion of commercial and official creditor debt categories.

During FY 2008/09 the major economies, in the face of a deepening economic crisis, implemented measures aimed at stabilizing their economies and providing stimuli to foster growth and productivity. One of the principal tools used was interest rates, which resulted in several rounds of rate reductions. The external debt portfolio benefited from this decline as evidenced by a marginal reduction in interest costs.

Stock Composition

At the end of FY 2008/09 the stock of public and publicly guaranteed external debt stood at $548,668.5mn (US$6,177.6mn) compared with $438,568.1mn (US$6,169.3mn) at the end of FY 2007/08. In US$ terms the stock remained relatively flat compared with an increase of 2.2% at the end of FY 2007/08 over FY 2006/07. The external debt to GDP ratio increased to 49.8% at the end of FY 2008/09 from 47.4% at the end of FY 2007/08. In February 2009 the Government retired its €200mn 10.625% Bond, the single largest amortization for the fiscal year. This was achieved by a combination of external and local commercial bank financing.

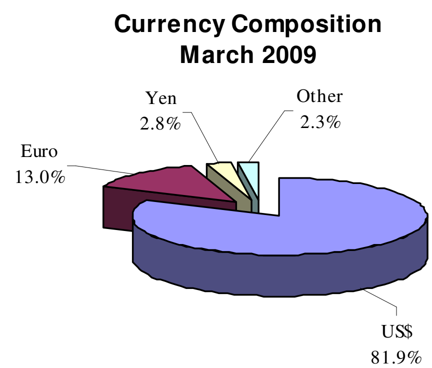
During FY 2008/09 the Government contracted new loans for social, economic and infrastructure projects. Among those contracted were loans for the:

- Fiscal & Debt Sustainability Development Project;
- Early Childhood Development and Social Protection Project;
- Liquidity Programme for Growth Sustainability;
- Transportation Infrastructure Rehabilitation Programme;
- Education Reform Programme;
- Youth Development Programme;
- Jamaica Competitiveness Enhancement Programme; and
- Public Financial and Performance Management Programme.

In J$ terms the growth rate of the external debt was 25.1% in FY 2008/09 over FY 2007/08 compared with 7.2% in FY 2007/08 over FY 2006/07.

Currency Composition

The US$ remained the principal currency in which external loans were denominated. By maintaining a large component of the debt in US$ currency, the portfolio is insulated against the risks associated with the cross currency parity changes. At the end of FY 2008/09 the US$ accounted for 81.9% of the debt compared with 73.3% at the end of FY 2007/08. The proportion of the debt denominated in Euro decreased to13.0% from 20.8% at the end of FY 2007/08. The decrease resulted from the maturity of Euro 200mn bond in February 2009. Yen denominated loans represented 2.8%, while other currencies accounted for 2.3%, compared with 2.9% and 1.6% respectively in FY 2007/08.



Creditor Composition

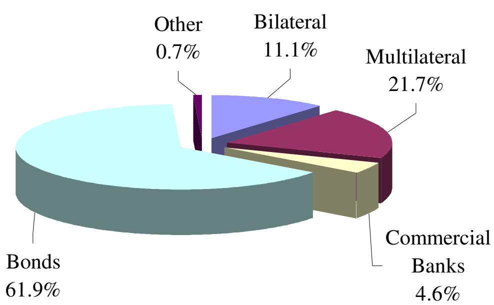
At the end of FY 2008/09 the proportion of the debt held by Official Creditors, comprising multilateral and bilateral creditors represented 32.8% of the debt stock compared with 30.8 % at the end of FY 2007/08. The increase in this component comes against the background of Jamaica's re-engagement of the multilateral financial institutions.

In previous years the Government placed heavy reliance on the ICM for budgetary support. During the year there was a shift to securing financing from the multilateral institutions, which coincided with the multilaterals' review of their lending policies. The rationale for this was to improve the maturity and interest rate

profiles of the external debt portfolio, which would result from the longer tenors and lower interest rates usually offered by these institutions.

At the end of FY 2008/09 Private Creditors consisting of bondholders, commercial banks and suppliers credits represented 67.1% of the external debt stock compared with 69.2% at the end of the previous year. The reduction in the share of this category reflects the Government's focus on securing more funding from official sources, in particular from the multilaterals. Eurobonds issued in the ICM continued to represent the major component of the external debt stock, even though it declined from 64.0% at the end of FY 2007/08 to 61.9% at the end of the review period. Commercial bank credits represented 4.6 % of the stock.

External Debt by Creditor
March 2009



Interest Rate Structure

At the end of FY 2008/09 the external debt continued to be heavily skewed towards fixed rate instruments, albeit with a slight reduction, with 76.9% fixed and 23.1% variable, compared with 81.2% and 18.8%

respectively at the end of FY 2007/08. The mix of fixed and variable rate debt reflects the *Debt Management Strategy* objective of maintaining an appropriate mix of fixed and variable rate debt and provides a level of protection to the portfolio against adverse interest rate movements. The variable rate component of the portfolio had a positive impact on interest payments, as the Government benefited from the downward movement of international interest rates with base rates such as US$ 6-month LIBOR, trending downward reaching a low of 1.7% in February 2009. This resulted in lower than projected interest payments during the period.

The average interest rate on bilateral and multilateral loans at the end of the period was 3.81% p.a., compared with 3.99% p.a., while international bonds was 9.83% p.a., compared with 9.98% at the end of FY 2007/08.

External Debt Interest Rate Structure
March 2007 – March 2009
(%)

	FY 2006/07	**FY 2007/08**	**FY 2008/09**
Fixed-Rate Debt	78.9	81.2	76.9
Variable Rate	21.1	18.8	23.1
Total	100.0	100.0	100.0

Maturity Structure

In keeping with the debt strategy of extending maturities, the external debt was contracted mainly on a long term basis during FY 2008/09. As a result, the external debt portfolio remained predominantly long-term. This effectively lowers the cost of the stock in present value terms and also reduces potential rollover risk. Of the total external debt outstanding at the end of FY 2008/09 18.9% had maturities of up to 5 years compared with 21.9% at the end of FY 2007/08; 30.6% had maturities of 5-10 years down from 30.8% in FY 2007/08 and 50.5% had maturities in excess of 10 years up from 47.3% in FY 2007/08.

Debt Forgiveness

The Government of Jamaica has over the years benefited from debt forgiveness from a number of bilateral creditors. Jamaica and the United Kingdom have on an annual basis agreed on specific parameters for the granting of debt forgiveness as outlined in the Medium Term Socio-Economic Policy Framework document. Accordingly, with Jamaica having satisfied most of the mutually agreed targets and in recognition of its commitment to the internationally agreed Millennium Development Goals and policies debt forgiveness was granted. These policies seek to promote a transparent and accountable Government and sustainable development.

During FY 2008/09 the Government of the United Kingdom provided debt forgiveness to the value of £4.9mn under the renewed Commonwealth Debt Initiative (CDI). The programme covers all principal and interest payments due in the fiscal year to both the United Kingdom Government's Overseas Development Assistance (ODA) Programme and the Commonwealth Development Corporation (CDC).

Of the amount forgiven, £2.6mn was in respect of ODA loans while £2.3mn represented payments due to CDC. This £4.9mn forgiven compared with an amount of £5.4mn which was eligible and forgiven in the previous year.

International Capital Markets and Developments

During FY 2008/09 the ICM was characterized by uncertainty, volatility and instability precipitated by the collapse of key financial institutions and power brokers in the major economies of the world. The resulting financial crisis imposed constraints and challenges upon both issuers and investors. Despite the adverse international financial environment, in June 2008 the Government of Jamaica aggressively and successfully tapped the international capital markets for US$350mn, representing 56% of its projected financing requirements. The bond carries a coupon of 8.0% p.a. and will be amortized over the last three years of the tenor, with final maturity in June 2019. By September 2008, the financial meltdown had caused a virtual shut down of the financial market especially for "B" rated issuers such as Jamaica.

As part of its funding strategy the Government of Jamaica had early in the fiscal year engaged the multilaterals for external financing. A combination of ICM and multilateral sources achieved the debt strategy objective of satisfying the external borrowing requirements. The process was timed to coincide with the single largest amortization for the fiscal year which occurred in February 2009. Jamaica's impeccable record of debt servicing was maintained and this supported investors' confidence in Jamaica's credit.

At the beginning of FY 2008/09 Jamaica's sovereign bonds enjoyed robust trading activity with prices above par. Consequent on the financial difficulties which affected the external investment brokers the credit lines to some local investment institutions were withdrawn leading to margin calls and depressed values on the Government's bonds.

The bonds closed the fiscal year at consistently lower and weak trading levels, but nevertheless performed better than a number of other emerging market issuers.

During the fiscal year under review Jamaica's credit rating was reviewed six times by the rating agencies: Standard and Poors (S&P) (three times), Moody's Investor Services (Moody's) (two times) and Fitch Ratings (once).

In May 2008 S&P reaffirmed Jamaica's long-term foreign currency rating of "B" and maintained its "Stable" outlook. However, in October the rating agency revised the rating outlook from "Stable" to "Negative" and in March 2009 lowered its long-term foreign and local currency sovereign credit ratings to "B-". The rating on the short term debt was also lowered to "C" from "B".

In November 2008, Moody's reviewed Jamaica's performance and placed the credit on a downgrade watch. The pending rating action was effected in March 2009, when the agency revised Jamaica's country ceiling rating for foreign currency bonds and notes from "B2" to "B3". The local currency denominated bond issuer rating was also revised to "B2" from "Ba2". A "Stable" outlook was maintained on all ratings.

In November 2008, Fitch also revised Jamaica's long-term foreign and local currency Issuer Default Ratings to "B" from"B+".

A "Negative" rating outlook was also assigned.

The rating agencies have all recognized that Jamaica has demonstrated a strong willingness to service its debt in a timely manner. However, the deteriorating economic situation and its increasing spillover into Jamaica's fiscal and external accounts have been the basis for the rating action taken by the agencies.

DEBT INDICATORS

In October 2008 the Statistical Institute of Jamaica carried out a revision of the Jamaican System of National Accounts, which among other things provided a rebasing of the Gross Domestic Product (GDP) that showed the size of the Jamaican economy larger than previously reported. Prior to the revision, the total debt as a percentage of the GDP at the end of FY 2007/08 was 126.1%, down from 132.4% at end of FY 2006/07.

At the end of FY 2008/2009 the total debt as a percentage of GDP was estimated at 108.9%, slightly above the revised ratio of 108.2% reported at the end of last fiscal year. When disaggregated in debt component terms, the domestic debt as a percentage of GDP at the end of FY 2008/09 was approximately 59.1%, an improvement over the revised 60.8% at the end of FY 2007/08, while the external debt as a percentage of GDP at the end of FY 2008/09 was 49.8%, a marginal increase over the revised 47.4% at the end of FY 2007/08.

THE DEBT MANAGEMENT STRATEGY FY2009/10

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:

- Seek to aggressively reduce the interest rate impact on the debt portfolio;
- Address aspects of realignment of the portfolio;
- Maintain the fixed-rate proportion of the domestic debt portfolio;
- Extend and smooth the maturity profile of the debt;
- Minimise foreign currency exposure of the domestic debt portfolio;
- Increase the use of the bid auction mechanism for issuance of domestic securities;
- Increase the transparency and predictability of debt issuance and operations;
- Re-engage the bilateral creditors and continue to engage the multilateral institutions;
- Maintain the level of new issuance of external debt equivalent to the level of external amortization; and
- Implement the dematerialization of securities.

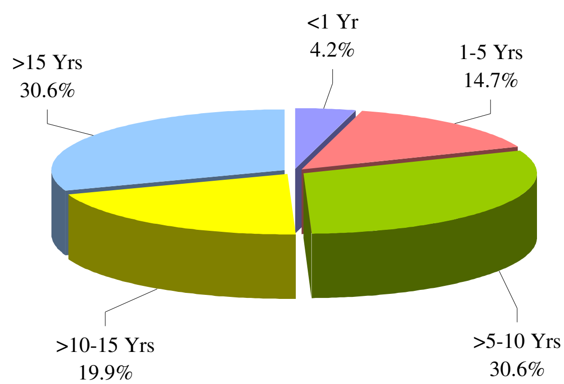
Medium-term Goals

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 development issues.

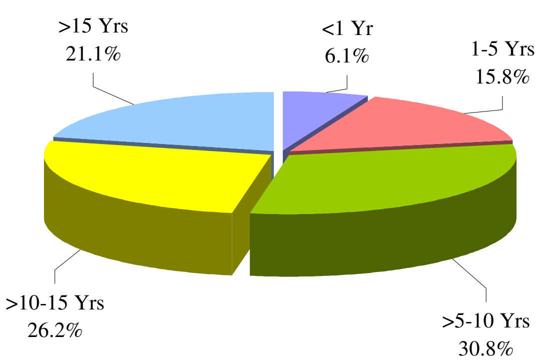
MATURITY PROFILE OF THE DEBT
(Remaining Maturity)

EXTERNAL DEBT

March 2009

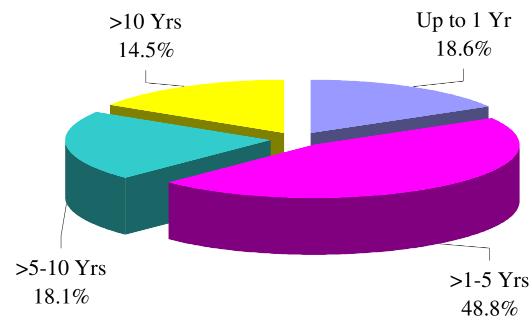


March 2008

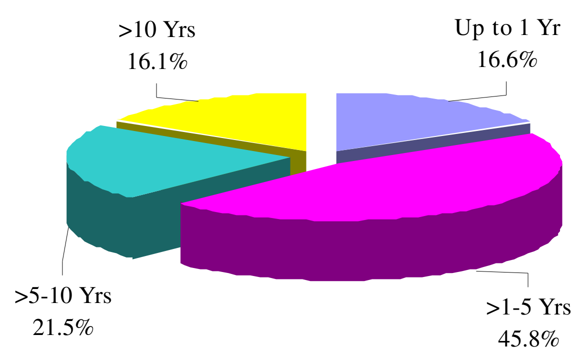


DOMESTIC DEBT

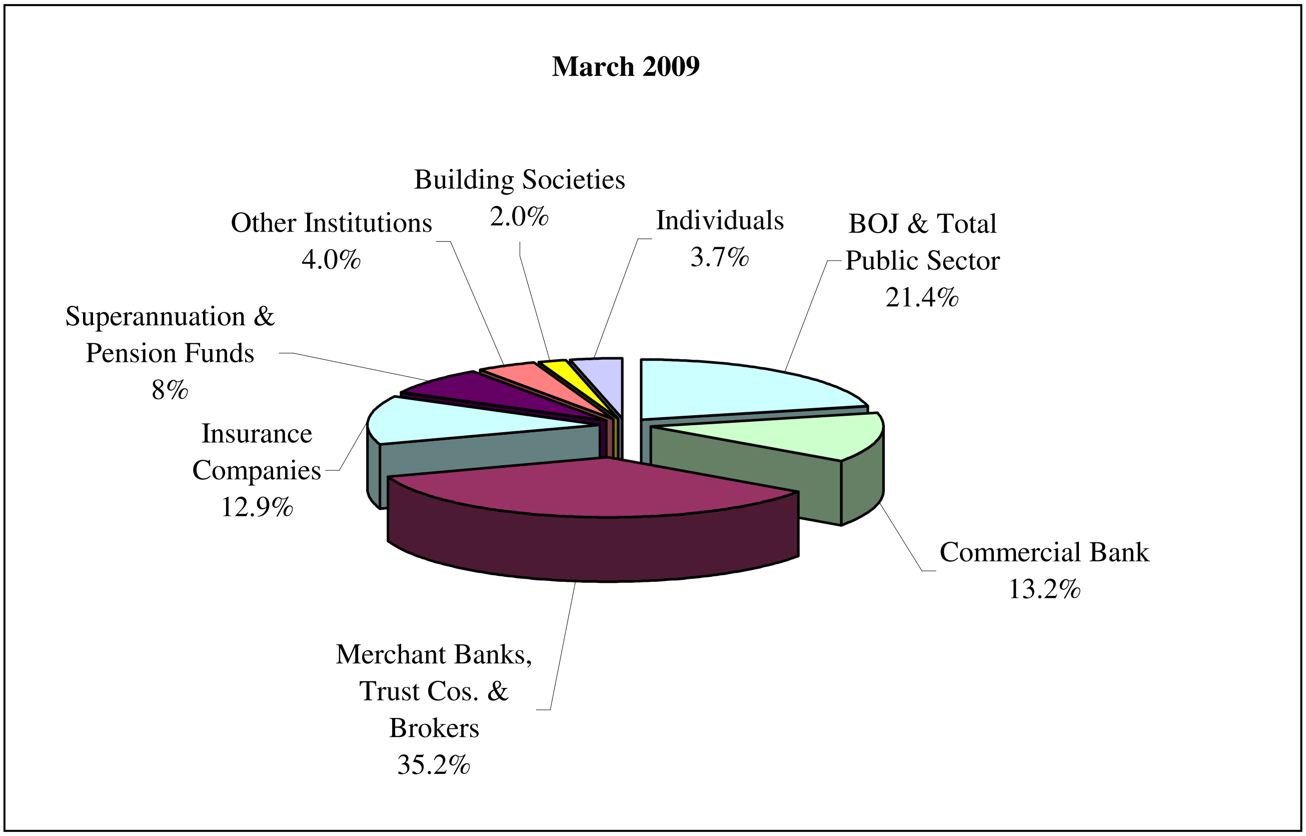
March 2009

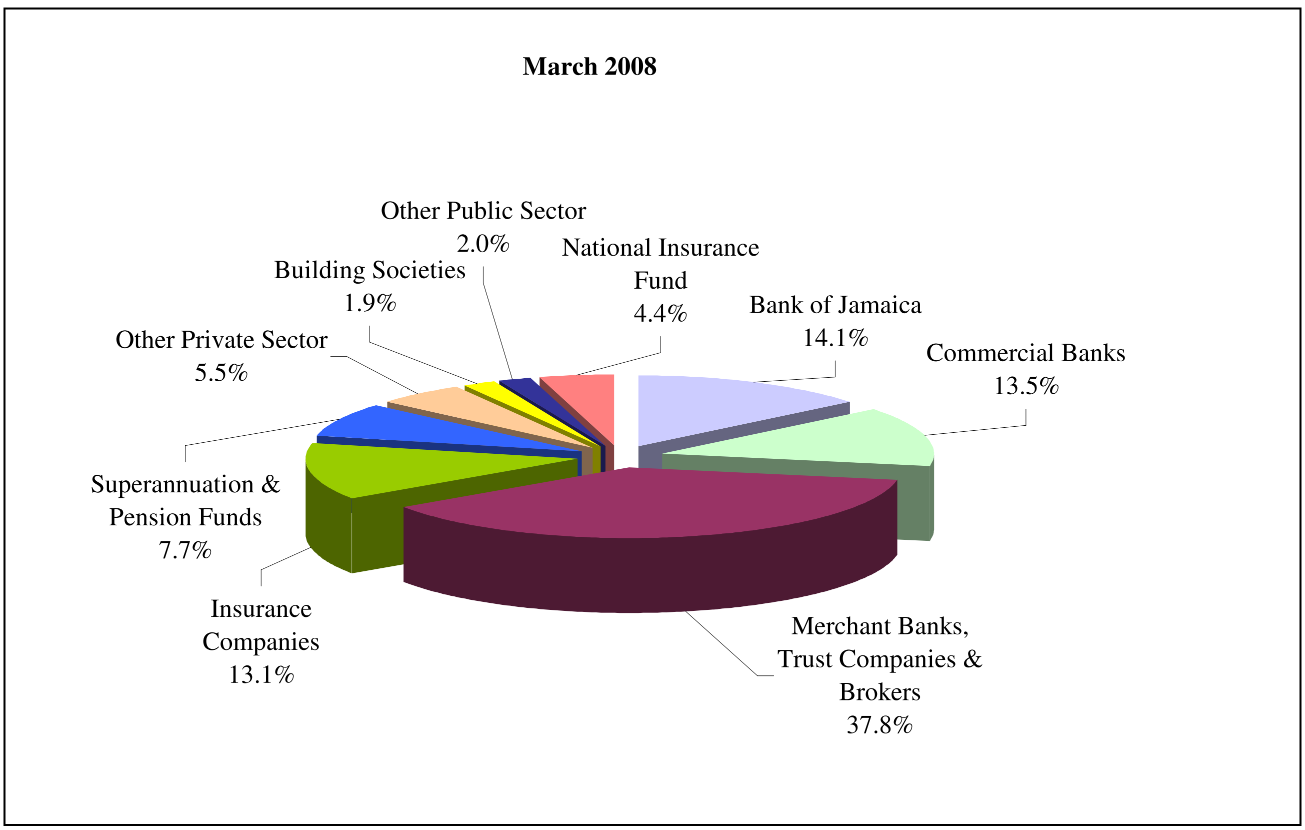


March 2008



HOLDINGS OF GOJ REGISTERED SECURITIES





Appendix 1

PUBLIC SERVICE ESTABLISHMENT PROGRAMME

Public Sector employment policies are supported by human resource management (HRM) strategies geared toward the delivery of efficient and cost effective public services. The policies are implemented through the Public Service Establishment Division (PSED) of the Ministry of Finance and the Public Service (MOFPS). The Public Service Establishment Programme encompasses compensation and industrial relations policies, employee benefits programmes, research and establishment control programmes, pensions administration, scholarships and assistance, and secretariat services for the Memorandum of Understanding (MOU) between the Government of Jamaica (GOJ0 and the Joint Confederation of Trade Unions (JCTU).

COMPENSATION

During FY 2008/09, two major projects were undertaken with respect to compensation strategy, namely (i) the development of Points Factor Job Evaluation System (PFJES) for the health sector, and (ii) the Market Study for public sector teachers.

The development of the PFJES for the health sector was aimed at establishing a rational and sustainable methodology for classifying and compensating jobs within the sector. The tool is expected to facilitate cross group comparisons and thereby establish rational pay relationships across all professional groups.

The market study for teachers was aimed at bringing public sector teachers to within 80% of private sector salaries. The market rates were effective April 2007, and, further adjusted by 15% for FY 2008/09 in line with the third MOU.

In addition to these two major projects, job classification standards were reviewed for (a) the Auditing Series and (b) the Accounting Series of public officers.

INDUSTRIAL RELATIONS

The Industrial Relations function of the MOFPS is aimed at maintaining and enhancing industrial harmony within the public sector through the establishment and implementation of sound industrial relations (IR) policies and practices. In fulfilling one of the protocols under MOU III, the MOFPS, in collaboration with the Management Institute of National Development (MIND), coordinated the "Human Resource Management in the Public Sector" training programme, which was launched on January 13, 2009. The programme will provide training for 3,000 public sector workers over an 18-month period.

Additionally, the Industrial Relations Unit of the MOFPS led and provided technical advice at a number of conciliation hearings at the Ministry of Labour and Social Security (MLSS). Since April 2008, a fairly stable industrial relations environment has been maintained in the Public Sector, with only one (1) case of industrial action reported.

Processing of Claims

For the FY 2008/10 contract period, thirty (30) claims from Central and Local Government groups and twelve (12) claims from bargaining units within parastatal bodies have so far received Requests for salary increase ranged from 45% to 100%. However, based on the recognition of the Partners to the MOU that there was a need to ensure that increases granted was within the realm of Government's wages policy in light of the imperative to attain fiscal and macroeconomic medium term targets, increases for the FY 2008/10 contract period were agreed at 15% in year 1 and 7% in year 2.

Negotiations within Central and Local Government have so far resulted in the signing of seventeen (17) Heads of Agreements (52% of the claims received) with bargaining units in the public sector.

EMPLOYEE BENEFITS

Throughout FY 2008/09, public sector employees continued to access benefits in relation to loans, grants, health insurance and staff transportation. Under the Tertiary Assistance Programme, a total of \$394.0mn has been disbursed to tertiary institutions since the inception in September 2006. The tuition refund programme was implemented during FY 20008/09, and a total of \$57.0mn was refunded. There was also an increase in the number of applications and approvals for computer loans during the fiscal year.

RESEARCH AND ESTABLISHMENT CONTROL

The MOFPS has responsibility for management of the establishment level of Central Government in order to maintain the optimum size of Government while allowing for the delivery of efficient service.

During FY 2008/09, one (1) Civil Service Establishment (CSE) (General) Order was published. The Civil Service Establishment (Amendment) Order 2008 is far advanced in preparation and will be printed as soon as the Administrative Order is available. Thereafter it will be tabled in Parliament.

The CSE (General) Order, 2008 was tabled in Parliament on November 25, 2008. The (General) Order reflected changes that took place in Ministries Departments and Agencies (MDAs), that is, the creation and reclassification of posts in some cases and the abolition of posts in others. The Establishment now stands at 41,353, reflecting a modest increase of 0.1% relative to the 41,308 in the CSE (General) Order, 2007. This demonstrates the Government's resolve in ensuring that employment levels in MDAs remain at an optimum level.

Censuses conducted to ascertain the status of employment and posts in the public sector, Executive Agencies and Parish Councils, as well as field work for educational institutions between FY 2007/08 to FY 2008/09 have led to the production of a database (employment and post) which is at an advanced stage of development (approximately 90%) and is expected to be completed during FY 2009/10.

The main establishment control activities for FY 2009/10 will include:

- Post and employment censuses to be undertaken in Central Government (Ministries and Departments); and

- Finalizing preparation of the CSE (Amendment) Order 2009 publications and one (1) CSE (General) Order 2009.

PENSIONS ADMINISTRATION

The Public Sector Pension Reform project commenced in FY 2008/09. The main objective is to improve the pensions administration system in order that processing can be executed in a more timely manner. It is also geared towards the improvement of record-keeping and the payment system. The project will entail the following:

- Development of a computerized database to track the career history of public sector workers;
- Re-design of the current payment process and supporting information technology (IT) infrastructure; and
- A review of existing legislation for public sector workers with a view to making amendments to harmonize the pension schemes for such workers.

A part-time consultant has been hired with responsibility to co-ordinate the various aspects of the project and to oversee the progress of the reform. Currently, individuals are being identified for training in Cash Flow Forecasting and to participate in a pension Study Tour.

Amendment to Laws/Regulations

During FY 2008/09 the following amendments were made, to reflect improved benefits and/or standardization of benefits**:**

- The Bill regarding the amendment to the Constables (Special) Act to allow for retirement after thirty (30) years of service was enacted in July 2008.
- An amendment to the Retiring Allowances (Legislative Service) Act in December 2008, to allow for a Legislator to repay refunded contribution in order to qualify for retiring allowance.

Increase to Pensioners

For FY 2008/09, an amount of $450.0mn was provided for pension increases, with over 20,000 pensioners benefiting from the increase. Notably, the minimum pension for persons age 55 and over was increased as follows:

- Persons with service of between 10 & 20 years – from $72,000 per year to $96,000 per year ; and
- Persons with service of 20 or more years – from $120,000 per year to $144,000 per year.

SCHOLARSHIPS & ASSISTANCE

During the period under review, various Scholarships and Assistance programmes were undertaken in relation to: Civil Service Training Programme, Donor Programmes, Skills Training/Capacity Building under the MOU and Bonding and Compliance.

Civil Service Training Programme

Assistance was provided for persons already with awards to continue benefiting from these (on-going awards), as well as to provide book grants and tuition assistance for new awards. A total of 300 on-going and 150 new awards were administered during FY 2008/09.

Donor Programmes

For the period under review scholarship offers were received from approximately 20 countries with the most coming from Singapore, Malaysia, India, Japan, China, Cuba and Russia. Scholarships were advertised in the press and posted on the scholarships page of the MOFPS' website, as well as sent directly to interest groups.

The Cuban and Russian scholarships continued to take a significant portion of the budget. Stipends for students in Cuba were increased from US$100.00 per month to US$125.00 per month, and, incorporated non-government sponsored scholars who were previously not paid stipends. There are approximately 280 scholars currently in Cuba.

Acceptance of awards from Russia had ceased for three years due to difficulties encountered previously, however, the programme resumed in 2008 with five (5) new awardees taking up scholarships. There are currently 9 scholars in Russia.

Skills Training and Capacity Building

During FY 2008/09, 66 courses were delivered with 1,100 participants attending. Training was offered in Cosmetology, Cake Baking, Food Preparation, Computer Graphics, Computer Repairs, Web Page Design, Computer Literacy, Advanced Microsoft, Entrepreneurship, Customer Service, Interior Decorating, Drapery Making, Note Taking, Strategic Negotiations, Floral Arranging and Garment Construction. The duration of these courses is six months. Persons who complete these courses attain National Council on Technical, Vocational, Education and Training (NCTVET) Level 1 certification.

Bonding and Compliance

In FY 2008/09 Cabinet gave approval for an amendment to the Bonding Policy and the Bonding regulations. The amended policy and regulations came into effect on January 01, 2009.

MOU SECRETARIAT

In order to ensure that the provisions of the MOU are kept, the Public Sector Monitoring and Evaluation Committee was created in CY 2004 by Cabinet and vested with the responsibility to oversee the process. Provision was also made for the Monitoring Committee to be served by a Secretariat located at the MOFPS. The successor MOU III came into effect on April 1, 2008 and will expire on March 31, 2010.

During FY 2009/10, operations of the Secretariat will continue to focus on the programmes for the MOU III, which will include the following activities:

1. Partnering with the Jamaica Productivity Centre (JPC) to develop, promote and monitor a productivity enhancement programme for the public sector;
2. Partnering with the Jamaica Employers Federation (JEF) to formulate and launch a cross training programme with the private sector;
3. Continue the partnership with the MIND to train human resources practitioners in the public sector;
4. Produce a bi-annual newsletter; and

5. Research activities aimed at significantly improving the Secretariat’s database and thereby enhancing its decision-making capability.

Appendix 2

PUBLIC SECTOR REFORM

The Public Sector Modernisation Vision and Strategy 2002-2012 has completed its sixth year of implementation, having commenced in FY 2003/04. The commissioned review of Ministry Paper 56/2002 provided a consolidated report on the status of achievements of the modernisation program since inception. The review proposed a new Medium Term Action Plan (MTAP), which will sharpen its focus on the priority actions aligned to the overall development agenda. It is important to note that the modernization programme has made significant achievements as highlighted in annual reports available on line at http://www.cabinet.gov.jm/doc-archive.asp.

This new MTAP is better prioritized, more focused on the objectives of modernization and will be better communicated within government and among the citizenry, in order to undergo regular and fundamental reviews. It is also expected that this new MTAP, driven by clear targets and expected outcomes, will assist with the achievement of the many national goals articulated in Vision 2030 Jamaica: National Development Plan, which are similar to the goals articulated in Ministry paper 56/2002. The priorities of the modernisation programme and the MTAP encompass four key strategic directions, which are expected to contribute to national development as follows:

A. Focusing on Service Delivery

The key focus of modernisation programme for the next five years and beyond will be to improve the provision and quality of service delivery to citizens whilst being realistic about what can be achieved within existing resource constraints. This will require localized public sector management innovation to constantly re-examine the way in which resources are utilized and to generate savings for use in improving service delivery.

B. Improving Governance and Accountability

The MTAP for implementation of the modernization programme emphasizes a comprehensive approach to issues of governance and accountability including interrelated strategies and activities on enhancing performance management systems; strengthening accountability across government; decentralizing functions; increasing citizen participation and oversight; improving human resource management and performance; and promoting a performance culture.

C. Managing for Results

This is a comprehensive concept that means improving efficiency, effectiveness and probity in the utilization of scarce resources by adopting modern financial, audit, planning and monitoring systems and greater decentralization of management decision making.

D. Improving Change Management and Communication

As a means of increasing the Government's capacity for modernization, there will be increased communication of good practice and innovation. The engagement of citizens and civil society in modernization efforts will also be enhanced.

FY 2008/09 REVIEW

Below is an outline of the Public Sector Modernisation Division's (PSMD) performance in implementing the modernisation programme during FY 2008/09.

a. Focusing on Service Delivery

Establishment of Performance-Based Institutions (PBIs)

Under the modernization programme, a number of performance based institutions (PBI's) have been established throughout government (as executive agencies, policy-focussed ministries or other entities).

The PSMD, during FY 2007/08, had established the newest executive agency, Passport Immigration & Citizenship Agency (PICA), and commenced the transformation of the Ministry of National Security (MNS) into a policy-focused ministry. The Division built on these gains and in the first quarter of FY 2008/09, the Forestry Department of the Ministry of Agriculture commenced its transition towards becoming an executive agency, while the Fisheries Division is expected to commence this process in April 2009.

The PSMD also commenced the implementation of the modernisation plans for the Ministry of Justice (MOJ), starting with the establishment of the new Court Services Agency, as part of the continuing modernization programme and implementation of recommendations of the Jamaican Justice System Reform Task Force. Work has commenced and is at an advanced stage with respect to:

- The transformation of the MOJ into a Policy Ministry;
- Establishment of a Modernisation Division within the MOJ to drive the implementation of the modernization plan;
- Establishment of a Courts Services Agency to facilitate more efficient operations of the Court system by relieving the Judiciary of administrative services;
- Introduction of the Case Management System - Justice Enforcement Management System (JEMS) - to be replicated across all courts.

Similarly, new PBIs are being established through the implementation of modernisation plans for the Ministry of Education (MOE). Significant work has been completed towards the establishment of the National Education Inspectorate to establish, monitor and enforce standards, and link pay to performance. Recruitment for the core structure has commenced and a

significant body of work had been completed on the semi-autonomous Regional Education Authorities**.** These entities are scheduled to be fully established over the course of the FY 2009/10 – FY 2011/12 period.
Modernisation plans have been developed for the National Public Health Laboratory, the Immunology Laboratory, and the Blood Bank to ultimately operate as a single performance-based, modernized entity.

The PSMD has also assisted the University of the West Indies (UWI) to procure computer-aided education/learning tools to facilitate a Virtual Learning Environment (VLE) geared at providing practical learning experience. This project will deliver a VLE for medical physics, accessible via the Internet. The users will be able to perform various diagnosis and medical imaging studies, as well as carry out radiotherapy on virtual patients and to investigate the scientific principles behind this innovative technology. Learning will be achieved both through the completion of built-in tasks and through free interactions. Assessment of competency in achieving prescribed tasks will be included and available to both the learner and the academic teaching staff.

Additionally, the PSMD worked closely with the Ministry of Finance and the Public Service (MOFPS) to rationalize the revenue administration function. With the introduction of the *Medium Term Expenditure Framework (MTEF),* a number of important outcomes will be facilitated, including: improved inter/intra sectoral resource allocation; greater budgetary predictability for ministries and agencies and more efficient use of public funds, which should contribute to improved macroeconomic performance.

Customer Service Improvement & Business Facilitation

The simplification of business processes to facilitate speedy service delivery and greater customer satisfaction forms the primary basis for re-engineering of a number of government services. In line with this principle, some services have been “joined up” and “One Stop Shop” facilities created to reduce the number of agencies and agents with which/whom a customer has to interface.

Work has been advanced to streamline the inspection processes related to the export and import of food items through the establishment of a Jamaica Import/Export Inspection Centre One Stop Shop (for health and food safety, initially). The centre is now in partial operation (for food imports) at APM Terminal (Berth 11 - 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 taken for goods to be inspected and released. Once completed, the centre will serve as a central location where agency representatives are readily available to coordinate and expedite all import and export inspection processes.

The facility is to be fully operational by June 2009 and will provide electronic linkages among all three Government regulatory agencies and the Jamaica Customs Department.

Citizens Charters

The PSMD continued to lead the introduction and monitoring of Citizens Charters across the public sector. There has been considerable revision of reporting arrangements in order to encourage accountability to Charter commitments, improve complaints management systems and identify trends in system strengths and weaknesses. The introduction of Service Risk Registers has also aided Ministries, Departments and Agencies (MDAs) in evaluating risks to the delivery of quality services, and in formulating pro-active solutions.

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 currently being tested at the MOFPS Pension's Unit, Cornwall Regional Hospital, the Constant Spring and Montego Bay centres of the Inland Revenue Department, Registrar General's Department and Office of Disaster Preparedness and Emergency Management (ODPEM). The framework provides detailed and measurable information, which will:

- Aid closer monitoring of quality of service;
- Ensure evidence-based performance measurement to inform service improvements and inform policy changes;
- Provide greater opportunities for customers to influence the improvement of government services.

Data Sharing and Pricing Policy

The development of the *Data Sharing and Pricing Policy* is one approach to improving the ability of the public sector to deliver quality and timely service to citizens. When completed, it will provide a sustainable approach for the sharing of data among entities, enhance decision-making and support the delivery of "joined-up" public services. Several consultations have been held with stakeholders resulting in: (a) a Draft Gap Analysis Position Paper that identifies major administrative, legislative and policy obstacles to data sharing in government; and (b) a Harmonization Framework that establishes basic standards and procedures that will enable data sharing across government.

b. Improving Governance and Accountability

The Government will work to improve the accountability of public servants to ensure probity in their management of public resources. This is important as public servants are being asked to take on more responsibility with respect to managing for results. The Government will seek to ensure that public service managers are given the necessary power to make decisions and carry out activities in pursuit of national goals, and, that they are recognized by being rewarded for success or sanctioned for failure.

Strategies have been implemented to encourage citizens to take responsibility for their own governance through greater involvement in decision-making and service delivery. Towards this end, a **Comprehensive Sustainability**

Assessment Policy (CSAP) has been developed to improve responsiveness of pubic policies to the needs of the public. The CSAP Tool establishes a standard for ensuring public policies across ministries are comprehensive and reflect consistently high quality. The tool also guides ministries in assessing the sustainability of policies prior to approval and implementation and identifies the most critical social, economic, governance and environmental considerations that should be taken into account in the formulation of government policies. Current efforts are being pursued for widespread dissemination across ministries.

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 development that has generated significant results. Following the completion of this project, a number of practices have been identified for institutionalization across government, including mechanisms for:

- Effective joined-up and participatory policy development and programme analysis;
- Policy impact monitoring;
- Community participation in policy implementation and monitoring; and
- Engaging relevant stakeholders across ministries to participate in rationalizing state resources against established government priorities.

c. Managing For Results

Public Financial Management

A central element of the Public Sector Modernisation Vision and Strategy is the establishment of a performance culture across the operations of the public sector. Managing for Results/Program for Development (PRODEV), a Government of Jamaica (GOJ) and Inter-American Development Bank (IDB) partnership, is focused on putting systems in place to optimize the use of resources and increase government's capacity to assess and monitor organizational and individual performance. The first phase of PRODEV 1 commenced in June 2007 and ended in December 2008 while a second phase was started in June 2008.

Some of the activities from the MTAP for Managing For Results will be implemented with funds provided under a second phase of the project (PRODEV II). The activities will build on diagnostic studies completed under PRODEV I and include support for development of new systems and frameworks to strengthen internal and external financial management controls. Related activities to be finalized and implemented during FY 2009/10 are:

- Development of technical requirements for an integrated financial management information system (FMIS) to support the roll-out of accrual accounting and results based expenditure management;
- Redesign of the Government's Chart of Accounts;
- Development of a framework for

operationalizing information technology (IT) and Value for Money (VFM) Auditing;
- Selection of an E-procurement System;
- Development of regulations for the Financial Administration and Audit (FAA) Act to support move towards E-procurement.

Managing Human Resources

In 2004, the Government developed and began implementing the Performance Management and Appraisal System (PMAS) for the Public Sector. During FY 2008/09, the Institute of Jamaica and the MNS implemented the PMAS. Post and Telecommunications Department and the National Library of Jamaica are in the process of implementing the system.

d. Improving Change Management and Communication

Efforts to promote the achievements and activities of the modernization programme continued through FY 2008/09 by way of greater utilization of the mass media. These efforts include print publications on service delivery improvements, highlighting the role and functions of Executive Agencies.

Activities initiated through the PSMD have received wider media coverage including print and electronic, and, media personnel have expressed considerably greater interest in accessing information on modernization of the public sector. Communication campaigns have been carried out around key activities such as the Public Sector Customer Service Competition, and, the Vision 2030 and its accompanying National Development Plan. This has resulted in wider public support and interest. The PSMD has also sought to maximize use of other multi-media mechanisms to better engage its stakeholders, as video recordings of PSMD workshops and conferences have been utilized for widespread dissemination to aid in capacity building and knowledge transfer.

Considerable work has been done to revamp the Cabinet office website and more specifically the representation of information on the modernisation programme. The information has been re-packaged and updated to make it more current and reader-friendly. Work is currently underway to further refine the website and to create ‘fora’ to accommodate public feedback and PSMD responses.

Dissemination of the PSMD’s quarterly newsletter, ‘Transformation Pages’, is being continuously widened to include a greater cross-section of recipients. The newsletter has been redesigned to be more reader friendly and attractive.

KEY ACTIVITIES FOR THE MODERNISATION PROGRAMME IN FY 2009/10

(i) Focusing On Service Delivery

The Ministry of Education **–** The modernisation of the MOE has been identified as a priority activity by Cabinet, the National Planning Summit (NPS), as well as under the European Union (EU) General Budget Support programme.

Between FY 2009/10 and FY 2011/12, the PSMD will support the MOE in the implementation of its modernisation programme by providing technical support required to:

- Establish the Ministry as a policy-focused ministry which will allow for the strengthening of its capacity to develop, monitor & evaluate the policies and programmes in the educational sector to meet the needs of students (via schools);
- Devolve service delivery to regional education authorities which will manage key functions in support of ensuring school/student performance and providing for greater responsiveness of the education sector to local education priorities and needs;
- Establish the National Education Inspectorate which will be responsible for holding school leadership and management teams accountable for meeting specified goals and standards of operation.

Development Applications Process **-** The PSMD, in collaboration with the Local Government Department in the Office of the Prime Minister and National Environmental Planning Agency (NEPA), *et al,* have commenced the redesign of the Development Applications Process as a means of attracting investment and promoting business development. This initiative has also been supported by the Jamaica Chamber of Commerce/USAID Regulations and Legislation Committee. A model Local Planning Authority Framework has been developed. The model identified best practices to be replicated across all Parish Councils. Over the years the GOJ has undertaken a range of initiatives in relation to the approval process in order to achieve sustainable development. These initiatives, such as Local Sustainable Development Planning (LSDP), were aligned to the implementation of the "Local Agenda 21" at the World Summit on Sustainable Development (Rio 1992) and the Local Government Reform Programme (1993).

The collaborative effort has supported the introduction of a two-tiered system for application processing in NEPA to differentiate large/high-value and small-value applications, with provisions for the latter to be processed by the Local Authorities.
The establishment of the National Building Code and related training has also been undertaken. The National Building Code will be fully utilized by all relevant approving agencies. The New Building Act will create the legislative framework to support the building code and activities towards the re-engineering of process flows for all categories and types of development applications will be completed in FY 2009/10.

The PSMD has directly supported the implementation of Automated Management Database Application (AMANDA) in pilot entities in the Manchester Parish Council and the Kingston and St. Andrew Corporation, which is scheduled for completion in the first quarter of FY 2009/10. AMANDA is a software utilized for tracking the development approval process in the local authorities.

The PSMD will also undertake the following in FY 2009/10:

- Completion of a concept and project proposal for the collection of ***geo-spatial data*** for the preparation of a National Spatial Plan (NSP) for Jamaica, aligned with and supporting the Vision 2030 National Development Plan objectives. This project will be completed in FY 2009/10 and will inform the finalization of the NSP.

- The establishment of the ***Environmental Regulatory Authority (ERA)*** – As part of the government's thrust to improve the planning and environment framework, the Cabinet Office is spearheading the establishment of the Environment Regulatory Authority (ERA). The ERA will ensure effective environmental policing, compliance monitoring and enforcement.

It is expected that the establishment and operation of the ERA will be spread over a minimum of two (2) years. This will be complemented by the establishment of NEPA as a One Stop Shop, and, the related work in streamlining the Development Applications Processes (DAP). These initiatives will realize efficiencies across the system and promote/support investment, job creation, growth and development.

The ***National Public Health Laboratories (NPHL)*** and the blood transfusion facilities provide critical services to the health sector. Improved efficiency and strengthened capabilities in these organizations will directly impact productivity in the health sector, and implementation of the modernization plans will commence in FY 2009/10.

Jamaica Customs – Building on the World Customs Organization (WCO) Time Release Study conducted in FY 2008/09, work should commence during FY 2009/10 with the aim of transforming the Customs Department into an Executive Agency.

(ii) Improving Governance and Accountability

In an effort to improve governance and accountability in the management of public resources the following activities are to be implemented in FY 2009/10:

- 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;
- Development and rollout of a framework for regionalizing public sector service delivery.

(iii) Improving Change Management and Communication

In FY 2009/10, the PSMD will implement a strategy that will support the continuous sharing of information on all elements of the modernization programme across the public sector and with the wider society. The following will be finalized in FY 2009/10:

- Development of a modernization video to explain in brief the modernization programme and its achievements to date. The video is intended for internal dissemination in order to re-acquaint public sector workers with the modernization programme and therefore support efforts to promote greater buy-in. The video will also be structured in a way to allow for public dissemination where necessary.
- The holding of a public-wide logo competition towards development of the modernization brand.

- The production and dissemination of modernization brochures around the key strategic areas of the programme.

(iv) Managing For Results

Human Resource Information System (HRIS) – The implementation of this system will facilitate more effective management of human resources across the public sector, with benefits including:

- Timely and more accurate calculation of employee benefits such as pension and leave entitlement;
- Improved management of personnel records;
- Better human resource management and succession planning.

The proposed investment for FY 2009/10 includes definition of the user requirements for the system and the implementation of a pilot in two ministries. The system will eventually be rolled out across the public sector and will be linked with the planned implementation of an Integrated Financial Management Information System led by the MOFPS and supported by PRODEV and the Cabinet Office.

APPENDIX 3

DEVELOPMENTS IN THE FINANCIAL SECTOR

FY 2008/09 was challenging, as the global economy entered a period of recession that has been widely considered the worst since the 1930s. Jamaica's financial sector has not been immune or spared from instability in the major financial institutions in the United States and the tightening of credit conditions in the global financial markets. Reduced sources of credit in the international capital markets affected the demand for 'riskier' emerging market debt, and therefore resulted in increased prices on Jamaica's global bonds. This led to some domestic financial institutions being faced with calls for increased collateral on loans secured with the Country's global bonds, which contributed to the demand pressures that developed in the foreign exchange market.

To reduce the vulnerabilities and minimize the level of exposure of the sector, the Bank of Jamaica (BOJ) offered a temporary US dollar loan facility to affected institutions and a committee comprising members from the supervisory authorities, namely Ministry of Finance and the Public Service (MOFPS), BOJ, Financial Services Commission (FSC), as well as the Planning Institute of Jamaica (PIOJ), was established to monitor the developments in the financial markets.

Jamaica's financial institutions remain relatively sound and well capitalized, as the Government continues to strengthen the regulatory framework governing the financial sector.

Strengthened Legislative Framework

Committed to maintaining stability in the financial sector during FY 2008/09, the MOFPS and the regulatory authorities continued their efforts to improve the legislative framework for the financial sector in the following areas:

Enactment of Credit Reporting Legislation

During FY 2008/09, the Credit Reporting Bill was tabled in the Houses of Parliament. The Bill is presently before a Joint Select Committee of Parliament. The Credit Reporting Legislation will facilitate the establishment of a Credit Bureau as this is seen as an important element in managing credit risk in the financial sector.

Reform of the National Payments System

Legislation has been drafted to facilitate the regulation of the National Payments System and to provide the Bank of Jamaica (BOJ) with regulatory oversight, in keeping with the objectives to reform and upgrade Jamaica's National Payments System. The first draft of the Bill has been reviewed by stakeholders. The next step is for submission to the Legislation Committee of Cabinet for consideration.

Pension Reform

During FY 2008/09**,** Phase II of the Pension Reform initiative was further advanced following the approval from Cabinet for the continuation of drafting of legislation to amend the Pension (Superannuation Fund and Retirement Schemes) Act 2004 and accompanying Regulations. A first draft of the Regulations has been prepared and is being reviewed by stakeholders. The next step is for the Bill to be finalized and submitted to the Legislation Committee for consideration.

The mandatory licensing and registration of all superannuation funds, retirement schemes and pension providers, which began in September 2006 is continuing. The need for amendments to constitutive documents in order to accord with the legislation has resulted in a slower than anticipated approval rate. As at end FY 2008/09, the Financial Services Commission (FSC) received 66 applications for the licensing of administrators and investment managers and 2,846 applications for the registration of responsible officers, superannuation funds, retirement schemes and trustees. Two hundred and seventy six (276) applications were withdrawn due to decisions taken to wind-up some schemes.

As at March 2009, the FSC received 547 applications for the registration of Superannuation Funds and Retirement Schemes. However, only 202 or 37% were properly completed and satisfied the requirements as set out in the Act. With respect to the registration of individual trustees, the FSC received 1,448 properly completed applications and has processed 1,361. The FSC approved 46 applications for licensing, 23 for investment managers and 23 for pension administrators.

Notwithstanding the large number of applications, the receipt of a significant number of incomplete applications hampered the approvals process.

Combating Terrorist Financing

As it relates to preventing the financing of terrorism, a first draft of the Terrorism Prevention (Reporting Entities) Regulations was prepared and circulated to stakeholders during the review period. As one of the stakeholders, the MOFPS submitted its comments to the Ministry of Foreign Affairs and Foreign Trade (MFAFT). The Regulations impose various requirements on financial institutions, which have the duty to report under the Terrorism Prevention Act. The Financial Investigations Division (FID) of the MOFPS has responsibility for enforcing the reporting requirements for the financing of terrorism.

The Financial Investigation Division (FID) Bill

During FY 2008/09, the FID Bill was submitted to the Legislation Committee for consideration and approval by Cabinet for tabling in Parliament. This Bill was amended to take into account the policy decision to re-establish the Revenue Protection Division (RPD) outside of the FID. The Bill was subsequently tabled in the Houses of Parliament in accordance with legislative procedure.

The enactment of the FID statute will facilitate the Division becoming a member of the International Financial Crimes Unit, the Egmont Group.

Amendment to the Industrial and Provident Societies Act

Draft Industrial and Provident Societies Regulations were prepared during FY 2008/09 to accompany the amendments to the Industrial and Provident Societies Act. The Cabinet gave approval for the tabling of the Industrial and Provident Societies Bill in Parliament. The next step will be to have the Bill and accompanying Regulations tabled in Parliament.

The legislation to amend the Industrial and Provident Societies Act seeks to modernize and enhance the framework for the supervision of Industrial and Provident societies. These institutions will be supervised by the Registrar of Cooperatives.

Deposit Insurance (Amendment) Act

A first draft of the Deposit Insurance (Amendment) Bill was prepared and is being reviewed by stakeholders. The Bill seeks to address weaknesses identified in the legislation. Among other things, the Bill will provide for:

- Preservation of depositor entitlement;
- Recognition of beneficial interest in Trust Accounts;
- Recognition of beneficial interest of co-owners of Joint Accounts

Amendment to the Bank of Jamaica Act

During FY 2008/09, the Chief Parliamentary Counsel drafted the necessary legislation to amend the Bank of Jamaica Act to increase the limit for the legal tender of coins. The Bill has been approved by the Legislation Committee in accordance with legislative procedure. The next step is for the Bill to be tabled in Parliament.

Activities undertaken by the Financial Investigations Division (FID)

During FY 2008/09, the FID continued to pursue its mandate of investigating and facilitating the prosecution of financial crimes, including fraud breaches and money laundering.

To this end, the FID continued to collaborate with financial institutions to strengthen Jamaica's anti-money laundering regime. Since the designation of the FID as the Asset Recovery Agency (ARA), it has been developing the institutional framework within which it will carry out this new function. In addition, the FID has been receiving technical assistance from bilateral partners to strengthen its capability to administer the relevant provisions of the Proceeds of Crime Act (POCA).

The FID, during FY 2008/09, achieved successes in completing cases in money laundering, cash seizures, forfeiture and confiscations and requests for cooperation from international counterparts. The FID was also engaged in training persons in anti-corruption and ethics.

Financial Institutions Services Limited (FIS)

During FY 2008/09, FIS continued to deal with a number of divestment, liquidation, and other residual activities, as well as coordinating outstanding litigation matters, as it continued with the winding up operations of both FIS and the Financial Sector Adjustment Company (FINSAC).

Audits of FINSAC for FY 2006/07 and FY 2007/08 and FIS for the FY ending 2006/07 were completed during FY 2008/09. Monies totalling approximately $22.0mn and US$5.3mn were collected for the divestment of properties and rental, and for the share of collections from loans sold to Jamaican Redevelopment Foundation (JRF), respectively.

In April 2008, FIS relocated office to the Ministry of Finance and the Public Service's complex at Shalimar Avenue.

FIS encountered various challenges during the period under review. The liquidation of 18 companies has been delayed as 8 are incorporated overseas. Given that these 8 companies are domiciled overseas, liquidation will have to be done in the country of registration. The other 10 companies have outstanding litigation matters. FIS has also encountered delays in matters that require legal representation.

Developments with Alternative Investment Schemes

During FY 2008/09, the fallout from alternative investment schemes continued to unfold, affecting a wide cross-section of Jamaicans. The authorities continued their efforts in dealing with the various Unregulated Financial Organizations (UFO's). The FSC published a list of unregistered investment entities not licensed or registered to solicit or receive investment funds from members of the public.

Throughout the review period, the FSC continued to issue and enforce 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 which are in contravention of any of the acts that have provisions for the regulation of the financial sector. The Order is subject to be lifted, once the requirements for licensing are met.

The Proposed Areas of Focus for FY 2009/10

During FY 2009/10, efforts will concentrate on the following:

- Finalizing draft legislation under Phase II of the Pension Reform to allow for tabling in the Houses of Parliament;
- Completion of the legislative framework to facilitate Credit Reporting;
- Facilitating the enactment of legislation for the regulation and operation of the National Payments System;
- Facilitating 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 the implementation of the electronic Case Management System to achieve online reporting by financial institutions;
- Continued effort by the FID to become a member of the Egmont Group;
- Completing the set up and staffing of the ARA;
- Training staff in civil recovery and terrorist financing;
- Facilitating training and compliance of societies registered under the Co-operative Societies Act;
- Assessing the vulnerability of registered charities and money lending organizations to money laundering activities;
- Processing of Cross-Border Currency Transactions Reports;
- Continue with the divestment of remaining properties/ shares/assets held by FIS;
- Finalizing the liquidation of dormant companies, coordinating outstanding litigation matters and finalizing all outstanding issues for sale of loans to JRF and sale of Life of Jamaica (LOJ) to Sagicor Life Jamaica Limited;
- Completing the audit for FIS for 2007/08.

Appendix 4

TAX ADMINISTRATION

FY 2008/09 REVIEW

The mission of Tax Administration (TA) focuses on collecting the revenues due in an equitable and efficient manner while achieving high levels of voluntary compliance and maintaining public confidence. Emanating from the mission are four (4) high level strategic objectives:

1. To collect the revenues due;
2. To improve compliance through harmonization of programmes in service, education and enforcement;
3. To improve information and communication technology (ICT);
4. To improve organization and management skills.

During FY 2008/09 a number of strategies were designed to ensure the revenue target would be achieved. The net tax revenue target was set at \$265.1bn, representing \$45.6bn or 20.8% above collections for FY 2007/08. This level of tax inflow was to be buoyed by:

- An increase in business activities;
- Improved tax compliance programme;
- Improved tax collection drive;
- Administrative reform with special emphasis on Jamaica Customs Department (JCD);
- Reintroduction of the Revenue Protection Division (RPD);
- A new tax package for the year;
- Introduction of a Tax Amnesty programme.

The amnesty programme resulted in \$7.8bn collected in FY 2008/09. This represents an increase of \$3.0bn or 61% over the targeted \$4.9bn.

During FY 2008/09, structural and operational changes were made within the Customs Department, including: creating a sterile environment for processing entries and streamlining the process flow of documents.

General Consumption Tax (GCT) e-filing was successfully implemented during FY 2008/09. This allowed taxpayers to file their GCT returns online. The option to pay online has been available since October 2005.

Revenue Collection

Collections during FY 2008/09 amounted to \$246.2bn or 92.9% of the revenue target of \$265.1bn. This represents an increase of 12.2% over collections for FY 2007/08.

Improved Compliance

Returns filed for the major tax types increased by 20% over FY 2007/08 with taxes declared and paid on the returns both increasing by 14%.

Seven thousand seven hundred and fifty six (7,756) new taxpayers were identified as at end February 2009. This was 28% more than for the same period last year when 6,080 new taxpayers were identified.
The majority of these new taxpayers were identified during the period of the amnesty programme.

Audit coverage increased by 8.7% over FY 2007/08. Additional enforcement measures through the Courts resulted in additional revenue intake from 47 criminal and civil litigation cases, while as at February 2009, Customs made 142 narcotics seizures and arrested 40 persons for breaching Customs laws.

Other notable developments during the fiscal year included:

- Continuation of the public education programmes geared at informing taxpayers about their rights and obligations, with over 230 public education programmes delivered, including 36 lectures and seminars under the Schools Tax Education Programme (STEP);
- A new tax office was opened in Portmore, St. Catherine in July 2008;
- The X-ray Unit at Customs was established and staffed. The role of this unit is to conduct non-intrusive examinations on containers of imports and exports;
- A review of operations of the Inland Revenue Department (IRD) was conducted resulting in the establishment of new positions to reflect appropriate levels and grades for various jobs.

PROPOSED STRATEGIES FY 2009/10

TA is committed to a three (3) year reform project as its primary strategy for strengthening the Administration to stimulate greater voluntary tax compliance. This is so, notwithstanding the implementation of the Tax Administration Reform Programme (TaxARP) nine years ago, at which time there was a general consensus that TA was in need of further improvement to make it more efficient and effective. As such, a review of tax and customs administration reform, and subsequent recommendations for the way forward by a team from the International Monetary Fund (IMF) Fiscal Affairs Department and the Caribbean Technical Assistance Centre (CARTAC) took place in FY 2006/07. This engagement was revisited in FY 2008/09 as the majority of the then recommendations were not fully implemented.

Along with recommendations from the United States Treasury and IBM Reengineering Review, TA is currently undergoing another reform exercise.

The primary objective of this reformation is the institutional strengthening of the Administration's ability to encourage voluntary tax compliance. The reform will proceed along two lines – establishing Tax Administration (TA) to focus on domestic taxes, and establishing the Customs Department as an Executive Agency.

Tax Administration (TA) – Domestic Taxes

The project commenced on January 12, 2009 and is slated to end in December 2011. The reform will incorporate a widening of the tax base, facilitating tax compliance, strengthening enforcement and restructuring along customer-centric lines.

The general purpose of the project is to increase revenue through significant improvements in the efficiency and effectiveness of the organization of domestic tax with the following main objectives:

- To reduce dependence on borrowing by making additional financial resources available on a sustainable basis to finance budgetary needs;
- To widen the tax base through increased efficiency of operations;
- To contribute directly to macro-economic stability, stimulate greater voluntary compliance and collect more revenues.

The reform will include the revision of the structure, the implementation of 'headquarters' units and improvement in the management information and performance management systems of TA.

The initial stage of the reform focuses on:

- The establishment of a Large Taxpayer Office in April 2009. This office will provide all services to an estimated 500 large taxpayers who are responsible for 48% of total revenue collected;
- The establishment of an in-bound and out-bound Customer Care Centre to contribute significantly to improving staff productivity, the quality of taxpayer service and improving tax compliance;
- The decentralization of the processing of returns, refunds and registration of taxpayers to enhance accountability and improve quality, accuracy and speed of service.
- The establishment of a Forensic Data-Mining Intelligence Unit (FDIU) to carry out data-driven intelligence gathering for use in strategic risk assessments. The unit will be mandated to identify for tax purposes, persons who are not captured by the system, as well as identify those who are already in the system but have been non-compliant in filing true and correct tax returns.

Some of the benefits envisioned from the reform are:

1. The Commissioner General having full authority for administering all domestic tax laws;
2. The auditing of medium and small taxpayers taking place from service centres;
3. The removal of duplication of information and communication services across departments;
4. The opportunity to strengthen the re-engineering of processes to improve efficiency and produce better information for boosting tax compliance;
5. Dedicated programmes to analyze available taxpayer data and better inform operational plans and their execution;
6. Specific attention to risk management approach supported by stronger information technology;
7. More effective handling of staff matters with single responsibility and authority to each field office and the decentralization of human resource services to the regional level.

Improve Revenue Inflow

TA will continue to implement compliance measures aimed at boosting inflows. These measures will focus on:

- Improving Compliance;
- Improving Information & Communication Technology;
- Improving Organization and Management;
- Enforcement.

Improving Compliance

TA will continue to harmonize programmes in service, education and enforcement in order to reduce compliance costs while improving voluntary compliance.

Taxpayer Service

Having established a LTO aimed at building customer-centric relationships with large taxpayers that have the greatest impact on revenue collections, the unit will focus on enticing/inviting large taxpayers to make use of this optional facility. Additionally, by providing exceptional customer service, it is anticipated that by March 2010 the top 454 largest taxpayers will be using this service channel.

A Tax Reminder System is now in an advanced stage of development and was designed to leverage cellular phone and e – mail access technologies to inform taxpayers of their due dates, for Income Tax, GCT, Motor Vehicle Registration, Driver’s Licence, among other obligations. In addition there will be continued expansion of e-payment facilities and introduction of e-filing of tax returns to allow for an increase in the number of taxes and deductions that can be paid online.

Taxpayer Education

TA will continue to develop and expand marketing and educational programmes aimed at engaging the general public. The public relations programme will involve the use of more diversified communications channels. Partnership arrangements with media houses, online advertisements and the TA website will be leveraged to reach a wider cross section of the public. Strategic partnership with key stakeholders will also be deepened. The main advertising message to be sustained through the year will feature the theme, "*your taxes hold the key for … education, health, security, et al*" - the objective being to engender a strong tax paying culture.

With respect to taxpayer education, programmes will be customized to meet the needs of targeted stakeholders, primarily Small and Medium sized Enterprises (SMEs) and lending agencies. Tax classes will be developed for key industry groups, including professionals. The Schools Tax Education Programme (STEP) will be further expanded to include more secondary and tertiary students, particularly community colleges. Publications will be developed to be more user-friendly and a key deliverable will be a Tax Kit for new business entrants.

Improving Information & Communication Technology

Efforts will continue to leverage technologies to better support the strategic objectives of TA. In order to improve the TA's servicing of its taxpayers, enhancements will be made to business functions and system modules such as:

- Audit – to improve recording of the accounting for assessments, objections, appeals;
- Revenue Accounting – to automate the process for the efficient functioning of the Revenue Accounting Unit of IRD;
- Taxpayer Accounting – to resolve all outstanding taxpayer accounting issues inclusive of the withholding tax;
- Case Tracking – to review, enhance and implement the Lotus Notes Case Tracking System;
- Interface – to review and implement interfaces with Stamp Duty and Customs Systems;
- To implement a taxpayer reminder service utilizing short message services and email.

A request for proposal (RFP) will be issued for the design and development of a Tax Administration Business Intelligence System (TABIS), a data warehouse solution. This system will provide TA with the capability to:

– Consolidate and report on the collection from all TA revenue points;
– Establish a Decision Support System utilizing taxpayer information;
– Utilize information from third party sources;
– Use available data to drive Classification and Risk Management programmes.

Improving Organization and Management

Findings from the IMF/CARTAC study highlighted limitations to the current organization and management component that act as inhibitors to the efficient and effective collection of revenues. This includes duplication of effort across the existing departments, limitations of the Revenue Administration Act (RAA) that prevents the Director General from having proper authority to exercise needed management control and oversight.

Changes to the organization and management will include:

- Separation of the Headquarters Function (planning, monitoring and controlling) from Field Operations;
- Clear line of command for all entities (tax offices, service centers, regional offices and the large taxpayer office – each with a single head) and functions (e.g. taxpayer registration, collections and enforcement, audit and investigation);
- Consolidation of the ICT, human resources, finance and administration services within one division (rather than their current separate existence within three departments);
- The centralization of planning & research functions and directed from head office and not fragmented across departments as currently exists.

Enforcement

To improve collections while broadening the tax base, special emphasis will be on intelligence- driven risk assessment through developing a forensic dragnet that will profile each taxpayer by lifestyle, age and industry to be utilized in assessing the level of taxes due irrespective of what was filed or not filed.

Customs Modernization - Customs Department (Executive Agency)

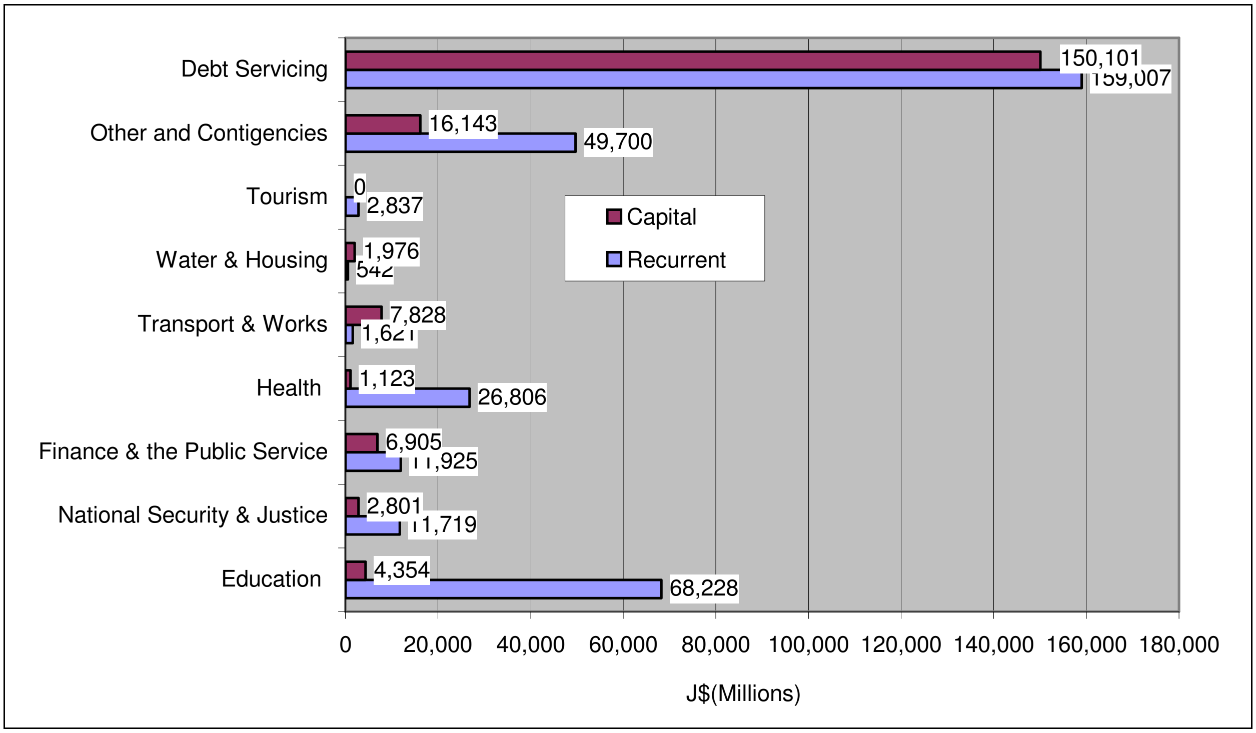
The Customs Modernization Project will proceed along the lines of Customs becoming an executive agency within an estimated 2-year period. It is anticipated transformation of the customs workforce enabling a reduction in corruption and improving overall efficiency and effectiveness by improving the recruitment mechanism, compensation and accountability of staff.

Components of the project are similar to the domestic tax reform. These Include:

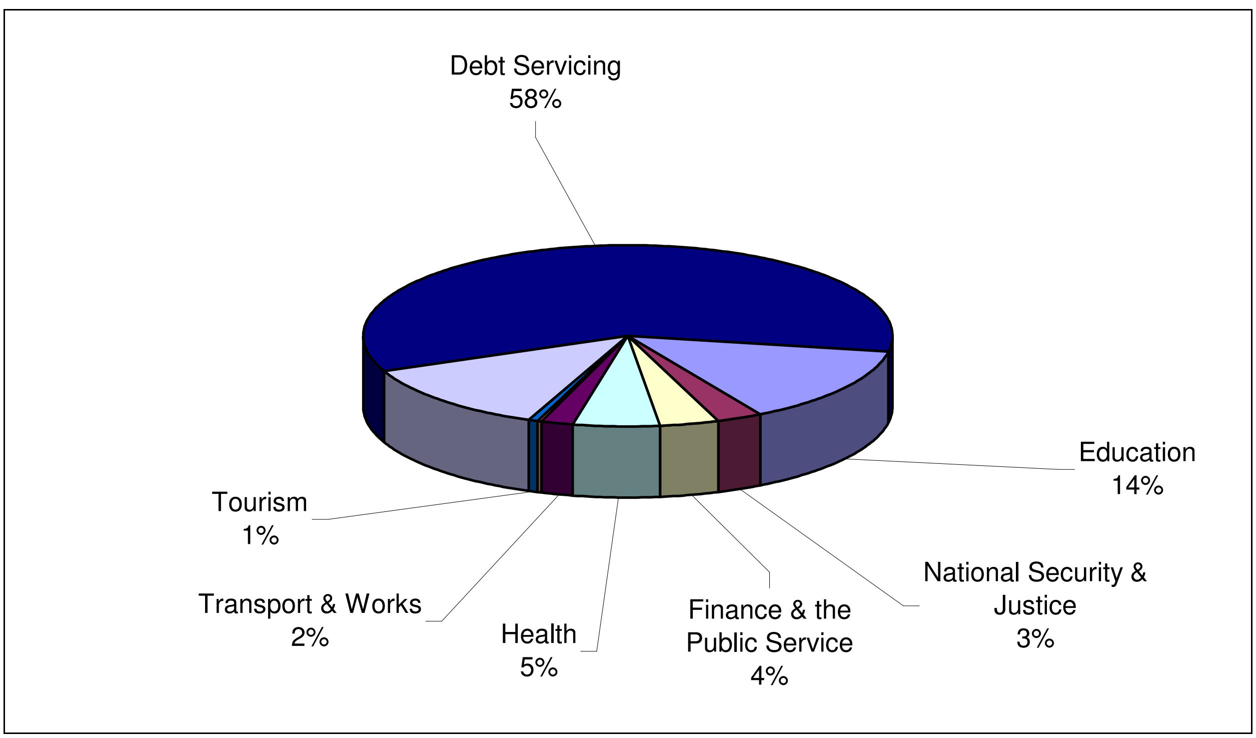
- Amending legislation where necessary;
- A new organization structure including the concept of a head quarters function separate from field operations;
- Ensuring the safeguard of the current exchange of taxpayer/trader specific information with Ministries, Departments and Agencies (MDA's);
- Modernization of business processes to ensure customs meet its current and future needs;
- Improved Management Information System (MIS);
- Improved development of risk management criteria and overall performance management.

2009/2010 Jamaica Budget
Estimates (Gross) by Selected Ministry Groups – Part 1

Total



Recurrent & Capital



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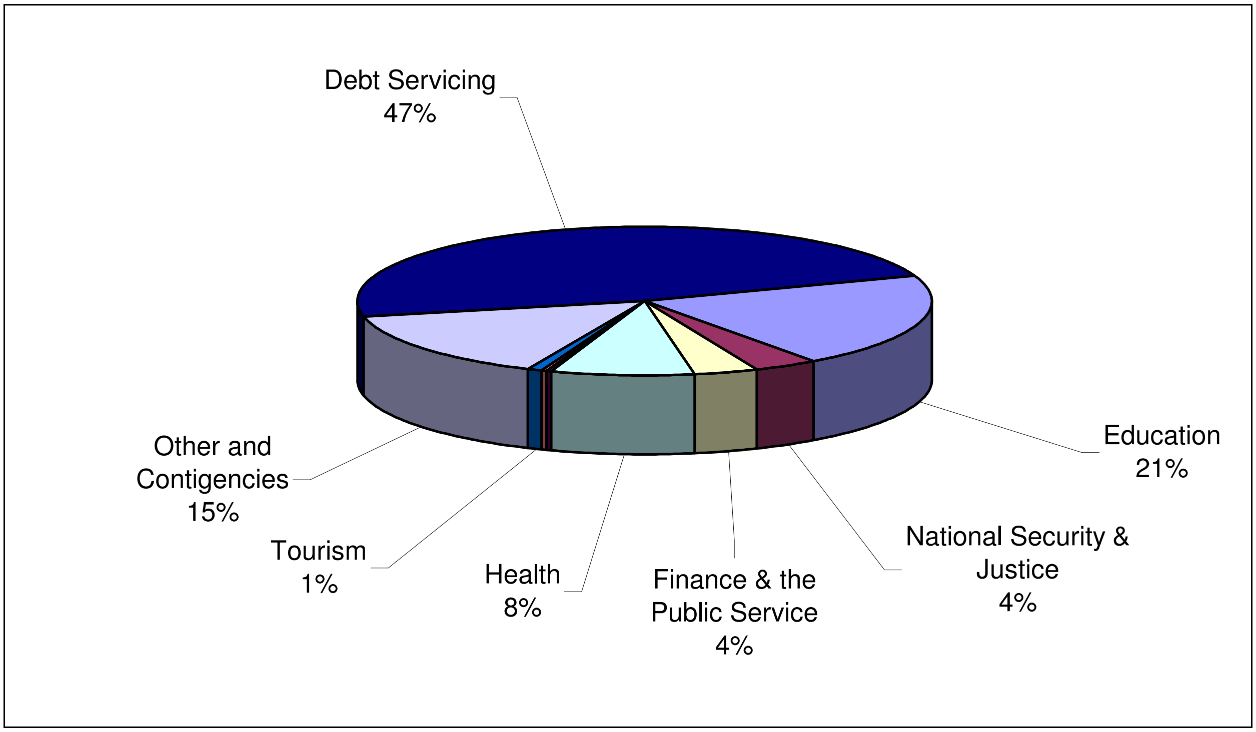
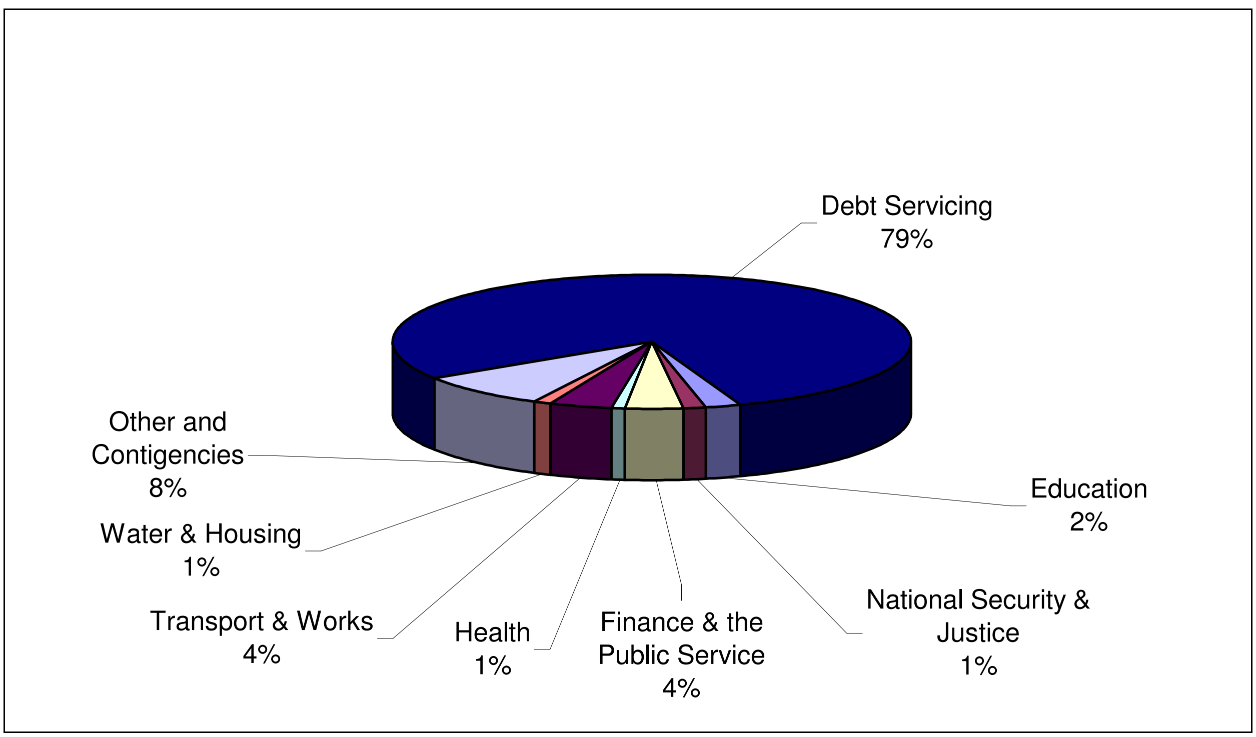
2009/2010 Jamaica Budget
Estimates (Gross) by Selected Ministry Groups – Part 2

Recurrent



Capital



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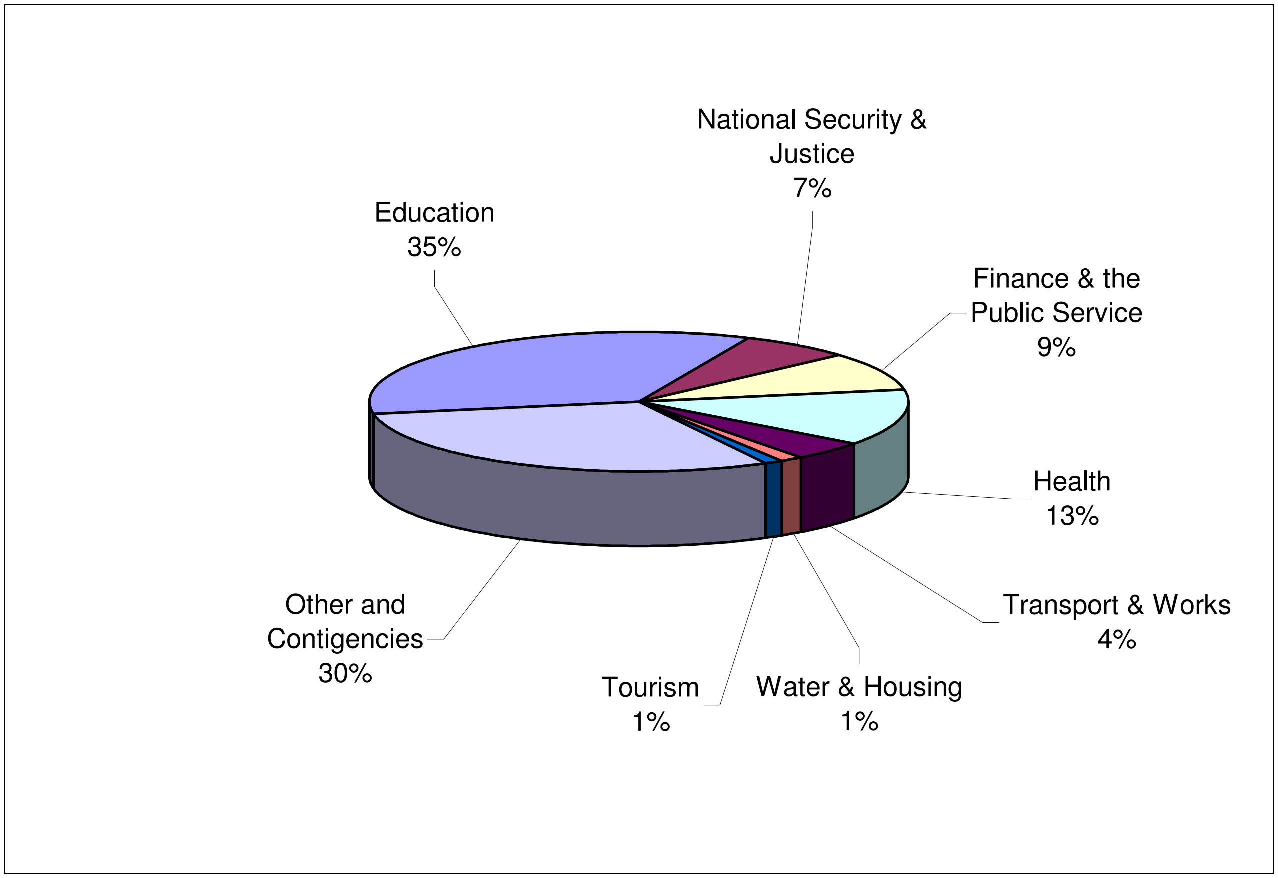
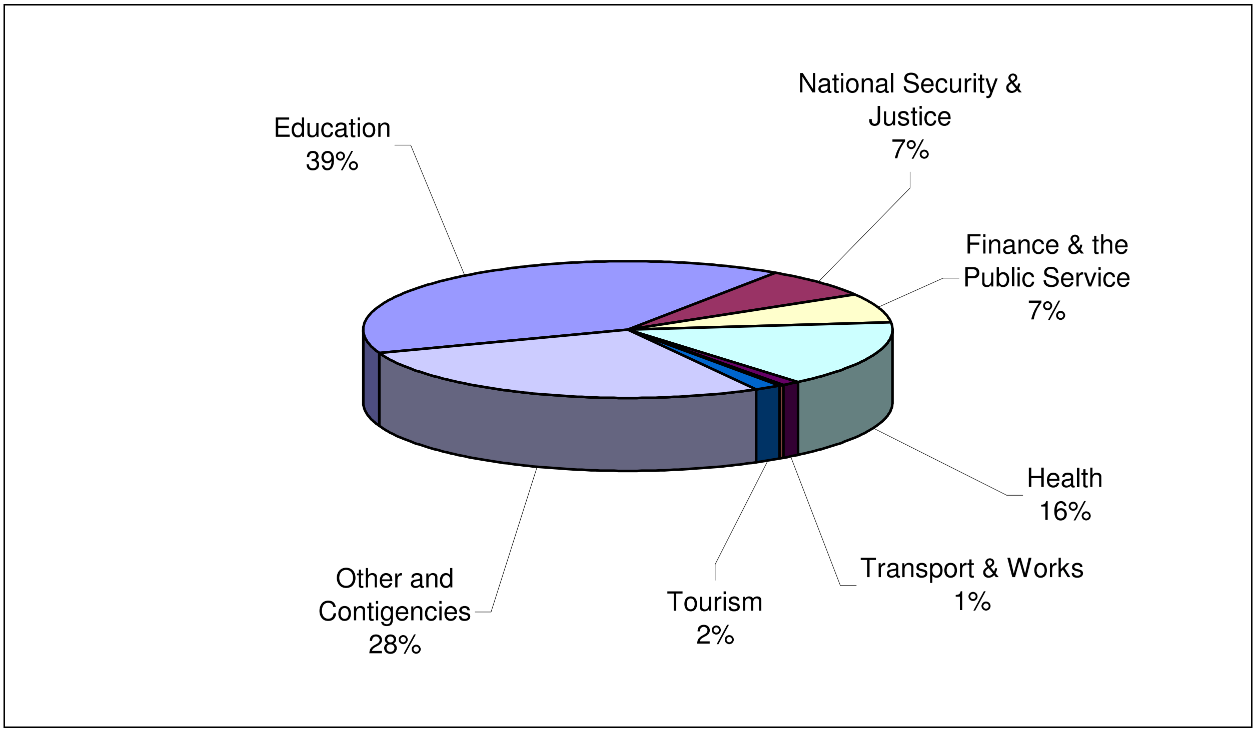
2009/2010 Jamaica Budget
Estimates (Net of Debt) by Selected Ministry Groups – Part 1

Recurrent & Capital

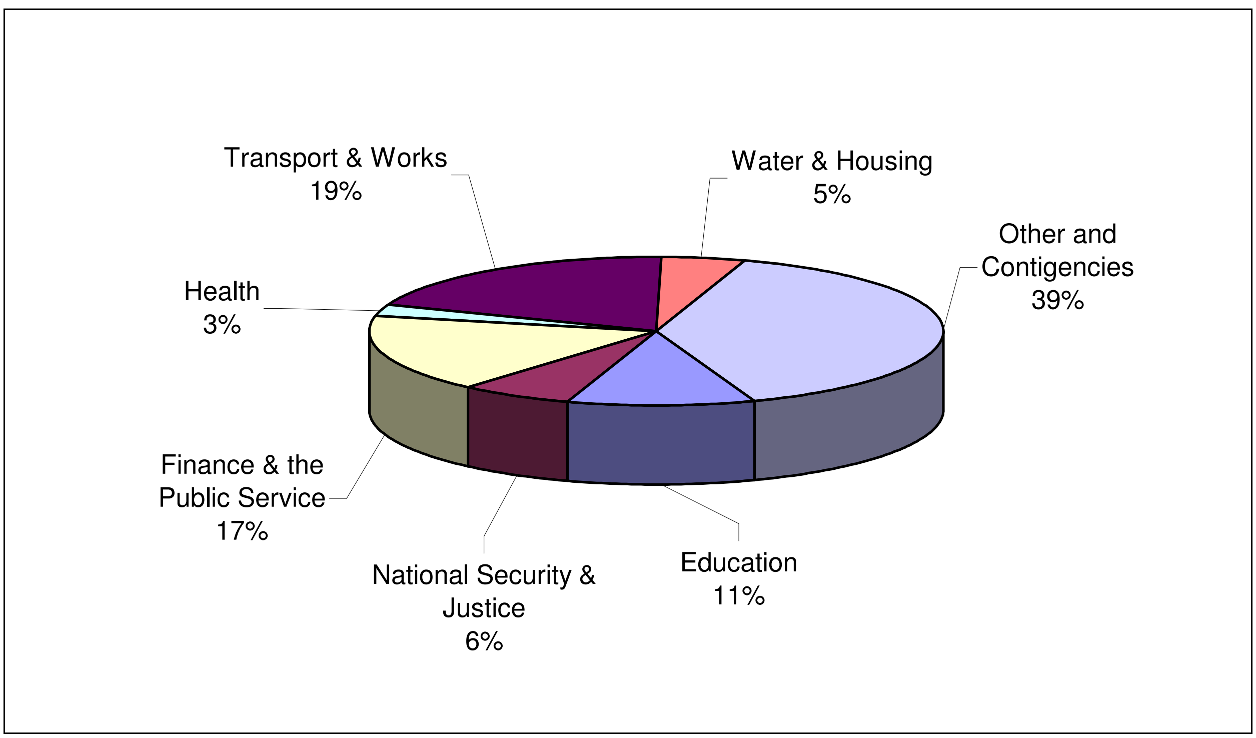


2009/2010 Jamaica Budget
Estimates (Net of Debt) by Selected Ministry Groups – Part 2

Recurrent



Capital



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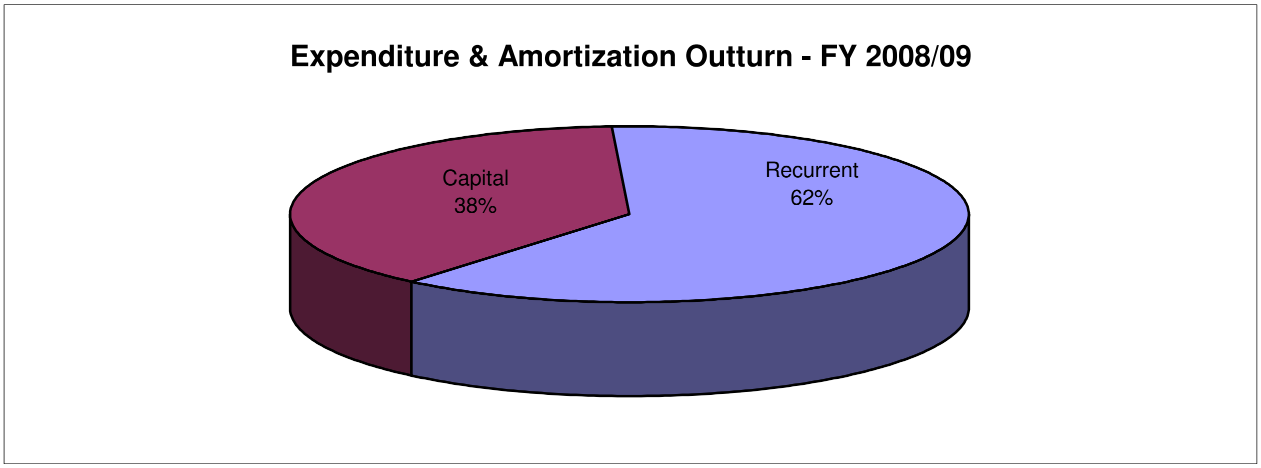
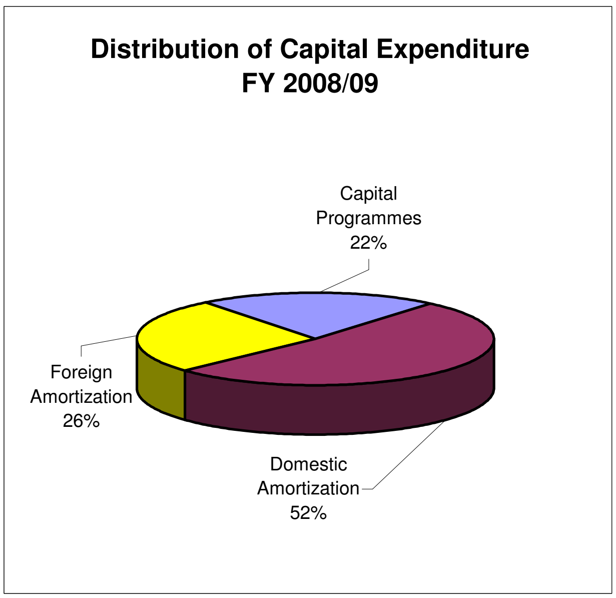
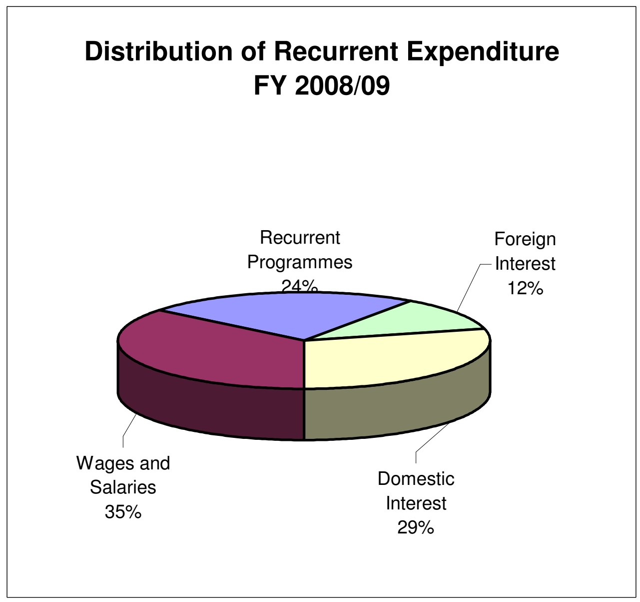
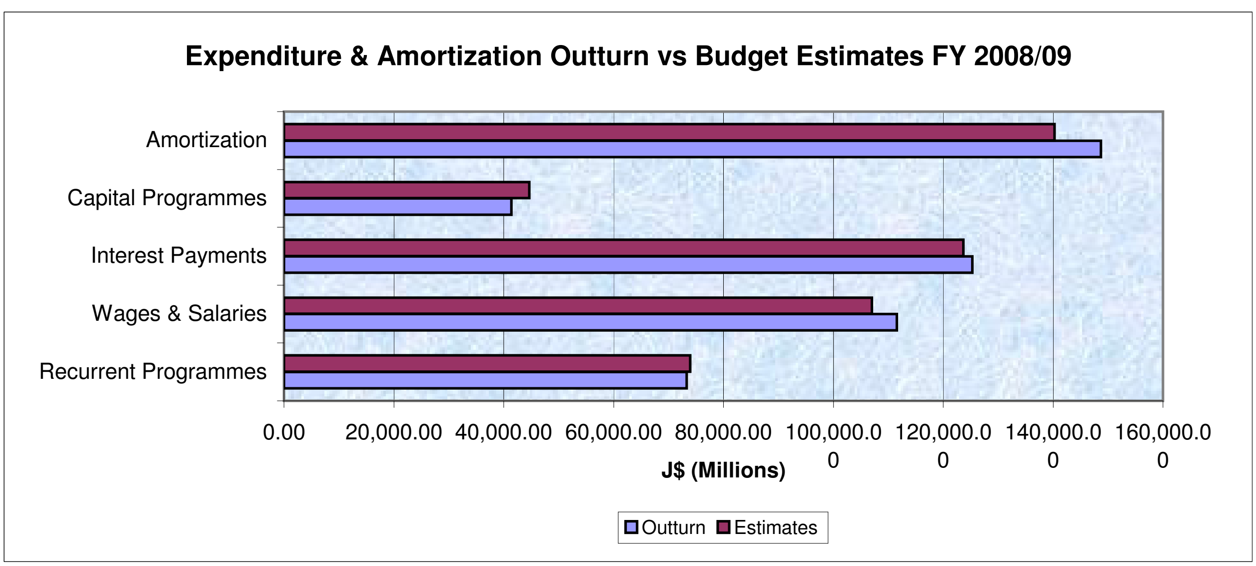
2009/2010 JAMAICA BUDGET
Expenditure & Amortization Outturn - FY 2008/09









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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.

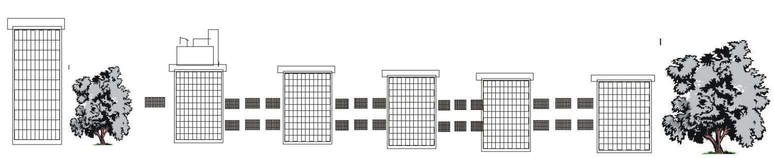
US Dollar Indexed Bonds
Interest and principal are protected from adverse changes in the exchange rate as adjustments are made for movements in Jamaica dollar vis-à-vis the US dollar.

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.



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