Jamaica Memorandum on the Budget 2011/12

28th April 2011

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FOREWORD

April 2011 represents the fifteenth month of the 27-month International Monetary Fund Stand-By Arrangement (SBA) for Jamaica. The FY 2011/12 and medium term fiscal programme has, therefore, been developed within the context of the quantitative targets and structural benchmarks of the SBA.

Significant progress has been made under the SBA to date. Despite various challenges – namely, the State of Emergency (May 2010) and Tropical Storm Nicole (September 2010), among other expenditure pressures, the Government has remained committed ***to achieving the objectives of the programme and has consistently sought to avoid any policy slippage***. The FY 2011/12 Budget, and medium term programme, represents affirmation of that commitment.

In FY 2010/11, for the first time, the Public Bodies' Estimates of Revenue and Expenditure were debated and approved by the Parliament. This was a direct result of the passage of legislation to enhance Fiscal Responsibility in March 2010. The legislation has facilitated greater transparency in the budgeting process as evidenced by the Public Administration and Appropriations Committee (PAAC) of Parliament's scrutiny of the use of public funds and subsequent report to the Standing Finance Committee of Parliament.

A New Path

A Tax Expenditure Statement (TES) and a Fiscal Policy Paper (FPP) are being tabled alongside this Budget Memorandum. Both documents emanate from amendments to the Financial Administration and Audit (FAA) Amendment Act, 2010, under the Fiscal Responsibility Framework (FRF).

The TES outlines revenue the Government has foregone, mainly from income taxes, consumption taxes and trade taxes. The FPP is composed of three sections: a Macroeconomic Framework; a Fiscal Responsibility Statement (FRS); and a Fiscal Management Strategy (FMS). The Auditor General, consistent with Section 48B(6) of the FAA Act, is mandated to report on whether or not the FPP adheres to the principles of prudent fiscal management. These are ***major and significant changes that will transform how the public sector operates and*** concretize the fundamental shifts in the country's financial management framework that were indicated in the last Budget.

A number of noteworthy innovations geared toward improving fiscal discipline are being undertaken during FY 2011/12. These include: implementation of the Medium Term Expenditure Framework (MTEF); utilization of the Project Prioritization Tool; and implementation of the initial phase of the Central Treasury Management System (CTMS) in three pilot ministries (Finance & the Public Service, Education and Transport & Works), reflecting a significant move toward improving cash management and treasury functions and consolidating Government of Jamaica (GOJ) accounts.

The Medium Term Debt Strategy, 2011/12 to 2013/14, is in line with the overall medium term overview that is being taken in the development of the fiscal operations. The strategy utilizes cost-benefit and risk analysis to evaluate debt management options for the GOJ, within the context of prevailing domestic and international conditions. This rigorous analysis to determine the debt management strategy to be pursued will be supported by the restructuring of the Debt Management Unit (DMU) early in the fiscal year into front, middle and back offices, consistent with international best practices.

The confluence of these structural changes coupled with the increased level of transparency and accountability represent the dramatic transformation required to place the country firmly on the path of sustainable growth.

Towards Stability and Growth

Jamaica has achieved some degree of macroeconomic stability; however, the challenge to place the country on a growth path remains. The fundamentals to overcoming this challenge are being put in place – better management of expenditure, for both central government and public bodies; application of a prudent debt management strategy; undertaking a comprehensive tax reform to simplify and infuse greater equity into the tax system; and transformation/ rationalization of the public sector to facilitate efficiency and productivity gains.

Notwithstanding any external shocks - natural, financial or otherwise, it is expected that there will be growth of 1.6% this fiscal year and, on average, 2% over FY 2012/13 and FY 2013/14. Inflation is expected to continue on a downward path - 7% this fiscal year and, on average, 6.5% over the next two fiscal years. The current account deficit is expected to be approximately 8.9% of GDP in FY 11/12; gross international reserves will be maintained at adequate levels. The public sector deficit will be reduced to 5.2 percent of GDP; and primary expenditure as a percent of GDP will also be reduced consistently over the medium-term. By FY 2015/16, the wage bill will be reduced to no more than 9% of GDP.

This Budget Memorandum reflects a continuation of and commitment to the programme started last year to put Jamaica on a sustainable path towards macroeconomic stability and growth. It is expected that as the journey unfolds, the destination will become clearer, inspiring greater confidence in the Government's commitment to stabilization and growth.

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Financial Secretary

MACROECONOMIC OVERVIEW – FY 2010/11

OVERVIEW

There was continued improvement in many of the key macroeconomic indicators during FY 2010/11. Inflation and market-determined interest rates trended downwards, the net international reserves (NIR) increased significantly by 43.6% year on year, reflecting continued strong inflows from Multilateral/Bilateral and international capital market sources.

However, against the background of ongoing challenges on the international economic front including increased commodity prices, the negative impact of Tropical Storm Nicole and the State of Emergency, the Jamaican economy contracted by 1.2% in CY 2010 and preliminary estimates indicate a real decline of 0.7% for FY 2010/11.

MONETARY DEVELOPMENTS

Successive reductions to the Treasury Bill rates during the monthly auctions indicated the endorsement by the market of the lower interest profile of Government of Jamaica debt. Interest rate reductions (325 basis points) occurred within the context of a weak domestic economy and favourable prospects for reduced inflation.

This enabled the central bank to adjust its monetary policy variable (30-day repurchase rate) alongside management of the foreign exchange rate. Significant capital inflows and higher tourism receipts coupled with an international rating upgrade post the Jamaica Debt Exchange positively impacted the domestic financial market.

As inflationary impulses slowed during FY 2010/11, as compared to FY 2009/10, the central bank adjusted its inflation projection for FY 2010/11 towards the lower end of the forecast range of 7.5% - 9.5%.

Manifestation of these positive developments and increased confidence in economic prospects were an appreciation in the J$ viz-a-viz the US$ exchange rate and lower interest rates. The value of the J$ viz-a-viz its US counterpart appreciated by 4.1% in FY 2010/11 to J$86.02=US$1.00, while the average interest rate on 6-month Treasury Bills fell from 10.49% in March 2010 to 9.26% in March 2011. The NIR position, bolstered by increased net private capital inflows, was at a higher than programmed level of US$2,515.7mn by end-March 2011.

Inflation

The combined effects of relative exchange rate stability, continued depressed economic conditions, and the resultant fall-off in consumer demand, somewhat militated against the potential impact of inflationary pressures in FY 2010/11.

Inflation was contained at 7.8% in FY 2010/11, relative to a 13.3% outturn recorded in FY 2009/10. Conversely, inflation for CY 2010 was higher at 11.7% than the 10.2% inflation rate in

CY 2009. Weather-related disruptions to domestic agricultural crop output, coupled with increases in international oil and grain prices, caused an inflation upturn in the December 2010 quarter. However, increased supplies of agricultural produce were instrumental in the 1.1% and 1.8% declines in the highest weighted “Food and Non-Alcoholic Beverages” group in January and February, respectively.

Inflation accelerated by 4.1% in the March 2010 quarter as a result of the pass-through effects of tax measures implemented in January, higher bus fares (rural areas in February and the Kingston Metropolitan Area [KMA] in April) and increased energy and food costs. However, the pace of inflation slowed to 1.3% in the September 2010 quarter.

The main contributors to inflation in FY 2010/11 were: ‘Food & Non-Alcoholic Beverages’ (7.4%); ‘Alcoholic Beverages & Tobacco’ (6.0%); Housing, Water, Electricity, Gas and Other Fuels’ (10.5%); and ‘Transport’ (12.8%). Following negative inflation rates of 0.2% and 0.4% in January and February 2011, respectively, there was a 1.1% surge in prices consequent on the increased cost of oil on the international market, which drove utility rates 4.1% higher in March.

The combined effects of continuing geo-political disturbances in the Middle East, internal conflict in North Africa, weather-related disruptions and the pickup in activities in our major trading partner economies pushed imported oil and food prices upward in the domestic market. Consequently, average inflation in the economies of Jamaica’s main trading partners (US, UK and Canada) for the 12-month period to March 2011 was estimated at 2.6% compared with a 2.3% inflation outturn in the corresponding period to March 2010. However, consumer prices in the Euro zone economies slowed to 0.8%, on average, for the 12-month period to March 2011 compared to a similar 0.9% increase for the corresponding period to March 2010.

EXTERAL SECTOR DEVELOPMENTS

Balance of Payments

The current account deficit for April-December 2010 stood at US$947.1mn, a deterioration of US$35.3mn when compared with the deficit for the nine-month period in 2009. This current account position resulted mainly from the performance in the goods sub-account.

In the goods account, there was a deficit of US$2,565.4mn, which represented a deterioration of US$218.9mn relative to the previous year. This resulted from an increase of US$182.4mn in imports as well as a US$36.5mn decline in export earnings. Higher spending on imports was mainly due to US$98.8mn and US$48.1mn on mineral fuel and food importation, respectively, while the export earnings decline resulted primarily from a US$138.6mn reduction in the exportation of chemicals.

There was a US$17.9mn increase in the surplus on the services account, largely due to higher levels of tourist expenditure. The decline in net income outflows emanated primarily from reduced profits remitted by foreign direct investment companies and interest payments on official external debt. Current transfers increased by US$105.5mn to US$1,536.4mn as a result of an increase in net private and official transfers.

Official and private inflows were more than sufficient to finance the current account deficit thus resulting in a US$419.5mn increase in the NIR during the April-December 2010 period.
External Trade

The trade deficit for the April-December 2010 period stood at US$3,081.3mn, a US$236.3mn deterioration relative to its position in the corresponding period of 2009. This position was largely due to higher import spending and reduced export earnings. Import spending increased by US$204.4mn (5.3%), largely as a result of higher spending on food and mineral fuel imports, while there was a US$31.9mn (3.1%) fall-out in earnings, influenced mainly by a reduction in the export of chemicals.

Total export earnings for April-December 2010 amounted to US$1,006.3mn, as all export groupings, recorded reduced earnings, with the sole exception of major traditional exports. Major traditional export earnings increased by US$87.7mn (25.2%) to US$436.0mn, largely as a result of higher earnings from alumina and bauxite exports. Other traditional exports fell by US$12.0mn (17.0%), while non-traditional export earnings declined by US$115.6mn (26.5%). Total spending on imports amounted to US$4,087.6mn for April-December 2010, representing a US$204.4mn (5.3%) increase relative to the corresponding period of 2009.

Tourism

International tourism demand held up well in 2010, despite persistent economic uncertainty in some major markets, the natural disasters suffered in some countries, and political & social unrest in others. The serious disruption of air travel, following a volcanic eruption in Iceland last April, problematic weather conditions in parts of Europe and the US in December, also created temporary setbacks. Jamaica's tourism occupancy levels benefited from harsh winter weather conditions in North America, Mexican drug wars, enhanced advertising/promotional spending and our strong international branding.

Provisional data from the Jamaica Tourist Board (JTB) indicate that for the first eight months of FY 2010/11, total visitor arrivals increased by 2.2% to 1,719,984 persons, relative to the corresponding eight-month period in FY 2009/10. This resulted from a 3.1% and 0.1% increase in stopover and cruise passenger arrivals, respectively. Marginally higher stopover arrivals were behind the 0.3% increase in estimated gross visitor expenditure to US$1,134.4mn for April-November 2010, relative to the amount expended for the comparable period in 2009.

For the first eleven months of CY 2010, total visitor arrivals amounted to 2,518,215 persons, reflecting a 1.2% increase when compared with arrivals for the corresponding period in CY 2009. This performance was underpinned by a 4.3% increase in stopover arrivals, which was somewhat negated by a 5.0% decline in cruise passenger arrivals. Higher stopover visitor arrivals evidenced in the first eleven months of CY 2010, resulted in a 3.0% gain in gross estimated expenditure to US$1,698.6mn relative to spending in CY 2009.

INTERNATIONAL MARKET DEVELOPMENTS

World Output

World output grew by 5.0% in 2010 following the 0.5% contraction in 2009, with a growth of 5.25% for the first half of the year and 3.75% for the second half of 2010. Real GDP grew by a modest 3% among advanced economies, in comparison to the robust 7% growth recorded for emerging and developing economies. Among advanced economies, the fastest growth rates were recorded for the United States, Germany, Japan, Canada and Newly Industrialized Asian Economies. While for emerging and developing countries, the largest growths were recorded for Developing Asia (China, India), Argentina and Brazil.

Growth in advanced economies in late 2009 to early 2010 was stimulated as business confidence improved, resulting in increased inventory rebuilding, production and trade. This was supported by improvements in consumer confidence, accommodative macroeconomic policies and improving financial conditions, which led to job creation. Despite the pick-up in job creation, the unemployment rate still remains high in advanced economies, thus reflecting the continuing impact of the recession. However, Germany is an exception, with unemployment rates falling to its lowest level in almost two decades.

In contrast to advanced economies, unemployment rates in emerging and developing economies remain low. However, unemployment rates remain high among young people and are of concern in these regions.

Overall, Asian economies, both advanced and developing, experienced the fastest growth rates with Japan's growth rate of 3.9% in 2010 being the fastest. This strong performance in Asian economies was supported by strong export performance, buoyant private domestic demand and rapid credit growth in some cases. With the exception of Japan, signs of overheating are starting to materialize in a number of these economies.

The International Monetary Fund (IMF) World Economic Outlook (WEO) for April 2011 is projecting a 4.4% global economic growth for 2011, with a 2.4% growth expected for advanced economies and 6.5% growth for emerging and developing economies.

Inflation

There was a general increase in global inflation rates in 2010 in advanced economies as inflation rates increased to 1.6% from the 0.1% recorded for 2009. In emerging and developing economies, inflation rates increased to 6.2% in 2010, from 5.2% in 2009, reflecting an increase in inflationary pressures from higher commodity prices.

Commodity Prices

Primary commodity prices, both oil and non-oil rose considerably in 2010 by 26.1%, following the 29.9% decline in 2009. This is in response to increased commodity demand resulting from rapid growth in emerging and developing economies and slow supply-side responses to this increased demand.

Non-oil commodities increased by 11.8% in 2010 from the 13.1% decline in 2009, reflecting the effects of weather-related supply shocks during the second half of 2010 as well as increases in consumer demand for food. In addition, trade and bio-fuel policies have contributed to food price increases. Overall, non-fuel commodity prices are expected to increase by 25.1% during 2011.

In 2010, crude oil prices increased significantly by 25.9%, from the 36.8% decline in 2009. Increased demand for commodities in the second half of 2010 drove up oil prices to $95/barrel in late January 2011 from the $83/barrel in April 2010. The Organization of Petroleum Exporting Countries' sluggish output response exacerbated price increases. In addition, unrest in the Middle East and North Africa since late January 2011 resulted in oil prices increasing to $110/barrel, partly reflecting increases in inventory for precautionary measures. The IMF WEO April 2011 projections show a 35.6% increase in oil prices for 2011, before settling at $108/barrel.

Jamaica remains a price taker for a variety of internationally traded primary commodities such as alumina, coffee, cocoa and sugar that 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 gas at the pumps. There is a need to sustain relative stability in the foreign exchange market as any adverse J$ foreign exchange rate movements could exacerbate the situation.

Export Prices

Cocoa & Coffee

Cocoa prices moved to an average of US311.9 cents/kilogram (c/kg) in the April-February FY2010/11 period, representing a 17.4% decline over the US377.72 c/kg average price in the corresponding period of FY 2009/10. Coffee prices (Arabica variety, which comprises 95% of the beans grown in Jamaica) increased by 14.2% relative to the previous eleven-month period of FY 2009/10, moving from an average of US401.98 c/kg to US458.96 c/kg.

Sugar

Sugar prices on world markets soared in 2010 as parts of Brazil, the largest exporter, had rainfall four times more than normal, making the cane too wet for milling. As a result, a coalition of the largest US food manufacturers has warned of a pending shortage and has asked the U.S.

Department of Agriculture to ease quotas on imports. The government agency is staying out of the controversy, however, since market economists say fears of empty supermarket shelves and food industry warehouses are overblown. Growing demand for sugar to be used for ethanol in Brazil, coupled with a 45% year-on-year decline in sugar output from India prompted supply worries.

Import Prices

Grains

Rising grain prices are underpinned by growing demand in both developed and developing nations, along with a number of cataclysmic weather-related events and speculation by investors. An extreme drought and fierce fires last summer destroyed a large percentage of the wheat crop in Russia and Ukraine, while heavy flooding in India and the inundation of around 20% of Pakistan caused significant damage in the grain producing areas that were impacted.
At the same time, unusually hot and dry weather suppressed production in a number of other key farming areas. Australia, one of the world's leading wheat producers, had unprecedented rainfall and flooding that significantly disrupted wheat cultivation, unusually dry conditions in the American Midwest and Argentina has also hinted at future problems in grain and corn output.

Soybean meal prices reflect the strength of the meats and dairy sectors and availability of other feeds. Despite challenges in meat and dairy sectors, soybean meal price remains above the historical average. Global soybean meal trade is increasing, with most of the increase originating in the EU and Far East Asia, including the Philippines, Indonesia and Thailand owing to growing feed demand. The main driver in the protein meal sector is demand for animal feed, and substitutability of other feeds.

Oil

Crude oil prices increased in the current review quarter, on average, by 1.6% relative to prices in the eleven-month period of FY 2009/10, moving from US$81.20/barrel to US$82.54/barrel. The most important factor behind the recent upturn in oil prices is the revival in global economic activity and the recent depreciation of the US$, which has led to higher demand for the product. Despite the presence of the usual price drivers, including speculation by investors, ongoing geo-political tensions in the Middle East and sabotage of oil pipelines in Nigeria have contributed to the increase in oil prices.

REAL SECTOR DEVELOPMENTS

GDP Performance

Growth projections are for a 1.0% increase in GDP for the January-March 2011 quarter as the economy contracted by 0.9% during the October–December 2010 quarter. Economic activity during the December 2010 quarter was constrained by continued weak domestic demand in addition to the effect of Tropical Storm Nicole. Most industries were estimated to have record declines with agriculture and electricity & water supply recording the strongest contractions.

The mining industry registered strong growth in the December 2010 quarter due to increased crude bauxite production coupled with higher alumina output associated with the reopening of WINDALCO's Ewarton alumina plant.

Additionally, road rehabilitation activity, in the aftermath of Tropical Storm Nicole is expected to spur activities in the construction industry. The projected growth during March 2011 quarter will represent the first quarterly increase since the September 2007 quarter. Most industries are expected to register higher value added during this final quarter of the fiscal year with the strongest expansion projected for the mining industry.

According to the Statistical Institute of Jamaica, the economy contracted by 1.2% in CY 2010 as the goods producing and services industries recorded declines of 1.7% and 1.6%, respectively. Most sectors registered declines, with only agriculture and hotels & restaurants performing creditably.

Mining

Despite benefiting from the global economic recovery, which spurred demand for alumina and bauxite, the mining industry suffered a 3.4% downturn in fortunes in CY 2010. This outturn reflected the deleterious effects of the initial fall-out in global demand for primary products that prompted the closure of the local alumina producing entities.

Agriculture

Agriculture grew marginally by 0.8% in CY 2010 as a result of recovery from the combined effects of Tropical Storm Nicole and drought conditions.

The overall positive performance of the industry is attributable to continued support by the Government through its Production and Productivity Support Program (PPSP) geared at increasing competitiveness and productivity of the industry. Drought mitigation measures were also employed by the Government to assist farmers.

Traditional Export Agriculture and Other Agricultural Crops grew by 3.8% and 0.2%, respectively. Growth in Traditional Export Agriculture was largely due to increased output of bananas and plantains. Heightened banana demand from local processors factored in the increased output, while conversely output of sugar cane, coffee and cocoa declined.

Strong output of root crops contributed to the improvement within the Other Agricultural Crops group, while animal farming was primarily affected by the reduction in eggs and broiler output.

Manufacturing

Real value added in the manufacturing industry fell by 2.6% following declines in the food, beverages & tobacco and other manufacturing sub-industries of 1.6% and 4.0%, respectively.

The performance of food, beverages and tobacco was mainly influenced by the decline in output of sugar and molasses. These were affected by mechanical problems, adverse weather conditions and uncertainty surrounding the future of the publicly owned entities and their divestment.

The decline in other manufacturing resulted from lower output of chemical and non-metallic minerals. Additionally, the downturn in construction activities continued to stymie this industry.

Construction
The construction industry underwent a 2.2% decline in 2010, as the contraction in the local economy affected building construction activities. Government's 'belt-tightening' efforts also impacted the industry's performance. However, activities such as the construction of the Falmouth pier and the widening of the Washington Boulevard continued in 2010. Additionally, during the fourth quarter, increased Government spending was allocated to rehabilitate roads affected by Tropical Storm Nicole's destructive passage.

Services
Declines in transport (2.3%) and wholesale & retail trade: repair and installation of machinery (2.0%) were the main contributors to the decline in the performance of the services industry. Hotels and restaurants grew by 3.4%, the only improvement in the services industry.
The upbeat performance of the hotels and restaurants industry was largely due to increased accommodation for stopover and other short stay arrivals. However, there was continued discounting to attract visitors and this had negative implications for the industry's revenues.

The transport, storage and communication industry fell by 2.3%, primarily influenced by declines in air, land and post and telecommunications. Reduced routes operated by the national airline negatively impacted air transport, land transport declined as a result of the contracted economy, and sea borne cargo fell following volume declines at the ports.

OUTLOOK

Oil fell from a 30-month high after the IMF cut its growth forecasts for the U.S. and Japan. The IMF reduced its forecast for U.S. growth in 2011 from 3.0% to 2.8%, citing oil prices at the highest levels since 2008 and the pace of job creation in the world's biggest economy. Global gross domestic product will grow 4.4% in 2011, matching the previous estimate, according to IMF's World Economic Outlook report.

Consumer spending, the biggest part of the US economy, faces headwinds from the rising cost of food and gasoline. "Recovery in the labor market remains lackluster," the IMF said in the WEO report. "The drag on 2011 growth from oil price increases largely offsets the boost from the Federal Reserve's unconventional policies and from stronger net exports."

The forecast highlighted the risk of surging oil prices to the global economy, but the IMF also acknowledges the difficulty in forecasting a market that has been feeling the effects of political unrest in the Arab world. Also of concern are the series of natural disasters – particularly the ongoing impact on the Japanese economy of its recent tsunami, earthquake and nuclear threats.

According to the UN Food & Agriculture Organization (FAO), its world food prices index rose by 32% between June and December 2010, raising fears that poorer food-importing countries could be hit by a crisis similar to that of 2007 and 2008. During that period, high oil prices, growing food demand and tight supply precipitated by poor harvests in some regions, escalated prices to levels that forced countries with limited hard-currency reserves to curtail food imports. According to the International Energy Agency “preliminary January and February data suggest that persistently high oil prices may have already started to dent demand growth.”

Jamaican consumers are expected to feel the impact of rising food prices as the soaring cost of grains will impact the cost of feeds used in the production of dairy, poultry, meats and eggs. Corn soy and commodity prices reached the highest level over the past 30 months as the USDA cited the reduction in crop harvests as one of the main contributing factors. Dry weather in Argentina, as well as flooding in Australia and Brazil, all of which grow grains such as corn, wheat and soybeans for the world market, made the situation worse.

Additionally, oil prices having moved above US$100/barrel, will impact transportation costs. These significantly higher prices will filter through to increased domestic prices for various food products, as well as feed for livestock, including dairy cattle, pigs/hogs and chickens.

CHAPTER 1

CENTRAL GOVERNMENT BUDGET PERFORMANCE
FISCAL YEAR 2010/11

OVERVIEW

The FY 2010/11 Budget was formulated against the background of a very challenging FY 2009/10 and within the context of the Government's Medium Term Economic Programme (MTEP) as embedded in the IMF SBA. The fiscal programme for FY 2010/11 was geared towards, *inter alia*, achieving a primary surplus of $61,295.1mn, equivalent to 4.9% of GDP, down from the 6.1% attained in FY 2009/10, as a precursor towards a sustained reduction in the debt/GDP ratio over the medium term.

The Budget for FY 2010/11 amounted to $503,970.4mn, with an 'above the line' expenditure of $407,136.4mn and amortization payments of $96,834.3mn. The 'above the line' expenditure represented a decrease of 3.4% below the FY 2009/10 level, and comprised $343,929.9mn for recurrent expenditure and $63,206.4mn for spending on capital programmes. The provision for the recurrent Budget represented a nominal decrease of 11.1% or about 19% in real terms, when compared to the outturn for FY 2009/10. Budgeted capital expenditure in FY 2010/11 represented an 83.6% increase over actual capital expenditure for the previous fiscal year and included payments associated with the divestment of Air Jamaica and the purchase of JUTC buses.

The fiscal deficit was programmed at $80,854.3mn (6.5% GDP). Debt servicing was significantly reduced for FY 2010/11, compared to the previous fiscal year, and constituted 47.4 percent of the FY 2010/11 Budget. This was largely attributable to the JDX, which was executed during the first two months of CY 2010.

During the course of the fiscal year, some adverse developments necessitated adjustments to some of the fiscal targets under the SBA. The factors that negatively impacted the fiscal targets included: (i) the West Kingston incursion; (ii) the appreciation of the Jamaica dollar; and (iii) the faster than expected fall in domestic interest rates (in the aftermath of JDX) – which reduced revenue flows from withholding tax on interest. The Central Government's primary surplus target for FY 2010/11 was thus adjusted downwards to $60,689.3mn, to take account of these unforeseen adverse developments.

Against the backdrop of continued weak economic and fiscal outturns, the GOJ and the IMF agreed to further revise the primary balance target to $57,641.8mn to compensate for unforeseen factors that had impacted both revenue and expenditure. Provisional data indicates that, for FY 2010/11, the Central Government primary surplus amounted to $54,145.2mn, which was $3,496.6mn below the revised SBA target.

For FY 2010/11, Central Government operations generated a fiscal deficit of $74,209.5mn, or 6.1% of GDP. This represents a considerable improvement over the 10.9% deficit recorded for

FY 2009/10. The improvement came on the expenditure side, which fell from 38.0% of GDP in FY 2009/10 to 31.8%, while revenue and grants decreased from 27.1% to 25.7% of GDP.

NOTABLE FISCAL DEVELOPMENTS

Revision to SBA Primary Balance Target

Following the March 2010 SBA review, the Central Government primary balance target was revised to take account of, *inter alia*, the fiscal impact of the West Kingston incursion and improved macroeconomic indicators such as the appreciation of the Jamaica dollar. Consequently, the primary balance surplus target was revised downwards to $60,689.3mn. In the aftermath of the revision to the fiscal targets, fiscal operations were adversely affected by the passage of Tropical Storm Nicole in September 2010, which was estimated to cost Central Government $2,458.0mn. As a result, there was a further adjustment in the Central Government primary balance target for FY 2010/11 to $57,641.8mn.

Revenue Enhancement Measures

In an effort to close gaps in fiscal operations which emerged as a result of increased expenditure demands and fall-out in revenue collection during the second half of the year, the GOJ introduced a revenue enhancement package in December 2010. The tax package, which was announced during the First Supplementary Estimates in November 2010, was estimated to yield $772.0mn. These amounts were to be raised from increasing the Special Consumption Tax (SCT) on alcoholic beverages ($618.0mn), increasing the additional stamp duty (ASD) on certain alcoholic beverages ($54.0mn) and reformation of the tax Structure on tobacco products ($100.0mn).

Public Sector Monitoring Committee

On September 21, 2010, Cabinet approved the establishment of a new Public Sector

Monitoring Committee to replace the old MOU Monitoring Committee whose tenure expired on March 31, 2010. The Committee was mandated to proceed with the urgent business of discussing and resolving issues of concern to both public sector workers and the Government. The Committee is comprised of sixteen Government and eleven Public Sector Union representatives. The Committee meets on a monthly basis and there has been ongoing dialogue between the parties to settle issues relating to conditions of service.

Tax Waivers

The Government of Jamaica (GOJ) reviewed the Tax Waiver/Incentive regime to, among other things, formulate a new Tax Waiver/Incentive Policy and Strategy that is reflective of the developmental goals of the country. The new Tax Waiver/Incentive Policy and Strategy was expected to be formulated by end-December 2010. However, this was superseded by the GOJ focusing on undertaking a comprehensive tax reform programme. An interim waiver policy and strategy was thus put into effect on November 15, 2010, and it was envisioned that the long term waiver policy and strategy would be ready for implementation at the start of the new fiscal year. The interim policy continues, as the long term waiver policy and strategy will be subsumed into the comprehensive tax reform programme.

BUDGET OUTTURN

Central Government operations generated a fiscal deficit of $74,209.5mn, or 6.1% of GDP, which was below the original budgeted deficit of $80,854.2mn or 6.5% of GDP. The achievement of the fiscal deficit target resulted from a reduction in expenditure to compensate for the lower than budgeted revenue and grants receipts.

Notably, the primary surplus of $54,145.2mn fell below the revised SBA target of $57,641.8mn by $3,496.6mn or 6.1%. The outturn was, however, lower than originally budgeted by $7,149.9mn or 11.7%. The primary surplus is equivalent to 4.4% of GDP, compared to the 6.1% of GDP registered in the previous fiscal year.

Revenue and Grants

The FY 2010/11 Budget profile programmed revenue growth of 8.7% over the previous fiscal year. The growth in revenue was predicated on: (1) the elasticity of the tax system; (2) continuation of an aggressive revenue enhancement programme by the Tax Authorities; and (3) the full year impact of the December 2009 tax measures, which was expected to yield revenue equivalent to 1.7% of GDP in FY 2010/11.

Revenue performance in FY 2010/11 was impaired by the decline in the domestic economy, occasioned by the sluggish global financial and economic recovery (including events in Europe that threatened economic improvement in the economies of developed countries), coupled with rising oil and other commodities prices. Growth in nominal income was below projections, as the lower than anticipated domestic activity impacted the collections of Income and Profit and Production and Consumption taxes. Of note, the appreciation in the exchange rate negatively impacted International Trade Taxes, while faster than programmed reductions in domestic interest rates led to lower revenue intake on Tax on Interest. The outturn relative to the Budget was also impacted by the lower than anticipated Grants flows.

Revenue collections underperformed relative to the target with total revenue and grants of $314,558.5mn falling below Budget by $11,723.6mn, or 3.6%. All categories of receipts, with the exception of Non-tax revenue (2.3%) and Capital revenue (35.2%), performed below target. Despite the shortfall, revenue and grants increased by 5.0% over receipts in FY 2009/10, a real decline of about 3%.

Tax Revenue

Tax revenue totalled $279,874.2mn, which was $7,337.2mn or 2.6% below the amount budgeted. The shortfall was influenced by lower collections from most categories of tax revenues. The items chiefly responsible for the shortfall in tax revenue collections in absolute terms were: PAYE, Customs duty, Tax on Interest, and SCT (local and Imports). When compared to FY 2009/10, there was a nominal increase in tax revenue of 5.3%, representing a decline of 2.5% in real terms. Most items registered nominal increases over last year, with the notable exceptions being Tax on Interest and PAYE.

Income & Profit Tax
Income and Profit tax continues to be the largest tax category, accounting for 37.6% of total taxes in FY 2010/11. However, this was below the 44.5% collected in FY 2009/10 as well as the average contribution of 42.1% over the last three years.

Receipts from the Income and Profit tax category amounted to $105,118.7mn, which was $9,758.6mn, or 8.5% below target. All items, with the exception of Tax on Dividend, registered shortfalls, with PAYE, Tax on Interest and 'Other' Companies (corporate taxes) being the most significant contributor to the unfavourable performance of this category.

PAYE performed below expectations as receipts of $51,552.6mn deviated from target by $5,576.1mn (9.8%) partly as a result of job losses in the economy during the fiscal year and lower than expected inflows from the progressive tax on incomes exceeding $5.0mn. These two factors, however, only partially explain the shortfall and indications are that there was an increase in the incidence of non-compliance. Accordingly, throughout FY 2011/12 and over the medium term, special emphasis will be placed on PAYE in an effort to reduce evasion and increase compliance.

With respect to Tax on Interest, there was a $3,245.9mn (17.6%) shortfall when compared to Budget, due mainly to higher than anticipated refunds, lower than anticipated interest payments and faster than programmed decline in interest rates within the economy.

Corporate taxes, at $32,480.9mn, were $1,176.5mn (3.5%) lower than Budget. This reduction was due largely to the decline in economic activity. Collections were, however, $2,638.6mn or 8.8% above the outturn for FY 2009/10.

Tax on Dividend of $1,032.8mn exceeded the Budget by $411.8mn or 66.4%. Collections were also 87.7% above last fiscal year. The increase was influenced by a significant dividend payout by a large entity, resulting in withholding tax inflows to the Government of $475.8mn.

Bauxite/alumina taxes were impacted by the strengthening of the Jamaican dollar relative to Budget. The US$ inflows were in line with projections but were negated by the appreciating Jamaica dollar, resulting in lower than planned receipts, as flows of $866.3mn were $115.3mn or 11.7% below Budget. Inflows were, however, $847.1mn more than collections in FY 2009/10.

Overall, Income and Profit tax collections decreased by $13,177.0mn, or 11.1% relative to the previous fiscal year. The under-performance arose primarily from lower Tax on Interest ($12,835.9mn) and receipts from PAYE ($4,417.1mn). In real terms, production and consumption taxes fell by about 19%.

Production and Consumption Taxes
Production and Consumption tax receipts of $78,571.4mn were broadly in line with Budget, falling short by just 1.6%, as the over-performance in some items (Education Tax and Stamp

Duty) was generally offset by shortfalls on the other items. SCT (local) and GCT (local) were largely responsible for the shortfall.

Receipts from SCT performed below expectations relative to Budget. SCT inflows of $8,647.9mn were $965.3mn (10.0%) below target. The outturn was affected primarily by a reduction in the demand for petroleum products, the temporary closure of PetroJam to facilitate plant maintenance which led to lower than anticipated domestic petroleum production, as well as a reduction in the manufacture and consumption of some spirits and liquors. SCT receipts performed below expectation despite the introduction of measures in December 2010 to boost inflows from the consumption of spirits and liquors. However, inflows were $1,969.6mn (29.5%) higher than the outturn in FY 2009/10 due mainly to the full year impact of taxes on petroleum products that were introduced in the fourth quarter of FY2009/10.

Receipts from the GCT amounted to $46,389.9mn and were broadly in line with budget, falling short by only 0.8%.

Notwithstanding the shortfalls within the Production and Consumption tax category, Education tax and Stamp Duty performed well relative to Budget. Collections from the Education tax of $13,096.5mn exceeded target by $697.5mn (5.6%) and were 6.6% more than the amount received in FY 2009/10. The increase against Budget was related to better than anticipated collection of arrears.

Stamp Duty receipts totalled $6,062.4mn, which were $50.2mn, or 0.8% above target but was $103.4mn (1.7%) less than in FY 2009/10. This reduction was mainly due to the full year impact of the measure introduced to reduce stamp duty rates in FY 2009/10, which was influenced by the continued slowdown in property transfers, in part due to the contraction in the construction sector, particularly the private construction sector, as a result of the economic slowdown.

When compared to collections in the previous fiscal year, collections from Production and Consumption taxes were $7,574.8mn (10.7%) higher, with SCT (29.5%) and GCT (11.9%) being the main contributors to the increase. This significant increase emanated from the full year impact of new tax measures introduced in the last quarter of FY 2009/10. In real terms, Production and Consumption taxes increased by approximately 2%.

International Trade Taxes

Receipts from the International Trade category totaled $94,144.0mn, which were $3,940.2mn (4.4%) above budget. All sub-categories of taxes with the exception of Customs duty and SCT (imports) registered increases relative to the original budget. Collections increased over FY 2009/10 by 26.4%, mainly as a result of revenue enhancing measures which were introduced in the fourth quarter of FY 2009/10.

Additionally, collections were buoyed by improved administrative efforts aimed at plugging leakages, including under invoicing.

SCT collections on imports of $29,811.8mn were $1,475.6mn (4.7%) below target. The shortfall in SCT (Imports) mirrors the decrease in SCT (local) and resulted from a significant reduction in the volume of fuel imports. Of note, inflows from the *ad valorem* component of fuel imports were in line with target, as the positive effect of higher than anticipated price for the commodity were negated by a reduction in volume, driven by weak consumer demand.

SCT collections were $6,334.3mn (27.0%) higher than collections for FY 2009/10, due primarily to the full year impact of revenue measures introduced in the fourth quarter of FY 2009/10.

Within the International Trade category, all categories of tax types registered increases in FY 2010/11 when compared to FY 2009/10, with SCT and GCT collections benefiting from the full year impact of increased rates as reflected in the tax measures of FY 2009/10. In real terms, receipts from International trade taxes increased by approximately 19% relative to the previous fiscal year.

Environmental Levy
The Environmental Levy performed below expectations as total collections of $2,040.1mn were $266.5mn (11.6%) below budget. This resulted from the combination of the US-dollar value of core imports being 7.2% lower than anticipated, and was exacerbated by the 7.5% appreciation of the Jamaica dollar vis-à-vis the United States dollar. When compared to the previous fiscal year, collections from the Levy was $42.1mn (2.0%) lower.

Non-tax Revenue

Non-tax revenue performed slightly above expectations with total collections of $20,473.9mn exceeding target by $456mn, or 2.3%; receipts from departmental and miscellaneous revenues were primarily responsible for the over-performance compared to Budget. While the 2% Customs User Fee (CUF) contributed approximately 33.9% to total non-tax revenue collections, flows from the CUF of $6,941.8mn were $816.8mn (10.5%) below target as a result of lower than anticipated importation, which stemmed from the continued weakness in economic activity and the appreciation of the Jamaican dollar relative to target. Relative to FY 2009/10, receipts from non-tax revenue declined by 3.6%.

Bauxite Levy

Bauxite Levy receipts of $421.1mn fell below Budget by $307.8mn (42.2%). The outturn versus Budget was due to the later than expected re-opening of a bauxite/alumina plant and concessions granted to encourage restart of production, as well as the non-receipt of outstanding payments from one of the bauxite companies. Total receipts were below collections in FY 2009/10 by $1,167.8mn, or 73.5%.

Capital Revenue

Capital revenue totalled $3,664.5mn, an increase of $956.3mn relative to budget. This increase stemmed mainly from higher than programmed flows from a public body, namely Financial Institution Services (FIS) as collections from royalties of $308.4mn were $279.0mn (47.5%) lower than budgeted.

The lower intake from royalties was occasioned in part by the strengthening of the Jamaica dollar. Collections in FY 2010/11 decreased by $1,544.3mn compared to the previous fiscal year. Receipts in FY 2009/10 included one-off financial distributions from some public sector entities.

Grants

Grant receipts amounted to $10,124.8mn, a shortfall of $5,490.9mn (35.3%) against budget. This shortfall was due mainly to the delay in programmed proceeds from the European Union (EU), coupled with the appreciation of the Jamaica dollar against the Euro. The delayed disbursement reflected in FY 2010/11 will, however, be rescheduled into the following fiscal year. In addition, the lower than planned GOJ capital spending led to delays in disbursement of planned inflows. The inflows during the review period were $3,812.5mn higher than the previous fiscal year.

Expenditure

Total spending for FY 2010/11 of $388,767.9mn was $18,368.4mn (4.5%) less than originally budgeted with both recurrent expenditure (3.1%) and Capital Expenditure (12.0%) lower than target. Compared to FY 2009/10, total spending during FY 2010/11 decreased by 7.8%, roughly 16% in real terms.

Recurrent Expenditure

Recurrent Expenditure totalled $333,173.8mn, a reduction of $10,756.1mn or 3.1% below the original budget. The main contributor to the reduction was lower than programmed Interest payments. This level of Recurrent Expenditure represented a decrease of 13.9% over FY 2010/11, a real decrease of about 22%.

Recurrent Programmes

Spending on Recurrent Programmes (goods and services) of $76,917.9mn was $2,796.9mn (3.8%) more than the amount budgeted and 6.8% more than the previous fiscal year. The higher spending on recurrent programme in FY 2010/11 stemmed from the costs associated with Tropical Storm Nicole, the civil disturbances during May 2010 and higher then anticipated pension payments. Real spending on Recurrent Programmes was 1.0% lower relative to FY 2009/10.

Wages and Salaries

Expenditure on Wages & Salaries for FY 2010/11 was programmed to increase mainly as a result of retroactive payments (back-pay) to certain groups of public sector workers with outstanding contractual obligations relating to contracts predating the wage freeze, which commenced in April 2009. The aforementioned resulted in Wages and Salaries at $127,901.3mn being relatively in line with Budget, deviating by 0.2%. This outturn reflected the continuation of the wage freeze implemented in FY 2009/10.

Interest Payments

Interest cost of $128,354.7mn was $13,794.7mn (9.7%) below budget, with both external and domestic interest payments being less than budgeted. When compared to the previous fiscal year, interest payments decreased by 32.0% with domestic and external interest payments decreasing by 39.2% and 8.1%, respectively.

Lower domestic interest payments resulted from, *inter alia*, the success of the Jamaica Debt Exchange programme (JDX) which saw extended maturity payments coupled with lower than projected interest rates, the appreciation in the value of the Jamaican dollar and lower than budgeted contingency payments. At the same time, savings from lower external interest payments emanated from the appreciation in the exchange rate, lower than anticipated loan raising expenses and a reduction in international interest rates, mainly on multilateral loans.

Interest costs as a proportion of GDP decreased significantly to 10.5%, relative to 17.0% recorded in FY 2009/10. As a share of total expenditure, interest payments stood at 33.0% in FY 2010/11 compared to 44.8% in FY 2009/10. Interest payments/tax revenue ratio had trended upwards in FY 2009/10, representing 70.1% of tax revenue; however, this figure plummeted in FY 2010/11 to 45.9% of tax revenue, primarily as a result of the success of the JDX programme and the lower than anticipated interest rates which prevailed thereafter.

Interest costs as a proportion of total revenue amounted to 40.1% of total revenue in FY 2010/11 compared to 62.9% in 2009/10, and an average of 49.5% for the last three years. This favourable outturn of declining interest costs to total revenue is expected to continue through the medium term.

Capital Expenditure

Expenditure on Capital Programmes of $55,594.1mn was $7,612.3mn (12.0%) below budget. The lower capital expenditure was mainly as a result of the GOJ's attempt to contain spending in the face of lower than budgeted revenue. Despite the reduction against budget, Capital spending was nevertheless ($21,179.9mn (61.5%) higher than in FY 2009/10. The cost associated with the divestment of Air Jamaica was chiefly responsible for the increase in FY 2010/11 relative to FY 2009/10. When Air Jamaica divestments costs are excluded, capital spending stood at $37,637.3mn, an increase of $3,223.3mn, or 9.4% (about 2% in real terms) relative to the previous fiscal year.

Loan Receipts

The Central Government financed the fiscal deficit of $74,209.5mn through net borrowing of $110,811.4mn (loans of $212,968.9mn less amortization payments of $102,157.5mn) and divestment receipts of $1,482.5mn, resulting in an overall (balance) cash surplus of $38,084.5mn for FY 2010/11. Gross loan receipts totaled $212,968.9mn a 3.8% increase over the amount originally budgeted and comprised domestic receipts of $122,478.7mn and loans from external sources of $90,490.2mn. The additional loan inflows include US$400.0mn raised on the international capital market to pre-finance payment obligations due in FY 2011/12.

Amortization

Amortization payments of $102,157.5mn exceeded budget by $5,323.2mn (5.5%), with domestic payments being responsible for the higher than budgeted outturn. Domestic payments of $79,393.5mn were $9,692.1mn (13.9%) above programme, due primarily to the greater than anticipated preference by investors for short-term securities following the JDX. In addition, there was an unprogrammed payment to the Bank of Jamaica (BOJ) to cover capitalized interest on FINSAC bonds issued by the GOJ to the BOJ. External payments of $22,452.8mn were below budget by $4,680.1mn (17.2%) as a result of the appreciation of the foreign exchange rate, and the positive impact of cross-country movements of major currencies which was advantageous to the debt stock. Overall, amortization payments were $71,609.8mn (42.2%) lower than in the previous fiscal year.

CHAPTER 2

CENTRAL GOVERNMENT BUDGET FISCAL YEAR 2011/12

OVERVIEW

The Central Government's FY 2011/12 Budget was formulated within the medium term framework that seeks to first reduce, then eliminate, the fiscal deficit by March 2016, as prescribed by the Fiscal Responsibility Framework and reflected in the Financial Administration and Audit (FAA Act). This medium term objective supports the Government's efforts to reduce the public debt to a sustainable level, and thereby contribute to achievement of the overarching goal of sustainable economic growth**.**

For FY 2011/12, Central Government expenditure was determined within the context of a revised primary surplus target of 5.2% of GDP, under the IMF SBA.

Expenditure for FY 2011/12 is budgeted at $544,721.3m. This is comprised of above-the-line expenditure of $412,461.9mn and amortization payments of $132,259.4mn. Consistent with allocations in previous years, debt-servicing, at $263,343.3m, accounts for the largest portion of the budget, 48.34%, followed by education services $71,956.8mn (13.2%), national security services $39,823.4mn (7.3%) and health services $34,960.5mn (6.4%). Salient features of the 2011/12 budget are presented below.

Debt Servicing

Total debt servicing for FY 2011/12 is projected at $263,343.3mn, or 48.3% of the budget. This compares to $231,219.1mn, or 46.5%, for FY 2010/11. The breakout of the debt service is as follows:

	2010/11 $m	**2011/12 $m**	**Variance $m**
Interest Payments	**132,909.9**	**131,083.9**	**(1,826.0)**
Amortization	**98,309.2**	**132,259.4**	**33,950.2**
Total	**231,219.1**	**263,343.3**	**32,124.2**
% of Budget	**46.5%**	**48.3%**	**1.8%**

Projected debt service for FY 2011/12 shows an increase of $32,124.2m, or 1.8%, when compared with the FY 2010/11 outturn. This increase is due mainly to the maturity of the US$400mn 11.75% Bond due in May 2011.

RECURRENT BUDGET

The overall recurrent expenditure is projected to increase by $13,126.8mn or 4%, from $338,799.6mn in FY 2010/11, to $352,046.5mn in FY 2011/12. Public debt (interest payments) is expected to decline by $1,826.0mn or 1.0%, from $132,909.9mn in FY 2010/11, to $131,083.9mn in FY 2011/12. Non-debt recurrent expenditure is budgeted to increase by $15,072.8mn or 7%, from $205,889.8mn in FY 2010/11, to $220,962.6mn in FY 2011/12.

A provision of $6,790.5mn has been made under the category of contingencies to be specifically utilized for: part payment of salary arrears for various public sector groups; recruitment of health personnel; price adjustments for electricity; and liquidating outstanding arrears for drugs and medical supplies, as well as other expenditure arrears.

Non-Debt (Wages & Salaries/ Programmes)

The main contributors to the increase in allocations for non-debt recurrent expenditure are:

- Provision of $4,600.0mn for part payment of outstanding salary settlements;
- $5,197.5mn increase in pension benefits arising from the number of persons retiring and the higher salary base of these persons as well as the provision of $1,000.00m to minimize the effects of the increased cost of living on pensioners;

CAPITAL BUDGET

The capital budget is projected to increase from $158,811.2mn in FY 2010/11 to $192,674.8mn in FY 2011/12. The FY 2011/12 capital budget is comprised of $132,259.4mn for amortization (a 34.5% increase over the $98,309.2m of FY 2010/11) and $60,415.4mn for capital programmes (a 43.8% increase on the $42,001.9mn in FY 2010/11 that excludes the provision for Air Jamaica divestment costs).

Some of the major projects being funded within the capital programme are listed below.

Constituency Development Fund
An allocation of $1,343.1mn 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.

Purchase of Buses
An allocation of $2,195.1mn has been made to reflect full utilization of the loan inflow that facilitated the purchase of buses for the JUTC in FY 2010/11.

Contingencies
This contingency provision of $1,500.0mn is specifically allocated to deal with national emergencies arising from natural disasters.

Capital B (Multilateral/ Bilateral Projects)

Jamaica Social Investment Fund (JSIF)
A provision of $2,807.3mn has been made to JSIF to undertake expenditure under the following programmes/activities:

- Inner City Basic Services;
- Basic Needs Trust Fund 5 & 6;
- Poverty Reduction Programme II;
- Rural Economic Development Initiative;
- Community Crime and Violence Prevention;
- Tropical Storm Gustav;
- Emergency Recovery Fund-Community Investment Project; and
- Hurricane Dean Rehabilitation.

JSIF was established as a demand-driven mechanism to:

- deliver basic services and infrastructure to the poor;
- provide resources in the areas of basic social and economic infrastructure; and
- expand the Government's institutional capacity to identify, implement, manage and sustain community-based sub-projects.

During FY 2011/12, JSIF will continue implementation of the Inner City Basic Services Project aimed at improving access to basic services in 12 targeted inner city communities, which have been identified in the parishes of Kingston, St. Andrew, St. James, Clarendon and St. Catherine. Basic services being provided include: clean water; sanitation; road infrastructure; solid waste management and related community-based services; enhanced public safety through mediation and conflict resolution; vocational and skill training; job placement; youth programmes; and family support programmes.

Montego Bay Convention Centre

An allocation of $509.8mn in the FY 2011/12 budget has been provided for the Montego Bay Convention Centre to complete the remaining 13% of construction work on the centre and the handing over of the facility.

Social Protection Project (IBRD)

The objectives of this project are to (i) 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 (ii) establish a viable effective system for public sector pensions.

The main areas for 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 for social investigation of various types, examination of needs assessment methodologies and development of response options.

An amount of $3,997.4mn has been allocated this fiscal year, to reflect the expected increase in the number of registered beneficiaries under the Programme of Advancement through Health and Education (PATH) to the targeted 360,000, up from 320,617 registered as at February 2011.

Palisadoes Shoreline and Road Project
The objective of this project is to make the corridor less susceptible to flooding, whilst protecting the Kingston Harbour from storm surges. The $1,300.5mn, provided through a China EXIM Bank loan, is to: continue the revetment works to up to 40% completion; relocate electrical pole lines; and relocate and replace water mains.

Washington Boulevard Corridor Widening
An amount of $852.8mn has been provided to complete widening of the Washington Boulevard from the Molynes Road intersection to the Dunrobin Avenue/Constant Spring Road intersection. The activities programmed during FY 2011/12 are the completion of utilities relocation and all civil works.

Jamaica Economic Housing Project
The objectives of this project are: to upgrade infrastructure works (water, sewage and roads) in rural communities of St Ann and St Elizabeth; to alleviate the deficit of housing solutions in St Ann, by providing a mix of affordable housing solutions, primarily for the tourism industry employees; and to provide affordable housing solutions in St Elizabeth.

The allocation of $1,500.0mn is to commence the construction of 580 new housing solutions in Belair, St Ann.

Kingston Metropolitan Area (KMA) Water Supply Project
The objective of the KMA Water Supply project is to provide an improved water supply system to the Kingston Metropolitan area (Kingston & St. Andrew and South East St. Catherine) so as to keep pace with the rapid industrial and housing developments in the areas. The provision in the FY 2011/12 budget for these activities amounts to $870.0mn.

Citizens' Security and Justice Project
The main priorities for the Ministry of National Security for FY 2011/12 as they relate to the Citizens' Security and Justice Project are to:
- Prevent and reduce violence in 39 volatile and vulnerable communities ;
- Strengthen crime management capabilities; and
- Improve the delivery of judicial services.

The allocation of $830.0mn for FY 2011/12 is for**:**

- Continuing the implementation of the Integrated Management Information System (IMIS);
- Implementing three (3) rapid impact projects in three (3) communities;
- The Department of Cooperatives and Friendly Societies to develop and implement training programmes for 12 Community Action Committees;
- Non-Government Organizations (NGOs) to continue the delivery of violence prevention services to approximately 2,250 residents;
- Providing vocational training to 2,000 at-risk persons and tuition to 3,000 needy students;
- Creating safe community spaces in three (3) communities by the provision of playground equipment and the development of community gardens; and
- Providing furniture and equipment for a community centre being constructed by Jamaica National Building Society in Savanna-la-Mar, Westmoreland.

FINANCING FY 2011/12 BUDGET

For FY 2011/12, the Central Government target is for a primary balance surplus of 5.2% of GDP, which is equivalent to $69,405.8mn. With above-the-line expenditure of $412,461.8mn, achievement of this target requires revenue and grants of $350,783.7mn.

Revenue and Grants

Projected revenue and grants for FY 2011/12, of $350,783.7mn, represents an increase of 11.5% over FY 2010/11 and is broken down as follows:

(in millions of dollars)	2010/11	2011/12	Change
I. REVENUE & GRANTS	**314,558.5**	**350,783.7**	**11.5**
Tax Revenue	279,874.2	308,357.1	10.2
Non-tax Revenue	20,473.9	18,079.8	-11.7
Bauxite Levy	421.1	1,786.1	324.1
Capital Revenue	3,664.5	9,182.4	150.6
Grants	10,124.8	13,378.3	32.1

The FY 2011/12 projection for Revenue and Grants is 26.3% of GDP, compared to 25.7% of GDP in FY 2010/11.

Tax Revenue

Tax revenue of $308,357.1mn accounts for 87.9% of total revenue and is budgeted to grow by 10.2% over collections in FY 2010/11. This includes legacy costs of $5,969.3mn associated with tax arrears owed to GOJ by Air Jamaica and the Sugar Corporation of Jamaica (SCJ). When these amounts are excluded, tax revenue is projected to grow by 8.0%, relative to the 5.3% growth achieved in FY 2010/11. The 8.0% growth in tax revenue is underpinned by a projected 1.5% real GDP growth this fiscal year relative to the estimated 0.7% contraction in FY 2010/11.

Projected tax revenue for FY 2011/12 (excluding legacy costs) is equivalent to 22.7% of GDP, which is slightly below the 22.9% of GDP attained during the previous fiscal year. The main contributors to the projected marginal decrease (excluding legacy costs), as a percent of GDP, are PAYE, SCT (imports) and Tax on Interest. The lower projection for Tax on Interest is due to the lower interest costs in the budget largely reflecting the general reduction in domestic interest rates. Taxes from GCT and Customs Duty are forecast to increase marginally due to the anticipated real economic growth and continuing efforts by the tax authorities to improve compliance.

Overall, the projected decline in tax revenue as a percentage of GDP, relative to the previous fiscal year, is due to the sub-group Income and Profits taxes, as Production and Consumption taxes are projected to increase marginally while International Trade taxes are projected to remain flat.

Non-tax Revenue

Non-tax revenue is projected at $18,079.8mn, which is $2,394.1mn (11.7%) below collections in FY 2010/11. The estimate for non-tax revenue amounts to 1.4% of GDP relative to the 1.7% recorded the previous fiscal year. Receipts in FY 2010/11 were bolstered by inflows of profits from BOJ, amounting to $4,000.0mn and given the BOJ loss for FY 2010/11, no revenue is expected from this source in FY 2011/12.

Bauxite Levy

The downturn in the bauxite/alumina industry that carried over from FY 2009/10 into FY 2010/11, occasioned largely by the fallout in global demand, as well as higher input costs, is expected to be reversed in FY 2011/12. It is anticipated that the industry will experience some recovery in production and exports as a result of plans to re-open Windalco's Kirkvine plant in mid-2011. This anticipated increase in production is expected to translate into higher levy inflows. Projections are for levy receipts of $1,786.1mn compared to $421.1mn in FY 2010/11.

Capital Revenue

Capital revenue estimates of $9,182.4mn are $5,517.9mn more than collections in the previous fiscal year and are due primarily to the programmed repayment of on-lent loans amounting to $7,990.7mn by the Development Bank of Jamaica (DBJ). The forecast also includes an increase in royalties from the bauxite/alumina industry over FY 2010/11.

Grants

The FY 2011/12 forecast for Grants amounts to $13,378.3mn. This forecast represents a 32.1% increase over receipts in FY 2010/11 and includes significant amounts anticipated from the European Union (EU) for budgetary support. Grant receipts in FY 2010/11 were significantly below budget (35.2%) due to lower than expected EU flows and slower than anticipated spending on capital projects. The major grant-funded investment projects budgeted for FY 2010/11 are:

- Sugar Transformation Project (EU) for $2,009.6mn;
- HIV/AIDS Treatment – Global Fund for 743.4mn;
- Banana Support Project (EU) for $443.9mn; and
- Basic Needs Trust Fund (CDB) for $379.6mn.

Loan Receipts

The revenue forecast outlined above, of $350,783.7mn, and the expenditure budget of $544,721.2mn, approved by Parliament leaves a financing gap of $140,778.2mn. Of this total, $97,002.8mn is programmed to be raised from the domestic market. The remainder of $43,775.4mn 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 2011/12 represents a 33.9% decrease in gross receipts relative to the previous fiscal year.

The reduction in the borrowing requirement for FY 2011/12 stems largely from a significantly lower fiscal deficit (4.6% of GDP, down from 6.1% of GDP in 2010/11), as well as the raising of US$400.0mn on the international capital markets in FY2010/11 to pre-finance a maturing bond of similar value in May 2011. The availability of cash balances accumulated in FY 2010/11 also contributes to the lower borrowing requirement in FY 2011/12. Of note, the lower domestic borrowings by the GOJ should assist in maintaining the downward interest rate trajectory.

CHAPTER 3

PUBLIC SECTOR ENTITIES

Overview

Public Bodies continue to play a critical role in stimulating economic activity and promoting development. Given the size of some Public Bodies and the diverse nature of activities they undertake across various sectors of the economy, their contribution to development at both the macro- and micro-economic levels has over the years been significant.

Of the 195 Public Bodies currently on register, 90 or 46.2% are characterized as self-financing. Summarized corporate plans and budgets of 66 of these self-financing Public Bodies are contained in the Jamaica Public Bodies' Estimates of Revenue and Expenditure.

The Ministry of Finance & the Public Service (MOFPS), in its continued efforts to strengthen its monitoring capabilities, has obtained assistance from the World Bank to increase the coverage and scope of monitoring Public Bodies.

Contribution by Public Bodies

The Estimates of Revenue and Expenditure of Public Bodies for the year ending March 31, 2012, indicate that the 66 Public Bodies should have combined total assets of $834,652.0mn (FY 2010/11: $766,390.0mn) and a labour force of 13,413 persons. With the utilization of these resources, the group is expecting to generate total revenues of $347,436.0mn from which profits before tax of $28,240.0mn are projected with $24,472.0mn expected to be transferred to Government as corporate and other taxes.

The Public Bodies' significant contribution to economic growth and development is expected to continue in FY 2011/12. Over the years, Public Bodies have played a critical role in the country's infrastructural development. At the close of FY 2010/11, it is estimated that approximately $60,000.0mn would have been spent on capital expenditure and investments.

In FY 2011/12, the Public Bodies spending is cast under the aegis of the Stand-By Arrangement with the IMF, which entails containment of the overall balance of the public bodies and concomitant growth in the debt stock, as a main thrust. Total public bodies expenditure on infrastructure is budgeted at $65,000.0mn.

Government's stated priority for economic and infrastructure development covers three main sectors; namely water, roads and housing. Four (4) self-financing public bodies (The National Water Commission (NWC), The Road Maintenance Fund (RMF), The National Housing Trust (NHT) and the Housing Agency of Jamaica Limited (HAJL)) operate in these sectors and will expend approximately $50,000mn or 75% of the total Public Bodies' capital expenditure.

The NWC's strategic focus is to improve the quality of life through expanded access to potable water and wastewater services**.** Capital expenditure totalling $10,300.0mn will be undertaken by NWC. This includes disbursement of funds totalling $4,213.5mn on the

Jamaica Water Supply Improvement Project (JWSIP) which is expected to improve system capability, reliability and operating efficiency levels at the NWC. The major elements of the JWSIP include:

- replacement of the old Rio Cobre pipeline,
- rehabilitation of the Constant Spring and Seaview Water Treatment plants/networks to improve plant capacity and enhance supply reliability; and
- construction of a new pipeline from Ferry to Red Hills, new wells at Halls Green and the implementation of a number of rural water supply projects in various parishes to expand rural water supply coverage.

Other major projects are scheduled to be executed under the Kingston Metropolitan Area Water Supply Project at a cost of $870.0mn and the Kingston Water and Sanitation Project on which $1,152.0mn is scheduled to be spent. A number of smaller water and sewerage infrastructure projects will also be undertaken and will involve replacement and improvement of pipelines and leaky tanks as well as expansion of water supply systems island wide.

In 2009 the Government saw the need to undertake a major infrastructure programme, through the Road Maintenance Fund (RMF), that would enhance the quality of life of citizens by stimulating economic development. This included significant improvement and upgrading of the island's road network. Out of this, the Jamaica Development Infrastructure Programme (JDIP) was established, representing a major undertaking of the GOJ, through the RMF, a public body that reports to the Ministry of Transport and Works.

The JDIP is a five (5) year programme that commenced in October 2010 and is scheduled to end in 2015. The programme will be executed by the China Harbour Engineering Company (CHEC), with the RMF as the facilitator.

The JDIP is expected to be undertaken at a cost of US$400.0mn over the five year period. Financing for the programme was achieved by a mutual arrangement between the GOJ and the Government of China. This involves the China Export Import Bank (China EXIM) providing 85% or US$340.0mn and the GOJ providing 15% or US$60.0mn of the total costs. Funds from the China EXIM Bank are being provided under a Preferential Buyer's Credit Loan Programme, to be drawn down over the five years. Repayments will be made over 10 years, commencing in 2015.

The RMF plans to utilize several modalities to improve and extend the life of road surfaces and, in this regard, has embarked on a Micro-surface Road Sealing Programme at a cost of $154.0mn. The use of this technology is expected to extend the life of the road surface by approximately five years. The RMF plans to apply this process to over 211,450 square metres of roads in selected parishes. The programme is to undertake 588 projects across the island during the 5 year period. In order to maximize the limited resources, the RMF, in collaboration with the NWA, will seek to employ new technologies to enhance the process.

The NHT's mission is the provision of quality, affordable housing solutions for the Jamaican population. During FY 2011/12, the 'Trust' plans to spend $26,363.0mn on capital expenditure.

The planned level of housing expenditure is expected to contribute to the following major deliverables/outcomes:

- Disbursement of $16,257.2mn under the daily intake and joint finance mortgage programmes;
- Financing of 815 units under the Interim Finance Programme;
- Commencement of construction of 2,367 units and serviced lots under the Joint Venture and other NHT projects; and
- Financing of 183 units under the small contractors programme

Of the total capital expenditure budget**,** $12,166.6mn has been earmarked to provide benefits to qualified contributors. These benefits include: build on own land; open market loans; house lot loans; and construction loans. The NHT has also budgeted to spend $5,932.2mn to complete its general projects, consisting of scheme units and serviced lots.
The HAJL is expected to secure funding of $4,609mn which will facilitate construction of 4,202 housing solutions and the delivery of 4,094 solutions.

Corporate Governance

Beginning with the promulgation of the Public Bodies Management and Accountability (PBMA) Act in 2001, the Government has been strategic in its efforts to institutionalize corporate governance best practices within the Public Bodies' sub-sector. Two (2) amendments have already been made to the legislation and a third is awaiting Parliamentary approval. The latest proposed amendments incorporate those elements of the Fiscal Responsibility Framework that have specific relevance to Public Bodies.

Within the context of strengthening the accountability systems of government to facilitate, among other things, greater transparency and efficiency in the functions of government, the MOFPS, in collaboration with the Cabinet Office, has sought to define and clarify the accountability and corporate governance frameworks in order to strengthen Government's capacity to manage for results.

The Accountability Framework was approved by the Cabinet in January 2010 and has, for its objectives, the clarification of responsibilities, expectations and reporting relationships for Government's senior executive officers (Permanent Secretaries, and Chief Executive Officers of Executive Agencies and Public Bodies). It addresses three main elements:

- Government-wide accountability environment;
- Senior executive officers' accountability arrangements; and
- Supportive and enabling performance management and evaluation systems.

The Corporate Governance Framework was approved, in principle, by the Cabinet in November 2010. Its objective is to clarify the roles and responsibilities of Public Sector Boards and their Directors. It specifies the criteria for the selection and appointment of Board members, as well as the termination of appointments, and clarifies relationships among operational management, the Board and shareholders. The strengthened accountability systems of Public Bodies will allow for greater probity, transparency and efficiency in the functions of government.

Cabinet's approval of the Accountability and Governance Frameworks has paved the way for the development of a new slate of regulations to support the PBMA Act. These regulations should be ready for implementation by the second quarter of FY 2011/12. The long awaited

Financial Distribution Policy, the Code of Conduct for Directors of Public Bodies and the Code of Audit Practices should also be ready by the end of the second quarter of FY 2011/12.

The MOFPS has been providing training in corporate governance to the leadership of Public Bodies since 2007. During FY 2010/11, the MOFPS conducted workshops and seminars within Public Bodies in order to heighten awareness on corporate governance principles and best practices. The MOFPS proposes to conduct more of these seminars as soon as Parliamentary approvals are given for the legislative amendments and the new regulations.

Rationalization and Restructuring

The rationalization of Public Bodies is a key initiative towards achieving higher levels of efficiency within the sector. The rationalization plan developed in FY 2008/09 identified three (3) broad categories under which the rationalization activities could be pursued, namely; mergers, privatisation and closures. These have since been endorsed by the Public Sector Transformation initiative.

In FY 2010/11 much of the rationalization efforts were centered on privatization. This pattern is likely to continue into FY 2011/12. Privatization of the following entities has either been completed or is at an advanced stage:

- Air Jamaica Limited;
- Pegasus Hotel;
- SCJ Holdings Limited;
- Clarendon Alumina Production Limited;
- Mavis Bank Coffee Company Limited; and
- Wallenford Coffee Company Limited

During FY 2010/11, the operations of the Health Corporation Limited were merged with that of the National Health Fund.

Sustainable Development Strategy

Over the years, the MOFPS has been sensitising Public Bodies to the need for identifying and incorporating sustainable development strategies in their operations. Some of the strategies undertaken by a number of Public Bodies are noted below.

The Petroleum Corporation of Jamaica and the National Solid Waste Management Authority have launched a '***Waste to Energy Programme*'**, which will see these Public Bodies forming partnerships with experienced "*waste to energy*" companies in developing municipal waste to energy plants. The objective will be to convert biomass to electricity and reduce the level of carbon emission into the environment.

The Airports Authority of Jamaica (AAJ) has established an **Environment Management System (EMS)** through which it has established principles and practices to be observed in pest management and waste disposal among others. An annual environment audit of concessionaires is undertaken at the Norman Manley International Airport (NMIA). The AAJ acknowledges the threat of global warming and rising sea levels to the physical sustainability of the airport facility. The mitigating factors are built into the EMS.

CHAPTER 4

REVIEW OF SELECTED PROJECTS

Despite the prevailing economic challenges, the Government of Jamaica (GOJ) has continued its thrust to improve the quality of life of Jamaicans by investing in capital projects which will enhance human and social development. In that regard, the Government, in partnership with the Multilateral and Bilateral funding agencies, has embarked on a number of projects that will improve the delivery of social services, including education, health, security and justice as well as enhance the agricultural sector and physical infrastructure across the island.

SOCIAL SECTOR

Education

Enhancement of Basic Schools Project

The GOJ remains cognizant of the importance of early childhood development to the nation's overall development and undertook the 'Enhancement of Basic Schools Project' in partnership with the Caribbean Development Bank (CDB). The project is supported by loan funds totalling US$13.4mn and seeks to provide enabling environments for young children to learn and develop optimally. It provides a solid foundation for the overall improvement in Jamaica's human capital, thereby leading to improved economic productivity and long term competitiveness.

Seven (7) new basic schools and seven (7) training resource centres island-wide were completed as at March 31, 2011. In addition, the following activities have been completed:

- Training of 680 Early Childhood Practitioners to the National Council on Technical and Vocational Education and Training (NCTVET) Level 2 Certification;
- Procurement of furniture, equipment and learning material for twelve (12) basic schools;
- Eighty Education Officers trained as NCTVET Assessors;
- Sensitization workshops on the new learning environment completed island-wide; and
- Four hundred copies of the Early Childhood Policy and Standards Document circulated to early childhood institutions by the Early Childhood Commission.

Currently, construction is being carried out on five (5) additional schools and four (4) resource centres.

It is anticipated that the Project will conclude in December 2011.

Education System Transformation Programme

The GOJ collaborated with the World Bank and the Inter-American Development Bank (IDB) to implement the ***Education System Transformation Programme***. The 'Programme' will support the education transformation process at both the institutional and policy levels. The project is financed by loans from the respective institutions totalling US$31.0mn and will seek to undertake the following activities:

- Provide 2,100 additional secondary school spaces in accordance with the Ministry of Education's (MOE) policy to expand compulsory education up to age 18 from age 16;
- Operationalize the new agencies including the National Education Inspectorate (NEI) and the Jamaica Teaching Council (JTC), which are critical to improving the capacity for delivery of high quality education;
- Establish mechanisms to mobilize additional resources for the education sector;
- Garner stakeholder support for the Education Transformation Programme (ETP).

Some of the key achievements during FY 2010/11 include the following:

- Training of 144 School Inspectors and the inspection of 109 schools;
- Registration by the Jamaica Teaching Council (JTC) of 23,400 teachers;
- Master Training Plan and Teaching Standards completed and training sessions conducted for principals and teachers;
- Establishment of the Department of Schools Services to manage the regional operations and the concept of Quality Education Circles (QECs) rolled out in all the regions;
- The National Education Trust (NET) has been established and a Board appointed;
- Two (2) issues of the Transformation News and six (6) issues of the Educator published;
- Cabinet approval obtained for the formation of the Jamaica Tertiary Education Commission (JTEC).

The activities to be undertaken in FY 2011/12 include:

- Completion of 200 school inspections and the implementation of an electronic system to support inspections by the NEI;
- Completion of the registration process and finalization of the standards for the licensing regime by the JTC;
- Execution of pilot programmes in Regions 1 and 2, as well as training and capacity building to be undertaken by the Regional Educational Entities (REEs);
- Employment of consultants to provide public relations and communications support in respect of the NET's mandate;
- Construction of the Mandeville and Cedar Grove High Schools;
- Conducting a National Literacy Survey; and
- Establishment of an Education Management Information System.

School Feeding Modernizing Programme

On July 15, 2010, the GOJ concluded the captioned Non-Reimbursable Technical Cooperation Agreement with the IDB in the amount of USD450,000 to improve the operations of the School Feeding Programme (SFP) as it is widely recognized that the private costs of education contribute significantly to the problem of low levels of school attendance among the poor.

Accordingly, the 'Programme' is to contribute to the policy and the institutional reform of the SFP by:

(i) Modernizing and upgrading its managerial tool kit and organizational structure; and
(ii) Informing on ways to improve the nutritional quality and efficiency of the SFP snack component.

The 'Programme' facilitated stakeholder consultations and studies, which have informed the operation's design to expand targeted SFP subsidy to Programme of Advancement through Health and Education (PATH) students at the pre-primary level. In addition, it has provided an independent operational assessment of the feeding subsidy for students in PATH households.

The targeted objectives in FY 2011/12 include:

- Continued consultation among stakeholder groups;
- The conduct of institutional assessments of the SFP;
- Development of a Management Information System (MIS) module to support the management and monitoring of food subsidy to PATH students and to interface with the MOE's Management Information System and the PATH Beneficiary Data;
- Revision of the SFP's Operations Manual;
- Conducting of a financial and operational audit of Nutrition Products Limited; and
- Development of the Terms of Reference for feasibility studies and market analysis of options for the transformation of Nutrition Products Limited and snack products.

Health

The ***Jamaica HIV/AIDS Prevention and Control II Project*** is funded by a Loan from the World Bank in the amount of US$10.0mn**.** The project aims to assist in the implementation of Jamaica's National HIV/AIDS Programme through:

a. Improving treatment, care and support for Persons Living with HIV/AIDS; and
b. Strengthening Jamaica's capacity to respond to the epidemic.

Since its inception in 2008, some of the significant achievements include:

- Testing over 95% of pregnant women attending antenatal clinics in the public sector (approximately 30,000 women) for HIV;
- Conducting of 2,514 HIV Polymerase Chain Reaction (PCR) tests on infants born to HIV positive mothers;
- Distribution of anti-retroviral (ARVs) medication to 86% of HIV infected women and 97% of HIV exposed infants (over 350);
- Enhancement of diagnostic capacity for National Public Health Laboratory (NPHL) and regional labs;
- Administration of treatment to 7,237 adults and 447 children with advanced HIV; and
- Conducting of media awareness campaigns targeting more than one million adults.

In FY 2011/12 the following activities will be pursued:

- Targeting of 50,000 youth and adolescents with prevention outreach activities;
- Maintenance of HIV testing of more than 90% of antenatal clinic attendees in the public sector;
- Provision of ARVs to 85% of HIV infected pregnant women and at least 90% of the HIV exposed infants;
- Expansion of Sexually Transmitted Infection (STI) treatment sites for comprehensive treatment and counselling for 40,000 patients with Sexually Transmitted Diseases (STD);
- Distribution of four million condoms at different intervention sites; and

- Procurement of a Western Regional Health Authority (WRHA) Medical Waste Management Plant.

Social Safety Net

The ***Social Protection Project*** continues to be one of the primary avenues through which the GOJ has sought to ensure that the standard of living of vulnerable Jamaican citizens is not compromised. The 'Project' is funded by a loan of US$40.0mn from the World Bank and serves to ensure greater social protection for the poor and vulnerable and 'at risk' persons. Specific objectives include:

- Improving access to poor families;
- Assisting working age persons to seek and retain employment;
- Formulating a reform programme for the Public Health Scheme; and
- Developing a Holistic Social Strategy.

Since its commencement in June 2008 the Project has achieved the following:

- An increase in the PATH based benefit from J$650-J$900 per beneficiary;
- An increase in the number of registered beneficiaries from 332,516 to 349,197;
- Provision of scholarships to social workers for completion of undergraduate degrees at the University of the West Indies;
- Expansion of the 'Steps-to-Work' programme to all parishes benefiting 3,146 persons;
- Provision of summer camps for 500 teen drop-outs;
- Facilitation of the re-certification of 85% of 34,406 PATH households; and
- Completion of the first draft of the 'Green Paper' on pension reform.

In FY 2011/12, work is expected to continue in the following areas:

- Provision of grants to 200 'Steps-to-Work' clients engaging in Micro Businesses;
- Providing five (5) summer youth camps targeting 500 at-risk youth;
- Conducting of job readiness workshops for secondary school graduates, aged 17 – 25 years;
- Conducting an evaluation of the current and emerging vulnerabilities in the Jamaican population; and
- Conducting a study on independent living of wards of the State, that is, Children's Homes and Places of Safety.

Support for Improving the Lives of Persons with Disabilities

During FY 2010/11 the GOJ received grant funds in the amount of US$572,000 from the IDB/Japan's Special Development Fund, to improve the capacity to advance social protection policies that specifically impact Persons with Disabilities (PWD). Additionally, the project will assist the GOJ in meeting its commitment to the United Nations Convention on the Rights of PWD. The objectives of the Project are to:

- Strengthen the capacity of the Jamaica Council for Persons with Disabilities (JCPD) to identify and target persons with disabilities for social benefits through the establishment of a data base system; and

- Improve the quality of life for children with developmental disabilities through technical support and early intervention strategies.

The activities to be undertaken during FY 2011/12 include:

- Conducting a qualitative assessment of the needs of persons with disabilities;
- Reviewing the dynamics of persons with disabilities and assessing targeting systems;
- Reviewing primary and secondary data collection methodologies;
- Developing an information technology database;
- Establishing a Public Education Strategy; and
- Training field officers and social workers.

Jamaica PATH Conditional Cash Transfer Programme

The World Bank extended a grant in the amount of US$2.5mn to support the GOJ in addressing the problem of exclusion among very poor, elderly and disabled persons and provide assistance to approximately ten thousand (10,000) Jamaicans within this target group, who have been affected by the global economic crisis. The project also seeks to enhance the outreach capacity of PATH.

During FY 2010/11, the following activities were undertaken:

- Sensitization and mobilization campaigns were conducted to identify elderly and disabled individuals;
- Household surveys were conducted and an inventory of the GOJ's social assistance services available to the poor and disabled generated for upload to the PATH Management Information System;
- The Ministry of Labour and Social Security (MLSS) Social Workers and relevant stakeholders were trained and tested on operational guidelines.

The major tasks to be undertaken in FY 2011/12 include:

- Reporting on the lessons learned from the outreach experiences;
- Assessing the effectiveness of the PATH in covering the poor, elderly and disabled individuals; and
- Establishing the incremental operating costs associated with the expansion of PATH.

Jamaica Social Investment Fund (JSIF)

The Jamaica Social Investment Fund (JSIF) remains a fundamental body through which the GOJ channels its national poverty alleviation strategy. The 'fund' was established in 1996 to manage and develop small scale projects to sustainable levels. Current projects managed by JSIF include:

(i) Community Investment Project

The captioned project is facilitated by a Loan Agreement in the amount of US$12.1mn between the Caribbean Development Bank (CDB) and the GOJ. The Project seeks to improve the socio-economic conditions in poor rural communities by increasing access to basic social and economic infrastructure, social services and organizational strengthening interventions.

Since implementation in FY 2009/10, two basic schools, Sydenham and St. Jago Basic Schools, were constructed. In addition, there has been steady progress on the expansion and rehabilitation of the Savannah Basic School.

It is anticipated that during FY 2011/12, the Project will undertake the following:

- Ten (10) Social Infrastructure Sub-Projects;
- Eight (8) Economic Infrastructure Sub-Projects;
- Six (6) Social Services Sub-Projects;
- A cost database consultancy; and
- Commencement of the Bridge Jamaica Pilot Project.

(iii) Poverty Reduction Programme II

The 'Programme' is funded through grant proceeds from the European Development Fund (EDF) in the amount of €10.1mn and seeks to improve the socio-economic conditions and quality of life in communities, with specific emphasis on the promotion of community safety and the reduction of criminal behaviour.

During FY 2010/11 the project has facilitated the rehabilitation and expansion of four (4) primary and junior high schools at Marverley, Melrose, Constant Spring and Windward Road. There has also been the construction of the Albion and End Time Basic Schools, and the upgrade and rehabilitation of Harbour Road and Jarrett Lane. Currently, work is progressing on the Effortville Basic School and the March Pen and Homestead Community Centres.

In FY 2011/12, the rehabilitation of three (3) primary schools, namely Allman Town, Gregory Park and St. Patricks will be completed. There will also be the rehabilitation of four (4) basic schools, the New Horizon Skills training centre, two roads in the Rockfort area and the fencing of St. Monica's Home for the Aged.

(iv) Community Crime and Violence Prevention Project

A grant of US$2.7mn was obtained from the Japan Social Investment Fund for the project, which is being administered by the World Bank. The project seeks to build on the achievements of the Inner City Basic Services (ICBS) Project by supporting sub-projects in the areas of:

- Mediation and conflict resolution;
- Social programmes for at-risk youth; and
- Social support services for vulnerable families.

During FY 2011/12, twelve (12) sub-projects will be undertaken in the twelve (12) targeted ICBS communities.

(v) Rural Economic Development Initiative (REDI)

In January 2010, a loan of US$15.0mn was obtained from the World Bank for the REDI Project, which is aimed at reducing rural poverty by providing financial and technical support through grants for eligible projects in agriculture, tourism and small-scale public infrastructure.

During FY 2011/12, forty (40) sub-projects will be implemented in the parishes of Manchester and St. Elizabeth.

SECURITY AND JUSTICE

Citizens Security and Justice Programme II (CSJP II)

In March 2011, the Department for International Development (DFID) partnered with the IDB in providing a grant of US$1.2mn to the GOJ for the administration of the expanded programme, which undertakes strategic intervention strategies to reduce crime and violence in thirty-nine (39) vulnerable communities.

During FY 2010/11, the following activities were undertaken:

- Skills training and educational services provided to residents in twenty seven (27) communities;
- Violence prevention services facilitated through Non-Governmental Organizations (NGOs) to 3,500 persons;
- Tuition support provided to 1,500 students in twenty seven (27) communities; and
- Participation of forty (40) persons in the Employment Internship Programme.

The anticipated activities for FY 2011/12 include:

- Implementation of training programmes for twelve (12) community action committees;
- Delivery of violence prevention services to approximately 2,250 residents by NGOs;
- Training in vocational skills for 2,000 at-risk persons; and
- Tuition support for 3,000 students.

ENERGY EFFICIENCY

Energy Efficiency and Conservation Project

In August 2009, the GOJ made a significant step toward improving the efficient use of energy in the public sector by obtaining technical assistance from the IDB in the sum of US$350,000 to identify opportunities for reduced energy consumption. Energy audits were conducted on thirty-six (36) high consumption public sector institutions (public hospitals, street lighting). The findings revealed the potential for the government to realise savings of J$3,200mn per year. In that regard, a loan of US$20.0mn is being considered with the IDB for the implementation of energy efficient measures in the public sector that should result in a 29% reduction in electricity consumption by the public sector.

DISASTER MITIGATION

The GOJ, through the Office of Disaster Preparedness and Emergency Management (ODPEM) secured grant assistance from three (3) bilateral/multilateral institutions to assist the country's preparedness to manage natural disasters through the following Projects:

1. IDB Natural Disaster Management in Urban Coastal Areas (US$800,000);
2. CIDA Building Disaster Resilient Communities (CDN$617,400);
3. IBRD/Japan Community Based Landslide Risk Management (US$2.4mn).

During FY 2011/12, a National Disaster Plan for improving the integrated disaster risk management will be developed, emergency response teams will be trained and micro-mitigation projects will be implemented in twenty-six (26) communities.

AGRICULTURE

Agricultural Competitiveness Programme

On November 25, 2010, the GOJ and the IDB signed a Loan Agreement in the sum of US$15.0mn to aid the agricultural sector. The Ago-Investment Corporation (AIC), the executing agency, will seek to improve the competitiveness of small and medium size farmers, thereby enabling access to local and international markets.

During FY 2011/12, a master plan will be developed for the successful marketing of primary and value added products, strengthening the database and recording systems and facilitation of product development and analysis.

INFRASTRUCTURE

Jamaica Economical Housing Project

On February 3, 2010, the GOJ and the China Export-Import Bank signed a Loan Agreement in the sum of RMB Yuan 487.0mn (approx. US$71.2mn) to provide a mix of affordable housing solutions in St. Ann and St. Elizabeth, primarily for employees in the tourism industry. The project's scope also includes the upgrading of infrastructure (water, sewage, roads) in these areas. During FY 2011/12, work will begin on the construction of 580 housing solutions in Belair in the parish of St. Ann.

Tropical Storm Nicole (KMA) Drainage Project

Following the passage of flood rains associated with Tropical Storm Nicole in September 2010, the CDB approved a loan to GOJ in the amount of US$750,000 to assist with the costs associated with the clearing, cleaning and emergency restoration works subsequent to the storm.

The CDB also approved the amendment of two (2) existing loan agreements, to facilitate the transfer of undisbursed balances towards financing the rehabilitation of the Kingston Metropolitan Area (KMA) drainage network damaged by Tropical Storm Nicole, in the amount of US$29mn.

During FY 2011/12, rehabilitation work will be undertaken on selected sections of the 70km Sandy Gully network in Kingston and St. Andrew.

Transportation Infrastructure Rehabilitation Programme

On October 10, 2008, the GOJ and the IDB signed a Loan Agreement in the sum of US$50.0mn for the rehabilitation of vital sections of the primary road network, which were damaged by the passage of recent tropical storm systems.

During FY 2010/11, the designs for the Hope River Bridge were completed and the contract for its construction awarded.

In FY 2011/12, construction of the Hope River Bridge is expected to begin, along with the associated protective works. Additionally, revetment work at Roselle in St. Thomas will continue.

Chapter 5

DEBT AND CAPITAL MARKET DEVELOPMENTS

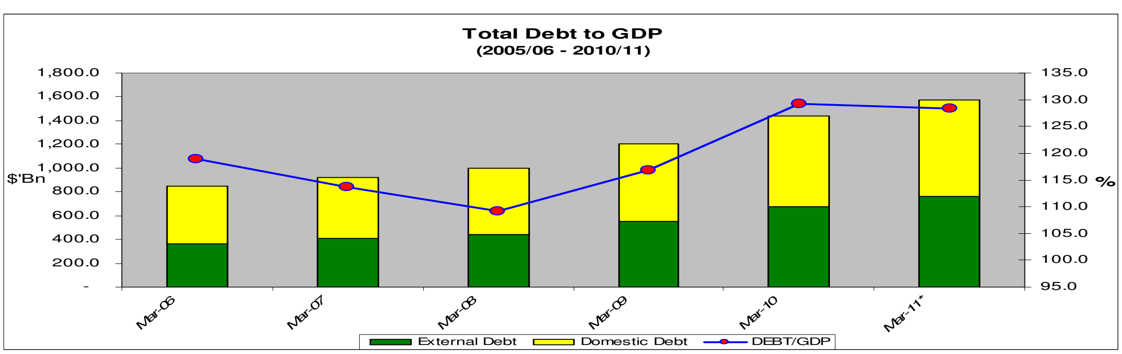
Overview

The objectives of the Debt Management Strategy were achieved during FY 2010/11 within the context of improvements in the macroeconomic fundamentals which contributed to a relatively stable macroeconomic environment. As a result, there was considerable success in the following areas:

- Reduction of all signal interest rates in the domestic market to new historic levels; thereby ensuring that debt service costs are kept at acceptable levels;
- Extension of the maturity profile of the domestic debt;
- Achievement of the targeted fixed/variable ratio for the domestic debt;
- Containment of the foreign exchange component of the domestic debt;
- Raising of adequate financing to satisfy the budgetary requirements;
- Access to the international capital markets, with re-opening of the US$350mn, 8% Bond due 2019;
- Entry of a second Government of Jamaica Bond into the JP Morgan Emerging Markets Bond Index (EMBI), consequent on the increase in the liquidity of the 2019 Bond to US$750 million;
- Continuation of the Strategy to obtain loans under the policy based and development policy windows of the Multilateral Institutions;
- Robust performance of the trading levels of Jamaica's Global Bonds; and
- Improvements in key domestic debt indicators emanating from execution of the JDX in FY 2009/10.

During the year, the Government's communication with the markets included the publication of schedules of securities to be issued and relevant debt statistics in the print media and on the Ministry's website (www.mof.gov.jm/dmu); this satisfied the objective of maintaining transparency and predictability in debt issuance. In addition, in October 2010 and February 2011 foreign investors were updated on the macro-economic developments in Jamaica during road shows in Europe and the USA.

At the end of FY 2010/11, total public debt stood at $1,570,368.6mn or 128.3% of GDP, a marginal improvement in the Debt-to-GDP ratio, over the 129.4% recorded at the end of FY 2009/10.



DOMESTIC DEBT

Performance Summary
The financial year 2010/11 was characterized by relative stability in the domestic market, with periods of appreciation in the value of the Jamaica Dollar, vis-à-vis the United States Dollar, general reduction in market interest rates and a consistent demand for Government-issued securities. The Government continued to be guided by the objectives of the *Debt Management Strategy* and was successful in: limiting the level of foreign currency exposure in the domestic debt portfolio; extending the maturity profile; and raising adequate financing to satisfy the budgetary requirements.
By the close of FY 2010/11, there was considerable success in containing the growth rate of domestic debt, which increased by 6.7%, a significant reduction when compared to the 15.9% recorded for the last fiscal year. Foreign currency exposure was limited due to the decision to issue only Jamaica Dollar securities in the domestic market during FY 2010/11, thereby containing the foreign exchange risk to the portfolio.

The Government continued its policy of increased transparency and predictability in debt issuance, through the publication of schedules of securities to be issued and relevant debt statistics in the print media and on the Ministry's website. There was also considerable success in reducing borrowing costs, facilitated by the liability management exercise in February 2010 and the concomitant reduction in interest rates over the review period.

Stock Composition
At the end of FY 2010/11, Jamaica's domestic debt stood at $809,370.0mn or 66.1% of GDP, a net increase of 6.7%, when compared with $758,700.4mn or 68.4% of GDP at the end of FY 2009/10. The average monthly movement in the stock for the period was approximately 0.5%. In addition to this level of domestic debt, explicit domestic guarantees stood at approximately J$26,405.1mn or 2.2% of GDP at end-March 2011.

The main factors contributing to the increase were:

- Financing of the fiscal deficit;
- Assumption of Sugar Company of Jamaica's debts; and
- Issue of securities to BOJ for capitalized interest on former FINSAC Bonds.

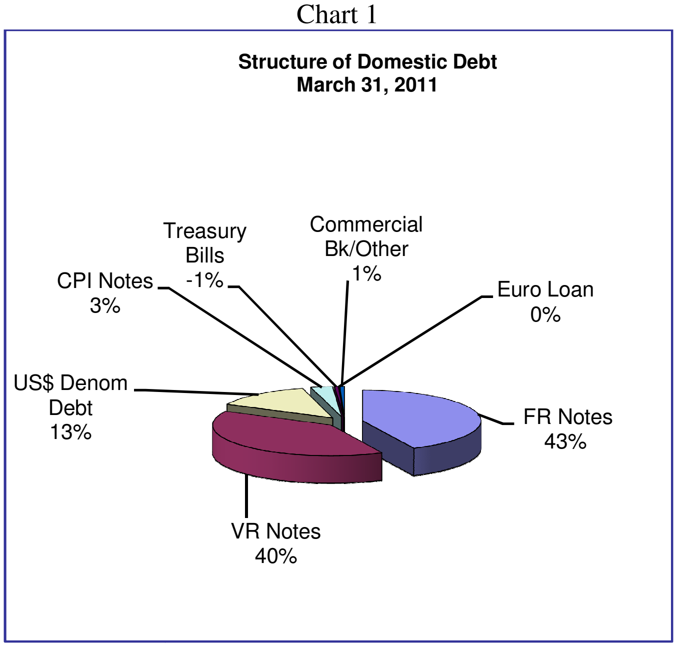
At the end of FY 2010/11, fixed rate J$ Benchmark Investment Notes accounted for 42.9% of the stock, while variable rate J$ Benchmark Investment Notes accounted for 39.6%. Additionally, fixed-rate US$-denominated Benchmark Notes and other US$ loans accounted for 13.4%; fixed-rate CPI-Indexed Investment Notes, 2.9%; Treasury Bills, 0.5%; with Commercial Bank and other loans accounting for the remaining 0.7% (Table 1 and Chart 1).

Structure of the
Domestic Debt Portfolio

Table 1

	FY 2009/10	%	FY 2010/11	%
JDX FR Notes	297,818.1	39.3	347,143.7	42.9
JDX VR Notes	303,153.0	40.0	320,657.0	39.6
JDX US$ Notes	73,253.5	9.7	79,561.1	9.8
JDX CPI Notes	21,165.0	2.8	23,573.7	2.9
Local Registered Stocks	168.1	0.0	0.0	0.0
Investment Debentures	27,115.9	3.6	0.0	0.0
Treasury Bills	4,000.0	0.5	4,000.0	0.5
US$ Indexed Bonds	419.0	0.1	0.0	0.0
US$ Denominated ProNotes/Loans	25,539.2	3.4	29,255.4	3.6
Commercial Bank & Other Loans	6,068.0	0.8	5,179.1	0.7
Total Domestic Debt	**758,700.4**	**100.0**	**809,370.0**	**100.0**

Chart 1



Holdings of Domestic Securities

Merchant banks, trust companies and brokers continued to play a major role as market makers for GOJ securities for FY 2010/11, although their holdings decreased from 31.8% at the end of FY 2009/10 to 27.4% at end-March 2011. Among the institutional investors, insurance companies increased from 15.5% at the end of FY 2009/10 to 20.4% at the end of FY 2010/11. The Bank of Jamaica, and other public sector entities, accounted for 20.4%, down from 22.9% at end FY 2009/10 (Charts 2 and 3).

Holdings of GOJ Registered Securities

Chart 2

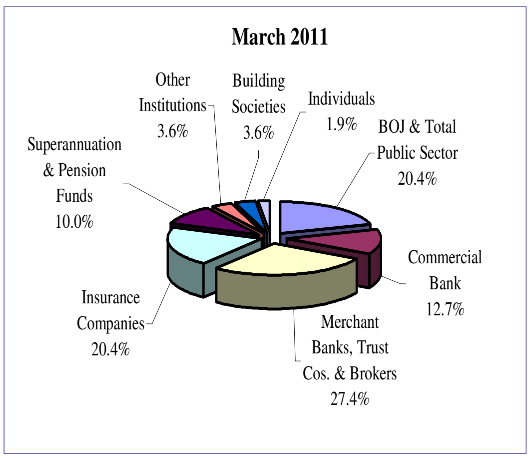
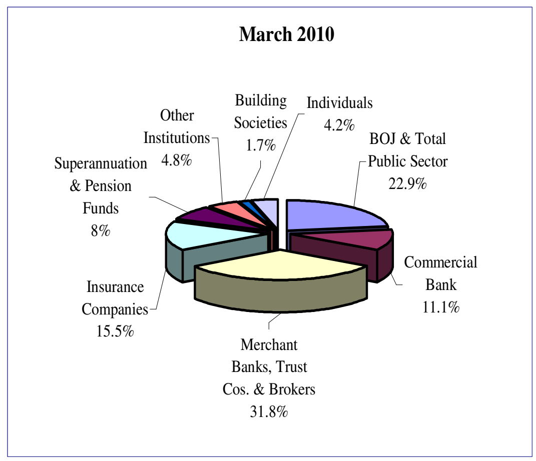


Chart 3



Maturity Profile

During the review period, local investors continued to exhibit a preference for securities at the shorter end of the yield curve, that is, in the one to three year segment. Despite this, the Government was able to successfully issue and reopen debt securities with maturities in excess of ten years and, in some cases, in excess of twenty-five years.

New domestic debt issued in FY 2010/11 had 69.9% maturing within 5 years, compared with 87.6% in FY 2009/10. Debt issues with maturities between 5 and 10 years increased to 14.7% up from 9.1% in FY 2009/10; debt issues with maturities in excess of twenty years accounted for 11.1% compared with 3.3% during FY 2009/10 (Table 2).

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

Table 2

Years to Maturity	FY 2009/10 %	FY 2010/11 %
Less than 1-yr	57.3	16.4
>1 to 5 yrs	30.3	53.5
5-10 yrs	9.1	14.7
10 – 20 yrs	0.0	4.3
20 – 30 yrs	3.3	11.1
Total	**100.0**	**100.0**

At the end of FY 2010/11, the maturity profile of the domestic portfolio showed moderate improvement at the short end of the yield curve. By the end of the year, debt scheduled to mature within one year had declined to 5.8% compared to 10.1% at the end of FY 2009/10. In the one to five year segment, 51.1% was scheduled to mature compared with 42.2% at the end of FY 2009/10, while debt scheduled to mature after 5 years accounted for 43.1% compared to 47.7% at the end of FY 2009/10 (Charts 4 and 5).

Chart 4

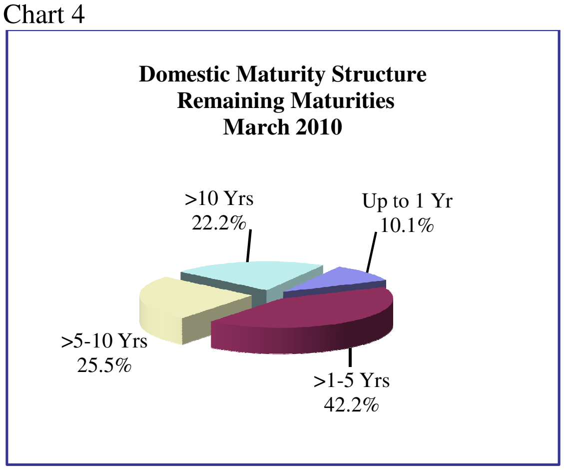
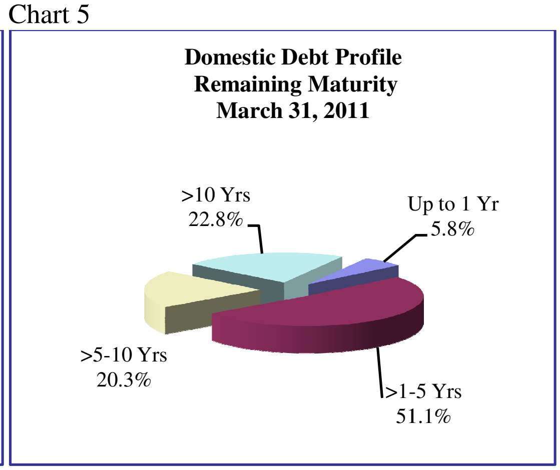


Chart 5



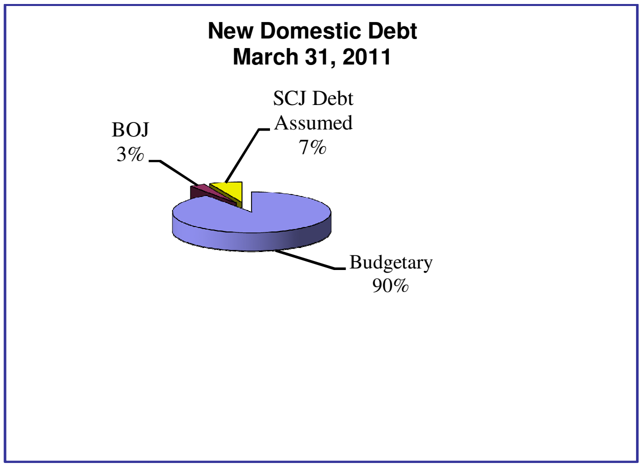
The weighted average maturity of the domestic debt at the end of the review period was 8.4 years for J$ securities and 4.3 years for US$-denominated securities. This compared with 8.9 years for J$ securities and 2.9 years for US$-denominated securities at end FY 2009/10.

Debt Raising

Gross domestic debt issued during FY 2010/11 amounted to $126,005.0mn. Of this amount, $117,717.3mn was issued in the market, which was 0.22% below the programmed amount of $117,971.5mn. The other securities issued were of a non-cash nature and represented the Government's assumption of US$96.3mn Sugar Company of Jamaica debt.

Debt for budgetary financing represented 90.3% of total debt raised, while non-budgetary financing represented the remaining 9.7%. This compares with budgetary financing of 99.9% and non-budgetary financing of 0.1% at the end of FY 2009/10 (Chart 6).

Chart 6



The total raised during this period represented a significant reduction of $122,840.26mn or 49.4% when compared to the amount raised in FY 2009/10. The reduction in debt financing during FY 2010/11 is largely attributable to the benefits and savings resulting from the liability management exercise undertaken in FY 2009/10.

During FY 2010/11, there was success in extending the maturity profile (Table 3), as new debt issued in the domestic market had 69.9% maturing within 5 years, compared with 87.6% in FY 2009/10; debt issues maturing after 5 years increased significantly to 30.1%, up from 12.4% at the end of FY 2009/10.

Maturity Structure of New Domestic Debt
Issued During FY2010/11
Original Maturities
($mn)

Table 3

	Up to 1 Year	>1-5 Years	>5-10 Years	>10 Years	Total
Issues	20,738.4	67,383.3	18,484.8	19,398.5	126,005.0
%age	**16.4**	**53.5**	**14.7**	**15.4**	**100.0**

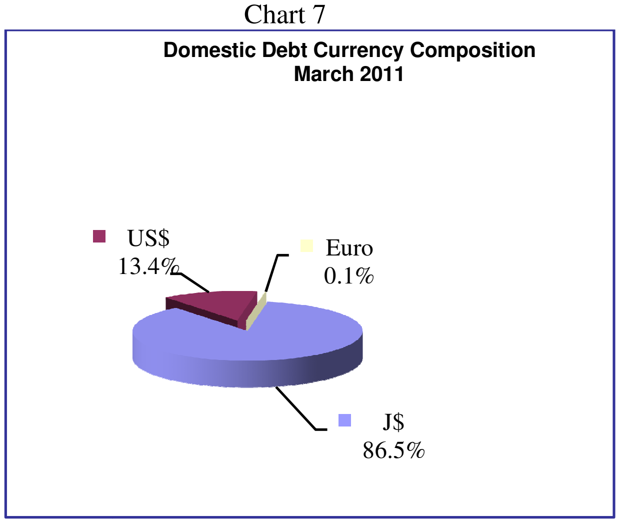
The gradual but consistent interest rate reduction effectively cut demand for variable rate securities in favour of fixed rate debt resulting in the achievement of the debt objective of increasing the fixed rate component of the debt. At the end of FY 2010/11, approximately 99.0% of the total debt issuance was fixed rate debt compared with 87.5% at end-March 2010 (Table 4).

New Domestic Debt
Interest Rate Composition
Table 4

	FY 2009/10 ($mn)	%age	FY 2010/11 ($mn)	%age
FR	217,626.2	87.5	124,707.0	**99.0**
VR	31,218.9	12.5	1,298.0	**1.0**
Total	**248,845.3**	**100.0**	**126,005.0**	**100.0**

Currency Composition
At the end of FY 2010/11, the foreign currency component of the domestic debt stock increased marginally, by 0.4 percentage points, from $99,675.5mn (13.1%) at the end of FY 2009/10 to $109,282.9mn or 13.5% at the end of FY 2010/11. There were no market issues of US$-denominated or US$-Indexed Bonds in the domestic market during FY 2010/11 (Chart 7).

Chart 7



Interest Rate Structure
At the close of FY 2010/11, 59.8% of the domestic debt was on a fixed rate basis, while 40.2% was contracted on a floating interest rate basis. This is an improvement compared with the position at the end of FY 2009/10, when the fixed interest rate component of the domestic portfolio stood at 56.4%.

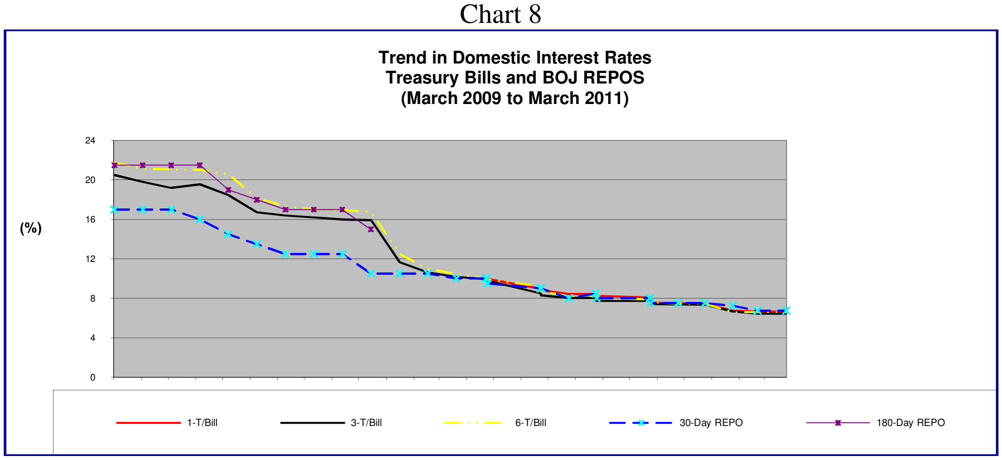
The weighted average interest rate of J$ debt in the portfolio at the end of the review period was 10.10% p.a., down from 11.74% p.a. at the end of FY 2009/10. The weighted average interest rate for the US$-denominated local bonds fell from 7.71% p.a. at end FY 2009/10 to 5.70% p.a. at end FY 2010/11.

Interest Rate Composition
FY 2008/09– FY 2010/11
(%)
Table 5

	FY 2009/10	FY 2010/11
Fixed Rate	56.4	59.8
Variable Rate	43.6	40.2
Total Debt	**100.0**	**100.0**

Interest Rates
Interest rates in the domestic market have declined steadily since April 2009 to the lowest recorded levels at March 2011. During FY 2010/11, all signal interest rates in the domestic market declined to historic levels. By the end of FY 2010/11, the interest rate on the signal BOJ 30-day open-market instrument moved from 17.00% p.a. at the end of March 2009, to 6.75% p.a. Concurrently, the average yields on the 3 and 6-month Treasury Bills trended downwards, moving from 20.51% p.a. and 21.77% p.a., respectively, at the end of March 2009, to 6.46% p.a. and 6.63% p.a., respectively, at the end of March 2011 (Chart 8). The general reduction in market interest rates in recent months may be attributable to positive trends in key monetary economic indicators.

Chart 8



Domestic Debt Indicators
At the end of FY 2010/11, the domestic debt as a percentage of GDP was approximately 66.1%, compared with 68.4% at the end of FY 2009/10. Domestic interest payments accounted for 31.4% of tax revenue and 26.3% of recurrent expenditure at the end of FY 2010/11, compared with 54.5% and 37.4%, respectively, at the end of FY 2009/10 (Table 6).

Table 6

Domestic Debt Indicators (%)	FY 2009/10	FY 2010/11
Domestic Debt / GDP	68.4	66.1
Debt Service / Total Revenue	96.2	53.2
Debt Service / Total Expenditure	68.5	43.0
Interest Payments / Total Revenue	48.3	27.9
Interest Payments / Tax Revenue	54.5	31.4
Interest Payments / Total Expenditure	34.4	22.6
Interest Payments/Recurrent Expenditure	37.4	26.3
Amortization / Total Revenue	48.0	25.2
Amortization / Total Expenditure	34.2	20.4

EXTERNAL DEBT

Performance Summary

During FY 2010/11, the operations of the external debt management section continued to be guided by the Debt Strategy. To this end, the multilaterals were engaged to provide the funding requirements for the year under the Development Policy Loan (DPL) and Policy-Based Loan (PBL) windows. Relative stability on the international financial and domestic markets, in particular, the continuation of relatively low interest and exchange rates facilitated the outcome of certain debt variables such as the external debt servicing for FY 2010/11 falling below the budgeted amount in Jamaica Dollar terms.

The International Capital Markets were successfully tapped in February 2011 for an amount of US$400mn, representing pre-funding for the US$400mn, 11.75% Bond maturing in May 2011. During FY 2010/11, the GOJ also replenished the amount filed with the US Securities Exchange Commission under the Schedule B Registration programme to US$1,000mn.

Jamaica, having satisfied the eligibility criteria for debt relief from the United Kingdom Government under the renewed Commonwealth Debt Initiative (CDI), was approved for debt forgiveness in the amount of £2.41mn for FY 2010/11.

Jamaica continued to access concessionary funding from the multilaterals under both the investment loan portfolio and the policy based/development policy loan portfolios.

Jamaica's ratings by Moody's Investors Services (Moody's), Standard and Poor's (S&P) and Fitch Ratings were maintained within the "B" category with "Stable Outlook".

Stock

The stock of public and publicly-guaranteed external debt stood at approximately US$8,874.8mn (J$760,998.3mn) at the end of FY 2010/11, compared to US$7,553.0mn (J$676,055.4mn) at the end of the corresponding period last year. In US$ terms, the external debt increased by 17.5% compared to an increase of 22.3% in FY 2009/10. The increase is attributable to: receipts from the International Monetary Fund (IMF) under the US$1.27bn Stand-by Arrangement; new loans from the Inter-American Development Bank (IDB), taken on for budgetary support; and issuance of a US$400mn bond to pre-fund a bond maturing in

May 2011. In J$ terms, the rate of growth of the external debt was 12.6 % compared to 23.2% in FY 2009/10. The decline in the growth rate is a result of lower loan receipts and appreciation of the J$ during the fiscal year when compared to the previous year. The External Debt-to-GDP ratio increased from 60.9% at the end of FY 2009/10 to 62.2% at the end of FY 2010/11(Chart 9).

Chart 9

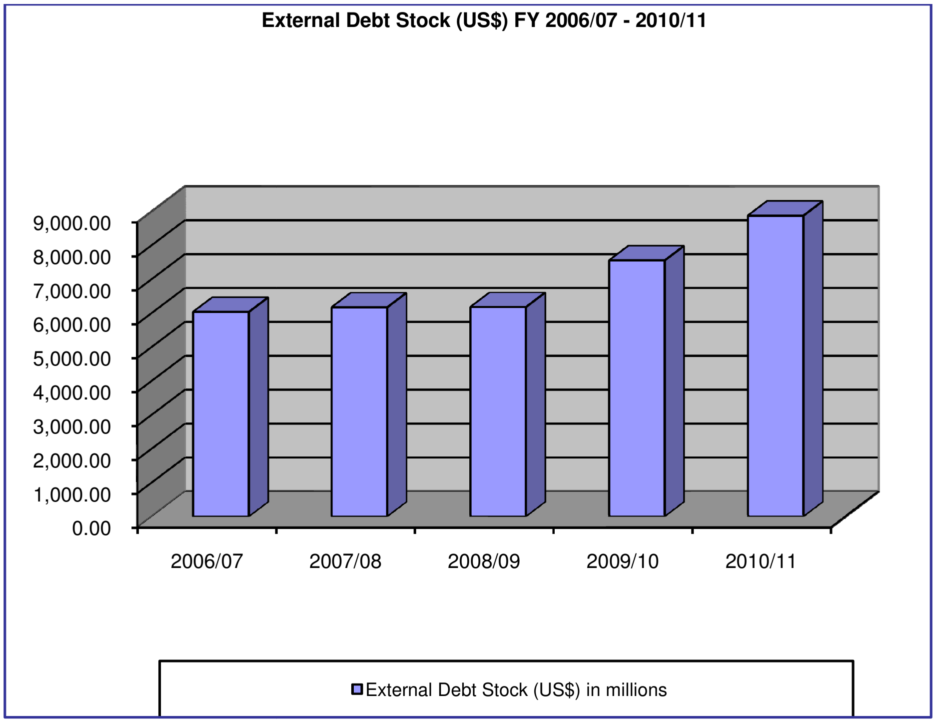


Table 7

New Loans Contracted during FY 2010/11 US$Mn			
Creditor	***Description***	***Contracted Amount***	***Disbursements***
IDB	Agricultural Competitiveness Programme	15.0	-
	Fiscal Consolidation Programme 1st Operation	200.0	200.0
	Fiscal Consolidation Programme 11	200.0	200,.0
Bondholders	Global Bond -Reopening of 8% US$350M due 2019	400.0	400.0
Total		**815.0**	**800.0**

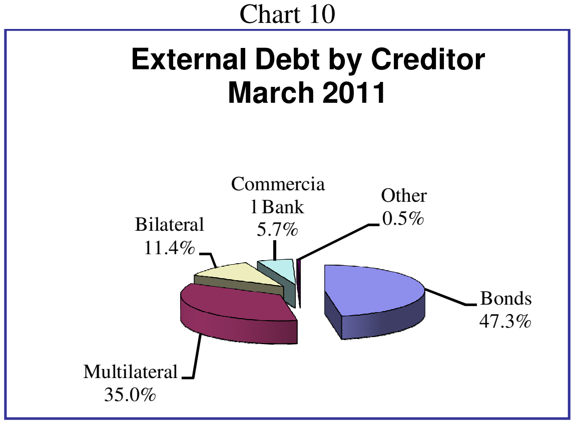
Creditor Composition
There has been a continued incremental shift towards accessing more official credit, reflecting the Government's focus on obtaining more long-term lower-cost funding from multilateral and bilateral sources. The rationale for this is to diversify and re-align the creditor composition and, concurrently, to maintain the maturity and interest rate profiles of the external debt portfolio. This is a result of the better financing terms including longer tenors and the lower interest rates that are offered with these categories of debt.

At the end of FY 2010/11, official creditors represented 46.4% of the debt stock compared to 45.1% at the end of FY 2009/10. The marginal increase in this component comes against the background of Jamaica's re-engagement of the multilateral institutions for financing and the re-establishment of a borrowing relationship with the IMF.

Notwithstanding, the external debt portfolio continues to be comprised of a significant proportion of debt from private creditors which accounted for 53.5% of the stock. Within this category, holders of Eurobonds continue to account for a significant component of the stock representing 47.3%, relative to 50.4% at the end of FY 2009/10. This category is expected to further decline with the retirement of the US$400mn Bond in May 2011. Thereafter, the stock of Official/Private Creditors should approximate to a 50/50 proportion.

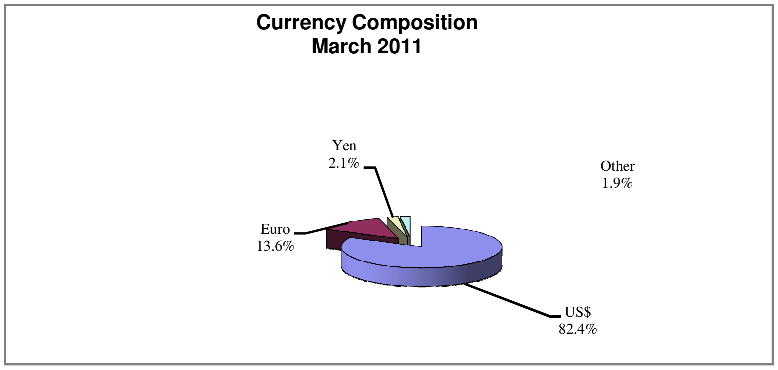
Commercial bank credits as a percentage of the external debt increased marginally in FY 2010/11, moving from 4.0% of the stock in FY 2009/10 to 5.7% at the end of FY 2010/11 (Chart 10). This is due mainly to the use of commercial bank loans to finance the acquisition of buses and development projects of public enterprises.

Chart 10



Currency Composition
The United States Dollar remains the principal currency in which external loans are denominated. This is also the currency in which the external debt portfolio is reported. As a result, the portfolio is somewhat insulated from the impact of cross-currency parity changes with the other currencies in the portfolio. At the end of FY 2010/11, the US dollar accounted for 82.4% of the debt compared with 79.2% at the end of FY 2009/10. The proportion of the debt denominated in Euros decreased to 13.6% from 16.1% at the end of FY 2009/10. Yen-denominated loans represent 2.1% of the external stock, while other currencies accounted for the remaining 1.9% (Chart 11).

Chart 11



INTEREST RATE STRUCTURE
FY 2009/10-FY 2010/11
(%)
Table 8

	March 2010	March 2011
Fixed-Rate	77.5	76.2
Variable Rate	22.5	23.8
TOTAL	100.0	100.0

The interest rate structure of the external debt continued to be comprised of primarily fixed rate debt. Of the external debt outstanding at the end of FY 2010/11, 76.2% had been contracted on a fixed rate basis while 23.8% had been contracted on a variable rate basis, thereby ensuring greater predictability in making debt service projections and protecting the portfolio from adverse interest rate movements. The objective of maintaining an appropriate mix of fixed/variable rate debt was achieved.

The low international interest rate environment, resulting from the global financial crisis, continued throughout FY 2010/11. Base interest rates, such as the US 6-month LIBOR, while increasing marginally, were maintained at 0.46% p.a. at the end of March 2011.

During FY 2010/11, the portfolio continued to benefit from the low interest rate environment in terms of savings on interest costs on the variable rate component of the debt. Additionally, as a part of the strategy to minimize costs, some new loans secured over the last two years were contracted on a variable interest rate basis, with the option to convert to a fixed rate whenever interest rates start trending upward.

MATURITY STRUCTURE

The objectives of extending maturities and minimizing rollover risk have been upheld, given the structure of the external debt portfolio which remains predominantly long-term. Based on this, potential refinancing risk has been effectively reduced. Of the new debt contracted during the fiscal year, 50% was at the long end of the curve.

At the end of FY 2010/11, 21.6% of the total external debt outstanding had maturities of up to 5 years, compared with 27.2% at the end of FY 2009/10; 32.8% had maturities of 5-10 years, up from 23.6% in FY 2009/10; and 45.6% had maturities in excess of 10 years, down from 49.2% in FY 2009/10. The shift to the 5-10 year segment is due largely to the scheduled retirement of six global bonds within this period, inclusive of two guaranteed bonds.

Chart 12

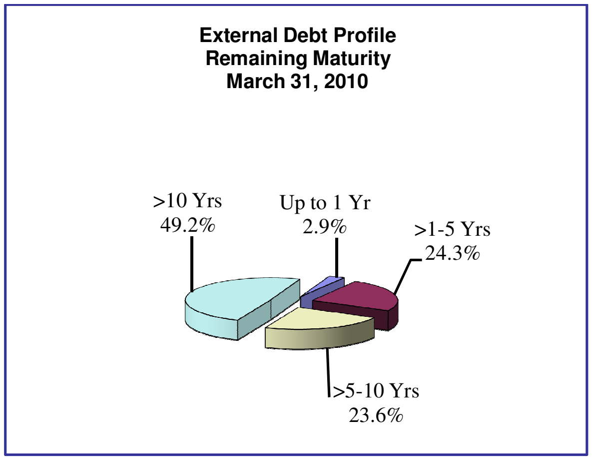
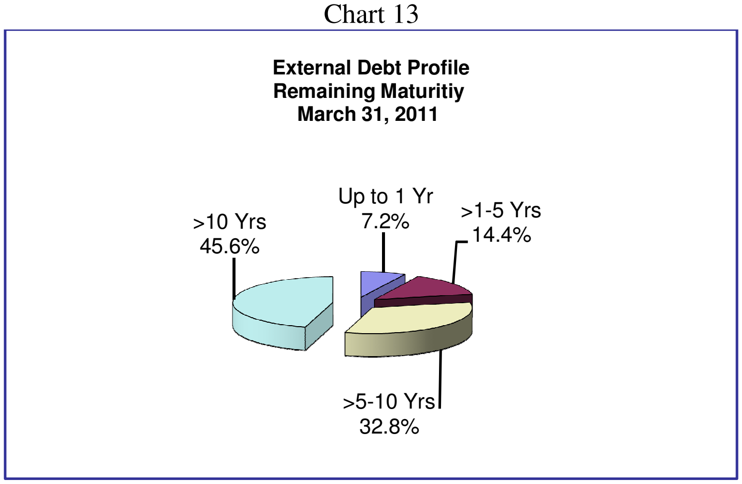


Chart 13



External Debt Indicators

At the end of FY 2010/11, external debt as a percentage of GDP was 62.2%, compared to 60.9% at the end of FY 2009/10. Debt service as a percentage of export of goods and services moved from 12.1% at the end of FY 2009/10 to 11.5% at the end of FY 2010/11. The current debt service ratio continues to remain within the internationally accepted benchmark of 20%.

Debt Forgiveness

Jamaica has, over the years, been a recipient of debt relief from the United Kingdom under various debt initiatives. For FY 2010/11, the Government of the United Kingdom provided debt forgiveness in the amount of £2.41 million under the renewed Commonwealth Debt Initiative. This amount covers principal and interest payments falling due on eligible loans from the United Kingdom Government Overseas Development Assistance (ODA) Programme.

Jamaica was granted this debt forgiveness based on an assessment of selected indicators from the Government's Medium Term Framework (MTF) and the National Development Plan

(Vision 2030). Commencing next year, and for the final three years of the CDI programme, the assessment will be aligned to the International Monetary Fund's and other international financial institutions' programme monitoring.

International Capital Markets

Market conditions in the last quarter of FY 2010/11 were conducive to issuances by emerging market issuers given the volume of liquidity in the market and investors' appetite for high yields. Based on the level of liquidity and investor sentiments gleaned from two non-deal roadshows – one in Europe in October 2010 and another in the US in February 2011 – a decision was taken to re-enter the capital markets in February to pre-fund the US$400mn Bond maturing in May 2011.

Jamaica took advantage of the favourable market conditions and successfully tapped the international capital markets in February 2011 for an amount of US$400mn through re-opening of the US$350mn 8% Bond due 2019 at a yield of 7.95%. The new issue increased the bond size to US$750mn, thereby satisfying liquidity and structural requirements to achieve eligibility for placement in the JP Morgan Emerging Markets Bond Index (EMBI). The issue was approximately three times oversubscribed with a final order book of more than US$1bn. Seventeen of twenty-four US fund managers visited during the Roadshow participated in the issue, thereby registering a 71% hit ratio. The bond has been trading at premium levels in the secondary market since issue. Deutsche Bank and BNP Paribas Inc. were lead managers for the transaction.

Jamaica's bonds performed well compared to other emerging market issuers during FY 2010/11. The trading levels of the Government's Eurobonds were sustained at exceptionally high levels. At the end of March 2011, the bid prices of all Jamaican Bonds were above par and the yields tightened relative to the benchmark US Treasury Note. This is an indication of investors' confidence in Jamaica and demand for the country's bonds.

Country Rating

Annual rating reviews were conducted on Jamaica's credit standing by the rating agencies S&P, Moody's and Fitch Ratings during the fiscal year, as follows:

- In December 2010, S&P re-affirmed Jamaica's long-term foreign currency rating at "B-" and maintained its "Stable" outlook.
- In January 2011, Moody's re-affirmed Jamaica's long-term foreign currency credit rating of "B3". The long-term local currency rating was also re-affirmed "B3". Moody's maintained its "Stable" outlook for Jamaica.
- In February 2011, Fitch Ratings also re-affirmed Jamaica foreign and local currency default rating of "B-" and assigned a "Stable" outlook.

The ratings were supported by the Government's ongoing commitment to fiscal discipline, proven ability to face exogenous shocks, willingness to pay and political stability.

Medium-Term Debt Management Strategy

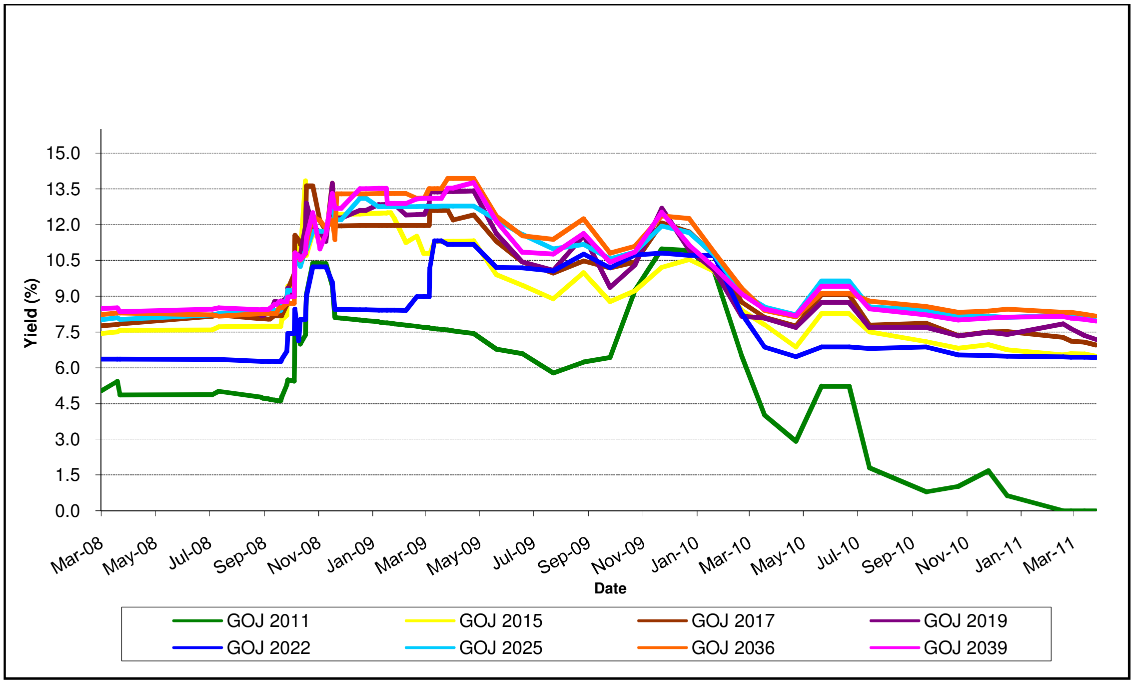
The Government of Jamaica has developed and published its updated Medium-term Debt Management Strategy (MTDS), using the framework developed by the International Monetary Fund (IMF) and the World Bank to help countries develop their MTDS. The MTDS embodies the Government's desire and commitment to proactively manage the public debt and increase transparency. The Government is in the process of drafting legislation for a

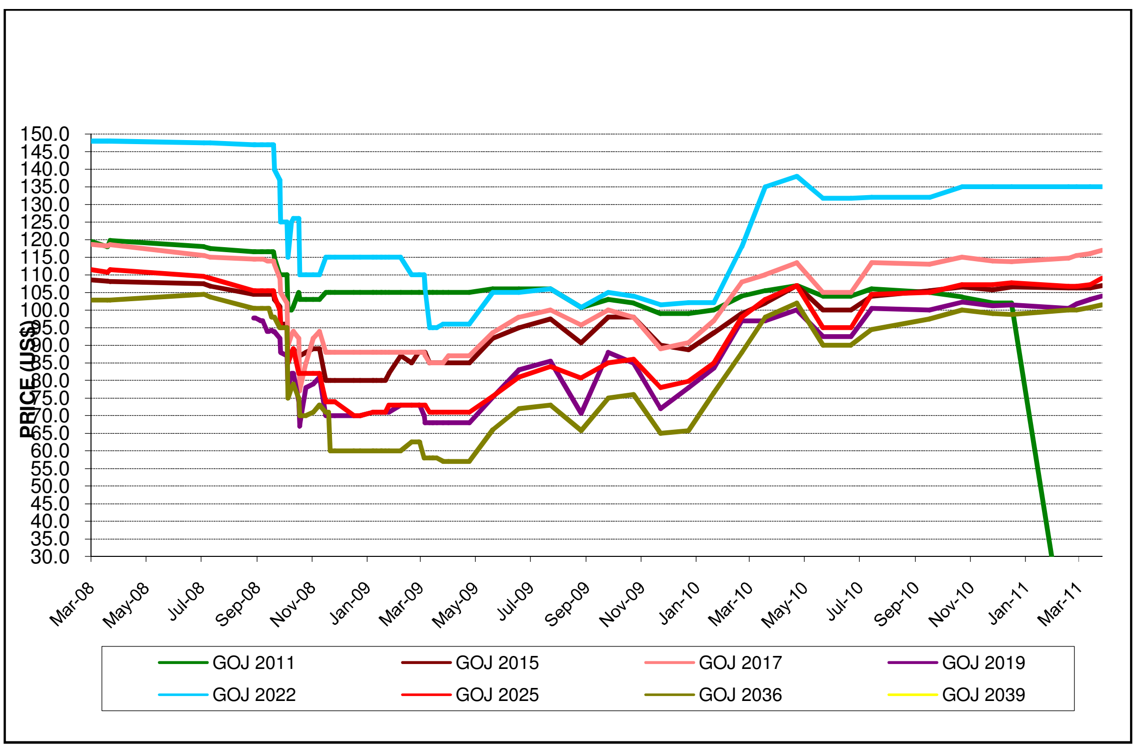
Public Debt Management Act (PDMA), to replace more than twenty public debt-related pieces of legislations. The new Act will seek to maintain transparency in the management of the public debt.

The primary objectives of the MTDS are:

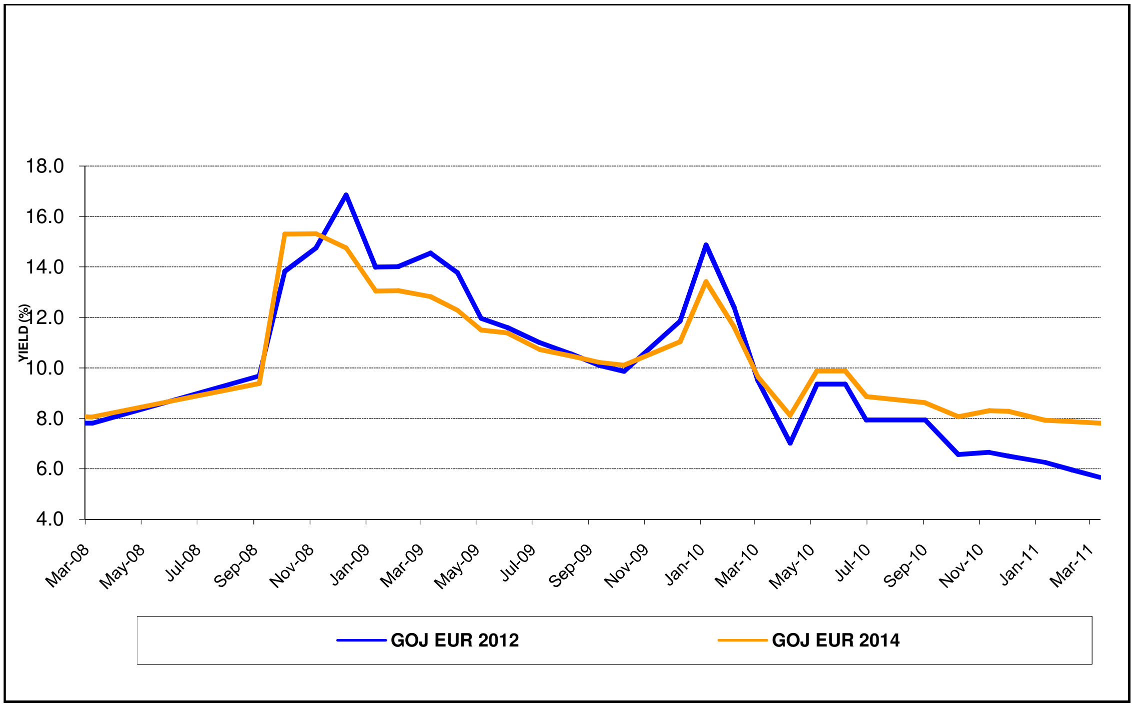
- Ensuring that the funding needs of the Government are met;
- Minimizing the cost of debt in the medium - term and the long term;
- Keeping risks in the debt portfolio at acceptable levels; and
- Promoting the development of the domestic debt market.

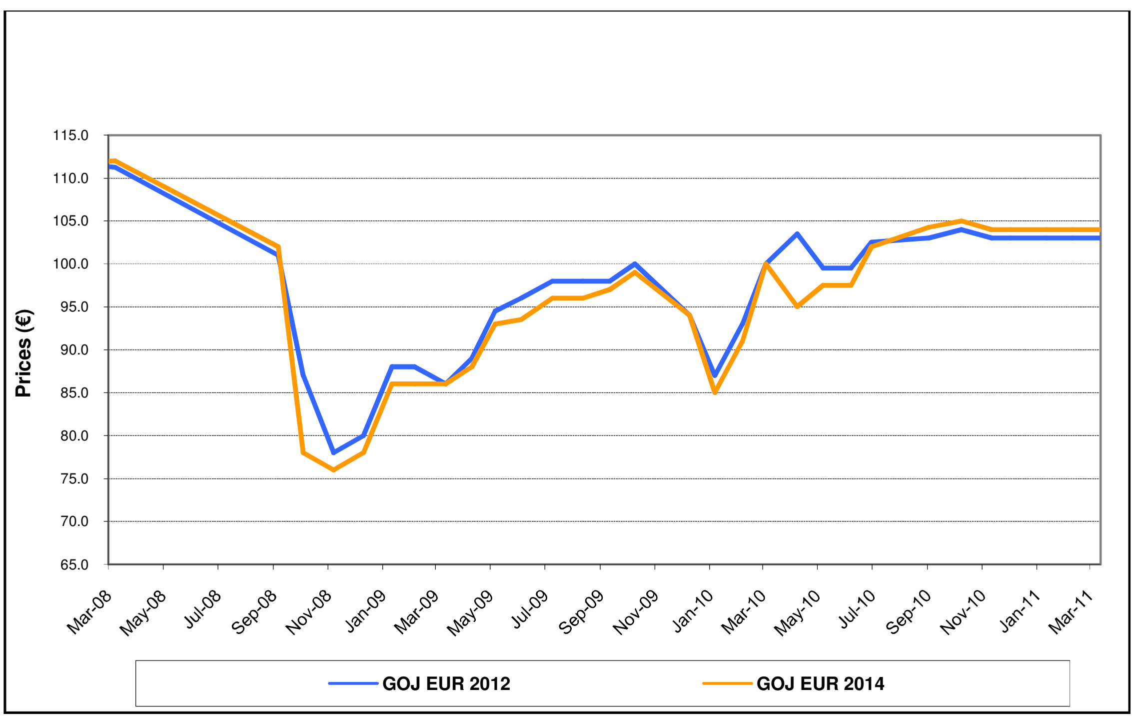
TRADING LEVELS OF GOJ US$ GLOBAL BONDS





TRADING LEVELS OF GOJ EURO DENOMINATED BONDS





APPENDIX 1

PUBLIC SERVICE ESTABLISHMENT PROGRAMME

PENSIONS ADMINISTRATION

Public Sector Pension Reform

During FY 2010/11 the following four (4) major activities under the Public Sector Pension Reform Project were pursued in earnest:

- ***Legal Analysis***: Phase I of the Legal Analysis Consultancy, which involved the review of the existing legislation that governs public sector pensions, was completed.
  The report on the harmonization of public sector pension legislation was presented to the Pensions Reform Steering Committee. This will be combined with the findings of the Legal Analysis Phase II, in order to prepare a policy framework for a harmonized pension system for public sector workers. Phase II of the Legal Analysis Consultancy is scheduled to take place in FY 2011/12 and will aim at analyzing the legal implications, if any, of the 'Business Process Re-engineering' proposal.

- **Study Tour**: A team consisting of five (5) officers from the Ministries of Finance and the Public Service and Labour and Social Security participated in a 'Study Tour' in Stockholm Sweden, between September 27 and October 1, 2010. The team examined the Swedish Pension System and the lessons from the 'Study Tour' were incorporated into the preparation of the Green Paper.
- **Business Process Re-engineering**: The first draft report on the findings of the review of the pension process was received from the consultants and reviewed by the Superannuations Unit, Pensions Administration and the Accountant General's Department. The consultants will prepare a final report of the envisioned re-engineered process as well as the Terms of Reference for the Earnings Database. This consultancy is expected to be completed by September 2011.
  The re-engineering of the business processes is aimed at improving the pensions administration system thus allowing for pensions to be calculated, awarded and paid in a timely manner. In addition, this activity will support the development of an earnings database to keep track of career histories.
- **Green Paper**: Following extensive simulations by the technical team, the first draft of the 'Green Paper' was produced in January 2011 and presented to the Pensions Reform Steering Committee and other critical stakeholders for comments. The comments have been reviewed and will be taken into account when the 'Paper' is re-drafted, following the review and conduct of new simulations using the Pensions Reform Simulations Toolkit (PROST) model.

Increase to Pensioners

For FY 2010/11 an amount of $500.0mn was provided for the granting of increases to pensioners, including spouses and dependents of deceased officers. Approximately 22,800 pensioners are to benefit from the increases, which became effective July 1, 2010. The increases are applicable to pensioners who:

- Retired no later than January 1, 2008;
- Were not less than fifty-five (55) years of age at June 30, 2010;
- Retired on the ground of ill health regardless of their age as at June 30, 2010; and
- Are in receipt of a widows/widowers and dependents pension which commenced prior to 1st July 2010.

COMPENSATION

The compensation function of the Public Sector Establishment Programme (PSEP) has responsibility for public sector job evaluation and wages policy. This policy aims to have modern classification standards and maintain a rational, equitable and competitive pay system within the Jamaican Public Service.

During FY 2010/11, work continued in the following areas:

- Pay revisions/Negotiations;
- Policy Issues/Research;
- Adjudication on Travelling Allowances ;
- Identification of Classification Groups for Pay Adjustments; and
- Classification Issues

Health Sector Reclassification Project

The major activities of the health sector job evaluation/reclassification exercise involved the hearing of concerns from various occupational groups by a second Independent Review Panel consisting of five (5) members. The panel was established based on representations from most groups within the health sector.

The panel's mandate is to work towards resolving the concerns relating to the job evaluation process and the findings are to be presented in the final report after:

- Hearing and assessing the concerns raised by the various health sector groups;
- Determining the merits of each case by reviewing the process, the job evaluation system and the scores; and
- Providing recommendations for resolving the issues.

The panel's report is already finalized and will be submitted to all parties in April 2011.

RESEARCH & ESTABLISHMENT CONTROL

During FY 2010/2011, two (2) Civil Service Establishment Orders were published: the Civil Service Establishment (General) Order 2010 and the Civil Service (General) Amendment Order (2011). They were tabled and approved in Parliament on September 14, 2010 and March 8, 2011 respectively. Preparations for the 2011 General Order have already begun.

The number of established posts in the Civil Service now stands at 41,858 a reduction of 663 posts or 1.56% from the previous year's 42,521 posts.

During FY 2010/11, employment data for self-financing and on-budget Public Bodies were collected from these Agencies. This exercise provides for database updating and compliance with the World Bank Development Policy Loan expected outcomes.
The main Establishment Control activities for the FY 2011/12 will include:

- Providing support for World Bank and IMF programme outcomes;
- Finalizing the Civil Service Establishment (General) Order 2011;
- Updating establishment database for Central Government Agencies, Schools and Colleges, Parish Councils, Executive Agencies, Government funded and self financing Public Bodies in compliance with Ministry of Finance and the Public Service Circular #32;
- Preparing one (1) Amendment Order;
- Improving the information system in the 'Research and Establishment Control Unit' in conjunction with the Information Systems Unit of the MOFPS to enhance data collection and storage.

SCHOLARSHIPS AND ASSISTANCE

During the period under review, the Scholarships and Assistance function of the PSEP had responsibility for the following activities:

- Civil Service Training Programme;
- Bilateral Programmes;
- Donor Programmes;
- Education Grants; and
- Bonding and Compliance.

Civil Service Training Programme

The Scholarships and Assistance Unit (SAU) provided assistance for 300 ongoing awards and one (1) new award.

The Cuban and Russian scholarships continued to account for the largest share of the SAU's budget for payment of stipends to the students. There are currently 200 students in Cuba, 25 in Russia and 23 in China.

Donor Programmes

During FY 2010/11, the SAU acted as the 'point of contact' for the bi-lateral and multi-lateral programmes. Scholarship offers were received from approximately 20 donors with the most active being the following: Malaysia, Malta, Japan, China, Russia, Cuba, the OAS, the Commonwealth Fund for Technical Cooperation (CFTC), UK Commonwealth and New Zealand Commonwealth. A new programme came on stream when the Government of Serbia offered five (5) scholarships to Jamaica.

Approximately 100 new awards were taken up during FY 2010/11. Scholarships were advertised in the press and posted on the 'Scholarships page' of the MOFPS's website as well as sent directly to interest groups.

Education Grants

The SAU assumed responsibility for Education Grants for unions approved under the various Heads of Agreement. Four hundred and twenty three individual and two (2) group awards were processed during the review period.

Bonding and Compliance

The SAU acted as the 'national bonding agency' and provided guidance and advice to awardees and guarantors, as well as to external stakeholders. Approximately 500 awardees signed bond agreements during FY 2010/11.

The SAU continued to sanction defaulters by issuing demand letters to awardees and guarantors, allowing/disallowing waivers and suspensions and conveying approval for the issuing of Letters of No Objection.

INDUSTRIAL RELATIONS

The Industrial Relations Unit (IRU) of the MOFPS focuses on maintaining and enhancing industrial harmony within the Public Sector through the establishment and implementation of sound industrial relations policies and practices.

During FY 2010/11, the Government maintained the Public Sector wage freeze and accordingly no increases in salaries and allowances were negotiated or implemented for the contract period April 1, 2010 to March 31, 2012. Notwithstanding, nine (9) claims were received (eight (8) from Central Government Bodies and one (1) from a Parastatal Agency) for FY 2010/11. The bargaining units were duly re-informed of the wage policy governing the period.

The IRU concluded five (5) outstanding wage negotiations during the review period, making a total of 32 settlements out of the 35 claims received for the contract period 2008-2010. The three (3) outstanding groups are the Dental Surgeons, the Medical Consultants and the Veterinary Officers. The IRU continues to provide technical advice on policy matters to Public Bodies to guide their wage negotiations.

The IRU strives at all times to establish a channel conducive to meaningful dialogue with Trade Unions and Staff Associations. In this regard, the IRU is represented on the newly constituted Public Sector Monitoring Committee and provides chairmanship for several of the special sub-committees.

Another important undertaking of the IRU is the continued collaboration with the Management Institute of National Development (MIND) to implement training in Human Resource Management in the Public Sector for Public Sector Managers and Human Resource Practitioners in keeping with Section (12) of MOU 3 signed with the Jamaica Confederation of Trade Unions. This training which began in January 2009 ended in July 2010 and resulted in 2503 participants being trained. This represents 83% of the targeted number of participants, as a number of targeted participants were not released from their organizations.

The IRU also conducted four (4) 'Grievance Handling Workshops' resulting in 98 participants being trained. This focus was a direct response to increased unresolved grievances being reported to the IRU.

The IRU led and provided technical advice and attended a number of conciliation meetings at the Ministry of Labour and Social Security (MLSS) and the Industrial Disputes Tribunal (IDT). The Unit participated in 20 conciliation meetings at MLSS and fourteen (14) meetings at the IDT. There were 20 reported cases of industrial action in the public sector with one group having five (5) reported incidents. These incidents translated to over 21,000 man hours lost. These incidents were related to salary issues, scheduling of payments of allowances and the Health Sector Job Evaluation Exercise. Industrial Harmony was maintained above 95% during FY 2010/11.

EMPLOYEE BENEFITS

During FY 2010/11, benefits were accessed by public sector workers in the form of group health insurance, staff transportation, loans and grants.

One thousand, two hundred and twenty individuals accessed loans, including motor vehicle and tertiary assistance loans, amounting to over ($333.0mn), while a total of ($13.1mn) was paid out to individuals for refund of tuition costs.

A fleet of 17 buses provided transportation for 670 public servants. The cost to provide the service was $48.6mn.

The special benefits function of the PSEP also involves administering four (4) group health insurance schemes, namely, the Medical Officers Plan, Senior Executive Plan, Government Employees Administrative Services Only (GEASO) Plan and the Government Pensioners Administrative Services Only (GPASO) Plan.

There are 76,291 public servants plus 113,452 dependents on the GEASO Plan. This is a co-payment plan where employees pay 20% and the government pays 80% of the premium rates. The cost of government's portion of the plan during FY 2010/11 was $2, 500mn. The overall cost for all four (4) plans was $2,800mn during FY 2010/11.

MOU SECRETARIAT

At the end of FY 2009/10, the life of the MOU III Agreement came to an end, and in October 2010 the Public Sector Monitoring Committee (PSMC) was launched to succeed the MOU III Monitoring Committee. The MOU Secretariat Unit, which functioned as the secretariat for the Public Sector Monitoring & Evaluation Committee (Monitoring Committee) that had existed under the Memorandum of Understanding (MOU III) Agreement, was charged with providing technical support to the PSMC and its sub-committees, as well as focusing on the programmes implemented under the MOU III Agreement. Chief among those programmes was the Human Resource Management for the Public Sector training programme which ended in July 2010.

The MOU Secretariat was renamed the "Strategic Support Unit" with effect from February 2011, to accurately reflect the diverse nature of the Unit's function.

In addition to its secretariat functions, the 'Unit' provided technical support for public sector initiatives under the remit of the MOFPS and in conjunction with the OPM/Cabinet Office. Public Sector human resource policies and practices were also researched and technical advice provided to public sector functionaries during FY 2010/11.

APPENDIX 2

PUBLIC SECTOR REFORM

The Public Sector Modernization Vision and Strategy, 2002-2012, has completed its eighth year of implementation, having commenced in FY 2003/04. The commissioned review of Ministry Paper 56/2002 in 2006 provided a consolidated report on the status of achievements of the modernization programme since inception. The review proposed a new Medium Term Action Plan (MTAP) to sharpen focus on the priority actions aligned to the overall development agenda. The modernization programme has made significant achievements, as highlighted in annual reports available at http://www.cabinet.gov.jm/doc-archive.asp.

The MTAP, driven by clear targets and expected outcomes, will assist with 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 modernization 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 the modernization 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 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:

- Inter-relating strategies and activities for 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 improved communication of good practice and innovation. The engagement of citizens and civil society in modernization efforts will also be enhanced.

FY 2010-2011 REVIEW

The Public Sector Modernization Division (PSMD) of the Cabinet Office continued to concentrate its efforts on core modernization activities centered on four strategic directions, as recommended in the revised MTAP, 2008-2012. The activities being implemented are, in large part, strategies to improve Results Based Management across government while ensuring the programme directly supports the Government's articulated priorities.

A: Focusing on Service Delivery

With improvement in service delivery across government as its primary theme, the activities of the modernization programme continued to focus on simplifying business processes, introducing and boosting existing mechanisms to monitor and evaluate customer service and the continued strengthening of 'Performance Based Institutions'' capacity to deliver high quality services.

Customer Service Improvement & Business Facilitation

In FY 2010/11, the Jamaica Import/ Export Inspection Centre (JIEIC) continued to be a central location from where the regulatory agencies operated, offering a more coordinated and efficient process for the inspection of traded goods. The JIEIC houses, under one roof, all the regulatory agencies with responsibility for human health and safety, animal health and plant health. The centre spans the operations of three (3) Ministries, namely:

- *Agriculture & Fisheries;*
- *Industry, Investment and Commerce; and*
- *Health*

The Jamaica Customs Department is also located at the JIEIC to facilitate the 'One Stop Shop' operations.

The JIEIC is referred to as the *"One Stop Shop"* as it affords customers/ stakeholders the opportunity to access multiple government services in a single location. The "*One- Stop Shop"* modalities are being introduced across government to eliminate duplication of processes and to enhance the convenience and efficiency of doing business.

The *One- Stop Shop* facility seeks to:

- Serve as a central location to coordinate inspection of imported goods;
- Achieve quicker inspection processing time;
- Make representatives of regulatory agencies more accessible;
- Keep pace with global trends in trade facilitation to boost trade competitiveness and attract investment;
- Protect the Jamaican border and safeguard animal, plant and public health more effectively.

The opening of the facility marked a big step towards creating a more friendly business environment. The facility is expected to continue to play a pivotal role in attracting new investment while better meeting the needs of existing customers.

Consultations have been undertaken to establish a similar "One Stop Shop" in Montego Bay. A steering committee has been established and a project plan has been developed to guide its establishment. The new centre is expected to be opened in the first quarter of FY 2012/13.

Public Sector Customer Service Competition

The competition for FY 2010/11 was launched in June 2010 and the deadline for submission of nominations was December 2010.
The judges' panel has examined the over 28,000 nominations which were submitted *via* online voting, an island-wide telephone survey, toll free calls and nomination boxes, which were placed at the various agencies. The Award Ceremony will be held in May 2011 with participating agencies vying for awards in the following main categories:

- *Best Customer Service Agency;*
- *Most Improved Agency;*
- *Most Creative/Innovative Agency;*
- *Best Customer Service Officer*

Prizes will also be awarded in sectional categories, such as: *Best Hospital; Best Post Office; Best National Insurance Scheme (NIS) office; and Best Parish Council Office, among* others.

The Government is expanding the National Customer Service Programme as part of overall efforts to modernize the public sector. Greater emphasis has been placed on the delivery of key products and services by public sector entities, particularly in relation to some of the priorities of Jamaica's National Development Plan, Vision 2030. In order to promote continuous improvement in public sector performance, a number of activities have been pursued, including regular consultations with clients and exploration of alternative service options to ensure efficient service provision.

Citizens' Charters

The PSMD continued to actively promote the development of service delivery management capacity in entities and the formulation of Citizens' Charters to ensure a more informed public and increased accountability by public sector entities. As at end March 2011, over 130 government entities have implemented basic customer service measures and minimum standards for service delivery.

Customer Service Monitoring and Evaluation Framework

The Customer Service Monitoring and Evaluation Framework, which has been designed to help organizations identify critical service delivery shortcomings and put in place measures to address and track service delivery progress over time, is being implemented in thirteen (13) public sector entities with the expectation that the framework will be fully operational by the end of FY 2011/12. Implementation of the framework will provide avenues for customers to make inputs and influence the improvement of government services. Service improvements and policy changes can be informed by evidence-based performance measurement, through detailed and measurable information on entities' performance.

In order to facilitate the roll out of the framework across the public sector, a standardized curriculum has been developed and the first cohort of entities commenced training in March 2011 at the Management Institute for National Development (MIND).

National Customer Service Policy

Work continued on the draft National Customer Service Policy**.** The draft policy is being reviewed to incorporate alternative service delivery and additional policy elements which have been identified. The policy is expected to be finalized and submitted to Cabinet for approval by March 2012. The policy is expected to strengthen the overarching framework governing the National Customer Service Programme by which all public sector entities will operate in relation to service delivery. It will also provide the foundation for promoting a strong customer service focus throughout government.

National Assessment Feedback Tool Kit

A National Assessment Feedback Tool Kit has been developed to provide a standardized basis for organizations to assess their service performance. It is envisaged that this tool will also be supplied in the planned Enterprise Content Management Software, for which specifications have already been defined and procurement initiated.

Data Sharing and Transfer Pricing Policy

Advanced work was undertaken towards the development of a Data Sharing and Transfer Pricing Policy, to improve the ability of the public sector to deliver quality and timely service to citizens, through the sharing of data among government entities.

A Draft Data Sharing Policy has been prepared. Technical assistance is being procured to conduct a cost benefit analysis for the sharing of data with the recommendations to be incorporated into the Data Sharing Policy for completion. Further consultations have been ongoing to finalise the Transfer Pricing Policy, which has been informed by an Economic and Pricing Strategy report which was prepared by the Policy Development Unit, Public Sector Modernisation Division.

Development Approvals

Work to revamp the entire application process for Development Approvals continued towards the achievement of a strict ninety (90) day response timeframe for all applications. The Cabinet Office also continued its partnership with key agencies including the Local Government Department, National Environmental and Planning Agency (NEPA) and other key stakeholders in the public and private sectors, towards achieving a number of targets.

Development Assistance Centre

A '*Development Assistance Centre*' to assist developers throughout the development application process was opened in June 2010 on a pilot basis. It was officially opened in March 2011 by the Honourable Prime Minister. The 'centre' has been established to assist developers of large projects to adequately prepare their applications to achieve approval within the Government's 90 day processing time after formal submission.

The PSMD provided project planning support to the project. Implementation of the ***AMANDA*** system (a web-enabled tracking and monitoring software - in this instance it is being used to store and track applications pertinent to development permits) was completed in four (4) Local Authorities and the preparatory process started in another four (4), namely, Clarendon, St. Elizabeth, Trelawny and Hanover.

Prime Minister Bruce Golding officially opening the National Environment & Planning Agency's (NEPA) Development Assistance Centre in Kingston, March 16, 2011

The ***AMANDA*** system will store and track applications made for development permits in the Parish Councils, NEPA and other referral agencies.
It is expected to accelerate the development applications approval process by monitoring and tracking all information related to applications for development permits and assist officers to detect glitches in the application process. The system also allows applicants to track the status of their applications online, throughout the process.

The PSMD continued to provide monitoring of the Master Project Plan developed for streamlining of the Development Applications Process (DAP), and technical support as required.

Preparation of the National Spatial Plan

The Government of Jamaica (GOJ) has identified the need to put in place an up-to-date ***National Spatial Plan*** which is an integral component of the National Development Plan (NDP), Vision 2030. In keeping with the theme of business facilitation, the PSMD has completed a project undertaken in conjunction with key stakeholders, which has led to the collection and conversion of these geospatial sets to support the preparation of the National Spatial Plan.

A Central Depository for geospatial data has been established and work has begun towards the collection of detailed Spatial Data for local spatial planning in four (4) parishes.

Creation of additional Executive Agencies and other Performance Based Institutions

Under the 'modernization programme', there has been ongoing establishment of Performance Based Institutions (PBIs) across the Public Sector. These PBIs are in the form of Executive Agencies, policy-focused Ministries and other types of entities. The PBIs are specifically structured to ensure a focus on service delivery and the desired results with accountability.

During FY 2010/11, the Forestry Department was gazetted as an Executive Agency. The PSMD provided support in a number of areas related to the implementation of the '*modernization plan*', and will continue to do so during FY 2011/12.

A Scheme of Management (SoM) was developed for the transformation of the Fisheries Division into an Executive Agency. The PSMD worked with a team from the Ministry of Agriculture and Fisheries to revise the 'SoM' for approval and also provided financial support in the recruitment of a Human Resource Manager and Financial Manager in the Fisheries Division to support the process.

Jamaica Customs continues to be supported by the PSMD in its transition to Executive Agency designation with respect to, inter alia, change management, job classification and development of the human resource transition policy.

During FY 2010/11, the PSMD worked closely with the Ministry of Education to support implementation of that Ministry's modernization plans, in relation to:

- The establishment of the National Education Inspectorate (NEI);
- The modernization of the ministry;
- Defining the institutional framework for the governance and operation of the Regional Offices.

The PSMD was thus able to provide support to allow the Ministry of Education to accomplish the following:

- Finalisation of the structure for the NEI for its establishment as a PBI;
- Development of functional profile and job descriptions for the top structure of the ministry;
- Provision of Change Management and Culture Management training for staff in the ministry and some Regional Offices.

The PSMD continued to support the Ministry of Justice (MOJ), in its preparation to implement the recommendations made in the Justice System Reform Task Force Report of June 2007. During FY 2010/11 work continued on:

⇨ The operationalisation of the Court Management Services entity to facilitate more efficient operations of the Court system by relieving the Judiciary of its administrative services; and

⇨ The transformation of the MOJ into a policy focused ministry:

During FY 2010/11, a Scheme of Management, for the National Public Health Laboratory and Blood Transfusion Agency (NPHLBTA), was approved by the Ministry of Finance and the Public Service. The PSMD has been assisting the Ministry of Health in the implementation of the Modernization Plans with commitment to assist with an equipment audit, skills audit and change management intervention. A modernized public health lab and blood transfusion service will be equipped to detect national health threats early and, therefore, inform proactive steps to combating health risks

B: Improving, Governance and Accountability

The "Regulations for the Executive Agencies Act" were approved by Cabinet in 2009 and passed by Parliament in FY 2010/11. The PSMD provided support for the drafting of instructions to the Chief Parliamentary Counsel for the amendment of the Executive Agencies Act to allow for, inter alia, pension portability among Executive Agencies (EAs).
The 'Regulations' and proposed amendments to the (EAs) Act will strengthen the (EAs) Model, increase efficacy and facilitate the creation of new EAs.

The PSMD continued to support the implementation of the approved Accountability Framework. In particular, the sensitization of Permanent Secretaries and Chief Executive Officers of Executive Agencies to the new performance agreements was completed. The PSMD has ensured alignment of the 'framework' to the 'Draft Corporate Governance Framework'.

The 'Draft Corporate Governance Framework' for Public Bodies (PBs) was prepared and submitted to Cabinet for approval in FY 2010/11. While Cabinet approved the 'framework', it has requested that clarification be provided on some elements of the 'framework' in order that it can be implemented. The 'framework' includes procedures for appointing Boards of Directors and principles to improve accountability structures, capacities and responsibilities of Boards of PBs.

The Independent Commission of Investigations was established in FY 2010/11. The Commission is expected to improve investigations into public complaints concerning misconduct by members of the security forces.

Cabinet gave approval for the development of a 'Decentralization Policy' to provide guidance on improving access and responsiveness of government services to local populations. The PSMD has provided leadership in the development of a 'Draft Decentralization Policy'. Consultation Workshops have been held to allow broad-based review by stakeholders.
The draft policy is being amended to include these recommendations and for submission to Cabinet for approval.

The PSMD has developed a Green Paper for the establishment of the Environmental Regulatory Authority (ERA) which will have the primary responsibility for environmental policy, compliance, monitoring and enforcement. The Green Paper has:

- identified the aims, functions and operations of the ERA; and
- defined the working relationships between the ERA and other agencies of Government that have responsibility for the environment to eliminate duplications, gaps and uncertainties between the various roles and functions.

It is proposed that the ERA will regulate both the private and public sector with regard to all projects with significant environmental problems.

The Green Paper has been laid in Parliament for debate. A steering committee has been established to guide the establishment of the ERA. It is expected that following approval by Parliament, the PSMD will provide the leadership and guidance toward the establishment of the ERA.

C: Managing For Results

I. Public Financial Management

A major thrust of the GOJ remains the utilization of aggressive efforts to reduce waste and improve overall efficiency. Through the “Managing for Results Program for Development” (PRODEV) - a GOJ and InterAmerican Development Bank (IDB) partnership - key targets were pursued as outlined in the MTAP under the primary focus areas below:

(a) Linking Planning and Budgeting

A ‘Public Investment Prioritization Framework’ for prioritizing government investment projects was approved by Cabinet in November 2009. The ‘framework’ establishes a mechanism for ranking investment projects for budgetary support.

In support of the ‘framework’, indicators and weights have been developed in FY 2010/11 to inform the prioritisation process.

A Medium Term Expenditure Framework (MTEF) has been developed and a steering committee comprising representatives from the Cabinet Office, Ministry of Finance & the Public Service and Planning Institute of Jamaica, has been established to guide the formulation of sectoral MTEF in six (6) Ministries. In FY 2010/11 twenty two (22) senior officers were trained in MTEF.

(b) Modernizing Procurement and FinancialManagement Systems

The GOJ in April 2011 signed a contract with the IDB for the purchase of an e-procurement system. Additionally, *‘Standard Bidding Documents’* have been introduced and are being used for all government procurement.

In FY 2010/11, Cabinet gave approval for the separation of the ‘General Secretariats’ of the National Contracts Commission and the Office of the Contractor General. The implementation of the separation has begun and will be completed by June 2011.

A ‘*Draft Chart of Accounts and Budget Classification Code’* has been prepared and is being reviewed by stakeholders. In addition, a draft training manual for the ‘Code’ has also been prepared and is being reviewed by stakeholders.

(c) Performance Monitoring and Evaluation

The Performance Monitoring & Evaluation Unit (PMEU) was established within the Cabinet Office in June 2010. The PMEU will lead the ‘*Whole-of-Government Planning Process*’ support the identification and interpretation of government strategic priorities and lead the design of monitoring and evaluation systems across government.

The recruitment of the head of the PMEU and most of the technical staff has been finalized. The Cabinet has approved a Performance Monitoring & Evaluation System (PMES) and implementation of the PMES has commenced in eight (8) pilot ministries. A new *Strategic Business Plan* has also been introduced and draft Strategic Plans are being prepared by the 8 pilot ministries.

(d) *Audit System*

The National Audit Office of the United Kingdom provided training in 'Value for Money Audit' to the staff of the Auditor General's Department. Value for Money Audit (VFM) is now being done and a report on NEPA has been tabled in Parliament. An additional two (2) VFM audits have been undertaken and their reports are being prepared for submission to Parliament.

(e) Capacity Building & Dissemination

During FY 2010/11, over one hundred & eighty (180) technical officers were trained in a wide cross-section of areas, including:

- ✓ Consultancy skills – twelve (12) persons trained;
- ✓ Developing Deliverable Evidence-Based Policy – twenty-nine (29) Policy Analysts trained;
- ✓ Management Analysis – twenty-five (25) officers in training;
- ✓ Public Private Partnership & Private Infrastructure Finance – twenty-five (25) Senior Managers from Ministries and Public Bodies;
- ✓ Customer Service Monitoring and Evaluation – sixty-five (65) officers trained.

II. Managing Human Resources

Since implementation of the Performance Management and Appraisal System (PMAS) commenced in 2004, most line ministries have received technical assistance to support implementation of a PMAS focused on managing performance at the individual level.

Support and guidance for the continued roll-out of the PMAS was provided to the Consumer Affairs Commission, National Library of Jamaica, Jamaica Constabulary Force, Ministry of Justice, Ministry of Tourism, Ministry of Youth, Sports and Culture, the Forestry Department and the Early Childhood Commission.

During FY 2010/11, a Project Implementation Guideline Template was developed to assist entities in the implementation process and to assist the PSMD in monitoring the agencies implementing PMAS.

Work continued through consultations with the Public Sector Transformation Unit (PSTU) towards the establishment of a strategic human resource management function within the Cabinet Office. The introduction of strategic human resource management will allow for the linking of the human resource function to agreed strategic objectives to support the achievement of those objectives in a coordinated and coherent way.

D. Improving Change Management and Communication

In order to support the implementation of a Government-wide change programme**,** a '*Readiness Assessment Tool*' was developed to be utilized by public sector entities undergoing any type of change. Change mentors have been trained to provide ongoing support within these organisations. Work also commenced on the implementation plan for a Change Management Strategy in the establishment of the Central Treasury Management System.

KEY ACTIVITIES FOR FY 2011/12

The PSMD will continue to concentrate its efforts on core modernization activities centred on the strategic directions as recommended in the Revised MTAP, 2008-2012. Key activities under the four strategic directions are as follows**:**

(i) Service Delivery

- Establish a food safety 'One- Stop Shop' in Montego Bay;
- Support capacity building of staff in the targeted local authorities to use and manage the web based tracking system (AMANDA);
- Finalize the 'development approval process fee' policy for Cabinet's approval and undertake a public education campaign to inform stakeholders;
- Support the implementation of the Customer Service Monitoring and Evaluation System in thirty (30) Ministries, Departments and Agencies (MDAs);
- Stage the fifth (5th) customer service competition awards ceremony;
- Facilitate the conduct of the Customer Service Monitoring and Evaluation training at MIND;
- Finalize the Customer Service Policy and ongoing roll out of the National Customer Service Programme;
- Oversee the ongoing establishment and review of Executive Agencies and other PBIs;
- Oversee the ongoing organizational review and staffing in MDAs including ODPEM, Institute of Jamaica, National Land Agency, Early Childhood Commission, Jamaica Cultural Development Commission, Office of the Public Defender, Office of the Prime Minister and Ministry of Water & Housing.

(ii) Improving Governance and Accountability

The Government will continue to improve governance and accountability to ensure transparency and prudent management of public resources. This includes plans to:

- Implement a Corporate Governance Framework;
- Finalize Decentralization Policy and submit to Cabinet for approval, and design a pilot for implementation;
- prepare a 'White Paper' on the Environmental Regulatory Authority for submission to Cabinet and provide support for its implementation once approved;
- Conduct sensitization sessions on the Executive Agency Regulations;
- Develop a '*Policy & Procedures*' manual for the operation of Executive Agencies;
- Support continuing implementation of the PMAS.

(iii) Managing for Results

Key activities to be undertaken under this strategy include the following:

- Implementation of a Performance Monitoring and Evaluation framework;
- Commencement of the policy development process for a Performance Management Policy;
- Continued rollout of the Medium term Expenditure Framework (MTEF)

(iv) Change Management and Communication

Key activities to be undertaken include the following:

- Development of a Modernization Tool Kit;
- Development and implementation of the methodology and plan for evaluation of the Modernization Vision & Strategy 2002-2012;
- Introduction of a Culture Analysis in entities to be merged under the public sector transformation programme.

(vi) Managing Human Resources

The Key activities to be pursued are:

- Development of a framework document and methodology for Public Sector Succession Planning; and
- Development of a Leadership Competency and Development Programme.

APPENDIX 3

DEVELOPMENTS IN THE FINANCIAL SECTOR

During FY 2010/11, efforts to ensure that Jamaica's financial sector remained stable were strengthened.

Strengthened Legislative Framework

Over the review period, the regulatory framework was significantly enhanced with the enactment of several pieces of legislation. In addition to these enactments, the Government, through the Ministry of Finance and the Public Service (MOFPS) and the regulatory authorities, continued to review the legislative framework and monitor both local and international developments to determine whether there were any potential threats to the stability of the sector.

In this regard, the achievements during FY 2010/11 are highlighted below.

Enactment of the Credit Reporting Legislation

In FY 2010/11, the legislation to facilitate the establishment of a credit reporting system was enacted. The enactment of the '*Credit Reporting Legislation*' will facilitate the licencing of a Credit Bureau. Information gathered from the Credit Bureau will assist financial institutions in assessing the credit risks of potential clients. In addition, the ability of institutions to assess the credit risk of consumers will potentially improve access to more affordable finance. The Bank of Jamaica has been designated the supervisory authority and will have regulatory oversight for the operations of the Credit Bureau and the credit reporting system.

The accompanying 'Regulations', which set out the administrative details of how the 'bureau' should be supervised, were also passed in Parliament.

The Payment Clearing and Settlement Act

The legislation was enacted during the review period and the legal framework is now in place for regulation of the National Payment System. The Bank of Jamaica is the regulator of the 'payment system'.

Amendment to the Industrial and Provident Societies Act

The amendments to the 'Act', which sought to improve the supervisory framework and to update the fees, were passed in the Houses of Parliament and subsequently enacted. The Registrar of Co-operatives and Friendly Societies now has regulatory oversight for industrial and provident societies.

Amendment to the Deposit Insurance Act

Amendments to the Deposit Insurance Act were also enacted. The amendments sought to address the weaknesses that were found in the legislation and to give recognition to certain categories of persons when making determination on deposit insurance entitlement.

Pension (Superannuation Funds and Retirement Schemes) Amendment and Validation Bill

Several drafts of the Bill have been circulated to stakeholders for review.
The amendments seek to address the following issues:

- Revision of licence fees to be paid by the investment managers on initial grant of licence and subsequent renewal;

- Conditional registration of superannuation fund or retirement schemes given certain circumstances; and

- Revision of the contribution limits to ensure consistency with limits in the Income Tax Act.

The Insurance (Amendment) Act

During FY 2010/11, several drafts of the legislation were circulated for review. The amendment seeks to: address weaknesses identified in the legislation; and harmonize the procedures for hearings, appeals and the treatment of unclaimed balances, with other financial sector legislation. The Bill has been submitted to the Legislation Committee of Cabinet.

The Omnibus Legislation

A Cabinet Submission was prepared to provide for an '*Omnibus Legislation*' which would allow for more effective supervision of financial conglomerates. Cabinet approval was received and drafting instructions were issued to the Chief Parliamentary Counsel to have the legislation drafted. Preliminary drafts of the Bill were circulated to stakeholders for comments.

The Omnibus Legislation seeks to harmonize the prudential standards that apply to commercial banks, merchant banks and building societies, while maintaining provisions that are specific to a particular type of institution.

Amendment of the Bank of Jamaica Act (Financial Stability)

In FY 2010/11 Cabinet gave approval for drafting of the 'Bill' to amend the Bank of Jamaica Act and the requisite instructions were issued to the Chief Parliamentary Counsel. The amendment to the Bank of Jamaica Act seeks to establish the legal framework to provide the Bank of Jamaica with the responsibility for overall financial stability.

Enhanced Regulatory Framework for Monitoring Money Lending Institutions

A draft policy document was prepared and circulated to stakeholders for comments. Consultations were held with members of the industry and a questionnaire was sent to them, in order to get feedback on some issues.

Secured Transactions Framework

Cabinet approval was received for the establishment of a "*Secured Transactions Framework*". The Bill has been drafted and circulated to stakeholders for comments. The proposed legislation seeks to increase access to finance through the secured transaction framework.

Mobile Banking Framework

During FY 2010/11, extensive research and consultations were undertaken to determine the requisite level of legal and regulatory framework to facilitate the use of mobile devices for financial transactions.

Financial Institutions Services Limited (FIS)

The Financial Sector Adjustment Company (FINSAC) continued efforts to sell remaining properties, sundry assets and artwork under its control. Given the challenging economic environment, this process has been slow.

For the period January 2010 – February 2011 FINSAC/FIS received approximately US$8.1 mn for its share of collections for loans sold to the Jamaica Redevelopment Foundation (JRF).

Of note, the audits for financial years ended March 2007, 2008, 2009 and 2010 for FIS and FINSAC have been completed.

Following the judgement against Eagle Financial Network, the FIS received proceeds from the sale of four (4) properties and rental collections for the September 2000 to March 2011 period. However, the FIS is still awaiting the court date for hearing of the appeal brought by Eagle Financial Network.

As part of the out-of-court settlement with the former chairman of Blaise, the 60% shareholding in Greenlight Car Rental and Transport Limited was transferred to FIS. Greenlight owned 33% of the issued ordinary shares in United Motors Limited. These shares were valued and are being sold to the majority shareholder.

With respect to the FINSAC Commission of Enquiry, the FIS continued to carry out the necessary research to provide information requested by the Commission. The General Manager of FIS has appeared before the Commission to give evidence and is expected to be recalled to tender new documents into evidence and for further questioning.

Activities undertaken by Financial Investigation Division (FID)

During FY 2010/11, the Financial Investigation Division (FID) continued to work with the Jamaica Constabulary Force (JCF), Jamaica Customs Department and other local Entities, as well as international counterparts. In keeping with the Proceeds of Crimes Act (POCA), the 'Division' received in excess of 111,778 and 245,624 Threshold and Suspicious Reports, respectively.

Other areas of activity included the provision of Due Diligence Checks (DDCs) for Government Entities (especially the Bank of Jamaica). Also of note was the continued enhancement of the working relationship between the FID (the Designated Authority under the POCA) and the 'Regulators' who are tasked with the responsibility of regulating the activities of the financial sector.

The FID continued to aggressively pursue financial investigations aimed at identifying money laundering offences, instituting civil recovery proceedings and confiscation of cash seized by the JCF and the Customs Department.

The cross border movement of funds form, which was finalized by the Ministry of National Security, was gazetted and is now in use at the ports of entry.

The FID applied for membership in the Egmont Group (the International Grouping of Financial Intelligence Units) and was invited to a meeting in Aruba aimed at sensitizing the group on its progress. In keeping with Jamaica's international obligation, the Caribbean Financial Action Task Force (CFATF) will be carrying out the country's mutual evaluation during the next fiscal year. The FID's preparation for this exercise is well advanced.

Proposed Areas of Focus for FY 2011/12

For the FY 2011/12, efforts will concentrate on the following:

- Facilitating the amendment of the Bank of Jamaica Act to give overall responsibility for financial sector stability to the Bank of Jamaica;
- Facilitating the amendment of pensions legislation to provide for conditional registration of superannuation funds and retirement schemes;
- Creating an Omnibus Legislation for the institutions supervised by the Bank of Jamaica;
- Developing legislation to provide for the establishment of a monitoring regime for money lending institutions;
- Developing legislation to provide for the establishment of a Compensation Fund/Scheme for insurance companies;
- Facilitating the enactment of legislation for the establishment of a Secured Transaction framework;
- Divesting/disposing of the remaining assets under FIS's control;
- Settling the issues in dispute arising from the sale of the loan portfolio of JRF; and
- Finalizing and resolving outstanding pension and litigation matters.

APPENDIX 4

TAX ADMINISTRATION

FY 2010/11 REVIEW

During FY 2010/11, Tax Administration was further strengthened through the reform project to address chronic weaknesses and inefficiencies in tax and customs administrations, whilst meeting the International Monetary Fund (IMF) Stand-by Arrangement (SBA) conditionalities. The major objectives of the reform project are:

- To improve the institutional protocols for administering customs duties and domestic taxes;
- To adopt a risk based customer-centric business model; and
- To modernize and re-engineer the operational and managerial processes and mechanisms.

The three major deliverables are:

a) The establishment of a Semi-Autonomous Revenue Authority (SARA) by April 2012;
b) The incorporation of the Revenue Appeals Department under the MOFPS in FY 2011/12; and
c) The transformation of Customs into an Executive Agency (EA) by April 2013.

Extensive technical assistance and project management support to guide both domestic tax and customs in the reform and modernization efforts were provided, and are being provided, by several organizations such as: the IMF; United States Agency for International Development (USAID); Promote, Renew, Invigorate, Develop and Energize (PRIDE) Jamaica; Jamaica Chamber of Commerce (JCC); US Treasury – Office of Technical Assistance (OTA); US Embassy; Inter-American Development Bank (IDB); and Caribbean Regional Technical Assistance Centre (CARTAC). Technical assistance was provided in the areas of:

- Large Taxpayer Office (LTO);
- Debt Management;
- Audit Training;
- Taxpayer Service;
- Returns Processing;
- Risk Management;
- Structure Design;
- Human Resource and Budget; and
- Process Mapping.

Project management support covered areas such as the:

- Project Plan;
- Project Cost Estimate;
- SARA Business Case;
- Executive Profile and Recruitment; and
- Change Management.

The new domestic tax organization, Tax Administration Jamaica (TAJ) will come into being on May 1, 2011. TAJ will have full authority for administering all the domestic tax laws. Administration of tax laws is currently vested in the individual Commissioners of the various tax departments. The new structure allows for a separation of headquarters function from field operations. It will also provide a clear chain of command for all entities (tax offices, service centres, and the LTO - each with a single head) and functions (e.g. taxpayer registration, collections and enforcement, audit and investigations).

Additional changes effected by the amendment to the Revenue Administration Act (RAA) include:

- The transformation of Customs into an Executive Agency;
- The separation of Taxpayer Appeals from Tax Administration to being a Division under the MOFPS;
- The integration of Taxpayer Administrative Services Department (TASD) and the two (2) remaining domestic tax departments, Inland Revenue Department (IRD) and Tax Audit and Assessment Department (TAAD) under a Commissioner General, Tax Administration with three divisions, namely, Operations; Legal; and Management Services. Each division will be headed by a Deputy Commissioner General.

The Customs Department was initially targeted to commence operations as an EA on April 2011, but has been rescheduled for April 2012. The transition process is divided into three phases:

- Strategic Review;
- Scheme of Management; and
- Implementation Plan.

The first and second stages have been completed and approval given for the third stage, where implementation is now anticipated to begin shortly.

In FY 2009/10, four (4) new units, namely Customer Care Centre (CCC), Forensic Data-mining Intelligence Unit (FDIU), Large Taxpayer Office (LTO), and Special Enforcement Team (SET) were introduced under the domestic tax reform project.

The CCC is one of the pillars of TAJ's mechanism to revolutionize taxpayer service and improve compliance. It is designed to be the central point of taxpayer contact for information and education.

The FDIU seeks to ensure that every person who is liable to pay taxes is compliant so that the revenues due are identified, assessed, and collected. The major activities of the 'Unit' are to identify:

- persons who are already on the tax roll but are delinquent in filing ("stop-filers");
- persons who have filed tax returns but have understated their correct tax liabilities ("under-filers"); and
- persons who have never filed tax returns but are deemed liable for taxes based on intelligence gathered ("non-filers").

These activities are done by obtaining, investigating and analyzing appropriate data; developing compliance programmes for field operation and monitoring these programmes through to the collections stage or other final action.

The LTO was established in April 2009 and is currently collecting approximately 60% of overall tax revenues. It manages a total of 632 large taxpayers, including their subsidiaries. Its Client Relationship Management (CRM) programme has been commended by the private sector for its wholistic approach to giving special focus on this group of taxpayers.

The SET is staffed by seven (7) specially trained personnel vested with the powers of District Constables and supported by bailiffs. The team pursues the collection of taxes, penalties and interest that are long overdue and are considered difficult for collection by regular compliance officers. It is the last rung in the compliance escalation machinery.

Revenue Collections

Provisional tax revenue collections of $279,874.2mn, was 97.4% of target ($287,211.3mn) for FY 2010/11. Customs had strong collections that resulted in a small excess of 4.0% over target; Inland Revenue and Stamp Duty & Transfer Tax outturns were 94.1% and 100.8% of target, respectively.

Improved Compliance

The revenue authorities are mandated to ensure that all persons involved in taxable activities meet their required obligations under the law. These broad obligations include:

- Registering in the system;
- Timely filing of returns;
- Providing complete and accurate information;
- Payment of obligations on time.

Overall there were marginal increases in the filing patterns for taxpayers. The overall total voluntary compliance filing rate moved from 55% in 2009 to 56.6% in 2010.

Service

The Citizen's Charter, which highlights the services the public can expect from TA and what TA expects from the public, has been published on the Tax Administration's website. Of the twenty (20) areas being monitored, eleven (11) or 55% are meeting/exceeding their targets. The CCC continues to provide exceptional service, exceeding all targets thus leading to resetting of targets and the creation of additional targets.

A customer service survey commissioned in 2010 showed a satisfaction level of 63.6% compared to the 59.0% satisfaction level reported in 2009. The main area of discontent identified in the survey had to do with the processing time. This issue is being addressed through various elements of the 'reform' by way of modernization of the ICT processes and customer segmentation to better address the needs of taxpayers.

Education and Public Relations

Tax Administration has a vested interest in ensuring that taxpayers and other parties understand their obligations under the tax laws as well as sensitizing the public about services offered by the 'administration' aimed at making the payment of taxes easier.

To this end, the 'administration' carries out both public relations and education campaigns each year aimed at improving this knowledge. Some of these programmes are routine reminders whereas others are new initiatives.

The annual special taxpayer assistance programme commenced in January 2011 and continued until the deadline date of March 15.

Enforcement

Enforcement aims to foster compliance with tax and customs laws by deterring and detecting non-compliant behaviour among taxpayers and traders. To detect and discourage tax evasion, TA tries to maintain visibility in the field through its auditing and investigative activities.

Arrears Collection

The strategies implemented during FY 2010/11 to improve arrears collections and overall compliance will be continued in FY 2011/12. TA continues to emphasize early intervention and engagement with taxpayers.

Improve Information & Communication Technology

During FY 2010/11 the following major activities were successfully completed:

- The amalgamation of payroll deductions thus eliminating five (5) individual declarations. Work on a single annual return for payroll deductions is being finalized with other agencies.
- The e-filing and payment of payroll deductions, namely Pay As You Earn (PAYE), National Insurance Scheme (NIS), Human Employment And Resource Training (HEART) and Education Tax has been expanded to include the National Housing Trust (NHT). Returns for IT2003, IT2004 and IT2005 were added to the web-portal. In addition, the facility to attach statements and schedules was introduced.
- The method of computing refund interest for GCT/SCT was changed from Compound to Simple Interest, and the interest rate on outstanding income tax balances owed by taxpayers was reduced from 40% to 20%.
- The mapping of TA re-engineered business processes to align the new Concept of Operations was approved under the tax modernization project.
- The 'Reminder' system was expanded to include messages for Income Tax, Stamp Duty, PAYE and refund cheques.
- The completion of the development and deployment of the Tax-type De-registration module, thereby allowing for de-registration for all tax types.
- The loading of data obtained from the Financial Management Information System (FMIS) for the various ministries onto the Forensic Data Mining System database. 'Scripts' were developed and executed to identify a number of persons who were outside the tax net.

- The finalization of business requirements for CCC Phase 2 development of a Request for Proposal (RFP). The next step will be to invite 'Tenders' for the acquisition of a Customer Relationship Management System (CRMS), Interactive Voice Response System (IVRS) and Call Recording System.
- The development of a Request For Proposal for the provision of 'Third Party' collection services, (e.g. Bill Express, JN Money Services and Paymaster) to receive payments for certain tax types. A legal review on this matter is being awaited.

PROPOSED STRATEGIES FOR FY 2011/12

TAJ has developed its strategic plan for FY 2011/12 – FY 2013/14 in keeping with the overall objectives of the MOFPS. Building upon the gains from the reform, the 'Strategic Plan' outlines the strategies that will make the new organization a more efficient and effective tax administration. The focus of the 'plan' concurs with the concept of operations, that is, customer centric, risk management methodologies and technology driven through the promotion of self service options.

The reform project is now focusing on the transition component of the plan, that is, the transition of the existing domestic tax administration to a full-fledged Semi-Autonomous Revenue Agency (SARA). The transition is being done in three phases as follows:

- Phase 1 - Passage of the RAA to create TAJ;

- Phase 2 - Full integration of the operations of the three departments and the Director General's Office (expected to last at least 12 months); and

- Phase 3 - Passage of legislation to give TAJ semi-autonomy (the process could take 12-18 months to be completed).

Enabling of e-Tax Services

As an ongoing activity, TA will expand the e-filing and e-payment portal service and enhance the Tax Reminder System. The introduction of 'Third Party Collection' for non-core tax-types will be pursued once the legal impediments have been removed. Client self-service, without the assistance of the taxpayer service, will be introduced through 'Interactive Voice Response' at the CCC.

TAJ will continue to develop the online self-serve concept by offering more than the seven (7) tax types e-services now available. There are also plans to increase the payment instruments to include credit cards, debit cards and bank transfers. Further e-service expansion will see the introduction of other services, such as applications for refund, reporting of problems by taxpayers, submission of applications for employment and the fine-tuning of the website with current and meaningful information of other core services, such as requests for Tax Compliance Certificates.
In keeping with its customer centric focus, delivery strategies that favour taxpayers self-service and electronic service delivery will be implemented. Services will be largely limited to being appointment-based. While encouraging the use of more cost-effective service channels, taxpayers will be able to use the channel of their choice.

Expansion of the CCC

The objective is to significantly increase the efficiency and effectiveness of the CCC through applied customer contact management technologies, namely:

- Customer Relationship Management software with an emphasis on collections management;
- Automated or self service for clients through an Interactive Voice Response (IVR) system;
- Call recording and quality monitoring;
- Criterion-based automatic call distribution;
- Multi-channel access or service delivery support (voice, email, web chat, fax and SMS); and
- Call holding treatment.

This will allow the CCC to become fully integrated into the operations of TA and be effective in the areas of:

- Channeling of all inbound calls to TAJ through the Centre;
- Centralizing customer point of contact for accounts query, record updating, education and information; and
- Integrating tax collection and compliance management through the use of customer relationship management applications.

Compliance Strategies

A taxpayer who fails to meet his/her obligations can fall into one (1) or more of the following four (4) broad categories of non-compliance:

- Failure to register;
- Failure to file timely;
- Failure to pay timely;
- Failure to accurately report obligation due.

Each of these categories will have varying degrees of non compliance. The risk associated with a taxpayer falling within a category will be prioritized and appropriate recourses applied to areas of highest risk.

The Integrated Computerization Tax Administration System (ICTAS) provides information on the overall status of critical compliance measurements required for the operational and strategic management of the organization.

The Draft National Compliance Plan is based on a risk management programme being developed for completion by the end of the third quarter of FY 2011/12, and will guide compliance activities.

In understanding the factors influencing taxpayer behaviour and the range of attitudes towards compliance, TA is better able to select the most appropriate response to issues of non compliance. In its continued effort to improve compliance monitoring, TA has segmented taxpayers into three categories:

- Size - two groups, namely, the large taxpayer and the small and medium enterprises/individuals (SME's);
- Product/service offering - will focus on identifying the needs of the different types of taxpayer groups to be served and how best their needs can be served; and
- Tax types – examination of the other two segments by tax types.

Continued Technical Assistance

As the tax reform proceeds, there will be continued need for technical assistance, especially in the areas of risk management and programme development, support for the development of a compliance management strategy, business process re-engineering, performance management including developing data analysis skills critical to timely decision making and building capacity through training.

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 JP Morgan Emerging Markets Bond Index (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.