

**GOVERNMENT GUARANTEE OF A LOAN IN THE AMOUNT OF \$8,001,741,050.00 TO
THE NATIONAL WATER COMMISSION FROM THE BANK OF NOVA SCOTIA JAMAICA
LIMITED**

1.0 INTRODUCTION

1.1 The Honourable House of Representatives is being asked to approve:

1. A loan in the amount of \$8,001,741,050.00 to refinance the existing balance of US\$50,804,705.08 on a Syndicated Non-Revolver Facility. The original purpose of the Facility was to fund infrastructural and works improvement, known as Jamaican Water Supply Improvement Project (JWSIP);
2. The granting of a Government Guarantee under the provisions of the Public Debt Management Act, 2012 as amended in 2017 to secure the loan;
3. The charge of a guarantee fee at the rate of 0.125% in accordance with Section 3(2) of the Public Debt Management Act 2012 and subsequent amendment to the Act in 2017;
4. The introduction into the House of Representatives of the appropriate Ministry Paper; and
5. My moving the appropriate Resolutions of the Honourable House of Representatives.

2.0 BACKGROUND

Cabinet, by Decision No. 70/11 dated November 21, 2011, gave approval for a Government Guarantee of loans that were secured for the financing of Jamaica Water Supply Improvement Programme, which was designed to address the water supply deficit in the Kingston Metropolitan Area (KMA). The water supply projects were also aimed at significantly increasing the percentage of rural households with access to in-house potable water supply. The projects therefore served to address Jamaica's problem of access to potable water and also aimed at satisfying the NWC's mandate in respect of the United Nations Millennium Development Goal No.7.

Cabinet, by Decision No. 44/18 dated 10 December 2018, gave approval for the issue of the Government of Jamaica Guarantee in respect of the a three (3) year extension of a Syndicated Non-Revolver Facility Loan with an outstanding balance of Seventy Seven Million Four Hundred and Sixteen Thousand Six Hundred and Ninety Three United States Dollars (US\$77,416, 693). The Guarantee expires on December 28, 2021.

3.0 FINANCING REQUIREMENT

- 3.1 In 2009, the NWC secured a non-revolving loan in the amount of US\$115 Million from the Bank of Nova Scotia to finance the JWSIP. The original Scotiabank loan was from the Bank's own account; however, in November 2011 an alternative financing arrangement was extended to the NWC. This was secured from a syndicate of lenders and arranged by Scotiabank, with Scotia Investments as the administrative Agent and as Security Trustee. The current loan facility is in the amount of US\$77,416,693.45 for three years at an interest rate of 5.90% per annum. The loan was secured by a Government of Jamaica Guarantee. This arrangement will mature on December 28, 2021 with the final bullet payment of the outstanding balance of US\$50,804,705.08.
- 3.2 The NWC has, however, indicated that it will not be in a position to service this maturity from revenues and has approached the Bank of Nova Scotia to borrow J\$8,001,741,050.00 to facilitate the refinancing of the existing balance of US\$50.8 million bullet payment on the Syndicate Non-Revolver Facility which becomes due for payment on December 28, 2021. The conversion from United States dollar to Jamaica dollar will eliminate the foreign currency risk associated with this debt in the NWC's portfolio. The refinancing of the syndicated loan is necessary to avert a possible call on the Government Guarantee to execute the payout of the loan on the due date of December 28, 2021, given that the NWC's current financial position cannot without loan financing accommodate the bullet repayment required to liquidate this obligation at maturity.
- 3.3 The NWC's continued reliance on loan financing to fund its capital programme and the maintenance of significant obligations related to the unfunded pension scheme has resulted in the Commission being highly leveraged over the years. The value of NWC's liabilities has consistently exceeded its total assets base resulting in the Commission booking a negative net worth which increased from a deficit of \$15,274.60 million at March 31, 2019 to \$16,952.85 million at March 31, 2021. Projections indicate that the relative strength of NWC's total assets base to total liabilities should deteriorate further to a deficit of \$22,804.21 million during FY2021/22 as the NWC accesses additional debt to fund its capital programme. The NWC's highly leveraged position is further supported by the computed debt ratio which indicates that the value of NWC's liabilities have consistently exceeded the value of total assets over the years.
- 3.4 The Bank of Nova Scotia has agreed to refinance the loan under the proposed refinancing arrangement.

3.5 The terms and conditions of the combined facilities to NWC have been evaluated and found to be acceptable by the Ministry of Finance and the Public Service. The structure of the new facility is as under:

Facility	Amount (J\$)	Interest Rate (%)	Tenor	Principal Repayment
Term Loan	2,901,741,050.00	5.65	5 years	Years 1-5
Bond - Tranche 1	1,900,000,000.00	7.00	10 years	Years 6-10 (5 years moratorium period)
Bond - Tranche 2	3,200,000,000.00	8.00	13 years	Years 6-13 (5 years moratorium period)

The loan is at an average interest rate of 6.88% per annum over a repayment period of up to thirteen (13) years. The principal repayment structure will have a positive impact on NWC cash flow in that, with principal moratorium periods of 5 years on the bonds, the entity will be required to repay less over the short-to-medium. The tenure of the new loan has, however, been increased to up to thirteen years, compared to the three years that was applicable to the previous loan.

3.6 The issuance of this guarantee will not increase the outstanding stock of guarantee given that this guarantee is already accounted for in the debt stock and will not negatively impact efforts to achieve the legislated Guarantee/GDP targets.

4.0 Salient Financing Terms

Lender	Bank of Nova Scotia Jamaica Limited
Borrower	National Water Commission
Arranger	Bank of Nova Scotia Jamaica Limited
Type of Facility	Term Loan - \$2,901,741,050.00 - 5 years at an interest rate of 5.65% p.a. Bond Tranche 1 - \$1,900,000,000.00 -10 years at an interest rate of 7.00% p.a. Bond Tranche 2 - \$3,200,000,000.00- 13 years at an interest rate of 8.00% p.a.
Total Facility Amount	\$8,001,741,050.00
Interest Rate	Average Fixed Rate - 6.88% p.a.
Interest Frequency	Payable quarterly.
Maturity Date	Five (5) years to Thirteen (13) years

Principal Repayment	1. A 5-year term loan at an interest rate of 5.65% per annum in the amount of \$2,901,741,050.00. Repayment of the loan principal shall be based on an amortization as under:	
	Period	Percentage
	Quarterly Payment (J\$)	
	Quarter 1-4	4.48%
	Quarter 5-8	4.82%
	Quarter 9-12	5.00%
	Quarter 13-19	5.34%
Quarter 20 (final)	5.40%	
	130,000,000.00	
	140,000,000.00	
	145,000,000.00	
	155,000,000.00	
	156,741,050.00	
	2. A 10-year bond at an interest rate of 7.00% per annum in the amount of \$1,900,000,000.00. Following the Principal Moratorium period, the Facility will amortize fully in equal amounts on a quarterly basis	
	3. A 13-year bond at an interest rate of 8.00% per annum in the amount of \$3,200,000,000.00. Following the Principal Moratorium period, the Facility will amortize as follows: Year 6-7:1.75% per quarter, Year 8-10:2.00% per quarter and thereafter the Facility will amortize full in equal amounts on a quarterly basis	
Fees	One time professional, legal and arranger fees -	\$48,595,456.00
	Other annual fees	- \$1,380,000.00
Security	Guarantee of the Government of Jamaica	

5.0 CONSULTATIONS

5.1 The National Water Commission consulted with:

- The Ministry of Finance and the Public Service regarding the terms of the refinancing presented by the Bank of Nova Scotia Jamaica Limited and the required approval pursuant to Section 5 of the Public Bodies Management and Accountability Act.
- The Bank of Nova Scotia Jamaica Limited, Bank of Jamaica and the Ministry of Finance and the Public Service to ensure that the settlement of the transaction does not have any adverse implication for the J\$: US\$ exchange rate or the Net International Reserves.

6.0 FEES AND SECURITY

- 6.1 Section 19(3) of the Public Debt Management Act 2012 and subsequent amendment in 2017 stipulates that “where a loan is guaranteed under this Act, the borrower shall, unless the Minister otherwise determines, pay to the Government a risk fee at such rate and in such manner as may be prescribed. Accordingly, it is proposed that the NWC pay to the

Government a guarantee fee at the rate of 0.125% of the amount to be guaranteed, prior to the execution of the Guarantee.

- 6.2 In the event that the Government is required to make any payment under the loan to be guaranteed hereby, it is proposed that such payments would be a first charge upon the revenues and assets of the NWC to be repaid or liquidated on terms to be agreed with the Ministry of Finance and the Public Service.

7.0 RECOMMENDATION:

7.1 The Honourable House of Representatives is being asked to approve:

1. A loan in the amount of \$8,001,741,050.00 to refinance the existing balance of US\$50,804,705.08 on a Syndicated Non-Revolver Facility. The original purpose of the Facility was to fund infrastructural and works improvement, known as Jamaican Water Supply Improvement Project (JWSIP);
2. The granting of a Government Guarantee under the provisions of the Public Debt Management Act, 2012 as amended in 2017 to secure the loan;
3. The charge of a guarantee fee at the rate of 0.125% in accordance with Section 3(2) of the Public Debt Management Act 2012 and subsequent amendment to the Act in 2017;
4. The introduction into the House of Representatives of the appropriate Ministry Paper; and
5. My moving the appropriate Resolutions of the Honourable House of Representatives.



Nigel Clarke, DPhil, MP

Minister of Finance and the Public Service

December 6, 2021

RESOLUTION

The Minister of Finance and the Public Service move:

“BE IT RESOLVED THAT with reference to Ministry Paper No. 102, dated December , 2021 which was laid on the Table of the House on, December 14, 2021 that this Honorable House of Representatives approves the issue of a Government of Jamaica Guarantee, under the provisions of Section 17 (1) of the Public Debt Management Act, 2012 as amended in 2017, in respect of a loan in the amount of **Eight Billion One Million Seven Hundred and Forty One Thousand and Fifty Dollars (\$8,001,741,050.00)** from the Bank of Nova Scotia Jamaica Limited to refinance a US\$50.8 million Syndicate Loan to the National Water Commission.