OFFICE OF THE MINISTER OF FINANCE & PLANNING

January 16, 2006

Ms Alicia S Ritchie
Manager
Regional Operations Department 3
Inter-American Development Bank
Washington, D C 20577

Dear Ms Ritchie:

<u>Northern Coastal Highway Improvement Project (Section 2)</u>

I acknowledge receipt of your letter dated January 5, 2006 on the above matter.

I should indicate that the Government of Jamaica is also concerned about the deviation from the revised timetable by the contractor and we are seeking to take steps to minimize this impact as much as possible.

In that regard we are particularly concerned about our ability to expedite the reformulation of the loan contract. You have given a possible date of reinstatement of disbursements of February 2006. I would wish for your local office to be authorized to work with the GOJ officials to achieve this target.

I look forward to continued collaboration with you.

Yours sincerely,

Omar Davies

Omar Davies, MP
Minister

Copy to: - *Minister Robert Pickersgill – Minister of Transport & Works*
- *Mr Oscar Spencer – IDB Representative*
- *Dr Wesley Hughes – Director General, PIOJ*

MINISTRY OF FINANCE & PLANNING
30 National Heroes Circle, P O Box 512, Kingston 4, Jamaica Tel: (876) 922-8600-16 Fax (876) 922-8804
Email: hmf@mof.gov.jm

BANCO INTERAMERICANO DE DESARROLLO INTER-AMERICAN DEVELOPMENT BANK

WASHINGTON, D.C. 20577
CABLES: INTAMBANC

GERENTE
DEPARTAMENTO REGIONAL DE OPERACIONES 3

MANAGER
REGIONAL OPERATIONS DEPARTMENT 3

January 5, 2006

Mr. Omar Davies
Minister of Finance & Planning
30 National Heroes Circle
Kingston 4
Jamaica

Dear Minister Davies,

It was a pleasure to talk to you on the phone yesterday. I intend to maintain a close and frank relationship with the authorities of Jamaica, and I hope that I will soon be able to meet you personally in Kingston.

Regarding the situation of IDB's loan for the Northern Coastal Highway Improvement Project, I can report that the mission to Jamaica on December 19th met with officials of the Ministry of Works and Transport, the National Works Agency, the Ministry of Finance and the Planning Institute of Jamaica. The issues raised in Mr. De Falco's letter of December 16th were discussed in considerable detail and there was general agreement that these issues need to be solved, if the project is to be completed successfully. Some of the measures suggested in that letter had been, or were in the process of being implemented by the Government, such as the implementation of a design freeze and the reduction of the scope of work to be completed by the contractor.

Concern was expressed about the progress the construction company had achieved in the recent past. If this rate of progress does not improve significantly, the project will not be concluded before the end of 2007. Besides the fact that such date is unacceptable to the Ministry of Transport, a longer construction period will most probably result in additional costs for the Government of Jamaica. Therefore, it was agreed that a mission would return to Jamaica as soon as possible and that a consultant would be hired by IDB to help the authorities explore different alternatives in order to formulate a strategy to resolve this complex situation.

Once such a strategy has been agreed, the Bank will make every effort to expedite the processing and approval of the Loan Contract reformulation and to facilitate the

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reinstatement of disbursements by February 2006. Due to the uncertainties faced by the project we recommend strongly that the undisbursed balance of approximately US$20 million available in the IDB loan should be earmarked for future activities under the project.

Minister Davies, I can assure you that we are making our best effort to support the Government of Jamaica in the successful completion of this very important project. If you have additional questions please fill free to contact me.

Sincerely,

Alicia S. Ritchie

Copy to: Mr. Robert Pickersgill, Minister of Works and Transport
Mr. Oscar Spencer, Representative in Jamaica

Our Ref: 2006/SAN/0011

January 16, 2006

The Most Hon. P. J. Patterson, O.N., P.C., Q.C., M.P.,
Prime Minister of Jamaica,
Office of the Prime Minister,
1 Devon Road,
Kingston 10.

Dear Prime Minister,

Re: Highway 2000 – Refinancing

We have been able to conclude our negotiations with the Government of Venezuela regarding the refinancing of Highway 2000.

As you recall the intention was to obtain sufficient funds at an interest rate significantly lower than those presently being charged to the project. The results of the negotiations are as follows:

1. Amount: US$260Million;
2. Tenor: 20 Years;
3. Amortization: Single payment of principal at end of the 20th year. Interest is to be paid on an annual basis;
4. Interest Rate: 7.5%;
5. Borrower: Development Bank of Jamaica (DBJ);

The funds will be obtained on the Venezuelan market through Bonds issued by the Development Bank of Jamaica to which the existing Government Guarantee of US$75Million will be applied. This present Guarantee is being applied to the loan to NROCC by Wachovia. It will therefore mean that Parliamentary approval will be required for the transfer of the Guarantee.

Of the total funds to be obtained, US$130Million will be on-lent by DBJ to Transjamaican Highway Limited, the Developer of the project. At present, TJH had borrowed that amount from RBTT. This means that TJH will have to seek to break the loan with RBTT, which presently is at 12%, to utilize this loan from DBJ.

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HIGHWAY 2000 NROCC NATIONAL ROAD OPERATING & CONSTRUCTING COMPANY LTD
10 - 16 Grenada Way, Kingston 5. Tel.: (876) 929 1581; (876) 926 7830; 4808 Fax: (876) 926 9281. Email: nrocc@cwjamaica.com

SC

Draft Agreement

Within the framework of the Bolivarian Republic of Venezuela's policy for financial integration with Latin American and Caribbean countries, the office of the Vice Minister for Financial Negotiations of the Ministry of Finance convened a meeting on January 13, 2006 with the following representatives of the Government of Jamaica: His Excellency Audley Rodrigues, Ambassador of Jamaica in Venezuela; Hon Kingsley Thomas, representative of NROCC; Murna Morgan – Ministry of Finance & Planning of Jamaica; Dr Wayne Reid – Managing Director of the National Road Operating and Constructing Company (NROCC); Mr Wayne Whittingham and Stacy Gillings – Development Bank of Jamaica; Mr Ivan Anderson, Ministry of Transport &Works of Jamaica, and on behalf of the Ministry of Finance, Venezuela, Mr Eudomar Tovar - Vice Minister for Financial Negotiations; Mr Rudolf Romer – Head of the National Office of Public Accounts, as well as other technical persons from this office.

The objective of this meeting was to discuss the financial terms under which the Bolivarian Republic of Venezuela could offer, through any Venezuelan public financial entity, an amount equivalent to US$260M to the Development Bank of Jamaica to finance infrastructure projects in that island.

This meeting was preceded by two meetings held in the months of October and November of 2005. During these two initial meetings, the Jamaican representatives presented the need for financing based on high level discussions which took place between both Governments and, therefore, NROCC (a Jamaican Government company) and its concessionaire, TJH extensively discussed and put forward to the Venezuelan representatives their financial proposals.

The representatives of the Ministry of Finance then shared their experiences with previous transactions based on the Argentinean and Ecuadorian model of financial integration. They also highlighted the limitations and necessary requirements that would make this approach to integration acceptable for Venezuelan citizens.

As a result of these previous meetings, it was noted that the requirements for financing were similar to that of commercial credit and not an instrument that could be sold in the secondary market.

The initial proposal from NROCC, which had 41% of the loan guaranteed by the Government of Jamaica, considered an annual interest rate of 5% paid semi-annually on a loan of $180M for 20 years. The loan would be gradually disbursed and amortized after 17 years in 8 equal installments. On the other hand, a proposal was received from TJH, concessionaire, which sought the financing of $80M at an annual interest rate of 5% paid semi-annually for 20 years and amortized in progressive proportions after Year 10.

Venezuela observed that the characteristics of this loan were not sufficiently competitive to be undertaken by the Bolivarian Republic.

The Ministry of Finance of the Bolivarian Republic of Venezuela proposed to the Development Bank of Jamaica, a wholly owned government entity, financing using as reference the yield on bonds issued by the Government of Jamaica with a maturity of 20 years. Currently, the referential yield is approximately 9.09% in dollars.

Hence, it was proposed to the Government of Jamaica to consider a financing strategy between any Venezuelan public financial entity and the Development Bank of Jamaica, under the following terms:

Borrower	Development Bank of Jamaica
Lender	Any Public Venezuelan Financial entity
Loan Amount	US$260M equivalent
Interest Rate	Fixed, 7.5% (indicative swap rate in Euros, using as a reference the International Bond rate of 9.25% with maturity at 10/17/25, recently issued by Jamaica, not including other costs
Interest payment	Annually
Price	100 % of the loan
Currency	Euros
Maturity	2025
Amortization	Bullet payments
Base Calculation	30/360
Governing Legislation	To be determined after legal consultation

Of the total loan amount proposed, the Government of Jamaica would guarantee US$75M.

After discussing the abovementioned proposed terms it was agreed that the jurisdiction governing the issuance of this instrument be subject to further consultation by both Governments.

This proposal will be presented for consideration and is subject to approval by the competent authorities for both parties.

This meeting was adjourned and ratified by the following persons:

On behalf of the Government of Jamaica

Signed:
Audley Rodrigues
Jamaican Ambassador to Venezuela

Signed:
Murna Morgan
Ministry of Finance and Planning, Jamaica

Signed:
Wayne Whittingham
Development Bank of Jamaica

On behalf of the Ministry of Finance, Bolivarian Republic of Venezuela

Signed:
Eudomar Tovar
Vice Minister for Financial Negotiations

Signed:
Rudolf Romer
Head of the National Office for Public Accounts

15/2000

THE BUREAU OF STANDARDS

6 WINCHESTER ROAD
P.O. Box 113, KINGSTON 10, JAMAICA, W.I.
TELEX: 2291 STANBUR JA., CABLE: STANBUREAU
Email: [illegible]jamaica.com, TEL: (876) 926-3140-6 FAX: (876) 929-4736

2000-01-27

PS. Bond

Dr. The Hon. Carlton Davis, OJ, CD
Permanent Secretary/Cabinet Secretary
Office of the Cabinet (O.P.M.)
1 Devon Road
Kingston 10

Dear Dr. Davis

Re-Misrepresentation of the International Date Standard (ISO 8601)

We are concerned that correspondence from government ministries and agencies continue to incorrectly represent the recently adopted International Date format. By way of illustration today's date is being written 2000 January 27.

This is incorrect. The new **Year-Month-Date** format is to be used only for the numerical representation of the date. Today's date would therefore be 2000-01-27. (The year component is to be written using four digits not two.)

The traditional long hand form of writing the date is not affected by this standard i.e. 27th January 2000 can still be used.

We would appreciate the assistance of your office in requiring all ministries, departments and agencies in the public sector to adhere to the correct format.

Thanks in advance.

Sincerely,

BUREAU OF STANDARDS

Arthel S. Henry (Ph.D.,)
Executive Director

encl.

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Office of the Prime Minister

Jamaica

Jamaica House
Kingston

22nd December 2005

Querido Amigo,

I write further to my letter of November 5, 2005 and the discussions that have taken place to date between officials from the Ministry of Finance of the Bolivarian Republic of Venezuela and officials of the Government of Jamaica regarding the proposed loan facility for Jamaica's toll road project, Highway 2000.

Given the importance of the project to Jamaica and the concessionary nature of the proposed financing, we have taken on board the issues raised by the Republic's team and we are prepared to proceed with the issuance of the bonds along the lines of the financing structure utilised for the Argentina bond issue.

The major feature of the bonds would be as agreed at the August 2005 meeting between our teams:

Amount	US$260 Million
Tenure	20 years
Interest Rate	In the range of 2% to 6% per annum
Principal Repayment	In the last four years, i.e. years 17-20, to match the cash flows of the project

Of the US$260 Million,

i. US$180 Million to be borrowed by NROCC. Of this amount, US$75 Million would benefit from a Government Guarantee. The remaining US$105 Million would be securitized by the assignment of net traffic revenue flows to the Bolivarian Republic of Venezuela.

ii. US$80 Million to be borrowed by TJH, the concessionaire for Highway 2000, securitized by the assignment of net traffic revenue flows to the Bolivarian Republic of Venezuela.

His Excellency Hugo Chavez Frias
President
Bolivarian Republic of Venezuela

SC

His Excellency Hugo Chavez Frias
President
Bolivarian Republic of Venezuela

22nd December 2005

In the event that there is any difficulty lending to TJH, we propose that the US$80 Million be lent to the Development Bank of Jamaica, which is wholly owned by the Government of Jamaica.

I would like to reiterate the importance of the project to the economic and social development of Jamaica and hence the desire to bring the discussions to a mutually acceptable conclusion.

My team therefore stands ready to travel at the earliest convenient time to conclude all the formalities.

Please accept warm fraternal greetings.

Yours sincerely

P. J. Patterson
Prime Minister

Copied to Ambs HE Audley Rodrigues
Dr Omar Davies
Dr. Wayne Reid

Our Ref: 2006/SAN/0060

March 3, 2006

The Most Hon. P. J. Patterson, O.N., P.C., Q.C., M.P.,
Prime Minister of Jamaica,
Office of the Prime Minister,
1 Devon Road,
Kingston 10.

Dear Prime Minister,

Re: Highway 2000 - Draft Submission to Cabinet – North/South Link.

Please find enclosed a draft of the Cabinet Submission, which has been submitted by us to the Ministry of Transport and Works.

You will note in Section 5, that there are highlighted issues which we indicated required speedy resolution. To date, we have started discussions with West Indies Aluminium Company (Windalco) and will be continuing these discussions during March 2006 to determine the optimal route to be used as the Bypass to Mount Rosser.

In addition, we have spoken to the Managing Director of the Water Resources Authority who has said verbally that they would have no objection to studies being done to evaluate the feasibility of erecting a dam in the Gorge.

Yours very truly,

Wayne G. Reid,
Managing Director.

WGR/san

Encl: (1)

HIGHWAY 2000 NROCC NATIONAL ROAD OPERATING & CONSTRUCTING COMPANY LTD

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Chairman: Kingsley C. Thomas • Managing Director: Dr. Wayne Reid • Directors: Ivan Anderson, Calvin Gray, Devon Rowe, Ms. Barbara Scott • Company Secretary: Wayne Whittingham

Sc

National Road Operating & Constructing Company Limited
RKA Building 10-16 Grenada Way Kingston 5 West Indies
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NATIONAL ROAD OPERATING & CONSTRUCTING COMPANY LTD

DRAFT CABINET SUBMISSION – HIGHWAY 2000 – NORTH/SOUTH LINK

1.0 INTRODUCTION

The matter for the consideration of Cabinet is the modification of the existing concession agreement with Trans Jamaica Highway (TJH) the Developer, through negotiation to allow for exclusion of the existing Sandy Bay to Williamsfield section and inclusion of the Spanish Town to Ocho Rios section.

2.0 BACKGROUND

Cabinet will recall that in November 2001, the National Road Operating and Constructing Company (NROCC) and Transjamaican Highway Limited (TJH) signed a Concession Agreement for the construction of Highway 2000. The concept of Highway 2000 is to build a Toll Road from Kingston to Montego Bay with a Spur Road from Bushy Park to Ocho Rios.

The Government of Jamaica, before signing the Concession Agreement, had decided that the implementation of this concept would be done on a phased basis with Phase 1 being between Kingston to Williamsfield, a distance of approximately eighty (80) Kilometers. The Concession Agreement signed between National Road Operating and Constructing Company Limited (NROCC) and Transjamaican Highway Limited (TJH) specifically deals with that phase of the proposed Toll Road. Nonetheless the Agreement further gives NROCC the right "in its absolute discretion" to award Phase 2, Phase 2A or 2B to other parties, if Transjamaican Highway Limited did not inform NROCC that it was willing to enter into a Concession Agreement for those Phases by February 2007, which is thirty-six (36) months after the Financial Closure of Phase 1A.

Phase 2 consists of the road from Williamsfield to Montego Bay and the Spur from Bushy Park to Ocho Rios with the spur being Phase 2A and the corridor for Williamsfield to Montego Bay being Phase 2B. Phase 1 had been split into two (2) sections, that is, Phase 1A – Kingston to Sandy Bay including the Dyke Road and Phase 1B – Sandy Bay to Williamsfield.

The Concession Agreement clearly foresaw a sequential approach to the construction of Highway 2000 that being Phase 1A, then Phase 1B before implementing any of the sections in Phase 2. One of the consequences of that sequence had been the Developer's stated intention of using funds generated from the operation of Phase 1A for the construction of Phase 1B. The amount allocated is Forty Million United States Dollars (US$40,000,000.00).
Prior to the award of the Concession Agreement, NROCC had completed preliminary work to determine the optimal route from Phase 1A to Ocho Rios.

It was decided that this route would commence at Bushy Park and go through Guanaboa Vale, Lluidas Vale and Golden Grove before terminating in Ocho Rios. This was heavily influenced by the brief given to NROCC's Consultants that there should be least disturbance of existing small landowners and a maximization of the usage of lands owned either by the Government or large land owners.

Phase 1A is expected to be completed by July 2006.

3.0 OPTIONS ASSESSED

In January 2005 the Rt. Hon P.J. Patterson instructed NROCC to revisit the link between Phase 1A and Ocho Rios to determine its feasibility as a Toll Road. NROCC then decided to examine a number of options. These are as follows:

Option 1: The proposed route from Bushy Park to Ocho Rios through Guanaboa Vale, Lluidas Vale and Golden Grove.

This route would be constructed as a 2x2 divided highway with a minimum of two (2) toll plazas and four (4) interchanges. Effectively this divided the route into four (4) sections. These being:

Bushy Park to Guanaboa Vale	-	11.6 Km;
Guanaboa Vale to Worthy Park	-	20 Km;
Worthy Park to Golden Grove	-	22.7 Km;
Golden Grove to Ocho Rios	-	13 Km.

The total length of the road would be 67.3 Km.

Option 2: The same route as for Option 1 except that the corridor would have a 2x1 highway, that is, one lane in each direction.

Option 3: An alignment which had been previously studied by the National Works Agency (NWA), which goes along the existing route from Spanish Town to Ocho Rios but with new sections between Dam Head and Kent Village and between Ewarton and Faith's Pen. This route would also incorporate the existing Linstead Bypass and then traverse the same corridor between Golden Grove to Ocho Rios as the routes in Options 1 and 2.

DRAFT CABINET SUBMISSION – HIGHWAY 2000 – NORTH/SOUTH LINK

Option 4: This would traverse the same route as Option 3 but for a 2x1 alignment from Kent Village to Ocho Rios.

The two (2) corridors, that is, the one for Options 1 and 2 and the other for Options 3 and 4 were chosen as they represented the recommendations of previously detailed studies undertaken by NROCC on the one hand and National Works Agency (NWA) on the other. The objective of the study was to analyze each of the options to determine its feasibility from a legal, financial and commercial standpoint. The study was to be completed by the end of March 2005.

NROCC retained the services of Steer Davies Gleave (SDG), Traffic Consultants of London, who had undertaken the original Traffic and Revenue Forecast prior to the request for bids for Highway 2000. The same firm has since been engaged by TJH to advise on various aspects of revenue projection and traffic flow on Phases 1A and 1B.

NROCC was also assisted by Bouygues Travaux Publics Jamaican Branch (BYTPJ), who provided Construction Estimates based on January 2005 costs for each of the four (4) Options. Transjamaican Highway Limited (TJH) provided assistance by doing the commercial analyses for all of the various routes.

The National Works Agency (NWA) provided fieldwork and technical assistance throughout the project. The fieldwork consisted of providing traffic counts and travel times at various times of day on the existing routes. It also provided critical traffic reviews of the work done by Steer Davies Gleave (SDG) and made suggestions based on its past experience.

4.0 Financial Implications and Recommendations

Based on detailed evaluation carried out, NROCC is recommending that the Concession Agreement be amended to change Phase 1B to Spanish Town to Ocho Rios. The routing would be from Spanish Town Toll Plaza through Linstead Bypass and Moneague, then Golden Grove and then north to the North Coast Highway in the vicinity of the Dunn's River Falls, i.e. Option 4 above.

DRAFT CABINET SUBMISSION – HIGHWAY 2000 – NORTH/SOUTH LINK

The proposed lane widths and length of roads are as follows:

Item	Location	Width of Lane	Road Length
1.	Spanish Town Toll Plaza to Dam Head	2x2	5.1Km
2.	Bog Walk Gorge Bypass i.e. Dam Head to Kent Village	2x1	9.2Km
3.	Kent Village to Northern end of Linstead Bypass	2x1	7.0Km
4.	Linstead Bypass to Faith's Pen (to the east of the existing A-1 Highway over Mount Rosser)	2x1 w/steep gradient 3rd lanes	17.0Km
5.	Moneague to Crescent Park	2x1	7.37Km
6.	Crescent Park to Ocho Rios (parallel to the existing bauxite conveyor belt)	2x1	14.8Km

Preliminary technical, financial and commercial analyses have been completed by NROCC assisted by TJH and the NWA. These have been carried out on the assumption that Sections 2 and 4, that is, the Bog Walk Gorge Bypass and the Mount Rosser Bypass would be tolled. The results are as follows:

1. Phase 1A and new Phase 1B can be implemented without any additional government input in the way of a direct Grant to the Project or additional Grantor Procured Debt (GPD);

2. Design and construction could start at the beginning of January 2007 and be completed in a sequential manner by the end of 2009, a duration of thirty six (36) months;

3. Government would be responsible for the acquisition of land, relocation of people where necessary and the relocation of utilities along the proposed route. The estimated cost of this is US$14Million, which is based on the amount required for the Kingston to Bushy Park section including the Portmore Causeway.

The total estimated costs (excluding lands and utility relocations) of Phase 1B from Spanish Town to Ocho Rios will now be US$208Million which includes construction, Operation and Maintenance Costs, Concessionaire Costs and Financing Fees and Interest. These costs are expected to be financed as follows:

1.	Revenues from the current project	US$ 58.54
2.	Commercial Loan (10% interest)	US$134.72
3.	Equity from Developer	US$ 14.96
	Total (Millions)	**US$208.22**

The successful implementation of this project is based on a reduction of Capital Cost from the present 11% and higher to 7.5%. It is expected that the imminent signing of the Loan between the Governments of Venezuela and Jamaica will provide this cost of capital.

The overall Internal Rate of Return of the project including Phase 1A (Sandy Bay – Mandela and Causeway) and Phase 1B (Spanish Town – Ocho Rios) would now be 17.25% excluding the costs for land acquisition and utilities.

5.0 Other Issues

There are a number of issues, which need to be resolved to ensure speedy implementation. These include:

A. The determination of the precise alignment for the Mount Rosser Bypass relative to proposed Haul Routes to be constructed by the Bauxite companies;

B. The proposed closure of the Bog Walk Gorge Road and the utilization of the Gorge as a major storage Dam. The cost of that project is not included in the figures for the North/South Link.

C. The upgrading of the Sligoville and Barry routes to serve as alternative paths for motorists. The sections of the North South Link, which would be tolled, are the Bog Walk Gorge Bypass and Mount Rosser Bypass. There would be no tolling on any of the other sections of the roadway but there could be a small increase in the toll in the Spanish Town Plaza.

D. In the elimination of the Sandy Bay to Williamsfield section, upgrading of the route between Clarendon Park and Porus should be done at an estimated cost of US$15Million to improve the road in that area. We expect that with this upgrading, the movement of traffic between Kingston, May Pen, Mandeville and areas to the west along that route would have been satisfied for at least the next ten (10) if not twenty (20) years.

National Road Operating & Constructing Company Limited
RKA Building 10-16 Grenada Way Kingston 5 West Indies
Tel: 876 929 1581 Fax: 876 926 9281

NATIONAL ROAD OPERATING & CONSTRUCTING COMPANY LTD

DRAFT CABINET SUBMISSION – HIGHWAY 2000 – NORTH/SOUTH LINK

6.0 CONSULTATIONS

Attached are the comments of the Ministry of Finance.

7.0 RECOMMENDATION

Cabinet is hereby being asked to approve the following:

a. The entering into negotiations with TJH, the Developer, for the amendment of the Concession Agreement to allow for exclusion of the Sandy Bay to Williamsfield section and inclusion of the Spanish Town to Ocho Rios section as described above.

b. Discussions with the various stakeholders to resolve the issues identified.

c. The entering into discussion with the MOF for the raising of the capital necessary to carry out the land acquisition and utility relocations as well as the upgrading of the alternative roads.

....
Minister of Transport & Works
February 2006

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MINISTRY OF TRANSPORT & WORKS
138h Maxfield Avenue,
Kingston 10

Telephone: 754-1900-9
Fax: 920-8941
E-Mail: hm@mtw.gov.jm

2005 December 30

The Most Hon. P.J. Patterson, O.N., P.C., Q.C., M.P.
Prime Minister
Office of the Prime Minister
1 Devon Road
Kingston 6

Dear Prime Minister:

Re: Northern Coastal Highway Improvement Project- Segment 2
Inter-American Development Bank (IDB) Mission Report

You will recall a report by the Inter-American Development Bank (IDB) which resulted in the suspension of funding for the above-mentioned project. As was agreed, the IDB did not carry out an audit as was originally contemplated. Instead the services of the Crown Consultants were engaged to review the project. Phase I of this report has been concluded.

Since that time, however, a special IDB Mission visited Jamaica over the period December 19-21, 2005. The purpose of this Mission among other things was to discuss with the Government of Jamaica (GOJ), the recommendations of the Report as well as to decide the way forward. Consequently, issues related to the following were discussed:-

1. The future implementation of the Northern Coastal Highway Improvement Project (NCHIP) arising out of the Memorandum of Agreement (MOA) between the GOJ and José Cartellone Construcciones Civiles (JCCC) dated March 31, 2005; and

2. A revised monitoring mechanism to be put in place to oversee the Project to completion.

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2005 December 30

The Most Hon. P.J. Patterson, O.N., P.C., Q.C., M.P.
Prime Minister
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On December 20, 2005 a meeting was held at the Ministry of Transport and Works (MTW) with the IDB and the stakeholder agencies among whom were representatives from the MTW, the Ministry of Finance and Planning (MoFP), the National Works Agency (NWA) and the Planning Institute of Jamaica (PIOJ) where discussions ensued on the aforementioned matters. I took the opportunity to remind the IDB delegation what would have been the consequences had we stopped the project or terminated the services of the contractor. I also reminded the Mission that we did nothing without informing them, and that in fact we had sought their non-objection to enter into the Memorandum of Agreement (MOA). Indeed, quite some time had elapsed before we received their negative response. It was during this period that they sent a team which hurriedly compiled a negative report. Clearly, their decision to propose an audit was strongly guided by this team's report.

I am enclosing for your benefit the Executive Summary of the Report that was done by the Crown Agents. This of course is a much more mature and professional report, and no doubt has caused the IDB to revise its earlier position on this matter.

Consequently, arising from the discussions, the IDB is likely to resume the financing of this project by February 2006 provided that a mechanism is put in place to prevent further cost over-runs and therefore ensure the timely completion of the project. I am generally optimistic about the continuation of this project.

Let me wish for you and your staff all the very best for 2006.

Yours Sincerely,

R D Pickersgill

Robert D. Pickersgill
Minister

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EXECUTIVE SUMMARY

The following report provides a review of performance and other issues arising out of the Contract for Segment 2 (Montego Bay to Ocho Rios) of the Northern Coastal Highway Improvement Project (NCHIP) and funded by the Inter-American Development Bank (IDB).

The project was tendered in August 2000 and a contract, placed with Jose Cartellone Construcciones Civiles SA of Argentina, was initiated by the Letter of Acceptance dated 1 June 2001. The original contract time for completion was 30 months, ending on 22 June 2004. The original contract price was US$60.4 million equivalent.

Progress on the works was slow and significant overruns occurred. The events leading to the costs and time overrun can largely be attributed to the non-relocation of utilities prior to the Contractor taking possession of the site, design changes/scope creep, the Contractor's general performance and its own financial difficulties.

During the course of the project the Engineer awarded extensions of time of 17.7 months, so extending the completion date to 31st December 2005. Additional costs relating to time delays were recognised in the sum of US$5.5m. However the Contractor continued to press for further financial assistance.

In March 2005 the Employer (Ministry of Transport and Works) and the Contractor executed a Memorandum of Agreement (MOA), which changed the terms of the Contract. The principal changes introduced by the MOA were;

- The due date for completion for Sections 2, 3 and 4 of Segment 2 was ratified as 31 December 2005.
- Section 1 (Montego Bay to Greenside) was removed from the scope of the Contract.
- All claims, to the date of the MOA, were settled in the sum of US$1.1m.
- Financial assistance by way of a further mobilisation advance.
- Amended unit rates made on an ex gratia basis.
- Changed price adjustment provisions based on July 2004 prices.
- Agreement to seek IDB approval for the release of the retention monies held against a bond

As a result the anticipated contract price for the reduced scope of work was amended to approximately US$ 91.8 million.

Crown Agents has been engaged to conduct a technical review of the Project. In accordance with the Terms of Reference, Phase I of the review concentrates on the justification and implications of the MOA and also addresses issues giving rise to concern relating to quality, measurement and payment of the works. It also assesses a likely completion date and reports on the financial capacity of the Contractor. The conclusions reached are;

1. There can be no doubt that the MOA represents an important modification to the documents approved by the Bank and a substantial change to the contract for the execution of the Project in respect of which tne Bank's prior consent should have been obtained. In failing to do so the Government of Jamaica has breached the terms of the Loan Agreement.

2. The MOA cannot be justified by reference to the original terms of the contract. All of the fundamental changes introduced by the MOA, as noted above, go beyond genuine contractual entitlement. The MOA must therefore be regarded as a supplementary agreemeni entered into by the parties to the contract.

3. The MOTW justifies the MOA as a commercially pragmatic course of action when faced with a contractor failing as a result of financial hardship. The alternative course of action was to instigate termination of the Contractor's employment under the Contract. The consequences of such action were likely to have been;

   - The project being left in a state of disrepair for an indeterminate period whilst a new contractor was engaged which was unacceptable to the travelling public generally and the locally affected communities in particular.
   - Considerable delay to the project overall.
   - An increase in the overall cost of construction in any event.
   - Immediate and costly dispute proceedings instigated by the Contractor to resolve its claims and challenge the validity of the termination.
   - Further protracted and costly proceedings to recover any debt found to be due once the ramifications of termination were identified (if the Contractor survived as a corporate entity).
   - Negative publicity for the project generally and for all associated with it.

4. It is clear that some contractual entitlement was subsumed by the Agreement. When this is considered in association with the unrecoverable costs that would doubtless have been incurred had the termination option been followed, it is possible to rationalise the commercial (albeit non-contractual) logic behind the MOA.

5. The completion date of 31 December 2005 ratified by the MOA is not (and never was) feasible. The Contractor has since filed a claim for an extension of time to July 2006 which is under review by the Engineer's Representative, Stanley Consultants Inc. Further claims for additional costs should be anticipated. A strategy for addressing future claims and non-performance needs to be formulated by the Employer.

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6. The company, Jose Cartellone Construcciones Civiles SA, is considered, on a company wide basis, to be in a stable financial position that should enable it to complete the contract. It is intended to establish within Phase II of the technical review the minimum financial capacity necessary for successful contract conclusion and to determine whether or not the Contractor can meet this locally.

7. The technical review carried out by Crown Agents to date indicates:

- The works have been engineered to a high standard. What is being delivered is a first class robust facility that should perform very well over its designed life and beyond.

- From an engineering perspective each of the design changes in the project has contributed to an improvement to the final product. The crawler lanes, turning and passing lanes, realignments, underpasses, and the increased elevation of the final surface are all major benefits.

- In certain respects the engineering standard exceeds that necessary or anticipated by the original design concept. This has led to increased costs.

- The original design was performed in 1996 based on aerial survey. Inaccuracies inherent in that type of survey together with the passage of time have been the cause of design changes and scope creep.

- The quality of the workmanship is to a good standard and the pavement as constructed will ensure its design life is satisfied.

- The Contractor needs to resolve, as a matter of priority, its internal project management conflicts and put in place a strong and experienced manager capable of driving the project to a speedy conclusion.

- Testing and quality control procedures for the works are in place and early indications are that they are functioning satisfactorily.

- Measurements and payment certification (whilst a few anomalies exist) basically follow the terms of the contract and no major overpayments have been identified. With reference to the particular concerns relating to the measurement of earthworks an anomaly in the balance of materials has not been identified. In particular it is considered that SCI has taken appropriate steps to ensure that borrow material was not used merely for the Contractor's convenience and limited its use to the extent practical in the circumstances.

- Crown Agents forecast date for the completion of the works based on current resources is 1 March 2007.

It should be noted that the technical studies are to continue in Phase II of the technical review and the above comments are subject to any findings during that time.