MINISTRY PAPER NO. 12

Government Guarantee of £1,000,000 J to Pegasus Hotels of Jamaica Limited under Organisations and Authorities Loans (Government Guarantee) Law, Cap. 18

The House of Representatives is asked to approve under Section 2 of the approved Organisations and Authorities Loans (Government Guarantee) Law, Chapter 18, the guarantee of repayment of principal and payment of interest in connection with a loan of £J 1,000,000 to be made by Barclays Bank, D.C.O. to Pegasus Hotels of Jamaica Limited as part of the debt finance for constructing a 350 double room hotel with full convention facilities including restaurants, bars and swimming pool.

2. Section 2 of Chapter 18 reads as follows:-

"2 - (1) Subject to the provisions of subsection (2) of this section, the Minister may with the approval of the House of Representatives guarantee the repayment of the principal monies and interest upon any loan raised by any organisation or authority approved by the Minister.

(2) No loan shall be guaranteed under subsection (1) of this section -

(a) except for such time and upon such terms and subject to such conditions as the House of Representatives may approve; and

(b) unless the proposal for the guarantee, when brought before the House of Representatives is accompanied by a statement setting out the total amount of all principal moneys then remaining unpaid in respect of all other loans previously so guaranteed".

3. Pegasus Hotels of Jamaica Limited will be owned by B.O.A.C. (35.5%), Fortes (Holdings) Limited (17.7%), International Finance Corporation (18.3%), Barclays Overseas Development Corporation (7.1%); the remaining 21.4% of the equity to be offered to Jamaicans. The hotel is estimated to cost $8.56 million; will be operated under management agreement with Fortes (Holdings) Limited, a well known British Hotel and Restaurant operator; and financed from the following sources:-

/Equity.....

EQUITY		
B.O.A.C.	$1,200,000	
Fortes (Holdings) Ltd.	600,000	
B.O.D.C.	240,000	
International Finance Corp.	620,000	
Local Public Issue	720,000	$3,380,000
LONG TERM LOANS:		
International Finance Corp.	$2,180,000	
Barclays Bank D.C.O.	2,400,000	
Suppliers Credit	600,000	$5,180,000
		$8,560,000

4. The project will provide yet another major hotel structure for convention traffic in Kingston. It has these admirable features:

(i) for the first time, the International Finance Corporation, an affiliate of the World Bank, will be assisting in financing a major tourist project in Jamaica. It is only recently that investment in this field has been undertaken and this is the second of such projects - the first is in Kenya. Recently, the policy of the Bank has been further expanded to provide for the financing of infrastructure development and underwriting specific hotel projects in a total project aimed at increasing tourist facilities. International Finance Corporation participation in the Pegasus Hotels project can be regarded as a major break-through and augurs well for future hotel development in Jamaica;

(ii) 21.4% of the company's equity (£300,000) is to be offered to the local public. This is one of the advantages of I.F.C. participation since the Corporation insists that there must be local financial support of some magnitude;

(iii) this is the first time that a major international airline has promoted and shared in the ownership of a hotel project in Jamaica. This is the current trend in the hotel business.

5. Loan finance will provide 60.6% of the total project cost. The International Finance Corporation, one of the lenders, does not seek any guarantee. Barclays Bank, D.C.O., however, which is providing 28.1% or £J 1,000,000 of the project cost, requires a Government guarantee subject to the following terms and conditions:-

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(i) interest to be at the rate of 8% per annum;

(ii) the loan to be repaid in 15 years with a three-year grace period;

(iii) security for the loan to be a first mortgage on the company's assets to be shared, pari passu, with the other lender, the International Finance Corporation.

A satisfactory financial feasibility study has been provided and Pegasus Hotels of Jamaica Limited has secured land in the vicinity of New Kingston which is regarded as suitable from a planning point of view for a hotel structure. The Barclays loan of 28.1% of the project costs is well within the criterion of 66 2/3% of project costs, applicable to guarantee requests for such projects. The borrowers would be required to meet the following conditions:-

(i) if there is any eventual excess in the estimated cost of constructing the hotel ($8.65 million (US)) there would be no proportionate increase in the amount covered by the Government guarantee - (in this connection it has been agreed by the participants that any over-run of the total project cost up to $9 million would be met equally by B.O.A.C. and Fortes (Holdings) Limited on a subordinated debt basis or as additional equity);

(ii) the Government would charge a guarantee fee of 1% of the amount of loan raised and guaranteed, subject to the amount being paid in equal instalments over a period of four years;

(iii) Government's guarantee would be related to loan finance not exceeding £1 million to be represented by bonds issued by the owning company with a maturity period of 15 years and a gross redemption yield not exceeding 8%. The bonds would give priority in the first place to the bondholder, and in the second place, in the event of default and the guarantee being called, to the Government which would then stand in the shoes of the lenders and on the same terms and conditions of the bonds.

6. The Pegasus Hotel project has been examined against this background and is considered suitable for debt finance guarantee. The participation by the International Finance Corporation an affiliate of the International Bank for Reconstruction and Development, of which this Government is a member, further ensures that the project is carried out on appropriate lines and meets the objective of financial viability.

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At 31st March, 1969, the amount owing on all loans guaranteed under Chapter 18 is estimated at approximately £2.4 million. Details of principal amount remaining unpaid are attached at Appendix I.

8. The House is asked to approve of the guarantee of the repayment of principal and payment of interest on the loan of £J 1,000,000 by Barclays Bank, D.C.O. to Pegasus Hotels of Jamaica Limited under Section 2 of Chapter 18 of Approved Organisations and Authorities Loans (Government Guarantee) Law. In due course, I shall move a Resolution to this effect.

EDWARD SEAGA
Minister of Finance and Planning,
20th March, 1969

M.P. No. 273/012

APPENDIX I

Estimated Outstanding Loans guaranteed by the Government under Chapter 18 as at 31st March, 1969

Name of Organisation	Amount Authorised	Outstanding balance at 31.3.69
	£	£
Jamaica College	28,000	Nil
Wolmers School	30,000	4,000
Calabar High School	40,000	11,500
Knox College	30,000	15,500
Mannings School	15,000	4,440
Manchester School	30,000	9,750
Jamaica Civil Service Mutual Thrift Society Limited	75,000	3,622
Clarendon College	20,000	7,500
Munro & Dickenson Trust	30,000	16,000
Rose Hall (H.I.) Limited	2,291,667	2,291,667
Housecraft Training Centre	9,000	9,000
Jamaica Civil Service Mutual Thrift Society Limited	50,000	22,500
Jamaica Civil Service Mutual Thrift Society Limited	50,000	16,135
	TOTAL OUTSTANDING	£2,411,614