

# TECHNICAL COOPERATION PROFILE

AUGUST 5, 2008

## I. BASIC PROJECT DATA

- **Country/Region:** Jamaica
- **Program Name/Number:** Strategy for the Divestiture of Air Jamaica / JA-T1037
- **Team Leader/Members:** Leader: Claudia Stevenson (ICF/CMF); other members: Glaister Cunningham (CCB/CJA); Hunt Howell (Consultant); Javier Jimenez, (LEG); and Annabella Gaggero (ICF/CMF).
- **Date of Request:** November, 2007.
- **Beneficiary:** Jamaica
- **Direct Beneficiary:** Air Jamaica
- **Executing Agency:** The Bank – ICF/CMF.
- **Financing plan:**

IDB (French Fund for Consultancy Services FTC):	US\$350,000
Local:	<u>US\$ 90,000</u>
Total:	US\$440,000
- **Tentative dates:** Profile Approval: July 2008  
Plan of Operations Approval: August 2008

## II. BACKGROUND

- 2.1 Jamaica has struggled with macroeconomic imbalances since the early 1970s, when rapidly growing public expenditures resulted in significant fiscal deficits between 1975 and 1985 and the accumulation of a large stock of public debt. The high level of debt impedes macroeconomic management, creates vulnerability to shocks, and poses risk to macroeconomic sustainability. To reduce the debt-to-GDP ratio to 40 percent (a threshold suggested by IMF research), Jamaica would need to run a primary surplus of 7.44 percent of GDP for 20 years.<sup>1</sup> This underlines Jamaica's vulnerability to external shocks and the fact that a significant reduction in the debt ratio must be a macroeconomic imperative.
- 2.2 Air Jamaica is the national flag carrier of Jamaica and is an autonomous public entity that has required subventions from the government for every year it has been in operation since its inception in 1969. This led to its privatization in 1994,

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<sup>1</sup> Detragiache, E. and A. Spilimbergo (2001) "Crises and Liquidity: Evidence and Interpretation", IMF Working Paper WP/01/02.

however, the terms of the arrangement did not stop the annual transfers from the government. When the airline went back to be managed by the GoJ in 2004, Air Jamaica was a loss-making airline with an accumulated debt of US\$800.0 million. Since then, it has continued to make massive losses and has increased its stock of debt by another US\$200.0 million.

- 2.3 In order to prepare the Airline for divestment or for options of private participation, it is necessary to carry out a financial and technical analysis and a diagnostic of the technical state of the art of the equipment. One of the critical issues is that the airline does not produce the required information that will be required for divestiture.
- 2.4 On April 1, 2008, the Bank approved a policy based loan for Jamaica (JA-L1001; 1972[S]/OC-JA), for which the first operation of three has been fully disbursed, aimed at fostering the development of the private sector. One component of the programmatic loan, fostering tax reform, includes a sub-component designed to reduce budgetary distortions caused by State Owned Enterprises (SOE). One of the commitments in the Policy Matrix included the submission of an Action Plan for the rationalization of Public Enterprises with a view to reduce budget support. Air Jamaica has been identified as a candidate for reducing the deficit of the current administration.

### III. OBJECTIVES AND COMPONENTS OF THE PROJECT

- 3.1 The objective of the technical cooperation is to prepare a strategic plan for the divestiture of the company, by auditing the financial and technical systems and provide the required inputs for informed decision making. This TC will contribute to the execution of the Programmatic Operation JA-L1001; 1972[S]/OC-JA, Competitiveness Enhancement Program, and the actions to be taken with Air Jamaica will be part of the commitments agreed in the tax reform and budget balancing component, regarding reducing budget support for State Controlled Enterprises.

#### A. Description

- 3.2 To achieve the objective of making profound changes in the operational and financial management of Air Jamaica and to ease the burden on the Jamaican budget, it will be necessary to carry out diagnostics, studies and audits to provide management with the information it needs to complete its strategic plan. The specific components of the initiative are described below.
- 3.3 **Component 1: Financial Management Audit (US\$200.000, counterpart US\$66.000).** The purpose of this component is to hire a consultant firm to carry out a diagnostic of the revenue and cost accounting systems to ensure that they are reflecting the real financial situation of the company and to define a system to allocate costs between business areas of the company.

- 3.4 **Component 2: Technical Diagnosis (US\$150,000).** The Bank will hire a consultant firm to carry out the assessment of the current technical component of the airline, including the systems for management and control of the aspects of the overall operation, and will recommend specific measures to improve the current practices including subcontracting of activities, fostering private sector participation and other alternatives to reduce the budgetary burden.
- 3.5 **Component 3: Coordination (Counterpart US\$19,000).** Under this component, the counterpart will provide an individual consultant to be in charge of the supervision of the consultancies involved and the coordination with all the relevant parties. Also, the counterpart will provide the office facilities needed to carry out the required work.

#### IV. BUDGET

- 4.1 The total cost of the technical cooperation is US\$440,000 from which US\$350,000 are provided by the TC and US\$90,000 are local counterpart as shown in the budget table.

Category	TC Fund	Local	Total Cost
<b>1. Honoraria</b>	<b>264,000</b>	<b>66,000</b>	<b>330,000</b>
1.1 Consulting Firm (3 experts 120 days during 12 months)	224,000		224,000
1.2 Regional Airline Specialist	40,000	20,000	60,000
1.3 Local Lawyer		46,000	46,000
<b>2. Trips</b>	<b>82,770</b>	<b>-</b>	<b>82,770</b>
2.1 Tickets (Europe Kingston for 10 trips)	25,000	-	25,000
2.2 Per Diem (US\$265 for 218 days)	57,770		57,770
<b>3. Other</b>	<b>3,230</b>	<b>24,000</b>	<b>27,230</b>
3.1 Office Facilities and Coordination	-	19,000	19,000
3.2. Contingencies	3,230	5,000	8,230
<b>TOTAL</b>	<b>350,000</b>	<b>90,000</b>	<b>440,000</b>
%	80%	20%	100%

#### V. EXECUTING AGENCY AND EXECUTION STRUCTURE

- 5.1 The project will be executed by the Bank, with ICF/CMF having the principal technical responsibility. ICF/CMF will also be responsible for disbursements and basic administration.
- 5.2 The contracting of the project consultants will be carried out by ICF/CMF in accordance with the Bank's policies and procedures set forth in document GN-2350-7 (Policies for the Selection and Procurement of Consulting Services Financed by the IDB). The project will be executed over a period of 12 months with a disbursement period of 18 months.

## **VI. BENEFITS AND ISSUES**

- 6.1 As a result of the current consultancy, the GoJ will be in a better position to undergo a divestiture of Air Jamaica by having up to date information. It is expected that from the consultant's recommendation the burdens on the government budget will be eased.

## **VII. ACTION PLAN**

- 7.1 The different activities to be carried out under this TC have already been discussed and agreed with the principal stakeholders. A Plan of Operations will be prepared and submitted by September 2008.

## **VIII. ENVIRONMENTAL AND SOCIAL IMPACT**

- 8.1 This operation is connected with the Programmatic Operation JA-L10011972[S]/OC-JA. Also, in view of the nature of the operation and the activities to be financed –Financial Management Audit and Technical Diagnosis, as specified in paragraphs 3.3 and 3.4–, the team estimates that the project will have no environmental or social impact. For this reason, this TC has been classified as a category “C” operation.

## **IX. APPROVAL**

<i>Original signed</i>	<i>Aug. 6, 2008</i>
_____	_____
Kurt Focke, Division Chief ICF/CMF	Date
 <i>Original signed</i>	 <i>Aug. 13, 2008</i>
_____	_____
Gerard Johnson, Representative CCB/CJA	Date



## Télécopie

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Date 27 mai 2008

À: Olivier Myard  
Administrateur suppléant pour la France  
à la Banque Interaméricaine de dévelop-  
pement

Télécopie: 1 202 623 3643

Réf: BA/804-017x

Pages: 1

☐ Urgent ☒ Pour attribution ☐ Pour information ☒ Pour réponse ☐ Confidentiel

**Objet:** Demande d'imputation sur le fonds fiduciaire d'assistance technique du MINEIK- fenêtre Caraïbes

**Projet - Assistance à la cession d'actifs d'Air Jamaïque- 350 000 USD.**

Nous avons l'honneur de vous faire part de notre accord à financer le projet d'aide à la cession d'actifs de Air Jamaïque.

⇒ Accord pour 350 000 USD

Nous vous remercions de bien vouloir transmettre cette information aux services.

Le Directeur général

## Gaggero, Annabella

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**From:** ESRNet  
**Sent:** Monday, July 21, 2008 5:58 PM  
**To:** ICF-CMF  
**Cc:** Stevenson, Claudia; Lugo, Gloria; ESRNet  
**Subject:** CLEARED/ RE: JAMAICA: Strategy for the Divestiture of Air Jamaica (JA-T1037)

Project classification: C

As specified under the ESR procedures this operation has been cleared by ESR secretariat. No further action is required in the ESR process.

Thank you very much,  
ESR team

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**From:** ICF-CMF  
**Sent:** Thursday, July 17, 2008 10:35 AM  
**To:** ESRNet  
**Cc:** Stevenson, Claudia; Lugo, Gloria  
**Subject:** JAMAICA: Strategy for the Divestiture of Air Jamaica (JA-T1037)

Adjunto, para su revisión, el Perfil de Cooperación Técnica del Programa de la referencia.

Atentamente,

Annabella Gaggero  
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