

**DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
NOT FOR PUBLIC USE**

JAMAICA

STRATEGY FOR THE DIVESTITURE OF AIR JAMAICA

(JA-T1037)

PLAN OF OPERATIONS

This document was prepared by Claudia Stevenson (ICF/CMF); other members: Glaister Cunningham (CCB/CJA); Hunt Howell (Consultant); Javier Jiménez, (LEG/SGO); and Annabella Gaggero (ICF/CMF).

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BASIC SOCIOECONOMIC DATA

For basic socioeconomic data, including public debt information, please refer to the following address: http://www.iadb.org/countries/home.cfm?language=English&ID_COUNTRY=JA.

INFORMATION AVAILABLE IN THE FILES OF ICF/CMF

PREPARATION:

Air Jamaica Limited Financial Statements 2006

ABBREVIATIONS

AJ	Air Jamaica
ESR	Environmental and Social Review
EU	European Union
FTB	the French Technical Cooperation Fund for Consultancy Services and Training Activities – Caribbean Contribution
GDP	Gross Domestic Product
GoJ	Government of Jamaica
ICF/CMF	Capital Markets and Financial Institutions Division at the Institutional Capacity and Finance Sector
IFC	International Finance Corporation
IMF	International Monetary Fund
MoF&PS	Ministry of Finance and Public Service
PIOJ	Planning Institute of Jamaica
PSDA	Private Sector Development Assessment
SOE	State Owned Enterprises
TC	Technical Cooperation

JAMAICA

STRATEGY FOR THE DIVESTITURE OF AIR JAMAICA
(JA-T1037)

I. EXECUTIVE SUMMARY

Beneficiary:	Jamaica		
Executing agency:	Inter-American Development Bank (IDB) – ICF/CMF		
Target Beneficiaries:	Air Jamaica, Jamaica		
Financing:	TC-Funds (FCB):	US\$ 350,000	€260,260
	Local counterpart:		
		<u>US\$ 90,000</u>	<u>€ 66,924</u>
		US\$ 440,000	€327,184
Objectives:	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.		
Execution Period:	The TC will be executed in 12 months and disbursed in 18 months.		
Special conditions:	None		
Exceptions:	None		
Procurement Arrangements:	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 (<i>Policies for the Selection and Procurement of Consulting Services Financed by the IDB</i>).		
Environmental and Social Review:	The TC profile was reviewed by ESR on July 21, 2008. No further actions are required (see ¶8.1 and 8.2).		
Coordination with other Institutions:	No actions required in this phase.		

II. BACKGROUND AND JUSTIFICATION

A. The Problem

- 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.¹ 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, 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. In 2005, the company was showing operational losses of US\$112 million, net losses of US\$128 million and total liabilities of US\$696 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.

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

B. The Bank's and Country's Strategies

- 2.5 The Bank carried out a Private Sector Development Assessment (PSDA) in 2006. The PSDA identified that one of the key issues for fostering private sector development is the existence of a sound macroeconomic framework. Also, one of the main bottlenecks for private sector endeavors is the existence of a very distortionary and cumbersome tax system. In order to be able to make a profound tax reform, actions to reduce fiscal imbalances have to be taken from the budgetary side. Thus, actions taken to improve the operational and financial capacity of Air Jamaica, including involving private participation and divestiture will highly contribute to the macroeconomic balance and reduction of the debt service.
- 2.6 The Bank's country strategy, approved in August 2006, recognizes the importance of a stable macroeconomic framework as the cornerstone for future growth. The private sector development component of the strategy identifies a process of public-private dialogue and several sector-level reforms as necessary to establish a propitious environment for policy reform for improving the business climate. The strategy specifies a policy based loan as the tool for addressing the key issues of private sector development that were identified both in the "Country Strategy" and in the "Strategic Guidelines for Private Sector Development" approved by the Private Sector Committee of the Bank. The policy based loan includes a component for reducing budgetary distortions.

C. Government's, Bank's and other agencies' initiatives

- 2.7 The Bank is currently preparing the second operation of a policy based loan for Jamaica (JA-L1010) aimed at fostering the development of the private sector, with a special focus on the poor and on the segments of population that have less access to financial services and that bear a greater burden of the transactions costs of entrepreneurship. One component of the programmatic loan, fostering tax reform, includes the sub-component designed to reduce budgetary distortions caused by State Owned Enterprises (SOE). Air Jamaica has been identified as a candidate for reducing the tax burden of the current administration.
- 2.8 This TC is conceived to support the implementation of reforms in Air Jamaica by providing the information required for a due diligence process for divestiture of the Airline.
- 2.9 The IFC-WB has been working with Air Jamaica by supporting the company in looking for privatization options, and starting the dialogue process with potential investors.

III. PROGRAM DESCRIPTION

A. Program Goal and Purpose

- 3.1 The objective of the technical cooperation is to support the Government of Jamaica in reducing its budgetary allocations to loss-making public entities. The purpose 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.
- 3.2 This TC will contribute to the execution of the programmatic operation JA-L1010, 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 the reduction of budget support for State Controlled Enterprises.

B. Components

- 3.3 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.

1. Component 1: Financial Management Analysis (US\$200,000 [~~€~~148,720], counterpart US\$66,000 [~~€~~49,078])

- 3.4 At present, Air Jamaica's accounting system does not allow to generate cost and revenue information for the different business segments of the company and to determine the profitability of the existing routes. The purpose of this component is 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. Consultancy services financed with this operation will be targeted at supporting Air Jamaica in the preparation of diagnostics and the compilation of information required to give technical assistance in the decision making process of the divestiture of Air Jamaica.

2. Component 2: Technical Diagnostic (US\$150,000 [~~€~~111,540])

- 3.5 The Bank will hire consultant services to assess the current technical component of the airline, including the systems for management and control of the aspects of the overall operation of the airline, 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. Component 3: Coordination (Counterpart US\$19,000 [~~€~~14,128]).

- 3.6 Under this component, the counterpart will provide an individual consultant in charge of the supervision of the consultancies hired and the coordination with all the relevant parties involved. Also, the counterpart will provide the office

facilities needed to carry on the required work.

C. Consulting services required

- 3.7 The consulting firm will be hired according to Bank procedures to carry out the aforementioned activities, under the nationality requirements of the French Technical Cooperation Fund. Because of the technical and financial complexity of the works and the level of specialization required, the TC will carry out a single source selection process with the consultancy branch of Air France. In this regard, the following specialists should integrate the interdisciplinary group: (i) An airline management and strategy specialist, (ii) a financial specialist with experience in airline financial management, (iii) an airline operation specialist, and (iv) a regional airline consultant, which will be funded partially by the TC Fund and by Air Jamaica. The consultants should have 10 years of experience, of which at least five should be in the area of expertise, and be fluent in English. To complement the group, a local consultant with expertise in Jamaican law should be sub-contracted by the international firm. The local legal consultant will be financed with counterpart funding.
- 3.8 The consultancy will present four reports: (i) a detailed working plan 15 days after contract signature; (ii) a diagnostic of the main issues related to the divestiture of Air Jamaica, including the financial management analysis and the technical diagnostic; (iii) an Action Plan aimed at addressing the issues found in (ii), including options for divestiture or privatization; and (iv) a strategic plan for divestiture.

IV. COST AND FINANCING

- 4.1 The total cost of the technical cooperation is US\$440,000 as shown in the budget table. US\$350,000 will be funded through the French Technical Cooperation Fund for Consultancy Services and Training Activities – Caribbean Contribution (FCB) and US\$90,000 will be funded through local counterpart, Air Jamaica. Air Jamaica will provide office facilities and coordination, as well as the local lawyers and part of the financing for the regional airline specialist.

Category	TC Fund	Local	Total Cost (US\$)	Total Cost (€)
1. Honoraria	264,000	66,000	330,000	245,388
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	
2. Trips	82,770	-	82,770	61,548
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	
3. Other	3,230	24,000	27,230	20,248
3.1 Office Facilities and Coordination	-	19,000	19,000	
3.2. Contingencies	3,230	5,000	8,230	
TOTAL	350,000	90,000	440,000	327,184
%	80%	20%	100%	

V. EXECUTING AGENCY AND MECHANISM

A. Executing Agency

- 5.1 ICF/CMF will have technical responsibility for the execution of the TC agreement, which will be carried out using applicable Bank procedures (GN-2349-7 y GN-2350-7) and will be responsible for the follow up of the execution of the consultancy.

B. Executing Mechanism

- 5.2 The Bank will count on Air Jamaica to monitor the consultants' activities. Wherever possible, the consultants will work with counterpart staff in a manner that will ensure a transfer of technology and knowledge.
- 5.3 Air Jamaica, through the Office of the Chairman of Air Jamaica, will be in charge of the agreement of the terms of reference of the consultant services and of the monitoring and supervision of the different activities. Air Jamaica, with the support of the MoF&PS, will guarantee the conformation of a local technical team in order to ensure the provision of the required information. The local team will be lead by a coordinator, who will be selected by Air Jamaica. The coordinator will be responsible for: (i) acting as a counterpart of TC activities; (ii) supporting the activities of the consultants; (iii) ensuring the coordination between the institutions involved in the operation; and (iv) assessing the implementation of the activities together with the Capital Markets and Financial Institutions Division (ICF/CMF) and the Bank's Country Office in Jamaica (CCB/CJA). The MoF&PS will participate in the monitoring and supervision of the activities carried out by the consultancy, and in the approval of interim and final reports. For this purpose, a working group comprised of representatives of Air Jamaica and the MoF&PS will be conformed.

C. Execution period and disbursement schedule

- 5.4 The expected duration is 12 months for execution and 18 months for disbursement.

D. Procurement

- 5.5 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).
- 5.6 Because of the technical and financial complexity of the works and the level of specialization required, the TC will carry out a single source contracting process with the consultancy branch of Air France. Air France is one of the major players

in the Airline Industry and has the experience of providing consulting services to other airline carriers in areas such as management, operations, financial management, commercialization, aircraft maintenance, training, and information systems analysis. The expertise that Air France consulting brings to Air Jamaica is relevant to the process that Air Jamaica is starting to carry out. In addition, there are no other French firms that can provide the specific technical knowledge on the airline industry in the market. A Procurement Plan is included with the present profile (Annex III) and should be updated every six months during project execution.

- 5.7 **Recognition of Expenses.** The Bank will recognize the expenses made by Air Jamaica on or after September 1st 2008 for the hiring of the Coordinator as local counterpart.

VI. MONITORING AND EVALUATION

- 6.1 ICF/CMF will supervise and manage the consultants' contracts. The Bank's team will supervise the work of consultants and will approve their reports in coordination with Air Jamaica within 2 weeks after reports are received.
- 6.2 Air Jamaica commits to support the Bank in supervising the consultants' activities and will assign a counterpart team of at least two professionals in the fields of logistics and policy making.

VII. PROGRAM BENEFITS AND RISKS

A. Program benefits and developmental impact

- 7.1 The TC will directly contribute to improve fiscal restrictions by analyzing the financial and technical systems of Air Jamaica and proposing solutions to improve financial and operational performance of the company with the aim of reducing or eliminating the budgetary support that Air Jamaica receives from the Government of Jamaica.

B. Target Beneficiaries

- 7.2 The target beneficiary is the Government of Jamaica, which is experiencing tight fiscal conditions under high percentages of debt/GDP and low growth. Indirectly, as budget provisions for Air Jamaica are liberated, the Government of Jamaica will improve its current fiscal conditions, thus reducing its vulnerability to external crisis among others. As a result of this 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 implementing the consultant's recommendations will ease the burdens on the government budget.

C. Risks

- 7.3 The critical aspect of this technical cooperation is the need for information to make the required assessments for options for the divestiture of Air Jamaica. This aspect will be mitigated by the hiring of consultant services with experience in similar projects in other countries in the region. The other critical aspect is the political implications of introducing changes in Air Jamaica, in particular private agents in a public run company that has strong cultural roots in Jamaica. This risk will be mitigated by a process of information to the public.

VIII. ENVIRONMENTAL AND SOCIAL ASPECTS

A. Date of ESR review

- 8.1 The TC profile was reviewed by ESR on July 21, 2008, and the program was classified as a category “C” operation. No further actions were required.

B. Risks and Mitigation

- 8.2 In view of the nature of the operation and the activities to be financed, the team estimates that the project will have no environmental or social impact. Positive impacts are expected in terms of improved operational performance, more availability of information and reduced budgetary provisions for the support of the Airline.

IX. RESPONSIBILITY WITHIN THE BANK

- 9.1 The Capital Markets and Financial Institutions Division at the Institutional Capacity and Finance Sector (ICF/CMF) has the responsibility for preparing and managing this TC. The officer with direct responsibility on technical issues and approval of disbursements is Claudia Stevenson (ICF/CMF), e-mail: claudiast@iadb.org.

X. RECOMMENDATION

- 10.1 Claudia Stevenson, designated team leader for this project, recommends the approval of this operation and the use of resources from the the French Technical Cooperation Fund for Consultancy Services and Training Activities – Caribbean Contribution (FCB) for a total of up to US\$350,000 in order to finance this technical cooperation project.

XI. CERTIFICATION

- 11.1 I hereby certify that this operation was approved for financing under the French Technical Cooperation Fund for Consultancy Services and Training Activities – Caribbean Contribution (FCB) through a fax message dated May 27, 2008 and signed by Xavier Musca, Director General, Ministry of Treasury. Also, I certify that resources from the the French Technical Cooperation Fund for Consultancy Services and Training Activities – Caribbean Contribution (FCB) are available for up to US\$350,000 in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of seven (7) calendar months counted from the date of signature below. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this Plan of Operations. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.

Original signed

Marguerite S. Berger
Chief

Grants and Cofinancing Management Unit
VPC/GCM

Oct. 29, 2008

Date

XII. APPROVAL

Original signed

Kurt Focke
Division Chief, ICF/CMF

Original signed (11/10/2008)

11/10/2008

Gerard Johnson
Representative, CCB/CJA

STRATEGY FOR THE DIVESTITURE OF AIR JAMAICA
(JA-T1037)
Annex I - Results Framework

Objectives	The objective of the technical cooperation is to support the Government of Jamaica in reducing its budgetary allocations to loss-making public entities.
Purpose of the Technical Cooperation	The purpose 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.

INDICATORS	Baseline	Year 1	Year 2	Goal ¹	DESCRIPTION	ASUMPTIONS
COMPONENT 1: Financial Management Analysis						
Output						
Action Plan on addressing the Financial and Accounting Issues.	0	50%	100%	100%	This percentage indicates the level of progress in the carrying out of studies and working meetings with relevant experts.	The consultant has access to all the required information. The GoJ maintains its commitment for the divestiture of Air Jamaica.
Intermediate Outcome						
Air Jamaica implements the actions proposed on the Action Plan regarding Financial and Accounting Issues.	0%	0%	100%	100%	This percentage indicates the level of progress in the carrying out of studies and working meetings with relevant experts.	The consultant has access to all the required information. The GoJ maintains its commitment for the divestiture of Air Jamaica.
Outcome						
The Actions implemented result in the reduction and/or elimination of budgetary provisions from	0%	0%	0%	100%	This percentage indicates the level of progress in the carrying out of studies and working meetings with	The consultant has access to all the required information. The GoJ maintains its commitment for the divestiture of Air Jamaica.

¹ The goal will be evaluated three years after the completion of the program.

STRATEGY FOR THE DIVESTITURE OF AIR JAMAICA
(JA-T1037)
Annex I - Results Framework

INDICATORS	Baseline	Year 1	Year 2	Goal ¹	DESCRIPTION	ASUMPTIONS
the GoJ to Air Jamaica.					relevant experts.	
COMPONENT 2: Technical Diagnostic						
Output						
Action Plan on addressing the Technical Issues.	0%	50%	100%	100%	This percentage indicates the level of progress in the carrying out of studies and working meetings with relevant experts.	The consultant has access to all the required information. The GoJ maintains its commitment for the divestiture of Air Jamaica.
Intermediate Outcome						
Air Jamaica implements the proposed actions on the Action Plan regarding Technical Issues.	0%	0%	100%	100%	This percentage indicates the level of progress in the carrying out of studies and working meetings with relevant experts.	The consultant has access to all the required information. The GoJ maintains its commitment for the divestiture of Air Jamaica.
Outcome						
The Actions implemented result in the reduction and/or elimination of budgetary provisions from the GoJ to Air Jamaica.	0%	0%	0%	100%	This percentage indicates the level of progress in the carrying out of studies and working meetings with relevant experts.	The consultant has access to all the required information. The GoJ maintains its commitment for the divestiture of Air Jamaica.

STRATEGY FOR THE DIVESTITURE OF AIR JAMAICA
(JA-T1037)
Annex I - Results Framework

INDICATORS	Baseline	Year 1	Year 2	Goal ²	DESCRIPTION	ASUMPTIONS
COMPONENT 3: Coordination						
Output						
Action Plan on addressing the Financial and Accounting Issues coordinated with all stakeholders.	0	50%	100%	100%	This percentage indicates the level of progress in the carrying out of studies and working meetings with relevant experts.	The consultant has access to all the required information. The GoJ maintains its commitment for the divestiture of Air Jamaica.
Intermediate Outcome						
Air Jamaica implements the proposed actions on the Action Plan	0%	0%	100%	100%	This percentage indicates the level of progress in the carrying out of studies and working meetings with relevant experts.	The consultant has access to all the required information. The GoJ maintains its commitment for the divestiture of Air Jamaica.
Outcome						
The Actions implemented result in the reduction and/or elimination of budgetary provisions from the GoJ to Air Jamaica Facilitation.	0%	0%	0%	100%	This percentage indicates the level of progress in the carrying out of studies and working meetings with relevant experts.	The consultant has access to all the required information. The GoJ maintains its commitment for the divestiture of Air Jamaica.

² The goal will be evaluated three years after the completion of the program.

Inter-American Development Bank
Operations Procurement Office (VPC/PDP)

Project: Strategy for the Divestiture of Air Jamaica
Operation number: JA-T1037

Annex II
PROCUREMENT PLAN

A) All contracts for the proposed TC will be carried out in accordance with the “**Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank**” (GN-2350-7).

Project: Strategy for the Divestiture of Air Jamaica
Operation number: JA-T1037

Procurement Plan for Consulting Services

Ref. No.	Description and type of the procurement contract	Estimated Contract Cost (US\$ 000)	Procurement method ¹	Review (ex-ante or ex-post)	Source of financing and percentage		Estimated Dates		Status (Pending, in process, awarded, cancelled)	Comments
					IDB %	Local / Other %	Publication of Specific procurement notice	Completion of contract		
	1. Consulting Services ○ Consulting Firm Because of the technical and financial complexity of the works and the level of specialization required, the TC will carry out a single source selection process with the consultancy branch of Air France.	350,000	SSS		80	20	n/a	Dec. 2008	Pending	

¹ **Consulting Firms:** QCBS: Quality- and cost –Based Selection; QBS: Quality Based Selection; FBS: Selection under a Fixed Budget; LCS: Least-Cost Selection; CQS: Selection based on the consultant' Qualifications; SSS: Single Source Selection. **Individual Consultants:** NICQ: National Individual Consultant selection based on Qualifications; IICC: International Individual Consultant selection based on Qualifications

STRATEGY FOR THE DIVESTITURE OF AIR JAMAICA
(JA-T1037)
Annex III – Justification for Single Source Selection

Justification
Single Source Selection of Air France Consulting

Air France Consulting is a subsidiary of Air France with an independent structure whose aim is to provide services, management advice and project studies in the air transport sector. Air France Consulting brings the skills and know-how of Air France in areas such as financial and operational management that are core of the proposed TC. In addition, there are no other French firms that can provide the specific technical knowledge on the airline industry in the market.

Air France is one of the major players in the Airline Industry and has the experience of providing consulting services to other airline carriers in areas such as management, operations, financial management, commercialization, aircraft maintenance, training, and information systems analysis. Since the financial operations of an airline are very complex and related to the operation of an airline and the operational management requires very specialized support, the expertise that Air France consulting brings to Air Jamaica is relevant to the process that Air Jamaica is starting to carry out.

STRATEGY FOR THE DIVESTITURE OF AIR JAMAICA
(JA-T1037)
Annex IV - Detailed Program Budget
(in US dollars)

Category	TC Fund	Local	Total Cost
<u>1. Honoraria</u>	264,000	66,000	330,000
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
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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
<u>3. Other</u>	3,230	24,000	27,230
3.1 Office Facilities and Coordination	-	19,000	19,000
3.2. Contingencies	3,230	5,000	8,230
TOTAL	350,000	90,000	440,000
%	80%	20%	100%

JAMAICA

JA-T1037

STRATEGY FOR THE DIVESTITURE OF AIR JAMAICA

TERMS OF REFERENCE FOR THE DEVELOPMENT OF CONSULTANCY SERVICES

I. BACKGROUND

- 1.1 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.¹ This underlines Jamaica's vulnerability to external shocks and the fact that a significant reduction in the debt ratio must be a macroeconomic imperative.
- 1.2 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, 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. In 2005, the company was showing operational losses of US\$112 million, net losses of US\$128 million and total liabilities of US\$696 million. Since then, it has continued to make massive losses and has increased its stock of debt by another US\$200.0 million.
- 1.3 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.
- 1.4 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

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

Jamaica has been identified as a candidate for reducing the deficit of the current administration.

II. OBJECTIVE

- 2.1 The objective of this project is to support the Government of Jamaica and Air Jamaica in the preparation of a strategic plan for the divestiture of the company, by analyzing the financial and technical systems and provide the required inputs for informed decision making.

III. ACTIVITIES

- 3.1 Consultancy services will be targeted at supporting Air Jamaica in the preparation of diagnostics and the compilation of information required to give technical assistance in the decision making process of the divestiture of Air Jamaica. The required activities from the consultancy are described as follows:

i. Developing of a Time-Table and Action Plan

- 3.2 The consultant should develop and agree with Air Jamaica and the representatives of the Government of Jamaica in the definition of the Time-Table and Action Plan for the activities and deliverables of the consultancy.

ii. Financial Management Analysis.

- 3.3 The consultant will carry out a diagnostic of the revenue and cost accounting systems that include among others:
- a. The identification of the real financial situation of the company.
 - b. The definition of a system to allocate costs between business areas of the company.
 - c. A proposal including a series of financial measures to improve the financial viability of the company and to create a better environment leading to divestiture.

iii. Technical Diagnostic

- 3.4 The consultancy services in this area include the diagnostic of the revenue and cost accounting systems to, among others:
- a. asses the current technical component of the airlines including the systems for management and control of the aspects of the overall operation of the airline; and
 - b. recommend specific measures to improve the current practices including subcontracting of activities, fostering private sector participation, and other alternatives to reduce the budgetary burden.

iv. Formulation of an Action Plan

- 3.5 With the results of the technical and financial diagnostic, the consultant will analyze several alternatives for the more efficient provision of the service that will minimize the budgetary provisions of the Jamaican Government. The Consultant shall analyze the pros and cons of different alternatives and submit the alternatives for discussion with the stakeholders in the workshop discussed below. Based on the recommendations of the stakeholders, the consultant shall submit a detailed Action Plan to implement the preferred alternative.

v. Workshop and Discussion with stakeholders

- 3.6 The consultant shall prepare a series of workshops for the discussion of the detailed studies with the relevant stakeholders from the public and private sector and discuss the results toward generating consensus on the next steps and recommended actions. The consultant shall propose in the Time-Table and Action Plan the timing of the workshops.

IV. CHARACTERISTIC OF THE CONSULTANCIES

i. Type of Consultancy:

- 4.1 Consultancy firm with wide experience in the topics of airline consulting, airline operation, and management. The consultancy will be carried out under a Lump-Sum agreement, covering all travel and work-related costs.
- 4.2 The disbursement schedule will be as follows:
- a. 30% at contract signature.
 - b. 20% at approval of time-table and Action Plan.
 - c. 20 % at presentation of draft studies.
 - d. 30% at approval of final paper.

.ii. Start date and duration:

- 4.3 The consultancy will start in October 2008 and will last ten months.

vi. Place of work:

- 4.4 Kingston Jamaica and the consultant's place of residence.

vii. Qualifications:

- 4.5 The consultant should provide at least the following specialists to integrate the interdisciplinary working group: (i) an airline management and strategy specialist, (ii) a financial specialist with experience in airline financial management, (iii) an airline operation specialist, and (iv) a regional airline consultant. The consultants should have 10 years of experience, of which at least five should be in the area of

expertise, and be fluent in English. To complement the group, a local consultant with expertise in Jamaican law should be sub-contracted by the international firm. The local legal consultant will be financed with counterpart funding.

- 4.6 The firm shall also provide a project director in charge of the coordination of activities and responsible for the overall quality of the different activities.

V. DELIVERABLES AND PRODUCTS

- 5.1 The consultant shall provide the following products:
- (a) ***Time Table and Action Plan***, within ten calendar days after contract signature.
 - (b) ***Draft Final Report***, after six months of contract signature.
 - (c) ***Final Report***, within 15 calendar days after the final Workshops.
- 5.2 The reports should be written in English and will be submitted in both paper and Electronic format.

VI. SUPERVISION AND COORDINATION

- 6.1 Claudia Stevenson (ICF/CMF) will be in charge of supervision and coordination.