

# PREPARATION OF THE AIRPORT SECTOR FOR PRIVATIZATION

(TC-95-02-14-8)

## EXECUTIVE SUMMARY

**EXECUTING AGENCY:** The Airports Authority of Jamaica (AAJ)

**RECIPIENTS:** The Airports Authority of Jamaica (AAJ)

**OBJECTIVES:** The objectives of the program are to prepare the airport sector for sale to the private sector, including the drafting of the appropriate legislation and regulations, and to implement the sale, including defining and marketing the business to be sold.

**DESCRIPTION:** The program is divided into two phases: Phase I - Preparation of the airport sector for sale; and Phase II - Implementing the sale. The tasks in Phase I are: (i) development of primary legislation to give legal provision to the status of the Jamaican airports industry as a private sector organization; (ii) design and implementation of an airport-specific regulatory framework; (iii) incorporation of airport regulations into the duties of the Office of Utilities Regulation (OUR); and (iv) conducting a management audit of Norman Manley International Airport (NMIA). In Phase II, the tasks are: (i) define the business to be sold; and (ii) implement the sale of the business.

**AMOUNT OF PROJECT:**

Recipient:	US\$150,000
MIF:	US\$570,000
Total:	US\$720,000

**MIF FACILITY:** Technical Cooperation (Facility I)

**MODALITY:** Grant

**IMPLEMENTATION SCHEDULE:** The program will be executed in a period of eighteen months.

**ENVIRONMENTAL CLASSIFICATION:** The Environmental Management Committee, at its meeting of August 10, 1993, classified the Program for Airport Reform and Improvement, of which this is a component, as a Category III operation, and on July 11, 1995, approved the environmental summary.

**PROJECT TEAM:** Keith Evans (RE3/OD6), Project Team Leader; Jacob Greenstein, RE3/FI3; Hernan Aspiazu, RE3/EN3,

Executive Summary

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Brewster, COF/CJA; and Jaime Cabrera, COF/CJA.

## I. COUNTRY ELIGIBILITY

- 1.1 Jamaica was declared eligible for all modalities of financing under the Multilateral Investment Fund by the Donors' Committee on October 6, 1993.

## II. BACKGROUND

### A. Operation JA-0034

- 2.1 The Inter-American Development Bank is processing a loan to improve the efficiency, quality, sustainability and security of air-transportation services, and to stimulate the participation of the private sector in this effort. This program envisages: (1) the rehabilitation of the airside facilities, i.e. runway, taxiways, and apron, and the upgrade of the navigational and communications systems at Norman Manley International Airport (NMIA) in Kingston, in order to elevate them to international standards of operation and safety; and (ii) the establishment of the legal, technical and economic framework to facilitate the transfer of the airports to the private sector and implementation of the transfer. The antecedents of this operation are detailed in the loan proposal attached to this document as Annex III and summarized in the following section.

### B. A sector in transition

- 2.2 The focus of the government's medium-term policy framework is on strengthening external competitiveness, continuing deregulation and liberalization of the economy, promoting export-oriented activities, increasing economic efficiency, rationalizing the operations of some public enterprises and creating an environment in which private investment fuels the engine of economic growth. When applied to the air-transport sector, which derives its economic significance from the fact that it directly underpins tourism which is the country's main foreign exchange earner, this policy translates into actions aimed at: (i) more effectively meeting the country's airport needs; (ii) obtaining investment funds from capital markets rather than from the public purse, in a climate of budget restraint and fiscal discipline; and (iii) redefining the structure of regulation and policy measures relating to air transport facilities and services.
- 2.3 Within this framework, the government is committed to the divestment of some parts of the industry as a means of promoting efficient, effective and financially self-sufficient operations. In this vein, it recently sold its international carrier, Air Jamaica, and is currently evaluating offers for the sale of its domestic carrier, Trans Jamaica. In terms of the country's international airport facilities, which are comprised of NMIA in

Kingston and Sangster International Airport (SIA) in Montego Bay, in 1993 the government created a private company (SIA Ltd.) to take over the existing terminal facilities and to build, own and operate new terminal facilities at SIA. 1/

- 2.4 Once airport privatization became the selected option for improving the efficiency, quality and sustainability of air-transportation services, the need arose for an effective, clear and transparent technical and economic regulatory framework for private sector involvement. Accordingly, the Bank approved technical assistance for a regulatory and institutional study of the airports sector. Among the recommendations that emerged from the study, which was accepted by both the government and the Bank, were that: (i) the "corporatization" of NMIA should begin as a matter of urgency, with NMIA Ltd. being created along lines similar to SIA Ltd.; (ii) the Head Office of the Airports Authority of Jamaica (AAJ) should be abolished and its residual role taken over by AAJ Holdings Ltd.; (iii) an explicit framework of economic regulations should be developed and administered out of the Office of Utilities Regulation (OUR), which is being established with the support of MIF resources (Ref: MIF/AT-10-2); and (iv) the status of the Civil Aviation Department (CAD) should be changed to that of a Civil Aviation Authority, in order to give it financial independence.
- 2.5 These recommendations establish the basis for the program described in the ensuing section.

### III. THE PROGRAM

#### A. Objectives

- 3.1 The objectives of the program are to prepare the airport sector for sale to the private sector, including the drafting of the appropriate legislation and regulations, and to implement the sale, including defining and marketing the business to be sold.

#### B. Activities 2/

- 3.2 The program is comprised of six tasks segregated into two phases: Phase I- Preparation of the airports sector including legislation, regulation and restructuring of AAJ/NMIA; and Phase II- Implementing the sale, including defining and marketing the business to be sold. The tasks associated with Phase I are: (i) development of primary legislation to give legal provision to

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1/ See paragraphs 4.18 to 4.21 of the loan proposal for details of this arrangement.

2/ A table summarizing the program, including activities to be carried out and expected achievements, is presented in Annex I.

the status of the Jamaican airports industry as a private sector organization; (ii) design and implementation of an airport specific regulatory framework; (iii) incorporation of airport regulations into the duties of the OUR; and (iv) conducting a management audit of NMIA. In Phase II, the tasks to be carried out are: (i) define and value the business to be sold, along with a detailed method of sale; and (ii) implement the sale of the business.

C. Description of activities

Phase I

3.3 Task 1. Primary legislation required to effect the transfer of the airports industry of Jamaica to the private sector.

- a. Overview of task - This legislation will have to be drafted so that full legal provision is given to the status of the Jamaican airports industry as a private sector organization. It is likely that the prime legislation will be enacted through a specific airports act or bill, although there are likely to be numerous concomitant changes to other enabling legislation.
- b. Scope of work - MIF resources will be used to finance the recruitment of short-term legal advisors to perform the following activities:
  1. Development of comprehensive legislative specifications for presentation to the Chief Parliamentary Counsel. These specifications should represent the decisions of GOJ on all the policy issues, design and other major administrative elements in putting together the legislation to transfer the assets and responsibilities of the AAJ to the private sector. This development should take into account any sectoral reforms or regulatory issues identified in the other tasks (2-6) listed below.
  2. Provide advice and assistance as required by the Parliamentary Counsel as requested during the legislative drafting and enactment process.

3.4 Task 2. Technical support for establishing the airport specific regulatory framework

- a. Overview of Task - It is envisaged that the regulatory framework required for the private sector airport industry will generally be enshrined within the OUR. However, it is likely that there will be a requirement for an airport specific regulatory structure to take account of airport specific concerns. Some of that regulatory structure, notably regulation of safety and regulation of other operational issues is likely to exist currently. This regulation will need to be reviewed to take account of the new institutional arrangements

created by the enactment of the legislation within task 1. Other regulatory relationships may have to be created newly on transfer. This task will facilitate changes to the regulatory structures.

- b. Scope of Work** - MIF resources will be used to finance the recruitment of short-term consultants with wide experience of regulatory regimes and practices relating to regulation of airports to perform the following activities:

    - 1. Development of proposals for new regulatory organizations if required, including description of duties, resources and personnel.
    - 2. Development of strategy on inter-working between any new regulatory organizations and existing regulatory organizations such as the CAA and the OUR.
    - 3. Working alongside new and existing regulatory agencies as regulatory involvement is required in making pricing and other strategic decisions.
    - 4. Inform the legislative process so as to enshrine the regulatory system within it.
- 3.5 Task 3. Ensure the successful addition of airport regulation to the duties of the OUR.**
- a. Overview of Task** - Task 2 covered requirements for the development or introduction of airport specific regulatory agencies. Task 3 covers the addition of the duties of airport regulation to the pre-existing OUR. This task would involve assessing how much incremental work would be required in equipping the OUR for these duties. Once the regulatory regime has been established, accomplishment of this task would involve working alongside the Director of the OUR on key regulatory decisions affecting the airports industry. Without prejudging the form of regulation, it is likely that one of the most significant regulatory interventions would be in the area of pricing.
  - b. Scope of work** - MIF resources will be used to finance the recruitment of short-term consultants with wide experience of regulatory regimes and practices relating to regulation of airports to perform the following activities:

    - 1. Develop an understanding of the pre-existing structure of the OUR, its duties and organizational structures. This should be achieved through review of the basic enabling legislation.

2. Review of the operational and safety airport-specific regulatory structures proposed as a result of outputs from Task 2.
3. Implementing necessary increments to the duties or responsibilities to the OUR.
4. Working alongside the Director of the OUR and his staff to formulate key regulatory judgements/policies, particularly on pricing.

### 3.6 Task 4. Conduct management audit of NMIA

- a. **Overview of Task** - In order to privatize NMIA terminal operations, it will be necessary to make appropriate changes to the structure and organization of the existing AAJ, in particular to strengthen NMIA and to prepare it for sale. A smaller AAJ Head Office may continue to run the airside activities at both SIA and NMIA. Such strengthening will be important in the following areas: (i) Reorganization of the structures of NMIA and corporate development in appropriate management areas; (ii) Reassignment of key personnel and; (iii) Training and management development.
- b. **Scope of work** - MIF resources will be used to finance the recruitment of short-term consultants with practice in the process of re-engineering programmes in public sector organizations to perform the following activities:
  1. Make proposals for reorganization of NMIA and the strengthening of its management, taking into account the experience of the Sangster terminal project.
  2. Draw up strategies for development of key corporate functions through such techniques as SWOT (strengths and weaknesses, opportunities, threats).
  3. Make proposals for the corporatization of NMIA. This process may require incorporating NMIA as a company under the Companies Act, and establishing in a license working relationships with other parts of the organization.
  4. Identify training requirements for NMIA and CAA staff so as to enable smooth transition to private sector management practice.
  5. Based on (4) above, design and execute an appropriate program of training activities for relevant NMIA and CAA employees.

Phase II

3.7 **Task 5. Defining the business to be sold, valuation and sale method.**

- a. **Overview of task** - This task would ensure that the business to be sold is carefully and clearly defined. This definition has three main elements: defining the physical business, defining the financial proposition and defining the detailed sale approach.
- b. **Scope of work** - MIF resources will be used to finance the recruitment of short-term consultants with ability to carry out physical audits and value assets and experience of the privatization process to perform the following activities:
  - 1. Clearly define the operational boundaries of the business and the limits of its organizational responsibilities.
  - 2. Carry out a physical audit of the assets of the business to be sold.
  - 3. Define valuation techniques for the business to be privatized.
  - 4. Value the business using some or all of the approaches identified.
  - 5. Recommend a valuation of business to inform the implementation of privatization (Task 6).
  - 6. Define the detailed sales approach and methodology based on the approach taken at Sangster International Airport.

3.8 **Task 6. Implementation of sale of Jamaican airports industry**

- a. **Overview of task** - This task is completed when the Jamaican airports business is physically transferred to the private sector. How this is achieved depends in large part on the outputs from the previous task, all of which have to be completed before transfer can take place. Enabling legislation has to be in place so that the entity can legally operate in the private sector. A regulatory framework (task 2 & 3) has to be operational so that private sector management can make decisions in a stable institutional environment. Existing NMIA management structures will have to be strengthened (task 4) to enable private sector operation to be successful. A clear sale strategy has to be agreed, and the business to be sold must be clearly defined including an accurate valuation (task 5).
- b. **Scope of Work** - MIF resources will be used to finance the recruitment of short-term consultants (investment bankers with



experience in privatization) to perform the following activities:

1. Structure the sale through targeting the markets at which the offer for sale is aimed. Make recommendations on: (i) what % to offer for sale; (ii) what % to allocate to management and staff; (iii) what % to allocate overseas and; (iv) what % to offer to the public.
2. Produce information memorandum, covering key operational and financial drivers of the business, and a description of the policy context.
3. Market the sale. How this is done depends on the precise form of the sale. However, recommendations are required on: (i) procedures for flotation, listing etc; (ii) presentation to major institutions; (iii) advertising of flotation; (iv) media presentations and (v) devising appropriate marketing strategies.
4. Address employee communications issues including appropriate employee share ownership schemes.
5. Complete the sale as appropriate through stock market flotation, private placement or negotiated trade sale.

**3.9 Sequencing of specific tasks** - To achieve privatization of the airports sector within the eighteen month time scale, the tasks will need to be sequenced as follows:

1. The task of developing enabling primary legislation will need to be developed at the outset of the program, and to be completed within 12 months so that the investors are able to be assured of the institutional arrangements.
2. Tasks 2 and 3 need to take their lead from the development of the enabling legislation. Both the airport specific regulatory regime and the addition of airport specific duties to the responsibilities of the OUR need to be complete within 12 months to ensure investor assurance.
3. The timing of task 4 (organizational changes to AAJ and NMIA) is dependent on the exact form of privatization, but, in any case needs to be complete within 14 months.
4. Task 5 (definition of the business to be sold, valuation and detailed sale method) start within twelve months and be complete within fifteen months of inception of the project.
5. Task 6 is estimated to take some six months and will complete the project. Therefore it needs to be underway within twelve months of inception of the project.

3.10 **Consultant Groupings** - While each of the specific consulting task identified above could be undertaken by a different team of individual consultants, a review of the nature of the tasks and the required qualifications for each suggests a group into three consultant teams.

1. one team would execute the legal and regulatory tasks (task 1, 2 and 3)
2. one team would work with AAJ to affect the structural strengthening of the management team and organization (task 4)
3. one team would implement the sale (task 5 and 6)
4. It is important that the team executing task 1, 2 and 3 and task 5 and 6 are not the same to avoid conflicts of interest.

#### IV. COST AND FINANCING

4.1 The total cost of the program is estimated at \$US720,000, of which the MIF would provide non-reimbursable financing in the amount of US\$570,000, with the local contribution making up the balance in the equivalent of US\$150,000. The budget is as follows:

PROJECT BUDGET (in US\$)			
Task	Description	MIF	Local
Task 1	Development of primary legislation	75,000	
Task 2	Develop airport-specific regulatory framework	45,000	
Task 3	Add airport regulations to duties of OUR	30,000	
Task 4	Management audit of NMIA	58,000	
Task 5	Defining business to be sold, valuation and method of sale	72,000	
Task 6	Implementing the sale	120,000	
	Consultant/coordinator	100,000	
	Travel and per diem	40,000	30,000
	Project Executing Unit		90,000
	Contingencies	30,000	30,000
	TOTAL	570,000	150,000
	%	79.2	20.8

#### V. EXECUTION AND DISBURSEMENT

5.1 The operation will be executed by the AAJ Ltd., which will establish a Project Executing Unit (PEU) specifically for this. The PEU will be comprised of: a coordinator with broad experience

in privatization for 18 professional/months; a lawyer, preferably, with experience in privatization for 6 professional/months; and a financial analyst/chartered accountant, likewise with some experience in privatization for 6 professional/months. All PEU costs will be covered with counterpart funds.

- 5.2 In order to ensure that all tasks are adequately co-ordinated, MIF resources will be used to fund a consultant/coordinator with broad experience in airport privatization, who would provide up to eight expert/months of services at designated intervals throughout the period of execution. This consultant will work in close collaboration with the staff of the PEU). Prior to the first disbursement of the resources of the grant, the borrower must present: (i) evidence of the hiring of the consultant/coordinator and staffing of the PEU; and (ii) an action plan detailing the activities to be carried out during the first year of execution.
- 5.3 The program will be executed over a period of eighteen months and the final disbursement will be effected within a period of twenty-four months from the date of the agreement. All disbursements will be made in accordance with Bank procedures.

## VI. MONITORING

- 6.1 Monitoring of the program will involve the preparation of three reports by the PEU under the direction of the consultant/coordinator. The first two reports will be due within 3 and 6 months, respectively, of initiation activities and will provide a comparison of the status of implementation of the activities with the expected results as indicated in Annex I. The reports may include, for approval of the MIF Office, recommendations for any required reallocation of resources among the items in the budget. In addition, a mid-term evaluation of the program will be undertaken. This evaluation will be carried out by a committee comprised of the coordinator of the PEU, the consultant/coordinator, the President or someone designed by the President of the AAJ, the Minister or someone designated by the Minister of Public Utilities, Transport and Energy, and the Project Team Leader or member of the Project Team. The final report will provide a completion evaluation of the program.

## VII. COMPLIANCE WITH ELIGIBILITY CRITERIA

### A. General criteria for program eligibility

- 7.1 The program is fully consistent with the general purpose of the Fund, which is to increase private investment and expand the private sector in order to accelerate economic and social growth and development.

**B. Facility criteria for program eligibility**

- 7.2 The program is also fully consistent with the criteria for grant financing under the Technical Cooperation Facility, Article III, Section 2 (b) and (d) of the MIF Agreement, which support the development of national country plans for comprehensive reform of the policy and legal environment for investment and the design and implementation of privatization programs.
- 7.3 Similarly, the program is fully consistent with the main strategic vector of activity defined for the Technical Cooperation Facility, which is to promote private sector investment in infrastructure projects. It is important to note that there are very few experiences of private sector participation in Latin America and the Caribbean. This gives to the project an innovative aspect with significant demonstration effects for the Region.

**VIII. CONSISTENCY WITH THE BANK'S COUNTRY STRATEGY**

- 8.1 One of the four planks of the Bank's strategy for Jamaica is the rationalization and modernization of the state. Under this general heading, the rationalization of public infrastructure services in order to secure the establishment of an effective legal and regulatory framework that would create incentives for competitively priced, quality services by the private sector, without recourse to tax revenues, has been accorded high priority. A second plank of the strategy is the expansion and diversification of exports, which focusses Bank attention on alleviating bottlenecks relating to infrastructure facilities and competitiveness-enhancing services necessary for rapid export growth. This would require facilitating institutional and regulatory changes that encourage a greater and more effective role for the private sector. The proposed program would advance the attainment of both these objectives.

**IX. AVAILABILITY OF MIF RESOURCES**

- 9.1 Funding Modality - The project is expected to be financed through a grant based on the following points: (i) Jamaica was declared eligible for all modalities of financing under the MIF by the Donors Committee on October 6, 1993; (ii) the compliance of Jamaica with the criteria of eligibility for obtaining grant resources at the country level (Article 3, Section 5b of the MIF Agreement) is detailed in the Eligibility Memorandum of the country; and (iii) the proposed project will have an important catalytic impact on the flow of investment funds as required by Article 3 Section 5 (a) of the MIF Agreement since its objective is to create the conditions for private investments in the airport sector. The

validity of these criteria was confirmed in a meeting of the Donors Committee on March 30, 1994 (MIF/GN-23).

- 9.2 Since it includes a privatization component, this operation could be processed on a contingent-recovery basis. However, a grant is recommended for the following reasons: (i) the total MIF financing for the privatization component (task 6) is less than one million dollars; and (ii) there is a substantial financial contribution by the beneficiary.

## X. RISKS

- 10.1 The program has been designed to include all activities considered necessary for the attainment of its objectives. The main risks derive from the following: (i) the approach involves employing groups of consultants rather than a single firm. This approach is usually associated with a lack of adequate coordination, minimized, in this case, by the appointment of a consultant/coordinator. Nevertheless, this approach is recommended given the broad range of required skills, which are unlikely to be found in a single firm; (ii) a prerequisite for the success of the program is that the resulting legislation be enacted. This requires that the Government remains fully committed to the aims of the program; and (iii) completion of the sale depends on an appropriate buyer or buyers being found. Failing this, the project will be deemed to have reached completion through sign-off of all relevant tasks by the long-term consultant.

## XI. ADDITIONAL DOCUMENTS

- 11.1 Since this MIF operation is parallel to the loan program (JA-0034), the loan proposal is attached as Annex III to this memorandum.

## XII. EVALUATION

- 12.1 The results of this technical cooperation will be evaluated on the basis of the degree to which the specific objectives have been met.

MIF FACILITY I: PRIVATIZATION OF JAMAICAN AIRPORTS		
<b>General objective of the project:</b> Prepare the airport sector for sale to private investors.		
<b>Specific objective of the project:</b> Assist the government in the drafting of the appropriate legislation and regulations and in implementing the sale, including defining and marketing the business to be sold.		
TASK	ACTIVITIES	EXPECTED RESULTS
1. Development of primary legislation for the Jamaican airports industry.	i) Develop legislative specifications to transfer industry to the private sector.  ii) Advise and assist Parliamentary Counsel	i) Legislative specifications ready are within 6 months  ii) Defined within 6 months
2. Development of airport-specific regulatory framework	i) Develop proposals for new regulatory organizations  ii) Inter-working with existing regulatory organizations  iii) Work alongside regulators  iv) Enshrine regulatory system in legislation	i) Proposals developed within 3 months  ii) Defined within 1 month  iii) Implemented within 12 months  iv) Implemented within 6 months
3. Add airport regulations to the duties of the OUR	i) Review and obtain understanding of existing structure of OUR  ii) Review airport-specific regulatory structures  iii) Implement increments to OUR duties  iv) Work alongside regulator to formulate key regulatory judgements, particularly on pricing	i) Reviewed within 0.5 month  ii) Reviewed within 0.5 month  iii) Implemented within 1 month  iv) Completed within 4 months
4. Management audit of NMIA	i) Prepare proposals for reorganization of NMIA and strengthening of its management  ii) Draw up corporate development strategies  iii) Develop proposals for "corporatization" of NMIA  iv) Identify training requirements for NMIA staff  v) Execute training requirements	i) Proposals prepared within 2 months  ii) Strategies drawn up within 1 month  iii) Proposals developed within 2 months  iv) Requirements identified within 1 month  v) Training executed within 1 month

MIF FACILITY I: PRIVATIZATION OF JAMAICAN AIRPORTS		
<b>General objective of the project:</b> Prepare the airport sector for sale to private investors.		
<b>Specific objective of the project:</b> Assist the government in the drafting of the appropriate legislation and regulations and in implementing the sale, including defining and marketing the business to be sold.		
5. Define business to be sold	i) Define operational boundaries of business to be sold  ii) Carry out physical audit of assets  iii) Define valuation techniques and value business  iv) Recommend a valuation  v) Develop detailed sale method	i) Defined within 3 months  ii) Audit completed within 4 months  iii) Techniques defined and business valued within 1 month  iv) Recommendation made within 1 month  v) Developed within 0.5 month
6. Implement sale of airport industry	i) Structure sale through targeting of markets  ii) Develop information memorandum  iii) Market sale  iv) Address employee communication issues  v) Complete the sale	i) Implemented within 2 months  ii) Information memorandum developed within 2 months  iii) Completed within 4 months  iv) Completed within 6 months  v) Sale completed within 2 months

PROPOSED RESOLUTION

JAMAICA. NONREIMBURSABLE TECHNICAL COOPERATION FOR  
A PROGRAM FOR THE PREPARATION OF THE AIRPORT SECTOR FOR PRIVATIZATION

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the government of Jamaica and to adopt such other measures as may be pertinent for the execution of the Proposal Memorandum referred to in Document MIF/AT-\_\_\_\_\_ with respect to a non-reimbursible technical cooperation for a program for the preparation of the airport sector for privatization.

2. That up to the sum of US\$570,000 is authorized for the purposes of this resolution, chargeable to the Technical Cooperation Facility of the Multilateral Investment Fund.

3. That the above mentioned sum is to be provided on a non-reimbursable basis.