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PUBLIC-PRIVATE PARTNERSHIPS BRIEFS

Jamaica: Air Jamaica



Overview

Regional air travel is a critical issue facing the Caribbean's small, fragmented countries and markets. IFC was lead advisor to the government of Jamaica in structuring the privatization of Air Jamaica, which culminated in an agreement between Jamaica's government and Caribbean Airlines, the national airline of Trinidad and Tobago. Approximately 900,000 passengers annually will benefit from the new service, which eliminates the government's subsidy of the airline's operations. The agreement was signed on April 30, 2010.

The privatization will transfer full financial responsibility of Air Jamaica to Caribbean Airlines, without including Air Jamaica's past liabilities. Under the terms of the agreement, the government of Trinidad and Tobago will invest \$50 million in Caribbean Airlines' equity capital in order to fund its Jamaican operations, ensuring sustainable development while improving air service to and from the country.

The project was supported by the Canadian International Development Agency, the U.S. Treasury, and the U.S. Trade and Development Agency.

This series showcases how the World Bank Group supports the development and implementation of public-private partnerships. This support comes in the form of public sector loans, private sector finance, sector and transaction advice, guarantees, and output-based aid.

Background

The Jamaican economy is heavily dependent on services, which account for more than 60 percent of gross domestic product. The country derives most of its foreign revenues from tourism, so air service is critical to the economy and the country's future. However, Air Jamaica—the national airline—operated in an intensely competitive environment dominated by large, privately owned airlines. Air Jamaica experienced losses in 40 out of its 42 years of existence; as of March 2010, Air Jamaica's financial statements showed an accumulated deficit of approximately \$1.54 billion.

The Jamaican government determined that there was no economic rationale for its continued involvement in Air Jamaica and that this expense was unsustainable. It sought to remove Air Jamaica from the national budget so that those resources could be released to support critical infrastructure projects and social services. The government needed to ensure the long-term, sustainable development of Air Jamaica through a partnership—in this case, between the government and an investor with technical expertise and financial strength.

Project Description

Under the terms of the agreement, the government of Trinidad and Tobago will invest \$50 million in Caribbean Airlines to fund its new Jamaican operations. The Jamaican government will receive a 16 percent minority interest in Caribbean Airlines in compensation for the transfer of Air Jamaica's market share and goodwill to Caribbean Airlines. The government of Jamaica will retain ownership of Air Jamaica's real estate and industrial assets.

The transition went into effect on May 1, 2010, and Air Jamaica continued its operation under a contractual arrangement with Caribbean Airlines. There was no disruption of service; tickets previously issued to passengers were honored. The financial transition also went into effect at this time, and Caribbean Airlines assumed full financial responsibility for Air Jamaica. Air Jamaica employees were made redundant, though Caribbean Airlines planned to re-hire approximately 1,000 of them during the transition period. These employees had been identified and approached earlier in the process.

In March 2008, the government established a transparent and nondiscriminatory bidding process so that any suitably qualified investors could participate. Potential investors were asked to demonstrate their technical expertise and financial strength by submitting proposals highlighting their qualifications and plan for the future of the airline. Registered prospective investors were required to adhere to a clear timetable.

IFC assisted the government in assessing adherence to the requirements and guidelines by each interested party.

Seven companies submitted expressions of interest, five of which fulfilled the requirement to provide information on their financial strength and aviation expertise. IFC and the government of Jamaica concluded that four of the five companies met the technical and financial criteria. Ultimately two of them—Indigo Partners and Caribbean Airlines—submitted proposals before the deadline of June 30, 2009.

IFC and the government of Jamaica then evaluated the strengths of each proposal, following a pre-determined evaluation approach (a weighted scoring system). Proposals from Indigo Partners and Caribbean Airlines were both strong, but Indigo Partners' proposal scored marginally higher. The recommendation of Indigo Partners was accepted by the government and negotiations began in July 2009 on an exclusive basis.

However, four months later the negotiating parties acknowledged their lack of progress in reaching a final agreement. Discussions with Indigo were terminated by mutual consent. The government of Jamaica resumed negotiations with Caribbean Airlines. Negotiations between the government and Caribbean Airlines were successfully completed in April 2010.

World Bank Group Role

As lead transaction advisor to the government of Jamaica, IFC's specific roles included:

- Preliminary market testing and resource mobilization.
- Diagnostic and transaction structuring.
- Transaction implementation.
- Leadership in the design and implementation of pre-privatization restructuring plan.

Ultimately, IFC contributed to Jamaica's financial stability, a priority of the new political administration, while participating in the restructuring of the Caribbean airline sector, a regional infrastructure priority.

Outcomes

- The privatization of Air Jamaica will help stabilize Jamaica's public finances by eliminating the government's subsidy of the airline's operations.
- Approximately 900,000 passengers annually will benefit from the new service. Long-term, the privatization of Air Jamaica will ensure sustainable airline services to Jamaica.
- The establishment of a reliable and financially successful airline will support continued economic growth in Jamaica, a country with an unstable economic history and relatively limited foreign investments.
- As Jamaica overcomes its economic challenges, the government lays the foundation for a more sustainable future for the Jamaican people.



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