

Assessment of Government of Jamaica's Divestment Process

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Executive Summary

Privatisation is part of the economic strategy of the government to improve productivity and hence economic growth, but also has political implications in terms of the effect on concentration of ownership of the assets of the country in a few hands, local or foreign.

Historically, the Government of Jamaica (GOJ) has been one of the largest owners of land and other assets. Since the country's independence, various political administrations have sought to balance public versus private ownership of economic assets to achieve development objectives which would improve the standard of living for the majority of people with mixed results.

Cultural and institutional weaknesses have impaired the public sector's ability to manage public assets, with some exceptions. Therefore, there is a consensus that the GOJ should divest itself of assets (which could be more productively utilized by the private sector), and reduce government debt¹, which has mushroomed over the years. This position has been mandated by the current administration, and forms part of the Growth Agenda for the country.

Part of the Growth Agenda for Jamaica involves making better use of assets owned by the GOJ through divestment. However, some divestment/privatisation efforts have proven inefficient or unacceptable to stakeholders, such as environmental lobby groups, local small business interests and persons living on or nearby divested lands, and have not produced the desired results. According to these stakeholders, assets were sometimes alleged to be divested at values below the market value based on perceived benefits to be derived for the country, or various concessions granted. From the investors' perspective, the divestment process is perceived as

¹ Loss making entities which were owned by the government, such as the national airline, Air Jamaica, and various commercial operations such as hotels, agro-processors and manufacturing entities contributed to the growth of the national debt because of the subventions required to keep them operating. The sale of these operations generated cash flows which were then used to pay down the debt, reducing the overall debt stock.

cumbersome, costly and too long. Therefore, it is necessary to improve the efficiency and effectiveness of the privatisation process so that the country's economic and social goals can be met. This requires an assessment of the key strategic and operational issues which impact on the divestment process, and how these factors influence the decision making process.

The purpose of this study is to assess the current system and recommend approaches for the divestment of public assets which are more coherent and aimed at achieving economic and social goals with greater effectiveness and efficiency.

The 2012 Privatisation Policy, approved by Cabinet in September 2012 and tabled in the Houses of Parliament in November 2012, describes the policies and procedures of the GOJ regarding privatisation and the institutional arrangements.

The Public-Private Partnership (PPP) Policy forms an addendum to the Privatisation Policy, and was updated in December 2017 to reflect updated legislative and institutional arrangements outlined in the revised Public Bodies Management and Accountability (PBMA) Act, and the Financial Administration and Audit (FAA) Act.

As part of the transformation of the public sector, the GOJ set out a plan to: i. Transfer to the private sector ownership or operation of assets or services that are businesses (for example, commercial real estate such as: hotels and spas, factories, energy generation and transmission, and ports), as these can be operated more profitably by private sector interests due to their greater access to capital, management skills and technology; ii. Keep in the public sector assets/services which must be operated by the government due to social considerations, and market failures which would make certain essential operations unaffordable to the public or unprofitable for the private sector (for example, assets/services which support: the justice system, education, health care, and other social and public services); and iii. Consider innovative mechanisms such as PPPs for the delivery of services or activities in which the Government has a continuing interest (must ensure is done), but need not do itself (for example, infrastructure development and maintenance). In these cases, the private sector might require risk sharing with

the government for operations to be commercially feasible based on the level of investment involved and the social impact. The PPP and Privatisation (P4) programme seeks to achieve these objectives.

Weaknesses

The review and analysis indicates the following major issues which impede the efficiency and effectiveness of the divestment process:

- i. **Lack of a clear strategy:** Plans for individual assets/entities are sometimes inconsistent with each other and/or insufficiently aligned with overall strategic GOJ goals.
- ii. **Inadequate consultations with stakeholders:** The concerns of workers, community members, and environmental considerations are not sufficiently included in the process.
- iii. **Lack of authority and accountability for decisions made by Cabinet:** There is no single institution consistently responsible for executing Cabinet's divestment decisions fully and in a timely manner.
- iv. **Engaging Advisors takes too long.** The process can be amended to improve speed while preserving transparency.
- v. **Inadequate funding:** Sufficient funding for the divestment process would ensure that the divestments can be executed efficiently, and with increased speed.
- vi. **Inadequate performance review:** The performance of divested assets in terms of contributing to the achievement of the goals and objectives of the country's national development plan, Vision 2030 is not adequately assessed.

Recommendations

Agreed Strategies for Divestments

The divestment process should include a strategy to identify, categorise and prioritise assets for divestment utilizing agreed best practice and transparent approaches; while including asset-specific strategies as appropriate.

Previously, the approach was not guided by a comprehensive and cohesive strategy across all Ministries, Departments and Agencies (MDA), with many operating in silos due to differing priorities and strategies. Some of the asset holding MDAs include Factories Corporation of Jamaica, the Urban Development Corporation, the Port Authority of Jamaica, among others.

Socio-economic, environmental and stakeholder impact analyses should also guide the process and determine whether to proceed with a particular divestment transaction or not.

Historically, some divestments did not take into account the full impact on all stakeholders such as the workers in a divested enterprise or persons living on affected or adjoining lands. A particular divestment might seem attractive based only on a financial analysis. However, when social factors are considered, a more realistic assessment is obtained.

There should be a clear plan and approach for the divestment programme to accomplish the long-term goals of the GOJ, which is reviewed and updated as required, depending on how the policy position changes with political administrations and the international environment. Strategies should be developed to ensure that the plans for individual assets, entities and sectors do not conflict and are aligned with the overall objectives of the GOJ at any particular point in time.

Political ideologies change over time. Coming out of the period of decolonization, many developing country governments, including in Jamaica, had the view that government control of the country's assets could spur development and reduce inequality. With the end of the Cold War and the emergence of neo-liberalism, the pendulum swung in the opposite direction and many governments divested all government controlled assets, sometimes to foreign interests and including assets that might have better remained under government control due to market failures and social impacts. These historical mistakes should guide current policies.

The Strategy should include the following:

1. The underlying political and economic principles of the GOJ should guide divestments according to what is appropriate for particular sectors to maximize welfare.
2. Reformed and strengthened institutional framework for improved efficiency and effectiveness to achieve policy goals.
3. A legal and regulatory framework which is aligned with policy goals.
4. Identify and review the entities/assets for divestment within a specific review cycle.
5. Categorise and prioritise the entities/ assets to be privatized.
6. Recommend the preferred modalities.
7. Identify and allocate resources needed to implement the top priority privatizations
8. Socio-economic, environmental and stakeholder impact analyses
9. Stakeholder communication plans

The Asset Strategy should:

1. Describe the asset / entity's functions and roles
2. Clarify any potential conflicts with existing or future transactions and suggest ways to resolve them.
3. Describe the financial state and role of the owning entity, pre- and post-transaction.
4. Recommend options for transaction modalities for each asset/entity, and group assets into Special Purpose Vehicles (SPVs), where that is the appropriate modality.

Authority and Accountability

Existing arrangements for the divestment of assets can be improved by ensuring that all asset-owning MDAs involved in the divestment process arrive at a consensus on divestment decisions and approaches in an appropriately constituted committee (Divestment Committee). These consensus decisions would then be submitted to Cabinet for approval, and Cabinet would instruct the appropriate MDAs to facilitate the divestment transaction, in collaboration with the Agency mandated with primary responsibility to oversee all divestments.

There are various asset owning Agencies in the government, and each might have different strategies and priorities which guide their use of these assets. Therefore, in order to enhance cooperation and to engender a seamless process it is necessary for the MDAs to engage in regular dialogue about the divestment programme and policies. The Development Bank of Jamaica (DBJ) has been mandated with primary responsibility to oversee divestments since the Bank is an independent entity and has the experience and expertise to manage a successful programme, so all MDAs should cooperate with the DBJ.

There have been recent experiences where divestments were delayed or affected due to the lack of such an appropriately constituted Divestment Committee. These experiences occurred when one Agency might have decided to divest an asset without knowledge of the impact on the development plans for another agency.

Again, this references a lack of communication and coordination among asset owning government entities, and reflects the need for a whole of government approach to divestment.

This Divestment Committee would not replace the Land Divestment Committee which is an internal committee of the National Land Agency, but would have representation from the MDAs responsible for land divestments.

Cabinet Decisions on divestments should include:

1. An instruction to a specific Ministry or Agency responsible for divestments to proceed with the recommended divestment in accordance with the approved strategy.
2. Instructions to the Asset-Owning Ministries and Agencies to facilitate the process by providing all relevant information and addressing any challenges.
3. Preferred modality for divestment
4. Where appropriate, appointees for an Enterprise Team to oversee the divestment with the support of the responsible Ministry or Agency. Enterprise Teams should be

constituted in a manner to be efficient and effective in making timely decisions in terms of expertise and number of persons.

While the transaction is ongoing, the Asset-Owning Ministries and Agencies should not make any strategic or operational decisions that may affect the divestment.

This recommendation relates to the taking on of additional debt, risk or changing the capital structure of the entity to be divested, as this might affect the prospects for divestment.

The Agency mandated with primary responsibility for all divestments should be a central authority with a "bird's eye" view of the divestment programme, and must have access to all relevant information on divestments - not necessarily day to day operations – with strategic and fiscal responsibilities.

The DBJ has primary responsibility in this regard, and has faced challenges in the past with gaining access to all the information required for a successful divestment transaction.

Accountability and Reporting Mechanism

An accountability and reporting mechanism would ensure performance and facilitate escalation of issues for resolution. The Divestment Committee would provide monthly reports to the Cabinet and/or Privatisation Committee of Cabinet (PCC) through the appropriate Ministry.

Standardized processes based on international best practices should be developed to guide the process. Best practice indicates that there should be a common framework guiding all divestments. Therefore, Ministerial discretion should be limited by law and regulations. Ad-hoc approaches which lack transparency should be avoided or prohibited.

Information on divestment decisions and processes must be available to be audited, including information related to the fairness of the process itself and the level of success of the divestment. Such audits are of interest to the political community, the general public, and potential investors.

Previous experiences have shown that Cabinet intervention is sometimes necessary to remedy certain barriers which might hinder a particular divestment because each divestment is unique and faces different constraints which are sometimes unexpected or unforeseen. A common framework will increase investor confidence in the divestment process, and ensure consistency in terms of consultations and treatment of impacted stakeholders.

Financial Sustainability

Costs are associated with divestments of public assets which vary according to the modality of divestments, such as PPPs or Stock Market listing. These costs can be quite significant in terms of obtaining the required transaction advisors for particular transactions. Best practice indicates that independent advisors should be used for large divestment transactions, even if some skill sets exist in the government. Therefore, a pool of funds should be set aside to support transaction executions. A Divestment Fund could be set up and financed from a percentage of the value of transactions. There are concerns that such an approach would increase the cost of divestments and deter interested investors. However, if the asset is properly marketed and sufficiently attractive, based on international experience, a percentage of value of transaction cost should not prove a deterrent. Nevertheless, some level of government budgetary funding support might be required to ensure that transaction costs are kept reasonable.

The approach to treating the costs associated with divestments should take an overall view of the divestment programme rather than looking at the costs associated with individual transactions, which is the rationale for establishing a dedicated fund. The fund would be made sustainable by recouping costs from investors through a percentage of the value of transactions, as is the practice in some jurisdictions.

The DBJ, as the agency responsible for managing divestment transactions, has indicated the importance of properly funding the divestment programme in a sustainable way. Otherwise, an efficient and effective approach is not possible.

Human Resource Implications

There are significant human resource implications to fully implement the recommendations. It is important that all entities involved in facilitating transactions be adequately resourced to efficiently execute their responsibilities.

Specific officers might need to be assigned to focus on the divestment process in responsible MDAs.

It is recommended to use framework arrangements to establish a panel of transaction advisors to be contracted as required rather than having to go through a procurement process for each type of external advisor required for each transaction, which can include financial, legal, technical etc, depending on the type of divestment. This will result in a more efficient and timely process.

Presently, it takes at least nine months to obtain the services of advisors where fees are over J\$60M, based on procurement rules, and the process can take up to one year most times. A framework agreement could be a solution but a sufficient pipeline of divestments would be required. Based on the present pace of divestments, there could be challenges in this regard.

An appointed entity with primary responsibility for divestments must lead the divestment process, and carefully utilize the services of advisors when required. The DBJ currently has this responsibility and must be strengthened.

Past divestment experiences have highlighted the need for the government to have adequate expertise in-house and not rely only on external consultants but use them when required for specialized legal and technical services. A successful divestment programme involves a judicious use of both internal and external expertise.

Conclusion

The divestment of public assets must be aligned with the National Development Plan, Vision 2030, and the United Nations Sustainable Development Goals. Decisions to divest must be guided by assessments of economic, social and environmental impacts, value for money and fiscal sustainability. This means that performance measures and monitoring and evaluation mechanisms must be put in place to manage the country's divestment programme.

For the divestment programme to be sustainable, it must take into account the direct and indirect impact on stakeholders, such as residents, workers and small business people, in terms of the overall net economic and social effects, not only for particular investors who might acquire legal ownership of former public assets.

With this in mind, there is need for the establishment of a consultative mechanism with stakeholders to ensure that they have an input in the divestment process and decisions taken.

Introduction

Before the decolonization movement in the early to mid-twentieth century, the economies of many former colonies, including Jamaica, were structured to supply raw materials and labour for colonial masters, in Jamaica's case, the United Kingdom. Following independence, having bequeathed state assets to the newly formed governments, the trend for most of the twentieth century was state intervention in productive aspects of the economy.

An emergent indigenous capitalist class had not yet been firmly established, and so the state had to take a leading role in economic development. A prime operational principle was the public ownership and management of productive entities, especially in infrastructure.

Through the first two-thirds of the century, “public enterprises” grew in number, size and significance.

By 1979 in Jamaica, almost 200 state enterprises had been established in Jamaica. The state owned all utilities, the largest commercial bank (NCB), 51 percent of bauxite mining operations, 75 percent of sugar output, and 48 percent of hotel capacity. The government also created Jamaica Commodities Trading Corporation, a state trading company responsible for the import of basic commodities. Government services, which accounted for less than 7.7 percent of Gross Domestic Product (GDP) in 1953, rose to 19.22 percent of GDP by 1980.

A number of public enterprises performed well, but not enough. They generally failed to live up to the expectations.² Rather than contribute to state budgets, public enterprises drained them, Air Jamaica being a case in point. A high percentage failed to produce a sufficient quantity or a high quality of service or product. There was a widespread failure to charge cost-covering tariffs in infrastructure/utility public enterprises, resulting in subsidies from government to keep them afloat. This situation eventually posed large financial burdens on the government, increased debt and contributed to structural adjustment programmes overseen by the International Monetary Fund since the 1980s.

The fundamental problem of public firms was multiple, ambiguous and conflicting objectives³. The government decreed that public enterprises operate in a commercial, efficient and profitable manner. At the same time these entities financed their operations with debt rather than equity, provided goods and services at prices less than cost, were not staffed optimally in terms of expertise and numbers, did not buy their inputs from the most competitively priced suppliers, were governed by political rather than commercial criteria, etc.

² World Bank, *Bureaucrats in Business* (1995)

³ Center for Global Development, *Privatization—A Summary Assessment* By John Nellis (2006)

Jamaica's privatization program began in 1981. Within ten years after the first divestments, about 200 entities and activities had been divested in categories as follows: agricultural (80); public cleaning services (33); farm holdings (50); hotel properties (14); and corporate entities (24). During this period over fifty major companies had been handed over to the private sector, including the National Commercial Bank (NCB), the Caribbean Cement Company, and the Jamaica Telephone Company.

The mixing of social and political with economic objectives weakened managerial autonomy, commercial performance, and efficiency⁴. This is not to say that social, political and economic objectives cannot be aligned. They have to be but how the government goes about this alignment determines the level of success. There must be transparency, supported by the proper institutional and regulatory framework, which prevent corrupt practices and nepotism.

These challenges have been recognized by subsequent political administrations. Guided by multilateral development partners and lenders, such as the World Bank and the IMF, the current paradigm is that the private sector must be the engine of growth with the support of the government in facilitating investment. This is the policy basis for the current divestment programme. However, Jamaica, like every country, continues to face a delicate balancing act in terms of the extent to which social and political objectives are balanced with commercial interests. Various interests, such as unions representing workers and investors in particular sectors exert influence on how government policies are formed, sometimes disproportionately based on their level of power in the society.

There are concerns that the divestment programme might further concentrate the ownership of assets in relatively few hands or even concentrate ownership by foreign interests. The government has responded to these concerns in some recent cases, such as Wigton Windfarm, by offering shares to the public through an Initial Public Offering (IPO) and by reserving share allocations for certain categories of stakeholders, such as public sector workers.

⁴ World Bank, *Bureaucrats in Business* (1995)

There could be conflicts between the current non-discrimination policy guiding divestment, and reducing inequality, developing local business and attracting Foreign Direct Investment.

Stemming from this three issues need to be considered⁵:

1. Every effort must be made to encourage the involvement of small investors, such as IPOs with share allocations for certain categories of stakeholders, as in the Wigton Windfarm case, so that private sector monopolies do not replace those held by the state. Where investment opportunities are spread as widely as possible, particularly to include the participation of employees and small investors, support for the privatized enterprise is widened, equity markets strengthened, and new forms of savings and investment encouraged. Where this cannot be done at the time of transfer, the enterprise should be committed to do so in the near future.
2. Foreign participation in the investment process must be carefully considered and planned. In Guyana and Grenada, for example, serious concerns were expressed by the public about the haste with which early privatisations were undertaken. In the Caribbean, there have often been lively public debates about whether “strategic” industries and activities should be sold to foreign interests, or whether they should be privatized at all. Major privatisations since the 1980s have involved the sale of electricity and telecommunications holdings to foreign interests, with improved service delivery in some cases but rising costs. In the case of telecommunications, infrastructure was greatly improved with the injection of capital. But with electricity, equipment upgrade has been slow. Both international airports are now under the management control of Mexican investors. The government has been managing these arrangements through the Office of Utilities Regulation (OUR) which maintains strict oversight. The OUR has the legal power to charge penalties and enforce decisions. Governments can mute criticism in this area by ensuring that local investors

⁵ Richard L. Bernal, Winsome J. Leslie, *Privatization in the English Speaking Caribbean: An Assessment (CSIS, 1999)*

have equal opportunities to purchase state owned enterprises. Linkages and “carve outs” for small businesses must be planned.

3. Steps must be taken in any privatization effort to protect the interests of the consumer. As such, privatization without a proper regulatory framework can lead to a lack of accountability and standards, and ultimately to a breakdown in efficiency and performance, much as happened to the urban bus system in Jamaica in the 1990s. The need for adequate regulation and supervision of newly privatized sectors is particularly important in the financial and technology sectors.

New policies are being developed which are outlined in the following section to address the following weaknesses in the privatisation process:

- i. Lack of a clear strategy
- ii. Inadequate consultations with stakeholders
- iii. Lack of authority and accountability for decisions made by Cabinet
- iv. Engaging Advisors takes too long
- v. Inadequate funding
- vi. Inadequate performance review

The Privatisation Policy⁶

Arising out of the challenges faced during the early privatisation experiences in the 1980s and the 1990s, the government at the time decided that: 1) all relevant regulatory issues would be dealt with either prior to, or simultaneously with, any privatisation; 2) neither direct financing nor loan guarantees would be provided to purchasers; 3) except in public utilities, no new public sector investment, excluding maintenance, would be undertaken prior to privatisation; 4) sale of

⁶ Policy Framework and Procedures Manual For the Privatisation of Government Assets: The Privatisation Policy (2020) – See Appendix

State Owned Enterprises (SOEs) to other public sector entities would not be considered privatisation; 5) unsolicited offers for any enterprise or activity would not be accepted prior to the official advertisement; 6) direct sale or negotiation could not take place without publicly solicited bids unless the assets involved were small, making it more economical; 7) when the sale was completed, all aspects of the transaction would be public; and 8) any minority shares which the government maintained would not carry special voting rights.

These were some of the early initiatives to address the weaknesses in the divestment process which culminated in the development of the Privatisation Policy, which guides the current paradigm.

The Privatisation Policy, which was first approved by Cabinet in 2012, is a work in progress, and has been updated several times, in 2017, 2018, 2019, and in 2022. The Policy continues to evolve as the country becomes more experienced in privatisation and moves up the learning curve.

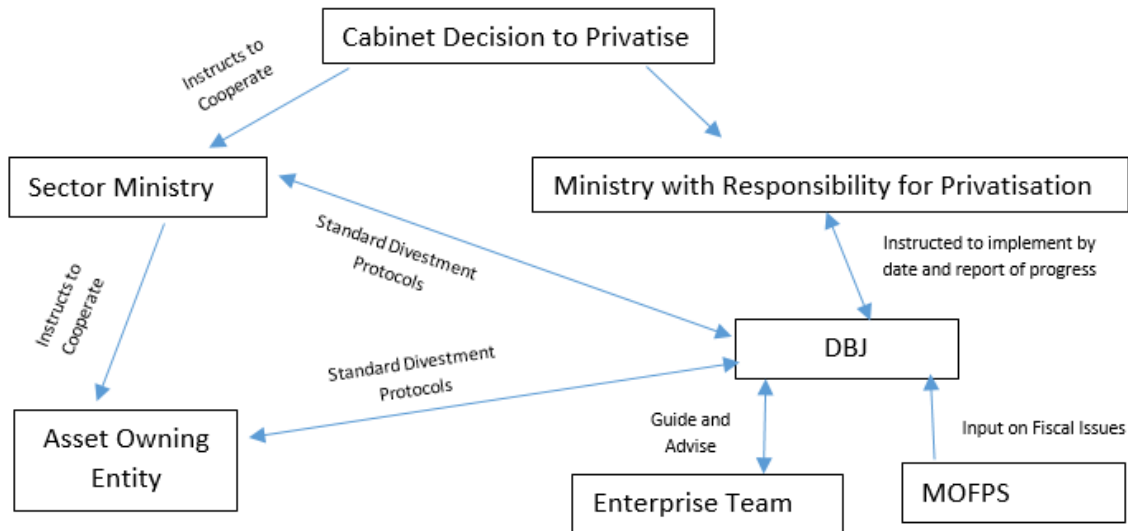
This paper is a contribution to the process of learning and assesses the overall experience of the country in divestment and makes recommendations based on these experiences and the experiences of other countries, which could add to the recommendations coming from the Privatisation Policy.

The Privatisation Policy contains the following elements:

- Revised Institutional Framework
- Overview of the new Privatisation Processes
- New Strategy Development Procedures
- Institutional Arrangements for Divestment Transactions
- Development and implementation of the Divestment Transaction Code
- Procedures for the Disposition of the Sale Proceeds of Privatization
- Revised and new Divestment Modality Processes

- Revised procedures for the Use of Advisors
- New methods for funding the Privatisation Programme

Inter MDA process and institutional arrangement for the Authority and Responsibility of the Privatisation Agency



Source: The Privatisation Policy 2020

The Privatisation Policy defines privatisation to include all the types of transactions in which ownership or management responsibility of government assets are transferred to the private sector in whole or part. Privatisation can include transfers by way of the following modalities:

- i. Sale to a Strategic Investor
- ii. Lease including Development Lease
- iii. Concession
- iv. Management contract
- v. Stock Exchange Listing
- vi. Special Purpose Vehicle via Stock Exchange Listing
- vii. Master-planned Development

viii. Any other modality that transfers significant management control, risk or both, to a private firm (outsourcing and PPP Contracts).

Sale to a Strategic Investor

This modality involves sale by tender to an investor or investors that have the skills and capital to competently utilize the asset. This modality is used when asset/cluster of assets are of strategic significance.

Development Lease

This modality involves leases that are accompanied by contracts to mandate operational and/or commercial behaviour post transaction. This modality is used when the asset is suitable for specific purposes required through contract.

Concession/Management Contract

This modality involves long term contracts for managing assets and providing related services that generate surplus revenues from which the government will receive a percentage.

Stock Exchange Listing

Stock exchange listing involves listing a government owned asset on the stock exchange. This modality is used when the entity is profitable, generates cash, and the governance is independent and commercially focused.

Special Purpose Vehicle via Stock Exchange Listing

This modality involves creating a specialized company, called a Special Purpose Vehicle, from a variety of government assets and then listing the resulting entity on the Stock Exchange. This modality is used when the resulting SPV can credibly demonstrate likely profit, positive cash, and governance that is independent and commercially focused.

Master-planned Development

Master-planned Development involves real estate assets that need to be developed in an integrated way, with some public investment before sale. This modality is used for integrated tourist resorts; new towns/cities; urban regeneration; and special economic zones.

Exemptions

All public bodies, agencies and Ministries of the GOJ that intend to privatise assets other than land and houses owned by the GOJ are governed by this policy.

These assets include commercial enterprises, buildings, and infrastructure (other than toll roads).

However, the Privatisation Policy then goes on to make significant exemptions.

The sale or divestment of Crown Lands, Lands owned by Government Entities or government houses by any public body, agency and Ministry of the GOJ is governed by the Land Divestment Policy and Policy for the Divestment of Government-Owned Houses respectively.

Furthermore, in the case of sale of land, certain agencies (including, but not limited to, the Development Bank of Jamaica, Urban Development Corporation, National Housing Trust, Sugar Company of Jamaica Holdings Limited and Factories Corporation of Jamaica etc.), which by virtue of statute or policy, own or manage lands, will utilise separate approval frameworks in the process of such transactions. Notwithstanding, the general principles within the Land Divestment Policy should be adhered to with respect to land (only) divestment transactions. The PPP Policy may apply in cases where the Ministry or Agency is seeking to develop the land as part of a project as defined under the PPP Policy.

This Policy does not consider or provide guidelines for Joint Ventures as a privatisation modality as they are likely to increase the GOJ's ownership and operational risks in the project.

For the purposes of this policy, a Joint Venture is defined as:

“a contractual agreement in which the GOJ and the private sector agree to develop and operate a new entity, for a finite time, by contributing equity which may be in the form of land or other physical asset or cash. The parties exercise ownership and/or operational control over the new entity in accordance with their shareholdings and consequently proportionally share risks and rewards based on the entity’s performance”.

Revised Institutional Framework

Within the context of the revised institutional framework for divestments, the Privatisation Policy defines divestment as the transfer of state assets to the private sector to be clear about the scope of the Policy. The Privatisation Policy explains that the purpose of the GOJ’s divestment programme includes the following objectives:

- raising additional revenue,
- reducing the public debt stock, and
- stimulating private sector investment.

While no single institutional framework stands out as the best, best practice suggests that divestments are most successful where legal, regulatory and enforcement mechanisms exist to guide and streamline the process.

The GOJ has engaged in the divestment of public assets since the early 1980s, with the move towards a reduced role for the state in economic activities. A Committee was established to pursue the transfer of equity and control in commercial entities at prices based on commercial criteria and the national interest. A privatisation policy, at that time, was proposed to ensure that public funds were not used to finance the operations of inefficient enterprises and to reduce the burden on the budget.

In the 1980s, priorities for privatisation were evaluated based on the following criteria:

- Budgetary impact
- Economic impact

- Employment and other linkages
- Social impact

In 1991, the GOJ reviewed its existing privatisation objectives and policies and approved a new framework for privatisation transactions which was outlined in Ministry Paper No. 34 of 1991. The 1991 policy outlined the general rationale for privatisation and addressed issues such as the role of the Privatisation Committee and the National Investment Bank of Jamaica (NIBJ) as well as the modalities for privatisation transactions. The structure outlined was that Cabinet had overall responsibility for the approval of a privatisation policy and a committee of Cabinet (*the Privatisation Committee*) was established to advise Cabinet. The NIBJ was the central implementing agency, having administrative and operational responsibilities. The NIBJ would then put together Enterprise Teams that would consist of NIBJ personnel and Ministry representatives and external consultants, if necessary.

At that time, the GOJ's main privatisation objectives were expanded to include:

- broadening the ownership base and competition in the economy,
- facilitation of the expansion of the equity markets, and
- securing enhanced access to foreign markets, technology and capital.

Two decades later, while some of the key provisions of the 1991 Privatisation Policy remained relevant, the relationship between the key stakeholders and the general modalities associated with different categories of privatisation necessitated review.

The October 2012 Privatisation Policy was aimed at providing a more streamlined framework that incorporated regulatory and strategic considerations. It was guided by the principle that privatisation transactions should allow the state to focus on its core business by providing space for other productive endeavours, which may be more profitable or more beneficial to society, to emerge. This policy also sought to create an environment that welcomes increased private sector

participation and facilitates such investment in economic development activities to include infrastructure projects and services.

In 2012, the GOJ also established a formal Public-Private Partnership Programme and Policy, which became an addendum to the Privatisation Policy. The Public-Private Partnership Policy was amended in December 2017 to reflect, recognise and include changes to the legislative, institutional and fiscal framework governing the Privatisation and PPP Programme. These amendments include the GOJ's updated fiscal framework and introduced the Public Investment Management Committee (PIMC) and the Public Investment Management Secretariat (PIMSec) as key stakeholders in the PPP development process.

The GOJ has adopted a policy of privatisation of state-owned assets and enterprises as part of a general strategy to streamline the public sector through a far-reaching administrative reform programme aimed at reducing government bureaucracy and reducing the fiscal burden of non-performing and non-core assets. Privatisation efforts should therefore be viewed in relation to general efforts to streamline the public sector for greater efficiency.

The Privatisation Policy states that the main objectives of the GOJ's divestment programme are to:

- secure greater efficiency and competitiveness in the operations of GOJ owned enterprises;
- reduce the drain on GOJ's fiscal resources;
- enhance the GOJ's fiscal and debt management programme;
- facilitate the transfer of capital, technology and management procedures;
- widen the base of ownership and direct equity participation in the economy and stimulate capital market development;
- monetize non-core assets allowing GOJ to reallocate scarce resources to core activities;
- maximise efficiency in the provision of public services by outsourcing them to private firms where this will deliver greater value for money than continued operation within the

public sector.

Assets to be targeted include those that:

- do not form part of the core service obligations of the Government;
- are not currently being used for the provision of social goods and services but whose value can be used to enable the government to fulfil core service obligations;
- can be more effectively developed and operated with private capital and under private management;
- constitute an unnecessary burden on tax payers;
- are needed for provision of public services but can be more efficiently operated by private firms to supply services under contract to government.

The Privatisation Policy indicates the following principles which should govern the conduct of the privatisation transaction process:

- The selection of items to be privatised, which have been approved by Cabinet, will be publicised;
- The concept of market valuation will apply in establishing the disposal price;
- Where the transaction involves continued government funding for the provision of public infrastructure or a public service, a value-for-money analysis will be carried out to ascertain whether contracting with a private firm is likely to offer better value to the public;
- Transactions are to be at arms-length and equal opportunity will be given to all potential investors;
- As far as possible, parties with likely conflicting interests will not be invited to assist the process;
- Public announcements will be made when each entity or asset is to be privatised;
- Government shall make decisions about privatisation based on comprehensive inventories of government-owned assets and relevant selection criteria including budgetary, economic and social impact;

- The welfare of employees must always be given priority consideration in the privatisation process; and
- The timelines proposed for the privatisation process shall take into careful account the resource allocations and constraints particularly technical, human and financial resources and the readiness of the asset/enterprise to be privatised.

Recommendations

These are good principles and should be adhered to. It might be necessary to develop legislation and regulations to enforce these principles, and apply sanctions when contravened. Some countries have enshrined their privatisation policies in law, so that appropriate legal remedies can be applied when contravened. In some countries, there is a culture of voluntary adherence to policies and in some countries adherence can prove challenging, particularly in cases where MDAs might be of the view that particular divestments are not in their interests. Further analysis of this issue is required. Laws and regulations come with costs and could make the system too rigid, while policies can be ignored without repercussions when not convenient.

The Privatisation Policy does not place enough emphasis on the social or environmental impacts of the divestment process. The experience has been on some occasions that affected stakeholders learn about a particular divestment through an announcement made in the media, without proper consultations or their input in the process, leading to legal action and resistance after a divestment decision has been taken. Therefore, the Framework should include mechanisms for the inclusion of workers, community members, and environmental considerations in the decision making process, such as institutionalizing stakeholder consultative committees with appropriate membership in Cabinet Decisions.

The exemptions significantly weaken the divestment process by creating firewalls between different kinds of assets (land) and entities, which can lead to conflict and lack of coherence in the divestment programme.

Moreover, significant GOJ assets are involved in Joint Venture Agreements, such as the Harmony Cove tourism integrated project, which represent the government's investment in the project, and a form of divestment to a private entity.

Overall, the Privatisation Policy has a focus on increasing the efficiency of the process. The Privatisation Policy could be improved by also considering how to better address the diverse needs of stakeholders as recommended by this paper with consultative mechanisms and decision making arrangements which enhances transparency and inclusiveness.

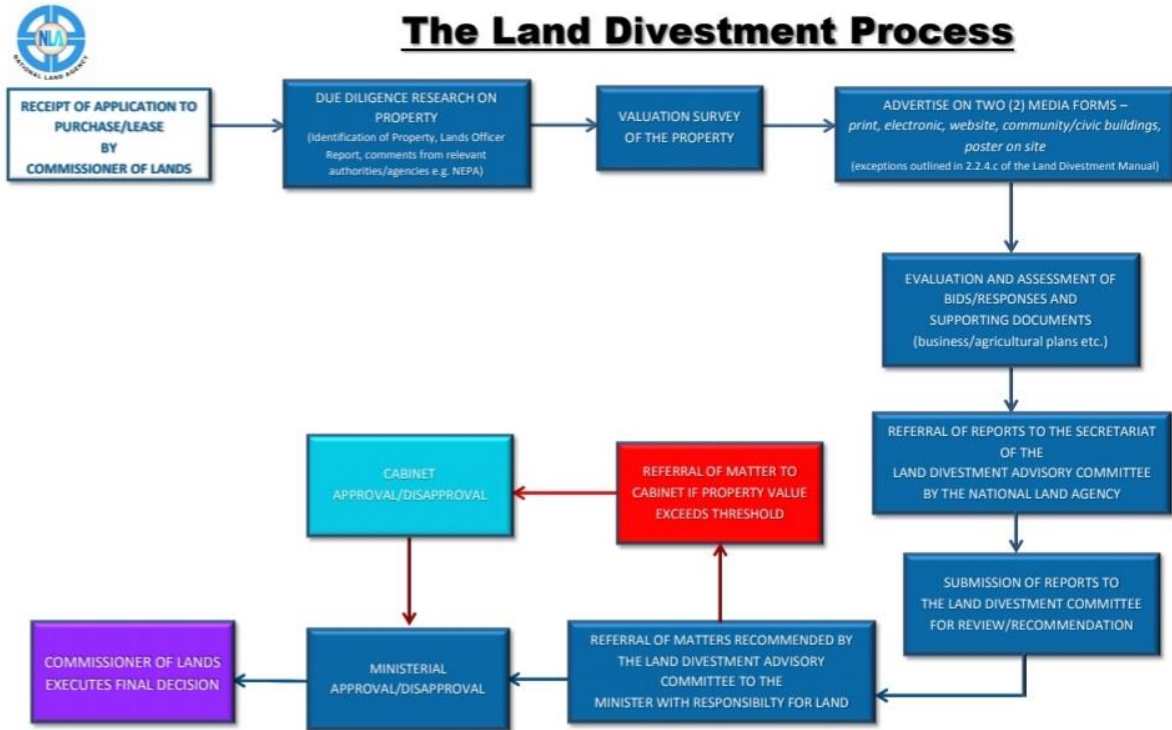
The Land Divestment Process⁷

The Land Divestment Process as outlined by the Policy Framework and Procedures Manual for the Divestment of Government-Owned Lands 2015 states that the land divestment process can be initiated in any of the following ways:

1. A request for proposal (RFP)
2. Offers to Purchase/Lease (either initiated by the Commissioner of Lands (COL) or by an applicant)
3. An unsolicited proposal for the use and development of land
4. Public Auction

The Policy Framework outlines the process of divestment as follows:

⁷ *Policy Framework and Procedures Manual for the Divestment of Government Owned Lands, 2015*



Source: National Land Agency

All properties to be divested are to be advertised in at least two media, such as print, electronic, community buildings, on site or on the owning Agency’s website. Advertisements are to be run once weekly for two (2) successive weeks and should include the following information:

- i. The name and location of the property
- ii. The proposed use of the property
- iii. The number and size of the lots to be divested
- iv. The terms under which the lots are to be divested
- v. The date and place at which application forms can be obtained
- vi. The date and place where application forms should be returned

Where an RFP is the mode of divestment, the COL should prepare information packages outlining the following details on the land and all interested parties are to be provided with this information package containing , inter alia:

- i. A summary of salient facts on the property
- ii. A location map and/or survey plan, if available
- iii. Permitted land uses and development potential of the site
- iv. Special conditions for land development, if any
- v. Information concerning eligibility requirements
- vi. Instructions to prospective purchasers
- vii. Application forms, if applicable
- viii. Location, time and date for receipt of offers.

Within twenty-one working days of the close of an advertisement, an evaluation panel or technical review committee should be convened to evaluate and assess the proposals/offers. This panel should comprise such persons as are deemed necessary by the Commissioner including persons with the requisite expertise in relation to the purpose for which the land is being divested.

Request for proposals and offers to lease/purchase should be received in sealed envelopes at a location and on a date to be clearly stated in the advertisement.

The COL should acknowledge receipt of application for divestment within ten working days.

The necessary due diligence should be undertaken within sixty working days to determine availability and suitability for intended purpose.

A valuation of the property is conducted to ascertain the current market value.

All applications received should be evaluated by a technical team and rated based on established/agreed criteria.

The COL should submit a report with recommendations to the Land Divestment Secretariat.

The Land Divestment Advisory Committee (LDAC) should review the recommendations of the Commissioner and make a recommendation to the relevant Minister for approval. The Committee is not bound to accept the recommendations of the Commissioner; however, the Commissioner's position should be recorded in the minutes of the meetings and also in the submissions presented to the Minister for approval.

If the divestment was not initiated by the COL, and the value of the property is at or above the threshold value required for Cabinet approval, the Land Divestment Secretariat shall advise the Commissioner of Lands to request a second valuation from the recommended applicant. The cost of this valuation shall be done solely by the applicant.

The second valuation report is submitted to the LDAC, which will make a final recommendation.

In the event that the two valuations differ by more than 20%, then a Sub-Committee may be established to review both valuations and advise the LDAC of their recommendation.

The Ministry then makes a submission to the Cabinet based on the recommendations of the LDAC and the Commissioner of Lands.

Upon receiving Cabinet's approval, the Commissioner will seek the Minister's approval in accordance with the Crown Property (Vesting) Act, 1960.

The Land Divestment Secretariat shall ensure that all recommendations of the LDAC are forwarded to the Minister including matters not recommended for approval and the stated reasons. The LDAC must also be advised of the Minister's decisions in relation to its recommendations.

Within seven (7) working days, the decision of the Minister should be communicated by the

Secretariat to the Commissioner of Lands for execution.

The successful candidate should be notified by the Commissioner and the necessary documents prepared. The Commissioner will ensure that as far as possible, there are built –in mechanisms in the lease or agreement for sale which may result in the property being returned to the government if it is not optimally utilized within a stipulated time frame and in accordance with the development proposal.

Recommendations

As with the Privatisation Policy, these are good principles to ensure a fair and transparent process, and should be adhered to, which has not always happened. Therefore, legislation and regulations should enforce these principles, and apply sanctions when contravened. Some countries have enshrined these policies in law, so that appropriate legal remedies can be applied when contravened. In some countries, there is a culture of voluntary adherence to policies and in some countries adherence can prove challenging, particularly in cases where MDAs might be of the view that particular divestments are not in their interests. Further analysis of this issue is required. Laws and regulations come with costs and could make the system too rigid, while policies can be ignored without repercussions when not convenient.

However, in some cases the process might need some flexibility to reduce the time taken from a request is received from a potential investor to approval. This could be the case for short term conditional leases to conduct environmental impact assessments before deciding to make a full offer to lease or purchase. In these cases, the COL should be able to grant short term conditional leases.

Also, some processes should run in parallel where possible and there is sufficient information, rather than consecutively to shorten the time for approval, for example, due diligence, valuation, and evaluation of offers.

GOJ DIVESTMENTS

Divestments have spanned or are planned to span the following sectors: National Security; Water and Wastewater Treatment; Tourism/Entertainment; Solid Waste; Real Estate/Housing; Manufacturing; Energy and Mining; Logistics and Transport; Agriculture and Agro-processing.

The Privatisation Policy was developed in response to the lessons learned arising out these divestment experiences, and as lessons continue to be learned from recent experiences, the Privatisation Policy will evolve. The final section of this paper outlines recommendations based on these historical experiences and more recent experiences which are outlined in the following chapters.

Table 1 below indicates some of these divestments, and illustrates the extent to which assets were owned by the GOJ, and Table 2 indicates major assets still owned by the GOJ but planned for divestment.

Table 1

Entity	Method
Versair Flight Ltd.	Sale of shares
Southern Processors Ltd.	Sale of shares
Zero Processing & Storage Ltd.	Sale of shares
National Commercial Bank	Sale of shares
Caribbean Cement Co. Ltd	Sale of shares
National Hotel Supplies	Sale of shares
Telecommunications of Ja.	Sale of shares
Royal Caribbean Hotel	Sale of assets
Serge Island Dairies	Sale of shares
Casa Monte Hotel	Sale of assets
Casa Montego Hotel	Sale of assets
Inn on the Beach	Sale of assets

Wyndham Rose Hall Hotel	Sale of assets
Eden II Hotel	Sale of assets
Jamaica Hotel	Sale of assets
Montego Inn	Sale of assets
Hedonism II	Sale of assets
Trelawny Beach	Sale of assets
Ja. Gypsum & Quarries	Sale of shares
Wyndham Kingston	Sale of assets
Jamaica Frozen Foods	Sale of assets
Mallards Beach Hotel	Sale of assets
Americana Hotel	Sale of assets
Workers Savings & Loan Bank	Sale of shares
West Indies Glass	Sale of shares
Negril Cabins	Sale of assets
RJR "B" Shares	Sale of shares
Government Printing Office	Employee Stock Ownership Plan
Caribbean Steel Co.	Sale of shares
Cornwall Dairy	Sale of assets
Jamaica Soya Products	Sale of shares
Skyline Hotel	Sale of assets
Pegasus Hotel	Sale of shares
National Computer Center	Employee Stock Ownership Plan
Sugar Estates- Frome, Monymusk, Long Pond, Bernard Lodge	Sale and lease of assets
Holiday Inn Hotel	Sale of assets
Water Valley	Sale of land
Grains Jamaica Ltd.	Sale of shares
Eastern Banana Estates	Sale of shares
Victoria Banana Co.	Sale of shares
Air Jamaica Ltd.	Sale of shares and assets
Police Garage - partial	Service contract
Ashtrom Building Systems Ltd.	Capital Reorganization

Trans-Jamaica Airlines	Sale of shares
Tanners Limited	Sale of shares
Digital Computer Systems	Liquidation
NIBBI tractors	Sale of assets
Jamaica Grains & Cereals Ltd.	Sale of shares
Long Pond Poultry Assets	Sale of buildings
Abattoirs	Lease of services
Aqualapia Limited (Fish Farm)	Sale of assets
Ariguanabo Company of Jamaica Ltd.	Lease of assets with Option to Purchase
Black River Upper Morass Dev. Co. Ltd.	Sale of assets
Catering (Hospitals)	Provision of services
Collection Management (Hospitals)	Provision of services
Cotton Polyester Plant	Sale of assets
Geochemical Laboratory	Provision of services
Government Electrical Inspection (non-regulatory)	Provision of services
Hospital Services	Provision of services
Innswood Vinegar Limited	Sale of assets
Kingston Industrial Works Ltd.	Sale of shares
Kingston Port Royal - Portmore Ferry Services	Provision of services
Wigton Windfarm	Sale of shares
Caymanas Track Limited	Sale of shares
Petroleum Company of Jamaica	Sale of assets
Natural Cane Products Ltd.	Sale of assets
Spring Plain/St. Jago	Sale of assets
Montpelier Agricultural Lands	Lease of lands
Sugar Estates	Lease of non-cane lands and residual assets
Tropiculture Limited	Sale of Shares
Sangster International Airport	Contract Management
Norman Manley International Airport	Contract Management
Kingston Container Terminal	Contract Management

Source: National Investment Bank of Jamaica, Development Bank of Jamaica

GOJ Divestments in the making as of 2022

Table 2

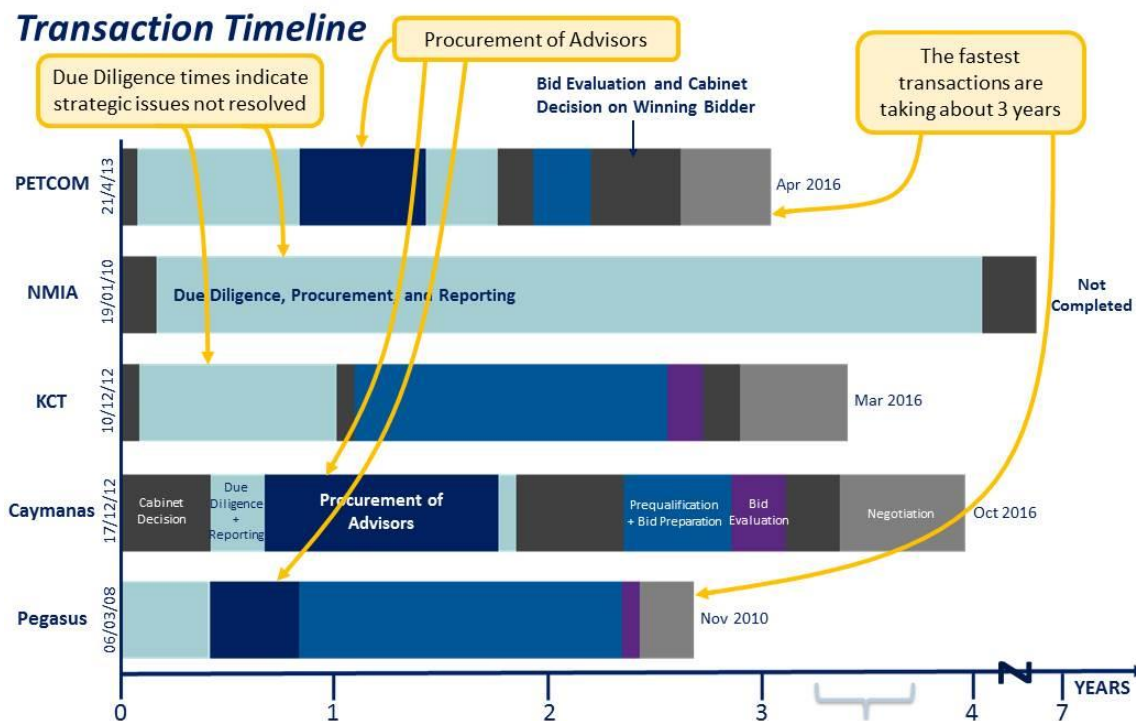
Entity	Method
Greater Bernard Lodge Development	Sale of lands or suitable modality
Braco	To be Determined
White Marl	To be Determined
Ministry of Justice Courthouses	To be Determined
Additional Montpelier Agricultural Lands	To be Determined
Tower Street Land Sale	To be Determined
Vernamfield	To be Determined
Agricultural Marketing Complex	To be Determined
Bath Fountain Hotel	To be Determined
Caymanas Special Economic Zone	To be Determined
Soapberry Waste Treatment Plant	To be Determined
Correctional Facility	To be Determined
Jamaica Mortgage Bank	To be Determined
Jamaica Public Service	Sale of Shares
Jamaica Railway Corporation	To be Determined
Milk River Mineral Spa	To be Determined
Nutrition Products Limited	To be Determined
National Solid Waste Management	To be Determined
Jamaica Exotic Flavours And Essences	Sale of Assets
National Water Commission Rio Cobre	To be Determined

Silver Sands	Sale of properties
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Source: Development Bank of Jamaica

TRANSACTION TIMELINES

The following diagram gives an indication of the timeline for various major divestment transactions over the years. The fastest transactions are taking about 3 years.



Source: Castilia Strategic Advisors

To speed up the process, there should be stakeholder consensus on the divestment decision and the asset strategy; if the asset is not ready for divestment in terms of a solid business case, this should be recognized without raising expectations that cannot be met; market soundings should be undertaken with potential investors to determine investor appetite and the preferred modality of divestment; the streamlined preparation, approval and processes outlined in the

revised Privatisation Policy should be fully implemented by gaining the buy-in and cooperation of all relevant MDAs; the agency with responsibility for overseeing privatisations must be fully resourced; a framework agreement for transaction advisors needs to be in place; asset owning entities and entities scheduled for privatisation must commit to the process and fully cooperate.

ECONOMIC IMPACT OF DIVESTMENT

Jamaica's Capital Stock and Growth Rate 1972–2015 (2007J\$ Base Year)

YEAR	CAPITAL STOCK	GROWTH IN CAPITAL STOCK
1972	871,060,409,718	
1973	930,930,489,904	6.9
1974	982,621,365,075	5.6
1975	1,035,669,266,106	5.4
1976	1,046,094,840,500	1.0
1977	1,031,327,420,580	-1.4
1978	1,023,609,304,596	-0.7
1979	1,032,694,787,310	0.9
1980	1,023,709,490,139	-0.9
1981	1,031,182,267,184	0.7
1982	1,047,424,021,242	1.6
1983	1,068,168,133,527	2.0
1984	1,091,826,687,081	2.2
1985	1,116,686,937,662	2.3
1986	1,124,685,242,353	0.7
1987	1,157,625,731,791	2.9
1988	1,211,376,480,366	4.6
1989	1,287,007,419,901	6.2
1990	1,363,766,572,862	6.0
1991	1,431,375,596,840	5.0
1992	1,531,647,934,206	7.0
1993	1,638,269,479,246	7.0

YEAR	CAPITAL STOCK	GROWTH IN CAPITAL STOCK
1994	1,734,516,903,933	5.9
1995	1,833,277,002,919	5.7
1996	1,899,886,574,072	3.6
1997	1,958,163,680,049	3.1
1998	1,989,838,763,638	1.6
1999	2,011,455,708,930	1.1
2000	2,029,974,534,923	0.9
2001	2,064,443,434,899	1.7
2002	2,105,133,937,757	2.0
2003	2,140,599,906,738	1.7
2004	2,178,343,516,223	1.8
2005	2,219,346,397,233	1.9
2006	2,273,644,743,423	2.4
2007	2,314,513,229,443	1.8
2008	2,336,635,144,888	1.0
2009	2,330,714,711,567	-0.3
2010	2,319,463,848,733	-0.5
2011	2,317,961,928,439	-0.1
2012	2,309,800,203,375	-0.4
2013	2,312,499,079,560	0.1
2014	2,298,222,524,477	-0.6
2015	2,276,324,271,714	-1.0

Source: Jamaica Productivity Centre

Capital formation is the net additions of capital stock (e.g. equipment, tools, construction, transportation, electricity and communication assets in a country). Countries use capital goods to replace the current assets that are used to produce goods and services and if a country cannot

replace capital goods, production declines. The higher the capital formation of an economy, the faster an economy can grow its aggregate income. Jamaica's performance since 2008 to the current period is troubling.

The right design and calibration of policies will encourage capital formation, and the wrong policies will contribute to its reduction. Public-Private-Partnerships share the cost and benefits of capital formation while being responsive to market feedback and are especially suited for high debt emerging market economies.

Jamaica's Total Factor Productivity (TFP) Growth Rate 1973-2015

YEAR	TFP GROWTH	YEAR	TFP GROWTH
1973	-6.4	1995	-3.7
1974	-2.0	1996	-3.0
1975	-6.4	1997	-2.1
1976	-7.4	1998	-2.5
1977	-3.1	1999	1.1
1978	-0.3	2000	0.6
1979	-0.5	2001	0.3
1980	-9.1	2002	-0.7
1981	-0.1	2003	1.5
1982	1.8	2004	-1.3
1983	4.0	2005	-0.4
1984	-6.6	2006	-0.3
1985	-6.0	2007	-1.4
1986	0.3	2008	-1.0
1987	3.0	2009	-1.5
1988	-0.7	2010	-0.5
1989	1.7	2011	1.9
1990	0.4	2012	-1.0
1991	-2.1	2013	-0.3
1992	-1.1	2014	0.1
1993	-1.9	2015	0.6
1994	-0.7		

Source: Jamaica Productivity Centre

The table outlines Jamaica's TFP up to 2015, since this is up to the period when the majority of divestments were undertaken beginning in the 1980s and shows the general trend.

Total factor productivity (TFP) captures the contribution to economic growth of factors outside of growth in the labour force and/or improvements in physical capital. TFP reflects the value-added contribution of factors such as the business environment, access to capital, bureaucracy, crime, theft and corruption.

The TFP performance likely overtime reflects the impact of the impediments of doing business in Jamaica.

Jamaica's Gross Domestic Product (GDP) Growth 1973-2016

YEAR	GDP GROWTH	YEAR	GDP GROWTH
1973	-1.7	1995	1.2
1974	1.8	1996	-1.5
1975	-1.0	1997	-1.4
1976	-6.7	1998	-1.3
1977	-3.3	1999	1.1
1978	0.8	2000	0.5
1979	-1.7	2001	1.5
1980	-7.0	2002	1.0
1981	2.7	2003	2.3
1982	2.7	2004	0.4
1983	2.0	2005	1.4
1984	-1.4	2006	2.5
1985	-4.7	2007	1.0
1986	2.4	2008	-0.8
1987	6.7	2009	-3.5
1988	3.3	2010	-1.5
1989	4.8	2011	1.3
1990	4.2	2012	-0.2
1991	1.0	2013	0.2
1992	2.3	2014	0.5
1993	1.2	2015	1.0
1994	3.0	2016	1.4

Source: Jamaica Productivity Centre

Since Jamaica's privatisation programme began in the 1980s, the country's economic growth has been anemic, averaging about 1 percent, and productivity declining or stagnant. Many factors having to do with the business environment are at play here, but it would seem that the divestment programme has not had the impact it should have. This requires further exploration.

Some of the reasons proffered are that divestments have entrenched inequality or increased the ownership of foreign investors who repatriate most of their profits.

Some of the solutions include increasing broad base ownership through stock offerings, while reserving a percentage share for certain categories of workers, and improving the linkages between investment and the local economy.

INTERNATIONAL EXPERIENCES⁸

Jamaica can learn from the experiences of other countries' divestment programmes by considering what worked well and what did not within the context of that particular country. These international experiences inform the recommendations at the end of this paper.

Lessons from the USA

One of the greatest lessons learned is that for privatisation to be successful there must be political transparency. The ability to insist on transparency is essential as it maximizes the perception that the playing field is level and all the parties are meant to benefit from the process. Thus, every privatization process should take into consideration the correct balance between political and economic goals. The second lesson is that privatization should be supported by strong legal and regulatory environment, which will make the process open, transparent and have value for money, and ensures there is competition in the privatised sector. Another lesson is that while privatisation may improve efficiency, it may make provision of goods and services costly as witnessed in the US following privatisation of schools and water sector. The challenge with this in developing countries is that such services will not be accessible to a large portion of the population, hence leading to negative welfare effects.

⁸ Comparative Analysis of Privatization and Government Divestiture: Challenges and Opportunities, 2020

Sometimes there is a lack of information or proper understanding of certain privatisations resulting in public resistance, indicating a need for public consultation and greater inclusiveness.

The other challenge of privatization in the US is that some interested companies may fail to post the required financial estimates for the privatisation. It is not possible for a company that is experiencing losses to be allowed to run a government enterprise. Due to the hype on privatisation, many private companies have shown interest and willingness to acquire state-owned enterprises although this has not been possible since many of them are financially weak.

The other challenge is the lack of national guidelines on how to effect privatisation. There have been several government-owned enterprises that have been advertised for privatisation and received widespread expressions from various companies but there have not been proper national guidelines on how the privatisation process should proceed.

Lessons from the UK

In the UK, some of the areas affected by privatisation include utilities, infrastructure and ports, such as airlines, telecommunications, gas, and airports among others.

These privatised entities are better managed and more profitable than when they were owned by the state. Consequently, this led to an increase in service quality. It is to be noted that privately owned corporations report their performance measures publicly and this leads to an increase in the quality of services offered.

Privatisation can only lead to improvements in performance if it results in competition, and effective state regulation is necessary in cases where there is no competition. Efficiency and competition do not arise merely due to change in ownership especially where the market has one major player. It should also be noted that while the objective of privatisation may be to

benefit consumers, it is the investors who may get higher benefits in terms of returns at the expense of the consumers especially when a public entity goes public.

Another aspect that is important is development of economic regulation by strengthening regulatory agencies. Regulatory agencies should be set up and strengthened with improvements in regulatory governance and adoption of regulatory tools to guarantee a favorable operating environment. This will also ensure that consumer interests are protected especially where the privatised entity was dominant and provided some of the basic services to the public. UK experience shows that almost all the sectors have a regulator. Competition policy development should also be prioritized to ensure efficiency in privatised markets, encourage new entry and prevent monopoly.

By and large, privatisation has been a gradual process in the UK, but it has had a great significance in the economy of the country. Since the 1980s, the UK has continued to embrace privatisation as a suitable policy to keep its economy competitive. Privatisation has led to increased market exposure and a more competitive economy in the UK.

The Conservative government faced the problem of the companies that they sought to privatise not making enough profits. As a result, the companies remained unattractive to investors.

The UK government realized that not all the industries could be privatized because of public interest.

Lessons from Brazil

Privatisation should be above board, transparent and accountable, especially on matters of social public utilities such as health and education. All means for sound governance must be instituted to avoid undervaluation of State Owned Enterprises (SOEs) to satisfy individual, group and political interests. This helps to maintain and or reduce income and wealth inequality.

Using privatisation as a macroeconomic stabilisation instrument is not tenable or efficient. There are other macroeconomic strategies such as fiscal discipline.

Privatisation increases competitiveness among companies as indeed evident with Embraer which is one of the world's largest aircraft manufacture. Embraer has continued to be a success story of privatisation in terms of effectiveness and productivity. This was accomplished through sound laws, rules and regulations with monitoring and evaluation tools for stable markets.

SOEs identified for privatisation with poor financial performance should be divested to discontinue the drain on public resources. The government should not inject more investment into these SOEs, which may not be realized at the time of privatisation.

The government should negotiate a contract in which some caliber of employees may be retained depending on the new owner requirements for the enterprise growth. This will reduce mass lay-offs that could lead to protests.

The neo liberal reformers-Political Workers Party (PT), after receiving power from the military government embarked on the privatisation of SOEs through auction. This was not received well by Brazil's citizens as the quality of services kept on decreasing and commodity prices persistently rose. This made the government unpopular, hence losing in the next elections. In fact, the opinion polls of 1980s and 1990s showed that, a relevant share of the electorate opposed privatisation, especially after 1999. On returning to power, later, the PT deployed a strategy of privatisation through concessions, public procurement, public-private partnerships and outsourcing of labor in public administration.

The privatised companies had a higher propensity to import and repatriate profits outside Brazil. So, privatisation indeed did not decrease the internal debt as well as offset external debt. In fact, during the peak years (1995-1998) of privatisation the net public debt increased and remained above 30% of GDP. One objective of privatisation was to enhance the competitiveness of the SOEs and thereby increase quality of services and tariff reduction to the users. This did not

happen. Even under regulation created by state agencies, the privatised companies abused their economic power. Before privatisation (1980s) it was certain that the children of the middle class could get safe jobs from the civil service. Today those jobs go to the children of the upper class, who are better 'trained' to take up and run Brazilian capitalism. This has perpetuated income and wealth distribution inequalities.

Lessons from China

China presents a unique combination of SOE and private enterprise in order to achieve the overall goals of the state.

China's privatisation has not completely changed the SOEs ownership. However, it created a large share of private ownership in the SOEs with independent decision making. There is need for the state to provide sound business regulatory policies and avoid direct involvement in privatised SOEs.

There are several privatisation designs that have been adapted to avoid massive lay-offs and or welfare loss. These designs were implemented gradually, considering that profitability and political stability are equally important for the country. Large shareholders were given incentives to undertake critical restructuring to enhance efficiency.

To ensure greater ethics and professionalism in privatised institutions, the State Assets Agency, has multiple social welfare objectives supported by standards/rules/regulations to monitor, evaluate and report to avoid privatised entities pursuing individual interests. Hiring of professional managers, establishing boards of directors and adoption of international accounting standards is critical.

The Chinese privatisation attempts to balance political interests and profitability of privatising the SOEs. The Communist Party of China Communist Party (CCP) addresses privatisation in a

manner to prioritize creation and distribution of wealth to avoid social unrest and political instability.

Many Chinese citizens depend on SOEs. Reforms in the education system, pension, healthcare and social benefit are therefore contingent on SOEs. Because of the social security system, the government cannot facilitate massive lay-off in in the SOEs. Further, is the challenge of modernization in the agriculture sector, exacerbating the unemployed migration from rural to urban areas.

Although, state intervention is strong in privatised SOEs, the state's role has been passive shareholding, waiting to gain from profits and dividends. In the event loss is realized, they politicize the management of the privatized SOEs, where in most cases managers from the private sector are forced-out.

Lessons from India

The deceleration of GDP growth in India in the second half of the reform period of (1998-2003) suggests that India's reforms may not have been as successful as in other countries.

Implementation of complex reforms for privatisation involves false starts and midcourse adjustments in the implementation process. When dealing with multiple reforms on several fronts, careful attention must be paid to sequencing.

India's experience yields important lessons about poverty alleviation through privatisation.

A principal cause of inefficiency in government-owned firms is arguably interference by politicians in the operations of the firm. If politicians obtain private benefits from controlling government-owned firms, then any loss in these benefits following privatisation may influence the decision to privatise. Politicians may influence the hiring of staff and purchase decisions of government-owned firms so that they favor their interests and those of political supporters. If

the politician in charge of a firm is also elected from the state where the firm is located, the politician may be reluctant to support the privatisation of that firm because it may weaken his ability to secure campaign contributions and reelection.

Another challenge in the Indian privatisation programme has been the low number of bidders. This has been experienced across the board for poorly performing as well as for better performing state-owned enterprises. Potential buyers like financial institutions and other mutual funds have not been very enthusiastic in listing and trading of shares purchased by them as it would reduce their control over Public Service Utilities (PSUs). Instances of insider trading of shares have also come to light. All this has led to low valuation or underpricing of equity.

Further, in many cases, divestment has not really changed the ownership of PSUs, as the government has retained a majority stake in them. There has been some apprehension that divestment of PSUs might result in the crowding out of private corporates (through lowered subscription to their shares) from the primary capital market. Inadequate information about PSUs has impeded free, competitive and efficient bidding of shares, and a free trading of those shares. Also, since the PSUs do not benefit monetarily from divestment, they have been reluctant to prepare and distribute prospectuses. This has in turn prevented the divestment process from being completely open and transparent.

It is not clear if the rationale for the divestment process is well-founded. The assumption of higher efficiency, better/ethical management practices and better monitoring by the private shareholders which supposedly underlie the divestment rationale has not always been borne out by the facts. Total divestment of PSUs would naturally concentrate economic and political power in the hands of the private corporate sector.

To the extent that the sale of government equity in PSUs is to the Indian private sector, there is no decline in national wealth. But the sale of such equity to foreign companies has far more serious implications relating to national wealth, control and power, particularly if the equity is sold below the correct price. If the divestment policy is to be in wider public interests, it is

necessary to examine systematically, issues such as - the correct valuation of shares, the crowding out possibility, the appropriate use of divestment proceeds and the institutional and other prerequisites.

Lessons from Japan

Japan National Railways (JNR) shared many of the problems of other public enterprises including ambiguity concerning management responsibility, lack of customer responsiveness, overstaffing, unstable management/ union relations and regional provisioning problems. Those opposed to the privatisation approach claimed that it would only worsen regional imbalances in transport provision and consequent economic development. The opponents suggested that large scale redundancies and worse labour relations would endanger passenger safety. In 1987, JNR which was the largest contributor to the national deficit and accumulated corporate debt of 30 trillion yen was privatised as the company was dissolved into seven firms. Much of the debt was diverted to the JNR Settlement Corporation. The process saw recruitment suspended and redeployment practiced. The result of the privatisation was a slight increase in the volume of traffic, as management pursued more positive operational policies and retrenchment of costs. The number of employees was reduced, most of whom were absorbed in the expanding Japanese economy. Though many local lines were abolished, there was the maintenance of a traditional equitable fares formula, and the transport ministry continued to regulate the fares within an integrated transport system in which private companies received public subsidies. However, there was a continuing tension in the effort to reconcile the public interest with efficiency; the share of passenger transport continued to decline; and further restructuring with the possibility of militancy lay ahead. In conclusion, rather than being seen as the abandonment of the transport system to market forces, JNR's reform should be interpreted as a Japanese style privatisation where the concept of Public interest (in particular equity) was much thought of. Privatisation of JNR took the final form of public stock offering.

Lessons from South Africa

South Africa has well developed institutions regarding regulatory law and commercial practice. Property rights are generally well defined. The country's well-developed legal culture combines elements of several traditions. Much of the law about property, sales and contract can be traced to the Dutch-Roman law that the early European settlers brought with them in the seventeenth century. Company financial and intellectual property derives from English sources, a connection with the 19th Century development of large-scale undertakings related to mining. The financial, communications and transport infrastructure is well developed and modern. The stock exchange is among the world's ten largest. South African entrepreneurs and business professionals are generally highly educated, skilled and competitive. These are all essential features for privatisation. Yet, privatization has been less successful relative to other regions in Africa.

Privatisation in South Africa has been slow, with few visible results and a general feeling among observers and donors that the governments' commitment to the process was generally half-hearted. Consequently, most of the intended objectives have remained unrealized. The missing link appears to be the institutional framework supporting privatisation. The lack of clarity about the different roles both within government and between government and SOEs and other stakeholders created significant bottlenecks.

Lessons from Nigeria

In Nigeria, there had been a cumulative dismal performance of SOEs which resulted in a "crisis of confidence". This was due to various problems which can be attributed to internal and external factors. The internal factors relate to inadequate and inappropriate investment decisions, adverse business environment characterized by weak capital base and control mechanism, poor system of accountability and the absence of any remarkable reward system. The external factors relate to unfavorable export/import prices, restricted access to external markets and funds, high rates of interest on foreign loans, etc. The reform of SOEs in Nigeria has, thus, focused on such critical aspects as financial and physical restructuring via divestment with a market-oriented approach under the Structural Adjustment Programme (SAP).

One of the major obstacles was the near absence of well-articulated policies in the key sectors of the economy. Several initiatives were taken to address this situation which included: formulation of sector policies to promote competition, efficiency and transparency in the sector; formulation of proposals for the attraction of private financing and investment in the sector; overseeing the activities of the various government agencies, parastatals, and operators in the sector; formulation of proposals for the restructuring and liberalization of the sector; protection of the rights and interests of service providers and consumers; and recommend the legal and regulatory framework.

In addition, a liberalized economy would require legislation on competition. In Nigeria, no such legislation existed, which meant that there existed a clear potential for unfair trade practices with full liberalization of the economy. Accordingly, a Steering Committee on Competition and Anti-trust Reform was set up.

The responsible secretariat collaborated with all stakeholders – ministries, organized labour members of the National Assembly and the private sector in carrying out the reforms.

One of the key lesson from the case of Nigeria is that political patronage of privatisation should be brought under control for meaningful and successful privatisation. New forms of social and political exclusion could undermine the supposed economic advantage of privatisation if not kept in check.

Lessons from Ghana

The Ghanaian government's lukewarm commitment to reform and privatisation resulted in a slowdown of the privatisation programme. The inadequate resources for privatisation, delays in adopting legislation, in processing and approving transactions are all regarded as evidence of a lack of commitment. Because of the political nature of privatisation, it is important that a

country's top leadership be involved and supportive to the process of privatisation if success is to be realized.

Corporate governance in Ghana's SOE sector has been weak and was compounded by poor coordination and rivalries between government ministries with respect to SOE sector management. This made it difficult to obtain the necessary cooperation from SOE managers. Employees who developed concerns of job security because of privatisation engaged in obstructive behaviours. As a result, asset inventories were incomplete, asset stripping occurred, and liabilities were hidden. Indeed, asset stripping has been a persistent problem in SOEs undergoing privatisation or listed for divestiture. It is therefore important that all governments must take the issue of corporate governance seriously if privatisation is to succeed.

Limited resources are one of the key constraints to privatisation in developing countries. It is therefore important that adequate resources be set aside to aid the process of privatisation.

The issue of employee end-of-service benefits has been a big problem in Ghana, problems over land titles, and misconceptions arising from valuations of SOEs have been part of the problems as well.

In the late 1980s and early 1990s there was strong opposition to privatisation from SOE managers, employees, and trade unions. Many people saw privatisation as a threat to jobs in the public enterprise sector and as a potential sellout of publicly owned assets to foreigners and to the Lebanese minority community in Ghana. A lack of public information about privatisation and a lack of transparency surrounding many of the early divestment transactions compounded the problem. The lack of transparency made the business community suspicious of the government's motives.

The amount of end-of-service benefits (ESB) has been a constant problem and was a major cause of delay early in the program (1987 to 1990). The issue of high benefit levels—usually calculated as eight months of final salary for every completed year of service—arose because ESB had been

raised as a pension-enhancing scheme following the collapse of the social security system. The high cost of ESB made restructuring of SOEs impossible, as the prospect was that many divestments would result in a situation where the contingent cost of these benefits alone would exceed likely sale receipts. In 1990, in response to this dilemma, a cap was put on these benefits both to limit the cost and to make them uniform. At the same time, the government accepted full responsibility for settling these benefits.

Up to mid-1997 privatisation transactions reported as completed (approved and signed by the parties to the contracts) were finalized except for transfer of land title. The transfer of title was in all cases dealt with late. The problem is that many SOEs did not have legal title to land they occupied, or they held legal title but lacked documentary evidence. The problem arose mainly from the nature of state land acquisitions during the First Republic. In the spirit of the time, individuals and local communities were encouraged to give up land for development. Many responded by yielding land, believing that this was for the common good. However, no title documents were prepared to cover land that was acquired by the state, and no compensation was paid to the beneficial owners.

Valuation has been a sensitive issue since Ghana's privatisation program began. The government has expressed its resolve to obtain the best possible deals and securing a deal close to the expected sale value has been a major factor in the slowness of the program. For every SOE to be divested, an independent valuation of the assets is required. Private sector specialists carry out this work. Some private investors reported that asset valuations had hampered possible privatisation deals because the government refused to consider offers where prices reflected the earning capacity of the assets, but where they were well below the values based on depreciated replacement cost.

Application to Jamaica's Framework

- A strong legal and regulatory environment is required.

- Ensure that there is competition in the privatised sector or if not, that there is an Authority mandated to regulate the sector.
- While privatisation may improve efficiency, it may make provision of goods and services more costly, so the impact on the public must be considered, particularly for essential services.
- Public consultation and greater inclusiveness are necessary.
- There should be national guidelines on how to effect privatisation.
- Regulatory agencies should be strengthened.
- Privatisation should be a gradual process, and not all the industries should be privatised because of public interest.
- Using privatisation as a macroeconomic stabilisation instrument is not tenable or efficient.
- SOEs identified for privatisation with poor financial performance should be divested to discontinue the drain on public resources.
- Privatised companies may have a higher propensity to import and repatriate profits with the consequential impact on the country's balance of payments.
- Privatisation may perpetuate income and wealth distribution inequalities. Therefore, social welfare objectives supported by standards/rules/regulations should be put in place to monitor, evaluate and report to avoid privatised entities pursuing individual interests.
- Interference by politicians should be outlawed.
- If the divestment policy is to be in the wider public interests, it is necessary to examine systematically, issues such as - the correct valuation of shares, the crowding out possibility, the appropriate use of divestment proceeds and the institutional and other prerequisites.
- Lack of clarity about the different roles both within government and between government and SOEs and other stakeholders can create significant bottlenecks.
- The country's top leadership must be involved and support the process of privatisation if success is to be realized.
- Good corporate governance is key.

- Rivalries between government ministries should be avoided by clearly defined authority and roles.
- The concerns of affected employees must be addressed without becoming too costly through retraining and assistance in finding alternative employment.
- Adequate resources should be set aside to aid the process of privatisation.
- Public information about privatisation must be provided the process must be completely transparent.
- Proper titles are required for divested assets.
- Asset valuations should be conducted by qualified and independent third parties.

CASE STUDIES

Jamaica has had a diverse range of experiences with divestments, some very successful and others not so much so. There are lessons to be learned from each and these case studies inform the recommendations made at the end of this chapter.

CAYMANAS SPECIAL ECONOMIC ZONE

Background

In April 2008, the then Minister of Industry, Investment and Commerce (MIIC), presented a concept paper on the creation of a special zone, designated the Caymanas Economic Zone (CEZ), on parcels of land located on the Caymanas Estate, as part of a wider Caymanas Development Plan which would seek to develop most of the lands in the area. The Urban Development Corporation's (UDC) Caymanas Estate Development Plan encompassed ten thousand (10,000) acres of land across which residential units, light commercial industry zones and recreational facilities would be built.

The CEZ, as proposed, would house business entities from key growth sectors, such as logistics, Information and Communications Technology (ICT), Manufacturing, Agro-processing and

Creative Industries. It was also envisaged that the zone would house research facilities and a business incubation centre.

In the initial stage, the various state agencies involved in the plan for the Caymanas Development were: Ports Authority of Jamaica; UDC; Ministries of Agriculture, Transport and Works, and Water and Housing; the Development Unit at the Office of the Prime Minister and the Jamaica Promotions Corporation (JAMPRO).

Initial discussions with the UDC resulted in an allocation of five hundred (500) acres of land on the southern-side of the Caymanas Estate to the project. The acreage allocated was within a parcel of land, approximately one thousand (1000) acres in size, which was mainly swamp and would therefore only allow for limited expansion of the project, subject to reclamation. Subsequently, between fifteen hundred and two thousand (1500-2000) acres of the Caymanas Estate were reserved for the CEZ project.

In 2011, MIIC, through the Factories Corporation of Jamaica (FCJ), negotiated the purchase of two hundred (200) acres of the Caymanas land on the northern side of the Mandela Highway, for the CEZ project, with the UDC. This acquisition represented MIIC's two pronged approach to the development of the CEZ project. The first component would be driven by the FCJ, and would involve the build-out of a zero emission industrial park on the northern side of the Mandela Highway. The second component would see the construction of a logistics hub and manufacturing facilities on the southern side on over one thousand (1000) acres of lands. It was intended that this phase would be driven by the private sector, and, to this end, JAMPRO would package and promote the project internationally.

From the early stages of the CEZ project, it was agreed that there was need for a special relationship between the Port of Kingston and the CEZ since logistics was to be central to the CEZ's development. It was also agreed that the Port was a strategic asset and should not be divested but could be leased for private sector development.

Contribution to Infrastructure Costs

The UDC stated that it wished for the FCJ's contribution to the overall infrastructural amenities (roads, electricity, sewage and drainage) to be based on usage and not as a percentage of lands allocated for the CEZ. MIIC rejected this position as financially untenable for the FCJ.

Subsequently, the FCJ advised Cabinet that FCJ would be responsible for infrastructure costs within the 200 acre property while the UDC would be responsible for such costs outside that area; but there would be additional costs for connection from the 200 acre development site to infrastructure (such as sewage and main roads) that would have to be met by the FCJ. These additional costs were not quantified.

Permissible Emissions Levels

The UDC indicated that the site of the CEZ should be a no-emission zone so as not to negatively affect the housing developments planned within the wider Caymanas Development area, some of which will be high income residential areas.

MIIC argued that an emissions level of zero was inconsistent with international requirements of green parks/industrial zones which permit low emissions levels.

Investment Offers

Two unsolicited offers to participate in the CEZ project were received by MIIC in 2008 from Chinese investors with a wide range of experience in economic zone development and logistics.

One indicated an interest to partner with GOJ to develop the CEZ and the other aspects of the Greater Caymanas Plan through a mix of grant funding and loans, with a built in moratorium on repayment.

One of the Chinese investors proposed to finance the project with private equity. The main objective of the proposal was the establishment of Jamaica as a prime trading and logistics hub

for Asian companies wishing to do business in the Americas. This would be accomplished by developing the CEZ as a special economic zone to include:

- Free Port, transshipment, distribution and value-added manufacturing activities totalling 8,368,295 sq. ft. of space.
- International Finance Centre occupying office floor space of 2,397,123 sq. ft.
- International Exhibition Centre totalling 2,776,012 sq. ft.
- Supporting, commercial, hotel, entertainment, residential and training facilities occupying 6,976,288 sq. ft.
- 50 year lease of the Kingston Container Terminal (KCT)

This proposal was consistent with the original concept. Further discussions were pursued and a Memorandum of Understanding (MOU) was approved in 2009 with the investor granted exclusive access to a section of the proposed zone for a period of 9 months to facilitate studies. No further developments occurred with regard to the other Chinese investor's indication of interest.

Issues Concerning Proposed 50 Year Lease of the KCT

The Port Authority did not support the proposed lease of KCT and instead suggested other arrangements which could address the strategic concerns, such as assignment of storage space and guarantees of berthing access. It was felt that the proposal for KCT could put shipping lines not affiliated with the investor at a disadvantage.

The Attorney General's Chamber was of the view that the lease arrangements contemplated by the MOU could be subject to Government procurement procedures and that the approval of the National Contracts Commission would be required.

The Ministry of Transport did not support the proposed lease because the then Transport Minister was pursuing other privatization arrangements for the KCT.

Various solutions were proposed as follows:

- Lease of the Southern and Western Terminal of the KCT.
- Contract for guaranteed port access and container storage space for 5 years and 50 years lease of Fort Augusta.
- 5 year management contract of KCT; GOJ constructs port at Fort Augusta then leases for 50 years at the end of the management contract.

After consideration of all the issues, Cabinet decided that the policy for the divestment of KCT would have to be further discussed by Cabinet and that MIIC should focus on the development of the CEZ project, while the Ministry of Transport and Works would focus on port related issues.

Broadening of Project Scope

In May 2010, the investor proposed a widening of the CEZ to a development that would be known as the Kingston Integrated Economic Zone (KIEZ) which would be developed through an investment holding company.

This would facilitate increased trade between the Americas and the People's Republic of China and the Far East. It was proposed that the GOJ would transfer title for the Caymanas lands, the Kingston Free Zone and ownership of the assets of the KCT Southern and Western Terminals.

The project developers would undertake to provide an energy solution with excess capacity for the national grid.

A deadline of 60 days was proposed for a Master Contract to be drafted and agreed.

Critical Issues

- Government Facilitation
- Work permit/investor visa program
- Local content requirements

- Utilities and environmental requirements

Policy Alignment

The proposed broadening of the project required the review and alignment of all the relevant policies and guidelines as they related to the various elements and associated assets. A coordinated approach across ministries, departments and agencies involved was required in order to provide the necessary information to assist with the analysis of the scope and terms of the proposals.

An economic study of the KCT was required to inform the divestment guidelines for the port. This had not yet been done.

Conclusion of Negotiations

In October 2010, the investor terminated its proposal for the project because the GOJ was not able to commit to the sale of KCT, which had been indicated was an integral component of the integrated economic zone. The investor pointed out that the company had been able to implement a project in Brunei with greater speed based on the full support of the Brunei government. The investor did not make reference to the other proposed solutions regarding its use of the KCT.

MIIC in its response to ICW noted that the sale of national assets had to follow a transparent process with full disclosure of the investors involved in order undertake the necessary due diligence. Additionally, the GOJ had to have full details of the financing arrangements for the project for Cabinet approval. This information was not supplied as agreed under the MOU.

There was the view that the investor had mainly been interested in the acquisition of the KCT for its own shipping interests in order to maximize its earnings, while there were no guarantees of the proposed build out of the CEZ.

Other Investor Interest

In parallel with these negotiations, in 2009 an advertisement was placed in the press inviting companies to signal their interest in Phase 1 of the CEZ for 100 acres, with a focus on agro-processing; manufacturing; pharmaceuticals; assembly plants; renewable energy; software development; telecommunications; bio-technology; financial services; medical services; and restaurants. The Phase 1 development of the CEZ was not marketed as part of a logistics hub project.

Several local companies expressed their interest in leasing land in the CEZ.

Total indicative demand was for 155 to 167 acres.

Over the 2010 to 2011 period, meetings and presentations on the CEZ were held with potential investors, and there was sufficient demand to confirm the viability of Phase 1 of the project.

However, since then no further consultations were held with these companies since 2011 and their continued interest at this point is uncertain.

Project Financing

The FCJ explored financing options with flexible terms that would reduce the impact on its financial performance and that would be in alignment with its capital expenditure programme.

Two options were explored:

- (i) Floating bonds which were tied to the development cost; the bonds would be redeemed from the proceeds of the sale of the various lots in the subdivision
- (ii) Securing deposits for the development of the project, supplemented by loan financing, which would be repaid from the sale of lots.

The FCJ decided to raise financing via the issuance of a long-term bond in the local market, and proposals were received from several financial entities.

The FCJ conducted a detailed analysis of the terms, structure and feasibility of each proposal put forward. However, in November 2011, the FCJ deferred the bond issue transaction until further notice.

Developments Since 2012

The CEZ was rearticulated as the Caymanas Special Economic Zone (CSEZ) project as part of a larger plan to position Jamaica as the premier Logistics Hub of the Americas. The CSEZ will be part of an integrated logistics system or network that will serve global interests, involving the Port of Kingston; a Port at Fort Augusta and Gordon Cay; a trans-shipment port facility near Yallahs, St. Thomas; a Dry Dock Facility at Jackson Bay, Clarendon; and the Vernamfield Air Cargo Passenger Facility. The development of this network, including the CSEZ, is a key strategy in the GOJ's plans to position the country as a major manufacturing hub within the Caribbean and Central America.

Mission to Asia

A mission to the People's Republic of China and Singapore was undertaken in 2012. The primary objective of the mission was to establish Jamaica's value proposition as the Asian/Pacific region's best near shore maritime and aviation distribution hub option in the Americas, and to highlight the investment prospects for potential investors. An important component of this hub will be the CSEZ. The logistics project was well received by the Chinese government and was seen as an important area for collaboration.

The State Development and Investment Corporation (SDIC) indicated that foreign investment will be a crucial component of its operations going forward. The SDIC is the main outward investment arm of the Government of China and has been operating in Jamaica through its local subsidiary COMPLANT. The agency has expressed significant interest in the Logistics Hub project as this echoes its own areas of interest for future investment by the company.

China has successfully used economic zones and logistics parks in its development plan over the last thirty (30) years. The mission used the opportunity to study these zones and to gain further insight into the critical success factors. Meetings were held with targeted companies with demonstrated expertise and competence in the development of world-class logistics infrastructure, and tours were undertaken of logistics facilities in China and Singapore. All companies expressed an interest in the project.

During the Singapore leg of the mission, the Singaporean government expressed its support for the GOJ's plans and indicated its willingness to offer support under the Singapore Cooperation Programme in the form of logistics training and infrastructure planning.

Current Status and Next Steps

Since the aforementioned developments, ownership for the Northern side of the Caymanas Estate was transferred to Chinese investors operating in Jamaica for part compensation for the construction and operation of the Edward Seaga/North-South highway. These Chinese investors are building out a mixed development including commercial and residential properties.

Plans for the CSEZ have shifted to the Southern side abutting the Soapberry sewage treatment facility and the Riverton city dump. A feasibility study was completed and market sounding undertaken. Some investment interests have indicated that sale of the land might be their preferred modality for divestment but the GOJ would like to maintain some level of interest in the development so that it can be built out as part of the Logistics Hub Initiative.

Lessons Learned

Greenfield developments by their very nature involve greater risk and are more challenging to successfully implement.

The CSEZ case outlines the need to have in place an Enterprise Team early in the process, which can coordinate all the moving parts of a proposed divestment, and with the required skills set. Cooperation among all MDAs is key.

External advisors also need to be quickly engaged as the need arises.

There is the need to have a clear vision and strategy from the beginning so that investors can be guided accordingly. The vision and strategy for the divestment changed several times based on changing circumstances. However, it is necessary to be flexible depending on the feedback from investors.

Due diligence is essential on potential investors for transparency and probity.

Feasibility studies and investment policies can strengthen the bargaining position of the government.

The value proposition must be clear to both the government and potential investors, and the government needs to mitigate as much risk as possible in order to make the divestment attractive.

THE PORT OF KINGSTON

International French-led shipping and port management firm, CMA CGM sold 49 percent of its interest in Kingston Freeport Terminal Limited (KFTL), the entity that manages the Port of Kingston under a 30-year concession agreement with the GOJ, through its subsidiary company, Terminal Link, to China Merchants Port Holdings. Terminal Link is a joint venture of CMA CGM (51 per cent) and China Merchants (49 per cent).

Kingston Freeport was the company used by the Terminal Link-CMA CGM consortium to operate Kingston Container Terminal under the 30-year deal signed with The Port Authority of Jamaica (PAJ) in April 2015 to finance, expand, operate and maintain the Port of Kingston.

KFTL has invested more than US\$250 million in dredging the access channel to the harbour and in upgrading the equipment and facilities.

These investments allow the much larger vessels, carrying up to 14,000 twenty-foot container units (TEUs) which now transit the enlarged Panama Canal, to enter Kingston Harbour and to be processed efficiently at the container terminal.

Prior to the investments, the size of the vessels processed at the terminal averaged 3,500 TEUs.

Additionally, the industry trend is now for shipping lines to enter into vessel-sharing arrangements to leverage economies of scale, with the resulting effect being the utilisation of larger vessels instead of smaller ones.

As a shipping line, CMA CGM has increased the volume of cargo trans-shipped through Kingston. Competition is strong among trans-shipment terminals in the Caribbean. The investments made by KFTL are focused on improving the competitiveness of the Port of Kingston relative to the competing regional ports.

The operating efficiencies at KFTL have been improving, particularly at Gordon Cay, where investment in equipment, facilities, and systems were concentrated. The availability of equipment for processing of cargo is high and the operating efficiencies are good and getting better.

Lessons Learned

The value proposition was clear to both the government and investors as this was a profitable asset.

Based on the nature of ports and the shipping industry, the government was clear about the visions and the strategy and potential investors.

VERNAMFIELD DEVELOPMENT PROJECT

Background

The Vernamfield Airfield is situated on 1,173.63 hectares of land in the parish of Clarendon. It is 5km south of the route of highway 2000 as it passes by May Pen and 15km from the southern coastline. It is bordered by the community of Gimme-mi-bit to the southeast. Historically, it was the site of a United States military base and aerodrome during World War II, which served as the U.S.'s intermodal transportation system in the region. The site has not been used since the US Air Force lease expired in 1999. The U.S. surrendered the lease for the lands occupied by the base to the Commissioner of Lands in 2001. It was handed over to the Jamaica Defence Force in February of 2007 with the intention that an air wing would be established. The surrounding lands are occupied by farmers.

Vernamfield has the potential for the longest runway in the island. Accordingly, the property was earmarked as one of the Millennium projects to be developed as an international cargo hub. This development is central to the GOJ's plan to link rail, land, sea and air transport into one seamless operation as in Singapore.

Currently a heavy A380 cannot safely take-off at any of the international airports in Jamaica which have runway lengths of some 2.7 km according to official statistics. A fully-loaded A380 (at 1.23 million pounds) requires some three km to take-off provided the airport is near sea level (such as at both international airports) according to Airbus graphical statistics; but it would need much more length on hot, humid days. Additionally, Vernamfield would require an even longer stretch, all things being equal, due to its elevation which negatively affects aircraft take-off performance.

Several concepts for the development of Vernamfield have been put forward over the years, including the possibility of use as an international passenger and cargo airport which could ultimately operate in conjunction with, or in place of, the Norman Manley International Airport and/or Sangster International Airport.

The GOJ is seeking to facilitate private sector investment in the development opportunities at Vernamfield.

Initially, the plan was for the government to develop the land and the airstrips in support of private sector investment.

The proposed business structure for the development was a joint venture between the PAJ and a private developer, with other investors/operators expected to come on board. Accordingly, in September 2009, Cabinet approved the transfer of lands owned by the Commissioner of Lands located at Vernamfield to the PAJ to facilitate it entering into a joint venture arrangement with an investor for the implementation of the Vernamfield Development Project, which would form an integral component of the multi-modal transport approach.

The then Minister of Transport and Works met with a Singaporean delegation who expressed interest in the project. Following on from this, discussions were held with the Air Transport Technical College of Singapore, which proposed training at the Caribbean Maritime Institute to be expanded to Vernamfield.

Since 1999, three studies have been conducted on Vernamfield.:

The feasibility study undertaken recommended a phased development approach for the project, utilizing the public-private sector based initiative, with provisions for other strategic investors.

Required government commitments

220 acres to be transferred from the National Land Agency (NLA) to the project; Acquisition of 1000 acres for core airport facilities (JMD100m); Additional land acquisition of up to 2,000 acres;
Road rehabilitation

There was an initial projected IRR for the developer of 6.55%, which was considered too low, and would not attract investors to the project. This resulted in a remodeling, where more efficient ways for the use of existing resources were identified, such as the elimination of the need to relocate the community of Gimme-Mi-Bit with the construction of a 4000m runway 2.2 km west of existing runways. This remodeling also reduced the need to acquire lands currently being used for cane and dairy production.

Overall, the returns for the project are within the range acceptable to both developers and operators, with the returns to operators more attractive. This results from the operators not incurring development costs for infrastructure but benefiting from its use.

MRO and Air Cargo were found to be the most attractive aspects of the project in terms of revenue and job creation.

From this analysis, it was clear that Build and Operate models might be more attractive to investors who have capacities in both areas.

Economic Impact Assessment

During construction, employment opportunities would be created for engineers, surveyors, equipment operators, electricians, carpenters, labourers and landscapers, among others. Indirect jobs are expected to be created by local companies providing goods and services to the project. Ongoing operations would create employment in the areas of:

- Maintenance, repair and overhaul of aircraft
- Airfield management and security
- General aviation activities
- Direct free zone and air cargo activities

The Vernamfield Development is considered to be an integral component of the Logistics Hub Initiative and would facilitate the further integration of the local economy into global supply chains by increasing the flow of international trans-shipments through the country, particularly for air cargo. This would also enable local exporters to better access international markets by piggybacking on the increased trade flow. This would encourage increased investment in the economy.

Challenges

Most of the lands initially contemplated for the project's development have been sold, transferred or otherwise occupied. As such, the Government will have to reacquire lands through land swaps, compulsory acquisition and contractual agreements. This will increase the complexity of the project and the PAJ does not have the capacity to undertake these acquisitions.

Although, the Government's role is expected to be limited to the acquisition of lands and road infrastructure, significant costs will be incurred. The government's fiscal position will impact the extent of financial commitment. This increases the level of uncertainty regarding implementation.

The site is expected to require in the region of 6 to 8 megawatts of power. The current costs of electricity will affect the competitiveness of the operators. Therefore, energy solutions have to be designed and implemented.

The area is prone to flooding, and as such, adequate systems will need to be in place to address this effectively.

The concession contract for the Norman International Airport was predicated on no other competing passenger airport being built, which puts the entire Vernamfield project into question because the economics of a cargo only airport are not clear.

Status

Cabinet approved a joint venture arrangement to undertake Phase I of the project. However, the agreement has not yet been implemented.

An Enterprise Team was formed to oversee the development and potential divestment of associated lands to a private developer but the Enterprise Team was found to be premature and put on hold pending the further development of the economic feasibility of the project.

The project concept has been expanded to an aerotropolis. An aerotropolis is a metropolitan subregion whose infrastructure, land use, and economy are centered on an airport. Any future development would be in the form of public private partnerships. However, no market sounding has been undertaken as yet.

Lessons Learned

Greenfield developments by their very nature involve greater risk and are more challenging to successfully implement.

A business case needs to be developed and the value proposition established before putting in place an Enterprise Team.

There is the need to have a clear vision and strategy from the beginning so that investors can be guided accordingly.

The value proposition must be clear to both the government and potential investors, and the government needs to mitigate as much risk as possible in order to make the divestment attractive.

NORMAN MANLEY INTERNATIONAL AIRPORT

The Government received three bids out of eight pre-qualified bidders, one of which involved a consortium including local investors.

The bidder which won was Grupo Aeroportuario del Pacifico S.A.B. De C.V., a Mexican airport operator headquartered in Guadalajara, Mexico. It operates twelve airports in the western states of Mexico, and one in Jamaica, Sangster International Airport. It is the second largest airport services company by passenger traffic in Mexico, and serves approximately 27 million passengers annually.

Due Diligence

Investigations were performed on the background of all three bidders and no disqualifying information was found.

Selection Process

The proposals were evaluated based on predetermined criteria which were outlined in the Request for Proposal by Legal, Technical and Financial evaluation teams. The results of the evaluations were reviewed by a Review team, and the final decision for the selection agreed upon by the Enterprise Team appointed by Cabinet. The decision for the recommended preferred bidder, Grupo Aeroportuario del Pacifico, was unanimous.

The evaluation process was supervised by the Airports Authority of Jamaica (AAJ).

The International Finance Corporation (IFC) was contracted and approved by Cabinet to provide technical and legal advice for the transaction.

Criteria for Selection

All bidders satisfied the legal and technical requirements, and the final decision was based on the bidders' financial models, in particular, the proposed concession fee. Grupo Aeroportuario del Pacifico had the highest concession fee and was found to be able to financially support the offer.

Grupo had the highest budgeted level of capital expenditure, and included extensive works in their plans in order to increase non-aeronautical revenues from shops.

Legal Issues

There were allegations that the bidding process contravened the Fair Competition Act (FCA) by virtue of Grupo operating the Sangster International Airport. The Fair Trading Commission (FTC) did an Economic Assessment and recommended that Grupo be excluded from the bidding process because it would substantially lessen the supply of airport services in Jamaica.

The IFC advised that airports in Jamaica are regulated under The Airports (Economic Regulation) Act and would not come under the jurisdiction of the FCA. However, the Attorney General's Chambers (AG) noted that in respect to airport charges, if no exemption is afforded, the implication is that the FTC and the Jamaica Civil Aviation Authority (JCAA) may have concurrent jurisdiction which would have to be decided by a court of law.

The AG recommended that the best legal way forward to address the recommendation of the FTC would be for the Government to obtain an "Authorisation" under Section 29 (1) of the FCA on the grounds of the benefits from the project to the country.

Eventually the FTC concluded that if the recommended remedies were adopted, the challenged economic transaction was unlikely to result in a substantial lessening of competition, and gave its no objection to the award of the contract.⁹

⁹ *FTC, Report on the Competition Assessment of the NMIA Proposed Concession, 2018*

Current Status¹⁰

Grupo now wants a recalibration of deliverables under the concession agreements it has with the Government, following the halving of passenger numbers since the global pandemic, which began in 2020.

Jamaica, too, wants to reassess the feasibility of these concessions, and is willing to negotiate.

The main objective of this assessment is to determine if the government can afford the potential compensation to be made to the concessionaires, should any of the proposals be accepted and recommended for inclusion in the review and possible negotiation process. The AAJ has prepared bid documents seeking to procure the services of a consultant to advise the negotiating team.

GAP was planning to pump US\$213 million, or \$32 billion, into projects at NMIA and Sangster International Airport, in Montego Bay over five years. That spend, or elements of it, may now be on hold pending negotiations.

In 2020, GAP said it would scrap or delay non-essential capital projects following the onset of the pandemic. It formed part of a wider halt of capital projects by Grupo. These measures will keep cash in the company as it deals with the fallout from the pandemic.

GAP was granted contractual relief, in accordance with the concession contracts, as remedies to ameliorate the adverse effects of the pandemic, which was labelled a force majeure event, according to the AAJ documents seeking to hire the consultant to conduct an economic reset.

The concessions run for 25 years for NMIA, dating from 2018; and 30 years in the case of SIA, dating from 2003. The airports are managed, respectively, through PAC Kingston, or PACKAL, and MBJ Airport Limited.

¹⁰ *Jamaica Gleaner, January 14, 2022*

Both concessionaires, that being PCKAL and MBJ, have submitted proposals that are seeking to modify and/or rebalance certain deliverables under their respective concession agreements in order to procure the economic recovery and long-term sustainability of the airport concessions.

The Cabinet has approved the setting up of a negotiation team that will oversee the review. The team, however, wants an adviser to consult on technical, financial and legal matters in support of its work, including assessing the long-term recovery and sustainability proposals submitted by the concessionaires, with a view to deriving plausible recommendations for consideration by the government.

Grupo recorded three million passenger movements through both airports in the 2021 calendar year, which was 2.5 million fewer than the volumes recorded prior to the pandemic, which rose to 5.5 million in 2019. The AAJ wants the consultant to assess the revenue forecasts for the airports based on demand prior to the pandemic and during the pandemic.

According to the concession contract, the concessionaires are entitled to trigger the force majeure event provisions upon the occurrence of an epidemic which, inter alia, materially and adversely affects the performance by the concessionaires of their obligations and the enjoyment of their contractual rights.

Lessons Learned

The value proposition was clear to both the government and investors as this was a profitable asset.

Based on the nature of airport managements the government was clear about the visions and the strategy and potential investors.

Developments since the award of the management contract have put the government at risk, and this is a lesson for the government to put in place adequate risk management measures for unforeseen developments.

WIGTON WIND FARM LIMITED (WWFL)

The GOJ through the Petroleum Corporation of Jamaica (PCJ) was the sole owner of WWFL, operators of a 62.7MW wind farm complex. WWFL's mission is to provide and/or facilitate increased wind energy development along with renewable energy from other sources for the generation of electricity, thereby contributing to the diversification of Jamaica's energy mix.

The Action Plan for the Privatisation of Additional GOJ Assets, approved privatisation of certain GOJ assets, including WWFL, via the JSE or other appropriate modalities, subject to due diligence.

The Divestment Process

A valuation of the WWFL was undertaken by reputable third party valuers, in accordance with applicable procurement rules, in preparation for the divestment of the entity via placement of a percentage of the shareholding, to be agreed, on the local stock exchange; and the engagement of a Financial Transaction Structure Advisor, whose terms of reference would include making recommendations as to the optimal strategy to be adopted to maximise the returns to the GOJ.

The transaction was implemented in two phases. The first phase involved preparing the investment strategy or transaction structuring and determining the percentage of the WWFL shareholding that would be offered on the Jamaica Stock Exchange (JSE) that would provide the best value to the GOJ as well as achieve the broader objectives of the GOJ. The second phase would be transaction implementation, including organizing the offer and successfully listing the shares on the JSE.

The contract price to be paid to the Transaction Advisor was 2.5% of the amount to be raised, inclusive of mobilization. The amount to be raised was not known at the time of contracting the Transaction Advisor, and this amount would be deducted from the proceeds of the Initial Public Offering (IPO).

The Transaction Advisor noted some key areas to be addressed going forward for WWFL, including diversification of income streams; financial restructuring; and improving the policy framework and legislation governing renewable energy.

Financial considerations included possibly changing the functional currency to US dollars because costs and revenues are linked to US dollars or refinancing US dollar denominated debt with debt denominated in Jamaican dollars in order to mitigate foreign exchange losses. In terms of the readiness of the Company for listing, the Transaction Advisor indicated that effective corporate governance is a critical aspect of the IPO process and it is essential for the long term success of the company. This was one of the key areas that attracted investors to the company and was a major selling point when going public. During the IPO process, decisions were made about how the Board members would be selected/elected to reflect the wider ownership base post-IPO.

A Legal Advisor was engaged to provide legal services for the IPO transaction, and a Legal Due Diligence Report was prepared for WWFL. The legal due diligence did not find evidence of non-compliance with any law, regulation, rule or requirements governing the conduct of the Company's business. New Articles of Incorporation for WWFL were prepared and a Prospectus was drafted for the sale process.

Company Debt

It was necessary to refinance US dollar denominated debt with debt denominated in Jamaican Dollars.

The loan agreement clause recognised that an event of default may be triggered if, "the Borrower without the prior written consent (such consent not to be unreasonably withheld), transfers or

disposes of or threatens to transfer or dispose of a substantial part of its business or assets or that there be any substantial change in the ownership of the Borrower.” Consequently, the position was that lenders would need to agree to the IPO transaction.

The lenders had to determine whether there were other considerations of a commercial nature or other nature which may negatively impact its consent.

A recommendation was made to seek refinancing proposals for the entire amounts owed by WWFL prior to listing on the JSE, given the consideration by GOJ to selling a majority of their shares. Proposals were solicited from financial institutions via a tender process in early 2018, to refinance in Jamaican Dollars the amounts owed by WWFL. The preferred financial institution was selected to provide the refinancing, which was completed within eight weeks.

The restructuring of the balance sheet by refinancing US dollar denominated debt with debt denominated in Jamaican dollars created greater value for WWFL by mitigating foreign exchange losses due to adverse movements in the exchange rate and made it easier to take on new debt for future growth and expansion.

Transaction Structure

The transaction structure involved the sale of 100 percent of the shares , and creating the widest possible ownership base with a minimum of 10,000 shareholders, while limiting maximum holding by any one shareholder to 10%.

The transaction structure was expected to achieve the objectives of the government for broad based ownership and maximizing the returns to the GOJ.

The downward trajectory of interest rates and improving business confidence created an ideal climate for new listings and continued growth in the stock market as a whole. This was a favourable IPO environment for the divestment.

Shares were allocated as follows:

40% for the general public

10% for public sector workers – A portion of the shares was recommended to be reserved for public sector workers to enhance their ability to participate in the IPO.

50% for the underwriting consortium- The Transaction Advisors recommended that an Underwriting Consortium be allocated 50% of the shares on offer in order to ensure successful take-up of the offer with the remaining shares going to the general public.

The Underwriting Consortium consisted of large and medium-sized Pension Funds, high net worth individuals and Corporates. The members of the underwriting consortium were guaranteed a block of 10% each. It was recommended that at a minimum five investors be identified to underwrite 50% of the shares on offer.

Corporate Governance

The GOJ nominated Non-Executive members to the Board of Directors before the IPO. There were nine Board members after the IPO. Each investor in the Underwriting Consortium with at least 10% shareholding nominated members to the Board. The members of the Underwriting Consortium were named in advance of the IPO and were subject to approval.

The WWFL listing was one of the most successful divestments in Jamaica using best practices for listing on the stock exchange and increasing broad based ownership.

Lessons Learned

The value proposition was clear to both the government and investors as this was a profitable asset.

This is a model case for broadening ownership of divestments for the Jamaican public.

The transaction advisor reaped a huge windfall based on their contract terms of 2.5 percent of the amount to be raised by the IPO. In the future the government could consider putting a cap on the amount earned by transaction advisors in future IPOs.

HARMONY COVE

Background

Harmony Cove is intended to be an integrated resort development located near Duncans in Trelawny, with various lodging and recreational/amenity options, and is geared to accomplishing several objectives including:

- Introduce the lifestyle hotel segment to the Jamaica tourism market.
- Add to the higher end tourism product.
- Provide better paying jobs and a range of entrepreneurial activities along the North Coast corridor.
- Broaden the range of attractions available to cruise and stopover guests, outside of those who would stay at Harmony Cove.

The project would provide features to all the important segments of the leisure market, and assist in repositioning the Jamaican tourism sector into the higher end segment of the international travel market.

Harmony Cove is owned by the National Housing Trust (NHT) and Development Bank of Jamaica (DBJ) under Harmonisation Ltd and Tavistock Ltd, one of the two companies which was given preliminary approval for approved integrated resort development status, which will involve a casino gaming licence.

The first phase of the project is to consist of 1,000 rooms. In addition to the 1,000 hotel rooms, the resort is expected to feature multiple restaurants and retail shops and a build-out of infrastructure support. Later it is expected that full room count will reach 5,000.

Significant capital expenditure is expected during the construction phase scheduled to take place over a three year period. The investment would facilitate the development of hotel; casino; golf course; and amenities.

Economic Impact

The total value added projected to be gained from the project would be on average 0.6% to GDP each year.

The industries that would benefit the most during the construction phase are Construction, Wholesale & Retail Trade, and Real Estate Renting & Business Activities.

The expected gains during the life-time of the operational phase of the project will be greater than during the construction phase. The extent to which Jamaica will benefit during the operation phase will be linked to:

- New Arrivals: the ability of Harmony Cove Development to attract new stop-over visitors instead of competing for existing stop-over visitors to Jamaica;
- Linkages: the extent to which the goods and services that are used by the Harmony Cove development are sourced locally; and
- Profit Leakage: how much of the earnings made will be reinvested into operations in Jamaica

The Harmony Cove project, with carefully managed implementation, would create an estimated 3,000 jobs during the construction period, and approximately 2,800 direct jobs and 3,000 indirect jobs are projected to be created with the commencement of operations.

Development Outlook

The Harmony Cove project has been on the books for many years. However, the government has committed to work closely with the Joint Venture partner in the project, Tavistock Jamaica Limited, to ensure that the mutually agreed timetable is maintained.

The project financing structure has been worked out at a sustainable debt/equity ratio, and is expected to result in a feasible project.

Challenges

The previous financing plan required that the government pledge future taxes as part of the capital structure, which the GOJ could not agree to. Also, the government could not agree to the pledging of a portion of Harmonisation's future dividends from its stake in the project company.

Exclusive Gaming Licence – Tavistock had indicated that the financial viability of the project was predicated on an Exclusive Gaming Licence for a geographical region. However, the policy position of the GOJ was not clear on the number of licences which would be issued for specific geographical regions based on investor interests at the time.

The policy position of the GOJ with regard to the issuing of Gaming Licences needed to be in alignment with Tavistock's proposal, and the net investment effect of issuing such a licence needed to be positive.

Tax Incentives – Tavistock had also indicated that the financial viability of the project was predicated on the granting of tax incentives which had been promised to the project. It was agreed to utilize the Large-Scale Projects and Pioneer Industries Act (LPPIA) of 2013 in order to provide these promised tax incentives.

The local project company needed to make a further capital injections into the project in order to increase its equity stake, but this proved challenging.

The GOJ's equity stake in the project is based on the land committed in the Joint Venture Agreement, and the government could lose its equity stake or a portion of it if it unilaterally pulls out of the project, based on the significant sums already spent by the Joint Venture partner in terms of project preparation and financing structure.

Lessons Learned

Greenfield developments by their very nature involve greater risk and are more challenging to successfully implement.

A business case needs to be developed and the value proposition established.

There is the need to have a clear vision and strategy from the beginning so that investors can be guided accordingly.

The value proposition must be clear to both the government and potential investors, and the government needs to mitigate as much risk as possible in order to make the divestment attractive.

However, the government should not take on unnecessary risks or risks better managed by the private sector.

KINGSTON LIFESTYLE CENTRE (KLC)¹¹

Background

The early concept envisaged a centre with a minimum of 200,000 sq. ft. of commercial space, and 60,000 sq. ft. of cultural and social space in the building and lands of the Historic Railway Station. It would contribute up to \$50 billion yearly in new economic activities and up to \$900 million in new GCT revenue. It would involve a re-imagination and redevelopment of Currie central market district area.

Two (2) entities - Kingston Shoreline Developments Limited and Oceanfront Developments Limited – were to finance and manage the synergistic development of both projects.

A pool of diverse investors, financiers, entrepreneurs and businesses indicated their interest in the KLC. The concept evolved into a commercial venture that strategically clusters around a general commercial lifestyle-themed set of products and business activities. It would draw on the diversity of talents, enterprise sizes (there is a commitment to SMEs having an important equity and management stake) and skills in entrepreneurship, investment, business and financial management, marketing, supply-chain and demand management and product development, skills and talents and consumption demands. Along with a re-imagined and redeveloped central market district which would become a destination experience and game-changing fulcrum of business and social life Downtown Kingston.

Among its envisioned offerings would be:

- Fresh food and groceries themed offerings and an expansive food court for access to Jamaica’s culinary specialties
- Leisure and culture themed offerings for immersive sports, outdoors and cultural experiences

¹¹ Professor Gladstone Hutchinson, *Remaking Downtown Kingston Redevelopment Project, 2018*

- Offerings for fashion and accessories such as Reggae wear, products of local designers, imported brands like “Plus is Beautiful” range for women and men, etc.
- Home improvement, health care and consumer electronic themed products
- Entertainment themed product offerings such as movie theaters, game rooms, etc.

The general aim of the KLC was to redefine the retail experience in Jamaica by combining an excellent product mix, competitive outlet prices, with convenience and service of specialty department stores making for a seamless one stop shopping experience for a diversity of consumers.

Central Market District aka Currie Markets

The Coronation Market redevelopment area or Currie Markets includes Coronation Market, Coronation Market Annex, Time Square, Oxford Mall, Container Market (Back Market) and Rebuilt Jubilee Market. It may also go beyond the central market district area to include the Pearnell Charles Arcade on Church Street and the two-acre block to the south of the market district bounded by Beckford, Barry, Pechon and West Streets. Currie is the logistic hub for agricultural, dry-good and haberdashery goods throughout Jamaica, and is largest market in the English-speaking Caribbean. It is estimated to involve over 20,000 vendors and a multitude of shoppers from urban, suburban and rural areas of Jamaica each year. Currie holds a special place in the culture of Jamaica for its historical and continuing role of transforming into reality the aspirations of a better life for many rural farmers and traders and urban vendors.

Currie, however, like its host Downtown Kingston, is viewed by many as a significantly under-performing national asset in terms of economic production and wealth creation for its vendors, downtown communities and the national economy. It is this belief that has inspired the current formation and mobilization of a syndicate of entrepreneurs seeking to re-imagine and redevelop it.

It is understood that any redevelopment of Currie will entail addressing:

- Stabilizing its commercial life through disaster risk reduction and resilience measures
- Reducing the negative spillovers from adjoining communities by addressing their blight and economic distress
- Problems caused by chaos in the movement of vehicular and pedestrian traffic
- The disorderliness of vending
- Food and personal security and safety
- Effective disposal of solid waste.

Challenges

The KLC was predicated on property rights for the potential pool of investors who would require ownership over certain lands and properties, which they would significantly upgrade with significant capital expenditure.

However, due to the diverse stakeholders who utilize and depend on the areas in question it was difficult to arrive at a consensus for a common approach, and whether it would be possible to divest government properties in the area. The area is also politically sensitive and the government would have to tread carefully.

There were concerns that the area would be “gentrified” and marginalized communities forced out. There was also the problem that ownership of some properties and lands was uncertain due to lack of titles or owners could not be found.

In the end, the challenges were too great at the time and the project as originally envisioned could not go forward.

Lessons Learned

Social impact assessments and stakeholder consultations are essential for divestments of this nature. Political buy-in and support at the highest level is required.

Transparency and trust among are essential.

PROGRESSION ENERGY

Progression Energy proposes to construct and operate a commercial-scale 300 MW offshore wind project (Project) off the southeast cost of Jamaica. When completed, this project has the potential to generate approximately 740,000 MWh of electricity per year, approximately 15% of the annual sales of the Jamaica Public Service Company and one of the largest investments in clean energy in the region.

Progression proposes to deploy 20 to 30 wind turbine generators, for a total of approximately 200 to 300 MW of electric generation capacity, mounted on floating platforms off the southeast coast of St. Thomas.

For use of the sea space, Progression has proposed a licence agreement that has an initial development period followed by an operations period during which electricity is supplied to the grid. The development period would begin after the agreement is executed and would facilitate the environmental, cultural, archaeological and other studies to fully understand the economic and environmental impacts of the project.

The next stage of this investment was contingent on the approval of the licence agreement. This licence would permit exclusive access by Progression to conduct the studies required to meet the conditions stipulated by National Environment and Planning Agency (NEPA) and other agencies that have jurisdiction over various aspects of the project.

Progression has been working with National Land Agency (NLA) and had obtained all the preconditions necessary for the approval of the licence. Furthermore, Progression had been

engaging in extensive stakeholder consultations since 2019, and met with all the relevant MDAs. Many of these MDAs reviewed the project concept and given tacit approval and no objection.

The benefits to Jamaica of this investment are significant including long-term stably priced clean energy, job creation both in the short-term during construction and long-term high paying jobs in servicing of the plant, environmental and fisheries protection and the benefit from large-scale indigenously produced energy that is immune to the volatility of global oil prices. This project would also give Jamaica the distinction of being the leader in renewable energy and sustainability in the region.

Progression had expected to obtain the licence agreement to begin environmental impact studies in August 2021, but did not receive this until 2022.

Lessons Learned

Flexibility is important in terms of understanding the needs of investors and the different types of legal arrangements that are necessary to effect a transaction, notwithstanding existing protocols which might be outdated.

JAMAICA PEGASUS HOTEL¹²

Background

In early 2008, the Minister with responsibility for the Urban Development Corporation (UDC) mandated the agency to return to its core functions as established under the Urban Development Corporation Act (that is, to carry on the business of planning and development of designated areas in various parts of Jamaica). In compliance with this mandate, the agency was required to, among other things; divest itself of its non-core assets.

¹² *Development Bank of Jamaica*

The Development Bank of Jamaica Limited (DBJ), as Secretariat to the UDC Divestment Enterprise Team administered the sale of the 71,865,384 ordinary shares in Pegasus Hotels of Jamaica Limited (PHJL) and retained Scotia DBG Investments Ltd (Scotia DBG) by way of competitive tender in December 2008 to act as its lead broker and advisor.

In September 2010, an agreement was signed between the National Hotels and Properties Limited (NHP) and hotelier Mr. Kevin Hendrickson for the sale of 71,865,384 ordinary stock units or 59.81% of the shares held by the NHP in PHJL for the amount of US\$11 million (approximately J\$947,639,000). The sale was concluded on 8 December 2010.

Since Privatisation

Since the Jamaica Pegasus Hotel came under the new management of the Hendrickson Group, the initial priority was improving customer service through re-training and development of the team members.

There was major refurbishment and upgrading several phases spanning several years.

The ownership of the Pegasus Hotel has created synergies for the Hendrickson Group, already owning Courtleigh and Knutsford Court hotels. Synergies have been created mainly in the back-of-the-house operations in terms of group purchasing, information technology, accounting and logistics. This has helped to garner greater cost efficiencies for the individual properties due to economies of scale.

Conclusion

The divestment of the Jamaica Pegasus Hotel, implemented by the DBJ was an excellent move and has been beneficial to the Jamaican economy. As such, the risk involved in the running of the hotel is no longer the prerogative of the GOJ to manage. With the hotel now in the hands of the private sector it is in a position to obtain investment that the GOJ would have been unable to provide due to fiscal constraints and is now run more efficiently. This move eased the burden off

the GOJ and by extension the Jamaican taxpayers. The new majority owners have already invested considerably in the upgrading of facilities and customer service.

Lessons Learned

The value proposition was clear to both the government and investors as this was a profitable asset.

Overall Recommendations

For privatisation to achieve its objectives, the process must balance out political, economic and social welfare objectives of all stakeholders in its design and execution. Objectives for the privatisation should be formulated and communicated to the general public to secure public buy in and avoid opposition.

Privatisation must begin and continue with clear institutional and regulatory underpinnings. It is a process in which success depends on appropriate regulation of privatised firms, as well as the creation of stable institutions. The legal framework should establish, with a maximum degree of public disclosure, which entities are authorised to make privatisation decisions and under what circumstances. Lack of proper institutional and regulatory framework is likely to put stakeholders in a worse situation than they were before privatisation. The country's executive powers, framework legislation, case by case laws and parliamentary approvals of privatisation must be carefully defined and studiously executed. This framework must include anti-trust regulation to ensure competition where feasible, and specialised regulation to oversee activities where an element of monopoly is likely to persist.

The decision to privatise or not to privatise an enterprise must be made based on established criteria, which takes into account the direct and indirect impacts on all stakeholders. Another

decision to be made in privatising is whether to keep the corporatized asset wholly or partly under public ownership. There must be clear guidelines towards these considerations if privatisation is to succeed.

Adjusting the corporate practices of entities to be privatised, its management and capital structure as part of the preparation for privatization is crucial.

While some might argue that privatisation based on competitive bidding will establish the value of the enterprise or assets, values should also be determined by properly qualified professionals.

Environmental audits and impact assessments must be carried out in the divestment process where applicable due to potential polluting activities.

Every method chosen for privatization must be objectively justified on a case by case basis. The choice of privatisation method is to be guided by the size of the enterprise to be sold, market conditions and the objectives of the privatisation process. Strong governance mechanisms are needed to ensure that management continues to act in the public interest.

The credibility of the privatisation process often depends on the quality of SOE's corporate governance. An important aspect is safeguarding enough board independence to enable SOE boards to protect the minority shareholders, including against further privatisation measures that are not seen as being in their interest. Managers and non-executive board members in SOEs should not be able to influence, in their own interest, the privatisation decision and privatisation methods.

The government needs to ensure that agencies entrusted with privatising SOEs are competent, well-resourced and subject to high standards of accountability and transparency. It should also safeguard the efficiency of the privatisation process.

Privatisation plans would need to be made subject to an evaluation of the degree to which they are likely to fulfill the country's objectives and the expected costs of privatising.

The decision to engage external advisers should be justified by the complexity and scale of privatisation projects. Sound contractual and legal frameworks must be in place to safeguard the integrity of external advisors' involvement in the process. Specifically, conflicts of interest must be avoided. Advisors should be required to disclose any business relationship with interested third parties. Advisory functions in different parts of the privatisation process should be administered by different advisors. Processes must be established for the selection of the best and most cost-efficient advisors. In addition to existing public procurement rules, additional mechanisms for a transparent prequalification of potential advisors may have to be established. Sequenced privatisation should be considered where SOEs in question are large relative to capital markets, and where performance enhancements emanating from the listing of the company are likely to raise the value of subsequent offerings. Partial privatisation should be considered where the state intends the SOE in question to continue operating in accordance with some public policy objectives. In sequenced privatisation, the state has a responsibility to inform the public. Whether privatisation is partial or sequenced, it is important to ensure that investors in the first tranches are fully informed of any public policy objectives that the SOE is expected to continue to pursue.

Contractual rights should continue to be honored for affected employees where the transfer of ownership affects their job security, wages and benefits.

To maintain high levels of transparency and accountability, privatisation needs to be subject to independent oversight. Auditing should be well-resourced and independent from the public authorities engendering the privatisation process and those carrying it out. Regular disclosure to parliament and the general public is important.

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