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### **“Creativity and political connectedness in airport financing”**

Last article, I reviewed our domestic economic transformation with a view to showing the wisdom of the decision to construct the Argyle International Airport. Many of my points would have been obvious, and arguably, hardly needed elaboration. I elaborated nonetheless.

While government, as most Vincentians do, recognised the urgent need for an international airport in 2001, government also realised that given the country’s inherited debt burden at the time, it would have been irresponsible to borrow a large portion of the EC\$480 million needed to construct the airport. Clearly much of this debt, if were contracted, would have had to be serviced by central government, since in the early years of its operation, the new airport is unlikely to generate the kind of traffic and revenue stream to service large amounts of debt.

Indeed, to avoid choking central government with a large debt burden for the airport, the government’s guiding principle in structuring the financing package for the international airport was to avoid increasing the long term debt on the books of the government.

It is an amazing objective to work towards in structuring a financing package for such a large project as an international airport. Only few persons would believe, and many still do not believe, that the government could put together a financing package of EC\$480 million, without borrowing, on a long term basis, a substantial portion of that money. There are three main creative (some might now say, obvious) ideas that underlie the structuring of the package.

First, government must make a sizeable investment in the project, but the source of those funds must not lead to an increase in the public debt stock. The way government achieved this was to agree to sell some of its Crown lands to raise its equity contribution. Accordingly, approximately 831 acres of Crown lands were transferred to a new company, the International Airport Development Company Limited (IADC). The IADC was mandated to sell enough lands to raise the funds needed to acquire all the properties, at market value, on the earmarked site at Argyle. The estimated value of the properties, at the time, was EC\$84 million.

This decision by the government to make such a substantial contribution to the international airport project had tremendous positive signalling effect to potential donors!

Secondly, the creativeness in structuring the rest of the package was two fold. First, government recognised that while many friendly governments would be prepared to make a sizeable contribution to the project, hardly any of these governments would make a grant large enough to cover the remaining cost of the airport. Government decided then to break up the project into several distinct components and to seek grant financing from each of the friendly government for the specific component that they are most likely to be able to finance.

Hence, Cuba, which has manpower with technical skill in airport construction but limited cash resources, was approached to assist with the earthworks component in conjunction with Venezuela, which was asked to provide the heavy equipment the Cubans would need to do their work. Both countries agreed to collaborate on the design, supervision and earthwork components of the airport. These commitments amount to about EC\$213 million or 48 percent of the total estimated cost of the international airport.

Similarly, Venezuela, which has demonstrated its willingness to share its oil wealth with its Caribbean and Latin American neighbours, and Mexico, were asked and both agreed, to assist with the apron, runway and taxiway component, estimated at EC\$41 million. While the Mexican government's contribution has not yet been established, Mexico has promised, and is already delivering on that promise, to provide the government of St. Vincent and the Grenadines all the cement it needs for the international airport and other government projects, at cost price.

Taiwan, our largest donor, was asked to assist with the terminal building, control tower, roads and support services, estimated at EC\$56 million. In June 2006, Prime Minister Dr Ralph Gonsalves announced that Taiwan has now agreed to make a grant to the people of St Vincent and the Grenadines of EC\$40 million and a soft loan of EC\$27 million towards the component mentioned above.

Finally, government recognised that even with large amounts of grant financing, there was going to be a shortfall and took the decision to invite the private sector to participate in as important a project as a national airport. For a private investor, the decision to invest in a project depends on the rate of return that it would earn on its capital investment.

However, since about 85 percent of the project funding is likely to come from equity injected by government, either from its own resources or from grants, the 16 percent financing that might eventually be required from the private sector makes the airport an extremely attractive investment to them, given the lively revenue stream that is expected to be generated.

Government has now indicated that the investment arm of the Malaysian Airport Authority, which has in principle agreed to manage the airport, is actively considering an equity injection of about EC\$40 million into the airport project. However, government may also wish to consider giving Vincentians at home and abroad an opportunity, through the sale of long term bonds, to invest in the completion of their own airport. Clearly, when others are prepared to invest their savings in building our country, should we not likewise invest some of our own funds?

Our progress and eventual realisation of the Argyle International Airport is due in no small measure to a government that encourages the creative solution of complex and difficult problems and but also one that is well connected to governments that are interested in our development.

The airport though is only partly an end in itself. More importantly, it will become the stimulus for economic growth and development. In the next article, I will discuss how the decision to build this airport and the government's approach to financing it dovetail with future growth and development of a number of economic sectors.