

**Government Guarantee under the provisions of the Approved Organizations and Authorities Loans (Government Guarantee) Act of loans totaling US\$60 million, to the Airports Authority of Jamaica from the European Investment Bank and the Caribbean Development Bank to finance Phase 1A of the expansion programme at the Norman Manley International Airport (NMIA)**

## **1.0 INTRODUCTION**

- 1.1 The Honourable House of Representatives is being asked to approve the granting of a Government Guarantee under the provisions of the Approved Organisations and Authorities Loans (Government Guarantee) Act of loans totaling US\$ 60 million, to the Airports Authority of Jamaica from the European Investment Bank and the Caribbean Development Bank to finance Phase 1A of the expansion programme at the Norman Manley International Airport.

## **2. BACKGROUND**

- 2.1 NMIA is the major gateway linking the country's capital city to destinations worldwide. NMIA serves as Jamaica's principal air cargo facility with an annual throughput of over 20 million kilogram's of cargo. The terminal building (opened in 1961) required expansion and modernization and the layout of the facility did not facilitate efficient operations based on present traffic demands and in some areas did not meet current international standards. This situation is projected to deteriorate with the consistent growth of passenger and air traffic.
- 2.2 Accordingly, the AAJ with the approval of Cabinet has been implementing a 20-year Capital Development Programme (CDP) for the Airport, in three phases (1A, 1B and 2)
- 2.3 Consistent with its policy for privatisation of both international airports the Government is desirous of having the Airport operate as a virtual private sector entity leading up to privatisation and having the Airport structured in such manner as to facilitate the smooth transfer of operations to a private operator at the appropriate time. Accordingly NMIA Airports Limited was incorporated in 2003 to operate as the Approved Airport Operator under the Airports Economic Regulations (2002) Act, for the Norman Manley International Airport.

## **3. THE PROJECT**


- 3.1 Phase 1A of the CDP being undertaken at NMIA, and scheduled for completion in 2009, is now in its final stage. This is the major phase of the three-phased CDP to be completed at NMIA and comprises the following major components:
- The Car Park Expansion and Rehabilitation (completed).
  - Roadway and Drainage Upgrading and Rehabilitation (completed).

- Construction of phase 1 of a new Cargo Centre with facilities for a new Queens Warehouse (completed).
- Construction of a new Two Levels Pier with Loading (Jet) Bridges.(completed).
- Construction of a New Departures Terminal, with extensive shopping facilities (completed).
- New Baggage Handling Systems (completed).
- Renovation and Expansion of the Arrivals Area – reconfiguration of the Immigration and Customs Halls. (completion expected mid-2009).
- Implementation of “state of the art” Airport IT Systems – Common Use Passenger Processing Systems (CUPPS), Common Use Network (CUN), Flight Information Systems (FIDS), and Baggage Information Systems (BIDS) etc. (completed).
- Major upgrading of the Airport’s Primary Electrical System (completed).
- Expansion of Standby Power Generation capacity (completion expected November 2009).

#### **4. PROJECT IMPACT**

4.1 The implementation of Phase 1A at NMIA will enable the provision of significantly improved quality of services and security requirements geared to meet international industry and regulatory standards, and to position the facility as a viable operation for privatization.

4.2 In addition to the specific benefits of the expansion to NMIA as a business entity, an economic impact study which was done for the SIA and NMIA for the year 2005/06 lists the following economic impact of NMIA on the Country of Jamaica:

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- Total Economic Activity at NMIA amounted to over \$38.5 billion or 6 % of GDP for the fiscal year 2005/06.
  - Over 14,000 kg of cargo and a little over 1 metric tonne of mail were processed at NMIA.
  - 1.6 million Passengers used NMIA as a gateway to enter and exit the island for the period.
  - Over 10,680 persons owe their employment (direct and indirect) to the operation of NMIA. These persons earned income of over \$7.7 billion.
  - The treasury collected more than \$2.6 billion in taxes from direct economic activities at NMIA.

4.3 The expansion and modernization programme at NMIA (Phase 1A) complements a similar programme at SIA. These projects are providing fundamental infrastructure improvements to enable Jamaica to take better economic advantage of the growing global travel and vacations industry.



## 5. PROJECT COST

- 5.1 The budgeted construction cost to complete Phase 1A was set at US\$98m. However, a number of factors (scope changes, finalization of provisional sums, and rephrasing of certain items) have resulted in the final budgeted construction and outfitting cost of Phase 1A being revised to US\$120m, comprising US\$116m for construction and US\$4m as a special contingency provision to take care of any assessed contractors' claims, additional project management fees and other essential works (decorations, maintenance equipment and stock, etc) during the 12-month defects liability period.

## 6. FINANCING REQUIREMENT

- 6.1 Financing of the NMIA CDP is being provided from a combination of external (commercial) debt, the Airport Improvement Fee (AIF), and cash contribution from AAJ.
- 6.2 The total external debt requirement to finance the revised CDP cost of US\$120m is US\$80m.
- 6.3 Negotiations have been ongoing with the European Investment Bank (EIB) and the Caribbean Development Bank (CDB) since the inception of the project to provide a total of US\$60 m (EIB – US\$40m, and CDB – US\$20 m) as senior lenders for the project.
- 6.4 Cabinet by Decision No 1/06 authorised the Airports Authority of Jamaica to pursue negotiations with the EIB (and other financial institutions if necessary), in consultations with the Ministry of Finance and the Public Service and the Ministry of Transport and Works for a loan of US\$ 40 million for the financing of Phase 1A of the CDP.
- 6.5 The completion of the negotiations with the EIB/CDB was delayed primarily due to policy issues arising from the proposal to lend to NMIA Airports Limited via the EIB private sector window, which required resolution. The ensuing proposal is for the loan to be made to the AAJ with a GOJ Guarantee, with the proceeds being on-lent to NMIAL. It should be noted that the EIB loan also provides an interest rate subsidy by way of a grant of up to US\$4.0 million, the greater portion of which would become available to support the privatization of the airport.
- 6.6 In the interim, the debt requirement of approximately US\$80m for the revised Phase 1A CDP cost of US\$120m has been filled locally on a short-term (bridge finance) basis by RBTT - US\$30m, Petrocaribe - US\$34.5m, and the National Insurance Fund (NIF) – US\$15m.
- 6.7 The loan of US\$60m being negotiated with EIB/CDB will therefore be utilized to repay a portion of the short-term (most likely Petrocaribe and NIF) while the remaining short-term debt (RBTT) will be re-negotiated as a long-term debt.
- 6.8 The salient financing terms of EIB/CDB loans are outlined below:

#### **6.8.1 European Investment Bank (EIB)**

Term	20 years
Moratorium on principal	8 years
Processing fees - (FLAT)	1.00%
Commitment fee	0.75%
Security	Government Guarantee
Interest	Variable (currently 6%)
Principal Repayment	24 equal semi annual payments

#### **6.8.2 Caribbean Development Bank (CDB)**

Term	20 years
Moratorium on principal	5 years
Processing fees - (FLAT)	1.00%
Commitment fee	0.25%
Security	Government Guarantee
Interest	Variable (currently 6%)
Principal Repayment	60 equal quarterly payments

### **7. CONCLUSION**

7.1 The Honourable House of Representatives is accordingly asked to approve:

- a) A Government Guarantee under the provisions of the Approved Organisations and Authorities Loans (Government Guarantee) Act of loans totaling US\$ 60 million, to the Airports Authority of Jamaica from the European Investment Bank and the Caribbean Development Bank, to finance Phase 1A of the expansion programme at the Norman Manley International Airport.
- b) The moving of the appropriate resolution in due course.



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