

**INTER-AMERICAN
DEVELOPMENT BANK**

Keynotes

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*Promoting Development of Small Islands
through Sustainable Air Transport and
Tourism*

December 5, 2016 – Nassau



The Importance of Tourism.

- Caribbean share of T&T investments (as percentage of total investments in the region) is the highest of the world; aligned with the weight of tourism in their economies.
- In countries where most of the traffic is generated by inbound tourism (such as Caribbean region), traffic evolution is mainly driven by the GDP evolution of the tourists' origin countries.
- Caribbean region receives c. 21.5 million tourist arrivals; it represents 2% share of world tourist arrivals (c. 1,087 million tourist arrivals).
- The expected growth in GDP, rising middle class and increased outbound tourism from the LatAm region should be considered an opportunity for tourism development in the Caribbean territories.



Air Transport Liberalisation.

- The Intra-Caribbean market is controlled by Air Service Agreements that could constraint the development of the market.
- These ASAs tend to have restrictive pricing. Within the last few years the countries have given greater pricing flexibility to airlines
- There is a Multilateral ASA signed in the region, CARICOM Multi-lateral Air Services Agreement (MASA).
- On the International front, in order to increase competition on international routes, the Caribbean region has achieved a high degree of liberalization with their prime tourism source-markets: US, Canada & Europe

Lessons Learned from the IADB's experience financing airports

- **Timing.** Allow developer/concessionaire sufficient time to obtain financing: Lenders require detailed analysis and time to process approvals.
- **Lack of prefeasibility studies.** Flexible Design and Capital Expenses Program: Future demand has to be considered. Capital expenditure program should be able to accommodate demand, technology evolution, safety and security changes.
- **Strong Government Counterpart:** Counterpart with required know-how, properly staffed, funded with enough resources for an effective supervision and interaction with concessionaire/operator.
- **Adequate Risk Allocation:** Transfer of risks to the party that has the ability or is better positioned to mitigate/absorb them.
- **Effective Dispute Resolution System:** clear and effective dispute resolution system. In case of no agreement, International arbitration. Termination Payment: clear and simple mechanism to recognize any investment made that has not been compensated/repaid, particularly when concessionaire is not owner of the airport assets.

Public Private Partnership and Management Contracts

- When there is no fiscal space to develop airport infrastructure, a PPP approach has proven its benefits. Nevertheless PPP is not always feasible in small airports (alternatively the investment might be financed through financial products and the operation might be undertaken by the government or through management contracts).

- Expected benefits for the Government from a PPP scheme in large airports:
 - Access to means of funding airport infrastructure in order to keep pace with economic growth. It can provide a relief for tight government budgets and administrative resources.
 - Provide private sector expertise to the airport network: realization of cost saving potential & improvement in profitability.
 - Investment better managed and faster implementation by private investors.
 - Risk sharing: Shared responsibility with the private operator.
 - Asset ownership is retained by the Grantor (government in this case); all assets revert to public sector management at the end of a Concession contract.

