Airports

11. Pulkovo International Airport, St. Petersburg, Russian Federation

Photo Credit[23]

Background

St. Petersburg is among Russia's most well-known tourist destinations, the nation's second-largest center for business activity, and its second-largest city, with a population of six million. Accordingly, the city needs to have a modern, well-functioning airport. St. Petersburg's Pulkovo Airport, however, was significantly over capacity, which was negatively affecting the level of service provided as well as passenger and airline satisfaction.
To address these issues and to facilitate economic growth and social development in the growing city, the City Government of St. Petersburg (the City) developed plans to renovate the existing terminal, construct a new terminal, extend the apron, and construct a new energy center for the airport.
A PPP was proposed to deliver the project to limit the impact on the public budget.

Project Structure

The City conducted a feasibility study and tender process in line with international best practice.
The project attracted interest from seven consortia during the prequalification phase and a great deal of interest from international commercial banks.
Following a competitive bidding process, in late April 2010, amidst the global financial crisis, the City executed a PPP agreement with the Northern Capital Getaway (NCG) consortium. NCG consisted of VTB Capital (50 percent), Fraport AG (35.5 percent), Koltseva Holdings Ltd (7.5 percent), and Horizon Air Investments SA (7 percent). The total project cost was estimated at EUR 1.2 billion (USD 1.36 billion). The private partner undertook to build, maintain, and operate the facility for 30 years.

The project was funded with a debt-to-equity ratio of 63 percent to 37 percent. NCG contributed the initial equity capital of EUR 440 million (USD 499 million). The long-term debt (15-year tenure) of EUR 750 million (USD 851 million) was provided by a commercial syndicate and international financial institutions (IFIs). The IFIs included the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD), which provided loans of about EUR 70 million (USD 79 million) and EUR 100 million (USD 113 million), respectively. Notably, due to Pulkovo Airport's ability to generate revenue in Rubles, US Dollars, and Euros, debt for the airport was raised in all three currencies. This helped ensure an optimal financing structure for the project. This project is reportedly the first PPP in the country that did not require any state subsidies or guarantees.

The concessionaire derives revenue from aeronautical and non-aeronautical activities at the airport. The concessionaire also agreed to pay the City concession fees that are expected to total EUR 650 million (USD 737 million). The figure is equivalent to an average of 9 percent of the revenue expected to be generated by the airport over the 30-year project period. After the concession period, ownership of the airport, with its significantly improved facilities, will transfer to the City.

Lessons Learned

This project was chosen as one of the 100 most innovative and inspiring urban infrastructure projects in the world in "Infrastructure 100: World Cities Edition Top 100 Projects." In 2013, it was selected by the IFC and Infrastructure Journal as one of 40 PPPs in emerging markets that reflect best practices for governments partnering with the private sector, earning the silver medal award for the Asia, Middle East and North Africa region.[24]

This project highlights the following:

- Strong leadership can be a key driver of a successful project. The then-Governor and one

[23] Photo on the left: Poudou99 (https://commons.wikimedia.org/wiki/File:Saint-Pétersbourg_-_Aéroport_-_2015-12-15_-_IMG_0757.jpg),

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Photo on the right: MoukhametovR (https://en.wikipedia.org/wiki/File:Pulkovo_International_Airport.jpg), „Pulkovo International Airport“

https://creativecommons.org/licenses/by-sa/3.0/legalcode

[24] Citibank. 2015. "World-class Investors Drawn to St. Petersburg Airport Project". Citibank. Accessed December 3, 2019. https://www.citibank.com/icg/sa/public_sector/casebook/docs/pdf/1289433_City_of_St_Petersburg_Government_Case_Study.pdf;

KPMG. 2012. "Pulkovo Airport PPP Receives Global Recognition". KPMG. Accessed December 3, 2019. https://home.kpmg/ru/en/home/media/press-releases/2012/08/pulkovo-airport-ppp-receives-global-recognition.html;

Lewis, James, Vanida Wongdechsareekul, Ben Freeman, Ifat Wong, and Elisabeth Cai. 2015. "Pulkovo Airport Expansion Project". Johnson Cornell University. Accessed December 3, 2019. https://www.johnson.cornell.edu/emerging-markets-institute/research/case-studies/pulkovo-airport-expansion-project/;

Pulkovo Airport Saint Petersburg. 2013. "Pulkovo Airport is One of the World Best PPP Projects". Pulkovo Airport Saint Petersburg. Accessed December 3, 2019. https://pulkovoairport.ru/en/about/news/2013/1980/.

of the deputy governors took ownership of and championed the project. By displaying a clear vision and commitment to applying global best practices in implementing the project, their leadership helped generate confidence and support among other stakeholders. In addition, high-level commitment to the project also facilitated the formation of a strong project team, which included senior officials, that could manage and drive the project on a day-to-day basis.

- The project benefited from investing in qualified advisers. One of the directives of the project champions was to engage experienced international advisers, including the World Bank Group (as the strategic advisor), Citibank (as the transaction advisor), and Mott MacDonald (as the technical advisor), among others. This helped ensure the completion of a robust feasibility study and competitive procurement process that received strong interest from the market, despite the City's limited PPP experience.
- Be open to the bidders' comments and suggestions during the project development cycle, including at the procurement stage. In this case, the project structure improved significantly as the project team heard and responded to the views and ideas expressed by the bidders during the bidding process. This well-structured, interactive, and transparent bidding process also helped facilitate the selection of the private partner that best fit the City's strategic aims.

12. Commercial and Landside Operations of I Gusti Ngurah Rai International Airport, Bali, Indonesia

Photo Credit[25]

Background

Run by PT Angkasa Pura I (AP1), I Gusti Ngurah Rai International Airport (Bali Airport) is Indonesia's second-busiest international airport. AP1 is an Indonesian state-owned enterprise responsible for managing 13 airports in the eastern region of Indonesia, including Bali Airport. It serves 13 million passengers per year, with an annual growth rate of 10 percent. Most of the airport's revenues historically came from aeronautical activities, such as passenger service charges and aircraft landing and take-off fees. This was partly attributable to a lack of expertise in non-aeronautical (i.e. landside) commercial operations on the part of AP1. To gain insight into international best practice in landside commercial operations, AP1 decided to pursue a PPP with a multinational private company with expertise in the field.

Project Structure

In 2012 AP1 selected GVK, an airport development company based in India, to prepare, develop, operate, and manage the landside commercial facilities at Bali Airport. GVK received a 65 percent stake in the landside airport management concession.[26] The management contract with GVK was established on a base fee and an incentive fee-based remuneration structure. The Indonesian government reportedly funded all capital expenditures for the renovation of the landside facilities.

In developing the commercial activities, AP1 and GVK organized an open, online selection program to ensure that the selection of business partners would be conducted in a more professional, transparent, accountable, responsible, independent, and fair manner.

In 2013 AP1 and GVK issued some new tenders for commercial activities at Bali Airport. The bidding for retailers resulted in more than 200 prospective bidders for the contracts. Eventually, DFS and Dufry International won the bid for a five-year contract to operate retail and duty-free shops at Bali Airport. AP1 also signed five-year concession agreements with three food and beverage operators, namely Bogajaya, Sumber

[25] Photo on the left: Photo in the public domain published by Craig https://commons.wikimedia.org/wiki/File:Flughafentower,_Denpasar_Airport,_Bali.JPG

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[26] Under Indonesian law, foreign investors can only own a 49% stake in an Indonesian airport but can own a majority stake in a management concession.