

Developing Airport Concessions in Ukraine

IFC PPP Transaction Advisory Experience in Airports



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Governments' motivations for an airport PPP

Policy:
Government should
not be in the airport
business

1

**Capital movement and
development of
infrastructures**

- Investments outside the fiscal budget
- Operation outside of the fiscal budget
- Private sector employees

**Improve
management**

2

**Enhancement of efficiency
and provided Level of
Service**

- Enhance the Level of Service provided to pax
- Traffic development (new routes)
- Commercial activity expansion
- Technological upgrade of airports

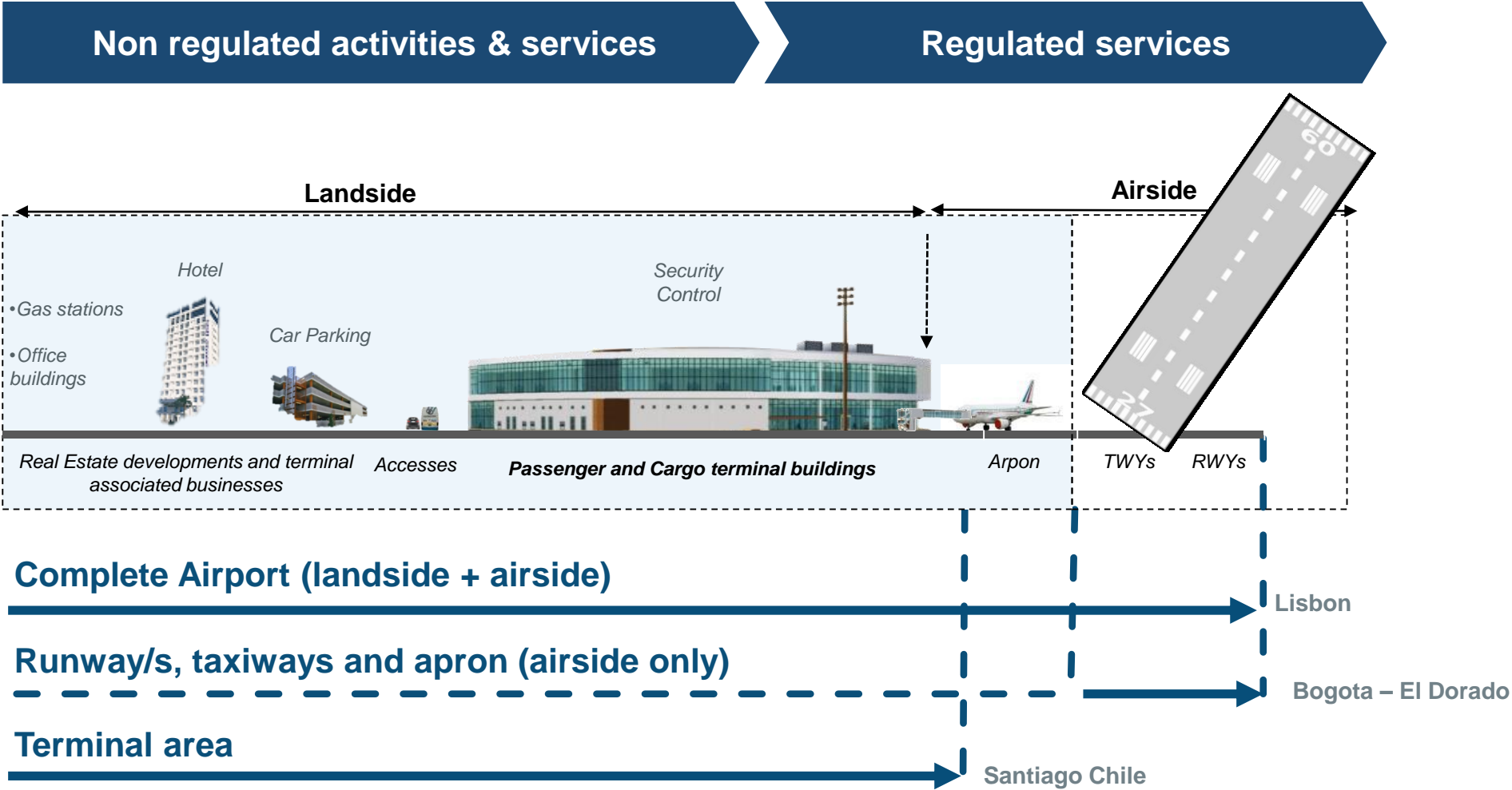
Investment needs

3

Outside fiscal budget

- Development and enhancement of airport infrastructure
- Access to private capital to have better management
- Gain budget efficiencies and fiscal relief

Scope of an airport PPP



Airport PPP models in practice

Management contracts

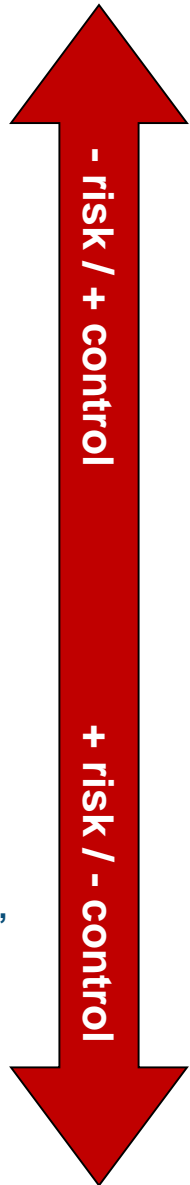
- Albany NY: AvPorts, Go-Albany, Million
- Cairo: Fraport
- Indianapolis: BAA (1995-2007)
- King Khalid, Riyadh and King Abdulaziz Jeddah: Fraport
- Lynden Pindling Nassau: Vantage (YVR)
- Maynard H. Jackson Jr. Concourses E and F Atlanta: Abertis and Aena

Concession contracts

- Pulkovo St Petersburg: Northern Capital Gateway (Fraport)
- Juan Santamaría San José: Aeris Holding Costa Rica S.A. (ADC&HAS)
- Jorge Chavez Lima; Fraport
- Indira Gandhi Delhi: GMR Group, Fraport and Eraman Malaysia;
- Adem Jashari Prishtina: Limak, Aéroport de Lyon
- Jamaica Montego Bay: Vantage, Abertis
- Quito: Quiport (ADC&HAS)

Share sales (privatization)

- Heathrow LLC, Stansted, Southampton, Edinburgh, Glasgow; Aberdeen airports; Heathrow Airports (formerly BAA)
- London Gatwick, London City and Edinburgh, owned by Global Infrastructure Partners;
- Sydney Kingsford Smith, owned by Southern Cross Airports Corp. (Map Airports)
- Brisbane Airport, Brisbane Airport Corporation Pty Limited



PPP Model: Bundling of airports?

In favor of bundling / grouping of airports

- **Implementation timetables:** political opportunities vs. sequential programming (Argentina vs. Chile)
- **Crossed subsidies:** profitable airports compensate for non financially viable ones (ASUR, OMA, GAP)
- **Universe of bidders:** according to the context, there may not be enough interested parties
- **It increases the value of the business:** economies of scale (ADP in Peru, Aeropuertos del Oriente in Colombia)

Against bundling

- **Regulatory capture:** too large bundles might endanger the equilibrium between regulatory body and regulated company
- **Harder to fix:** it might be harder to suspend the concession in case of default

PPPs in Ukraine: the analysis

Purpose of the analysis

- High-level feasibility assessment of a concession model (framework to invest in regional airports)
- Sufficient to decide which airports could be feasible concessions (and what type of concession)

Main tasks

- Site visits: Vinnytsia, Odesa, Kherson, Zaporizhia
- Desktop analysis: all others, determination of assets' condition and CapEx needs

Key issues

- Accuracy will depend on reliability of data
- Viability will depend on reasonableness of expectations (e.g. new runway vs reconstructing existing one, new terminal vs reconstructing existing one)
- Critical control of investments is paramount

PPPs in Ukraine: Financial projection and market testing

Financial projections

- **Aeronautical revenues:** based on historical data and existing regulations, fees and charges
- **Non-aeronautical revenue:** based on historical data, industry benchmarks, our experience
- **Operating expenses:** based on historical data, industry benchmarks, our experience
- **Financing costs:** based on typical terms and conditions of long term loans, considering: country risk / asset profile / potential investor profile

Market sounding

- **To identify their interest**
- **Estimate level of perceived risk**
- **Their concerns**

PPPs in Ukraine: Pre-assessment deliverables

Feasibility model

- For each airport
- Will provide acceptable level of information / data

Legal framework

- Current legal and regulatory framework configuration might constrain successful development of concessions
- Advise on how they could be modified

Recommendations

- A set of options and recommendations for MIU and airport companies
- Focus: how the concession model could be applied

PPPs in Ukraine: Next steps

Bundling

- Alternative way to achieve scale: bundling one profitable airport with the non unprofitable ones
- However, in Ukraine there are some challenges given the property of the airports at the regional governments level

Type of investors

- It depends on the level of investment in equity required:
 - Perception of Ukraine's risk
 - Size of project
- A viable model: partner reliable local investors with prominent international airport operators
 - Local investors would invest all of the equity
 - Partnership would be through a Technical Service Agreement (TSA): transfer knowledge and expertise
- Combined with obligation to meet predefined service requirements



Дякую / Thank you