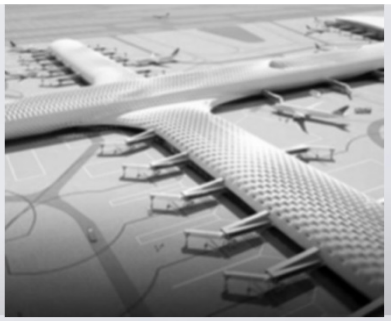
AIRDEV

Airport Development



Public-Private Partnerships in the Airport Sector

Structured Guidelines for PPP Implementation

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Seminar AIRDEV – Business Models for Airport Development

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OUTLINE

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Airport Ownership and Governance Models

Airport Finance

Guidelines for the Application of PPP in Airports

Final Conclusions

INTRODUCTION

Private Initiatives to overcome shortage

- **Public Sector (the Principal):** PSO requirements and regulation.
- **Private Sector (the Agent):** Dynamic and market-oriented businesses.

The Airport Sector

Why is it important? Vehicles of economic well being and social development.

Issues in airport delivery? Capital intensive, frequent cost overruns and delays, and public contestation.

PPP as a possible **solution** to deliver **airport** infrastructures.

PUBLIC-PRIVATE PARTNERSHIPS IN TRANSPORTATION (I)

Public-Private Partnerships - The Concept

Cooperative ventures between the public and private sectors, built on the expertise of each partner, which best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards.

[Canadian Council for Public-Private Partnerships, 2004]

Why and why not PPP in Transport Infrastructures Delivery?

Value for money	•Maximization of business potential; •Optimization of cost structures.
Efficiency	•Improvement of constructive & operational performance.
Private Finance	•Reduction of burden on public budget; •Allows alternative sources of capital.
Risk Management	•Potential to optimize the design of risk allocation plans.
Innovation	•State-of-the-art technology; •Cutting edge improvements.

Complex Contract Design & Management	•Money and time consuming task; •Responsible for several cases of serious PPP failures.
Ring-fencing structures	•Financially opaque structures; •Does not allow monitoring nor benchmarking.
Capital Intensive Character	•Significant resources to define projects' TOR and for procurement; •High transaction costs.

PUBLIC-PRIVATE PARTNERSHIPS IN TRANSPORTATION (II)

Major Types of Public-Private Partnerships

Differences? Contractual Length, private sector's role and ownership structure.

How to choose? Depends on governmental aims – increase efficiency or reduce expenditures?

Options:	Management Contracts	Leasing Contracts	Concession Contracts	Private Finance Initiative	(Partial) Divestiture

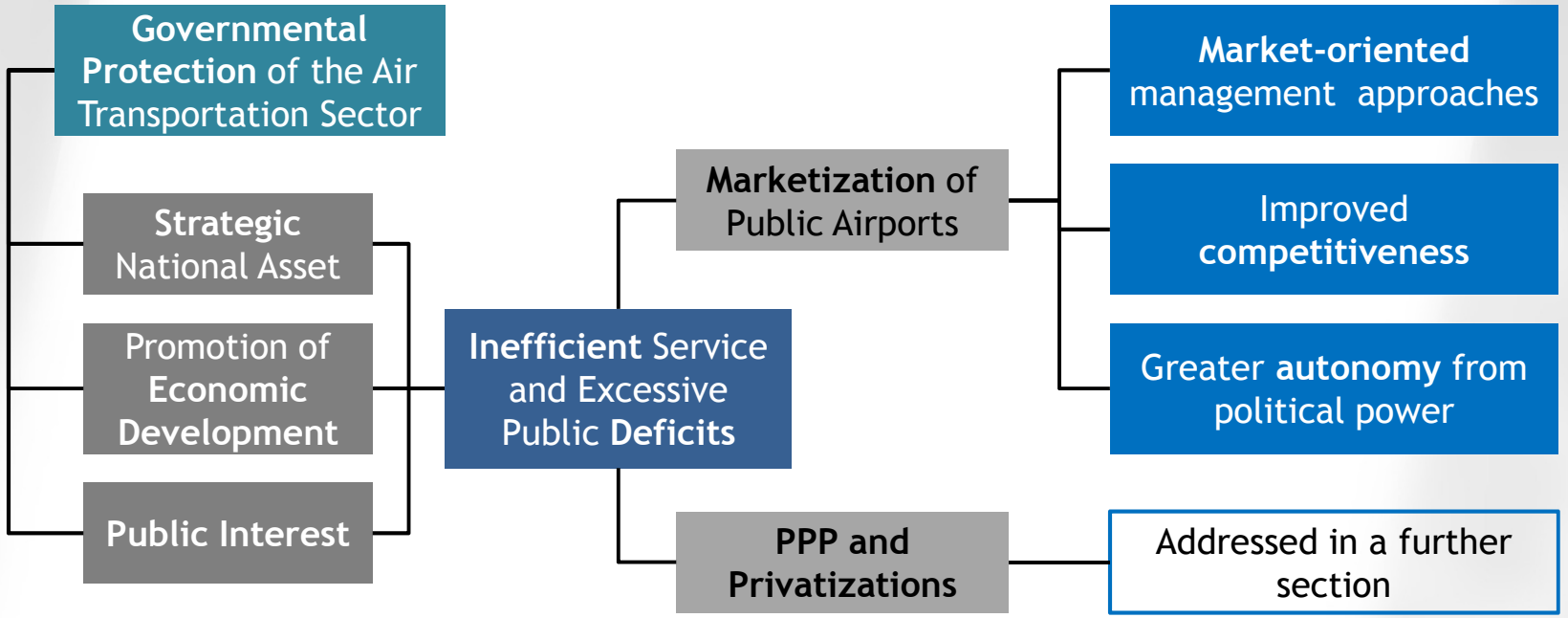
Examples of PPP Implementation in Transportation

Road Infrastructures	Rail Infrastructures	Port Infrastructures	Airport Infrastructures
. **Car culture** socially installed; . **Abundance** in road delivery; . **Prohibitive** Public Deficit.	. **Less attractive** investment; . High **CapEx** and **OpEx.**	. **Landlord port authorities** w/ **privately developed & operated terminals.**	Addressed further.

AIRPORT OWNERSHIP AND GOVERNANCE MODELS (I)

Public Ownership and Governance in the Airport Sector

Introduction



AIRPORT OWNERSHIP AND GOVERNANCE MODELS (II)

Public Ownership and Governance in the Airport Sector

Models

Governmental Department	Local Gov. / Quasi-Gov. Entity	Governmental Agency	Public Corporation	Independent Not For Profit Company
Ministry of **Transport / Defense**	**Decentralization** of Power	**Separation** between **Airport / Airline Operation / Regulation**	**Public-owned**	**Decentralization** of Power to Not-For-Profit local authorities
Airport, Air Traffic Control & Navig., **National Airline** and **Regulator**	**Smaller Operating Units**	Dependence on public budget	**Airport Operation & Regulation** are **Independent** **Corporate status**	**Reinvestment of profits**

AIRPORT OWNERSHIP AND GOVERNANCE MODELS (III)

Public-Private Ownership and Governance in the Airport Sector

Models

Public-Private Airports under Concessions	. Private Sector responsible for **full service delivery** – CapEx and Opex; . **Privately held** during the contract and then **transferred to the State**.
Public Airports w/ Private Operation of Terminals	. **Ultimate liability** over the airport is **public**; . **Privately developed and managed terminals**.
Public Airports under Management Contracts	. **Airport players "hunting" management contracts** globally; . **Diminish the risk exposure** to their markets and **expand know-how**.
Public-Privately Owned and Governed Airports	. **Bring private expertise, reduce public expenditures, raise capital** for CapEx programs or develop **strategic alliances**.

AIRPORT OWNERSHIP AND GOVERNANCE MODELS (IV)

Private Ownership and Governance in the Airport Sector

Introduction

Economic Motivations for Privatization

. Increase **efficiency**;
. Induce **competitive pressure** in the market;
. **Decrease** the level of **governmental expenses**;
. Enhance **economic growth** and **social welfare**.

Economic Regulation: Strong **prevention of market abuses**, but **flexible** enough to **attract private capital**. Attention shall be addressed to the creation of **private monopolies**.

Beyond Public Budget:

Privatization is far too important to be viewed as a quick fix to the Government's current budgetary difficulties. Long term vision is needed… [Bisignani, 2003]

Gains in **efficiency**, **social welfare** and in **fostering national economy** are **imperative.**

AIRPORT OWNERSHIP AND GOVERNANCE MODELS (V)

Private Ownership and Governance in the Airport Sector

Privatization: For or Against?

PROS	**Financial Flexibility**	**Diversification of core business**	**Managerial Expertise**	**Market-Oriented Thinking**
	New sources of capital	More experiences to costumers	**Break-through management**	Avoid "white-elephants"
	No public budget constraints	**Increase airports' attractiveness**	Innovation	**Decisions made on financial basis**
CONS	**Market Abuses**	**Stock Market Fluctuation**	**Diversification of core business**	**Obsessive Profit-Orientation**
	Monopolistic Agreements	Subject to market volatility	**Loss of capital flexibility**	**Deterioration of costumers' opinion**
	Reduction of Social Welfare	**Secrecy regarding financial "health"**	Subject to economic cycles	Loss of demand

AIRPORT FINANCE (I)

Introduction

2007/08 Financial Crisis + Sovereign-Debt Crisis → New financial paradigm w/ more constrained capital availability → Airport Finance as a prominent issue

Sources of Capital

Retained Earnings: Related to airports' direct and indirect revenue streams.

Special Purpose Taxes (SPT): Directly assigned to the operator (not a grant), SPT are used on CapEx.

Governmental Grants: Non-returnable funding, provided by national or international institutions.

Debt: Low-Cost Loans, Commercial Loans, Bridge Financing and Bond Financing.

Quasi Debt-Equity: Securities w/ characteristics of both equity and debt (e.g. Preferred shares).

AIRPORT FINANCE (II)

Sources of Capital

Equity

. **Capital traded** in exchange of **ownership rights** of an asset/corporation;
. Placed in the **lowest seniority level** - higher risk / potential higher returns.

General Investors	Investment Banks	Private Equity Firms	Venture Capital Firms	Stock Market
Construction companies and their subsidiaries for concessions	Development of securitization plans	Primary vehicles to perform infrastructure investments	Provide capital for start-ups with high perceived growth potential	Possibility of attractive returns, however it may be perverse

Capital Structure

. **Combination of capital sources** defining a project's financing plan;
. Depends on: Capital Cycle & CF Generation, Taxes, Financial Risk & Flexibility and Cost of Capital.

GUIDELINES FOR THE APPLICATION OF PPP IN AIRPORTS (I)

Bringing Public-Private Partnerships into Policy Agenda

. **Political strength** is imperative requirement;
. Identify moments of opportunity - **Policy Windows** - to bring the issue into discussion;
. To create those moments, issues in the debate must address **Public Interest**.

Structuring a National PPP Programme

Specify Requirements & Expectations	Assess Technical Issues	Define proper legal, regulat. & political frameworks	Engage Stakeholders	Ensure Commitment & Designate PPP Champions
Identify the system's **flaws**, **causes** and choose **what to tackle**. Foresee likely outcomes.	Understand level of **in-house expertise** and needs for **knowledge imports**.	**Legal:** Labour. **Regulatory:** Prevention of market abuses. **Political:** Stability.	Stakeholders are **valuable inputs** for design and critical to ensure **political commitment**.	Ensure an **informed debate**. Appoint **champions** at different societal levels.

GUIDELINES FOR THE APPLICATION OF PPP IN AIRPORTS (III)

Identification and Prioritization of Projects

. Identify **investments** deemed to be **relevant in the national context**;
. Perform a **Suitability Test,** to assess implementation barriers and eliminate condemned projects;
. **Prioritization** of projects is imperative to **assign special focus** to the most relevant ones.

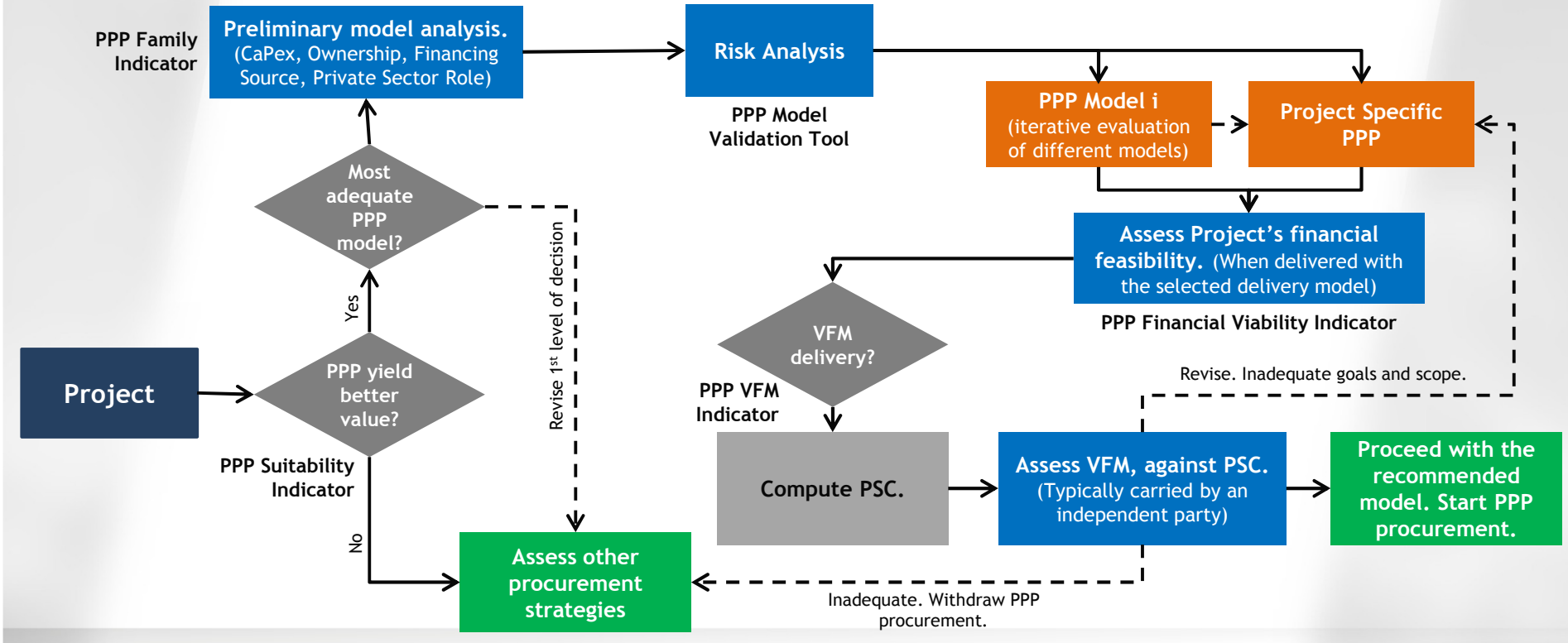
Due Diligence and Feasibility Studies

Cost-Benefit Analysis		Allows thoroughly understanding project's **socio-economic impacts.**
Choice of PPP Model	**PPP Family Indicator**	**Preliminary assessment.** Criteria: **CapEx**, **Ownership**, **Financing** and **Private Sector's Role.**
	PPP Model Validation Tool	**Final decision. Risk analysis**, comparing the proposed risk allocation with **pre-defined risk structures.**
Assess VfM Delivery	**PPP Financial Feasibility Ind.**	**Scenario analysis**, with varied capital structures & outcomes. Acknowledge **likelihood to attract investors** & **need for subsidies.**
	PPP VFM Indicator Tool	**Probability distribution** of VFM. Final **comparison with PSC**, assessing which model delivers higher VFM.

GUIDELINES FOR THE APPLICATION OF PPP IN AIRPORTS (IV)

Due Diligence and Feasibility Studies

Decision Support System for PPP Implementation



GUIDELINES FOR THE APPLICATION OF PPP IN AIRPORTS (VI)

Due Diligence and Feasibility Studies

Decision Support System for PPP Implementation

. **Structure political decision-making**, without neglecting imperative points of analysis;
. **Investors** are benefitted by the **awareness raised** to a significant batch of subjects.

Procurement and Contract Award

. **Rigorous appraisal procedures:** Technical Skills and Financial Evaluation;
. **VFM Measurement** of every proposal, with comparison with PPP VFM Indicator.

Implementation, Contract Management and Benchmarking

. **Contract Management:** Crucial for success. From pre-operative stage until asset transfer;
. **Benchmarking:** Imperative to compare and evaluate productivity & efficiency.

FINAL CONCLUSIONS

#1: Past experiences created a **preconception** about PPP.

#2: PPP are **partnerships** - Public interest to be protected and private potential to be promoted.

#3: Need of structured, transparent and consistent **political decisions.**

#4: Market liberalization creates major **business opportunities** for both sectors.

#5: Guidelines for PPP Implementation provide:
. **Stepping stones** for better delivered services;
. **Bilateral** and **holistic consciousness** regarding PPP in airports;
. Promote the **transformation of the policy process**;
. **Investors' 'eye-opener'** concerning imperative matters of analysis.

#6: **'Clean' PPP** attract more private capital and increase public support.

The **airport infrastructure gap** is huge and a **counterattack** is imperative → **JV between the public & private sectors** may be the **strongest weapon** to overcome this gap

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Structured Guidelines for PPP Implementation

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