

Zvartnots Airport Expansion, Armenia – ready for take off



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ADB

Armenian Aviation Sector: A critical engine for growth and development

- Why civil aviation sector is critical in Armenia:
 - Land-locked location
 - Limited road and rail connectivity
 - Heavy Diaspora traffic acting as engine of growth
 - Very low connectivity with both Europe and Asia
 - Hence, critical need for a state-of-the-art airport
- Post-Soviet Union, minimum investments made in the aviation sector until 2001
- Government quick to realize the critical need for privatization of the sector
 - Strong Political Commitment

Initial Government Initiative

- Embarked upon a privatization process despite difficult economic situation in 2001
 - Reliance on multilaterals as “honest brokers”
 - Realized need for a focused concession award process given market condition
 - Adopted a direct approach to concession negotiations rather than full-fledged open, competitive tender
- At the same time, emphasis on transparency
- Successful implementation of the Concession for the last 8 years

Key features of Concession

- Unambiguous allocation of risks and responsibilities covering all aspects of airport operation
- Robust termination payment provisions
- Regulated aeronautical returns, but commensurate with risk profile
- Adequate upside incentive potential for private investor from commercial revenues
- Reasonably transparent and functional regulatory system in place – although there is scope for improvement
- Long concession of 30 years with significant back-ended upside

Key Risks and Mitigants

- Traffic Risk
 - Volatile Traffic but largely mitigated by robust, well-defined and historically regular tariff adjustment process
- Regulatory Risk
 - Regulatory intervention has been transparent over the last 8 years
 - However, regulatory framework needs further streamlining, leading ultimately to the establishment of a functional, independent regulator
- Long Term Political Risk
 - Remains - although somewhat mitigated through robust provisions under the concession
 - Underscores role of multilaterals critical in transition economies

Key Project Features

- Construction of a new landside terminal and associated facilities to replace existing Soviet-built facilities.
- Simpler and more efficient layout in terms of passenger and baggage movement, also allowing for planned growth
- Expansion of airport capacity from the current 1.8 million to 3.2 million
- Automation and revamping of baggage handling system
- Expected to achieve C level of service per IATA requirements
- Rehabilitation of all affected persons in accordance with ADB/EBRD guidelines

Environmental Sustainability

- Project demonstrates best practice in energy management and environmentally sustainable design in the region and beyond
 - Glazed roof with tinted glass louver
 - Optimum daylight penetration for visual comfort and reduce need for artificial lighting
 - Two-layer Glass skin to act as “intelligent” element
 - Thermal insulations well beyond best practice
 - Advanced energy management features
 - Computerized Building Management System
 - Expected reduction in energy consumption per square m.
 - Gas use – 30%
 - Electricity use – 50%

Key Transaction Structure

- Long tenor in excess of 10 years
- Significant Sponsor Support largely to mitigate funding shortfall and completion risk
- Traffic Risk largely passed on to equity through cash sweep and dividend restrictions
- Direct Agreement with the Government reconfirms lender rights under the Concession

Lessons Learnt

- One of the most successful stories in privatization and PPP in the region
- Key Lessons and observations:
 - Political commitment at all levels an absolute “must”
 - Critical to pursue transparent and fair concession award process, within market limitations
 - Multilaterals continue to have vital role in transition economies
 - Risk-return relationship needs to be unambiguously defined under concession
 - Regulatory setup has worked over the last 8 years, but needs further streamlining and transparency.

ADB Private Sector Pipeline in Transport

- ADB's Private Sector Operations are currently focusing on a number of transactions in the transport sector, including
 - Urban Metro Sector in India
 - Road Sector in Central Asia
 - Airline Sector in certain “frontier” countries
 - Port Sector in the Caucasus
- ADB's Private Sector Department remains committed to ramping up its activities in the transportation sector and has a robust pipeline in various DMCs

Thank You!

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