Jordan: Queen Alia International Airport

Creating Opportunity Where Its Needed Most

December 2012

Christopher Olobo
IFC, Nairobi

Ideas For Growth
INTERNATIONAL GROWTH CENTRE

Table of Contents

Who We Are

- IFC is the largest global development finance institution focussed on the private sector- **the global leader** in private sector development finance.
- We create opportunity for **people**- to escape poverty and improve their lives.
- We invest, advise, mobilize capital and manage assets- providing **solutions** for an inclusive and sustainable world.
- We have advised governments in over 60 countries on 165 projects, mobilizing **$8 billion of private investment** in infrastructure.
- With over **$12.7 billion of outstanding commitments** for its own account, IFC is the largest multilateral source of financing for private sector projects in the developing world.

IFC's Value Addition

- IFC selects and evaluates projects on two criteria:
  - **"Additionality"** – a benefit that cannot be provided by our client or commercial financiers/operators
  - **Developmental impact** – financial returns for financiers plus social and environmental benefits for project stakeholders
- Within the Transaction cycle:
  - We manage the entire **bidding process** in a transparent manner and market the project globally
  - We ensure **sustainability** through an objective analysis of economic, regulatory and policy issues
  - Through **stakeholder consultations**, we incorporate feedback whilst fine tuning to improve transaction viability

Our Airport's Experience

Selected activity in the airports sector, 2005-11

Concession	Greenfield PPP	Concession	Concession	Concession
Queen Alia International Airport	Saudi Arabia-Hajji Terminal	Maldives Airport in Male	Abuja Airport in Nigeria	Madinah Airport in Saudi Arabia
IFC acted as Financial Adviser	IFC mandated as Financial Adviser	IFC acted as Financial Adviser	IFC mandated as Financial Adviser	IFC mandated as Financial Adviser

Loan	Loan	Loan	Loan	Loan	Loan
$214m for TAV Tunisia	$40m for Vuela Mexico	$10m for Cambodia Airport	$35m for Aeropuereto IJS	$45m for Montego Bay Airport	$60m for Aerodom
IFC Principal Division	IFC Principal Division	IFC Principal Division	IFC Principal Division	IFC Principal Division	IFC Principal Division

Jordan at a glance

Jordan Queen Alia Airport

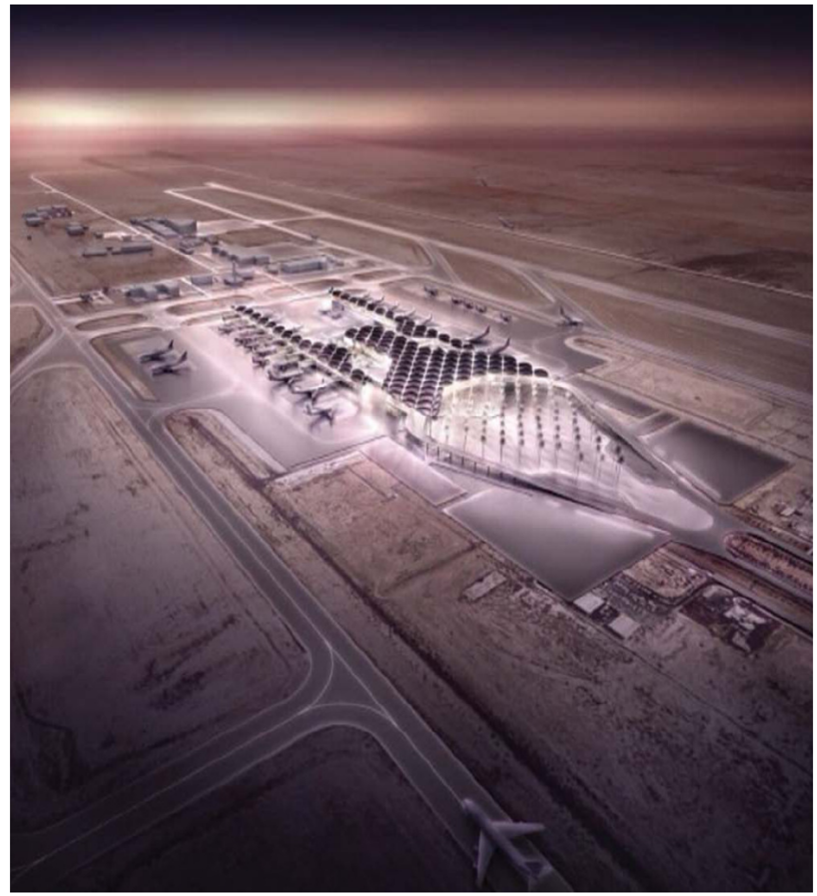
QAIA is Jordan's largest airport (97% of all air traffic)

Some Facts

- Opened 1983, handles 5mMAP, 35carriers
- The existing terminal is insufficient, in terms of capacity and quality of services, to effectively meet growing traffic demand (growing at 7% p.a. since 2000)

Government Objectives

- Increase terminal capacity to 9MAP
- Maintain the architectural expression of a conceptual design
- Develop QAIA as a regional hub
- Increase service quality standards in line with international best practice
- Ensure a revenue stream for the GoJ



IFC

The traffic forecasts

The traffic forecasts didn't justify adopting original design

- Even Upper Case Forecast did not justify the initial size of the Terminal as dictated by the conceptual design
- Traffic assumption led to significant resizing of the conceptual design

The Challenge

- Get GoJ to approve revised forecast to size terminal to realistic measures and find ways to ensure architectural integrity of the terminal

Too Big

Too Inflexible

Too Expensive

Long construction

IFC

Conceptual Design V Revised

	Conceptual Design	Recommended Option
Phasing	Construct to 12 MAP in one go	Phase I : 9 MAP Phase II: 12 MAP (triggered by growth)
CAPEX	450 million JD	310 million JD for 9 MAP
Construction	Complex construction Multiple operating and construction interfaces High disruptions Continuous	Flexible construction Minimal disruptions 9 MAP in within 3 years
Investor Interest	Highly risky Not attractive	Less risky
Return to GoJ & Investor	Possible need of GoJ subsidy	Maximizing revenues for GoJ Acceptable ROE to Investor

Airport Revenue Sources & Drivers

Aeronautical Revenue	Non-Aeronautical Revenue

- **Traffic Growth** – increases in passenger movements or in the number and size of aircraft movements
- **Fees charged to Airlines**– the level of aeronautical charges is driven by airport costs, the charges at alternative or comparable airports and commercial considerations such as attracting high-value traffic

- **Retail** – traffic growth, traffic mix, quality of offering
- **Car Parking**– traffic growth, propensity to park
- **Real Estate**- traffic growth, location

➢***Airports with PSP (UK's BAA): Mix 55-45***
➢***Publicly managed airports in emerging markets: Mix 99-1***

IFC

Rehabilitation, Expansion & Operation Agreement (REOA)

- **25 year** concession
- Operate and rehabilitate existing QAIA facilities (airside and **QAIA revenues** landside) starting the Effective Date
- Finance, construct and operate new designed terminal as per **GoJ approved option**
- Capture starting on Effective Date
- Pay GoJ an **Initial Investment Fee (IIF)** and an **Annual Investment Fee (AIF)**. AIF is a % of Gross Revenues
- Meet architectural and technical design specifications and performance standards
- **Exclusivity** – no commercial passenger traffic in any other airport in the Kingdom until specific QAIA triggers are met

Concession Fee

Investment Fee **(Concession Fee)**	Investors pays: *Initial Investment Fee*: *Annual Investment Fee (AIF):* Variable Concession Fee based the % of Gross Revenue AIF 1 : YEARS 1-6 AIF 2 : YEARS 7 -12 AIF 3 : YEARS 13-25
Adjustments	- Site conditions (pre-existing environmental liabilities, archaeological remains) -Force majeure (GR + BI proceeds approach) -Inflation and FX rates -Could instead or in conjunction change Regulated Charges

REOA: Other Obligations

Construction Obligation for New Terminal and Airside Works	- Phase I : 9 MAP -Phase II : After the agreed anniversary of the new terminal, fund reserves are set up. - Penalty for construction delays, after which the Grantor has right to terminate.
Service Level Obligation	- Level of Service C. - Minimum Performance Obligations - Penalties for Poor Performance
Present QAIA Revenues going to Investor	Aeronautical Charges Passenger Taxes (Departure Taxes) Transfer Charges CAA Investments (rental agreements) Free Zone Corporation Service Fees

Force Majeure & Political Events

- **Force Majeure**
  - Natural (Insurable)
  - War, terrorism, sabotage (not always insurable)
- Comprehensive insurance requirement
- Best efforts basis for war, terrorism and sabotage
- FM- time relief (extension of term/construction period)
- FM- money relief
  - Gross Revenue + BI proceeds from insurance – loss? -> defer concession fee
- Ultimately concessionaire provided relief from uninsurable FM

Direct Agreement (Consent & Assumption Agreement)

- Customary provisions for GoJ consents over assignment of security
- Customary lender step-in provisions

Contractual / REOA changes

- Commission Lease Agreement to facilitate Islamic financing
- Threshold for FX adjustments changed
- Mechanism set out for adjustments to concession fees (which was more general in the REOA)

IFC

Ideas For Growth
INTERNATIONAL GROWTH CENTRE

QAIA – Project Results

- 5 consortia submitted detailed bids
- Winner chosen based on meeting the required technical specifications and providing to the GoJ the highest percentage of gross revenues over the term of the concession.

Wining consortium Airport International Group (AIG) consortium, led by Aeroports de Paris with 9.5% and including Abu Dhabi Investment Company with 38%, Kuwait’s Noor Financial Investment Company with 24%, Greece’s J&P Avax plus subsidiary Joannou & Paraskevaides each with 9.5%, and the local EDGO Ventures holding the remaining 9.5%.

Financing

Conventional Facility:

- IFC A Loan: US$ 70m
- IFC B Loan: US$ 160m (sub-participated to Calyon, Natixis and Europe Arab Bank)
- IFC C Loan: US$ 40m
- IFC Standby Loan: US$ 10 m

Islamic Facility:

- Istina'a (Islamic Manufacturing) and Ijarah Muwsufa Fi Al Zimah (Islamic Forward Lease): US$ 100m

Total Equity:

- Shareholders' Contribution - US$ 168m
- Internal Cash Generation – US$ 137m

QAIA- The true winner is GoJ

- The Bid price achieved **one of** the highest recorded arrangements of this kind in the **world**
- Investments – US$ 1 billion over the life of the project ($700 million in Phase 1)
- Over 23,000 jobs to be created over the life of the project

Airport PPPs also benefit Governments

- Perceived **reduction in risks** to airport-related project development
- Potential **for new revenue** streams for governments
- **Transfer risk** and/or responsibility in an operation
- Access to **private sector financing** freeing Government budgets for social sectors
- Introduces **operating efficiencies**

IFC

Thank you

IFC Advisory Services in Infrastructure
Africa Region

Capital Hill Square, Chyullu Road
Upperhill-Nairobi, Kenya
T. +254 20 2759 463
E. colobo@ifc.org
ifc.org/infrastructureadvisory