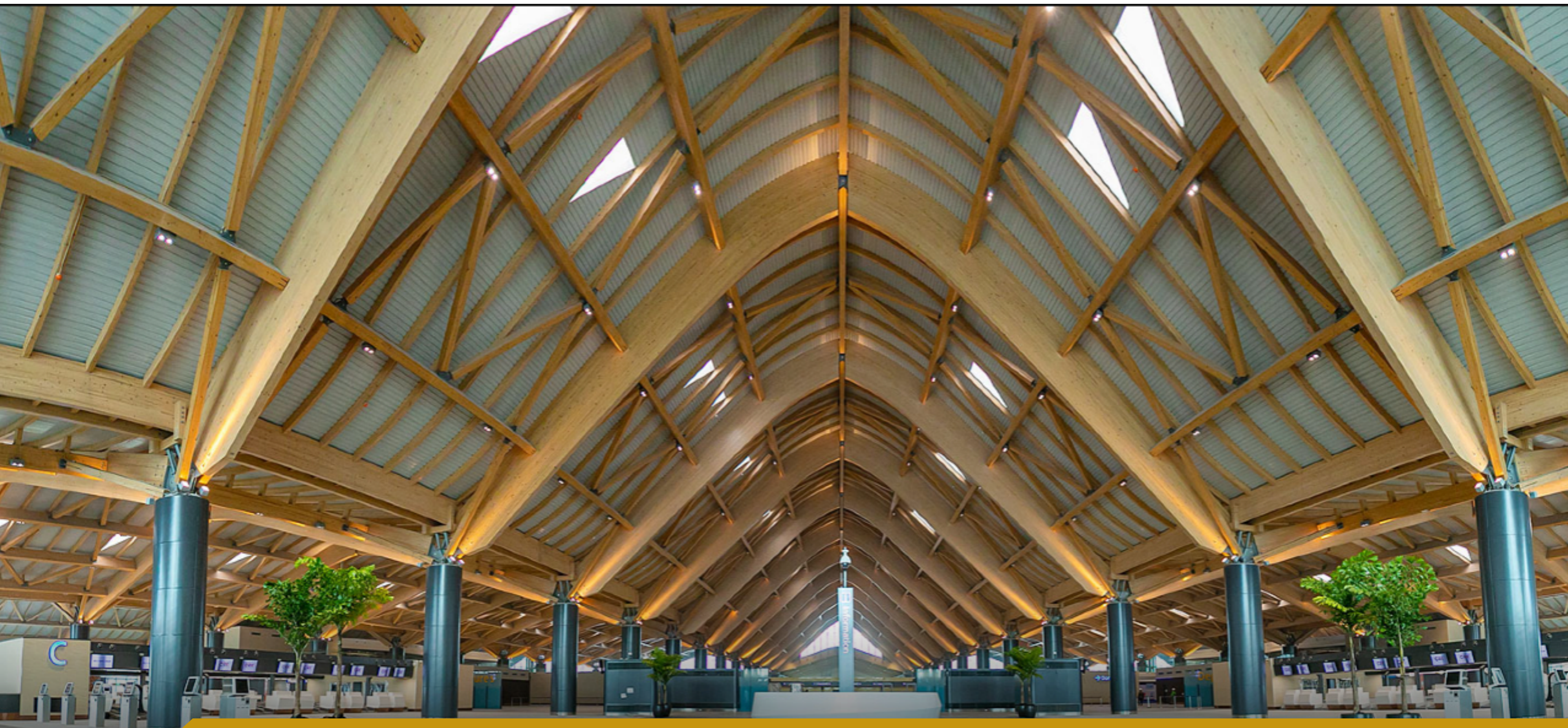
PPP Project Briefs



PHILIPPINES: CLARK INTERNATIONAL AIRPORT HYBRID

As an archipelago of over 7000 islands, improved air connectivity is a key development objective for the Government of Philippines. The modernization and upgrade of Clark International Airport was identified as a key priority for easing congestion at the Ninoy Aquino International Airport and expanding airport capacity for the country's Greater Capital Region. IFC assisted the Bases Conversion Development Authority to design a tender to develop a new international-class terminal for Clark International Airport that would expand capacity from 2.5 million to 8 million passengers per year. This was the first airport project in the Philippines to be competitively tendered under the government's hybrid Public Private Partnership (PPP) policy. The hybrid approach entailed splitting the basic construction of the terminal building with the full-fit-out and management of the airport terminal as separate PPP projects.

The tender for the engineering, procurement and construction (EPC) contract was won by Megawide Construction Corp, a leading local contractor, in partnership with Indian airport operator GMR Infrastructure. Commercial close was achieved in December 2017. The second transaction to equip, commission, operate, and maintain the new terminal building was awarded to the Luzon International Premier Airport Development Corporation (LIPAD). The 25-year Build-Transfer-Operate concession contract was signed in January 2019. The new 110,000 square-meter passenger terminal was completed in October 2020 in the midst of the COVID-19 pandemic and started operating in early May 2022.

This series provides an overview of public-private partnership stories in various infrastructure sectors, where IFC was the lead advisor.

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IFC International Finance Corporation WORLD BANK GROUP

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BACKGROUND

The Greater Capital Region (GCR) comprises Metro Manila and its surrounding provinces. It is the economic center of the country, contributing about a third of its Gross Domestic Product. The Ninoy Aquino International Airport (NAIA) is the country's premiere gateway and main airport serving the GCR. But after a decade of annual air traffic growth of 9.8%, by 2015 NAIA was accounting for around 70% of all international arrivals and running at 20% over its terminal capacity and 8% over its runway and apron capacity. This led to frequent flight delays, cancellations, and diversions to Clark International Airport about 90 km from Metro Manila. NAIA's capacity constraints resulted in significant costs to airlines and passengers and became a bottleneck for the country's trade and economic growth potential.

IFC'S ROLE

In 2016, the government-owned Bases Conversion and Development Authority (BCDA), appointed IFC as the lead transaction advisor to advise it on structuring a PPP to build a new international-class airport terminal for Clark International Airport to replace its existing one and to more than triple its passenger capacity. The government launched the project under its new hybrid PPP policy that split the project into two distinct transactions and tender processes: (i) an engineering, procurement and construction (EPC) contract to design and construct the shell of a new terminal building, and (ii) a 25-year operations and maintenance (O&M) concession contract.

TRANSACTION STRUCTURE

The hybrid model offered the advantage for the government of maximizing the use of highly concessional public financing while shifting key risks to, and gaining the expertise of, the private sector in the design, construction and operations of the new airport facility. Nonetheless, the hybrid approach introduced critical interface risks that had to be carefully considered and structured between the two PPP contracts. This entailed thorough analyses of where and how these interface risks could arise, designing structuring arrangements that would promote flexibility and synchronized measures from the two contractors, and aligning interests and incentives towards the desired performance outcomes. It was likewise critical to provide greater details on the delineation of responsibilities, including having defined processes and timelines for the handover of assets from the EPC contractor to the O&M concessionaire.

A strategy was taken to streamline the EPC contract to basic civil works and building systems, leaving the O&M concessionaire with the responsibility of implementing the full fit-out of the airport terminal, including designing and partitioning of spaces to comply with essential operational functions (e.g. check-ins, security, baggage handling, etc.) and for optimum commercial utility. This gave the O&M concessionaire, which bears the operational performance and revenue risks, scope to define its functional design, procure and install its systems, and right-scale the facilities according to its view of the demand. Finally, it was vital to have the O&M concessionaire onboard early into the EPC process to accommodate reasonable inputs and minimize interface risks.

BIDDING

The two successful bids attracted top-caliber international and local players and were completed within fourteen months (six months from advertisement to contract award for the EPC contract and eight months for the O&M). The EPC contract was won by leading local contractor Megawide Construction Corp. in partnership with Indian airport operator GMR Infrastructure and achieved commercial close in December 2017. Luzon International Premier Airport Development (LIPAD) Corporation was awarded the O&M concession in January 2019. LIPAD is a special purpose company comprising leading local companies Filinvest Development Corporation, JG Summit Holdings, and Philippine Airport Ground Support Solutions, and internationally regarded operator Changi Airports of Singapore. Through the competitive bidding process, BCDA achieved $60.25 million in savings for the EPC cost, a 25% discount offered by the winning bidder under the price cap set by government. The O&M project added $105 million in investments for a total private financing facilitated of $305 million, with BCDA receiving twenty fixed annual payments from the O&M concessionaire along with an 18% share in the airport's annual gross revenue over the 25-year O&M concession.

The design of the terminal echoes Filipino culture and aesthetic through its interiors, earning a finalist position in the 2021 Airport Category of the prestigious Prix Versailles Architecture and Design Awards.

EXPECTED POST-TENDER RESULTS

- Mobilization of $305 million in private financing
- New 110,000 square-meter terminal can accommodate up to eight million passengers annually, reducing congestion at NAIA and bottlenecks for trade and growth.
- This new aviation hub is expected to create direct and indirect jobs and increase development in the economic center of Central Luzon.
- Positive impact on the development of the Clark catchment area, a fast-growing region home to a new township called New Clark City and several industrial economic zones.