

# Pulkovo Airport, St. Petersburg, Russia

## Full Description

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### **Project Summary:**

#### **Background**

St. Petersburg is among Russia's most well-known tourist destinations, the nation's second largest center for business activity, and its second-largest city, with a population of six million. Accordingly, the city needs to have a modern, well-functioning airport. St. Petersburg's Pulkovo Airport, however, was significantly over capacity, which was negatively affecting the level of service provided as well as passenger and airline satisfaction. To address this, the City Government of St. Petersburg (the City) developed plans to renovate the existing terminal, construct a new terminal, extend the apron, and construct a new energy center for the airport, to facilitate economic growth and social development in the growing city. A PPP was proposed to deliver the project to limit the impact on the public budget.

#### **Project Structure**

The City prepared a feasibility study and a tender process based on international best practice. The project attracted interest from seven consortiums during the prequalification phase and high interest from international commercial banks. Following a competitive bidding process, in late April 2010, amidst the global financial crisis, the City executed a PPP agreement with the Northern Capital Getaway (NCG) consortium. NCG consisted of VTB Capital (50 percent), Fraport AG (35.5 percent), Koltseva Holdings Ltd (7.5 percent), and Horizon Air Investments SA (7 percent). The total project cost was estimated at EUR 1.2 billion (USD 1.36 billion). The private partner undertook to build, maintain, and operate the facility for 30 years.

The project was funded with a debt to equity ratio of 63 percent to 37 percent. NCG contributed the initial equity capital of EUR 440 million (USD 499 million). The long-term debt (15-year tenor) of EUR 750 million (USD 851 million) was provided by a commercial syndicate and international financial institutions (IFIs). The IFIs included the International Finance Corporation (IFC) and European Bank for Reconstruction and Development (EBRD), which provided loans of about EUR 70 million (USD 79 million) and EUR 100 million (USD 113 million), respectively. Notably, due to Pulkovo Airport's ability to generate revenue in Rubles, US Dollars, and Euros, debt for the airport was raised in all three currencies. This helped ensure an optimal financing structure for the project. This project is reportedly the first PPP in the country that did not require any state subsidies or guarantees.

The concessionaire derives revenue from aeronautical and non-aeronautical activities at the airport. The concessionaire also agreed to pay the City concession fees that are expected to total EUR 650 million (USD 737 million). The figure is equivalent to an average of 9 percent of the revenue expected to be generated by the airport over the 30 years period of the project. After the concession period, ownership of the airport, with its significantly improved facilities, will transfer to the City.

#### **Lessons Learned**

This project was chosen as one of the 100 most innovative and inspiring urban infrastructure projects in the world in "Infrastructure 100: World Cities Edition Top 100 Projects." In 2013, it was selected by the IFC and Infrastructure Journal as one of 40 PPPs in emerging markets that show best practices for governments partnering with the private sector, earning the silver medal award for the Asia, Middle East and North Africa region.<sup>1</sup>

There are several lessons to learn from the Pulkovo Airport PPP, namely:

- Good leadership is key. The then-Governor of the City and one of the Deputy Governors, who were the champions of the project, had a clear vision and direction to follow global best practices in implementing the project;
- Invest in hiring experienced international advisers. One of the instructions of the project champions was to hire experienced international advisers, including the World Bank Group (as the strategic advisor), Citibank (as the transaction advisor), and Mott MacDonald (as the technical advisor), among others.
- Value of a strong project team. The success of this project is also partly attributed to the strong project team, which includes senior officials, the City put together to implement the project.
- Be open to the bidders' comments and suggestions. The project was significantly improved as the project team considered the views and ideas from the bidders during the bidding process.

The above combination has resulted in successful delivery of the project despite the City's limited PPP experience. It deployed a well-structured, interactive, and transparent bidding process leading to the selection of the private partner that best fit the City's strategic aims.

*Footnote 1: Source(s): <https://home.kpmg/ru/en/home/media/press-releases/2012/08/pulkovo-airport-pppreceives-globalrecognition.html> accessed 10 February 2019*

*[https://www.citibank.com/icg/sa/public\\_sector/casebook/docs/pdf/1289433\\_City\\_of\\_St\\_Petersburg\\_Government\\_Case\\_Study.pdf](https://www.citibank.com/icg/sa/public_sector/casebook/docs/pdf/1289433_City_of_St_Petersburg_Government_Case_Study.pdf) accessed 10 February 2019*

*<https://www.johnson.cornell.edu/LinkClick.aspx?fileticket=OMC PmRpBnxY%3D&portalid=32>*

*[https://www.citibank.com/icg/sa/public\\_sector/casebook/docs/pdf/1289433\\_City\\_of\\_St\\_Petersburg\\_Government\\_Case\\_Study.pdf](https://www.citibank.com/icg/sa/public_sector/casebook/docs/pdf/1289433_City_of_St_Petersburg_Government_Case_Study.pdf) accessed 10 February 2019*

*<https://pulkovoairport.ru/en/about/news/2013/1980/>, accessed 27 March 2019.*

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