



# Public-Private Partnership Stories

## Saudi Arabia: Medinah Airport



Madinah, Saudi Arabia, is a major destination point for pilgrims and a designated center for knowledge-based industry in the country. The Prince Mohammed Bin Abdulaziz International Airport, which serves the Madinah region, has not been able to adequately cater to the growing numbers of passengers due to inadequate infrastructure. IFC played a key role as lead advisor in helping Saudi Arabia's General Authority of Civil Aviation (GACA) attract a reliable investor to expand, modernize and operate the airport. The project fulfilled the twin objectives of introducing private sector expertise and developing a significant, stable revenue stream for the government.

TIBAH, a consortium of firms from Turkey and Saudi Arabia, won the 25-year concession to develop and operate the entire airport. It will invest over \$1.4 billion to build a new terminal and expand facilities to accommodate up to eight million passengers per annum (MPPA) by 2015, with additional investment to increase this capacity to 18 MPPA by the end of the concession. The modernized airport will employ best practices in energy-efficient and environmentally-friendly design.

The transaction was awarded and signed in October 2011.

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

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*Medinah Airport introduces global best practices in energy efficiency, recycling, greenhouse gas emissions, and water use; LEED Silver Certification targeted, which would be a first in the region.*

## BACKGROUND

Madinah, the second most holy city in Islam, is the fourth-largest city in Saudi Arabia and a major destination for pilgrims. In recent years, it has also seen large capital inflows as a result of government efforts to attract investment and generate jobs in knowledge-based industries.

The Prince Mohammed Bin Abdulaziz International Airport, which received international status in 2007, has seen major growth in demand and is approaching its maximum capacity of five million passengers per year. Existing facilities are strained and cannot accommodate further growth; requests by airlines for landing slots are already being denied because of a lack of capacity. Short-term expansion works have been undertaken to provide temporary relief in an attempt to alleviate congestion.

With demand expected to double by 2020, Saudi Arabia's General Authority of Civil Aviation (GACA) launched an ambitious plan to modernize and expand the airport with private sector participation under a long-term concession. This approach is part of GACA's overall strategy of reforming and modernizing Saudi Arabia's aviation industry.

## IFC'S ROLE

GACA took on IFC as lead transaction advisor in April 2009. GACA's key objectives were to:

- Upgrade airport infrastructure to meet forecasted traffic growth and provide efficient, high-quality service to airlines and passengers.
- Promote Madinah as an entry/exit hub for pilgrim passengers to complement the role played by the international airport in Jeddah.
- Implement international best practices in operations and service.
- Generate employment and economic activity in the surrounding area.
- Avoid public financing of capital and operating costs by adopting a PPP structure to generate a revenue stream for government.

IFC, aided by technical and legal consultants, conducted detailed due diligence taking into account expected traffic growth, local legislation, design requirements, financing impact, and cultural considerations. The team determined the minimum technical requirements, design specifications, and recommended a transaction structure that best achieves GACA's goals and meets market expectations.

IFC also marketed the project to international bidders, who were invited to raise and clarify issues during the pre-qualification and bidding process. IFC used this input to tailor bidding documents to the needs of potential investors, thereby increasing the attractiveness and bankability of the project. IFC also managed the bidding process, supervised the drafting of transaction documents, and will continue to advise GACA through financial close.

## TRANSACTION STRUCTURE

IFC recommended a build-transfer-operate (BTO) structure in a 25-year concession. This structure would keep ownership of assets in government hands, as required by GACA, while ensuring that private sector partners would contribute funding and expertise for a world-class international airport.

The project was designed in two phases, and included a new, state-of-the-art passenger terminal; upgrading and extension of an existing runway; equipping runways with a new lighting system; and an upgrade of all taxiway infrastructure. The airport will be able to manage eight million passengers by 2015, and after further expansions, 18 million by 2037. The new operator will manage the airport, including all airside and landside operations. GACA will perform its role as regulator, and continue to be responsible for key activities such as air traffic control.

IFC also drafted the concession agreement so that risks would be allocated appropriately to the partner best equipped to deal with them. For example, the winning bidder will assume construction and operational risks, while GACA will play a role as facilitator in any interactions with public stakeholders.

Key selection criteria included meeting or exceeding minimum technical and operational requirements, financial commitment, adherence to best practices in energy and environmental practices, and modern design that reflects Madinah's historic and religious importance.

## BIDDING

Interest in the project was strong. Ten international, regional and local firms submitted qualification applications. Four consortia ultimately submitted bids.

Technical bids were evaluated and scored before opening financial bids. After determining a final score, TIBAH was awarded the concession. The winning consortium consists of TAV Holdings of Turkey, Al Rajhi Holding Group and Saudi Oger, both from Saudi Arabia.

The agreement was signed on October 29, 2011. IFC's involvement will continue until the financial close of the project.

## POST-TENDER RESULTS

- Served close to 6 million passengers in 2016. Expected to serve 8 million by 2021.
- Mobilized \$1.4 billion in private investment.
- Introduced global best practices in energy efficiency, recycling, greenhouse gas emissions, and water use; LEED Silver Certification targeted, which would be a first in the region.
- Provided direct employment through construction and airport operations, and indirect employment through increases in tourism and the development of knowledge-based industries in the area.

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