

PPP Project Briefs



BULGARIA: SOFIA INTERNATIONAL AIRPORT

Sofia Airport is Bulgaria's main international airport. Located 10 km East of the capital, Sofia, the airport was originally built in the late 1930s. Although having undergone numerous refurbishments and extensions over the subsequent decades, Sofia Airport was unable to keep up with growing passenger and freight demands, lacking the infrastructure, systems, and services needed to fulfill its role as the main gateway to the country.

Bulgaria's Ministry of Transport launched a tender for a concession in July 2018 to operate and substantially upgrade the airport, including building a new terminal. The project was successfully tendered with five bidders competing for the concession, which was won by a consortium of Munich airport, Meridiam, and Strabag with contracts being signed in July 2020 and financial close achieved in January 2021.

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 implemented the project in cooperation with the European Bank for Reconstruction and Development (EBRD) with financial support of the Global Infrastructure Facility (GIF), a G20 initiative to boost private investment in sustainable, quality infrastructure projects in developing countries. It was also supported by generous contributions from the governments of Australia, Canada, China, Denmark, Germany, Japan, Singapore, and the World Bank.

BACKGROUND

Sofia Airport is the main international airport of Bulgaria, serving as the home base for BH Air, Bulgaria Air, and Bulgarian Air Charter, as well as a base for both Ryanair and Wizz Air, two leading European low-cost airlines. In 2019, the airport recorded 7 million passengers for the first time, up from just over 4 million in 2015.

Despite numerous refurbishments and extensions over the years, infrastructure and services at Sofia Airport were unable to keep up with the growing passenger and freight demand from citizens, tourists, and businesses, and had become a bottleneck for travelers and the economy. To solve this, the Government of Bulgaria (GoB) launched a tender in May 2016 to find a qualified operator to take over at Sofia Airport, but issues with the structure of the concession resulted in very low interest from qualified investors. As a result, the GoB, through the Ministry of Transport (MoT), sought IFC support to design a new public-private partnership (PPP) that would attract world class airport operators and investors to transform the operations of Sofia Airport and finance significant upgrades to its infrastructure, including building a new terminal to handle current and future passenger growth.

IFC'S ROLE

IFC was engaged as lead transaction advisor by the MoT in October 2017.

IFC's scope of services included:

- ▶ Conducting a detailed technical, environmental, and social assessment of the existing infrastructure.
- ▶ Leading discussions with potential investors to gauge commercial viability of the project and investor interest.
- ▶ Recommending a bankable transaction and contract structure that would meet the government's objectives for the project.
- ▶ Supporting the MoT during the tender process, including in preparing bid documents, facilitating due diligence, and assisting with negotiating final project agreements.

TRANSACTION STRUCTURE

The project was structured as a concession with a 35-year term, with full operational, traffic, and revenue risk transfer. The concession also required the winning bidder to rehabilitate and maintain airport facilities, to design and build a new terminal within the first 10 years of the contract, and to pay annual concession fees to the government, along with a fixed upfront concession fee of approximately €285 million.

With the assistance of IFC, the transaction was restructured, and a single-stage tender was launched to select the implementation partner. Bidders were required to submit a technical offer comprising infrastructure, business, commercial,

and human resources development plans, in addition to a financial offer consisting of the proposed annual concession fee (calculated as a percentage of aggregate revenues of the airport) payable to the grantor.

BIDDING

In April 2019, five international consortia submitted proposals. Bid evaluation was concluded in June 2019, with the preliminary award of the concession granted to the SOF Connect consortium comprising Meridiam and Strabag as shareholders, and Munich Airport as the operator. Final awarding of the concession was delayed as unsuccessful bidders exercised their right to challenge the results, with the Competition Authority and the Supreme Administrative Court confirming the selection of the winning bidder in May 2020.

As a result of the onset of the Covid-19 pandemic and its impact on the airline industry, including a significant decline in passenger levels, adjustments were made to the timing of minimum annual concession fee payments and planned investments, with the partners agreeing to shift some improvements a few years in the concession period to match the expected revival of traffic levels as the global pandemic subsides. However, the upfront concession fee amount and annual concession fee percentage were unchanged, and the concession contract was signed in July 2020, highlighting the attractiveness of the transaction to both the public and private sector partners.

Financial close occurred in January 2021 when the financing documents were signed.

POST-TENDER RESULTS

- ▶ €281 million paid as upfront concession fee to the government, adding to public revenues.

EXPECTED POST-TENDER RESULTS

- ▶ Annual concession fees equal to 32% of gross revenues, but not less than €25 million per year paid to the government.
- ▶ Private sector to invest more than €600 million to upgrade airport infrastructure.
- ▶ A revitalized Sofia Airport will be a critical platform to facilitate the growth in visitors and cargo, providing an economic boost in a post pandemic era.

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