



International Civil Aviation Organization

WORKING PAPER

A39-WP/294
EC/28
16/8/16
(Information paper)
English only

ASSEMBLY — 39TH SESSION

ECONOMIC COMMISSION

Agenda Item 40: Economics of Airports and Air Navigation Services — Policy

ASSESSMENT OF THE AIRPORT PPP EXPERIENCE IN INDIA

(Presented by India)

EXECUTIVE SUMMARY

This information paper reports the various benefits which have accrued out of the privatization of Indian airports undertaken under the Public-Private Partnership (PPP) initiative. It focusses on a modified triple bottom-line approach considering the three factors of Social Impact, Service Levels and Financial Impact.

<i>Strategic Objectives:</i>	This working paper relates to Strategic Objective D — <i>Economic Regulation of International Air Transport – Policy</i> .
<i>Financial implications:</i>	Not applicable.
<i>References:</i>	UNDESA Working Paper No. 148 (ST/ESA/2016/DWP/148): “ <i>Public-Private Partnerships and the 2030 Agenda for Sustainable Development: Fit for purpose?</i> ” ICAO “ <i>No Country Left Behind</i> ” initiative

1. INTRODUCTION

1.1 Nations around the world are dealing with the development of infrastructure and utilities – whether it is for modernization in relatively developed economies, or for capacity building in developing and under-developed economies. Public-Private Partnerships (PPPs) have emerged as an innovative way to pool the resources of governments and private companies in order to achieve these development goals.

1.2 Through its NCLB (No Country Left Behind) initiative, ICAO is making an effort to implement Standards and Recommended Practices (SARPs) in order to ensure access to the benefits of air transport to all States. Putting the necessary infrastructure in place would ordinarily require significant investment from the participating States.

1.3 It was also noted in the 70th Volume of the ICAO Journal, that:

- a) PPPs can supplement limited public sector capacities and raise additional finance in an environment of budgetary restrictions; and
- b) privatization can improve the breadth, efficiency and quality of services available.

1.4 Public-Private Partnerships, therefore, are a way of maximizing infrastructure development, ensuring efficiency and governance, while optimizing the burden on the investing States.

1.5 A Working Paper at UNDESA (UN Department of Economic and Social Affairs) has even mooted international guidelines for PPPs which “support the 2030 agenda for Sustainable Development”.

1.6 With this background, this information paper focusses on the experience of aviation infrastructure development in India through the PPP model.

2. HISTORY OF PPP AIRPORT DEVELOPMENT IN INDIA

2.1 Why did India go for PPP model?

2.1.1 **Inadequate infrastructure capacity to meet growing demand at the time** – In the early 90’s the government and Airport Authority of India (AAI) had invested substantial resources in the development of airport and navigation services infrastructure. However, this was a significant strain on Government finances, more so as the aviation sector had not taken off. This gap in supply-demand necessitated the influx of private capital to build capacity and drive traffic.

2.1.2 **Using Private Capital to supplement Public Investment** – Under the tenets of the Chicago Convention, ownership and management of airports and air navigation services may be delegated to the private sector; using this the Government of India embarked upon a massive privatisation exercise.

2.2 ICAO’s Case Study on Public-Private Partnership in India already contains a brief history of the privately developed airports. This information paper would like to add some additional background to the case study in terms of the long-term strategic legislative process undertaken by the Government of India in order to make private participation possible in airport development:

Date	Chronology of Events
1994	Airports Authority of India Act, 1994 (AAI Act) amended, allowing inter alia carrying out airport related activities through Public-Private Partnership (PPP) model, except for certain reserved activities such as air traffic control, security, customs etc.
2007 – 2010	Concession Agreements, Operationalization of Airports
December 5, 2008	The Airports Economic Regulatory Authority (AERA) Act was notified, clearing the way for an independent regulator to be established for economic regulation of major airports
September 1, 2009	Powers and functions of the Airports Economic Regulatory Authority (AERA) were notified
2016 – 2017	National Civil Aviation Policy - notified, Upcoming Airports in Goa (Mopa) and Navi Mumbai

3. TRIPLE BOTTOMLINE APPLIED TO AIRPORT PPP

3.1 Social Impact – Job Multiplier Effect

3.1.1 **Concept of Aerotropolis and associated industrial development** – With the Hyderabad Airport PPP project, the concept of Aerotropolis, or Airport City, was brought to India. This concept, which espouses the development of a self-sustaining city around an airport, promises to take Indian urban development to the next level.

3.1.2 **Impact on Regional Economy** – With the Airport-centric approach of urban development, gainful employment has been generated to the tune of 1.57 million in the case of Delhi Airport (representing 25.9% of Delhi’s total employment) and 840,000 jobs in the case of Hyderabad Airport.

3.2 Service Levels and improvements

3.2.1 **Knock-on effects on government run airports and international rankings of Indian airports** – PPP airport projects have consistently been ranked at the top of the Airports Council International (ACI) Airport Service Quality (ASQ) ratings for Best Service Delivery in their respective categories. This drive, and focus on quality has raised the bar for the Indian aviation industry; the new terminals developed by the Government; and their service levels, having been at par with the international standards, as envisioned by the Indian Government.

3.2.2 **Fulfilling the state responsibility of Connectivity and Access to air travel** – Freeing up of public funds, has enabled the Government to focus on regional connectivity and the development of smaller airports which were earlier underserved or un-served, across the nation. This has enabled the State to fulfil their responsibility towards bringing access to air travel for every citizen.

3.3 Financial Impact

3.3.1 Furthermore, the revenue share being contributed to the State by the privately run airports is being utilized to develop and operate smaller/regional facilities for the development of an inclusive

aviation sector. Today, the revenue share from private airports contributes to a third of the revenue of AAI.

3.3.2 Impact on Gross State Domestic Product (GSDP) – National Council of Applied Economic Research (NCAER) study of Hyderabad and Delhi Airport – Hyderabad Airport's operations contributed INR 75.9 billion to the national GDP in 2009-2010; contribution relative to the State's (Andhra Pradesh's) GSDP was 1.55%. Similarly, Delhi Airport's operations contributed INR 294.7 billion to the national GDP in 2009-2010; contribution to the State's (Delhi's) GSDP was 13.35%.

4. LESSONS LEARNT

4.1 Indian Airports Before and After PPP – the sea change

4.1.1 The initial objectives of PPP vis-à-vis the upside, visibility, economic benefits that have been generated were much beyond what was envisaged initially while adopting the PPP model for Indian airports. This has created a whole new world-class experience for Indian citizens.

4.1.2 The benefits are now percolating down to airports in smaller cities across India.

4.2 Pro-activeness of Government of India

4.2.1 The new National Civil Aviation Policy is a testament to the commitment of the Indian Government towards the aviation sector, and has resulted in the reduction of regulatory uncertainty and ambiguity, through the standardization of critical elements of the PPP structure:

- a) till mechanism: The 30% Hybrid Till mechanism for tariff determination will reduce the burden on airport users, while allowing investors to generate returns on their risk capital;
- b) rate of return; and
- c) standardized concession periods.

4.3 Further development is under progress, through the PPP model for new airports such as Goa, Navi Mumbai, with the learnings from over a decade of the privatization process.

5. RECOMMENDATIONS

5.1 High growth in aviation, and market will be expanded considerably by the year 2030 (IATA projections).

5.2 This high growth will be propelled by the immense demand from developing nations. Hence, aviation sector investments have become a global phenomenon rather than a local subject.

5.3 Keeping this in mind, ICAO should bring out norms for PPP projects to further promote and de-risk investments into infrastructure development while achieving the primary objective of safe and secure environment in the industry worldwide. This would reduce regulatory ambiguity and encourage the

globally reputed players to invest in the much needed airport infrastructure across the globe, particularly in emerging countries.

5.4 Hybrid Till – While ICAO currently recognises the significance of hybrid till as part of its guideline on regulatory mechanism, the current guidelines leave this key decision for each State. Considering the significance and the need to drive aviation-led economic growth, ICAO should clarify in more explicit terms the usage of hybrid till by all the Member States.

5.5 The Indian PPP model is a prime example of how effective Partnership between Public and Private sectors can be in a developing economy.

5.6 Privatisation of other related services (CNS/ATM, etc.)

5.7 Such uniform norms may also lay out guidelines for additional de-risking of investment as well as access to cheaper financing or “creative funding”.

5.8 As one of the most successful live examples of PPP in the airport sector, the Indian experience is an apt case for a progressive guideline on PPP projects across the globe.

— END —