



WORKING PAPER

ASSEMBLY — 40TH SESSION

ECONOMIC COMMISSION

Agenda Item 33: Economics of Airports and Air Navigation Services – Policy

FINANCING FOR QUALITY AVIATION INFRASTRUCTURE DEVELOPMENT

(Presented by the Council of ICAO)

EXECUTIVE SUMMARY

This working paper presents a comprehensive, holistic and transformative approach to addressing aviation infrastructure financing challenges, based on the outcomes of the third and fourth ICAO World Aviation Fora (IWAF). It reviews ICAO's work to develop policies, guidance and online tools to facilitate States' efforts in financing aviation infrastructure, and also presents ICAO's plan for future work in this area.

Action: The Assembly is invited to:

- a) review the work accomplished by ICAO in paragraphs 2 and 3;
- b) endorse the Organization's work programme as presented in paragraph 4; and
- c) consider the information contained in this paper for the update of Assembly Resolution A39-15, Consolidated statement of continuing ICAO policies in the air transport field.

<i>Strategic Objectives:</i>	This working paper relates to all the Strategic Objectives, especially Economic Development of Air Transport.
<i>Financial implications:</i>	The activities referred to in this paper will be undertaken subject to the resources available in the 2020–2022 Regular Programme Budget and/or from extra budgetary contributions, including the Voluntary Air Transport Fund (TRAF).
<i>References:</i>	Doc 10075, <i>Assembly Resolutions in Force</i> (as of 6 October 2016) A40-WP/18-EC/3, Report on the Developments Regarding Economic Aspects of Airports and Air Navigation Services A40-WP/22-EC/7, Consolidated statement of continuing ICAO policies in the air transport field <i>Concluding Communiqué IWAF/3</i> (https://www.icao.int/Meetings/iwaf2017/Documents/Communique2017.pdf) <i>Concluding Communiqué IWAF/4</i> (https://www.icao.int/Meetings/iwaf2018/Documents/IWAF%20Communique%202018.pdf) <i>Declaration and Framework for a Plan of Action for Development of Aviation Infrastructure in Africa</i> (https://www.icao.int/Meetings/iwaf2017/Pages/Declaration.aspx) <i>Declaration to Promote Connectivity through the Development and Sustainability of Air Transport in the Pan-American Region – Vision 2020-2035</i> (https://www.icao.int/Meetings/iwaf2018/Pages/Declaration-for-the-Pan-American-Region.aspx) ICAO Business Plan 2020–2022

1. INTRODUCTION

1.1 Air traffic volumes will double in the next 15 years, according to ICAO's long-term traffic forecasts. The rapidly-expanding air traffic and enhanced air connectivity can only be sustained with continued development in aviation infrastructure, capacity and technology, supported by a globally harmonized regulatory framework. It is of utmost importance that all States develop quality aviation infrastructure to ensure that air traffic growth is managed safely, securely and efficiently, while fully realizing potential economic benefits to be generated from the increasing traffic.

1.2 The 39th Session of the Assembly requested "*the Council to continue to develop or refine, as required, guidance on funding of air transport infrastructure, appropriate oversight functions and financing of the air transport system, including mechanisms to support operational improvements as described in the Aviation System Block Upgrades (ASBU) modules*" (A39-15, Doc 10075 refers). The United Nations (UN) Sustainable Development Goals (SDGs) Target 9.1, with its objective to "*develop quality, reliable, sustainable and resilient infrastructure with a focus on affordable and equitable access for all*", is also pertinent directly to aviation and economies that it serves around the globe. ICAO is a custody agency for this target.

2. APPROACH TO AVIATION INFRASTRUCTURE FINANCING

2.1 The main challenge of financing aviation infrastructure development is to obtain and secure a large amount of investments over a long period in the development, modernization and expansion of quality aviation infrastructure commensurate with the projected traffic growth. Mobilizing long-term financial resources, however, has become more difficult and represents a great challenge for many States, especially given the strain on public finances and cost factors attributed to borrowing that exists in many developing countries.

2.2 Aviation infrastructure financing has been the central theme of the two previous ICAO World Aviation Fora (IWAF), which since its inception in 2015, has gathered high-level participants from Member States, international and regional organizations, the industry, the donor community, as well as multi-lateral development banks and other financial institutions.

2.3 The IWAF/3 (November 2017, Abuja, Nigeria) tackled the existing and future financing challenges facing aviation infrastructure development and capacity building development, especially in Africa, and adopted the *Declaration and Framework for a Plan of Action for Development of Aviation Infrastructure in Africa* within the framework of the Lomé Plan of Action (2017-2019) of the African Union. The following IWAF/4 (September 2018, Fortaleza, Brazil) focussed on strategies for aviation growth with the exploration of aviation investment opportunities and adopted the *Declaration to Promote Connectivity through the Development and Sustainability of Air Transport in the Pan-American Region – Vision 2020-2035*.

2.4 The outcomes of both IWAF/3 and IWAF/4 called for States to take a comprehensive, holistic and transformative approach, underpinned by coherent policies and good governance at all levels to addressing aviation infrastructure financing challenges. This approach consists of, inter alia:

- a) development of national and/or regional aviation infrastructure programmes and plans, as well as strategic infrastructure targets consistent with the ICAO Global Plans, based on a robust business case analysis, a gap analysis between forecasted demand and current capacity, and a full life cycle analysis;

- b) alignment and integration of aviation infrastructure programmes and plans with an appropriately-balanced development of transport modes, including multi-modal and urban planning initiatives; and linking them with national and/or regional development plans and strategies, harmonized with the international economic and financial frameworks, and supported by economic cooperation and, when needed and as appropriate, international assistance for development;
- c) establishment of good governance such as creation of enabling institutional, legal and regulatory frameworks and monitoring and evaluation mechanisms, which can provide a strong impetus to boost investment in the aviation sector, particularly through private sector participation, and in the handling of the complex nature of project finance transactions;
- d) consolidation of planning and development efforts for aviation, tourism and trade infrastructure, whenever possible while harmonizing regulatory frameworks in balancing the benefits of these economic sectors and promoting cooperation and compatible decision-making among transport authorities and other ministries in charge of related portfolios, including finance, economic planning, energy, environment, trade and tourism;
- e) enhancement of transparency by providing laws, regulations, policies, practices, and relevant information and data to the public, including investors, with clarity, predictability, accountability and open access, which creates credibility for regulatory decisions and raises business confidence by minimizing information asymmetry between the government, the industry and investors and reducing investment risks and uncertainty; and
- f) establishment of a transparent, stable and predictable investment climate to support aviation development, for example, by engaging multi-stakeholders, diversifying funding sources and elevating the role of private sector, including through private investment, business reform, private finance initiatives, public-private partnership (PPP) and various incentive schemes.

2.5 Concerns remain on the limited volume of international public finance and assistance for development, which is currently available for aviation infrastructure projects despite aviation's cross-cutting nature and multiple links to other economic sectors. International public finance and assistance can be used to unlock additional finance through blended or pooled financing and risk mitigation for infrastructure. For States with limited access to investment finance, it is critical to include major aviation infrastructure projects in the priority list of international public finance and assistance.

3. ICAO POLICIES AND GUIDANCE

3.1 Unlike other modes of transport, the aviation industry has been paying for a vast majority of its own infrastructure costs, rather than being financed through taxation, public investment or subsidies. Infrastructure costs are covered through payments of user charges, most of which are added to airfares. Excessive charges and taxes can outweigh the economic benefits as a result of the reduction in demand for air travel and air cargo shipments; therefore, States and service providers are urged to observe *ICAO's Policies on Charges for Airports and Air Navigation Services* (Doc 9082) and *ICAO's Policies on Taxation in the Field of International Air Transport* (Doc 8632).

3.2 In addition to policies on charges and taxation, the *Airport Economics Manual* (Doc 9562) and the *Manual on Air Navigation Services Economics* (Doc 9161) contain detailed guidance on financing airport and air navigation services infrastructure. Specific guidance material was also developed on cost-benefit analysis, business case study, economic impact analysis, and the financing of investments in airport and air navigation infrastructure, especially for the implementation of ASBU modules. Additional information in this regard is provided in A40-WP/18-EC/3, *Report on the Developments Regarding Economic Aspects of Airports and Air Navigation Services*. Furthermore, a new online analytical tool is under development on cost-benefit analysis of identified aviation infrastructure projects as part of the ICAO Civil Aviation Data Solution (iCADS).

4. FUTURE WORK

4.1 One of the aviation emerging issues identified in the ICAO Business Plan 2020 – 2022 is aviation infrastructure/system financing, i.e. promotion of diversified funding and financing sources, through the elevation of a role of the private sector and the effective use of domestic resources and international development funding, to develop and modernize quality aviation infrastructure/system commensurate with the level of predicted traffic growth and based on ICAO's Global Plans.

4.2 Aspiring towards “no constraints of infrastructure capacity, technology and financial resources for aviation development”, the focus and priority of future work will be placed on the provision of guidance and assistance for States in taking the comprehensive, holistic and transformative approach as described above and closing the infrastructure gap for the achievement of the optimal air transport potential. In conducting this work, the Organization will, inter alia:

- a) keep existing guidance updated, as required, and enhance relevant online tools under the iCADS to support States in considering investment decisions on the development and modernization of aviation infrastructure;
- b) strengthen its dialogue to increase common understanding, respond to the business imperatives, and facilitate all forms of international public finance and assistance for aviation development, including official development assistance (ODA) and South-South cooperation;
- c) utilize events such as IWAF as a vehicle to contribute to fostering effective partnerships between donors, investors and needful States; strengthening dialogue to enhance common understanding and responses to the business imperatives; facilitating the mobilization of resources; and under the *No Country Left Behind* (NCLB) initiative, identifying, coordinating and providing assistance to States in needs; and
- d) continue to conduct follow-up work to ICAO's activities and actions to implement the *Declaration and Framework for a Plan of Action for Development of Aviation Infrastructure in Africa* under existing arrangements, especially under the ICAO Comprehensive Regional Implementation Plan for Aviation Safety in Africa (AFI Plan), and report to the Assembly the progress of the work with specific metrics and targets in the AFI Plan.