

# The Airport Governance and Challenges of Policy Coordination in Airport Infrastructure Building: The Case Study of Kyrgyzstan's Airports

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## 1. Introduction

Along with globalization trends and global air traffic growth, many countries focus on developing air connectivity to integrate their economies into international markets. In this context, their governments pay special attention to the airport industry, which connects to global markets.

Airports are the main component of air transport and are an essential part of a country's economy. They contribute to local, regional, and national economies by facilitating people, goods, business connections, and investments. (ACI 2018, p.17). Moreover, they drive the growth of the global economy, connecting markets worldwide (ACI 2020).

As states have generally come to recognize the significance of the airport industry for economic growth, many have started to liberalize the airport industry through institutional reform. Liberalization has often taken the form of privatization. This privatization trend happened in many countries, becoming a global phenomenon in the last few decades (Button 2006, p.6).

Among many states, Kyrgyzstan, a landlocked developing economy, is one of the countries that has attempted to reform its airport industry by introducing some degree of privatization. Kyrgyzstan is the second lowest-income state in the Commonwealth of Independent States (CIS), and thus economic growth is crucial. Besides, it has had the lowest performance in the "quality of air transport infrastructure" among the transitional economies in the region (WEF 2018). Under these circumstances, Kyrgyzstan implemented partial private participation in the airport industry in 2001. Consequently, a quasi-private company called "Manas International Airport" (MIA) that owns all Kyrgyzstan's

civilian airports was established as an open joint-stock company.

In theory, privatization should promote effective governance of the airport industry. Yet, one of the biggest problems in Kyrgyzstan's air industry, the building of infrastructure, has not been solved even after privatization. Kyrgyzstan's airports were built in the period from the 1960s to the 1980s (CAA 2006). However, the main airports' facilities, such as runways, taxiways, and aprons of most of Kyrgyzstan's airports, have not been reconstructed till today (Ibid). This lack of maintenance has brought about a situation where five of eleven of Kyrgyzstan's airports were banned from servicing aircraft by the Civil Aviation Agency of Kyrgyzstan (CAA) since the late 2000s (Ibid, pp. 3, 5, 7, 17). The reason was that these five airports did not fulfill the international standards set by the International Civil Aviation Organization (ICAO) that every state must comply with for the management of their air industry. In addition, CAA has limited aircraft operation in three other domestic airports due to the low physical capacity of their runways, taxiways, and aprons.

Therefore, several key government policy documents have addressed the needs of airport infrastructure building since 2002. The policy documents identified the reconstruction of the airports as one of the most significant tasks to undertake. Among the documents are the Concept of Civil Aviation Development of the Kyrgyz Republic for 2002-2010, National Strategy for Sustainable Development for 2013-2017, Civil Aviation Development Program (CADP) for 2016-2020, and National Development Strategy (NDS) for 2018-2040. However, the airports in Kyrgyzstan have remained poor, and the addressed policy of rebuilding the airports has hardly been implemented.

This study aims to examine the challenges in airport governance and their impacts on the infrastructural building and maintenance of the airports in the Kyrgyz Republic. This article first investigates the structure of policymaking in the airport industry. Then, this study focuses on the critical component of governance: resource allocation and policy coordination. For this purpose, this paper employs a qualitative analysis of governance literature, primary documents in Kyrgyzstan's policy documents such as National Development Strategy 2018-2040, Civil Aviation Development Program 2016-2020, and MIA corporate information and disclosure. What are the significant obstacles to this problem? Why has the privatization of the airport industry in Kyrgyzstan not brought about an improvement of effective governance that should positively

impact the maintenance of airport infrastructure? These questions are addressed in this article and will be answered.

Kapur (1995, p. 14) argues that primary political reasons affecting the inefficiency of government-owned airports include “political interference in the appointment of management” and “fiscal drain on the national economy when funds should be diverted to more social programs.” In addition, Shleifer and Vishny (1998) demonstrate that ties connected politicians and managers of former government-owned entities, allowing the government to confiscate an entity's resources.

Kyrgyzstan's privatization was nominal and minimal because the government share of the airports remains big. Thus, this study highlights the relationship between airport governance and infrastructure building capacity.

As stated by Wilmsmeier and Monios (2016, p. 4), governance refers to “the institutions, mechanisms, and processes through which economic, political and administrative authority is exercised.” According to Slack and Rodrigue (2020), governance is associated with policy designing and a better allocation of resources to fulfill the policy. In this context, Legacy et al. (2012, p.8) argue that governance in transport planning requires a focus on the formal and informal mechanisms which link actors in the sector's policymaking. In this article, “airport governance” is defined as a process through which government agencies and the airport operating company coordinate in making policy for airport infrastructure building.

Following the introduction, this article first sheds light on Kyrgyzstan's airport governance and policy instruments to demonstrate policymaking mechanisms in airport infrastructure building. Then, the study presents how airport governance and policy instruments impact MIA's profit flow distribution between shareholders and reinvestment to infrastructure building. Finally, by so doing, this article demonstrates how policy coordination between government agencies affects infrastructure capacity building of Kyrgyzstan's airports.

## 2. The Structure of Policymaking in Kyrgyzstan's Airport Industry

Before the analysis of airport policymaking, it is necessary to address the background for privatization of the airport industry. Immediately after gaining

independence in 1992, the government established the National Air Company “Kyrgyzstan Aba Zholdoru” which was operating aircraft and airports under the monopolistic control of the government. However, the government attempted to promote the privatization of the airport sector together with other sectors and made a roadmap of separating and privatizing three domains of air transport operations in 1999 (MOJ 1999). The aims were to demonopolize air transport services, improve management efficiency, and support the needed investment in air transport infrastructure. Three domains were airlines, air navigation, and airport infrastructure. Consequently, three separate companies were established in 2001. MIA was established as an airport operating company that owns all airports in Kyrgyzstan. About 12.5% of MIA’s share has been sold to the private sector (KSE 2020a).

On the one hand, the above-mentioned roadmap has set a plan of achieving up to 33.3% of private sector participation in MIA (MOJ 1999). However, the government considered MIA in the list of highly securitized national property and limited its privatization in 2003 (MOJ 2003a; MOJ 2003b). As a result, about half of planned privatization has been implemented. Thus, the Kyrgyz government’s initial plan mentioned above did not take place. Instead, the State Property Management Fund (SPMF), a government agency, came to exercise its power as a dominant stakeholder in MIA (more details will be discussed later).

The process of policymaking is one of the most significant elements for the governance of any industry. Rodrigue et al. (2017, p.311) define transport policy as “the institutional responsibility and proposals developed by the government institutions to achieve specific goals and objectives related to the functioning and improved transport system performance.” Thus, the goal behind transport policy is to lay effective decisions and guidelines about transport resource allocation and the regulation and management of transport activities.

The government is usually one of the most significant actors in transport policymaking because it owns or controls most transport means such as roads, railways, seaports, and airports, providing vital public service and imposing a regulatory framework (Ibid). In the case of Kyrgyzstan, it is also the case: the government is a key player. This section investigates the significant features of policymaking mechanisms in the country’s airport sector.

### The Government's Overall Control on Policymaking

The government has a highly centralized structure in terms of policymaking and implementing policies in Kyrgyzstan. However, according to the general theory of transport policy, as Rodrigue et al. (2017, p. 313) emphasize, there are six major policy instruments in policymaking. They are public ownership, subsidies, regulatory control, research and development, labor regulation, and safety and operation standards. Among these six instruments, public ownership control and regulatory control mechanisms are relevant to how Kyrgyzstan's government authorizes the policymaking process, how public ownership is practiced, and how the regulations control the transport sector, and are among the most significant elements of their structure of airport governance.

Figure 1 describes airport industry policymaking in Kyrgyzstan. It includes the policy stakeholders, the key government agencies, and the process through which they interact to formulate the airport regulations, to provide airport infrastructure for all airport users. There are two flows of government directions of control which manifest in both direct and indirect ways. One is from the government to the SPMF, "public ownership control," a natural policy mechanism. There is also a line of the Ministries, namely, the government to the Ministry of Transport and Communications (MOT). This line is the "regulatory control" of the government, which refers to indirect policy instruments.

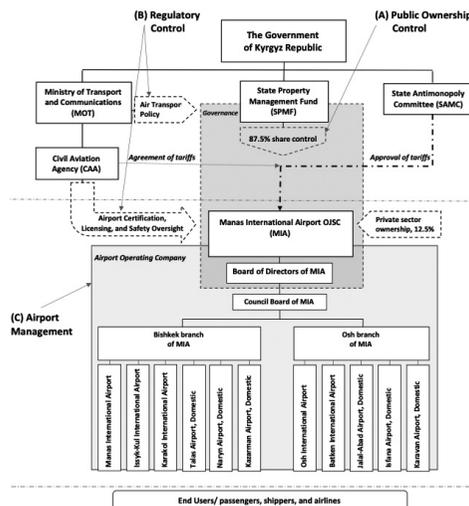


Figure 1. The Airport Governance Structure of Kyrgyzstan (2020)

[Source: The author, based on the following data: MOJ 2010; MOJ 2013a; MOJ 2016a; KSE 2020a.]

As is shown in the figure, among many stakeholders, significant players are the MOT, CAA, SPMF, State Antimonopoly Committee of Kyrgyz Republic (SAMC), and MIA. The SPMF and MIA, connected through the vertical line of governance indicated in the gray part in Figure 1, play the central role within the operation of the airport industry. Regulatory agencies in Kyrgyzstan, such as MOT, CAA, and SAMC, play a critical role in shaping Kyrgyzstan's airport industry.

The following subsections will address the two instruments mentioned above: public ownership control and regulatory control mechanisms. The former line of authority is (A), and the last line of governance is shown as (B) in Figure 1.

#### (A) Public Ownership Control

The public ownership mechanism is a direct policy instrument for the government to exercise its general power in expanding the value and capacity of airports, thereby contributing to the objectives of freight and trade development, air service liberalization, or air connectivity improvement.

As mentioned previously, Kyrgyzstan established MIA merely as a quasi-private operating company and the government has retained large shares in MIA. The State Property Management Fund of the Kyrgyz Republic owns 79% of MIA's shares. The other government agency, the Social Fund of the Kyrgyz Republic, holds an additional 8.5%. The private sector holds only 12.5% of shares, including individuals with 9% of the percentage of MIA (KSE 2020a, p.1).

Therefore, this indicates that the level of airport privatization is not high in Kyrgyzstan, and MIA is still primarily controlled by the government. Moreover, the government share in the airport operating company is implemented under the control of SPMF (KSE 2020a). SPMF is a non-aviation government body that manages and administrates state property in Kyrgyzstan. In the airport industry, SPMF exercises the powers as the major shareholder in MIA (Figure 1 (A)). According to Regulation on the SPMF, the agency has two main non-aviation functions and tasks related to the airport industry. Firstly, SPMF makes proposals on candidates to be elected to the governing body of MIA (MOJ 2012). Secondly, SPMF is responsible for receiving funds generated by the state's share (i.e., dividends) and transferring them to the central state budget. Hence, SPMF, on behalf of the government, being the main shareholder of MIA, has the most significant influence on the governing body's decisions and profit

allocation through ownership mechanisms.

### **(B) Regulatory Control**

It is generally conceived that airport regulatory control plays a crucial role in enforcing policy processes (Rodrigue, et al., 2017, p.313). By setting up state agencies to implement economic and safety regulations on the airport industry, the government can impact the industry's whole administrative structure and performance. Furthermore, by designing regulatory and policy documents, the government creates a framework and guidelines to follow the procedures (Ibid).

Government agencies, such as MOT, CAA, and SAMC, play a critical role in shaping policy and regulatory frameworks in Kyrgyzstan's airport industry. MOT and CAA are air transport regulating agencies. Their organizational and legal framework in air transport regulation was designed based on the ICAO (2018b, p. I-3-1) recommended template structure of national law. MOT shapes Kyrgyzstan's overall air transport policy (MOJ 2016a). MOT designs a single sector program among many tasks and objectives in air transport, including airport industry development functions. CAA is one of MOT's departments that develops airport safety standards, conducts airport certification and licensing, and oversees airport flight safety (MOJ 2010). Also, CAA is responsible for coordinating airport pricing along with SAMC.

In international practice, the government is responsible for the economic oversight of airport pricing regulation if the airport operating company dominates a given market. According to ICAO (2018b, p. I-3-2; 2013, p. 1-6), the government should minimize the risk that airport providers could engage in anti-competitive pricing or abuse any dominant position they may have in the market. According to Kyrgyzstan antitrust law, MIA, the only airport operating company, is considered a natural monopoly. Therefore, the government delegated the functions of airport price cap regulation to SAMC. It is a non-aviation government agency responsible for antimonopoly regulation in Kyrgyzstan. Among the agency's many roles in developing and protecting competition, the SAMC regulates airport pricing in Kyrgyzstan; it approves and controls the airport tariffs set by MIA (MOJ 2013a).

Meanwhile, according to ICAO, the airport company is recommended to set airport tariffs based on the infrastructure cost recovery principle. By so doing, the airport operating company should collect generated profits and address

them to ensuring adequate infrastructure, equipment, facilities, and services to serve passengers, shippers, and airlines, with particular attention to flight safety. (MOJ 2015; ICAO 2013, pp.1-3 - 1-5).<sup>1</sup>

### Government Control Power and its Adverse Impacts on Implementing Private Participation

As stated above, despite the privatization of Kyrgyzstan's airports, the government continues to control airports. This trend of government control has some important impacts. First, the government has strong leadership in decision-making in airport management through public ownership mechanisms. Secondly, this structure excludes competition between Kyrgyzstan's airports. Thirdly, this is the financial flow of money between MIA and the government; the decision to increase dividends or investments comes from MIA's governing body, the Board of Directors, selected by the government agency. This means that the government did not implement the initial plan of airport privatization and has made privatization nominal, not functional.

In addition to government power, airport ownership and strategic development of MIA became politicized. As mentioned above, the government has listed MIA among highly securitized national properties. This imposes some limitations on MIA's privatization; according to Kyrgyz law, the government must decide the type of airport privatization. Then, the parliament must approve it (MOJ 2003b). Indeed, parliament members usually review investment proposals and strategic projects on airport development within the government's Coordinating Council, which was created in 2014 (MOJ 2014). One of the major functions of the Council is to review proposals for airport investment.

Regarding the government's control on the airport industry, parliamentarians contested the way of privatization through the Council. For example, the government's attempt to sell 51 percent of MIA shares to foreign investors was blocked by the Kyrgyz Parliament in 2014 (Euroasianet 2014). Furthermore, forced by the parliamentarians, the government decided to attract investment in airport infrastructure through the Public-Private Partnership (PPP) instead

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1 However, the MIA's tariffs approach is beyond the study's objective, and thus further research will address the commercial attractiveness of Kyrgyzstan's airports for their users.

of selling MIA shares (MOJ 2019). After a long process of selecting the consultants to implement the PPP, in October 2021, the government signed an agreement with the International Finance Corporation (IFC) for the IFC to conduct a feasibility study on MIA's development and attract PPP investment (IFC 2021). This series of events indicates how much airport governance is contested and politicized.

As mentioned above, the government has attracted the private sector to airport ownership and separated economic and safety oversight from airport operation. In general, the airport governance structure of Kyrgyzstan follows basic ICAO recommendations. In addition, as demonstrated above, the existing policy mechanisms in Kyrgyzstan's airport industry, in theory, should ensure adequate airport infrastructure. First is policy documents and sector programs designed to develop airports. The second mechanism is the public responsibility to provide excellent infrastructure through public ownership control and the obligations of airport operating company to implement sector programs by reinvesting profits to airport infrastructure building.

However, the government has created an airport governance structure primarily controlled by the government and continues to dominate airport decision-making. So, what is the resource allocation of MIA for prioritizing the task of airport infrastructure building? The following section will investigate how airport governance and policy instruments impact MIA's profit distribution through dividend allocation. Then the study will describe another key policy mechanism, the inter-agency coordination tool.

### 3. Impacts of Policy Mechanisms on Resource Allocation of Kyrgyzstan's Airport Operating Company: A Special Focus on Dividend

As mentioned in section 2, the government's overall control of MIA also affects how MIA is managed. As shown at the bottom of Figure 1 (C), MIA manages and operates airports through the Directors Board, Council Board, and its two branches, Manas and Osh. The structure of the Bishkek branch includes six airports, namely, Manas, Issyk-Kul, Karakol, Talas, Naryn, and Kazarman. The Osh branch operates five airports as Osh, Batken, Isfana, Jalal-Abad, and Karavan. Each unit runs the operation of airports independently.

However, strategic decision-making in infrastructure building is made by the Board of Directors. These questions include which branch's infrastructure projects to implement and what resources to allocate to these projects. The primary source of project financing is the company's funds.

Indeed, MIA is financed independently of the government. Therefore, it has not received any subsidization nor loan from the government. In fact, as the primary stakeholder of MIA, the government does not financially support the development of airport infrastructure (Arsen 2016, p.38) since the government has continuously faced financial problems due to a high budget deficit. Hence, subsidizing MIA to maintain airport infrastructure was beyond the government's capacity (IMF 2019, p.10). Therefore, MIA should finance infrastructural building through the revenue gained from servicing passengers, freight, and airlines. Thus, the question is whether or not MIA's income has been reinvested into the infrastructure. Before answering this question, it is necessary to examine the trend of MIA's revenue in the past ten years.

#### Operational and Financial Performance in Kyrgyzstan's Airport Industry

Along with air traffic growth, MIA has achieved significant growth in its revenue in the last decade. Figure 2, Graph (a) shows that aircraft movements in Kyrgyzstan's airports grew 60 percent over the previous decade. Kyrgyzstan's passenger traffic also grew by 225 percent, and freight movements in the airports increased to 14% in 2010-2019, as shown in Graph (b). Consequently, the revenue has also grown. MIA's revenue increased triple in this period; the enterprise's revenue increased from KGS 2.52 billion (USD 53.6 million) in 2010 to KGS 7.23 billion (USD 104 million) in 2019 (Figure 2 Graph (c)).<sup>2</sup> This number includes the profits of the airport operating company.

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2 The currency rate: 1 USD=47.09 KGS for 31 December 2010; 1 USD=69.64 KGS for 31 December 2019 (<https://www.nbkr.kg/index1.jsp?item=1562&lang=ENG>, accessed 21 November 2021).

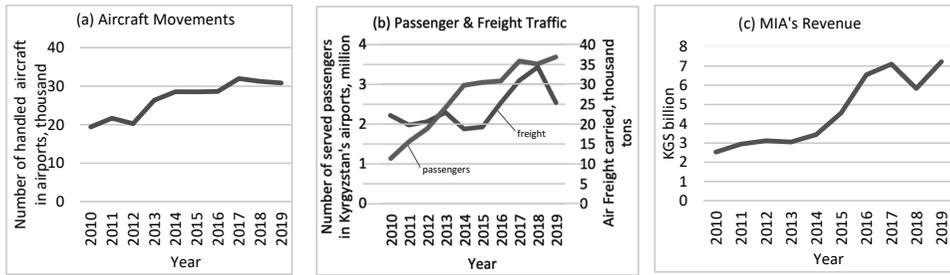


Figure 2. Air Traffic in Kyrgyzstan's airports and MIA's Revenue for 2010-2019.

[Source: The author, based on the following data:

- 1) Kyrgyzstan's air traffic statistics 2010-2019 from Civil Aviation Agency of Kyrgyz Republic.
- 2) Annual financial results of MIA OJSC for 2010-2019 from MIA OJSC Information disclosing listing on Kyrgyz Stock Exchange. (<https://www.kse.kg/ru/ListingDetails/MAIR>, accessed 10 March 2021).]

Table 1 demonstrates the performance of MIA's revenue and profits for 2010-2019. The total income generated by MIA amounted to about KGS 46.32 billion (USD 746 million), while the net profit is around KGS 13.95 billion (USD 235 million) within a decade. Hence, the MIA's financial performance demonstrates that MIA can accumulate recourses and address them to the infrastructure building and airport development as an investment.<sup>3</sup>

Table 1. Revenue and Net-Profit of Manas International Airport OJSC for 2010-2019

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-2019	Growth 2010-2019
Revenue, KGS billion	2.52	2.94	3.11	3.05	3.43	4.56	6.54	7.10	5.83	7.23	46.32	286%
Net-Profit, KGS billion	0.82	1.28	1.56	1.08	0.82	1.30	1.57	1.79	1.62	2.11	13.95	256%
Revenue, USD million	53.6*	63.1*	65.7*	61.9*	58.2*	60.1*	94.4*	103*	83.4*	104*	746*	193%
Net-Profit, USD million	17.4*	27.5*	31.8*	21.9*	14.1*	18.1*	23.5*	26.8*	23.3*	30.3*	235*	174%

Note: \* converted from Kyrgyzstan's national currency, KGS to the USD.<sup>4</sup>

[Source: The author, based on the data on annual financial results of MIA OJSC for 2010-2019, from MIA OJSC Information disclosing listing on Kyrgyz Stock Exchange. (<https://www.kse.kg/ru/ListingDetails/MAIR>) (Accessed 10 March 2021).]

3 The government of Kyrgyzstan has included three infrastructure projects as "Reconstruction of Manas Intranational Airport" with the cost of USD 109 million, "Reconstruction of Issyk-Kul Intranational Airport" - USD 15.6 million, and "Reconstruction of Osh Intranational Airport" - USD 9.2 million into the National Development Strategy 2018-2040 (The President Office, 2018).

As described in Table 1, MIA has demonstrated significant revenue and net profit growth in the last decade. However, MIA is often facing a shortage of financial resources. Abdymalyk B., Director of the Investment and Infrastructure Development Department, Manas International Airport, said as follows:

Our airport was found in 1975, and since that time, it was under government control. During the Soviet time, it was one of the most developed air hubs in the country. However, after collapse of the Soviet Union, life has changed. At this moment, the Manas International Airport is the most developed in the country, but airports in other parts of the country are underdeveloped, has poor facilities and infrastructure. Some of them can accept aircrafts only at day time, as they don't have special luminance systems. This all is caused by inability of the government to maintain airport facilities. There is always shortage of financing, most of our proposed projects are rejected due to lack of funds. On top of that, the airport management supposed to be independent, but it is far from being sovereign. We are dependent on many factors, especially from political flows (Arsen 2016, p.38).

Then, the question is how the MIA's profits are distributed. Thus, the following focuses on resource allocation from the perspective of policymaking.

#### **Dividends as a Decisive Factor in Infrastructure Building**

A dividend is a share of a company's net profit distributed among company shareholders and a return that stakeholders receive for their investment in this company. A company's dividend policy determines the amount of a company's dividend paid out to its shareholders. The board of directors decides dividend policy and whether the company's net profit will be distributed among the

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4 The official exchange rates as follows: 1 USD=47.09 KGS for 31 December 2010; 1 USD=46.48 KGS for 31 December 2011; 1 USD=47.4 KGS for 31 December 2012; 1 USD=49.24 KGS for 31 December 2013; 1 USD=58.88 KGS for 31 December 2014; 1 USD=75.89 KGS for 31 December 2015; 1 USD=69.23 KGS for 31 December 2016; 1 USD=68.83 KGS for 31 December 2017; 1 USD=69.85 KGS for 31 December 2018; 1 USD=69.64 KGS for 31 December 2019 (<https://www.nbkr.kg/index1.jsp?item=1562&lang=ENG>, accessed 21 November 2021).

stakeholders or invested in expanding assets (Omerhodžić 2013, pp.43, 52).

Along with this, as Charbti (2020, p. 42) argues, a trade-off exists between short-term and long-term goals in managing the distribution of an entity's profit. In the short term, how to cater to investors by paying dividends aiming to maximize the company's current market price is significant. On the other hand, such short-term management often becomes an adversary to the long-term development of the airports (Ibid). It is usually held that high dividends increase the company's attractiveness for potential investors while destroying its long-term development (Ibid). In other words, growing dividends to raise the company's market value reduces its ability to accumulate its investments. Therefore, a company's dividend policy is a part of its strategy, which defines its development needs and resources (Ibid).

Strategic factors include a company's need for investment to maintain or expand assets and infrastructure building policy. In other words, when a company identifies the needs of improving infrastructure, the company redistributes the necessary resources to infrastructure building by reducing the dividend share. Otherwise, an irrational dividend policy could lead to inefficient resource allocation and poor infrastructure, reducing the company's capacity, affecting the airport's efficiency.

From this point of view, Walter (1956) argues that dividend policy can be granted as a definition of a rate of profit retention. However, this profit in reserve mainly limits the volume of internal financing of a company and its investment opportunities. Therefore, Walter assigns dividends a secondary role: this comes after the company has made an investment and financing decision (Charbti 2020, p.12). Hence, based on the assumption that the distribution of dividends reduces its ability to finance infrastructure projects, in this case, it seems necessary to give preference to retained earnings and reinvest them in airport infrastructure. On the other hand, political factors can also dramatically impact resource allocation, especially in an entity with government control interests.

Political factors include government-level governance. This characteristic can adversely affect the relationship between government ownership and dividend policy. Notably, in government-owned airports, "political interference in the appointment of management" can cause a "fiscal drain on the national economy when funds should be diverted to more social programs" (Kapur 1995, p.14).

Moreover, if the ties connections between politicians and managers of former government-owned entities still exist, the government will continue to expropriate the entity's resources (Shleifer and Vishny 1998). As stated earlier, the government has privatized the airport operating company, MIA. But the question is what dividend policy has been implemented in Kyrgyzstan's airport industry.

### **MIA's Resource Allocation to Airport Infrastructure Building Through Dividend Policy**

Figure 3, (a) and (b), illustrate the share of dividends and reinvestment in MIA's annual profit for 2010-2019. In general, the dividends of airport operating company have continuously increased since 2014. Meanwhile, reinvestment was unstable: with growth in 2011, 2012, 2015, 2016, and drops in 2013, 2014, 2018. This instability suggests that MIA caters to the shareholders by increasing dividends and pays less attention to infrastructure rehabilitation and modernization investment.

As a significant shareholder, the government of Kyrgyzstan receives the largest share of the airport operating company's profits. As shown in Figure 3, Graph (a), it distributed about KGS 2.1 billion (USD 30.3 million) of net profit in 2019 as follows: KGS1.26 billion (USD 18.1 million), which is 60 percent of net profit distributed among shareholders in the form of a dividend. The remaining KGS was 0.84 billion (USD 12 million), and a 40 percent net profit was directed to airport infrastructure. Along with this, given the fact that the government holds 87.5 percent of MIA's shares, it has received about KGS 1 billion (USD 14.5 million) (i.e., 87.5% of a total dividend) to Kyrgyzstan's central budget as a dividend from MIA in 2019 (KSE 2020).

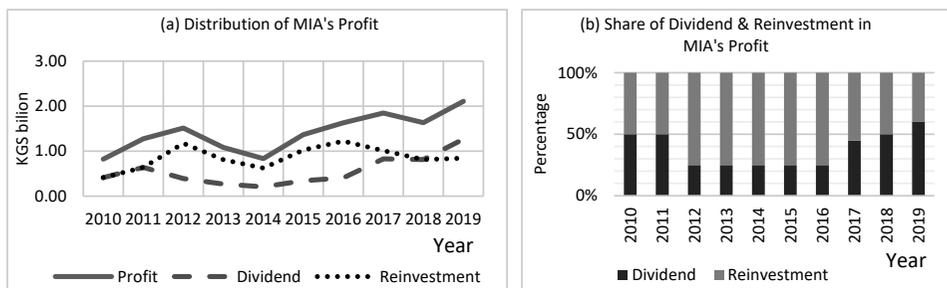


Figure 3. Distribution of MIA's Annual Profit and Share of Dividend and Reinvestment (2010-2019).

[Source: The author, based on the results of MIA's annual general meetings for 2010-2019 from [https://www.kse.kg/ru/PublicInfo/JSC\\_MAM](https://www.kse.kg/ru/PublicInfo/JSC_MAM). (Accessed 10 October 2020).]

Figure 3, Graph (b) above shows the distribution and proportion of MIA's annual net profit in the form of dividends and investments to airport infrastructure for the last decade. SPMF and MIA supported airport development by distributing a significant gain to infrastructure in 2012-2016. MIA had been receiving 75 percent of profit as an investment to airport development in 2012-2016. This policymaking has been one of the vital tools to support airport infrastructure.

However, the proportion of reinvestment fell significantly by 2019; investment distribution decreased by 31 percent in 2019 compared to 2016 (Figure 3, Graph (a)). At the same time, payments to stakeholders (i.e., out of MIA) in dividends significantly increased; they rose by about 210 percent in 2019 compared to 2016.

Therefore, the dividend policy of SPMF (through the ownership mechanism) in MIA is very problematic. As stated earlier, along with an increase in air traffic and profits (Figure 2), the condition of all Kyrgyzstan's airports is worn out. Moreover, as the government implements air service liberalization, Kyrgyzstan's air traffic is expected to significantly increase (Beishenaliev 2020, p.20), thus, increasing physical pressure on airport infrastructure. On the other hand, MIA needs more funds to rehabilitate the airports. Indeed, the redistribution of MIA's profit was not adequately met, especially in 2016-2019; when the airport infrastructure needed more funds for rehabilitation and capacity building, MIA continuously decreased reinvestment in airport development and dramatically increased dividends (Figure 3; KSE 2020b).

Moreover, a long-term loan or debt frequently restricts the ability of a company to pay dividends (Charbty 2020, p.128). However, having the capacity to accumulate its resources (Figure 3, Graph (a)), MIA has borrowed tens of millions USD from the Russian-Kyrgyz Development Fund (RKDF). MIA also borrowed money from the Europe Bank of Reconstruction and Development (EBRD) for infrastructure projects in 2016-2019 (MIA 2018, p.31; RKDF 2016). Along with this, MIA distributed significant dividends of about USD 47.8 million to the government in 2016-2019. Hence, MIA's decision to withdraw funds from the company to pay dividends and borrow external loans to support infrastructure building is not rational. Instead of receiving loans with interest rates, MIA should have reinvested most of its profits into infrastructure by decreasing the share of dividends.

Therefore, MIA shows an irrational dividend policy, allocating a significant proportion of profits to dividends rather than reinvesting in its primary priority, infrastructure development. This dividend policy suggests that SPMF employs its power in MIA through the ownership mechanism to maximize sources to fulfill the central state budget. Hence, the investment in airport development is decreasing, making the airport operating company unable to accumulate funding for airport infrastructure projects. Thus, SPMF and MIA ignore the implementation of government programs (CADP). This neglect is, in essence, the question of policy coordination, which the next section will examine.

#### 4. Policy Coordination for Airport Infrastructure Development

Public policymaking often deals with designing, improving, and implementing critical programs for the country's development. For example, as the airport industry of many developing countries is usually among the national development programs, the effective planning and implementation of objectives of airport capacity building depend on available resources and policy integration in resource allocation. Therefore, it often happens that to implement one program requires coordination with the stakeholder institutions.

It is generally considered that coordination is a mechanism of interaction of agents and functions towards producing a result. It is an important policy mechanism through which state agencies can come together to rationally distribute resources and to achieve set goals. Thus, in designing and

implementing policy, inter-institutional coordination is a fundamental mechanism to resolve conflicts in priorities and policies between sector agents (Panday 2011, pp. 157-159; Peters 2018, p. 6, 2). In contrast, inter-institutional miscoordination can cause failure in policy design and implementation. So, how is the situation of policy coordination in Kyrgyzstan's airport industry in which such inadequate airport infrastructure is practiced? The following demonstrates two domains of coordination, vertical and horizontal.

### Vertical Coordination in Airport Infrastructure Building

Figure 4 demonstrates the policy coordination in airport governance between the government, MOT, SPMF, and MIA. It includes two vertical coordination detentions. First is "Government-MOT-MIA," and second is the "Government-SPMF-MIA." Vertical coordination is a higher coordination level based on a hierarchy. This type of coordination often refers to a need for political leadership and commitment at higher levels of government. It is often coordination between government and ministries, or ministries and agencies at lower-level hierarchy (Figure 4). SAMC is not included in the chart of airport governance coordination since its tariff regulation function is related to monopoly behavior control rather than governance in airport infrastructure building, the scope of study's objective.

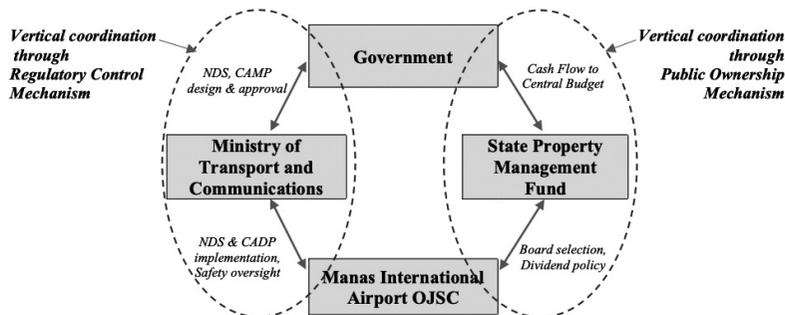


Figure 4. Policy Coordination in Airport Governance

[Source: the author, based on Section 2 and Figure 1.]

As stated above, the government has adopted the objective of airport infrastructure building in the NDS 2018-2040 (national level policy document) and CADP 2016-2020 (sector-level policy document). Hence, the airport development objective is a single policy that should, in theory, guide the

government, MOT, SPMF, and MIA to achieve the goals of the policy. In this context, through “Government-MOT-MIA” coordination, the government should enforce MIA to improve airport infrastructure safety by implementing NDS and CADP. On the other hand, through the “Government-SPMF-MIA” coordination mechanism, the government should force MIA to develop corporate strategy and distribute MIA's profits to meet NDS and CADP objectives. However, the vertical coordination of “Government-MOT-MIA” and “Government-SPMF-MIA” is inconsistent in achieving the single sector policy. Consequently, the outcomes of miscoordination are the MIA's irrational dividend policy and worn-out airport infrastructure.

On the one hand, in the “Government-MOT-MIA” coordination, the government has adopted the airport development policy and empowered the MOT to control the single sector policy implementation. Accordingly, the MOT, through regulatory control instruments, requires MIA to implement a sector program. In addition, MOT governs MIA's airport infrastructure safety through the certification and oversight mechanisms.

Indeed, the outcome of this coordination is that the policy documents are far from being implemented. For example, the NDS's mid-term objective for Manas, Osh, and Issyk-Kul airports' modernization, which is planned in 2018-2022, is not being implemented. In addition, only six out of sixteen airports carried out development tasks in CADP 2016-2020. But the other ten measures are still not completed and have been included in the draft of the new CADP 2021-2025 (COM 2020). Consequently, due to safety reasons, CAA (which is MOT's department) has banned five of eleven MIA airports from operation and limited aircraft operation in the other three airports. One reason that policy documents are poorly implemented is the lack of MIA's investment, as the vice-president of MIA stated (Arsen 2016, p.38). The second reason is that MOT, through the regulatory control mechanism, is less effective on MIA than the ownership control mechanism SPMF exercises.

On the other hand, vertical coordination “Government-SPMF-MIA,” which is regulated through the public ownership mechanism, hampers infrastructure development objectives. The government empowered SPMF to control state property and the government's share in MIA. SPMF, in turn, forms and elects the MIA's governing body and determines airport strategy and MIA's dividend policy. Indeed, the influence of SPMF on the airport operating company is much

more influential than regulatory control exercised by the air transport regulating agency, MOT. Hence, as stated earlier, SPMF, through the ownership mechanism, has continuously increased dividends, thereby catering to the government and hampering the objectives of a single policy of airport infrastructure development.

Therefore, the government's vertical coordination in "Government-MOT-MIA" and "Government-SPMF-MIA" is inconsistent and controversial. Here is a clear example of the lack of government coordination in implementing airport development policy through regulatory and ownership policy instruments. However, the failure of vertical coordination can be understood through the lack of horizontal coordination. Therefore, horizontal coordination is also crucial.

#### Horizontal Inter-Agency Coordination

Horizontal coordination refers to the coordination between agencies on the same level in the managerial hierarchy; for this study, between line ministries - MOT and SPMF. Unfortunately, there is no horizontal inter-agency coordination in airport governance. As shown in Figure 4, MOT and SPMF do not interact in airport governance and implementing NDS and CADP objectives. Moreover, miscoordination causes a conflict of interests between these agencies. Indeed, the difference in policy objectives of non-aviation and air transport regulating agencies can significantly influence the operating environment in air transport (ICAO 2018b, p.I-4-2). The SPMF is a non-aviation agency, but it affects certain aspects of the airport industry. The primary function of SPMF does not include how to regulate aviation (MOJ 2020). However, it dominates MIA's decision-making, as demonstrated earlier. SPMF, through ownership instruments, cater to the government's short-term goals, such as increasing dividends to replenish the central budget or impact the MIA's decision to invest in airport projects that are not related to airport safety improvement.

One example of horizontal miscoordination is that SPMF, as a significant MIA shareholder, agreed that MIA should reconstruct passenger terminals of Batken, Jalal-Abad, Isfana, Karavan, and Kazarman airports. On the other hand, MOT requires MIA to rehabilitate and extend these airports' runways, taxiways, and aprons for AVRO RJ-85.<sup>5</sup> Safe operations, which still have not

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5 AVRO Rj-85 is the only aircraft type that Kyrgyzstan's airline operates and can land and take off at domestic airports.

been done, unlike the terminals of Batken, Jalal-Abad, Isfana, Karavan, and Kazarman, were reconstructed in 2016-2019. Hence, SPMF’s policy objectives may be different from the objectives of MOT in the question of airport infrastructure and can raise conflicts between government agencies.

Another example of lacking inter-agency coordination refers to the conflict in resource allocation. The air transport regulating agency, MOT, utilizing regulatory control instruments, pursues improving airport safety through NDS and CADP objectives in airport development. However, this policy requires significant funds that MIA can accumulate systematically (Table 1). On the other hand, airport resource allocation is significantly influenced by the SPMF through the ownership policy instrument. Notably, one of SPMF’s functions refers to receiving dividends from the MIA’s profits and the execution of the central state budget. Therefore, the conflict of policy interests of MOT and SPMF causes the MIA’s irrational dividend policy. Consequently, the policy objective for airport infrastructure building has failed, and the cash flow from MIA to the central budget has significantly increased. From this point of view, the government uses the airports of MIA as a milking cow to replenish the central state budget, thereby deteriorating the infrastructure of Kyrgyzstan’s airports.

Table 2. The Quality of Air Transport Infrastructure, Country Rankings for 2017

State	2017
Azerbaijan	24
Armenia	52
Russian Federation	59
Georgia	69
Tajikistan	70
Moldova	86
Kazakhstan	90
Ukraine	92
Kyrgyzstan	120
Belarus	No data in ranking
Turkmenistan	No data in ranking
Uzbekistan	No data in ranking

[Source: WEF Global Competitiveness Index 2017-2018 (WEF 2018)]

Therefore, Kyrgyzstan went down by 9 points according to the Quality of Air Transport Infrastructure Index from 2007 to 2017, as measured by the World Economic Forum Global Competitiveness Index. In 2017, Kyrgyzstan was ranked 120th out of 137 countries, as shown in Table 2 (WEF, 2018).<sup>6</sup> Remarkably, among the former USSR, Kyrgyzstan demonstrated the worst performance in terms of airport infrastructure. On the other hand, even Tajikistan, the lowest-income country in Central Asia, showed better airport infrastructure performance with a score of 70 (Table 2).

As demonstrated above, in Kyrgyzstan's airport industry, due to ineffective governance in the form of government intervention and poor policy coordination, airports do not have sufficient funds to reinvest in airport infrastructure. Hence, CADP is poorly implemented, and airport facilities with equipment are in worn condition. This reality supports Slack and Rodrigue (2020, section 5) statement, which argues that effective governance ensures that air transport infrastructures are adequately funded, maintained, operated, and expanded.

Therefore, considering the importance of airports to the country's economy and air connectivity with developed markets, Kyrgyzstan's government, through vertical coordination, should facilitate the rehabilitation of airport infrastructure, which is a national strategic objective. Notably, it should exclude intervention on MIA's decision-making through appropriately functioning privatization. MIA should ensure adequate infrastructure by deciding independently. First, they should determine the volume of reinvestment for infrastructure building, and then the share of dividends. Otherwise, through coordination and ownership mechanisms, the government should force MIA to focus on airport infrastructure, ensuring infrastructure and service safeguarding all airport users. Horizontal coordination should also be adequately established so that MOT and SPMF come together to resolve conflicts in their policy interests, rationally distribute resources, and achieve policy objectives in providing safe airport infrastructure. In other words, ownership and regulatory policy instruments should be coordinated to attain sector policy objectives.

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6 The quality of air transport infrastructure indicator is one of the Global Competitiveness Index components by the World Economic Forum. It demonstrates an evaluation of the airport quality in a given country based on the WEF survey results. Thus, the country score for an indicator is based on the respondents' opinions on airports' quality (extensiveness and condition) in a given country (WEF, 2018, p.343).

## 5. Conclusion

The airport industry is a crucial part of Kyrgyzstan's transportation system, connecting the land-locked country with the world. It contributes to the national economy's growth by providing direct and indirect jobs and facilitating the flow of people, goods, and investment in Kyrgyzstan. In this sense, the government has privatized airports and developed a sector program to develop airport infrastructure. Unexpectedly, even though MIA demonstrates a sustainable growth rate in terms of increased traffic growth and revenue generated, the airport sector program has not been completed. Airport infrastructure is still in worn condition.

This study reviewed the governance of the airport industry and its impact on airport infrastructure. In particular, this article examined airport governance and policy coordination to explore the reason for poor investment in airport infrastructure. The results of this study suggest that despite the government having created a classic airport corporate governance and board structure, it has strong leadership in airport decision-making, which prevails in resource allocation. Along with this, the study also found a lack of coordination between state agencies in designing and implementing airport development programs, leading to poor airport infrastructure.

Notably, this study provides evidence that the government has designed a policy to develop airport infrastructure written in government programs. However, other government decisions are inconsistent; it pursues political interests under the name of the state's economic challenges and thus, hampers the possibility of airport infrastructural improvement. From this perspective, the government utilizes the country's airports as a milking cow to replenish the state budget; it compels MIA to increase payments to the central budget through dividends rather than increasing investment into airport infrastructure development.

In Kyrgyzstan's case, this study suggests that ineffective airport governance in the forms of government power in decision-making and poor policy coordination causes inadequate resource allocation, which has led to poor airport infrastructure. This study also makes some policy recommendations: the consideration of designing a mid-term policy. As the government has already drafted the Government Civil Aviation Development Program for the Kyrgyz

Republic for 2021-2025, it is recommended to focus on improving inter-institutional coordination. In addition, the government also should, as this study identifies, minimize intervention in decision-making processes. In other words, the government should ensure independent selection and operation of the governing board members of the airport operating company.

One of the ways to promote independent decision-making with minimum government intervention in the airport industry is to create a mechanism through which privatization appropriately functions and moves forward Public-Private Participation. This study of Kyrgyzstan, being a land-locked developing country, also presents policy implications for other countries that have faced the challenge of privatization of the industry that directly or indirectly affects the level of airport infrastructure.

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**Abstract**

# The Airport Governance and Challenges of Policy Coordination in Airport Infrastructure Building: The Case Study of Kyrgyzstan's Airports

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In general, airports, connecting worldwide markets, are the main component of air transport and an essential part of a country's economy. Many scholars have pointed out that private participation in airport ownership improves the revenue generated by air services and brings about a capital investment that improves infrastructure capacity (Oum et al. 2008). Therefore, airport privatization has become extremely important for developing landlocked economies, which face the challenges of poor airport infrastructure and low air connectivity, such as Kyrgyzstan and other small-sized economies in the Commonwealth of Independent States. However, Kyrgyzstan has continued to face the challenge of poor airport infrastructure, though airport ownership shifted to partial privatization in 2001. Moreover, Kyrgyzstan's government introduced an air service liberalization policy in 2018, which potentially can increase the physical impact on infrastructure quickly. On the other hand, Manas International Airport Open Joint Stock Company (MIA), an operating company that owns all airports in Kyrgyzstan, has successfully increased its revenue. Thus, in theory, MIA can accumulate more budget to improve airport infrastructure. This article is a partial research study of an unpublished doctoral dissertation (Beishenaliev 2021). This study examines Kyrgyzstan's case of airport governance through the inter-agency policy coordination that affects infrastructural building and maintenance of the airports. Governance is defined in this study as the process through which state agencies and airport operating entities coordinate to develop and implement policies for airport infrastructure building. For this, the author employs a qualitative analysis of primary documents in Kyrgyzstan's government policy to explore the reasons

for continuous low airport infrastructure investment. This includes an analysis of challenges Kyrgyzstan has in implementing airport policies; notably, it examines the policy instruments of airport governance and conflict of interests between government agencies in airport resource allocation. One of the findings showed significant government influence on decision-making in managing MIA's airport operation. This study found that a large amount of airport revenue has been redistributed to the country's central budget rather than to the airport infrastructure budget. This suggests that the government pursues political interests under the name of the state's economic challenges and thus hampers the possibility of airport infrastructural improvement. The importance of this study is that understanding how poor governance affects airport infrastructure may help policymakers and practitioners to improve coordination mechanisms in the design and implementation of aviation development plans, explicitly designing the Government Program for Civil Aviation Development for the Kyrgyz Republic for 2021-2025.

