

# JOINT ICAO/AFCAC REGIONAL SYMPOSIUM FOR AFRICAN STATES ON AIRPORT AND AIR NAVIGATION INFRASTRUCTURE FINANCING BACKGROUND INFORMATION

## Objective of the Symposium

For the purpose of assisting African States in the research of the best available means to improve the situation on the continent, the International Civil Aviation Organization (ICAO) and the African Civil Aviation Commission (AFCAC) are organizing a Regional Symposium for African States on Airport and Air Navigation Infrastructure Financing in Maputo, Mozambique, from 30 November to 1 December 2010. The symposium will bring together African Civil Aviation Administrations (CAAs), airports and air navigation service providers and their users, and international and regional financial institutions to exchange knowledge and expertise and to discuss possible approaches to financing of infrastructure development.

Issues to be discussed during the symposium will include, *inter alia*:

- ICAO's policies and guidance on airport and air navigation services infrastructure financing.
- Level of development of African airports and air navigation – current projects and how they are being financed.
- Assessing current and future needs for airport and air navigation infrastructure in Africa.
- Investigating opportunities for investments in airports and air navigation services.
- Developing innovative finance mechanisms – what to look out for?
- Creating an enabling environment for private sector participation in Africa's aviation industry.
- The role of various organizations in financing African projects (World Bank, regional financial institutions, etc).
- The role of ICAO in assisting States in financing infrastructure projects (Technical Cooperation Bureau, SAFE, Danish and Icelandic Joint Financing Agreements).
- Encouraging economic and political stability for increased investments in African aviation industry.

## Introduction

On the basis of information collected from States and other sources by ICAO's Secretariat, it is estimated that in recent years airports around the world have been investing on average more than USD 40 billion annually. Financing requirements of airports and air navigation services are expected to reach even higher levels in the coming years. There are no sufficient data readily available on airport and air navigation services investments in Africa to make a proper analysis of the situation in the continent. However, a rough estimate gives an indication that they represent about 2 to 3 percent of the world's total investments in airport and air navigation infrastructure.

## Conditions of the African Air Transport

Despite the vital economic and social benefits that air transport provide, and the many comparative advantages that Africa enjoys in terms of products and destination marketing, Africa lags substantially behind all other regions in the world in the development of this crucial sector. The present state of civil aviation in Africa is characterized by a large number of airlines suffering from poor financial performance, low traffic volumes, high insurance costs and low productivity. In addition, it is difficult for African carriers to compete effectively in international air transport markets on the basis of bilateral arrangements and in the absence of a liberalized regime of traffic rights to facilitate the free movement of people and goods.

Many African airlines face the following difficulties:

- Size – Despite the fact that many airlines are at international standards levels, they have not reached the critical size of major international airlines.
- Use of information technologies – New technologies are critical to the good management of the airlines but are usually very expensive and not all African airlines can afford to use them extensively.
- The fleet situation in Africa – In Africa, companies operating with obsolete and poorly maintained fleets still exist. This fact explains the high rate of accidents in Africa, high operational costs and low yields. Amongst the reasons for the low safety rate is the age of the fleet and the difficulties to renew their aircraft due to financial shortages.

The need to increase access to markets by air is particularly relevant in the context of the African continent, where almost one third of African States are landlocked with no access to the oceans or seas, and where air transport infrastructure can be developed more efficiently than road or rail. For example, in States such as Kenya, exports by air of agricultural products already constitute one of the country's largest industries and are the second biggest earner of foreign exchange in the country. With growing economic activities and development of tourism, the aviation market in Africa is expected to continue growing at above world average. This will create the need for investments in airport and air navigation services infrastructure.

### **Conditions of African Airports and Air Navigation Services**

There is a need to upgrade many African international airports and air navigation facilities to ICAO standards and recommended practices. In most of the airports and air navigation facilities, work is required for the rehabilitation of tracks, lanes and taxiways, aircraft parking areas, as well as for the expansion and renovation of passenger and freight terminals, besides the construction of fences, updating air navigation facilities and installation of electric groups, which often are in poor working conditions.

Major airport projects under-way or recently completed in Africa include:

- Burkina Faso – new airport for Ouagadougou
- Egypt – new passenger terminal and new runway at Cairo Airport, plus new passenger terminal at Hurgada International, design commenced for a third terminal and extended runway capacity at Sharm El-Sheikh International
- Libya – new facilities at Tripoli and Benghazi Airports
- Rwanda – new airport for Kigali
- Senegal – new airport for Dakar
- South Africa – new airport for Durban and expansion of other ACSA airports (Johannesburg in particular)
- Sudan – new airport for Khartoum
- Tunisia – new airport for Enfidha

There are serious concerns regarding air navigation infrastructure and air traffic management. The overall safety record in African skies requires immediate attention, and includes problems such as aging or near-obsolete equipment on the ground and in the air and insufficient safety oversight on the part of States.

### **Assistance to African States**

To date, assistance to African States in the air transport sector has largely been characterized by independent initiatives of donor States, financial institutions and agencies that focus on identified components of the air transport sector. There are, for example, many excellent projects that have been executed through ICAO, the World Bank, IATA and various other international and regional

institutions and donors. However, given the continuing problems that plague African air transport, a growing number of donor governments and lending institutions are asking for a coordinated assistance effort in the air transport sector that will commit to a coordinated approach, allowing policy makers and the donor community to work within a common strategic framework of identified priorities and goals.

### **Sources of Financing**

The results of ICAO surveys on States' practices for financing airports and air navigation services indicate that self-financing has replaced government financing as the most frequently quoted source. The increased use of self-financing and borrowing from the private sector is linked to the growing number of autonomous and private entities managing airports and air navigation services. However, the reliance on government financing still remains significant in some African States, although it could decrease in the years to come if the number of autonomous bodies operating airports and/or air navigation services increases.

A consequence of these developments is that autonomous entities operating airports and/or air navigation services are subject to a greater degree of accountability with regard to their commercial and financial performance considering the impact on the credit rating of these entities. A prerequisite for success in that area is that, airports, for example, need to have full control of the use of their buildings and land in order to ensure commercial optimization. Smaller airports may face difficulties in financing capital expansion and in such situations it may be advantageous that they be managed/operated by larger entities operating one or more major airports, which are capable of obtaining funds at lower cost.

The investment needs for air navigation facilities and services may be beyond the financial capabilities of many single States and may require international cooperation (e.g. multinational facilities and services) as well as new financing mechanisms, including joint financing. The basis for the joint financing concept is that certain air navigation infrastructure may be too costly for a State to provide and operate alone for the benefit of international civil aviation at large. This is recognized in the Chicago Convention, where Chapter XV lays down the basic principles for "joint support" action. International cooperative ventures in the provision of air navigation services have normally proven to be highly cost-effective for the provider States and the users alike, and in some instances have constituted the only means for implementing costly facilities and services which offer capacity that exceeds the requirements of individual States. By cooperating in the implementation of such facilities and the related service provision, the States concerned have been able to provide more efficient services and at lower costs than if they had to finance the facilities concerned themselves.

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