



International Civil Aviation Organization

MIDANPIRG MIDAD Task Force

First Meeting (MIDAD TF/1)
(Cairo, Egypt, 16 - 18 June 2014)

Agenda Item 3: MIDAD Project Phase 2 - Detailed Study

MIDAD FINANCING

(Presented by the Jordan)

SUMMARY

The aim of this paper is to highlight the importance of start looking for funding mechanism and solutions for the MIDAD.

Action by the meeting is at paragraph 3.

REFERENCES

- DGCA-MID/2 Report
- MIDANPIRG/13 Report
- MIDAD STG/1 Report
- Wikipedia: http://en.wikipedia.org/wiki/Project_finance

1. INTRODUCTION

1.1 MIDANPIRG/13 through Decision 13/17 agreed to the establishment of the MIDAD Study Group (MIDAD STG), to monitor the MIDAD Project and address all associated technical, operational, financial, legal and institutional issues.

1.2 During MIDAD First Study Group meeting a discussion was initiated on MIDAD Purpose and Scope; Technical issues/scenarios for the implementation of MIDAD; Operation of MIDAD and maintenance aspects; **MIDAD Financial Plan/Funding Mechanism**; Legal and Institutional issues associated with the implementation of MIDAD; and project management and Timelines for the development and implementation of MIDAD.

1.3 Jordan and Bahrain took the lead in carrying out the MIDAD initial study with the support of appropriate Consultant and in close coordination with ICAO.

1.4 In accordance with MIDANPIRG/13 Conclusion 13/21 related to the MIDAD legal framework, Bahrain, Qatar, Saudi Arabia and UAE volunteered to take the lead in carrying out the MIDAD project Phase 2- detailed study.

1.5 In accordance with Conclusion 13/21 MIDANPIRG /13 agreed that two options could be considered for the endorsement of the MIDAD legal framework by the DGCA-MID/2 meeting:

- a) A volunteer State/Group of States provides the legal framework by hosting the project; or
- b) an ICAO TCB Project for the implementation of MIDAD, including the establishment of a MIDAD legal entity or agency (similar to the MIDRMA).

1.6 DGCA-MID/2 through Conclusion 2/7 agreed that Bahrain, Qatar, Saudi Arabia and UAE take the lead in carrying out the detailed MIDAD Study (Phase 2), in close coordination with the MIDAD Study Group; and States provide all necessary support for the achievement of Phase 2 of the Study.

2. DISCUSSION

2.1 Although a MOA was signed by the majority of the MID states reflecting their commitment to the MIDAD project, but we have to admit that some member states and ANSPs having limited financial recourse to start the MIDAD operation. So the need for project financing solutions on both (multiple or individual aspects) remain highly required throughout the Region. It is to be noted that so far no constructive discussions have been conducted in this regard, and the following questions need to be answered:

- 1) Are all States capable to finance their share of the project? And How?
- 2) How to finance technical requirements within their State /Organizations?
- 3) How to finance future training requirements?
- 4) How to finance Membership and Maintenance requirements?

2.2 Project Finance could be one of the solutions; which understood to be the long-term financing of infrastructure and industrial projects based upon the projected cash flows of the project rather than the balance sheets of its sponsors.

2.3 Usually, a project financing structure involves a number of equity investors, known as 'sponsors', as well as a 'syndicate' of banks or other lending institutions that provide loans to the operation. They are most commonly non-recourse loans, which are secured by the project assets and paid entirely from project cash flow, rather than from the general assets or creditworthiness of the project sponsors, a decision in part supported by financial modeling.

2.4 The financing is typically secured by all of the project assets, including the revenue-producing contracts. Project lenders are given a lien on all of these assets and are able to assume control of a project if the project company has difficulties complying with the loan terms.

Current Available Financial Solutions

1) Government Funding

2.5 The Government may choose to fund some or all of the capital investment in a project and look to the private sector to bring expertise and efficiency. This is generally the case in a so-called Design Build Operate project where the operator is paid a lump sum(s) for completed stages of construction and will then receive an operating fee to cover operation and maintenance of the project. Another example would be where the Government chooses to source the civil works for the project through traditional procurement and then bring in a private operator to operate and maintain the facilities or provide the service.

2.6 Even where Government's prefer that financing is raised by the private sector, increasingly Government's are recognizing that there are some aspects of the project or some risks in a project that it may be easier or sensible for the Government to take. This is discussed in Government Support in financing PPPs.

2) Corporate or On-Balance Sheet Finance

2.7 The private operator may accept to finance some of the capital investment for the project and decide to fund the project through corporate financing – which would involve getting finance for the project based on the balance sheet of the private operator rather than the project itself. This is typically the mechanism used in lower value projects where the cost of the financing is not significant enough to warrant a project financing mechanism or where the operator is so large that it chooses to fund the project from its own balance sheet.

2.8 The benefit of this is that the cost of funding will be the cost of funding of the private operator itself and so is typically lower than the cost of funding of project finance. It is also provably less complicated than project finance. However, there is an opportunity cost attached to corporate financing because the company will only be able to raise a limited level of finance against its equity (debt to equity ratio) and the more it invests in one project then less that will be available to fund or invest in other projects.

3) Project Finance

2.9 One of the most common, and often most efficient, financing arrangements for PPP projects is “project financing”, also known as “limited recourse” or “non-recourse” financing. Project financing normally takes the form of limited recourse lending to a specially created project vehicle (special purpose vehicle or “SPV”) which has the right to carry out the construction and operation of the project. It is typically used in a new build or extensive refurbishment situation and so the SPV has no existing business.

2.10 The SPV will be dependent on revenue streams from the contractual arrangements and/ or from tariffs from end users which will only commence once construction has been completed and the project is in operation. It is therefore a risky enterprise and before they agree to provide financing to the project the lenders will want to carry out extensive due diligence on the potential viability of the project and a detailed review of whether project risk allocation protects the project company sufficiently. This is known commonly as verifying the project's “bankability”. For more, go to Risk Allocation, Bankability and Mitigation.

3. ACTION BY THE MEETING

3.1 The meeting is invited to:

- a) note the information provided in this paper; and
- b) include in MIDAD TF Future Work Programme, discussions about:
 - 1) Possible MIDAD funding solutions;
 - 2) identification of the possible Sources of Project Finance; and
 - 3) identification of the available project funding organizations (profit and not-for-profit).