

AIR TRANSPORT SERVICES IN AFRICA

THE WORLD BANK'S APPROACH

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AGENDA

Global Aviation
Overview

African
Aviation
Overview

Challenges
and
Opportunities

World Bank
Group
Strategy

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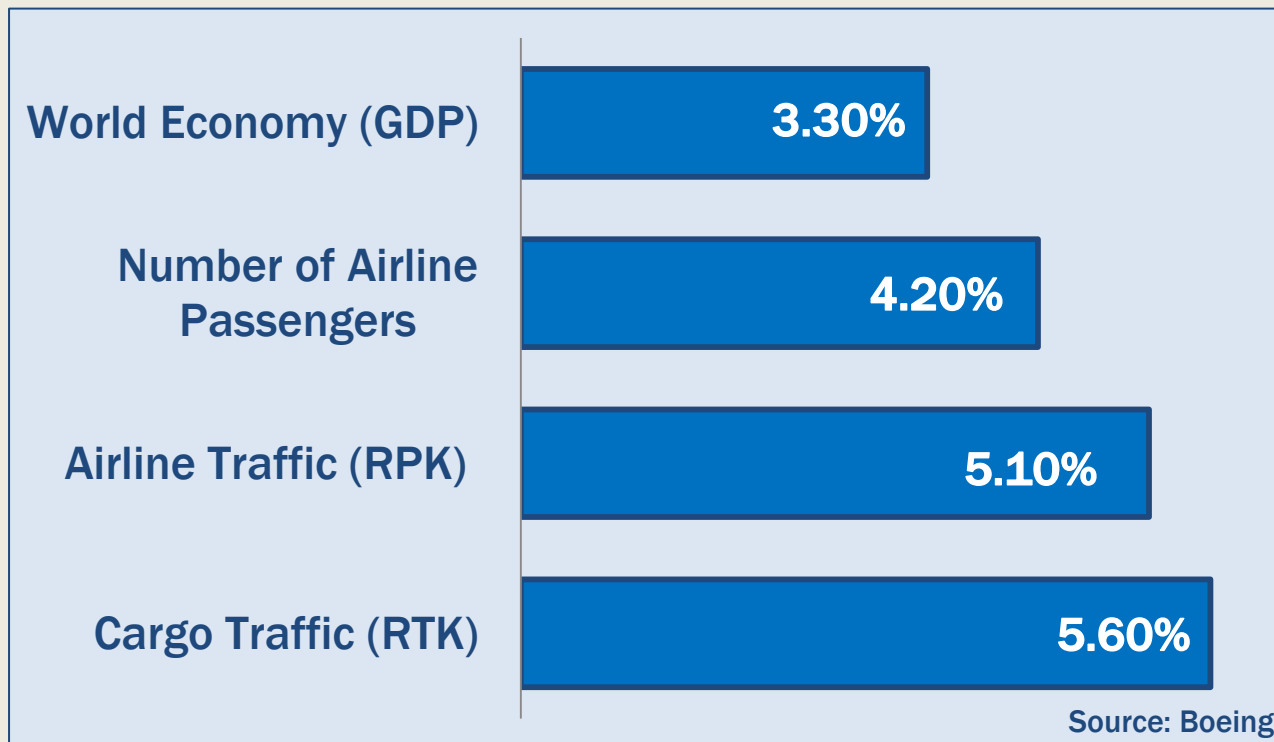
Challenges
and
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GLOBAL AVIATION INDUSTRY

Outlook

The Industry 20-Year Aviation Forecast (2010-2030)

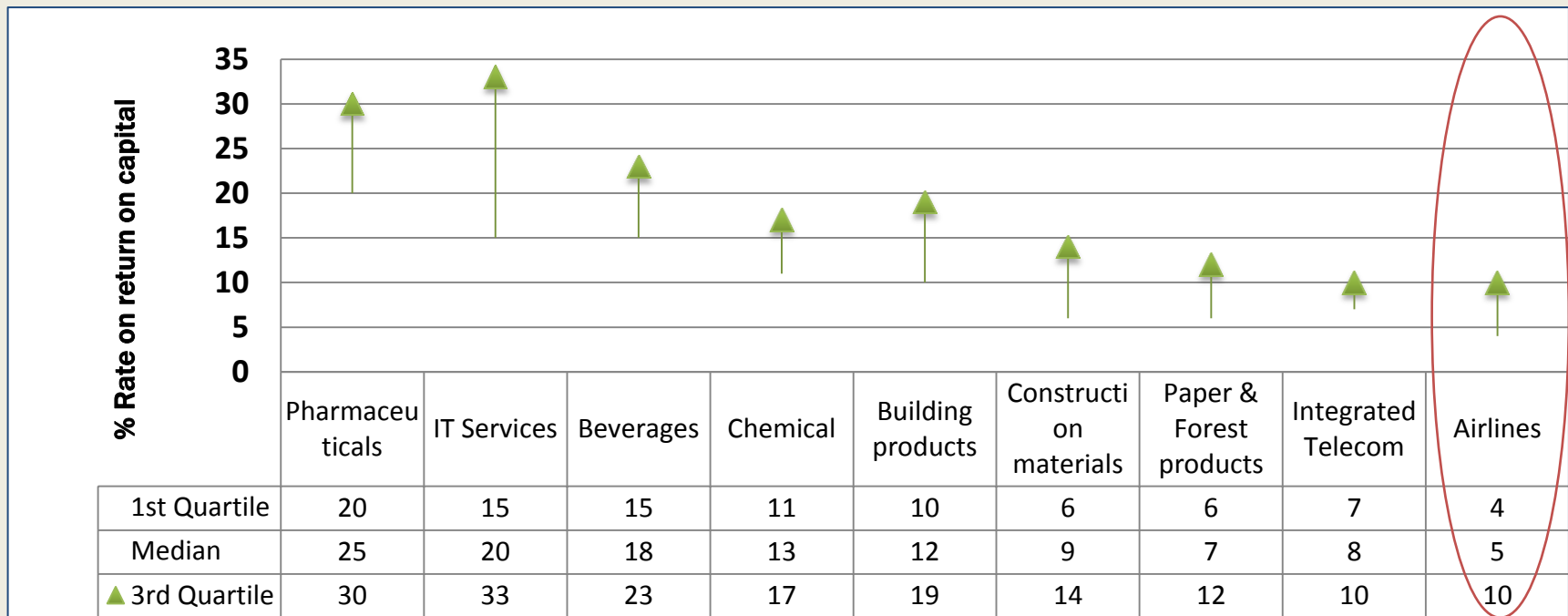


...Aviation will grow faster than the world economy!

GLOBAL AVIATION INDUSTRY

Big Investment with Low Profitability

Comparative Analysis of Return on Capital in Selected Industries



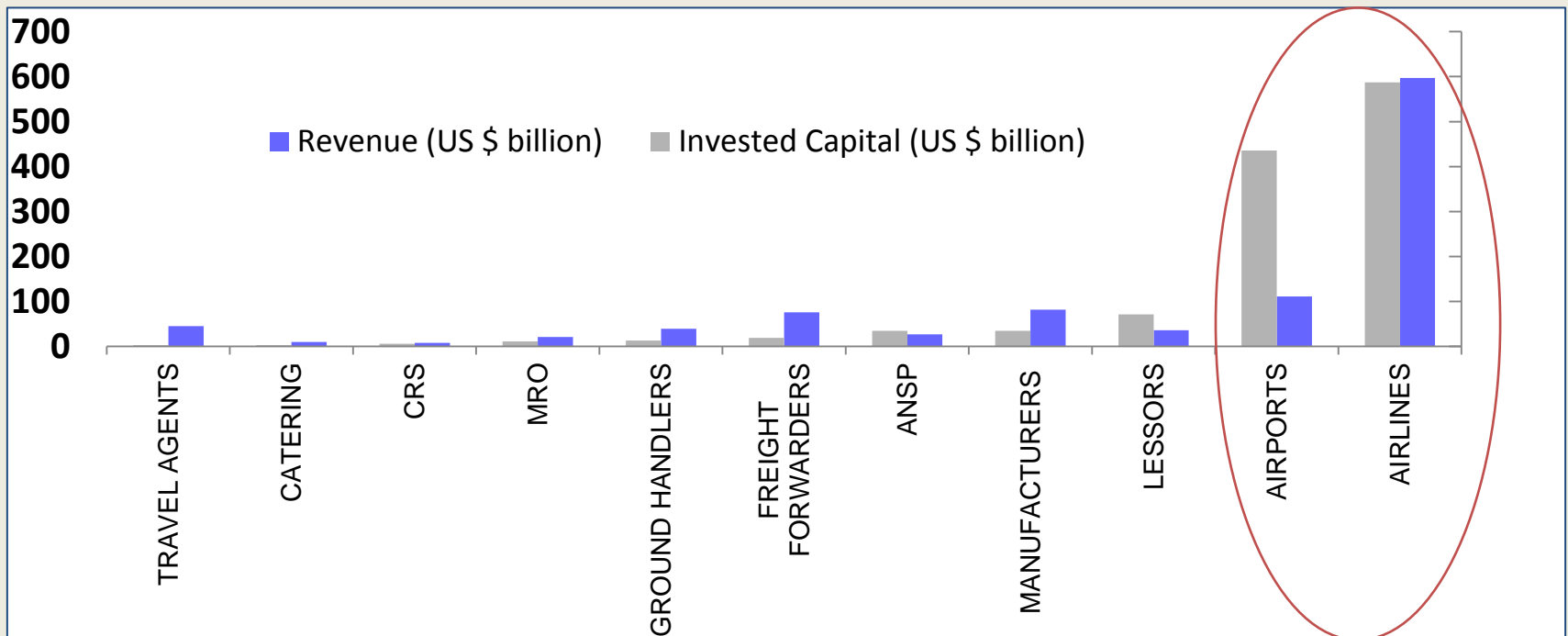
- Return on capital is less competitive than other industries

GLOBAL AVIATION INDUSTRY

Big Investment with Low Profitability

- Among the activities in the aviation sector, airlines and airports stand out as the most capital intensive

Analysis of Aviation Value Chain with Return on Capital



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AFRICAN AVIATION INDUSTRY

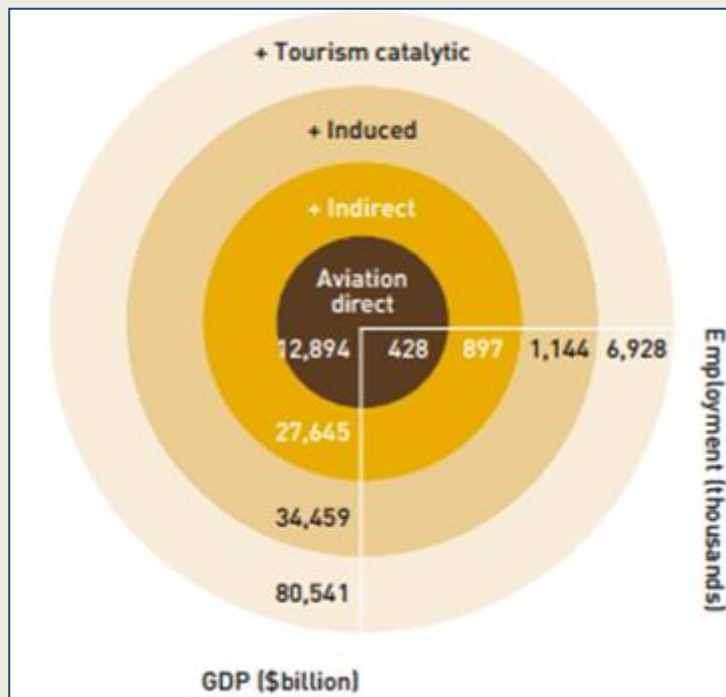
Overview of Major Trends:

- **Strong population growth:** UN forecasts an increase from 1.03 billion in 2010 to 1.63 billion in 2030
- **Strong economic growth:** Overall regional GDP increasing by 5%, however significant variation across the region
- **Wide global diaspora:** Generates Visiting Friends and Relatives travel
- **Significant tourism potential:** Popular destinations including Tanzania, South Africa, and Madagascar
- **Unmet traffic demand:** Due to poor connectivity for intra-continental services
- **Air traffic liberalization:** Positive impacts of opening up markets
- **Large land mass:** Favors aviation over other modes of transport for business/travel tourism

AFRICAN AVIATION INDUSTRY

Catalytic Impact

Total Jobs and GDP Generated by Air Transport in Africa



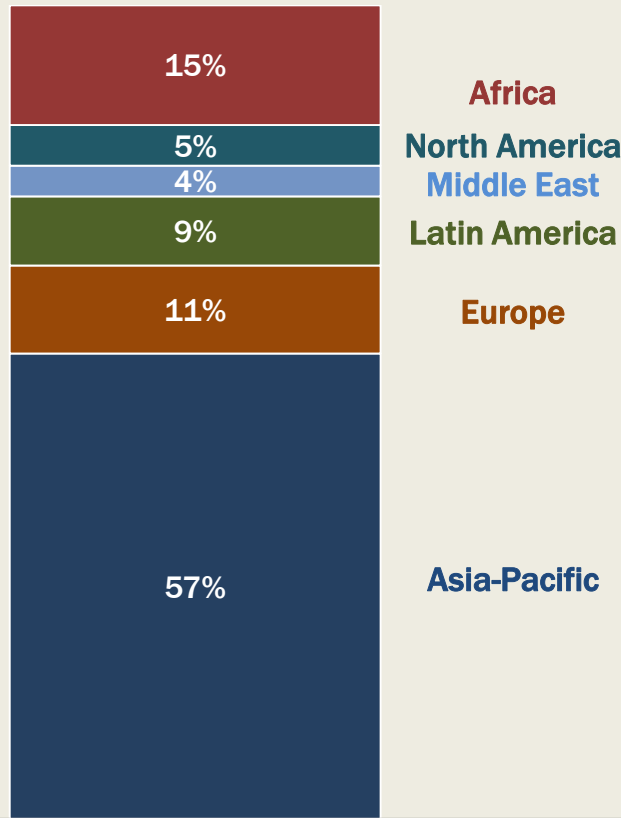
Source: ATAG (2012)

- Air Transport generates wider ‘catalytic’ benefits
- It is estimated that it generated 6.9 million jobs and \$80.5 billion in GDP in Africa in 2012
- The majority of direct jobs are on-site at airports including retail outlets, restaurants, and hotels
- Other jobs generated include for airlines, handling agents, airport operators, manufacture of civil aircraft, etc.

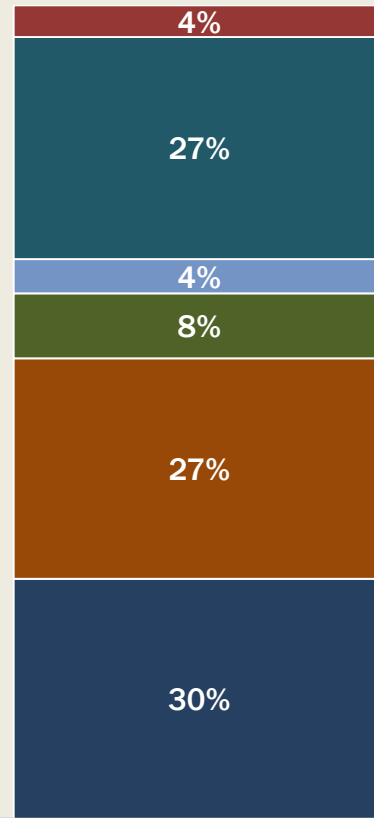
AFRICAN AVIATION INDUSTRY

Potential for Further Growth

Share of World Population



Share of World Air Service



- Africa has the second largest share of world population, but lowest share of air service
- Main reasons are low GDP per capita, weak tourism, and market fragmentation
- The African market is therefore still at a nascent stage

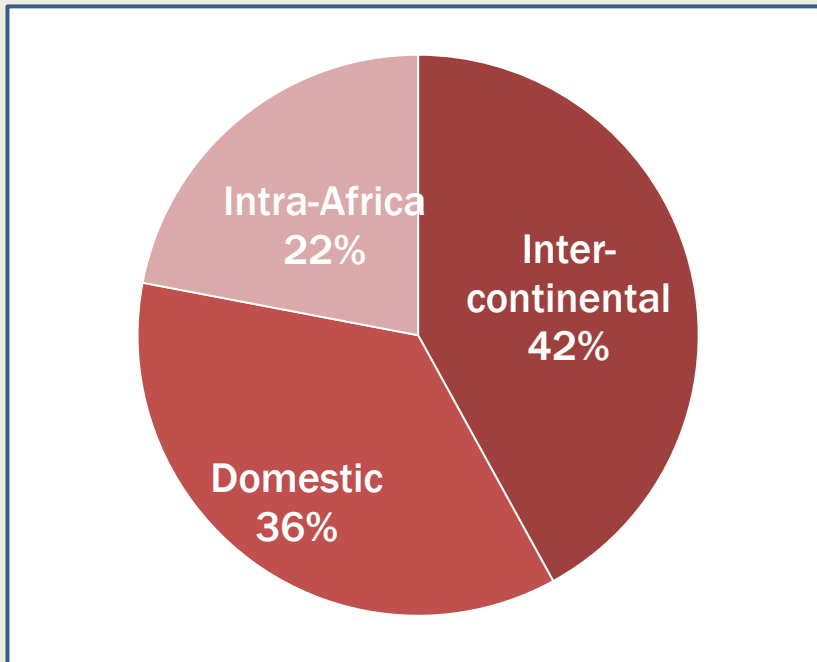
Source: ICAO, UN, OAG (2010)

AFRICAN AVIATION INDUSTRY

Traffic Patterns

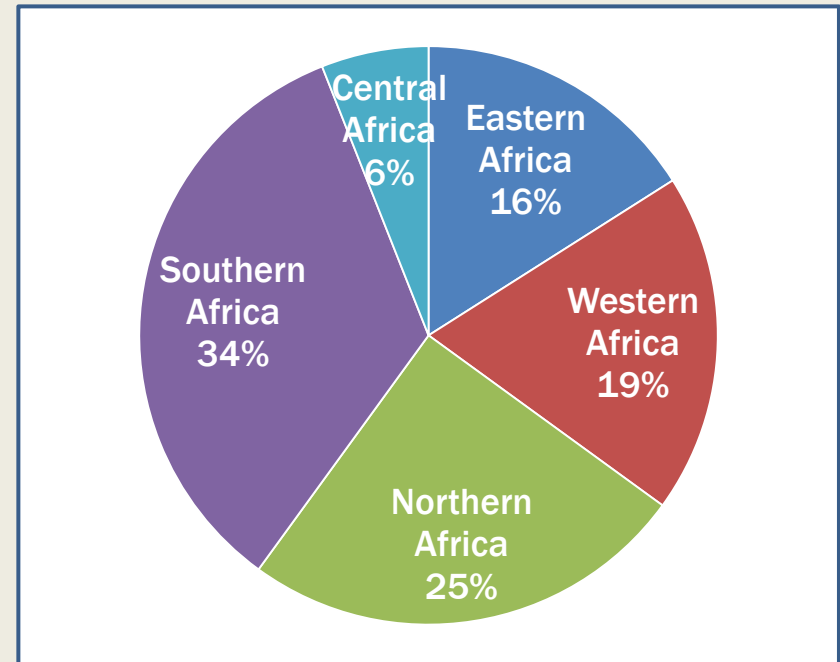
- The market is still dominated by old colonial trade ties, south and northern Africa economic poles with low connectivity between African countries

Market Segmentation by Travel Destination*



* Measured in non stop daily seats

Market Segmentation by Region*



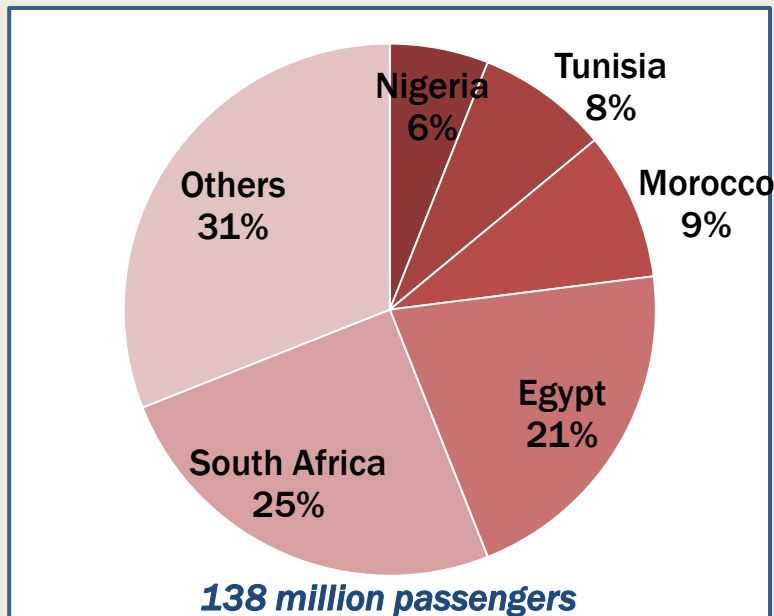
Source: OAG (2010)

AFRICAN AVIATION INDUSTRY

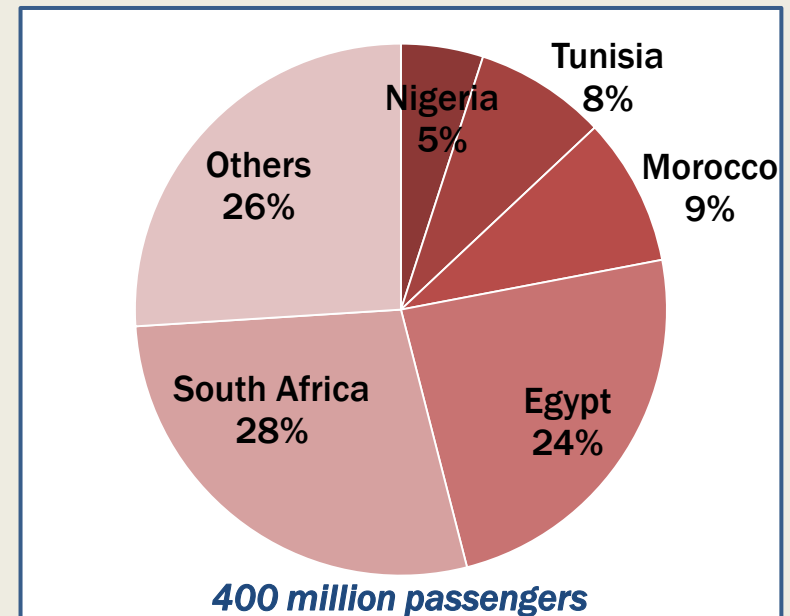
Market Overview

- Market is characterized by both concentration and fragmentation
- The top 5 countries accounts for 69% of total traffic, while the bottom 43 countries account for only 31% of total traffic, resulting in an individual markets size of less than 1 million passengers per year

2007



(Projected) 2027

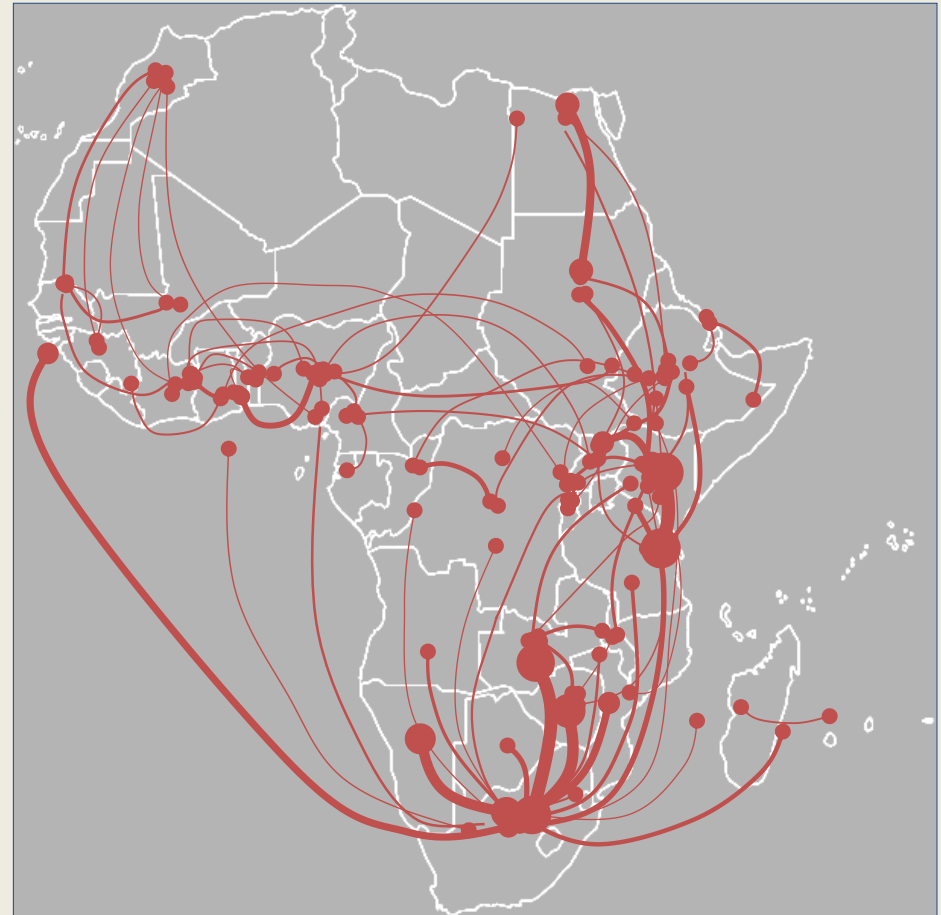


Source: ACI Statistics and Traffic Forecast Report

AFRICAN AVIATION INDUSTRY

Route Density

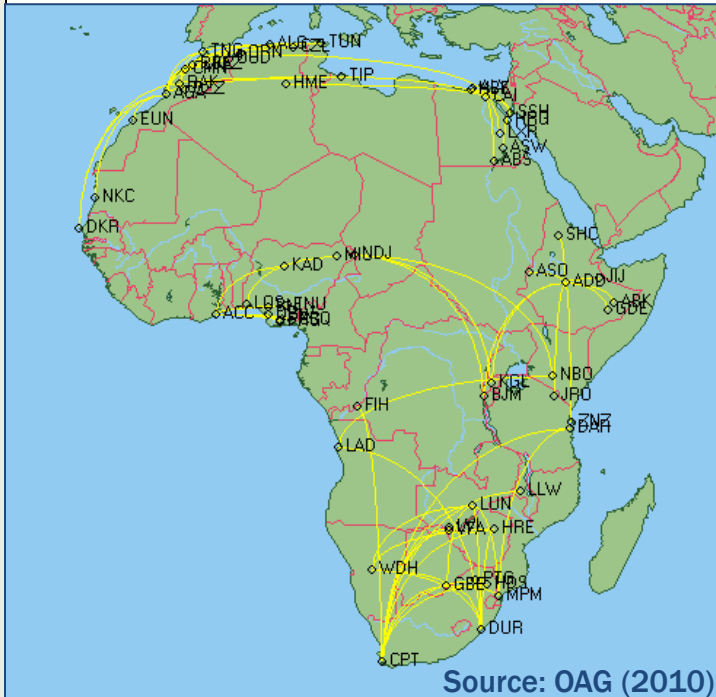
- Route density shows the hub and spoke systems have developed around major hubs such as Johannesburg, Nairobi, and Addis Ababa
- These hubs are tied to Africa's major airlines



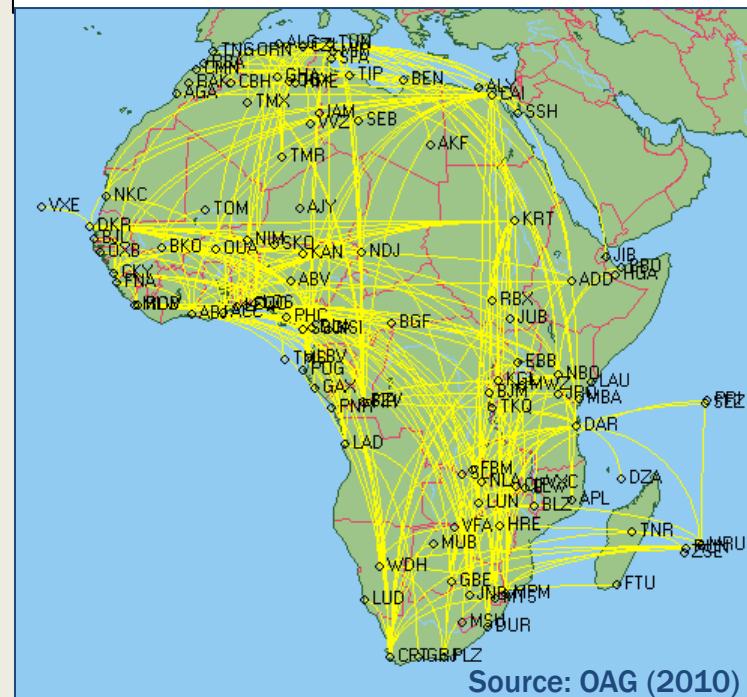
Source: OAG (2010)

AFRICAN AVIATION INDUSTRY

Map of 70 new non-stop markets that could be unlocked at Africa major hub



Map of 315 new non stop markets that could be handled by existing airport infrastructures

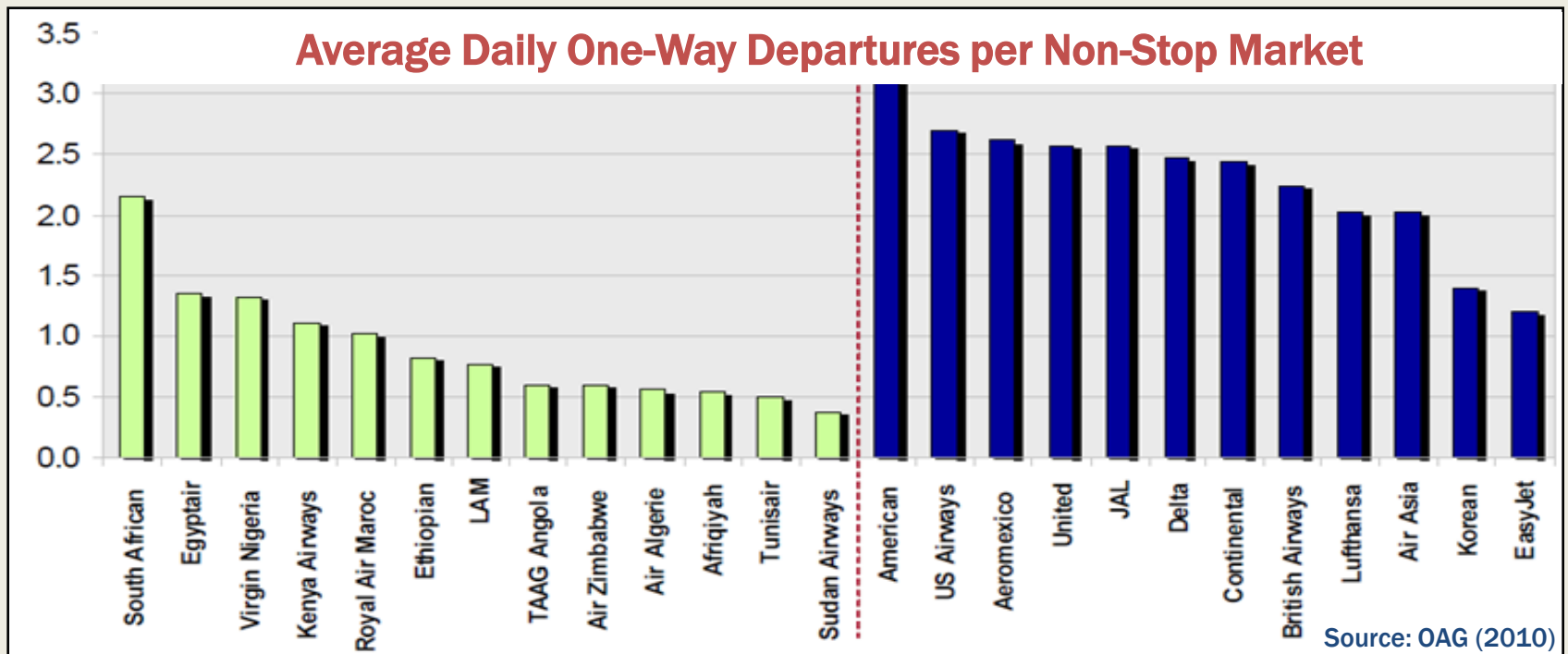


- Africa's low route density network could be improved through further liberalization, as unmet demand is significant and, with some exceptions, not restricted by insufficient airport infrastructure

AFRICAN AVIATION INDUSTRY

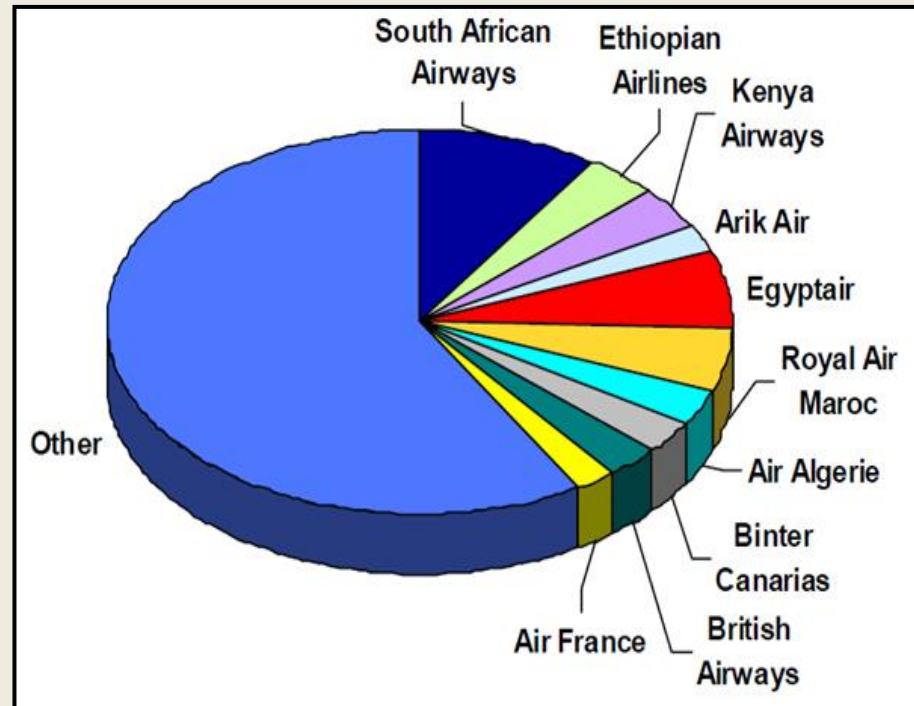
Traffic Frequency

- Even the largest markets do not support high route frequency, and direct same day competing services on non stop routes are rare
- The introduction of smaller regional jets by SAA, Kenya Airways, Ark and Ethiopian Airways should help in this regard



AFRICAN AVIATION INDUSTRY

Market Segmentation



Source: OAG (2010)

- The airlines market is fairly fragmented; the lack of large airlines is primarily due to the presence of government-owned airlines, which remain unduly protected from market forces

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and
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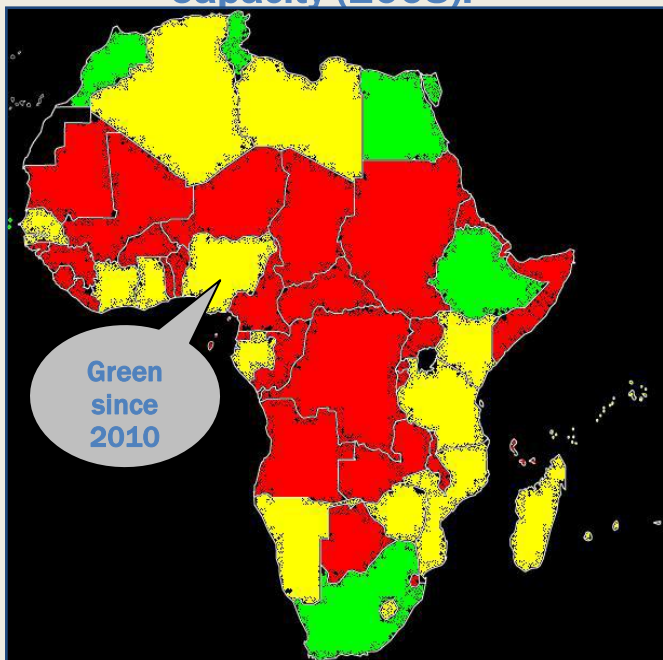
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CHALLENGES

Aviation Safety

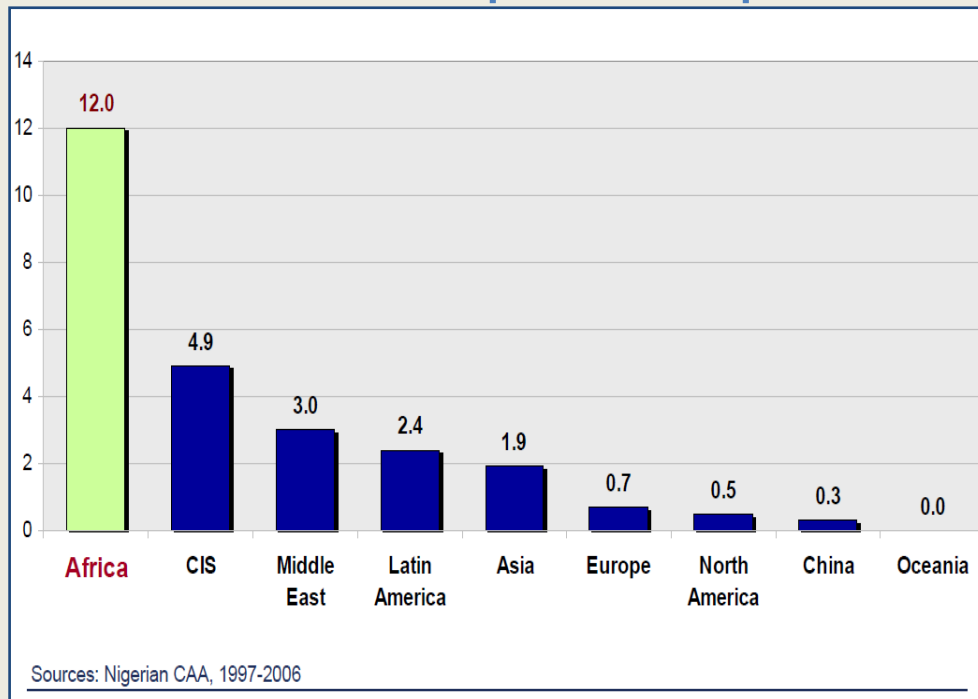
- African airlines have suffered from poor safety records , which increases their cost of insurance, aircraft leasing and overall operations
- Some success stories exist, which are linked to capable CAAs

Civil Aviation Safety Oversight
Capacity (2008):



(Red = Bad, Yellow = Average, Green = Good)

Safety Rate by Region,
Hull-Loss Accidents per Million Departure

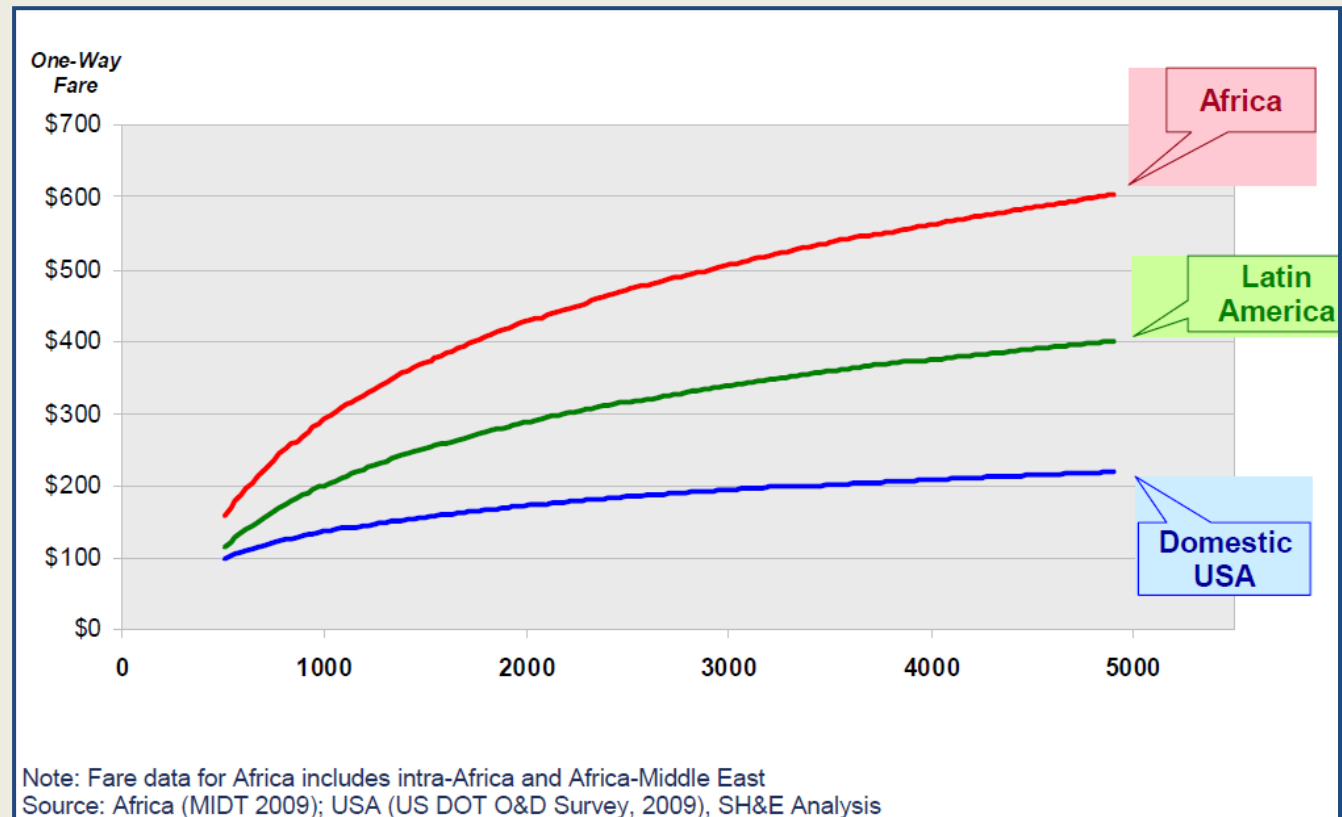


CHALLENGES

Cost of Operations

- African air fares are among the highest in the world
- This stems from
 - i) a lack of market scale
 - ii) highly fragmented markets
 - iii) poor safety records
 - iv) high airport and air fees

One Way Average Fares: Africa vs. Other Regions



CHALLENGES

Market Protectionism

- **Twenty five African countries** have weak private or small state-owned carriers
- While these countries have signed the Yamoussoukro Accord, their management of bilateral accords reflects clear patterns of protectionism of home based airlines
- As they account for nearly 40% of total African demands, their protectionism policies impact the entire African market



- | | |
|----------------|--------------|
| ▪ Algeria | ▪ Mali |
| ▪ Angola | ▪ Mauritania |
| ▪ Burkina Faso | ▪ Mozambique |
| ▪ Botswana | ▪ Namibia |
| ▪ Cape Verde | ▪ Rwanda |
| ▪ Chad | ▪ Seychelles |
| ▪ Comoros | ▪ Sudan |
| ▪ Djibouti | ▪ Tanzania |
| ▪ DRC | ▪ Tunisia |
| ▪ Libya | ▪ Uganda |
| ▪ Madagascar | ▪ Zambia |
| ▪ Malawi | ▪ Zimbabwe |

CHALLENGES

Market Protectionism

Yamoussoukro Decision:

- Intent was to liberalize intra African traffic
- Yet it is based on a designation system by each country of airlines allowed to compete
- Results to date are mixed (e.g., not a single country with a large domestic market like DRC, Nigeria and South Africa has yet given cabotage rights to a foreign African carrier)

Intercontinental traffic rights are still heavily regulated:

- Not conducive to tourism development
- Only Morocco in SSA has signed an open sky agreement with the European Union (2007) and the US (2001); entry of LCCs into the EU/Morocco market is estimated to have boosted tourism market by 1 million person per year

CHALLENGES

Poor Governance: Recent Examples



Air Senegal International

- Established in 2001 on basis of a cooperation agreement with Royal Air Maroc who held a majority stake in the Airlines
- RAM provided aircraft, personnel, and working capital
- After initial strong growth under Moroccan leadership, Senegalese government imposed new top managers which resulted in loss of focus, unjustified hiring and ultimately in RAM exiting the venture in 2009



CHALLENGES

Poor Governance: Recent Examples



BOT of MMII terminal in Lagos in 2008

- Concession award was sole sourced
- The Airport Authority was not involved in the process and technical oversight of concessionaire to date has been extremely weak
- Concession agreement did not define concession fee structure and public service obligations, yet concessionaire was given domestic traffic exclusivity for Lagos which was enforced on all airlines except Arik



OPPORTUNITIES

Market Liberalization/Open Sky Policies

Well crafted open sky policies increase air market growth

Tough sell in countries with weak public and/or private airlines and small home markets

Open sky policies will need to rely on “pooling” of markets and safety oversight capacities

Delink home markets to national airlines

- *But only in a sustainable manner in countries where safety oversight is good*
- *Tailored policies will need to be adapted to each country's situation*
- *A regional approach needs to be taken while avoiding the build up of regional 'fortresses'*
- *This will be key to improving political acceptance of market liberalization*

OPPORTUNITIES

Market Consolidation

Africa has too many airlines for its current market size

Market consolidation will encourage a market services specialization among airlines operators

Airlines should not be able to translate higher fares

- *A reduction in the number of airlines will foster better connectivity and higher competition levels*
- *Large airlines will focus on international and intra African markets using a hub/spoke system with worldwide alliances; LCCs will focus on point-to-point, no-frill services*
- *South Africa, Egypt, Morocco and now Kenya have pioneered this well known hybrid model successfully in Africa*
- *Fewer but larger airlines will exert beneficial pressure on mainly state owned infrastructure service providers*
- *As long as markets are fully liberalized, the resulting lower barriers of entry will allow new airlines to enter over profitable markets*
- *This will translate to better value for money*

OPPORTUNITIES

Privatization

- The only airport in Sub-Saharan Africa (SSA) currently under private management and privately financed is **Abidjan Airport**
- As it has been done for ports in SSA, privatization of airports (when feasible) could and should be built around the requirement of **lowering users fees** to preclude public monopolies to turn into private ones
- Airport privatization in SSA will be challenging, however, as most airport handle **small traffic** (i.e., <1 million passengers/year)
- Air traffic control fees are too high in relation to the services rendered and outside ASECNA which covers 15+ countries, there is a dire needs to **regionalize the management of air traffic**
- The use of **new technology** like ADSB could dramatically lower the cost of air traffic control in Africa (being financed in DRC)

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WORLD BANK GROUP STRATEGY

Why the World Bank?

- Largest International Financial Institution
- Independent and high quality technical advice as entry point
- The World Bank Group (WBG) can engage with a variety instruments:
 - Technical Assistance
 - Policy Advice
 - Investment Lending
 - Private Sector Lending
 - Guarantees

WORLD BANK GROUP STRATEGY

Assistance Strategy: Main Pillars

1. Advocate and disseminate information about market deregulation/open sky policy benefits
2. Support aviation sector SOEs reform linked to PPPs in coordination with IFC and MIGA whenever possible
3. Strengthen civil aviation regulatory role
4. Promote regional solutions to sector challenges



Acknowledges that no single solution to addressing the challenges facing the development of Africa air transport services

WORLD BANK GROUP STRATEGY

Instruments

- Assistance strategy reflects instruments available to support development of air transport services in Africa:

Institutions	Instruments	Recipients	Supported Activities
IDA/IBRD	<ul style="list-style-type: none"> Development or budgetary assistance loans or grants 	<ul style="list-style-type: none"> Gov't Gov't Civil Aviation Agency Gov't Owned Airport Authority Gov't Owned Airlines 	<ul style="list-style-type: none"> Regulatory/market policy development Capacity building Financing of Gov't share of PPP deals and SOE structural reforms
IFC	<ul style="list-style-type: none"> Credits Advisory services 	<ul style="list-style-type: none"> Private investor and/or operator of airlines and airports Gov't institutions 	<ul style="list-style-type: none"> Financing of new aircraft, upgrading/construction of airport facilities Transaction advisory services
MIGA	<ul style="list-style-type: none"> Political and commercial insurance 	<ul style="list-style-type: none"> Private investor and/or operator of airlines and airports 	<ul style="list-style-type: none"> Provision of commercial and political guarantees

WORLD BANK GROUP STRATEGY

Link to Africa Strategy

Africa Transport Strategy Main Pillars

1. Increase connectivity in client countries
2. Enhance support to regional integration and trade and transport facilitation agendas
3. Promote Public-Private Partnerships and leverage funding especially with IFC
4. Tackle urban mobility bottlenecks and congestions
5. Mainstream social accountability in transport projects and support capacity building for sustainable results



New Africa Region Strategy

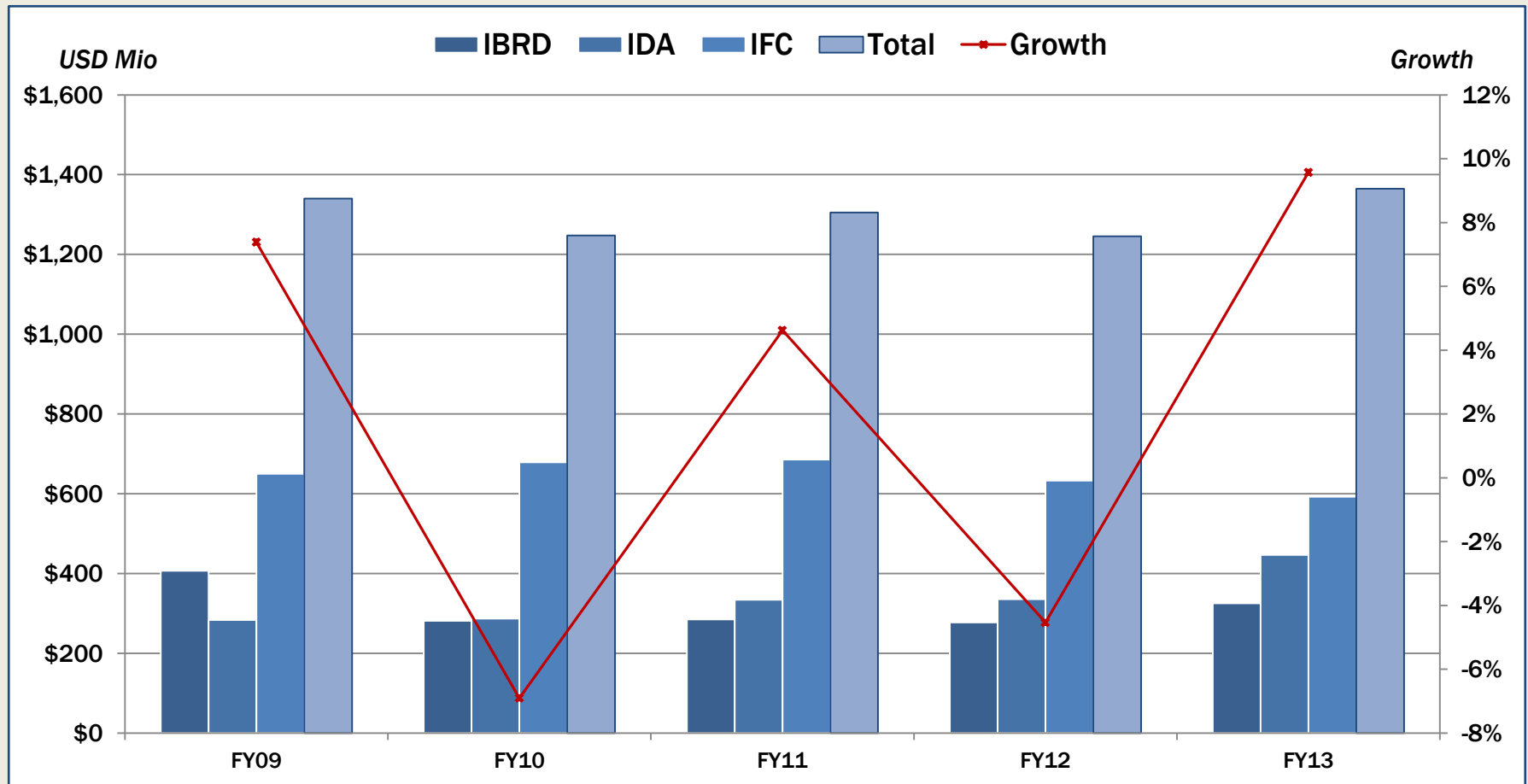
**Competitiveness and
Employment**

Vulnerability and Resilience

**Governance and Public Sector
Capacity**

WORLD BANK GROUP STRATEGY

Evolution of the Air Transport Portfolio



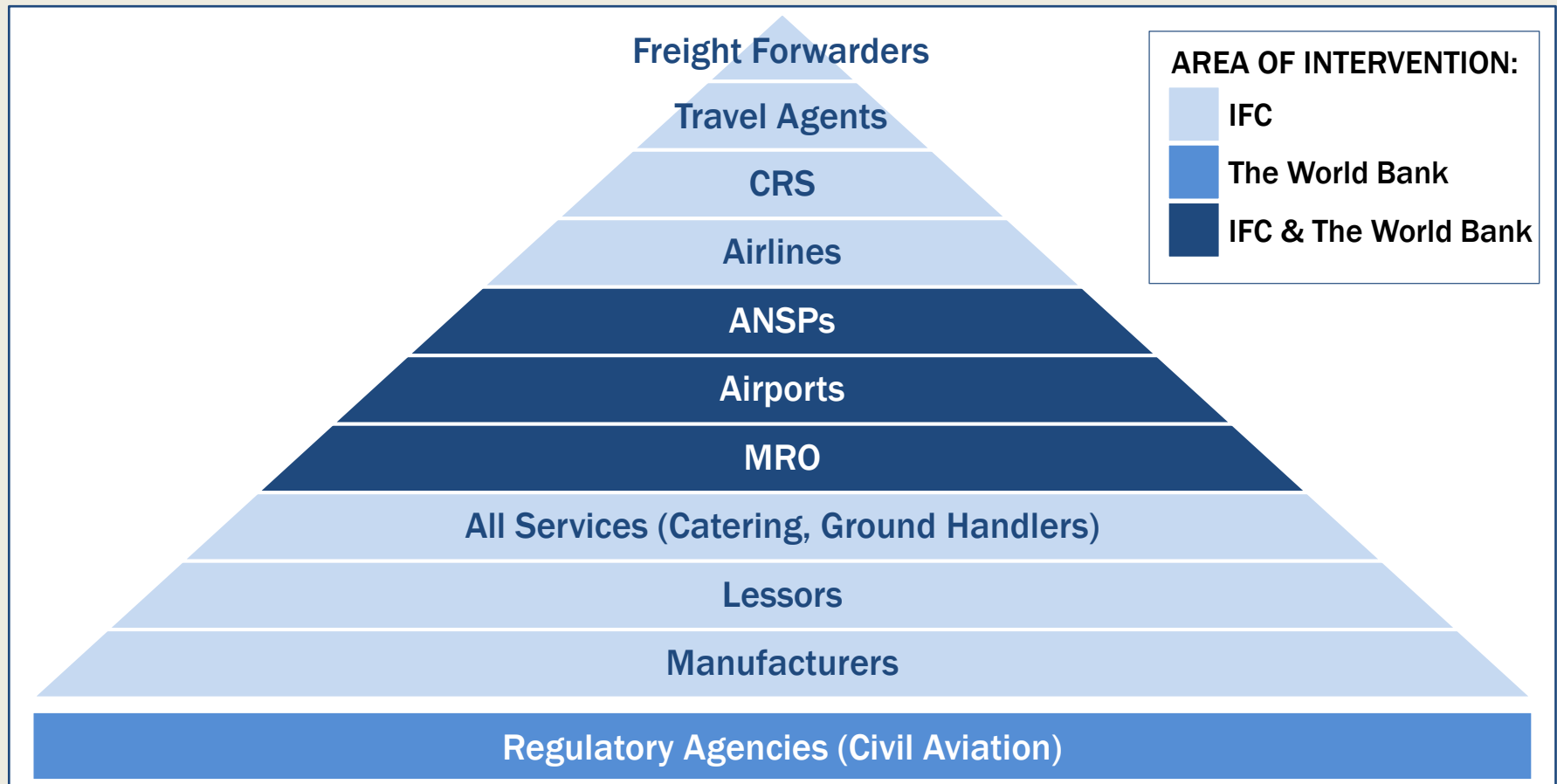
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Fiscal Year 2013 Portfolio

Active Projects (in millions USD)	IBRD			IDA			IFC			TOTAL		
	FY13	FY12	Change	FY13	FY12	Change	FY13	FY12	Change	FY13	FY12	Change
WBG Total Active Portfolio	103,049	105,134	-1.98%	74,473	68,573	8.60%	49,617	45,275	9.59%	227,139	218,982	3.72%
WBG Active Transport Portfolio	26,842	26,855	-0.05%	13,491	11,725	15.06%	2,791	2,690	3.75%	43,124	41,270	4.49%
Transport % of Total Active Portfolio	26.05%	25.54%	0.50%	18.12%	17.10%	1.02%	5.63%	5.94%	-0.32%	18.99%	18.85%	0.14%
Air Transport Active Projects	325.20	277.2	17.32%	446.78	335.5	33.17%	592.8	632.9	-6.34%	1,364.78	1,245.60	9.57%
% of Total Active Portfolio	0.32%	0.30%	0.02%	0.60%	0.50%	0.10%	1.19%	1.40%	-0.21%	0.60%	0.57%	0.03%
% of Total Transport Portfolio	1.21%	1.00%	0.21%	3.31%	2.86%	0.45%	21.24%	23.50%	-2.26%	3.16%	3.03%	0.13%

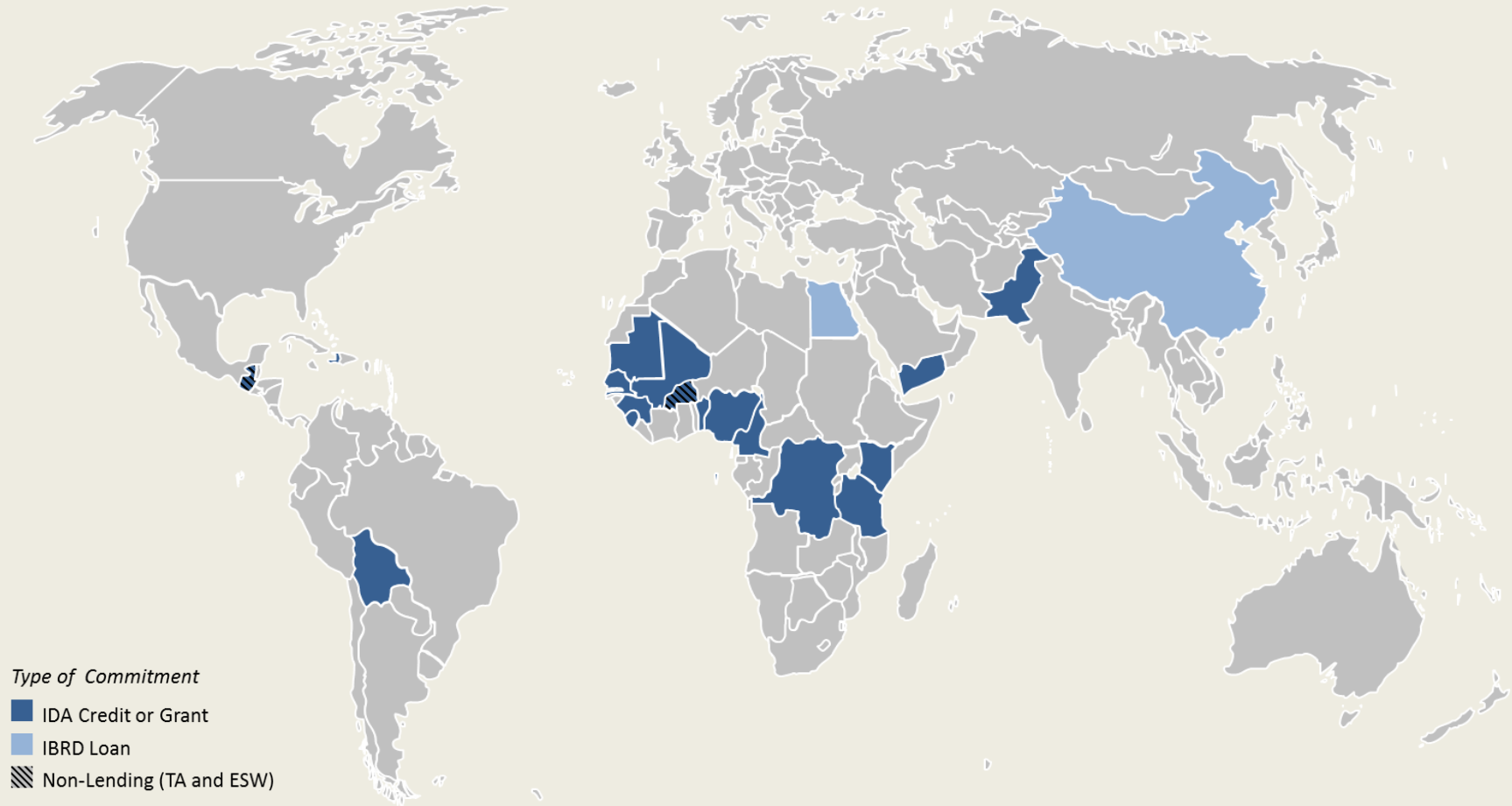
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Footprint in the Aviation Value Chain



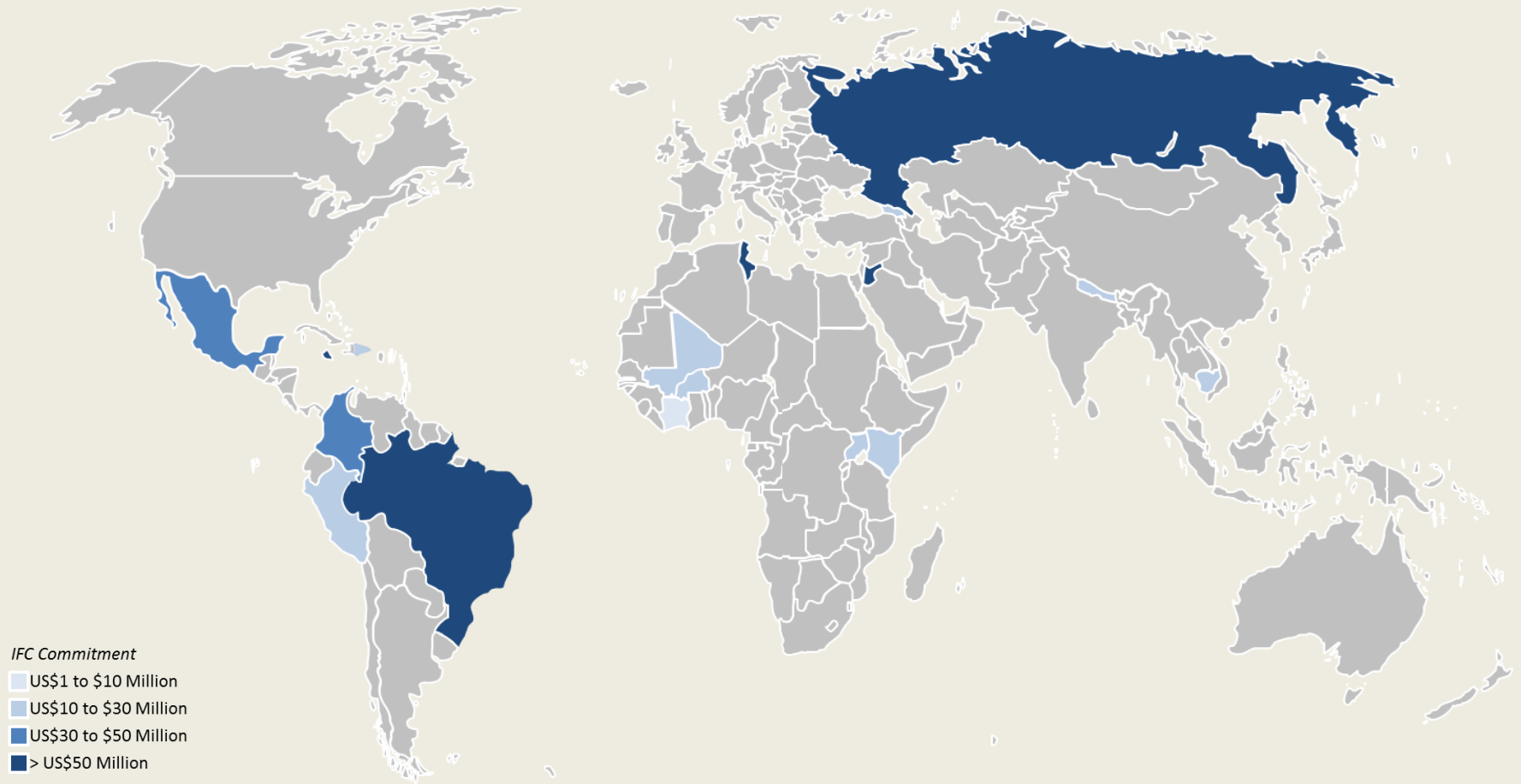
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FY13: AIR TRANSPORT PROJECTS WORLDWIDE IBRD AND IDA



WORLD BANK GROUP STRATEGY

FY13: AIR TRANSPORT PROJECTS WORLDWIDE IFC



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IFC Engagement: Interest in target sub-sectors among focus countries*

Country	Airports	Airlines & ACMI	Cargo & Warehouse	Leasing Co.	Ground Handling	Air Traffic Control	Fuel Handling	Training Schools	MRO
South Africa	○	●	●	●	○	○	○	●	●
Ethiopia	○	○	●	○	○	○	○	○	○
Mauritius	○	●	○	○	○	○	○	○	○
Tanzania	○	●	○	○	○	○	○	○	○
Kenya	●	●	●	○	○	○	○	○	○
Nigeria	○	○	●	○	○	○	○	○	○
Ghana	○	○	○	○	○	○	○	○	○
Cape Verde	○	○	○	○	○	●	○	○	○
Senegal	○	○	○	○	○	n.a.	○	○	○
Cote D'Ivoire	○	○	○	○	○	n.a.	○	○	○

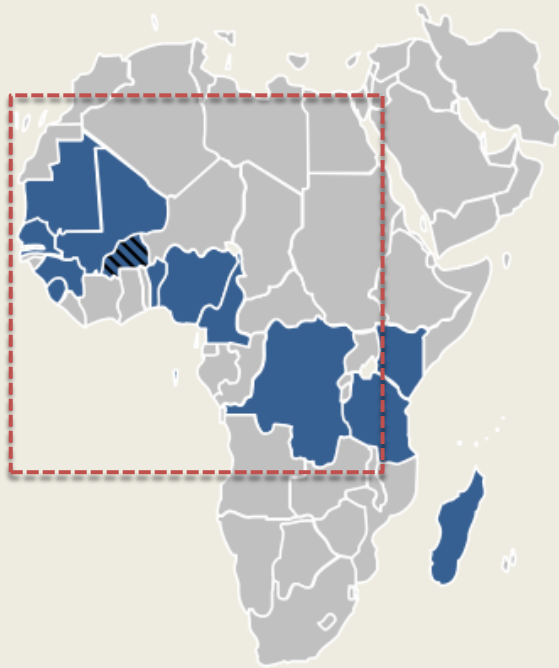
*Preliminary analysis
subject to change

● High Potential ○ Medium Potential ○ Low Potential

WORLD BANK GROUP STRATEGY

PROJECT EXAMPLES IN AFRICA

- Majority of active World Bank Air Transport projects are in Africa
- Aviation safety and security still a major issue in most of Sub-Saharan Africa



Project: Regional West and Central Africa Air Safety and Security Project

Countries: Burkina Faso, Cameroon, Guinea, Mali, Nigeria, Benin, Mauritania and Senegal)

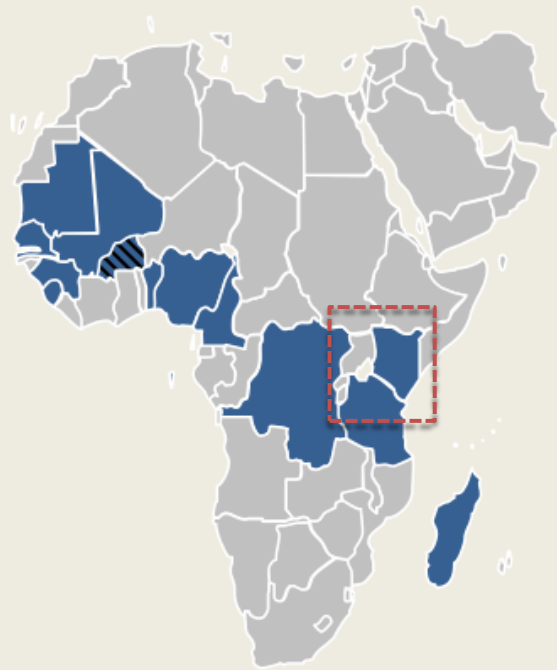
Key Themes: Safety and Security Oversight, Institutional Capacity Building and Infrastructure Improvements

Aviation Component: US\$78 Mio

WORLD BANK GROUP STRATEGY

PROJECT EXAMPLES IN AFRICA

- Majority of active World Bank Air Transport projects are in Africa
- Aviation safety and security still a major issue in most of Sub-Saharan Africa



Project: Kenya Northern Corridor Transport Improvement and Transport Sector Support Project

Country: Kenya

Key Themes: Airport Infrastructure Financing and Capacity Building, Safety and Security

Aviation Component: US\$79 Mio

WORLD BANK GROUP STRATEGY

PROJECT EXAMPLES IN AFRICA

- Majority of active World Bank Air Transport projects are in Africa
- Aviation safety and security still a major issue in most of Sub-Saharan Africa



Project: Transport Sector Support Project

Country: Tanzania

Key Themes: Airport Infrastructure Financing and Capacity Building, Safety and Security

Aviation Component: US\$114 Mio

WORLD BANK GROUP STRATEGY



➤ The World Bank will continue to play an important role as a connector

QUESTIONS?

THANK YOU

www.worldbank.org/airtransport