



**STRATEGY FOR THE DEVELOPMENT OF THE
AIR TRANSPORT INDUSTRY IN AFRICA**

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INTRODUCTION

It is a well recognized fact that there cannot be a sustainable regional economic and political integration unless there exists a well developed communication across the regions and the continent.

AU, NEPAD and all regional and international financial organisations have always advocated and focused on investment in infrastructure, such as airports, air traffic navigation, civil aviation safety and security to the exclusion of air carriers.

Many African carriers do not have access to the commercial financial markets and where they do, the cost of financing is mostly prohibitive. This is mostly due to the negative risk perception of the continent in general and the individual African countries, which mainly stems from the political and economic instability that has characterized the continent in the past several decades.

It is with these background that the African airlines are approaching the African Development Bank (ADB) and other developmental institutions to seek together new and creative ways that will address the immediate, medium term and long term needs of the airline industry.

ROLE OF AIRLINES IN AFRICA'S DEVELOPMENT

In Africa, air transport plays an important role in the socio-economic development and regional integration. The absence of effective ground transportation network linking cities, the immigration and customs bottlenecks at the national borders coupled with the difficult terrain and weather vagaries leaves air transport as the most reliable means of transportation in many

parts of the continent. Directly, it generates about 470,000 jobs and contributes US\$11.3 billion to the continent's Gross Domestic Product (GDP).

The need to maintain national unity has been a major consideration in many countries. Air transport facilitates this by enabling access to even the most remote corners of a country.

Cooperation within Africa is facilitated by air transport. Despite the Sahara Desert being a natural barrier between Arab countries in the north and the rest of the continent, with no reliable surface transport to connect them, air transport facilitates economic, political and social cooperation.

Airlines are important for strategic reasons, especially for landlocked countries like Botswana, Burkina Faso, Burundi, Central Africa Republic, Chad, Malawi, Mali, Niger, Rwanda, Uganda, Zambia and Zimbabwe.

Air transport is critical for the movement of some agricultural products. Horticulture is big business in many countries in Africa. Being perishable goods, they need to be moved quickly to markets all over the world.

An airline can bring about the promotion of tourism and ultimately the generation of foreign exchange. Tourism is big business in several countries in Africa. South Africa, Egypt, Morocco, Mauritius, Tunisia, Kenya, Zimbabwe and other countries earn substantial amounts of revenue from tourism.

REGULATORY AND INSTITUTIONAL FRAMEWORK

One of the major impediments to the completion of the institutional framework under the Yamoussoukro Decision is the lack of financial resources necessary to put in place the remaining regulatory and institutional framework.

These include the funding of the activities of the Monitoring Body, the work of harmonization of competition regulations as well as the establishment and operationalisation of the Executing Agency and the dispute settlement mechanism.

In view of the importance of these frameworks for the full and speedy implementation of the Yamoussoukro Decision, African airlines urge the ADB and other financial institutions to provide financial assistance to enable the AU complete these tasks.

SUMMARY OF AIRLINE FUNDING REQUIREMENTS

A summary of the critical areas for airline funding requirements was identified by airlines. The funding sought is for building the capacity of African airlines as viable operating entities and can be divided into short-term, medium-term and long-term. The areas of funding highlighted in this paper can be summarized as follows:

A. SHORT-TERM (0-3 YEARS)

- Simplifying the business and ICT development (e-ticketing)
- Safety initiatives (safety training and funding IOSA)
- IOSA Auditing Firms
- Capacity building establishment of an African Airline Training Foundation (AATF).
- Risk Management
- Maintenance & Training Facility for West Africa

B. MEDIUM-TERM (3-5 YEARS)

- Route/Network Development (establishing statistics databank, etc)

- Inter-Africa Network Development
- Feasibility study on creation of a Leasing Company
- Fleet Modernization

C. LONG-TERM (OVER 5 YEARS)

- New Technology Infrastructure Development
- Maintain modern maintenance, repair and overhaul facilities
- Modernize training infrastructure (simulators and other facilities)
- Airline Restructuring
- Creation of new airlines

SIMPLIFYING THE BUSINESS (STB)

Investments in information technology have the potential of improving service delivery and lowering the cost. To remain competitive, airlines can no longer afford to rely on their legacy systems and outdated technology. What is more, the big global carriers are setting as one of the main criteria for cooperation with other airlines the adoption and use of a certain level of IT.

Transforming the industry through the application of IT will eliminate the current excessive use of paper in airlines operations, improve efficiency and save costs.

African airlines are desirous of implementing e-ticketing. The AFRAA Secretariat has invested resources in training and awareness creation of the dangers of not meeting the deadline. What is needed is the funding to procure and install e-ticketing equipment. As the cost of capital is high and returns from investment in e-ticketing is likely to take time to recover, African airlines are seeking “soft loans” for investments in e-ticketing as well as the other StB projects outlined above.

ICT DEVELOPMENTS

Globally, business is increasingly being dominated by information technology. The airline industry is not an exception. In order to assess the ICT requirements for the African airlines, AFRAA initiated a study on 4 key areas of ICT developments in the industry which was funded by SITA.

The report of this study which focus on e-ticketing, online booking, call centre set-up and ICT security will be presented by SITA to this meeting.

STATISTICS ON TRAFFIC

There is no central database for traffic statistics on the continent.

AFRAA is proposing the sourcing of grants for the establishment and funding of a centrally coordinated statistics database for air transport. Processed information from this database could then be made available to all users including; governments, Regional Economic Communities (RECs), transport and tourism organizations, etc.

INTRA-AFRICAN NETWORK AND HUB DEVELOPMENT

The challenges confronting air travelers in Africa is largely the result of the lack of connectivity and low flight frequencies between some city pairs.

Airlines are keen to seek cooperation and collaborations that will improve air transportation in Africa. But their efforts will have to be complemented by the continental development partners through funding of studies in network restructuring, alignment of schedules and the creation of additional hubs particularly in the West and Central African regions.

SAFETY INITIATIVES

There is need to raise safety standards in African airlines in general to reach world standards by 2008 as agreed under the AFI Safety Enhancement Team initiatives.

One important industry safety initiative is the IATA Operational Safety Audit (IOSA) which is now mandatory for all IATA member airlines by 2008. It is essential to support this initiative for the IATA/AFRAA member airlines transport operations on the continent. The other important initiative is the enhanced training of airline personnel on safety by AFRAA to increase the capacity of the industry to reach world class standards of safety in their operations and aircraft maintenance and inspection activities.

IOSA AUDITING FIRMS

Currently, only four airlines are IOSA certified and the rest of the 40 airline members of IATA/AFRAA are yet to be IOSA certified. In addition, as IOSA certification becomes widely recognized as the airline industry standard throughout the African continent, all the approximately 200 airlines in Africa would need to undergo IOSA auditing.

To meet the growing need to audit the various airlines on the African continent, it is necessary for the continent to have one or two approved IOSA auditing organizations to create these entities, support is required from the African Development Bank (ADB) to train the auditors and ensure that the auditing firm is operational as soon as possible.

RISK MANAGEMENT

Effective risk management is an essential element of good corporate governance. However, within most African airlines, the concept of risk management is not known or understood. Funding is, therefore, being sought to sensitize and create awareness of the critical need for effective risk management in airlines and to train and impart skills on how to identify and access the risks on an airline and on measures to mitigate the risks.

In particular, most African airlines are unable to access the various fuel price hedging and currency hedging instruments due to the perceived risks of the airline. The African Development Bank (ADB) can facilitate access to the hedging markets by African airlines at competitive rates.

FLEET MODERNISATION

The average age of African airline fleets is 20 years, with most of the smaller airlines flying ageing aircraft of up to 25-30 years old. Such aircraft are maintenance intensive and have high fuel consumption at a time of astronomical fuel prices. To reduce operational costs, African airlines need to modernize their fleet. However, due to the perceived risks, the international money and capital markets are unwilling to provide funding critically needed for modernizing African fleets.

Intervention by the African Development Bank (ADB) will help by guaranteeing or providing security to facilitate the sourcing of funds for African airline needs.

ESTABLISHMENT OF AN AFRICAN AIRCRAFT LEASING VEHICLE

The urgent need for modernizing the fleet of African airlines and the challenges that many carriers face in accessing the financial and leasing market has been pointed out earlier.

To address the need for need for modernizing African fleet, one option is establishing an African leasing company. The objective of such company shall be to make available aircraft on lease to the African airlines at reasonable rates, terms and conditions.

AFRAA calls on the ADB to support the idea and provide assistance in the feasibility study.

AIRLINE TRAINING FOUNDATION

A study conducted by the International Airline Training Fund indicated that:

- A huge need for training
- That the existing resources on the continent could not meet the huge training needs

AFRAA is proposing the setting up of an African Airlines Training Foundation (AATF) which would act as a vehicle for mobilizing and channeling funds to meet the huge training needs on the continent.

The funding support sought could be directed into the following areas:

- 1) Provide scholarships for airlines personnel to train at the established world class training centre on the continent cited earlier

- 2) Provide cost effective training by using highly qualified instructors and facilitators, available through AFRAA
- 3) Support the recently launched AFRAA Diploma and Distance Learning Programmes that are designed to create a cadre of well trained people in various areas of specialization.

MODERN MAINTENANCE AND TRAINING FACILITIES

Africa boasts some well equipped and modern maintenance overhaul, and repair (MRO) facilities spread in various areas of the continent. These need to be kept up-to-date with the rapidly changing technologies, such as the new aircraft which are being procured by some African airlines, such as the state-of-the-art B787 Dreamliner. Several African airlines have benefited from using the African MRO at competitive rates. To ensure that the MRO centres continue to be up-to-date and maintain world class standards, funding need to be available at competitive rates.

Likewise, training facilities need to also maintain world class standards and would benefit from the availability of funding for capital and capacity building projects.

Currently the West African region lacks an MRO and Training centre. Support is being sought from the ADB to facilitate and support the setting up of such an MRO and training centre.

RESTRUCTURING AND CREATION OF NEW AIRLINES

It is established that many of the African national carriers need to be restructured if they are to be able to compete and be able to survive in the highly competitive and increasingly liberalized environment. Restructuring of these airlines is also essential if the airlines are to be privatized and attract the necessary foreign

investment partners. The study and implementation of such restructuring programs require funds which are not readily available in the market.

In regions where the absence of viable airlines have created a vacuum in air transport adversely affecting the development of the region, there is a need to support and augment private initiatives to establish airline to fill the vacuum.

THE WAY FORWARD

As the way forward, African airlines propose the following:

- The establishment of an Airline Development Fund (ADF). The fund will be a vehicle in which the participation of various funding institutions, development and other stakeholders would be channeled and coordinated.
- Establish a mechanism for continued dialogue and follow-up between the African carriers, African Development Bank (ADB) and other interested financial institutions and industry partners. In this regard, it is proposed that:
 - a) The African Development Bank (ADB) establish a focus center contact point within its structure with responsible the interaction and coordination with the airline;
 - b) Set-up a small committee consisting of the African Union (AU), the African Development Bank (ADB) and the African Airlines Association (AFRAA) and other stockholders to follow-up and monitor progress in the implementation of the decision of this meeting and address any problem that may arise in the process.