



**15th ANNUAL AIR FINANCE FOR AFRICA
CONFERENCE**

OPENING ADDRESS

BY

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INTRODUCTION

The African Airlines Association feels honored and privileged to be invited to participate in this high level and now well established Air Finance Conference.

I'm particularly delighted to join you here in Cape Town and make in my turn some contributions, as some few years ago, I was myself introduced to the main issues of the Industry in a similar conference at the same venue.

It is therefore my duty to express heartfelt sentiments of gratitude to the organizers and pay a resounding tribute to Nick Fadugba for his dedication, perseverance and outstanding contribution to the awareness of the general public, stakeholders and State officials on all air transport issues. Through his publication and this Conference, Nick has always been at the avant-garde of African strategic reflection on the continent's air transport challenges and way forward.

Many innovative solutions have actually germinated in this Air Finance Conference, which once ambitioned to consign them in the form of a blue print. This drop- out project ought to be revived and implemented.

Today, I wish to highlight for your attention, AFRAA vision on the role of air transport in the development of the continent and identify, for further reflection, the areas of needs that call for financial assistance to the airline industry.

ROLE OF AIRLINE INDUSTRY IN THE CONTINENT'S DEVELOPMENT

The African continent ranks among the biggest in the world. The map of Africa is so vast that it could indeed contain the USA, the entire European Continent, the India sub- continent and Australia without exhausting its space.

This immense dimension requires intensive transport services to allow free movement of people and goods across the continent. So far Africa has failed to establish satisfactory transport links between its nations. The road project to link Dakar to Djibouti since the colonial days has never

been translated into reality. That of a railway from Cape Town to Cairo is still far from implementation. Actually, in all African countries, railways have grown grass everywhere, leaving little hope for the rails to be responsive to the continent's transport needs. Air transport definitely, appears as the most rapid and accurate mode of transport that could help the continent address its domestic communication needs.

It is worth recalling that the economic and political integration of the European Union started with the common market of coal and steel, and gradually the European countries jointly created a privileged economic exchange zone whereby each country made the others become its first business partners. In the process, through synergy, emulation, economic integration and gradual regulation of the imbalances, by means of community subsidies, all the countries, especially the most deprived nations such Spain and Portugal, produced more wealth and increased the rate of their economic growth.

Africa can adopt a similar approach by developing and integrating its transport economic sector, especially its air transport industry.

To this end, we need to support, restructure and consolidate the airlines around the continent, on one hand, the big carriers to link the various African regions between each other and the continent as a whole, with the rest of the world, on the other hand, the medium and small airlines, as many of them are playing essential roles in the development of intra-regional trade and tourism. These are the two most important areas of potential immediate economic development of the continent.

Ladies and Gentlemen, we need to drum up this diagnostics and development road map so as to invite all Banks, Donors and Organizations dedicated or committed to the continent's economic progress, to accord more financial assistance to African airlines as they are major development boosters in Africa.

The African Airlines Association is actively leading this campaign with the African Development Bank, the NEPAD, the World Bank and the European Union Commission and ACP Fund called Pro-Invest to refocus these funding agencies on airline business in Africa.

Most of these donors actually address wrongly all transport issues under infrastructure and therefore believe that once you build airports or finance air navigation systems, air transport development is secured. Our teaching is that no matter how good your airports or air navigation systems are if

the airlines are grounded, there would be no air transport improvement. The donors ought therefore to reconsider their financial contributions to the airlines so as to put in place the fundamentals for the continent's economic development.

AIRLINE FINANCIAL NEEDS

It is for this reason, that jointly with the airline CEO's at their High Level Conference organized by AFRAA, with the Chairperson of the African Union Commission, that of the ADB and the Executive Secretary of UN-ECA last May in Tunis, the African Airlines Association listed and presented a number of projects that request donors' assistance.

After discussion and short listing, priorities have been set as follows:

A. SHORT-TERM (0-3 YEARS)

Request to CDE-ProInvest

AFRAA has made an application to CDE-ProInvest for a grant of 1.5 million dollars to assist the small and medium airlines that can not afford to migrate on time to e-ticketing or get IOSA certificate before the deadline.

For IOSA audits, we have taken the option to train internal IOSA auditors for each airline. These auditors' assignment will be to prepare our airlines for the first official audit, but also to keep the airlines always compliant with the IOSA safety standards so as to pass easily the following recurrent audit tests without extra efforts.

In agreement with IATA, we have also planned to establish one or two African accredited IOSA audit firms, so as to lower this safety requirement cost for African airlines.

Application to be addressed to African Development Bank (ADB)

We are preparing additional funding requests to be addressed to the African Development Bank. They include:

- Regional Maintenance & Training Facilities:

Actually, some airlines have made notable investments by themselves to develop their maintenance and training centers so as to offer

services to the other African carriers. They include Egyptair, Royal Air Maroc and Ethiopian Airlines. The latter is now servicing many Nigerian aircraft in their hangar in Addis Ababa.

The African Airlines Association would like to recommend that financial institutions such as the African Development Bank be encouraged to support financially these proactive airlines by according them preferential condition loans for these Intra-African service related investments.

- Schedules coordination between African airlines to facilitate travelers' continuation connections must be encouraged. We need to quickly put in place for the airlines, professional software that can help achieve effective results on this project.
- We lack reliable statistics in Africa to conduct market surveys and study route developments. With a financial support from African Development Bank (ADB) a useful data bank could be developed.

B. MEDIUM-TERM (3-5 YEARS)

- Risk Management becomes a necessity in the business today. The Bank can assist the industry in developing risk management culture and tools. Furthermore, there is a need for innovative financial instruments that include ADB warranty for instance, to mitigate the African financial risk that rates very high and makes access to the financial market very difficult for the average African airline.
- Fleet modernization is likely to be unaffordable for many of our airlines. There was a suggestion to do a feasibility study on a Leasing Company project to address this issue.

C. LONG-TERM OVER 5 YEARS

Other requirements were listed such as:

- New Technology Infrastructure Development
- Modernization of training infrastructure (simulators and other facilities)
- Airline Restructuring and most importantly

- Creation of new airlines and support to existing private carriers

In West and Central Africa, where long haul aviation has almost disappeared, particularly in the francophone countries, ADB and other development banks should give support to new initiatives such as Air CEMAC or the project being promoted in West Africa Mr. Djondo, the founder of ECOBANK strongly backed by Siphon MUSELEKU of this country, President of the Chambers of Commerce of the SADC region. We equally think that private airlines that have successfully made their inroads into the business such as Belview Airlines should be strongly supported to further develop.

Ladies and Gentlemen, it is critical that the donors and development banks resolve to put high on their agenda the financial needs of African airlines. This should also be done by all African States and Governments. For instance, many of our States have not yet ratified the Cape Town Convention that greatly assists in reducing equipment financing costs for all carriers of the world. We ought to push for such ratification.

EFFORTS TO BE MADE BY AIRLINES

Having said this, Ladies and Gentlemen, in the long run, airlines cannot depend on development banks and donors' funding for sustainable development. Their equity capital and financial structure should be responsive to their development needs. In this regard, the major recommendation of AFRAA is privatization.

Beyond this, the airlines should be in position to use public savings for their investments. The prerequisite is to be profitable enough to access such fundings with stock exchanges, insurance companies and pension funds that are allegedly flooding Africa with cash.

In most cases, this result can never be achieved unless the small size issue of the airline is addressed. Most of African airlines simply don't have a turnover that can make them eligible for listing on the stock exchange. In addition, it is almost impossible to small and non profitable airlines enough to attract public saving investment.

The way forward is consolidation and formation of African alliance groupings which should be spearheaded by the big carriers of the

continent provided that the States on their side simplify and facilitate cross border investments.

CONCLUSION

Mr. Chairman, Ladies and Gentlemen, these are in summary, AFRAA analysis, ideas and actions on the airline finance needs and challenges. Sometime in 2002, the African Airlines Association came out with the idea to establish a Special Airline Development Fund.

A then young former CEO of Ghana Airways, Emmanuel QUARTEY Jnr. passed over the concept to me. I took it to the highest level: Presidents Obasanjo, Mugabe, Bongo-Odimba, MBEKI, Eyadema, and Prime Minister Meles. They all cheerfully welcomed the idea and promised support. In AFRAA AGA in December 2003, the Leader of the Great Jamahiriya of Libya publicly expressed his high appreciation and declared that Libya will be a contributor of reference to this Fund. I believe that with time, we will make it.

But before then we have to keep the ball rolling. IATA proposed to create a Training Foundation together with ASA and AFRAA with the objective of collecting grants from NEPAD and ADB to train airline staff members. The project didn't attract the expected interest. In agreement with IATA, AFRAA will represent it under its exclusive banner as an African project in which IATA will feature as a technical partner.

In the meantime, I'm pleading before you partners, aircraft, engines and spare parts manufacturers to give us support for skill and technical training as well as management training. We will welcome scholarships to be used by our members in the various training schools of the continent. We will accept gratefully contributions in kind if you prefer for instance to organize specific training courses for us.

Training people creates bonds and make them buy from you. Beyond that the world of the King of Abome in Benin deserves to be repeated: If all the sons and daughters of this country with their fingers cover the holes of the leaking Jar, we can carry water with it"

LONG LIVE AFRICAN AVIATION AIR FINANCE CONFERENCE!
And thank you very much for your attention!