



Challenges In Financing Airports Infrastructure

Ghana Airports Company Limited

Dr. John Okwesie Arthur

(Deputy Managing Director- Finance and General
Services)

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DEVELOPMENT OF AIR TRANSPORT IN AFRICA

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Agenda

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FINANCING

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Introduction



- Air transport is a crucial development driver bringing both economic and social benefits, including regional integration. It has major rippling effects on job creation as well as trade and tourism etc.
- The availability of efficient airports in one's country is the key to influence an investor's decision on whether or not to invest in that particular country since air transport enables faster commute.



Stakeholders Expectations

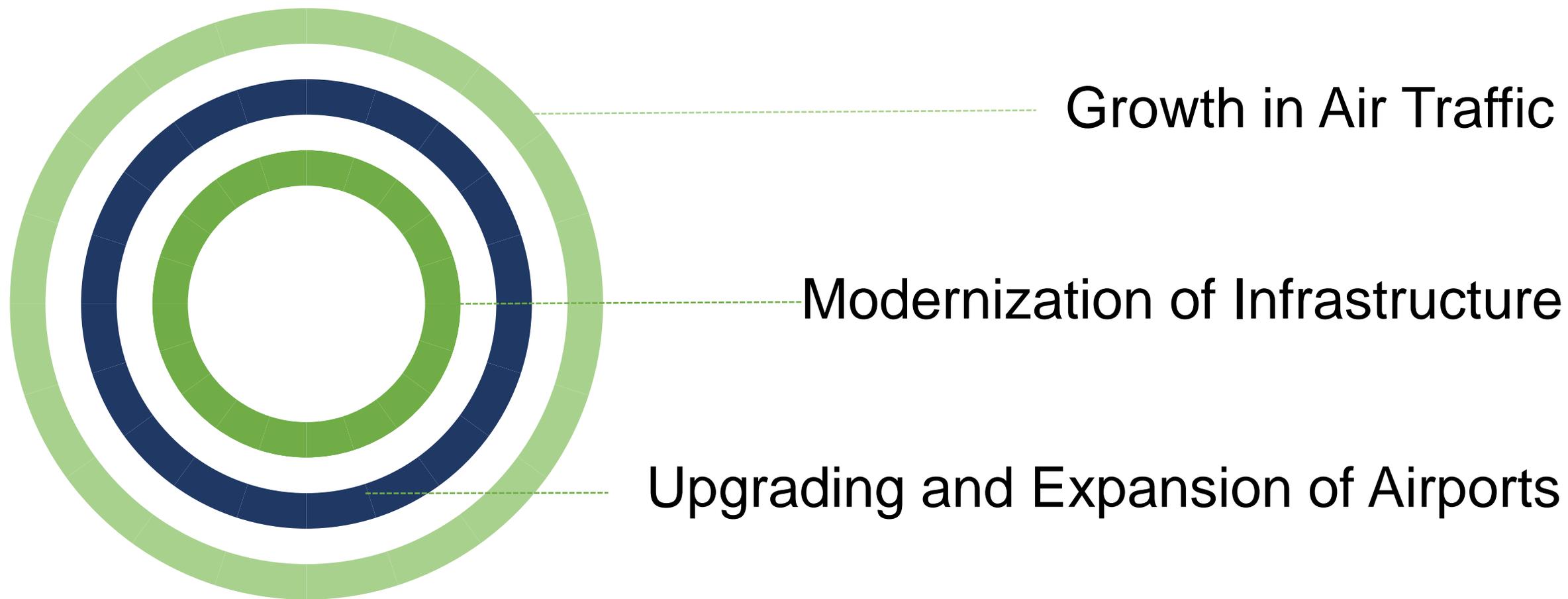
- Stakeholders expect the following from an efficient airport;

- Spacious terminals;
- Parking aprons for aircraft;
- Check-in desks;
- Boarding gates;
- Good Runways;
- Improved and efficient technology (FIDS, CUTE, CCTV installations, etc.);
- Modern Baggage Carousels;
- High capacity fuel farms;
- Efficient Ground Handling services





Global Developments





Global Trends

In dealing with these developments globally, it is imperative that airport managers consider the following;

Liberalization of air transport services as a result of ;

- Changing traffic patterns due to changing flight routes
- Increase in passenger traffic

Thus necessitating an expansion of facilities & renovation of secondary airports to absorb growth.

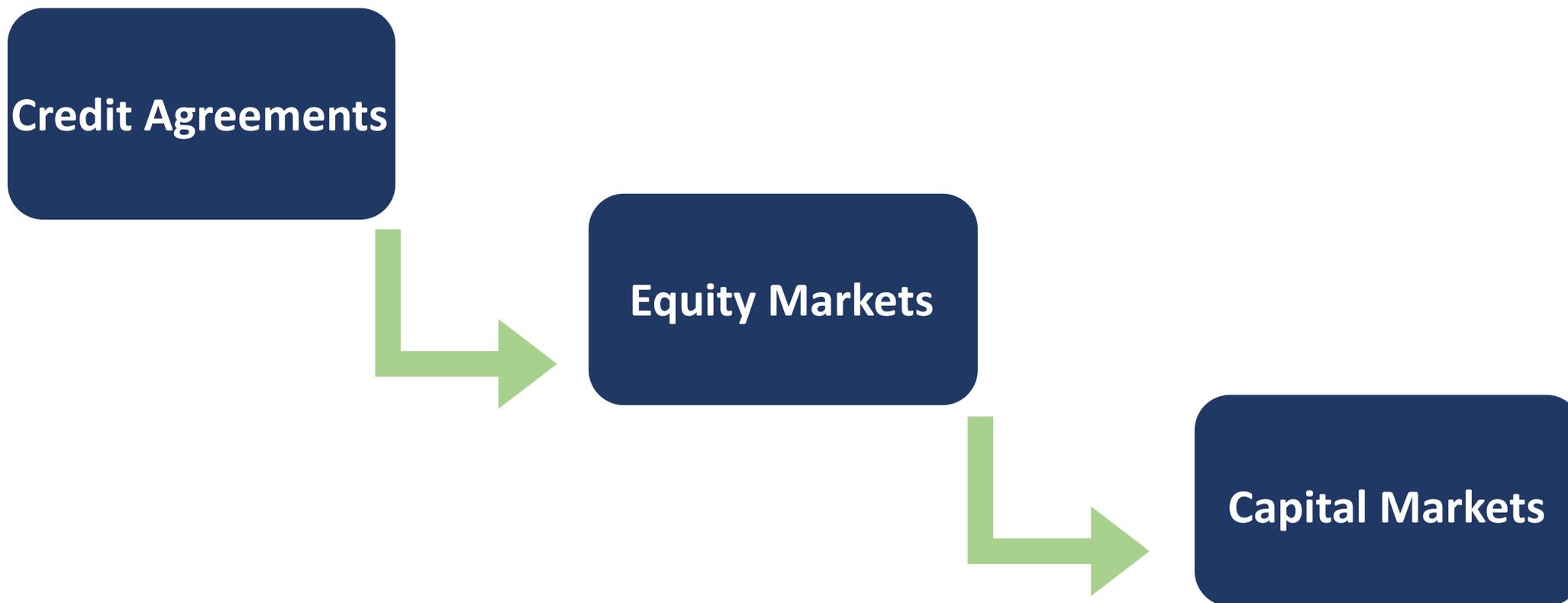
Equipment and Infrastructure;

Airport Infrastructure Requirement for new aircraft calling for airfield improvements and expansion. E g:
A380



Financing

The financial market can be divided into three principal categories:





Financing



✈ Global access to appropriate financing is a major challenge for this capital-intensive sector

✈ There are many sources. Namely:

- Airport surplus (retained earnings generated in prior periods)
- Government grants-in-aid
- Borrowed funds
- Third-party development
- Private sources



Financing- A Case For Developing Countries



In developing countries such as Ghana, airports are mostly owned directly by governmental or quasi-governmental organizations

However, there is variation in financing airport development in these developing Countries. These include;

- Government loans
- Equity financing
- Bank loans (commercial or government development banks)
- Export credits
- Tied aid or loans
- Credits from international and regional development agencies.



Challenges to Financing

Government vs. Private Investors;

Infrastructural investment gap due to governmental budgetary constraints thus the need for private investors to support and build efficient airports

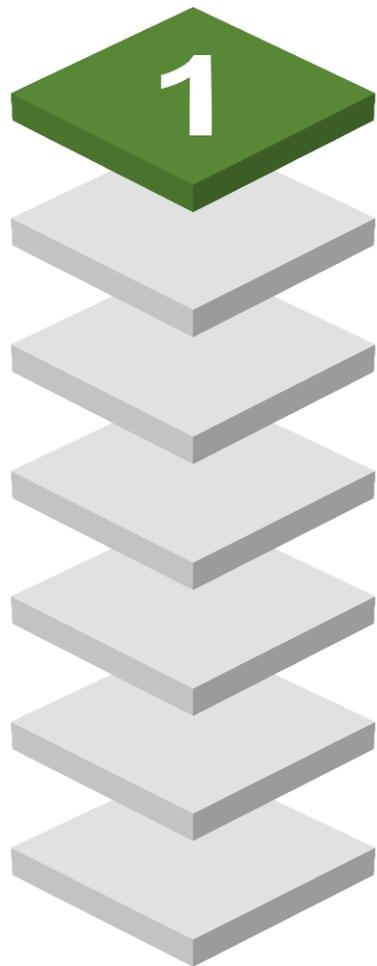
Development Finance Institutions (DFI's) are well placed to respond to a sector that offers socio-economic benefits but struggles to find lenders

Export credit agencies are ill-suited to the African context

Local banks have insufficient funds and leasing solutions even with the use of subordinated and mezzanine loans to close financing gaps for promising projects.



Financing- Investor Challenges

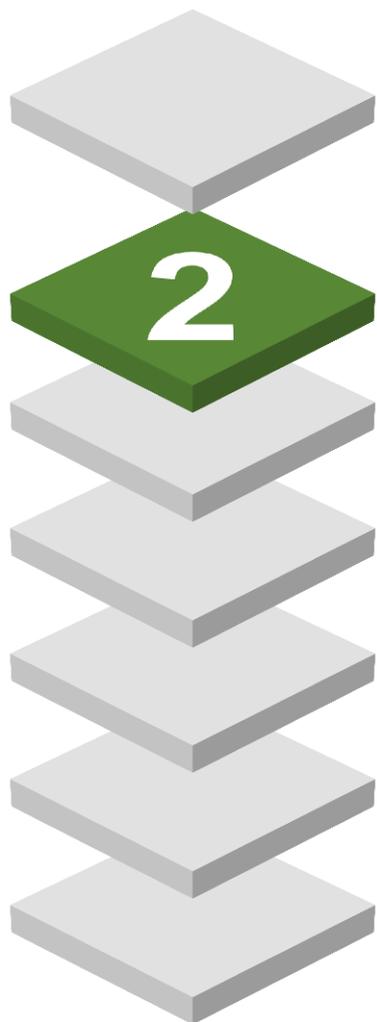


Governmental Influence and Currency Mismatch

- Airports as public-purpose projects and strategic national assets; User fee increases are subject to government approval.
- Revenue are earned in local currencies from sources such as public car parking, passenger tariffs, office rentals, outdoor advertising, warehouse rentals, cargo handling and facilities.
- Currency risk issues caused by risk of operating cost rising higher than revenue due to revenue received in local currencies and debt-service obligations paid in US dollars.



Financing- Investor Challenges



Passenger Volumes

- Passenger volumes or traffic grows with countries GDP growth
- In satisfying financiers the base case model uses Airport traffic in making assumptions for satisfying debt-service
- The Principal risk in financing airport projects in Africa is uncertainty related to the forecasts of passenger growth



Financing- Investor Challenges



Operational Risk

- The Interdependence of electricity, security, baggage handling, information display and other systems and contingencies with energy disruptions is a major challenge
- This further affects the cost and increases the risk of delay of passengers and baggage handling
- Low standards of safety and security concerns in some developing countries
- Terrorist attack in some developed economies



Financing- Investor Challenges



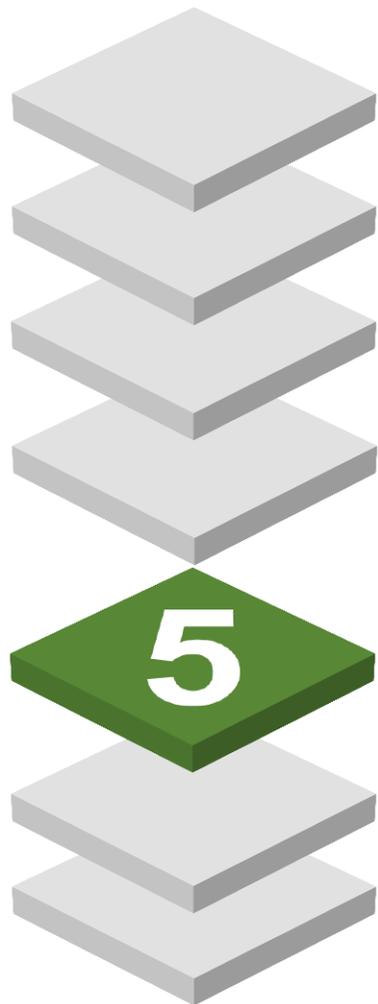
National and Political Risk

- Adversely affects the attractiveness of these projects in the view of financiers
- Recent political happenings in some West African sub region increasing fears of private investors
- Political insurgency disrupts operations, increases risk in airport financing and affects concession agreements with private operators



Financing- Investor Challenges

Currency Risk



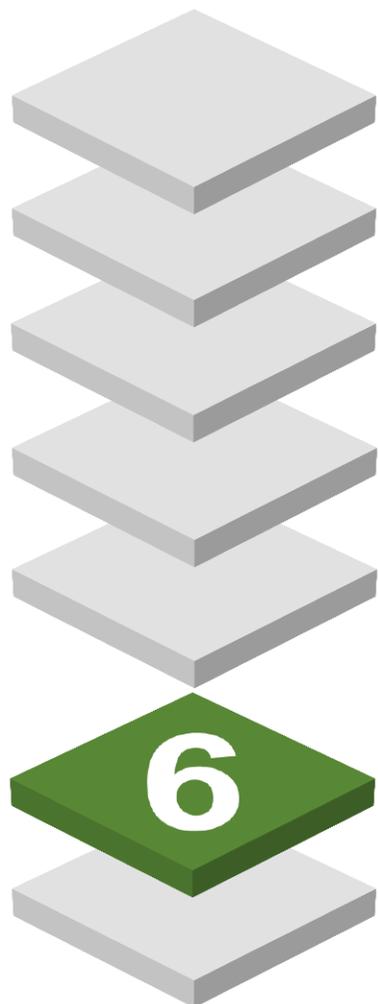
- A critical feature of infrastructure project investment.
- Most domestic airport infrastructure with project revenues generated in local currencies, but servicing foreign debt and equity involves payment in foreign currency
- Foreign financing for projects with limited ability to generate foreign funds cause currency risk
- Investors exposed to fluctuations in the exchange rate and changes in capital controls, that may affect currency convertibility and profit repatriation.



Financing- Investor Challenges

Public-Private Partnership (PPP); Lack Of Legal Provision In Concession Law

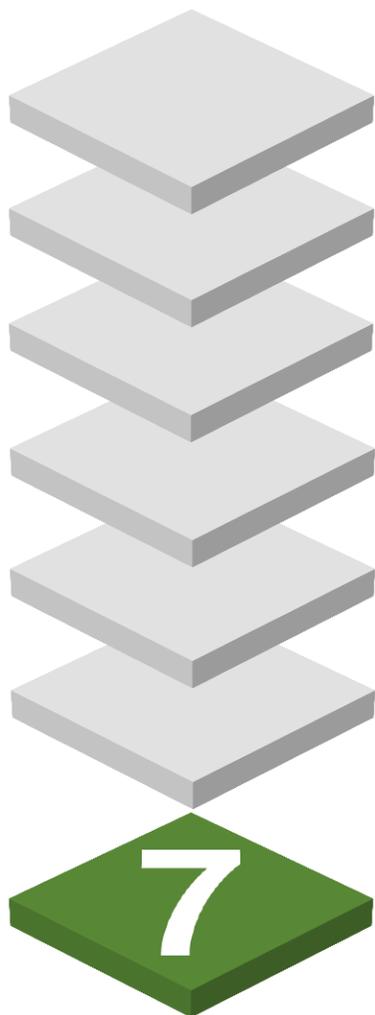
- Lack of legal provision in concession law for airport concessions
- Weak regulatory and legal structure hampers entrance of private participants in Public-Private Partnership for airport infrastructure
- Latin American and European state of the art airports constructed and operated by private entities and have major airlines competing in gaining advantage over other competitors.





Financing- Investor Challenges

High Cost of Travelling



- Travellers in sub-Saharan Africa complain about high cost in travelling internally and across the continent
- Risks airlines face in using available airports as well as lack of diversity in air carriers
- Lack of competition among domestic airlines hence high charges
- Limited competition from other airports



Approach to Financing

1.

Primary objective of airport-financing process is to secure sufficient funds to satisfy the requirement of the capital improvement program without borrowing in excess of the amount required

2.

Approaching the financing process in this way will enable the airport to accomplish the following;

- Allow the construction program to proceed, without interruption attributable to cash flow shortfalls. Projects can be completed and placed in service in an expeditious manner
- Avoid the additional amortization burden associated with borrowing in excess of amount required to complete the program
- Conform with the provision of tax law that limit the amount of tax-exempt borrowing to that amount that can reasonably be expected to complete the program



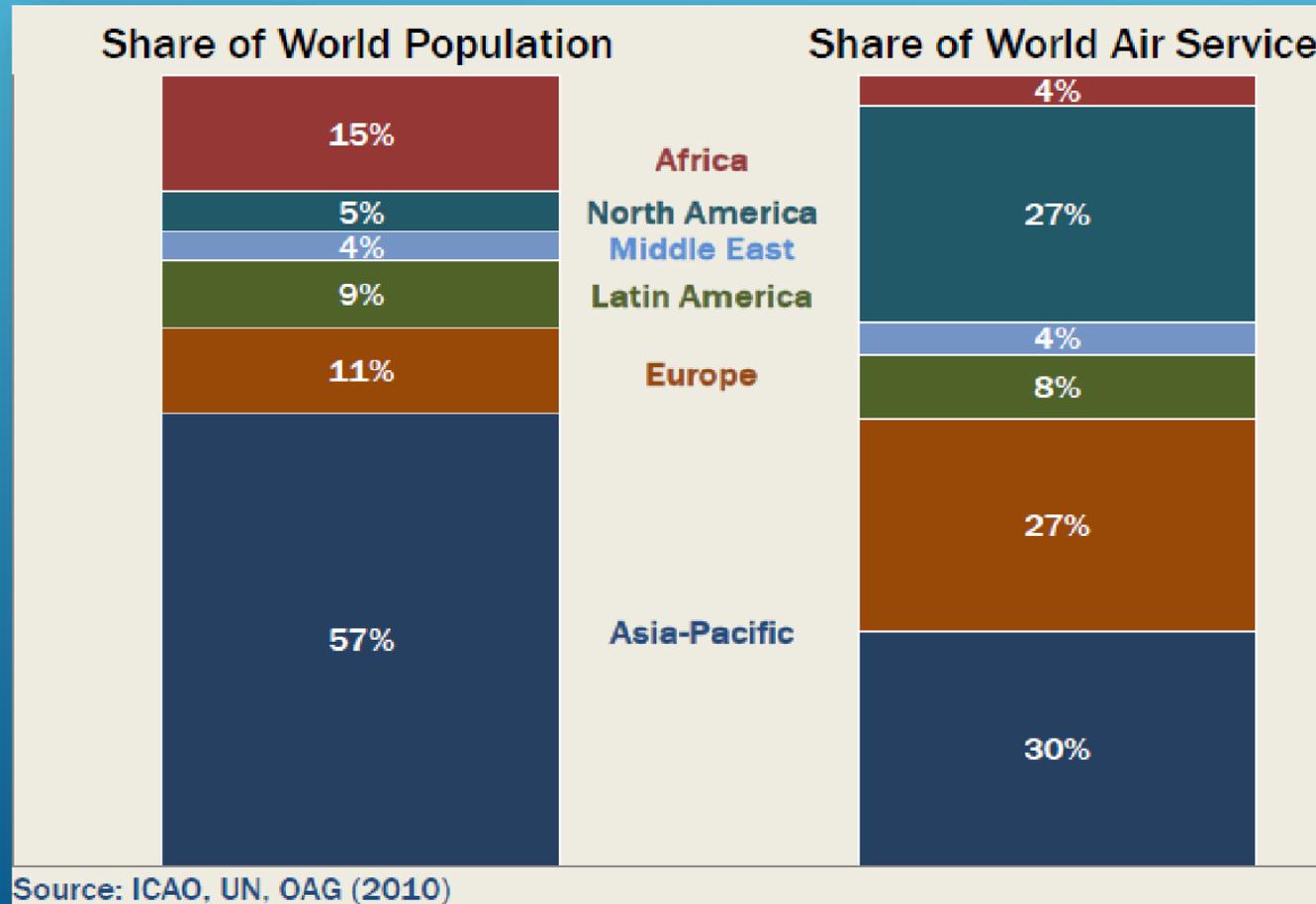
Projections

- Airports Serve as a catalyst for Intra-African trade and tourism and an employment driver;
- The sector estimated to create more than 800,000 jobs over the next twenty years
- Africa's GDP estimated at 4.5% between 2014 and 2034 and Likewise, growth in the continent's passenger traffic and cargo traffic is estimated at 5.7% and 6.9% respectively.
- African aviation market is about to experience unprecedented growth. IATA is forecasting an average annual increase of 5.7% in air traffic until 2034
- Investment opportunities estimated at over \$160 billion for the acquisition of new aircraft alone



AFRICAN AVIATION INDUSTRY

Potential for further growth



- 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)



Projections – Obstacles to Success

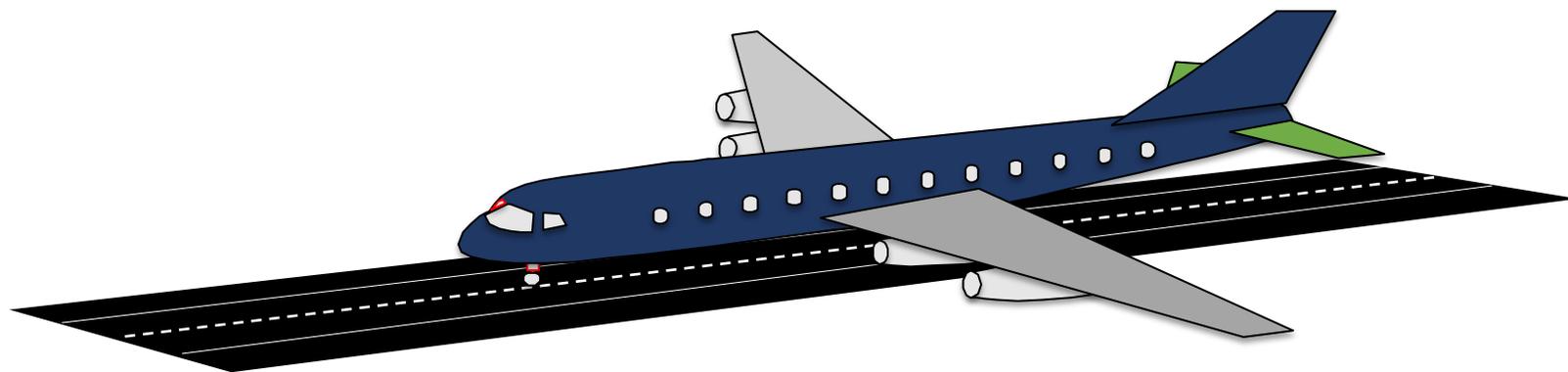
- High operating costs such as exorbitant cost of fuel, high taxes and charges stringent regulatory constraints that strain their competitiveness.
- Traffic rights and air fares subject to restrictive controls putting African operators at a disadvantage. Intercontinental connections (80% Air traffic) remain the prerogative of foreign airlines
- Far-reaching reforms are needed at regional and continental levels to promote new success and stimulate development of private initiative. Only effective liberalisation of air transport will lead over time to increased traffic, improved safety and lower fares
- Imposing traffic restrictions not an efficient means of protection. Air transport in Africa is also blighted by corruption and misappropriation of funds



Conclusion

- Air transport was originally financed by public subsidies. The industry has now grown to the point where it is expected to be a self-supporting sector.
- As a result, today's Airport Managers need a wide range of financial skills in order to function effectively as well as access to adequate funding in order to meet continually changing demands.





Thank You