



IFC

**International
Finance Corporation**
World Bank Group

ICAO and the World Bank Development Forum
in cooperation with 14th World Route Development Forum
Kuala Lumpur, Malaysia, 14 - 15 October 2008

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Agenda

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- Air transport sector
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 - Investments in Airlines
 - Products
 - Track Record
 - Example
 - Investments in Airports
 - Products
 - Track Record
 - Example

Private sector arm of the WBG

IFC is owned by its 179 member countries, which collectively determine policies.



International Bank for Reconstruction and Development, 1945



International Finance Corporation, 1956



International Development Association, 1960



International Centre for Settlement of Investment Disputes, 1966



Multilateral Investment Guarantee Agency, 1988



IFC's purpose

Our purpose is to:

- Promote open and competitive markets in developing countries
- Support companies and other private sector partners
- Generate productive jobs and deliver basic services
- Create opportunity for people to escape poverty and improve their lives

Why air transport sector?

Economic benefits deriving from air transport:

- Stimulates macro economic growth
- Regional effects (social integration)
- Access to remote regions
- Sector effects (e.g. tourism)
- Air cargo (high value goods)
- International markets (FDI)
- Foreign exchange

Instruments available

IFC supports private sector involvement in airports and airlines both through advisory services and investment.

- *Technical assistance and advisory services:* on environmental/social performance, links with small businesses, corporate governance, capacity building, investment climate—many other issues
- *Financial products:* loans, equity, quasi-equity, guarantees, risk management products; includes transactions in many local currencies
- *Resource mobilization:* loan participations and structured finance

IFC Advisory Services

IFC's advisory work is organized into five business lines:

- Access to Finance
- Environmental and Social Sustainability
- Value Addition to Firms
- Business Enabling Environment
- Infrastructure (IFC advisor in privatizations)

Governments may want to privatize...

- Stop high subsidies
- Increase tourism or passenger flow
- Add new destinations
- Business class seats
- Source of employment
- Dividends from a newly profitable venture

Challenges of Airline Privatization

...but privatization of airlines is not easy:

- Complicated “demand chain”
- Price sensitive product
- Difficult cost structure
- Messy regulatory environment
- Highly political entities
- High capital cost

IFC Track Record as Advisor

IFC Advisory Mandates

Mandate	Country	Year signed	Result
Air Jamaica	Jamaica	2008	Ongoing
Air Vanuatu	Vanuatu	2007	Failed bid
Poly Blue	Samoa	2003	Success
Rwandair	Rwanda	2005	Failed bid
Air Tanzania	Tanzania	2001	Success*
Camair	Cameroon	2005	Failed close
Nigeria Airlines	Nigeria	1999	Failed
Air Botswana	Botswana	2002	Failed
Royal Tonga	Tonga	2003	Liquidation
Kenya Airways	Kenya	1995	Success

* *Subsequently failed*



Background

- Polynesian Airways: national carrier of Samoa
- Operated long-haul, regional and domestic flights
- Over US\$76mm subsidies between 1994 and 2003

Proposed Structure

- Polynesian Blue to take over loss-making long-haul operations
- Management Agreement to Virgin Blue (low-cost model)
- Polynesian Airlines retains turbo-prop and ground handling operations with increased revenue opportunities
- Polynesian Airlines and Polynesian Blue to feed passenger traffic to each other

(Cont...)

Results

- New equity investment (FDI and domestic)
- Savings for Samoan budget of at least US\$3.8mm per year
- Over 35% reduction in air fares from current fare levels
- Efficient and reliable air transport access to Samoa; and
- Increased penetration in the tourist markets of Australia and New Zealand - the future of Samoan tourism

IFC Investment Products

IFC can offer a variety of investment products:

- *Variety of products*: pre-delivery financing, working capital financing, spare parts financing, quasi-equity, SOAR (mismatch) loans of up to 15 years, partial credit guarantees on loans and bonds, securitization of future cash flows, etc.
- *Competitive maturity and pricing*: fixed/floating rates, currency of choice, commercial rates, repayment tailored to cash flow, long maturities (8-10 years), etc.
- *Political risk mitigation*: through our affiliation with the World Bank
- *Long-term partnership*: IFC works closely with partners and sponsors in each project to address issues

IFC Airline Sector Commitments

IFC Committed Projects (in US\$)

Fiscal Year	Client	Country	IFC Account	Syndications	Quasi-Equity
2001	Jet Airways	India	15,000,000		
2002	Volga-Dnepr	Russia	13,500,000	13,000,000	3,400,000
2003	Kenya Airways	Kenya	15,000,000		
2003	LAN	Chile	30,000,000		
2004	Siberian Airlines	Russia	20,000,000		5,000,000
2005	Taca	El Salvador	30,000,000		
2005	Copa Airlines	Panama	15,000,000		
2005	Tam Airlines	Brazil	50,000,000		
2006	Gol	Brazil	50,000,000		
2006	Vuela	Mexico	30,000,000		10,000,000
2007	Air Taxi	Russia			15,000,000
2008	Air Blue	Pakistan	22,000,000		
2008	Buddha Air	Nepal	10,000,000		
			300,500,000	13,000,000	33,400,000
			Total:		346,900,000

- Largest domestic airline in India in just 10 years (currently serving over 40 destinations with 320 flights per day)
- Repeatedly voted “Best Domestic Airline” in India and has won several national and international awards
- Young (avg age = 5.1 yrs) and modern fleet (over 40 next generation Boeing 737-400/700/800/900s and ATR-72-500 aircraft)

IFC Participation:

- IFC’s first investment in the airline sector worldwide
- IFC provided US\$15 million in convertible preferred shares in 2001 to partly finance its expansion program
- IFC’s financing critical bridge to secure US EXIM funding

- Leading carrier in Africa operating from its Nairobi hub
- Repeatedly voted as “Best Domestic Airline” and “Best Regional Airline”
- Extensive network within Africa and code-share arrangements with KLM and cooperative marketing arrangement with Northwest

IFC Participation:

- Privatized in 1996 with IFC’s assistance culminating in a (26%) strategic ownership by KLM and listing on Nairobi Stock Exchange
- In 2003, IFC approved US\$15 million to partly finance pre-delivery financing for purchase of two Boeing-777 aircraft with delivery in 2005

IFC Airport Investments

IFC Committed Projects (in US\$)

<u>Country</u>	<u>Project</u>	<u>Year</u>	<u>Cost</u>	<u>IFC Net</u>	<u>Synd./Para.</u>	
Cambodia	Phnom Penh/Siem Reap	2004,7	115.1	27.5	27.5	P
Costa Rica	San Jose	2001	161.0	35.0	85.0	
Dominican Rep.	Aerodom	2004,6	298.5	60.0	65.0	P
Georgia *	Tbilisi	2006	90.5	27.0	27.0	
Jamaica	Montego Bay	2002,5,7	155.7	45.0	45.0	
Jordan *	Queen Alia	2007	680.0	110.0	279.0	P
Peru *	Lima	2007	N.A.	20.0	0.0	
Philippines*	Manila	2001	642.5	50.0	390.0	P
Uruguay	Punta del Este	1996	35.0	8.0	10.0	
TOTAL			2178.3	382.5	928.5	
* Approved but not disbursed.						
P Parallel						

- Two only international airports in Cambodia
- 25-year concession (from 1995)
- Capex program of US\$72 million
- First major infrastructure privatization in Cambodia

IFC Financing

- IFC A Loan US\$10 million
- Proparco US\$10 million
- Sponsors' Equity US\$52 million (including cash generation)
- Concession ammended to increase scope
- Repeat investment of US\$7.5 million A loan and US\$10 million stand-by loan out of \$40 million project cost

Thank you!

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For more information:
www.ifc.org