The Future of Aircraft Leasing in Africa

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INTRODUCTION

The African market is often overlooked by foreign investors. In January 2018, ABL Aviation became the first U.S. aircraft leasing company to open in Africa. The office, set up in Casablanca, Morocco, is now home to ten employees. As the company is getting ready to develop its presence on the African market, CEO, Ali Ben Lmadani stated that “This is a huge milestone for ABL Aviation as seven of the ten fastest-growing markets in percentage terms will be in Africa, with expected growth of more than 8% over the next twenty years. We aim to be at the forefront of that growth in a market that is traditionally neglected by other lessors and therefore we are developing highly innovative processes through the technical side of our business.”
A CHALLENGING MARKET

While Africa has one of the largest populations in the world, its aviation industry is still small, representing only 2.2% of the total international air passenger market in the December 2017 market.

African countries struggle to attract foreign investors partly due to the fact that there is no direct airline connection between those countries. A number of bilateral agreements determine which direct connections are available. The main focus of African carriers in international air transport concentrates on intercontinental traffic, while the inter-African network remains far less developed\(^1\). As a result, business travel and costs of doing business became and remains prohibitive, making foreign investors are reluctant to travel to Africa even if there are great opportunities.

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Safety is also a pressing challenge facing the aviation industry in Africa. The frequency of accidents stems largely from inconsistency in the implementation and enforcement of internationally accepted safety standards and practices. In 2011, for instance, Africa accounted for almost a third of all deaths in air crashes around the world, even though it accounted for less than 3% of all air traffic\(^2\).

Political instability is also an obstacle to growth in the region. For example, in February 2011, IATA noted that the impact of political unrest\(^3\) had been severe with international passenger traffic falling by 1.3% compared to February 2010\(^4\).

In November 1999, forty-four African countries signed and endorsed the Yamassoukro Decision (named after the Côte d’Ivoire capital where the decision was agreed upon), which was aimed at creating an Open Skies for Africa by deregulating air services and promoting regional air markets open to transnational competition. The decision was also supposed to strengthen Safety and Security oversight on the continent and promote a climate of cooperation among African carriers through partnerships, mergers and consortiums\(^5\). Unfortunately, after two decades, its implementation has fallen short.

Different reasons explain the failure to efficiently implement the Yamassoukro Decision, one of them being the Decision’s focus on security and safety. A number of African states do not, or only marginally, comply with International Civil Aviation Organization’s international safety and security standards and

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\(^2\) The spring 2011 protests and revolutions in North Africa and the Middle East — commonly referred to as the Arab Spring — were fueled by many factors, including frustrations with existing political regimes, a growing youth population, online social networks and a shortage of employment opportunities.


recommended practices. The Decision’s provisions requiring compliance with these standards are one of the main obstacles for its implementation for many states.

The implementation of the Decision has also been hampered by protectionist policies put in place in a number of African countries. These states remain very protective in their bilateral agreements and aim at regulating access to their national market to limit competition with the view to shield their local carriers. The countries with smaller carriers fear the implementation of the decision would induce unfair competitive practices such as price dumping, when competing with larger established airlines\(^6\).

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A NEW STEP TOWARDS AN AFRICAN OPEN SKIES

In a statement, Raphael Kuuchi, Vice President for Africa at the International Air Transport Association (IATA) said: "Every open air service agreement has boosted traffic, lifted economies and created jobs”.

Now things have started to shift. On January 28, 2018, the Single African Air Transport Market (hereinafter SAATM) was formally established and launched. The Declaration on the establishment of the SAATM, as a flagship project of the African Union Agenda 2063 was adopted by the African Union Assembly in 2015.

This initiative entitles eligible airlines of the twenty-three signatories to conduct their business in those markets and fully operate the traffic rights provided for in the Yamoussoukro Decision. There are thirty-two African Union members still to come on board. Greater access to the African skies means a bigger potential market for investors.

In a statement, Raphael Kuuchi, Vice President for Africa at the International Air Transport Association (IATA) said: "Every open air service agreement has boosted traffic, lifted economies and created jobs,” Kuuchi added. “And we expect no less from Africa on the back of the SAATM agreement.”

“But the benefits of a connected continent will only be realized through effective implementation of SAATM—firstly by the countries already committed to it and also by the remaining thirty-two AU member nations still to come on board”.

Moreover, IATA signed a memorandum of understanding with the African Airline Association in order to assist African carriers to implement IOSA and other IATA audits and manuals and support the SAATM. IATA is set to assist efforts in Africa to develop a safe, secure and sustainable aviation

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7 To date (2018), the number of Member States that have adhered has reached twenty-three (23), namely: Benin, Botswana, Burkina Faso, Cabo Verde, Congo, Cote d'ivoire, Egypt, Ethiopia, Gabon, Ghana, Guinea, Kenya, Liberia, Mali, Mozambique, Niger, Nigeria, Rwanda, Sierra Leone, South Africa, Swaziland, Togo and Zimbabwe (IATA).

8 The IATA Operational Safety Audit (IOSA) programme is an internationally recognised and accepted evaluation system designed to assess the operational management and control systems of an airline.
industry in Africa, contributing to the continent’s economic growth and development.

The emergence of an African Open skies, accompanied by economic growth of African countries in the past years is creating numerous opportunities for investment in the African market.
FAST GROWING ECONOMIES AND STRONG REGIONAL GROWTH

From the 2018 World Bank statistics, among the top-10 fastest-growing economies in the world, there are six African countries – Ghana, Ethiopia, Ivory Coast, Djibouti, Senegal and Tanzania, at first, second, fourth, fifth, eighth and ninth position respectively. Moreover, the top-10 fastest-growing African countries grew by at least 5% in 2016, with Ghana the highest at 8.3%. Among these 10 countries, only Ethiopia and Kenya have a major national carrier, while Ivory Coast, Senegal, Djibouti, and Tanzania have mainly small regional and domestic carriers.

Source: World Bank, 2018
The rise of the middle class in Africa is creating a higher demand for travel. In terms of regional growth, air traffic to, from, and within Africa is expected to grow by about 5.9% percent annually over the next 20 years, which is above the world average of 4.7% per year over 20 years. By 2036, Africa is expected to see an extra 274 million African passengers a year for a total market of 400 million passengers.

This growth, combined with the need to replace the region’s aging fleet, will result in creating exceptional opportunities for lessors serving commercial airlines who will need to expand their client base. According to the United Aircraft Corporation’s Market Outlook 2017-2036, African airlines will be needing to lease or purchase narrow-body and wide-body aircraft with a capacity of 150 and 250 seats.

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**Estimated annual regional growth from 2017 to 2036, by region (growth in %)**

<table>
<thead>
<tr>
<th>Region</th>
<th>Growth (in %)</th>
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</thead>
<tbody>
<tr>
<td>Africa</td>
<td>5.90%</td>
</tr>
<tr>
<td>Middle East</td>
<td>5%</td>
</tr>
<tr>
<td>Latin America</td>
<td>4.20%</td>
</tr>
<tr>
<td>North America</td>
<td>2.30%</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>4.60%</td>
</tr>
<tr>
<td>Europe</td>
<td>2.30%</td>
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</tbody>
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Source: IATA 2017 Forecast

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NEW OPPORTUNITIES IN AFRICA

The growth of the African market and the development of the African Open Skies is creating tremendous opportunities for foreign investors in the Aviation market.

Africa is changing. According to the Doing Business report by the World Bank, Sub-Saharan Africa made more regulatory improvements from 2013 to 2014 than any other region. Development of policy has a critical role to play in supporting stability to reduce conflict and violence over the long term and encourage growth. The fact that governments are modifying their policies and encouraging private investment in viable and profitable projects with a lasting impact on development means that the trend of economic growth in the continent will not be one that is short-lived\textsuperscript{12}.

African airlines, with the liberalization of the African airspace and the growth of traffic in Africa will need to expand their fleet which will create lucrative investment prospects for lessors.
