A FRAMEWORK FOR THE OPERATIONALISATION OF THE COMESA-EAC-SADC JOINT COMPETITION AUTHORITY (JCA)

FINAL REPORT – PART FIVE

SUSTAINABLE FUNDING

CONTRACTING AUTHORITIES	BENEFICIARY
COMESA	**COMESA, EAC, SADC**

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Prepared by
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Project: A Framework for the Operationalisation of the COMESA EAC-SADC Joint Competition Authority (JCA)

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Acronyms	Definition
AA	**Aeronautical Authorities**
AFCAC	**A**frican **C**ivil **A**viation **C**ommission
AFRAA	**A**frican **A**irline **A**ssociation
ASA	**A**ir **S**ervice **A**greement
ATC	**A**ir **T**raffic **C**ontrol
ATM	**A**ir **T**raffic **M**anagement
AU	**A**frican **U**nion
AUC	**A**frican **U**nion **C**ommission
BASA	**B**ilateral **A**ir **S**ervice **A**greement
CAA	**C**ivil **A**viation **A**uthority
CAC	**Civil Aviation Committee (of SADC)**
DCA	**Directors of Civil Aviation**
Doc.	**Doc**ument
EA	**E**xecuting **A**gency
EASA	**E**uropean **A**viation **S**afety **A**gency
EAYD	**E**xecuting **A**gency of the **Y**amoussoukro **D**ecision
e-bulletin	Electronic news letter
ECA or UNECA	**U**nited **N**ational **E**conomic **C**ommission for **A**frica
EU	**E**uropean **U**nion
FAA	**F**ederal **A**viation **A**dministration
FE	**Financial Expert**
GHC	**G**round **H**andling **C**ompany
H/Q	**H**eadquarters
HR	**Human Resources Expert**
IATA	**I**nternational **A**ir **T**ransporters **A**ssociation
ICAO	**I**nternational **C**ivil **A**viation **A**ssociation

Acronyms	**Definition**
IT	**I**nformation **T**echnology
JCA	**J**oint **C**ompetition **A**uthority
MASA	**M**ultilateral **A**ir **S**ervice **A**greement
MIDT	**M**arketing **I**nformation **D**ata **T**ransfer
OAG	**O**fficial **A**irline **G**uide
OAU	**O**rganisation of **A**frican **U**nity
PM	**P**roject **M**anager
POL	**P**olicy **A**nalyst
RECs	**R**egional **E**conomic Communities
SADC	**S**outhern **A**frican **D**evelopment **C**ommunity
SC	**S**teering **C**ommittee
SG	**S**ecretary **G**eneral
TE	**T**ransport **E**conomist
TL	**T**eam **L**eader
TOR	**T**erms **of** **R**eference
WASA	**W**orld **A**ir **S**ervice **A**greements
YD	**Y**amoussoukro **D**ecision

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0. Executive Summary

The overall objectives for developing the sustainable funding mechanism are to advice the JCA on the suitability and sustainability of potential funding sources and provide clearly identified funding options for the JCA in light of operational and economic constraints.

The review and analysis of a number of options for funding the JCA revealed the organization has a number of sustainable funding options both for the short term – 0-3 years and longer term over 5 years period. The outcome of the sustainable funding options for the JCA is summarized below.

A financially sustainable organisation, is an organisation that can consistently support and deliver its mission, making the most of changing markets and funding environments. To ensure financial sustainability of the JCA, the following four funding options were considered and recommendations made on a combination of suitable funding options for the organisation:

1. Option 1 – Equal contributions by Member States and fee income from services
2. Option 2 - Equal contributions by Member States based on Market Shares
3. Option 3 - Proportional Contributions by Member States based Market Share
4. Option4 - Funding through grants, donations, fees and loans and levies on air tickets

However, due to economic and political challenges, constraints and unsuitability of a number of sources considered for funding the JCA, we concluded that it was best to draw core funding from the member states for operations because the agency is an instrument of the states. This conclusion has the support of a significant majority of member states as the main source of funding whilst, other proportion of JCA funding will be generated from additional sources which has been discussed in more detail in the subsequent sections of this report. Also, it important to note of the options listed above, member states with smaller air traffic market share expressed a preference for funding the JCA on a proportional basis based on market share. This option was discarded as it is not mostly suitable for all member states and the prescribed market bounding could change annually hence creating some degree of inconsistency and annual recalculations.

It was evident from our analysis of the various options that sustainable funding arrangement for the JCA should be based around key arrangements that are consistent with the statutory mandate of the Yamoussoukro Decision on Air Transport Liberalisation as agreed by the Kampala Summit. As a result, we recommend a combination of funding routes for the organization based on experiences of similar organizations within Europe, Africa and the Tripartite Regions.

The preferred funding option for the JCA will be direct funding through contributions from member states on a fixed equal annual basis. We also recommend that member states should assume full responsibility for funding the JCA based on contributions through each Regional Economic Community. This option will ensure equitable distribution of the costs across member states and would be the cheapest option. This method is in line with the EAC, COMESA and SADC Treaty's provision of equal contribution by member states and it also provides stable income for the JCA. However, this issue of equal contributions may need to be discussed within the Tripartite Regions for consensus and approval.

With an operational budget of $2.0 million low cost to $3.0 million high cost, the contribution of each Member State is expected to range between US$71,500 - $81,100 per annum under a low cost option to between US$105.500 -$120,500 per annum under a high cost option.

In addition, the JCA may consider the option of a combination of contributions for core services and fee income for other services as described above. However, after some deliberations and feedback from the stakeholders group, it was suggested that a phased implementation strategy was adopted. As such, a reduced budget of $500,000 per year has been recommended for a 7 man team including the executive director. This budget will represent an average of $18,518 per member state on a fixed annual contribution basis.

Other sources of funding, particularly assistance from development partner and international donor agencies should be actively pursued in addition to member states contributions, services fees and charges as supplementary revenue streams. This option will provide for a more challenging funding model initially for the JCA as services and other fee income will not be easily generated within the initial 24 – 36 months of operation, hence sustainability of the funding model. We recommend that a combination of compulsory and voluntary contributions should be considered as an alternative funding model within this option.

A critical review of the option of funding through levies on air travel tickets on departing passengers proved to be very challenging in application as many airline companies and passenger groups would oppose this levy. A number of regional agencies are facing strong challenges and operational incapacities as a result of adopting this model of funding core activities. It can be argued that better and fairer competition will be good for all within the industry yet many airline companies are generally reluctant to pay these levies in a timely fashion. Although, we will recommend that the JCA considers investigating the possibility of collecting the levies directly from airline companies through established international and regional airline agencies such as IATA etc. on a contractual basis as a form of supplementary income generation option.

In consideration of the recommended funding options for the JCA, we have undertaken an extensive research of the various funding sources that can be potentially suitable for the organization both at start up and on-going basis. A total of 21 funding sources was reviewed and analysed for suitability and these have been summarised as a financial dossier that should be considered by the JCA for core funding and project activities.

Sustainable Funding Mechanism

Sustainable funding for regulatory organisations is often very challenging and complex in application due to the various elements discussed above. As highlighted in our analysis of the various funding options and sources of funding, it is evident that dependence on cost recovery exercises through fees and charges will be insufficient source of funding the JCA as most agencies of similar composition across Europe and Africa have not been successful with this model of funding without contributions from government and other sources.

As a result we will recommend that the JCA's core funding should be secured from fixed equal contributions from member states to enable effective establishment and operationalisation of the organisation. However, the management board of the JCA will need to consider generating additional and supplementary income from some of the sources discussed above, mostly through fees, levies and grants from regional and international bodies.

In addition, we will recommend that the Board consider setting up a fund raising team to assist the JCA with the compilation of the proposed funding structures and documentation in establishing the financial frameworks for the JCA.

1. Introduction

In undertaking this element of the study, the consultant considered and analysed a number of options for funding the Joint Competition Authority (JCA) as an instrument of the State in pursuance of the implementation of the YD. This process of analysis has been primarily desk top based with some contribution from the JCA members at the project inception report meeting in Bujumbura, in December 2012. The outcome of the analysis have been drawn from all existing arrangements and agreements for the JCA and other relevant documentation including bench marking of the funding options to similar regional and international competition authorities – mainly within the European Union with a view to developing a comparative funding programme and implementation strategy for ensuring sustainability of the recommended funding options for the JCA.

The overall objectives for developing the sustainable funding mechanism for the JCA are to

- Advice the JCA on the suitability and sustainability of potential funding sources
- Provide clearly identified funding options for the JCA in light of operational and economic constraints

However, due to time constraints and unsuitability of a number of options considered for funding the JCA, we concluded that it was best to draw core funding from the member states for the first 5 years of operations because the agency is an instrument of the states. This conclusion was also suggested by the Steering Committee of the JCA in the stakeholders meeting of December 2012 in Bujumbura. Other proportion of JCA funding will be generated from additional sources which will be discussed in more detail in the subsequent sections of this report.

An organisation can only be said to be financially sustainable when its core work/activities will not collapse, even if external donor funding is withdrawn or reduced. Hence our recommendation that member states should take on the full responsibility for ensuring the continual existence of the JCA regardless of the current and future funding structures of the organisation.

Sustainability of a statutory organisation such as the JCA is crucial in Africa and more importantly within the 3 economic regions. The successful implementation of the YD and commitment by member states to the establishment of the JCA are essential elements of the funding mechanisms for the organisation.

Sustainable Funding Mechanism

1.1 Ensuring Financial Sustainability

"A financially sustainable organisation, small or big, is an organisation that can consistently support and deliver its mission, making the most of changing markets and funding environments.

To ensure financial sustainability of the JCA, we will encourage the management board to consider the following structured six point approach to managing the finances and funding options of the organisation:

1) **Strategic Funding Approach**: ensuring that core organizational funding are established and raised through an agreed format from the member states on an annual basis and develop a mixture of supplementary funding from other sources to support the JCA overall mission.

2) **Sustainable Income Generation**: consider an appropriate mix of funding sources including grants, donor funding and earned income from activities.

3) **Effective Financial Management**: establish effective financial managements systems with clear audit trails to provide clear systems for understanding and managing costs, income and risk. Providing value for money and appropriate additionality to funding generated by the agency.

4) **Systems for Communicating Success**: the JCA should be able to clearly communicate with all stakeholders and provide detailed analysis of how the organization is making a difference across the regions in promoting effective competition, most importantly with case studies of successes etc.

5) **External Positioning & Marketing**: the organization should have clear procedures for establishing its reputation within the wider African communities and internationally, knowing where you fit within the Air Transport industry, highlighting through on-going publicity how you are different from other similar agencies and how to communicate this with people through your publications, research, reports etc. It means establishing your position as a leading voice in ensuring fair trading and competitiveness within the sector

6) **Relationship Building**: the organization need to continue to establish new relationships with funding agencies and develop existing relationships and partnerships with funders and others that you need to achieve your mission both regionally and internationally.

In addition, the JCA should consider strengthening the working relationship with the UK Department for International Development (DFID) as outlined in the Memorandum of Understanding (MOU) signed by Tripartite Task Force in 2010. In particular, the JCA should capitalise on the provision within the MOU for DFID to assist the Task Force in collaboration with other key international financial institutions and donor partners to support the activities of the Joint Competition Authority.

2. Strategic Analysis & Implementation of Funding Options

The strategic analysis and implementation plan for developing a sustainable funding mechanism for the JCA in line with the proposed implementation schedule and funding options is translated into the following:

- A detailed SWOT Analysis of the Organisation
- A Comparative Funding Analysis
- A Sustainable Funding Plan
- A Financial Operational Plan (options and analysis)

Each of these is described in more detail below.

This document reviews and analyses the strategic options for the JCA in comparison with similar agencies in Europe and Africa. The report also identifies the operating, capital costs, revenues sources including human resources and technical/capacity building training costs in addition to the total revenue forecasts for the initial period of 5 years (April 2013 – March 2018), taking into consideration economic, and technical, operational, environmental and social accountability of the organisation.

2.1 SWOT Analysis

In undertaking this element of the study, we also completed a SWOT analysis of the JCA in line with the current situation in the COMESA-SADC-EAC Air Transport and competition arrangement including activities of the existing agencies and relationships with other agencies set up to implement the YD on the continental and sub-regional levels

The objective of the SWOT analysis was to establish the following:

- The assessment and exploitation of funding opportunities
- The minimization of impact from threats, competition and liberalisation
- The provision of actions to convert weaknesses into strengths
- The promotion of the strengths of the JCA regulatory procedures within the regions

The outcome of the SWOT Analysis is dovetailed into the development of a sustainable funding Plan as well as the strategic Business Plan for the organisation. The following table describes the summary of the SWOT analysis:

Strengths	Weaknesses
• Political will of member states • High traffic zone in Africa	• New regulatory organisation • The JCA needs to be made operational

• Environment with highly knowledgeable experts in aviation • Existence of pro-YD airlines in region (KQ, ET, Egypt Air, SA, etc) • JCA already existing since 2009 • Competition rules already adopted by member states • Available office infrastructure at start-up • Single competition authority across 3 economic regions • Representing 48% of African States in by size	• Has no legalised source of funding • SADC office connectivity to the capitals of member states • Inter-relation to other organisations such as AFCAC, AFRAA • Challenge to its powers from some airlines, service providers or CAAs • Complex scope and responsibilities with little experience of similar task • Several functional challenges including poor reporting of aviation data in the region • Potential challenges with enforcement powers
Opportunities	**Threats**
• Would be the largest economic regulatory Agency after AFCAC; • Positive results will enhance the image of the JCA and give it an important role in African aviation; • Able to influence the evolution of air transport liberation in the zone into an open skies area. • Approval of free movement of business person as part of the integration effort • COMESA vast experience on integration matter • Mainstreaming competiveness & good practice • Income generation from service provision & projects • International collaborations and joint ventures • Pioneer innovative ideas in African air travel competition regulation	• Likely Political instability in some of the member states • Lack of sustainable core funding • Change in political agendas of member states • Co-location office could hinder development & independence • The impact of non-tripartite airlines and non African airlines • Legal challenges to its decisions • Lack of improvement of safety and security of the aviation industry in the region • Sustainable financial support for the org • Organisational capacity to manage growth in activities • Complexity of competition negotiations & conflict resolutions

Table 1: SWOT Analysis

An analysis of the strengths, weaknesses, opportunities and threats of the Joint Competition Authority within the regions highlight the fact there is a significant need for the organisation to be established with full mandate from the Council of Ministers and Head of States to ensure equitable and fair competition across the common markets for the liberalisation of the air transport sector. Key strengths include political support by member states, environment with highly skilled aviation experts and competition rules already adopted by member states, a major Opportunity is the potential ability to influence the evolution of air transport liberation in the regions into an open skies area, despite the slight weakness of being a new regulatory organisation within the regions, and it has a clear mandate and political support. However, the JCA faces some slight threats from other civil aviation and regulatory organisation established across the same regions for core funding and contributions from member states. Hence our recommendation for mandatory direct core funding from the Council of Ministers for the JCA in pursuance of the agreed regulations in articles 3 and 4 of the approved competition regulations of 2004. Articles 9 of the same regulation established the Joint Competition Authority (JCA)

The scope of the regulations covers scheduled and non-scheduled air transport services within COMESA, EAC and SADC member states including any practice, agreement or conduct which shall have an anti-competitive effect with these regions.

2.2 Comparative Funding Analysis of Competition Authorities

In comparing how competition authorities and other regulatory agencies are funded across Europe and Africa, it was evident that most of the agencies/authorities obtain their core funding from statutory contributions from government/treasury/ministry and other elements of their funding were generated from services etc. This model of funding although, quite difficult in maintaining high standards of compliance, in most cases it has enabled the regulatory authorities to maintain stability.

In comparison of the European and American airline industry, the gaps in service provision and competition policies are wide ranging. The American airline industry was deregulated in 1978. By comparison, the single European aviation market has – in principle – been in effect since 1997, and remains far from fully deregulated in practice. Drawing on the lessons learnt in Europe for the past 15 years of a gradual deregulated aviation market, one might be able to foresee certain patterns of development, certain opportunities, or certain obstacles to competition, that are yet to manifest themselves clearly in Europe. Within the African context, similar issues are eminent and competition rules involving dominant market position might cause significant challenges with major airline companies for both local and international operators.

The following table (Table 2) summarises some civil aviation and competition regulatory authorities funding models.

NO	COUNTRY	TYPE OF AUTHORITY	FUNDING SOURCES	COMMENTS
1a.	United Kingdom	The Office of Fair Trading (OFT) Is the UK consumer and competition authority	• Funded mainly by HM Treasury • Fee income from licenses and activities	• OFT cover civil aviation competition & advices the CAA • Broad remit but stable funding despite reducing budgets due to cuts in public spending
1b.	United Kingdom	Civil Aviation Authority	• Revenue is primarily derived from 12 statutory charges schemes approved by the Secretary of State for Transport under section 11 of the Civil Aviation Act 1982. The charges are published on the CAA website and are normally for a period of one year	• Other income streams includes, charges for services, rental income, pension administration, interests/dividend & finance
2.	Ireland	• The Irish Aviation Authority – semi state owned company • The Irish Competition Authority	• Funded mainly through fee charges to airlines • Annual grants from the state • Fee income from services	• Stable funding from current sources
3.	Nordic Countries – Denmark, Sweden, Norway, Finland, Iceland	Civil Aviation Competition Authorities across the Nordic Region	• Mostly funded through government grants and fees from competition services – mergers & acquisition fees, subscriptions etc.	• Diverse regions and competition authorities activities is gradually formalising
4.	EAC - CASSOA	Civil Aviation Safety & Security Oversight Agency	• Mainly contribution from member states • Other sources considered	• The agency is considering increasing contributions from member states
5.	Tripartite Joint Competition Authority	COMESA, EAC, SADC Joint Competition Authority	• Proposal for core funding from contribution of member states and a mixture of other sources	• A model of core and supplementary funding is being developed
6.	European Union	European Competition Authorities (ECA) Statutory body established in 2001 as a	• Statutory Funding from the EU and	• General purpose authorities

		working group. ECA set up an Air Traffic Working Group in April 2002 in order to improve cooperation between them in relation to their dealings with the airline industry and to seek to enhance the present degree of competition in this sector.	member states	with specific competition working groups with the commission.

Table 2: Comparison of Civil Aviation & Competition Authorities in Europe & Africa

Note: Information and data obtained from various websites and related annual reports for each of the organisation.

Whereas in places like New Zealand, the Civil Aviation Authority is funded predominantly on a user pays basis where total revenue comprises fees and charges (currently about 12 percent), levies (currently about 74 percent) and the rest is from the Crown (including a contract for rules development with the Ministry of Transport), interest, and miscellaneous income. However, existing fees, charges, and levies do not generate sufficient revenue to cover costs, and these structures have not been reviewed substantively in 15 years. Also, competition authority within this region and Australia are also funded predominantly by the government and the rest of the funding comes through fees, charges and services to protect their anonymity in driving effective competition policies within their region.

2.3 Developing Sustainable Funding Options for the Organisation

In developing a sustainable funding arrangement for the Tripartite Joint Competition Authority (JCA), the key objectives are to implement arrangements that are consistent with the statutory mandate of the Yamoussoukro Decision on Air Transport Liberalisation as agreed by the Head of States and Government in 2008. Having reviewed a number of funding and financing options for ensuring sustainability of the JCA, we recommend a combination of funding routes for the organization based on experiences of similar organizations within Europe, Africa and the Tripartite Regions. The following four funding options are recommended:

- Option 1 – Equal contributions by Member States and fee income from services
- Option 2 - Equal contributions by Member States based on Market Shares
- Option 3 - Proportional Contributions by Member States based Market Share
- Option4 - Funding through grants, donations, fees and loans

Each of these options is described in more detail below.

2.3.1 Option 1 – Equal/Fixed Contributions:

JCA to be fully funded through contributions from member states for core operations and services on an equal level payment per annum by each member state. The JCA is a statutory regulatory institution and should be primarily supported by member states to be institutionalized for the purpose of overseeing the full implementation of the Yamoussoukro Decision within the common territories of the Regional Economic Communities as a single competition regulatory authority. This will protect their anonymity in driving effective competition policies within their region. This option seems most equitable for all and average contribution by member states will be a minimum of $74,074 per year depending on a minimum of $2.0m annual budget.

Alternatively, the JCA can be funded through a combination of core funding from member states (80%) and (20%) from fees, taxes/levies, subsidies and pay as you earn surcharges, remuneration for services, fuel/passenger surcharges and fees for regulatory activities including penalties and levies. This option is only viable in the medium to longer term e.g. after the initial 2 years of operations. The JCA will need approximately USD2.0M per annum minimum to operate effectively. With this funding option, contributions can be on a reducing sliding scale (until 60:40 ratios is reached). After the second year of operation, the organization will be able to start generating fee income from services, levies, penalties and other charges. However, overall core funding will remain funded by member states as compulsory contributions. This option is not sustainable within the first 24 months of operation of the JCA but could be a major source of funding after 24 – 36 months.

2.3.2 Option 2 – Equal Contributions within a Band:

JCA to be funded through equal contributions by member states within the same country band based on the following model assuming a $2.0m budget:

1. Band 1 – 35% of operating budget – a total of $700,000 by 6 countries
2. Band 2 – 30% of operating budget – a total of $600,000 by 7 countries
3. Band 3 – 20% of operating budget – a total of $400,000 by 7 countries
4. Band 4 – 15% of operating budget - a total of $300,000 by 7 countries

This option will ensure equitable contributions by member states based on the size of the intra-JCA market share. However, countries in band 1 will have to contribute more than others as an equal proportion of the total annual budget. Average annual contributions by member states will be $117,000 for countries in Band 1, $85,700 for countries in Band 2, $57,000 for countries in Band 3 and $42,800 for countries in band 4.

2.3.3 Option 3 – Proportional contributions:

JCA to be funded through proportionate contributions by member states based on total market share of the air passenger traffic within the regions. This option will be very attractive to countries with small market share within the JCA and the financial burden of supporting the JCA will be heavily on the 3 countries in Band 1 and 2 above. This option of funding will represent the following contribution levels assuming a budget of $2.0m:

1. Band 1 – 61.5% of operating budget – a total of $1,230,000 by 6 countries
2. Band 2 – 24.0% of operating budget – a total of $480,000 by 7 countries
3. Band 3 – 11.2% of operating budget – a total of $224,000 by 7 countries
4. Band 4 – 3.4 % of operating budget - a total of $68,000 by 7 countries

This model of funding the JCA might be less desirable to all and could be seen as penalising the countries in Band 1 and 2 for their growth and market share as countries in band 4 will only have to pay very little, an average of $9,700 per annum towards the administration of the JCA.

This will not be sustainable in the longer term for the JCA as any delays or failure to pay annual contribution by any member states within Band 1 and 2 could cause considerable operational lapses for the organisation. One might argue that we use a formula of compulsory and voluntary contributions similar to how the United Nations is funded by member states regardless of size or activities. Richer nations will be encourage to contribute more and also engage in voluntary contributions to projects and JCA activities either in cash or kind.

2.3.4 Option 4 – Funding through grants, fees & donations:

JCA to be funded through grants, donations and loans from regional and international agencies. This option may be technically viable due to existing arrangements, e.g. the JCA secretariat is currently hosted within SADC offices and the Tripartite Task Force have existing funding and support arrangement with United Kingdom Department for International Development (DFID). The existing MOU with DFID can be fully exploited to cover substantial funding for the establishment of the institution.

This option is very desirable and recommended for the medium to longer term basis only. Most organisation of similar composition within Africa and internationally uses a combination of both contributions and revenues from grants, donations and financing options through loans, equity participations and rental incomes on assets. However, since the JCA secretariat is a new statutory regulatory organisation, it is advisable to concentrate on fixed contribution at the commencement of the organisation for sustainability within the initial 24 – 36 months of operations.

However, sustainability of the organization can only be assured if core regulatory functions are funded on a longer term basis by member states. This suggestion was also echoed at the Steering Group meeting in Bujumbura in December 2012 that Member States are responsible for regulatory functions and hence the need for them to ensure that the JCA is appropriately funded. The estimated annual budget identified by the consultancy team for the JCA is ranging from the lowest point of USD $2.0m to USD $3.0m per annum. Taking into account the rate of inflation and other variables this amount will rise by an average of 30% per annum over the initial 5 year period to an average of USD5.0M.

2.4 Summary of Funding Options Analysis

The following briefly summarises the analysis of the various funding options considered for the JCA in line with relevant guidelines and operational appropriateness.

2.4.1 Contribution from Member States

Member States within the common economic communities currently finance their own regulatory activities through fees and charges subsidised by revenues from other aviation activities and direct funding from central governments. Operational costs for regulatory agencies varies in terms of size and regional complexities, however as the JCA develops its capacity to regulate and enforce fair competition across the Tripartite regions, it is expected that funding for individual aviation competition within each states CAA will be reduced or removed over time.

Member states REC's are contributing to the JCA and providing funding in kind through co-location and service of the current JCA Secretariat in SADC offices. It is therefore recommended that member states continue to contribute to the JCA depending on an agreed model of funding as described in the section on funding options above.

Also the UN funding model by member states through compulsory and voluntary contributions could be considered by the JCA. The size of each state's compulsory contribution will depend mainly on its economic strength and air traffic activities, though the state of development and debt situation should also be taken into account.

This rate will be applied on an annual basis. Over and above their compulsory contributions, member states should also make voluntary contributions to:

- The Specialized activities/projects of the JCA such as the Educational, Technical Training, Competition Regulations Workshops, Research and Development, Dissemination of Good Practices etc.

- JCA Programmes and Funds such as joint governance programmes, working capital fund, and technical infrastructure programmes etc.

2.4.2 Regulatory Fees and Charges

Our analysis identified that it is possible that the JCA can also generate revenues from its regulatory activities as provided in the Protocol establishing the JCA. The issue of charging fees by member states are standard procedures for regulatory activities as the existing CAA's charge fees. However, as indicated above these fees do not fully cover the costs of regulatory services provided and government subsidies are provided to cover all recurring operational costs. Although the JCA may be able to charge these fees, it is however not advisable to solely depend on this form of revenue due to the many challenges of double charging the service providers and users.

2.4.3 Contributions from Grants, Donations and Loans

Generating revenue from this source should only be considered as an additional funding source to any of the above sources. The JCA cannot depend fully on supporting core operational activities from these sources due to various funding timelines and challenges of monitoring and continuity funding beyond a number of years. Most regional and international funding agencies would also demand sustainability for their funding prior to signing funding agreement. Although, medium term funding of up to 3 years could be obtained for core services but not sustainable in the longer term if the JCA are unable to replace such funding. However, there are various opportunities for joint initiatives and public- private partnerships with international agencies for project funding which might include core funding of specific project posts. Consideration for loans and other form of debt financing of the JCA is possible but the overall costs and impact on the economic sustainability of the JCA should be appraised.

2.4.4 Additional Funding Through Airline Ticket Levies

The JCA can also consider additional funding or totally recharging the operational budget to levies on departing passengers from member states. Based on the initial computation of the operational budget, it is estimated that it will cost an average of $0.14 to $0.28 on a budget of $2.0m low cost - $3.0 high cost.

However, this figure will be significantly reduced if the JCA operationalisation plan were phased-in over the 5 year period. Assuming an annual operational budget of $1.0 million low cost, $1.5 million mid cost and $2.0 million high cost. This will give an average of $0.07 - $0.12 (low – high cost).

Although, this option seems desirable and equitable but it comes with a number of challenges which might significantly increase the cost of operation in the longer term due to cost of compliance, delays in receipt of payments from airline companies or agreed intermediary and not to mention other legal challenges to the viability of the option as a source of funding by other local, regional and international agencies already using this option for funding activities ranging from health, aid to Africa to climate change and carbon emissions.

A detailed analysis of this option revealed that similar organizations in Africa have failed to use this funding option due to strong oppositions from passenger groups and airline companies. A good example of this failure and on-going challenges with airline ticket levy is the demand by CASSOA for a $0.70 US cents per ticket coupon levy to finance operations which did not go down well with airlines, passengers and member states. This option was strongly opposed by Kenya and Tanzania, which led to a change of plan by the East African Civil Aviation Safety and Security Oversight Agency and 'reduced'their demands to reportedly 30 US cents to appease the member countries and finally secure a funding approval, the absence of which, according to a CASSOA staff, 'makes our life a bit difficult'.

The following extract was taken from an article in the eTN Global Travel News bulletin published by Dr Wolfgang H. Thome, ETN Uganda April 2013

"CASSOA was supposed to make life easier as a one stop centre for East Africa wide approvals, licences and permits. This has NOT happened. National regulators still make airlines file multiple applications if they want to operate in the member states other than where they are registered. Why should passenger have to pay for another layer of bureaucracy which failed to meet its objective' commented a domestic airline operator in Uganda while a commercial airline sales staff said: 'The charges on tickets in Uganda, in fact the entire EAC, is already very high. Let me be blunt, government milks aviation and tourism and put too little back into the sector. Fares charged by airlines are often nearly tripled by charges and fees and taxes when flying in East Africa or on international routes. This is not right. That money rarely makes its way back to meet sectoral needs." ……………….

"CASSOA is headquartered in Entebbe but maintains liaisons with the national civil aviation regulators in all the five EAC member states, and supposed to be funded with equitable contributions from the member states, based on the number of flight movements, passengers and number of aircraft registered, but since its inception has the agency struggled to get adequate funds. Yet, disputes among member states over the level of a levy on tickets as well as their national share have made it impossible to reach consensus so far, endangering the agency's functionality. East African spirit, certainly NOT flying high."

With this type of challenges in mind, we know from experiences that it would be very difficult for the JCA to successfully use this funding option and as such we recommend that the option is only considered in addition to other sources of funding and not as a standalone source of funding to avoid similar problems CASSOA is currently experiencing. Additional information and analysis is provided in the table below in comparison to other funding options

Table 3 below presents the option in more detail and provides a comparative assessment:

COMPARATIVE ANALYSIS OF FUNDING OPTIONS				
KEY ELEMENTS	**OPTION 1** **FUNDING FROM MEMBERS CONTRIBUTIONS ONLY & COMBINATION OF FEES & CONTRIBUTIONS (80:20)**	**OPTION 2** **FUNDED THROUGH EQUAL CONTRIBUTIONS WITHIN COUNTRY BANDS**	**OPTION 3** **FUNDED THROUGH PROPORTIONAL CONTRIBUTIONS BY MEMBER STATES**	**OPTION 4** **FUNDED THROUGH GRANTS & DONATIONS & LOANS**
Overall characteristics & Scope of funding option	• Equal level of contribution by each member state • Reliable core funding source for JCA • Commitment and stronger regulatory presence • Ownership and support for sustainability and stability of JCA • Ideal for statutory organization to provide regulatory & technical services • Fixed and voluntary contributions by member states based on economic strength and air traffic activities	• Equal contributions by members states based on air passenger market share • Countries are grouped into 4 Bands based on air traffic activities • Equitable distribution of financial burden of supporting the JCA • Core funding will be secured for the JCA • Equitable contributions by member states based agreed format	• Proportional level of contribution by member states based on market share • Countries are grouped into 4 Bands based on air traffic activities • Economically viable and active countries in Band 1 contributes 64% of the total costs • Core funding secured by contributions from few countries	• No core funding at all from member states • Entirely dependent on grants and donor funding • Possible loans and finance from international financial institutions • Existing links and agreements with donor agencies • Regional grants from COMESA, SADC, EAC, TMSA, CAA, AFCAC etc • Powerful policy instruments, by which governments may influence the activity in any particular sector. • Opportunities to attract domestic and foreign investors to provide appropriate services

Combination of Fees and Contributions	• Core funding from member states – approx 80% of total funding • Opportunity to raise more funding and deliver competitive services • Highly political funding routes and economic challenges • Opportunities to undertake more activities based on • performance	• Same	• same	• N/a
Funding through levies from Airline tickets etc.	• Proportional funding based on levy on departing airline passengers from member states. • Additional funding from fees generated from taxation, surcharges, subsidies, , penalties etc 20% •	•	•	•
Operating Budgets (average per annum 2013-2018 at 5% annual increases)	$2.0 million	$2.0 million	$2.5 million	$2.5 million
Full time equivalent staff (average per annum 2013-2018)	12	12	17	12

Challenges/Risks	• Highly dependent on the good will of member states contributions • Rechargeable levies on departing airline passengers at an average of \$0.14c - \$0.28c (low to high cost scenario) based on the above budgets. This will be significantly reduced on a phased operational budget • Opposition by airline companies and passengers on airline ticket levies and problems with payment and compliance by member states • Airline levies are not necessarily equitable as vibrant airlines and member states will have to pay more for the privilege. • Increase costs of airline tickets and challenges by the airline companies on providing competitive prices etc. • Cash flow problems may lead to loss of operational effectiveness	• Depends on economic sustainability of the air transport industry in the regions to cover contributions • Level of contributions needs to be equitable or proportionately levied • Constant computation of market share statistics and adjustments of country bands • Argument about computation of both domestic and intra-JCA air traffic figures for calculating level of contributions • Accruing funding deficit from member states will have an impact on the effective implementation of the agency's strategic plan	• Regulatory powers of JCA could be controlled by dominant positions of member state • Delays in payment of annual contributions could affect operational effectiveness • Potential difficulty in predicting future allocations with any certainty beyond the annual budget planning process • Detrimental impact of countries with high market share contributing considerably more than others • A less attractive option for all member states, in particular those in Band 1 and 2 • Payment of fees and surcharges on passengers embarking within member states could be considered as detrimental to member states with higher air travel trades as they will	• Very difficult to maintain stability of funding on an annual basis • Failure to raise required funding from donor agencies or grants compliance issues will affect JCA effectiveness • Risky option for such an important agency but very attractive to be funded as a start-up • Continuity funding is highly unlikely through grants – all time limited funding • Tight deadlines for applications and technical ability of staff team to fundraise effectively on an ongoing basis • Inability to generate enough funding private funds, grants from donor countries and other international agencies would limit the capacity of the JCA to run some core operational activities.

	• Most member states currently funds their own regulatory activities from fees and charges subsidized from aviation activities • Delays by JCA to develop and generate fee income from services provided and obtain agreement for surcharges, levies of all kinds for activities and non-compliance. • Competition and tariff policy challenges could make funding difficult to manage • Possible conflicts of interests in both aeronautical and non-aeronautical revenue streams • Operating costs and staff compliments will have to be high to cope with the wider range of activities and supported roles in addition to core activities • Pay as you Earn surcharges on passengers embarking within member states could be considered as detrimental to member states with higher air travel trades as they will have to pay more than those with less air travel vibrancy		have to pay more than those with less air travel vibrancy • Creation of different levels of participation and possibly support by staff of JCA	

	• Non- equitable surcharges may result into non-payment or delays in payment, yet it is considered to be one of the most suitable way of funding air transport regulatory authorities • Failure to generate income from other sources identified in the strategic business plan due to organisational capacity or economic conditions.			
Sustainability & recommendations	• Fixed funding will make the JCA more stable with organizational capacity to deliver effective services • A fixed rate of allocation to member states with an agreed percentage increase in line with inflation rate would be recommended • Fixed contribution will provide economic and financial viability of the JCA. Services will be financially sustained in the long term • Fixed contribution option is the preferred choice of funding the JCA at least for the initial 5 years of	• It is recommended that the JCA adopts a more structured funding option to address its financial obligations in line with operationalisation mandate. • Fairly equitable distribution of financial burden amongst member states • A fixed level of contribution for 5 years with exponential increases could be agreed • A combination of fixed and voluntary level contribution by member states according to the country bands could be	• Ideal only if contributions by countries in Band 1 are willing to comply with rates of contributions • Less empowering to countries in Band 4 as their contributions will only account for 4% of the total with an average fee of $4,600 per year • Less desirable option for funding the JCA • This option should only be considered after extensive consultations with all stakeholders on the long term viability of the contribution model	• Grant and donor funding is good but only if they are long term commitment (5-10 yrs funding of core and project activities) • Most regional and international grants/donor agencies could be weary of long term sustainability funding • Agencies like COMESA can advise and assist the JCA since they have existing financing arrangement with AFDB for $8.6m and other international agencies • This option should be

	operation to allow the organization to be fully established with a strong identify of enforcing competition rules with the regions • A combination of core funding from member states and a mixture of fees, levies and charges would ensure long term sustainability. • In general, the taxation system represents an important part of the institutional and economic framework within which the aviation industry, or any other trade, must operate. • It is important for the JCA to also consider the above elements for sustainability funding in addition to statutory grants/contributions for core activities from member states. • Therefore, we recommend that the JCA undertakes a review of the duties, charges, subsidies, fuel surcharges and tax rules of aviation sector. • However, a general discussion of the corporate	deployed • This option is highly recommended as a 2nd choice option because it also provide equitable contributions by member states		considered alongside any agreed model of funding as the JCA will inevitably have to raise grants, donations etc from these bodies by way of partnership working or project funding • There are many local, regional and international funding opportunities for the JCA and it will be financially sustainable as additional funding/financing source for the JCA • Opportunity to engage in Public –Private Partnerships for projects – infrastructure or capacity building programmes

	taxation systems of the COMESA, EAC and SADC countries would be required and that is far beyond the scope of this report but essential in establishing the fee charges and other levies on member states.			

Table 3: Summary of Risk Analysis of Funding Options

In addition the comparative analysis of the various challenges and risks of each of the funding options in Table 3 above, the following potential risks will be eminent in an organisation of this nature and these should be considered carefully by the Steering Committee:

FUNDING OPTIONS	RISK	PROBABILITY	IMPACT	MITIGATION	IMPACT AFTER MITIGATION
Option 1 – based on equal contributions & fee income	The potential risks of insufficient funding and late payment of contribution and fees/tariffs by member states due to inherent delays in the government's budgeting and approval process	Medium	High	Fixed compulsory and equal contributions by member states agreed and defrayed annually in advance	Low
	The risk of delays in operation leading to inefficient and ineffective use of resources	Medium	Medium	Ensure at least 60% of operating budget is secured by end of 1st quarter of each year if not 100%	Low
	The high level of operating costs and other contingencies such as high salary costs, benefits package, cost of engaging with the communities etc.	Medium	Medium	We recommend a Lean organisational structure at commencement of the JCA. The current proposal is for 11 staff members at different grading	Low
	The capacity to mobilise additional or diverse funding through subsidies and investment plans which rely almost entirely on government budgets may be weak. This could lead to organisational ineffectiveness and over	Medium	Low	We recommend a combination of fixed and voluntary contributions by member states	Low

	reliant on voluntary contributions may not be sustainable				
	Possible risk of extraneous factors affecting the proposed JCA budget (e.g. high inflation rates, cost of operation etc)	Medium	Low	These factors are highly likely to impact on costs and contingency plans initiated in the funding strategy to mitigate budgetary impact on project.	Low
Option 2 – based on equal contributions by member states within same band	Potential difficulty in predicting future allocations with any certainty beyond the annual budget planning process will be a continuous challenge for the JCA and contributions based on group bands that are likely to change yearly would be risky for stability of funding.	Medium	Low	A fixed rate with an agreed percentage increase in line with inflation rate and changes in market shares would be recommended as protection against fluctuations in funding levels.	Low
	Accruing funding deficit from member states will have an impact on the effective implementation of the agency's strategic plan, affecting mainly the development of the capacity of the agency in implementing the planned activities.	High	Medium	Ensure at least 60% of operating budget is secured by end of 1st quarter of each year if not 100%. Establish a working capital fund in addition to fees generated from other sources.	
	This option equitably distribute the financial burden of funding the JCA on economic vibrancy of the countries, it has the potential to be detrimental to countries within Bands 1 and 2 as they will have to contribute more for the privilege and failure or delays in payment would significantly hinder the operations of the JCA.	High	Medium	Ensure commitment from these countries and work in partnership to reduce the risk of late payment	Low
Option 3 – proportional contribution by member states based on market share within a band	The top 3 countries in band 1 by current market share positions – Egypt 7.3%, Kenya 12% and South Africa 24.4% stands to contribute a significant proportion of the total annual budget of the organisation. This could be seen as detrimental and means the JCA will have to depend fully on the timely	High	Medium	Challenging situation for the JCA using this option but ensuring appropriate systems for collection of contributions annually or quarterly might help reduce burden.	Medium

	contributions of these countries to be sustainable.				
	A significant majority – 7 countries within the JCA will contribute significantly less (3.4%) to the organisation through this model as a result of their combined current market share and making it less desirable to others in higher bands.	Low	Low	Ensure effective communication with other member states on the decision to use this model of financing. However, growth in market shares will continuously change the countries grouping annually.	Low
	Likely to be very controversial as discussions on the implementation of the YD and remit of JCA jurisdiction on only intra-JCA air travel data will be of a major concern to many in the higher bands.	Low	Low	Ensure effective consultations and communications with member states on the funding model. This option has its merits but is less preferred in comparisons to other funding options available to the JCA.	Low
Option 4 – contribution from grants, donations, fees and loans	Inability of the organisation to generate sufficient funding through private funds, grants from regional and international agencies, and other donor countries would limit the capacity of the JCA to run effectively and efficiently as a regulatory body.	High	High	Highly risky option for the JCA to depend fully on grants, fees for services and donations from regional and international agencies. Need to establish a stable base of funding and gradually increase proportions of these funding over time. Hence our recommendations to defer for up to 36 months minimum.	Medium
	Failure to generate revenue or delays in funding approval from key sources would have considerable impact on the ability of the organisation to function effectively.	High	Medium	Highly dependent on the ability to raise the funding and availability of appropriate funding for the JCA from these sources.	Medium
	Contribution from Pay as you Earn surcharges on passengers embarking within member states could be difficult to collect on a regular basis and may be seen as not equitable and result into non-payment or delays in payment	High	Medium	Need to establish a charging formula for the PAYE surcharges from outset and agree cooperation model with all parties. E.g. 0.50ct per passenger. Considered to be one of the most suitable ways of funding air transport regulatory authorities.	Medium
	Sustainability of generating revenues from domestic and foreign investors in the air travel	High	High	Need to develop attractive projects and programmes to attract Joint investments from	Medium

	sector on an ongoing basis for the organisation will be challenging annually and could have detrimental effect on the ability of the JCA to meet its obligations.			investors. E.g. infrastructure projects, education, tourism etc. Although, there are existing relationships within the EAC, SADC and COMESA regions that the JCA could seriously benefit from but the relevance of these funding streams to the activities of the JCA are questionable including the ability of the JCA to maintain anonymity within the region.	

Table 4: Risk Analysis

3. Financial Operational Plan and Recommendations

ICAO recommends that member states in a regional organisation "*establish a mechanism to ensure that the funds required for the establishment and management of RSOO"* are clearly identified and secured. ICAO acknowledges that each state has its own level of complex aviation activities which may be recognised in the amount to be contributed by each state. The success of any organisation, in ICAO's view, depends on the commitment of members towards fulfilling their obligations including financial obligations.

In view of the above recommendation from ICAO, the following funding sources are recommended for the establishment and management of the Joint Competition Authority in EAC, COMESA and SADC regions.

3.1 Recommended Approach

Based on the outcome of the analysis in Tables 3 and 4 above, it is recommended that the JCA adopt a variety of funding options to address its financial requirements in line with the operationalisation mandate to fully implement the Yamoussoukro Declaration. However, the preferred funding option for the JCA will be direct funding through contributions from member states on a fixed equal annual basis. We also recommend that member states should assume full responsibility for funding the JCA based on contributions through each Regional Economic Community. Other sources of funding, particularly assistance from development partner and international donor agencies should be actively pursued in addition to member states contributions, services fees and charges as supplementary revenue streams.

There are several workable options available to addressing the contributions required by the JCA to ensure operational effectiveness. Of the four options considered, only two options are recommended as sustainable over the next 5 – 10 years of operations. It is expected that the Steering Committee will select the best option or a combination of options that offer the optimal solution for funding the organisation and recommend to the Tripartite Council of Ministers for approval. These options are based on the assumption of a minimum operating cash budget of $2.0 million per year with 30% annual increases in budget to cover for inflation, employment & operational costs, projects, research & development, capital investment etc. We will also recommend that the JCA Management Board considers establishing a Working Capital Fund from commencement of the organisation where surplus cash and defrayed budgets would be ring-fenced in an interest yielding account.

The following table summarises the projected funding contributions by member states on estimated operating costs of $2.0 million, $2.5 million and $3.0 million operating budget per annum.

SUMMARY OF AVERAGE CONTRIBUTION BY MEMBER STATES FOR EACH LEVEL OF OPERATING BUDGET ESTIMATES			
			Figures in US$
Funding Options & Contributions	**2,000,000.00**	**2,500,000.00**	**3,000,000.00**
Option 1- Fixed Equal Contributions by all	74,000.00	92,593.00	111,000.00
Option 2 – Equal Contributions by Market Share in separate bands	**2,000,000.00**	**2,500,000.00**	**3,000,000.00**
Band 1	117,000.00	145,833.00	175,000.00
Band 2	85,715.00	107,142.00	128,571.00
Band 3	57,143.00	71,429.00	85,714.00
Band 4	42,857.00	53,571.00	64,285.00
Option 3 – Proportional Contributions by Market Share in same band	**2,000,000.00**	**2,500,000.00**	**3,000,000.00**
Band 1	205,000.00	256,250.00	307,500.00
Band 2	68,571.00	85,714.00	102,857.00
Band 3	32,000.00	40,000.00	48,000.00
Band 4	9,714.00	12,143.00	14,571.00

Table 5: Summary Contribution of Member States

Each of these options is described in more detail below with appropriate financial projections and recommendations.

3.2 Fixed Equal Contributions by Member States

This option is most preferred as it ensures equitable distribution of the costs across member states and would be the cheapest options for the states. This option proposes that each member state contributes equally to funding JCA's activities through their REC's or even directly as member states. This method is in line with the EAC, COMESA and SADC Treaty's provision of equal contribution by member states and it also provides stable income for the JCA. However, this issue of equal contributions may need to be discussed within the Tripartite Regions for consensus and approval. Table 6 below describes the estimated contribution by member states based on the proposed budgets for the JCA.

Sustainable Funding Mechanism

					Figures in US$
Fixed Equal Contributions by Member States	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
at 30% rate of increase P/A	**2,000,000.00**	**2,600,000.00**	**3,380,000.00**	**4,394,000.00**	**5,712,200.00**
Angola	74,074.07	96,296.30	125,185.19	162,740.74	211,562.96
Botswana	74,074.07	96,296.30	125,185.19	162,740.74	211,562.96
Burundi	74,074.07	96,296.30	125,185.19	162,740.74	211,562.96
Comoros	74,074.07	96,296.30	125,185.19	162,740.74	211,562.96
Democratic republic of Congo	74,074.07	96,296.30	125,185.19	162,740.74	211,562.96
Djibouti	74,074.07	96,296.30	125,185.19	162,740.74	211,562.96
Egypt	74,074.07	96,296.30	125,185.19	162,740.74	211,562.96
Eritrea	74,074.07	96,296.30	125,185.19	162,740.74	211,562.96
Ethiopia	74,074.07	96,296.30	125,185.19	162,740.74	211,562.96
Kenya	74,074.07	96,296.30	125,185.19	162,740.74	211,562.96
Lesotho	74,074.07	96,296.30	125,185.19	162,740.74	211,562.96
Libya	74,074.07	96,296.30	125,185.19	162,740.74	211,562.96
Madagascar	74,074.07	96,296.30	125,185.19	162,740.74	211,562.96
Malawi	74,074.07	96,296.30	125,185.19	162,740.74	211,562.96
Mauritius	74,074.07	96,296.30	125,185.19	162,740.74	211,562.96
Mozambique	74,074.07	96,296.30	125,185.19	162,740.74	211,562.96
Namibia	74,074.07	96,296.30	125,185.19	162,740.74	211,562.96
Rwanda	74,074.07	96,296.30	125,185.19	162,740.74	211,562.96
Seychelles	74,074.07	96,296.30	125,185.19	162,740.74	211,562.96
South Africa	74,074.07	96,296.30	125,185.19	162,740.74	211,562.96
South Sudan	74,074.07	96,296.30	125,185.19	162,740.74	211,562.96
Sudan	74,074.07	96,296.30	125,185.19	162,740.74	211,562.96
Swaziland	74,074.07	96,296.30	125,185.19	162,740.74	211,562.96
Tanzania	74,074.07	96,296.30	125,185.19	162,740.74	211,562.96
Uganda	74,074.07	96,296.30	125,185.19	162,740.74	211,562.96
Zambia	74,074.07	96,296.30	125,185.19	162,740.74	211,562.96
Zimbabwe	74,074.07	96,296.30	125,185.19	162,740.74	211,562.96

Total		**2,000,000.00**	**2,600,000.00**	**3,380,000.00**	**4,394,000.00**	**5,712,200.00**

Table 6: Fixed Equal Contributions

In addition, the JCA may consider the option of a combination of contributions for core services and fee income for other services as described in section 2 above. This option will provide for a more challenging funding model initially for the JCA as services and other fee income will not be easily generated within the initial 24 – 36 months of operation, hence sustainability of the funding model. Also a combination of compulsory and voluntary contributions could be considered as an alternative funding model within this option.

3.3 Equal Contributions within a Market Share Band

This funding option is based on equal contributions from member states based on the size of market share and bands within the region. We have assumed 4 bands with market share statistics grouped as follows:

3.3.1 Band 1

Countries with market share of 5.1% and above. There are 6 countries within this band. This group of countries represent a total of 61.5% of the current market share and it is recommended that they are responsible for 35% of the total costs of JCA core funding. This means an average of $117,000 per annum contribution by member states in band 1. Table 7 below describes the level of contributions in more detail.

Based on proportional contributions on market share	% Share of Total Contribution	Projected for 2013/14	Projected for 2014/15	Projected for 2015/16	Projected for 2016/17	Projected for 2017/18
Band 1 countries (5.1%+)		USD$				
		2,000,000.00	**2,600,000.00**	**3,380,000.00**	**4,394,000.00**	**5,712,200.00**
Egypt		116,666.67	151,666.67	197,166.67	256,316.67	333,211.67
Kenya		116,666.67	151,666.67	197,166.67	256,316.67	333,211.67
Libya		116,666.67	151,666.67	197,166.67	256,316.67	333,211.67
South Africa		116,666.67	151,666.67	197,166.67	256,316.67	333,211.67

Zambia		116,666.67	151,666.67	197,166.67	256,316.67	333,211.67
Ethiopia		116,666.67	151,666.67	197,166.67	256,316.67	333,211.67
Total- Av contribution	**35.0%**	**700,000.00**	**910,000.00**	**1,183,000.00**	**1,537,900.00**	**1,999,270.00**

Table 7: Band 1 Contributions

3.3.2 Band 2

Countries with market share of 2.1% - 5.0%. There are 7 countries within this band. This group represents a total of 24.0% of the current market share and it is recommended that they contribute 30% of the total cost of JCA core funding. Each member state within the band will contribute an average $85,714 per annum to the JCA with an operating budget of $2.0 million and the amount will increase in same proportion as budget increases.

Based on proportional contributions on market share	% Share of Total Contribution	Projected for 2013/14	Projected for 2014/15	Projected for 2015/16	Projected for 2016/17	Projected for 2017/18
Band 2 countries (2.1% - 5.0%)						
Mauritius		85,714.29	111,428.57	144,857.14	188,314.29	244,808.57
Mozambique		85,714.29	111,428.57	144,857.14	188,314.29	244,808.57
Namibia		85,714.29	111,428.57	144,857.14	188,314.29	244,808.57
Sudan		85,714.29	111,428.57	144,857.14	188,314.29	244,808.57
Uganda		85,714.29	111,428.57	144,857.14	188,314.29	244,808.57
Zimbabwe		85,714.29	111,428.57	144,857.14	188,314.29	244,808.57
Tanzania		85,714.29	111,428.57	144,857.14	188,314.29	244,808.57
Total	**30.0%**	**600,000.00**	**780,000.00**	**1,014,000.00**	**1,318,200.00**	**1,713,660.00**

Table 8: Band 2 Contributions

3.3.3 Band 3

Countries with market share of 1.1% -2.0%. There are 7 countries within this band. This group represents a total of 11.2% of the current market share and it is recommended that they contribute 20% of the total cost of JCA core funding. Each member state within this band will contribute an average of $57,142 per annum with a budget of $2.0m minimum and in line with budget increases. Table 9 below describes annual contributions by member states over the next 5 years.

Based on proportional contributions on market share	% Share of Total Contribution	Projected for 2013/14	Projected for 2014/15	Projected for 2015/16	Projected for 2016/17	Projected for 2017/18
Band 3 countries (1.1% -2.0%)						
Angola		57,142.86	74,285.71	96,571.43	125,542.86	163,205.71
Rwanda		57,142.86	74,285.71	96,571.43	125,542.86	163,205.71
Botswana		57,142.86	74,285.71	96,571.43	125,542.86	163,205.71
DR Congo		57,142.86	74,285.71	96,571.43	125,542.86	163,205.71
Djibouti		57,142.86	74,285.71	96,571.43	125,542.86	163,205.71
Madagascar		57,142.86	74,285.71	96,571.43	125,542.86	163,205.71
Malawi		57,142.86	74,285.71	96,571.43	125,542.86	163,205.71
Total	**20.0%**	**400,000.00**	**520,000.00**	**676,000.00**	**878,800.00**	**1,142,440.00**

Table 9: Band 3 Contributions

3.3.4 Band 4

Countries with market share of 0.0% - 1.0%. There are 7 countries within this band. This group represents a total of 3.4% of the market share and it is recommended that they contribute 15% of the total cost of JCA core funding. Each member state within this band will contribute a total of $42,857 per annum and in line with budget increases. See table 10 below for average annual contributions over the next 5 years.

Based on proportional contributions on market	% Share of Total Contribution	Projected for 2013/14	Projected for 2014/15	Projected for 2015/16	Projected for 2016/17	Projected for 2017/18

share						
Band 4 countries (0.0% -1.0%)						
Burundi		42,857.14	55,714.29	72,428.57	94,157.14	122,404.29
Comoros		42,857.14	55,714.29	72,428.57	94,157.14	122,404.29
Eritrea		42,857.14	55,714.29	72,428.57	94,157.14	122,404.29
Lesotho		42,857.14	55,714.29	72,428.57	94,157.14	122,404.29
Seychelles		42,857.14	55,714.29	72,428.57	94,157.14	122,404.29
Swaziland		42,857.14	55,714.29	72,428.57	94,157.14	122,404.29
South Sudan(Est)		42,857.14	55,714.29	72,428.57	94,157.14	122,404.29
Total	**15.0%**	**300,000.00**	**390,000.00**	**507,000.00**	**659,100.00**	**856,830.00**

Table 10: Band 4 Contributions

This option of grouping the countries into bands based on their market share seems equitable and it is recommended that the Steering Committee considers this option in more detail as it will enable each country to contribute equal payment regardless of the actual size of their air passenger's traffic within the bands. This will ensure sustainability of the JCA and also provide a standard formula for contributions by member states.

Proportional Level of Contribution by Member States

3.3.5 Band 1 - 5.1% +

With this option, the 7 countries within Band 1 will contribute a total of 61.5% of the cost of operations in line with their individual proportion of the intra-JCA air passenger's market share. Countries like Kenya and South Africa will have to contribute considerably more than everyone else at a minimum of $242,000 per year and $488,000 per year respectively. An average contribution by member states in this band is approximately $205,000 per annum.

Based on proportional contributions on market share	Current % Share of Total	Projected for 2013/14	Projected for 2014/15	Projected for 2015/16	Projected for 2016/17	Projected for 2017/18
Band 1 countries (5.1%+)		USD$				
		2,000,000.00	**2,600,000.00**	**3,380,000.00**	**4,394,000.00**	**5,712,200.00**
Egypt	7.3%	146,000.00	189,800.00	246,740.00	320,762.00	416,990.60
Kenya	12.1%	242,000.00	314,600.00	408,980.00	531,674.00	691,176.20
Libya	5.0%	100,000.00	130,000.00	169,000.00	219,700.00	285,610.00
South Africa	24.4%	488,000.00	634,400.00	824,720.00	1,072,136.00	1,393,776.80
Zambia	5.6%	112,000.00	145,600.00	189,280.00	246,064.00	319,883.20
Ethiopia	7.1%	142,000.00	184,600.00	239,980.00	311,974.00	405,566.20
Total	**61.5%**	**1,230,000.00**	**1,599,000.00**	**2,078,700.00**	**2,702,310.00**	**3,513,003.00**

Table 11: Band 1 - breakdown of contributions by market share - 5.1% and above

3.3.6 Band 2 – 2.1% - 5.0%

There are 7 countries within this Band representing a total of 24% of the market share. Contributions within this Band are more equitable as average contribution by member states is $68,571.

Based on proportional contributions on market share	Current % Share of Total	Projected for 2013/14	Projected for 2014/15	Projected for 2015/16	Projected for 2016/17	Projected for 2017/18
Band 2 countries (2.1% - 5.0%)						
Mauritius	2.1%	42,000.00	54,600.00	70,980.00	92,274.00	119,956.20
Mozambique	2.2%	44,000.00	57,200.00	74,360.00	96,668.00	125,668.40
Namibia	3.4%	68,000.00	88,400.00	114,920.00	149,396.00	194,214.80
Sudan	3.3%	66,000.00	85,800.00	111,540.00	145,002.00	188,502.60
Uganda	3.8%	76,000.00	98,800.00	128,440.00	166,972.00	217,063.60
Zimbabwe	4.3%	86,000.00	111,800.00	145,340.00	188,942.00	245,624.60
Tanzania	4.9%	98,000.00	127,400.00	165,620.00	215,306.00	279,897.80
Total	**24.0%**	**480,000.00**	**624,000.00**	**811,200.00**	**1,054,560.00**	**1,370,928.00**

Table 12: Breakdown of contributions by Market Share - 2.1% - 5.0%

3.3.7 Band 3 - 1.1% -2.0%

Band 3 – countries with market share of 1.1% -2.0%. There are 7 countries within this band. This group represents a total of 11.2% of the current market share and it is recommended that their contributions are proportionate to the size of their market share.

Each member state within this band will contribute an average of $32,000 approx per annum with a budget of $2.0m minimum. The countries within this band will enjoy a more equitable contribution level with this model to the disadvantage of other countries.

Based on proportional contributions on market share	Current % Share of Total	Projected for 2013/14	Projected for 2014/15	Projected for 2015/16	Projected for 2016/17	Projected for 2017/18
Band 3 countries (1.1% -2.0%)						
Angola	1.9%	38,000.00	49,400.00	64,220.00	83,486.00	108,531.80
Rwanda	1.8%	36,000.00	46,800.00	60,840.00	79,092.00	102,819.60
Botswana	1.7%	34,000.00	44,200.00	57,460.00	74,698.00	97,107.40
DR Congo	1.8%	36,000.00	46,800.00	60,840.00	79,092.00	102,819.60
Djibouti	1.2%	24,000.00	31,200.00	40,560.00	52,728.00	68,546.40
Madagascar	1.1%	22,000.00	28,600.00	37,180.00	48,334.00	62,834.20
Malawi	1.7%	34,000.00	44,200.00	57,460.00	74,698.00	97,107.40
Total	**11.2%**	**224,000.00**	**291,200.00**	**378,560.00**	**492,128.00**	**639,766.40**

Table 13: Breakdown of contributions by Market Share - 1.1% - 2.0%

3.3.8 Band 4 - 1.1% - 1.0%

Band 4 – countries with market share of 0.0% - 1.0%. There are 7 countries within this band. This group represents a total of 3.4% of the market share and it is recommended that they contribute proportionally to their individual market shares. Each member state within this band will contribute significantly lower annual contributions due to the size of their air traffic activities within intra-JCA. This will represent an average contribution of $9,714 per country assuming a budget of $2.0m per year. This is highly unlikely to be acceptable by other member states as the issue of competition affects all more so the countries within this band.

Based on proportional contributions on market share	Current % Share of Total	Projected for 2013/14	Projected for 2014/15	Projected for 2015/16	Projected for 2016/17	Projected for 2017/18
Band 4 countries (1.1% -2.0%)						
Burundi	1.0%	20,000.00	26,000.00	33,800.00	43,940.00	57,122.00
Comoros	0.5%	10,000.00	13,000.00	16,900.00	21,970.00	28,561.00
Eritrea	0.3%	6,000.00	7,800.00	10,140.00	13,182.00	17,136.60
Lesotho	0.3%	6,000.00	7,800.00	10,140.00	13,182.00	17,136.60
Seychelles	0.5%	10,000.00	13,000.00	16,900.00	21,970.00	28,561.00
Swaziland	0.5%	10,000.00	13,000.00	16,900.00	21,970.00	28,561.00
South Sudan(Est)	0.3%	6,000.00	7,800.00	10,140.00	13,182.00	17,136.60
Total	**3.4%**	**68,000.00**	**88,400.00**	**114,920.00**	**149,396.00**	**194,214.80**

Table 14: A breakdown of contributions by Market Share - 0.0% - 1.0%

This option is very desirable and recommended for the medium to longer term basis only. Most organisation of similar composition within Africa and Europe uses a combination of both member states contributions and revenues from grants, donations and financing options through loans, equity participations and rental incomes on assets. However, sincere the JCA secretariat is a new regulatory organisation; it is advisable to concentrate on fixed contributions from member states at commencement of the organisation to ensure sustainability.

Overall, we will consider this option of proportional contributions less favourable due to the various options that can be considered to be more equitable for all countries involved in the tripartite region and of course less risky for the operationalisation of the JCA.

4. Analysis of Potential Funding Sources

In consideration of the recommended funding options for the JCA, we have undertaken an extensive research of the various funding sources that can be potentially suitable for the organization both at start up and ongoing basis. We have summarised these sources as a financial dossier that should be considered by the JCA for core funding and project activities.

The table of potential funding sources and financiers has been provided only as a guide and should be considered in line with our recommendations on the sustainability of funding the JCA as an organization and not in isolation due to the fact that core activities of the JCA does not fully meet the specific criteria for funding from some of these financial institutions and donor organisations.

The list of possible sources of funding for the JCA is tabulated below for references. We have included names of the institution, relevant financial instruments, targeted clients (public or private) the applicant, funding criteria and contact, and consultants comments plus recommendation on suitability. Based on the outcome of our analysis of the funding options for the JCA, we will not recommend any consideration of the financial instruments such as loans, debts finance or equity at the early stages of the JCA as these instruments will have a detrimental effect on the ability of the JCA to operate effectively without the burden of debt within the first 5 years operation.

Table 15 below describes the list of potential funding sources and our recommendations.

Specific Funding Sources

NO	FUNDING AGENCY	TYPE OF FUNDING	CRITERIA & CONTACT	COMMENT & RECOMMENDATION
STABLE CORE FUNDING SOURCES				
1.	Contributions from Member States	Grants (fees and contributions)	Contributions from the 26 members states as per agreed formula for core funding	Best option for the JCA and should be considered as the most suitable for sustainability
2.	Ministries of Finance from Africa member states	Grants	Application is normally through the AU relevant council of ministers.	AU is committed to implementing the YD and JCA is an instrument of the Council of Ministers. Potential source of funding but political task for Steering Committee due to possible duplications with direct contributions by member states above.
GRANTS & DONOR FUNDING INSTITUTIONS				
3.	United Nations	Project Funding	Many opportunities for funding of initiatives and partnerships for development under a number of programmes. All year round funding opportunities. Grants for mainly public institutions and project based initiatives.	Mostly suitable for specific projects and should be considered at bilateral level arrangement only. Funding is not sustainable for longer term due to nature of the programmes and funding regimes. Only to be considered for specific projects such as strengthening governance structures, capital, capacity building etc.
4.	The Africa-EU Infrastructure Trust Fund	Grants	(Trust Fund is managed by EIB & chaired by EC) Grants available for private & PPP projects/promoters.	A potential funding source for the JCA. Not suitable for start up phase operations but could be considered in the future for infrastructure

			Grants of 5-35% available as: Direct grants Interest rate subsidy Insurance premia Technical assistance Application procedure via ITF associated Project Financiers. Contacts: EIB Project Financier: Alistair Wray Email: a.wray@eib.org PIDG Project financier: John Hodges Email: johnwilliamhodges@gmail.com	projects.
5.	InfoDev (Agency of World Bank)	Grants and Technical Advisory Support	Provides funding to public and private agencies. Focus on partnership funding programmes for technology (themes: Innovate, Connect & Transform)	Good source for special technology driven projects. Not a potential funding source for the JCA now but could be considered in future years for specific projects.
6.	European Union - EC	A combination of grants, debt and equity funding	European Development Fund.	Not a potential funding source for the JCA now.

			Focus on funding or financing private entities only or government agencies with private status. Grants for development actions in the framework of Cotonou agreement between the ACP countries and the EU member States. European funding granted to promote the economic, cultural and social development of the ACP States (i.e. the African, Caribbean and Pacific countries party to the Cotonou agreement) with a view to contributing to peace and security and promoting a stable and democratic political environment. Current global budget is 22.7 billion euro.	Could be considered in future years as partnership funding for specific projects.
7.	Development Grant Facility (World Bank)	Grant	Funding for private promoters of projects. Aimed at providing seed capital for innovative global partnerships. Max finance of 15% of project CAPEX. Contact: Head of Africa Transport Unit: Ms. Supee Teravaninthorn Email: Steravaninthorn@worldbank.org Tel: +12024734981	Potential source for JCA but not ideal.
8.	Sub-Saharan Transportation Policy Programme (World Bank)	Grant for general Advice	Funding for public bodies to develop transport policy and partnerships. The SSATP is a unique partnership of 36 African countries, 8 regional economic communities, 3 African institutions and many national & international	Possible potential funding source for the JCA.

			development partners. Funding is based on proposal and the agreed development plan for Africa. Contact: Africa Transport Unit World Bank Head of Sub-Saharan Transportation Program: Ms. Zeina Samara Email: Zsamara@worldbank.org Tel: +120 2473 4981	The JCA's 3 REC – COMESA, EAC, SADC are current members of the SSATP.
9.	Infrastructure for Development (ORIO Facility from Netherlands)	Grant and Debts	Grants of 35% - 50% CAPEX aimed at single country infra projects, eligible sectors differ per country. The transaction amount, excluding the grant, is limited to € 15 m. The limit per country is € 50 m (for "micro-states" € 10 m). The maximum repayment period is 10 years. Application through Agentschap NL.	Not a suitable funding source. Given that these transactions are concluded with the public sector, they must meet the concessionality requirements applying to the country concerned, as agreed by OECD countries to promote sustainable lending practices.
10.	UK Department for International Development (DFID)	Trade Advocacy Fund (TAF)	The Trade Advocacy Fund offers short-term support to the poorest developing countries to help them to engage in crucial trade negotiations. TAF support will be available to governments from Least Developed Countries	Potential funding source.

			(LDCs), Low Income Countries (LICs), Lower-Middle Income Countries (LMICs), and their representative membership organisations (e.g. Regional Economic Communities). Applications for TAF support can be made at any time. TAF support will be available until September 2015. For more information please contact the fund manager via our contact form or email us at info@tradeadvocacyfund.com	DFID is already funding Trademark East & Southern Africa from this funding programme and more likely to support JCA programme
11.	UK Department for International Development (DFID)	Debt finance The Emerging Africa Infrastructure Fund (EAIF)	Fund Aims: The EAIF (a public-private partnership) was established in January 2002 to address the lack of long-term foreign currency debt finance for infrastructure projects in sub-Saharan Africa. Fund Objectives: EAIF intends to make a lasting positive impact on the infrastructure of sub-Saharan Africa. This will facilitate economic growth and contribute to poverty reduction in the region. The EAIF provides US$10 million to US$ 36.5 million to projects across a range of sectors including telecoms, transport, water and power. Contact: same as above	Not a suitable funding source. DFID already has a working relationship with the Tripartite Task Force and this should be explored for project level funding. This is purely debt financing for projects and should be only considered once fully operational for key infrastructure projects if required.
12.	UN Economic Commission for Africa	Grants and partnership working	Various programmes of intervention and funding under these programmes:	Potential funding partner for specific projects and partnerships.

			EC and NEPAD Regional Integration, Infrastructure and Trade, Sub-regional activities for Development Contact: Ms Beatrice Kiraso, Director United Nations Economic Commission For Africa Southern Africa Office P.O.Box 30647 Plot 2392 Longo Longo Road Lusaka, Zambia Tel: 260 -211 228 502/2 Fax: 260 -211 236 949/234757 Email: srdcsa.uneca@un.org	Important source of advice for trade integration and data, research and reports. Not recommended for funding purposes but for partnership working.
13.	Trust Africa	Grants	Trust for Africa provides major grants for collaborative projects, ranging from US$25,000 to more than US$500,000, typically combine multiple strategies (like research, advocacy, dialogue, or creativity) and connect institutions from different countries and regions.	Potential funding source for the JCA. This source is ideal for both start up phase and project funding on an ongoing basis.

			Also provides small grants for capacity building to help African organizations develop the institutional skills necessary to do their work effectively. Usually in the range of US$5,000 to US$10,000, this support is aimed at fostering sound management, transparent governance, fruitful collaboration, effective communication, and sustainable results. It may be used, for example, to pay for staff exchanges, consultant's fees, study tours, board training, the preparation of videos and other communications tools, and the establishment of specific management systems. Contact: TrustAfrica Lot 87, Sacré Coeur 3 Pyrotechnie x VDN BP 45 435 Dakar–Fann, Sénégal Tél.: +221 33 869 46 86 Fax: +221 33 824 15 67 info@trustafrica.org www.trustafrica.org	Recommended as one of the sources to be considered for project funding.
FEES & SURCHARGES FROM SERVICES				
14.	Pay As You Earn	Surcharge per passenger embarking in countries	A fixed amount of surcharge paid by the air line companies per passengers as a levy or tax on behalf of the relevant agency. Current models range from $0.60 to $5.0 in some countries in Europe and Asia.	A potential source of income for the JCA. This needs regular contracting and agreement on the statistics collated for payment. Desirable but

			Contact: Civil Aviation Authorities and REC's across the JCA regions.	highly political.
16.	Direct Fees & Charges	General fees for JCA services	This is dependent on the JCA establishing a range of services and costing them appropriately. This could either be a standard charge for applications, research, report, data, disputes etc. Just along the lines of general administrative charges for government departments across the regions. A cost plus model could also be used for calculating the exact cost per unit of services provided.	A potential funding source for the JCA both in the short and long term. Not a sustainable source of income but could be used to generate some level of income for the agency. However, a combination of fees and charges would ensure long term sustainability.
17.	Penalties & Levies	Charge for Non-compliance	A combination of fixed scales of charges and penalties to be levied at countries for non-compliance to the rule of competition within the regions.	Good for income generation. This potential source of income is highly dependent on successes of compliance cases and a long process of arbitrations, dispute resolution and payment could be protracted. Political risks and delays in payment are potential risks of this source.

18.	Duties & Taxes	Government Duties, Subsidies & Taxes	The criteria for collecting duties, taxes and providing subsidies need to be agreed across the regions for the purpose of harmonization. Taxation & duties system represents an important part of the institutional and economic framework within which the aviation industry, or any other trade, must operate.	A potential income generation source for both short and long term. Not a fully sustainable source in the short term but highly desirable for longer term consistent income source. Therefore, we recommend that the JCA undertakes a review of the duties, charges, subsidies, fuel surcharges and tax rules of aviation sector.
MULTILATERAL DEVELOPMENT BANKS & INSTITUTIONS				
19.	African Development Bank (AfDB)	Equity, Debt, Guarantees, Grants	The African Development Fund (AfDB) provides project financing options to the private and public sector companies. The bank also provides both equity and part grants to qualifying institutions. The criteria for lending, grants, guarantees varies and depending on the project and sustainability element of the project, either sovereign or no-sovereign entities making the application. Contacts: Public Sector: Salieu Jack Email: s.jack@afdb.org	Potential source of financing major capital projects. COMESA has current facility of $8.6m with the AfDB.

			NEPAD, RIT: Ralph Olaye Email: R.Olaye@afdb.org	
20.	International Finance Corporation (IFC) (World Bank Agency)	Equity and Debt	The International Finance Corporation (IFC) is a member of the World Bank Group. It promotes sustainable private sector investment in developing countries as a way to reduce poverty and improve people's lives. There is no standard application form for IFC financing. A company or entrepreneur, foreign or domestic, seeking to establish a new venture or expand an existing enterprise can approach IFC directly. Lending is up to a max of 50% CAPEX but mostly 25% of total project costs is guaranteed threshold for lending.	Not suitable for JCA IFC operates on a commercial basis. It invests exclusively in for-profit projects and charges market rates for its products and services, which cover three broad areas:
21.	European Investment Bank	Debt, Equity and Guarantees	EIB funds up to a max of 50% on individual loans for project cost (larger than EUR25 million)	Not a potential funding source EIB also manages Africa –EU Infra Trust Fund which is analysed in point (4) above as a potential funding source in the future.

Table 15: Specific Funding Sources

5. The Way Forward

Sustainable funding for regulatory organisations is often very challenging and complex in application due to the various elements discussed above. As highlighted in our analysis of the various funding options and sources of funding, it is evident that dependence on cost recovery exercises through fees and charges will be insufficient source of funding the JCA as most agencies of similar composition across Europe and Africa have not been successful with this model of funding without contributions from government and other sources.

As a result we will recommend that the JCA is fully funded by the states as a statutory organisation to enable effective establishment and operationalisation. However, the management board of the JCA will need to consider generating additional and supplementary income from some of the sources discussed above, mostly through fees and grants from regional and international bodies.

The Steering Committee needs to review options as discussed in the report and approve the most suitable funding model for the organisation.

In conclusion, we will suggest that a more stable funding should be used to establish the JCA and other potential funding sources identified above could be used in conjunction with funding from the contributions from member states as recommended. A decision to fund through other sources could seriously jeopardise the outcome and position of the organisation within the communities. Also we will recommend that the Steering Committee considers to set up a fund raising team to assist with the compilation of the proposed funding structures and documentation (concept paper, technical, legal, institutional, financial etc) and also help in the negotiations in establishing the financial frameworks for establishing the JCA.