African Aviation Recovery Conference: Coordinating efficient response to the COVID-19 crisis effects on the aviation sector in Africa

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Covid-19 Impact on Aviation

The COVID-19 pandemic represents an unprecedented crisis in the global and African aviation industry.

- **Africa** is expected to face greater declines in seats offered and passengers than the world average.
- Direct impact on airlines, airports, ANSPs, regulators and aviation-related stakeholders.
- Airlines (African and Non-African) operating in Africa revenue losses ~$15B (~$8.6B for African Airlines) leading to severe financial woes, causing massive layoffs in many cases.

**2020 impact of the COVID-19 crisis in:**

**WORLD**

- **Seats offered**
  -50% to -52% Vs. Base Line*

- **Passengers**
  -2,875 to 2,978 million out of 4,840M
  -86 to -89 million out of 121M in 2019

- **Airlines**
  -$386 to -$399 billion
  -$14.7 to -$15.2 billion
  -$8.6B for African Airlines

- **Job Loss**
  -46M aviation-related jobs
  -4.5M out of the 7.7M aviation-related jobs in the region

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*Base Line: Seating supply originally-planned by ICAO for 2020

Source: ICAO, OAG, IATA, ATAG, updated in October
Ongoing Challenges of African Aviation prior to Covid-19

Several challenges were hindering the development of African Aviation prior to the Covid-19 crisis: Five (5) main challenges identified

Policy - Constrained Market Access/High fares and costs

The intra-African air transport connectivity levels are among the lowest in the world. In some regions, it is partially due to a restricted air transport market liberalisation. Air transport in Africa is unaffordable for the average African population, as there is a significant gap between the average income of the population and the average flight ticket price.

Low levels of aviation safety and security

Low levels of safety and security have led to high accident and incident rates, primarily resulting from poor regulatory oversight, deficient infrastructures, flight crew errors and undesired state of aircrafts.

Infrastructure capacity and oper. limitations

Infrastructure limitations, both at Airports and Air Navigation Services, constrain the sector capability of handling higher traffic demand while keeping the required levels of safety and efficiency.

Limited access to finance

There is a limited access to finance for the African aviation stakeholders, in particular for African carriers, given the widespread low profitability results and the lack of solid business plans and strategies.
Yamoussoukro Decision still not fully implemented

The Yamoussoukro Decision (YD) adopted in 1999 paved the way for liberalization, but in practice YD has not been implemented.

Bilateral Air Service Agreements remain in place, with restrictions, frequencies, capacities and tariffs + protection of weak SOE airlines

➢ many countries remain poorly connected as protectionism and high costs prevent carriers to fill the connectivity gaps

Monopolized service provision + weak regulatory oversight, resulting in high Taxes, Fees and Charges (TFCs) 8% higher above world average – i.e. departure fees alone are 30% above world average
Safety: a lack of regulation, coordination and investments

3.4% of the departures worldwide yet **9.3% of accidents** and 37.4% of the fatalities (in 2016)

Amongst the 200 **airlines blacklisted** by the EU, more than **50%** are African.

Lack of supervision and safety standards for airlines

**Lack of air navigation surveillance/traffic management**

Low levels of Safety oversight and **consumer confidence** in aviation safety is an issue for African airlines

Low levels also generate **insurance over costs** for airlines
The Financing Gap: diagnostic

... and African airlines suffer a lack of financing sources (2)

Over 30% of the world's airline fleet is now leased...a growing trend

... But

there is no aviation leasing platform in the continent for Africa airlines compared to their counterparts in other regions (Europe, Asia, North America, South America etc)

Lease rates for most African Airlines are expensive

- 1.25 - 2% of the aircraft's market value plus security deposit (2–3 months payments)

compared to

- Airlines from other regions (<1% of the aircraft's market value) and with little or no security deposit
The role of the Bank in boosting aviation Sector

The AfDB support to Air Transportation

➢ Airport infrastructure financing
➢ Aircraft financing
➢ Air safety and regulation programs

Senegal: Blaise Diagne Airport has been financed by the private sector windows of the Bank (USD 92M, in 2010)

The Ethiopian Airlines Fleet modernization program have been supported in 2011 and 2016

Air safety programs have been launched in ECOWAS, WAEMU, ECCA, COMESA regions, as well as in Congo DRC.
Need for airport terminal capacity expansion and modernization, increase runway capacity, fuel depos and maintenance hangars, increase private sector involvement in operations.

AfDB has injected above USD 850M in airport terminals construction or expansion over last 12 years.

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The role of the Bank in boosting aviation Sector

AfDB support to aviation safety and regulation

“Program to support air transport sector in West and Central Africa (PASTA-CO)”
ECOWAS – WAEMU - ECCAS
USD 11.7M grant approved in 2015

- Capacity building and coordination systems concerning
- 69 airports in 25 countries

Outputs (target 2019):
- From 3 to 20 airports certified compliant with ICAO safety and security standards
- Creation of a pool of 40 experts for regional aviation security
- Creation of 30 effective local runway safety teams

“COMESA Airspace integration Project”
19 member states of COMESA
USD 8.7M grant approved in 2010

Support the transition from the existing ground-based navigation system to a satellite-based system (mandated and coordinated by ICAO).

- Establish a cooperative Legal and institutional Regional Framework
- Prepare detailed analysis of strategic options for the provision of upper airspace navigation services
- Promote private sector participation in financing and operating regional air transport infrastructure and services
- conclusion of the PPP arrangements to finance, build and operate the regional Communication Navigation Surveillance/Air Traffic Management (CNS/ATM) infrastructure.
Financing Gap: to play a catalytic role

Support for airlines, which could include the following:

- **Direct financing** of airlines (for established airlines with strong balance sheets);

- **Aircraft financing**, in particular for the element not generally covered by ECA; or

- Support for an aircraft **leasing entity**, to improve access to aircraft for smaller African airlines, including for second-hand aircraft;

- Develop financial instruments such as a **guarantee, top-up insurance**, or adapted leasing facility to meet their fleet expansion needs.
The role of the Bank in boosting aviation Sector

AfDB support to aircraft finance

In 2011 and 2016, AfDB extended over USD 200M to Ethiopian Airlines, to finance aircraft acquisition meeting fleet modernization program.

Financing requests from other airlines companies are currently examined by the Bank.

Such investments contributes to set the standards for the aviation sector in Africa and operate more modern and fuel efficient fleets.

Example of transaction structure of AfDB loan

Security Trust

First and second mortgage

Ex-Im Bank collateral package

(Airline (Lessee))

Loan

First mortgage

Second mortgage

Financial (full payout) lease

Corporate loan securitized

AfDB + Other banks

E.g. Ex-Im Bank

Aircraft
AfDB COVID-19 Response Facility – Short Term

As early as in April, the AfDB unveiled its $10 billion COVID-19 Response Facility to support governments and the private sector

Bank’s support to the Aviation sector, within the framework of the Covid-19 Response Facility (CRF):

- **Indirect assistance** to the aviation industry through national governments
- **Direct assistance** to aviation private sector companies (existing clients)
- **Technical assistance** to help the aviation industry recover from the impact of COVID-19, with special focus on health and safety measures

Examples of Governments aid packages for airlines:

- Nationalization with a $650 million equity injection. Grounded until the injection materializes
- Exceptional allocation of $624.8 million as a state-guaranteed loan
- Nationalization approved. Request for $500 million equity injection – still pending
- $191 million Gvt as a long-term financing loan as part of an air transport & tourism stimulus package
- $152 million Gvt rescue plan ($17 million up from the original budget)
- $24 million injection as a Gvt grant to help the airline stay afloat amid the crisis
AfDB’s Framework and guidelines to support the Aviation sector

The framework approved in 2018 includes 4 main intervention areas:

1. **Airlines**
   
   Easing African airlines’ access to finance and leasing options for fleet expansion and renewal.

2. **Airports**
   
   Mobilizing funds for airport infrastructure development, attracting private sector participation and encouraging PPPs, covering the project viability gap.

3. **ANSPs**
   
   Support capital-intensive investments.

4. **Policies and Institutional Framework**
   
   - Support to the implementation of SAATM
   - SAATM signatory, pre-requisite to any aviation financing
   - Regulatory safety, security and Environmental protection projects
Intervention Area 1
Airlines

Aircraft purchase financing:
- Focused on new single-aisle/narrow body aircraft only for reliable airlines with contrasted experience.
- Different financing mechanisms: PDPs, guarantees, traditional commercial debt financing and under very specific circumstances, non-concessional financing.

Leasing platform financing:
- The purpose is to facilitate the setting up of a trustworthy and efficient leasing company for operating leases purposes, which provides leasing opportunities for those African carriers.
- It will be financially supported by: Private equity through equity participation and/or loan by the private sector.

Technical assistance to airlines financing:
- For airlines that are not eligible for aircraft purchase financing support.
- The purpose is restructuring and strengthening their businesses to meet the Bank’s requirements (business plan definition, fleet strategy…).
- Technical assistance for State-owned airlines to increase the private sector participation in aircraft purchase financing.
- The Bank will assume a proactive action towards African carriers: cooperate with AFRAA/IATA to sensitize carriers about opportunities.

Intervention Area 2
Airports

Remedial investments and technical assistance financing:
- Finance support for brownfield projects to resolve deficiencies and operational limitations and/or capacity-building/technical assistance for airport staff.
- Loans might be provided for remedial actions and technical assistance at small and secondary airports in low-income and fragile states.
- Under exceptional cases (private investment difficult to obtain), the Bank could consider to provide financing support to the whole infrastructure development.
- Concessional and Non-concessional loans will be provided to cover rehabilitation investments in more standard conditions.

Airport expansion projects financing:
- The AfDB will mobilize resources for the expansion and enlargement of the African airport network, facilitating the private sector participation.
- Financing support to cover the capital-investment required for airside components development, in coordination with the public sector window.
- The private sector will mainly focus on landside infrastructure, maintenance and/or operations by default.
- Both concessional and non-concessional loans will be provided to cover capacity-enhancement infrastructure projects.
- The Bank’s support to greenfield projects will be restricted to those projects with duly justification (i.e. highly underserved region with high potential traffic prospects).
The financing guidelines for Air Navigation Services Infrastructure development projects will follow the same rationale as for airport infrastructure financing.

**Remedial investments and technical assistance financing**

- **Grant funds for ANS infrastructure deficiencies** identified by ICAO in low-income or fragile States
- **Finance technical assistance activities** for specific ANSPs (i.e. development of national PBN plans)
- Financing ANS infrastructure limitation in higher-income States by concessional and non-concessional loans

**ANS infrastructure enhancement projects**

- Finance support will only be provided if considered as part of a regional ANSP initiative
- Prioritization of ANS infrastructure initiatives built upon regional ANS integration initiatives
- The Bank financing support will be for the equipment enhancement, while private participation will mainly focus on maintenance and operations.

**Policies and Institutional Framework** financing support will entail:

- Finance support to **regional safety and security organizations** to empower them to carry out oversight functions on behalf of their States. States should be supported as well at developing their safety and security systems and strengthening their institutional frameworks.
- The Bank will provide finance support technical studies to promote adequate economic regulation at national and regional level.
- The Bank will also finance actions aimed to foster environmental protection, assisting States to fulfil their responsibilities in addressing noise and emissions.
- **Gender equality promotion** across Africa, with particular emphasis on the aviation sector, will be an additional potential element of financing.
- Financial support to capacity-building initiatives across the continent. Youth will be targeted for specific capacity-building programmes, as they are instrumental in driving Africa’s inclusive growth.
- **Financing mechanism**: Grant funding will be the main financing instrument to develop policies and institutional framework related actions at regional level.
- However, specific financing instrument to be delivered will be defined on a case-by-case basis.
On-Going Transformative Projects

**Creation of a leasing platform for African airlines**

**Overview:** USD 0.4 million (Grant).

**Objective:** To advance in addressing the lack of financing for aircraft acquisition and leasing constraints faced by African airlines who are required to pay prohibitive insurance premiums and heavier security packages due to higher risk perceptions.

**Outcomes – STARTING UP:**
- The first African airlines leasing market assessment and various business models for decision;
- Specific Bank instruments to support the leasing platform;
- Improved awareness and visibility of the African aircraft leasing market;
- Enhanced private sector involvement and financing in the Africa’s aviation industry.

**Institutional support project to AFCAC for the implementation of the SAATM**

**Overview:** USD 6.8 million as (Grant).

**Objective:** Strengthen the AFCAC as Executing Agency for the SAATM and YD

**Impact – STARTING UP:**
- Strengthened Executing Agency for the SAATM - long term sustainability strategy;
- Strong advocacy and communication campaign,
- Improved safety, security and environmental protection by States and airlines;
- Enhanced capacity in RECs and other SAATM stakeholders.
Thank you