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Policy research paper **COVID-19 and African airlines** overcoming a liquidity crisis



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ABSTRACT

The present paper examines the impact of the coronavirus disease (COVID-19) pandemic on African airlines through a finance lens. It provides insights into the financial requirements of the airlines to survive and recover from the liquidity crisis induced by the pandemic, potential sources of relief and measures to keep them afloat. There are huge differences in the size and structure of the debts of airlines, suggesting that a one-size-fits-all solution may not be appropriate to address their liquidity challenge. Financial support must therefore be tailored to the specific features of airlines. Governments and development finance institutions have generally not channelled COVID-19 relief packages and response funds to airlines. There are multiple measures that they could implement in that regard, such as providing grants, loans and loan guarantees, issuing equity and also deferring or waiving payments of debts, rents, charges and taxes by airlines. It is therefore critical for stakeholders in the industry, notably intergovernmental and air transport organizations, to advocate direct government support for airlines and for them to create a platform to coordinate their efforts towards the survival of the industry, in particular by linking airlines and financial institutions and facilitating access to available funds. Emphasis must also be placed on creating business opportunities for the airlines.

Keywords: Africa, aviation industry, COVID-19, liquidity crisis, financial support.



A. INTRODUCTION

The coronavirus disease (COVID-19) has had a devastating impact on the aviation industry in Africa. Various organizations, individually and collectively, have made efforts to cushion this impact in the short, medium and long term. This has resulted in the articulation of strategies and plans for the survival, recovery and sustainability of the industry. At the same time, development finance institutions have created facilities to help mitigate the impact of the pandemic on vital sectors of the economies of countries on the continent. These streams of action could be complementary but appear to be flowing in parallel, which raises a number of questions such as: how will the proposed recovery strategies and plans for Africa's aviation sector be funded? How could African governments and the aviation system – airlines, airport authorities, civil aviation authorities and air navigation service providers – gain access to existing COVID-19 response funds and benefit from debt relief initiatives? What are the financial requirements of the continent's aviation industry? What would it take for African governments to allocate resources from stimulus packages to the industry and to what use should these resources be put?

The present paper attempts to answer the above questions based on a survey of the indebtedness of African airlines jointly undertaken by the Economic Commission for Africa (ECA) and the African Airlines Association (AFRAA). Analysis of the survey data is complemented with information from policy dialogues on the impact of COVID-19 on the aviation industry in Africa and also from a desk review of strategies and plans for the survival and recovery of the industry from the pandemic. While the aviation system is multidimensional (box 1), the paper focuses on airlines, many of which are facing insolvency as their operations have ground to a halt as a result of travel restrictions to curb the spread of the pandemic. Although the financial requirements of airlines are also multidimensional and include the settlement of bills for utilities such as electricity, water and security, payment of staff salaries, various services charges, maintenance of aircraft, and purchase of jet fuel, among others, the paper focuses on the indebtedness of airlines to different categories of creditors, in particular banks and financial institutions, aircraft leasing companies, and aircraft manufacturers. It therefore sheds light on the financing options and cost structures of the airlines. The value addition of the paper lies in its overarching perspective, which consists in analysing, through a financing lens, the COVID-19-induced challenges faced by African airlines and also the efforts undertaken to address these challenges.

Box 1 Aviation system in Africa

The main stakeholders of the African aviation industry may be categorized into four main groups: the regulatory agencies at continental and regional level; industry partners; strategic partners; and other international partners and investors. The regulatory entities include the African Union Commission, the African Civil Aviation Commission (AFCAC), the regional economic communities, ECA and member States. Industry partners include the International Civil Aviation Organization (ICAO), AFRAA, airport operators, airlines, Airports Council International Africa (ACI-Africa), the International Air Transport Association (IATA), air navigation service providers, the Air Navigation Safety Agency for Africa and Madagascar (ASECNA), and the Civil Air Navigation Services Organisation (CANSO). Strategic partners include the European Union, the European Union Aviation Safety Agency (EASA), the United States Federal Aviation Administration (FAA) and the Ministry of Commerce of China. Other organizations and investors associated with the aviation industry in Africa include the African Union Development Agency (AUDA), the African Development Bank, the African Export-Import Bank (Afreximbank), the Eastern and Southern African Trade and Development Bank and the World Bank.

Source: Ndoh, 2020.

The following section of this paper provides a background to the aviation sector in Africa with emphasis on its growth prospects prior to the COVID-19 outbreak and the impact of the pandemic on the sector. Section C presents an analysis of the financial commitments of African airlines in 2020 and 2021, and also



of their employment situation. Section D reviews the liquidity challenge of the airlines, examining the role played by governments, development finance institutions and international and sectoral organizations in addressing the challenge. Section E concludes the paper and provides policy recommendations for airlines on the continent to overcome the COVID-19-induced liquidity crisis.

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