

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

THE COMMONWEALTH OF THE BAHAMAS

AIR TRANSPORT REFORM PROGRAM

(BH-L1027)

LOAN PROPOSAL

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CONTENT

PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING.....	2
A.	Background, problem addressed, justification.....	2
B.	Objective, Components and Costs.....	9
C.	Key results indicators	12
D.	Economic and social impact	12
II.	FINANCING STRUCTURE AND MAIN RISKS	13
A.	Financing Instruments	13
B.	Environmental and Social Safeguard Risks.....	14
C.	Fiduciary Risk.....	14
D.	Other Key Issues and Risks	14
III.	IMPLEMENTATION AND MANAGEMENT PLAN	14
A.	Summary of Implementation Arrangements	14
B.	Summary of Arrangements for Monitoring Results	15
IV.	POLICY LETTER.....	15

ANNEXES	
ANNEX I	Development Effectiveness Matrix (Summary)
ANNEX II	Policy Matrix

ELECTRONIC LINKS
REQUIRED
1. Policy Letter http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36467550
2. Means of Verification http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36467549
3. Results Framework/Matrix of Indicators http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36468986
4. Procurement Plan (TC component) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36465304
5. Monitoring and Evaluation Plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36510873
OPTIONAL
1. The Bahamas Civil Aviation Policy (Green Paper) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36468823
2. Justification and Economic Benefits of Proposed Air Transport Reforms http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36468836
3. Performance Evaluation and Monitoring of Proposed Air Transport Reform Program http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36511023

ABBREVIATIONS

ASA	Air Service Agreements
ATC	Air Traffic Control
BAA	Bahamas Airport Authority
CAD	Civil Aviation Department
ESMR	Environmental and Social Management Report
ESS	Environmental and Social Strategy
FDI	Foreign Direct Investment
GBH	Government of The Bahamas
GBIA	Grand Bahama International Airport
GDP	Gross Domestic Product
IATA	International Air Transport Association
ICAO	International Civil Aviation Organization
IDB	Inter American Development Bank
LPIA	Lynden Pindling International Airport
MoTA	Ministry of Tourism and Aviation
NAD	Nassau Airport Development Company
PBL	Policy-Based Loan
POD	Proposal for Operation Development
SCF	Single Currency Facility
SME	Small and Medium Enterprises
SSF	Safeguard and Screening Form for Screening and Classification of Projects
TC	Technical Cooperation
YVRAS	Vancouver Airport Services

PROJECT SUMMARY

THE COMMONWEALTH OF THE BAHAMAS AIR TRANSPORT REFORM PROGRAM (BH-L1027)

Financial Terms and Conditions			
Borrower: The Commonwealth of The Bahamas (GBH)		Amortization Period:	20 years
Executing Agency: Ministry of Tourism and Aviation (MoTA)		Grace Period:	5 years
Source	Amount (million)	Disbursement Period:	5 years
IDB (OC)	50	Supervision and Inspection Fee:	*
PBL component	47.5		
TC component	2.5		
Local	0	Interest Rate:	LIBOR- based
Total	50	Currency:	US\$-SCF
Project at a Glance			
<p>Project Objective/Description: The objective of this Program is to promote the development of safe, secure and efficient air transport in The Bahamas in adherence with international standards. This objective will be achieved through a comprehensive reform of the existing institutional and regulatory structure, which will require the implementation of new institutional and legal frameworks and arrangements for financing and infrastructure management.</p> <p>The Program is structured with two components: (i) a two-tranche policy-based loan (PBL); and (ii) a reimbursable technical cooperation (TC) component.</p> <p>The objectives of the TC component are: (i) to provide technical support for the implementation of the institutional modernization supported with the PBL component; and (ii) to provide technical support to the MoTA for the assessment of the family islands transport and for carrying out airport optimization, as part of the implementation of the reform.</p> <p>Special contractual clauses: The disbursement of the <u>PBL component</u> will be subject to the implementation of the proposed policy and institutional reforms, as described in Annex II (Policy Matrix).</p> <p>As condition prior to first disbursement of the <u>TC component</u>, MoTA shall have assigned a Program Coordinator and a Procurement Officer described in paragraph 3.3.</p> <p>Procurement: The TC loan component will be executed in accordance with a Procurement Plan agreed with MoTA and all such procurement will be carried out in accordance with GN-2349-9 and GN-2350-9.</p> <p>Exceptions to Bank policies: None</p>			
<p>Project qualifies for: SEQ <input type="checkbox"/> PTI <input type="checkbox"/> Sector <input type="checkbox"/> Geographic <input type="checkbox"/> Headcount <input type="checkbox"/></p>			

(*) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provision of the Bank's policy on lending rate methodology for ordinary capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, justification

- 1.1 **Macroeconomic background.** The Bahamian economy has been challenged as a result of the fallout from the global recession since end-2008. After experiencing contractions in output at about -1.5% and -5.4% in 2008 and 2009 respectively, the 0.96% growth in 2010 signaled the start of a recovery phase, albeit sluggish and measured. GDP growth is now expected to be in the range of 1-2% in 2011. The first half of 2011 featured high unemployment rates, elevated non-performing loans, weak consumer demand and sluggish private sector credit growth and reduced hotel revenues. With the start of the Baha Mar Resort construction project this year, GDP may stay between 2-3% on average over the next three years. In terms of promoting growth, the Government of The Bahamas (GBH) has begun innovative marketing programs for tourism, as well as creating new opportunities for financial services; supporting the growth of small and medium enterprises (SME) and modernizing the government's infrastructure.
- 1.2 Falling tax revenues as a percent of GDP over the past 3 years or so also led to a deterioration of the fiscal position, but there is increasing concern by the GBH to address the rising debt levels. As of end-March 2011, the debt-to-GDP ratio was almost 50% of GDP, of which Bahamian dollar debt accounted for 78% of the total, held mainly by commercial banks (36%) and private and institutional investors (30%). Currently, the fiscal deficit stands at around 5.5% of GDP, after growing 2-2.5% above the country's normal trend of around 3%. The deficit is expected to stay at these levels over the next two years, barring any new policy measures. Nonetheless, a number of measures have been articulated by the GBH as a means of addressing these and other issues, including reforms of tax and customs administration as well as the property tax system.
- 1.3 Externally, international reserves have risen steadily to historic levels this year, currently standing at \$1.03 billion at end-August 2011, almost 4 months of imports. This in part reflects weakened consumer demand, a one-off revenue item from privatization and borrowing during the year. The current account remains very large at around 14% of GDP (expected in 2011), however, more than two thirds is typically financed by Foreign Direct Investment (FDI). As the economy regains strength in the recovery phases and enters into the holiday season, it can be expected that drawdowns on the country's foreign reserves will become more frequent. However, the recovery will depend heavily on the pace of the recovery in the US market.
- 1.4 The proposed Air Transport Reform Program US\$50 million loan will contribute to the financing requirements for the Ministry of Tourism and Aviation (MoTA) for 2011. The importance of the enhancement of the aviation sector in The Bahamas cannot be underestimated as the sector facilitates the growth of the country's main economic driver, the tourism sector, which accounts for 51% of GDP growth and directly and indirectly employs 60% of the labor force. Moreover, although the majority of visitors enter the country via cruise ships,

historically, the air segment brings in the majority of visitor expenditures to the country, estimated at roughly B\$2,000 per person per four night stay. As a result, the development of the tourism industry and the subsequent revenue gains from tax collections and international trade and transactions taxes, are heavily dependent on a modern and successful aviation sector.

- 1.5 **Background.** Located in the northeastern Caribbean, The Bahamas comprise 700 islands and cays with a total land area of 5,383 square miles spread over 100,000 square miles. The total population of the country is 350,000 persons of which 70.4% reside in New Providence, 14.6 % reside in Grand Bahama and the remainder is scattered among the other 28 inhabited islands. The distances, remoteness and low population densities of the Bahamian islands present significant challenges to the transportation sector within the country. While bulk cargo is largely transported by water, tourists and residents of the archipelago depend mainly upon the airways for inter-island and international transport.¹ The Bahamian economy is based on two pillars: tourism and international financial services both of which are aviation intensive. Of these, tourism is by far the dominant industry and the economic mainstay of the country.
- 1.6 **The role of air transport.** Air transport is critical to the health of the tourism industry in The Bahamas, representing almost the exclusive mode of transport for tourists with overnight hotel stays.² In 2010, air arrivals totaled 1.3 million passengers, out of which 80% arrived from the US.³ A troubling feature of international tourism arrivals in the Bahamas is the growing number arriving by cruise ship rather than independently by air. As a consequence the indirect and induced employment and income effects can be substantially reduced since less hotel, food and beverage and tourism services are consumed.
- 1.7 In addition to supporting tourism, air transport also plays a pivotal role in ensuring the population of the Family Islands accessibility to goods and services only offered on New Providence or abroad. In many cases, air transport is the only option available to isolated island communities for the movement of people and goods across significant distances.
- 1.8 **The air transport sector.** Air transport in The Bahamas is provided by 17 international airlines and 5 domestic airlines, including the Bahamian flagship airline Bahamasair. The international airlines connect The Bahamas directly to Canada, Jamaica, the United Kingdom, Cuba, and the United States and through US hubs to the rest of the world. Nassau is connected with non-stop services to 21 markets in the USA, the Caribbean, Canada, and the United Kingdom.⁴
- 1.9 There are a total of 53 licensed airports in The Bahamas: (i) 18 airports serve as international ports of entry with customs and immigration facilities, also providing domestic services; (ii) 8 solely serve the domestic commercial market;

¹ *The Bahamas Civil Aviation Policy (Green Paper)*, Patrick Rolle, Director of Civil Aviation, November 2010. See optional electronic [link #1](#).

² Ibid.

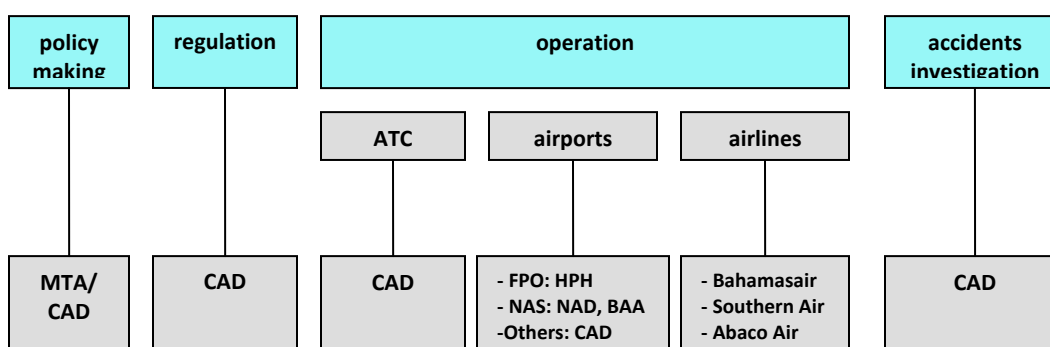
³ Data provided by the MTA.

⁴ Data provided by the MTA.

and (iii) 27 are secondary airports for general aviation, out of which 22 are private. Lynden Pindling International Airport (LPIA) in Nassau is the main international gateway and domestic hub of The Bahamas concentrating over two thirds (68%) of the available domestic and international capacity (measured in seats); Grand Bahama International Airport (GBIA) in Freeport is second in importance with 11% of capacity; Marsh Harbour, George Town and North Eluthera follow, each with around 4%; the remaining airports account for 9%.

- 1.10 **Institutional framework.** The institutional framework of air transport in The Bahamas is characterized by a high degree of concentration of functions in the Civil Aviation Department (CAD), as shown in Figure 1. The CAD, under the MoTA, is the institution responsible for policy making, the technical regulation of the sector, the operation of most public airports, air traffic control, and the investigation of incidents and accidents.

Figure 1: Current institutional framework of the air transport sector



Note: ATC: Air Traffic Control; MTA: Ministry of Tourism and Aviation; CAD: Department of Civil Aviation; FPO: Freeport International Airport; HPH: Hutchinson Port Holdings; NAS: Nassau International Airport; NAD: Nassau Airport Development Company.

- 1.11 **Policy making.** According to the Civil Aviation Act,⁵ the MoTA is the body formally designated to carry out policy setting functions, such as: (i) the definition of market access rules that allow the entry of airlines in the domestic and international markets, including the negotiation of air service agreements (ASA) with other countries; (ii) economic regulation, including price setting for infrastructure and air services; and (iii) the definition of national civil aviation policies with respect to safety, security and environmental issues, among others. However, in practice, the MoTA consults policy issues with the CAD, which acts as the de facto policy maker.
- 1.12 **Technical Regulation.** The CAD is the technical regulator, and as such possesses monitoring and supervision authority with respect to all safety issues pertaining to civil aviation, according to the international norms and recommendations set forth by the Chicago Convention of 1944 and its Annexes.⁶ This means that, among

⁵ Civil Aviation Act, Chapter 286.

⁶ The 18 Annexes to the Chicago Convention of the International Civil Aviation Organization (ICAO), of which The Bahamas is a signatory state.

other responsibilities, the CAD is the responsible authority for the certification of crews (flight and cabin crews), maintenance facilities and procedures, and aircraft airworthiness. In addition, it is responsible for all safety issues with respect to airport design, construction and operation.

- 1.13 **Operation of infrastructure.** Out of the 53 licensed airports mentioned above (¶1.9), 51 are operated directly by the CAD, while only two are either privately owned or managed. LPIA is operated by the Nassau Airport Development Company (NAD), a company that was created by the GBH to that end. Although NAD is a state-owned organization, Vancouver Airport Services (YVRAS) was awarded a 10-year contract to manage, develop and operate the company; the official handover took place in April 2007. Since the CAD was unable to award the management contract, it created the Bahamas Airport Authority (BAA) to prepare and execute the auction process, and also to perform the contract compliance monitoring. GBIA is owned and operated by a joint venture between the Hutchinson Port Holdings and The Port Group (The Grand Bahama Port Authority), both privately held companies. These companies acquired the airport in 1997 along with the Freeport Harbor and Freeport Container port.
- 1.14 Air traffic control (ATC) services over Bahamian airspace are also provided by the CAD, including area and approach control in all airports, communication, surveillance and aeronautical information.
- 1.15 **Accidents investigation.** Finally, the CAD is responsible for carrying out accident investigations, according to the stipulations of the Convention on International Civil Aviation⁷ on aircraft accident and incident investigation (Annex 13), in addition to any locally-specific legislation.
- 1.16 **The problem.** The current concentration of functions within the CAD goes against best practices in governance structures, which most importantly requires the separation of policy making, regulatory, and operating functions. The inherent conflicts of interest that come with having these different responsibilities within one single body are described below:
 - a. Policy making vs. regulation: The role of a regulatory body is to codify and enforce rules and regulations in order to ensure safety and efficiency in the sector and the benefit of the public at large. Such a role, however, can be at odds with specific government interests and policy guidelines. For example, it is essential for the regulator to be absolutely objective when carrying out safety oversights on carriers, regardless of any policy in place that may encourage the protection of the local airlines or market growth of international airlines.
 - b. Operation of infrastructure vs. regulation: In similar fashion, it is essential to assure the complete independence of the regulatory body from the operation of the infrastructure (either airports or air traffic control) to guarantee the correct implementation of ICAO's technical rules and recommendations. If the regulator is also responsible for the operation of infrastructure, it ends up regulating itself.

⁷ Also known as the Chicago Convention, which established the International Civil Aviation Organization (ICAO).

The conflict of interest is such that regulation could become absolutely ineffective, seriously compromising the level of safety of the sector in general.

- c. Accident investigation vs. regulation: It is common practice for modern institutional frameworks to assure complete independence of the accident investigation body, by placing it in an independent board reporting to either the president or the parliament, and bypassing any other ministry or public body. This is the only effective way to guarantee the impartial opinion of the investigators, independent from any decision that could affect another body within the government apparatus. The lack of separation of the investigator and the regulator, both functions currently performed by CAD, creates a conflict of interest when the proper execution of the regulation could have played a role in an accident. An accident could be the result of different forms of negligence from the technical side, such as lack of appropriate monitoring, slack controls, failure to implement international standards or aircraft manufacturer's recommendations, improper certification of crews, aircraft or maintenance facilities, approval of faulty procedures, among others. If the CAD regulates and investigates, it becomes judge and judged party of any incident.
 - d. Accident investigation vs. operation of infrastructure: Likewise, the CAD's involvement with the airport operation generates a conflict of interest when that same body investigates any wrongdoing. Accidents could be the consequence of improper performance of the operators. It would be very hard for the accident investigation body to provide an independent opinion when there are common interests with the providers of the service. Separating the accident investigation unit from any other body of the sector, is the only way to assure a truly independent investigation, key to guaranteeing aviation safety.
- 1.17 **A vision for the future.** The ability of The Bahamas to prosper and grow will depend heavily on development of a modern air transport sector that reflects international standards, adheres to all ICAO mandates, provides the greatest amount of connectivity to global markets, and has the capital to undertake investment in facilities. This does not necessarily mean constant expansion, quite the contrary; there is a need for optimizing the number of smaller airports on islands where there may currently be 3-4 airports that are within driving distance of one another. The stock of airports should be assessed and a decision made to optimize via privatizing (or decommissioning) a subset of these airports. Major airports need to be developed to provide excellent connectivity to international markets, particularly the US, and to create opportunities to make them self-sustaining if not profitable.
- 1.18 **Air Transport Reform.** To confront these challenges, the GBH has embarked on a series of institutional, legal and policy initiatives. A draft Aviation Policy Reform ("Green Paper") was prepared with assistance from the Bank in late 2010. The Green Paper reflects GBH's intention to modernize sector policies and institutional arrangements and to facilitate private sector participation in airport infrastructure financing and management.
- 1.19 Cabinet concurred with the Green Paper in January, 2011, and since then this draft policy reform has been under review and consultation by both international

consultants and the technical staff of the GBH. The Green Paper serves as a basis for a “White Paper” that will articulate the new policy for the aviation sector. The White Paper is currently under preparation and is expected to be presented to Cabinet for approval in late 2011; this approval constitutes the executive branch’s approval of the policy reform.

- 1.20 The strategic objectives of the proposed air transport reform are: (i) to introduce a modern civil aviation regulatory regime focusing on regulating air transport, inspecting and licensing airports, aircraft, personnel, training and maintenance activities; promoting safety and security with a clear separation of responsibilities for regulation of the aviation sector, airport operations and air navigational services; (ii) to create an independent entity responsible for the investigation of aviation accidents and incidents; (iii) to modernize the existing airport infrastructure throughout The Bahamas, beginning with the airports in Marsh Harbour Abaco, North Eleuthera, and Exuma; (iv) to develop the BAA as a financially independent entity which would operate directly or indirectly (management contracts to private enterprise) all of government owned airports in the country; (v) to promote competition for the provision of ancillary airport services, and ensure the provision of airport services on a non discriminatory basis among airlines, at a price which aims to cover costs, and within comparable international benchmarks; and (vi) to introduce a booking system that will enhance the expansion of local air carrier services throughout The Bahamas, supporting the development of inter island connectivity, tourism and trade.
- 1.21 To implement the proposed reforms, the GBH has developed a set of policy guidelines that provide the framework for the new sector policy. These guidelines are as follows: (i) the GBH will restructure the civil aviation institutional framework to reinforce the appropriate separation of the functions of policy making, implementation of regulatory functions, airport operations and air navigation services, security and accident/incident investigations; (ii) the GBH is committed to transforming the CAD into a Civil Aviation Authority (CAA), a professionally managed regulating entity with the right to collect its own financial resources through licensing and certification of equipment, flight crew personnel and aviation maintenance; (iii) the BAA will aim to be a financially autonomous body funded by the collection of appropriate fees and charges, responsible for the operation and development all public airports; (iv) the GBH will play a lead role in the development and maintenance of air transport sector infrastructure to meet the socioeconomic needs of the country, subject to sound business cases being made, and the availability of funds; (v) each airport will aim to be a fully commercialized as a business corporation and expected to operate on a business like basis, increasing efficiency and covering as much of its costs from customers, and avoiding any type of price discrimination, however, in cases where the airport cannot sustain itself the GBH will subsidize its operation; (vi) the CAA in collaboration with the private sector will be encouraged to develop specific training programs and encourage the establishment of aviation training institutes to ensure an industry wide standard and approach to training; and (viii) as a priority the GBH will seek to reduce the environmental impact of engine noise

and emissions, and promote the replacement of aging aircrafts with more modern aircrafts, which have less adverse effects on the environment.⁸

- 1.22 The GBH is fully cognizant that the success of the proposed reform rests on the existence of a healthy investment climate along with a sound legal, regulatory and environmental framework that promotes the participation of potential private investors: while concomitantly preventing monopolistic abuses, providing adequate consumer protection policies, and assuring a reliable and safe air transportation system. To that end, the GBH is committed to the implementation of the required measures to provide this framework in a timely manner.
- 1.23 **Justification.** Three key motivations underlie the proposed reforms: first, to separate responsibilities between policy-making, operations and regulation and enforcement; second, and tied to the first, to ensure the newly streamlined Civil Aviation Department which will be wholly responsible for technical regulation and ensuring ICAO standards are met as regards all civil aviation matters in the Bahamas and; third, to optimize the airport sector and foster a commercial attitude and entrepreneurship into the airport business.
- 1.24 The reforms provide a solid foundation for any subsequent changes to institutions and governance structures. The key changes being proposed accord with the types of reforms that have taken place in other countries when similar circumstances led to the types of reforms taking place in The Bahamas. These reforms are similar in scope and types of reforms that Australia, Canada and New Zealand undertook starting in the early to mid 1980s. These three countries are appropriate comparators for the proposed Bahamas Air Transport Reform Program. The structure of airport operations, air traffic control and technical regulation as well as air policy and strategy were similar to that which currently exists in The Bahamas. There is also the similarity of having comparatively small populations and relatively large geographic areas, a small number of airlines and needed connectivity to global markets. All three, and particularly New Zealand, depend heavily on tourism for economic growth and generating income and employment. In these three countries as well as others the institutions, governance and regulation in the aviation sector have undergone significant change, as governments pursued new airport policies, sometimes in conjunction with aviation system reform, or as a consequence of it.
- 1.25 The shift that occurred had several common sources; air traffic was growing at rapid rates and airports needed to invest in capacity, there was a general rethinking of the role government should play in the economy and airports were considered a place where the private sector could legitimately provide the needed service and investment. Likewise, the deregulated airline sector was showing significant improvements in productivity and product innovation and many argued this could be extended to the airport sector. In sum there was a newfound recognition of the relationship between ownership structure, governance and performance. The motivation for change in the structure of responsibility for aviation matters in Canada, Australia and New Zealand is founded on a common

⁸ See [Green Paper](#).

notion that transportation is a key factor affecting the competitiveness of firms and industries in these three countries. All are small open economies that are dependent on trade in goods, services and tourism.

- 1.26 The approach selected by The Bahamas for transportation policy in general, and aviation policy specifically, is the one followed in most developed countries but in particular in Canada, New Zealand and Australia -- to structure policy, institutions and governance in transportation to ensure that transportation services and investments are undertaken in an efficient manner across all transportation services and across all modes. The underlying philosophy is that the country is best served by an efficient and effective transportation system since this will ensure domestic firms and industries are competitive in domestic and international markets. For small open economies that are highly dependent on trade and tourism, shrinking the costs of distance and providing the most access (connectivity) possible are essential to promote economic growth and sustain the economies in the face of the costs of global downturns. The reforms for the aviation sector that are described in the Green Paper are consistent with this approach.
- 1.27 **The Bank's strategy and previous experience.** The current Bank's Country Strategy 2010-2014 for The Bahamas (GN-2558) was approved in February 2010. Infrastructure development has been identified as one of the central tenets in the Strategy, given the current deficit in coverage and quality of infrastructure and the central focus of the Strategy of helping to position the economy for long-term sustainable economic growth. Transport is a priority sector. Accordingly, in the air transport sector, the Strategy commits to focusing on: i) the institutional, legal and regulatory reforms necessary to raise and maintain operational safety and security to internationally-accepted standards; and ii) increased private participation in the sector for the modernization of airports infrastructure. Previous Bank experience in the sector includes a TC (ATN/MT-9073-BH) to strengthen airport security which was completed in 2008. The Program also supports regional integration, a priority area identified in GCI-9.

B. Objective, components and costs

- 1.28 **Objectives.** The objective of this Program is to promote the development of safe, secure and efficient air transport in The Bahamas in adherence with international standards. This objective will be achieved through a comprehensive reform of the existing institutional and regulatory structure, which will require the implementation of new institutional and legal frameworks and arrangements for financing and infrastructure management.
- 1.29 **Program structure.** The Program is structured with 2 components: i) a two tranche policy-based loan (PBL) component; and ii) a technical cooperation (TC) component. The two tranche PBL structure is recommended so that the Program provides strong incentives not only for the GBH to embark on the reform process, but also to provide time for the full implementation of the new institutional structure adopted as part of the policy reform. The TC component, in turn, aims to provide needed technical assistance to the GBH during the design and implementation of the reforms.

- 1.30 **Component 1: PBL component (47.5 million).** This component has been structured around four areas of intervention: (i) macroeconomic sustainability; (ii) policy, institutional and financial reform of the air transport sector; (iii) sector infrastructure management; and (iv) sector environment, health, safety and emergency preparedness. Disbursements will take place in 2 tranches, as described below:
- 1.31 **First tranche (US\$15 million).** The conditions for disbursement of the first tranche agreed upon by the GBH and the Bank aim to ensure that concrete actions are being taken to implement the proposed reform. The specific conditions, according to the respective area of intervention, are as follows:
- a. Macroeconomic sustainability: An independent macroeconomic assessment (IMA) must be completed to confirm that the macroeconomic framework of the Borrower and Program objectives are aligned.
 - b. Policy, institutional and financial sector reform: The approval by Cabinet of the White Paper, incorporating clear, well-developed policy guidelines in the following areas: (i) a clear separation of policy-making, regulation, and operational functions; (ii) the transformation of the CAD into an independent and autonomous Civil Aviation Authority (CAA), responsible for technical regulation of the air transport sector; (iii) the transfer of all responsibilities for airports and ATC operation from CAD to the Airport Authority; and (iv) the assignment of responsibility for accident and incident investigation to a newly created body, completely independent from the sector regulator and operator.
 - c. Infrastructure management: Two basic actions must be undertaken. First, approval by MoTA of a set of guidelines to develop a comprehensive strategy for Family Islands airport optimization, to satisfy the new aviation sector policy and obligations of the BAA. Second, the definition of a clear plan to achieve full ICAO compliance of ATC and security equipment standards and the start of its implementation; these include approval by MoTA of the bidding documents for the purchase of new radar equipment for LPIA.
 - d. Environment, health, safety and emergency preparedness: The definition of concrete strategies for: (i) the establishment of basic standards and procedures for environment, health and safety and emergency preparedness at all airports; (ii) the establishment of hazardous cargo management procedures; and (iii) the definition of specific standards for energy and water use and conservation in airports.
- 1.32 **Second tranche (US\$32.5 million)** The conditions for disbursement of the second tranche agreed upon by the GBH and the Bank aim to ensure that the implementation of the reform has been completed, and a series of strategic goals have been achieved. The specific conditions, according to the respective area of intervention, are as follows:
- a. Macroeconomic sustainability: A new IMA must be completed to confirm that the macroeconomic framework of the Borrower and Program objectives remain aligned.

- b. Policy, institutional and financial sector reform: (i) Legislation needed for the implementation of the policy “White Paper” approved by Parliament, and under implementation; (ii) CAA created by the MTA and operational for at least three months, with responsibility over technical regulation of the aviation sector and ability to charge for its services, with defined organizational structure, lines of responsibility, approved and allocated annual budget, and adequate professional staff to meet its responsibilities according to international best practices; (iii) BAA operating and developing all Government owned airports and managing ATC operations in The Bahamas control airspace, with defined organizational structure and lines of responsibility, revenue strategy in place to meet its financial obligations, and adequate professional staff to meet its responsibilities according to international best practices; (iv) a unit for the independent investigation of accidents and incidents at airports under Bahamian jurisdiction and within The Bahamas control airspace, created by Cabinet, operational for 3 months, and with established procedures to carry out its responsibilities; and (v) a new financial structure in place to implement the policies for a financially stable CAA with sufficient resources to meet its responsibilities, and a BAA that operates on a commercial basis (cost-recovery oriented) five airports (Marsh Harbour Abaco, North Eleuthera, San Salvador, Governor’s Harbor and Exuma – Moss Town), and adequate GBH budget allocations for other airports in the Family Islands as deemed necessary.
 - c. Infrastructure management: Two actions must be undertaken. First, a comprehensive strategy for Family Islands airport optimization to satisfy the new aviation sector policy and obligations of the BAA has been finalized and approved by Cabinet, including a timeline and resources for its implementation. Second, the new radar equipment for LPIA (Nassau Airport) has been acquired, installed and is in operation compliant with ICAO standards.
 - d. Environment, health, safety and emergency preparedness: Seven (7) airports (Nassau, Freeport, Marsh Harbour Abaco, North Eleuthera, San Salvador, Governor’s Harbor and Exuma – Moss Town) must be in compliance of: (i) the new basic standards and procedures for environment, health and safety and emergency preparedness at all airports; and (ii) the establishment of hazardous cargo management procedures. Additionally, the MTA must have set specific standards for energy and water use and conservation in all airports.
- 1.33 **Component 2: TC component (US\$2.5 million).** The objectives of the TC component are: (i) to provide technical support for the implementation of the institutional modernization supported with the PBL component; and (ii) to provide technical support to the MTA for the assessment of the family islands transport and for carrying out airport optimization, as part of the implementation of the reform and to monitor and evaluate Program results.
- 1.34 The technical support provided by this component is critical for small countries like The Bahamas where specific sector expertise is hard to come by. Individual experts and consulting firms will be hired to assist the GBH in the design and implementation of the reforms, through the development of studies, as well as through alternative mechanisms to facilitate policy discussion and

decision-making activities. Specifically, the proposed studies include: (i) a review of the existing and proposed institutional framework and sector financing; (ii) defining the roles of different stakeholders in the new institutional structure; (iii) assessing the need for changes in additional legislation to implement the proposed structure; (iv) developing business plans (including human resources and finances) for the new structure; (v) developing an implementation plan and time table for the new structure; (vi) assisting the GBH in the execution of the implementation plan; and (vii) inter-island transport study, including air and maritime transportation Plan for Family Island Airport Optimization.

- 1.35 Table 1 below presents the cost distribution for the TC component:

Table 1: Cost distribution for the TC component

Activity	Cost
Consultancy study: Institutional framework design	1,400,000.00
Consultancy study: Airport optimization	810,000.00
Program coordinator	120,000.00
Procurement specialist	20,000.00
Monitoring and evaluation	100,000.00
Contingencies	50,000.00
Total	2,500,000.00

C. Key results indicators

- 1.36 The Results Framework/Matrix of Indicators (see electronic [link #4](#)) presents a comprehensive look at how the GBH and the Bank expect the Program's results to come to fruition. Program development milestones (outputs) and eventual goals (outcomes) are identified, as well as their respective indicators. Table 2 below presents of the stated Program outcomes and their indicators. The Monitoring and Evaluation Plan (see electronic link #8) and additional technical annexes detail the methodology for their measurement and how they will be monitored.

Table 2: Program outcomes and their indicators

Result	Indicators
Increased connectivity (measures development of sector)	International Air Transport Association (IATA) connectivity index.
Lowered air transport costs	Average operating expenses per traffic unit
Safer conditions for air transport	Number of incidents per year

D. Economic and social impact

- 1.37 While the economic and social benefits from the implementation of policy reform in the air sector is difficult to accurately quantify, mainly due the fact that the demand for air transport is strongly correlated to GDP growth, there is an opportunity cost of not acting, both in the sense that if The Bahamas fails to meet ICAO standards it may lose access to markets as well as some restrictions being placed on accessing key airports in The Bahamas, and in the sense of not having comparatively modern transportation services and infrastructure that may limit the attractiveness of The Bahamas as a destination. In spite of this, approximate estimates of benefits can be indirectly estimated and these are clearly correlated to

the results indicators selected (see technical annex). In addition the evolution of these indicators has been estimated for countries with similar institutional structures that have completed similar reforms (Australia and New Zealand).

- 1.38 There is a proven connection between increased air connectivity and job creation, particularly so for a country like The Bahamas, with such a strong tourism industry. Specifically, Gillen used the IATA connectivity index⁹ to examine the impact on traffic growth measured in numbers of passengers.¹⁰ The connectivity index includes measures of numbers of flights (frequency), numbers of seats (aircraft gauge) and number of destinations and is separate from any measure of liberalization. Gillen established that the elasticity of passenger growth with respect to the connectivity index was 0.2. In addition, the consensus from the empirical literature is that each 1,000 additional passengers generate 30 full time job equivalents. Accordingly, any increases in air connectivity should have a positive impact on job creation that can be evaluated through changes in the connectivity index. There are also expected indirect economic benefits from improved air service and increased connectivity to world markets through liberalization of the air service agreements but these are very difficult to quantify.
- 1.39 Economic benefits from efficiencies obtained through the reorganization of the airport sector into airport authorities and from the reorganization of the air traffic control, will be captured through the expected reduction in average operating costs per traffic unit. Total savings will be equal to the product of actual demand and the reduction in average costs.
- 1.40 While accidents obviously have an enormous human and economic toll, their scarcity, does not allow a meaningful cost benefit analysis to be carried out for a market the size of the Bahamas. In any case the potential enormous cost of an accident and the need for Bahamas to comply with international requirements amply justify improvements in safety.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 The Program will be financed as a two-tranche PBL and a reimbursable TC loan. The PBL component will be for a sum of US\$47.5 million and the TC component for a sum US\$2.5 million, with the total US\$50 million stemming from the Bank's ordinary capital. The disbursement period will be 5 years and the amortization period 20 years. The Program was designed based on the guidelines and directives established in the New Lending Framework (GN-2200-13), the guidelines for the preparation and implementation of PBLs (CS-3633) and the Bank's policy on TCs (GN-2470-2).

⁹The connectivity index is an industry indicator that aggregates measures of frequency, aircraft gauge and number of destinations.

¹⁰Gillen, David, *Trends and Developments in Inter-Urban Transport: International Air Passenger Transport in the Future* (paper prepared for the OECD/ITF Eighteenth International Symposium on Transport Economics and Policy, Madrid, Spain, November 16-18, 2009).

B. Environmental and social safeguard risks

- 2.2 In order to ensure that environmental and health and safety issues are managed correctly and streamlined within the different activities that take place at all airports, the implementation of an environment, health, safety and emergency preparedness strategy in accordance with ISO 14000 and ISO 18000 is proposed. The system is to cover not only BAA operations but will also cover all activities carried out at the airports by service providers and tenants. The system will address all sorts of issues including, among others, hazardous materials and fuels storage, handling and disposal, foreign object debris, wildlife control, water and wastewater handling, and noise control, among others. It will also establish procedures for coordination with contingency plans for handling of accidents including those related to hazardous cargo as well as for storms and hurricanes.
- 2.3 The environment, health, safety and emergency preparedness strategy will also define the equipment and staffing requirements for its implementation at all airports, develop training materials and procedures for emergency preparedness exercises, everything within the framework of continuous improvement.

C. Fiduciary risk

- 2.4 The financial execution of the two-tranche PBL component of the Program and the compliance with specific indicators and means of verification for each tranche disbursement will be the responsibility of the MoTA. The MoTA will receive technical and procurement fiduciary support by the Bank for the execution of the activities that comprise the TC component. The MoTA will carry out the procurement for the TC component in accordance with the Bank's procurement policies and procedures with supervision under the *ex ante* modality in order to mitigate any risks involved in these procurement processes.

D. Other key issues and risks

- 2.5 The principal risk of the operation is institutional and political, owing to the high-level coordination and complexity of the various sector agencies, and the need to ensure the sustainability of the new policy over time. This risk is mitigated by the lengthy experience of working together during the preparation of the Program, by the Program design with a two-tranche approach offering financial incentives for the full implementation of the policy reform, by the Bank's support, and the TC component, which will undertake a series of important actions in support of policy implementation. There is also a risk that the GBH moves too slowly on required fiscal revenue reforms, which could improve its debt sustainability position over the medium term.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The Borrower of this loan will be The Commonwealth of The Bahamas. The executing agency will be the MoTA, which will be responsible for the implementation of the reforms and the execution of the TC component. Resources from PBL component will be disbursed to the Ministry of Finance, once the Bank

has verified that all tranche conditions have been met by the MoTA. With regards to the TC component, disbursements will be made using the modality “Advance of Funds”, in accordance with detailed financial plans prepared by the MoTA reflecting the component’s resources needs, at intervals of six months.

- 3.2 The MoTA will have the following responsibilities: (i) deliver reports and evidence of fulfillment of the conditions of the PBL component, and any other reports that the Bank may request regarding the Program; (ii) promote action to achieve the policy objectives specified in the Program, particularly those included as conditions for each of the two disbursements; and (iii) gather, file and deliver to the Bank all information, indicators, and parameters that will enable the Borrower and the Bank to monitor, measure and evaluate the outcomes of the Program.
- 3.3 For the technical decisions and execution of the TC component, the MoTA will be supported by a Program Coordinator and Procurement Officer. There will be a need to contract consulting services from expert firms or individuals in the fields of institutional modernization and restructuring planning, and in the transportation sector, to advise on the Family Islands Airport optimization. The appointment of the Program Coordinator and the Procurement Officer and the definition of their functions to the mutual satisfaction of the Borrower and the Bank, will be a condition precedent to the first disbursement of resources under the TC component. IDB Procurement Policies for the Selection and Contracting of Consultants (GN-2350-9) will be followed for the hiring of consultants and the Policies for the Procurement of Goods and Works (GN-2349-9) in case any equipment is required. All procurement processes will be supervised ex ante and will therefore require the prior No Objection by the Bank (see electronic [link #6](#)).

B. Summary of arrangements for monitoring results

- 3.4 The Project Team will monitor the execution of the Program through the Country Office in The Bahamas. The Borrower and the Bank will schedule periodic meetings to review the achievement of milestones and Program goals, and when necessary, to devise solutions for whatever situations may arise. Consultants will be hired through the TC components to establish results indicators baseline and evaluate results once the new policy has been implemented. Details are provide in the Monitoring and Evaluation Plan (see electronic link #8)

IV. POLICY LETTER

- 4.1 The GBH and the Bank have agreed on the proposed reforms described in the policy letter sent by the Ministry of Finance on January 17, 2011 (see electronic [link #2](#)). The letter details the strategic objectives (§1.20) and policy guidelines (§1.21) of the reforms under implementation, as described earlier in this document.

Matriz de Efectividad en el Desarrollo			
Resumen			
I. Alineación estratégica			
1. Objetivos de la estrategia de desarrollo del BID	Alineado		
Programa de préstamos	(i) Programa de préstamos para países pequeños y vulnerables, y (ii) Programa de préstamos para la integración y cooperación regional.		
Metas regionales de desarrollo			
Contribución de los productos del Banco (tal como se define en el Marco de Resultados del Noveno Aumento)			
2. Objetivos de desarrollo de la estrategia de país	Alineado		
Matriz de resultados de la estrategia de país	GN-2558-1	Fortalecer la formulación de políticas, planificación y gestión del Sector de Transporte Aéreo.	
Matriz de resultados del programa de país	GN-2617	El proyecto no está incluido en el Documento de Programación del País 2011.	
Relevancia del proyecto a los retos de desarrollo del país (si no se encuadra dentro de la estrategia de país o el programa de país)			
II. Resultados de desarrollo - Evaluabilidad	Altamente Evaluable	Ponderación	Puntuación máxima
	8.6		10
3. Evaluación basada en pruebas y solución	9.6	25%	10
4. Análisis económico ex ante	8.8	25%	10
5. Evaluación y seguimiento	6.1	25%	10
6. Matriz de seguimiento de riesgos y mitigación	10.0	25%	10
Calificación de riesgo global = grado de probabilidad de los riesgos*	Bajo		
Clasificación de los riesgos ambientales y sociales	B.13		
III. Función del BID - Adicionalidad			
El proyecto se basa en el uso de los sistemas nacionales (criterios de VPC/PDP)			
El proyecto usa otro sistema nacional para ejecutar el programa diferente de los indicados arriba			
La participación del BID promueve mejoras en los presuntos beneficiarios o la entidad del sector público en las siguientes dimensiones:			
Igualdad de género			
Trabajo			
Medio ambiente			
Antes de la aprobación se brindó a la entidad del sector público asistencia técnica adicional (por encima de la preparación de proyecto) para aumentar las probabilidades de éxito del proyecto	Si	Se prestó asistencia técnica para la elaboración de la propuesta del contenido para la nueva política del sector.	
La evaluación de impacto ex post del proyecto arrojará pruebas empíricas para cerrar las brechas de conocimiento en el sector, que fueron identificadas en el documento de proyecto o el plan de evaluación			

El objetivo de este Programa es promover el desarrollo del transporte aéreo seguro y eficiente en las Bahamas en el cumplimiento de las normas internacionales. Este objetivo se logrará a través de una reforma integral de la estructura institucional y normativa, lo que requerirá la aplicación de los nuevos marcos institucionales y legales y los acuerdos de financiación y gestión de infraestructuras. La intervención contribuye al programa de préstamos para apoyar a los países pequeños y vulnerables, y la cooperación e integración regional. También se alinea con el objetivo estratégico de fortalecer la formulación de políticas, planificación y gestión del Sector de Transporte Aéreo. El proyecto no está incluido en el Documento de Programación de País 2011.

El diagnóstico identifica claramente, con base en la evidencia empírica, el principal problema y los factores que la determinan. La lógica de la intervención propuesta es clara. Los indicadores de resultados y productos son SMART, con las líneas de base, metas y fuentes de información específicas. El programa cuenta con un análisis costo-efectividad ex ante. La intervención incluye un plan de monitoreo y evaluación de conformidad con las directrices del Banco y las características del programa. A través de la evaluación se espera que el análisis costo-efectividad sea replicado, y se lleve a cabo una evaluación antes y después.

Los riesgos han sido identificados, así como las medidas de mitigación y las métricas para supervisar su aplicación.

POLICY MATRIX
AIR TRANSPORT REFORM PROGRAM

OBJECTIVES	POLICY CONDITIONS FOR THE FIRST TRANCHE DISBURSEMENT US\$ 15 MILLION	POLICY CONDITIONS FOR THE SECOND TRANCHE DISBURSEMENT US\$ 32.5 MILLION
1. Macroeconomic Framework		
Ensure that macroeconomic environment is conducive to successful project execution.	The macroeconomic framework of the Borrower and Program objectives are aligned.	The macroeconomic framework of the Borrower and Program objectives are aligned.
2. Air Transport Reform		
Have a national aviation policy that separates policy making, regulatory and operational functions.	Policy on the Aviation Sector Reform (White Paper), approved by Cabinet, separating policy making, regulatory and operational functions.	Legislation to implement Policy on the Aviation Sector Reform (included in the White Paper), approved by Parliament, and in implementation.
Transform Civil Aviation Department (CAD) into an independent and autonomous Civil Aviation Authority (CAA), with responsibility mainly for technical regulation.	White Paper provides for the creation of an independent and autonomous CAA, responsible for technical regulation of the aviation sector.	CAA created by MTA and operational for at least three months with responsibility over technical regulation of the aviation sector and ability to charge for its services, with defined organizational structure, lines of responsibility, approved and allocated annual budget, and adequate professional staff to meet its responsibilities according to international best practices.
Airport Authority (AA) to be vested with responsibilities for Family Island airports and Air Traffic Control (ATC) operations in The Bahamas control airspace.	White Paper provides for the transfer of all responsibilities for airports operation and ATC operation to the AA.	AA has been assigned responsibility to operate and develop all government owned airports and manage ATC operations in The Bahamas control airspace, with defined organizational structure and lines of responsibility, revenue strategy in place to meet its financial obligations, and adequate professional staff to meet its responsibilities according to international best practices.
Establish an independent accidents investigation body.	White Paper provides for the assignment of responsibility for accident and incident investigation to a newly created body, completely independent from the regulator and operator.	Establishment by Cabinet of a unit and procedures for the independent investigation of accidents and incidents at airports under Bahamian jurisdiction and within The Bahamas control airspace and the unit is operational for at least three months.

Provide adequate and sustainable financing for sector agencies and activities in line with international best practices in the aviation sector.		<p>New financial structure in place to implement the policies for:</p> <ul style="list-style-type: none"> • A financially stable CAA with sufficient resources to meet its responsibilities; • An AA that operates on a commercial basis (cost-recovery oriented) five airports (Marsh Harbour Abaco, North Eleuthera, San Salvador, Governor's Harbor and Exuma – Moss Town); • Adequate GoBH budget allocations for other airports in the Family Islands as deemed necessary.
3. Infrastructure Management		
Upgrade management of existing airports and optimize existing Family Islands airports network prioritizing investments.	Guidelines for a comprehensive strategy for Family Islands airport optimization to satisfy the new aviation sector policy and obligations of the AA, approved.	Comprehensive strategy for Family Islands airport optimization to satisfy the new aviation sector policy and obligations of the AA, finalized and approved by Cabinet, including timeline for and resources for its implementation.
Upgrade ATC and security equipment to meet relevant ICAO standards	Approval by MoTA of bidding documents for the procurement of the new radar equipment for LPIA according to ICAO standards.	Acquisition, installment and operation of new radar equipment for LPIA (Nassau airport).
4. Environment, Health, Safety and Emergency Preparedness		
Establish basic standards and procedures for Environment, Health and Safety and Emergency Preparedness at all airports.	Environment, Health and Safety and Emergency Preparedness standards and procedures for airports, under preparation.	Seven (7) airports (Nassau, Freeport, Marsh Harbour Abaco, North Eleuthera, San Salvador, Governor's Harbor and Exuma – Moss Town) comply with the established Environment, Health and Safety and Emergency Preparedness standards.
Establish Hazardous Cargo Management Procedures.	Hazardous Cargo Management Procedures, under preparation.	Seven (7) airports (Nassau, Freeport, Marsh Harbour Abaco, North Eleuthera, San Salvador, Governor's Harbor and Exuma – Moss Town)

		comply with the established hazardous cargo management procedures.
Define standards for energy and water use and conservation in airports.	Standards for energy and water use and conservation in airports, under preparation.	Standards for energy and water use and conservation in airports, approved by MoTA.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/11

Bahamas. Loan ____/OC-BH to The Commonwealth of The Bahamas
Air Transport Reform Program
(Policy-Based Component)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with The Commonwealth of The Bahamas, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a air transport reform program (policy-based component). Such financing will be for an amount of up to US\$47,500,000 from the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on __ _____ 2011)

LEG/SGO/BH-36480723-11
BH-L1027

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/11

Bahamas. Loan ____/OC-BH to The Commonwealth of The Bahamas
Air Transport Reform Program
(Reimbursable Technical Cooperation Component)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with The Commonwealth of The Bahamas, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a air transport reform program (reimbursable technical cooperation component). Such financing will be for an amount of up to US\$2,500,000 from the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on __ _____ 2011)

LEG/SGO/BH-36480723-11
BH-L1027