

STRENGTHENING OF AIRPORT SECURITY

(TC-01-10-02-0)

EXECUTIVE SUMMARY

Executing agency:	Civil aviation agencies of member countries or the government-appointed agency for civil aeronautics.	
Financing:	Modality: Grant	
	MIF (Facility I):	US\$ 10,000,000
	Dissemination and Evaluation:	US\$ 150,000
	Total:	US\$ 10,150,000
Time Periods:	Execution Period	24 Months
	Disbursements Period:	30 Months
Objectives:	<p>The specific objective is to strengthen airport security in LAC countries by modifying the regulatory frameworks of civil aviation policies in the LAC countries, improving administrative services, and training personnel in charge of surveillance and enforcement of the new regulations.</p> <p>The specific objective is to strengthen the regulatory framework of civil aviation policies of the LAC countries, in order to continue to provide market access. To accomplish this objective, airport security measures will need to be modified and adapted and administrative services upgraded. Also, the personnel in charge of providing surveillance and enforcing the new standards will need to be trained.</p>	
Description:	<p>It is expected that the amount of US\$10 million in non-reimbursable funds will be made available to the LAC countries, so that, combined with the counterpart funds from the governments, which would range between 30% and 50% of the value of the project (depending on the country), they can execute individual projects of up to US\$500,000 each to supervise the implementation and upgrade of airport security.</p>	
Beneficiaries:	<p>The direct beneficiaries of this Line of activity (LA) are the national civil aviation agencies or the administrative agency of each government charged with the task of airport security. The indirect beneficiaries will be the general public and the private sector, led by exporters and importers of goods and products, incoming tourism, international freight firms and commercial airlines, among others.</p>	

**Environmental
and social
review:**

The operation was reviewed by the Committee on Environment and Social Impact (CESI) on 2 November 2001. The recommendations made at that meeting have been included in the project design.

**Exceptions to
Bank policy:**

None.

I. COUNTRY AND PROJECT ELIGIBILITY

- 1.1 All member countries of the Multilateral Investment Fund (MIF) in the region of Latin America and the Caribbean are eligible for this line of activity.
- 1.2 The Line of Activity (LA) submitted herein is eligible to receive MIF funds, within the Window I framework, having been deemed compatible with the MIF objectives of developing a favorable environment for private sector expansion. The LA will support measures to help strengthen airport security in the beneficiary countries, in order to enhance the comparative benefits thereof to the private sector and to enhance private sector competitiveness.

II. BACKGROUND FACTS

A. The importance of civil aviation security to the development of the private sector

- 2.1 With the advent of economic globalization, civil aviation has assumed an increasingly important role in passenger and freight transport for the development of all sectors of the economy. Freight transport, in particular, has become a major factor for less developed economies. The suspension of freight transport can greatly affect the way business is carried out, as well as an enterprise's bottom-line, especially smaller size enterprises. High added-value products, as well as perishable goods, are essentially transported by air.
- 2.2 In general, about 45% of global trade and about 50% of LAC exports to the U.S. are transported by air. Many of these exports are perishable items, such as trees, flowers and fruits, 99% of which are transported by air, and whose revenue is depended upon by countries such as Ecuador, Costa Rica and Colombia, among others. Any delay or interruption in air transport traffic affects the linked economies of the region and can cause investments to dwindle. The development of e-commerce, which focuses on speed as its comparative advantage, has been fueling demand for more rapid and more efficient distribution systems. This is a further example of the demands of the new economy for efficient and reliable freight service.
- 2.3 The effect of civil aviation on passenger traffic is evident from the fact that business activity, international trade, finance, and investment depend directly on the ability to mobilize professionals and technical experts safely and promptly. Another sector of the economy that is directly dependent on passenger transport is tourism, an industry that is a major source of foreign exchange for the countries in the region, in particular Central America and the Caribbean.
- 2.4 For a country to increase growth and attract high-technology investment, it is essential to have a center of air operations that complies with the international

standards established by the International Civil Aviation Organization (ICAO) an arm of the United Nations system. Without a regulatory framework of this kind, international airlines, international airports, and aircraft repair points will not be able to operate.

- 2.5 Airport security, therefore, is a critical element that the countries have jointly been working on, as part of the Chicago Agreement, which established the operational framework of international aviation. Pursuant to this agreement, the signatory countries (187 worldwide, including LAC) promised to develop a national airport security plan and regulations and procedures to be followed by all sector participants, as well as to monitor and ensure their compliance so that the airlines and airports can meet these standards. LAC has about 200 international airports and 50 commercial airlines that would be subject to OACI standards.
- 2.6 Clearly, then, national civil aviation agencies must upgrade their facilities, infrastructure, equipment, and security in order to guarantee a safe and normal flow of operations. Such an upgrading will require massive investment by the countries, with the financing coming from fiscal revenue and internal savings as well as from loans from the Bank and other multilateral agencies. Such financing will be needed in particular for components involving the upgrading of buildings and the purchase of sophisticated security equipment.

B. Implications of the events of 11 September 2001

- 2.7 As a result of the events of 11 September, it is estimated that the region will lose approximately US\$200 million.¹ Reports from official tourism authorities of the countries in the region indicate a revenue reduction of 40% at hotels and almost a 50% drop for travel agencies. In the Bahamas, the authorities expect gross domestic product (GDP) to shrink 50% due to the sudden loss of revenue by the tourism sector. Economic analysts were predicting that the economic growth rate of Latin America and the Caribbean (LAC) would approach 3.5% for the year 2001. However, the slowdown of the world economies, particularly that of the United States (U.S.), has reined in that growth trend, a fact further exacerbated by the economic impact brought on by the terrorist attacks on September 11, 2001. Some analysts agree that these attacks will probably push the U.S. into a recession, which could suspend the flow of resources to LAC and raise financing costs. Reduced foreign capital flows to developing countries in particular will increase pressure on the balance of payments, forcing countries to reduce (trade) imports, and obtain internal financing with tax revenues to cover expenses.
- 2.8 The need to improve airport security throughout the world has returned to the fore and that means the region too. This means making certain changes. The first of these reforms, and one underpinning all subsequent reforms, is regulation. The

¹ The Miami Herald, 11 October 2001.

recent terrorist attacks brought out the need to adapt standards and regulations to the new reality and to adopt additional airport security standards and the ICAO has decided to adopt such standards. Furthermore, the Federal Aviation Administration (FAA) has decided to implement and enforce additional security measures.

- 2.9 As a result, the failure to take the necessary measures to conform to these new rules will greatly restrict the civil aviation industry and bring about serious economic consequences. In effect, the new measures will not permit air traffic between airports that do not comply with these standards on routes to the U.S., Europe and Japan, consequently reducing direct freight and passenger service to the largest markets.
- 2.10 The new measures include the upgrade of elements of the airport security regulatory framework, risk assessment at each airport, development of assessed risk mitigation plans and the training of staff officers, airport operators, airline employees and all persons involved in air traffic, including passengers.
- 2.11 Few international airports in LAC will be capable of complying with these new security measures. It is estimated that at least 60 of them will be subject to new and tighter security measures. Of this total, 41 will have to implement fundamental changes in the way in which the elements of airport security are handled, including the physical distribution of airport facilities, which will mean subsequent administrative, budgetary and legal measures by the governments. The remaining 19 airports, although they have been complying with strict airport security standards, will also be required to make the changes established by the amendments to Annex 17 of the ICAO International Civil Aviation Agreement, which regulates airport security, making it necessary to update rules, regulations and staff training.
- 2.12 In the last month or so, the Bank has been receiving expressions of interest from countries in the region in initial support for reform of basic regulations that would enable them to have an appropriate frame of reference for subsequent upgrading of civil structures and sophisticated security equipment.
- 2.13 The present project seeks to back the institutional and regulatory reforms that it suddenly became necessary for the participating countries to introduce to conform to the new airport security measures, helping jointly to improve the competitive advantages of the region and of each country with the world market and therefore giving the MIF an important role to play in maintaining and expanding the commercial activities of LAC countries.

C. Relevant activities of the Bank and the MIF

- 2.14 The Bank has a number of instruments at its disposal for improving airport infrastructure in general through its loan operations with the private sector and general infrastructure loans. The MIF in turn for purposes of fostering private

investment and development of the private sector in the region, has accorded special attention to projects that attract private investment through its Window I which covers reform of regulatory frameworks.

- 2.15 As to civil aviation and its impact on private sector development, the MIF has made inroads in this area with a project (MIF/AT-387 approved in December 2000) for US\$4 million to the Corporación Centroamericana de Servicios de Navegación Aérea (COCESNA) to strengthen its capacity to regulate and monitor the civil aviation sector of its member countries (Belize, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua), and of Panama, Haiti and the Dominican Republic. This project is intended to support the implementation of Annexes 1, 6 and 8 of the ICAO, which deal with the operational aspects of airport management, aircraft navigation, airports, staff licenses and surveillance. The COCESNA project does not involve Annex 17 of the ICAO.
- 2.16 The operation proposed to the MIF complements the Bank's activities in supporting the private sector in this current generalized crisis, and it is hoped that the Bank will begin negotiations that involve the use of lending instruments in order to address the requirements in terms of investment and upgrading.

III. THE PROJECT

A. Objectives

1. Line of activity

- 3.1 The general objective is make funds available to the countries of Latin America and the Caribbean to capture the economic benefits of access to global markets.
- 3.2 The specific objective is to strengthen airport security in LAC countries by modifying the regulatory frameworks of civil aviation policies in the LAC countries, improving administrative services, and training personnel in charge of surveillance and enforcement of the new regulations.

2. Individual projects

- 3.3 It is expected that the amount of US\$10 million in non-reimbursable funds will be made available to the LAC countries, so that, combined with counterpart funds from the governments, which would range between 30% and 50% of the value of the project (depending on the country), they can execute individual projects of up to US\$500,000 each to improve the airport and to supervise its enforcement, to evaluate the status of security systems now in place and to update standards in force.

- 3.4 Countries may present various projects whose anticipated results may be interdependent because the aim of the project is to deliver rapidly the resources for reforming and implementing standards so that economic activities dependent on civil aviation can get under way promptly.

B. Individual project components

- 3.5 The individual projects which are submitted will contain at least one of the following components: (i) regulatory review; (ii) implementation of new administrative services; and (iii) training.

1. Regulatory review

- 3.6 This component's activities involve a review of the rules and procedures for implementing all the minimal regulations set forth in Annex 17 of the ICAO, and to provide for and conform to the modifications expected in the short-term for this general regulatory framework, and ultimately to the design of a long-term strategy for financial and operating sustainability of the security systems and mechanisms.
- 3.7 The outcome of this component is expected to be the following: (i) at least 15 LAC countries will have reviewed and adjusted their regulations to the provisions of Annex 17 and the amendments thereto; (ii) at least 15 LAC countries will have published the new guidelines and placed them in public places and disseminated the standards to all airport personnel, operators, airline companies and passengers; and (iii) at least 15 countries have plans to ensure that the security programs are financially and operationally sustainable.

2. Implementation of new administrative services

- 3.8 This component seeks to provide access to administrative security services, such as digital identification badges, modification of digital information systems and personal identification inspection systems, among others. The cost of any specialized equipment that may be needed to implement the new administrative services may not exceed 20% of the total project value.
- 3.9 As a result of this component, upgraded basic administrative systems are expected to be established at the major international airports of at least 15 countries.

3. Training

- 3.10 This component will seek to implement airport security training programs and set up training programs for instructors. The component will focus on airport security operations, revision and implementation of the new rules, security procedures that conform to the new legal structure, passenger protection, and mechanisms for gathering and processing passenger information, among other things. The

component also aims to inform the general public on aspects to consider and the basic security guidelines required at airports in the country.

- 3.11 As a result of this component, the countries that submit projects are expected to: (i) have trained all security staff at the major airports; (ii) have trained all security staff at airline companies; (iii) have trained all advisors to the government agencies charged with oversight of security guidelines; and (iv) have carried out general public education campaigns.

IV. EXECUTION AND PROCEDURES

1. Conditions for eligibility of the executing agencies and individual projects

- 4.1 This LA will support the execution of projects submitted by the countries through the agencies in charge of civil aviation administration in each country², even if the responsible agency is a military authority, provided that the airport served by the project is a civil airport. Such agencies may execute the project directly or assign it to another government agency charged with national security.
- 4.2 To have access to the resources of the Line of Activity presented herein, the governments must demonstrate the following: (i) the country has kept the level of risks and threats posed at their airports under constant surveillance; (ii) it has assigned staff to manage and administer the national civil aviation security program; and (iii) it has an airport security program adequate for the needs of international traffic. To facilitate project eligibility, the Bank will develop a formula that conforms to the provisions of ICAO Annex M setting out the eligibility requirements, and which will be forwarded to the Country Offices.
- 4.3 The executing agencies in each country will submit their request, together with the following documents: (i) determination of eligibility form; (ii) the agency's three-year action plan, indicating the mechanisms for upgrading airport security; (iii) the project's specific objectives and schedule of activities; (iv) a description of the executing agency's organizational structure and resources and as many details as possible about its experience with projects it has carried out; and (v) itemized budget.
- 4.4 The following are the minimum requirements for each individual project, which must be presented to the Bank's satisfaction: (i) proof that a project coordinator has been appointed, who may be a high-ranking individual within the civil aviation agency or the unit performing those functions; and (ii) a letter of commitment from the government promising to implement the airport security guidelines and to

² In most countries, these would be the civil aviation agencies. However, there are countries in which this function is assigned to a specific Ministry.

replicate the basic security training program among all staff assigned to national and international airports in the country.

2. Beneficiaries

- 4.5 The direct beneficiaries of this LA are the national civil aviation agencies or the administrative agency of each government charged with the tasks of civil airport security management. The indirect beneficiaries will be the general population and the private sector, led by exporters and importers of goods and products, incoming tourism, international freight firms and commercial airlines, among others.

3. Operating mechanism

- 4.6 The corresponding Regional Department will process individual operations under the LA as follows: the Bank's Country Offices will be in charge of receiving requests and determining whether the project fulfills the requisites for eligibility and whether it meets the objectives of the LA. Upon completion of this phase, the Office will forward it to the operations officer designated by Headquarters for this purpose and the latter will be responsible for simple management of the project, preparing a Line of Activity Memorandum describing the project briefly including the problem that the project seeks to resolve, its specific objectives, the activities that will be financed, a description of the executing agency and project execution mechanism, the proposed financing plan, proof of the government's commitment to the specific objectives of the project, and the justification. The Memorandum will be accompanied by a simplified logical framework and a MIF Project Performance Monitoring Report (MPPMR).
- 4.7 Individual LA operations will be discussed through a virtual CRG to be structured by the Regional Departments. Subsequently, the respective Manager will forward the operation to the Donors Committee for consideration by the short procedure once the Vice President's authorization has been issued.

4. Execution responsibility

- 4.8 The executing agencies of the individual projects will be in charge of:
- (i) supervising and overseeing attainment of each project's objectives and targets;
 - (ii) reviewing and approving the annual project activity plan and budget, including the use and appropriation of the local counterpart funds;
 - (iii) allocating the financial resources to ensure project continuation;
 - (iv) designing and executing a competitive bidding procedure for the selection and contracting of organizations in charge of training programs;
 - (iv) designing and executing a competitive bidding procedure for the procurement of items necessary for adequate project execution; and
 - (vi) designating a project coordinator, who can be a high-ranking staff member currently working at the respective agency and whose proportional cost is accepted as part of the counterpart resources.

5. Social and environmental considerations

- 4.9 Given the nature of this operation, which targets the strengthening of airport security regulations, no adverse social or environmental effects are anticipated. Individual projects considered for approval under this line of activity are therefore exempt from submission to the CESI. The dissemination seminar (see paragraph 7.5) will include issues for matters relating to environmental impact and security and occupational health of airport staff.

6. Procurement of goods and services

- 4.10 The procurement of goods and the contracting of consulting services necessary for project execution will be in accordance with the Bank's applicable procedures. The procurement and contracting process will be open to all MIF member countries.

7. Accounting and audit

- 4.11 The executing agencies will be responsible for the following: (a) establishing and maintaining adequate accounting, financial and internal supervision, as well as filing systems that will specify in detail the sources and uses of the project funds. The institution's project records will: (i) identify funds and their sources; (ii) contain information on project expenditures, segregating MIF contributions from those of other sources; and (iii) contain details needed to identify the goods procured and services contracted; (b) opening separate bank accounts to manage the MIF contribution and the local counterpart funds; (c) processing disbursement requests and the respective expenditure support documents, in accordance with the Bank's disbursement procedures; and (d) preparing and submitting to the Bank the project's final financial statements, audited by an independent firm acceptable to the Bank, as well as revolving fund reports.

8. Execution and disbursement periods

- 4.12 The LA will commit its resources for a period of 24 months. The MIF contribution will be disbursed over a period of 30 months. It is important to note that given the demand for these resources a large volume of operations is expected to be concentrated in year one of the program.
- 4.13 The individual projects will be executed within a period not to exceed 18 months and a maximum disbursement period of 24 months.
- 4.14 The disbursements for each project approved under this LA will be in three tranches: the first for 40%, when the general conditions and minimum mandatory conditions are met (paragraph 4.4); the second tranche for another 40%, upon demonstrating to the Bank's satisfaction that the agreed action plan has been properly implemented; the remaining 20%, after demonstrating to the Bank's satisfaction that the basic rules governing airport security have been assessed and

modified or are in the process of approval by the competent authorities, if necessary, and demonstrating that the staff training project is being executed.

V. COST AND FINANCING

A. Cost and financing

5.1 The estimated value of the LA is US\$10,150,000. The MIF will finance US\$10,200,000, and the counterpart funds could be approximately US\$5,000,000.

5.2 The itemized breakdown is as follows:

ITEM	AMOUNT
Technical cooperation financing for the civil aviation agencies	US\$10,000,000
1 best practices workshops	40,000
Evaluations	80,000
Contingencies	30,000
Total	US\$10,150,000

5.3 The counterpart funds will generally come from the countries' tax revenues. The percentage of local counterpart funds will range between 30% and 50% of the total project value depending on the country and MIF policies in this regard.

VI. RATIONALE AND RISKS

A. Rationale

6.1 This LA confirms the role played by the MIF as a catalyst, and it is expected to produce the following benefits: (i) consolidate institutional and regulatory reforms that need to be implemented in the short term so that participating countries comply with the new airport security standards; (ii) minimize the economic impact on countries hard hit by the slump in essential activities such as trade, tourism, and regional integration; (iii) facilitate the drafting of a regulatory framework for upgrading and investment in on a large scale and the introduction of state-of-the-art technologies for airport security such as biometrics; and (iv) support exchanges of experiences and information on airport security in the region.

6.2 In the context of the criteria established in the MIF strategy, the **additionality** of the LA lies in its focus on small-scale high-impact operations. In light of the MIF's experience with other lines of activity, it is the most suitable instrument for coming to grips with the situation described earlier in this document and provides an

opportunity for the MIF to play a leading role in promoting and expanding commercial activities within the region. The Line is **innovative** insofar as it establishes a fast and efficient mechanism for helping countries to modify and strengthen the most pressing and centralized aspects of airport regulation. The Line will encourage the exchanges and coordination of efforts between participating countries. Individual projects will have a **demonstration effect** by offering examples of how to adapt the regulatory and institutional framework to the new requirements. Moreover, the Line will encourage the dissemination of the lessons learned through the mechanisms planned (workshop, monitoring, and evaluation). Individual projects will be **sustainable** since regulatory adjustment of each one will include the design of a long-term strategy conducive to making the security mechanisms and systems financially and operationally sustainable.

- 6.3 This LA is consistent with the recommendations made by the MIF Working Group which stressed the importance of promoting transparent regulatory practices that conform to international standards.

B. Risks

- 6.4 **Insufficient country participation** could be generated by inadequate information on the availability of resources as well as a lack of counterpart funding. To mitigate the risk of insufficient information, the LA intends to disseminate this project widely to the international organizations (ICAO and the FAA) that are in charge of enforcing airport security guidelines. They in turn will be responsible for informing local authorities of the project. The MIF will attend regional conferences to present and clarify certain aspects of the LA. The project does not contain any mechanism to minimize the potential risk of insufficient participation owing to a lack of counterpart funding.
- 6.5 **The new regulatory framework is not implemented.** The decisions recently adopted by the ICAO to conduct a technical audit on airport security at airports in the member countries and the fact that the FAA has effectively made an assessment of the airports where U.S. airplanes fly in and out of, guarantee that the funds will be used to attain the project's objectives.
- 6.6 **Centralized training programs.** There is the risk that the countries will opt to train and instruct only government personnel. To reduce this risk, as a minimum condition for the individual projects, a letter from the government is being requested, in which the government indicates its commitment to developing comprehensive training programs.
- 6.7 **Financial sustainability of airport security programs.** There is a risk that once security measures have been adjusted and a suitable regulatory framework is in place, that the countries do not have the resources to implement fully the regulations and to press ahead with the construction works and procurement that the

project certainly entails. Accordingly, the regulatory adjustment component provides for the possibility of financing the design of a long-term airport security plan that is financially sustainable.

VII. MONITORING AND EVALUATION

A. Line of activity

1. Monitoring

- 7.1 Based on the individual project reports, and the monitoring and evaluation reports of these projects (see paragraphs 7.6, 7.7 and 7.8), the MIF be responsible for ongoing monitoring of the LA. It will inform the Donors Committee each year on the project's status and the progress in attaining the specified goals.

2. Evaluation

- 7.2 A mid-term evaluation will be performed when operations valued at the equivalent of US\$5 million have been approved. Fund use and demand, improvements made and the effects of such measures on the private sector will be assessed. This evaluation will be forwarded to the Donors Committee for its information.
- 7.3 In view of the fact that the Bank has had little experience with the civil aviation regulatory framework, and the quickness with which the operation was designed, it is felt that the lessons learned from the first few projects approved will be considerable. Therefore, it is expected that the Donors Committee may eventually have to be asked to modify the criteria and procedures designed. Any requests to modify the procedures will be submitted to the Donors Committee by the simplified procedure, together with a justification for the request.

3. Promotion and dissemination

- 7.4 To promote ample participation by the countries in the region and to disseminate the basic requirements for fund access and the specific conditions of the individual projects, the MIF will be in charge of publicity by various media, such as the Bank's web page, sending the LA document to the ICAO, the FAA, the presidents of the major airline companies, and the governments.
- 7.5 It will also be responsible for organizing a regional workshop for experience-sharing and establishing best practices in the application of security measures. Attending the workshop will be executing agencies of all the participating countries, as well as FAA and ICAO personnel.

B. Individual projects

1. Monitoring

- 7.6 The executing agencies in each country will be responsible for monitoring and preparation of the applicable reports. They must prepare a six-month progress report on the activities carried out during that period. The reports (whose presentation format will conform to the Country Office's requirements) will include a working plan and disbursement schedule for the following period. The progress report will be delivered to the Country Office within 30 days following the end of the relevant six-month period. On the basis of reports, the executing agency will prepare a final report within three months prior to the end of the project. The Country Office will use these reports to monitor the project.

2. Evaluation

- 7.7 Each individual project will be allocated a certain amount for mid-term and final evaluations. These evaluations will be conducted by an international consulting expert on airport security, selected and contracted by the Bank with the contributed funds. The first evaluation will be made after more than 50% of the total has been disbursed or, 9 months after the first disbursement, whichever occurs first, and will consider, at least, the following: (a) the institutional capacity of the executing agency; (b) activities carried out to review airport security guidelines; (c) activities for implementing changes to such instruments; and (d) review of the applied funds and allocation of the counterpart funds. This report must be delivered not later than two months from the hiring of the above-mentioned consultant. It should indicate the corrective measures necessary to guarantee the proper execution of the project, and recommend the suspension of disbursements if organizational problems arise in executing the project. The disbursements may be resumed when the executing agency demonstrates that it has taken the necessary measures to correct such problems.
- 7.8 The second evaluation will be conducted three months prior to the final disbursement, and will assess, among other things, the following: (a) degree of attainment of the project's specific goals; (b) manner in which the new security measures have been implemented; and (c) number of trained persons and training programs developed by the agency to guarantee that all decision-making personnel on airport security matters have the necessary knowledge to ensure the normal flow of air traffic. This report must be submitted to the Bank not later than three months following the date on which the consultant was hired.

VIII. EXCEPTIONS TO BANK POLICIES

- 8.1 None.