

PROJECT PROFILE
THE COMMONWEALTH OF THE BAHAMAS
AIR TRANSPORT REFORM PROGRAM

I. BASIC DATA

Project name:	Air Transport Reform Program		
Project number:	BH-L1027		
Project team:	Team Leader: Esteban Diez Roux (INE/TSP); other members Alejandro Taddia (INE/TSP); Colin Forsythe (TSP/CBH); Rafael Acevedo (INE/TSP); Sharon Miller, (CCB/CBH); Hyun Jung Lee (LEG/SGO); María Teresa Soto Aguilar (VPC/PDP) and Giovanna Mahfouz (INE/TSP).		
Borrower:	The Commonwealth of The Bahamas (GoBH)		
Executing agency:	Ministry of Tourism and Aviation (MoTA)		
Financing plan:	IDB (OC):	<u>US\$50,000,000</u>	
	Total:	US\$50,000,000	
Safeguards:	Policies triggered:	B.13, B.01, B.02, B.03, B.07, B.17 and OP-704.	
	Classification:	C	

II. GENERAL JUSTIFICATION AND OBJECTIVES

- 2.1 **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 340,000 persons of which 69% reside in New Providence, 16 % reside in Grand Bahama and the remainder is scattered among the other 28 inhabited islands. The Bahamas is fundamentally dependent upon air transport; 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.
- 2.2 The Bahamian economy is based on two pillars: tourism and international financial services. Of these, tourism is by far the dominant industry and the economic mainstay. Tourism's contribution to GDP is estimated at 61% when considering direct, indirect and induced effects and represents 63 percent of employment and 61 percent of wages. 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.¹ Air arrivals in 2010 totaled 1.3 million passengers with 80% of these arriving from the US. In addition to its support to the tourism industry, 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 Although cruise ship passenger arrivals outnumber air arrivals almost three to one, the contribution to the Bahamian economy of tourists arriving by air is significantly higher than that of cruise ship arrivals which tend to have low expenditures while on the islands.

- 2.3 **The Air 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.
- 2.4 In The Bahamas there are a total of 53 licensed airports, of which 18 receive scheduled commercial services (international ports of entry with customs and immigration facilities), 8 are domestic only, and 27 are secondary airports for general aviation, 22 of which are private. Lynden Pindling International Airport (LPIA) in Nassau and Grand Bahama International Airport, which is privately owned, are the most important airports with 68% and 11% of the air traffic in the country. All other public airports in The Bahamas are operated by the Government's Civil Aviation Department.
- 2.5 Air transport falls within the purview of the Ministry of Tourism and Aviation (MoTA) which is responsible for the establishment of air transport policies and regulations and the licensing of airlines and flight crew. The designated regulatory entity for civil aviation is the Civil Aviation Department (CAD) of MoTA.
- 2.6 **Problem and Justification.** Despite the economic and social importance of air transport to The Bahamas, the sector is in need of improvement. There is a high degree of concentration of functions in the CAD, which is responsible for policy making, technical regulation, air traffic control, operation of Family Island airports and investigation of aircraft accidents. Considering the potential for conflict of interest, there is a clear need to transform the current institutional framework to reflect best practices in governance structures and, most importantly, the separation of policy making, regulatory, and operating functions. The existing legal framework ought to be revised; both to ensure compliance with international treaties of which The Bahamas is a signatory, and to permit the development of the new institutional structure. Regarding infrastructure, the safe and efficient operation of Lynden Pindling (Nassau) International Airport (LPIA) is critical to maintaining the competitiveness of the tourism sector. On the Family Islands, the challenges of high costs, small populations and limited budgets have resulted in inadequate passenger terminal facilities, maintenance and security in many airports. In addition existing financing arrangements for the sector should be reviewed to ensure their adequacy and sustainability. All of these issues make sector reform a necessity and high priority for the Government.
- 2.7 Of prime concern to the GoBH is adhering to international standards and recommended practices established by the United Nation's technical agency for aviation, the International Civil Aviation Organization (ICAO). Currently, The Bahamas is striving to address weaknesses identified in its compliance with ICAO standards, in order to maintain its FAA International Aviation Safety Assessments Program Category 1 classification. Requiring immediate attention is the necessity to update or replace existing radar systems at LPIA in order to ensure the continuity of safe operations. In addition to the obvious improvement of operational safety with better radar coverage, the loss of Category I status could

have significant impact on the ability of Bahamian airlines to provide service to and from the US and would negatively affect the tourism industry.

- 2.8 **Solutions.** To confront these challenges, the Government of The Bahamas has embarked on a series of institutional, legal and policy initiatives. Cabinet concurred with a Green Paper in January, 2011, as a basis for a future White Paper that will articulate a new policy for the aviation sector. The Green Paper reflects Government's intention to modernize sector policies and institutional arrangements, and to facilitate private sector participation in airport infrastructure financing and management. The White Paper is expected to be presented to Cabinet for approval in late 2011.
- 2.9 The proposed Program is designed to support the Government in these efforts. The Program is expected to improve the levels of regulatory oversight, safety and service in the sector, providing residents with a safe and efficient air transport system to improve accessibility and contributing to attracting and retaining competitive international and domestic airlines, thus ensuring that The Bahamas remains a competitive tourist destination.
- 2.10 **Bahamas sector strategy.** The GoBH strategic objectives for the air transport sector are: a) to introduce a modern civil aviation regulatory regime with a clear separation of powers between the regulatory and operational functions; b) to develop the Airports Authority as a financially independent entity which would operate directly or indirectly all of the Government airports; c) to rationalize and modernize the existing airports infrastructure network throughout the Family Islands, in order to facilitate tourism and inter-island transport; e) to create an independent entity responsible for the investigation of aviation accidents and incidents. The GoBH has stated that to accomplish these objectives it intends to increase private sector participation in the sector having targeted five airports on the Family Islands for private sector management. On the institutional side the GoBH's stated strategy is to reduce overlap among agencies responsible for the air transport sector, increasing efficiency and accountability. It also intends to divest the CAD of its current responsibilities in airport management.
- 2.11 **The Bank's strategy and previous experience.** The current Country Strategy 2010-2014 (GN-2558) for The Bahamas 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 Country 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 Technical Cooperation (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.

A. Objectives and Program Structure.

- 2.12 **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 and targeted investments in safety equipment. This will require the implementation of new institutional and legal frameworks and arrangements for financing and infrastructure management.
- 2.13 **Program structure.** The program is structured as a PBL/Investment hybrid loan with 3 components i) a two tranche policy-based component; ii) a technical assistance (TA); and iii) targeted investments to improve aviation safety. The policy component will be divided into four reform areas: (1) institutional structure; (2) legal and regulatory framework; (3) sector financing; and (4) airport infrastructure management and rationalization. The technical assistance component will support the design and implementation of the new aviation policy and re-structured legal and institutional framework and includes technical studies for improvement of inter-island air-marine transport and an assessment of the needs for rationalizing and bringing to international standards the entire Family Island airports system. The third component will include the urgently needed upgrade of radar equipment, essential for ensuring the safety of operations at LPIA and surrounding areas. In keeping with the requirement for a macroeconomic framework congruent with the program's objectives, an independent macro-economic assessment (IMA) was conducted in September 2010 and will be updated in September, 2011.
- 2.14 The Hybrid Loan modality is recommended on account of the following: i) the combination of a two tranche PBL and TA not only provides strong incentives to carry out the reform but also provides needed assistance (both through consultants and the IDB's participation) for the design and implementation of the reforms. This TA support is critical for small countries like The Bahamas where specific sector expertise is hard to come by. ii) The radar upgrade investment component is urgently needed for both safety reasons and to ensure compliance with international safety and security standards (and has been reviewed by both ICAO and the FAA) and is thus an essential component for air transport operations. The GoBH has also stated that due to the exceptional nature of this type of acquisition, Bank oversight of procurement has added value. Taking into account these considerations, Cabinet approved the pursuit of a hybrid loan from the Bank for the Air Transport Program upon the recommendation of the Ministry of Finance.

B. Key Results Indicators.

- 2.15 A key indicator will be the agreement on an institutional structure that clearly defines sector responsibilities and separates regulatory and operating functions. Indicators will also be developed to ensure that sector entities are professionally staffed, adequately funded; and that they have the authority to develop rules and regulations governing air transport. Legal and regulatory framework. Indicators will be developed to evaluate if air sector legislation and regulations are amended to reflect The Bahamas obligations under the Chicago Convention on

International Civil Aviation. Sector financing. Indicators will evaluate if secure and stable financing structures and arrangements are adopted for all sector agencies. Airport infrastructure management and rationalization. Indicators will be developed to evaluate the progress of: (i) implementation of private sector management in airports and (ii) the rationalization of the Family Island airports. From a technical viewpoint success will also be measured by adherence with ICAO obligations. These obligations are commonly referred to as ICAO Standards and Recommended Practices or SARPs and are specified in Annexes 1 through 18 of the Chicago Convention. These cover institutional, legal and technical issues and reflect best practices of international civil aviation. Specific indicators for each reform area will be developed during project preparation.

III. TECHNICAL ISSUES AND SECTOR KNOWLEDGE

- 3.1 Due to the specialized technical knowledge inherent to the sector, outside consultants have been hired to assist the GoBH and the IDB project team in sector analysis and Program preparation. In addition, knowledge acquired through ICAO reports and audits, specifically a Universal Safety and Audit Program (USAP) carried out for the Bahamas in 2009 to evaluate compliance with applicable standards and regulations, will be utilized in Program design.
- 3.2 Regarding the upgrade of the radar equipment, a needs assessment of the currently installed radar and evaluation of the Air Traffic Control Centre at LPIA was carried out by the Technical Cooperation Bureau of ICAO in December 2010 for MoTA. The FAA recently completed a similar assessment in May 2011.

IV. SAFEGUARDS AND FIDUCIARY SCREENING

- 4.1 The environmental and social safeguard classification system does not require a classification for the PBL component. However, given this is a hybrid operation, the safeguards policy and classification filters were run to classify the operation. The non PBL component will finance exclusively equipment required for the safety of airport operations and for advance warning of meteorological events that might affect the islands. Since the loan will finance the procurement and installation of the equipment, there are no negative environmental or social impacts expected, since there is no new construction. Therefore the proposed classification for the Program is “C”.

V. OTHER ISSUES

- 5.1 **Requirement for close collaboration with other donors.** The Bank has been working in close coordination with the IMF on supporting policies that promote economic growth, macroeconomic stability and fiscal balance.

VI. RESOURCES AND TIMETABLE

- 6.1 Annex V indicates the schedule of preparation approval of Draft Loan Proposal on November 1st and Loan Proposal on November 30th, 2011. For project preparation administrative funds is required in the amount of US\$94,500. (For Consultancies US\$65,000 and official missions US\$29,500).

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SAFEGUARD POLICY FILTER REPORT

PROJECT DETAILS	IDB Sector	TRANSPORTATION
	Type of Operation	Other Lending or Financing Instrument
	Additional Operation Details	
	Investment Checklist	Infrastructure Road and Rail
	Team Leader	Diez Roux, Esteban (ESTEBAND@iadb.org)
	Project Title	Air Transport Reform Program
	Project Number	BH-L1027
	Safeguard Screening Assessor(s)	Acevedo-Daunas, Rafael M. (RAFAELAC@iadb.org)
	Assessment Date	2011-07-13
	Additional Comments	Hybrid Loan Policy based loan and Acquisition of Radar System

SAFEGUARD POLICY FILTER RESULTS	Type of Operation	Loan Operation	
	Safeguard Policy Items Identified (Yes)	Activities to be financed in the project area are located within a geographical area or sector exposed to natural hazards (Type 1 Disaster Risk Scenario).	(B.01) Disaster Risk Management Policy– OP-704
		The Bank will make available to the public the relevant Project documents.	(B.01) Access to Information Policy– OP-102
		The operation (including associated facilities) is screened and classified according to their potential environmental impacts.	(B.03)
		The Bank will monitor the executing agency/borrower's compliance with all safeguard requirements stipulated in the loan agreement and project operating or credit regulations.	(B.07)
	Potential Safeguard Policy Items(?)	The operation is in compliance with environmental, specific women's rights, gender, and indigenous laws and regulations of the country where the operation is being implemented (including national obligations established under ratified Multilateral Environmental Agreements).	(B.02)
	Recommended Action:	Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s). Complete Project Classification Tool. Submit Safeguard Policy Filter Report, PP (or equivalent) and Safeguard Screening Form to ESR.	
	Additional Comments:	There are no risks associated. The investment component will finance the acquisition of a radar to aid in air traffic security and meteorological monitoring.	

ASSESSOR DETAILS	Name of person who completed screening:	Acevedo-Daunas, Rafael M. (RAFAELAC@iadb.org)
	Title:	Lead Environment and Transport Specialist
	Date:	2011-07-13

SAFEGUARD SCREENING FORM

PROJECT DETAILS	IDB Sector	TRANSPORTATION
	Type of Operation	Other Lending or Financing Instrument
	Additional Operation Details	
	Country	BAHAMAS
	Project Status	
	Investment Checklist	Infrastructure Road and Rail
	Team Leader	Diez Roux, Esteban (ESTEBAND@iadb.org)
	Project Title	Air Transport Reform Program
	Project Number	BH-L1027
	Safeguard Screening Assessor(s)	Acevedo-Daunas, Rafael M. (RAFAELAC@iadb.org)
	Assessment Date	2011-07-13
	Additional Comments	

PROJECT CLASSIFICATION SUMMARY	Project Category: C	Override Rating:	Override Justification:
			Comments:
	Conditions/ Recommendations	<ul style="list-style-type: none"> No environmental assessment studies or consultations are required for Category "C" operations. Some Category "C" operations may require specific safeguard or monitoring requirements (Policy Directive B.3).Where relevant, these operations will establish safeguard, or monitoring requirements to address environmental and other risks (social, disaster, cultural, health and safety etc.). The Project Team must send the PP (or equivalent) containing the Environmental and Social Strategy (the requirements for an ESS are described in the Environment Policy Guideline: Directive B.3) as well as the Safeguard Policy Filter and Safeguard Screening Form Reports. 	

SUMMARY OF IMPACTS/RISKS AND POTENTIAL SOLUTIONS	Identified Impacts/Risks None. The equipment to be installed will support the Prevention of disasters.	Potential Solutions
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ASSESSOR DETAILS	Name of person who completed screening:	Acevedo-Daunas, Rafael M. (RAFAELAC@iadb.org)
	Title:	Lead Environment and Transport Specialist
	Date:	2011-07-13

INDEX FOR COMPLETED AND PROPOSED SECTOR WORK BH-L1027			
ISSUES	DESCRIPTION	EXPECTED DATES	REFERENCES & HYPER LINKS TO TECHNICAL FILES
Analysis of project cost and economic viability	Cost-benefit analysis of investment and policy reform components of the project. Independent Macro-economic Analysis	September/October 2011 September 2011	
Financial management/fiduciary issues and control environment	No special fiduciary issues are anticipated. Preparation/conclusion of SECI and financial analysis.	October 2011	
Institutional analysis/personnel, procedures other aspects of implementation capacity	Conclusion of the institutional analysis of the aviation arm of the Ministry of Tourism and Aviation (MOTA)	September 2011	
Stakeholders and political environment	A Consultation meeting with Sector stakeholders on the draft White Paper for Secor Policy will be conducted by MOTA and facilitated by the Bank.	August 2011	
Social and environmental safeguards	Review of aspects specific to the operation. Preparation/conclusion of ESA	August 2011 September 2010	
Data collection and analysis for reporting on results	Identification of proposed indicators to measure the impact of program	September 2011	
Preparation of Operating Regulations	Preparation of the Project Execution Plan and Annual Operation Plan for Year 1	October 2011	
Technical options and design	Preparation and Cabinet approval of Green Paper for Air Transport Sector Policy Preparation of TOR for re-structuring of BH aviation sector. Technical review of Radar upgrade options (FAA and ICAO). Development and Review of policy matrix options Risk Management Workshop	Oct. – Dec 2010 Septemberr 2011 July 2011 October 2011 October 2011	

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