

**Support for the Strengthening of the Regulatory and Institutional Framework of
Air Transport Safety in Central America, Belize, Dominican Republic, Haiti and
Panama
(TC-00-07-03-2-RG)**

EXECUTIVE SUMMARY

Executing Agency: Central American Corporation for Air Navigation Services (COCESNA)

Beneficiaries: Central American Agency for Aviation Safety (ACSA), the Ministries of Public Works and Transport (MOT) of eligible countries through their Civil Aviation Authorities (CAA), private operators and users of air transport services in the Region.

Amount and source:	Modality::	Non-reimbursable	Facility I
	MIF	US\$	4,000,000
	Local Counterpart:	US\$	2,000,000
	COCESNA	US\$	1,676,000
	National Governments (MOT):	US\$	324,000
	Total:	US\$	6,000,000
Terms:	Execution Period:	36	months
	Disbursement Period:	42	months

Objectives: The general objective of this project is to strengthen the institutional and regulatory framework for air transport safety, as a means to improve the economic competitiveness of Central America, Panama, Haiti, Dominican Republic and Belize. As a result, the project will help improve the Region's access to world markets and its attractiveness to private investment in aviation and other key economic sectors, such as tourism.

The specific objectives of this project are: (i) strengthen the regional institutional framework for aviation safety and assist in the development of a harmonized regulatory framework for the Region; (ii) develop a regional information system to improve the access to safety information; (iii) modernize the Civil Aviation Authorities (CAA) of the eligible countries to contribute to their compliance with international and national safety standards, as required by International Civil Aviation Organization (ICAO) audits.

Description:	The project will support the outlined objectives through the execution of three components: (i) harmonization of the regulatory framework; (ii) establishment of a Regional Aviation Safety Database; and (iii) financing of individual technical assistance projects prepared by the nine eligible beneficiary countries. To coordinate and disseminate the activities of the project, COCESNA will establish an Executing Unit (EU) in ACSA, financed by the project (see paragraphs 3.19 to 3.22).
Environmental/ social review:	The project's eligibility memorandum was analyzed by the Committee on Environment and Social Impact (CESI) at its meeting on October 13, 2000. The Committee had no comments regarding the content of the project (see paragraphs 5.6 and 5.7).
Special contractual conditions:	As conditions precedent to first disbursement, COCESNA/ACSA will submit, to the satisfaction of the Bank: (i) evidence that the Coordinator has been selected in accordance with the terms and conditions previously agreed with the Bank; (ii) evidence that the project's operating regulations have been formally adopted by COCESNA/ACSA (see Technical Archive IV); (iii) evidence that the EU has been established as a unit of ACSA, and appropriate workspace has been assigned; and (iv) the model agreement or letter of agreement that will be signed by COCESNA and the Ministry of Transport of each eligible country for the execution of the technical assistance projects contemplated under component 3. Furthermore, as a condition for disbursement of funds through component 3 for the three countries not members of COCESNA; COCESNA and the Ministries of Transport of Haiti, the Dominican Republic and Panama will sign umbrella agreements in order to establish the cooperation between them, as indicated in paragraph 3.14, prior to the presentation of their projects to the Selection Committee (see paragraph 4.14).
Exceptions to Bank policy:	None

I. PROJECT ELIGIBILITY

- 1.1 The MIF's Policy and Operations Committee (POC) declared this project eligible for MIF financing within the framework of its Technical Cooperation Facility (Facility I), on September 13, 2000, given that it is consistent with the objectives of the MIF of promoting a favorable environment for private sector expansion. This project will support measures to strengthen the safety of the civil aviation sector in the beneficiary countries, as a means to improve their comparative advantage for private investment, and their competitiveness. Aviation is a key element for a country's access to the global economy and an engine for growth in sectors such as tourism, a major source of revenue for many countries in the Region.
- 1.2 The Central American Region was selected for this regional project because it has 40 years of experience working cooperatively through the Central American Corporation for Air Navigation Services (COCESNA)¹, a regional organization that provides aviation services. Furthermore, COCESNA was recently expanded to include an operating unit - the Central American Agency for Aviation Safety (ACSA)- to strengthen the institutions and the regulatory framework required for overseeing and regulating the safety of the air transport sector. This action on the part of COCESNA demonstrated the political will and commitment of its member countries to address these issues in a concerted manner.
- 1.3 The project will also include financing for activities in Panama, Haiti and the Dominican Republic. These countries have expressed their desire to become associate members of COCESNA, and therefore ACSA, as a means to upgrade their safety oversight and take advantage of economies of scale.
- 1.4 The project will provide an immediate benefit to the CAAs of the participating countries, although the ultimate beneficiaries will be the country's industries that depend on the air transport sector to carry out trade operations. In particular, companies involved in tourism and the export and import of goods will benefit, since they are generally unable to influence decisions made in this sector.

II. BACKGROUND

A. The Air Transport Sector and Economic Development

- 2.1 Aviation is one of the most important components of the travel and tourism industry, as well as one of the critical factors in decisions to locate industries and establish markets in perishable agricultural products, components for high technology industries, and businesses with the pressure of just-in-time inventories. Furthermore, aviation plays an important role in the competitiveness of a country and its access to the world market. Competitiveness is affected by (i) the quantity and quality of aviation services; and (ii) the existence of appropriate aviation equipment and infrastructure.

¹ COCESNA members are: Costa Rica, Guatemala, El Salvador, Honduras, Belize, and Nicaragua.

- 2.2 There are two issues involved in the role that the air transport sector plays in the competitiveness of the country. One is the ability of the private sector to compete successfully and the other is the impact the aviation sector has on the position of the country vis-a-vis the world market. The direct operational costs (e.g. air traffic systems, airport infrastructure) of the country's aviation system can affect both the competitiveness of the airlines, as well as the ability of the country to attract service and thereby improve market access. The expense of doing business in a country increases substantially due both to high operational costs, as a result of inadequate air traffic and airport services; and to fees, charges and taxes imposed by the government, which put the country at a cost disadvantage in attracting service.
- 2.3 Empirical evidence shows that for a country to increase its rate of growth and attract high technology businesses and investment, it is essential to have easy access to an air hub. Electronic commerce in particular, with its emphasis on speed as a competitive advantage, has increased the demand for rapid and efficient distribution systems. More than 70 percent of e-commerce sales are shipped through express delivery services by air. Furthermore, business people in the New Economy travel more than their counterparts in the traditional economy (some studies show that up to four times as often), making direct air service a key element to attract high-technology investment.
- 2.4 Tourism currently represents a US\$1 trillion per year industry worldwide. Tourism is a critical engine for economic development in Latin America, and more specifically Central America. Tourism has become one of the Region's fastest growing industries, with a 16.2% increase in visitors in 1999. The 4 million tourists that visit the Region annually have created an investment of US\$2.54 billion, which is almost 5 percent of the combined GDP of the 6 Central American countries. For this growth to continue it is important that the public have confidence in the safety of the air transport sector, as well as increasing the capacity of the Region to meet the expanded demand for air services.

B. International Aviation Safety Framework

- 2.5 Governments play a significant role in regulating the air transport operations and providing aviation services in a manner compliant with international safety standards. In 1944, the Chicago Convention established the International Civil Aviation Organization (ICAO) to develop international standards for aviation. Currently, there are 185 signatories to the Convention, including all of the countries of the Western Hemisphere. The signatories agree to regulate and oversee their aviation sectors in accordance with international safety standards for the initial and recurrent certification of all aircraft and air operators (pilots, aviation schools); and the operation of airlines, airports, and air traffic systems.
- 2.6 For over fifty years, ICAO's sole function has been to establish international safety standards and recommended practices for governments to implement. ICAO has recently initiated the Universal Safety Oversight Audit Program, which evaluates the government's compliance with these safety standards every three years. There are current audits for Costa Rica, El Salvador, Guatemala, Honduras, Dominican Republic; and audits for Panama, Haiti, Nicaragua y Belize will take place early next year. These audits

can be use in designing action plans and projects to improve the regulatory framework within each country. Nevertheless, ICAO does not provide financial resources to implement the recommendations of the audits. Furthermore, ICAO does not perform routine inspections of airlines, or air traffic systems; these are the responsibility of governments.

- 2.7 The ICAO audits review the government compliance with the following items: (i) aviation law; (ii) organizational structure of the regulatory agency; (iii) regulations and procedures for inspection; (iv) assessment of qualified technical personnel and staff training; (vi) processes for Certification and Routine Oversight; and (vii) Information Systems for Tracking Oversight and Actions. Furthermore, two other areas are key to aviation safety: (i) airport operations and (ii) the operation of the air traffic control system. ICAO does not currently evaluate these two areas.

C. The Air Transport Sector in Central America

1. Regional Institutional Framework for Air Transport

- 2.8 The Central American Corporation for Air Navigation Services (COCESNA), located in Tegucigalpa, was created in 1960 to establish an intergovernmental organization for aeronautical services and communications, with the technical ability and resources necessary to address problems associated with the modernization of aviation in the Region. The Constitutional Convention for COCESNA was originally signed by Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. Belize formally joined on October 1, 1996.
- 2.9 COCESNA is in charge of operations, which include: (i) providing air traffic control services, telecommunications, and air navigation aids; (ii) inspection of navigational aids; (iii) training facilities for controllers; and (iv) coordination of actions in event of emergencies, including search and rescue. COCESNA receives a revenue stream through overflight charges levied on the users of the airspace, which allows its financial self-sustainability. These resources, which were in the order of US\$17 million in 1999, are to be used to finance its provision of air navigation services for the Region. An Executive Council composed of the Vice-Ministers of Transportation from the six countries provides policy guidelines to COCESNA.
- 2.10 The Central American Agency for Aviation Safety (ACSA), a unit of COCESNA, was inaugurated on September 1, 2000 in San José, Costa Rica. Its principal function is to evaluate and recommend to the member states of COCESNA steps to comply with the obligations relative to aviation safety under the Convention on International Civil Aviation and its annexes. For ACSA to perform this function, each CAA from COCESNA's member countries has seconded inspectors to become staff of ACSA to perform inspections and to oversee the operations of airlines and maintenance facilities for the Region. While the CAA's have delegated inspection functions, they cannot delegate their ultimate accountability for complying with ICAO standards. ACSA receives policy guidelines from a Technical Group, whose membership is composed of the Directors of Civil Aviation of the COCESNA member states. COCESNA has

committed to cover ACSA's operating costs (salaries of core staff and inspectors, basic equipment and office space) for the first three years of operation of the Agency. ACSA will need to become self-sustainable within this timeframe.

- 2.11 ACSA provides assistance to its members through: (i) development of procedures for the certification of local operators of air transport, maintenance organizations, training organizations, and technical ground services; (ii) preparation and review of the national aeronautical regulatory code; (iii) development of a national registry for aircraft; (iv) preparation of inspector manuals, guides and training; and (v) development of an aviation oversight program. Each country is responsible for implementing the recommendations outlined by ACSA.

2. Aviation Safety, Institutional and Regulatory Situation in the Region

- 2.12 Currently, of the beneficiary countries, only Costa Rica and Panama meet the safety standards established by ICAO. Furthermore, the aviation safety statistics for the Region are troubling. While aircraft accidents have dropped dramatically in the US and Canada over the last 25 years, they have climbed in Latin America. From 1959 to 1997, there were 114 aircraft lost in Latin America, over twice as many as in the US, and 40 more than in Africa. In Central America the fatal accident rate is 120 times the US rate. In Central America, the combination of an 8 percent annual growth in the number of flights and an increasing accident rate will create an unacceptably high number of fatalities. These statistics contribute to the cost of doing business in the Region. There are higher insurance costs assigned by insurance companies based on increased risks of operating in environments that are determined to be non-compliant with safety regulations.
- 2.13 With only a few exceptions, most of the countries included in this TC rely on outdated aviation laws, which do not provide adequate authority or sufficient resources for the Civil Aviation Agency (CAA). The organizational structure of the CAA, which is a dependent unit of the Ministry of Transport and Public Works (MOT), is weak in most of the Region due to understaffing, and lack of a reliable revenue stream even though most countries have aviation user charges, fees and taxes. Since there is no modern statutory authority for the air transportation sector in many of the beneficiary countries, the necessary regulations, procedures and processes for enforcing international safety standards on air operators, the airworthiness of aircraft, and personnel licensing do not exist. There is a lack of experienced and trained staff within the CAAs to oversee the sector and enforce the regulations. Furthermore, the CAAs have no access to modern information systems by which they can track the status of certification activities, approval and validation of licenses, activities associated with continued inspection and surveillance, and resolution of outstanding problems found through surveillance.

III. THE PROGRAM

A. Objective

- 3.1 The general objective of this project is to strengthen the institutional and regulatory framework for air transport safety, as a means to improve the economic competitiveness

of Central America, Panama, Haiti, Dominican Republic and Belize. As a result, the project will help improve the Region's access to world markets and its attractiveness to private investment in aviation and other key economic sectors, such as tourism.

- 3.2 The specific objectives of this project are: (i) to strengthen the regional institutional framework for aviation safety and assist in the development of a harmonized regulatory framework for the Region; (ii) develop a regional information system to improve the access to safety information; (iii) modernize the CAAs of the eligible countries to contribute to their compliance with international and national safety standards, as required by ICAO audits.

B. Components

- 3.3 The project will consist of three components, and a coordinating and dissemination structure.

1. Harmonization of Regulatory Framework (US\$ 1,055,800 MIF; US\$ 518,800 COCESNA)

- 3.4 This component will finance technical assistance for the following four activities: (i) aviation safety measures; (ii) the creation and strengthening of a regional Regulation and Policy Framework Division in ACSA; (iii) designing and implementing a financing strategy for ACSA, that develops a mechanism to insure its self-sustainability; and (iv) the training for inspectors.
- 3.5 *Technical Assistance for Aviation Safety Measures.* The project will finance the services of a high level international expert or firm on aviation safety, to be the principal technical advisor for the project. The Senior International Technical Coordinator (SITC) or firm's activities would include: (i) assist the General Director in the organizational development of ACSA; (ii) assess and develop ACSA's technical and functional capability to provide air operator safety oversight for all beneficiary countries; (iii) oversee and coordinate the technical issues in the preparation of the action plans required by the project; (iv) provide assistance to the countries in the structuring of their individual technical assistance projects, including in the preparation of their action plans based on the ICAO audits; (v) establish the framework for formal, practical and on-the-job training and execute the program for all technical personnel; and (v) participate the Technical and the Selection Committee (see chapter IV) for the project.
- 3.6 *Establishment and Development of a Regulation and Policy Division.* This Division will develop, amend and coordinate the regulations and policy pertaining to aviation safety for the countries within COCESNA. The creation of this division within ACSA provides an efficient and cost effective mechanism to achieve and maintain a harmonized regulatory structure for the Region, given that all member states of COCESNA have agreed to adopt the same regulations as Costa Rica, which already meet ICAO standards. Included in the Costa Rican regulations are the annexes dealing with hazardous wastes, noise and emissions.

- 3.7 The Regulation and Policy Division's activities would include: (i) coordinating the regulatory and policy working groups, comprised of government and operators, that develop new regulations and policies and change existing regulations; (ii) design the implementation mechanism for new policies and regulations; (iii) design and manage a web-page for the publication of official ACSA regulations and policies; (iv) provide technical assistance to national governments to reform the laws necessary to enforce the regulations; and (v) provide training for the staff of national regulatory agencies (i.e CAAs).
- 3.8 The project will finance the services of a high level international advisor or firm on aviation safety regulations and policies for a two-year period. This consultant will work directly with two local experts to develop the procedures and processes required to modify regional regulations and policies, and to provide the necessary training for the staff of the CAAs in the countries. The international advisor and local experts will have experience in safety oversight, as well as in developing regulations and policies, and managing modernization processes within the air transport sector. The cost of the two local experts will be shared between the MIF and COCESNA to insure the financial sustainability of the new Division once the project execution has concluded.
- 3.9 *Financial Sustainability Strategy for ACSA.* The project will finance the consulting services of a financial expert or firm to develop a financial self-sustainability strategy and its implementation mechanism for ACSA. The purpose of the strategy is to establish an appropriate fee-for-service schedule, which is both a source of income for ACSA, and not detrimental to the expansion of operations to the Region. ACSA will be responsible for presenting the proposed strategy to the COCESNA Board and obtaining the necessary approval to implement it.
- 3.10 *Inspection and Policy Training.* This activity will finance the training of ACSA staff in regulation policy, inspection guidelines and performance, and training of trainers for inspectors.

2. Regional Aviation Safety Database (US\$ 247,200 MIF; US\$ 225,900 COCESNA)

- 3.11 This component will finance the analysis, design and implementation of a Region-wide system that would include aircraft registry, personnel licenses, operator's airworthiness reports, inspection findings, corrective measures taken and results obtained. Consulting services would be contracted to develop the distributed system, install it in all the participating countries, acquire the necessary hardware and software for the CAA's, and the training of personnel to use the system. To take advantage of economies of scale and standardization of the information, the regional system would have its core operations in COCESNA, and online access to update information in ACSA, all of COCESNA's regional offices and the CAAs of the member countries. Under this component, COCESNA will finance the counterpart required for local national access of its member states to the network. Non-COCESNA member states can include this activity in their individual technical cooperation projects under component 3.

- 3.12 Given the importance of strengthening regional information, an independent individual consultant would be contracted to evaluate the results of the implementation of the tracking system at month 30 of the execution, and prepare recommendations if appropriate. The evaluation would focus on: (i) status of system entries and level of transmissions; (ii) average usage in terms of access; and (iii) commitment of the national partners, particularly in regard to system maintenance.

3. Individual Technical Assistance (US\$ 2,268,000 MIF; US\$ 648,000 COESNA; US\$324,000 individual country counterpart)

- 3.13 The project's principal component will finance technical assistance to implement the necessary corrective measures in a number of areas that have been identified as priorities, so that beneficiary countries are better able to meet international standards for aviation safety as defined by ICAO. The assistance to be financed with the project funds will consist of consulting services, training of personnel and procurement of necessary equipment, up to a maximum total cost of US\$360.000 for each requesting country. In each project, up to 70% of the total cost would be financed with the MIF's contribution, and the remaining 30% with the corresponding counterpart funds.
- 3.14 COCESNA will finance the counterpart for the specific projects undertaken by its six member states. For Haiti, the Dominican Republic and Panama, COCESNA will sign umbrella agreements with each Ministry of Transport, prior to the presentation of their specific projects, in order to establish: (i) the terms and conditions of the cooperation between the parties for the execution of specific technical assistance projects; (ii) the obligation of the Ministry of Transport to provide counterpart funding in an amount equivalent to at least 30% of the total cost of each specific project; and (iii) the obligation of the Ministry of Transport to execute the project following Bank policies and procedures and under the terms and conditions of this Donors Memorandum. Once these agreements are signed, the formalization of each specific project will be done by an exchange of letters between COCESNA and the Ministry of Transport. The purchase of software and equipment may not exceed 30 percent of total technical assistance funds assigned to a given country. Each project will have an execution period of no more than 18 months.
- 3.15 The principal input that will be used to determine the technical assistance to be financed are the audits performed by ICAO's Air Navigation Bureau, on a regular basis and free-of-charge, on the status of each country in meeting the international safety standards, and which are available to ACSA and the CAAs of each country. Bank/MIF or counterpart resources for this project will not be used to finance the contracting of consultants through ICAO's Technical Cooperation Bureau.
- 3.16 For countries that are members of COCESNA, the following technical assistance activities will be eligible for financing under this component: (i) support the design of legislative projects, through a consensus building effort, to modernize the aviation law with specific emphasis on its harmonized technical provisions; (ii) the reorganization of the CAA, ensuring its ability to comply with the safety oversight functions provided by ACSA and the design of a self-financing strategy; (iii) the implementation of harmonized

regulations; (iv) training of CAA personnel to carry out their functions; (v) the implementation of harmonized inspector manuals; (vi) the implementation of harmonized licensing and certification procedures; and (vii) the implementation of harmonized procedures and methodologies for resolution of safety issues. For the three countries that are not members of COCESNA, the same items listed above are eligible for technical assistance activities; however, they can develop projects that are more individualized to reflect their specific requirements.

- 3.17 Because the success of this project is directly related to the precision with which countries can identify their technical assistance requirements, COCESNA has agreed to have ACSA assist all eligible countries interested in accessing funds for the design of their individual projects.
- 3.18 Each individual project will set aside US\$10,000 for an independent evaluation at the end of the execution period. These evaluations will be provided as inputs for the final project evaluation (see chapter VII).

4. Project Coordination and Dissemination (US\$ 324,000 MIF; US\$ 280,500 COCESNA)

- 3.19 This component will finance the necessary activities to administer, coordinate and disseminate the project. The executing unit for the project will be located at the Central American Agency for Aviation Safety (ACSA). This unit will be responsible for the Region-wide activities of the project, as well as for receiving, evaluating, and approving the requests for technical assistance from the beneficiary countries, as described in the execution chapter.
- 3.20 During the execution period, the project will finance the salary of a Project Coordinator, who will be in charge of overseeing the execution and dissemination of the project, and of preparing all relevant documents required by the MIF during execution. The Coordinator will be responsible for overseeing the selection process of the individual technical assistance projects detailed below (see paragraphs 3.16-3.22). The Steering Committee for this project will approve the candidate selected according to Bank procedures. The terms of reference (TOR) for the Coordinator have been agreed with COCESNA, and can be found in the technical archives for this project. Also, a Financial Manager will be hired to perform all the accounting and financial reporting for this project (see technical archives for TOR).
- 3.21 This component will also finance a minimum of nine workshops. These workshops will serve as a vehicle to disseminate the project, review its achievements and evaluate its effectiveness. The workshops will include public and private stakeholders in the aviation sector. It is expected that the workshops will be held with the following objectives: (i) to provide the beneficiary countries with information regarding the preparation of their individual technical cooperation requests; (ii) to review the projects underway and exchange views with members of the Steering and Technical Committees (see execution chapter) on the progress to date in the implementation of activities; (iii) to exchange

information on the projects executed; and (iv) to evaluate results and plan future regional actions in the sector.

- 3.22 COCESNA can only finance costs of its member states. Therefore, travel and per diem costs for representatives from non-member countries will be the responsibility of the MOT of these three countries (Haiti, the Dominican Republic and Panama). These costs may be recognized as counterpart funds for individual projects to be carried out pursuant to component 3.

IV. EXECUTION

A. Executing Agency and Unit

- 4.1 The Bank/MIF counterpart for this Program will be COCESNA, a public international organization, established in 1960, that provides air navigation services for the six Central American countries: Belize, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua (see paragraph 2.8). In addition, the project will include activities to be carried-out in three non-member countries of COCESNA: Haiti, the Dominican Republic and Panama.
- 4.2 The project will be executed by COCESNA through the Central American Agency for Aviation Safety (ACSA), a unit within COCESNA that was created in December of 1999 to address the aviation safety regulatory and oversight issues in the Region (see paragraph 2.11). An Executing Unit (EU) will be established within ACSA, staffed by a Coordinator, a Financial Manager and an Administrative Assistant (see paragraphs 3.19-3.22). ACSA will manage the project at the Regional level; publicize it in the countries of the Region; assist in identifying needs; receive, evaluate and approve requests for support; and will contract in consultation with the beneficiary countries, the necessary technical assistance to address the requests received.
- 4.3 COCESNA, through ACSA, will be responsible for the administration of the project resources. Therefore, COCESNA, through ACSA, will: (i) establish and maintain separate and specific project accounting and financial records; internal control structure; and filing system, that allows for detailed identification of sources and uses of the project; (ii) open separate and specific bank accounts for the administration of the MIF's contribution and for local counterpart funds; (iii) prepare and submit to the Bank disbursement requests with their respective justification of expenditures, revolving fund reports and other financial reports requested by the Bank.
- 4.4 COCESNA has obtained the approval of its Executive Council (see paragraph 2.9) for this project, as evidenced in the letter dated 22 June 2000, requesting MIF support for a non-reimbursable technical assistance project to develop ACSA and assist its member countries in implementing the corrective measures necessary to improve air transport safety in the Region and meet international standards.

B. Execution Mechanism

1. Execution Monitoring Structure

- 4.5 A Steering Committee, which will include COCESNA's Executive Council (see paragraph 2.9) and the Vice-Ministers of Transport from Panama, the Dominican Republic and Haiti; will be created, with responsibility for approving the budget plan for the following year and annual work plan for the project, and presenting it to the Bank/MIF for its non-objection. The Steering Committee will meet, at least, once a year and can also meet on an extraordinary basis, upon the request of the Director General of COCESNA.
- 4.6 A Technical Committee will be created to provide advice on technical guidelines for this project. This Committee will include ACSA's Technical Group (see paragraph 2.10), the CAA's of Haiti, Panama and the Dominican Republic, and representatives of private operators in the Region. The Technical Committee will meet twice a year to provide technical input regarding the implementation of activities, to discuss the progress reports for the project (see paragraph 4.16) and review the progress of the individual technical assistance projects.

2. Requests and Approval of Individual Technical Assistance

- 4.7 Each beneficiary country can request individual technical assistance (see component 3) through its Ministry of Public Works and Transport (MOT) for its Civil Aviation Agency (CAA), within the first 18 months of execution of this project. Each CAA will act as the executing unit for their respective TC projects. The MOT will be responsible for insuring the availability of counterpart funds. ACSA will be responsible for assisting the country in insuring that Bank procedures are followed for the procurement of goods and services. As well, each CAA must submit detailed accounting of their project to ACSA for the preparation of the financial statements that are presented to the Bank/MIF.
- 4.8 Each country can request funds under the program for one or more of the identified areas for an amount commensurate with its assistance needs. Each individual project can not exceed US\$360,000, of which 70% would be financed through the MIF's contribution, and the other 30% would be counterpart funds from the beneficiary country (see paragraph 3.14). In the case of COCESNA member states, all counterpart funds will be provided by COCESNA, while for non-member states, counterpart funds will come from the Ministries of Transport by means of the umbrella agreements to be signed with COCESNA.

a) Requests for Funds

- 4.9 The countries will submit their requests for technical assistance to ACSA, through their MOT. This will also be the case for the beneficiary countries that are not members of COCESNA (the Dominican Republic, Haiti and Panama).
- 4.10 The project documents must include the following information:

- 4.11 *Background.* Description of current situation, ICAOs audit results and proposed areas of assistance;
- 4.12 *Project.* Detailed description of activities, as well as the terms of reference for the necessary consulting services requested;
- 4.13 *Financing.* Proposed budget, separating the items for which financing is being requested from the MIF from those to be financed with local funds; description of items financed with local in-kind contributions, indicating their value equivalent in US dollars, not to exceed one-half of the total counterpart contribution; a statement that the country is not receiving any technical or financial assistance for the requested activities from any bilateral or multilateral source; and the commitment to make monetary contributions to the project until the total amount of the required counterpart funds is reached. An amount of at least US\$10,000 would be included for an independent evaluation.

b) Approval of Projects

- 4.14 The procedure for approval of the requests will be as follows: (i) a Selection Committee consisting of the Director General of COCESNA, the Director of ACSA, the project's International Advisor for Aviation Safety, the International Advisor on Regulation and Policy and the Coordinator, who will serve as secretary; will be established at ACSA; (ii) the coordinator will analyze the requests and electronically send the document with a brief report to the Selection Committee; (iii) a copy of the request will be sent to the Bank, specifically to the Finance and Basic Infrastructure Division 2 (FI2) and to the MIF, together with the coordinator's report; (iv) the Selection Committee will make a decision on the request within a period not to exceed ten business days from the receipt of the coordinator's summary; (v) within the same period, the Bank/MIF will notify ACSA electronically of its objection/no-objection to the project, and provide comments if necessary. If the Bank does not issue its opinion within this period, it will be understood that there are no objections to the request.
- 4.15 Once the Selection Committee has approved the project, COCESNA/ACSA will sign Technical Cooperation agreements with the MOT of each country to formalize the specific project. For the three non-member countries of COCESNA, once the Selection Committee has approved a project, COCESNA will sign a letter of agreement with the MOT of each country. The letter of agreement will incorporate by reference the terms and conditions of the umbrella agreements described in paragraph 3.14. The TC agreements and letters of agreement must include a proof of availability of counterpart funds, including the source of these funds (i.e. COCESNA or the MOT). COCESNA/ACSA must present these agreements to the Bank to be able to access funds from component 3 of this project. In the event that not all eligible beneficiaries request assistance through this component by month 18 of execution, the Bank/MIF and COCESNA will evaluate the possibility of redirecting the funds to finance further technical assistance activities described in component 3 (see paragraph 3.16) in any of the other eligible countries.

C. Reports

- 4.16 COCESNA/ACSA, through the EU, is responsible for the monitoring and preparation of semester reports for the project. Each progress report must document the activities realized during the six-month period, with emphasis on the achievement of results and impact of the project. The report should include the progress of the individual technical assistance projects (see component 3) as the beneficiary CAAs executes them. COCESNA/ACSA and the Country Office in Costa Rica will agree on the content and structure of the progress report to prior to their preparation. Also, the EU will prepare work plans and disbursement timetables for the following six-month period. The progress reports must be presented to the Bank within 60 days of the end of the semester. Within the three months of the conclusion of the project's execution, the Bank will present to the MIF the Project Conclusion Report.

D. Degree of Project Readiness

- 4.17 Given that 9 countries are eligible for technical assistance through this project and that there are substantial differences in their degree of progress in reforming their institutions and regulatory frameworks, it is difficult to identify the technical assistance priorities other than those outlined in the technical archives for this project (see ATII). For this reason, the project is broadly structured, with the establishment of a unit at ACSA to which countries can turn with their specific requests.
- 4.18 The degree of readiness for the execution of this project is high since: (i) COCESNA/ACSA has agreed to the terms of the management of the project; (ii) the terms of reference for the coordinator, financial manager and international experts have been prepared; (iii) the countries have already expressed their initial support needs; (iv) both Committees that will oversee policy and technical aspects of the project are partially structured as part of the regular operational processes within COCESNA and ACSA; (v) the member countries of COCESNA have agreed on a harmonized set of regulations and policies and in having ACSA undertake the activities required; (vi) ACSA is structuring region-wide training programs for inspectors and (vii) all countries participating in the project have had, or will have by early next year, ICAO audits.

V. COST AND FINANCING

A. Cost

- 5.1 The total cost for this project is US\$6,000,000. The maximum financing from the MIF will be US\$4,000,000, by means of non-reimbursable funds from the Technical Cooperation Facility (Facility I). The counterpart funds will be US\$2,000,000, contributed by COCESNA. Up to the equivalent of US\$324,000 of counterpart funds may come from the MOTs of each of the three non-member countries of COCESNA for the activities pertaining to individual technical assistance projects under component 3.

Table 5.1 Budget

Component	Total	MIF	Local Counterpart	
			COCESNA	Country
1. Harmonization of Regulatory Framework	1,574,600	1,055,800	518,800	0
2. Regional Aviation Tracking System	473,100	247,200	225,900	0
3. Country Specific Technical Assistance	3,240,000	2,268,000	648,000	324,000
4. Project Coordination and Dissemination	604,500	324,000	280,500	0
5. Evaluation, and Audits	95,000	95,000		0
6. Contingencies	12,800	10,000	2,800	0
Total	6,000,000	4,000,000	1,676,000	324,000
Percentages		67%	28%	5%

- 5.2 In kind contributions would not exceed 50% of the total counterpart funds for this project. The availability of counterpart funds at the national level will be a prerequisite for the receipt of MIF support for individual country technical assistance. COCESNA, through ACSA, is responsible for insuring that Bank required accounting practices are used in each national project.

B. Financial Audits

- 5.3 COCESNA will submit to the Bank the project's annual financial statements, audited by a firm of independent auditors acceptable to the Bank, within 90 days following the end of each fiscal year. To cover the costs of these audits, US\$45,000 of the contribution has been reserved.

C. Procurement of goods and services

- 5.4 COCESNA, through ACSA, will be responsible for procuring the goods and services necessary for the project, in consultation with the beneficiary countries and will comply with the Bank's procurement rules, procedures and policies and the MIF's eligibility criteria for contracting. COCESNA/ACSA and the Bank/MIF will agree on a standard bid document to be used as a model for all procurement of goods and services. COCESNA/ACSA will be responsible to insure that each individual technical assistance project is executed in a manner that is in accordance with Bank policy.

D. Execution and Disbursement periods

- 5.5 The execution period for this project is 36 months from the signing of the financing agreement, with a disbursement period of 42 months from the same date. Once the conditions precedent to the first disbursement have been fulfilled, a maximum of 10 percent of the project's resources may be advanced to establish a revolving fund to facilitate project execution. The resources used in said revolving fund may be replenished upon documented justification of the use of such resources.

E. Environmental and Social Impact

- 5.6 The environmental impacts of aviation primarily involve aviation noise and emissions from aircraft. ICAO establishes the international standards for mitigating these

environmental impacts that must be adhered to by the states. By strengthening the institutions that are responsible for overseeing and enforcing ICAO's safety standards, the project will also improve the capacity of the civil aviation authorities to fulfill their requirements in overseeing environmental standards.

- 5.7 The project's eligibility memorandum was analyzed by the Committee on Environment and Social Impact (CESI) at its meeting on October 13, 2000. The Committee had no comments regarding the content of the project.

VI. JUSTIFICATION AND RISKS

A. Justification

- 6.1 This project is consistent with the Bank's strategy in the areas of modernization of the state, regional economic integration, strengthening of international competitiveness, and simplification and harmonization regulations that affect trade and the free flow of commerce among countries.
- 6.2 This project will support the coordinated institutional and regulatory reforms necessary to meet the international aviation safety standards by the participating countries, contributing to the improvement of the competitive advantage of the Region and the individual countries in the world market. The comparative advantage of a nation is directly related to its infrastructure capacity—the ability to transport passengers and goods efficiently. Most economic studies find a one-to-one relationship between the rate of growth in GDP of a country and the per capita rate of growth of infrastructure. This project will help improve the competitive advantage of the Region by providing an improved environment for the expansion of aviation services and thereby contribute to expansion in both tourism and trade opportunities. Further, this project will contribute to the integration of the Region in this important economic sector.
- 6.3 The aviation sector in Central American has demonstrated leadership and a large degree of coordination by acting jointly to address common service needs in the aviation sector. By developing a regional organization to perform air navigation services and, further, by recently joining together to assist its member states in improving their institutional and regulatory oversight of aviation safety, Central America is the only area of the western hemisphere that has made institutional commitments to joint actions. COCESNA, organization that has provided air traffic control services for 40 years, has been completely self-financed and has not depended on the member states for funds. In 1999, the Executive Council took the decision to expand the services of COCESNA into the safety oversight arena through the creation of ACSA. In this regard, COCESNA is providing the model for the world to follow. The Bank/MIF financing is key to assisting in the establishment of ACSA and in providing resources to the Region's CAAs so they are better able to modernize and meet international standards demanded.

B. Risks

- 6.4 *Insufficient participation of the countries.* Although six of the countries have already agreed to create the regional safety agency to help them strengthen their institutions and regulatory frameworks, three of the countries in the project (the Dominican Republic, Haiti and Panama) do not belong to the regional safety agency. Therefore, one of the challenges for the success of this project is facilitating the participation of these three countries. This risk has been minimized by establishing a coordinator whose responsibility will be to disseminate information, help design projects and assist the countries in submitting requests. Also, COCESNA/ACSA has invited the three non-member countries to participate in the execution monitoring bodies created for the project.
- 6.5 *Difficulty in sustaining the achieved improvements.* The issue of sustainability is a key concern with respect to maintaining ICAO safety standards. This is directly related to the ability of the CAAs to generate a revenue stream to address the changing requirements for safety improvements for the aviation industry. In order to mitigate this risk, the individual projects will clearly address what financing mechanisms are available to create a reliable source of revenue to support the work of the regional agency and the individual civil aviation agencies (see paragraphs 3.13 and 3.18). In addition, there will be on-going evaluations of the status and success of these reforms by ICAO, the users of the systems, and other organizations. This added pressure would contribute to the sustainability of the reforms that are made.

VII. MONITORING AND EVALUATION

- 7.1 The principal project-monitoring instrument will be the six-month reports sent by COCESNA/ACSA to the Bank. Such reports must include full information on the extent to which the objectives of the project have been attained, including the number of countries that have requested funds, the status of request processing, the status of technical assistance, the funds committed and disbursed, etc. The Bank's Country Office in Costa Rica will be responsible for monitoring and overseeing this operation with support from FI2 and MIF.
- 7.2 Two independent project evaluations are provided for, one half way into the project and the other at the conclusion of the project. Specialized consultants will be hired by the Bank/MIF to perform these evaluations and US\$50,000 of the contribution has been reserved for that purpose. The midterm evaluation will be made after the first 18 months of execution or after 50% of the project funds are committed. This evaluation will assess the degree of commitment of funds, the progress of the regional components, the effectiveness of the mechanism for approval of individual requests, the advancement of individual projects, and make the pertinent recommendations for the continuing execution of the project. COCESNA/ACSA will be responsible for implementing any corrective measures deemed necessary by the evaluation, to the satisfaction of the Bank/MIF. The final evaluation, to be presented within three months of the conclusion of

the project's execution, will determine the project's effectiveness in meeting its objectives in terms of the indicators set forth in the logical framework (Annex I).

VIII. EXCEPTIONS TO BANK POLICY

- 8.1 No exceptions to the Bank's policies are contemplated.

IX. SPECIAL CONTRACTUAL CONDITIONS

- 9.1 As conditions precedent to the first disbursement, COCESNA/ACSA will submit, to the satisfaction of the Bank: (i) evidence that the Coordinator has been selected in accordance with the terms and conditions previously agreed with the Bank; (ii) evidence that the project's operating regulations have been formally adopted (see technical archive IV); (iii) evidence that the EU has been established as a unit of ACSA, and appropriate workspace has been assigned; and (iv) the model agreement or letter of agreement that will be signed by COCESNA and the Ministry of Transport of each eligible country for the execution of the technical assistance projects contemplated under component 3.
- 9.2 Furthermore, as a condition for disbursement of funds through component 3 for the three countries not members of COCESNA; COCESNA and the Ministries of Transport of Haiti, the Dominican Republic and Panama will sign umbrella agreements in order to establish the cooperation between them, as indicated in paragraph 3.14, prior to the presentation of their projects to the Selection Committee (see paragraph 4.14).

**SUPPORT FOR THE INSTITUTIONAL STRENGTHENING OF AVIATION SAFETY AGENCIES IN CENTRAL AMERICA,
BELIZE, DOMINICAN REPUBLIC, HAITI AND PANAMA**

LOGICAL FRAMEWORK

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
GOAL: Improve the region's access to world markets and its attractiveness to private investment in key economic sectors by increasing its competitiveness.	<ul style="list-style-type: none"> ▪ Increase in exports. ▪ Increased number of flights into the region ▪ Increases in tourism revenue 	<ul style="list-style-type: none"> ▪ GDP accounts ▪ Airlines request for increase in daily flights 	<ul style="list-style-type: none"> ▪ Stable macroeconomic situation of countries in the Region ▪ Governments continue to have interest in promoting competitiveness.
PURPOSE: Strengthen the institutional and regulatory framework for air transport safety, as a means to improve the economic competitiveness of Central America, Panama, Haiti, Dominican Republic and Belize.	<ul style="list-style-type: none"> ▪ Improvements in the compliance with ICAO standards of the participating countries in 3 years. ▪ Demonstrated financial sustainability of ACSA in three years. ▪ Reduction in aviation accidents by 20% for the Region. 	<ul style="list-style-type: none"> ▪ ICAO audit reports ▪ ACSA financial accounting, specially revenue stream and expected revenues and costs. ▪ IATA reports on accidents, NTSB reports. 	<ul style="list-style-type: none"> ▪ The Regional integration for aviation safety over services continues ▪ Aviation safety continues to be a priority for the countries of the Region
COMPONENTS Harmonization of Regulatory Framework	<ul style="list-style-type: none"> ▪ Harmonized regulatory and policy framework structured and maintained in the six COCESNA/ACSA member countries by month 24 of execution. ▪ Inspection and policy training developed and courses given to at least 90 inspectors and policymakers by month 30. ▪ Financial sustainability strategy for ACSA designed and implemented by month 30. ▪ National regulations developed in non-COCESNA member states in the project, are consistent with the International Safety Standards identified in ICAO annexes by month 36. 	<ul style="list-style-type: none"> ▪ National Regulations for each COCESNA member state, harmonized. ▪ Routine inspections and policy technical assistance performed by ACSA. ▪ ICAO audits regarding national regulation compliance. ▪ Financial sustainability strategy report. ▪ Financial sustainability strategy implementations action plan. ▪ Minutes of meetings between ACSA and member states regarding implementation of financial strategy. ▪ ACSAs revenue projections. 	<ul style="list-style-type: none"> ▪ Countries continue to support the project for harmonized regulatory framework ▪ Counterpart resources are available. ▪ Private operators continue to assess safety over service to the region. ▪ Individual beneficiary countries provide the necessary resources for execution of their projects ▪ New draft legislation on aviation is agreed upon by all stakeholders. ▪ 9 eligible countries express their intention to participate in the project and insure necessary counterpart resources.

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Regional Aviation Safety Database	<ul style="list-style-type: none"> Hardware and Software for database installed and functioning by month 24. All CAAs of COCESNA member states have on-line access to the information by month 24. 37 information technology personnel of COCESNA, ACSA and the CAAs of beneficiary countries trained by month 24. 	<ul style="list-style-type: none"> Reports issues from database information Updates of database performed from all locations. Maintenance of database performed by users. 	
Individual Technical Assistance	<ul style="list-style-type: none"> Number of Technical assistance requests identified by month 18. Development of action plans with corrective measures by month 24. Modern aviation draft law developed by month 36.. CAA reorganizations assessed as being in accordance with ICAO standards by month 36. 	<ul style="list-style-type: none"> ICAO audits Legislative records Progress reports Individual final Project Evaluation findings 	
Project Coordination and Dissemination	<ul style="list-style-type: none"> EU established, with personnel assigned and adequate office space by month 1. 9 Workshops done and extraordinary meetings of the Steering and Technical Committees have taken place by month 30. All project components are executing within established timeframe. Project is well recognized within the Region. 	<ul style="list-style-type: none"> Minutes of workshop and Committee meetings. Progress Reports from COCESNA/ACSA to the Bank. Midterm evaluation and final evaluation. Individual Project Technical Assistance documents. 	

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>ACTIVITIES</p> <p><i>Component 1</i></p> <p>1 Senior International Technical Coordinator or firm (SITC).</p> <p>2 Designing and implementing financial strategy for ACSA.</p> <p>3 Establish and Develop an Regulation and Policy Division</p> <p>4 Inspector and Policy training</p>	<ul style="list-style-type: none"> SITC hired by month 1 of execution for 36 months. US\$ 432,000 Financial expert or firm hired. US\$ 40,000 Senior International Advisor on Regulation and Policy hired by month 1 of execution for 24 months. US\$ 144,000 Local experts hired by month 1 for 36 months. 2 contracts for US\$ 144,000 each. Inspector and Policy training of at least 90 professionals from ACSA and the CAAs performed by month 24 of execution. US\$ 348,400 	<ul style="list-style-type: none"> Contract between COCESNA and SITC. Progress reports. Contract between COCESNA and the financial expert. Strategy report. Contract between COCESNA and International Advisor. Contract between COCESNA and local experts. Contracts between COCESNA and training providers from within the MIF members. 	<ul style="list-style-type: none"> Necessary technical expertise is available eligible MIF member countries Consultants prepare proposals on time.
<p><i>Component 2</i></p> <p>1 Install hardware and software for the Tracking System.</p> <p>2 Training the personnel in how use the software</p>	<ul style="list-style-type: none"> Regional Aviation Tracking System requirements purchased by month 12. Hardware: US\$ 141,700 Networking: US\$ 68,000 Software: US\$ 125,600 Training: US\$ 127,800 	<ul style="list-style-type: none"> Requests for pricing estimates from 3 different suppliers. Contracts between technology providers and COCESNA Contract between COCESNA and IT trainers for database use and maintenance. 	<ul style="list-style-type: none"> Necessary hardware and software is available from MIF eligible countries The delivery of hardware and software is made on time.
<p><i>Component 3</i></p> <p>1 Sign and execute projects within each of the nine beneficiary countries to implement corrective measures in aviation safety.</p>	<ul style="list-style-type: none"> Technical Cooperation agreements between COCESNA and each of the nine beneficiary countries signed by month 18 of execution. US\$360,000 each Total cost of component: US\$ 3,240,000 	<ul style="list-style-type: none"> Contract for Technical Assistance between COCESNA and country x. 	<ul style="list-style-type: none"> The nine countries are willing to participate in component.

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Component 4</p> <p>1 Staffing of Executing Unit</p> <p>2 Workshops (9)</p>	<ul style="list-style-type: none"> ▪ Project Coordinator hired at month 1 of execution for 36 months. US\$ 252,000 ▪ Accountant hired at month 1 of execution for 36 months. US\$72,000 ▪ Administrative Assistant hired at month 1 of execution for 36 months US\$36,000 ▪ 9 Workshops held: Three for the Steering Committee at months 1, 12, and 24; Six for the Technical Committee at months 1, 6, 12, 18, 24, and 30 US\$ 134,400 	<ul style="list-style-type: none"> ▪ Contract between COCESNA and the Coordinator. Progress reports presented by EU to COCESNA ▪ Contract between COCESNA and the Accountant. Financial Reports. <p>Minutes of the workshops and Committee meetings done.</p>	<ul style="list-style-type: none"> ▪ Necessary technical expertise is available in eligible MIF member countries.