



# Project Information Document/ Identification/Concept Stage (PID)

---

Concept Stage | Date Prepared/Updated: 18-Sep-2023 | Report No: PIDC285859



**BASIC INFORMATION**

**A. Basic Project Data**

Project ID	Parent Project ID (if any)	Environmental and Social Risk Classification	Project Name
P181359		Moderate	Lao Airlines Sustainable Development
Region	Country	Date PID Prepared	Estimated Date of Approval
EAST ASIA AND PACIFIC	Lao People's Democratic Republic	18-Sep-2023	
Financing Instrument	Borrower(s)	Implementing Agency	
Investment Project Financing	Government of Lao PDR	Ministry of Transport and Public Works, Lao Airlines	

Public Disclosure Copy

**PROJECT FINANCING DATA (US\$, Millions)**

**SUMMARY**

<b>Total Project Cost</b>	1.75
<b>Total Financing</b>	1.75
<b>Financing Gap</b>	0.00

**DETAILS**

**Non-World Bank Group Financing**

Trust Funds	1.75
Trust Funds	1.75

**B. Introduction and Context**

Country Context

**The Lao People’s Democratic Republic is a small landlocked economy bordering five countries of mainland Southeast Asia.** Stretching about 1,700 kilometers (km) from north to south but only about 100 km wide at its narrowest width, more than three-quarters of its landscape is covered by mountainous terrain with the remaining area part of low-lying plains along the Mekong River. The country’s topography makes it highly vulnerable to climate change-induced natural hazards, particularly floods and landslides.



**With 7.2 million inhabitants, the country is one of the least densely populated in the region.** An ethnically diverse country, its population comprises four main ethno-linguistic groups, 67 percent representing the *Lao Loum* ethnic family. A 2020 poverty assessment estimated the national poverty headcount rate at 18.3 percent, implying that almost one-fifth of the population were living on less than K 9,364 a day (approximately \$1.1 per person per day or in 2011 purchasing power parity [PPP], \$2.4 per person per day). Poverty remains concentrated among subsistence farmers and minority ethno-linguistic groups. Although poverty remains predominately rural, rural-urban migration trends have led to rising urbanization rates, which has increased the share of urban poor.

**Nonfarm employment in Lao PDR rose steadily over the past decade, though actual job growth appears to have stagnated.** According to the International Labor Organization statistics, about 58 percent of the population was employed in the agricultural sector in 2021, followed by services (31 percent) and industry (11 percent). Yet all sectors—except the public and hospitality sectors—experienced a net decline in employment between 2013 and 2019. Prior to COVID 19, only 20 percent of females participating in the labor force were employed in the nonfarm sector. The labor force participation rate for Laotian females over the age of 15 was 55.4 percent in 2022.

**Tourism is an increasingly important segment of the economy.** Laos is endowed with significant natural capital, offering beautiful landscapes and rich biodiversity as part of its tourism value proposition. Tourist arrivals have nearly doubled since 2010. In 2019, more than two million travelers from Thailand and one million from China visited Laos, followed by 203,200 from Republic of Korea and 41,700 from Japan. According to the World Tourism Organization, international tourism receipts reached a record high US\$974 million in 2019 before retracting to US\$227 million in 2020 following the COVID-19 global pandemic. A sharp drop in the travel, tourism, and hospitality sectors—which account for 11 percent of total employment and 22 percent of employment in urban areas—caused widespread job losses (between 96,000 and 214,000 jobs). International and domestic tourism rebounded in May 2022, but only to about 25 percent of its pre-COVID-19 levels, suggesting the sector will take time to fully recover.

**Several macroeconomic vulnerabilities emerge as Lao looks to recover from the effects of the COVID-19 pandemic.** Estimated at over 110 percent of GDP in 2022, public and publicly guaranteed debt service obligations are among the highest in the region, creating both solvency and liquidity challenges that are pushing Laos toward sovereign debt distress. In one year between April 2022 to 2023, Inflation reached 40 percent, while currency depreciation saw the Lao Kip fall by 32 and 43 percent against the Thai baht and US dollar, respectively, straining much of the economy. Rising debt service obligations, growing interest payments, as well as the debt exposure of state-owned enterprises, including the national airline, are squeezing fiscal space and diverting public resources away from development expenditure. Growth is expected to remain below pre-COVID levels in 2023 (estimated at 3.9 percent) but could expand more quickly should measures to address structural imbalances be accelerated.

**In September 2021, Laos updated its nationally determined contribution (NDC) targets.** National greenhouse gas (GHG) emissions in 2020 were estimated at around 53 MtCO<sub>2</sub>eq. The country commits to unconditionally reduce its GHG emissions in 2030 by 60 percent or around 62,000 ktCO<sub>2</sub>e in absolute terms



compared to a business-as-usual (BAU) scenario. Progress towards implementation of 2015 NDC measures, which focused on increasing forest cover, scaling renewable energy and increasing the share of biofuels for transport, were either off track or not achieved. It did, however, achieve an expansion of large hydro capacity (to 5,500 Megawatts) by 2020 and is on-track to generate 20,000 MW by 2030.

**A member of the Association of Southeast Asian Nations (ASEAN) Economic Community (AEC), its regional integration and trade with ASEAN and China have been important development drivers over the past decade.** Connectivity and integration with its neighbors - Myanmar and China to the northwest, Vietnam to the east, Cambodia to the southeast, and Thailand to the west and southwest – has contributed to country's economic progress. Three major regional infrastructure development initiatives – the Greater Mekong Sub-region (GMS) initiative to the Trilateral Highway initiative connecting India, Myanmar and Thailand, and China's Belt-and- Road Initiative to invest in– aim to enhance economic cooperation and accelerate transcontinental economic integration. The ASEAN Single Aviation Market stakes out a regional *Open Skies* policy initiative to liberalize air services between member states as a measure to facilitate tourism, investment and trade benefits generated from increased air connectivity.

#### Sectoral and Institutional Context

**Air connectivity is vital to economic and social cohesion in Laos.** In 2019, the International Air Transport Association (IATA) air connectivity index rated Laos as 93rd among 219 States evaluated around the world. Though the Laotian air market is relatively small, serving 4.07 million total passengers in 2019, it plays a critical role in the country's access to global and regional economic centers. In addition to facilitating international arrivals, which is important for the country's tourism sector, air cargo handled an all-time high of 6,300 tons in 2018, according to the Lao Statistics Bureau.

**Lao has liberalized its international and domestic air services market access regime, the benefits of which have positively affected sector development.** The adherence to ASEAN Open Skies significantly increased demand, with seating capacity growing at an average compounded annual growth rate of 16 percent, which is higher than its ASEAN peers though on par with Cambodia and Vietnam. During 2019, 19 airlines from seven countries operated in the Laotian market, all of them present (8.5 percent), followed by China Eastern Airlines (6.1 percent) and Bangkok Airways (5.9 percent). Market share in the international sector comprised four Thai airlines (19.7 percent) and four Chinese carriers (10.7 percent).

**The country has 13 airports, of which four operate internationally[1].** Though Laotians have a medium propensity to fly[2], low population densities limit the country's airport catchment areas, affecting the development of air services. Vientiane, the main international gateway and largest single catchment (1.2 million people), represents 63 percent of the total national seating capacity. Bangkok is the densest route with 26.4 percent of all seats offered, followed by Kunming with 12.1 percent, and Seoul 10.3 percent. Though Savannakhet and Pakse areas together make a sizeable catchment (1.4 million population), Luang Prabang is the second most important destination in Laos, with a scheduled capacity of 684,229 seats during 2019, 45 percent of which is offered by international operators.



**There are two incumbent national carriers, Lao Airlines and Lao Skyway.** While Lao Airlines serves both international and domestic markets, Lao Skyway only operates on domestic routes[3]. Both airlines are 100 percent owned by the Government of Laos and have a combined market share of about 60 percent of seats sold. The two commercial carriers are expected to manage their networks and operations autonomously. There is no explicit policy mandate or licensing scheme with respect to the domestic market.

**Competition between two incumbent state-owned enterprises, Lao Airlines and Lao Skyway, is further complicated by the opening of the Lao-China high speed rail (HSR) line.** In December 2021, HSR infrastructure in the north of the country was operationalized, with new services offering similar travel times between the capital, Vientiane, and Luang Prabang and Luang Namtha, which are also among the top air travel destinations. With rail service ticket prices are nearly half those for air services, passenger demand for air travel could see a 30 to 45 percent drop based on regional experience to date, adding competition to key domestic air routes.

**The effects of the COVID-19 pandemic on the Laotian market were severe.** Total seating capacity contracted by 61.1 percent to only 1.14 million seats during 2020. Given the continued level of restrictions, during 2021, only 637,182 seats were scheduled on 17 destinations, only five of which were international, and with modest output. Asia-Pacific countries have since maintained one of the slowest recovery rates, in part due to China COVID lockdowns, while new economic and travel constraints due to the conflict in Ukraine, are likely to extend delays in the re-establishment of international air connectivity. Laos is highly dependent on regional recovery, and pre-COVID traffic levels are estimated to be reached only by 2026.

**A transport-focused National Appropriate Mitigation Action plan is one of six strategic approaches Lao looks to implement in its efforts to reduce carbon dioxide (CO2) emissions between 2015–2030.** The national mitigation plan does not include air transport[4]. Global efforts to address aviation sector emissions have been led by the International Civil Aviation Organization (ICAO), whereby all ICAO member states conducting international flights have been required to monitor, report, and verify CO2 emissions beginning 2019. Landlocked developing countries, such as Laos, can volunteer to participate in its Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), though it is not mandated. Additionally, the regional airline industry, including representative bodies such as the Association of Asia Pacific Airlines (AAPA), have also set short-, medium-, and long-term emissions targets with respect to fuel efficiency improvements, capping net aviation CO2 emissions from 2020 (carbon-neutral growth), and attaining net zero CO2 emissions by 2050. The Department of Civil Aviation (DCA) Safety and Standards Division is responsible for monitoring and reporting the emissions of its registered operators to ICAO and is tasked with preparing a five-year plan to reduce CO2 emissions, to be deployed between 2022 and 2024.

## **Institutional Context**

**Laos is in the process of developing a formal National Aviation Policy.** Such policy statements provide the strategic framework for the country's sectoral ambitions, including how air transport can contribute to economic and social development. Outlining the Government's vision should ultimately guide the intentions over various sector stakeholders with respect to the provision of aviation infrastructure and services can best



enable air connectivity for Laos. A national aviation policy would also set the foundation for the potential privatization of aviation sector operations, as well as environmental stewardship within the sector.

**A key institutional dynamic that frames the air transport sector is the degree of separation between various organizations and mandates.** International best practice calls upon an institutional framework that creates a clear functional separation between policy making, technical regulation, operational entities[5], and air accidents/incidents investigation. The separation between these roles prevents conflicts of interest that could hamper the effectiveness of each function. Such checks and balances are intended to ensure the physical integrity of passengers and assets and protects the interests of consumers and taxpayers. Currently, the DCA within the Ministry of Transport and Public Works (MPWT) is responsible for both policy and planning, as well as regulatory compliance of all operators.

- **DCA is responsible for policy and economic regulation.** Among the policy and planning roles, DCA currently advises the Ministry on tariffs and pricing, and negotiating bilateral air service agreements that determine market access policies for foreign carriers. Defining essential domestic services in Laos would also be among these mandates.
- **DCA's mandate also includes regulatory oversight of technical and safety matters.** The latest International Civil Aviation Organization (ICAO) Universal Safety Oversight Audit Programme (USOAP) [6] audit for Lao PDR was conducted in 2015, where findings reflect that implementation of safety oversight standards is at or above global averages across all eight critical elements.

**The operation of infrastructure and infrastructure services—airports, airlines, and air navigation services—are the main points of entry to the system.**

- **Airports of Lao (AOL) is a government entity under the MTPW, although separate from DCA.** It remains a public entity, with plans to be privatized. AOL is responsible for the operation and maintenance of Wattay International Airport[7], two regional airports (Luang Prabang and Pakse), and two provincial airports (Luang Namtha and Savannakhet). Additional aerodromes fall under the responsibility of the military or are privately operated, primarily by various industrial stakeholders.
- **Lao Air Navigation Services (LANS) manages air traffic control within the Lao Flight Information Region.** LANS is responsible for communication, navigation and surveillance (CNS) in Lao airspace. Though under the control of MPWT, LANS has operated at arms' length from airport operations and the DCA as the regulatory authority since 2008.
- **Lao Airlines and Lao Skyway.** Lao Airlines was created as a national carrier in late-1989 and became fully commercial in 2005. The airline is an incorporated state-owned enterprise, invested under MPWT, and operated according to the regulations and guidelines of MoF, with the Minister of Finance the primary custodian (and sole shareholder). Lao Skyway, previously known as Lao Air, was founded in 2002, is wholly owned by the State through MoF, operated under the leadership of high-ranking officials of the Ministry of Defense in the roles a Chief Executive Officer and Chief Operations Officer.



**Since its launch, Lao Airlines has had mixed results.** Despite a buoyant and attractive regional market, the airline's pre-pandemic performance recorded operating losses. The accumulation of losses forced a restructuring in 2009 that included the MoF writing off its debts. The Covid-19 pandemic severely curtailed the airline's operations in 2020-2022 and its continuing impact only worsened Lao Airline's financial situation. The airline developed a five-year plan (2021 – 2025) for post-COVID recovery, which was created during the pandemic, with an expectation that it would end in two years and that the recovery would be rapid. However, the plan did not account for the potential impacts from inflation, a weakening of the local currency (Lao Kip), or fuel price fluctuations, with an assumption that these factors would remain stable. To improve the airline's performance in the medium term, a realistic and self-standing business plan is paramount.

**Lao Airlines is highly leveraged.** At present, the airline is a contingent liability for the largest public banks in Laos, Bank of Laos (BoL) and Banque pour le Commerce Extérieur Lao Public (BCEL) as immediate lenders, and the Government of Laos as the ultimate guarantor. All current borrowing is supported by letters of guarantee issued by the MoF. Despite its financial difficulties due to fleet expansion and leveraging its purchased assets, the national carrier remains dedicated to maintaining its financial solvency. To ensure its sustained viability in the medium to long term, the airline requires additional capital injections, debt write-offs, and operational restructuring. Resolving aircraft-related debt will require specialized financial and legal support. Reform measures must also be accompanied by a sound debt management strategy to minimize the fiscal impact on the government.

**Under the jurisdiction of MPWT, Lao Airlines governance standards generally conform with industry good practice and national directives, though are limited in some commercial disciplines.** In accordance with its Articles of Association, Lao Airlines follows the *Instructions on State-Owned Enterprise Board of Directors*. A five member Board of Directors, including an airline president, two representatives from MPWT (Department of SOE Management and Finance Departments, respectively), one representative from MoF (Department of SOE Management, Development, and Insurance), as well as two independent observers from local universities, oversee its operation. The current structure, composition, and tenure expected of board members is likely to diminish the level of international airline commercial and financial expertise and experience necessary to remain competitive in the region.

**The airline's management information systems are not sufficiently robust to qualitatively and quantitatively benchmark its operational and financial performance.** For the airline industry, the management information system represents the combined use of information technology, human resources, reservation systems, revenue accounting and business processes to record, store, and process data to produce dynamic dashboards and reports for strategic and timely management decisions. The current Enterprise Resource Planning software does not provide a complete solution. The stand-alone accounting system that is approved by MOF is not integrated with the current passenger service system (PSS), which requires manual entry of - revenue figures from the passenger revenue accounting system. Automation of a revenue accounting solution to eliminate manual entry of passenger revenue figures is needed. A transition to use of





International Financial Report Standards (IFRS) methodology would be beneficial for performance benchmarking and improve the potential for accessing global capital markets.

**Lao Airlines does not have a formal performance management plan for employees, though its most recent business plan acknowledges the need for staff training.** The company has 959 staff, of which 689 work in Vientiane headquarters, 251 people in six domestic branches[8] and 19 in the international branches.[9] Gender equality is adequately considered. The SOE is organized in 13 departments, typical of an optimally functioning airline company. This size of its salesforce (30 percent of total employees) is above industry averages (approximately 6-8 percent), though typical of airlines that lack contemporary systems and digitalization of customer experience. Capacity building plans for management, technical and administrative staff have not been prioritized nor has budget been allocated for skills and staff development.

**In June 2022, a World Bank team completed an Integrated State-Owned Enterprise Framework (iSOEF) assessment of Lao Airlines.** The primary findings advocate for more robust corporate governance practices. These include the necessity for increased involvement of airlines' business experts on the board of directors, tighter internal controls, better procurement processes for leasing capital assets, and a more streamline approach to accounting, records management, and compliance with international financial accounting reporting standards. Additionally, the airline would benefit from experts in several crucial areas such as strategic partnerships, commercial and marketing management, engineering, and human resource development.

[1] Vientiane, Luang Prabang, Pakse and Savannakhet

[2] 560 passengers per 1000 population (OAG 2021)

[3] Due to certification challenges with one of two aircraft in its fleet, the carrier only operates domestic scheduled services.

[4] The NDCs recognize two non-GHG transport related targets: (i) 30 percent Electric Vehicles penetration for 2-wheelers and passengers' cars in the national vehicle fleet mix (conditional); and (ii) implementation of Non-Motorized Transport (NMT) interventions integrated with the Lao-China Railway project (unconditional).

[5] Operations are divided into three separate responsibilities: Air Navigation Services, Airports and Airlines

[6] The Universal Safety Oversight Audit Programme (USOAP) is a program through which ICAO monitors the fulfillment of the safety oversight obligations by its member states.

[7] Lao-Japan Air Terminal Services (LJATS), a joint venture between GoL and Japanese interests, operates Vientiane Airport passenger terminal, and other downstream services





[8] Domestic branches are Luang Prabang, Pakse, Xieng Khouang, Savannakhet, Oudomsay and Luang Namtha.

[9] Bangkok, Chiangmai, Hanoi, Ho Chi Minh, Phnom Penh, Siem Reap, Incheon, Kunming, Jinghong, Guangzhou, Changzhou, Changsha, Shanghai, Wenzhou, and Chengdu.

#### Relationship to CPF

The Country Partnership Framework for FY2023-26 (Report No. 177311-LA) places improved public expenditure management and revenue mobilization as the first high level outcome among its objectives. The recent Strategic Country Diagnostic recognizes that restoring macroeconomic stability will need to be a core pillar if Laos is to return to sustainable debt levels, create fiscal space, and strengthen its financial sector if it is to reduce extreme poverty and protect living standards. As Lao Airlines accounts for the second largest level of sovereign debt guarantees, the recipient-executed grant activity builds upon the Second Public Financial Management Reform Program and will focus on fiduciary management, transparency, and accountability reforms among state-owned enterprises. Further, the activity is aligned with priorities that promote economic corridor development and regional connectivity, with the World Bank a leading development partner on transport and logistics.

Public Disclosure Copy

### **C. Project Development Objective(s)**

#### Proposed Development Objective(s)

The proposed technical assistance aims to restructure Lao Airlines debt position and strengthen its operational management and financial performance.

#### Key Results

1. Adoption of a Medium-Term Debt Management Plan
2. Enhanced corporate financial and operational reporting through publication of Lao Airlines Annual Report using International Financial Reporting Standards (IFRS)
3. Digital Passenger Service System mainstreamed into operational and financial management processes

### **D. Preliminary Description**

#### Activities/Components

Resuscitating Lao Airlines requires that the Government of Lao defines its strategic value proposition to the overall economy, and that the airline develop a more efficient and sustainable business model. The technical assistance aims to support Lao Airlines with an options analysis for charting necessary business and management reforms that are needed to ensure commercially oriented and sustainable airline services. The



grant supports the implementation of recommendations emanating from a 2023 Public Financial Review specific to State-owned enterprises on fiduciary management, transparency, and accountability reforms. Three main components are designed to (i) guide government and executive decision making in the debt restructuring of a major SOE, (ii) strengthen strategic, fiduciary and technical management, and (iii) foster business improvements that improve financial reporting. The technical assistance includes three main components:

### Component 1: Lao Airline Restructuring Strategy and Reform Pathway

**This component will prepare an airline restructuring options analysis that will inform a specific reform pathway and attenuated airline sustainability plan.** Lao Airlines requires a professional business plan developed in collaboration with a reputable firm, to ensure an appropriate reduction in fleet size, build-up of its network, restructuring of the fleet and route network, streamline its administrative structure and articulate an actionable roadmap to monitor implementation. The analysis will include operational scenarios to gain at least a minimal level of scalability, increase aircraft utilization, and reduce unitary costs.

A Medium Term Debt Management Plan will be the primary outcome of this component. Key elements of the plan are to include business cost reduction options that are underpinned by the following:

- A Fleet Optimization Strategy based on realistic medium and long term demand forecasts (passenger and cargo) to enable (a) evaluation of network and fleet scenarios, together with sound financial analysis; (b) development of business cost reduction options, including optimizing ground and flight operations, and streamlined maintenance procedures and cost arrangements; and (c) analysis of industry 'good practice' financial mechanisms, including fuel and currency hedging options and debt restructuring scenarios.
- A Sales and Revenue Optimization Strategy that (a) defines essential airline partners strategy and plan to renegotiate partnerships; (b) recommendations on pricing incentives and (c) sales and distribution plans.
- A Corporate Governance Strategy to frame the carrier's governance practices in consideration of internationally observed principles. Detailed corporate governance guidelines focusing on transparency, leadership culture, management information and performance management would be developed. The strategy would inform (a) composition of the Board of Directors; (b) independence and qualifications in the selection of Directors; (c) Director responsibilities and compensation; (d) individual and corporate ethics; and (e) handling and disclosure of commercial information and public communications; among other protocols and processes. Guidance on transitioning to International Financial Reporting Standards (IFRS), as well as developing a monitoring and evaluation framework that reflects appropriate key financial and operational indicators for assessing the performance of airline would be publicly disclosed through publication of a Lao Airline's Annual Report. A procurement manual, as well as use of government of company digital procurement platforms, will be assessed to improve transparency in purchasing and acquisitions. The strategy would also look to



strengthen corporate social responsibility through improved environment, social and governance (ESG) principles, such as participation in CORSIA to achieve carbon-neutral growth from 2030 onwards, and workforce diversity and inclusion in corporate culture. The design of an associated capacity development and corporate training for senior leadership and management roles would be embedded to strengthen overall corporate governance.

### Component 2: Lao Airlines Business Optimization and Management Improvements

**This component will focus on delivering technical assistance in core areas that can immediately add value to Lao Airlines management and operations.** Individual consultant services will be engaged to support the options analysis, business planning and reform processes. They will also support the production of an annual airline report to present leadership credentials, management vision, and operational and financial performance metrics.

**Subcomponent 2.1. International Airline Management Advisor.** Expertise familiar with aircraft fleet finance and restructuring, airline partnerships, and streamlining of business operations to reduce cost overheads is foremost. The expert would support implementation of measures to improve corporate governance, strategic decision-making, and fiduciary management, while facilitating board of directors' oversight.

**Subcomponent 2.2. Executive-level Airline Financial Advisor.** Consultant Services of an individual to advise the Board and improve financial reporting through adoption IFRS to ensure accuracy and ease in international transactions, or potential attraction of foreign investors and international financing.

**Subcomponent 2.3. Airworthiness maintenance technical advisor.** A licensed maintenance professional will be engaged to provide just-in-time support with maintenance planning and management to improve fleet utilization.

### Component 3: Passenger Service System module upgrade

**This component will finance needed software module upgrades that will improve an integrated enterprise resource planning.** Goods acquisition and installation to modernize the airline Passenger Service Systems modules (software) would enable improved business management, sales and revenue optimization, and accounting and financial reporting, among other benefits.

Public Disclosure Copy

## Environmental and Social Standards Relevance

### E. Relevant Standards

ESS Standards

Relevance



ESS 1	Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10	Stakeholder Engagement and Information Disclosure	Relevant
ESS 2	Labor and Working Conditions	Relevant
ESS 3	Resource Efficiency and Pollution Prevention and Management	Relevant
ESS 4	Community Health and Safety	Not Currently Relevant
ESS 5	Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
ESS 6	Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
ESS 7	Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
ESS 8	Cultural Heritage	Not Currently Relevant
ESS 9	Financial Intermediaries	Not Currently Relevant

**Legal Operational Policies**

Safeguard Policies	Triggered	Explanation (Optional)
Projects on International Waterways OP 7.50	No	
Projects in Disputed Areas OP 7.60	No	

Summary of Screening of Environmental and Social Risks and Impacts

This TA project involve the development of an analysis of airline restructuring strategy options, a business plan, detailed cooperate governance guidelines under component (C-) 1 ; advisory experts for business optimizations and management improvement (C-2); and procurement of software module upgrades to improve an integrated enterprise resource planning (C-3). The TA will finance an organizational and operational options analysis to inform a restructuring strategy and reform pathway, however it does not finance the implementation of the strategy and reform process. Given this, the project is not expected to cause any direct adverse impacts or risks on the biophysical environment, human health and safety, or other valued environmental components. However, there are potential downstream environmental risks associated with the airline restructuring strategy options analysis and business plan supported by the project. These may include increases in noise and vibration pollution, local greenhouse gas (GHG) emissions and air pollution from possible increased airline traffic and aircraft utilization. However, it is noteworthy that the project activities - i.e. fleet/route optimization, and/or improvement of fleet utilization, promoting the use of alternative fuels - are more about enhancing the ridership and improving the operational efficiencies. The expected increase in overall airtime as such may or may not increase. Even if the airtime increase, efficiency gains with better fleet management may offset the impact. In addition, the restructuring strategy would look to strengthen corporate social responsibility through improved environment governance practices, such as participation in CORSIA to achieve carbon-neutral growth from 2030 onwards, which implies the GHG emission reduction consideration. In consideration of the scope of the TA, and the potential downstream



environmental risks and benefits, the environmental risk for this project is rated as Moderate. The social risk rating for this project is currently considered Moderate. The proposed project will mainly finance technical assistance that aims to restructure Lao Airlines' debt position and strengthen its operational management and financial performance. The proposed activities are not expected to have any significant direct social risks or impacts. The project will not finance physical works and activities that would require land acquisition, displacement or generate risks or adverse impacts on local communities particularly ethnic and vulnerable groups. The project is expected to have beneficial impacts on the Lao Airlines as well as Lao aviation sector, its clients (passengers) and workers in the long run by improving its operational and financial status. Under the project, consultants with required areas of expertise will be hired to provide technical assistance on the options analysis, that will inform a specific reform pathway and development of airline sustainability plan including Lao Airline Restructuring Strategy and Business Plan and modernization of Passenger Service System (PSS). However, the adoption of business plan and modernized PSS developed under the project may lead to changes in the organizational and financial management structures. This include staff reshuffling with some positions required to be laid off and financial benefits cut down, and introducing automated processes of PSS in order reduce cost overheads and improve efficiency. In the longer term, an increase in airline traffic will likely increase noise and pollution, including variation and carbon emission that are harmful to physical and mental health among the local people and communities surrounding and nearby the 13 airports which are mainly located in Capital City of Vientiane and provincial towns.

**CONTACT POINT**

**World Bank**

Contact :	Christopher J. De Serio	Title :	Senior Transport Specialist
Telephone No :	458-7121	Email :	

Contact :	Maxwell Bruku Dapaah	Title :	Senior Financial Management Sp
Telephone No :	5778+8348 /	Email :	

**Borrower/Client/Recipient**

Borrower :	Government of Lao PDR		
Contact :	Vongkhamheng Vongthachack	Title :	Director General, Department of External Finance
Telephone No :	8562059244222	Email :	vongkhamhengvthc@gmail.com

**Implementing Agencies**

Implementing Agency :	Ministry of Transport and Public Works		
Contact :	Vanh Dilaphanh	Title :	Director General, Department of Planning and Finance



Telephone No : 8562091993966

Email : dilaphanhana@yahoo.com

Implementing Agency : Lao Airlines

Contact : Khamla Phommavanh

Title : Managing Director

Telephone No : 85621513150

Email : soudasack@laoairlines.com

#### FOR MORE INFORMATION CONTACT

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 473-1000

Web: <http://www.worldbank.org/projects>