I. Project Context

Country Context

The Pacific island countries (PICs), despite notable differences in history, culture and endowments, face similar development challenges arising from their dispersion, remoteness and small populations. As a group, these countries’ development priorities focus on two strategic areas: (i) mitigating economic isolation by encouraging regional and global integration; and, (ii) building resilience against external shocks. These areas are especially pressing in countries such as Kiribati and Tuvalu, which are among the most remote and geographically isolated countries in the world.

Under such circumstances, the aviation sector provides vital national, regional and international connectivity. Within the region, visitors, tourists and the crucial VFR (visiting friends and relatives) segment rely predominantly on air transport. Furthermore, air connectivity is essential to meeting educational and medical needs, and enables effective regional integration with its Pacific neighbors. Air services are essential for the import and export of goods, and are a prerequisite for tourism development. Characterized by a diverse mix of long, thin transport markets, the high dependence on air linkages emphasizes the importance of an effective aviation safety and security oversight system to ensure that services are maintained and, where possible, expanded to facilitate
economic and tourism development. A reliable network of air links, within and among island
countries and to major hubs such as Australia and New Zealand beyond, is therefore essential to the
viability of these countries from humanitarian, political and economic perspectives.

The specialized nature of aviation places a high burden on small countries with limited human
resources. Assessments of the aviation sector in the South Pacific by the International Civil
Aviation Organization (ICAO) have found that many of the countries lack the proper policy,
regulatory and infrastructure to comply with ICAO requirements (referred to as Standards and
Recommended Practices or SARP). In recent years, these standards have been continuously
expanded, particularly those related to security. As a result, the PICs have received less than
satisfactory results from the ICAO-mandated Universal Safety Oversight Audit Program and
Universal Security Oversight Audit Program.

To help address the shortcomings of the policy and regulatory environment, the Pacific Aviation
Safety Office (PASO) was established in 2004 through the Pacific Islands Civil Aviation Safety and
Security Treaty (PICASST) with support from an Asian Development Bank (ADB) regional loan.
PASO’s role is to provide safety and security oversight to the aviation sector. All developing
member countries of PASO have agreed to regulatory harmonization, as well as an annual levy to
help finance PASO, and the implementation of a PASO oversight program.

PASO currently provides advisory, inspection, and oversight services covering the areas of: (i)
aerodrome assessment; (ii) security; (iii) aircraft airworthiness; (iv) flight operations; and, (v)
personnel licensing. However, its existing subscription and fee-for-service business model has not
proven to be sustainable since: (i) countries have not purchased the necessary safety oversight
services; (ii) there is a real, or perceived, lack of qualified technical specialists in PASO to perform
the technical services, affecting demand; (iii) some countries are in arrears on member subscription
fees; and, (iv) salaries and cost structures for PASO do not correctly reflect the demand for services.

Compliance with aviation safety and security regulation is not negotiable. It is an obligation under
international treaties entered into by the PICs, and a prerequisite for maintaining international and
domestic air services. Without safe and secure air transport systems in place, these services cannot
continue. Ensuring that PASO remains a viable entity is a matter of urgent priority, as most PASO
members are unable to fully meet all of their oversight obligations, and any interruptions to PASO’s
services would be detrimental to the provision of air transport services across the region.

Sectoral and institutional Context
Government Challenges. The PASO Council, with representatives from each of the 13 PASO
member countries (including the three non-voting States of Fiji, Australia and New Zealand)
provides managerial oversight to the organization. The PASO Council is comprised of
representatives of civil aviation departments or authorities in member countries. The specialized
industry background has not always been sufficient for effective governance and oversight.
Members of the Council all hold full time jobs and often face significant operating budget
constraints, which limit their ability to actively engage in PASO’s oversight.

However, the most significant challenge to PASO’s governance has been the inadequate attention
devoted to financial management planning and reporting. The governance structure has also been
hampered by an absence of ownership or lack of engagement of member states Ministries of
Finances or line Ministries. Consequently, the PASO Council’s approval of an annual budget has not translated into a commitment from member countries to purchase PASO services or pay subscription fees, as envisaged in the annual work plans and budgets. Annual budgets presented to the Council for approval have borne little resemblance to operational circumstances and cash flow positions are not updated on monthly or quarterly reporting throughout the year. From 2007 to 2011, variations in average operating revenue from budget projections have exceeded 70 percent in each year.

 provision of Services. The current subscription and fee-for-service business model has not been sustainable. PASO’s services have largely been driven by its financing structure rather than attending to member country priorities, or ability to finance such services. The model was predominantly focused on providing oversight services that could be paid for directly by license holders such as airlines, pilots and airports, or services. The civil aviation departments in member States generally did not have sufficient budget to avail themselves of PASO services and were therefore not requested. Many of the third-party paid services fell into the category of unscheduled regulatory tasks (new operators, changes to senior staff, validations of foreign pilot or AME licenses, etc.) further complicating the delivery of annual plans and raising the perceived cost of PASO services.

 Inadequate Management Systems. PASO’s effectiveness and efficiency has been severely limited by inadequate financial management and ICT systems. Without a central repository system or document management application, PASO has not been able to effectively assist member States in a key area of need – data collection and analysis requirements of ICAO State Safety Programs. Internet access has been unreliable with slow speeds and frequent disruptions make routine downloads and the utilization of ICAO-net onerous.

 Regulatory Reforms. In mid-2011, the ADB initiated a Technical Assistance project (TA 43429) to assist a number of the developing member countries of PASO to update and harmonize their legislation and regulations around those of New Zealand which have been adopted by most PICASST countries. The technical assistance also aims to assist PASO to refine its management systems to help ensure financial sustainability. The conclusion from financial sustainability component of the ADB-funded TA is that PASO’s financial performance is not sustainable and a far-reaching restructuring is urgently needed.

 To help ensure the long-term viability of PASO, the Pacific Regional Infrastructure Facility (PRIF) has provided resources for the preparation of a new Business Plan as part of the IDA-financed ‘Pacific Aviation Investment Program’ (PAIP). The PASO Business Plan provided a strategy for addressing the financial, organizational and operational shortcomings of PASO. The PASO Council agreed to implement the principles of the Business Plan at a special general meeting in April 2013 and, once implemented, will reinforce and strengthen PASO’s critical role in ensuring safe aviation operations in PICs.

 Building on the ADB TA, the PASO Business Plan calls for significant reforms and a refocusing of the organization on objectives consistent with a Regional Safety Oversight Organizations (RSOO) and the global framework of ICAO. A fully-functioning RSOO capable of supporting and assisting the member States in meeting their contracted regulatory obligations by providing high standards of safety and security oversight and ongoing surveillance would provide a significant improvement to the safety of aviation in PICs.
II. Proposed Development Objectives
The proposed development objective is “to ensure effective regional delivery of aviation safety and security oversight in Pacific Island Countries by strengthening the Pacific Aviation Safety Office’s technical and coordination capacity.”

III. Project Description
Component Name
Component A: Transitional Management and Support
Comments (optional)

Component Name
Component B: Establishment of a Pool of Regional Aviation Inspectors
Comments (optional)

Component Name
Component C: Quality Management
Comments (optional)

IV. Financing (in USD Million)

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For Loans/Credits/Others

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V. Implementation
Institutional Arrangements. The Grant recipient (executing agency) and implementing agency is PASO. The following entities will responsible for project implementation:
(a) PASO Council. The PASO Council, with representatives from each of the 13 PASO member countries, provides oversight to the organization. The Council will continue to consist of one representative from each of the 13 member States, including the three non-voting States of Fiji, Australia and New Zealand. Only PICASST signatories will hold voting rights.
(b) PASO Steering Committee. A steering committee established by the PASO Council will be responsible for managing the restructuring process.
(c) PASO Manager/Senior Coordinator. A newly appointed PASO Manager will not sit on the Council, but will continue to report to the Council to ensure that the role is wholly accountable to the Council on behalf of management and staff.
(d) PASO Office Support. The Vanuatu Hosting Agreement provides for, among other costs, the provision of local staff to perform office management, financial management and administrative support functions.
(e) Technical and Fiduciary Service Unit (TFSU). A Technical and Fiduciary Service Unit (TFSU) has been established within Tonga Airports, Ltd. (TAL) for coordinating regional program activities and supporting project-level implementation. The TFSU is responsible for providing procurement and financial management support, as well as technical guidance. A Service Agreement that outlines the roles and responsibilities of the TFSU to support with project implementation will be signed prior to effectiveness.

Implementation Arrangements. The PASO Council has endorsed key aspects of the Business Plan, which is currently being implemented. A Transition Manager—the Director of PAIP—has been appointed by the PASO Council to provide interim oversight during the initial stage of Business Plan implementation. The transitional manager will be responsible for day-to-day implementation of the project until the new Manager/Senior Coordinator is in place. This is expected to be by late 2013. Letters of disestablishment were issued to the General Manager and Technical Specialists June 26, 2013. Three in-house technical coordinators with expertise in airworthiness, flight operations and security/aerodromes are under recruitment, one of which will also perform the role of a Manager/Senior Coordinator to lead PASO’s operation.

Implementation Schedule. The Project will be implemented over a four year period, with the Grant closing at the end of FY 2017.

VI. Safeguard Policies (including public consultation)

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Comments (optional)

VII. Contact point

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