

TERMS OF REFERENCE

INTERNATIONAL AIRLINE FINANCE EXPERT REFERENCE NO. CS-LASD-002

Duration: 50 days
Timeframe: February 2024 – December 2024

1. Background and Objectives of the Consultancy

The Lao Airlines State Enterprise (Lao Airlines) was established by the Government of Lao PDR (GoL) in 1989. It was separated from the Department of Civil Aviation and made financially independent in operating its business activities, although Ministry of Public Works and Transport (MoPWT) remains its supervising agency. Lao Airlines ranks as the tenth largest SOE by revenue in 2017. As the national carrier, it is the pride of the nation and remains strategically significant to the Lao transport and tourism sectors due to its forward and backward linkages to job creation and overall economic activities in these sectors.

Lao Airlines' business model has evolved over the years, and it has harnessed partnerships with several vendors to help develop market share. Some of its partnerships include, the establishment of Sabre Lao Company, which is a joint venture between Lao Airlines and Sabre International Inc., which provides business activities in air ticket reservation in Lao markets; creation of Champa Holidays Travel Company, which is a Joint Venture Travel Company between the Lao Airlines and GTMC Travel Singapore which provides travel services; and development of Muang Thong Hotel in Luang Prabang which is a hotel business with 34 rooms.

Furthermore, since 2011, Lao Airlines has upgraded its standards and interconnection by making investments in the airline. It has also strengthened its corporate governance arrangements by revamping its management board, establishing an aviation operations management system to fulfill its safety goals, established sales channel and payment systems to link up with the International Air Transport Association (IATA) system, developed and upgraded the skills of top management, supervisors and technical staff in order to use sophisticated transport and service systems, and modern technology.

Until the past six years, these improvements have helped to sustain the company's operations, which consist of 11 aircraft (including four A320 and seven ATR72) and 983 employees and workers (in 2019), and increased air ticket agents and connections with 33 foreign airlines globally. The number of passengers increased by an average of 6% per year. The management system is accredited and awarded by international organizations such as International Standards Organization (ISO). In 2016, Lao Airlines became certified by IATA Operational Safety Audit (IOSA) indicating the company's increased reputation with respect to flight safety. Lao Airlines has also become a full member of IATA.

Although the airline embarked on a reorganization by downsizing staff and privatizing some of its assets, these efforts have not been able to address the cash flow issues that stem from a shrinking market share. The 5-year recovery plan proposes addressing the current difficulties and the drivers of underperformance and developing new opportunities for growth. The plan articulates strategies to improve human resource capacity, increase the use of technology, develop new marketing tools and capabilities as well sourcing joint venture partnerships. Like many airlines, Lao Airlines needs to quickly adapt to the new COVID-19 situation to survive and

subsequently relaunch and grow. The management of the airline has requested World Bank assistance on restructuring the airlines with a view to providing advice on the options for improving the airline's profitability in the future.

The proposed consultancy will develop a robust financial model for Lao Airlines business and support a transition to International Financial Reporting Standards (IFRS).

2. Objective

The overall objective of this Consultant assignment is to develop a robust financial model for Lao Airline business and support a transition to International Financial Reporting Standards (IFRS) to strengthen accountability and transparency in financial reporting. He /She will analyze both national and airline fiscal management practices in completing this assignment.

3. Scope of work

The assignment is a technical assistance. The support shall consist of four parts:

- i. Understand the current financial situation, including financial management software, analytical tools or dashboards in place for decision making on asset investment and depreciation cycle, loan schedules, acquisitions, leases, strategic partnerships etc. Further, understand the accounting, financial reporting practices in place and the Laos Financial Reporting Standards (LFRS).
- ii. Develop a fit-for-purpose financial model considering the local context, regional and international best practices in the Aviation sector. The model, when completed, should show the expected trajectory of Lao Airlines' financial position, based on the current portfolio of assets and liabilities. The model should provide a basis for understanding the current revenue and expenditure management of Lao Airlines, for forecasting its future profitability/loss and fiscal risks to the Government of Lao. The module will be an integral part of the business plan that Lao Airlines is expected to develop as part of its restructuring.
- iii. Review the conformity of the route profitability reports and cost allocation. The route profitability reports should be issued quarterly and annually and should comprise of effective direct operating expenses incurred under each cost center, and a prorated allocation of fixed operating expenses (fixed maintenance, insurance, crew training and crew salaries, etc.). This tool will allow management to have a precise understanding of each route's performance and trouble shoot deviations from budget.
- iv. Support the implementation of IFRS for financial reporting. Capacity building and knowledge transfer to introduce and implement the IFRS standards, including sustainability reporting. An IFRS gap analysis will first be prepared and the requirements for introducing IFRS reporting shared with the Lao Airlines management and stakeholders.

The main outcome of this assignment is to inform the debt restructuring of Lao Airlines and a new business plan to be developed under a separate consultancy assignment. The key beneficiaries or stakeholders of the assessment include Lao Airlines Management, Ministry of Finance (MOF) and Ministry of Public Works and Transport (MPWT).

4. Methodology

The TA will be conducted in-person at Lao Airlines through interviews with management, Board of Directors and staff. Other stakeholders to be interviewed include MOF and MPWT. Data will be collected through interviews and questionnaire to be administered to Lao Airlines management, Ministry of Finance and Ministry of Transport and Public Works, and relevant stakeholders. The TA will draw on experiences from Lao Airline's

regional peers and international best practices. Regional peers represent countries in the East Asia Pacific region that are at similar stage of development, with broadly similar economic structure and have a state carrier. Structural and regional peers will be identified based on some standard selection.

5. Expected outputs:

- Financial model situation analysis report for discussion
The report will provide “as is” situation analysis of the Lao Airlines financial model or financial decision-making processes, strengths and weaknesses and recommendations for improvement. The detail account of how potential capital assets or investments are evaluated such as present value analysis, internal rate of return, etc., if any, due diligence process such as leveraging industry expertise, management, and board approval processes will at the minimum be included in this analysis. The consultant is expected to review relevant supporting documents including technical reports or feasibility analysis prepared before decisions were made for all major financial decisions made in the last 10 years. The analysis will also cover the decision-making processes for loan contracting or contractual liabilities. The findings and recommendations of the report will be discussed with Lao Airlines management and the World Bank.
- A fit-for-purpose Lao Airlines financial model
Based on the recommendations of the financial model situation analysis above, the consultant is expected to propose a fit-for-purpose financial model for Laos Airlines. The model would cover both assets and liabilities decisions.
- IFRS and overall financial reporting gap analysis.
Review the Laos Airlines chart of accounts, identify any gaps and make recommendations for upgrading the chart of accounts to IFRS reporting; review the Laos Airlines chart of accounts, identify any gaps and make recommendations for upgrading the chart of accounts to meet IFRS reporting requirements.
- Guidelines/Manual for preparing IFRS- compliant statements specific to Laos Airlines and IFRS templates
Develop relevant IFRS manual for preparing financial statements explaining/summarizing the applicable standards, reporting requirements and templates to be configured in the Laos Airlines accounting software for IFRS reporting;
- IFRS training
Conduct training for Laos Airlines staff and officials on IFRS templates developed, upgraded chart of accounts using the manual as the main document for the training.
- Baseline IFRS-compliant financial statements
Prepare IFRS compliant financial statements for Lao Airlines for the year the ended December 31, 2023 as a baseline (comparative figures) for comparison with future years IFRS financial statements. The financial statements should include relevant disclosures.

6. Expected deliverables and tentative timeframe

	Summary of Deliverables	Due Date (After Signing Contract)
1	Financial model situation analysis report for discussion	Week 1-3

2	A fit-for-purpose Lao Airlines financial model	Week 4
3	IFRS and overall financial reporting gap analysis.	Week 5 –6
4	Guidelines/Manual for preparing IFRS- compliant statements specific to Laos Airlines and IFRS templates	Week 7 – 8
5	IFRS Training	Week 9
6	Baseline IFRS-compliant financial statements prepared	Week 10 - 11
7	A brief Closing report and Closing Workshop summarizing the engagement, and outlining key challenges encountered, and steps forward	Week 12

The consultant will perform the remote work from its location. He/ She will complete and fulfil the TOR requirements.

7. Consultant Profile and Qualifications

The successful Consultant should meet the selection criteria set out below.

- A Master Degree in Commerce, Finance, Economics or Accounting is required.
- Professional certification, such as Certified Public Accountant (CPA) and/or Chartered Financial Analyst (CFA) will be preferred.
- At least 10 years of international experience in developing financial models and IFRS implementation.
- Experience in sustainability reporting of airlines
- Experience in airlines corporate finance, preparation of restructuring or turnaround business plans and advisory to senior management
- Experience in capacity building and training.

8. Administrative Arrangements

Duration of Contract and Time Input

The Contract will be for a period of up to 10 months with an expected average input of 50 person-days. The anticipated date for commencement of the assignment is February 1st, 2024. The Consultant's services and payments would be claimed for a work period ending December 30th, 2024.

Working Arrangements

The Consultant will maintain a significant participation throughout the mandate with supervision by MPTW Project Implementation Unit, and he/she will work directly with the Lao Airlines management.

Indicative Payment Terms

The Consultant will work under independent STC contracts with the Lao Airlines, and he/she will be responsible for ensuring the completion of work before any financial compensation can be claimed. Proposed compensation schedule follows the completion and acceptance of the deliverables detailed in this TOR in Section 6:

The fees will be charged in accordance to the completion of deliverables.