

TERMS OF REFERENCE

Title	: Consulting firm for Restructuring Strategy and Business Plan
Contracting Authority	: Lao Airlines Sustainable Development Project
Location	: The Lao Airlines State Enterprise (Lao Airlines), Vientiane Capital, Lao PDR
Duration	: 06 Months
Type of Contract	: Lump-Sum
Procurement No.	: FS-LASD-001

I. Background

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 (MPWT) remains its supervising agency. Lao Airlines ranked as the tenth largest State-Owned Enterprise (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. A full member of International Air Transport Association (IATA), the airline's sales channels and payment systems link with the IATA system. Some of its key partnerships include, the establishment of Sabre Lao Company, a joint venture between Lao Airlines and Sabre International Inc. that facilitates air ticket reservations in Lao markets; creation of Champa Holidays Travel Company, a joint venture between Lao Airlines and GTMC Travel Singapore providing travel packages; and development of Muang Thong Hotel in Luang Prabang, which is a hotel business with 34 rooms. In December 2023, the airline entered a strategic partnership, including interline and technical services with Vietjet Vietnam.

Lao Airlines current fleet consists of 11 aircraft (including four A320 and seven ATR72). Prior to COVID19, the number of passengers peaked in 2019, with 1,009,986 passengers and 16,714 flights. In 2016, Lao Airlines received its IATA Operational Safety Audit (IOSA) certification, indicating the company's increased reputation with respect to flight safety. Since 2017, however, Lao Airlines average load factors have fallen below the averages reported by other Asia-Pacific carriers and has faced technical and commercial difficulties in maximizing partnership opportunities (interline and codeshares). Furthermore, its daily aircraft utilization is sub-optimal, requiring an enhancement of the schedule and better alignment with the main connectivity banks at the neighbouring airports of Bangkok, Hanoi, and Seoul.

The commercial strategy of Lao Airlines is focused on the development of the domestic network comprising seven destinations¹, and the servicing of international markets such as Thailand, Vietnam, Cambodia, China, and Republic of Korea, that in 2019 comprised 15 city pairs. In 2019, the largest segment of passenger numbers by destination were domestic travellers (approximately 42 percent), followed by the China (16 percent), Thailand (12 percent), Vietnam (8.3 percent), Republic of Korea (3.7) percent, and Cambodia (2.3 percent). The recent commissioning of the Lao-China high-speed railway is anticipated to have a considerable impact on regional demand, resulting in the need to build functional codeshare partnerships in Kunming and the other Chinese destinations envisaged for direct

¹ Including four international airports in Vientiane, Luang Prabang, Pakse and Savannakhet.

(and beyond) traffic distribution. The airline is also exploring partnership opportunities to connect to the European, United States and Middle Eastern markets to expand its potential revenue base and enhance the country's air connectivity.

Currently, the SOE airline is organized in 12 departments, consistent with an optimally functioning airline of its size. The company has 977 staff, 07 domestic branches and 12 international branches. Lao Airlines has increased air ticket agents and connections with 34 foreign airlines globally. This size of its salesforce is around 10 percent of total employees, slightly above industry averages, though typical of airlines that lack well-integrated systems and digitalization of customer experience.

Lao Airlines current corporate governance structure can also benefit from adopting contemporary practices that would entail development and implementation of a clear governance strategy. In Laos, the legal and regulatory framework does not have a unified corporate governance policy and accountability mechanisms that SOEs follow. The State Property Management Department of the Ministry of Finance has issued guidelines, *Instructions on State-Owned Enterprise Board of Directors*, to which Lao Airlines adheres. Though the management system is accredited and compliant with the International Standards Organization (ISO), the airline's management information systems are not sufficiently robust to qualitatively and quantitatively benchmark its operational and financial performance. Executive reporting consists of high-level descriptive documents that can be improved by deepening its analyses of industry metrics and tailored action plans. This includes an expectation to:

- transition to International Financial Reporting Standards (IFRS)
- develop relevant environmental and sustainability goals that align to industry best practice and
- develop a dynamic and inclusive work force in line with national ambitions²,

Though the region experienced an increase in air travel demand resulting from the ASEAN Open Skies ratification, Lao Airlines has recorded a significant reduction in revenue in the past five years due to both increased competition from regional and domestic airlines and the industry wide impacts of COVID-19 pandemic effects. The airline has previously developed a five-year plan (2021 – 2025) for post-COVID recovery. The plan articulates strategies to improve human resource capacity, increase the use of technology, develop new marketing tools and capabilities, as well as exploring potential joint venture partnerships. However, the plan did not adequately account for the risk of potential inflationary impacts, a weakening of the local currency or fuel price fluctuations. Combined with the operational losses, asset backed debt obligations, and difficulties in raising additional capital from potential creditors, the airline faces significant financial headwinds. Lao Airlines requires a new business strategy and restructuring plan, which will promote the re-balancing of its financial position and enable self-sustainability.

II. Objective

In partnership with the World Bank, Lao Airlines has received grant funding from a Financial Management Umbrella Trust Fund³ to implement a Lao Airline Sustainable Development Project. The project's three main components are designed to (i) guide government and executive decision making in the debt management of a major SOE, (ii) strengthen strategic, fiduciary, and technical management, and (iii) enabling business improvements that strengthen controls on revenue accounting and financial reporting.

² Conformance with MPWT Strategy for Advancement of Women in the Public Works and Transportation Sector (2014 – 2025) to ensure that gender is adequately considered, including among its SOEs.

³ Supported by the United States Agency for International Development (USAID)

The scope of work under this assignment aims to present an airline restructuring options analysis that will inform a specific reform pathway and attenuated airline sustainability plan. Other project activities that are being performed in parallel and are expected to contribute to this assignment include (a) support of an external Airline Finance and Accounting Expert with revision to financial statements to support a transition to IFRS to strengthen accountability and financial reporting; (b) technical assistance related to possible modifications or additional modules to better integrate passenger service system (PSS) solutions; and (c) technical advisory services that support aircraft maintenance planning, including supply chain and inventory management, which will improve fleet utilization.

The consultancy will support Lao Airlines to develop a restructuring-focused business plan for the period comprising of 2025-2030. It is aimed at maximizing the revenue potential (from all existing and new sources) with an optimized asset base, that within the planned timeframe will bring the airline to profitability. The plan should have a short to medium-term impact, and will result in an increased return on assets, reduced debt exposure, reduced operating losses or produce operational break-even results, improved current ratio and sustainable medium-term solutions to de-leverage the company, without aggravating the public debt.

The assignment should cover six main objectives: (i) examine the national and regional aviation market and propose a demand forecast for both passengers and cargo markets for the period up to 2030; (ii) assess the airline's current commercial capacity and potential for improvement, to act as an essential air connectivity enabler for the country; (iii) examine the current fleet, exploring optimization solutions to bridge the gap between available and affordable/required capacity; (iv) define the most suitable airline business model, best practice governance strategy, human resource management and product offering to reach the profitability objective; (v) define a debt restructuring business plan and (vi) propose improvement recommendations under the form of an implementable action plan (roadmap).

The main outcome of this assignment consists of a professional business plan, that will address the critical performance issues and propose a debt restructuring action plan, for Lao Airlines. The key beneficiaries or stakeholders of the assessment include Lao Airlines Management, Ministry of Finance (MOF) and Ministry of Public Works and Transport (MPWT). Furthermore, the Consultancy should remain available for consultations during the duration of the project implementation phase, to ensure business objectives and project timelines are achieved.

This engagement should not be regarded as a pure technical assistance to bring forth written recommendations for each task, but should be complemented with "knowledge transfer", as it is expected that the consultancy will have a "duty of care" to work closely with Lao Airlines and relevant stakeholders in building capacity through workshops, hands-on training sessions and videocalls, ensuring their understanding and ability to implement the recommended actions. The proposal should demonstrate how the Consultant will engage with Lao Airlines, considering the context of Lao PDR, to ensure that the scope of work can be effectively delivered through on the ground support.

III. Scope of work

The detailed assignment covers the following parts:

Task 1: Market analysis and demand forecast for passengers and cargo. This work will consist of generating a detailed market analysis using available capacity and traffic data from reputable suppliers (e.g OAG, IATA Diio, etc.). The consultant will collect all historic information (as of 2014) regarding the passengers, cargo and aircraft operations, to determine the competitive environment from a quantitative and qualitative angle. The analysis includes compiling data from competing modes of transportation, such as the high-speed train and future plans of development (e.g. start-up airlines), for both passenger and cargo transportation.

- i. To determine the current dimension of the market, international and domestic capacity and demand, a historical data assessment must be performed. The consultancy should carefully analyze all incumbent airlines networks, identifying overlaps and potential opportunity gains.
- ii. To determine the level of passenger and cargo demand and the air travel multiplier for Laos, in addition to the aviation market growth, the forecast will minimally assess (i) the population growth for the catchment area, (ii) ground transport and mobility factors to/from airports, (iii) GDP elasticity of the origin and destination regions, (iv) fare elasticity, especially in markets with new entrants, and (v) potential effects of alternative modes of transportation. For the top five international routes a bottom-up approach is preferred, while for the overall demand assessment a top-down methodology is deemed acceptable.
- iii. The demand forecast will be built for each relevant route (scheduled routes that were maintained in operation throughout the studied period, or show potential for development based on analysis), and a regression-based forecast is acceptable, however, a bottom-up approach is preferred.
- iv. The forecast should highlight the existing domestic routes with insufficient demand or those deemed for public service obligation, as profitability cannot be reached within the studied timeframe.

Task 2: Assess the airline's current commercial capacity and potential for improvement

- i. Outline the airline's performance vis-a-vis the market evolution and competitors. This analysis should consider the relevant industry metrics (CASK, RASK, Yield, Load Factor, Aircraft utilization, etc.) and be complemented by market share (seats), passenger share (traffic) and connectivity indicators for the international and domestic routes.
- ii. Identify the main gateways for air connectivity, optimal connectivity banks and most suitable aircraft type (from the current fleet) to offer a competitive product from a qualitative perspective (best connectivity, adequate cabin offering and service, digital services, etc.).
- iii. Review existing network and propose an optimized network plan to achieve highest revenue potential whilst also reducing the cost of operation. Identify the optimal fleet requirement to balance the revenue-cost benefits.
- iv. Recommend new regional products for different target groups (international tourists travelling to the ASEAN region, international business passengers and domestic travel segment).
- v. Identify strategic code sharing partners and propose commercial propositions to foster a win-win strategic partnership.
- vi. Propose a unique selling proposition that would differentiate Lao Airlines from regional competition. Consider a desirable sequence of intra-regional connections, uniting the most tourist-friendly cities on multi-segment flights.
- vii. Assess the current carbon emissions of Lao Airlines vis a vis the national contribution, as well as the outlook following the implementation of the new business plan.
- viii. Following the extensive market analysis and product definition, the consultancy should propose an improved business model, or various options that would best align with the strategic objective of profitability and economic rebalancing. The business model(s) will be presented to the airline's board for approval and further development.
- ix. Explore possibilities on the revenue generations from engineering and maintenance services, and hangar rental service.

Task 3: Examine the current fleet, exploring optimization solutions to bridge the gap between available and affordable/required capacity

- i. Take stock of the current fleet and its historical (2018-2023) deployment level, while evaluating the operational performance, network deployment adequation, seating configuration and asset utilization levels. Propose potential fleet improvements as to attain the most suitable range and the lowest cost.
- ii. Assess the existing contractual obligations towards lessors and lending institutions and evaluate the fleet efficiency in terms of “value for money”.
- iii. Propose fleet restructuring solutions to align with the overall objective of reaching self-sustainability and profitability.

Task 4: Define a debt restructuring business plan

- i. Prepare a detailed financial analysis of Lao Airlines, from a flight route profitability perspective (profit and loss) as well as from a balance sheet perspective. Identify the loss-making triggers and propose solutions to eliminate/minimize the cause, with the objective of stopping the accumulation of additional losses and debt.
- ii. Take stock of the current and accumulated debts and propose debt restructuring solutions and timelines. Propose a simulation of the impact of the proposed solutions and expected outcomes.

Task 5: Define the most suitable airline business model to reach the profitability objective

- i. Upon approval of the desired business model and restructuring scheme, a five-year financial projection of the business plan will be elaborated, to present the expected outcome from a profit and loss, balance sheet, cash flow and carbon emissions contribution positions.
- ii. Different level of sensitivity analysis comprising at least minimal variables should be performed (fuel prices, currency exposure, competition and underachieved revenue expectations, unsettlement of debts).
- iii. Assess Lao Airline’s corporate governance strategy and elaborate recommendations that would enhance its current stand, and align the company with effective governance framework, that follows the Organization of Economic Cooperation and Development (OECD) practice.
- iv. Assess the human resource management plan, training capacity and personnel allocation per scope of work and recommend an optimization of resources for the different lines of activity.
- v. Outline the environmental and sustainability compliance requirements and propose an operational plan and metrics to measure the impact of Lao Airlines carbon emissions, as well as a realistic and implementable off-setting strategy. Complement the analysis of the GHG accounting with IFRS sustainability requirements.

Task 6: Develop an implementable action plan

- i. The consultancy will propose an actionable implementation roadmap, under the format of a checklist, that will minimally identify the category of tasks, scope, responsible unit, expected outcome, deliverable time and key performance metric to assess achievement level.

IV. Methodology

The study approach/methodology should be well described in the consultant proposal and later will be detailed at inception stage. The technical assistance (TA) will be conducted in-person at Lao Airlines through interviews with management and staff, as well as remotely from the Consultancy’s headquarters. Data will be collected through interviews and questionnaire to be administered to Lao Airlines, public information made available by Laotian state agencies and ministries, and reputable aviation data solutions entities. 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 stages of development, with broadly similar economic structure and have a state carrier. Structural and regional peers will be identified based on some standard selection.

V. Expected Deliverables

All outputs and reports delivered by the Consultant shall be practical, for implementation by Lao Airlines. The Consultant shall consider the format and style of the reports to ensure they are focused, concise, and appropriate to the size and scale of the airline. The deliverables will cover in detail and without exception, all tasks and subtasks outlined in the scope of work, and be structured into a minimum of five chapters, with the following structure:

- A detailed market analysis of the historical evolution (2014-2023) for domestic and international routes, as well as a competition assessment and benchmarking.
- Passenger and Cargo demand forecast for the period 2025-2030.
- Flight Route Profitability modeling, profit and loss, balance sheet and cash flow projections for 2025-2030.
- Detailed Business plan, governance, environmental and debt restructuring strategy, including Project Risk analysis and mitigation plan.
- Actionable Roadmap towards implementation.

The Client shall have four weeks to review the Deliverables and provide comments to the Consultant. The Consultant shall update their Deliverable based on Client comments, within three weeks of receiving Client feedback.

VI. Expected deliverables and tentative timeframe

The assignment is planned to start in January 2025 to June 2025 and be completed within a period of 06 months from services’ commencement date. Details on deliverables and their timing are provided below.

	Summary of Deliverables	Expected submission date from contract signing
1	Inception Report	Week 2
2	Market analysis and Demand Forecast Report New Business Model proposition (Task 1/Task 2)	Week 6
3	Diagnosis Presentation Workshop (in Vientiane)	Week 8
4	Report on Flight Route Profitability modeling, profit & loss, balance sheet and cash flow projections for 2025-2030, and fleet restructuring strategy (Task 3/Task 4)	Week 12
5	Virtual presentation of financial modeling	Week 13
6	Draft Report for Detailed Business plan, including governance, environmental and debt restructuring strategies (Task 5/Task 6)	Week 17
7	Final Report Presentation Workshop (in Vientiane)	Week 18

The consultancy will perform the remote work from its location. It will work closely with Lead Consultant and other Consultants employed in the Lao Airlines transformation project, for the completeness and fulfillment of the TOR requirements. The logistic costs of all workshops or hands-on training sessions in Vientiane, Lao PDR will be responsible by the Client. The Consultant is responsible for their travel and logistic expenses to attend and present the findings and recommendations. All workshops and presentations must be conducted and/or provided in both English and Lao language. All workshop materials and deliverables will be developed by the consultancy and presented in both soft and hard copies (a minimum of three copies per deliverable).

VII. Qualifications and Experience Requirements

The successful Consultancy should propose a team able to perform and effectively deliver on time the above listed deliverables. As it is necessary for the Consultancy to demonstrate an understanding and knowledge of the accounting and regulatory environment for SOEs in Lao PDR, as well as the Lao culture, it is advisable for the Consultancy to consider partnering with a local counterpart if the Consultant does not already have such expertise available in-house. The Consultant's team should meet the selection criteria set out below.

1. Minimum Qualification and Experience of the Firm

The firm must be an established international aviation consultancy with at least ten years in service and must provide evidence of ability and experience to undertake the specified scope work in this ToR, including:

- At least one successful airline restructuring plans completed in the past five years;
- A proven record in successfully completing similar assignments, showing evidence (such as fleet restructuring, debt restructuring and/or airline turnaround) of in-depth knowledge of airline related structure project and activities, specifically in financial and commercial restructuring
- Have experience in engaging with public entities in the air transportation industry.
- The presence of a regional office in the Asia Pacific region, while not a requirement, would be considered a significant advantage.

2. Minimum Qualification and Experience of the Experts

The Client is looking for a firm with appropriate and sufficient capabilities, resources, and experience to execute the full extent of the scope of services to a very high quality. The consulting team should include aviation professionals with strong track records and experience in airline advisory services, specifically in restructuring and turning around airlines in difficult financial positions. It is expected that the team will consist of a combination of key and non-key experts to fulfil this assignment.

The relevant team members should have the following minimum skills and areas of expertise:

Key Experts

(1) Team Leader / Airline strategy and restructuring expert

- Minimum a post-graduate degree in one of the following areas: Air Transport Planning, Aerospace Management, Airline Economics, or Finance.
- At least 15 years of proven experience in airline advisory service; experience in airline management would be highly desirable.
- He/she will have a track record of leading and managing at least 2 similar major transport development projects, as a Team Leader for ten (10) years.
- Fluency in written and spoken English is mandatory.

(2) Aviation Economist/Demand Modelling

- At least a postgraduate degree in Transport Economics/Transport Planning or related discipline.
- At least seven (7) years of experience in the travel demand and passenger revenue analysis, including inter modal transfer aspects, greenhouse gas (GHG) accounting, experience in economic decision-making tools.
- Involvement in economic and financial evaluation of air transport service projects, impact and baseline studies and a proven track record of at least 2 similar major business plan development.
- Fluency in English (spoken and written).

(3) Airline financial specialist

- At least a postgraduate degree in Finance and Economics, with a strong accounting background.
- At least seven (7) years of experience in airline finance and accounting using IFRS method.
- Involvement in economic and financial evaluation of air transport service projects, impact and baseline studies and a proven track record of at least 2 similar major business plan development.
- Fluency in English (spoken and written).

(4) Airline commercial specialist

- Advanced university degree (Master's degree or equivalent) in Airline Management, Business Management or Economics.
- At least seven (7) years of experience in the airline industry commercial services, ideally enhanced by revenue management or network planning background.
- Involvement in commercial evaluation of air transport service projects, impact and baseline studies and a proven track record of at least 2 similar major business plan development contributions.
- Fluency in English (spoken and written).

(5) Governance specialist

- Advanced University degree (Master's degree or equivalent) in either in the fields: business administration, public administration, human resources, ethics, government relations, development studies or a related field.
- Minimum of seven (7) years of progressively responsible professional experience in corporate boards, executive communications, anti-corruption, public administration, development studies or related field.
- Involvement in executive board operations, with desirable exposure to the airline industry and a proven track record of at least 2 similar major business plan development contributions.
- Fluency in English (spoken and written). Excellent knowledge of Lao language is mandatory

(6) Environmental and Sustainability expert.

- Graduate in environmental management or economics. Postgraduate courses in environment and social management issues would be an added advantage.
- At least five (5) years of proven experience in environmental impact assessment of air transport sector projects.

- Sound experience in ICAO CORSIA carbon emissions or European ETS solutions, and a proven track record of at least two similar environmental and sustainability plan development for small to medium size airlines.
- Fluency in English (spoken and written). Excellent knowledge of Lao language is mandatory

Non-Key Experts

- (i) Good knowledge of and familiarity with national aviation strategies, national policies and priorities for the airline sector, and integration of airline strategies into the larger national scope.
- (ii) Local expertise of a team member in Financial Management and Accounting practices in Lao PDR with knowledge of Lao language and presence on the ground in Vientiane, would represent an advantage.
- (iii) Experience in capacity building and training.

3. Administrative and Arrangements

The Contract will be for up to six months and at least 30% of the key experts' time input shall be worked in Lao PDR. The anticipated date for commencement of the assignment is January 2025. The proposed Team Leader shall remain the same person throughout the assignment duration. The Consultancy will maintain a significant participation throughout the mandate, and he/she will report periodically to the Lao Airlines management, regarding the work progress.