



Concept Paper

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November 2019

Proposed Loans Nepal: South Asia Subregional Economic Cooperation Airport Capacity Enhancement Sector Development Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 7 November 2019)

Currency unit	–	Nepalese rupee/s (NRe/NRs)
NRe1.00	=	\$0.008841
\$1.00	=	NRs113.11

ABBREVIATIONS

ADB	–	Asian Development Bank
ATCEP	–	Air Transport Capacity Enhancement Project
CAAN	–	Civil Aviation Authority of Nepal
GBIA	–	Gautam Buddha International Airport
GDP	–	gross domestic product
ITB	–	international terminal building
SDP	–	sector development program
TA	–	technical assistance
TIA	–	Tribhuvan International Airport

NOTES

- (i) The fiscal year (FY) of the Government of Nepal and its agencies ends on 15 July. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2019 ends on 15 July 2019.
- (ii) In this report, “\$” refers to United States dollars.

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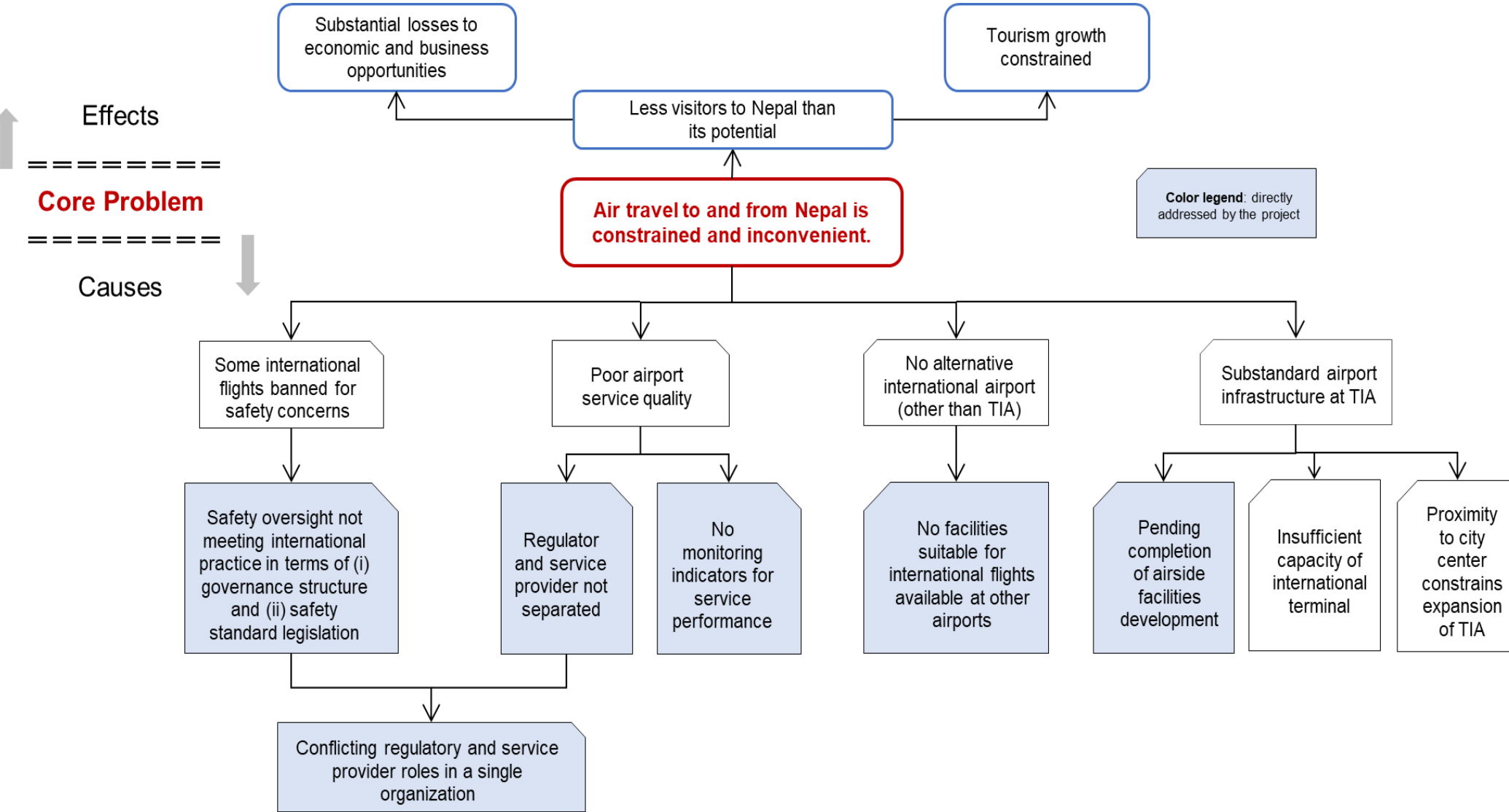
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PROGRAM AT A GLANCE

1. Basic Data		Project Number: 38349-029	
Project Name	South Asia Subregional Economic Cooperation Airport Capacity Enhancement Sector Development Program	Department/Division	SARD/SATC
Country Borrower	Nepal Government of Nepal	Executing Agency	Ministry of Culture, Tourism and Civil Aviation, Ministry of Finance
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=38349-029-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=38349-029-PortAtaGlance		
2. Sector		ADB Financing (\$ million)	
✓ Transport	Subsector(s) Air transport		150.00
	Transport policies and institutional development		50.00
		Total	200.00
3. Operational Priorities		Climate Change Information	
✓ Accelerating progress in gender equality		Climate Change impact on the Project	Medium
✓ Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability			
✓ Strengthening governance and institutional capacity		ADB Financing	
✓ Fostering regional cooperation and integration		Adaptation (\$ million)	7.00
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 9.1, 9.4		Some gender elements (SGE)	✓
SDG 13.a			
		Poverty Targeting	
		General Intervention on Poverty	✓
4. Risk Categorization:	Complex		
5. Safeguard Categorization	Environment: B Involuntary Resettlement: C Indigenous Peoples: C		
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		200.00	
Sovereign SDP - Program (Concessional Loan): Ordinary capital resources		50.00	
Sovereign SDP - Project (Concessional Loan): Ordinary capital resources		150.00	
Cofinancing		0.00	
None		0.00	
Counterpart		76.00	
Government		76.00	
Total		276.00	
Currency of ADB Financing: US Dollar			

PROBLEM TREE



I. THE PROGRAM

A. Rationale

1. The proposed sector development program (SDP) will (i) support civil aviation sector reforms in restructuring of the Civil Aviation Authority of Nepal (CAAN) and strengthening of its regulatory functions, management governance and business plan development in operations, financial restructuring, operational efficiency improvement, and civil aviation safety (the program component); and (ii) finance the improvement of facilities at the Tribhuvan International Airport (TIA) in Kathmandu and the Gautam Buddha International Airport (GBIA) in Lumbini (the investment component).¹

2. **Macroeconomic context.** Nepal's economy grew 5.9% in FY2018, which was lower than the 7.4% growth registered in FY2017, but higher than the 10-year average of 4.3% during 2009–2018. The budget balance had been in surplus before FY2016. However, increased government expenditures and fiscal transfers to subnational levels rapidly widened the fiscal deficit to 6.7% in FY2018. External sector stability is vulnerable over the medium term because of a rapidly rising trade deficit; this may only be partially offset by inflows of remittances from overseas, which declined from 29.0% of gross domestic product (GDP) in FY2016 to about 25.1% of GDP in FY2018. The current account deficit reached \$2.4 billion, or 8.2% of GDP, in FY2018—significantly higher than the \$95.7 million (0.4% of GDP) figure for FY2017. Economic uncertainty and weakness require tightened and prudent macroeconomic management policies.² Despite some balance of payment pressure and financial stability risk, the near-term outlook for growth is favorable attributed to a rebound in agricultural production, a robust tourism industry and ongoing reconstruction from the earthquake. Public debt remains lower than in other low income countries, and debt sustainability analysis indicates that Nepal's risk of debt stress remains low. Development spending financed by concessional donor inflow should be accommodated since it keeps the debt burden in check while allowing for needed development expenditures.

3. **Importance of air connectivity to the economy.** Nepal is a landlocked country of tremendous geographic diversity, with the northern rim of the Gangetic Plain in the south, the Himalaya Mountains in the north, and plenty of rugged, hilly terrain in between. Civil aviation is crucial to transport, trade, and tourism, and provides indispensable links to hilly and mountainous areas that are inaccessible by other transport modes. Tourism is one of the major economic activities in Nepal and a top government priority. It is estimated that tourism brought in \$563 million in foreign exchange in FY2018, equivalent to 65% of goods exports.³ Travel and tourism in Nepal is estimated to generate about \$1.92 billion (7.8% of GDP) in 2018, including indirect and induced contribution.⁴ Considering that more than 80% of international tourists come to Nepal by air through the TIA, improvement of the civil aviation sector is essential for tourism to flourish and support the country's economic development.

¹ The program component will be provided in two tranches of \$25 million each to ensure implementation of sequenced policy actions under tight fiscal conditions.

² ADB. 2018. [Macroeconomic Update: Nepal](#). (6) 2. Manila.

³ International Monetary Fund. 2018. [Nepal: 2017 Article IV Consultation—Press Release; Staff Report](#). Washington, DC.

⁴ World Travel & Tourism Council. 2018. [Travel & Tourism Economic Impact 2018 Nepal](#). London.

4. **Sector development context.** Nepal has a large airport network, comprising one international airport, the TIA in Kathmandu, and 48 domestic airports.⁵ The TIA presently serves as the unique gateway airport to Nepal. It handled 4.3 million international passengers in 2018, up from 1.8 million passengers in 2008. It also serves as the largest domestic airport, handling 2.8 million domestic passengers in 2018—accounting for about half of the country’s domestic air traffic.⁶ The TIA handled 33,933 international and 95,580 domestic flights in 2018. With the tourism industry expected to continue to grow, it is expected that air traffic will steadily increase 3%–5% annually.⁷ Although the TIA plays a critical role as an international gateway and domestic air hub, its close proximity to Kathmandu’s city center restrains expansion beyond the current airport boundary. Therefore, to accommodate increasing demand for air travel in the country, TIA will have to use its existing space more efficiently, while more flights must be routed through other airports. Through the South Asia Tourism Infrastructure Development Project, ADB is supporting the development of the GBIA as a full-fledged international airport that will handle Lumbini’s air-traffic needs while also serving as a backup international airport for Nepal in the event that poor weather or a natural calamity shuts down TIA.⁸ The GBIA will also play a strategic role in providing alternatives for tourists to travel around Nepal. Directing well-targeted investments into these key international airports and creating an enabling environment for improvement of the civil aviation sector will support the country’s long-term economic development.

5. **Reform agenda in civil aviation sector.** Nepal has maintained a traditional civil aviation sector structure whereby functions of regulation, safety oversight, and service provision are absorbed by one entity, CAAN. The roles of regulator and service provider lodged in a single organization create a source of conflict of interest. The regulatory function may not provide adequate oversight on service provision and may raise operating costs and result in suboptimal performance as a service provider. There are also repercussions on aviation safety, which have been noted and highlighted by international aviation agencies. The European Commission has banned Nepali airlines from flying to the European Union because of a lack of safety oversight by the aviation authority of Nepal.⁹ To remedy this situation, the government is in the process of enacting new civil aviation legislation, which were originally drafted with the assistance of the consulting services under the Air Transport Capacity Enhancement Project (ATCEP).¹⁰ In line with international good practice, the main objective of the new bills is to reform the civil aviation sector in Nepal by bifurcating the roles of the regulator and the operator (CAAN) into separate entities.

6. **Infrastructure constraints.** An evaluation survey of facilities and services at the TIA revealed shortcomings such as (i) substandard airside facilities that are not fully compliant with

⁵ Of these 48 domestic airports, 27 have no scheduled flights. Four airports—Biratnagar, Gautam Buddha, Nepalgunj, and Pokhara—are regional hubs that receive passengers transiting to smaller domestic airports. GBIA will operate as a second international airport from 2020.

⁶ Government of Nepal; Ministry of Culture, Tourism and Civil Aviation. 2018. [Nepal Tourism Statistics 2017](#). Kathmandu.

⁷ Civil Aviation Authority of Nepal. 2013. *National Airports Plan Air Traffic Demand*. Kathmandu.

⁸ ADB. 2014. [Report and Recommendation of the President to the Board of Directors: Proposed Loan for Additional Financing and Administration of Grant for Additional Financing to Nepal for South Asia Tourism Infrastructure Development Project](#). Manila.

⁹ European Commission. 2019. *Aviation: Commission Updates the EU Air Safety List to Maintain Highest Level of Protection for Passengers*. Brussels.

¹⁰ ADB. 2009. [Report and Recommendations of the President to the Board of Directors: Proposed Loan and Asian Development Fund Grant to Nepal for Air Transport Capacity Enhancement Project](#). Manila. The new bills comprise of (i) Bill for Nepal Civil Aviation Authority; (ii) Bill for Establishment and Management of Air Service Authority of Nepal; and (iii) Bill for Nepal Civil Aviation.

the standards and recommended practices of the International Civil Aviation Organization (ICAO); (ii) inefficient taxiway layout and limited space of aprons; and (iii) overcrowded terminal buildings with poor service standards.¹¹ To address these issues, CAAN, supported by ADB technical assistance (TA), prepared a TIA master plan for infrastructure improvement up to 2028.¹² The master plan aims to enhance aircraft operational safety and efficiency while also contributing to improved airside infrastructure capacity. The master plan proposes the construction of a new international terminal building (ITB) to accommodate growing international passenger arrivals.¹³

7. **Tribhuvan International Airport.** Following the master plan, ADB supported the initial phase of the TIA development through the ATCEP. The scope of the ATCEP included: (i) extension of the northern part of the parallel taxiway to reduce the use of its single runway for taxiing; (ii) expansion of the international apron areas to accommodate more aircraft in the TIA; (iii) extension of the runway by 300 meters to the south to make it 3,350 meters; and (iv) provision of air navigation equipment, including an approach lighting system, to comply with international safety standards. But the poor performance of the civil works contractor and a subsequent delay in tenders for repackaging and redesigning the terminated contract led to the loan closing in December 2018 without the original scope of work being completed.¹⁴ The remaining scope is being implemented with government funds. However, further development of airside facilities is required to realize the TIA master plan, meet international safety standards, and accommodate the forecast demand through 2028.

8. **Gautam Buddha International Airport.** ADB will also support the upgrading of the GBA to a full-fledged international airport by constructing (i) a 3,000-meter long runway, (ii) a 1,900-meter taxiway, (iii) international and domestic aprons, (iv) control towers, and (v) an international and domestic passenger terminal building (phase 1) with a floor space of 15,000 square meters (m²), —including supply of navigation and safety equipment (footnote 8). The project is set to be completed in 2020. The terminal building, which is under development, needs to be further expanded to handle growing international travel demand, especially with strong tourist demand in

¹¹ Aircraft need to occupy the runway for 2–3 additional minutes for takeoff and landing because the inefficient taxiway caps aircraft movements, particularly during peak hours. The number of parking spots at aprons (international: 9 and domestic: 17) is not sufficient to handle peak-hour parking demand, causing unnecessary waiting time for spot allocation. It also restricts the number of domestic operating aircrafts based in the Tribhuvan International Airport for night-time parking. Combined with limited airspace in Kathmandu Valley, the insufficient capacity of airside facilities forces airplanes to remain on hold in the sky, leading to frequent flight delays. For landside facilities, the current international terminal building (ITB) handled 4.3 million passengers in 2018, beyond its annual capacity of 3.2 million. Heavy congestion and lower quality of services are observed during peak hours; the ITB handled more than 2,200 passengers per hour, about 70% more than its per-hour capacity of 1,350. The number of international passengers is projected to further increase to 6.1 million by 2028.

¹² ADB. 2007. *Technical Assistance to Nepal for Preparing the Civil Aviation Airport Project*. Manila.

¹³ Construction of the ITB at TIA is not included in the proposed sector development program (SDP) because it requires (i) relocation of the hangars and domestic aprons to clear the planned construction site, and (ii) about \$400 million in financing. Relocation will be implemented under the proposed SDP, but financing for the ITB will be considered in a separate modality with due attention to implementation and progress of the SDP. The government explored optimal implementation options for ITB development under sovereign financing or public-private partnership. However, a typical public-private partnership scheme for terminal building construction and operation may not attract high-quality private investors under Nepal's current context. In April 2019, the government submitted a request to ADB to finance construction of the ITB; this is being prepared as a separate project, for consideration in 2021 or later.

¹⁴ The main reason the contract was terminated was because the contractor failed to secure sufficient material to complete the required landfill works. The selected contract modality, the contract's conditions, and the procurement and contract management capacity of the executing agency were also considered contributing factors. The proposed SDP will carefully define the scope of the investment component without the landfill requirement, and will provide necessary support and training for procurement and contract management.

the world heritage site in Lumbini and its strategic importance as an international gateway for circular-tour development.¹⁵

B. Proposed Solutions

9. The proposed SDP aims to (i) support the government strategy of reforming the civil aviation sector by creating an enabling environment for properly regulated, safe, and efficient airport service delivery; and (ii) complete planned facility improvements at the TIA and the GBIA. The modality enables comprehensive assistance to such a sector-focused reform and investment financing agenda. The proposed outputs are as follows.

10. **Output 1: TIA airside facilities completed in accordance with the TIA master plan.** Hangars will be relocated to the eastern part of the TIA and dedicated domestic apron areas will be built. These are a prerequisite to ITB construction per the TIA master plan, as the site of the existing hangars and domestic aprons will be the site for the future ITB.

11. **Output 2: A new ITB constructed at the GBIA.** A 35,000-square-meter ITB will be built at the GBIA with gender- and socially-inclusive features.

12. **Output 3: Civil aviation bills legislated.** The program component will support government efforts to take properly sequenced sector and institutional reform actions through two tranches of \$25 million each. The policy actions for tranche 1 will be (i) cabinet approval of draft bills for (a) the separation of CAAN into a regulator and a service provider, and (b) a regulatory framework for civil aviation security; and (ii) legislation of the bills by Parliament.

13. **Output 4: Functional and distinct entities for regulation and service operations established.** Tranche 2 of the program component will support the government in establishing functional and distinct entities for a regulator and a service provider. It will include implementation actions after legislation, such as (i) management structure and appointment; (ii) asset and liability valuation and transfer; (iii) a capital requirement and sound financial management system; (iv) staffing requirements and human resource management; (v) business plan development; (vi) business process and manual preparation; (vii) key performance indicators development; (viii) enhancement of procurement, implementation, and operation capacity; and (ix) commencement of operations of the regulatory authority and the service provider.¹⁶ Relevant government orders for the regulatory, management, and safety framework will be included in the policy actions. The SDP will also provide consulting services to support the required actions and ensure that the regulatory and operational entities function smoothly.

14. These solutions will result in the following outcome: safety, capacity, and efficiency of air travel to and from Nepal improved.¹⁷ The program will be aligned with the following impact: tourism in Nepal developed.¹⁸

15. **Need for a sector development program.** Nepal's civil aviation sector urgently requires policy and institutional reforms that will (i) separate CAAN's regulatory and service provider functions; and (ii) establish functional entities with appropriate governance, efficient human and

¹⁵ The terminal building under construction will be converted to and used as a domestic terminal building after the proposed ITB under the SDP is completed.

¹⁶ Staff consultants will review the policy actions and propose a policy matrix.

¹⁷ The preliminary design and monitoring framework is in Appendix 1.

¹⁸ Government of Nepal, Ministry of Culture, Tourism, and Civil Aviation. 2016. *National Tourism Strategic Plan for the Period 2016–2025*. Kathmandu.

financial management structures, business plans with key performance indicators, enhanced institutional capacity, and compliance with international safety standards. The civil aviation sector requires properly sequenced reforms to (i) address safety and efficiency concerns from sector governance, and (ii) provide high-quality airport services through a well-managed organization and improved facilities that feature gender- and socially-inclusive measures (jobs, skills, and infrastructure). The SDP modality enables multilayer assistance for sector-focused reforms and investments. It will also pave the way for large-scale investment, including the TIA's ITB, which requires solid program implementation institutionally as well as physically.

16. **ADB's value addition.** The proposed SDP will enhance the value of ADB's long-term support by enabling an integrated and comprehensive approach. The civil aviation bills drafted under ADB's Air Transport Capacity Enhancement Project (para. 5) represented a key milestone for the much-needed civil aviation reforms. Together with the investment component prepared under the Transport Project Preparatory Facility, the program will serve as a catalyst for future investments in the sector.¹⁹

17. **Alignment with Strategy 2030.** The proposed SDP aligns with ADB's Strategy 2030 operational priorities of (i) strengthening governance and institutional capacity through civil aviation sector reforms; (ii) fostering regional cooperation and integration through enhanced connectivity, tourism, and international gateway development; and (iii) accelerating progress in gender equality by improving women's access to basic services through women-friendly facilities such as the GBIA passenger terminal building.²⁰ The proposed program is in ADB's Country Operations Business Plan for Nepal, 2020–2022.²¹

C. Proposed Financing Plans and Modality

18. The program will be financed under the SDP modality and is estimated to cost \$200 million. The indicative financing plan is summarized in Table 1. The investment component is estimated to cost \$150 million.²² Government counterpart financing for the investment component will be \$76 million equivalent, covering taxes, duties, and a portion of construction costs. The program component is estimated to cost \$50 million.

19. The loan size of the program component is based on the country's financing needs, the development impact of the policy reform package, and development spending arising from the reform. In FY2020, the government's total gross borrowing requirement is estimated at \$4.3 billion, of which \$2.9 billion will be from external borrowing. External borrowing will comprise mostly concessional official development assistance and export-import loans, of which program loans are about \$350 million.

20. Climate adaptation is estimated to cost \$7 million. ADB will finance 100% of adaptation costs.²³

¹⁹ ADB. 2010. [Report and Recommendation of the President to the Board of Directors: Proposed Grant to Nepal for the Transport Project Preparatory Facility](#). Manila.

²⁰ ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila.

²¹ ADB. 2019. [Country Operations Business Plan: Nepal 2020–2022](#). Manila.

²² The total preliminary cost for the investment component is about \$200 million, of which ADB will finance \$150 million. Component costs would be (i) \$75 million for the relocation of hangars, (ii) \$65 million for the construction of the dedicated domestic apron, (iii) \$50 million for the construction of a new ITB at the GBIA, and (iv) \$10 million for construction supervision.

²³ Climate financing will be updated once the climate risk and vulnerability assessment is finalized.

Table 1: Indicative Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank	200.0	72.5
Ordinary capital resources (Concessional loan, Project)	150.0	54.3
Ordinary capital resources (Concessional loan, Program)	50.0	18.1
Government	76.0	27.5
Total	276.0	100.0

Note: Numbers may not sum precisely because of rounding.

Source: Asian Development Bank estimates.

D. Implementation Arrangements

21. The executing agencies for the SDP will be the Ministry of Finance for the program component; and the Ministry of Culture, Tourism, and Civil Aviation for the investment component. The implementing agencies will be the Ministry of Culture, Tourism, and Civil Aviation and CAAN for the program component; and CAAN for the investment component.²⁴

Table 2: Indicative Implementation Arrangements

Aspects	Arrangements
Indicative implementation period	October 2020–March 2025
Indicative completion date	30 September 2025
Management	
(i) Executing agencies	Ministry of Finance (program component) Ministry of Culture, Tourism, and Civil Aviation (investment component)
(ii) Key implementing agencies	Ministry of Culture, Tourism, and Civil Aviation (program component) Civil Aviation Authority of Nepal (program and investment components)

Source: Asian Development Bank.

II. PROGRAM PREPARATION AND READINESS

22. Detailed designs of the investment component for the TIA have been completed (footnote 19). Bidding documents have also been prepared. Advance contracting will be undertaken to reduce start-up delays. Detailed design for the ITB of GBIA will be prepared by 2020. Preparation of the investment component is expected to satisfy the high readiness criteria before loan approval. A transaction TA totaling \$1 million will be required for program preparation, which will include reviewing the overall investment framework, design, and cost estimates of the investment component; and finalizing the program component's policy matrix. The TA will also support monitoring and implementation of the SDP.²⁵

²⁴ After the bifurcation of CAAN into regulator and service provider, the service provider will execute and implement the program. The new entity is likely to be called the Air Service Authority of Nepal.

²⁵ Technical Assistance for Project Preparation (accessible from the list of linked documents in Appendix 3).

III. DELIBERATIVE AND DECISION-MAKING ITEMS

A. Risk Categorization

23. The program is categorized *complex* because the proposed aggregate amount of the SDP exceeds \$50 million.²⁶ The safeguard categorization is tentatively assessed *category B* for environment, *category C* for involuntary resettlement, and *category C* for indigenous peoples. Given that the physical scope is within the current airport operational areas, no land acquisition or resettlement is required (physical and economic displacement is unlikely), and no impact on indigenous peoples is foreseen for the investment component. The project is expected to have typical construction-related impacts, including some degree of disruption in the operations of the targeted airports. These impacts will be assessed in more detail in the initial environmental examination and included in the environmental management plan.

B. Project Procurement Classification

24. Project procurement classification is *category A* following ADB's project procurement classification (Appendix 2). CAAN has handled projects funded by ADB and other development partners. However, poor performance in contract management has been observed in the previous ATCEP (para. 7). Procurement will follow the ADB Procurement Policy (2017, as amended from time to time) and Procurement Regulations for ADB Borrowers (2017, as amended from time to time).

C. Scope of Due Diligence

Table 3: Scope of Due Diligence

Due Diligence Outputs	To be undertaken by
Development coordination	Staff
Economic analysis	TA consultants, staff
Financial management assessment, financial evaluation, and financial analysis	TA consultants, staff
Gender analysis, collection of baseline data, and gender action plan	Staff
Safeguard screening and categorization results	Staff
Initial poverty and social analysis	Staff
IDD and/or AML or CFT checklist(s)	Staff
Project administration manual	Staff
Risk assessment and management plan	Staff
Safeguard documents and due diligence reports on the environment, climate risk and vulnerability, involuntary resettlement, and/or indigenous peoples	TA consultants, staff
Sector assessment	Staff
Summary poverty reduction and social strategy	Staff
Policy matrix	TA consultants, staff

AML = anti-money laundering, CFT = combating the financing of terrorism, IDD = integrity due diligence, TA = technical assistance.

Source: Asian Development Bank.

²⁶ In case the SDP is processed as two separate loans (policy-based lending and investment loan), considering the readiness of the investment component (Table 5), the risk categorization of each loan will follow relevant sections of the Operations Manual and Staff Instructions.

D. Processing Schedule and Sector Group's Participation

Table 4: Processing Schedule by Milestone

Milestones	Expected Completion Date
1. Concept clearance	November 2019
2. Loan fact-finding mission	March 2020
3. Management review meeting	May 2020
4. Loan negotiations	July 2020
5. Loan approval	September 2020
6. Loan signing	October 2020

Source: Asian Development Bank.

E. Key Processing Issues and Mitigation Measures

Table 5: Issues, Approaches, and Mitigation Measures

Key Processing Issues	Proposed Approaches and/or Mitigation Measures
1. Possible delay in legislation of civil aviation bills	The legislation process has been postponed several times in the past; thus, the project team will carefully monitor its progress for further loan processing. Without the legislation, the project team may not process the proposed SDP or other investments (such as the ITB) further, subject to ADB management decision.
2. Preparation of well-targeted policy actions to achieve the reforms	Well-targeted policy actions are key to achieving the intended reform objective of establishing functional entities, particularly for the service provider. Policy actions will be prepared and finalized by the government with the assistance of transaction TA consultants and in close coordination with ADB based on the reform agenda proposed in the bills.
3. Possible delay in the design of the terminal building at the GBIA	CAAN will prepare the design of the proposed terminal building at the GBIA by early 2020. However, in case design preparation is delayed, then (i) the program component can be processed first as stand-alone policy-based lending to promote the reforms in a timely manner; and (ii) the investment component can be processed later as a separate stand-alone investment loan.

CAAN = Civil Aviation Authority of Nepal, GBIA = Gautam Buddha International Airport, ITB = international terminal building, SDP = sector development program, TA = technical assistance.

Source: Asian Development Bank.

PRELIMINARY DESIGN AND MONITORING FRAMEWORK

Impact the Program is Aligned with Tourism in Nepal developed (National Tourism Strategic Plan for the period 2016–2025) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Safety, capacity, and efficiency of air travel to and from Nepal improved	By 2026: a. Average aircraft movements increased to more than YY (2019 baseline: TBD) b. Number of international passengers increased to more than ZZ at GBIA (2019 baseline: not applicable) c. Airport facilities operated by a new service provider (2019 baseline: not applicable) d. Effective implementation score in organization category improved to more than 75% (2019 baseline: 50%)	a–c. CAAN annual report d. ICAO safety audit result report	The ban of Nepalese flights to other countries may not be lifted. Unanticipated natural disasters may adversely affect the number of tourist arrivals.
Outputs^b Investment 1. TIA airside facilities completed in accordance with the TIA master plan 2. A new ITB constructed at the GBIA	By 2025: 1a. Relocation of hangars and construction of domestic apron areas at the TIA as per the master plan completed (2019 baseline: not applicable) 2a. Construction of a new ITB at the GBIA with a floor space of 35,000 m ² completed (2019 baseline: not applicable) 2b. At least XX gender- and socially-inclusive features installed in the new ITB (2019 baseline: not applicable) 2c. At least XX% women CAAN staff reported increased knowledge and skills on gender equality, social inclusion and women empowerment (2019 baseline: not applicable)	1a–2c. CAAN progress reports	Change of the government policy on the civil aviation sector regulatory framework hampers project implementation.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Program 3. Civil aviation bills legislated 4. Functional and distinct entities for (i) regulation and (ii) service operations established	3a. By 2019, draft civil aviation bills approved by the cabinet (2019 baseline: not applicable) ^c 3b. By 2020, civil aviation bills legislated and notified through gazette (2019 baseline: not applicable) 4a. By 2022, CAAN restructured to create two separate entities for regulatory and service operation functions with respective governance (2019 baseline: not applicable)	3a–b. Government resolution and gazette 4a. CAAN progress report	
Key Activities with Milestones 1. TIA airside facilities completed in accordance with the TIA master plan 1.1 Award civil works contract for the airside facilities at TIA (August 2020) 1.2 Complete all works (September 2025) 2. A new ITB constructed at the GBIA 2.1 Award civil works contract for the ITB at GBIA (April 2021) 2.2 Complete all works (September 2025)			
Inputs Asian Development Bank Project loan: \$150 million (concessional OCR) Policy-based loan: \$50 million (concessional OCR) Government: \$76 million			
Assumptions for Partner Financing Not Applicable			

ADB = Asian Development Bank, CAAN = Civil Aviation Authority of Nepal, GBIA = Gautam Buddha International Airport, ICAO = International Civil Aviation Organization, ITB = international terminal building, OCR = ordinary capital resources, TBD = to be determined, TIA = Tribhuvan International Airport.

Note: Contribution of the project to the new ADB Results Framework to be determined.

^a Government of Nepal; Ministry of Culture, Tourism, and Civil Aviation. 2016. *National Tourism Strategic Plan for the period of 2016–2025*. Kathmandu.

^b Project preparation will be supported by transaction technical assistance.

^c Achievement of this indicator should come before loan approval as it will be one of the triggers for disbursing the first tranche of the program component; thus, it is targeted to be met by 2019.

Source: Asian Development Bank.

PROJECT PROCUREMENT CLASSIFICATION

Characteristic	Assessor's Rating:
Is the procurement environment risk for this project assessed to be <i>high</i> based on the country and sector and/or agency risk assessments?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No High fiduciary risk is identified in ADB's CPS for Nepal, 2013–2017. ^a
Are multiple (typically more than three) and/or diverse executing agencies and/or implementing agencies envisaged during project implementation? Do they lack prior experience in implementation under an ADB-financed project?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unknown
Are multiple contract packages and/or complex and high-value contracts (compared with recent externally financed projects in the DMC) expected?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Unknown A civil works package of about \$100 million for the terminal building at GBIA, and another package of \$150 million for airside facilities.
Does the project plan to use innovative contracts (public–private partnership, performance-based, design and build, operation and maintenance, etc.)?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unknown
Are contracts distributed in more than three geographical locations?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unknown
Are there significant ongoing contractual and/or procurement issues under ADB (or other externally) financed projects? Has mis-procurement been declared in the DMC?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Unknown Contract management was performed poorly under the Air Transport Capacity Enhancement Project. ^b
Does the DMC have prolonged procurement lead times, experience implementation delays, or otherwise consistently fail to meet procurement time frames?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Unknown
Do executing and/or implementing agencies lack capacity to manage new and ongoing procurement? Have executing and/or implementing agencies requested ADB for procurement support under previous projects?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Unknown The investment component involves large procurement packages for the executing agency.
Regional department's overall recommendation (Kanzo Nakai)	
Overall project categorization recommended	<input checked="" type="checkbox"/> Category A <input type="checkbox"/> Category B
The high value of the contract packages will be used for procurement of airside facilities (\$150 million) and the international terminal building at the GBIA (\$100 million). These will be the largest contract packages for the executing agency. The EA has gained experiences in procurement in accordance with ADB procurement guidelines in the previous ADB-funded projects; however, several issues have been observed in procurement and contract management delays. <i>Category A</i> is recommended because of the size of the contract packages and the executing agency's lack of procurement capacity.	
Procurement, Portfolio, and Financial Management Department's recommendation (Dinesh Shiwakoti, Procurement Specialist)	
<i>Category A</i> is endorsed by the Procurement, Portfolio, and Financial Management Department.	

ADB = Asian Development Bank, CPS = country partnership strategy, DMC = developing member country, GBIA = Gautam Buddha International Airport.

^a ADB. 2013. [Country Partnership Strategy: Nepal, 2013–2017](#). Manila.

^b ADB. 2009. [Report and Recommendations of the President to the Board of Directors: Proposed Loan and Asian Development Fund Grant to Nepal for Air Transport Capacity Enhancement Project](#). Manila.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=38349-029-ConceptPaper>

1. Initial Poverty and Social Analysis
2. Technical Assistance for Project Preparation

Supplementary Document

3. Initial Sector Assessment (Summary): Transport (Air Transport)