



Technical Assistance Report

Project Number: 38349-030
Transaction Technical Assistance (TRTA)
November 2019

Nepal: Preparing the 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
ICAO	–	International Civil Aviation Organization
SDP	–	sector development program
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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TRANSACTION TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 38349-030
Project Name	Preparing the Airport Capacity Enhancement Sector Development Program	Department/Division SARD/SATC
Nature of Activity	Project Preparation	Executing Agency Ministry of Culture, Tourism and Civil Aviation
Modality	Regular	
Country	Nepal	
2. Sector	Subsector(s)	ADB Financing (\$ million)
✓ Transport	Transport policies and institutional development	1.00
	Total	1.00
3. Operational Priorities		Climate Change Information
✓ Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability		Climate Change impact on the Project Low
✓ Strengthening governance and institutional capacity		
✓ Fostering regional cooperation and integration		
Sustainable Development Goals		Gender Equity and Mainstreaming
SDG 9.1		No gender elements (NGE) ✓
		Poverty Targeting
		General Intervention on Poverty ✓
4. Risk Categorization	Complex	
5. Safeguard Categorization	Safeguard Policy Statement does not apply	
6. Financing		
Modality and Sources		Amount (\$ million)
ADB		1.00
Transaction technical assistance: Technical Assistance Special Fund		1.00
Cofinancing		0.00
None		0.00
Counterpart		0.10
Government		0.10
Total		1.10
Currency of ADB Financing: US Dollar		

TECHNICAL ASSISTANCE FOR PROJECT PREPARATION

I. THE ENSUING PROJECT

1. 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.¹ Travel and tourism in Nepal is estimated to generate about \$1.92 billion (7.8% of GDP) in 2018, including indirect and induced contribution.² 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.

2. Nepal has a large airport network, comprising one international airport, the TIA in Kathmandu, and 48 domestic airports.³ 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.⁴ 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.⁵ Directing well-targeted investments into the key international airports and creating an enabling environment for improvement of the civil aviation sector will benefit the country's long-run economic development.

3. 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. 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 Asian Development Bank (ADB).⁶ 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.

4. The ensuing 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

¹ International Monetary Fund. 2018. [Nepal: 2017 Article IV Consultation—Press Release; Staff Report](#). Washington, DC.

² World Travel & Tourism Council. 2018. [Travel & Tourism Economic Impact 2018 Nepal](#). London.

³ 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.

⁴ Government of Nepal; Ministry of Culture, Tourism and Civil Aviation. 2018. [Nepal Tourism Statistics 2017](#). Kathmandu.

⁵ Civil Aviation Authority of Nepal. 2013. *National Airports Plan Air Traffic Demand*. Kathmandu.

⁶ 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.

investment component).⁷ The investment component includes (i) relocation of hangars to the eastern part of the TIA, (ii) construction of dedicated domestic apron areas at the TIA, and (iii) construction of a new ITB with a floor space of 35,000 square meters at the GBIA. The SDP will have the following impact: tourism in Nepal developed. It will have the following outcome: safety, capacity, and efficiency of air travel to and from Nepal improved. The SDP is estimated to cost \$276 million. The government has requested a concessional loan of \$200 million from ADB's ordinary capital resources to help finance the SDP.

II. THE TECHNICAL ASSISTANCE

A. Justification

5. The transaction technical assistance (TA) will help the government (i) prepare a program design that complies with ADB requirements and international best practices; and (ii) implement the SDP through (a) support for procurement activities for the investment component and (b) monitoring and facilitating of execution of policy actions under the program component. The preparation of the SDP includes design of the reform program.

B. Outputs and Activities

6. The major outputs and activities are summarized in Table 1.

Table 1: Summary of Major Outputs and Activities

Major Outputs	Delivery Dates	Key Activities with Milestones
1. Design of the SDP prepared	May 2020	1.1 Prepare concrete time-bound policy actions under the reform program component 1.2 (i) Review TIA master plan and GBIA demand projection to confirm the scope of the investment component under the SDP, including location and design of the terminal building; (ii) review designs and costs of the investment component both at TIA and GBIA; (iii) review and prepare initial environmental examination, including climate change impacts; (iv) review social aspects of the projects; and (v) conduct economic and financial analysis for the investment component (project-level analysis) 1.3 Conduct financial management assessment and financial analysis of executing and implementing agencies
2. Procurement support for the investment component completed	April 2021	2.1 Support preparation of RFP and bidding documents in accordance with ADB's standard documents and policies 2.2 Provide bidding process assistance for prebid meetings, clarifications, addendum, technical and financial evaluation, support for preparation of relevant evaluation report and contract negotiation
3. Execution of policy actions under the program component monitored and facilitated	December 2021	3.1 Monitor progress of the agreed policy actions regularly 3.2 Provide technical recommendations for the establishment of the new authorities to assist implementation of the agreed policy actions

ADB = Asian Development Bank, GBIA = Gautama Buddha International Airport, SDP = sector development program, RFP = request for proposal, TIA = Tribhuvan International Airport.
 Source: Asian Development Bank.

⁷ The program component will be provided in two tranches of \$25 million each to ensure implementation of sequenced policy actions under tight fiscal conditions.

C. Cost and Financing

7. The TA is estimated to cost \$1.1 million, of which \$1 million will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF 6). The key expenditure items are listed in Annexure 1.

8. The government will provide counterpart support in the form of counterpart staff, office space, office supplies, and other in-kind contributions. The government was informed that approval of the TA does not commit ADB to finance any ensuing project.

D. Implementation Arrangements

9. ADB will administer the TA. The executing agency is the Ministry of Culture, Tourism, and Civil Aviation. The implementing agency is the CAA; after its bifurcation, the Nepal Civil Aviation Authority and the Air Service Authority of Nepal will be the implementing agencies. ADB's South Asia Department will select, supervise, and evaluate consultants.

10. The implementation arrangements are summarized in Table 2.

Table 2: Implementation Arrangements

Aspects	Arrangements		
Indicative implementation period	November 2019–December 2022		
Executing agency	Ministry of Culture, Tourism, and Civil Aviation		
Implementing agency	Civil Aviation Authority of Nepal		
Consultants	To be selected and engaged by ADB		
	Firm: QCBS with quality-cost ratio of 90:10, using biodata technical proposals	Review of the TIA master plan and/or demand and investment component, with economic and financial analysis and environment, climate change, and social examinations (11 international and 14 national person-months)	\$516,800
	Individual: individual selection	International expertise (7 person-months)	\$259,700
	Individual: individual selection	National expertise (45 person-months)	\$223,500
Advance contracting	Advance contracting is proposed for (i) review of the TIA master plan and investment component with economic and financial analysis, and (ii) individual consultants for preparing time-bound policy actions under the program component.		
Disbursement	The TA resources will be disbursed following ADB's <i>Technical Assistance Disbursement Handbook</i> (2010, as amended from time to time).		

ADB = Asian Development Bank, QCBS = quality- and cost-based selection, TA = technical assistance, TIA = Tribhuvan International Airport.

Source: Asian Development Bank.

11. **Consulting services.** ADB will engage the consultants following the ADB Procurement Policy (2017, as amended from time to time) and its associated project administration instructions and/or staff instructions.⁸

⁸ Terms of Reference for Consultants is in Annexure 2.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	544.5
ii. National consultants	292.3
b. Out-of-pocket expenditures	
i. International and local travel	107.5
ii. Training, seminars, and conferences	27.0
iii. Reports and communications	3.0
iv. Miscellaneous administration and support costs ^b	5.5
2. Contingencies	20.3
Total	1,000.0

Note: The technical assistance (TA) is estimated to cost \$1,100,000, of which contributions from the Asian Development Bank are presented in the table. The government will provide counterpart support in the form of counterpart staff, office space, office supplies, and other in-kind contributions. The value of the government contribution is estimated to account for 10% of the total TA cost.

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF 6).

^b Miscellaneous administration and support costs include office equipment and administration cost such as translation. Source: Asian Development Bank estimates.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=38349-030-TARreport>

1. Terms of Reference for Consultants