

DEVELOPMENT COORDINATION

A. Major Development Partners: Strategic Foci and Key Activities

1. Development of Nepal's air transport is significantly dependent on external funding. The Asian Development Bank (ADB) is the only multilateral funding agency supporting the infrastructure and institutional capacity development of the air transport subsector. The Organization of the Petroleum Exporting Countries (OPEC) Fund for International Development has also been supporting the subsector by cofinancing ADB-financed projects. In Nepal, major bilateral development partners in air transport development include the Government of Australia, the Government of France, the Japan International Cooperation Agency (JICA), and the Government of the People's Republic of China (PRC).¹

2. The government's Aviation Policy, 2063 (2006) mandates a liberal, open-skies approach. The policy calls for the upgrading of the Tribhuvan International Airport (TIA) and other airports, and the strengthening of the institutional capabilities of the Civil Aviation Authority of Nepal (CAAN). Priorities are given to the (i) completion of airport facilities at TIA in accordance with the TIA master plan; (ii) upgrading of Pokhara Airport and Gautam Buddha Airport as international airports; (iii) start of construction of a second international airport for the capital at Nijgadh; (iv) blacktopping of domestic airports; (v) aviation safety; and (vi) capacity enhancement and separation of CAAN's roles into regulatory and service entities.²

3. ADB's support in Nepal's aviation sector started with a \$70 million loan and a \$10 million grant to Nepal through the Air Transport Capacity Enhancement Project in 2010.³ The project aimed to enhance safety and capacity at TIA and three remote domestic airports—Lukla, Rara, and Simikot. ADB is also funding the upgrade of Gautam Buddha Airport, one of the four domestic hub airports in Nepal, via the South Asia Tourism Infrastructure Development Project.⁴ The Transport Project Preparatory Facility supported TIA's master plan that structures its future development, including reconfiguration of its airside and landside structures.⁵

4. ADB's key development partners in improving air transport in the country are JICA, the OPEC Fund for International Development, and the Government of the PRC. JICA has supported, through its grants, improvement of air safety at TIA and other airports by modernizing air navigation equipment and providing associated trainings to enhance CAAN's capacity. ADB and JICA have coordinated their strategies and complemented support in key areas of the air transport subsector. The Government of the PRC in the decade of 2010 entered into infrastructure development in the civil aviation sector. The Export-Import Bank of China is funding construction of the Pokhara Regional International Airport.

¹ The Government of Australia and the Government of France had been active development partners until about 2000, providing assistance in the modernization of air navigation and communication equipment at Nepalese airports.

² A new national aviation policy is being developed. A draft new aviation policy was prepared by a task force under the Ministry of Culture, Tourism, and Civil Aviation and submitted to the ministry in February 2020. The new policy intends to make the civil aviation sector secure, reliable, competitive, systematic, affordable, and credible. It also emphasizes that aviation safety standards will be maintained to above average global standards by meeting the standards determined by the International Civil Aviation Organization (ICAO).

³ ADB. 2009. [*Report and Recommendation of the President to the Board of Directors: Proposed Loan and Asian Development Fund Grant to Nepal for the Air Transport Capacity Enhancement Project*](#). Manila.

⁴ 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 the South Asia Tourism Infrastructure Development Project*](#). Manila.

⁵ ADB. 2010. [*Report and Recommendation of the President to the Board of Directors: Proposed Grant to Nepal for the Transport Project Preparatory Facility*](#). Manila.

Major Development Partners (Air Transport)

Development Partner	Project Name	Duration	Amount (\$ million)
ADB	Air Transport Capacity Enhancement Project	2010–2019	80.0
	South Asia Tourism Infrastructure Development Project (cofinanced by OFID), including additional financing (Nepal portion)	2009–2020	58.5
	Transport Project Preparatory Facility	2010–2016	10.0
JICA	Tribhuvan International Airport Modernization Project	2013–2015	9.0
	The Project for Improvement of Aviation Safety Facilities in Major Airports	2016–2021	13.2
Export-Import Bank of China	Pokhara Regional International Airport Project	2016–2022	209.0

ADB = Asian Development Bank, JICA = Japan International Cooperation Agency, OFID = OPEC Fund for International Development, OPEC = Organization of the Petroleum Exporting Countries.

Source: Asian Development Bank.

5. The civil aviation sector is heavily regulated, particularly to maintain high-level safety and security to be applied across the countries. The International Civil Aviation Organization (ICAO), a specialized agency of the United Nations, is responsible for ensuring standardized global procedures and processes with respect to civil aviation. As a signatory to the Convention on International Civil Aviation, Nepal is generally bound by the requirements of the convention. There are 19 annexes to the convention, divided into specific areas of civil aviation over which ICAO has authority. These include Rules of the Air (Annex 2), Security (Annex 17), and Safety Management (Annex 19). The annexes provide details of the standards and procedures that ICAO member states must comply with to ensure safe and efficient civil aviation operations. With regard to safety management, the standards and recommended practices (SARPs) in Annex 19 are intended to assist ICAO member states in managing aviation safety risks. Given the increasing complexity of the global air transportation system and its interrelated aviation activities required to assure the safe operation of aircraft, Annex 19 supports the continued evolution of a strategy to improve safety performance. The foundation of this safety strategy is based on the implementation of a State Safety Programme (an ICAO initiative) that systematically addresses safety risks. ICAO provides the SARPs and relevant guidance materials, including the Global Aviation Safety Plan, for oversight authorities and service providers to follow. ICAO also conducts safety audits under its Universal Safety Oversight Audit Programme. With guidance and technical support from ICAO, the CAAN prepared the Nepal Aviation Safety Plan, 2018–2022 to improve aviation safety in Nepal; the plan includes the bifurcation of the CAAN into a regulator and a service provider.⁶

6. The European Commission has banned Nepalese airlines from flying to the European Union because of a lack of safety oversight by the aviation authority of Nepal. In this context, some European Union member states, through their embassies in Kathmandu, have expressed strong interest in the proposed civil aviation sector reforms to bifurcate the CAAN into a regulator and a service provider to enhance the oversight function, and they have provided various support for the reforms.

B. Institutional Arrangements and Processes for Development Coordination

⁶ Government of Nepal, CAAN. 2018. [Nepal Aviation Safety Plan, 2018–2022](#). Kathmandu.

7. Development partner coordination in Nepal is undertaken at various levels. Heads of agencies meet regularly to discuss Nepal's overall development context through the International Development Partner Group. At the civil aviation sector level, periodic development partner meetings facilitate the development coordination process between ADB, JICA, and other development partners as required. Although institutional arrangements have not been formalized (mainly because of the relatively small number of projects in the sector), the Ministry of Culture, Tourism, and Civil Aviation and the CAAN organize periodic meetings to review project portfolio performance and priorities, and to provide a forum for discussion and coordination.

C. Achievements and Issues

8. ADB continues to coordinate with the development partners in the air transport subsector. Experiences, including consultation meetings with JICA, have contributed to efficient development assistance in terms of gauging the comparative advantages of each development partner, and strengthening their collaboration in Nepal. Given the heavily regulated civil aviation sector, projects and programs also need to be designed in due consideration of ICAO's SARPs, guidance materials, and required equipment and capacity in terms of civil aviation safety and security. Coordination needs to be continued and broadened to include other development partners, including European Union member states and United Nations agencies, and to meet funding and regulatory compliance requirements for further improvement of air safety, and the expansion of air transport for national and international passengers.

D. Summary and Recommendations

9. The scope and implementation arrangements of the Civil Aviation Sector Improvement Program will require closer consultations and enhanced development coordination. The program will enhance the oversight functions of the regulator and the operational efficiency of the service provider. The development coordination will be further expanded during program implementation, and lessons learned will inform the design of future projects.