

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Nepal	Project Title:	Civil Aviation Sector Improvement Program
Lending/Financing Modality:	Policy-Based Loan	Department/ Division:	South Asia Department/Transport and Communications Division

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

Poverty targeting: General intervention

A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy

The Government of Nepal's Fifteenth Five-Year Development Plan, 2020–2024 is consistent with (i) its long-term vision of “prosperous Nepal, happy Nepali”; (ii) its aim for the country to graduate from least-developed country status by 2022; and (iii) its aim for Nepal to be comfortably in the ranks of middle-income countries by 2030.^a The plan targets average annual gross domestic product growth of 10.1% during the 5-year plan period, resulting in an increase in per capita income to \$1,595 by 2024. The plan targets a reduction in the income poverty rate to 11% and the multidimensional poverty rate to 13%.

Nepal is a landlocked country with tremendous geographic diversity, with the northern rim of the Gangetic Plain in the south, the Himalaya Mountains in the north, and hilly terrain flared with steep slopes in the middle of the country. Civil aviation is crucial to transport, trade, and tourism in the landlocked country, and provides indispensable links for the 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; tourism brought in an estimated \$563 million in foreign exchange in fiscal year (FY) 2018 (ended 15 July 2018), equivalent to 65% of goods exports.^b Travel and tourism in Nepal were estimated to generate \$1.92 billion (7.8% of gross domestic product) in 2018, including indirect and induced contributions.^c Considering that more than 80% of international tourists come to Nepal by air, improvement of the civil aviation sector is essential for tourism to support the country's economic development.

To strengthen Nepal's civil aviation sector, the Civil Aviation Sector Improvement Program proposes to restructure the governance of the sector by separating the Civil Aviation Authority of Nepal (CAAN) into a regulator and a service provider. The proposed reform is in line with the Nepal Aviation Safety Plan, 2018–2022.^d The program is aligned with the Asian Development Bank (ADB) Strategy 2030 operational priorities of (i) strengthening governance and institutional capacity (operational priority 6) by strengthening oversight capacity and quality airport service delivery through civil aviation sector reforms, (ii) fostering regional cooperation and integration (operational priority 7) through attracting more international flights with enhanced aviation safety, and (iii) accelerating progress in gender equality (operational priority 2) by introducing gender-related initiatives.^e The program is aligned with the ADB country partnership strategy for Nepal, 2020–2024.^f The program is listed in the country operations business plan, 2020–2022.^g

B. Results from the Poverty and Social Analysis during Project Preparatory Technical Assistance or Due Diligence

1. Key poverty and social issues. Overall headcount poverty in Nepal fell from 41.8% in 1996 to 25.2% in 2011, and is estimated to have further declined to 18.7% in 2018, but a large percentage of the population remains vulnerable. Poverty rates also differ by gender and social groups, by ecological belt, and by province. For instance, in 2011, the incidence of poverty among Dalits was 43.6% in the hill areas and 38.2% in the Terai, compared to Newars (10.3%) and hill Brahmins (10.3%). Similarly, 15% of hill Dalits and 44% of Terai Dalits were landless. With limited economic opportunities in Nepal, many youths are migrating for employment. The main challenge for Nepal is to ensure employment-centric economic growth to reap the benefits of its demographic dividend. The program will improve the civil aviation sector through regulatory and policy reforms, and will contribute to enhancing commercial business activities, which will positively affect other sectors such as agriculture, industry, energy, and transportation. Local communities that depend on tourism will have more opportunities and access to employment, and basic services delivery will be improved. Overall, the economic impact of an improved civil aviation sector will have tremendous benefits on the country's poverty alleviation programs.

2. Beneficiaries. The program is classified *general intervention* as it does not specifically target the poor but will have substantial (indirect) impacts on poverty through improved efficiency in the civil aviation sector and growth in related business activities. The primary project beneficiaries are the public, the government, communities around improved aviation facilities, and tourism-related businesses. Other beneficiaries are the sectors that will receive indirect benefits through increased demand, such as agriculture, transportation, and energy. There is no expected adverse impact from the improvement of the policy and regulatory environment.

3. Impact channels. Strengthening the civil aviation sector in Nepal will provide broad opportunities for the efficient movement of people and trade by air. The improved civil aviation infrastructure will enhance access to tourism activities and markets. It will also provide economic value addition through better and quicker supply chain channels, thereby

improving related businesses, the livelihood of communities, and the delivery of basic services, which will create more jobs and opportunities.

4. Other social and poverty issues. There are no other general social and poverty issues. The program, however, will restructure the current authority, the CAAN, into a regulator and a service provider. The smooth transfer of CAAN staff to the new entities, while keeping its fundamental labor conditions, is key to the success of the reform.

5. Design features. The program will have an indirect impact on poverty and therefore does not incorporate a strategy to address poverty and social issues.

C. Poverty Impact Analysis for Policy-Based Lending

1. Impact channels of the policy reform(s). The program will provide support for civil aviation sector reforms in restructuring the CAAN and strengthening its oversight functions, management accountability, and operational efficiency. The reform will be channeled (through the strengthened regulator function and improved operational efficiency) to improve overall performance of the sector. In line with the global civil aviation sector's need to advance gender equality and the empowerment of women, the Air Service Authority of Nepal (ASAN) will develop an operational plan on gender equality and social inclusion (GESI) to enable the future institutions created to adhere to the best gender and social practices.

2. Impacts of policy reform(s) on vulnerable groups. The program will not impact negatively on vulnerable groups (e.g., women and indigenous peoples). The program will (i) provide positive benefits to the civil aviation stakeholders and intended program beneficiaries through the development of GESI initiatives of the newly established service provider, and (ii) further improve the enabling business environment of the affiliated businesses. The operations of the new institutions will be aligned to meet the principles of universal access in terms of civil aviation infrastructure and to ensure equitable distribution of opportunities between men and women.

3. Systemic changes expected from policy reform(s). The program will make the civil aviation sector more reliable and efficient, and create an enabling business environment in civil aviation, tourism, and affiliated industries, thereby contributing to the achievement of Sustainable Development Goals (SDG) 1 and 9. The program will also promote GESI initiatives, thereby contributing to the achievement of Sustainable Development Goal 5.

II. PARTICIPATION AND EMPOWERING THE POOR

1. Participatory approaches and project activities. The policy reforms involve highly technical aspects related to aviation safety and security to help Nepal comply with International Civil Aviation Organization (ICAO) standards and recommended practices. In this regard, the program has not taken a broad participatory approach to formulate the civil aviation reforms. However, the government has closely consulted with representatives of CAAN employees to reflect their interests. The newly created ASAN will create an environmental and social unit that will ensure compliance with applicable safeguards and social requirements. The institutional arrangement will provide opportunities for participatory approaches to be applied during preparatory works for rehabilitating existing and constructing new civil aviation infrastructure.

2. Civil society organizations. Participation of civil society organizations is not envisaged during program implementation. However, civil society organization participation will be critical during the implementation of civil aviation projects under the ASAN. Project preparatory activities will inherently involve stakeholder consultations, focus group discussions, and social surveys.

3. Participation plan. A participation plan will not be prepared, as it is not envisaged in the program implementation. However, in the subsequent implementation of an improved civil aviation infrastructure under the ASAN, a similar plan may be prepared to ensure the broad participation of diverse stakeholders in the project design, and to ensure that their issues are adequately addressed.

III. GENDER AND DEVELOPMENT

Gender mainstreaming category: Some gender elements

A. Key issues. There are pressing needs in the global civil aviation sector to advance gender equality and the empowerment of women. ICAO made commitments, in Resolution A39-30: ICAO Gender Equality Programme Promoting Participation of Women in the Global Aviation Sector, to enhance gender equality by 2030 at all professional and higher levels of employment in the sector. These commitments will be realized by adopting a uniform GESI operational plan to be implemented across existing and new civil aviation infrastructure. Institutionally, an environmental and social unit will be created within the ASAN to operationalize the plan. In line with global trends and requirements, the civil aviation sector in Nepal needs to transform its institutions, particularly the service provider, to be more advanced and forward-looking in terms of the GESI.

B. Key actions. The program will support gender-inclusive initiatives of the service provider (the ASAN) by (i) conducting a GESI audit of the ASAN, (ii) developing a GESI operational plan that will be implemented in relevant civil aviation infrastructure, and (iii) setting an employment target for women.

<input type="checkbox"/> Gender action plan	<input checked="" type="checkbox"/> Other actions or measures	<input type="checkbox"/> No action or measure
IV. ADDRESSING SOCIAL SAFEGUARD ISSUES		
A. Involuntary Resettlement Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI 1. Key impacts. There will be no physical or economic displacement due to land acquisition or restriction of land use, because the policy actions do not involve any type of civil works. 2. Strategy to address the impacts. Not applicable. 3. Plan or other Actions. <input checked="" type="checkbox"/> No action		
B. Indigenous Peoples Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI 1. Key impacts. The program will have no impacts on indigenous peoples. Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No 2. Strategy to address the impacts. Not applicable. 3. Plan or other actions. <input checked="" type="checkbox"/> No action		
V. ADDRESSING OTHER SOCIAL RISKS		
A. Risks in the Labor Market 1. Relevance of the project for the country's or region's or sector's labor market, indicated as high (H), medium (M), and low or not significant (L). <input checked="" type="checkbox"/> Unemployment (L) <input checked="" type="checkbox"/> Underemployment (L) <input checked="" type="checkbox"/> Retrenchment (L) <input checked="" type="checkbox"/> Core labor standards (L) 2. Labor market impact. The program will support the reorganization of the CAAN, which may have potential impacts on CAAN employees. The draft bills to be realized under the program seek to include relevant clauses to safeguard CAAN employees through (i) employees' options to submit applications to transfer to preferred new entities, (ii) keeping at least the same level of remuneration and benefits after the transfer, (iii) providing a necessary retirement scheme in consideration of employees' CAAN tenure, and (iv) establishing a gratuity fund in each authority. The CAAN and its successors (the Civil Aviation Authority of Nepal and the ASAN) will communicate with stakeholders, particularly employees, about the transformation and its impact. The attached technical assistance will help with these communication efforts.		
B. Affordability Not applicable.		
C. Communicable Diseases and Other Social Risks 1. The impact of the following risks are rated as high (H), medium (M), low (L), or not applicable (NA): <input type="checkbox"/> Communicable diseases (NA) <input type="checkbox"/> Human trafficking (NA) <input type="checkbox"/> Others (please specify) _____ 2. Risks to people in project area. There are no social risks anticipated under the program.		
VI. MONITORING AND EVALUATION		
1. Targets and indicators. The program is expected to indirectly contribute to the economic growth and poverty reduction targets of the Fifteenth Five-Year Development Plan. The program will contribute to the development GESI initiatives. 2. Required human resources. ADB staff missions will monitor program implementation at least twice per year and prepare program monitoring reports. 3. Information in the project administration manual. Not applicable. 4. Monitoring tools. Progress in implementing the Fifteenth Five-Year Development Plan will be monitored as an indirect reference.		

^a Government of Nepal, National Planning Commission. 2019. [Fifteenth Five-Year Development Plan, 2020–2024: Approach Paper](#). Kathmandu.

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

^c World Travel & Tourism Council. 2018. *Travel & Tourism Economic Impact 2018 Nepal*. London.

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

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

^f ADB. 2019. [Country Partnership Strategy: Nepal, 2020–2024—Promoting Connectivity, Devolved Services, and Resilience](#). Manila.

^g ADB. 2019. [Country Operations Business Plan: Nepal 2020–2022](#). Manila. In the country operations business plan, the Tribhuvan International Airport Capacity Expansion Sector Development Program, which is a loan modality combining a program and investment component, is listed. The sector development program was split into policy-based lending and an investment loan after the concept clearance because of differences in loan processing timelines.

Source: Asian Development Bank.