



Technical Assistance Report

Project Number: 38349-029
Transaction Technical Assistance (TRTA)
June 2020

Nepal: Supporting the Civil Aviation Sector Improvement Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 5 May 2020)

Currency unit	–	Nepalese rupee/s (NRe/NRs)
NRe1.00	=	\$0.008255
\$1.00	=	NRs121.14

ABBREVIATIONS

ADB	–	Asian Development Bank
ASAN	–	Air Service Authority of Nepal
CAAN	–	Civil Aviation Authority of Nepal
GESI	–	gender equality and social inclusion
ICAO	–	International Civil Aviation Organization
TA	–	technical assistance

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., FY2020 ends on 15 July 2020.
- (ii) In this report, "\$" refers to United States dollars.

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I. THE PROPOSED PROGRAM

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 rugged and 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 \$651 million in foreign exchange in fiscal year 2019, equivalent to 65% of goods exports.¹ Travel and tourism in Nepal generated an estimated \$1.92 billion (7.8% of gross domestic product) in 2018, including indirect and induced contributions.² Considering that more than 80% of international tourists come to Nepal by air, improvement of the civil aviation sector is essential for tourism to flourish and to support the country's economic development.

2. Aviation safety in Nepal is a challenge for the civil aviation sector. The Universal Safety Oversight Audit Programme under the International Civil Aviation Organization (ICAO) is responsible for conducting aviation safety oversight audits to identify deficiencies of its member states. The Civil Aviation Authority of Nepal (CAAN) has achieved significant progress in improving its safety oversight capability, which was evident in the Universal Safety Oversight Audit Programme's 2017 audit of the CAAN. Nonetheless, negative safety oversight margins were still identified in (i) air navigation; and (ii) support in organization, legislation, and accident and incident investigation.³ Nepal has maintained a traditional civil aviation sector structure whereby the functions of regulation, safety oversight, and service provision are carried out by one entity: CAAN. The roles of regulator and service provider lodged in a single organization create a conflict of interest. The regulatory function may not provide adequate oversight on service provision and may raise operating costs, resulting in suboptimal performance as a service provider. There are also repercussions on aviation safety, which have been noted and highlighted by international aviation agencies. ICAO's Global Aviation Safety Plan, 2020–2022 states that an independent regulatory authority should be established and maintained, which includes separation of oversight functions from service provision functions where these exist within the authority.⁴ 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.⁵ To remedy this situation, the government is enacting new civil aviation legislation.

3. The program will provide budget support for civil aviation sector reforms in the restructuring of the current CAAN and the strengthening of its oversight functions, management accountability, and operational efficiency. The Government of Nepal has requested a concessional loan of \$50 million equivalent from the ordinary capital resources of the Asian Development Bank (ADB) to help finance the program, which will be released in two tranches—\$25 million at loan effectiveness, and \$25 million about 24 months later—once the government has complied with the policy actions.

¹ International Monetary Fund (IMF). 2020. Nepal: Staff Report for the 2020 Article IV Consultation. [IMF Country Report No. 20/96](#). Washington, DC.

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

³ Government of Nepal, CAAN. 2018. [Aviation Safety Report 2019](#). Kathmandu.

⁴ ICAO. 2019. [Global Aviation Safety Plan, 2020–2022](#). Montreal (Appendix A).

⁵ European Commission. 2019. [Aviation: Commission Updates the EU Air Safety List to Maintain Highest Level of Protection for Passengers](#). News release. 16 April.

II. THE TECHNICAL ASSISTANCE

A. Justification

4. The proposed transaction technical assistance (TA) is being processed at the request of the Government of Nepal to facilitate program implementation. Since the proposed policy-based loan is the first in the civil aviation sector in Nepal, there is a strong need to assist the implementing agencies in carrying out required actions under the policy-based loan.

5. The policy actions in tranche 2 include several initiatives that are relatively new to the CAAN and its management.⁶ These initiatives intend to transform the newly established entities, particularly the Air Service Authority of Nepal (ASAN) as a service provider, to be more advanced and forward-looking organizations in terms of management accountability and operational efficiency. This includes preparation of a medium-term business plan, preparation of a financial framework, preparation of a financial management improvement plan including the introduction of accrual-based financial statements and an enterprise resource planning system, and development of key performance indicators. There are also pressing needs in the global civil aviation sector to advance gender equality and social inclusion (GESI), 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. In line with global trends and international practices, GESI initiatives are included in tranche 2 policy actions, which will be assisted by the TA. The TA will support the implementing agencies to prepare the policy actions in these areas to comply with the program's tranche 2 conditions.⁷

6. The TA will provide assistance in facilitating and monitoring progress of policy actions. Successfully implementing civil aviation reforms relies on communicating organizational changes, reform objectives, and benefits with all stakeholders, including CAAN employees. Effective communication strategies are critical for enhancing results. Monitoring and facilitating progress of policy actions—especially those related to compliance with highly technical requirements based on ICAO standards and practices—are important to provide timely technical support during implementation.

B. Outputs and Activities

7. 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. Time-bound integrated institutional management strategy for the ASAN prepared	September 2021	1.1 Prepare a medium-term business plan 1.2 Prepare a medium-term financial framework including forecast financial statements 1.3 Prepare a time-bound financial management improvement action plan including introduction of (i) an accrual-based

⁶ This also could be applied to CAAN's successor agencies: the newly established civil aviation authority of Nepal and the Air Service Authority of Nepal (ASAN).

⁷ Policy Matrix (accessible from Appendix 4 of *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Nepal for Civil Aviation Sector Improvement Program*). The TA will support policy actions 2.8, 2.9, and 2.10.

Major Outputs	Delivery Dates	Key Activities with Milestones
		<p>accounting system, (ii) an enterprise resource planning system, and (iii) a management accounting system.</p> <p>1.4 Develop key performance indicators that are consistent with 1.1 and 1.2</p>
2. GESI initiatives for the ASAN developed	September 2021	<p>2.1 Conduct a GESI audit of the ASAN</p> <p>2.2 Develop a GESI operational plan</p> <p>2.3 Propose an increased percentage of women and the socially excluded in the ASAN's workforce compared to the current percentage, to be set by (a) employees' regulations guided by the Civil Service Act, 2049 (1993) for the ASAN's new recruitment, and (b) a GESI operational plan</p>
3. Communication strategies enhanced	June 2021	<p>3.1 Review current communication methods with stakeholders, including employees of the current CAAN</p> <p>3.2 Prepare guiding principles of communication with the stakeholders</p> <p>3.3 Provide support and advice on communication problems</p>
4. Progress of policy actions monitored and facilitated	September 2022	<p>4.1 Monitor progress of policy actions</p> <p>4.2 Confirm and verify compliance of technical policy actions</p> <p>4.3 Provide support and recommendations to facilitate policy actions</p>

ASAN = Air Service Authority of Nepal, CAAN = Civil Aviation Authority of Nepal, GESI = gender equality and social inclusion.

Source: Asian Development Bank.

C. Cost and Financing

8. The TA is estimated to cost \$550,000, of which \$500,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-6). The key expenditure items are listed in Appendix 1.

9. The government will provide counterpart support in the form of counterpart staff, office space, and other in-kind contributions.

D. Implementation Arrangements

10. ADB will administer the TA. A total of 10.5 person-months of international and 23 person-months of national consultancy inputs will be required intermittently. Transaction TA consultants will provide support to the proposed implementing agencies for the program. The implementation arrangements are summarized in Table 2.

Table 2: Implementation Arrangements

Aspects	Arrangements		
Indicative implementation period	October 2020–September 2022		
Executing agencies	CAAN before the bifurcation CAANepal and ASAN after the bifurcation		
Implementing agencies	SATC will select, supervise, and evaluate consultants. ADB's Nepal Resident Mission will provide implementation oversight support to SATC, including verifying consultants' time sheets.		
Consultants	To be selected and engaged by ADB		
	Firm: QCBS with quality–cost ratio of 90:10, using biodata technical proposals	Preparation of integrated institutional management strategy (7.5 international and 9.0 national person-months)	\$336,000
	Individual selection	International expertise (3 person-months)	\$94,000
	Individual selection	National expertise (14 person-months)	\$70,000
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, ASAN = Air Service Authority of Nepal, CAAN = Civil Aviation Authority of Nepal; CAANepal = Civil Aviation Authority of Nepal, QCBS = quality- and cost-based selection, TA = technical assistance, SATC = South Asia Transport and Communications Division.

Source: ADB estimates.

11. **Consulting services and value-for-money procurement.** 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 Procurement under the TA is devised to achieve optimum value for money by procuring (i) an international consulting firm using quality- and cost-based selection with a quality–cost ratio of 90:10 to draft an integrated institutional management strategy; and (ii) international and national individual experts for civil aviation safety, GESI, communication, and program monitoring. The consulting firm will have output-based contracts with reimbursable items based on actual expenses. Consultancy services will be mobilized intermittently.

⁸ Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 2).

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	291.00
ii. National consultants	119.00
b. Out-of-pocket expenditures	
i. International and local travel	64.40
ii. Training, seminars, and conferences	3.00
iii. Reports and communications	2.00
iv. Miscellaneous administration and support costs ^b	1.60
2. Contingencies	19.00
Total	500.00

Note: The technical assistance (TA) is estimated to cost \$550,000, of which contributions from the Asian Development Bank (ADB) are presented in the table above. The government will provide counterpart support in the form of counterpart staff, office space, and other in-kind contributions. The value of the government contribution is estimated to account for 9.1% of the total TA cost.

^a Financed by ADB's Technical Assistance Special Fund (TASF-6).

^b Including visa processing and excess baggage fees.

Source: ADB estimates.

LIST OF LINKED DOCUMENTS

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

1. Terms of Reference for Consultants