

## **7. Pokhara International Airport**

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### **7.1 Abstract**

Pokhara International Airport is an example of the state driving a development project for the sake of political imagination while muting concerns about commercial viability and corruption. The tension between delivering big showpiece projects and undermining national economic interests by ignoring commercial viability and the costs of corruption is a key challenge facing the current government. This is likely to have significant implications regarding long-term national security interests, corruption, and conflict.

In 1975, the government acquired more than 3,106 ropanies of land in Pokhara, a major tourism hub, for a regional international airport. A detailed project report was prepared in 1989 in association with Japan International Cooperation Agency (JICA), proposing a 2,500-meter-long runway with a terminal and cargo building. At that time the airport was estimated to cost USD 39.6 million.

This paper analyses discrepancies observed while awarding the contract and the outrageous cost structure. It refers to speculated corruption.

### **7.2 Initial phase**

The construction of the airport moved forward during the tenure of Maoist Prime Minister Baburam Bhattarai in 2011. Talks between Chinese companies and Nepali politicians took place, led by Finance Minister Barshaman Pun and Minister for Tourism and Civil Aviation Post Bahadur Bogati. Then, in January 2012, Chinese Premier, Wen Jiabao [visited](#) Nepal offering Nepal USD 750 million in aid, including loans for the Pokhara airport. The Bhattarai-led-government appointed Ganesh Raj Joshi as the Secretary at the Ministry of Tourism and Civil Aviation, and his decision to grant contracts to the Chinese company for the airport generated controversy. He was later [rewarded](#) with a position in the Commission for Investigation of Abuse of Authority (CIAA). Even before a bid for Engineering, Procurement, Construction, and Finance (EPCF) was called, the Energy Ministry secretly signed an MoU with China Automobile Manufacturer Company (CAMC) on September 20, 2011. The MoU stated that a tender would be called later for

which "the government of Nepal shall provide CAMC with solid and substantial support." Following the deal, the Ministry of Finance instructed Civil Aviation Authority of Nepal (CAAN) to invite a bid for developing the airport.

Suspecting corruption, the Public Accounts Committee (PAC) debated the rigged process of signing an MoU before calling for a bid. Nepali Congress lawmaker, Deep Kumar Upadhyay circulated the MoU to the PAC members which called the Tourism Ministry and civil aviation officials. The PAC, in particular, criticized the officials for allowing only a short deadline to the bidders. The CIAA, suspecting irregularities, intervened, asking the Finance Ministry about the details of the MoU which was signed with CAMC. Following the debacle, Minister Pun said the government had scrapped all such MoUs.

### **7.3 Irregularities in finalizing contractor**

Following intense pressure from political decision-makers, CAAN continued with the process and invited bids for the construction of the airport under the EPCF model in February 2012, setting a very short deadline for the bidders. However, CIAA also continued to intervene, delaying the process twice. CAAN's tender evaluation committee finally opened the [financial proposals](#) for the project in July 2012

Minister for Tourism and Civil Aviation Post Bahadur Bogati said that China Exim Bank had offered a [soft loan](#) for the project, but with a condition that it should be constructed by a company "recommended" by the bank. Three Chinese companies submitted proposals following the government's invitation for bids. The government had estimated the project to cost USD 180 million, but the lowest bidder, CAMC quoted a price of US\$ 305 million. Two other firms, Sinohydro Corporation and China International Water and Electric Corporation, [quoted](#) USD 337.82 million and US\$ 349.28 million respectively.

The airport project ran into controversy again, after the lowest bid for its construction was outrageously higher than the government's estimated cost. Opposition over the construction and bidding process mounted. For example, during a press event, former Minister for Civil Aviation and Tourism, and leader of the Nepali Congress, Deep Kumar Upadhaya claimed that selection of CAMC for construction of the project involved massive irregularities. Several other politicians also alleged irregularities in the selection of the Chinese company without transparent competition.

As the opposition mounted, the ruling Maoists organized a series of protests and demonstrations in Pokhara, where the locals demanded the construction of the airport. Post Bahadur Bogati framed the [issue](#) as "a matter of the relation between the two countries" adding that "there is no alternative than to start it after holding talks." Sujeev Shakya, an economic analyst, [wrote](#) in 2012, "the way the pressure is being built for Pokhara Airport, are testing waters as to how much they can swing public sentiment." He added, "If every infrastructure project in Nepal is pushed by vested interests like the Pokhara Airport, we are in for some real prolonged [trouble](#)."

The story was picked up by *Times of India*, a major publication close to India's foreign ministry. The news media said that "solid cash" had become a new element of fraternal ties between Nepal's Maoists and China. Adding to it, TOI wrote "India suspects that Prachanda and UCPN (Maoist) will leave no stone unturned to rescue the deal with China CAMC...For New Delhi, the questioning of Chinese investments in Nepal has only exposed Beijing's practice of bagging key projects in India's neighbourhood by offering [inducements](#) to government functionaries in the host countries."

#### **7.4 Finalizing the cost and securing funds**

The then Finance Minister, Ram Sharan Mahat, in March 2014, said CAMC's bid of USD 305 million was "[outrageous](#)" compared to another international airport being built with ADB money—Gautam Buddha International Airport in Bhairahawa—and instructed the Civil Aviation Ministry to re-estimate the costs of the airport. On April 7, 2014, a CAAN board meeting chaired by Tourism Minister, Bhim Acharya approved the project under the revised cost of USD 215.96 million. The price tag had been [recommended](#) by a three-member independent panel formed by the government. Senior officials of the Nepal Government, involved in the negotiations said CAMC tried to convince them to accept the figure of 305 million saying that the additional cost would be provided as a grant and that Nepal would incur [no additional cost](#). Such negotiations raised questions about the intent and motives of the Chinese parties.

CAMC later agreed to develop the airport at the government-estimated cost of \$216 million. Soon, Nepal signed a construction agreement with CAMC. On March 23, 2016 China Exim Bank announced it would fund the construction of the international airport in Pokhara. The Bank did not specify the [amount](#) but said it would cover the parking apron, terminal, and control tower. Nepal and India issued a [joint statement](#) on the same day, saying the Chinese side had "agreed to provide financial support on preferential terms for Pokhara Regional International Airport." A month later,

PM K.P. Oli laid the foundation stone of the airport. On June 5, 2016, Nepal's Finance Ministry and CAAN signed a subsidiary loan [agreement](#) with China for the airport, which was estimated to cost around \$ 216 million.

## **7.5 Questions over Commercial Viability**

According to B.B. Deoja, infrastructure specialist and former Joint Secretary at the Ministry of Culture, Tourism, and Civil Aviation (MOCTCA), Pokhara International Airport, among other airports, is not economically viable and CAAN "would be under pressure to make investments for Pokhara International Airport." CAAN, as a regulatory agency, runs on the revenue generated from commercially viable projects and also bears the cost of construction and operation of commercially non-viable airports. He said it was not yet clear who is going to "[pay](#) the gap between repayments and revenue" for the Pokhara Airport, among others.

Even once the airport is constructed it will have significant technical shortcomings, limiting commercial viability. According to a senior Buddha Air executive, the airport may not have instrument landing system (ILS) capabilities. Given the geography and climate of the region, the airport operating minima are problematic, he said, limiting the operation of big aircraft.

A 21-member advisory group formed by the Ministry of Tourism submitted a report recently saying that the Pokhara International Airport was not a commercially viable option for international flights. The group estimated that the volume of traffic would reach about 33 million in 20 years, and only three international airports—Tribhuvan, Gautam Buddha, and Nijgadh—would be [commercially](#) viable. The committee's report generated intense [reactions](#) in Pokhara from political parties, who claimed it was a conspiracy to foil the construction of the airport.

Questions about commercial viability and national interests also came to question when the China Exim Bank insisted that an [escrow account](#) should be opened into which CAAN would deposit the income generated from all its airports. The work over airport construction was thus delayed for months in early 2017 over the issue. "The DG at that time, Sanjeev Gautam, had integrity and refused to do so," says a senior government official on condition of anonymity. After intense negotiation, the Exim Bank issued a letter in April 2017, saying it had amended its earlier condition, allowing CAAN to deposit revenues generated by Pokhara International Airport. A [complaint](#) was filed against Gautam with the CIAA, which later gave him a clean chit, but he was removed from his post by politicians anyway. According to media, Gautam's ouster as CAAN

Director General was a result of a "[collusion](#)" between corrupt officials and business persons despite the risk of the government losing Rs. 6 billion over a dispute with an international contractor. Former minister and Member of the parliament Ananda Prasad Pokharel said the sacking of Gautam, [proved](#) "organized corruption in the country."

News reports said that by February 16, about 27% of the construction work had been completed and the construction work is [scheduled](#) to be completed by June 2021 but Prime Minister K P Oli has claimed that the airport would come into [operation](#) by the end of 2020.

## **7.6 Questions about Corruption**

A major impact of corruption is the inflated cost of development. Former Vice Chairman of the National Planning Commission, Jagadish Chandra Pokharel says that the Pokhara International Airport's actual cost was the only USD 132 million. "It could have even been built at a cost of \$100 million," he says. There are so many inefficiencies, mostly related to corruption, that it will now become a burden to the country." Pokharel's opinion was echoed by a senior government official with direct knowledge of the developments regarding the airport. "There was no transparency regarding the cost of the airport and a significant share of the inflated costs has been pocketed by politicians and decision-makers," he said.

A senior executive of Buddha Air, which is going to be the primary airline operating from Pokhara airport, said Pokhara airport involved kickbacks and commissions of more than Rs. 6-7 billion during decision-making and awarding of contracts. "If Chinese gain traction in our country, the (magnitude of) play of corruption in Nepal will be more than anywhere else." He also revealed that senior Chinese contractors had requested him to lobby to add several components to the airport like parking bays, promising they would get more loans from China. "Their intention was to boost their profit by increasing the costs of the airport, which would have also increased corruption," the executive said. In addition, he expressed worries that China could have long-term geostrategic interests in the operation of the Pokhara International Airport. "If CAAN fails to pay the debt, the Chinese could take up operation of the airport, just like the Hambantota port in Sri Lanka," he said.