

Urban Governance Development Program - Emerging Towns Project
7th Implementation Support Review
(IDA Credit no. 4905-NEP and IDA Grant no. H-6610)

September 16-27, 2013

Aide-Memoire

I. Introduction

An Implementation Support Review of the Urban Governance and Development Program - Emerging Towns Project (UGDP-ETP) was held from September 16-27, 2013 to: (i) assess the overall status of project implementation, and progress made in meeting the key actions agreed during the June 2013 review; and (ii) review and agree on the timeline for the municipal infrastructure sub-projects.

The joint World Bank-GIZ review team¹ (referred to as the “Team” hereafter) worked closely with officials from the Ministry of Urban Development (MoUD), the Ministry of Federal Affairs and Local Development (MoFALD), the Department of Urban Development and Building Construction (DUDBC), the Town Development Fund (TDF), the Project Coordination Office (PCO) in undertaking this review. The team also visited Mechinagar, Itahari, Dhankuta and Tansen municipalities, carried out site visits and held consultations with the municipality teams, discussed actions to expedite the municipal sub-projects, capacity development needs, and issues related to the institutional development support to the municipalities. The list of persons met is included in Annex VI.

The Team would like to thank the Government of Nepal (GON) counterparts, including the Project Director, the PCO, the project agencies and the municipalities for their hospitality and all the courtesies extended to during the review. This Aide-Memoire (AM) summarizing the main findings and recommendations was shared with the concerned agencies for discussion at a wrap up meeting, chaired by the Secretary, MoUD, on September 27, 2013. As agreed at the wrap-up meeting, this Aide-Memoire will be classified as a public document as per the World Bank’s Access to Information Policy.

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II. Key Project Data

Project Data	Project Performance Ratings		
<i>Board Approval: May 10, 2011</i>	<i>Summary Ratings:</i>	<i>Last</i>	<i>Now</i>
<i>Effectiveness Date: October 3, 2011</i>	Achievement of PDO	MU	MU
<i>Closing Date: July 31, 2016</i>	Implementation Progress	MU	MU
<i>Scheduled MTR Date: Feb 2014</i>	Project Management	MU	MU
<i>Original Grant/Cr. Amt: US\$ 25 million</i>	Procurement	MU	MU
<i>Cancellation: US\$6.55 million</i>	Financial Management	U	U
<i>Amount Disbursed: US\$ 5.1 million (21%)</i>	Safeguards	MU	MU
	M&E	MU	MS
	Counterpart Funding	MS	MS

Ratings: **HS**=Highly Satisfactory; **S**=Satisfactory; **MS** = Moderately Satisfactory; **MU**= Moderately Unsatisfactory; **U**=Unsatisfactory; **HU**=Highly Unsatisfactory; **NA**=Not Applicable; **NR**=Not Rated

III. Achievement of Project Development Objective

A Level I restructuring was approved by the Bank's Board of Directors on July 19, 2013 to: (a) re-align the Project Development Objective (PDO) and PDO indicators to the institutional capacity of the participating municipalities; (b) reduce the scope of the municipal infrastructure sub-projects in line with the capacity of the municipalities; and (c) enhance municipal support.

The revised PDO is to *improve the capacity of the participating municipalities to plan, implement and fund urban development activities*. The improved capacity will contribute to the higher-level objective of improving infrastructure and service delivery in the participating municipalities. The revised PDO indicators are as follows:

- ***PDO Indicator # 1: Number of participating municipalities with funded investment and O&M plans.*** The PDO indicator would measure the enhanced capacity of the municipalities to plan for urban development in a sustainable and effective manner. (Year 2 target: 0; Year 3 target: 3).
- ***PDO Indicator # 2: Municipal infrastructure sub-projects under implementation with construction works on track as per the signed contract.*** The PDO indicator would measure the enhanced capacity of the municipalities to effectively implement municipal infrastructure investments. (Year 2 target: 0; Year 3 target: 80%).
- ***PDO Indicator # 3: Increase in municipal own source revenues in the participating municipalities.*** This PDO indicator would measure the increase in municipal resources for funding urban development activities. (Year 2 target: 15%; Year 3 target: 15%).
- ***PDO Indicator # 4: Total number of people (of which females and people from disadvantaged groups) benefiting from the project activities*** (Year 2 target: 36,000; Year 3 target: 50,000).

The likelihood of achieving the new PDO is higher as a result of the restructuring. Achieving the PDO will however require sustained implementation progress over the next six months. The likelihood of achieving the PDO indicators for FY2014 is uncertain at this stage given the delays in meeting the key actions agreed during the June 2013 review and the potential risk of implementation delays associated with the upcoming elections planned for November 2013. Particular attention needs to be paid to monitor progress of construction works (PDO indicator 3) and preparation of operations and maintenance (O&M) and municipal investment plans (PDO indicator 2). The review noted that monitoring and evaluation (M&E) capacity of the PCO has increased with the hiring of a M&E specialist and the improvement in the methodology for the estimation of beneficiaries. The updated results framework with actual data for FY 2012 /13 is included in Annex V.

IV Current Implementation Status

Overall progress. The Team was pleased to note that the PCO is now staffed with a procurement consultant, a Financial Management consultant, and a M&E consultant. The Project Director and the Deputy Project Director were transferred in July 2013 and the newly staffed PCO is fully on board and familiar with the project. Two sub-projects have entered the construction phase. Improvement has been made by the municipalities in adhering to planning and reporting requirements for the municipal block grant. Progress has been made in establishing a M&E system for the project. However, the project has made slow progress in achieving the milestone actions agreed during the June 2013 implementation support review. The completion of the bidding process for Track I sub-projects is behind schedule; and the preparation of the Detailed Project Reports (DPRs) for the Track II sub-projects has been delayed. Critical institutional development activities for the municipalities are behind schedule. The Implementation Progress Reports (IPRs) for the third trimester of FY 2012/13 is overdue. Although the project has incurred total reimbursable expenses of the order of USD 1.8 million in FY12 and FY13, no withdrawal application has been made.

Overall progress in implementing the Governance and Accountability Action Plan (GAAP). The activities agreed as part of the GAAP, are underway. This includes formation of the Municipal Coordination Committees in the municipalities, social audit of the activities funded under the municipal block grants, and training on procurement at the municipality level. At the central level, however, the National Grievance Redressal Committee is yet to be formed. The review Team requested the PCO to ensure that this committee is formed by October 10, 2013 so that national level issues during project implementation could be addressed properly and efficiently.

Safeguards. Satisfactory steps have been taken by the municipalities to address safeguard non-compliance issues for the works carried out with the municipal block grants in FY12. No major safeguard issues were found for the works carried out with the municipal block grants in FY13. However, the delay in carrying out routine safeguard actions, such as preparation of Environmental Management Plans (EMPs and Initial Environmental Examinations (IEEs) is significantly affecting implementation progress. Issues of indigenous people and other vulnerable groups have not been addressed in a systematic manner. Further, the capacity of the municipalities to adhere to the safeguards and carry out safeguard screening remains low. Details on safeguards and agreed actions are presented in Annex II.

Project Risk Assessment. Project risk remains “substantial” given the delays in implementation, and the implementation challenges faced by the project. Steps have been taken during the second year of project implementation to restructure the project in order to expedite implementation. The steps are expected to mitigate project risk. Progress in implementation will be closely monitored and if the actions agreed during the review are not met, further action will be taken during the Mid-Term Review planned for February 2014. The risk that the targets will not be met is substantial given the upcoming elections planned for November 19, 2013.

Partnership and aid coordination arrangement. The GIZ-funded Municipal Support Team (MST) will phase out in June 2014 and the work plan for the GIZ-funded MST has been agreed with GIZ. IDA funds have been transferred to the Institutional Development component as part of the recently approved restructuring to strengthen support to the municipalities. There will be overlap between the IDA and GIZ MSTs to ensure proper handover of responsibilities, taking into account the expanded scope of capacity building activities in line with the revised PDO focusing on developing the capacity of the municipalities.

V. Procurement, Financial Management and Disbursement

Procurement. Although the PCO has hired an individual procurement consultant and the consultant is now on board, the procurement process is still slow at all levels of implementing agencies, especially at the municipal level. The main issue is the weak procurement capacity to prepare appropriate evaluation/qualification criteria responsive to the market, causing delays in overall project implementation. Detailed actions have been discussed and agreed to improve overall procurement management, including the provision of intensive procurement training to municipal staff by November 30, 2013, with a focus on the key areas of contract management, bid evaluation and selection of consultants, and the completion of the selection process of MST by February 20, 2014. The complete list of actions and status update as of October 8, 2013 is provided in Annex IV.

Financial Management and Disbursement. Although the PCO has mobilized an individual financial management consultant, financial management capacity remains weak. There have been significant delays in the submission of the IPRs for FY13. The withdrawal application is still pending because of the change in signatories following the transfer of project staff recently. Actions have been agreed to improve financial management performance, including approval of the annual work program by October 10, 2013, and submission of withdrawal application for FY12 and FY13 expenses by October 16, 2013. The complete list of actions and status update is provided in Annex III.

The project has incurred total reimbursable expenditures of about USD 1.8 million in FY12 and FY13, for which a withdrawal application has yet to be made. Reimbursable expenditures for FY14 are estimated at around USD 2.1 million, assuming that the milestone actions agreed during the review are completed on time. The estimate accounts for the approved municipal block grant allocation for FY14 (USD 0.95 million), expected expenses for the Track I and Track II municipal sub-projects (USD 1.1 million), and expected expenses for the Institutional Development component. The risk of further delays in completing the agreed actions and

meeting the target expenditure estimate is however significant given the slow progress made to date and the upcoming elections. The status of the contracts and disbursement estimates for the municipal sub-projects are presented in Table 6.

VI. Key issues in Implementation and Agreed Priority Actions

The key implementation issues identified by the review are the following:

- **Need to closely coordinate and expedite the preparation of municipal infrastructure sub-projects.** Although two Track I sub-projects have already entered construction phase since the June 2013 implementation support review, the progress of preparation of other track I sub-projects has lagged behind schedule. The target for completing the preparation of all Detailed Project Reports (DPRs) for Track II sub-projects by September 30, 2013 has not been met, and the draft DPRs prepared so far still require significant revision. The assessment of the borrowing capacity for the six municipalities for this FY has been delayed due to the re-assessment of borrowing capacity based on the latest financial statements of FY 2012/13. A revised timeline for completing preparation of the municipal sub-projects has been prepared and was discussed during the review.
- **Delays in the implementation of the institutional development activities for the municipalities.** Implementation of the Institutional Development component activities has been delayed, and limited progress has been made since the June 2013 review. Integrated Revenue Enhancement Plans (REPs), O&M Plans and Multi-year Investment Plans need to be approved by three municipalities (Tansen, Itahari and Dhankuta) as part of the annual budget process in January 2014. The six municipalities have initiated the preparation of REPs, but the REPs require revision in line with the comments provided during the June 2013 review and the discussions with the municipalities. Inventory of assets and O&M assessment has only been completed in one municipality. The review Team noted that that the REPs, O&M Plans and Multi-year Investment Plans need to be integrated. To ensure integration, the financial assessment for the REPs would need to inform the preparation of O&M plans and the multi-year investment plans.
- **Significant delays with the submission of the withdrawal application.** While there have been reimbursable expenses under the project (for a total estimated amount of USD 1.8 million in FY 2011/12 and FY 2012/13), no withdrawal application has been made following the initial advance. The disbursement suspension was lifted following the receipt of the audit report for FY 2011/12 in June 2013, but the withdrawal application has not yet been completed. The delay is due to the processing of the change in signatories following the transfer of staff at the PCO. Discussions have been held with the project and MoF to ensure timely processing of the change in signatories by the end of the review.
- **Need to further strengthen project management at the central level, and procurement and safeguard capacity of the municipalities.** Lines of communication with the municipalities have improved, but support to the municipalities needs to be better

coordinated at the central level. The review noted that some municipalities and the PCO do not have the final designs for Track I sub-projects. Although the PCO is now fully staffed, the submission of IPRs and the procurement plan has been delayed. The review Team also found that municipalities require more focused and on-the-job training and capacity building in the areas of project management, safeguards and procurement.

The six months following the restructuring will be critical to improve performance, and progress toward meeting the actions agreed during this review need to be closely monitored to avoid further delays. It was agreed that if overall project and disbursement performance does not improve as planned, the project would require a further restructuring as part of the Mid-Term Review planned for February 2014. The restructuring would consider the possibility of a further partial cancellation in line with the implementation capacity of the municipalities. It was agreed that the following key actions would need to be completed as per the following schedule to improve project performance, meet disbursement projections for this Fiscal Year and expedite implementation:

- The PCO will submit the withdrawal application for expenses incurred in FY 2011/12 and FY 2012/13 by **October 16, 2013**;
- Municipalities, with support from the PCO and TDF, will award contracts for the three pending Track I municipal sub-projects (Mechinagar Gokul Marga Road Improvement, Mechinagar Gate Beautification and Dhankuta Hile Market Improvement) by **December 13, 2013**;
- Municipalities, with support from the PCO, will publish the bid notice for the combined Track I and II Baglung Access road sub-project by **November 15, 2013**, and for all Track II municipal sub-projects by **December 13, 2013**;
- Tansen, Dhankuta and Itahari municipalities will complete the integrated Revenue Enhancement Plans, O&M Plans and Multi-Year Investment Plans by **December 7, 2013**; and
- PCO will successfully complete the selection of the IDA-funded MST by **February 20, 2014**.

The milestone actions, responsible agencies and milestone dates have been summarized in the Table below.

Milestone Action	Responsible Agency	Milestone Date
Submit the withdrawal application for expenses incurred in FY 2011/12 and FY 2012/13	PCO	October 16, 2013
Award contracts for the three pending Track I municipal sub-projects (Mechinagar Gokul Marga Road Improvement, Mechinagar Gate Beautification and Dhankuta Hile Market Improvement)	Municipalities with support from the PCO and TDF	December 13, 2013
Publish the bid notice for the combined Track I and II Baglung Access road sub-project	Municipalities, with support from the PCO	November 15, 2013
Publish the bid notice for all Track II municipal sub-projects	Municipalities, with support from the PCO	December 13, 2013
Complete the integrated Revenue Enhancement Plans, O&M Plans and Multi-Year Investment Plans	Tansen, Dhankuta and Itahari municipalities	December 7, 2013
Successfully complete the selection of the IDA-funded MST	PCO	February 20, 2014

A detailed assessment of implementation progress by component is presented in Annex I. The list of all agreed actions and status update is in Annex IV.

VII. Proposed Timing and Focus of Next Implementation Review

As agreed with the PCO, the next implementation support review will be in the first half of December 2013, and the dates of the review will be confirmed to the MoUD in November, 2013. The purpose of the next review will be to assess implementation progress, and prepare for the Mid-Term Review for the project which is planned to be carried out in February 2014.

ANNEX I: Implementation Progress by Component

This annex summarizes implementation progress by component.

I.I Component I: Strengthening Municipal Planning Capacity for Urban Development (formerly, Service Delivery Improvement)

In FY 2011/12, the municipalities spent approximately NRs 84.7 million under the municipal block grant. Activities funded with the municipal block grant include road improvement, drainage improvement, and construction of community buildings and activities for deprived communities (35% of the total).

The MoUD has prepared the budget allocation for the municipal block grant for FY 2013/14 to be transferred to the municipalities, based on the formula provided by MoFALD. The allocation is presented in Table 1 below. However, due to an error in the budget allocation by the Ministry of Finance, the release of the authorization of the funds from MoUD to the municipalities has been delayed. The authorization letter is expected to be issued to the municipalities by October 4, 2013. As agreed during the June 2013 review, the municipalities will receive the third tranche of the allocated block grant from the District Treasury Office (due on March 15, 2013) only after they submit the Audit Report for FY 2012/13 due on January 15, 2014.

Table 1: Block Grant Allocation 2013/14 (2070/71) in NRs. '000

S.N	Municipality	Total Grant on formula
1	Mechinagar	16,906
2	Dhankuta	14,693
3	Itahari	15,498
4	Tansen	16,102
5	Lekhnath	14,089
6	Baglung	17,712
Total		95,000

The review Team noted that there has been improvement in adhering to the planning and reporting requirements for this component. As part of the revised results framework approved with the restructuring, a timeline for planning and reporting requirements has been introduced. In line with the intermediate results indicators, the municipalities were expected to send their approved annual program for FY 2013/14, including the list of activities that will be funded with the block grants, by August 15, 2013. The municipalities are expected to submit progress reports for the activities carried out for FY 2012/13 by September 15, 2013.

The municipalities have complied with the above planning and reporting requirements for the municipal block grant. The municipalities have submitted the annual program for FY 2013/14 as per the agreed timeline of August 15, 2013 and also submitted progress report for FY 2012/13 activities by September 15, 2013. It was noted that the annual program for FY 2013/14 was based on the notional block grant allocation, and the program would need to be revised in line

with the actual budget allocation and re-submitted after formal Council approval at the earliest and before February 15, 2014.

The planning and reporting formats in compliance with MoFALD forms have been developed and shared with the municipalities. The municipalities have submitted the annual program and the report on the activities of the previous fiscal year in these agreed formats.

It was noted that the municipalities have allocated less than the prescribed 35 percent of the municipal block grant to disadvantaged groups, children and women. It was agreed that the PCO would discuss revision of the planned activities with the municipalities to ensure compliance with the targets. It was clarified that the intermediate results indicator prescribing 35 percent of the funds for disadvantaged groups, children and women measures the actual utilization (not allocation) of the funds. See Annex II for a safeguard review of the component.

Actions for Strengthening Municipal Planning Capacity for Urban Development Component

- MoUD to issue the block grant authorization letter to the municipalities by **October 4, 2013**.
- Municipalities to submit final plan of activities based on actual allocation to MoUD and the PCO and in compliance with the target of 35 percent of funds allocated to women, children and disadvantaged groups by **February 15, 2014**.

I.II Component II: Capacity Building for Municipal Infrastructure Development (formerly, Socio-economic Infrastructure Development)

Although two Track I sub-projects have entered the construction phase since the June 2013 Implementation Support Review, progress of preparation of other Track I sub-projects has lagged behind schedule. Of the three pending Track I sub-projects under preparation, only the appraisal for the Mechinagar Gokul Marga has been completed as planned in July 2013, but the municipality has not yet published the bid notice. The revised target for completing the appraisal for the Baglung Access road and Dhankuta Hile Market sub-projects by July 15, 2013 has not been met. The bidding process for the Mechinagar Gate Beautification sub-project has been delayed, and an extension in the bid validity is required. The target for completing the preparation of all Detailed Project Reports (DPRs) for Track II sub-projects by September 30, 2013 has not been met, and draft DPRs prepared so far still require significant revision. The assessment of the borrowing capacity for the six municipalities for this FY has been delayed due to the re-assessment of borrowing capacity based on the latest financial statements of FY 2012/13. A timeline has been prepared for each sub-project (see Table 4) and key actions have been identified as part of the review. The status of each contract and disbursement estimates are presented in Table 5. The following targets would need to be met before the next review planned for the first two weeks of December:

- Municipalities, with support from the PCO and TDF, will award the contracts for the three pending Track I municipal sub-projects (Mechinagar Gokul Marga Road

Improvement, Mechinagar Gate Beautification and Dhankuta Hile Market Improvement) by **December 13, 2013**.

- The municipality, with support from the PCO, will publish the bid notice for the combined Track I and II Baglung Access road sub-project by **November 12, 2013**.
- Municipalities, with support from the PCO, will publish the bid invitation notice for all Track II municipal sub-projects by **December 13, 2013**.

The rest of the section discusses the status of Track I and Track II sub-projects.

Status of Track I Sub-projects

Tansen Amar Narayan Temple Conservation.

This sub-project has entered the construction phase and the construction contract was signed on June 20, 2013 for an amount of NRs 34,428,174 excluding VAT. The municipality has given a 10% mobilization advance to the contractor. The contractor commenced work only in September, 2013. The review Team is concerned by the delay in contractor mobilization which would affect the implementation schedule of the sub-project. The review noted with concern that the municipality did not have a copy of the final detailed design report of the project. The review advised the PCO and the municipality to monitor and ensure that the sub-project works are completed as per the contract schedule. The municipality has recruited a supervision consultant who has commenced work recently. The review requested the PCO and the municipality to make the work implementation schedule and project monitoring chart available to the World Bank by October 15, 2013.

Dhankuta Weekly Infrastructure Improvement

Dhankuta Municipality signed the construction contract for this sub-project with the contractor on July 12, 2013. The contract amount is NRs 16,310,868.92. However the review noted that there has been some delay in providing the mobilization advance to the contractor and in issuing the work order. The work order was issued to the contractor only on September 19, 2013. The contractor is mobilized on site from September 23, 2013. The work schedule has not yet been submitted by the contractor. The PCO is requested to make available a copy of the work schedule and the monitoring chart of the sub-project by October 15, 2013.

Mechinagar Gate Beautification

Though the bids for the Mechinagar Gate Beautification were opened on July 8, 2013, the bid evaluation process has not yet reached final contract award stage. The municipality has carried out the bid evaluation and has submitted the bid evaluation report with a request for guidance on some legal issues. The PCO has provided a guidance letter to the municipality on September 20, 2013. It was agreed that the municipality will revisit the bid evaluation report and will submit a revised evaluation report by October 30, 2013. The bid validity periods of submitted bids

expired on October 5, 2013 and as such no objection has been provided to extend the bid validity for 45 days.

Mechinagar Gokul Marg

This sub-project is ready for bidding but the municipality has not yet published the bid notice due to a complaint from the residents of the southern side of the road, who wanted an extension of this road further to the southern side. The municipality has been reminded that the sub-project has already been delayed significantly and that they are required to resolve the issue quickly and publish the bid notice by October 1, 2013. The municipality has communicated to the PCO that they intend to proceed with the publication of the bid invitation notice.

Dhankuta Hile Market Infrastructure Improvement

The preparation of this sub-project has been significantly delayed. The final detailed design report and bid documents, which were earlier scheduled for completion in June 2013, have only recently been prepared. The estimated cost of the project now stands at NRs 38,749,764.15. The review observed during the field survey that the municipality did not have the final design reports and bid documents, which were only made available during the field visit. The PCO and TDF assured that all documents/reports relating to the sub-project would be made available to the municipality immediately. It is now agreed that the bid notice will be published before the festival holidays and both the TDF and the PCO will expedite approval procedures to publish bid invitation notice by 9 October 2013. The contract award will be completed by 13 December 2013.

Baglung Municipal Access Road (combined Track I and Track II)

The consultants, Baglung Municipality and TDF have now agreed on the modified design standards for this road and the sub-project cost. It has been agreed to reduce the width of the carriage way and construct the road at DOLIDAR standard, based on the existing traffic load and the projected traffic load in the near future. This link to part of the municipal road which is 746 m long has now been designed as Reinforced Cement Concrete (RCC) pavement road with 3 m wide pavement and 1 m wide shoulder on each side (shoulder toward drain side paved and other side unpaved) with provision of drainage system for water management and retaining structures for protection works. The RCC pavement is 150 mm thick, with a sub base 150 mm thick. Approximately 250 m length of random rubble masonry outlet has also been provided for guiding storm water from the road to the outlet in the culvert of the Mid Hill Highway. The cost estimate of the road is now NRs. 28,430,196.68 including 10% contingency and VAT. Bidding documents for the sub-project have been prepared and are under review by the PCO and the World Bank.

The Consultants for Track II sub-projects are also preparing the detailed project report for the upgrading of 1.85 Km of existing road from the municipal building to Bholatakura and 4.62 km from Thulswara to Sim. As this road is a continuation of the Track I sub-project road, it has been decided to use the same design standards for both the Track I and Track II roads and to combine these two roads for bidding as one package. The review noted with concern that the Track II

consultants have not yet changed the design criteria in the revised DPRs to match the design criteria adopted for the Track I sub-project. The PCO has agreed to ensure that the revised DPR is prepared with the design criteria adopted for the Track I sub-project by 6 October 2013 and to prepare a consolidated bidding document for the Track I and the Track II sub-projects by 17 October 2013.

Status of Track II Sub-projects

The target agreed during the June 2013 implementation support review of finalizing all DPRs for Track II sub-projects by September 30, 2013 has not been met. Consultants for Track II sub-projects have prepared and made available 14 DPRs on September 17, 2013. The reports are still incomplete and require more detailed information for a productive review of the documents. The review noted that the DPRs do not include details of the sub-projects, design criteria, design calculations, list of proposed constructions, technical justifications, least cost analysis, etc., as agreed during the last review. The detailed list of sub-projects for which DPRs have been prepared is presented in the table below. The review noted the following:

- Of the 14 sub-projects for which DPRs have been prepared, a total number of 12 Track II sub-projects are expected to be implemented. Itahari municipality informed the review team during the site visit that the municipality has decided not to invest in the construction of the agro market and would limit its investment to the construction of the link road and the bridges. Similarly, Mechinagar municipality informed the review team during the site visit that it has decided not to invest in the construction of the mini-market at Dhulabari.
- It was noted that the road upgrading/improvement sub-projects in Tansen municipality consist of 9 and 6 roads with a total length of 11.24 Km and 10.04 Km respectively. As the project will not be able to finance all these roads due to the limited borrowing capacity of the municipality, the municipality would need to select the list of priority roads to be upgraded by October 5, 2013.
- It was noted that based on the borrowing capacity figures presented below, both Dhankuta and Mechinagar do not have sufficient borrowing capacity for the Bus Park and the Agro-market respectively, and the costing and design should therefore be scaled down accordingly. This would imply a reclassification of the Bus Park sub-project in Dhankuta from the revenue generating category to the utility category.
- The revised DPR for the Track II Baglung access road upgrading is still not consistent with the design criteria used for the Track I municipal road, and the completion of the DPR and the associated EMP needs to be expedited. It was agreed that the PCO would request the consultant to revise the design in line with the Track I sub-project and complete the detailed design report and EMP by October 6, 2013. The combined bid document for the Track I and the Track II sub-project will be prepared and finalized by October 21, 2013 and the bid invitation notice for combined road will be published by November 15, 2013.

The review discussed the Track II sub-project status with the PCO, MST and GIZ and agreed on a timeline for implementation with three clear milestones. The consultants will finalize the detailed design reports and safeguard assessment by **November 1, 2013**, bid invitation notices

for all sub-projects will be published by **December 13, 2013** and the contract award for all sub-projects will be completed by **March 20, 2014**. Given the tight timeline for completing the DPRs, it was agreed that the following process would be followed to ensure efficient coordination and expedite finalization of the sub-projects:

- The PCO would need to meet with the municipalities to finalize the costs of the Track II sub-project designs based on the final borrowing capacity and receive endorsement by the municipalities to proceed with the sub-projects;
- Preparation of DPRs will be prioritized based on sub-project readiness, and the DPRs will be circulated on a rolling basis for review;
- Safeguard assessments, DPRs, bidding documents, and financial assessments will be prepared in parallel;
- Reports would be distributed for comments by the PCO to all concerned agencies and municipalities at the same time; comments will be provided in writing, and will be consolidated by the PCO for submission to the consultants;
- A quality control mechanism would be established before the DPRs are submitted for review to the World Bank to expedite the review process.

List of Track II Sub-projects for which DPRs have been prepared

Municipality	No.	Subproject Name
Baglung	1	Sahid Smriti Park Development
	2	Upgrading of Access Road to Deprived Community
Tansen	3	Upgrading of Existing Road in Urban Areas
	4	Multi Purpose Building (shops and guest rooms)
	5	Shrinagar Park Improvement
Lekhnath	6	Barah Chhetra Improvement
	7	Picnic Spots & Amusement Zone at Mandare Park
	8	Upgrading of Road in Urban and Peri urban Areas
Mechinagar	9	Construction of Mini Market in Dhulabari
	10	Construction of Agro Market in Dhulabari
Itahari	11	Upgrading of Link Road
	12	Construction of Agro Market
	13	Construction of Bridges on the Link Road
Dhankuta	14	Hile Bus Park (Terminal)

Borrowing Capacity Estimates for Track II sub-projects

The borrowing capacities (BC) of the six municipalities were estimated by TDF on the basis of municipal data up to FY2012-13 and the projections were based on past trends (see Table 3). The methodology used in the January and in the September estimates remains the same. Data on revenues and expenditures were checked for potential misclassifications, e.g., including one time

expenses as recurrent. Variations between the estimates in January 2013 and September 2013 are largely due to base year effects and misclassifications, as can be seen in the table below.

Table 2: Borrowing Capacity of Municipalities after Fast Track Sub-projects

Municipalities	Borrowing Capacity 2013	Borrowing Capacity 2014	Causes of Variance
Mechinagar	458.85	216.61	MC and IR down
Itahari	70.61	289.62	IR & MC
Dhankuta	7.14	37.27	MC and base effect
Baglung	138.24	122.66	Marginal Change
Lekhnath	209.55	265.04	Marginal Change
Tansen	139.58	125.48	Marginal Change
Total	1,023.97	1,056.68	

Note: MC = Misclassification; IR = Internal Revenue

Based on the borrowing capacity estimates (see Table 3) Dhankuta, Mechinagar and Tansen do not have sufficient borrowing capacity to undertake Track II sub-projects. Recommended actions are proposed below in Table 4.

Table 3: Borrowing Capacity of Municipalities after Fast Track Sub-projects
(NRs Million)

Municipality	Borrowing Capacity 2014	Track I Sub-projects	Loan for Track I sub-projects		Balance Borrowing Capacity after Track I sub-projects
			Principal	Interest 20 years	
Baglung	123	Municipal Access Road	9	5	109
Dhankuta	37	(i) Dhankuta Market and (ii) Hile Market	6	3	28
Itahari	290		0	0	290
Lekhnath	265		0	0	265
Tansen	125	Amar Narayan Temple	7	4	114
Mechinagar	217	(i) Gate Beautification and (ii) Gokul Marga	23	14	179
Total	1,057		45	27	985

Table 4: Revised Sub-project Cost and Loan for Track II Sub-projects(NRs in Million)

Municipality	Track II sub-projects	Original Cost estimate	Original Loan for Track II sub-projects		Balance Borrowing Capacity	Recommended Actions	Proposed revised cost	Revised Loan for Track II Sub-projects		Balance Borrowing Capacity
			Principal	Interest 20 years				Principal	Interest 20 years	
Baglung	(i) Sahid Park Development and (ii) Improvement of existing roads	147	41	24	44		147	41	24	44
Dhankuta	Hile Bus Park project	51	31	18	-21	Revise project scope of works as urban utility and reduce cost	21	6	4	18
Itahari	(i) Upgrading link road and (ii) Bridges on the link road	238	72	43	175		238	72	43	175
Lekhnath	(i) Baraha Chhetra improvement, (ii) Mandare Park and (iii) Black top roads with drainage	278	79	48	138		278	79	48	138
Tansen	(i) Improvement of existing roads (ii) Shreenagar Park and (iii) Multipurpose Building	300	86	51	-23	Scale down number of roads projects	160	44	26	44
Mechinagar	Agro Market	334	201	120	-142	Scale down project scope	120	72	43	64
Total		1348	508	305			964	314	188	484

Comments on Track II sub-projects

The review visited the sites of Track II sub-projects in Mechinagar, Dhankuta and Itahari and reviewed the design reports submitted on September 17, 2013. The following are the comments on the DPRs.

General comments

- Though the reports are much improved, the revised DPRs have not yet addressed all comments provided during the June 2013 review and the subsequent discussions. The DPRs still lack data on the existing situation, in particular on the present use/condition of existing facilities and the availability of basic infrastructure like water supply, drainage, electricity, access road, solid waste collection and disposal facilities. This information is required to inform the subsequent design of these basic facilities.
- Design criteria and detailed design calculations are still missing from most of the DPRs. The design calculations have not been provided except in some instances.
- There are many inconsistencies between the main report and the drawings and the bill of quantities.
- Levels for drainage are still missing from the drawings.

Comments on the Mechinagar Agro market sub-project

- Information on present trading volume of agricultural products and the type of products is lacking. The consultants should make clear how the size of go-downs and cold storage were estimated. The design parameter used for calculating the storage area, parking requirement, and water supply and sanitation requirements should be clarified.
- The report is silent on the existing condition of the access road, availability of water supply, drainage, sewer and electricity facilities in the proposed site.
- The total cost of the sub-project is NRs 334.21 million and the consultant has proposed a phasing of the project, with a proposed investment of Rs 53.56 million in the first phase. The basis for the phasing is not clear. The consultant needs to justify that this investment will serve the present needs of the municipality. The municipality has clarified during discussion with the review that cold storage is a must for the agro market in Mechinagar. The present proposal does not include cold storage. The proposal for phasing therefore needs further discussion with the municipality.
- One of the major costs of the sub-project is the construction of pavement and drainage (estimated cost NRs 117.8 million). It is not clear from the report what roads are included in it. The consultants need to assess and recommend its feasibility.
- The consultants should propose appropriate institutional arrangements for proper and sustainable operation and maintenance of the facility.
- There is no detail design and drawing for cold storage. The estimated cost has been determined based on the floor area based on an estimated cost of NRs 30,000 per sq. m cost. This is not acceptable and the consultant needs to provide detailed designs and cost estimates.
- The cost for provision of electricity line, which should be designed and provided for, is missing in the estimates.

- The implementation schedule of the sub-project is missing.
- The construction item (concrete) shown in the drawing and the bill of quantity do not match.
- The sub-project has included a cost of NRs 800,000 for boring, but there is no report on the prospects for groundwater in terms of quantity and quality, and the design of the tubewell and the water supply system. No network system for supply of water has been designed and the work is incomplete.

Comments on Dhankuta Bus Terminal sub-project

- The report should present the existing situation of the bus terminal, how the area is being used at present and how many buses and micro buses or jeeps ply through the bus station. The current availability of water supply and electricity in the area is not clear.
- The consultant should ensure minimum quality standards for the report. The report is a cut and paste from an unrelated report.
- It is mentioned that the available data collected includes the master plan and information about visitors, but it is not clear how such information has been used. Details need to be provided.
- The sub-project has been proposed to be implemented in phases. The consultant should provide justification for the phasing and how the implementation of the first phase will meet the present requirements of the municipality.
- The institutional mechanism for the operation and maintenance of the facility should be proposed by the consultants.
- Sub-project components should be presented in the main report instead of being referred to in Volume II, i.e., drawings.
- The consultant should provide the design criteria used for the design of the pavement, drain, water supply and septic tank, along with the detailed design calculations.
- The construction schedule is missing in the report.
- Items indicated in the drawing do not match with the items indicated in the BOQ.
- The drawings do not include details of the drainage proposed inside the bus park area.

Comments on Itahari Bridges sub-project

- Results of the hydrological analysis, high flood levels, and the justification for the use of 100 year return period should be presented in the report.
- Justification for proposing 6 m wide bridge should be provided. It is unclear whether it is based on traffic volume. In the design consideration, the adopted design values should be presented, instead of referring to code clauses.
- The design concept for the bridge mentions the development of a recreational spot for local people and tourists. This seems to be irrelevant for this sub-project.
- The detailed design mentions foundation depth, scour depth, soil pressure, wing wall, etc., but does not mention the values used in the design. The report also mentions that the spacing of cross beams will be determined at the time of design, but does not present any value.

- The cost effectiveness analysis gives various options, but cost comparisons have not been presented to show that the proposed option is the least cost option.
- The cost of maintenance should be calculated and presented, even if the bridge is proposed to be maintained by municipal staff.
- Construction of the approach road comprises about 40% of the total cost of the sub-project. There is no mention of this component and the flood protection component in the report. The design criteria adopted and the details of the pavement of the approach road are not presented.
- Though the costs of construction of river protection and guide banks have been included in the cost estimate, the location of the construction is not shown in the drawing.
- Approach roads to the bridge in both bridges seem to encroach on private land. This needs to be checked and resolved. The geometry of the road needs to be checked in the design based on the design speed of the road and field checked for verification.
- All components of the sub-project and their cost should be presented in the main report separately for the two bridges for easy reference.

Comments on Itahari Link Road sub-project

- The existing situation should be described in more detail and should include drains, irrigation canals, water supply lines and market activities, and the position of this segment of the road in the context of total ring road construction and the width of the existing road.
- The report should provide the basis for adopting the proposed geometric standards. The design speed adopted is not clear. The report should present the rainfall and discharge figures adopted.
- Premixed bituminous carpet has been proposed for the road, although it is not economical. The report mentions that this option has been proposed because the other more economical alternative, Double Bituminous Surface Treatment (DBST), will cause dust nuisance during construction. Given the rural nature of the sub-project area, it is unclear whether there is sufficient ground for selecting the high cost option. A cost comparison between various options needs to be provided.
- Calculations for the design of the drain need to be provided. The size of the drain appears too large; the size could be varied at different stretches depending on the requirement and proximity to natural drainage to minimize cost.
- Works indicated in the drawing do not match with the work in the cost abstract. They need to be checked and revised as applicable.

Comments on Tansen Srinagar Park Improvement

- The report does not present the existing situation of the basic physical facilities like water supply, drainage, electricity and solid waste management and their adequacy for the park. The report should present the number of visitors, both local residents and tourists, including number of buses and other vehicles.
- It is not clear from the report what the scenario will be after completion of the sub-project, and the basis for planning parking space, picnic sheds, and water supply and

sanitation requirements. Implementing agency is requested to present the basis of these designs.

- The design parameters and the adopted values have not been presented. There is no proposal for improvement of facilities like water supply, toilets, drains etc in the park. It is not clear whether these facilities are sufficient now. The analysis should be presented and additional facilities proposed as required.
- The report is not clear in the presentation of the proposed sub-project concept. It seems that the proposed sub-project allows vehicles to pass through the park to the view tower. This does not seem appropriate as it will disturb the environment of the entire park area. There may not be a need for vehicle parking development in the view tower area. This will require a review and discussion with the municipality to finalize the proposal. Please provide the reason why only 27 ropanis of park area has been proposed for development out of the total area of 118 ropanis.
- It is not clear why so many random rubble masonry retaining structures have been proposed. These structures should be minimized as far as possible. Please show in the drawings where these are proposed.
- A children's park has been proposed, but no budget has been included for equipment to be installed and for the development of the children's park.
- The report does not include recommendations for the institutional arrangement for managing the operation and maintenance of the park. Can a PPP model be suggested for O&M?.

Comments on Tansen Multi-Purpose Building

- Please present a more detailed description of the sub-project location and existing physical facilities, market status and potential for shopping complex, etc.
- The report does not present an analysis of collected information, e.g., master plan, information on visitors, proposed intervention, for developing the design concept.
- Please present the basic concept and objective of the sub-project and the reason for the proposed design. Is the main objective of the municipality to develop it as a shopping complex and use the upper floors as municipal guest house?
- What are the design parameters and the adopted design values and design calculations for water supply, sanitation and electricity requirements? The report mentions that the structures will be earthquake resistant, but it is not clear to what magnitude in the Richter scale.
- It is unclear whether there is demand for a restaurant and how this will be managed.
- The size of the proposed water tank (9.2 cum) seems too big. There may not be a need for a separate big ground tank. Please justify the size of the water tank and the septic tank.
- Please provide the levels of the sewer and the septic tank in the drawing.
- The report does not specify the total floor area of the building to be constructed. Please present the detailed floor plan.
- The cost calculation shows that the cost per square meter of the building to be more than Rs 40,000, which is quite high. The consultant should explore the least cost option. The brick work and Random Rubble Masonry (RRM) with cement mortar may be reviewed.
- It is not clear in the drawing where RRM will be used. This is a major cost item (more than 33%) and details and justification for this work should be presented.

- Please recommend institutional mechanisms for the maintenance of the proposed building. Operational cost should be assessed based on the modality of building management.

Comments on Tansen Urban roads Upgrading

- Please describe the existing conditions of each road and the rationale for the construction of each road separately.
- Please present the condition of the existing surface. In some roads, the municipality is already carrying out some works, but there is no mention of it in the report. Please identify the work to be carried out based on the existing situation.
- Please provide the existing situation of other amenities, e.g., drains, water supply lines, electricity and telephone under the road surface.
- Please mention the design standards adopted for the various roads and the reasons for choosing that design standard.
- Please present the detailed design for each of the road and mention where concrete pavements have been used in the report and in the drawing. What thicknesses of concrete and reinforcement have been used for the concrete pavement?
- Please present the calculation of rain water flow and the detailed calculations for determining the size of the drains to justify the proposed size. It would be cost effective to vary the size depending on the requirements, based on proximity to the outlet.
- Please present the technical assessment of each road, specific to the sub-project.
- Please present the cost of each alternative option presented for least cost analysis. The analysis should be site specific and not general.
- Traffic survey results and Cost Benefit Ratios (CBR) results used for the design of each road should be presented.
- Please provide a specific recommendation of the institutional modality for O&M of the roads after construction.
- Please present a proposal for each road of the sub-project in detail and present the cost of each road with a breakdown of various components.
- Please provide the implementation schedule which is missing.
- The nine road sub-projects included in this package should be prioritized and selected for implementation, in consultation with the municipality based on its borrowing capacity.
- The quantity estimates show that concrete pavement and concrete drains have been proposed extensively in road construction. Please provide details of these with justification.
- The RRM works for road protection works and drains constitute more than 50% of construction in many roads proposed. For an existing road, this is a very high investment. Random rubble masonry has been proposed with 1:3 CM. The consultant should analyze and use more cost effective mortar for cost effective design of the sub-project.
- The drawings do not contain sufficient details on the type of construction and thickness of construction. The drawings should be specific to the proposed roads and should not be general.

Comments on Baglung Shahid Smriti Park sub-project

- Please present the existing situation of the park, focusing on the condition of the physical facilities, e.g., water supply, drainage, electricity, solid waste, including the agency responsible for O&M, the present use of the park, as well as the revenue generated at present.
- Please present the basis for the design and the design criteria used for calculating the number of picnic sheds and other facilities.
- One existing toilet has been shown in the drawing, but there is no mention of how it will be used in future.
- Please provide design criteria and design calculations for water supply, toilets, septic tanks and drainage for the area. The proposed water tank size seems too large. What is the source of water and is sufficient water available. Please present the detailed design of the septic tank.
- Please provide the O&M modality for the park. The formation of a park development committee under the municipality may be a viable option. Project team is requested to clarify if a mechanism has been worked out to calculate the level of fees to be charged for the use of the park.
- The cost per capita of the toilet structure is high. Project team is requested to analyze the cost effectiveness of the toilet structure to identify the least cost option.
- The construction of nine sheds seems to be too crowded for the area. The numbers also need to be supported by the estimated number of visitors.
- There are no details of what has been proposed for the children's park.
- What is the cost for landscaping and other works shown in the implementation schedule.

Comments on Baglung Access Road to Deprived Community sub-project

- The length of the road given in the drawing and the quantity do not match with the length given in the main report.
- The report should be specific about the length of road which has high gradient.
- The design criteria adopted does not match with the design criteria adopted for the Track I Baglung municipal road. Project team is requested to change the design standard and change the design, drawings and cost estimates accordingly.
- Please mention clearly the type of pavement proposed at various sections of the road and why.
- Please provide detailed design and justification for the size of the drain and the material used for construction.

Comments on Lekhnath Mandare Park sub-project

- The report may be improved by including more information on Lekhnath municipality, the concept for the development of the seven lakes, and how the development of this park relates to the overall concept.
- The report does not present the condition of the existing facilities in the park and has not proposed any improvement work for the physical facilities. This may have to be reviewed to ensure that improvement works are carried out as per requirements.

- Please give the design parameters used for water supply, public toilet, and drainage, and the design calculation to show that the existing facilities and/or the proposed facilities are adequate.
- Please suggest an institutional arrangement for the operation and maintenance of the park. The formation of a park development committee under the municipality may also be a viable option.
- Please include all components of the sub-project in the cost estimate. The water fountain is a major component, but no details on quantity estimates are given, only a lump sum estimate has been provided. The consultants should provide the details.
- The levels of the drains are not provided in the drawing.

Comments on Lekhnath Barah Chhetra Improvement sub-project

- Please provide the design criteria used for arriving at the design of the components.
- There is much room for improving the report by adding more detailed information of the municipality and the sub-project.
- The design criteria for determining water supply, drainage, and toilet requirements are not presented. The rural water supply scheme has been proposed as the source of water, but it is not clear how much water is available from it. Please verify and present the data in the report.
- Please verify that the proposed construction of the toilet with an RCC structure is the least cost option.
- Please provide your recommendation for the institutional arrangement for the management of the O&M of the park. The formation of a park development committee under the municipality may also be a viable option.
- The proposed water tank is too large. Please show detailed calculations to justify. The cost of water tank (NRs 834,130) is also very high.
- Please include all components in the detailed design and provide detailed calculations.
- Please show in details how the storm water is proposed to be drained out of the proposed walkway.

Comments on Lekhnath Urban and Peri-urban Roads sub-project

- The comments for Tansen roads upgrading apply to Lekhnath urban roads also.
- The consultant should provide the justification for 5 m width pavement with a shoulder width of 2 m for all roads in Lekhnath.
- Design criteria and design parameters used for the design of the road and the drains should be specified.
- Drainage on both sides of road is not required at many places of the road from oil Nigam to Rithepani road; this needs to be reviewed.
- The size of the drain proposed is uniform for all roads and stretches. It would be more cost effective to design the drain based on its distance from the outlet.
- There is no clarity on where reinforced concrete pavements have been used.
- The works are not properly/adequately described and labeled in the drawings.

Actions for the Capacity Building for Municipal Infrastructure Development Component

- Tansen, Dhankuta and Mechinagar to agree on the revised scope of Track II sub-projects in line with their borrowing capacity - by **October 5, 2013**.
- The PCO and Tansen and Dhankuta municipalities to make available work implementation schedules and project monitoring charts for Track I sub-projects under implementation to the World Bank - by **October 15, 2013**.
- The municipality to publish the bid invitation notice for Dhankuta Hile market infrastructure improvement sub-project by **October 9, 2013**, and award the contract by **December 13, 2013**.
- The municipality to complete bid evaluation for construction of Mechinagar Gate by **October 30, 2013** and award the contract for construction by **November 22, 2013**, and mobilize the contractor by **December 22, 2013**.
- The municipality to publish bid invitation notice for the Gokul Marg Road sub-project by **October 1, 2013** and award the contract by **December 7, 2013**.
- The PCO to finalize the project design for both the Track I and the Track II parts of Baglung road sub-project by **October 6, 2013**, prepare the combined bid document by **October 21, 2013** and the municipality to publish the bid notice by **November 15, 2013** and complete contract award (and IEE as required) by **January 21, 2014**.
- The PCO to finalize the DPR of 12 Track II sub-projects by **November 1, 2013**.
- Municipalities to publish bid invitation notices for Track II sub-projects by **December 13, 2013** and complete award of contracts (and IEEs as required) by **March 20, 2014**.

Table 5: Detailed Timeline for Sub-projects under Preparation

S.N.	Sub-Projects	Social and Environmental Safeguards		DED finalized by consultants	DED Clearance from central agencies	Endorsement from the municipality	Bidding Documents Finalized	TDF appraisal completed	Approval from World Bank, (Appraisal and bid document)	Appraisal Approved by TDF Board
		Recruitment of IEE Consultant	Preparation of draft EMP							
		Date	Date	Date	Date	Date	Date	Date	Date	Date
1	Dhankuta Hile Market	Completed	27-Sep-13	Completed	30-Sep-13	30-Sep-13	1-Oct-13	30-Sep-13	3-Oct-13	6-Oct-13
2	Mechinagar Gate Beautification	N/A	N/A	Completed	Completed	Completed	Completed	Completed	Completed	Completed
3	Mechinagar Gokul Marg	7-Oct-13	Completed	Completed	Completed	Completed	Completed	Completed	Completed	Completed
4	Combined Track I & Track II Baglung Road	17-Oct-13	6-Oct-13	6-Oct-13	21-Oct-13	21-Oct-13	21-Oct-13	28-Oct-13	5-Nov-13	8-Nov-13
5	Track II sub-projects	17-Oct-13 (if required)	1-Nov-13	1-Nov-13	15-Nov-13	15-Nov-13	22-Nov-13	22-Nov-13	2-Dec-13	6-Dec-13

.SN	Sub-Projects	Loan Agreement Signed with TDF	Bid Notice publication	Bid Opening	Bid Evaluation	Bid Approval from various agencies	Completion of IEE and approval by MoUD	Contract Award	Construction Starts by	Construction Period (months) and Completion Date		Remarks
		Date	Date	Date	Date	Date	Date	Date	Date	Date	Months	
1	Dhankuta Hile Market	7-Oct-13	9-Oct-13	8-Nov-13	22-Nov-13	6-Dec-13	30-Nov-13	13-Dec-13	12-Jan-14	15	11-Apr-15	EMP to be completed by 27 September 2013
2	Mechinagar Gate Beautification	Completed	Completed	Completed	30-Oct-13	15-Nov-13	N/A	22-Nov-13	22-Dec-13	15	21-Mar-15	
3	Gokul Marg, Mechinagar	Completed	1-Oct-13	31-Oct-13	15-Nov-13	30-Nov-13	5-Dec-13	7-Dec-13	6-Jan-14	15	5-Apr-15	Municipality decided to go ahead
4	Combined Track I & Track II Baglung Road	12-Nov-13	15-Nov-13	15-Dec-13	31-Dec-13	14-Jan-14	15-Jan-14	21-Jan-14	21-Feb-14	18	20-Aug-15	
5	Track II sub-projects	11-Dec-13	13-Dec-13	12-Jan-14	11-Feb-14	13-Mar-13	15-Jan-14	20-Mar-14	19-Apr-14	various	Various	Completion of final DPR by consultant crucial

Table 6: Status of Contracts for Track I and Track II sub-projects (US\$)

S.N.	Sub- Project Name	Estimated Amount (US\$)	Contract Amount (US\$)	Contract Date (Actual/ Estimated)	Construction period (MM)	Disbursement till June 2013 (US\$)	Disbursement in FY 2013-14 (Quarters)				Cumulative Annual
							First Qtr	Second Qtr	Third Qtr	Fourth Qtr	
							Actual	Est.	Est.	Est.	
	<u>Track I Sub-projects</u>										
1	Tansen Amar Narayan Temple Conservation	380,414	344,626	20-Jun-13 (A)	15	0	25,719	42,667	28,444	34,133	130,963
2	Dhankuta Market Area Improvement	178,639	163,272	12-Jul-13 (A)	15	0	12,102	22,042	14,694	17,633	66,471
3	Dhankuta Hile Market Area Improvement	388,232		13-Dec-13	15	N/A	0	0	45,423	52,411	97,834
4	Mechinagar Gate Beautification	132,102		22-Nov-13	15	N/A		15,456	17,834	14,267	47,557
5	Mechinagar Gokul Marga Road	648,849		7-Dec-13	15	N/A	0	0	75,915	87,595	163,510
6	Baglung Municipal Access Road (*)	284,587		21-Jan-14	18	N/A	0	0	33,297	38,419	71,716
Total for Track I Sub-projects						0	37,821	80,164	215,608	244,458	578,051

S.N	Sub- Project Name	Estimated Amount (US\$)	Contract Amount (US\$)	Contract Date (Actual/ Estimated)	Construction period (MM)	Disbursement till July 2013 (US\$)	Disbursement in FY 2013-14 (Quarters)				Cumulative Annual
							First Qtr	Second Qtr	Third Qtr	Fourth Qtr	
							Actual	Est.	Est.	Est.	Est
	<u>Track II sub-projects</u>	Indicative			Indicative						
1	Baglung Sahid Smriti Park Development	168,770		20-Mar-14	9						
2	Baglung Upgrading of Road to Deprived Community (**)	1,301,301		21-Jan-13	18			84,585	97,598	182,182	
3	Tansen Upgrading of Existing Road in Urban Areas (**)	1,061,555		20-Mar-14	18						
4	Tansen multi Purpose Building (shops and guest rooms)	330,668		20-Mar-14	18						
5	Tansen Shrinagar Park Improvement	205,180		20-Mar-14	12						
6	LekhnathBarah Chhetra Improvement	137,795		20-Mar-14	9						
7	Lekhnath Picnic Spots & Amusement Zone at Mandare Park	68,693		20-Mar-14	9						
8	Lekhnath Upgrading of Road in Urban and Peri urban Areas	2,575,575		20-Mar-14	18						
9	Mechinagar Construction of Agro Market in Dhulabari (**)	1,201,201		20-Mar-14	18						
10	Itahari Upgrading of Link Road	1,405,090		20-Mar-14	18						
11	Itahari Construction of Bridges on the Link Road	981,081		20-Mar-14	18						

12	Dhankuta Hile Bus Park (**)	212,397		20-Mar-14	18						
Total for Track II sub-projects (except Baglung road)							0	0	0	271,312	271,312
Total for Track II sub-projects							0	0	84,585	368,909	453,494
Consulting services		119,306					31,038	17,377	17,377	17,377	83,170
Total Track I & Track II sub-projects							68,859	97,541	317,570	630,744	1,114,715

* = Combined Track I and Track II sub-projects; ** = estimated costs based on borrowing capacity and below the original cost estimate in the DPRs; Estimates are for thWorld Bank Fiscal Year from July 1 to June 30. First Quarter thus covers the period from July 1 to September 30, 2013.

I.III Institutional Development Component

(a) Institutional Development for the Municipalities

Under the Institutional Development (ID) component the municipalities are expected to prepare integrated Revenue Enhancement Plans (REP), O&M plans and a Multi-year Investment Plan (MYIP). This would provide a basis for enhanced capacity to plan, design and finance both maintenance and new capital assets. The PDO target is to have the integrated REP, O&M plan and MYIP approved and funded in at least three municipalities in FY2014. Based on readiness and field visit discussions, it was agreed that Tansen, Itahari and Dhankuta would be the first three municipalities to endorse and start implementation of the plans. To achieve this target, the REP, O&M plan and MYIP need to be endorsed by the Municipal Councils as part of the preparation of the annual plan and budget in January 2014. The review noted that that the REPs, O&M plans and multi-year investment plans should be integrated and should build on each other. To ensure integration, the financial assessment of the REP would need to inform the preparation of the O&M plan and the multi-year investment plan. The status of the plans is described below.

- **Revenue enhancement plans (REP).** The six municipalities have initiated the preparation of REPs. In line with the comments provided during the June 2013 review and consultations with the municipalities, the REPs would require revisions before they can be finalized and endorsed by the municipalities. The REPs should be based on a situation analysis of existing sources of revenue and expenditures based on the latest financial data. The REPs should identify capacity development needs of revenue administration and efficiency improvements for existing major local revenue sources, including the IPT and business taxes, since improvement in revenue administration and efficiency are pre-conditions for the introduction of new taxes. To inform the discussion with the municipalities, the REPs should compare the benefits and costs of improving existing major local taxes versus introducing new ones over the next five years. These plans will then be approved by the municipal authorities and taken as the basis for preparing revenue estimates in the annual budgeting process from FY 2014. Following endorsement by the municipality, the REPs will be the basis for an action plan that will be funded and implemented over the next three years of the project (through a combination of technical assistance and software upgrading). It was agreed that priority would be given to revise and finalize the REPs in Tansen, Dhankuta and Itahari by December 7, 2013. For the other municipalities (Lekhath, Baglung and Mechinagar), the REP will be completed by the end of the FY 2014.
- **O&M plans.** In parallel to the REPs, the municipalities are also preparing detailed O&M plans that provide a physical inventory of assets, an assessment of their condition and an estimate of O&M needs. This plan would then provide process guidance for identifying priority O&M expenditure and the enhanced revenues that can be earmarked for this. The inventory of the assets and the O&M need assessment will form the basis for the preparation of the O&M plans. The inventory of the assets and the O&M needs assessment have been completed for Tansen and are in the process of being finalized for

Dhankuta and Itahari. It is expected that the municipal authorities will approve the O&M plans and allocate budgets to implement the O&M plan as part of the annual budgeting process from FY 2014. For the other municipalities (Lekhnath, Baglung and Mechinagar), the O&M plans will be completed by the end of the FY 2014.

- **Multi-year investment plans.** Based on the REPs and the O&M plans, the balance surplus would be the basis for identifying a multi-year investment plan. The identified investments would be based on the periodic plan, projects identified under the UGDP – Component 2 and municipal decisions taken time to time. The municipal authorities would allocate the surplus between projects, and also decide on the means of finance.

The following actions were agreed to ensure completion of integrated REPs, O&M plans and multi-year investment plans by the beginning of December. A joint PCO/MST-World Bank team will visit Tansen to complete the integrated REPs, O&M plans and the multi-year investment plans, and agree on the implementation action plans for 2014-2016 to be funded under the project by October 30, 2013 and submit it to the Bank for final review thereafter. Following completion of the inventory of the assets and the O&M needs assessments for Itahari and Dhankuta by October 30, 2013 and November 15, 2013 respectively, a joint PCO/MST-World Bank team will visit the municipalities to prepare the integrated REPs, O&M plans and the multi-year investment plans and action plan by December 7, 2013 and submit it to the Bank for final review thereafter.

Equipment

The PCO has procured the laptops and printers and has sent them to the municipalities in July 2013. Additional equipment required by the municipalities as per the institutional development activities will be procured by the municipalities this fiscal year. It was agreed that the PCO will carry out a rapid IT needs assessment in the municipalities before finalizing the list of equipment to be procured.

Actions for Institutional Development Component for Municipalities:

- PCO/MST to carry out a review of the existing municipal software and costing of IT needs for the implementation of the REPs and O&M plans by **October 15, 2013.**
- PCO/MST to work closely with Tansen to complete the inventory of assets and O&M needs assessment by **October 15, 2013.**
- A joint PCO/MST – World Bank team to carry out a joint visit to Tansen to finalize the integrated REP/OM/MYIP and agree with the municipality on the implementation plan to be funded under the project by **October 30, 2013.**
- PCO/MST to work closely with Itahari to complete the inventory of assets and O&M needs assessment by **October 30, 2013.**
- PCO/MST to work closely with Dhankuta to complete the inventory of assets and O&M needs assessment by **November 15, 2013.**
- PCO to carry out a rapid IT needs assessment for the municipalities by **November 30, 2013.**

- A joint PCO/MST- World Bank team to carry out joint visits to Dhankuta and Itahari to finalize the integrated REPs/OMs/MYIPs and agree with the municipalities on the implementation plan to be funded under the project by **December 7, 2013**.
- Itahari, Tansen and Dhankuta municipalities to approve and include in municipal budget the integrated REPs/OMs/MYIPs by **January 14, 2014**.

(b) Institutional Development for the DUDBC/PCO

Three individual consultants, a full time Financial Management Specialist, an M&E Expert and a part time procurement specialist have joined the PCO. The procurement of logistics and equipment (vehicles, IT equipment such as laptops, printers, etc.,) has been completed. However, the ID component activities of DUDBC/PCO have been moving slow and are behind schedule. The evaluation of the proposals for the GIS maps for the municipalities, and evaluation of EOIs for FMIS and third party monitoring are on-going. The procurement notice to hire the IDA-funded MST was published in July 2013 and EOIs were received from 10 firms. However, some issues were identified with the EOI notice and the process was cancelled. After discussions between the review and the PCO, the issues have been rectified. As per the agreed timeline, the new MST will be selected by February 20, 2014.

Actions for Institutional Development Component for DUDBC/PCO:

- PCO to complete the evaluation of EOIs for FMIS and third-party monitoring by **October 10, 2013**.
- PCO to award the contract for GIS urban maps by **November 7, 2013** and mobilize the consulting firm by **November 30, 2013**.
- PCO to award the contract for FMIS and third-party monitoring by **December 15, 2013**.
- PCO to complete the selection of the IDA-funded MST by **February 20, 2014**.

(c) Institutional Development for the TDF and Business Restructuring Action Plan

The Business Restructuring Action Plan (BRAP) has been under implementation since FY 2011/12, with the objective of assisting TDF move to a position of an open access, criteria based lender. Key actions to restructure TDF's capital, adopt lending policies and appraisal procedures and hire new capacity have been completed. TDF has made progress in settling its dues to GON – having repaid NPR 34.20 million of the total dues of NPR 77.74 million for UIEP, as this was received from the municipalities. It was agreed that TDF will take action to fully resolve the default situation by the end of FY 2014. Other key actions include adopting guidelines for the revolving fund, carrying out a borrowing capacity assessment and fixing the MIS system so that financial statements can be generated. All these assignments are underway and are expected to be completed by December 30, 2013.

Actions for Institutional Development Component for TDF

- TDF to adopt Revolving Fund guidelines by **November 30, 2013**.
- TDF to complete Borrowing Capacity/Demand Assessment by **November 30, 2013**.
- TDF to complete the gap analysis between MIS and Micro banking system by **December 31, 2013**.
- TDF to fully resolve the default situation with GON by **June 30, 2014**.

(d) Institutional Development for the MoFALD

MoFALD had prepared ToRs in June 2013 for the hiring of consultants to support implementation of the policy guidelines and procedures for municipalities in the area of governance and budget planning, strengthening of information and communication systems at both the central ministry and municipalities. However, the ToRs have not yet been finalized. It has been agreed that MoFALD will finalize the ToR by October 10, 2013 and initiate the procurement process by October 21, 2013.

Actions for Institutional Development Component for MoFALD

- MoFALD to agree on the final ToRs for the assignments and send to World Bank for review by **October 10, 2013**.
- MoFALD to issue the procurement notice for the hiring of consultants by **October 21, 2013**.
- MoFALD to hire the consultants for the agreed tasks by **November 15, 2013**.
- MoFALD to complete the tasks by **April 15, 2014**.

(e) Institutional Development for the MoUD

Based on the discussions held during the review, it has been agreed that the scope of the institutional development activities under MoUD will be modified to support MoUD in the preparation of the National Urban Strategy. This will include review of relevant documents by national consultants as required by the program for the development of the urban strategy. It has been agreed that MoUD will prepare the ToRs for consultants to review and/or update policy documents by October 21, 2013. Office equipment was purchased by MoUD as per its program in FY 2012/13.

Actions for Institutional Development Component for MoUD:

- MoUD to finalize the ToR for hiring consultants by **October 15, 2013**.
- MoUD to hire consultants for the agreed tasks by **December 15, 2013**.

(f) Project management and M&E

The review noted the progress made in fully staffing the PCO with a procurement consultant, a financial management consultant and an M&E specialist. The recruitment of the M&E specialist was completed as per the schedule agreed in the June 2013 review. Progress has been made in improving the project M&E. The methodology note for estimating beneficiaries has been finalized and shared with all municipalities. The results framework has been updated with data for FY13 . Progress needs to be sustained and M&E functions should be taken over by the M&E specialist. The results framework needs to be updated on a regular basis and before implementation support reviews for inclusion in the Aide Memoires.

Although progress has been made in improving the lines of communications with the municipalities and strengthening coordination among project agencies, the review found that more effort is needed. The review recommended that all travel to the municipalities be approved by the PCO and teams traveling to municipalities include a PCO member for effective coordination. The review also noted that some of the municipalities did not have the final designs for Track I sub-projects. The review recommended the establishment of standard procedures for the efficient transmittal of key documents (such as final designs) to the municipalities. The PCO would need to ensure that copies of final designs are made available by TDF and MST to the municipal staff in a timely manner for their review and endorsement. It was noted that the PCO would need to support the municipalities with the preparation of ToR for supervision consultants to ensure that the scope of work and reporting requirements are clear. The Project Implementation Manual (PIM) would need to be updated following the restructuring.

Actions for Project Management and M&E

- TDF/PCO to ensure that municipal staff have copies of final designs of Track I sub-projects by **October 4, 2013**.
- PCO to update the results framework with inputs from project agencies and municipalities by **November 30, 2013**.

ANNEX II: Social and Environmental Safeguards

The review held discussions with the PCO, MST, TDF and the municipalities of Itahari, Mechinagar and Dhankuta on the following key areas: (a) safeguard compliance for civil works funded by municipal block grants; (b) safeguard issues relating to municipal infrastructure sub-projects; (c) safeguard capability of the municipalities; (d) third-party monitoring of safeguards compliance; (e) preparation of brochures for the municipal infrastructure sub-projects; (f) environmental profile of each municipality; and (g) grievance redress mechanisms. The review noted that some actions agreed during the last review (June 2013) have been fulfilled, some actions have been partially complied with, and a few have been delayed or not-complied. Provided below is a summary of the discussions and agreed actions

II.I Safeguard Compliance for Civil Works Funded by the Municipal Block Grant

The following is a summary of the discussions on the status and agreed actions:

Mitigation measures for non-compliance issues for civil works carried out in FY 2011/12.

Mitigation measures to address non-compliance for FY12 activities have been satisfactorily completed as follows:

- **Support for the construction of a partition wall (NRs 150,000) for Mandali Church (Dhankuta).** As agreed during the previous review, the amount that was disbursed for this activity has been returned. The municipality has provided a proof of the amount deposited back by the receiver.
- **Drain construction (Naya Bazar, Itahari).** The review noted that construction of this drain is now complete.
- **Support to Shree Raktamala Primary School for construction of part of the school (NRs 200,000, Itahari).** The municipality informed that UGDP-ETP funds have not been used for this activity; instead, the funds have been channeled for maintaining/ gravelling two roads (Laxminarayn, and Maden roads).
- **Drain construction (Captain Yagya Bahadur Marga, Mechinagar).** The municipality has agreed with the Second Small Town Water Supply and Sanitation Project that the project will complete this drain in the current fiscal year. A written commitment from the project has been provided to the municipality.

Field verification for civil works funded by the municipal block grant in FY12/13.

As agreed during the previous review, PCO/MST has field-verified the selected activities identified as having potential environmental and social issues, including those relating to indigenous people and other vulnerable groups. In almost all cases, there were no significant environmental and social issues except for two sub-projects: (i) incomplete surface drain in Mechinagar (Construction of Surface drain from Keshab Sapkota's House to Khola, Ward- 5 and Ward-7); and (ii) incomplete culvert construction (Kamal Chimriya House's East to Devi Khola Ward No.4) in Mechinagar. The review recommended that the Mechinagar municipality put

these sub-projects in its priority list and complete them as soon as possible. The PCO will monitor these activities and ensure that they are completed within this fiscal year.

Screening for activities funded by the municipal block grant in FY13/14

The PCO/MST is in the process of reviewing and field verifying the screening checklists prepared by the municipalities for FY14 civil works. The PCO/MST has completed the review and field verification in the eastern cluster (Mechinagar, Itahari and Dhankuta). The PCO/MST has noted potential safeguard concerns in two proposed activities in Dhankuta: (i) land acquisition issues in the access road widening that links to Hile market; and (ii) slab cast cover for drain/ sewer in some sections of the settlement through which drain/sewer passes. The review noted that the widening of the access road to the Hile market is linked to the Hile Market Improvement sub-project and thus needs to fulfill all the requirements and standards applicable to the sub-project. The slab cast cover activity will be reviewed by the PCO by October 31, 2013 to understand if there are any environmental and social issues that need to be taken into consideration prior to approving the activities.

The field verification report has not been prepared yet. The review has reiterated that civil works should not begin before the field verification is completed. The review also emphasized the need for appropriate due diligence on the issues of indigenous peoples and vulnerable groups as reflected in the ESMF. The MST/PCO agreed to finalize the review and the field verification and prepare reports for both the Eastern and Western clusters by October 15, 2013.

II.II Safeguard Issues relating to Municipal Infrastructure Sub-projects

The review noted that the EMP for Gokul Marga (Mechinagar) has been prepared, and the EMP for Track I and II Access Road (Baglung) is being finalized. Progress in preparing the IEEs has been extremely slow. An IEE consultant for the Market Development sub-project (Hile, Dhankuta) is now on board and the draft IEE report is expected by October 15, 2013.

Review of DPRs and field observations during the site visits revealed that the draft DPRs and EMPs for Track II sub-projects generally miss out on site-specific social and environmental issues relevant to the sub-projects. For example: (i) the draft DPR and EMP of Itahari Link Road improvement does not cover the risks to the irrigation canal, Kabhya Batika, Pancharukhi Pokhari (Pond), weekly market along the road (Pancharukhi), and issues related to the borrow-pit and the embankment; (ii) the draft DPR and the EMP of the bridge over Tangra Khola does not consider flood risks to the embankment and the river guide, potential private land requirement for adjusting access to the bridge and potential disturbance to the weekly market at Sukrabare (Hawaichowk) during bridge construction; and (iii) erosion risks from the drain outlet near the bridge over Kheti Khola (Bajraha) etc. The review advised that all DPR plans, drawings and design details should be verified in the field for safeguards issues and the appropriateness of designs specific to a site/location.

The review also noted that the DPR of the Dhankuta Hile Market does not incorporate/address the social screening findings regarding dismantling of the three structures (e.g., post office, sports centre, and ward office). It was agreed that these issues would be addressed in the EMP. It

is also advised that consultation with the neighborhood residents should be carried out before the finalization of the DPR.

The field review of the draft DPR for the Dhankuta Hile Bus park noted a potential issue regarding access restrictions for the adjacent residents and shops. The design should consider this aspect and hold consultations with the likely affected people. Further, environment-friendly design features such as climatic orientation, use of solar energy, rain-water harvesting, recycling/re-use of wastes, etc., were also discussed, which to the extent possible, could be incorporated in the final design. It has been agreed that the PCO will provide guidance on the subject.

The review noted that the PCO has not resolved whether the urban road upgrading works require IEE as per the Nepalese EPA/EPR legal requirements. The review has requested again that the country legal requirements be interpreted by the government as soon as possible and complied with. The review repeated the previous request to the PCO to clarify safeguard requirements as per Nepal's regulations for upgrading urban roads, and to communicate the requirements in writing to the Bank and the municipalities by September 27, 2013.

The review agreed that a draft EMP of the Dhankuta Hile Market would be submitted for review by September 27, 2013 and the EMP for the Track I and Track II Baglung Access Road sub-projects would be submitted to the World Bank by October 6, 2013. In consideration of the limited capacity of the municipalities and slow progress, the PCO/MST and TDF would have to provide increased guidance and support to the municipalities in expediting the IEEs and EMPs. The review clarified, once again, that there must not be any civil works without approved safeguard documents (IEE, EMP etc.). It was also noted that for Track II sub-projects, the PCO/MST and TDF have been reviewing the engineering designs and bidding documents to ensure that the social and environmental concerns/suggestions noted during the screening are incorporated in the EMP and in various field visit notes.

II.III Safeguard capability of the municipalities

During the review and discussions with the municipalities visited, municipality staff noted that the training imparted to them on social and environmental management by the PCO/MST has raised awareness and general understanding. However, they indicated that the training was not adequate for undertaking the works and responsibilities envisaged by the ESMF. Accordingly, the municipalities have requested longer hands-on and practical/on-the job type of training, as well as expert site support, to ensure transfer of knowledge and skills related to social and environmental management. The review agreed that the PCO would review the training conducted thus far and assess further training needs in light of the feedback received from the municipal staff, and prepare an action plan for safeguard training/support by November 30, 2013.

II.IV Third-party monitoring of safeguards compliance

Procurement for the third-party monitoring for safeguards compliance has been delayed once again. The PCO informed that the EOIs have been received and are currently under evaluation. The updated date for completing the hiring of the consulting firm for third-party monitoring has

been agreed as December 15, 2013. The consulting firm will carry out the annual monitoring of safeguard compliance for the remainder of the project.

II.V Preparation of Sub-project Brochures

It has been agreed that sub-project specific brochures will be prepared as and when the sub-projects are finalized. Sub-project level brochures will be part of the IEC material to be distributed to the municipalities. Brochures for three sub-projects (one each in Dhankuta, Mechinagar, and Tansen) are now in the process of being finalized and the PCO/MST has agreed to finalize and distribute them to the municipalities by October 15, 2013—the brochure will be in Nepali and will, *inter alia*, include information regarding social and environmental mitigations, grievance redress mechanisms, and measures for public consultation and information disclosure. The review noted that IEC activities have not started yet. The review advised to start implementation of IEC at the sub-project level as soon as possible.

II.VI Environmental profile of the municipalities

An environmental profile of each of the municipalities is to be prepared as a chapter of the respective municipality's GIS report for urban maps. However, the GIS report preparation has been delayed. This has affected the preparation of the environmental profile as well. The PCO plans to complete the GIS reports, including the environmental profile of the concerned municipalities, by June 2014.

II.VII Grievance Redress Mechanisms

The review noted the delays in the establishment of the Grievance Redress Mechanism (GRM) at the national level. Grievance Redress Committees (GRCs) have been set up in the six municipalities under this project. But a central level the GRC has not been set up yet. This review has emphasized, and the PCO has agreed, on the need to establish this mechanism at the PCO by October 4, 2013. The review also advised that such a grievance redress mechanism be activated at the earliest to address the complaint received on the agro-market sub-project proposal in Mechinagar.

II. VIII Implementation of the IP-VC Framework

The review noted that the provisions contained in the IP-VC Framework have neither been implemented nor documented in a systematic manner. In line with the requirements of MoFALD for municipal block grants, measures have been taken to ensure that during the selection of sub-projects, 35 percent of the funds are utilized for activities benefiting disadvantaged groups, women and children. However, for municipal sub-projects, the requirements stipulated in the IP-VC Framework have not been followed through carefully. It has been agreed that the mission will work closely with the PCO/MST and the TDF to ensure that there are no adverse effects on these groups, streamline the process of consultations and information disclosure, and take active steps to ensure that they are able to benefit from the project.

Actions for safeguards

Safeguard Compliance for Civil Works Funded by the Municipal Block Grant

- PCO/MST to review and field verify proposed civil works to be funded by the municipal block grants in FY 2013/14 in all municipalities by **October 15, 2013**.
- Mechinagar municipality to complete the incomplete surface drain in Mechinagar (Construction of Surface drain from Keshab Sapkota's House to Khola, ward- 5 and ward-7) and culvert construction (Kamal Chimriya House's East to Devi Khola Ward No.4) by **June 30, 2014**.

Safeguard Issues relating to municipal infrastructure sub-projects

- PCO to confirm in writing to municipalities and the World Bank regarding EPA/EPR requirements for urban road upgrading sub-projects in various municipalities by **September 27, 2013**.
- TDF to submit the draft EMP for the Track I Dhankuta Hile market by **September 27, 2013**.
- TDF to submit the final EMP of the Track I and the Track II Municipal Road (Baglung) incorporating World Bank comments by **October 6, 2013**.
- Municipalities, with support from the PCO, to complete EMPs for Track II sub-projects, including Bridge and Link Roads (Itahari), Agro-market (Mechinagar), Hile Bus park (Dhankuta) before finalization of the respective bid documents by **November 1, 2013**. The EMP recommendations will be incorporated in the bid documents, and the EMP will be attached to the Bid Document.

Safeguard capability of the municipalities

- PCO to review training undertaken and further needs, and prepare an action plan for safeguard training/support by **November 30, 2013**.

Third-Party Monitoring of Safeguards Compliance

- PCO to complete the hiring of the consulting firm for third-party monitoring by **December 15, 2013** (see ID component for DUDBC/PCO).

Preparation of Sub-project Brochure

- PCO to prepare sub-project brochures for completed sub-projects in Nepali, with information regarding social and environmental mitigation, grievance addressing mechanisms, and measures for public consultation and information disclosure for all sub-projects by **October 15, 2013**.

Establishment of a Central-Level Grievance Redress Mechanism

- PCO to establish a GRC at the PCO by **October 4, 2013** and the GRM be activated to address the complaint received on the Agro-market sub-project proposal (Mechinagar) by **November 15, 2013**.

ANNEX III: Financial Management and Procurement

FINANANCIAL MANAGEMENT

Financial management (FM) remains unsatisfactory. There have been significant delays in carrying out activities related to financial management, including timely submission of IPRs and annual work program preparation and approval. The withdrawal application is still pending because of the change in signatories following the transfer of project staff this summer. The authorized signatories' letter has been submitted by MoF to the World Bank after significant delay on September 26, 2013, but the letter does not follow the prescribed format provided by the review to the PCO. Furthermore, necessary ledgers such as SOE ledger, main and subsidiary ledgers, designated account ledger and program ledger have not been maintained as required by the Government accounting system. Some of the agreed actions are still pending such as the FM training for accounting staff of the PCO. The recruitment of the consultants for FMIS is still on-going.

The overall budget of NRs. 514.41 million for FY 2013/14 has been approved on time but the annual work plan is yet to be approved. In FY 2012/13 (based on GoN FY, ending July 15, 2013) the project incurred expenditures of only NRs. 191.21 million (including NRs. 88.28 million released to the TDF, NRs. 5.33 million released to municipalities by the PCO for the institutional development component; NRs. 84.69 million released by MoUD for block grants and a loan of NRs. 0.51 million to a municipality) against a budgeted amount of NRs. 479.35 million, because of the delay in budget announcement and approval of the work plan in FY 2012/13.

The following key actions have been agreed to improve financial management performance. The PCO will submit the revised and overdue IPRs for FY13 by **October 4, 2013**. The countersigned amendment of the financing agreement and the authorized signatories' letter will be submitted to the Bank by **October 4, 2013**. The annual work program will be approved by **October 10, 2013**, and the withdrawal application for FY12 and FY13 will be completed by **October 16, 2013**. The PCO and the municipalities will carry out financial management training for all project agencies and municipalities by **October 31, 2013**.

Budget and Expenditures for FY2012/13

Following the Level II restructuring of the Project approved in February 2013, the discretionary grants under Component 1 previously provided to the municipalities by the Ministry of Federal Affairs and Local Development (formerly Ministry of Local Development) are now provided by the Ministry of Urban Development. A budget of NRs. 152.61 million for the FY 2012/13 was approved for municipal block grants, to be provided under Part A.

The approved recurrent, capital and financing budgets of UGDP for FY 2012/13 are as follows:

Approved Budget for FY 2012/13

FY 2012/13 Budget	Budget Head	Budgeted amount in NRs. million			
		GoN	IDA Grant	IDA Loan	Total
PCO/DUDBC					
Recurrent	3473163	30.00	173.65	42.65	246.3
Capital	3373164	6.74	27.35	6.35	40.44
Total		36.74	201	49.00	286.74
MOUD					
Recurrent	3478043	0	152.61	0	152.61
TDF					
Financing	5011645	0	0	40.00	40.00
Grand Total		36.74	353.61	89.00	479.35

It was noted that the annual program of NRs. 159.76 million was submitted by the PCO for FY 2012/13, whereas a budget of NRs. 286.74 million was approved. The grant to be provided to the participating municipalities through TDF for component 2, and the grant for the institutional development of TDF have been correctly budgeted under the recurrent budget. The loan to be provided to the participating municipalities through TDF has been budgeted separately under the financing budget. The PCO released NRs. 88.28 million to TDF against a budget of NRs. 128.28 million for FY 2012/13. TDF has received NRs. 11.94 million for FY 2012/13 against a budgeted amount of NRs. 40.00 million for the loan component under the financing budget.

As indicated below, UGDP:ETP incurred expenses of NRs. 191.21 million in FY 2012/13. Expenses include NRs. 88.28 million released from the PCO to the TDF and NRs. 5.33 million released to the municipalities by the PCO for the institutional development component and a loan of NRs. 0.51 million from the TDF financing budget. Expenses also include NRs 89.85 million released by MoUD to the municipalities for the municipal block grant in FY 2012/13.

Expenditures for FY 2012/13

Budget	Budget Head	Expenditures in NRs. million			
		GoN	IDA Grant	IDA Loan	Total
PCO/DUDBC					
Recurrent	3473163	17.14	59.49	18.05	94.68
Capital	3373164	0	0	6.17	6.17
Total		17.14	59.49	24.2	100.85
MOUD					
Recurrent	3478043	0	89.85	0	89.85
TDF					
Financing	5011645	0	0	0.51	0.51
Grand Total		17.14	149.34	24.73	191.21

UGDP:ETP incurred *reimbursable* expenses of NRs. 114.26 million in FY 2011/12 for the following activities by the following implementing agencies (expenses incurred by the municipalities for institutional development have been excluded due to lack of information from the concerned municipalities):

Reimbursable expenditures for FY 2012/13

Implementing Agencies	Amount in NRs. million
Block Grant – MOUD	84.69
ID Component – MOUD	5.15
ID Component - DUDBC/PCO	7.24
ID Component - TDF	11.51
Grant for study & Construction – TDF	5.67
Total	114.26
TDF – Financing	0.51
Grand Total	114.77

Budget for FY2013/14 and Expenditures

The budget for FY 2013/14 was announced on time in FY 2012/13. The approved recurrent, capital and financing budgets of UGDP:ETP for fiscal year 2013/14 (subject to transfer of budget of NRs. 95 million for block grant from capital to recurrent) are as follows:

Budget	Budget Head	Budgeted amount in NRs. million			
		GoN	IDA Grant	IDA Loan	Total
PCO/DUDBC					
Recurrent	3473163	58.52	120.66	13.86	193.04
Capital	3373164	4.00	48.70	39.89	92.59
Total		62.52	169.36	53.75	285.63
MOUD					
Recurrent	3478043	0	42.70	52.30	95
TDF					
Financing	5011645	47.79	0	85.99	133.78
Grand Total		110.31	212.06	192.04	514.41

The PCO has not yet incurred expenses in FY 2013/14 due to the delay in approval of the annual work plan. In FY 2013/14, the TDF has incurred expenses of NRs. 2.60 million, consisting of NRs. 1.39 million for salaries and loan and grant of NRs. 1.21 million provided to Dhankuta municipality (for mobilization of the contractor) up to September 18, 2013.

The review Team reviewed the supporting documents for expenses at the PCO and the TDF and found them to be satisfactory, except that a goods received note for furniture purchased by the PCO had not been prepared.

Disbursement

Total disbursement as of September 18, 2013 was USD 5.06 million drawn from the Grant Account, which was about 21% of the total allocation (before restructuring) including credit funds. The net use of resources, deducting the balance in the Designated Account, was about 0.35%. About USD 4.97 million advanced to the Designated Account is yet to be documented. A withdrawal application of USD 376,837.90 was made in mid May 2013, but only claims with supporting documentations for a total value of USD 26,771.29 could be honored because of the disbursement suspension due to the overdue audit for the project. Since the last review in June 2013, there have been no disbursements. The balance of USD 350,066.61 (equivalent NRs.3 0.78 million) has not been claimed again. The balance amount of USD 461,578.89 (equivalent NRs.40,586,136.26) for expenses incurred in FY 2011/12, already transferred from Designated Account to Government treasury, is yet to be claimed. Reimbursable expenses of NRs.114.26 million incurred in FY 2012/13, except expenses incurred by municipalities for institutional development, are yet to be transferred from the Designated Account to the Government treasury. The review urged the PCO to proceed with the transfer of eligible expenses from the Designated Account and submit the withdrawal application for FY 2011/12 and FY 2012/13 expenses as early as possible, no later than October 16, 2013.

Financial Management

The PCO needs to make substantial efforts in improving the overall financial management of the Project. Although the FM specialist at the PCO has been selected and has been on board for the last two months, the FM performance of the project has not improved. Some of the key agreed actions that need to be undertaken by the PCO are still pending, in particular the development of a Financial Management Information System (FMIS) and organizing FM training for the PCO and components' accounting staff. The following are some other observations of the Team:

SOE Ledger. The SOE ledger has not been maintained by the PCO to account SOEs and monitor reimbursement of SOEs from the Bank. The review guided the PCO on maintaining the SOE ledger, with information on the withdrawal application number, amount requested, amount replenished, category number, withdrawal application date, authorization number and value date.

Other Ledgers and Subsidiary Ledgers. The review noted that other ledgers such as main and subsidiary ledgers, designated account ledger and program ledger have not been maintained as required by the Government accounting system. The review provided guidance to the PCO on maintaining these records.

Internal Control and Internal Audit. The review observed that supporting documents for expenses had not been defaced with the PAID stamp. This is required as part of a good control system to avoid double payments. The review also observed that the goods received note for furniture purchased by PCO had not been prepared. The review Team reviewed the internal audit report of the TDF and observed some internal control weaknesses, which need to be strengthened.

Implementation Progress Reports

The review reminded the PCO that the revised first and second trimester progress reports of FY2012/13, incorporating comments provided by the Bank, need to be submitted at the earliest and that the third trimester progress report is overdue. The Project has agreed to submit the trimester overdue progress reports by **October 4, 2013**.

Audit Report and unaudited Project Account

There are no outstanding audit reports. The review pointed out that the unaudited project account of FY2012/13 will be due on October 15, 2013 and the audited account of FY2012/13 will be due on January 15, 2014.

Actions for Financial Management

- PCO to send the authorized signatory letter by **October 4, 2013**.
- PCO to submit the revised and overdue IPRs for FY13 by **October 4, 2013**.
- PCO to follow up with MoF to ensure the countersigned amendment of the financing agreement and the request for change in signatories be submitted to the Bank by **October 4, 2013**.
- PCO to ensure the annual work program is approved by **October 10, 2013**.
- PCO to complete the transfer of IDA expenditures to Government for reimbursement of FY13 expenses and submit the withdrawal application for FY12 and FY13 expenses by **October 16, 2013**.
- PCO to carry out financial management training for all project agencies and municipalities by **October 31, 2013**.
- PCO to award the contract for FMIS by **December 15, 2013** (see ID component for DUDBC/PCO).

PROCUREMENT

Although PCO has hired an individual procurement consultant and the consultant is now on board, procurement is still slow at all levels of implementing agencies (IAs), especially at the municipal level. The main issue is the weak procurement capacity to prepare appropriate evaluation/qualification criteria responsive to the market, which delaying overall project implementation. The following actions have been discussed and agreed to improve overall procurement management. PCO would timely finalize the current FY14 consolidated procurement plan (PP) and submit it to the Bank by **October 5, 2013**. The consolidated procurement plan for FY14 would include procurement training to be implemented on a regular basis. The PCO would submit the final bid evaluation for Mechinagar Gate to the World Bank for review by **October 30, 2013**. The PCO would carry out procurement orientation/training for staff of DUDBC, MoFALD, MoUD and TDF by **November 30, 2013**. The PCO will conduct intensive procurement orientation/training by **November 30, 2013** for municipal staff involved in procurement processing, with a focus on the key areas of contract management, bid evaluation

and selection of consultants. The procurement consultant of PCO and the Bank would serve as resource persons for such orientation and training. The PCO will expedite the selection process of MST, and adhere to the target to complete the consultant selection by February 20, 2014 as per the schedule below. Fast track selection, including decision-making, is required to meet the target. It was also noted that the PCO should review all procurement documents received from the municipalities before sending them to the World Bank for further action (in prior review cases) or provide the response to municipalities (in post review cases).

UGTP: ETP - Timeline for MST hiring

Step #	Activity	Start date	End date
1	Finalize and publish EOI notice	September 30, 2013	
2	Receive EOIs	October 01, 2013	October 15, 2013
2	Prepare RFP	October 01, 2013	October 31, 2013
4	Evaluate EOI	October 16, 2013	October 31, 2013
5	Obtain WB clearance to shortlist & RFP	November 01, 2013	November 05, 2013
6	Issue LOI to shortlisted consultants	November 07, 2013	
7	Receive proposals	November 08, 2013	December 23, 2013
8	Conduct technical evaluations	December 24, 2013	January 15, 2014
9	Obtain WB clearance to technical evaluation	January 16, 2014	January 25, 2014
10	Inform firms for opening financial proposals	January 26, 2014	
11	Public opening of financial proposals	February 15, 2014	
12	Select consultant	February 20, 2014	
13	Obtain WB clearance to selection, negotiations	February 21, 2014	February 28, 2014
14	Invite consultants for negotiations	March 01, 2014	
15	Conduct and conclude negotiations, and send draft negotiated contract to WB for clearance	March 10, 2014	March 15, 2014
16	WB review and clearance	March 16, 2014	March 20, 2014
17	Finalize contract	March 21, 2014	March 25, 2014
18	MST starts work	April 01, 2014	

Actions for Procurement

- PCO to submit the consolidated Procurement Plan for the project by **October 5, 2013**.
- PCO to submit the bid evaluation report for Mechinagar Gate for review to the World Bank by **October 30, 2013**.
- PCO to carry out customized procurement training for central agencies and municipalities by **November 30, 2013**.
- PCO to select the IDA-funded MST by **February 20, 2014**.

ANNEX IV: Summary of Actions and Status Update

Area	Action	Agency	Timeline	Status (as of October 8, 2013)
Strengthening Municipal Planning Capacity for Urban Development (Component I)	Issue the block grant authorization letter to the municipalities	MOUD	October 4, 2013	<i>Action complied with.</i> MoUD issued the authorization letter to municipalities on 27 September, 2013.
	Submit final plan of activities based on actual allocation to MoUD and PCO and in compliance with the target of 35 percent of funds allocated to women, children and disadvantaged groups	Municipalities	February 15, 2014	
Capacity Building for Municipal Infrastructure Development (Component II)	Agree on revised scope of Track II sub-projects in line with their borrowing capacity	Tansen, Dhankuta and Mechinagar Municipalities	October 5, 2013	<i>Action delayed.</i>
	Make available work implementation schedules and project monitoring chart for Track I sub-projects under construction to the World Bank	Tansen and Dhankuta Municipalities	October 15, 2013	
	Publish the bid invitation notice for Dhankuta Hile market infrastructure improvement sub-project	Dhankuta Municipality (Hile market)	October 9, 2013	<i>Action complied with.</i> The No Objection was provided by the World Bank. Letter issued to the Municipality for publishing the bid on 7 October, 2013
	Award contract for Dhankuta Hile market infrastructure improvement sub-project		December 13, 201	
	Complete bid evaluation for construction of Mechinagar Gate	Mechinagar Municipality	October 30, 2013	

	Award contract for construction of Mechinagar Gate	(Mechinagar Gate)	November 22, 2013	
	Mobilize contractor for construction of Mechinagar Gate		December 22, 2013	
	Publish bid invitation notice for Gokul Marg road sub-project	Mechinagar Municipality (Gokul Marg)	October 1, 2013	<i>Action complied with.</i> Bid notice published by the Municipality on 30 September, 2013. The bid document needs however to be reviewed by the World Bank due to the inclusion of e-bidding clauses.
	Complete the contract award for Gokul Marg road sub-project		December 7, 2013	
	Finalize project design for Baglung road sub-project.	PCO	October 6, 2013	<i>Action delayed.</i> Consultant for Track-II sub-project revised the design to be in line with the Track-I design, but during the extensive discussion held at the PCO on 7 October, 2013, it became clear that the Track-II design is more logical. Consultant is going to submit the tentative cost estimate of two options on 8 October, 2013 and then the final version of combined document will be submitted.
	Prepare combined bid document for both Track I and Track II part of Baglung road sub-project	PCO	October 21, 2013	

	Publish bid invitation notice for combined Track I and Track II Baglung road sub-project	Baglung Municipality (Access Road)	November 15, 2013	
	Complete contract award (and IEE as required) for combined Track I and Track II Baglung road sub-project		January 21, 2013	
	Finalize DPR of 12 Track II sub-projects	PCO	November 1, 2013	
	Publish bid invitation notices for Track II sub-projects	Municipalities	December 13, 2013	
	Complete award of contract (and IEEs as required) for Track II sub-projects		March 20, 2013	
Institutional Development (Component III)	Municipalities			
	Carry out a review of the existing municipal software and costing of IT needs for the implementation of the REPs and O&M plans	PCO/MST	October 15, 2013	
	Work closely with Tansen Municipality to complete the inventory of assets and O&M needs assessment	PCO/MST	October 15, 2013	
	Carry out joint visit to Tansen to finalize the integrated REP/OM/MYIP and agree with the municipality on the implementation plan to be funded under the project	PCO/MST-World Bank	October 30, 2013	
	Work closely with Itahari municipality to complete the inventory of assets and O&M needs assessment	PCO/MST	October 30, 2013	

	Work closely with Dhankuta municipality to complete the inventory of assets and O&M needs assessment	PCO/MST	November 15, 2013	
	Carry out a rapid IT needs assessment for the municipalities	PCO/MST	November 30, 2013	
	Carry out joint visit to Dhankuta and Itahari to finalize the integrated REP/OM/MYIP and agree with the municipalities on the implementation plan to be funded under the project	PCO/MST-World Bank	December 7, 2013	
	Approve and include in municipal budget the integrated REP/OM/MYIP	Itahari, Tansen and Dhankuta Municipalities	January 14, 2014	
DUDBC/PCO				
	Complete the evaluation of EOIs for FMIS and third-party monitoring	PCO	October 10, 2013	<i>Action on track. Final report of EOI evaluation being compiled.</i>
	Award the contract for GIS urban maps	PCO	November 7, 2013	
	Mobilize consulting firm for GIS urban maps	PCO	November 30, 2013	
	Award the contract for FMIS and third-party monitoring	PCO	December 15, 2013	
	Complete the selection of IDA funded MST	PCO	February 20, 2014	

TDF			
Adopt Revolving Funds guidelines	TDF	November 30, 2013	
Complete Borrowing Capacity/Demand Assessment	TDF	November 30, 2013	
Complete the gap analysis between MIS and Micro banking system	TDF	December 31, 2013	
Fully resolve the default situation with GON	TDF	June 30, 2014	
MoFALD			
Agree on the final ToRs for the assignments and send to World Bank for review	MoFALD	October 10, 2013	
Issue the procurement notice for the hiring of consultants	MoFALD	October 21, 2013	
Hire the consultants for the agreed tasks	MoFALD	November 15, 2013	
Complete the tasks	MoFALD	April 15, 2014	
MoUD			
Finalize the ToR for hiring the consultants	MoUD	October 15, 2013	

	Hire the consultants for the agreed tasks	MoUD	December 15, 2013	
	Project Management and M&E			
	Update results framework with inputs from project agencies and municipalities	PCO	November 30, 2013	
	Ensure that municipal staff have copies of final designs of Track I sub-projects	TDF/PCO	October 4, 2013	<i>Action complied with.</i>
Safeguards	Confirm in writing to municipalities and World Bank regarding EPA/ EPR requirements for the urban road upgrading sub-projects in various municipalities	PCO	September 27, 2013	<i>Action delayed.</i> Safeguard experts completed review of EPA/EPR requirement of GoN and will submit the final findings to PCO.
	Submit draft EMP for Track I Dhankuta Hile market	TDF	September 27, 2013	<i>Action complied with.</i> In the process of incorporating comments.
	Submit final EMP of Track I and Track II Baglung Access Road incorporating World Bank's comments	TDF	October 6, 2013	<i>Action delayed.</i> The EMP will be submitted along with consolidated report of Track I and Track II access roads.
	Review and field verify all the proposed civil works to be funded by the municipal block grants in FY 2013/14 in all municipalities	PCO/ MST	October 15, 2013	
	Prepare the sub-projects brochures for completed sub-projects in Nepali having information regarding social	PCO	October 15, 2013	

	and environmental mitigations, grievance addressing mechanisms, and measures for public consultations and information disclosures for all subprojects			
	Prepare EMPs for Track II sub-projects, including Bridge and Link Roads (Itahari), Agro-market (Mechinagar), HileBuspark (Dhankuta) before finalization of the respective bid document. EMP recommendations will be incorporated in the bid documents as well as EMP will be attached with the Bid Document	Municipalities with support from PCO	November 1, 2013	
	Establish GRC at the PCO level	PCO	October 4, 2013	<i>Action delayed.</i>
	Activate the grievance redress mechanism to address the complaint received on Agro-market subproject proposal (Mechinagar)	PCO	November 15, 2013	
	Review the trainings undertaken and further needs, and prepare an action plan for safeguard training/ support	PCO	November 30, 2013	
	Complete the hiring of the consulting firm for third-party monitoring	PCO	December 15, 2013	
	Complete incomplete surface drain in Mechinagar (Construction of Surface drain from KeshabSapkota's House to Khola, ward- 5 and ward-7) and culvert construction (Kamal Chimriya House's East to Devi Khola Ward No.4)	Mechinagar Municipality	June 30, 2014	

Financial Management	Submit the revised and overdue IPRs for FY13	PCO	October 4, 2013	<i>Action partially complied with.</i> The revised 1 st and 2 nd trimester IPRs have been received, although they still require some revisions. The 3 rd trimester IPR is pending.
	Follow up with MoF to ensure the countersigned amendment of the financing agreement and the request for change in signatories is submitted to the Bank	PCO	October 4, 2013	<i>Action complied with.</i> The World Bank received the countersigned amendment of financing agreement, and the letter with new signatories. However, the letter is not in the prescribed format. The letter is pending review from the Legal Department of the World Bank.
	Ensure the annual work program is approved	PCO	October 10, 2013	<i>Action complied with.</i> Annual program of FY 2013/14 has been approved by MoUD.
	Complete the transfer of IDA expenditures to Government for reimbursement of FY13 expenses and submit withdrawal application for FY12 and FY13 expenses	PCO	October 16, 2013	
	Carry out financial management training for all project agencies and the municipalities	PCO	October 31, 2013	
	Award contract for FMIS	PCO	December 15, 2013	

Procurement	Submit the consolidated Procurement Plan for the project	PCO	October 5, 2013	<i>Action partially complied with.</i> The Procurement Plan has been submitted to the World Bank on October 1, 2013. Revisions are required, and the PCO was requested to revise and resubmit the plan for further review. Revisions have been made by the PCO and response to comments has been prepared. The revised draft will be submitted to the World Bank on 9 October, 2013.
	PCO to submit the bid evaluation report of Mechinagar Gate for review to the World Bank	PCO	October 30, 2013	
	Carry out customized procurement training for central agencies and municipalities	PCO	November 30, 2013	
	Complete the selection of the IDA-funded MST	PCO	February 20, 2014	

ANNEX V: Results Framework

Year 1: FY 2011/12

Project Development Objective (PDO): To improve the capacity of the participating municipalities to plan, implement and fund urban development activities.									
Project Development Objective Indicators		Baseline (Y1)		Target and Achievement				Reference	Comments
				Year 2	Year 3	Year 4	Year 5		
Increase in municipal own source revenues in the participating municipalities.	Percentage annual increase	15	Target %	15	15	20	25	Revenue statements of municipalities	<i>Target for year 2 exceeded. Indicator is on track to be achieved in year 3.</i>
			Actual %	18					
Number of participating municipalities with funded investment and O&M plans.	Number	0	Cumulative Target	0	3	6	6		<i>Target likely to be achieved for Year 3 if key actions are timely met. REPs are under preparation. O&M plan of Tansen completed and in progress in Itahari, Dhakuta and Mechinagar.</i>
			Cum. Achievement	0					
Municipal sub-projects under implementation with construction works on track as per the signed contracts.	Percentage of Component-2 Sub-projects	0	Target %	0	80	80	90		<i>Likelihood to achieve the indicator in Year 3 will be assessed in December. Two works contract is signed and mobilization amount disbursed.</i>
			Actual %	0					
Total number of people benefiting from the project activities.	Number	25000	Cumulative Target	36000	50000	70000	92000	Progress report of UGDP of FY 2012 and 2013 submitted by the municipalities	<i>Target not achieved for year 2, but on track to meet end of project target. Methodology for beneficiary counting was revised and significantly strengthened in August 2013. As a result, number of total beneficiaries in Y1 was lowered to 9,807. Number of beneficiaries in Year 2 is 16,926.</i>
			Cum. Achievement	26733					

Female beneficiaries, percentage of total beneficiaries	Percentage Sub Type Supplemental	35	Target %	35	35	35	35	Progress reports of UGDP submitted by the municipalities	<i>Target achieved for year 2. Indicator on track for year 3.</i>
			Actual %	51					
Disadvantage groups, percentage of total beneficiaries	Percentage Sub Type Supplemental	10	Target %	10	10	10	10	Progress reports of UGDP submitted by the municipalities	<i>Target achieved for year 2. Indicator on track for year 3.</i>
			Actual %	59					
Intermediate Results Indicators									
Component I: Strengthening Municipal Planning Capacity for Urban Development									
Municipal grant allocated to programs targeting women, children and disadvantaged groups.	Percent of Municipal Grant allocated to target groups	35	Target %	35	35	35	35	Progress reports of UGDP for FY 2013 and Annual program of UGDP for FY 2014 submitted by municipalities	<i>Target achieved for year 2. Indicator monitors the allocation and utilization of funds targeting women, children and disadvantaged groups. Planned activities for year 3 need to be revised by municipalities to ensure target is met for year 3.</i>
			Actual %	35	28 (est)				
Number of municipalities submitting satisfactory annual plans for the municipal block grants to the MoUD by August 15 (one month after the start of the Fiscal Year).	Number	n/a	Target	n/a	6	6	6	PCO records	<i>Target Achieved for Year 2: All six municipalities submitted annual plans to PCO for the municipal block grant by August 15</i>
			Actual		6				
Number of municipalities submitting satisfactory annual progress reports to MoUD for the municipal	Number	n/a	Target	n/a	6	6	6	PCO records	<i>Target Achieved for Year 2: All six municipalities submitted progress reports to PCO for the municipal</i>

block grants by September 15 (two months after the end of the Fiscal Year).			Actual		6				block grant by September 15, 2013.
Component II: Capacity Building for Municipal Infrastructure Development									
Number of municipal infrastructure sub-projects successfully appraised and ready for bidding (i.e. procurement notice published)	Number	0	Cumulative Target	3	13	18	18		<i>Target achieved for Year 2: procurement notice of Amar Narayan Temple, Dhankuta Market, Mechinagar Gate published. Actual value is 5 as of September 30, 2013. Target for Year 3 can be achieved if the agreed actions are completed on time.</i>
			Cum. Achievement	3					
Percentage of funds for municipal sub-projects disbursed.	Percent of subproject's budget	0	Cumulative Target	0	20	60	100		<i>Likelihood that the indicator will not be met because of delays in preparation of sub-projects. Expected disbursement is 13 percent of total IDA credit and grant.</i>
			Cum. Achievement	0					
Component III: Institutional Development									
Policy guidelines and procedures for municipalities on governance and budget planning updated and implemented by MoFALD.	Text	No	Target	No	Yes (Updated)	Yes (Implemented)	Yes (Implemented)		<i>Likelihood that the indicator will not be met. Draft ToR prepared by the MoFALD but procurement of consultant has not yet started.</i>
			Actual	No					
Policy guidelines and procedures for municipalities on physical	Text	No	Target	No	Yes (Updated)	Yes (Implemented)	Yes (Implemented)		<i>Likelihood that the indicator will be met since activity is a priority for</i>

planning and infrastructure development developed/updated and implemented by MoUD.			Actual	No					<i>MoUD. MoUD has requested slightly change in scope of work to support preparation of National Urban Strategy.</i>
TDF collection ratio meets prescribed thresholds.	Percentage	75	Target %		80		90	TDF Data	<i>Indicator is on track. As of 15th July 2013, receivables NPR 1,225 millions and received NPR 950 millions</i>
			Actual %	78					
Standard lending policies and procedures applied to all ETP municipal sub-projects.	Text	No	Target	No	Yes	Yes	Yes		<i>Target Achieved for Year 2</i>
			Actual	Yes	Yes				
Number of municipalities that have developed and approved planning norms and building byelaws based on the guidelines by MoUD.	Number	0	Cumulative Target	0	3	6	6		<i>Activities are on track to meet target for Year 3. DUBC is preparing model bye-laws for the municipalities.</i>
			Cum. Achievement	0					

ANNEX VI - List of People Met

Ministry of Urban Development

Mr. Kishore Thapa, Secretary
Mr. Binod Chandra Jha, Joint Secretary
Mr. Purushottam Tiwari, Under Secretary/Component Manager
Dr. Mahendra Subba, Joint Secretary

Ministry of Federal Affairs and Local Development (MoFALD)

Mr. Ramchandra Tiwari, Section Officer

Ministry of Finance

Mr. Madhu Kumar Marasini, Joint Secretary
Mr. Bhuban Karki, Under Secretary
Mr. Kishor Bartaula, Section Officer

Department of Urban Development and Building Construction (DUDBC)

Mr. Shambhu K.C, Director General
Mr. Ramesh Prasad Singh, Deputy Director General/Project Director
Mr. Dwarika Shrestha, Sr. Divisional Engineer/Deputy Project Director
Mr. Tika Ram Paudel, Component Manager
Mr. Sabin Karmacharya, Engineer
Mr. Shakti Prasad Shrestha, Procurement Specialist
Mr. Dhruva Dahal, M&E Specialist

Municipal Support Team

Mr. Alex Jachnow, Team Leader, MST
Ms. Bandana Sharma, MST
Mr. Arjun Koirala, MST
Mr. Sunil Pradhan, MST
Mr. Iswar Joshi, MST

Town Development Fund (TDF)

Mr. Sushil Gyawali, Managing Director
Mr. Uttar K Shrestha, Director/ Component Manager
Mr. Harka Bahadur Chhetri, Director, Project Finance and Risk Management
Mr. Maniram Singh Mahat, Director, PME
Mr. Padma Lal Gautam, Director, Project Management and Technical Assistance
Mr. Dron Pun, Manager, Risk Management
Mr. Kileshwor Malla, Manager, Project Finance
Mr. Narayan B.C, Manager, Financial Management
Mr. Nawa Raj Koirala, Deputy Manager, Project Finance

Mr Man Bahadur Gurung, Engineer

Ministry of Federal Affairs and Local Development (MoFALD)

Mr. Ramchandra Tiwari, Section Officer

GIZ

Dr. Horst Matthaus, Program Manager

Tansen Municipality

Niran Bhattraï – Executive Officer

Bisnu Paudel – Administrative Officer

Koshal Kumar Ghimire - Internal Auditor

Puran Bajracharya – Finance Section Chief

Saran Kumar Shrestha – Tax Sub-section Chief

Manohar Lal Shakya – Planning and Technical Section Chief

Deepak Manandher – Project Engineer

Itahari Municipality

Arjun Kumar Dahal – Engineer

Lakhan Lal Chaudhari - Finance Section Chief

Anita Guragain – Administration Section Chief

Jeevan Ghimire – Sub-Engineer

Tek Nath Sapkota - Community Development Section Chief

Aujun Subedi – Tax Section Chief

Dhankuta Municipality

Kumar Prasad Koirala - Executive Officer

Mingma Dorje Sherpa, Engineer

Raju Guragain – Tax Officer

Bhimsen Shrestha – Project Engineer, UGDP

Keshav Kumar Shrestha - Accountant

Tribikram Dahal – Internal Auditor

Mechinagar Municipality

Bhim Prashad Paudel - Executive Officer

Kamal Prasad Koirala – Engineer

Rajan Kumar Bhetwal – Account Officer

Chakrapani Khanal – Tax Officer

Indra Bahadur Thapa – Engineer

Amit Kumar Gupta – Project Engineer