

**Urban Governance Development Program - Emerging Towns Project**  
**Fifth Implementation Support Review**  
**January 17-31, 2013**

Aide Memoire

An Implementation Support Review of the Urban Governance and Development Program - Emerging Towns Project (UGDP-ETP) was held from January 17-31, 2013 to: i) review the overall status of project implementation, with a focus on the readiness of the municipal sub-projects, disbursement projections and progress in achieving the project's results, (ii) discuss with the Steering Committee and agree on a plan to address the implementation issues that the project is facing, including loan-grant mix issue for the Socio-economic Infrastructure Development component; and (iii) review of Institutional Development (ID) component for the project agencies, including the Business Restructuring Action Plan (BRAP) and the GIZ-funded Municipal Support Team (MST)'s program for strengthening institutional and operational capacity in the municipalities, and discuss options to mobilize additional resources for the ID component to the municipalities, after funding from GIZ ends in 2014.

The joint IDA-GIZ review team<sup>1</sup> (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 Town Development Fund (TDF), the Department of Urban Development and Building Construction (DUDBC), the Project Coordination Office (PCO) and the Municipal Support Team (MST) in undertaking this review. The Team participated in a Steering Committee meeting for the project held on January 25, 2013 at MoUD. The team was pleased to have the opportunity to conduct a field visit to the Amar Narayan temple conservation sub-project in Tansen Municipality with the PCO, MST, TDF, together with the Department of Archaeology (DoA) staff Mr. Laxman Basukala (Engineer) and Mr. Shyam Sunder Rajbanshi (Chief Archeological Officer). The Team also met with the Chief Executive Officers (CEO) of the participating municipalities in Kathmandu on January 28, 2013.

The Team would like to thank the counterparts, including the Project Director, the PCO, the project agencies and the municipalities for the hospitality and all the

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<sup>1</sup> The team comprised Elisa Muzzini (Sr. Economist/Task Team Leader), Silva Shrestha (Water and Sanitation Specialist), Bigyan Pradhan (Sr. Financial Management Specialist), Shambhu Uprety (Procurement Specialist), Yogesh Malla (Financial Management Specialist), Drona Ghimire (Environment Specialist), Parthapriya Ghosh (Sr. Social Development Specialist), Pradeep Shrestha (Financial Management Consultant), Pawan Lohani (Municipal Finance Specialist/Consultant), Katrinka Ebbe (Cultural Heritage Specialist/Consultant), Krishnaswamy Rajivan (Municipal Finance Expert/Consultant), Noor Tamrakar (Engineer/Consultant), Laxman Rajbhandari (Municipal Management Consultant, SUNAG, MLD-GIZ) and Kalyan Nemkul (Team Assistant).

courtesies extended to it during the review. This Aide-Memoire summarizing the main findings and recommendations was shared with the concerned agencies for discussions at a wrap up meeting on January 31, 2013 at the MoUD. As agreed at the wrap-up meeting, this Aide-Memoire will be classified as a public document.

## **I. MAIN FINDINGS**

*Implementation progress.* Some progress has been made in advancing the preparation of the Track I sub-projects since the fourth implementation review in September 2012.<sup>2</sup> In addition, implementation arrangements for the municipal block grants have been revised, following the establishment of the MoUD in May 2012. Progress has been made in the following areas:

- *Preparation of three Track I sub-projects has been finalized.* The bidding documents, including Detailed Engineering Designs (DEDs) and Environment Management Plan (EMPs) for three Track I sub-projects (Amar Narayan Temple Area Conservation and Development in Tansen, Mechinagar Gate, Socio-economic Infrastructure Improvement in Dhankuta market) have been finalized based on comments provided by the Team. The Department of Archeology has cleared the feasibility report, drawings and appraisals for the Amar Narayan Temple Area Conservation and Development Sub-project (see Annexes VI and VII).
- *The restructuring of implementation arrangements of the service delivery improvement component (municipal block grant) has been completed.* A restructuring of implementation arrangements has been carried out as per Ministry of Finance (MoF) request, and the Steering Committee has endorsed the restructuring. It has been agreed that MoUD will be responsible for channeling the block grant to the municipalities, based on a formula provided by MoFALD. Provisions have also been made as part of the restructuring to strengthen PCO and provide logistics support to the municipalities. The restructuring paper and amended financing agreement are in the process of being cleared by the World Bank.
- *Roles and responsibilities of PCO and TDF for the socio-economic infrastructure component have been clarified.* It has been agreed that sub-project construction supervision support to the municipalities will be the responsibility of PCO for both Track I and Track II sub-projects. TDF will continue being responsible for sub-project development support for Track I sub-projects, up to contract award. TDF will therefore need to provide

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<sup>2</sup> It has been agreed that going forward fast-track sub-projects will be referred to Track I sub-projects, and regular-track sub-projects will be referred to as Track II sub-projects.

hands-on procurement support to the municipalities for the hiring of the contractors. (See Section II). PCO will take the responsibility of sub-project development support for Track II sub-projects.

Implementation on the ground of the socio-economic infrastructure component has however not yet taken off. The project remains in problem status, and overall implementation progress is rated Moderately Unsatisfactory (MU). The following actions have been agreed as part of the review to address pending issues and expedite implementation:

- *There is the need to increase project oversight at the MoUD level, and project ownership at DUDBC level.* It has been agreed that MoUD will strengthen project oversight in this critical phase of project implementation. In addition, DUDBC will take full ownership of the project, and the Director General, DUDBC will regularly attend PCO meetings, at least once a month, to monitor progress.
- *To address the adverse loan-grant mix issue for the socio-economic infrastructure component, the MoUD will submit a request to the MoF to channel part of the credit as grant to the municipalities.* To enable the conversion, MoUD will provide MoF with options for the channeling of the grant component to the municipalities in line with MoF's rules and regulations. Options include the channeling of the grant through the government system subject to TDF's providing no objection. (See Section IV)
- *Implementation of Track I sub-projects need to be expedited, and the pipeline for the Track II municipal sub-projects needs further development.* The review noted that three municipalities (Itahari, Dhankuta and Baglung) have constrained borrowing capacity, and two municipalities (Itahari and Dhankuta) are in default with TDF. Urgent attention also needs to be paid to expedite implementation of Track I sub-projects as per agreed timeline (see Annex II), and further develop the pipeline of Track II sub-projects based on the agreed readiness criteria (i.e., Project Concept Briefs that meet readiness criteria ready by end of February, DPRs ready by December 2013, implementation period of two years and safeguard readiness, see Annex III). The review noted with concern that, based on the current municipal sub-project portfolio, only 42% of the IDA funds will be disbursed at project closure in July 2016. In the event that the participating municipalities are unable to absorb all the available funds and Project Concept Briefs for viable Track II sub-projects are not ready by end of February, 2013, options would need to be considered to make full utilization of the project funds by project closure.
- *ID support to the municipalities needs to be strengthened with IDA funding.* The review noted that the ID support to the municipalities needs to be

strengthened to ensure smooth implementation and the sustainability of the investments funded under the project. Since the GIZ-funded MST will phase out in June 2014, it has been agreed that action needs to be taken now to bridge the gap. Funds will be transferred from the Socio-economic Infrastructure component to the ID component to strengthen support to the municipalities with IDA funding. Overlap between GIZ-funded MST and the IDA-funded MST will be required to allow enough time for the hand-over and ensure there is no gap in the ID support to the municipalities. ToRs for the IDA-funded MST will be prepared by PCO. In addition, actions need to be taken by TDF to provide procurement support to the municipalities for the bid evaluation of the Track I sub-projects, and by the PCO to provide construction supervision support to the municipalities.

- *Municipalities need to develop time-bound retroactive mitigation plans to address social and environmental issues that emerged as part of the retroactive safeguard screening for the municipal block grant.* The retroactive safeguard screening and subsequent field verification of the civil works funded last FY with the municipal block grant under Component I identified several shortcomings as well as social and environmental issues (see Section VIIa). It was agreed that PCO will request the municipalities to develop a time-bound retroactive mitigation plan which PCO will scrutinize, and the municipalities need to fund the mitigation measures before spending in new areas. It was agreed that the third tranche of the municipal block grant for this FY will only be disbursed under the condition that the municipalities have funded the mitigation plan. This condition will be included in the authorization letter that MoUD would send to the municipalities (with copy to FCGO and DTCO).
- *Action is needed to resolve TDF accumulated overdues to GoN.* The review noted with concern that TDF has accumulated overdues to GON of approximately NR 55 million in respect of the Urban and Environmental Improvement Project (UEIP). Actions to resolve the overdue issue, either through repayments, rescheduling or conversion would have to be taken on a priority basis by June 30, 2013 so that these defaults are cleared from next annual financial statements.
- *Actions need to be taken immediately to submit audit reports.* The audited report of FY2011/12 is now overdue. A warning letter has been sent to the PCO providing 4-months grace period. If the audit report is not submitted by the end of the given grace period (May 15, 2013), the Team alerted that disbursements of the project may have to be suspended as required by the Bank's policy.
- *Submission of annual work plan by MoUD needs to be expedited.* The review noted the approval of the annual work plan for the project has been significantly delayed this fiscal year. The National Planning Commission

(NPC) has approved the annual program for TDF and PCO. MoUD has only recently submitted on February 4, 2013 annual work plan to NPC for MoUD (including Block Grants) and MoFALD. MoF/MoUD has provided authority in line with the Budget ordinance that stipulates that only up to the limit of last year's expenditure will be budgeted for program and projects for FY 2013/14. This amount is not sufficient to cover the budget necessary to implement the project. It was agreed that MoF/MoUD will allocate budget authority in line with the approved annual program by March 4, 2013.<sup>3</sup> The Team reminded the submission of the annual work plan for next FY by March 31, 2013 is a project covenant. Delays in preparation of the annual plan will be detrimental to the project implementation.

The next implementation support review for the Project will be held in April 2013 to ascertain the progress made on the agreed priority actions. It was agreed that the following conditions need to be met by June 2013 to enable the upgrading of the project rating to Moderately Satisfactory: (a) bid documents ready for all Track I sub-projects and contractors hired for at least three Track I sub-projects; (b) restructuring of Socio-economic Infrastructure component completed as required to address the loan-grant mix issue; (c) pipeline for Track II sub-projects fully developed, and on track for delivery, and/or option agreed for full utilization of the estimated undisbursed amount in line with the PDO and GoN's objectives for the emerging towns.

***Priority Actions:***

- MoUD to submit a request to Ministry of Finance (MoF) to channel part of the credit as a grant to the municipalities to address the loan-grant mix issue by **February 15, 2013**, and MoF to provide final reply, and request IDA to carry out project restructuring if and as required by **February 28, 2013**
- MoF/MoUD to allocate budget authority in line with the approved annual program to PCO, MoFALD by **March 4, 2013**
- PCO to organize joint World Bank-PCO-TDF team to visit the municipalities to further develop the Track II sub-project pipeline as per the agreed timeline (see Annex II), and submit to the World Bank Project Concept Briefs that meet the agreed readiness criteria by **February 28, 2013**;
- MoF/MoUD to allocate budget authority in line with the approved annual program to PCO, MoFALD by **March 4, 2013**
- TDF to agree with Government of Nepal (GoN) on a plan to resolve TDF's accumulated overdues to GoN by **March 31, 2013**,
- TDF to work closely with the municipalities, in coordination with the PCO, to expedite implementation of the Track I municipal sub-projects as per agreed timeline (see Annex II), and ensure that bid documents are finalized for all

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<sup>3</sup> MoF has now allowed provision for allocation of budget beyond last year's expenditure in donor funded programs/ projects.

Track I sub-projects, and contracts are awarded for at least three sub-projects by **June 30, 2013**

## **II. IMPLEMENTATION ARRANGEMENTS FOR SOCIO-ECONOMIC INFRASTRUCTURE COMPONENT**

The review found that there was lack of clarity among the project agencies on the implementation arrangements for the Socio-economic Infrastructure component (component II). A meeting chaired by the Secretary, MoUD was held to clarify the implementation arrangements for this component. The agreed implementation arrangements are summarized in the Table 1 below.

**Table 1: Agreed Implementation Arrangements, Component II**

	<b>Track I</b>	<b>Track II</b>
Sub-project development support (up to contract award)	TDF	PCO
Sub-project construction supervision support	PCO	PCO

Based on the agreed implementation arrangements, the following actions will be needed: (a) TDF will be responsible for providing procurement support to the municipalities for the hiring of the contractors for Track I sub-projects. TDF has prepared a work plan for the procurement support to the municipalities, which has been discussed with the municipalities on January 28; (b) PCO will be responsible for providing construction supervision support to the municipalities.

The review noted that progress has been made in improving coordination and information flows between the project agencies – one of the key areas for action identified by the previous review. However, more effort is needed to regularly review implementation progress, monitoring compliance with milestones dates at PCO meetings, and reporting progress to the Team on a weekly basis.

The roles and responsibilities of the PCO, as specified in Annex VII of the Aide Memoire for the fourth implementation support review, were also reviewed. It was noted that that PCO has not provided comments on appraisal documents for Track I sub-projects prepared by TDF as agreed during the previous review. It was agreed that going forward, the PCO will review and comments on the technical appraisal reports provided by TDF, and simultaneously send them to the Bank for review. PCO

need to take immediate action to establish a working monitoring & evaluation system to monitor the achievements at the municipality level.

It was also noted that the roles and responsibilities of the municipal engineers hired with funds from the block grants in the six municipalities need to be clarified to ensure that the engineers are fully on board, and clear flows of communications are established between the municipal engineers and the PCO.

### **III. MUNICIPAL BLOCK GRANT (Component I)**

The release of the block grant for this FY has been put on hold until the project restructuring for the component is completed and revision in the FA made accordingly. Disbursement of the municipal block grant is also subject to the approval by the NPC of the annual work program for the project. After the restructuring is completed, MoUD will be responsible for the release of block grants to the municipalities based on the calculations done by MoFALD, for monitoring progress and providing updates to the PCO on the implementation of this component, and ensuring safeguard compliance. A Component Manager has been added at MoUD to oversee this component. MoFALD has already provided calculation for the block grant allocations for the municipalities for the current fiscal year to MoUD and has instructed the municipalities to prepare their programs accordingly.

It was agreed that the PCO would remind the municipalities that the block grants under this component need to be used by the municipalities in accordance with the Block Grant Guidelines of MoFALD with the provision of use of up to 10% of the grants for hiring of consultants to support the project at the municipality level. Municipalities are encouraged to use the block grant as the municipalities' matching contribution to the municipal sub-projects (under component II). Municipalities are also encouraged not just to use these funds for the creation of new assets but also to apportion funds for the Operation and Maintenance (O&M) of the existing infrastructure and those that will be constructed under the project as per the O&M Plan.

All municipalities have completed the process of getting the annual program for FY 2013/14 endorsed by the municipal council. It was agreed that the municipalities would share the Annual Program with the PCO by February 15, 2013.

It was agreed that the PCO would provide guidance and support to the municipalities on the method of calculating the beneficiaries and on the reporting format for the block grant as part of the strengthening of the project M&E system. PCO has developed M&E reporting formats for the municipalities. However, the quality of the reporting still needs to be improved. The municipal officials also need to be trained on the use of the formats, methods of calculating benefits, and reporting to the PCO at least every trimester.

A retroactive safeguards screening of the civil works funded under this component in FY 2011/12 has been conducted and mitigation measures identified (See Section VII for details). The municipalities need to fund these mitigation measures before spending in new areas. It was agreed that the third tranche of the municipal block grant for this fiscal year will be disbursed under the condition that the municipalities have funded the mitigation plan. Ex-ante safeguard screening for the municipal block grant (based on an agreed simplified check list) needs to be carried out this FY as a condition for the municipalities to receive the funds.

***Priority actions***

- Municipalities to share the Annual Program for next FY with the PCO by **February 15, 2013**
- MoUD to provide the authority to the municipalities on the use of Municipal block grants by **February 28, 2013** (also see Section VII (a))

**IV. SOCIO-ECONOMIC INFRASTRUCTURE (Component II)**

**IV.I Borrowing Capacity of the Municipalities and Defaults**

The Team reemphasize that the loan and grant amounts indicated in the Memorandum of Understanding (MoU) between the municipalities and MPPW and MoLD<sup>4</sup> are only indicative and the actual loan and grants that a municipality can receive under the project is based on (i) the type of the project selected by the municipality, and (ii) the borrowing capacity of the municipality.

The borrowing capacity of the municipalities, and the ability to take on debt from UGDP:ETP were estimated by TDF and reviewed by the Team. The methodology and assumptions are presented in Annex V. The differences between the estimated borrowing capacity presented in the annexure and those in the fourth implementation support review are on account of (a) reclassification of one time grants into non-recurrent revenues based on audited data (b) removing recurrent revenue expenditures from capital and (c) use of linear regression models in the earlier estimate, (d) use of audited financial statements as against Local Bodies Finance Commission (LBFC) data.

The estimates show that all six municipalities have the borrowing capacity to carry out the Track I sub-projects. However, if the Track I and Track II projects are combined, three municipalities (Itahari, Dhankuta and Baglung) have constrained borrowing capacity. Itahari would need to reduce the size of the sub-projects in line with its borrowing capacity. A similar situation prevails with regard to the Baglung's road sub-project. Dhankuta does not have the borrowing capacity to finance the water supply project - only "social" sub-projects are financeable based on the municipality's borrowing capacity.

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<sup>4</sup> Now replaced by MoUD and MoFALD, respectively.

Further, Dhankuta is in default to TDF on its KfW loans; these would need to be paid back as per TDF's lending policies and procedures. A second KfW loan needs to be rescheduled in Dhankuta and Itahari. Lekhnath and Itahari are guarantors for the Small Towns Water Supply and Sanitation Project (STWSSP) loans, and as actions to restructure these liabilities are being taken it is expected that municipal contributions towards these loans will be avoided. Actions regarding rescheduling, enforcing repayments and finalizing loan covenants would be needed to ensure efficient implementation. The above facts suggest the need for an active financial advisor (as a proactive business partner) to look at the municipal portfolio as a whole, estimate the borrowing capacity and help the municipalities' design their investment planning based on their priorities.

#### IV.II Sub-Project Readiness

Readiness targets and milestone dates for both Track I and Track II sub-projects were defined as part of the review. The Team noted that readiness of the sub-projects is a critical issue that would need to be addressed immediately (see Table 3 below). Based on the readiness status of the current municipal portfolio, it is estimated that IDA funds equivalent to USD 10.48 will not be disbursed (equivalent to 42% of total IDA for the project, see Table 4). Significant effort is therefore required to continue building the sub-project pipeline. It was agreed that if ToRs for viable sub-projects are not available by end of February 2013, other options will be explored to ensure full and efficient utilization of the IDA resources.

**Table 3: Sub-project Readiness and Status**

	<b>Readiness Target</b>	<b>Status</b>	<b>Priority Action</b>
<b>Track I sub-projects</b>	<ul style="list-style-type: none"> <li>• Bid documents issued by June 2013;</li> <li>• Contract awarded for three sub-projects by June 2013; and for remaining sub-projects by October 2013;</li> <li>• Supervision consultants in place with contractors by October 2013.</li> </ul>	Appraisal completed for three sub-projects; DPRs ready 6 out of 9; <b><i>civil works can't start until IEEs are approved.</i></b>	<u>TDF</u> : Support municipalities to expedite preparation of IEEs and SIAs; provide procurement support to the municipalities for the hiring of the contractors; <u>PCO</u> : Immediately start supporting the municipalities with the hiring of supervision consultants
<b>Track II sub-projects</b>	<ul style="list-style-type: none"> <li>• Sub-project concept briefs that meet the agreed</li> </ul>	Only one sub-project meet readiness criteria	<u>PCO</u> : Send joint Bank-PCO team to the municipalities to

	readiness criterial ready by end February, 2013; • DPRs ready by December 2013; • 2 year implementation period; • Safeguard readiness	based on available ToR for feasibility studies.	re-assess scope of work, and develop pipeline of feasible sub-projects, and re-submit sub-proejct concept briefs to the Bank by end of February.
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**Table 4: Disbursement Estimates for Component II based on Current Municipal Portfolio (USD million)**

	IDA Credit	IDA Grant	GoN Grant	Municipal Matching Fund	Total
Total Fund Available	10.03	6.25	5.00	2.13	23.40
Total Fund Available in %	43%	27%	21%	9%	100%
Track I Sub Projects	0.99	1.48	1.08	0.39	3.94
Balance Budget for Track II sub projects	9.04	4.77	3.92	1.74	19.46
Amount required for Track II Sub Projects*	1.44	1.87	1.22	0.50	5.04
<b>Estimated undisbursed amount</b>	<b>7.59</b>	<b>2.89</b>	<b>2.70</b>	<b>1.23</b>	<b>14.42</b>

Total funds available include feasibility study, design, supervision, social and environmental safeguard, and excludes TDF charges.

\* Estimates based on current portfolio.

USD 1 = 85 Nr

#### IV. III Loan-grant mix issue

The current IDA credit-grant ratio as per the Financing Agreement (FA) is 61%-39%, while the IDA loan grant ratio based on the municipal portfolio is 42%-58%. This adverse loan-grant mix has implications for project implementation, since the municipalities will not be absorb the available loan amount. Three options were discussed in the Steering Committee to address this issue: (a) request IDA for additional grant; (b) GON to convert the undisbursed credit into grant, with TDF channeling all the grant (including additional grant); and (c) GON to channel the undisbursed credit as a grant to the municipalities through the government system subject to TDF's no objection to preserve the integrity of the appraisal process. The team explored the first option and it was found infeasible.

It was agreed that MoUD will request MoF to convert part of the credit as grant to the municipalities. To enable the conversion, MoUD will provide MoF with options for the channeling of the grant to the municipalities in line with MoF's rules and regulations. Options include the channeling of the grant to the municipalities through the government system or through TDF.

If MoF's decision is to channel the grant through the government to the municipalities, project restructuring would be required to revise the flows of funds; and the financing and the subsidiary loan agreements would need to be revised. Further an agreement between PCO /DUDBC and TDF would be needed, requiring that the grants under component II would be approved by PCO only after TDF gives a no objection based on the viability of the loan to preserve the integrity of the appraisal process. Disbursement of the loans and grants would be on a pari-passu basis.

#### **IV.IV Status of Track I sub-projects**

A total of 9 sub projects are being considered for Track I: (1) gate beautification, (2) Gokul Marga (road) and (3) Shahid Marga (road) in Mechinagar municipality; (4) main road surface drainage in Itahari municipality; (5 and 6) infrastructure improvements in Hile and Dhankuta markets in Dhankuta municipality; (7) access road in Lekhnath municipality; (8) municipal road in Baglung municipality; and (9) Amar Narayan temple conservation in Tansen municipality.

There has been some progress in the preparation of the sub-projects being processed under the Track I approach. For three sub-projects in Dhankuta, Mechinagar and Tansen, appraisals, including bid documents and EMPs, have been prepared. However, in Mechinagar the following conditions need to be met before proceeding with the bid process: (a) endorsement letter by the municipality sent to Bank and (b) sub-project approved by the Department of Road. In However, preparation of the other Track I sub-project needs to be expedited to ensure all bid documents are ready by June 2013, based on the agreed readiness criteria.

*Environmental and social safeguards.* The process of preparation of IEEs and SIAs (as required) for the Track I sub-projects has been delayed, and needs to be expedited. The team reminded the TDF and PCO that civil works can't start in the municipalities until the IEEs are approved by the concerned ministries.

*Procurement support to municipalities for bid evaluation.* The review noted that continuous procurement support needs to be provided to the municipalities for the bid evaluation of Track I sub-projects, and as per the agreed implementation arrangements, this is the responsibility of TDF. The Team advised TDF to hire a short-term consultant to support the municipalities in this task as the bid documents are ready for tender, to avoid delays in the hiring of the contractors.

*Supervision consultants.* Municipalities will hire supervision consultants based on the needs of their sub-project and will be ultimately responsible to supervise the works. Funds will be available as grant to the municipalities to hire supervision consultants. PCO will support the municipalities with the preparation of the grant application, the drafting of ToR for the supervision consultants and the hiring of the construction supervision consultants. In addition, the PCO will hire a firm or

individual consultant as required to provide back-up support for the monitoring of the works in the municipalities. It was agreed that the municipalities need to start the process of hiring a firm for construction supervision and the contractors at the same time.

*Timeline and Status.* The team reviewed the status of the sub-projects, and the main findings and recommendations are summarized in Annex VI and VII. An updated timeline for the Track I sub-projects has been developed taking into account the progress made so far and discussions during the review (Annex II). ***It was agreed that the TDF Component Manager will report progress and any change in the timeline to the PCO at the weekly meetings, and progress made will be reported in writing to the World Bank on a weekly basis by the PCO to expedite implementation.***

#### **IV.V Status of Track II sub-projects**

The review noted with concern that the Track II sub-projects (with the exception of one) do not meet readiness targets (6-month preparation, 2-year implementation and safeguard readiness). The readiness targets were developed and agreed based on the time available to complete the sub-projects before project closing in July 2016 (see Annex III). Municipalities were informed that further work needs to be done to develop the pipeline of Track II sub-projects taking into account their borrowing capacity, as well as their priorities and readiness criteria, at a meeting in Kathmandu on January 28, 2013.

It was agreed that a joint World Bank-PCO-TDF team will visit the six municipalities in February to develop and finalize the pipeline of Track II sub-projects, and sub-project concept briefs along with readiness indicators for each viable sub-projects that meet the readiness targets would be submitted to the World Bank for review not later than February 28, 2013.

If by the end of February 28, 2013, a viable pipeline of Track II sub-projects cannot be developed, alternative options would be discussed to ensure effective utilization of the estimated undisbursed amount, in line with the project's PDO and GON's development priorities for the emerging towns.

#### **IV.VI Financial appraisal of the sub-projects**

The Team noted that Track I sub-projects are all dependent on municipal cash flows for repayments and at best, the revenue generated by the sub-projects could cover O&M costs. Hence, the financial appraisal needs to be entity-based (rather than project-based), and the assumption of no incremental revenues should be consistently applied by TDF when carrying out the financial appraisal of the Track I sub-projects. This is expected to be the case with respect to the Track II sub-projects as well.

TDF has completed the appraisals for three Track I projects in Dhankuta, Mechinagar and Tansen. The financial appraisals were reviewed by the Team. In general, the appraisals needed to incorporate key actions, such as rescheduling and repayments in the case of Dhankuta, and Itahari, specifying priorities in terms of repayments when multiple loans were being advanced by TDF, and security mechanisms. These have subsequently been incorporated in the appraisal.

Going forward, TDF would need to follow the templates provided in its Appraisal Manual for the financial appraisal, and work towards resolving financial issues before finalizing the appraisal. These include agreements with municipalities on all issues affecting debt service such as the source for matching contributions, O&M costs.

***Priority actions:***

- PCO to immediately start supporting the municipalities with the hiring of construction supervision consultants by preparing ToR for Tansen, Mechinagar and Dhankuta, and submitting them to the Bank for review by **February 5, 2013**;
- TDF to complete rescheduling/settlement of outstanding loans in Itahari and Dhankuta by **February 15, 2013**
- MoUD to submit a request to Ministry of Finance (MoF) to channel part of the credit as a grant to the municipalities to address the loan-grant mix issue by **February 15, 2013**; MoF to provide final reply, and request IDA to carry out project restructuring as required by **February 28, 2013**
- PCO to prepare ToR for the hiring of firm to provide back-up support for monitoring and reporting on implementation of works in the municipalities by **February 20, 2013**
- PCO to organize joint Bank-PCO-TDF team to visit the municipalities to develop pipeline of feasible Track II sub-projects, and submit sub-project concept briefs that meet the agreed readiness criteria to the World Bank for review by **February 28, 2013**;
- World Bank with PCO to process IDA restructuring for component II to address loan-grant mix issue as required by **March 15, 2013**
- TDF to expedite implementation of Track I sub-projects as per timeline provided in Annex II, provide support to the municipalities to expedite preparation of IEEs and SIAs; provide procurement support to the municipalities for the hiring of the contractors for Track I sub-projects, and ensure that bid documents are finalized for all Track I sub-projects, and contracts awarded for at least three Track I sub-projects by **June 30, 2013** ;
- TDF to incorporate key covenants and disbursement conditions in the loan agreements for Track I sub-projects as they are ready, as per timeline provided in Annex II
- PCO to weekly monitor readiness status and timeline of Track I and Track II sub-projects against agreed targets, and report changes to the World Bank;

## V. INSTITUTIONAL DEVELOPMENT COMPONENT (Component III)

**DUDBC/PCO:** The activities under the Institutional Development component of DUDBC/ PCO have been delayed. The hiring of consultants for the different studies needs to be expedited. The RFPs to the short-listed consultants for development of Urban Maps was issued on January 8, 2013 with the submission deadline of February 8, 2013. The PCO expects to complete the evaluation by March 31, 2013 and award the contract by April 15, 2013. The urban maps for six municipalities are expected to be completed by October 30, 2013. Building permit process management software has been developed for the municipalities and is being piloted in Mechinagar with support from MST. Orientation, review of building and planning bylaws, building permit system and enforcement mechanism is also being carried out in the six municipalities. MST is currently supporting Urban Development Division of DUDBC in the development of its business plan, which is expected to be completed by June 2013. It has also been agreed that GIZ will support the PCO/ DUDBC to develop the concept note for the development of Urban Information System at DUDBC. The PCO has obtained the quotations for the purchase of IT equipment for the PCO and the municipalities and will procure them as soon as they receive the budget. The Team reemphasized the need to continue the efforts to strengthen the PCO with appropriate staff and systems to carry out project management, financial management and M&E functions. It was agreed that the PCO will immediately initiate the process to re-advertise to hire a full time Financial Management Specialist and part time procurement specialist, and M&E expert. The PCO also needs to re-publish the EOI notice for the development of FMIS.

### ***Priority actions***

- PCO to publish the EOI for FMIS by **February 15, 2013**
- PCO to hire a full time Financial Management Specialist, part time procurement specialist, and M&E expert by **March 31, 2013**
- PCO to develop the concept note for the development of Urban Information System at DUDBC by **March 15, 2013**.
- PCO/DUDBC to award the contract for urban maps by **April 15, 2013**.
- PCO/DUDBC to complete urban maps for six municipalities by **October 30, 2013**.

**MoFALD:** As part of the ongoing restructuring, the ID activities under MoFALD have been revised to reflect the ministry's change in priorities. The new activities include support for developing and/or updating policy guidelines and procedures for municipalities in the area of governance and budget planning, strengthening of Information and communication systems, capacity development, IT equipment and logistic support. It was agreed that MoFALD will prepare the ToRs for consultants to Finalize annual planning guidelines for municipalities and share with the Team by February 28, 2013.

### ***Priority actions***

- MoFALD to prepare the ToRs for consultants to develop and/or update policy guidelines and procedures for municipalities in the area of governance and budget planning by **February 28, 2013**

**MoUD:** ID support to MoUD has been added as part of the ongoing restructuring. This includes support for developing policy guidelines and procedures for municipalities in the area of physical planning and infrastructure development, the strengthening of information and communication systems, capacity development, and logistic support. Support to UDTC will now be coordinated by the Component Manager at MoUD. It was agreed that MoUD will prepare the ToRs for consultants to develop and/or update policy guidelines and procedures for municipalities in the area of physical planning and infrastructure development and share with the Team by February 15, 2013.

### ***Priority actions***

- MoUD to prepare the ToRs for consultants to develop and/or update policy guidelines and procedures for municipalities in the area of physical planning and infrastructure development by **February 15, 2013**.

**Municipalities:** The MST which is linked to the PCO is tasked with providing support and trainings to the six municipalities for institutional development and the preparation of municipal Track II sub-projects. The review focused on key support areas: (a) revenue enhancement and O&M plans; (b) project and logistics support to the municipalities.

### ***Revenue enhancement plan and O&M plan***

In consultations with the municipalities, a list of proposed actions to enhance revenues have been prepared for the six municipalities as part of the Revenue Enhancement Plans (REPs). Proposed actions include some tax increases (house rent, building permits etc) and improved returns from revenue generating activities (rentals from bus stands etc). The proposed actions have not yet been endorsed by the municipalities.

These proposals are not based on a sound financial operating plan for the municipalities, and are not linked to the capital investment programs of the municipalities, to support them in prioritizing investments and managing the existing assets. In addition, these proposals need to be quantified, the regulatory steps detailed and action plans developed for implementation.

The “Guidelines for the preparation and implementation of O&M plans” has been developed for Tansen and in process of being developed for Itahari municipality. O&M guidelines include various templates such as a matrix of expenditures required to bring the assets back to working condition. These guidelines have to be tested in

the municipalities and these repairs and expenses carried forward into the investment plan. At present, the guidelines are yet to be made operational, and not funded, and hence the municipalities cannot assess the trade-off between O&M and new capital investments.

There is an urgent need to provide the municipalities with pro-active financial advisory support, so that the links between the Service Delivery Improvement (municipal block grant, component I), the Socio-economic infrastructure component (component 2) and the ID support for the municipalities (component 3) are not merely at the design stage, and municipalities are provided with the financial tools required to make informed decisions.

This financial advisory function would include: (a) assessment of revenues (existing and potential) and expenditures (O&M and capital), (b) estimation of the debt potential, and (c) choice of the means of finance for investments. The outputs of this interactive financial advisory support would include the development of a basic financial decision-making tool, including:

- Drawing up of a simple financial operating plan, based on existing sources of revenues and expenditures, and projections;
- Assessment of its surplus available for debt service and hence a tentative borrowing plan;
- Factor in debt service for loans already taken.

This financial advisory support would enable municipalities to be sensitized to their current revenue and (capital and O&M) expenditure situation, estimate the potential surpluses to be used for investment planning and prioritize their investments based on the means of finance, including UGDP:ETP. This basic financial decision-making tool would enable the municipality to eventually develop a realistic pipeline of investments, and, if institutionalized, it would be available for all lines of credit. It would also allow municipalities to decide how to best use funds available under the Service Delivery Improvement (municipal block grant, component I) and the Socio-economic Infrastructure (component II). The financial advisory support is critical for project implementation. If this is not implemented, the outcome of the sub-projects, and the sustainability of the assets created under the project, would be at risk.

***Priority actions***

- PCO to mobilize through MST a Financial Advisor who will provide the municipalities with basic support on financial analysis by **February 28, 2013**
- PCO to prepare initial draft ToR for IDA-funded MST and share it with the Bank for review by **March 10, 2013**

- PCO to discuss with Tansen and Itahari municipalities to ensure that O&M plans prepared under the project are fully funded, as per the project results framework by **June 30, 2013**.
- PCO to follow up with municipalities to ensure that Revenue Enhancement Plans (REPs) are endorsed by the municipal councils by **March 31, 2013**

***Project and logistics support to the municipalities.***

Based on the identification of training needs in all municipalities, training on various areas including procurement and safeguards has been provided to the municipalities. Orientations were provided on filling the screening forms on the safeguards for sub-projects taken up under the Block Grants, municipal staff were trained on procurement process for consultants and contractors (preparation of EoI, RFP, ToR, bid documents, evaluation criteria, etc.) in two modules for 5 days, and on environmental and social safeguards for 3 days. Similarly, municipalities were provided orientation on planning and budgeting processes. Orientation to the Municipal Coordination Committee (MCC), Grievance Redressal Committee (GRC) and Project Management Team (PMT) members and beneficiaries/user groups was provided on the social, environmental safeguards, economic and financial analysis and options of loan repayment. However, the Team recognizes that more on-hands support is needed at the municipal level in these areas for the municipalities to be able to prepare, procure, and implement the sub-projects following the agreed guidelines and frameworks. The municipal staff also needs to be trained on recording and reporting the results. The Team has agreed to provide the municipalities with minimal logistics costs support to cover expenses on meetings costs, travel, dissemination of IEC materials, etc. as part of the ongoing restructuring.

**TDF and the Business Restructuring Action Plan**

The objective of the ID component for TDF and the BRAP is to support and enable TDF to restructure its capital, improve the quality of its assets and earnings and enhanced management capacity. Actions to convert the STWSSP loans into equity have been completed, and collections in FY 2011-12 have significantly improved over those by FY 2010-11. This conversion has improved key financial indicators such as the DSCR from 0.56 to a ratio greater than 1. However, the review noted with concern that TDF has accumulated overdues to GON of approximately NR 55 million in respect of the Urban Environment Infrastructure Project (UEIP). Actions need to be taken to resolve this, either through repayments, rescheduling or conversion would have to be taken on a priority basis by the end of June so that these defaults are cleared from next annual financial statements.

The time bound actions for January-July 2011 have been completed. Of the actions for July 2011-June 2012, the main issues outstanding are the development of a common MIS, the development of common appraisal and security systems and the

Debt Security Reserve Fund (DSRF). TDF has requested the support of outsourced experts for the security systems and the DSRF.

- The current micro-banking system which connects the financial system with the MIS is not working. This has been developed with GIZ assistance, and TDF would need to decide whether they would get this repaired or procure a new system. In either case, this situation needs to be addressed as projections of financial statements are difficult with this problem.
- TDF has requested for training for staff on the use of their appraisal manual, and the possibility of “on-the-job” training (such as twinning arrangements) was considered.
- As formulated, the DSRF is intended to bail out projects, which fail technically and are unable to return loans. TDF and GoN will finalize the scope and size of the DSRF by July 2014.

Other outstanding time bound actions for the period July 2011-June 2012.

- The development of security systems is reported as not implemented and outsourced experts are requested. As of now, ADB lines of credit are covered with step-in-rights and intercept. UGDP:ETP also has a government commitment to repay TDF in case of defaults. KfW loans (the line with the highest recovery rates) are formally unsecure. In this context, TDF would need to rationalize its security policy especially in view of rights of senior and junior lenders. TDF has hired a chartered accountant and a legal expert who can provide TDF management an advisory note on security policy, based on which management can take decisions which should be incorporated in all future loan agreements, including UGDP:ETP.
- TDF has to complete actions as per its SOP regarding the implementation of escrow arrangements.
- Regarding STWSSP I loans, after the swap of debt to equity by GON, corresponding rescheduling of loans from towns to TDF have yet to be done. This is because of an additional NR 600 million are needed to get the water supply system working.
- Excluding STWSSP loans, the remaining problem loans (mainly UEIP and KfW) can be handled by existing and new staff hired by TDF under the project. The need for a separate workout cell appears unnecessary and in most financial institutions, appraisal officers and the finance wing work together. With stronger appraisals, handling problem loans should be integrated into regular business process, with finance them from current revenues.

Under the ID component, TDF has completed the HR re-organization plan and hired three new directors for key functions. Positions of managers in respect of fund management, risk and project finance have had high turnovers and TDF is taking action to re-advertise these. Presently the administrative costs account for approximately 50% of spreads, which is extremely high for financial intermediaries.

This situation is expected to become worse when the in-sourced specialists would have to be financed by TDF after 2014. In this context, TDF would need to update its HR plan and match the potential expenditures with earnings.

***Priority actions***

- TDF to fix the MIS and Micro banking so that financial statements/projections can be generated by **June 30, 2013**
- TDF to submit to complete audit and agree on an plan to resolve overdue issue with GoN by **March 31, 2013**, and implement the plan by **June 30, 2013**

**VI. MONITORING & EVALUATION**

It was agreed during the fourth implementation review that the PCO would develop an M&E data collection and reporting template for the municipalities to support them in the reporting of information for the results framework, and based on this system, PCO will regularly monitor progress in achieving the target results. However, not much progress has been seen in this regard. PCO with support from MST has prepared the data collection template for the municipalities and provided some training to the municipalities, but actual information flow from the municipalities has not started. The Team noted that the municipalities will need more in-depth support and training on recording and reporting on the results data. PCO is yet to systematize the process of collecting results data from the municipalities and other agencies and reporting on the project results. It is expected that with the hiring of an M&E expert by the PCO, the M&E system will be established. The Team recommended the PCO to expedite the hiring of the M&E specialist.

With the restructuring of the Project to include support to the MoUD, changes in the activities under MoFALD, and implementation arrangement for Component 1, the results framework has been updated to reflect these changes.

The current results framework for the project is attached in Annex IV. Target results for the socio-economic infrastructure component have not been achieved in mid of year 2 (FY 2012/13), given the delays in starting the construction works for the Track I sub-projects.

***Priority actions:***

- PCO to prepare M&E data excel spreadsheet and note on M&E process and submit it to the Team by **February 28, 2013**.
- PCO to develop M&E data template and training for the municipalities to support them in the reporting of information on project beneficiaries and results by **March 15, 2013**
- PCO to revise the results in the results framework based on updated information provided by the municipalities, include the sector-specific PDO-

level results indicators and submit the updated results framework to the Team by **March 15, 2013**.

## **VII. SOCIAL AND ENVIRONMENTAL SAFEGUARDS**

The team held discussions with the PCO, MST, TDF on the following key areas: (a) safeguard compliance of civil works funded with block grants (Component I); (b) safeguard issues relating to Track I and Track II sub-projects (Component II); (c) safeguard capability of the municipalities; (d) third-party monitoring of safeguards compliance; (e) translation and dissemination of safeguards documents, and (f) environmental profile of each municipality.

The team noted that several actions agreed during the last review have been complied, and some have been partially complied with.

- Retroactive screening of the civil works under the Service Delivery Improvement Component (“block grant projects”) has been carried out in both the eastern as well as western regions by the respective municipalities. The screening identified several shortcomings as well as adverse social issues.
- The ToR for SIA and RAP have been prepared for the Track I sub-projects, but the hiring of the consultants has not been completed. The team reiterated its advice to PCO to keep the technical design consultants and the safeguard consultant independent, for conflict of interest reasons, and in line with the spirit of consultant employment guidelines for the preparation of the Track II sub-projects.
- As it was agreed during the previous review, the Project Implementation Manual (PIM) incorporating the relevant sections from the Environmental and Social Management Framework (ESMF) was translated and distributed to the municipalities. However, the awareness about safeguard issues is still very weak in the municipalities, and safeguard capacity needs to be strengthened.
- The team was pleased to note that PCO has finalized the ToR for the third party monitoring of safeguard compliance after incorporating the comments from the Bank

Provided below is a summary of the discussions and agreed actions.

### **(a) Safeguard Compliance of Block Grant Projects**

Retroactive safeguard screening of the civil works under Component I (“block grant projects”) has been carried out by the respective municipalities. The municipal staff involved in the screening exercise was trained by MST. The screening results submitted by the municipalities were scrutinized by MST and PCO and sub-projects of high risk nature were identified and were field-verified by PCO in the municipalities in the Eastern Development Region. PCO is yet to field verify the screening carried out in the municipalities in the western region.

The retroactive screening and subsequent field verification identified several shortcomings as well as social and environmental issues. In Mechinagar and Itahari municipalities, drains constructed with the municipal block grant do not have any outfall, which during rains will create water pool and health hazards. In Itahari municipality, a school supported with the municipal block grant is on encroached land and the owner filed a case in the court and the court gave its verdict in favor of the landowner. Similarly in Dhakuta municipality, the project supported a church which did not have construction permit as it is located right under a high-tension line. ***It was agreed that PCO will request the municipalities to develop time-bound retroactive mitigation plan which PCO will scrutinize.***

As per Section III, ex-ante safeguard screening for the municipal block grant needs to be carried out this FY as a condition for the municipalities to receive the funds. The social and environmental screening for the new projects that will be supported under Component I this FY is being carried out using the abridged version of the screening document.

The municipalities also need to fund the agreed mitigation measures before spending in new areas. It was agreed that this FY the first two tranches of the municipal block grant will be disbursed immediately to provide municipalities with the means to fund the mitigation plans when required; the third tranche of the municipal block grant for this FY will only be disbursed under the condition that the municipalities have funded the mitigation plan. This condition will be included in the authorization letter that MoUD would send to the municipalities (with copy to FCGO and DTCO).

#### **(b) Safeguard Issues relating to Track I and Track II projects**

The Team noted that preparation of sub-projects' environmental safeguard documents, such as screening, IEEs and EMPs, has been slow, and quality needs to be improved.

EMPs for three sub-projects in Dhankuta, Tansen and Mechinagar have been finalized. However, there has been little progress in the hiring of consultants for the safeguard assessment of the Track I sub-projects since the last review. IEE ToR has been approved for urban roads (in Mechninagar, Lekhanath and Baglung), for drainage improvement in Itahari, and for market in Dhankuta Hile: however, IEE process has not begun yet. The team clarified, once again, that civil works cannot start prior to the approval of safeguard documents (IEE, EMP etc). It was also agreed that TDF will review the engineering designs for ongoing Track I sub-projects to ensure social and environmental concerns/suggestions noted in the screening and various field visit notes are incorporated.

#### **(c) Safeguard capability of the municipalities**

The review found that the social and environmental safeguard capability of the municipalities is very weak. The municipal staff was trained on safeguards issues by the social and environmental safeguard specialists of MST.

However, visit by team members in Mechinagar, Itahari, Dhankuta, and Tansen municipalities revealed that that municipal staff has low environmental and social safeguard capability and very little understanding of the ESMF provisions. The municipal staff is not fully aware of the requirements under the ESMF as well as Nepal's legal requirements related to safeguards. The team did not find copy of the Environmental and Social Management Framework (ESMF) in the municipalities. This is causing delays in completing the safeguard documents, poor quality of the safeguard documents, and missing opportunity in internalizing environmental and social measures into the sub-project designs and costs.

Retroactive screening of the municipal block grant supported civil works indicates that even these small-scale activities do have social environmental concerns . The results of the screening exercise for Track I sub-projects are very subjective and miss to capture sub-project specific issue. Going forward, it is necessary that this capacity issue is addressed: *first of all*, a focal person for environmental and social safeguards need to be nominated in each municipality with defined ToR, *second*, the focal person needs to be oriented on the ESMF as well as Nepal's legal requirements, *third*; practical hand-on training should be given to them, and an expert should guide and train them on the job for few activities. A team of one social specialist and one environmental specialist should be hired at the PCO for supporting municipalities (approximately 50% of their time should be spent in the field to provide hand-on support to the municipalities).

#### **(d) Third-party monitoring of safeguards compliance**

The Team discussed the need to proceed with the annual independent/third-party monitoring for ESMF compliance. PCO has finalized the ToR after incorporating the comments from the Team. It has been agreed that the PCO will complete the hiring of the firm for third-party monitoring by June 30, 2013.

#### **(e) Translation and Dissemination of Safeguards Documents**

As it was agreed during the previous review, the Project Implementation Manual (PIM) incorporating the relevant sections from the ESMF was translated and distributed to the municipalities. Similarly, project-related leaflets have been prepared and distributed. It was agreed that sub-project specific brochures will be prepared as and when sub projects are finalized. Sub-project level brochures will be part of IEC material to be distributed to the municipalities.

#### **(f) Environmental profile of the municipalities**

PCO informed that ToR for the GIS maps preparation has been finalized, and RFP has been issued. The ToR contains environmental attributes – information on which will be used to prepare Environmental Profile of the respective municipalities (a chapter of the GIS Report).

### ***Priority actions***

#### **Block Grant Projects (Component I):**

- Municipalities to submit to PCO and MoUD ex-ante screening checklist for civil works to be funded with the municipal block grant this FY by **February 20, 2013**
- PCO to complete verification of screening results of western region by **February 28, 2013**
- PCO to prepare and share action plan to address issues identified during screening verification of eastern region, and if applicable to western region, with the Team by **March 15, 2013**;

#### **Track I subprojects (Component II)**

- TDF share with the Team the results of IEE (with social input) and SIAs by **April 30, 2013**

#### **Third-Party Monitoring of Safeguards Compliance**

- PCO to recruit consultant and complete third-party monitoring of safeguards compliance and share the results with the World Bank by **June 30, 2013**

## **VIII. FINANCIAL MANAGEMENT**

**Budget for FY2012/13:** Due to political situation affected by the dissolution of the Constituent Assembly, the government was not able to announce the annual work program and full budget for FY2012/13. According to the decision of the government, the authorization made was to the limit of last year's expenditures only. Since the expenditures last year were only NRs.77.91 million, total budget authority for FY2012/13 was to this limit only. The team was informed that the project has not yet been received the budget authorization and the annual program submitted for FY 2012/13 by the DUDBC has not been approved yet. The budget situation is affecting the project implementation. Following the restructuring of the Project, the program will now be implemented by the MoUD, and the work program and budget has been proposed by MOUD for FY2012/13.

**Annual Work Plan:** The review team reminded that according to the legal covenant Clause I of Section I of the Schedule 2 of the Financing Agreement, the PCO is required to share the proposed annual work plan and budget for comments by April 30 of each year before the work program and budget is submitted to the government for endorsement. The review team reminded that the draft work program and budget be shared with IDA for comments by April 30, 2013 for FY2013/14.

**Disbursement:** Total disbursement as of January 29, 2013 is USD 5.06 million drawn from the Grant Account, which is about 20% of the total allocation which include credit funds. As per the record of the Project, expenses of NRs. 73,504,632.26 incurred by the MoFALD and DUDBC for the block grant provided to the participating municipalities under Part A (Component 1) and institutional development under Part C (Component 3) during the FY2011/12 are still to be claimed for reimbursement. Similarly, the TDF had incurred total expenditures of NRs. 4,407,630.97 which need to be claimed for reimbursement, once the accounting reconciliation issue of the TDF expenditures is resolved. Based on expenditure estimates, a total of USD 3.5 million is expected during FY2012/13. Currently, the Designated Account of the project is in the inactive list, and the Team urged the PCO to submit the withdrawal application as early as possible.

**Disbursement Condition for the Socio-economic Infrastructure Component:** The Team noted that the disbursement conditions related to Category 2 as specified in Clause B of Section IV of Schedule of the Financing Agreement have been fulfilled. The following conditions have been met: (a) TDF's BRAP has been prepared and approved by the government on November 3, 2011, and shared with the World Bank on November 10, 2011; (b) the Subsidiary Agreement has been entered between the Government of Nepal and the Town Development Fund on February 27, 2012 which has been reviewed and approved by the Bank; (c) the subsidiary agreement between TDF and MoUD was signed on November 29, 2012 and the World Bank was notified on December 4, 2012;

**Project Operations Manual:** The Project Operations Manual (POM) has been prepared and approved. The POM describes the rules, procedures, standards and guidelines for the implementation of the project and provides detailed description of institutional arrangements, financial and accounting procedures, procurement, monitoring, evaluation and other administrative and organizational arrangements for the implementation of the project. The review team reminded a need for preparing a simple Manual in Nepali language for the use of Municipalities.

**SOE Ledger:** The SOE ledger has not been maintained by the PCO to account SOE and monitor reimbursement of SOE from the IDA. The review team guided on how the SOE ledger should be maintained with complete information of the withdrawal application number, amount requested, amount replenished, category number, withdrawal application date, authorization number and value date.

**Other Ledgers and Subsidiary Ledgers:** The Team noted that other ledgers such as main and subsidiary ledgers, program ledger and designated account ledger have not been maintained as required by the government accounting system. The review team guided on how these records should be maintained.

**Internal Control and Internal Audit:** The review team observed that supporting documents of expenses have not been defaced with the PAID stamp. This is required as part of a good control system to avoid any double payments. The review team also observed that the internal audit has not been carried out.

**Project related Accounts Maintenance at TDF:** The review team noted that the TDF has neither maintained separate account nor separate expenditure account head for expenses incurred for UGDP. The expenses incurred for the UGDP have been accounted to TDF expenditures account heads but reported to PCO after analyzing the concerned expense heads. The Team recommended TDF to maintain separate books of accounts for program under the project to enable to monitor and track expenditures.

**Implementation Progress Report.** The quality of trimester implementation progress reports needs to be improved. The financial monitoring reports submitted for first, second and third trimesters of FY2011/12 were not of acceptable quality. Following the Bank's comments, these reports have been recently re-submitted. The review team reminded that the first trimester progress report of FY2012/13 is now overdue. The review team also reminded that the second trimester report of FY2012/13 is due on April 30, 2013.

**Audit Report.** The audited report of FY2011/12 is now overdue. The review team alerted that the warning letter will soon be sent to the project providing 4-months grace period. If the audit report is not submitted by the end of the given grace period, the team alerted that disbursements of the Project will have to be suspended as required by the Bank's policy.

***Priority actions:***

- PCO to submit SOEs and prepare first withdrawal application by **February 20, 2013**
- PCO to submit audited report for FY2011/12 before **May 15, 2013**
- PCO to share the draft work program and budget with IDA for comments for FY2013/14 by **April 30, 2013**.

## **IX. PROCUREMENT**

The UGDP-ETP has prepared consolidated and comprehensive procurement plan (PP) for the current FY and the Bank has reviewed and cleared it. The PP needs to be implemented by respective agencies keeping the timeline, cost and quality as a focus. There are three levels of implementing agencies including PCO/DUDBC, TDF and six municipalities. Considering the diverse procurement categories (works, goods, services and non-consulting services), big procurement volume, numerous implementing agencies and low procurement capacity of implementing agencies, especially that of municipalities, timely and quality implementation of the PP is a challenge. During the review, this aspect was discussed with the project team in detail. To facilitate project implementation, it is therefore strongly recommended that the project agencies engage procurement and technical consultants as per need from the beginning of PP implementation. Regular procurement orientation and training should be conducted for project staff involved in procurement process, review and decision-making. PCO and TDF should provide procurement support to the municipalities (as per the agreed responsibilities defined in Table 1), so that

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preparation of bidding/RFP documents and evaluation of bids/proposals are conducted in a right manner.

The PCO has prepared a model bid document for NCB works contracts based on the PPMO Standard Bidding Document for value of works above NRs. 6 million. In order to facilitate the preparation of bidding document for other municipalities, the PCO needs to prepare a checklist of variables for *Invitation for Bid, Bid Data Sheet, Evaluation and Qualification Criteria, Work Requirement and Special Conditions of Contract*. The review of bidding documents should ascertain that the Specifications are prepared for all work items and that the work description in the Bill of Quantities is clear and is referenced with the associated Specification number. In view of the low procurement capacity of the municipalities, the TDF (for Track I sub-projects) and the PCO (for Track II sub-projects) need to assist the municipalities in the procurement process especially for i) conducting pre-bid meetings, ii) providing clarifications sought by the bidders, and iii) evaluation of bids. Further, in order to facilitate the evaluation of bid and provide uniformity in the Bid Evaluation process, the PCO should develop a *Sample Bid Evaluation Format* for the project.

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**Annex I: Summary of Priority Actions**

Area	Action	Agency	Timeline
<b>Municipal block grant (Component I)</b>	Share the Annual Program for next FY with the PCO	Municipalities	February 15, 2013
	Provide authority to the municipalities on the use of municipal block grants	MoUD	February 28, 2013
<b>Socio-economic infrastructure (Component II)</b>	Support the municipalities with the hiring of construction supervision consultants by preparing ToR for Tansen, Mechinagar and Dhankuta, and submitting them to the Bank for review	PCO	February 5, 2013
	Complete rescheduling/settlement of outstanding loans in Itahari and Dhankuta	TDF	February 15, 2013
	Submit request to MoF to channel part of the credit as a grant to the municipalities to address the loan-grant mix issue	MoUD	February 15, 2013
	Prepare ToR for the hiring of firm to provide back-up support for monitoring and reporting on implementation of works in the municipalities	PCO	February 20, 2013
	Organize joint Bank-PCO-TDF team to visit the municipalities to develop pipeline of feasible Track II sub-projects, and submit sub-project concept briefs that meet the agreed readiness criteria to the World Bank for review	PCO	February 28, 2013

	Provide final reply on credit to grant conversion, and request World Bank to process restructuring of Component II as required to address the loan-grant mix	MoF	February 28, 2013
	Process IDA restructuring for component II as required to address loan-grant mix issue	World Bank with PCO	March 15, 2013
	Support municipalities to expedite preparation of IEEs and SIAs; provide procurement support to the municipalities for the hiring of the contractors, and expedite implementation of Track I sub-projects as per timeline provided in Annex II;	TDF	See Annex II
	Incorporate key covenants and disbursement conditions in the loan agreements for Track I sub-projects as they are ready, as per timeline provided in Annex II	TDF	See Annex II
	Weekly monitor readiness status and timeline of Track I and Track II sub-projects against agreed targets, and report changes to the World Bank;	PCO	See Annex II and III
<b>Institutional Development (Component III)</b>	Publish the EOI for FMIS	PCO	February 15, 2013
	Prepare the ToRs for consultants to develop and/or update policy guidelines and procedures for municipalities in the area of physical planning and infrastructure development	MoUD	February 15, 2013

	Prepare the ToRs for consultants to develop and/or update policy guidelines and procedures for municipalities in the area of governance and budget planning	MoFALD	February 28, 2013
	Mobilize through MST a Financial Advisor who will provide the municipalities with basic support on financial analysis	PCO	February 28, 2013
	Prepare draft ToR for IDA-funded MST and share it with the Bank for review	PCO	March 10, 2013
	Develop the concept note for the development of Urban Information System at DUDBC	PCO	March 15, 2013
	Follow up with municipalities to ensure that Revenue Enhancement Plans (REPs) are endorsed by the municipal councils	PCO	March 31, 2013
	Submit complete audit and action plan to resolve overdue issue with GoN	TDF	March 31, 2013
	Hire a full time Financial Management Specialist, part time procurement specialist, and M&E expert and submit it to the Team	PCO	March 31 , 2013
	Award the contract for urban maps	PCO	April 15, 2013
	Discuss with Tansen and Itahari municipalities to ensure that O&M plans prepared under the project are fully funded, as per the project results framework	PCO	June 30, 2013
	Fix the MIS and Micro banking so that financial statements/projections can be generated	TDF	June 30, 2013

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	Implement the action plan to resolve overdue issue with GoN	TDF	June 30, 2013
	Complete urban maps for six municipalities	PCO	October 30, 2012
	Prepare M&E data excel spreadsheet and note on M&E process and submit it to the Team	PCO	February 28, 2013
	Develop M&E data template and training for the municipalities to support them in the reporting of information on project beneficiaries and results	PCO	March 15, 2013
	Revise the results for year 1 in the results framework based on updated information provided by the municipalities, include the sector-specific PDO-level results indicators and submit the updated results framework to the Team	PCO	March 15, 2013
<b>Financial Management</b>	Submit SOE and prepare first withdrawal application by February 20, 2013	PCO	February 20, 2013
	Submit audited report for FY2011/12 before the 4-month grace period	PCO	May 15, 2013
	Share the draft work program and budget with IDA for comments for FY2013/14	PCO	April 30, 2013

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<b>Safeguards</b>	Submit to PCO and MoUD <i>ex-ante</i> screening checklist for civil works to be funded with the municipal block grant this fiscal year	Municipalities	February 20, 2013
	Complete verification of screening results of western region	PCO	February 28, 2013
	Prepare and share action plan to address issues identified during screening verification of eastern region and if applicable to western region	PCO	March 15, 2013
	Share with the Team the results of IEE (with social input) and SIAs	TDF	April 30, 2013
	Recruit consultant and complete third-party monitoring of safeguards compliance and share the results with the World Bank	PCO	June 30, 2013

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**Annex II: Track I sub-projects – Cost estimates, Timeline and Readiness Status**

**Track I Sub-projects: Cost estimates and classification**

	Name of Sub-Project	Cat.	Infrastructure Financing				
			Cost Estimate	IDA Credit	IDA Grant	GoN Grant	Muni Matching Fund
Mechinagar	Gate Beautification	U	27.5	8.3	9.2	7.3	2.8
	Gokul Marga	U	58.5	17.6	19.5	15.6	5.9
	Shahid Marga	U	67.5	20.3	22.5	18.0	6.8
Itahari	Main Road Surface Drainage	S	135.0	13.5	60.0	48.0	13.5
Dhankuta	Social Infrastructure Improvement in Dhankuta Weekly Market	S	17.8	1.8	7.9	6.3	1.8
	Infrastructure Development in Hile Market	S	24.9	2.5	11.1	8.9	2.5
Lekhnath	Access Road	U	48.4	14.5	16.1	12.9	4.8
Baglung	Municipal Road	U	40.0	12.0	13.3	10.7	4.0
Tansen	Amar Narayan Temple Conservation	S&U	38.2	7.0	15.2	12.1	3.8
All	Feasibility study, Design, Safeguard, Supervision		12.3		11.1		1.2
<b>Total</b>			<b>335.2</b>	<b>83.9</b>	<b>125.9</b>	<b>91.9</b>	<b>33.5</b>

U =utility, S = social, and R = revenue-generating.

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**Track I Sub-projects: Readiness Status**

Municipality	Name of Sub Project	BC	Safeguards ready	Technical feasibility	Bid Document by June 30	Approval from Municipality	Approval from Central Agencies	Ready
Mechinagar	Gate Beautification	Yes	Yes	Yes	Yes	Pending	Pending	Yes
	Gokul Marga	Yes	Yes	Yes	Yes	Pending	N/a	Yes
	Shahid Marga	Yes	Yes	Yes	Yes	Pending	N/a	Yes
Itahari	Main Road Surface Drainage	Yes	No	No	Yes, Pending issues	Pending	No (DoR)	No
Dhankuta	Infrastructure Development in Dhankuta market	Yes	Yes	Yes	Yes	Yes	N/a	Yes, pending repayment of loan
	Infrastructure Development in Hile Market	Yes	Yes	Yes	Yes	Pending	N/a	Yes, pending repayment of loan
Lekhnath	Access Road	Yes	No	Yes	Yes, Pending issues	Pending	N/a	Likely
Baglung	Municipal Road	Yes	Yes	Yes	Yes	Pending	N/a	Likely

UGDP:ETP Fast Track Project timeline for Each subproject (with breakdown for each subproject showing both duration and dates)

Projects	IEE Procurement Process								SIA Procurement Process						EMP finalized with clearance from WB	
	EOI notice	EOI notice and Evaluation (days)	RFP Issue (days)	RFP Evaluation (days)	Contract Award and Signing (days)	Completion of IEE Study (days)	Total (Days)	IEE completed by	EOI notice	EOI notice & Eval (days)	Contract Signing	Study Duration	Study Completed by	Total		
															Days	Date
Baglung (Municipal Road)	13-Dec-12	30	30	7	7	30	104	27-Mar-13	NA	NA	NA	NA	NA	NA	30	26-Feb-13
Dhankuta I (Market)		N/A	N/A	N/A	N/A	N/A			NA	NA	NA	NA	NA	NA	3	30-Jan-13
Dhankuta II (Hill Market)	30-Nov-12	30	30	7	7	30	104	14-Mar-13	NA	NA	NA	NA	NA	NA	30	26-Feb-13
Itahari	3-Jan-13	30	30	7	7	30	104	17-Apr-13	3-Jan-13	7	7	30	16-Feb-13	44	30	26-Feb-13
Lekhnath	10-Feb-13	30	30	7	7	30	104	25-May-13	10-Feb-13	7	7	30	26-Mar-13	44	45	13-Mar-13
Mechinagar I (Gate Beautification)		N/A	N/A	N/A	N/A	N/A	3		NA	NA	NA	NA	NA	NA	3	30-Jan-13
Mechinagar II (Gokul Marga)	4-Feb-13	30	30	7	7	30	104	19-May-13	NA	NA	NA	NA	NA	NA	15	11-Feb-13
Mechinagar III (Shahid Marga)	4-Feb-13	30	30	7	7	30	104	19-May-13	NA	NA	NA	NA	NA	NA	15	11-Feb-13
Tansen (Amar Narayan Temple)	N/A	N/A	N/A	N/A	N/A	N/A	3		NA	NA	NA	NA	NA	NA	3	30-Jan-13

## Notes

- 1: It has been assumed that NOL from World Bank would be available within 1 week of submission of documents
- 2: IEE will not obstruct the bidding process as EMP would be prepared, but Work will not be commenced before approval of IEE

## Notes:

- 1: It has been assumed that NOL from World Bank would be available within 1 week of submission of documents
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UGDP:ETP Fast Track Project timeline for Each subproject (with breakdown for each subproject showing both duration and dates)

Projects	DED finalized with clearance from central agencies		Bidding documents finalized (days)		Endorsement Letter from the municipality (days)		TDF appraisal completed (days)		Repayment of over dues and rescheduling of loans (days)		Appraisal Approved by TDF Board		Loan Agreement Signed with TDF		Bid Notice Date
	Days	Date	Days	Date	Days	Date	Days	Date	Days	Date	Days	Date	Days	Date	
<u>Baglung</u> (Municipal Road)	45	13-Mar-13	7	20-Mar-13	7	27-Mar-13	7	3-Apr-13	N/A	N/A	7	10-Apr-13	3	13-Apr-13	20-Apr-13
<u>Dhankuta I</u> (Market)	3	30-Jan-13	0	30-Jan-13	0	15-Oct-12	0	30-Jan-13	15	15-Feb-13	7	22-Feb-13	3	25-Feb-13	4-Mar-13
<u>Dhankuta II</u> (Hile Market)	45	13-Mar-13	7	20-Mar-13	7	27-Mar-13	7	3-Apr-13	15	15-Feb-13	7	10-Apr-13	3	13-Apr-13	20-Apr-13
<u>Itahari</u>	45	13-Mar-13	7	20-Mar-13	7	27-Mar-13	7	3-Apr-13	30	26-Feb-13	7	10-Apr-13	3	13-Apr-13	20-Apr-13
<u>Lekhnath</u>	60	28-Mar-13	7	4-Apr-13	7	11-Apr-13	7	18-Apr-13	N/A	N/A	7	25-Apr-13	3	28-Apr-13	5-May-13
<u>Mechinagar I</u> (Gate Beautification)	7	6-Feb-13	0	30-Jan-13	7	13-Feb-13	0	30-Jan-13	N/A	N/A	7	20-Feb-13	3	23-Feb-13	2-Mar-13
<u>Mechinagar II</u> (Gokul Marga)	30	26-Feb-13	7	5-Mar-13	7	12-Mar-13	7	19-Mar-13	N/A	N/A	7	26-Mar-13	3	29-Mar-13	5-Apr-13
<u>Mechinagar III</u> (Shahid Marga)	30	26-Feb-13	7	5-Mar-13	7	12-Mar-13	7	19-Mar-13	N/A	N/A	7	26-Mar-13	3	29-Mar-13	5-Apr-13
<u>Tansen</u> (Amar Narayan Temple)	3	2-Nov-12	0	30-Jan-13	0	15-Dec-12	0	30-Jan-13	N/A	N/A	7	6-Feb-13	3	9-Feb-13	16-Feb-13

Notes:

1: It has been assumed that NOL from World Bank would be available within 1 week of submission of documents

2: IEE will not obstruct the bidding process as EMP would be prepared, but Work will not be commenced before approval of IEE

UGDP:ETP Fast Track Project timeline for Each subproject (with breakdown for each subproject showing both duration and dates)

Projects	Bid Notice (Completed by)		Bid Evaluation (supported By TDF)			Bid Approval from various agencies		Contract Award		Total (days)	Total in (Months)	Construction Starts by	Construction Period (months) and Completion Date		Total time required in (Months)
	Days	Date	Days	Date	Support	Days	Date	Days	Date				Days	Date	
Baglung (Municipal Road)	30	20-May-13	30	19-Jun-13	HL Mahato	30	19-Jul-13	7	26-Jul-13	203	6.8	10-Aug-13	15	3-Nov-14	21.77
Dhankuta I (Market)	30	3-Apr-13	30	3-May-13	MB Gurung	30	2-Jun-13	7	9-Jun-13	128	4.3	24-Jun-13	15	17-Sep-14	19.27
Dhankuta II (Hile Market)	30	20-May-13	30	19-Jun-13	MB Gurung	30	19-Jul-13	7	26-Jul-13	203	6.8	10-Aug-13	15	3-Nov-14	21.77
Itahari	45	4-Jun-13	30	4-Jul-13	MB Gurung	30	3-Aug-13	7	10-Aug-13	218	7.3	25-Aug-13	15	18-Nov-14	22.27
Lekhnath	30	4-Jun-13	30	4-Jul-13	HL Mahato	30	3-Aug-13	7	10-Aug-13	233	7.8	25-Aug-13	15	18-Nov-14	22.77
Mechinagar I (Gate Beautification)	30	1-Apr-13	30	1-May-13	S. Bhandari	30	31-May-13	7	7-Jun-13	120	4.0	22-Jun-13	15	15-Sep-14	19.00
Mechinagar II (Gokul Marga)	30	5-May-13	30	4-Jun-13	S. Bhandari	30	4-Jul-13	7	11-Jul-13	173	5.8	26-Jul-13	15	19-Oct-14	20.77
Mechinagar III (Shahid Marga)	30	5-May-13	30	4-Jun-13	S. Bhandari	30	4-Jul-13	7	11-Jul-13	173	5.8	26-Jul-13	15	19-Oct-14	20.77
Tansen (Amar Narayan Temple)	30	18-Mar-13	30	17-Apr-13	HL Mahato	30	17-May-13	7	24-May-13	116	3.9	8-Jun-13	15	1-Sep-14	18.87

## Notes:

- 1: It has been assumed that NOL from World Bank would be available within 1 week of submission of documents
- 2: IEE will not obstruct the bidding process as EMP would be prepared, but Work will not be commenced before approval of IEE

**Annex III: Track II sub-projects – Readiness and Timeline**

<b>Muni.</b>	<b>Sub Project</b>	<b>Cat</b>	<b>Cost Estimate</b>	<b>BC</b>	<b>Preparation (6 months)</b>	<b>Implementation (2 years)</b>	<b>SIA required</b>	<b>EIA required</b>	<b>Ready</b>
Mechinagar	Minimarket	R		Yes	Yes	Yes	Yes	No	No
	Gokul Marga	U	116.0	Yes	Yes	Yes	No	No	Yes
Itahari	Inner Ring Road	U	90.0	Action required	Yes	Yes	Yes	No	No
	Agro Market	R & S	40.0	Action required	Yes	Yes	No	No	No
Dhankuta	Hile Water Supply	U		No	No	No	Not known	Not Known	No
Baglung	Surface Drainage	U		Action required	No	No	No	Yes	No

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	Access Road to Deprived Communities	U	150.0	Action required	Yes	Yes	Yes	No	No
Tansen	Access road to Landfill Site	U		Yes					No
	Drainage Improvement	S		Yes	No	No	No	Yes	No
Lekhnath	Conservation of Lakes and Wetlands	U		Yes	No	No	Not known	Yes	No
All	Feasibility study, Design, Safeguard, Supervision etc		33.7						
Total			428.7						

BC = Borrowing Capacity; U =utility, S = social, and R = revenue-generating.

### Target Timeline for Track II sub-projects

Activities	Days	Month																	
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
<i>Feasibility studies (QCBS, post-review)</i>																			
TOR and EOI Finalization	14	█																	
TOR and EOI Approval from WB	7		█																
Eoi notice	14		█																
Eoi evaluation	21		█	█															
RFP issue	30			█	█	█													
Technical Proposal Evaluation	30				█	█	█												
Financial Proposal Opening and Evaluation	15					█													
Contract Award and Signing	15						█												
Completion of study (including IIEs findings)	180						█	█	█	█	█	█	█	█	█	█	█	█	█
<i>IEE (CQS, post-review)</i>																			
TOR and EOI Finalization	14	█																	
MoFALD clearance of ToR	20		█	█															
TOR and EOI Approval from WB	7		█																
Eoi notice	14		█	█															
Eoi evaluation	21			█	█														
RFP issue	30				█	█	█												
Technical & Financial Proposal Evaluation	7					█													
Contract Award and Signing	15						█												
Completion of study	56						█	█	█	█	█	█	█	█	█	█	█	█	█
DED finalized with clearance from central	30												█	█	█	█			
Bidding documents finalized	7														█				
Bidding document review by WB	7															█			
TDF appraisal completed	15															█	█		
Bid Notice Issue	30																█	█	█
Bid Evaluation	30																	█	█
Bid Approval from various agencies	30																		█
Contract Award	21																		█

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**Track II sub-project timeline summary**

<b>Activities</b>	<b>Estimated Time (months)</b>
Total time required for preparation	16.5
Total time required for construction	24.0
<b>Total time required for completion</b>	<b>40.5</b>
Contingency	1.0
<b>Total time with contingency</b>	<b>41.5</b>
Available time	42.0

**Assumptions for the timeline**

- No re-bid
- No time and cost overrun in construction

**Annex IV: Results Framework**

Year 1: FY 2011/12

<b>Project Development Objective (PDO): To improve delivery and sustainable provision of basic services and priority infrastructure in the participating municipalities</b>										
PDO Level Results Indicators	Baseline prior start of project		Cumulative Target as per PAD and Achievement					Reference	Remarks Others, if any	
			Year 1	Year 2	Year 3	Year 4	Year 5			
<b>CITIZEN SATISFACTION</b>										
<b>Indicator One:</b> Percentage increase in the citizens who report that the infrastructure services offered by the municipality better meet their needs than the previous year.	Percentage point increase over baseline	0  Baseline (percent of citizens): 49.2 %)	Cumulative Target	-	-	5	-	10	Information from base line survey of municipalities. Indicator defined as service better meet the needs of infrastructure (roads, WSS, SWM, drainage and toilet)	
			Cumulative Achievement							
<b>Indicator Two:</b> Percentage increase in citizens who report that they have participated in planning meetings at the ward level.	Percentage point increase over baseline	0  Baseline (percent of citizens) 24.70%	Cumulative Target	-	-	5	-	10	Information from base line survey of municipalities.	
			Cumulative Achievement							

SECTOR PERFORMANCE										
<b>Indicator Three:</b> Total number of people benefited from urban services and infrastructure improvements, of which females and from disadvantaged groups.	Number, percentage of females and disadvantaged groups.	0	Cumulative Target	-	-	50,000 (10%)	-	100,000 (10%)	Information collected by the MST from participating municipalities	Number of beneficiaries and percentage of females and disadvantaged groups for Y1 is only from component 1
			Cumulative Achievement	79558 (41%)						
INTERMEDIATE RESULTS										
Intermediate Result (Component One - Service Delivery Improvement): Sustainable delivery of basic services supported through top-up block grants to participating municipalities.										
<b>Intermediate Result indicator One:</b> Municipal Grant allocated to programs targeting women, children and disadvantaged groups.	Percent of Municipal Grant allocated to capital projects.	0	Cumulative Target	25%	25%	35%	35%	35%	Information collected by the MST from participating municipalities	<b>Target achieved.</b> Out of NPR 66.66 million grant expenditure in FY 2011/12, NPR 26.93 m is reported to spent for women, children and disadvantaged group programs.
			Cumulative Achievement	40%						
<b>Intermediate Result indicator Two:</b> Direct beneficiaries of capital projects financed by the Municipal Grant.	Number	0	Cumulative Target			25,000		50,000	Information collected by the MST from participating municipalities	Out of the total 78558 beneficiaries 41% are from women, children and disadvantaged groups
			Cumulative Achievement	79558 (41%)						

<b>Intermediate Result (Component Two – Socio-economic Infrastructure): Priority infrastructure in participating municipalities constructed and/or rehabilitated.</b>										
<b>Intermediate Result indicator One:</b> Approved sub-projects that are on track in meeting their target infrastructure objectives.	Percept of approved subprojects.	0	Cumulative Target	60%	70%	80%	80%	90%		<b>Target not achieved.</b> Socio economic infrastructure development subprojects identified and in preparation phase. No subprojects approved in the Year 1
			Cumulative Achievement	0%						
<b>Intermediate Result indicator Two:</b> Approved social and utility sub-projects with beneficiaries' contributions.	Percent of approved social and utility subprojects.	0	Cumulative Target	10%	10%	20%	20%	20%		<b>Target not achieved.</b> No subprojects approved in the Year 1
			Cumulative Achievement	0%						
<b>Intermediate Result (Component Three – Institutional Development): Enhanced planning, financial and budgeting capacity for sustainable provision of municipal services in the participating municipalities.</b>										
<b>Intermediate Result indicator One:</b> Increase in municipal own source revenues.	Percentage annual increase.	15%	Cumulative Target	15%	15%	20%	20%	25%	Information collected by the MST from participating municipalities	<b>Target achieved.</b> Own source revenue of municipalities increased from NPR 81 million in FY 2010/11 to NPR 101 million in FY 2011/12
			Cumulative Achievement	25%						

<b>Intermediate Result indicator Two:</b> Number of municipalities with funded O&M plans.	Number	0	Cumulative Target	0	1	3	6	6		<b>On target.</b> O&M fund operation guideline for municipalities is in preparation stage. Two plans expected in Year 2.
			Cumulative Achievement	0						
<b>Intermediate Result indicator Three:</b> TDF's key financial ratios (D/E, DSCR, collection rate) meet prescribed thresholds.		D/E = 8 DSCR =.56 Collection rate =75%	Cumulative Target	-	-	7 1 80%		6 1.2 90%		
			Cumulative Achievement							
<b>Intermediate Result indicator Four:</b> Standard project appraisal systems established and applied to all TDF projects.	N = No Y1 = Yes (established) Y2 = Yes (applied)	N	Cumulative Target	N	Y1	Y2	Y2	Y2		<b>On target.</b> SoPs have already been developed.
			Cumulative Achievement	Y1						
<b>Intermediate Result indicator Five:</b> Guidelines for enforcement of planning byelaws and building codes approved by MPPW and implemented by DUDBC in the participating municipalities.	N = No Y1 = Yes (established) Y2 = Yes (applied)	N	Cumulative Target	N	Y1	Y2	Y2	Y2		
			Cumulative Achievement	N						

<b>Intermediate Result indicator Six:</b> Policy guidelines and procedures for municipalities on governance and budget planning updated and implemented by MoFALD.	N = No Y1 = Yes (established) Y2 = Yes (applied)	N	Cumulative Target	N	Y1	Y2	Y2	Y2	<b>On target.</b> Draft of annual planning and budgeting guidelines have already been prepared.
			Cumulative Achievement	N					
<b>Intermediate Result indicator Seven:</b> Policy guidelines and procedures for municipalities on physical planning and infrastructure development developed/ updated and implemented by MoUD	N = No Y1 = Yes (developed /updated) Y2 = Yes (implemented)	N	Cumulative Target	N	N	Y1	Y2	Y2	
			Cumulative Achievement	N					

**Annex V: Assessment of Municipal Borrowing Capacity**

In NPR Million

Municipality	BC	Loan for FT sub-projects		BC for FT	Balance BC after FT	Loan for RT sub-projects		BC for RT	Balance
		Principal	Interest 20 years			Principal	Interest 20 years		
Baglung	138	12	7	Yes	119	45	27	Yes	47
Dhankuta	7	4	3	Yes	0	0	0	No	0
Itahari	71	0	0	Yes	71	43	26	Yes	2
Lekhnath	210	15	9	Yes	187	0	0	Yes	187
Tansen	140	7	4	Yes	129	0	0	Yes	129
Mechinagar	458	46	28	Yes	384	35	21	Yes	329
Total	1024	84	50		890	123	74		693

**Assumptions made in Calculation of Borrowing Capacity**

- All data have been taken from Municipal Audited Statements by the TDF
- Revenue assumptions for GON transfers (municipal grants and local development fee) are assumed to grow at 10% pa, internal revenue based on average annual growth rates of past 5 years
- Recurrent Expenditure assumptions on basis of previous five years average
- STWSSP loans are not assumed as Municipal obligations
- Social Security grants are excluded
- Borrowing capacity are estimated for 10 years and doubled over a 20 year period
- Accrued but not paid expenditure are not taken into account
- Municipal 10% cash contribution not factored in

## **Annex VI: Review of Track I Sub-projects**

### **Sub-project #1: Tansen Municipality: Amar Narayan Temple Area Conservation and Development [Status: Appraisal completed]**

The sub-project for the conservation and development of Amar Narayan Temple complex in Tansen Municipality proposes works to conserve the temple complex including renovation of Amar Narayan temple, Shiva Mandir, Hanuman Temple; develop the open spaces in its northern side for religious and recreational purpose; carry out rehabilitation of sunken stone spout and improve the environment of the whole complex through provision of drainage, waste management system and water supply services. The cost estimate of the project is NRs 38,162,076.

#### ***a) Technical appraisal***

**Water Users.** The alternative site for those using water sources at the temple should be prepared before the sources at the temple are off-limits to them. The new water source area should be at least as private (for bathing) and functional as the temple sources. It is highly recommended that the new site offer the water users a situation that is more attractive and comfortably accommodates more users than the current sites.

**New Entrance Gate.** The Team recommends that the exact gate that once marked the temple entrance be reconstructed based on the photographic evidence. The addition of non-authentic addition of the Chakra and Shankha and copper plates in “emerging art” style is not recommended. If these elements are added, extreme care should be used to create a design historically compatible with the temple.

**Renovated Pokhari (Ponds).** It is highly recommended that budget be established to keep the pokhari clean during the dry season. The solid waste that collects in them is extremely unsightly and unhygienic. It is proposed that the naga on top of the wall of the Nag Pokhari be repaired. It appears that the naga is currently made of concrete. It is recommended that traditional materials be used to recreate the naga.

**New Public Toilets.** It is highly recommended that budget and a plan for keeping the new public toilets clean and well-functioning be established. Increased tourism and pilgrim visits are stated as an objective of the project and clean, functioning toilets are a key asset in creating a positive reputation, return visits and word of mouth recommendations.

**New Toilet at Temple.** It is unfortunate that a toilet built only one year ago is now considered inappropriate and recommended for demolition by the municipality and the Guthi. Reasons given to the team are that: (i) it reduces the religiosity of the temple because it is visible as you enter the temple; and (ii) it is too far from the priest's house for him to use at night or during the rainy season. A new toilet is

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proposed on the back wall of the temple in between the new pati and priest's house with its access facing the garden area to serve the priest and Bhajan Mandali. The municipality and guthi should carefully consider the relocation of the toilet so near the temple and its potential to have a negative impact in the new location. To minimize its impact it will be extremely important to keep the number of people using the facility to a minimum and to keep it clean and functional.

**Garden Landscaping.** The highly detailed flower bed designs should be reconsidered. The maintenance required to maintain the patterns will be extensive and it is feared that the planting designs will look bad if they are not carefully tended. Simple free form flowers and plants will be easier to maintain. The Shankha shaped path is not recommended because it will not provide extended jogging or even walking. It is a tight spiral in a small space and the entire path will probably not be used. Also maintenance may be extensive.

**Garden Gazebos.** The Team expressed concerns with the decision of building three gazebos to replicate the Sitalpati gazebo in the center of Tansen. This is because: (i) their design is "heavy" for the site, (ii) the wood pillar construction style proposed for the other three gazebos would fit with the temple better. Due to maintenance requirements and cost, a reduction in the number of gazebos would be advisable.

**Dry Stone Outer Wall (Great Wall of Palpa).** The iron railing on the outer wall that is proposed to discourage dumping into the site should be of simple design.

### ***c) Financial appraisal***

It was agreed that, being this is a social project, the assumption of no incremental revenues should be made for the financial appraisal. Hence, the municipality is responsible for repaying the loan from its own revenue base. However, it was agreed that the municipality should take steps to increase revenues from tourism, as Tansen hopes to create jobs and economic development by increasing the number of international and domestic trekkers and pilgrims from India who visit the temple. The municipality should consider developing: (i) clear, accurate and interesting information on the temple's significance and on other sites of interest in the town; (ii) a web site and other promotional materials (e.g., brochures, maps, guides); and (iii) a marketing campaign contacting relevant religious groups and tour operators to maximize the impact of the temple renovations.

### ***c) Institutional arrangements***

**Guthi and Municipality Arrangements on Land Ownership, Operation and Management.** The guthi owns the temple land but has given permission to the municipality to undertake the project, and then continue to manage and maintain the temple over the long term. This understanding has been sent to the municipality in writing. In return all donations to the guthi will go to the municipality. The guthi Amar Narayan Temple Committee will continue to function and be responsible for

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the daily activities and religious observances at the temple. The Temple Management Committee will help manage the project work and continue to be responsible for the temple management. The guthi interests will be represented by the guthi president's membership on the management committee. The municipality will create a management office at the site and be responsible for a manager and a guard.

***d) Safeguards (see Annex VII)***

***e) Bidding documents***

The project has already been appraised by TDF and the bid document has been prepared incorporating comments below from the Team.

The bidding documents must reflect the true cost of the traditional materials and craftsmen with traditional skills required to repair the temple in a historically authentic manner. It is important to note that craftsmen with the appropriate skills are not available locally. The criteria for selection of the contractor should be carefully written to ensure that the contractor has previous experience and a good reputation in historic conservation work. The project has already been appraised by TDF and the bidding document has been prepared. Comments and issues on:

*Bidding Document*

a) Day Works: The day work item is not included in BOQ. As the conservation work requires specialized craftsmen, there may be need of service of specialized craftsman for carrying out any undefined work that may arise during implementation.

c) The contract document has made provision of 3 milestone works at 20% (in 5 months), 55% (in 10 months) and 100% (in 15 months) and has made provision of liquidated damage to be paid to the client if the milestone works is not completed in stipulated time by the contractor and has also made provision of bonus for completing the total work earlier than the stipulated time. This is ideally a very good proposition but its implementation will be challenging. Municipality should be willing to make extra investment of 5% for the bonus amount.

*BOQ*

a) Some items in the bill of quantity require more detailed descriptions eg. Pipeline (in work no. A8), Sankha and copper Astra Mandap.

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### *Technical Specifications*

- a) The facilities for the engineer specified in the document are too lavish (4WD vehicle etc) for the project and will require to be reviewed.
- b) The technical specification of some works (like concrete, bricks etc) has been included at two places differently. This should be reviewed and proper specification specified.
- c) The specification on conservation works is not complete for all items and the some specification as suggested by Conservation and Heritage expert need to be included.

### **Sub-Project # 2: Mechinagar Municipality: Gate [Status: Appraisal completed]**

This sub-project comprises of renovation of various items of Mechinagar Gate and the addition of new light tube frame structure in the form of curves indicating 'namaste' (welcome in Nepalese tradition). The proposed sub-project also includes parking, landscaping and electrification. The sub-project has been downsized to reduce the cost based on the findings of the previous review, and it has now been further downsized as the Department of Road has objected to the construction of any structures including public toilets on the right of way.

The team had a meeting with the Department of Road, which confirmed that the Department has no objection to the sub-project, and the approval letter will be sent shortly to the municipality. The municipality has not provided the endorsement letter. The revised total estimated cost of the subproject is now NRs 25,621,927.

### *Bidding Document.*

The contract document has made provision of 3 milestone works at 20% (in 5 months), 55% (in 10 months) and 100% (in 15 months) and has made provision of liquidated damage to be paid to the client if the milestone works is not completed in stipulated time by the contractor and has also made provision of bonus for completing the total work earlier than the stipulated time. This is ideally a very good proposition but its implementation will be challenging. Municipality should be willing to make extra investment of 5% for the bonus amount.

### *Safeguards (see Annex VII):*

### **Sub-Project # 3: Dhankuta Municipality: Social Infrastructure Improvement of Dhankuta Weekly Market [Status: Appraisal completed]**

The sub-project proposes to construct 12 temporary sheds, 4 permanent sheds and 2 platforms and improve the basic infrastructure in the Haat bazaar area such as

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water supply, drainage, parking area and solid waste management and renovate Marga temple complex and improve the public space around the temple complex. The project will contribute toward providing better and effective market facilities which will help enhance the livelihood of rural people around Dhankuta Municipality. The total estimated cost of the project is NRs. 17,846,071.

The availability of water is one of the constraints of the Haat Bazar. The conservation and development of small water source in Marga temple complex will contribute toward serving the local need better but the water requirement of Haat Bazar will not be met by this source only. The municipality need to ensure that the additional water requirement is met from the town supply system.

*Safeguards (see Annex VII)*

*Bidding Document:*

The contract document has made provision of 3 milestones at 20% (in 5 months), 55% (in 10 months) and 100%(in 15 months) of work and has made provision of liquidated damage to be paid to the client if the milestone works is not completed in stipulated time by the contractor and has also made provision of bonus for completing the total work earlier than the stipulated time. This is ideally a very good proposition but its implementation will be challenging. Municipality should be willing to make extra investment of 5% for the bonus amount.

#### **Sub-Project # 4: Mechinagar Municipality: Gokul Marg**

The length of the road, under this sub-project is about 2.5 Km and is a part of about 9 Km long Gokul Marga road stretching on both sides of East West Highway. The proposed road stretches toward north from the East West Highway. There is only one natural watercourse with an existing slab bridge along the alignment of the road. The municipality has already demarcated 22m wide corridor along the whole length of alignment. Based on traffic survey, the proposed road has been designed for a carriage way of 4.5 m with 1.25 m shoulder (total width of 7 m). The road side drainage has been proposed along the whole length of the road. A portion of the road toward South stretching to 250 m has also been included in the subproject as pavement maintenance works.

The report mentions that the proposed road section to be improved has a graveled surface covering almost the entire length of the road and it is built in embankment. Most part of the land on either side of the road corridor is under cultivation except about 200 m stretch near Prativa Chowk which passes through settlement area. In this context it is not clear whether the construction of road side drain throughout the length of the road is fully justified.

The total cost of subproject is estimated to be NRs 62,920,405.

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*Safeguards:*

Out of total 9 km, approximately 2.8 km will be under Track I and rest will be under Track II. The Team during the discussion found that there is no clarity on potential adverse social impacts due to the sub-project and legacy issues with respect to the Southern part of the road. The Team was informed that Department of Roads (DoR) recently cleared all encroachments on the highway that bisects the proposed project road. It is not clear whether the encroachment removal drive of DOR affected any encroacher or squatter on the proposed road as well. The screening result for the Southern part of the road is very subjective and gives no clear indication of any legacy issue. ***It was agreed that the municipality will send a letter to TDF confirming whether there are resettlement legacy issues and/or encroachments in the Southern part of the road. It was agreed that legacy issues apply from the date of the identification mission for the project.***

It was agreed that the ongoing IEE will be carried out for the whole length covering both Track I as well as Track II sections of the road. The ToR will be revised accordingly, and the amended ToR will be submitted to MoFALD for review.

**Sub-Project #5: Mechinagar Municipality: Sahid Marg**

The total length of Shahid Marg road is about 10 km, part of which has been existing. The proposed sub-project includes the remaining length and is about 4,959 Km. A 22 m ROW is available along the entire length. The design width of the carriage way is 4.5 m with 7m formation width. The road side drain has been proposed on both sides of the road along the settlement areas and the total length of proposed drain is 3.884 Km. The total estimated cost of the subproject is NRs 64,234,110 based on 2011/12 rates which need to be updated. The appraisal of the sub-project is still pending.

*Safeguards:* The screening results are not conclusive. It was agreed that the IEE will also cover social issues and TDF will inform the Team accordingly.

**Sub-Project # 6: Baglung Municipality: Access Road**

The sub-project comprises upgrading of two roads, 526m and 739m long connecting with the mid hill highway, the latter providing access to the new municipal building.. The gradient of the road is high at more than 9% at most places in the alignment and so 150 mm reinforced concrete pavement has been proposed. The right of way of road is 11m. The pavement has been designed with 4 m carriageway with 1.5 m passing zone at 150 m interval. The drainage works has been proposed for water management. The total estimated cost of the project is NRs 65,519,595 (NRs 1.8 million/Km).

The construction of the road requires demolition of 3 buildings constructed on encroached land. The municipality has not approved the sub-project yet and the appraisal of the project is still pending.

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*Safeguards:* The Team was informed that three residential structures will be affected due to the proposed works. Since all the three structures are on encroached land, there will be no land acquisition. It was agreed that TDF will share the social action plan including mitigation measures with the Team. IEE ToR has been approved, but the IEE process has not started yet.

**Sub-Project # 7: Lekhnath Municipality: Upgrading the road from Talchowk to Begnas lake**

The consultants have recently submitted the feasibility study report to TDF with four options for upgrading of road from Talchowk to Begnas Tal. TDF is planning to have discussions with the municipality to select the most feasible option.

*Safeguards:* The proposed road has several residential and commercial structures on either side. The road widening options may lead to acquisition of private land and displacement, and the municipality needs to be aware of safeguard requirements as it finalizes the project scope. It was agreed that the municipality with support from TDF will carry out IEE and Social Impact Assessment as required as part of project preparation and will share the document with the Team. The ToR for IEE has been approved.

**Sub-project #8: Itahari Municipality: City area surface drainage improvement project**

The previous review has provided comments on the Itahari drainage sub-project report and has recommended a review of the drainage proposal, as the earlier proposal presented a number of technical issues. TDF has reported that the consultants have revised the design incorporating the comments but the reports have still not been made available.

*Safeguards:* The TOR for IEE has been finalized and the notice published. The call for expression of interest for conducting Social Impact Assessment has been published and TOR has been finalized. It was agreed that the municipality while conducting SIA will carry out extensive consultations with the all stakeholders and the consultation process and result will be documented in the SIA.

**Sub-project #9: Dhankuta Municipality: Hile Market Improvement**

The consultant for Hile Haat Bazar subproject has been preparing detailed engineering design of the sub-project. TDF has reported receiving the report and is in the process of reviewing it, and preparing the appraisal.

*Safeguards:* The access road to the market (to be financed by the municipality) will require SIA. The team informed TDF that Bank policies will be applicable on the access road since it is linked to the Bank-funded project. The team was informed

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that the municipality is exploring option of land for land. However, no progress has been made on this issue. It was agreed that municipality will conduct SIA for the access road. IEE ToR has been approved.

## **Annex VII: Environmental safeguards**

### **Sub-project #1: Tansen Municipality: Amar Narayan Temple Area Conservation and Development [Appraisal completed]**

The Amar Narayan Temple Area Conservation and Development sub project activities can be grouped under: renovation of structures within temple premises, construction of toilet at temple premises, renovation of outer wall, garden landscaping, and renovation of ponds. These activities don't trigger any specific Environmental Assessment (EA) requirements. However, environmental and social safeguard requirements need to be met during the construction stages of the project. For this reason, project specific EMPs are under preparation. The issues related to physical, biological, socio-economic, and cultural heritage and its mitigation measures are integral part of EMP.

#### ***a) Physical Environment***

The sub-project should take great care during the construction time for the following issues

- I. Issues related to disposal and management of excavated materials;
- II. Issues of air pollution (particularly dust) and its impacts on surrounding environment;
- III. Issues related noise created by the vehicle used for the transportation of construction material;
- IV. Issues related to stockpiling of construction material;
- V. Issues related to traffic obstruction and traffic management;
- VI. Possibility of contamination of water source due sub-project construction activities;
- VII. Issues related to health and safety of workers, and visitors /worshippers;
- VIII. Issues related to obstruction and disturbances to visitors/worshippers of temple;
- IX. Issues related to liquid waste, solid waste, and sewage management during construction and operation phases of the project.

#### ***b) Biological Environment***

**Flora:** Issues related to disturbance to flora and its cutting during construction period.

**Fauna:** Issues related to conservation of bats found in temple premises, and its proper mitigation management during the construction and operation phases of the project.

#### ***c) Socio-economic, and Cultural Environment***

The DoA has reviewed and approved the paragraphs below for inclusion in the EMP, and other relevant documents, especially the bidding documents.

“In addition to the provisions in the Ancient Monument Preservation Act, 1956 the following attention to authentic repair and restoration of the temple components shall be adhered to.

- (i) The municipality shall develop a protocol for use by the construction contractor in conducting any excavation work, to ensure that any “chance finds” are recognised and measures are taken to ensure they are protected and conserved. Part of this protocol will be that when “chance finds” of archaeological material occur, ***all excavation work at the site shall stop until the DoA can determine if the site needs to be documented or scientifically excavated before work continues.***
- (ii) All materials used in the repair and restoration of the temple and its surroundings (plinths, walls, stairs, paving etc.) shall be of traditional materials (e.g., lime mortar instead of cement, Jhingati roof tiles, dachi brick etc.) and be of high quality. The DoA will provide specifications for such materials as wood (for columns, rafters, struts), brick or stone (for paving, stairs, walls, plinths), lime mortar, and roof tiles, that shall be followed. Materials shall be checked at pre-shipment and at delivery for compliance with specifications.
- (iii) The construction techniques (joints, fasteners etc.) shall be consistent with the original temple construction techniques. While the design of parts that must be replaced (e.g., struts, column bases) should be consistent with and match the existing temple in scale, design, level of detail, best practice would be to clearly indicate the difference between old and new elements.
- (iv) The materials and construction techniques shall be of such quality that they shall not require major repairs or refurbishment and should be sustainable over time with little beyond routine maintenance.
- (v) Craftsmen with knowledge and skills applicable to the style and age of the temple design shall be employed to do the traditional repair and restoration activities (e.g., wood carving, mortar preparation, replacement of joists etc.)”

### **Sub-Project # 2: Mechinagar Municipality: Gate [Appraisal completed]**

The project doesn't trigger any Environmental and Social Assessment requirements. The direct impact zone of the project lies only at the gate entrance area. To ensure best environmental and social practices during the construction phases of the project, an EMP has been prepared. The sub-project should take care of the following safeguard related issues during the construction period.

**a) *Physical Environment***

- I. Issues related to air (particularly dust) and noise pollution in gate surroundings;
- II. Issues related to management of construction materials (transpirations and on site storage);
- III. Disruption to local and through traffic which goes via Mechinagar gate;
- IV. Safety of construction workers, pedestrians, and local people ;
- V. Issues related to construction waste/spoil management;
- VI. Issues related to the management of storm water drainage from parking lots and its safe disposal during the construction and operation phases of the project.

**b) *Socio-Economic Environment***

- I. Issues related to obstruction to business, shops etc
- II. Safety of construction workers, pedestrians, and local people during the construction phase
- III. Issues related to use of child labor during the construction phase

**Sub-Project # 3: Dhankuta Municipality: Social Infrastructure Improvement of Dhankuta Weekly Market [Appraisal completed]**

This sub-project doesn't trigger any Environmental and Social Assessment requirements. Social and environmental best practices have been incorporated as part of the EMP. Some of the issues that need to be addressed during the construction phases of the project are mentioned below.

**a) *Physical Environment***

- I. Issues related to air and noise pollution due to construction vehicle and equipment
- II. Issues related to stockpiling of construction materials
- III. Disturbance to existing shops, pedestrians, visitors to weekly market (in case of construction of temporary and permanent shed constructions),
- IV. Obstruction and disturbance to visitors/worshippers of Marga Temple, issues related to spoil/construction waste management
- V. Issues related to sewage order, insects management of toilet during the construction and operation phases of the project.
- VI. Issues related to waste management from weekly market during the operation stages (as it produces huge amount of organic and inorganic wastes)

**b) *Biological Environment***

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- I. Issues related to protection of trees during the construction phases of the project

**c) Socio-economic and Cultural Environment**

- I. Issues related to safety of workers, pedestrians, local residents during the construction of shed in weekly market and renovation works in Marga temple premises.
- II. The municipality shall develop a protocol for use by the construction contractor in conducting any excavation work, to ensure that any “chance finds” are recognised and measures are taken to ensure they are protected and conserved. Part of this protocol will be that when “chance finds” of archaeological material occur, ***all excavation work at the site shall stop until the DoA can determine if the site needs to be documented or scientifically excavated before work continues.***
- III. All materials used in the repair and restoration of structures in temple premises (plinths, walls, stairs, paving etc.) shall be of traditional materials (e.g., lime mortar instead of cement, Jhingati roof tiles, dachi brick etc.) and be of high quality. The DoA will provide specifications for such materials as wood (for columns, rafters, struts), brick or stone (for paving, stairs, walls, plinths), lime mortar, and roof tiles, that shall be followed. Materials shall be checked at pre-shipment and at delivery for compliance with specifications.
- IV. The materials and construction techniques shall be of such quality that they shall not require major repairs or refurbishment and should be sustainable over time with little beyond routine maintenance.
- V. All the construction works within premises of Marga temple should be done in accordance with DoA. The records of any items replaced from Marga temple shall be properly recorded.