

Nepal: Urban Governance and Development Program: Emerging Towns Project
(IDA Credit No. 4905-NP and IDA Grant No. H661-NP)
Tenth Implementation Review and Support Mission
(November 11-23, 2014)
Aide-Memoire

I. Introduction

1. The tenth Implementation Review and Support Mission of the Urban Governance and Development Program - Emerging Towns Project (UGDP-ETP) was held during the period of November 11 to 23, 2014. The objectives of the mission were to review overall implementation progress and the status of each component, with a focus on the priority actions agreed during the June 2014 mission and September 2014 technical discussions. In particular, the review focused on: (a) implementation status of municipal sub-projects; (b) progress in the hiring of the Municipal Support Team; (c) progress of institutional development activities, in particular the procurement of consultants for revenue billing software; and (d) interim measures to provide safeguard support to municipalities. The IDA team¹ (referred to as the “Team” hereafter) would like to thank the officials of the Government of Nepal (GoN), especially from the Ministry of Urban Development (MoUD), the Ministry of Federal Affairs and Local Development (MoFALD), the Ministry of Finance (MoF), the Department of Urban Development and Building Construction (DUDBC), the Town Development Fund (TDF), and the Project Coordination Office (PCO), as well as the project supported municipalities, for the hospitality and courtesies extended during the review. The list of people met during the review is included in Annex I. This Aide Memoire (AM) summarizes the main findings and recommendations of the Implementation Support Review. A draft Aide Memoire was discussed at a wrap-up meeting chaired by Mr. Suresh Acharya, Joint Secretary, MoUD, on November 23, 2014. As agreed at the wrap-up meeting, this Aide Memoire will be classified as a public document as per the World Bank’s Access to Information Policy.

II. Key Project Data

Project Data		Project Performance Ratings		
		Ratings	Last	Now
Board Approval:	May 10, 2011	Achievement of PDO	MU	MU
Effectiveness Date:	October 2, 2011	Implementation Progress	MU	MU
Closing Date:	July 31, 2016	Project Management	MU	MU
Original Gr/Cr. Amt:	USD 25 million	Procurement	MU	MU
Restructuring (Level II):	February 22, 2013	Financial Management	MU	MU
Restructuring (Level I):	July 19, 2013	Safeguards	MU	MU
Cancellation:	USD 6.4 million	M&E	MS	MS
Revised Gr/Cr. Amt:	USD 18.45 million	Counterpart Funding	S	S
Amount Disbursed: (as of November 30, 2014)	USD 8.13 million (46.2%)			

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

¹ The team comprised Elisa Muzzini (Sr. Economist/Task Team Leader), Silva Shrestha (Water and Sanitation Specialist/Co-Task Team Leader), Shambhu Uprety (Procurement Specialist), Drona Ghimire (Environment Specialist), Pradip Gautam (Consultant/Environment), Hari Prasad Bhattarai (Consultant, Social Safeguards), Yogesh Malla (Financial Management Specialist), Pradeep Shrestha (Financial Management Consultant), Pawan Lohani (Consultant/Municipal Finance), Noor Tamrakar (Consultant/Municipal Engineer), Tashi Tenzing (Consultant/Urban Development), Rajivan Krishnaswami (Consultant/municipal finance), Sudarshan Tiwari (Consultant/cultural heritage) and and Sushila (Jessy) Rai (Program Assistant).

III. Achievement of Development Objectives

2. Based on the Level I restructuring approved by the Board of the World Bank on July 19, 2013, the revised PDO is to *improve the capacity of the participating municipalities to plan, implement and fund urban development activities*. While the project has achieved the FY 2013/14 targets for the PDO indicators, achievements of the PDO at project closure will depend on the timely completion of the procurement of the IDA-funded Municipal Support Team (MST), which has been significantly delayed and is currently on hold. If the contract for the MST is not signed by December 31, 2014, the project would require restructuring, since further delays will compromise the likelihood of the project to achieve the PDO. It will also significantly increase implementation risk in the absence of adequate construction supervision and safeguard support to the municipalities. Further, the PDO indicator measuring the percent of sub-projects with construction works on track is below target because of delays in the first trimester of FY2014/15. The rating for achievement of PDO therefore remains “Moderately Unsatisfactory”. The current results framework is presented in Annex II.

IV Implementation Status

3. *Overall progress.* Since the implementation support review of June 2014, progress has been made in awarding contracts for the remaining municipal sub-projects and the hiring of supervision consultants in the municipalities. However, procurement of the IDA-funded MST has been significantly delayed. During the technical discussions of September 2014, progress was made to address critical procurement issues related to the MST. The Bank provided “no objection” to the technical evaluation on October 20, 2014. However, before the PCO could proceed with negotiations, the Public Procurement Monitoring Office (PPMO) blacklisted all the qualifying firms on November 11, 2014. The matter has been contested in the Supreme Court (SC) and the PCO is awaiting the SC’s decision, possibly a stay order, in which case it could proceed with the negotiations. Institutional development activities for the municipalities, in particular preparation of the inventory of assets and procurement of consultants for revenue billing software, have also been delayed further. The block grant allocation for municipalities for FY 2014/15 was finalized and MoUD had sent authorization letters to the municipalities. However, two municipalities – Baglung and Lekhnath – have not received the letters. Detailed implementation progress by component is presented in Annex III.

4. *Progress with municipal sub-projects.* A total of 15 out of 16 municipal sub-projects have now entered the construction phase. Contracts have been signed for seven of the eight sub-projects which were under procurement in June 2014, although with some delays against the agreed schedule. Two contracts were signed in July 2014, one contract in October 2014 and four contracts in November 2014. The remaining contract for the Tansen road sub-project is expected to be signed by December 15, 2014, as the municipality has already issued the acceptance letter. Construction progress for municipal sub-projects under implementation has, however, not been very encouraging during the first quarter of FY2014/15. Construction works are now on-going in nine sub-projects, with works having commenced in four sub-projects only at the beginning of November 2014; work orders have been issued for two other sub-projects, but contractors have not yet been mobilized. Work orders have not yet been issued for contracts signed in November 2014. The processing of variation orders in a number of sub-projects has been delayed. The hiring of construction supervision consultants has been completed. However, quality of construction remains a critical issue due to the lack of adequate staffing at the PCO to carry out construction supervision support as a result of the delay in hiring the MST.

5. *Overall progress in implementing the GAAP.* Actions agreed under the Governance and Accountability Action Plan (GAAP) have been implemented as part of the project activities. Transfers of Executive Officers from the municipalities have had some effect on the project activities. The PCO is yet to receive reports of social audits carried out by the municipalities for activities funded under the project. In the case of Amar Narayan Temple in Tansen, there were a few media reports suggesting shortcomings in contract management and quality of works. The PCO asked the municipality for clarifications, for

which the municipality provided a detailed response, including corrective actions being taken. This is indicative of proper implementation of the grievance redress mechanism within the project structure. The agreed actions will need to be monitored closely.

6. *Safeguards.* Following the termination of services of the GIZ-funded MST on June 30, 2014, safeguard capacity at the PCO has been significantly reduced with the departure of the safeguard specialists funded by GIZ. No interim arrangements have been made by the PCO to provide safeguard support to the municipalities until the MST is hired. Due to the delay in the hiring of the MST, safeguard risk has increased significantly. The absence of environmental and social expertise/support at the PCO level has affected oversight and monitoring, as well as technical support to municipalities for environmental and social safeguard activities. This has led to weaknesses and/or delays in implementation of the Environmental Management Plans (EMPs), which should have been carried out in parallel with construction. In particular, implementation of the project specific EMPs have been delayed in all on-going subprojects. The Team noted that safeguard monitoring and reporting by the municipality and the PCO have not been initiated for the municipal sub-projects under implementation, except for visits to the Amar Narayan Temple Conservation sub-project by the Department of Archeology (DoA), the PCO and the World Bank cultural heritage expert. The Team emphasized that the municipality, with support and guidance of PCO, should implement the recommendations provided by the heritage expert. The desk review and field verification for FY 2014/15 civil works funded under the municipal block grant have not yet been completed. A partial desk review has been done for the Eastern municipalities, but it needs improvement. Field verification has not yet started. The detailed social and environmental safeguard assessment and agreed actions are included in Annex IV. The overall performance rating for safeguards remains “Moderately Unsatisfactory”.

7. *Project Management and Monitoring and Evaluation (M&E).* There have been improvements in project management, as reflected in the progress made in signing contracts for the remaining municipal sub-projects. Information flow on sub-projects from the municipalities to the PCO has improved as the supervision construction consultants have started sending detailed monthly reports on the status of sub-projects. However, weaknesses in project management and internal coordination remain, as indicated by the significant delays in finalizing the technical evaluation of the MST. Project management at the municipalities and support provided to the municipalities by the PCO still remain weak. Project management rating remains “Moderately Unsatisfactory”. There has been some progress in strengthening M&E, with efforts made to establish a system to collect information from project agencies and municipalities on a regular basis. The PCO now consolidates information received by the municipalities in the form of monthly progress reports. However, the monthly progress reports need to be improved since there are still gaps in the information collected at the municipal level. The PCO also needs to continue to provide the Team regular updates on the status of actions agreed during the reviews and the timeline for municipal sub-projects every two weeks. The Team also noted that the PCO needs to ensure regular discussions on project related activities in-between the missions, particularly on institutional development activities requiring cross-agency coordination. The rating for M&E remains “Moderately Satisfactory”.

8. *Project Risk Assessment.* Project risk remains “Substantial”. The lack of elected local officials and the frequent change (every 6 to 12 months) of the Executive Officers (EOs) in the six municipalities represent a significant risk to the achievement of the PDO. Sub-projects have been contracted but the timeline for completion within the project is very tight, which can be affected by the slightest change in external factors. In addition, implementation risk has increased significantly due to the delay in hiring the IDA-funded MST.

V. Procurement, Financial Management and Disbursement

9. *Procurement.* Procurement of MST has been severely delayed. The PCO has taken seven months to complete the technical evaluation for MST. No Objection for the technical evaluation was provided by

the World Bank on October 20, 2014 following the opening of technical proposals on March 20, 2014. However, negotiations have stopped following the blacklisting of 10 firms by the Public Procurement Monitoring Office (PPMO) on November 11, 2014 since the blacklisting included the two qualified firms for MST. Procurement for other critical consulting assignments, such as development of revenue billing software and preparation of O&M plans, has been delayed. While progress has been made with procurement of civil works and signing of contracts for municipal sub-projects, contract management at the municipal level remains weak, and has contributed to construction delays. The preparation of the FY2014/15 procurement plan has been delayed. However, a draft has been prepared and was submitted during the review. Procurement rating remains “Moderately Unsatisfactory”.

10. *Financial Management.* Although the budget for FY2013/14 was approved on time, it is noted that only expenditure of NPR164.13 million (about 31.91%) of the approved budget was incurred last fiscal year. The approved budget of FY2014/15 is NPR775.45 million. The budget for GoN counterpart is found to be sufficient. The Team reviewed the financial management system and noted that the required books of account and ledgers are maintained. The Statement of Expenditure (SoE) review was carried out on a sample basis and noted that SoE related records and documents are properly maintained. The Team noted that expenditures of NPR12.87 million incurred by TDF in FY2013/14 have been short reported in the trimester progress report. The Team noted that the internal audit of FY 2013/14 has been carried out but the report is yet to be received. The unaudited project accounts of FY2013/14 are already overdue. Agreed actions have been complied with, although there are some errors in SoE and program ledgers which need to be rectified. The timeliness and quality of financial reporting requires further improvement, there are delays in transfers to Government treasury, and financial management capacity at the municipal level remains low. The financial management rating therefore remains “Moderately Unsatisfactory”. Total disbursement as of November 30, 2014 is USD 8.13 million, consisting USD3.32 million from the Credit and USD 4.99 million from the Grant Account, which is about 46.22% of the total allocation. The net use of resources, after deducting the balance in the Designated Account, is about 18.42%. Detailed information on the project’s financial management is included in Annex V.

VI. Key Implementation Issues and Agreed Priority Actions

11. The following implementation issues were discussed during the review:

- **Delay in the procurement of MST has affected the likelihood of achieving the PDO and has increased implementation risk.** Since the end of the services provided by the GIZ-funded MST on June 30, 2014, institutional development activities for municipalities have stopped, and the PCO does not have safeguard and engineering staff to support the municipalities. Negotiation of the contract for MST was put on hold following the blacklisting of firms by the PPMO. Negotiations may be resumed if the firms receive a stay order on the PPMO’s decision. MST will therefore not be in place as planned by November 30, 2014, and it is not clear if and when the PCO can resume negotiations. It was agreed that individual consultants will be hired as an interim measure; however, the hiring of individual consultants is not a long-term solution given the impracticality of coordinating outputs and managing a large team of individual consultants. Re-doing the procurement of MST is not a viable option given that there are only 19 months before project closure. Hence, it was agreed that if the contract for MST is not signed by December 31, 2014, the project would require further restructuring to address the reduced likelihood of achieving the PDO and the increased implementation risk.
- **Construction works for municipal sub-projects need to be expedited to ensure completion by the project closing date.** While progress has been made in signing contracts for municipal sub-projects, construction works for sub-projects under implementation have been delayed. These delays are due to external factors beyond the control of the municipalities – such as non-availability of construction material – as well as weaknesses in contract management at the municipal level. In particular, there have been delays in mobilizing contractors after issuing work

orders, and in processing contract variations. Further, implementation risk has increased significantly because of the delay in hiring MST, which is expected to mobilize a Kathmandu-based municipal engineer and two regional coordinators to support municipalities with construction supervision. As an interim measure, the PCO was requested to take immediate steps to ensure that safeguard and construction supervision support is provided to the municipalities by hiring individual consultants and/or temporarily transferring staff from MoUD to the PCO.

- **Institutional development activities for municipalities need to be given adequate priority as they are critical for the achievement of the PDO.** No progress has been made with institutional development activities for municipalities since the review of June 2014 given the delay in hiring MST. It was agreed during the June 2014 review that consultants would be hired to prepare the inventory of assets as an input to the Operations & Maintenance (O&M) plans for Lekhnath, Baglung and Mechinagar municipalities. However, the hiring of consultants for the preparation of O&M plans was delayed and was only completed on November 1, 2014. It was agreed that as an interim measure the M&E consultant at the PCO would update the FY2013/14 Revenue Enhancement Plans (REPs), O&M Plans and Investment Plans for Tansen, Itahari and Dhankuta municipalities, while consultants would be hired to support Lekhnath, Baglung and Mechinagar municipalities for the preparation of REPs, O&M plans and Investment Plans. These plans are expected to be approved by the municipalities as part of the FY2015/16 municipal budgeting process in January 2015, and based on the approved plans, Performance Agreements will be signed between the municipalities and the PCO. The procurement of consultants for revenue billing software has been delayed at the PCO. As a result, it is unlikely that municipalities will be able to issue bills by the target date of July 15, 2015 and accrue the benefits of increased collection and revenues during the last year of project implementation. In the absence of MST, alternate measures are necessary to assist municipalities in the data collection required for billing software.

12. The status of priority actions agreed during the Ninth Implementation Review is summarized in Annex VI. The following priority actions have been agreed during the Tenth Implementation Review:

Priority Action	Responsible Agency	Milestone Date
Sign contract for Tansen road sub-project	Municipality	December 15, 2014
Mobilize consultant for revenue billing software development.	PCO	December 31, 2014
Sign contract for MST (the project will require further restructuring if this action is not completed).	PCO	December 31, 2014
Approve Revenue Enhancement Plans, O&M Plans and Investment Plans as part of FY 16 budget process.	Municipalities with support of the PCO	January 31, 2015

13. A summary of the status actions agreed during the Tenth Implementation Support Review is included in Annex VII.

VII. Proposed Timing and Focus of Next Implementation Review

14. The next implementation support review will be carried out in February 2015 to review the status of the agreed actions. The focus will be to review the status of priority actions and sub-project implementation and quality of construction. A major restructuring will need to be processed if MST is not hired by December 31, 2014.

ANNEX I: List of Persons Met

Ministry of Urban Development

Mr. Arjun Kumar Karki, Secretary
Mr. Suresh Prakash Acharya, Joint Secretary
Dr. MahendraSubba, Joint Secretary
Mr. Padam Raj Mainali, Sr. Divisional Engineer

Ministry of Federal Affairs and Local Development

Mr. Gopi Khanal, Joint Secretary
Ms. Laxmi Pandey Gautam, Under Secretary/ Component Manager

Department of Urban Development and Building Construction (DUDBC)

Mr. Shambhu K.C., Director General
Mr. Ramesh Prasad Singh, Deputy Director General/Project Director
Mr. Dwarika Shrestha, Sr. Divisional Engineer/Deputy Project Director
Mr. Tika Ram Paudel, Component Manager
Mr. SailendraDulal, Account Officer
Mr. Sabin Karmacharaya, Engineer
Mr. Dhruva Dahal, M&E Specialist
Mr. Yam Nath Neupane, Financial Management Specialist
Mr. Shakti Shrestha, Procurement Specialist
Mr. Rosan Shrestha, Division Chief, Baglung Division- DUDBC

Town Development Fund (TDF)

Mr. Sushil Gyawali, Managing Director
Mr. Dron Pun, Manager-Environment and Social Safeguard
Mr. Maniram Singh Mahat Director, PME Center
Mr. Harka Bahadur Chhetri, Director
Mr. Man Bahadur Gurung, Engineer
Mr. Suman Mehar Shrestha, M&E Engineer

Baglung Municipality

Mr. Jagannath Lamichhane, EO
Mr. Trilochan Giri, Engineer
Mr. Yogendra Raj Parajuli, Accountant
Mr. Bikash Sharma, Engineer
Mr. Ram Bikram Dahal, Supervision Consultant Engineer

Machinagar Municipality

Mr. Krishna Prasad Panthi, EO
Mr. Pradihmna Pokhrel, Supervision Consultant Engineer

Lekhnath Municipality

Mr. Ram Chandra Paudel, Executive officer
Mr. JagannathKoirala, Engineer
Mr. ChandrakantaPaudel, Accountant
Mr. HridayaNath Khanal, Revenue Section Chief
Ms. Rojina Shrestha, Engineer
Mr. Suman Khadka, Supervision Consultant Engineer

Itahari Municipality

Mr. Pashupati Khatiwada, Executive Officer

Mr. Arjun Dahal, Engineer

Mr. Amit kuma Gupta, Supervision Consultant Engineer

ANNEX II: Results Framework

Year 1: FY 2011/12; *Year 2:* FY 2012/13; *Year 3:* FY 2013/14; *Year 4:* FY 2014/15; *Year 5:* FY 2015/16 (Nepal Fiscal Year ending July 15).
 Estimates for FY 13/14 as of June 2014.

Project Development Objective (PDO): To improve the capacity of the participating municipalities to plan, implement and fund urban development activities.									
Project Development Objective Indicators		Base-line (Y1)		Target and Achievement				Reference	Comments
				Year 2	Year 3	Year 4	Year 5		
Increase in municipal own source revenues in the participating municipalities.	Percentage annual increase	15	Target %	15	15	20	25	Revenue statements of municipalities	<i>Target for year 3 has been achieved.</i> Own source revenue of six municipalities increased to NPR 124 million in FY14 from NPR 95 million in FY13. Sustained own-source revenue increase and achievement of target at project closure depends on timely hiring of MST.
			Actual %	18	30				
Number of participating municipalities with funded investment and O&M plans.	Number	0	Cumulative Target	0	3	6	6		<i>Target for year 3 has been achieved, but target for year 4 may not be achieved.</i> Three municipalities have approved REPs, O&M Plans and Investment Plans and included performance targets in the FY15 budget. Target for year 4 may not be achieved because of delays with hiring of MST.
			Cum. Achievement	0	3				
Municipal sub-projects under implementation with construction works on track as per the signed contracts.	Percentage of Component 2 Sub-projects	0	Target %	0	80	80	90		<i>Target for year 3 has been achieved, but indicator is below target for year 4.</i> As of July 15, 2014 construction contracts for 10 sub-projects' were issued, out of which 8 sub-projects were in track. As of November 15, 2014 construction contracts for 15
			Actual %	0	80	66 (est)			

									sub-projects have been issued out of which 5 sub-projects are not on track. A sub-project is on track if 50% of target is achieved up to 80% of contract time, and 90% of target is achieved after that.
Total number of people benefiting from the project activities.	Number	25000	Cumulative Target	36,000	50,000	70,000	92,000	Actual data based on progress reports submitted by the municipalities and estimated based on annual program	Target for year 3 was achieved. Number of beneficiaries in years 1, 2 and 3 was 9,807, 16,926 and 28,088 respectively. Target for Year 4 is expected to be achieved. Estimated number of beneficiaries for year 4 is 31,821.
			Cum. Achievement	26,733	54821				
Female beneficiaries, percentage of total beneficiaries	Percentage Sub Type Supplemental	35	Target %	35	35	35	35	Actual data based on progress reports submitted by the municipalities and estimated based on annual program	Target achieved for year 3. Indicator on track for year 4.
			Actual %	51	45				
Disadvantage groups, percentage of total beneficiaries	Percentage Sub Type Supplemental	10	Target %	10	10	10	10	Actual data based on progress reports submitted by the municipalities and estimated based on annual program	Target achieved for year 3. Indicator on track for year 4.
			Actual %	59	53				
Intermediate Results Indicators									
Component I: Strengthening Municipal Planning Capacity for Urban Development									
Municipal grant allocated to programs	Percent of	35	Target %	35	35	35	35	Progress reports for FY 2013 and	Indicator for year 3 is slightly below target. Indicator for

targeting women, children and disadvantaged groups.	Municipal Grant allocated to target groups		Actual %	35	34	29 (est)		annual revised program FY 2014	Year 4 is below the target. Planned activities for Year 4 need to be revised by municipalities to ensure target is met.
Number of municipalities submitting satisfactory annual plans for the municipal block grants to the MoUD by August 15 (one month after the start of the FY).	Number	n/a	Target	n/a	6	6	6	PCO records	Target achieved for year 4. All six municipalities submitted annual plans of activities to PCO for the FY 2014/15 municipal block grant by August 15, 2014.
			Actual	n/a	6	6			
Number of municipalities submitting satisfactory annual progress reports to MoUD for the municipal block grants by September 15 (two months after the end of the Fiscal Year).	Number	n/a	Target	n/a	6	6	6	PCO records	Target for year 4 achieved. All six municipalities submitted progress reports for the municipal block grant of FY 2013/14 to PCO by September 15, 2014.
			Actual	n/a	6	6			
Component II: Capacity Building for Municipal Infrastructure Development									
Number of municipal infrastructure sub-projects successfully appraised and ready for bidding (i.e. procurement notice published).	Number	0	Cumulative Target	3	13	18	18		Target exceeded for year 3. All 16 bid invitation notices published in FY 13/14. The total number of municipal sub-projects has been reduced from 18 to 16.
			Cum. Achievement	3	16				

Percentage of funds for municipal sub-projects disbursed.	Percent of sub-project's budget	0	Cumulative Target	0	20	60	100		<i>The target for year 3 has not been met and is unlikely to be met for year 4.</i> Disbursement up to October, 2014 is 9.48% of the sub-projects' contract amount.
			Cum. Achievement	0	9.8				
Component III: Institutional Development									
Policy guidelines and procedures for municipalities on governance and budget planning updated and implemented by MoFALD.	Text	No	Target	No	Yes (Updated)	Yes (Implemented)	Yes (Implemented)		<i>Target for year 3 is not met.</i> Although the preparation of ToR has been delayed, consultants have now being hired and indicator may be achieved in year 4.
			Actual	No	No				
Policy guidelines and procedures for municipalities on physical planning and infrastructure development developed/updated and implemented by MoUD.	Text	No	Target	No	Yes (Updated)	Yes (Implemented)	Yes (Implemented)		<i>Target for year 3 is not met, and expected to be achieved in year 4.</i> Draft strategy for Nepal Urban Development has been prepared and expected to be finalized in year 4, following which implementation will start with preparation of National Urban Development Plan.
			Actual	No	No				
TDF collection ratio meets prescribed thresholds.	Percentage	75	Target %		80		90	TDF Data	<i>Indicator is slightly higher than the target for year 3.</i>
			Actual %	78	85				
Standard lending policies and procedures applied to all ETP municipal sub-projects.	Text	No	Target	No	Yes	Yes	Yes		<i>Target for year 3 has been met.</i>
			Actual	Yes	Yes				
Number of municipalities that have developed and approved planning	Number	0	Cumulative Target	0	3	6	6		<i>Target for year 3 has not been met.</i> DUDBC has prepared model bye-law for the municipalities; specific

norms and building byelaws based on the guidelines by MoUD.			Actual	0	0				bye-laws have been drafted for three municipalities, but finalization has been delayed in the absence of MST.
---	--	--	--------	---	---	--	--	--	---

ANNEX III: Implementation Progress by Component

1. This annex summarizes implementation progress for each project component.

III.I Strengthening Municipal Planning Capacity for Urban Development (Component I)

2. The block grant allocation for the municipalities for FY 2014/15 has been finalized as per the allocation formula provided by the MoFALD (see Table 1). Municipalities have submitted the program for FY 2014/15 activities in the required format as per the allocation. MoUD had sent the authorization letters to the municipalities on October 19, 2014. However, two municipalities – Baglung and Lekhnath – have not received the authorization letters. This delay in release of authorization will have an impact on the implementation of the block grant activities. It has been agreed that the PCO will follow up on the status of the authorization and ensure that the municipalities receive the release by December 15, 2014.

Table 1: Block Grant Allocation FY 2014/15 (NRs. '000)

S.N	Municipality	FY 2014/15
1	Mechinagar	14,921
2	Dhankuta	10,935
3	Itahari	26,656
4	Tansen	9,023
5	Lekhnath	23,434
6	Baglung	10,041
Total		95,000

3. The PCO had reviewed the draft annual program for FY 2014/15 to ensure that the sub-projects meet the basic requirements in terms of beneficiaries. The PCO requested that the municipalities revise the list of activities funded with the municipal block grant to ensure that 35 percent of the funds are allocated to activities directly benefiting women and disadvantaged groups, and to adjust their programs with the final block grant allocation once the block grant allocations are finalized, as required by the Local Government and Community Development Program (LGCDP) guidelines. Except for Dhankuta, at least 30 percent of the proposed activities of the municipalities benefit women and disadvantaged groups. However, the aggregate target of utilizing 35 percent of the funds to activities directly benefiting women and disadvantaged groups will not be met for FY 2014/15. The PCO has requested that Dhankuta adjust their program with the final block grant allocation, as required by LGCDP. The safeguards screening of the sub-projects has been partially carried out and is yet to be completed (see safeguard section in Annex IV). It has been agreed that the municipalities will start the work, but activities identified as high risk will start only after the field verification is carried out by PCO and necessary mitigation actions agreed. The Team reminded the municipalities that the third tranche of block grants will be released only after the audit report is submitted by the municipalities.

Status of Actions Agreed during the Ninth Implementation Review of June 2014

Action	Responsibility	Target Completion Date	Status
Submit the annual program for the FY 2014/15 block grants to the MoUD and	Municipalities	August 15, 2014	Completed.

PCO			
Issue authorization to the municipalities for the block grant allocation	MoUD	August 15, 2014	Completed with delay on October 19, 2014.
Submit the progress report on the activities carried out in FY 2013/14 to the MoUD and PCO	Municipalities	September 15, 2014	Completed.
Review the annual program for FY 2014/15 and provide comments to the municipalities	PCO and MoUD	October 15, 2014	Completed with delay. Letter was sent to Dhankuta for revision on October 21, 2014.

Actions for Strengthening Municipal Planning Capacity for Urban Development Component

- PCO to follow up on the status of the authorization and ensure that the municipalities receive the release by **December 15, 2014**.
- Dhankuta municipality to submit revised annual program to MoUD and PCO for the FY 2014/15 by **December 15, 2014**.

III.II Capacity Building for Municipal Infrastructure Development (Component II)

3. *Overall progress.* The project has made progress in signing contracts for municipal sub-projects since the implementation support mission of June 2014, though with some delays. The project has now moved from the design and procurement phase to the construction phase. The status of municipal sub-projects is summarized below. The progress of construction for sub-projects under implementation, however, not very encouraging during the first quarter of FY15. Slow progress and delay in commencement of works is concerning, and has been mainly attributed to the non-availability of construction material, the monsoon season and weak contract management. The municipalities have not provided sub-project work schedules and performance charts to the PCO despite the requirement for contractors to provide detailed work plans before receiving the mobilization advance. The Team advised the municipalities and PCO to ensure that the work schedules are prepared and updated at regular intervals. The list of municipal sub-projects under implementation is presented in Table 2. The updated status of implementation of sub-projects is presented in Table 3.

Status of Municipal Sub-projects

Status	Sub-projects (number)
Total contracts awarded	15
- Construction works ongoing	9
- Work order issued, contractors in the process of being mobilized	2
- Contract signed, work orders not yet issued	4
Total contracts under procurement	
- Letter of acceptance issued	1
Total sub-projects	16

4. *Status of Track I sub-projects.* With the signing of the contract for Mechinagar Gate Beautification sub-project on July 15, 2014, all five Track I sub-projects have entered the construction phase. The implementation progress of Amar Narayan Temple Conservation sub-project, which was significantly delayed, has picked up following the monitoring visit of a joint team of the PCO, World Bank and TDF in July 2014. Yet the works will not be completed on time. The physical progress of the sub-project has reached about 60%, and the contract ended on November 16, 2014. There have been some design issues in the wall constructed of traditional brick, which may require design revisions and contract variations; however, this has not been finalized yet. The contractor has initiated the request for extending the contract period. The implementation progress of other track I sub-projects has also been slow. There has only been 5% physical progress in the Dhankuta Weekly Market sub-project over the last 5 months, and total physical progress has reached 85% with only about a month remaining before the end of the contract period. The municipality has proposed some variation to the contract, which has been pending for the last few months. The contractor for the Mechinagar Gate Beautification sub-project has recently commenced site works after receiving mobilization advance. The physical progress of the Gokul Marg sub-project stands at 25%, after the elapse of about 53% of contract period. Implementation is not on track for the Dhankuta Hile Market as physical progress is only about 8% after 40% of contract period has elapsed. There is therefore a need for more closely monitoring progress of sub-projects by the municipalities and PCO to expedite the works to ensure that the construction works of all sub-projects are completed within the contract period.

5. *Status of Track II sub-projects.* Construction contracts for 10 of the 11 Track II sub-projects have been signed, and works have started for five sub-projects. Contract for Tansen road sub-project is expected to be signed by December 15, 2014 as municipality has already issued acceptance letter. However, construction works have yet to start for the Shahid Smriti Park Improvement sub-project despite 5 months having lapsed since the contract agreement. The contractor is reported to have cited non-availability of construction material as the reason for delay. The commencement of construction works has been delayed significantly and just recently started for the Baglung Upgrading of Road sub-project, Itahari Road Upgrading sub-project and Lekhnath Barah Chhetra Improvement sub-project. The contractor for the Itahari Bridge sub-project – which was signed on October 31, 2014 – has mobilized at the site and started preparatory works. The delay in commencement of works in these sub-projects is a matter of serious concern for the Team. The PCO and municipalities should take all necessary measures to have the works commenced immediately, and ensure that such delays do not happen in the other sub-projects. The Dhankuta Bus Terminal sub-project was signed on November 9, 2014 and the contractor has not yet been mobilized. The contracts for the other sub-projects were recently signed and are still in the process of mobilization. Out of all the Track II sub-projects under implementation, the Mandare Park sub-project in Lekhnath municipality is the only one that has made good progress and achieved physical progress greater than 80% since contract signing on April 27, 2014.

6. *Quality of construction supervision.* The Team visited the Baglung Road Upgrading sub-project in Baglung municipality, which commenced construction works on November 5, 2014. The contractor has started construction of retaining walls at 10 sites. The quality of work is generally good. The supervision consultant has identified the issues requiring immediate attention and has submitted the report. This practice will help in resolving the problematic issues in a timely fashion, and should be followed in other sub-projects. In Lekhnath Barah Chhetra sub-project, there are some weaknesses in the construction supervision work. The contractor has started excavation work for public toilet construction without developing proper layout of the project works. The contractor has yet to submit a proper work schedule for the sub-project. The Team has advised the municipality to start the construction work only after properly outlining all project work and after developing a work schedule to recover lost time to allow the sub-project to be completed within the contract period. The Team also visited Mandare Park sub-project in Lekhnath municipality, which is already about 80% complete. Though the physical progress is good, there is room for much improvement in physical works.

7. *Construction supervision arrangements at the municipal level.* Municipalities have requested hiring of construction supervision consultants/engineers to supervise all sub-projects except for the Dhankuta weekly market, which is being supervised by the municipal engineer. As there are multiple sub-projects in municipalities, it has been proposed that 9 supervision engineers be hired, with 6 of them supervising two sub-projects. Tansen Municipality had recruited one supervision engineer last year to supervise the Amar Narayan Temple Conservation sub-project. The PCO carried out recruitment process to support municipalities with the hiring of 8 construction supervision engineers, but could only complete the hiring of six construction supervision engineers on July 29, 2014. All six municipalities have recruited one engineer in August 2014. The PCO initiated the process to recruit the remaining two supervision engineers, completed the process and sent their recommendation for recruitment to the municipalities on November 14, 2014. Lekhnath municipality and Tansen municipality are in the process of signing the contracts. With the recruitment of these two supervision engineers, there will be supervision engineers assigned to supervise each of the sub-projects in the six municipalities. Because of the lack of transportation (vehicle) facility with the supervision engineers, the supervision engineers are forced to use the contractors' vehicles for supervision purposes. The Team advises the municipality to make necessary arrangements to provide the required transportation facilities for supervision. The Team also noted that the municipal engineers recruited with project funding in five municipalities have left their jobs, leaving only one municipal engineer in Tansen municipality in place. These engineers have an important role to play in managing supervision consultants.

8. *Construction supervision support at the PCO level.* It was agreed during the June mission that the PCO/DUDBC will mobilize a highly experienced senior professional engineer with project management and contract administration experience to guide the supervision engineers in the municipalities in correctly supervising the works so as to address the persistent issues of delays and quality of construction until the MST is in place. However, this interim support has not yet been provided. With all of the sub-projects now under construction in six municipalities, support at PCO level has become more important and crucial. New issues arising in each sub-project require quick resolution in order to avoid delay. Capacity of the municipalities remains low and they have not been able to prepare and submit proper work schedules on time. With the strengthening of contract management capability, municipalities should be able to ensure that the contractors submit work schedules and monitoring charts for each sub-project and monitor the progress closely. The PCO should make work schedules and monitoring charts for each sub-project available to the Bank within 45 days of contract signing.

9. *Loan and grant commitments for the municipal sub-projects.* To date, 15 of the 16 sub-projects are contracted out and last one is in the contract awarding process after completion of the bid evaluation. A provision of 15% cost overrun is estimated on the awarded contracts' amount as well as on the bid amount under the contract awarding process to estimate IDA loan and grant commitments. The IDA loan and IDA grant allocations for the municipal sub-projects are USD 3.3 and USD 4.5 million, respectively, for a total of USD 7.8 million. The estimated IDA loan and IDA grant commitments are USD 1.9 million and USD 3.1 million, respectively; this is equivalent to about 39% to 61% loan-grant mix for the 16 municipal sub-projects (including 5 Track I sub-projects and 11 Track II sub-projects). The loan-grant ratios are estimated on the basis of the loan grant agreement between the TDF and municipalities in line with the project's loan grant policy. Loan and grant commitments are summarized in Table 4.

10. *Financial progress and disbursement.* The financial progress of the sub-projects has been slow. Only the Dhankuta Weekly Market sub-project has achieved more than 70% financial progress. Tansen Amar Narayan Temple sub-project, Lekhnath Mandare Park sub-project and Mechinagar Gokul Marg sub-project have achieved a financial progress of 53%, 54% and 15%, respectively. The other sub-projects have achieved 10% or less financial progress. The financial progress of all sub-projects is presented in Table 3, and disbursement projections in Table 5. Total disbursement in FY15 has been estimated at US\$ 2.848 million. Disbursement in the first quarter was US\$ 0.17 million while disbursement in the second, third and fourth quarters are estimated to be US\$ 0.82 million, US\$ 0.86 million and US\$ 0.99 million, respectively.

Table 2: List of Municipal Sub-projects

Municipality	No.	Sub-project Name
<i>Track I Sub-projects</i>		
Tansen	1	<i>Amar Narayan</i> Temple Conservation
Dhankuta	2	Dhankuta Weekly Market Infrastructure Improvement
	3	Hile Market Infrastructure Improvement
Mechinagar	4	Mechinagar Gate Beautification
	5	Upgrading of Gokul Marg
<i>Track II Sub-projects</i>		
Baglung	6	Sahid Smriti Park Development
	7	Upgrading of Access Road to Deprived Community (Track I and Track II)
Tansen	8	Upgrading of Existing Roads in Urban Areas, including: a) Bus Park to Mission Hospital; (b) Mission Hospital to Eye Hospital; (c) Gaurishanker to Holangdi; (d) Bandevi to Laxmi School and (e) Prabash to Baghchor
	9	Multi-Purpose Building (shops and guest rooms)
	10	Shrinagar Park Improvement
Lekhnath	11	Barah Chhetra Improvement
	12	Picnic Spots & Amusement Zone at Mandare Park
	13	Upgrading of Roads in Urban and Peri urban Areas, including (a) Oil Nigam To Rithe Pani; (b) Dahar No.3; (c) Dahar No.4; (d) Wada Sewa Kendra To Deurali Khola; (e) Buddha Tole To Dadapari and (f) Universal Chowk To Kholako Chheu
Itahari	14	Upgrading of Link Road
	15	Construction of Bridges on the Link Road
Dhankuta	16	Basic Service Facilities for Hile Bus Park

Status of Track I Municipal Infrastructure Sub-projects

11. *Tansen Amar Narayan Temple Conservation Sub-project.* The sub-project was signed on June 20, 2013. The contract amount is NPR 34,428,173.87 including VAT. While the start date of the sub-project is July 20, 2014, the work order was not issued by the municipality until August 17, 2014. The contract end date is November 16, 2014. The construction works have been significantly delayed with only about 60% of the physical work completed to date. Though some progress has been made following the visit of a joint team of PCO, WB and TDF in July 2014, this has not been sufficient. There have been some design issues relating to buildings constructed with traditional bricks, or Dachi Appa. The PCO is preparing a revised design in coordination with the department of Archaeology and finalizing the revised cost estimate for issuing necessary variations to the contract. The revised design and cost estimate has now been prepared and is in the approval process with the PCO. The construction work has slowed down significantly due to delay in finalizing and approving the revised design. The PCO should expedite the approval of revisions, and the municipality and PCO should complete variations to the contract, including contract extension so as to expedite completion of the sub-project. The Team has been informed that there have been complaints from local residents on the construction of the Bhajan Mandali building in Amar Narayan temple complex. The team agrees with the PCO decision to move ahead as per the decision of the municipality on this issue.

12. *Dhankuta Weekly Market Infrastructure Improvement Sub-project.* The contract was signed on July 12, 2014. The contract amount is NPR 16,310,868.92, including VAT. While the start date of the contract is August 11, 2014, the work order was only issued by the municipality on September 19, 2014. The contract end date is December 18, 2014. The physical progress of this sub-project is about 85% after about 93% of the contract period has lapsed. The financial progress is about 70%. Though the implementation progress of the sub-project was quite good initially, it has slowed down significantly during last few months. The slow progress has been attributed to delays in the approval of variations in works and the monsoon season. The Bank received a variation proposal from the PCO and provided comments on November 18, 2014. There has been some issue with improper construction works being carried out inside the Sri Marga Shrine. The cultural heritage expert from the World Bank has visited the site and made some recommendations, which should be implemented as possible.

13. *Dhankuta Hile Market Infrastructure Improvement Sub-project.* The contract was signed on April 4, 2014. The contract amount is NPR 34,620,384.09 including VAT. The start date of the contract is May 4, 2014 and the construction period is 15 months. The municipality has recruited a supervision engineer to supervise this sub-project, but sub-project progress has been very slow. The contractor has completed a layout of all proposed structures in the market area and completed excavation works for laying the foundation of structures. The physical progress of sub-project is only about 8%, however, after about 40% of the contract time has lapsed.

14. *Mechinagar Gate Beautification Sub-project.* The construction contract for this sub-project was signed on July 15, 2014. The contract amount is NPR 12,632,810.99 including VAT, which is slightly less than the estimated amount of NPR 12,774,257.71 including VAT. The construction period of the sub-project is 15 months. The municipality has recruited the supervision engineer for this sub-project, who has started working. The contractor received the mobilization advance but has just recently started the construction works. The over 2-month delay in commencing work is very concerning. The contractor should be asked to produce a revised work schedule indicating how he proposes to make up for the lost time so that the subproject can be completed on time.

15. *Mechinagar Gokul Marg Road Improvement Sub-project.* The contract was signed on February 4, 2014. The contract amount is NPR 32,589,607.77 including VAT. The start date of the contract is March 6, 2014 and the construction period is 15 months. The municipality has recruited a supervision

engineer to supervise this sub-project and the engineer is already working. There has not been much progress in this sub-project since the last review in June, 2014. The physical progress of the sub-project is now about 25% after a lapse of 53% of the subproject period. The progress was reported as being hampered by the non-availability of construction materials (stone and boulder) and the monsoon season. The PCO informed that the availability of construction material has now eased, which will improve progress of the work. The sub-project has yet to deal with the issues raised during the last field visit, including identifying the critical points where a drain cover is required for construction from a safety point of view and making necessary provisions.

Status of Track II Municipal Infrastructure Sub-projects

16. *Baglung Shahid Smriti Park Sub-project.* The construction contract for this sub-project was signed on June 9, 2014. The contract amount is NPR 9,319,313.82 including VAT. The contract start date is July 9, 2014 and the construction period is 9 months. The construction supervision engineer who supervises this as well as the Baglung Upgrading of Access Road sub-project has been recruited and is already mobilized. The contractor has received the mobilization advance but construction work has not yet started. The contractor is reported to have cited unavailability of construction material as the reason for delay in starting the work. During the field visit, the municipality informed that they have discussed the delay and that the contractor has promised to start the work at the earliest. The Team has advised the municipality to request a revised work schedule from the contractor with plans to make up lost time to allow the subproject to be completed on time.

17. *Baglung Upgrading of Access Road (combined Track I and Track II) Sub-project.* The construction contract for this sub-project was signed on June 16, 2014. The contract amount is NPR 112,768,983.70 including VAT. The contract start date is July 16, 2014 and the contract period is 18 months. The contractor has received the mobilization advance from the municipality and has recently mobilized in site. The contractor has carried out preparatory works, including joint survey work, establishment of the site laboratory and has started construction of retaining structures. The quality of work generally seems satisfactory. The supervision engineer has prepared an inception report with a list of items requiring the attention of the municipality and PCO. The Team advises the PCO and municipality to address these issues immediately to avoid delays due to unresolved issues.

18. *Tansen Urban Roads Upgrading Sub-project.* This sub-project was rebid in July 2014 after the earlier bid failed to provide responsive bids. The bids were opened on August 13, 2014 and the bid evaluation report was submitted to the PCO by the municipality on October 22, 2014. The PCO reviewed the bid evaluation report and issued no objection on November 2, 2014. The municipality issued the notice to award contract and is expected to sign the contract by December 15, 2014. The construction period is 18 months. As the contract end date is very close to the project closing date, the PCO and municipality should closely monitor progress of this sub-project to avoid delays that could push the contract end date beyond the project closing date.

19. *Tansen Shrinagar Park Improvement Sub-project.* The contract for this sub-project was signed on November 12, 2014. The contract amount is NPR 11,679,630.08 including VAT. The construction period is 9 months. The recruitment of a supervision engineer has been finalized and the PCO has already sent its recommendation on November 14, 2014 for recruitment of the selected supervision engineer.

20. *Tansen Multi Purpose Building Sub-project.* The contract for this sub-project was also signed on November 12, 2014. The contract amount is NPR 27,431,282.92 including VAT. The construction period is 15 months. The subproject will be supervised by the same construction supervision engineer who supervises the Shrinagar Park Improvement sub-project. The contractor has not mobilized to the site yet.

21. *Lekhnath Barah Chhetra Improvement Sub-project.* The construction contract for this sub-project was signed on June 24, 2014. The contract amount is NPR 9,749,102.90 including VAT. The construction period is 12 months. The sub-project is currently being supervised by the municipal engineer; the PCO has already completed the recruitment process for an engineer and sent its recommendation to the municipality on November 14, 2014 for signing the contract. Though the contract was signed 5 months ago and the contractor has received mobilization advance, construction works only recently started. The delay in commencing work has been attributed to the poor condition of the access road to Barah Chhetra during the rainy season. The contractor has started excavation works for the foundation of the public toilet. However, this has been done without setting out all of the works. The team advised the municipality to set out all of the works before starting construction of other structures. The team also noted some gaps in the provisions for the boat docking area in Barah Chhetra and advised to revisit with input from local boat operators.

22. *Lekhnath Mandare Park Sub-project.* The construction contract for this sub-project was signed on April 27, 2014. The contract amount is NPR 5,603,914.00 including VAT. The construction period is 9 months. The subproject has made significant progress in implementation. The sub-project has already made more than 80% physical and 54% financial progress after a lapse of about 66% of the contract period. The sub-project is currently being supervised by the municipal engineer. The new construction supervision engineer who will be recruited for supervision of the Barah Chhetra Improvement sub-project will also be responsible for supervising this sub-project. The team made a field visit to this sub-project and noted that there is no electrical supply for operating the pump of the fountain. The municipality assured that they will restore the supply to the park soon. The Team also advised the municipality to complete the landscaping work and repair of other existing structures in the park.

23. *Lekhnath Urban and Peri-urban Roads Sub-project.* The construction contract for this sub-project was signed on November 12, 2014. The contract amount is NPR 85,132,622.50 including VAT. The construction period is 18 months, The construction end date is June 11, 2014. As the contract end date is very close to the project closing date, the PCO and municipality should closely monitor the progress of this sub-project to avoid delays given relatively long construction period that could push the contract end date beyond the project closing date. The supervision consultant for this sub-project has been recruited by the municipality and has already been mobilized. The subproject is planning for joint survey.

24. *Itahari Link Road Improvement Sub-project.* Itahari municipality signed the construction contract with the lowest evaluated bidder on July 28, 2014. The contract amount is NPR 72,398,415.61 including VAT. The construction period is 18 months. The municipality has issued the work order but the contractor has just recently mobilized and is carrying out joint survey works. There has been a delay of over 2 months in commencing the work. The contractor is reported to have cited non-availability of construction materials for the delay in construction works.

25. *Itahari Bridges Sub-project.* The contract for this sub-project was signed on October 31, 2014. The contract amount is NPR 53,569,438.29 including VAT. The construction period is 18 months. The construction end date is May 29, 2014, which is very close to the project closing date. The municipality has recruited the construction supervision engineer for this sub-project, who has already been mobilized. The contractor has also started mobilization and preparatory works. It is necessary for the PCO and municipality to closely monitor the progress of this sub-project to avoid delays given relatively long construction period that could push the contract end date beyond the project closing date.

26. *Dhankuta Basic Services Facilities in Hile Bus Park Sub-project.* The construction contract for this sub-project was signed on November 9, 2014. The contract amount is NPR 15,180,135.81 including VAT. The construction period is 15 months. The municipality has recruited the construction supervision engineer for this subproject, who is already working.

27. The status of actions for this component agreed during the implementation support review of June 2014 is presented in the table below.

Status of Actions Agreed during the Ninth Implementation Review

Action	Responsibility	Target Completion Date	Status
Make available to the World Bank work implementation schedules and project monitoring charts for all Track I sub-projects under implementation (including safeguard monitoring)	PCO	August 15, 2014	Delayed. Implementation schedule of four track I subprojects submitted by November 12, 2014; implementation schedule of Dhankuta Weekly Market and monitoring chart for all sub-projects yet to be submitted.
Complete hiring of construction supervision consultants	Municipalities and PCO	July 31, 2014	Completed with delay/ partially completed. PCO recommendation for hiring of 6 out of 8 supervision consultants issued on July 29, 2014 and consultants mobilized in August 2014; PCO recommendations for recruitment of last 2 supervision engineers issued to Tansen and Lekhnath municipalities on November 14, 2014
Sign contracts for 2 municipal sub-projects	Municipalities and PCO	July 31, 2014	Completed. Mechinagar Gate Beautification subproject contract signed on July 15, 2014 and Itahari Road subproject signed on July 28, 2014.
Sign contracts for other 2 municipal sub-projects	Municipalities and PCO	September 30, 2014	Completed with delay. Contract for Itahari Bridge subproject signed on October 31, 2014 and Dhankuta Hile Bus Terminal subproject signed on November 9, 2014.
Sign contracts for remaining 4 municipal sub-projects	Municipalities and PCO	October 30, 2014	Partially completed with delay. Contract for Tansen multi-purpose Building, Shreenagar Park and Lekhnath Road subprojects signed on November 12, 2014 and contract for Tansen Road subproject is yet to be signed.

Actions for Capacity Building for Municipal Infrastructure Development Component

- The PCO to make available to the World Bank work implementation schedules and project monitoring charts for all Track I sub-projects (including safeguard monitoring) by **December 15, 2014** and all Track II subprojects by **December 31, 2014**.
- Municipality to sign contract for Tansen road sub-project by **December 15, 2014**
- PCO to submit to the Team monthly project implementation progress reports showing implementation status of each sub-project, any problems related to the sub-project and the actions taken to address the problem if any, starting from **December 15, 2014**.

Table 3: Status of Municipal Sub-projects under Implementation

Sub-project	Contract signing date	Start date/ Work order issue date	Estimated construction period (months)	Target end date	Implementati on period since contract signing (months)	Physical Progress (%)	Financial Progress (%)
<i>Track I</i>							
Tansen Amar Narayan Temple Conservation	June 20, 2013	Aug 17, 2013	15	Nov16, 2014	15	60	53
Dhankuta Market Infrastructure Improvement	July 12, 2013	Sep 19, 2013	15	Dec 18, 2014	14	85	70
Mechinagar Gokul Marg Upgrading	Feb 4, 2014	Mar 6, 2014	15	June 5, 2015	8	25	15
Dhankuta (Hile) Market Infrastructure Improvement	April 4, 2014	May 4, 2014	15	Aug 3, 2015	6	8	10
Mechinagar Gate Beautification	July 15, 2014	Aug 14, 2014	15	Nov 13, 2014	3	2	10
<i>Track II</i>							
Lekhnath Mandare Park	April 27, 2014	May 27, 2014	9	Feb 26, 2014	6	80	54
Baglung Sahid Smriti Park Development	June 9, 2014	July 8, 2014	9	April 7, 2014	4	0	10
Baglung upgrading of Access Road	June 16, 2014	July 16, 2014	18	Jan 15, 2016	4	2	10
Lekhnath Barah Chhetra Improvement	June 24, 2014	July 23, 2014	12	July 22, 2015	4	1	10
Itahari upgrading of Link Road	July 28, 2014	August 27, 2014	18	Feb 26, 2016	3	Work Commenced	10
Itahari Bridges Construction	Oct 31, 2014	Nov 30 , 2014	18	May 29 , 2016	0		0
Basic Service Facilities for Hile Bus Park	Nov 9, 2014	Dec 9, 2014	15	Mar 8, 2016	0	Not yet mobilized	0
Multi-Purpose Building Construction	Nov 12, 2014	Dec12, 2014	15	Mar 12, 2016	0	Not yet mobilized	0
Shrinagar Park Improvement	Nov 12, 2014	Dec 12, 2014	9	Sep 11, 2015	0	Not yet mobilized	0
Lekhnath Road Improvement	Nov 12, 2014	Dec 12, 2014	18	June 11, 2016	0	Not yet mobilized	0
Tansen Road Improvement	Dec 15, 2014	Jan 15, 2015	18	July 15, 2016	0	-	0

Table 4: Loan and Grant Commitments for Municipal Sub-projects

Municipality	Name of Sub Project	Sub Project Category (U=Utility, S=Social)	Infrastructure Financing (in USD '000) (USD 1 = NPR 95)				
			Total Contracted Amount	IDA (TDF) Loan	IDA (TDF) Grant	GoN Grant	Municipal Matching Fund
Track 1 Sub projects							
Mechinagar	Mechinagar Gate Beautification Project	S	133	13	59	47	13
	Upgrading of Gokul Marg	U	343	103	114	91	34
Dhankuta	Dhankuta Weekly Market Infrastructure Improvement	S	172	17	76	61	17
	Hile Market Infrastructure Improvement	S	364	36	162	130	36
Tansen	Amar narayan Temple Conservation	Social 58% Ur 42%	362	67	144	115	36
Track 2 sub projects							
Itahari	Improvement of Link Road	U	762	229	254	203	76
	Construction of Bridges in the Link Road	U	564	169	188	150	56
Dhankuta	Improvement of Hile Bus Park	S	160	16	71	57	16
Baglung	Improvement of Shahid Smriti Park	S	98	10	44	35	10
	Upgrading of Baglung Access Road	U	1187	356	396	317	119
Tansen	Improvement of Existing Road	U	957 (est)	287	319	255	96
	Improvement of Shreenagar park	S	123	12	55	44	12
	Construction of Multipurpose Building	U	289	87	96	77	29
Lekhnath	Improvement of Barah Chhetra Park	S	116	12	52	41	12
	Improvement of Mandare Park	S	59	6	26	21	6
	Improvement of Existing Road	U	896	269	299	239	90
All	Consulting Services		293	0	264	0	29
Total			6878	1688	2618	1884	688
TDF service fee 1.5% of grant disbursement			0	0	39	0	0
Contingency @15% on contract amount			1032	253	393	283	103
Grand Total			7910	1942	3050	2166	791

Table 5: Disbursement for Track I and Track II Sub-projects (USD)

S.N	Track I Sub- Project Name	Estima- ted Amount (US\$)	Contract Amount (US\$)	Contract Date	Construc- tion period (MM)	Disburse- ment till June 2014	Disbursement in FY 2014-15				Cumula- tive Annual (2014-15)
							I Qtr.	II Qtr.	III Qtr.	IV Qtr.	
							Actual	Estimate	Estimate	Estimate	
	<u>Track I Sub-projects</u>										
1	Tansen Amar Narayan Temple Conservation	397,061	362,402	20-Jun-13	15	41,597	46,765	130,465	107,335		284,565
2	Dhankuta Market Area Improvement	187,853	171,693	12-Jul-13	15	86,215	0	38,631	29,678		68,309
3	Dhankuta Hile Market Area Improvement	408,256	400,868	4-Apr-14	15	28,202	0	49,197	49,197	81,996	180,390
4	Mechinagar Gate Beautification	147,912		15-Jul-14	15	N/A	9,905	19,968	23,962	33,280	87,115
5	Mechinagar Gokul Marga Road	682,311	343,030	4-Feb-14	15	39,000		46,309	46,309	77,182	169,800
Total for Track I Sub-projects		1,823,393	1,277,993			195,014	56,670	284,570	256,481	192,458	790,179

S. N	Track II Sub- Project Name	Estimated Amount (US\$)	Actual Contract Amount (US\$)	Contract Date	Construction Period	Disbursement till June 2014 (US\$)	Disbursement in FY 2014-15				Cumulative Annual
							I Qtr.	II Qtr.	III Qtr.	IV Qtr.	
							Act	Est	Est	Est	
	<u>Track II Sub-projects</u>										
1	Baglung Sahid Smriti Park Development	155,956	98,098	9-Jun-14	9		8,645	8,829	22,072	26,486	66,032
2	Baglung Upgrading of Road	2,192,462	1,187,042	16-Jun-14	18		93,889	106,834	106,834	160,251	467,807
3	Tansen Upgrading of Roads	1,321,322	956,795 (est)	23-Nov-14	18		0	86,112	129,167	129,167	344,446
4	Tansen Multi Purpose Building	305,672	288,750	12-Nov-14	15		0	25,988	38,981	64,969	129,938
5	Tansen Shrinagar Park Improvement	139,762	122,943	12-Nov-14	9		0	11,065	27,662	27,662	66,389
6	Lekhnath Barah Chhetra Improvement	123,681	115,963	24-Jun-14	12		8,932	10,437	20,873	26,092	66,333
7	Lekhnath Picnic Spots at Mandare Park	60,700	58,989	27-Apr-14	9	4,204	0	15,927	18,581	14,377	48,886
8	Lekhnath Upgrading of Road	1,582,631	896,132	12-Nov-14	18		0	80,652	80,652	120,978	282,282
9	Itahari Upgrading of Link Road	1,229,991	762,089	28-Jul-14	18		0	102,882	68,588	102,882	274,352
10	Itahari Construction of Bridges	668,616	563,889	31-Oct-14	18		0	50,750	50,750	76,125	177,625
11	Dhankuta Basic Service Facilities Hile Bus Park	168,262	159,791	9-Nov-14	15		0	14,381	14,381	21,572	50,334
Total of Track II Sub-Projects		7,949,055	5,210,481			4,204	111,466	513,855	578,542	770,561	1,974,424
Consulting Services		292,588	292,588			47,605	5,044	23,523	25,051	28,891	82,938
Total of Track I & II Sub-Projects and Consulting Services		10,045,530	6,877,596			246,823	173,180	822,378	860,047	991,909	2,847,542

III.III Institutional Development Component

(a) Institutional Development for the Municipalities

28. Institutional Development activities for the municipalities have been generally delayed due to absence of the Municipal Support Team. The status of the activities is described below.

29. *Revenue Enhancement Plans (REP), O&M Plans and Investment Plans for Baglung, Lekhnath and Mechinagar Municipalities.* The inventory of the assets for the municipalities are expected to be ready by November 30, 2014. Given the delay in the hiring of the MST, the PCO has decided to hire a consulting firm to complete the REPs, O&M Plans and Investment Plans as well as assist the municipalities in drafting the Performance Agreements with the PCO. The PCO is requested to inform the review on this hiring of the consulting firm by December 8, 2014.

30. *Updated of Revenue Enhancement Plans (REP), O&M Plans and Investment Plans for Tansen, Dhankuta and Itahari.* Given the delays in hiring the MST, the PCO has decided to update these plans using internal resources. The PCO is requested to confirm these arrangements with the municipalities and inform the Team on the activity plan by December 8, 2014.

31. *Performance Agreements and Implementation Plans for REP, O&M Plans and Investment Plans.* REPs, O&M Plans and Investment Plans of three municipalities (Baglung, Lekhnath and Mechinagar) need to be prepared and approved by the concerned council of the municipalities by January 15, 2015. Together with the PCO, the municipalities will identify key indicators of the REPs, O&M Plans and Investment Plans to monitor performance by December 31, 2014 and sign performance agreements between the PCO and municipalities by January 10, 2015. Executive Officers of two visited municipalities (Baglung and Lekhnath) confirm that they are ready to start the preparation of the REPs, O&M Plans and Investment Plans, but flagged that they require support from the PCO in order to complete the tasks in time.

32. *Billing Software Development.* The PCO confirmed that the billing software consultancy would be awarded by December 15, 2014. The implementation period of software development would require technical and administrative support at key stages, including with the updating of revenue records, the integration of taxes and trial and test runs. As the MST is not in place, the PCO was requested to provide active management support to the consulting work so that issues that will arise in implementation are resolved in a timely manner. Given the time frame of 6 months for software development, it would be unlikely that a fully usable billing system can be launched by July 2015. The Team also met with MoFALD, which agreed to support the development phase and recommended the handing over of the software once it is completed. MoFALD will take over ownership once the software is developed and tested. MoFALD also stated that once the software is in place, it would be implemented in other municipalities. MoFALD also requested that the PCO involve them during the development phase.

33. *IT equipment for municipalities.* The procurement of IT equipment for the municipalities and vehicle for the MST has been further delayed as the heading for the purchase of machinery items was missing in the PCO's approved budget for FY 2014/15. The PCO is processing for amendment of the annual program to incorporate this activity. The equipment for each municipality includes four desktops, three laptops and one server. It is expected that the equipment may be procured and delivered by end-February 2015.

Status of Actions Agreed during the Ninth Implementation Review

Action	Responsibility	Target Completion Date	Status
Submit to the Team for review the ToR for revenue billing software development	PCO	July 15, 2014	Completed with delay.
Prepare implementation actions plans as per the agreed Performance Agreements for Dhankuta, Itahari and Tansen municipalities	PCO	July 31, 2014	Completed with delay in October 2014.
Mobilize an individual consultant to prepare inventory of municipal assets, assess O&M needs and estimate O&M cost for Mechinagar, Lekhnath and Baglung municipalities	PCO	August 15, 2014	Delayed. Milestone date could not be met. At the September technical discussions, it was agreed that these inventories be completed by November 30, 2014.
Agree with MoFALD on hand-over arrangements for the billing software development and communicate them to the World Bank	PCO	August 31, 2014	Completed on time. Agreed with MoFALD in a meeting with the Secretary in August 2014.
Provide support to Dhankuta, Itahari and Tansen Municipalities to update REPs, O&M Plans and Investment Plans	PCO	November 30, 2014	Delayed. Milestone date could not be met. At the September technical discussions, it was stressed that preparation and/or update of Revenue Enhancement Plans, O&M Plans and Investment Plans need to be completed by end-December. This has not started – PCO is planning to mobilize internal staff to provide support to update REPs, O&M Plans and Investment Plans.
Provide support to Mechinagar, Lekhnath and Baglung municipalities to complete preparation of REPs, O&M Plans and Investment Plans	PCO	December 15, 2014	Partially completed. At the September technical discussions, it was stressed that

			preparation and/or update of Revenue Enhancement Plans, O&M Plans and Investment Plans need to be completed by end-December. PCO is providing support to municipalities to prepare O&M Plans only.
Mobilize consultants for revenue billing software development	PCO	September 30, 2014	Delayed. Milestone date could not be met. At the September technical discussions, it was agreed that consultants be mobilized by November 30, 2014. The revised date has not been met. The PCO is now in process of hiring consultants.

Actions for Institutional Development Component for Municipalities

- PCO to mobilize consultant for revenue billing software development by **December 31, 2014. (priority)**
- Municipalities with support of PCO to approve REPs, O&M Plans and Investment Plans as part of FY16 budget process by **January 31, 2015.**
- PCO to procure and deliver IT equipment to municipalities by **February 28, 2015.**

(b) Institutional Development for the PCO/DUDBC

34. *Preparation of GIS maps in the six participating municipalities.* Preparation of the GIS maps is in progress. The PCO signed the contract with the consultants on October 30, 2014, and the assignment is expected to be completed by April 30, 2015.

35. *IT equipment for GIS unit of DUDBC and municipalities.* The specifications for the equipment have been agreed, but the procurement has been delayed as the heading for the purchase of machinery items was missing in the PCO's approved budget for FY 2014/15. The IT equipment for utilization of GIS maps will be provided to the GIS unit of DUDBC as well as each of the six municipalities. The PCO is processing for the amendment of the annual program to incorporate this activity.

36. *Building and planning bye-laws for three municipalities.* The building and planning bye-laws that were prepared (in Nepali) by the GIZ supported MST consultants for three municipalities – Tansen, Dhankuta and Mechinagar – are still under final review by the DUDBC. There is now clarity regarding

the legal authority for approval/implementation of the bye-laws. The Town Development Committee (TDC) has the legal approval authority and the Municipal Council can direct the municipality to implement it. As the effectiveness of the operation of the TDCs is in question, it is likely that the approval of the bye-laws, once finalized, could be delayed. DUDBC intends to invite the TDCs to approve the finalized bye-laws. The preparation of the building and planning bye-laws for the other three municipalities (i.e. Itahari, Baglung and Lekhnath) is a task under the ToRs for the to-be-hired MST. Given the delay in hiring the MST, the FY 2014/15 target of six municipalities with approved planning norms and building byelaws is unlikely to be met. However, the Team was informed that DUDBC's Physical Planning Section is supporting municipalities to implement building codes and training municipal staff through on-the-job capacity building efforts.

37. *Drainage Master Plan for Itahari Municipality.* The PCO has processed the EoI for this assignment and the consultant is expected to begin the assignment by the end of January 2015.

Status of Actions Agreed during the Ninth Implementation Support Review

Action	Responsibility	Target Completion Date	Status
Conduct a legal review of the byelaws to ascertain the legal authority for implementation of the provisions of the byelaws between the municipality and the Town Development Committees and conduct municipal capacity needs assessment to implement the bye-laws	PCO/DUDBC	August 15, 2014	Partially completed. The legal authority for approval identified; however, capacity need assessment is pending. In some cases, capacity is being built through support of the Physical Planning Section of DUDBC.
Complete the preparation of byelaws for the remaining three municipalities (Itahari, Baglung and Lekhnath)	PCO	November 30, 2014	Delayed. Not started as MST recruitment is delayed.
Award contract for the preparation of drainage Master Plan in Itahari	PCO	September 15, 2014	Delayed. The PCO has processed the EoI for this assignment.
Start procurement process for hardware and software for the GIS unit of DUDBC and sign contract	PCO	July 15, 2014 and October 30, 2014	Delayed.
Finalize the EOI evaluation for the GIS maps and award contract	PCO	July 15, 2014 and August 31, 2014	Completed with delay. Contract was awarded on October 30, 2014.

Actions for Institutional Development Component for PCO/DUDBC

- PCO to start procurement process for hardware and software for the GIS unit of DUDBC and sign contract by **December 22, 2014.**

- PCO to award contract for the preparation of drainage Master Plan in Itahari and have consultant begin assignment by **January 31, 2015.**
- PCO/DUDBC to conduct municipal capacity needs assessment to implement the bye-laws by **February 28, 2015.**
- PCO to complete the preparation of GIS maps for six municipalities by **April 30, 2015.**

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

35. The FY 2014/15 activities have been delayed. TDF has proposed to procure consultancy services for training municipal finance officers in preparing financial operating plans in a cluster of municipalities and institutionalizing the same in 58 municipalities. The ToR was due by July 15, 2014 and the date was subsequently postponed to September 30, 2014. The Team has yet to receive the ToR for review. TDF is expected to send the ToR by December 15, 2014. TDF has been requested to prepare a municipal finance strategy for the National Urban Development Strategy (NUDS). The municipal finance component is not for the NUDS itself, which has been completed but for the operationalization of the NUDS. The Team discussed with the TDF the scope of the work and the ToRs for the consulting assignment. It was agreed that the strategy would focus on Own-Source Revenues (OSR), the Inter-Governmental Fiscal Transfer (IGFT) and the borrowing framework. On this basis, it was agreed that TDF would draft a ToR in consultation with MoUD and MoFALD by October 15, 2014 and procure relevant experts in this field. The Team discussed the ToR with the MOUD and TDF, and it was decided to expand the scope of the work to examine financing modalities for urban agglomerations that go beyond municipal limits and take into account the strategy developed under NUDS. It was agreed that TDF would send the revised ToR by December 15, 2014.

36. Completion of FY 2013/14 activities has been delayed. The consulting for the review of TDF's financial appraisal manual was awarded on November 7, 2014, and the revised appraisal manual is expected by end-February, 2015. The brochures originally expected to be ready by September 30, 2014 are now expected to be finalized by December 30, 2014. The micro-banking assignment that was also expected to be ready by September 30, 2014 is now expected to be finalized only by end-January. The progress of the micro-banking assignment was reviewed with the consultants and the TDF; the system needs further work in generating annual financial statements. As of now, the system does not generate cash flow or Profit & Loss (P&L) statements, both parts of the original objectives of this assignment. It was agreed that this would be completed by January 30, 2014. Regarding the default by TDF of loans due to GON, the Tea was informed that the request for rescheduling of TDF loans need ADB permission as these were loans taken under an ADB line of credit. TDF is requested to resolve the default situation before the end of this FY.

Status of Actions Agreed during the Ninth Implementation Support Review

Action	Responsibility	Target Completion Date	Status
Completion of legal review of capital structure	TDF	July 15, 2014	Completed with delay on September 7, 2014; TDF will pursue further action with GON.
Draft Annual Program and budget for FY2014-15	TDF	July 15, 2014	Completed. Submitted to PCO on July 15, 2014.
Approve revised BRAP	TDF	July 31, 2014	Completed with delay on August 15, 2014.
Resolve default situation with GON	TDF	September 15, 2014	Delayed. Approval of ADB has been sought.

Generate financial statements by using micro-banking and MIS system	TDF	September 15, 2014	Delayed.
Prepare ToR for (a) municipal finance strategy; (b) orientation and training for municipal finance officers for municipal borrowing capacity assessment; and (c) system automation, linking micro-banking to asset management and payroll system.	TDF	September 15, 2014	Delayed.
Complete the review of TDF's financial appraisal manual and training of TDF staff in financial analysis; complete brochures for borrowers	TDF	September 30, 2014	Delayed. The consultancy for the review of TDF's manual was awarded on November 7, 2014 but the assignment has not been completed.

Actions for Institutional Development Component for TDF

- TDF to send the ToR by for consultancy services for training municipal finance officers in preparing financial operating plans in a cluster of municipalities and institutionalizing the same in 58 municipalities by **December 15, 2014;**
- TDF to prepare ToR for: (a) municipal finance strategy; (b) orientation and training for municipal finance officers for municipal borrowing capacity assessment; and (c) system automation, linking micro-banking to asset management and payroll system expected to be sent by **December 15, 2014.**
- TDF to complete brochures for borrowers by **December 30, 2014.**
- TDF to hire consultants for municipal finance strategy by **January 31, 2015**
- TDF to complete generation of financial statements by using micro-banking and MIS system by **February 28, 2015.**
- TDF to complete the review of TDF's financial appraisal manual and training of TDF staff in financial analysis; complete brochures for borrowers by **February 28, 2015**
- TDF to resolve default situation with GON by **July 15, 2015.**

(d) Institutional Development for the MoFALD

1. The Team noted continued delays in the implementation of the institutional development activities of the MoFALD, with only limited progress made since the implementation support review of June 2014. The ToRs for compilation of policy guidelines and procedures for governance and budget planning for the municipalities have been finalized and the consultants have been hired. While MoFALD had finalized the ToR to develop the Management Information System (MIS) strategy in June 2014, they have not published the notice for hiring of the consultants. This activity is severely delayed. Also, it was agreed that “Capacity Building and planning needs assessment” of about 10 municipalities will be carried out that will provide a basis for infrastructure planning and capacity building activities. However, the ToR for this activity has yet to be prepared and discussed with the World Bank.

Status of Actions Agreed during the Ninth Implementation Support Review

Action	Responsibility	Target Completion Date	Status
Prepare the ToRs for developing the templates for the implementation of policy guidelines and procedures for governance and budget planning and orientation to the municipalities and prepare draft documents	MoFALD	July 15, 2014 and September 30, 2014	Partially completed with delay. ToRs finalized in October 2014 and consultant hired. Preparation of draft documents is delayed.
Publish the notice for hiring of consultant for preparation of MIS strategy	MoFALD	July 15, 2015	Delayed. Notice for hiring of consultants not yet published.
Prepare the ToRs for “Capacity Building and planning needs assessment”	MoFALD	July 31, 2014	Delayed. Will be sent by Monday, November 17, 2014.

Actions for Institutional Development Component for MoFALD

- MoFALD to hire the consultant for preparation of MIS strategy by **December 31, 2014.**
- MoFALD to prepare the ToRs for “Capacity Building and planning needs assessment” and share with Bank team by **December 15, 2014.**
- MoFALD to prepare draft documents for implementation of policy guidelines and procedures for governance and budget planning by **February 15, 2015.**

(e) Institutional Development for the MoUD

2. Consultant support was provided to MoUD under the project to support preparation of the NUDS. A draft NUDS was prepared within July 2014 and is expected to be finalized by end of December. The program for FY 2014/15 for institutional development activities includes support for preparation of a strategy for a Management Information System (MIS) and strategy for internal communication within MoUD. Also, the program includes support for disseminating the NUDS and hiring team leader for the preparation of the Nepal Urban Development Plan in accordance with the NUDS.

Status of Actions Agreed during the Ninth Implementation Support Review

Action	Responsibility	Target Completion Date	Status
Finalize NUDS	MoUD	July 31, 2014	Delayed. First draft of NUDS has been prepared.
Finalize the program for the institutional development activities for FY 2014/15	MoUD	August 15, 2014	Completed with delay.

Actions for Institutional Development Component for MoUD

- MoUD to finalize NUDS by **December 30, 2014.**
- MoUD to prepare National Urban Development Plan in accordance with the NUDS by **March 30, 2015.**

(f) Institutional Development for the UDTC

3. In FY 2013/14, Urban Development Training Center in Pokhara conducted various training in the areas of disaster risk management, planning/budgeting, project management/leadership, gender and social inclusion, and solid waste to the municipalities. As agreed during the mid-term review of the project in February, training was also conducted in the areas of revenue generation and building code implementation. However, it is not clear how the training being offered by UDTC are being coordinated with the training offered by other central level agencies like DUDBC and LBFC on the similar topics. For FY 2014/15, UDTC is planning to develop curriculum, provide training on construction management, office management, revenue mobilization, national building code, sanitation and solid waste management, etc. and procure a generator. The Team requests MoUD and PCO to coordinate the activities of UDTC supported under the project to make them relevant to the achievement of the project development objectives.

Status of Actions Agreed during Tenth Implementation Support Review

Action	Responsibility	Target Completion Date	Status
Hire consultants as trainers of trainers to strengthen the human resource capacity of the center.	UDTC	July 15, 2014	Completed. UDTC hired consultants to conduct training on specialized areas like revenue enhancement
Complete the planned training activities for FY 2013/14 (on topics ranging from gender inclusion, accounting, local revenue generation, leadership development, environment	UDTC	July 15, 2014.	Completed. All activities as planned in the annual program for FY 2013/14 were completed within July 15, 2014

management).			
--------------	--	--	--

Actions for Institutional Development Component for UDTC

- MoUD and PCO to coordinate with UDTC and agree on the details of the training to be provided by UDTC for FY 2014/15 by **January 15, 2015**.

(g) Project Management and M&E

4. The team discussed with the PCO the need for improvement in the monitoring and reporting system of the project. The PCO has developed three formats to collect information from the project agencies: (i) information on physical progress of socio-economic infrastructure development sub-projects; (ii) information on status of key activities implemented by the centre level agencies; and (iii) progress reporting template from municipalities and concerned agencies for monitoring purposes. However, the PCO has not received such information on a monthly basis from the project agencies as was agreed during the technical discussions of September, 2014. The PCO will request the municipalities to assign a focal person responsible for ensuring that the project's overall reporting requirements are fulfilled on time by compiling information from relevant section/agencies. In addition, the sub-project supervision consultants will report monthly to the municipalities and send a copy of the monthly reports to the PCO. The PCO submitted the monthly progress report for October on November 10, 2014 to the Team. The report, however, needs significant work as key information is missing.

Status of Actions Agreed during the Ninth Implementation Support Review

Action	Responsibility	Target Completion Date	Status
Prepare a simplified reporting template to monitor progress of key project activities and submit to the Team for review.	PCO	July 15, 2014	Completed with delay. The PCO submitted reporting template to the Team and finalized in October, 2014.
Use the simplified reporting template to monitor progress of key project activities on a monthly basis and share the consolidated M&E reports with the Team.	PCO	Starting from August 1, 2014	Delayed. Target completion date not met. The PCO sent reporting template to project agencies in October but PCO has not received all information as per the template from all agencies on a regular basis.
Finalize a consolidated annual program and budget for FY 2014-15 based on the annual program received from all project agencies and municipalities.	PCO	August 15, 2014	Completed with delay. Annual program approved by NPC on 30 September, 2014.

Collect financial and physical progress reports of FY 2013-14 project activities from all project agencies and municipalities and submit a consolidated report including updated results framework	PCO	September 30, 2014	Partially completed. Updated results framework as of July 15, 2014 and end of October, 2014 prepared and submitted to the team. Financial and physical progress report by compiling reports received from all project agencies is yet to be done.
--	-----	--------------------	---

Actions for Project Management and M&E

- PCO to sign contract with MST (project will require further restructuring if action is not met) by **December 31, 2014. (priority)**
- PCO to prepare project monthly M&E report based on the information received from project agencies and municipalities as per the agreed format with the Bank by the end of every month and submit it to the Team by the 15th of every month starting by **December 15, 2014.**
- PCO to submit quarterly progress report by including updated Results Framework starting by **January 31, 2015.**
- PCO to prepare progress report of the project (from FY 2011 to 2014) based on the financial and physical progress report received from all project agencies by **February 28, 2015.**

ANNEX IV: Social and Environmental Safeguards

1. The Team visited the municipalities and held discussions with the PCO, TDF, municipality officers and project beneficiaries on the following key areas: (a) safeguard capacity at the PCO and municipal levels following the departure of the GIZ-funded MST; (b) safeguard compliance for the civil works funded by the municipal block grants; (c) safeguard issues relating to the municipal infrastructure sub-projects; (d) implementation, monitoring and reporting of safeguard measures including Environmental Management Plans (EMPs); (e) third-party monitoring of safeguards compliance; (f) environmental profiles of the municipalities; and (g) grievance redress mechanisms. The Team noted that compliance with the actions agreed during the Implementation Support Mission of June 2014 is varied – some actions are fully complied, some have been partially complied with, and a few has been delayed or not complied. A summary of the discussions and agreed actions is provided below.

(a) Safeguard capacity at the PCO and municipal level

2. Following the termination of services of the GIZ-funded MST on June 30, 2014, safeguard capacity at the PCO has been significantly reduced with the departure of the safeguard specialists funded by GIZ. It was agreed during the implementation support review of June 2014 that the PCO would hire safeguard consultants to fill the gap. However, the PCO has been unable to hire safeguard consultants, mostly because of delays with the approval of the annual work program. As a result, safeguard risk has significantly increased. For example, the project-specific EMPs have not been implemented yet in all ongoing sub-projects. The issues of relocation of 4-5 structures along the Jhagin Danda to Bholatakura road section in the Baglung Upgrading of Access Road sub-project have not been resolved though they were already raised in the Aide Memoire of February 15, 2013 and while reviewing the project's EMP. The Team emphasized the need to mobilize safeguard specialists to provide increased guidance and support to the municipalities in addressing social and environmental safeguard issues and carrying out monitoring until the IDA-funded MST is hired. The PCO expressed commitment to do so by mobilizing the support of environmental and social specialists as required from other ongoing projects within the DUDBC. The PCO is expected to hire safeguard consultants by December 15, 2014. Another one of the actions agreed in the earlier reviews was assessment of the need of municipal safeguard staff for hands-on and practical/on-the job type of training as well as expert site support; this task has not yet been completed due to delay in the selection of the MST. It was agreed that the needs assessment would be carried out by safeguard staff, and that an action plan for additional safeguard training/support would be developed based on the needs assessment by January 30, 2015.

(b) Safeguard compliance for civil works funded by the municipal block grant

3. *Safeguard mitigation measures for FY 2013/14 civil works.* The required safeguard mitigation measures for civil works carried out under the block grant in FY 2013/14 have been implemented satisfactorily. For example, in order to minimize the risk of *grey water* – or household generated waste water mixing in with the general the drainage system – households residing along the sewer/drain alignment have constructed soak pits in their residences, as advised by Dhankuta municipality. The Team carried out a review of sampled sites during this field visit. The Team found that construction of surface drainage from Keshab Sapkota's house to Khola, Ward 5 and Ward 7, Mechinagar, has been completed. Similarly, the construction of roadside drains from the east side of Rajan Khadka's house (Mechinagar) has started from the drain outlet point. However, the Team also emphasized the need for due diligence on issues of indigenous peoples and vulnerable groups while implementing activities under the municipal block grant, as reflected in the Environmental and Social Management Framework (ESMF).

4. *Screening and field verification for civil works funded by the municipal block grant in FY 2014/15.* As hiring of the MST was delayed and there was no safeguard support to the PCO, the desk review and field verification of the FY2014/15 civil works proposed to be funded with the municipal

block grant has been delayed. In the technical discussions of September 2014, the PCO agreed to mobilize environmental and social experts from an ADB-funded project to carry out the desk review of screening reports and field verification for civil works funded under the municipal block grant for FY 2014/15. To date, only the desk reviews and screening reports for the planned civil works in the eastern municipalities (Mechinagar, Itahari and Dhankuta) are available. Field verification has not yet been carried out. The quality of both the screening reports from the municipalities and the desk review carried out by the PCO is poor. The municipal screening checklists have no details of the proposed project activities while the desk review reports prepared by the PCO have not indicated potential environmental and social issue/risks, or whether field verification is needed.

5. The PCO agreed to a complete desk review of the screening checklists submitted by municipalities by December 15, 2014, and field verification of the higher risk activities by January 15, 2015. The Team reminded the PCO that works for the higher risk activities should not start until field verification is successfully carried out and its recommendations implemented. The Team advised the PCO to pay attention to safeguard screening and field verification of block grant activities that have potential social and environmental concerns such as waste and landfill site related activities, slaughterhouse construction and electricity distribution line/transformer installation works. The Team reiterated the advice provided during the technical discussions of September 2014 that these activities should be included in the higher risk category while screening and desk reviewing the FY 2014/15 civil works. The Team also advised the municipalities to provide a brief narrative description of each block grant activity in the screening checklist.

6. The Team visited a number of sites proposed for civil works in FY 2014/15. Based on the discussion with officials of municipalities and sites visit of the selected FY 2014/15 civil works to be funded with the municipal block grant, the Team requested that the PCO monitor the following activities during implementation.

Municipality	Activity	Concern and suggestion
Mechinagar	Shivaraj khatiwada Chowk 4, 4 phase wire and Transformer installation work	Construction of electricity distribution lines and installation of transformers may have social and environmental concerns, such as health and safety issues during construction and operation, local concerns regarding locations of poles and transformers, etc. Therefore, the scope and location of these activities need to be field verified, discussed with potential affected people, and mitigations, if needed, identified and implemented accordingly. The screening and field verification should ensure that only non-polychlorinated biphenyl (PCB) certified transformers are used if transformers are installed.
Itahari	Dakshinkali Mandir Compound Wall erection at ward number 8	Although excavation is not expected, “chance find” of historical or archeological artifacts may be an issue.
	Belaha Paini Management/Improvement	Scope of work needs to be clarified. It is not clear whether this is about irrigation channel or urban drainage. Therefore, it first needs to be checked whether drain is functioning as sewer or not. Municipality is advised to begin work

		only after the field verification by the PCO.
Dhankuta	Upgrading of access road to landfill site	Scope of activities is not clear at this stage. Landfill site, access road, waste segregation, leachate management, gas management, surface drainage may have environmental footprint as well as social concerns. Therefore it is recommended that PCO field verify the scope of the works and identify specific concerns and necessary mitigation measures.
	Preparation of master plan for developing Chuliban Community Forest as a tourist spot	The Team suggested to pay attention to key aspects like ensuring adequate waste management, drinking water facilities, drain management, children/elderly peoples' access friendly stairs, avoiding picnic sheds and prevention of tower construction at the top of the hill where the protected <i>Dev/Devi sthan</i> of <i>Aathpariya Rai</i> people reside were suggested. PCO is advised to field verify the activities, identify potential social/environmental concerns and mitigation measures.

(c) Safeguard monitoring and reporting and safeguard issues relating to municipal sub-projects.

7. The project-specific EMP has not been implemented in ongoing sub-projects. The Team found that safeguard monitoring is not taking place as envisaged in the ESMF and Project Operational Manual (POM) as well as relevant EMPs. The ESMF and POM require each municipality to regularly monitor progress made in the implementation of environmental and social actions, compliance, and performance and report progress to the PCO on a monthly basis. In turn, the PCO is required to carry out monitoring of environmental and social safeguard compliance every three months. The Team noted that such monitoring and reporting is not yet taking place in the sub-projects in spite of agreement in previous reviews to carry out such monitoring. Sub-projects with highest safeguard risk include the Amar Narayan Temple, Tansen Hile Market, Dhankuta and Baglung Access Road, and Baglung sub-projects. The EMP implementation, monitoring and reporting have been affected by lack of safeguard staff at the PCO providing support to the municipalities. The team strongly advised to implement the project-specific EMP and carry out the first three-monthly safeguard monitoring of ongoing sub-projects like the Dhankuta Weekly Market Infrastructure Improvement, Gokul Marg, Mandare Park and Amar Narayan Temple sub-projects. It is critical to implement EMPs and carry out regular monitoring of the social and environmental safeguards activities of all the ongoing sub-projects as well as submit monthly reports to the PCO. The PCO will communicate and ensure that from now on, all municipalities will report environmental and social safeguard implementation/status in their monthly progress reports, which will include a separate section on safeguards. All six participating municipalities are expected to carry out regular monitoring and prepare the first monitoring report of social and environmental safeguards by the 15th of every month, as per the Gregorian calendar, starting from December and send it to the PCO. The PCO would need to send the reports to the Team by December 31, 2014 and every month thereafter. It was agreed that the PCO would carry out first three-monthly safeguard monitoring of all the ongoing municipal sub-projects (with priority to subprojects that already began construction work and have been in the construction phase for over 3 months) by January 15, 2015 and every three months thereafter.

8. *Cultural heritage safeguard issues at Amar Narayan Temple.* A field review was carried out by a cultural heritage expert and PCO engineer on August 13-14, 2014 for the Tansen Temple Conservation sub-project. The conservation actions proposed on the Amar Narayan Temple were not found to be sufficiently responsive to the state of decay of the uppermost roof and its finial structure, the reported

decay of the interior in the first level and also missing in the work items contracted. The reconstruction technique used in another key heritage element in the complex, the Amar Narayan Wall was not satisfactory from strength and integrity considerations. The weak construction detailing of the walls of newly proposed or reconstructed ancillary buildings and park structures such as Bhajanpati, Narayan Yuba Club, Information center and Pati and the non-provision of structural ties needed to be urgently rectified. The expert advised possible ways of rectification respecting the norms of conservation practice in Nepal. The field visit was followed by a joint meeting of the PCO and the Department of Archeology (DoA) to discuss the findings. A follow up site visit by DoA, PCO and the Tansen Municipality took the necessary decisions as recommended. The team advises Tansen municipality and PCO to address the issues raised by the locals on the quality of the ongoing repair works of Amar Narayan Temple in Tansen with due consideration of the recommendations provided by the cultural heritage expert and representative of DoA and to report the progress to the Team through the PCO by December 31, 2014.

9. *Cultural heritage issues of Athpariya Rai's Temple improvement.* A field visit was carried out on September 28-29, 2014 by the cultural heritage expert and PCO engineer to review the impact of the market development sub-project at Dhankuta Municipality on the cultural heritage of a Athpariya Rai Shrine of Sri Marga located at the site as well as the impact of the park development works at Chuliban on a number of Sri Marga and other shrines of similar nature located on the hill top. It was noted that both the works can potentially adversely affect the heritage value of the properties and sensitive handling of construction inputs was advised. The municipalities promised to pay due consideration to the recommendations. The Team recommends that Dhankuta municipality and the PCO initiate actions to address the issues, as per the recommendations provided by the cultural heritage expert, as well as report progress to the Team through PCO by December 31, 2014.

10. *Operation of slaughterhouse for Dhankuta Hile Market sub-projects.* The PCO reviewed the design of the slaughterhouse and is satisfied with the waste management facilities provided (which include digester and channel that feeds the waste stream to the digester). The PCO further clarified that transportation of the meat from the slaughtering site to store or selling stall will be done hygienically, that workers will be trained for this, and that modern means of transportation will be provided.

11. *Relocation of structures along the Upgrading of Access Road (combined Track I and Track II) Sub-project, Baglung:* The project is under construction. During the field visit, the Executive Officer of Baglung Municipality raised issues of relocation of 4-5 structures along the Jhagin Danda to Bholatakura road section of Baglung Upgrading of Access Road in Baglung municipality. These issues were already raised during the mission of February 2013 and were also suggested while reviewing the project's EMP. The Team strongly advised the PCO and municipality to address these issues by December 15, 2014, as per the requirements spelled out in SMF and EMP.

12. *Upgrading of Gokul Marg.* The size of the drain constructed for the Gokul Marg in Mechinagar appears to be large, posing a risk to children and elderly persons crossing the space in coming and going from their houses. Covering the drainage in front of houses is required to reduce these risks. In coordination with the municipality, the PCO will review the risks and come up with a plan to mitigate them by December 15, 2014.

(d) Third-party monitoring of safeguards compliance

13. The PCO informed the Team that the third-party monitoring consultants for safeguards compliance have completed the first annual third-party monitoring of safeguard compliance, and submitted a draft report to the PCO in August 2014. The PCO is requested to share the reviewed third-party monitoring draft report along with the PCO's remarks on the recommendations made by the third party monitoring, and share the plan for hiring third party monitoring consultants (if any) for next year with the Team by December 31, 2014.

(e) IEC material and information dissemination

14. It was noted in the previous review that sub-project brochures were prepared and distributed in the sub-project localities, as well as made available by the concerned municipalities. The Team observed that project hoarding board with sub-project information has been installed. The Team advised that all safeguard documents (e.g. EMPs, IEE and ESMF) should be available on the website as well as in hard copy form at the PCO and respective municipalities. It was agreed that the PCO would also upload the remaining safeguard documents along with already disclosed ESMF to the DUDBC/UGDP-ETP website by December 15, 2014. Hard copies of these documents will be available at PCO and respective municipalities.

(f) Environmental profile of the municipalities

15. Preparation of the GIS maps is in progress. The PCO signed the contract with the consultants on October 30, 2014, and the assignment is expected to be completed by April 30, 2015. Since a contract has been signed for the GIS map and report, it was reiterated that the GIS report will contain environmental profiles of each municipality as discussed and agreed during previous missions.

(g) Grievance redress mechanisms

16. Local people residing in the area of the Upgrading of Mechinagar Gokul Marg sub-project have demanded a continuous/un-interrupted drain along both sides of the road. Two complaints related to this issue (dated August 15, 2014 and August 29, 2014) have been recorded by Mechinagar municipality. The Team advised the municipality to refer these complaints at the grievance committee meeting and report the findings/recommendations to the PCO by December 15, 2014. The PCO will follow up on the issue.

17. The Athpariya Rai expressed their concerns verbally during the Team's field visit to Dhankuta municipality on October 28, 2014. There was an agreement between representatives of Athpariya Rai and the municipality to improve the temple, temple premises and construction of an office building for their (Athpariya Rai) ethnic organization. The agreement has not yet been implemented fully, and the organization has issued strong demands with the municipality to implement the agreement. During the November mission, it was agreed that Dhankuta municipality will consult with wider stakeholders, including the Athpariya Rais, regarding their concerns and grievances regarding temple and shrine maintenance work to explore mutually agreed mitigation measures and report to PCO and the Team by December 31, 2014.

18. The local people have raised some concerns regarding the quality of ongoing repair works of Amar Narayan Temple in Tansen. The concerns were published in the national daily Kathmandu Post on 19 October 2014, under the heading of "Substandard Repair Worries Locals".

(h) Implementation of the IP-VC framework

19. The sub-projects are in different implementation stages. However, none of them have implemented activities recommended in the IP-VC framework. The IP-VC framework requires consultations with, and support to the IPs and VCs to get benefits from subproject implementation. The Team advised that this issue should be addressed while implementing the project specific EMP of all municipal sub-projects.

Status of Actions Agreed during the Ninth Implementation Support Review

Action	Responsibility	Target Completion Date	Status
Safeguard compliance for civil works funded by the municipal block grant			
Hire environmental and social consultants for the field verification of civil works that will be carried out under the municipal block grant in FY 2014/15 in all six municipalities	PCO	Desk review July 31, 2014, and field verification by September 30, 2014.	Partially completed with delay. Target completion date was not met. Desk review and screening reports for eastern municipalities completed, but of poor quality. Field verification has not yet been carried out, but an ADB social expert will do so for the eastern municipality block grant activities.
Review the risks of open drains constructed under the municipal block grant in Mechinagar municipality, and explore mitigation options to ensure human safety	PCO	October 30, 2014	Delayed. Target completion date was not met.
Actions that were ongoing during previous mission			
Report progress on safeguard compliance for the activities funded under the municipal block grant by Mechinagar (drain from Keshab Sapkota's House to Khola, ward 5 and ward 7 and culvert construction, Kamal Chimriya House's East to Devi Khola ward 4)	PCO	April 30, 2014	Partially completed with delay. Target completion date was not met. Desk review and screening report are available, but of poor quality. PCO to complete desk review of screening checklists submitted by municipalities by end-November, 2014.
Complete incomplete surface drain (construction of Surface drain from Keshab Sapkota's House to Khola, ward 5 and ward 7) and culvert construction (Kamal Chimriya House's East to Devi Khola ward 4)	Mechinagar municipality	June 30, 2014	Completed.
Carry out desk review of the proposed civil works to be funded by the municipal block grants in FY 2014/15 in all municipalities	PCO	April 30, 2014	Partially completed with delay. Target completion date was not met. Desk review initiated (for eastern municipality), other municipalities not yet started. Poor quality of desk review.
Carry out field verification of the proposed civil works to be funded by the municipal block grants in FY 2014/15 in all municipalities	PCO	September 30, 2014	Delayed. Target completion date was not met. No field verification has been done of block grant activities proposed for FY14/15.
Safeguard issues relating to municipal infrastructure sub-projects			
Review the Hile Market project design, particularly the slaughter house operational aspects;	Municipality, with support from PCO	August 10, 2014	Partially completed. Dhankuta municipality, with support from PCO, to clarify; drainage flow beyond the current outlet by December 15, 2014.

drainage flow and access management to adjacent houses, conditions put forward by the MoFALD IEE review committee and report to the PCO/ IDA			
Consult with wider stakeholders and hire a heritage expert to review whether the Aath Pariya Rai Temple and shrine (Dhankuta Hile Market) maintenance is compatible with the heritage value and Aath Pariya Rai's preferences	PCO and municipality	August 10, 2014	Delayed. Target completion date was not met. Heritage expert visited the site and held consultation in October, 2014.
Follow up on the current status of DoA recommendations for Tansen Amar Narayan Temple Conservation/Renovation work, and prepare a status report	PCO	July 15, 2014	Delayed. Target completion date was not met.
Finalize the EMPs of remaining 3 sub-projects (Baglung Road, Itahari Bridges, and Dhankuta Hile Bus Park)	PCO	July 15, 2014	Completed with delay.
Carry out first three-monthly safeguard monitoring of the Dhankuta Weekly Market Infrastructure Improvement, Gokul Marg and Amar Narayan Temple sub-projects	PCO	By August 31, 2014, and every three months thereafter	Delayed. Target completion date was not met. Safeguard monitoring has not been initiated except for visits to the Amar Narayan Temple Conservation sub-project by the DoA, PCO and World Bank cultural heritage expert.
Carry out regular monitoring of social and environmental safeguards for municipal sub-projects and submit monthly reports	Mechinagar, Dhankuta, and Tansen municipalities	Starting by August 31, 2014	Delayed. Target completion date was not met. PCO has agreed to communicate and ensure that from now onward, all municipalities will report safeguard implementation/status.
Safeguard Capability of the Municipalities			
Review the training undertaken and further needs, and prepare an action plan for safeguard training/support	PCO	May 21, 2014	Delayed. Target completion date was not met due to delays in the selection of the Municipal Support Team. The needs assessment will be carried out by safeguard staff on the Municipal Support Team, and action plan developed based on the needs assessment.
Third-Party Monitoring of Safeguards Compliance			
Share the final report of the Third Party Monitoring	PCO	July 21, 2014	Delayed.

Actions for Safeguards

Safeguard Capacity at the PCO and Municipal Level

- PCO to hire safeguard consultants to support municipalities by **December 15, 2014**.
- PCO to review the training undertaken and further needs, as well as prepare an action plan for safeguard training/support by **January 30, 2015**.

Safeguard Compliance for Civil Works Funded by the Municipal Block Grant

- PCO to complete desk review of FY 2014/15 civil works in all six municipalities by **December 15, 2014** and field verification to be done by **January 15, 2015**.

Safeguard Monitoring and Issues Relating to Municipal Infrastructure Sub-projects

- Municipality, with support from PCO to resolve the issues of relocation of structures at Jhagin Danda along the Baglung Upgrading of Access Road by **December 15, 2014**, as per the provision spelled out in SMF and EMP.
- Mechinagar municipality and PCO to address the local people's complaints regarding demands for continuous drain along the both sides of the Gokul Marg road and report to the PCO and the team by **December 15, 2014**.
- PCO to follow up on the implementation of recommendations of heritage expert, PCO and DoA for Tansen Amar Narayan Temple Conservation/Renovation work, and prepare a status report by **December 31, 2014**.
- Dhankuta municipality to consult with wider stakeholders including the Athpariya Rais regarding their concerns and grievances on temple and shrine maintenance work to explore mutually agreed mitigation measures and report to PCO and the team by **December 31, 2014**.
- PCO to submit to the Team monitoring report of social and environmental safeguards included in the monthly progress reports prepared by the municipalities by **December 15, 2014** and every month thereafter.
- The PCO to carry out first three-monthly safeguard monitoring of all the ongoing municipal sub-projects (with priority to subprojects which already began construction work and are into construction for more than 3 months) by **January 15, 2015** and every three months thereafter.

Third-Party Monitoring of Safeguards Compliance

- PCO to share the reviewed third-party monitoring report with remark on recommendations made the report and plan for hiring third party monitoring for next year submitted by the consultants with the Team by **December 31, 2014**.

IEC Material and Information Dissemination

- As a part of the IEC component, PCO to upload safeguard documents (mainly 15 EMPs, 1 IEE) along with already disclosed ESMF to the DUDBC website by **December 15, 2014**.

ANNEX V: Financial Management

Budget for FY2013/14 and Expenditures

1. A budget of NPR 775.45 million for the FY2014/15 has been approved, including block grants of NPR 95.00 million to be provided under Part A by MoUD and a loan of NPR 178.38 million to be paid to municipalities through TDF under financing budget. The approved recurrent, capital and financing budgets of UGDP of FY2014/15 are as follows:

Budget	Budget Head	Budgeted amount in NPR million				
		GoN	IDA Grant	IDA Loan	IDA Total	Total
DUDBC						
Recurrent	3473163	18.04	440.11	56.71	496.82	514.86
Capital	3373164	0	77.64	4.57	82.21	82.21
Total		18.04	517.75	61.28	579.03	597.07
TDF						
Financing	5011645	0	0	178.38	178.38	178.38
Grand Total		18.04	517.75	239.66	757.41	775.45

2. The annual program of FY2014/15 was approved on September 23, 2014 by the National Planning Commission. The conditional grant and loan to be provided to the participating municipalities through TDF and conditional grant for institutional development to TDF have been budgeted under the recurrent budget and financing budget. The block grant of NPR 95.00 million to be provided to the municipalities has been budgeted under the recurrent budget. The PCO has not released any budget to TDF and the municipalities for FY2014/15.

3. Reimbursable expenses of NPR 164.13 million have been incurred in FY2013/14, which constitute about 31.91% of the approved budget of NPR 514.41 million by the following implementing agencies:

Implementing Agencies	Amount in NPR million
MOUD (Block Grant)	94.10
DUDBC/PCO/MoUD	23.85
TDF	39.39
Total	157.34
TDF - Financing	6.79
Grand Total	164.13

4. The Team reviewed the supporting documents of expenses by the PCO and TDF, and found them to be satisfactory. However, the PCO has short reported expenditures of NPR 12.87 million incurred by TDF under the category of consulting services (Cat. 4) by NPR 3.38 million, unconditional grant to municipalities (Cat. 2) by NPR 9.12 million and office and program expenses (Cat. 3) by NPR 0.37 million. The TDF incurred expenditure of NPR 12.74 million under consulting service but NPR 9.36 million has only been reported in the trimester IPR to the extent of approved budget instead of actual expenditures. Similarly, the TDF incurred expenses of NPR 31.98 million consisting of loan investment of NPR 6.71 million, unconditional grant of NPR 23.84 million to municipalities, DSM expenses of NPR 1.06 million and service charge of NPR 0.37 million but PCO reported loan investment of NPR 6.79 million, conditional grant of NPR 14.83 million and DSM expenses of NPR 0.94 million because of

reporting expenses based on expenditures reported by the municipalities instead of payments made by TDF to municipalities.

Disbursement

5. Total disbursement as of November 30, 2014 was USD 8.13 million, comprised of USD 3.32 million from Credit and USD 4.99 million from the Grant Account, which is about 46.22% of the total allocation. The net use of resources deducting advance balance in Designated Account is about 18.42%. About USD 4.99 million advanced to the Designated Account is yet to be documented. The amount of USD 40,848 (equivalent NPR 4.04 million) already transferred from the Designated Account to the Government Treasury has yet to be claimed. Out of the NPR 32.61 million of reimbursable expenses for FY2013/14 to be transferred to the Government Treasury, NPR 15.38 million was transferred on September 14, 2014, which has yet to be claimed.

Financial Management

6. The PCO has maintained required ledgers such as main and subsidiary grant and credit registers, SOE ledger, and program ledgers. The PCO needs to put substantial effort into correctly maintaining required ledgers, improving overall financial management of the project and coordinating financial management activities across different project agencies and components to obtain the required information for maintaining the ledgers and reporting. The agreed actions have been complied related to errors in SOE and program ledgers, which need to be rectified.

7. The review team visited two municipalities. It was noted that funds from TDF were transferred at the end of the fiscal year and that the municipalities received them in the next fiscal year. This caused delay in revenue recognition and payment to contractors in that fiscal year. This resulted in under reporting of expenditures to the PCO by the municipalities. It was suggested to make early transfer of funds. It was also noted that there is weak contract monitoring at the municipality level, for instance regarding expiry of the bank guarantee.

8. The following are some other observations of the Team:

9. *SOE Ledger:* The SOE ledger has been maintained by the PCO to account SOE and monitor reimbursement of SOE from the IDA without mentioning expenditures incurred or authorization number.

10. *Other Ledgers and Subsidiary Ledgers:* The review team noted that other ledgers such as main and subsidiary ledgers and designated account ledger have been maintained but the program ledger has not been updated to record expenditures incurred under each program by all implementing agencies.

11. *Internal Control and Internal Audit:* The review team observed that supporting documents of expenses have been defaced with the PAID stamp. The internal audit of the TDF and PCO of the FY 2013/14 has been conducted, but reports have not been received.

Implementation Progress Reports and Unaudited Project Account

12. There is no outstanding trimester progress report for FY2013/14. The Team also issued a reminder for the submission of the unaudited project account, which is already overdue. The PCO has agreed to submit the unaudited project account by December 15, 2014.

Status of Actions Agreed during the Ninth Implementation Support Review

Action	Responsibility	Target Completion Date	Status
Submit the second trimester IPR.	PCO	July 15, 2014	Completed with delay.
Submit quarterly disbursement projections for FY 2014/15 and annual projections for FY 2015/16	PCO	July 15, 2014 and monthly updates thereafter.	Delayed.
Carry out training on financial management for the municipalities jointly with procurement training	PCO	September 15, 2014	Delayed.

Actions for Financial Management

- PCO to rectify SOE ledger and program ledgers by **December 15, 2014.**
- PCO to submit the unaudited project account of FY2013/14 by **December 15, 2014.**
- PCO to submit first trimester IPR of FY2014/15 by **December 31, 2014.**
- PCO to submit the audited project account of FY2013/14 by **January 15, 2015.**
- PCO to conduct financial management workshop of all implementing agencies and participating municipalities by **January 31, 2015.**

ANNEX VI: Status of Priority Actions Agreed during the Ninth Implementation Support Review

Priority Action	Responsible Agency	Milestone Date	Status
Sign contracts for remaining 8 municipal sub-projects.	Municipalities with support from PCO	Based on the following schedule: <ul style="list-style-type: none"> By July 31, 2014 for two municipal sub-projects. By September 30, 2014 for two municipal sub-projects. By October 30, 2014 for four municipal sub-projects. 	Partially completed with delay. Contract for 2 municipal sub-projects signed on July 15 and July 28 as scheduled; 2 sub-projects scheduled for signing by September 30 signed on October 31 and November 9; and out of the remaining sub-projects, 3 were signed on November 12 and one is yet to be signed.
Complete hiring of construction supervision consultants in the municipalities.	Municipalities with support of the PCO	July 31, 2014	Completed with delay. Six construction supervision engineers' recruitment recommendations made by PCO on July 29, 2014; remaining two supervision engineers' recommendations sent to the municipality on November 14, 2014. Contracts for remaining two consultants are in the process of being signed.
Sign contract for IDA-funded MST.	PCO	August 15, 2014	Delayed. The World Bank provided No Objection to the Technical evaluation report on October 20, 2014 but it is unclear if and when negotiations can be completed.
Complete inventory of assets for Mechinagar, Baglung and Lekhnath Municipalities.	PCO and municipalities	August 31, 2014	Delayed. Consultants mobilized November 1, 2014 to prepare the assets inventories. Inventory of assets for three municipalities is expected to be completed by November 30, 2014.
Mobilize consultants for revenue billing software development.	PCO	September 30, 2014	Delayed. The PCO received technical proposals for billing software development in the first week of November, 2014 and the technical evaluation is on-going.

ANNEX VII: Summary of Actions

Area	Action	Agency	Timeline
Strengthening Municipal Planning Capacity for Urban Development (Component I)	Follow up on the status of the authorization and ensure that the municipalities receive the release.	PCO	December 15, 2014
	Submit revised annual program to MoUD and PCO for the FY 2014/15.	Dhankuta municipality	December 15, 2014
Capacity Building for Municipal Infrastructure Development (Component II)	Make available to the World Bank work implementation schedules and project monitoring charts for all sub-projects (including safeguard monitoring).	PCO	Track I sub-projects by December 15, 2014; Track II sub-projects by December 31, 2014
	Sign contract for Tansen road sub-project	Tansen municipality	December 15, 2014
	Submit to the Team monthly project implementation progress reports showing implementation status of each sub-project, any problems related to the sub-project and the actions taken to address the problem, if any.	PCO	Starting December 15, 2014, and every month thereafter
Institutional Development (Component III)	Municipalities		
	Mobilize consultant for revenue billing software development. (priority)	PCO	December 31, 2014
	Complete update of REPs, O&M Plans and Investment Plans for Baglung, Lekhnath and Mechinagar municipalities and ensure approval by concerned municipalities. (priority)	PCO	January 31, 2015
	Procure and deliver IT equipment to municipalities.	PCO	February 28, 2015
	PCO/DUDBC		
	Start procurement process for hardware and software for the GIS unit of DUDBC and sign contract.	PCO	December 22, 2014
	Award contract for the preparation of drainage Master Plan in Itahari and have consultant begin assignment.	PCO	January 31, 2015
	Conduct municipal capacity needs assessment to implement the bye-laws.	PCO/DUDBC	February 28, 2015

	Complete the preparation of GIS maps for six municipalities.	PCO	April 30, 2015
TDF			
	Send the ToR by for consultancy services for training municipal finance officers in preparing financial operating plans in a cluster of municipalities and institutionalizing the same in 58 municipalities.	TDF	December 15, 2014
	Prepare ToR for: (a) municipal finance strategy; (b) orientation and training for municipal finance officers for municipal borrowing capacity assessment; and (c) system automation, linking micro-banking to asset management and payroll system expected to be sent.	TDF	December 15, 2014
	Complete brochures for borrowers.	TDF	December 30, 2014
	Hire consultants for municipal finance strategy	TDF	January 31, 2015
	Complete generation of financial statements by using micro-banking and MIS system.	TDF	February 28, 2015
	Complete the review of TDF's financial appraisal manual and training of TDF staff in financial analysis; complete brochures for borrowers.	TDF	February 28, 2015
	Resolve default situation with GON.	TDF	June 30, 2015
MoFALD			
	Hire the consultant for preparation of MIS strategy.	MoFALD	December 31, 2014
	Prepare the ToRs for "Capacity Building and planning needs assessment" and share with Bank team.	MoFALD	December 15, 2014
	Prepare draft documents for implementation of policy guidelines and procedures for governance and budget planning.	MoFALD	February 15, 2015
MoUD			

	Finalize NU DS.	MoUD	December 30, 2014
	Prepare National Urban Development Plan in accordance with the NU DS.	MoUD	March 30, 2015
	UDTC		
	Coordinate with UDTC and agree on the details of the training to be provided by UDTC for FY 2014/15.	MoUD and PCO	January 15, 2015
	Project Management and M&E		
	Prepare project monthly M&E report based on the information received from project agencies and municipalities as per the agreed format with the Bank by the end of every month and submit it to the Team by the 15th of every month.	PCO	Starting December 15, 2014, and every month thereafter
	Sign contract with MST (priority)	PCO	December 31, 2014
	Prepare progress report of the project (from FY 2011 to 2014) based on the financial and physical progress report received from all project agencies.	PCO	February 28, 2015
	Submit quarterly progress report by including updated Results Framework.	PCO	January 31, 2015
Safeguards	Safeguard Capacity at the PCO and Municipal Level		
	Hire safeguard consultants to support municipalities. (priority)	PCO	December 15, 2014
	Review the training undertaken and further needs, as well as prepare an action plan for safeguard training/support.	PCO	January 30, 2015
	Safeguard Compliance for Civil Works Funded by the Municipal Block Grant		
	Complete desk review of FY 2014/15 civil works in all six municipalities and field verification.	PCO	Desk reviews December 15, 2014; field verification January 15, 2015
	Safeguard Monitoring and Issues Relating to Municipal Infrastructure Sub-projects		

	Resolve the issues of relocation of structures at Jhagin Danda along the Baglung Upgrading of Access Road, as per the provision spelled out in SMF and EMP.	Municipality, with support from PCO	December 15, 2014
	Submit to the Team monitoring report of social and environmental safeguards included in the monthly progress reports prepared by the municipalities	PCO	December 15, 2014 and every month thereafter
	Address the local people's complaints regarding demands for continuous drain along the both sides of the Gokul Marg road and report to the PCO and the team.	Mechinagar Municipality and PCO	December 15, 2014
	Follow up on the implementation of recommendations of heritage expert, PCO and DoA for Tansen Amar Narayan Temple Conservation/Renovation work, and prepare a status report.	PCO	December 31, 2014
	Consult with wider stakeholders including the Athpariya Rais regarding their concerns and grievances on temple and shrine maintenance work to explore mutually agreed mitigation measures and report to PCO and the team.	Dhankuta Municipality	December 31, 2014
	Carry out first three-monthly safeguard monitoring of all the ongoing municipal sub-projects (with priority to subprojects which already began construction work and are into construction for more than 3 months).	PCO	January 15, 2015, every three months thereafter
Third-Party Monitoring of Safeguards Compliance			
	Share the reviewed third-party monitoring report with remark on recommendations made the report and plan for hiring third party monitoring for next year submitted by the consultants with the Team.	PCO	December 31, 2014
IEC material and information dissemination			
	Upload safeguard documents (mainly 15 EMPs, 1 IEE) along with already disclosed ESMF to the DUDBC website; hard copies of these documents will be available at PCO and respective municipalities.	PCO	December 15, 2014

Financial Management	Rectify SOE ledger and program ledgers.	PCO	December 15, 2014
	Submit the unaudited project account of FY2013/14.	PCO	December 15, 2014
	Submit first trimester IPR of FY2014/15.	PCO	December 31, 2014
	Submit the audited project account of FY2013/14.	PCO	January 15, 2015
	Conduct financial management workshop of all implementing agencies and participating municipalities.	PCO	January 31, 2015