



Technical Assistance Report

Project Number: 41654
November 2007

Nepal: Supporting Capacity Development for Water Services Operations and Public-Private Partnership in Kathmandu Valley

CURRENCY EQUIVALENTS

(as of 1 November 2007)

Currency Unit	–	Nepalese rupee/s (NRe/NRs)
NRe1.00	=	\$0.01578
\$1.00	=	NRs63.12

ABBREVIATIONS

ADB	–	Asian Development Bank
CBP	–	capacity building and public-private partnership support
IMA	–	interim management advisor
KUKL	–	Kathmandu Upatyaka Khanepani Limited
KVWSMB	–	Kathmandu Valley Water Supply Management Board
Lcpd	--	Liter per capita per day
MPPW	–	Ministry of Physical Planning and Works
MWSDB	–	Melamchi Water Supply Development Board
MWSP	–	Melamchi Water Supply Project
new entities	–	3 new entities established pursuant to the agreed-upon institutional reforms, namely, KVWSMB, KUKL, and WSTFC
NGO	–	nongovernment organization
NWSC	–	Nepal Water Supply Corporation
PBMC	–	performance-based management contract
PMU	–	project management unit
PPP	–	public-private partnership
SDP	–	Kathmandu Valley Water Services Sector Development Program
TA	–	technical assistance
WSTFC	–	Water Supply Tariff Fixation Commission

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	General intervention
Sector	–	Water supply, sanitation, and waste management
Subsector	–	Water supply and sanitation
Themes	–	Governance, capacity development, private sector development
Subtheme	–	Developing urban areas

NOTE

In this report, "\$" refers to US dollars.

Vice President	L. Jin, Operations Group 1
Director General	K. Senga, South Asia Department (SARD)
Director	H. Kim, Urban Development Division, SARD
Team leader	G. An, Urban Development Specialist, SARD

I. INTRODUCTION

1. The Government of Nepal decided in 2003 to initiate comprehensive reforms in the water supply and sanitation services (WSSS) sector, including institutional reforms in Kathmandu Valley. The reforms are supported and financed under the Asian Development Bank's (ADB) Kathmandu Valley Water Services Sector Development Program (SDP, Loans 2058/2059-NEP) loan package,¹ under the overall framework of the Melamchi Water Supply Project (MWSP, Loan 1820-NEP),² the umbrella project. The MWSP is a comprehensive water supply improvement project that aims to improve the health and well-being of the people in Kathmandu Valley by relieving the shortage of potable water. The SDP, the follow-on sector development program to the MWSP, is designed to complement the MWSP by supporting institutional reforms in the water services sector and by promoting a public-private partnership (PPP)³ model in water services delivery. The Government has completed most of the institutional reform requirements agreed upon under the MWSP and the SDP.

2. During the Loan Review Mission for the MWSP and the SDP in September 2007, the Government requested additional technical assistance (TA) from ADB to support the new utility operator, established as part of the agreed-upon institutional reform framework, in its initial operational period. The aim is to ensure that the operator has the required operational environment, corporate structure, and resources for it to function as an independent, autonomous, and commercially viable entity. Meetings were held with concerned officials of the Ministry of Physical Planning and Works (MPPW), the Melamchi Water Supply Development Board, the new utility operator's board members, and other key stakeholders involved in water services delivery in Kathmandu Valley. A consensus was reached in principle on the goals, purpose, scope, implementation arrangements, costs, financing arrangements, and terms of reference for the TA. The TA⁴ framework is in Appendix 1. The concept was reviewed and approved by the ADB Management on 9 October 2007.

II. ISSUES

3. A rapidly growing population, lack of investment in infrastructure in the urban water supply and sanitation sector, absence of a clearly defined policy, and low institutional capacity have hampered the sector's sustainable development in Kathmandu Valley, resulting in chronic drinking water shortages and inefficient service delivery. For an estimated population of 1.5 million in the Valley, the available water supply is equivalent to about 60 liters per capita per day (lpcd),⁵ of which 40% is still assumed to be unaccounted-for water. Supply is intermittent and inequitable, and ranges from 8 hours a day in some areas of the Valley to less than 2 hours every alternate day in many areas. Such chronic shortage of water supply and poor management of the basic urban infrastructure are posing serious health risks to the urban population in the Valley. The burdens associated with these poor environmental conditions are disproportionately borne by the poor. For instance, consumer surveys in the Valley indicate that an estimated 29% of households are not connected to the piped water supply network; of these,

¹ ADB. 2003. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kingdom of Nepal for the Kathmandu Valley Water Services Sector Development Program*. Manila.

² ADB. 2000. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kingdom of Nepal for the Melamchi Water Supply Project*. Manila.

³ The term PPP is used in this paper to reflect the general economics of the project and of this TA in which (i) KUKL is majority owned by the public sector and by private-sector (minority) investors; (ii) private-sector shareholders are represented on the Board by one director, along with three directors from the public sector and three independent directors selected on a competitive basis; and (iii) the proposed TA also intends to support and facilitate the potential outsourcing of parts of KUKL's operations to the private sector in the medium- to long-term future.

⁴ The TA first appeared in *ADB Business Opportunities* on 30 October 2007.

⁵ Asian standards show that for a city like Kathmandu, the water demand is generally above 150 lpcd.

60% are poor.⁶ The MWSP and the SDP (together known as the projects) seek to address these issues. While the MWSP aims to solve the chronic water shortage by diverting water from the snow-fed Melamchi River to Kathmandu Valley,⁷ the SDP seeks to develop and institutionalize a comprehensive institutional and regulatory framework for efficient and sustainable water services management. In an attempt to increase efficiency in service delivery, the projects also sought to engage a private operator to manage and operate the water services under a performance-based management contract (PBMC).

4. The Government has demonstrated its commitment to the agreed-upon reforms, despite the extreme political instability with frequent changes of government and country-wide armed conflict in recent years, and has completed most of the institutional reforms agreed upon under the projects, including the separation of asset ownership from management of the water utility, the establishment of a regulatory commission for water tariffs, and the setting up of a fully independent water services operator. As a result, the Kathmandu Valley operations of the Nepal Water Supply Corporation (NWSC), the public utility corporation, have already been split into the following new entities: (i) a public entity called the Kathmandu Valley Water Supply Management Board (KVWSMB), which holds assets, determines policies, awards and monitors licences and contracts for water supply and wastewater services in Kathmandu Valley; (ii) an autonomous limited liability company called the Kathmandu Upatyaka Khanepani Limited (KUKL), established under the Company Act with a majority of public shareholders, to take the responsibility for water services operations in Kathmandu Valley; and (iii) the Water Supply Tariff Fixation Commission (WSTFC), an independent regulatory body for the sector. Relevant laws⁸ were already amended and newly enacted to establish the institutional reforms.

5. However, in the past 6 years of implementing the MWSP and 3 years of implementing the SDP, a number of major events and circumstances that occurred in Nepal and within the project environment have changed the dynamics of the projects and constrained their overall implementation. Among others, the Government's efforts in securing the private partner under the PBMC failed. Past successive failures in engaging the private sector under a lease modality, and the recent failure under the PBMC have proven that even the PBMC is too difficult and costly to process in the fluid political environment of Nepal despite several years of efforts. Further, it has been agreed that trying the same private sector participation modality might fail in attracting interest from competent international players in the current context of continuing political instability in Nepal; the costs and uncertainties related to processing a re-tendering are too high. Therefore, considering the assessment of those factors, the weak institutional capacity to process the re-tendering of PBMC, and the best practices available in the region, the Government is proposing to revise the procurement modality to provide management support to KUKL and to move from the PBMC model to a consulting services package for a capacity-building and public-private partnership support team (the CBP team),⁹ focusing on long-term capacity building and strengthening of its management and operational resources.

⁶ Measured as earning less than the official poverty line of NRs6,100 or about \$85 per person per year.

⁷ The first phase of the MWSP is designed to divert 170 MLD (million liters per day) of water from the Melamchi River through a 26-kilometer-long tunnel. Under the scheme, economical capacity expansions are feasible by extending the tunnel to tap the Yangri (second phase; 170 MLD) and Larke (third phase; 170 MLD) rivers, which can ultimately provide a total of 510 MLD of additional water to Kathmandu Valley.

⁸ The Water Supply Management Board Act (Act No. 21,2063 (2006)). The Water Supply Tariff Fixation Commission Act (Act No. 29, 2063). The Nepal Water Supply Corporation (Third Amendment) Act (2063).

⁹ The proposed CBP team is being discussed by the Government and ADB as one of the alternatives to the failed PBMC. All references to the CBP Team should be read as representing this alternative rather than being the selected one.

6. It is intended that KUKL will take over the responsibilities for operating the water services in Kathmandu Valley from the existing utility, NWSC, in January 2008. Besides its support through the projects, ADB has also been assisting the Government through TAs in setting up the necessary institutional, legal, and regulatory frameworks and ensuring that adequate start-up tools and resources are available to the entities at this critical transitional period. These include the TA 4096-NEP¹⁰ and TA 4776-NEP.¹¹ The consultants engaged by these TAs studied and developed the required institutional, regulatory, and legal framework for the appropriate ownership, governance, and leadership structures for the new entities, and in setting up their financial, legal, and managerial systems. While the main achievements of those TAs were development and enactment of the reformed institutional and regulatory framework to allow the new entities to be established, the proposed TA now intends to support their initial operations, capacity building, and management. Their respective capacities as a public asset owner, a service provider, and an independent sector regulator will be further supported by the proposed TA consultants and the CBP team under the SDP.

7. Though a regulatory framework allowing water service management by an independent utility operator separate from the facility owner has been established, the potential issues lie with the implementation of this framework and how to achieve the intended reform outcome to provide efficient and sustainable water services in Kathmandu Valley while ensuring that KUKL functions as an independent, autonomous, and commercially viable utility operator. Further, the recent failure in engaging a private operator for KUKL has created a situation where KUKL must start operations soon, but the management advisory support to it will not be available for the next 1.5 years until the recruitment process of the CBP team is completed. To mitigate the situation and to build KUKL's capacity to operate the water services in the Valley for the initial operational period, the hiring of a small team of management advisors (the interim management advisors or IMAs) is essential for a period of 18 months (the interim period).¹² In light of the objectives stated in the SDP and in particular the establishment of KUKL as a limited liability company under the provisions of the Company Act as opposed to a statutory entity, it is critical that the independence and autonomy of KUKL be safeguarded and supported, and that the momentum of these institutional reforms be maintained.

III. THE PROPOSED TECHNICAL ASSISTANCE

8. This advisory TA will assist the recently reformed water services sector and the new entities¹³ in (i) starting operations and initial capacity building to provide efficient and sustainable services, and (ii) setting up adequate corporate structure and operational platforms and providing management support for the water services operator.

A. Impact and Outcome

9. The desired impact is the improved health and well-being of the inhabitants of Kathmandu Valley through efficient and adequate provision of water services. The outcome is to foster and develop the appropriate operational, managerial, and institutional capacity for sustainable water services in the Valley.

10. The outputs of the TA will include the following:

¹⁰ ADB. 2003. *Technical Assistance to the Kingdom of Nepal for the Kathmandu Valley Water Management Support Project*. Manila.

¹¹ ADB. 2006. *Technical Assistance to the Kingdom of Nepal for Enabling the Private Sector to Undertake Poverty-Focused Water Distribution and Strengthening of Institutional Reforms in Kathmandu Valley*. Manila.

¹² During this interim period, no statutory managers are posted in KUKL while IMAs provide services to KUKL.

¹³ KUKL is intended to be the beneficiary of the TA unless otherwise indicated in the TA paper.

- (i) start-up management support to KUKL, including establishment of a functional project management unit (PMU);
- (ii) preparation and setting up of the operational, accounting, quality control, and management systems within KUKL for day-to-day service delivery and procurement of equipment and works;
- (iii) procurement of consultancies and civil works for the identified distribution network demonstration scheme and immediate rehabilitation and improvement works identified by the MWSP;
- (iv) preparation of plans and strategies, asset management and capital investment works, accounting and information system, operating guidelines and procedures, customer services and pro-poor services management strategies for KUKL;
- (v) assessment of organizational, capacity building, and tariff reforms required for the interim period;
- (vi) implementation of the distribution network demonstration scheme and immediate rehabilitation and improvement works identified by the MWSP; and
- (vii) capacity building for the new entities through training, workshops, seminars, benchmark studies, etc.

B. Methodology and Key Activities

11. The TA will build on the existing projects and the previously associated TAs by bridging management support to KUKL in the interim period while the CBP team is being recruited. The fundamental base, framework, and action plan of the institutional reforms have already been developed by these projects and TAs and are now being duly implemented. Prior to the engagement of the IMAs, KUKL will have already acquired the operational assets and staff currently working for the Kathmandu Valley operations of the current utility, NWSC. The details of staff recruitment and rightsizing strategies for KUKL have already been developed based on extensive consultations with the stakeholders. The IMAs will assist KUKL in implementing the recommendations of these strategies and further developing them to enhance the overall capacity of its staff. They will also ensure that the required financial, corporate, and operational structures are in place¹⁴ within KUKL for the interim period. In addition, ADB is providing a transition management support team for 6 months, starting October 2007, to assist KVWSMB in taking over the asset and liabilities and prepare KUKL for taking operational responsibilities from 16 January 2008. It is expected that the transition management support team will overlap with and provide support to the proposed IMAs.

12. To ensure that KUKL is fully functional and operational, the IMAs will assess KUKL's long-term organizational and operational needs while taking into account the studies and recommendations made by the previous TAs. After the assessment, they will prepare various plans and strategies covering human resources development, financial management, asset management, capital investment works, quality assurance and quality control, computerization and information system, accounting system, customer billing and collection system, operational guidelines and procedures, customer service, and pro-poor service. The plans and strategies will be translated into a detailed action plan to ensure that KUKL delivers the enhanced water services throughout Kathmandu Valley in an effective, efficient, and sustainable manner. Provision of affordable water services to low-income consumer groups will be another key objective of KUKL in its services delivery. The IMAs will support KUKL in implementing the already designed subsidized tariff structure and systemize the overall pro-poor water services.

¹⁴ A lot of preparatory works have been completed by the consultants engaged under the previous TA projects as mentioned above, and a team of consultants including a financial management specialist, a water supply specialist, and a legal specialist, are still engaged under TA 4776-NEP.

13. The IMAs will also assist KUKL in setting up the PMU within KUKL to manage and oversee all activities related to the projects. The board of directors of KUKL will appoint a full-time project director who will head the PMU and authorize him/her as a signatory in withdrawing the loan funds in coordination with ADB and subject to the terms of the loan agreements. While the IMAs will manage preparation works for procurement of various consultancy, equipment purchase and civil works packages relevant to the demonstration scheme and immediate rehabilitation and improvement works identified by the MWSP, the PMU will be responsible for assisting in procurement and seeking approval from KVWSMB and ADB, in accordance with relevant ADB rules for the disbursement of funds and procurement of contracts. The IMAs will assist the PMU in preparing progress reports and other relevant documents for the projects.

14. During the preparation of the institutional reforms in the sector, extensive consultations were carried out with the stakeholders, including nongovernment organizations (NGOs), KUKL, and the IMAs, will continue the consultations as part of KUKL's public relations strategy. In particular, plans for tariff reforms will be widely disseminated and discussed with consumer representatives and NGOs, and issues raised by the stakeholders will be addressed.

C. Cost and Financing

15. The total cost of the TA is estimated at \$3,000,000 equivalent. The Government has requested ADB to finance \$2,500,000. The TA will be financed on a grant basis by ADB's TA funding program. The Government will finance the remaining costs of \$500,000 equivalent by providing counterpart staff, office accommodation, transport, and other miscellaneous expenditures. Details of the cost estimates and the financing plan are in Appendix 2.

D. Implementation Arrangements

16. MPPW will be the Executing Agency and KUKL will be the Implementing Agency for the TA. The TA will be implemented over 18 months, from January 2008 to June 2009. Three international consultants, with experience in managing a large-scale water utility, will be engaged as the IMAs (general management advisor, operational management advisor, and financial management advisor) for 18 person-months each. The IMAs will provide services as acting managers of the KUKL, as permitted under the Shareholders' Agreement and Articles of Association of KUKL (2006) for the interim period, and will be selected as individuals, in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time). Outline terms of reference for the IMAs are in Appendix 3.

17. The IMAs are expected to start services on 16 January 2008. They will prepare a handover plan outlining the operational responsibilities, key issues encountered, updated financial status of KUKL, and progress on project implementation related to KUKL. After 18 months, they will hand over responsibilities to the CBP team, who are expected to begin their services in July 2009 and assist KUKL for 4 years thereafter. The sequencing of the IMAs, then the CBP team, and the exploration of opportunities to contract out services to the private sector is designed to ensure KUKL's long-term capacity building and ability to gradually contract out services delivery to the private sector.

IV. THE PRESIDENT'S RECOMMENDATION

18. The President recommends that the Board approve the provision of technical assistance not exceeding the equivalent of \$2,500,000 on a grant basis to the Government of Nepal for Supporting Capacity Development for Water Services Operations and Public-Private Partnership in Kathmandu Valley.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Impact Improved health and well-being of the inhabitants of Kathmandu Valley through efficient and adequate provision of water supply and sanitation services</p>	<ul style="list-style-type: none"> • Access to sustainable water supply services for the residents of Kathmandu Valley • Sustenance of institutional reforms in the water sector in Kathmandu Valley 	<ul style="list-style-type: none"> • Government health statistics and KUKL data 	
<p>Outcome Development of appropriate operational, managerial and institutional capacity and framework for the sustenance of the urban water supply and sanitation services in Kathmandu Valley</p>	<ul style="list-style-type: none"> • KUKL operating within a sustainable and autonomous corporate structure/system and achieving operational cost recovery • Increase in the number of people with convenient access to safe drinking water • Adequate and convenient service hours for the water supplied (minimum 2 hours per day at a scheduled time) 	<ul style="list-style-type: none"> • KUKL's documents submitted to KVWSMB on compliance with the lease and license agreement • KUKL's annual report • TA consultants' reports • ADB review mission reports 	<p>Assumptions</p> <ul style="list-style-type: none"> • Government support continues. • Institutional reforms are successful and the entities established remain autonomous and independent. <p>Risk</p> <ul style="list-style-type: none"> • There is political instability during the interim period.
<p>Outputs</p> <p>1. Start-up management support to KUKL including establishment of a functional PMU</p> <p>2. Preparation and setting up of the operational, accounting, quality control, and management systems within KUKL for day-to-day service delivery and procurement of equipment and works</p> <p>3. Procurement of consultancies and civil works for the identified</p>	<ul style="list-style-type: none"> • Three interim management advisors are in place as the acting executive line managers for the initial 1.5 years of KUKL's operations (the interim period). • The PMU is set up within KUKL and is fully functional to manage, monitor, and report on all ADB-funded/project-related activities for KUKL. • All divisions of KUKL, including the LICSU, waste water management unit, etc., are fully staffed and functional. • The second round of voluntary retirement scheme offered to the staff and KUKL has a permanent and efficient organogram in place. • Computerization equipment and resources are procured; full computerization of the customer database, accounting systems, billing and collection is complete. • KUKL is meeting its lease and license conditions with KVWSMB for the interim period. • The CBP team is engaged, and 	<ul style="list-style-type: none"> • TA consultants' reports • ADB review mission reports • Billing and collection records of KUKL • Number of customer complaints received by KUKL • KUKL's annual reports • Report to KVWSMB from KUKL as per the lease and license conditions 	<p>Assumptions</p> <ul style="list-style-type: none"> • TA consultants are fielded without delay. • The CBP team is approved by the Board and is fielded without delay. • KUKL and the Government continue to provide full support. <p>Risks</p> <ul style="list-style-type: none"> • There is a frequent change in the political situation in Nepal. • KUKL's initial operating period lacks working capital and adequate resources.

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>demonstration scheme and immediate rehabilitation and improvements works under the MWSP</p> <p>4. Preparation of various plans, strategies, operational procedures and guidelines, customer services and pro-poor services management strategies</p> <p>5. Assessment of organizational, capacity building, and tariff reforms required for the interim period for KUKL</p> <p>6. Implementation of immediate rehabilitation and improvement works</p> <p>7. Capacity building for the 3 new entities through training, workshops, and benchmark studies</p>	<p>takes the responsibilities of KUKL's management after an overlap of 2 months with the interim management advisors.</p> <ul style="list-style-type: none"> • Tendering and engagement for the demonstration scheme and other immediate rehabilitation works/ equipment purchase are completed. • Various plans, strategies, asset management and capital investment works plan, operational strategies, procedures and guidelines, customer services and pro-poor services management strategies are updated/ prepared and in place for KUKL's operations. • A detailed assessment of immediate organizational/ operational needs, capacity building, and tariff reforms is prepared for the interim period. • Implementation of works for the demonstration scheme and immediate rehabilitation and improvement works is under way. • Training, workshops, and benchmark studies are organized for building the capacity of the three new entities. 		
<p>Activities with Milestones</p> <p>1.1 Engage TA consultants by early January 2008.</p> <p>1.2 Tender the demonstration scheme works, operation and maintenance package, and other immediate rehabilitation and improvement works and equipment purchase package by March 2008.</p> <p>1.3 Procure computerization equipment and resources by April 2008.</p> <p>1.4 Set up the PMU by April 2008.</p> <p>1.5 Tender the CBP team package by August 2008.</p> <p>1.6 Prepare/update the initial sets of rules, plans, manuals, and guidelines for KUKL by December 2008.</p> <p>1.7 Begin CBP team services by May 2009.</p> <p>1.8 Hand over management responsibility to the CBP team and demobilize by July 2009.</p>		<p>Inputs</p> <ul style="list-style-type: none"> • Consulting services • ADB: \$2.5 million • Government: \$0.5 million 	

ADB = Asian Development Bank, CBP = capacity building and public-private partnership support, KUKL= Kathmandu Upatyaka Khanepani Limited, KVWSMB = Kathmandu Valley Water Supply Management Board, KVWSSDP = Kathmandu Valley Water Services Sector Development Program, LICSU = Low-Income Consumer Support Unit, NWSC = Nepal Water Supply Corporation, PMU = project management unit, TA = Technical Assistance, WSTFC = Water Supply Tariff Fixation Commission.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Total Cost
A. Asian Development Bank (ADB) Financing^a	
1. Consultants	
a. Remuneration and Per Diem	
i. International Consultants	1,697.1
b. International and Local Travel ^b	222.0
c. Reports, Communications, and Public Relations	30.0
2. Equipment (computer, printer, etc.) ^c	20.0
3. Training, Workshops, Seminars, Conferences, and Benchmarking ^d	200.0
4. Miscellaneous Administration and Support Costs	20.0
5. Contingencies	310.9
Subtotal (A)	2,500.0
C. Government Financing	
1. Office Accommodation and Transport	100.0
2. Remuneration and Per Diem of Counterpart Staff	300.0
3. Others	100.0
Subtotal (B)	500.0
Total	3,000.0

^a Financed by ADB's technical assistance (TA) funding program.

^b Includes local vehicle hire for the consultants for the interim period.

^c Four computers and four printers will be purchased by the consultants in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time). All equipment purchased under the TA will be turned over to the Government upon completion of the TA.

^d Training benchmarking, conferences, study tours, and workshops will be organized for all three new entities to build their capacity

Source: ADB estimates.

TERMS OF REFERENCE FOR CONSULTANTS

A. Introduction

1. These terms of reference outline the key tasks for the interim management advisors (IMAs) that will be supporting the Kathmandu Upatyaka Khanepani Limited (KUKL), a newly established limited liability company and water utility operator. The IMAs will consist of three individuals (general management advisor, operational and technical management advisor, and financial management advisor) with experience in managing a large-scale water utility, to act as acting managers of KUKL, as permitted under the Shareholders' Agreement and Articles of Association of KUKL (2006) for the interim period. The IMAs will take over the responsibility of managing KUKL from KUKL's takeover of services, which is expected to begin on 16 January 2008.

2. The consultants will be engaged by the Asian Development Bank (ADB), for 18 person-months each, in accordance with its *Guidelines on the Use of Consultants* (2007, as amended from time to time) using the individual selection method. Considering that only three individuals are required for the TA, all three must be qualified, with utility operation experience rather than consulting experience. Because of the need/urgency to fast-track the engagement, individual consultant engagement has been found appropriate.

B. Background

3. The rapid and consistent growth of the urban population in Kathmandu Valley has led to a corresponding increase in the demand for infrastructure and social services. This growing demand has only been partially met by the Government of Nepal. As a result, the Valley is faced with a chronic shortage of water supply and inadequate access to basic urban sanitation services. This situation poses serious health risks for the urban population as well as wider environmental concerns.

4. Melamchi Water Supply Project (MWSP, Loans 1820-NEP (SF))¹ and Kathmandu Valley Water Services Sector Development Program (SDP, Loan 2058/59-NEP(SF))² were prepared to improve the health and well-being of the urban population by diverting water from the Melamchi River to Kathmandu Valley and improving the supply of potable water. From the outset, the projects acknowledged that the chronic water shortages in the Valley were caused not just by a lack of infrastructure and bulk water sources, but also by the weak performance of the existing water utility, the Nepal Water Supply Corporation (NWSC).

5. In response, the Government initiated a process of wide-ranging institutional reforms, which included the separation of asset ownership and management of water utility operations; the establishment of a regulatory commission for water tariffs; and the establishment of KUKL, an independent water services operator. In effect, these three entities³ take over the roles and responsibilities that used to be vested in the NWSC.

¹ ADB. 2000. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kingdom of Nepal for the Melamchi Water Supply Project*. Manila.

² ADB. 2003. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kingdom of Nepal for Kathmandu Valley Water Services Sector Program*. Manila.

³ Namely, (i) a public entity called the Kathmandu Valley Water Supply Management Board (KVWSMB), which holds assets, determines policies, awards and monitors licences and contracts for water supply and wastewater services in Kathmandu Valley; (ii) an autonomous limited liability company called the Kathmandu Upatyaka Khanepani Limited (KUKL), established under the Company Act with a majority of public shareholders, to take the responsibility for water services operations in Kathmandu Valley; and (iii) the Water Supply Tariff Fixation Commission (WSTFC), an independent regulatory body for the sector.

6. By law, KUKL as a limited liability company is responsible for operating the assets under lease from the Kathmandu Valley Water Supply Management Board (KVWSMB); however, its capacity to do so is limited due to the absence of a professional management team. Further, KUKL is expected take over operational services by 16 January, 2008.

7. To assist KUKL, Loan 2059 foresees a 4-year capacity-building scheme to address two distinct but linked issues: (i) setting up KUKL as a utility that operates on private sector principles, and (ii) assisting with the management of the utility.

8. Support will be provided by a capacity-building and public-private partnership team (CBP team) comprising a general manager, an operational and technical manager, a finance manager, and other advisors to be recruited in accordance with ADB's *Guidelines on the Use of Consultants* using the quality- and cost-based method. To cover line management requirements, KUKL will engage deputy managers through a competitive recruitment process.

9. The recruitment of the CBP team is expected to take 18 months, which would conflict with the starting date of KUKL's operational takeover. For this reason, the IMAs will be engaged for an 18-month period (the interim period), starting 16 January 2008.

10. The scope of work for the IMAs is outlined below.

C. Scope of Work

11. As indicated above, the assignment for the interim period comprises three key assignments:

- (i) providing start-up support for KUKL (organizational structure, business processes, financial management and administration);
- (ii) managing ongoing operations (including prudent use of pilot investment funds); and
- (iii) developing and implementing a capacity development strategy that addresses ownership, knowledge transfer modalities, and exit or handover plan and indicators.

12. As a newly created commercial entity, KUKL requires assistance to develop its organizational structure and plot its future strategic direction. The main objective for the IMAs is to assure that KUKL has the necessary management and business systems and capacity to effectively assume its growing responsibilities as a limited liability company and water utility operator.

13. The scope of the work will include (i) preparing initial business policy statements; (ii) developing operation, information, and reporting procedures and structures; (iii) developing job descriptions; (iv) proposing levels of delegation of authority; and (v) developing an outline and action program for completing a business plan.

14. The start-up support includes, but is not limited to, the processes in Table A3.

Table A3: Processes of Start-up Support

	Organizational Structure	Business Processes	Administrative Processes
A.	Baseline institutional and organizational assessment of KUKL's strengths and weaknesses		
B.	Revised organizational and managerial setup		
		Internal	
	Legal and statutory basis	Management strategy and outline business plan	Management and information systems
	Mission, vision	Planning and budgeting	Financial administration, internal control and accounting (including asset management, procurement, and contract management)
	Identification of designated units / divisions and horizontal and vertical linkages	HRD/M, including performance assessments and incentive structure	
	Reporting and accountability lines (internal as well as to the Government)	External	
	Internal coordination mechanisms	Customer relations (relevance of products and services)	
	Staff qualifications and job descriptions	Quality control and assurance, including technical and output benchmarks	
	Salary structure		

KUKL = Kathmandu Upatyaka Khanepani Limited.

Source: Asian Development Bank.

15. Management support to ongoing operations includes, but is not limited to,
- (i) managing KUKL on a daily basis;
 - (ii) implementing all services that KUKL is required to deliver, in accordance with the operating license and asset lease agreement issued by KVWSMB;
 - (iii) procuring consultancies and civil works identified under the MWSP for (a) the demonstration distribution network improvement scheme, and (b) immediate rehabilitation and improvement of works;
 - (iv) implementing (a) the demonstration distribution network improvement scheme, and (b) immediate rehabilitation and improvement of works identified under the MWSP;
 - (v) implementing the second round of the voluntary retirement scheme and the transfer of the operator's permanent staff from KVWSMB; and
 - (vi) recruiting the CBP team, including preparing requests for proposals and related contact documents (subject to ADB approval).
16. As a minimum, the capacity development strategy must incorporate the following:
- (i) measures to ensure ownership on behalf of the Nepali KUKL staff and the Government stakeholders;
 - (ii) modalities for capacity development support at the level of the three new entities (the capacity to make the reformed utility management structure functional and operational in a sustainable manner) and at the level of KUKL itself (focus on improvements in internal management and service delivery; and
 - (iii) a clearly defined knowledge transfer and exit strategy/hand-over plan. The capacity development package will need to be designed and programmed on the basis of (a) a known start position (viz., baseline institutional and organizational assessment), (b) performance benchmarks that allow for meaningful monitoring, and (c) delivery modalities that correspond to identified needs. As for the exit strategy, the IMAs will

also prepare a hand-over plan outlining the operational responsibilities, key issues encountered, updated financial status of KUKL, and progress on project implementation related to KUKL.

17. The specific terms of reference for the IMAs will be as follows.

1. General Management Advisor (international, 18 person-months)

18. The general management advisor will be responsible, among others, for

- (i) managing KUKL overall to efficiently provide water supply and sanitation services (WSSS) in Kathmandu Valley and implementing the distribution network improvements program identified under the MWSP;
- (ii) developing a strategic business plan, asset management plan and framework for the capital investment plan, accounting and information system, operating guidelines and procedures, customer services, and pro-poor services management strategies of KUKL; and implementing the approved plans to achieve the strategic goals and objectives of KUKL;
- (iii) complying with the services requirements of the operating license issued by KVWSMB and the asset lease agreement between KUKL and KVWSMB;
- (iv) building a working culture to provide customer-oriented WSSS;
- (v) developing and recommending the annual operation and maintenance (O&M) budget for board approval and implementing the approved budget;
- (vi) liaising with ADB and other funding agencies to implement projects funded by aid agencies;
- (vii) managing the commercial operation of KUKL including revenue collection;
- (viii) administering and assisting in procuring consultancies and civil works for the demonstration scheme and immediate rehabilitation and improvement works identified under the MWSP, with a view to outsourcing services to the private sector;
- (ix) preparing a tariff revision proposal for WSSS every year for submission to the Water Supply Tariff Fixation Commission (WSTFC);
- (x) developing and implementing a human resources development plan for building the capacity of the organization;
- (xi) establishing a mechanism for effective communication with the community and customers and engaging maximum community participation in service provision; and
- (xii) reporting monthly on the progress of project implementation to the KUKL board, KVWSMB, and ADB.

2. Operational and Technical Management Advisor (international, 18 person-months)

19. The operational and technical management advisor will be responsible, among others, for

- (i) managing overall the operation of WSSS as well as the proposed capital investment in Kathmandu Valley, subject to the requirements of the operating license issued by KVWSMB;
- (ii) assisting the general management advisor in all technical aspects for preparing the strategic business plan of KUKL;
- (iii) preparing the annual plans and program and the budget for O&M of the water and sanitation system in coordination with the financial management advisor, and implementing the approved budgets;

- (iv) developing detailed capital investment and asset management programs and preparing the annual capital investment budget in coordination with the financial management advisor, and managing the approved investment budget;
- (v) developing an information systems strategy for KUKL to include a computerized billing system, geographic information system model, computerized maintenance management system, and customer service management system;
- (vi) developing procurement policies for KUKL and implementing the approved policies;
- (vii) establishing a low-income consumer service unit identified under the SDP and overseeing implementation of approved policies to serve the poor;
- (viii) developing and managing a program for reducing unaccounted-for water in Kathmandu Valley;
- (ix) building up a technical baseline database based on which potential performance indicators of services requirement for the CBP team might be set up;
- (x) assisting the general management advisor in procuring consultancies and civil works for the demonstration scheme and immediate rehabilitation and improvement works identified under the MWSP, with the view to outsource services to the private sector;
- (xi) ensuring that the facilities are operated and maintained in accordance with utility operating standards conforming with best international practices; and
- (xii) managing research and development works for delivering effective and quality WSSS.

3. Financial Management Advisor (international, 18 person-months)

20. The financial management advisor will be responsible, among others, for

- (i) managing overall the financial and administrative aspects of KUKL;
- (ii) assisting the general management advisor in preparing the strategic business plan of KUKL to improve service levels in a cost-effective manner;
- (iii) reviewing and revising the overall budget for KUKL, including O&M of WSSS in Kathmandu Valley, and recommending ways to minimize the loss to be incurred by KUKL in the interim period;
- (iv) reviewing existing financial regulations and developing appropriate revised financial regulations and procedures for KUKL to ensure that a proper financial and accounting system is in place and maintained;
- (v) preparing estimates of billing, revenue collection, and other incomes each year, and establishing and implementing mechanisms to achieve them;
- (vi) preparing tariff revision proposals for WSSS each year for submission to WSTFC for the interim period;
- (vii) preparing an annual operating budget in coordination with the operational and technical management advisor, and implementing the approved budget;
- (viii) preparing the annual capital investment and infrastructure development budget in coordination with the operational and technical management advisor, and managing the approved budget;
- (ix) developing appropriate revised personnel regulation and administrative procedures, and implementing approved policies, regulations, and procedures;
- (x) ensuring compliance with the financial and administrative requirements of the operating license and asset lease;
- (xi) developing and managing a comprehensive training and development program for developing staff capacity, in consultation with the operational and technical management advisor; and
- (xii) developing and implementing a customer services plan for addressing customer complaints efficiently and effectively.