



Technical Assistance Report

Project Number: 42162
Capacity Development Technical Assistance (CDTA)
September 2009

Nepal: Institutional Strengthening of Municipalities

CURRENCY EQUIVALENTS

(as of 21 August 2009)

Currency Unit	–	Nepalese rupee/s (NRe/NRs)
NRe1.00	=	\$0.01285
\$1.00	=	NRs77.83

ABBREVIATIONS

ADB	–	Asian Development Bank
CFMIP	–	comprehensive financial management improvement plan
DUDBC	–	Department of Urban Development and Building Construction
GIS	–	geographic information system
GTZ	–	Gesellschaft für Technische Zusammenarbeit (German Agency for Technical Cooperation)
MLD	–	Ministry of Local Development
O&M	–	operation and maintenance
TA	–	technical assistance
TASF	–	Technical Assistance Special Fund

TECHNICAL ASSISTANCE CLASSIFICATION

Type	–	Capacity development technical assistance (CDTA)
Targeting classification	–	General intervention
Sector (subsector)	–	Water supply and other municipal infrastructure and services (urban sector development)
Themes (subthemes)	–	Capacity development (institutional development); environmental sustainability (urban environmental improvement); governance (public administration)
Location impact	–	Urban (high impact)

NOTES

- (i) The fiscal year (FY) of the Government of Nepal ends on 15 July. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2009 ends on 15 July 2009.
- (ii) In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. Following the request from the Government of Nepal for capacity development technical assistance (TA) from the Asian Development Bank (ADB) to strengthen the institutional capacities of municipalities, ADB's country partnership strategy midterm review in 2008 made a provision for TA for Institutional Strengthening of Municipalities.¹ Processing the TA in 2009 was reconfirmed with the Government in the country program confirmation mission conducted in October 2008.

2. An ADB fact-finding mission visited Nepal from 7 to 17 August 2009. This report is based on the understanding reached with the Government during the mission regarding the impact, outcome, outputs, implementation arrangements, cost, financing arrangements, and outline terms of reference for the TA.² The design and monitoring framework is in Appendix 1.

II. ISSUES

3. **Governance structure in Nepal.** Nepal has a three-tier governance structure, comprising the central Government at the top of the hierarchy, followed by district development committees in the middle, and municipalities and village development committees at the lowest tier. The Local Self Governance Act, enacted in May 1999, followed by the Local Self Governance Regulation, 1999, and Local Governance Financial Rules, 2000, established municipalities as self-governing autonomous urban local bodies with a central role in urban development.³

4. The Local Self Governance Act has mandated 10 major functions with 68 sub-functions to municipalities while 13 more functions are optionally available. Major municipal functions include fiscal administration, physical development, water resources, environment and sanitation, education, culture, construction and transportation, health services, social welfare, industries, and tourism. At present, there are 58 municipalities in the country, but most, if not all of them, are having major difficulties in performing their functions. Municipalities are characterized by inadequate drinking water supply, sanitation, transportation, and health facilities. Serious environmental issues, including an increased level of vehicular pollution, haphazard disposal of solid waste, wastewater, and illegal dumping of industrial waste into rivers and streams, are emerging because of uncontrolled and haphazard urban development. Insufficient financial resources and qualified human resources, and a low level of institutional capacity mean that urban authorities are unable to cope with the growing demand for services with commensurate infrastructural facilities. Issues and challenges that will be addressed in the TA are detailed in the subsequent paragraphs.

5. **Financial management, including revenue enhancement.** Mobilization of financial resources by municipalities is hampered by lack of a sound financial management system and innovative approaches to develop institutional capacity for managing their financial affairs. With grants and loans from the central Government accounting for a smaller portion of municipalities' total revenue, municipalities largely rely on internal revenue generation.⁴ Although collected and distributed from the central level, the local development fee is in principle categorized as a local

¹ Formerly known as the "Strengthening Urban Institutions and Planning Mechanism."

² The TA first appeared in the business opportunities section of ADB's website on 12 July 2009.

³ The Local Governance Financial Rules, 2000 were replaced by the Local Bodies Financial Administration Regulation, 2007.

⁴ In FY2006, own-source revenue of municipalities (in aggregate), including the local development fee, accounted for 65.4% of the total revenue.

revenue source as it compensates for the former Octroi tax.⁵ The local development fee accounted for a significant portion of the municipalities' own revenue (52.8%) and tax revenue (74.2%) in FY2006. However, since the import tax (the source of the local development fee) must be discontinued with the accession of Nepal to the World Trade Organization, the Government announced the abolishment of the local development fee in the budget speech for FY2010 made in July 2009. There is an urgent need to increase the internal revenue by assessing potential sources, such as introducing the integrated property tax, broadening the tax base, updating tax valuation, and increasing collection efficiency. Based on a revenue potential study, a more realistic annual revenue estimate will need to be prepared.⁶

6. An accrual-based accounting system has not been established and is not in use in most municipalities,⁷ nor are the internal audit units in place. In most cases, the internal audit is irregular and not effective. Backlog of audits is quite common in municipalities. Accumulated misappropriations (expenditure and advances) are high and generally not settled. The practice of periodic reconciliations varies from municipality to municipality with reconciliations done monthly, quarterly, semiannually or annually. Efforts need to be made to improve the accounting system and reduce misappropriations found in the audit report as well as the time taken for reconciliations. Transparency in financial management is another area for improvement.

7. **Urban services delivery.** Municipalities are responsible for many types of urban services delivery, including solid waste management, water supply and sanitation, public health, transportation, public parks, and markets. However, these services are not provided adequately in a cost-effective manner because of a shortage of skilled staff and overall human resources, lack of proper planning, inadequate technical knowledge, and low priority to operation and maintenance (O&M). Human resources development through training programs (including field visits to learn from good practices) is crucial to improve overall infrastructure planning, sector planning, project management, and effective and efficient O&M of relevant facilities.

8. **Geographic information system-based urban mapping.** Many municipalities still lack proper base maps. They are mostly dependent on 1:25,000 or 1:50,000 scale topographic maps, which are not sufficient to use for municipal level planning. Moreover, analog maps that are common in municipalities in Nepal are not updated regularly and do not serve the purpose of increasing functions that municipalities need to perform. Together with a rapid urbanization trend, there is a strong need to develop large-scale geographic information system (GIS)-based urban maps. These maps will bring multiple benefits that can be used for better land use planning, project planning, tax information base, and public works engineering purposes.

9. **Minimum conditions and performance measures.** The Ministry of Local Development (MLD) and the Secretariat of the Local Body Fiscal Commission, representing the Government, issued the Manual for Assessment of Minimum Conditions and Performance Measures of Municipalities 2009.⁸ The performance of municipalities is assessed each year in accordance with the manual, and this forms the basis for determining the amount of grant allocation from the central Government.⁹ This is expected to provide incentives to municipalities for performance

⁵ Octroi was levied by municipalities as an indirect tax on the transportation of goods from one municipality to another, and abolished in 1999. The charge was 1% on the total value of consumption goods.

⁶ In FY2006, the total revenue of municipalities was only 63.1% of the projected budget.

⁷ Accrual-based accounting system was introduced in Kathmandu metropolitan city and Butwal and Dharan municipalities but is currently in use only in Kathmandu metropolitan city.

⁸ MLD and Secretariat of the Local Body Fiscal Commission. 2009. *Manual for Assessment of Minimum Conditions and Performance Measures (MC/PM) of Municipalities (Draft)*. Kathmandu.

⁹ The first performance assessment for 58 municipalities has been conducted and will be finalized in September 2009. In FY2010, unconditional grant amounting to about NRs340 million will be distributed.

improvement, and there is a need for hands-on support to municipalities to strengthen their capacity.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

10. The expected impact of the TA will be improved quality and sustainability of urban service delivery by municipalities. This will be measured by the improvement in the service levels of urban infrastructure and services provided, and the level of citizens' satisfaction. The outcome of the TA will be strengthened capacity of municipalities for efficient, sustainable, and accountable urban service delivery. This will be measured, through a review of the figures of participating municipalities in FY2010 in comparison to those in FY2008, by (i) an increase in the internal revenue of municipalities,¹⁰ (ii) an increase in budget allocated to and spent on capital expenditure and O&M of urban services, (iii) a reduction in misappropriations found in audit reports, and (iv) a reduction in the difference between planned revenue and expenditures and actual figures. Overall, the total score of performance measures of participating municipalities in FY2010 in accordance with the manual will improve from the FY2008 level.

B. Methodology and Key Activities

11. **Component 1: Improving the financial management system.** This component is intended to improve the financial management system and increase the internal revenue of municipalities to ensure the medium- to long-term financial sustainability of urban infrastructure and service delivery. The scope will include review of the current financial management system of municipalities, including the accounting and audit system. Based on the review, areas for improving the financial management system, including the potential for internal revenue increase, will be identified and a realistic annual revenue projection will be prepared. A comprehensive financial management improvement plan (CFMIP) covering 1–3 years, including revenue enhancement measures, will also be recommended. After obtaining endorsement from the municipalities concerned, the municipalities will be assisted in implementing the CFMIP, together with staff capacity development programs, so that the municipalities can sustain implementation after TA completion.

12. **Component 2: Strengthening the technical capacity of staff for better urban service delivery.** Technical and institutional sustainability needs to be enhanced by implementing capacity development programs. This component aims at developing the technical capacity of relevant officials in municipalities and central government departments in respective subsectors in the fields of overall infrastructure planning, sector planning, project management, and effective and efficient O&M for urban service delivery. Capacity development programs will include classroom and on-the-job training, and exposure visits. Resource persons may be invited from abroad. Subsectors to be included will be (i) solid waste management; (ii) water supply and sanitation (including urban drainage and wastewater management); (iii) urban transport (road, transport management, and regulations); and (iv) overall infrastructure planning. Training participants will prepare a municipal action plan for better planning, management, or O&M of the respective subsector under the guidance of consultants; and start implementing the plan.

13. **Component 3: Developing and institutionalizing GIS-based urban maps.** In this component, a complete GIS-based municipal information system will be developed with 1:2,500 scale for urban areas and 1:5,000 scale for the remaining areas for participating

¹⁰ Internal revenue referred to here will not include the local development fee or its substitution allocated by the Government.

municipalities. Information in the maps will include administrative boundaries, topographic features such as contour lines and land use, transportation infrastructure, utilities infrastructure, various buildings, and cadastral data. Software customization will be made to link the GIS-based maps with the taxation system of the municipality. Capacity development programs will be undertaken for the municipal staff concerned so that the use of GIS-based urban maps will be institutionalized and optimized for municipal decision-making, including tax mapping and recording, land use planning, and public works engineering.

14. **Participating municipalities.** The TA will target municipalities where investment projects are planned with ADB funding—Biratnagar, Birgunj, and Butwal municipalities under the Secondary Towns Integrated Urban Environmental Improvement Project¹¹ and Kathmandu metropolitan city under the Kathmandu Sustainable Urban Transport Project¹² (these four municipalities are collectively referred to as participating municipalities) to maximize effectiveness and relevance of the TA for improvement of urban service delivery. Municipalities to be supported under the Development of Border Towns Project¹³ will also be supported in the TA to a lesser extent—although resources are focused on participating municipalities, officials from these municipalities will be invited in capacity development programs.

15. **Risks.** Locally elected mayors and representatives at the Municipal Council have been absent since 2002. Considering the current political instability, such situation may continue. This is causing lack of accountability and leadership in improving the performance of functions that municipalities are supposed to undertake. Furthermore, executive officers acting as mayors of municipalities, deputed from MLD, are frequently transferred within a short period of time, which aggravates continued and strong commitment from the leader of the municipality. Though this risk cannot be eliminated, the TA's links with forthcoming investment projects will help bring strong municipal and public support for improving the capacity and performance of municipalities. Another risk is that the Government is writing a new constitution that could affect the local governance system. However, the TA is in line with the general direction of the Government for strengthening devolution, and the functions of municipalities are largely expected to remain.

C. Cost and Financing

16. The TA is estimated to cost \$1,050,000 equivalent. The Government has requested ADB to finance \$900,000 equivalent. The TA will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-IV). The Government will finance the balance of the cost, equivalent to \$150,000, through the provision of office space, remuneration for counterpart staff (including their field per diem and transportation), and other in-kind contributions (Appendix 2).

D. Implementation Arrangements

17. The Ministry of Physical Planning and Works will be the Executing Agency and will appoint a TA coordinator, a first-class officer, with an overall coordinating role. The MLD will assign a TA coordinator to coordinate and supervise the work under component 1, while the Department of Urban Development and Building Construction (DUDBC) in the Ministry of Physical Planning and Works will assign a TA coordinator for components 2 and 3. At the central level, a steering committee will be established to monitor TA implementation. The steering committee will be chaired by the secretary of the Ministry of Physical Planning and

¹¹ ADB. 2008. *Technical Assistance to Nepal for Preparing the Secondary Towns Integrated Urban Environmental Improvement Project*. Manila. Project preparatory TA is ongoing and the loan investment is planned in 2010.

¹² ADB. 2009. *Technical Assistance for Preparing the Implementation of Asian City Transport—Promoting Sustainable Urban Transport in Asia Project*. Manila. Regional project preparatory TA is ongoing and the loan investment is planned in 2010.

¹³ Project preparatory TA is planned in 2010.

Works and consist of high-level representatives from the National Planning Commission, the Ministry of Finance, the MLD, the Secretariat of the Local Body Fiscal Commission, the Municipal Association of Nepal, participating municipalities, and the DUDBC as secretariat. Technical departments and institutions (such as the Department of Water Supply and Sewerage, the Department of Roads, and the Solid Waste Management and Resource Mobilization Center) will be invited whenever issues to be discussed are considered relevant. The steering committee will meet at least quarterly to discuss the overall progress and provide policy guidance to the TA. At each participating municipality, a focal point for the TA is appointed, and a working committee will be established to work closely with the TA consultants. The working committee will comprise representatives from sections or subsections on revenue, accounting, audit, urban planning, GIS, water and sanitation, transport, solid waste management, and any other relevant fields. Regarding components 2 and 3, local offices of technical departments and institutions will be closely involved.

18. The Government will provide (i) all relevant documents, data, statistics, information, and maps that are available at the disposal of the Government; (ii) appropriate and qualified counterpart staff, including their field per diem and field transportation; (iii) TA coordinators from the Ministry of Physical Planning and Works, the MLD, and the DUDBC, to be assigned before the consultants' mobilization; (iv) TA focal points and counterpart staff from each participating municipality, to be assigned before the consultants' mobilization; (v) office accommodation and office equipment, including desks and chairs, and local communication in the DUDBC; (vi) logistical assistance for the workshops and seminars, including the venue, and identifying and inviting the invitees; and (vii) utility costs, covering electricity and water.

19. The TA will be implemented over 18 months from April 2010 to September 2011. Outline terms of reference for consultants are in Appendix 3. International expertise (10 person-months) will be obtained in the areas of urban planning, urban service delivery (solid waste management and urban transport), and financial management. National consultants (60 person-months) will have expertise in the fields of urban planning, urban service delivery (water supply and sanitation, solid waste management, and urban transport), financial management, accounting, GIS, and geographic survey. In addition, individual consultants may be engaged to address specific needs of participating municipalities.

20. The consultants will be engaged by ADB in accordance with the *Guidelines on the Use of Consultants* (2007, as amended from time to time). A team of consultants will be recruited under one package using the quality- and cost-based method of selection with a standard quality–cost ratio of 80:20. A simplified technical proposal will be used for the selection of the consultant firm. The consultants will assist the Government in organizing the workshops at the beginning and toward completion of the TA. The overall framework and approach, objectives, and targets of the TA will be shared at the first workshop by inviting relevant government agencies and municipalities. The final workshop will be held to disseminate good practices and lessons from the TA. Disbursements under the TA will be made in accordance with ADB's *Technical Assistance Disbursement Handbook*.¹⁴

21. Some equipment (such as computers, printers, and GIS software) will be procured under the TA using the shopping method in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time). The Government will ensure proper storage and appropriate use of the equipment and software placed in participating municipalities during TA implementation.

¹⁴ ADB. 2008. *Technical Assistance Disbursement Handbook*. Manila.

IV. THE PRESIDENT'S DECISION

22. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$900,000 on a grant basis to the Government of Nepal for the Institutional Strengthening of Municipalities, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
<p>Impact Improved quality and sustainability of urban service delivery by municipalities</p>	<p>Improvement in the service levels of urban infrastructure and services provided</p> <p>Increase in the level of citizens' satisfaction</p>	<p>Annual report of municipalities</p> <p>Government survey on service levels</p> <p>Beneficiaries survey</p>	<p>Assumptions Policy on decentralization and devolution remains in place</p> <p>Macroeconomic and political stability</p> <p>Risk Necessary financial and technical support from the central Government not provided</p>
<p>Outcome Capacity of municipalities strengthened for efficient, sustainable, and accountable urban service delivery</p>	<p>FY2010 results in comparison to FY2008 figures:</p> <p>Internal revenue of participating municipalities increased</p> <p>Budget allocated and spent to capital expenditure and O&M of urban services increased</p> <p>Reduction in misappropriations found in audit reports</p> <p>Reduction in difference between planned revenue and expenditures and actual figures</p> <p>Information disclosed to the public broadened</p> <p>Participating municipalities score for minimum conditions and performance measures improved</p>	<p>Annual report of municipalities</p> <p>Municipalities' website</p> <p>Assessment of minimum conditions and performance measures compiled by MLD and the Local Body Fiscal Commission Secretariat</p>	<p>Assumption Key staff in municipalities remain in the posts</p> <p>Risks Government's policy goes against improvement of financial capacity</p> <p>Government's minimum conditions and performance measures assessment and subsequent budget allocation not fully and objectively implemented</p> <p>Absence of elected mayor and representatives continued and executive officer deputed from MLD frequently transferred, resulting in lack of top-level commitment in improvement</p>
<p>Outputs</p> <p>1. Financial management system improved</p>	<p>By the end of TA:</p> <p>Annual revenue projection and expenditure plan prepared</p>	<p>Financial statement of municipalities</p>	<p>Assumptions Commitment and leadership of municipalities for performance improvement</p>

Design Summary	Performance Targets/Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
<p>1.1 Revenue projection and expenditure plan made annually</p> <p>1.2 Internal audit carried out annually</p> <p>2. Technical capacity of staff strengthened for better urban service delivery</p> <p>3. GIS-based urban maps developed</p>	<p>Actual revenue and expenditure recorded</p> <p>Comprehensive financial management improvement plan, including revenue enhancement measures, developed and implemented</p> <p>Audit report produced</p> <p>Total of 20 staff receive training for financial management</p> <p>Capacity development program prepared</p> <p>Total of 30 staff receive technical training in key subsectors</p> <p>Action plan for better planning, management, and O&M of subsector prepared by training participants</p> <p>Specified digital urban maps developed</p> <p>Total of 15 staff receive training for map utilization</p> <p>Thematic digital maps produced and utilized for municipalities' urban service delivery</p>	<p>Comprehensive financial management improvement plan of municipalities</p> <p>Internal audit reports of municipalities</p> <p>Audit reports by the Office of the Auditor General Nepal</p> <p>Assessment of minimum conditions and performance measures compiled by the MLD and the Local Body Fiscal Commission Secretariat</p> <p>Annual report of municipalities</p> <p>TA progress reports</p> <p>Questionnaire for training participants</p>	<p>Staff trained remain in respective posts</p> <p>Good coordination among different sections in municipalities</p> <p>Risks Political intervention in proper accounting, auditing, and planning process</p> <p>Security situation further deteriorates</p>
<p>Activities with Milestones</p> <p>1. Improvement of financial management system</p> <p>1.1 Review of current financial management system of municipalities, including analysis of current revenue sources, rate, and collection efficiency (by month 3)</p>			<p>Inputs</p> <p>ADB: \$900,000</p> <p>Government: \$150,000</p>

Activities with Milestones	Inputs
<p>1.2 Review of existing accounting and internal and external auditing system (by month 3)</p> <p>1.3 Assessment of potential increase in internal revenue through application of integrated property tax, enhancement of tax base, update of applicable rate, increase in collection efficiency (by month 5)</p> <p>1.4 Preparation of annual revenue projection and CFMIP (by month 6)</p> <p>1.5 Support for implementation of CFMIP in association with conducting training programs (by month 18)</p> <p>1.6 Support for information disclosure on financial management (continuous)</p> <p>2. Strengthening technical capacity of staff for better urban service delivery</p> <p>2.1 Review of existing technical and institutional capacity of participating municipalities in urban services delivery—water supply and sanitation (including urban drainage and wastewater management), solid waste management, and urban transport (road, transport management, and regulations, etc.) (by month 3)</p> <p>2.2 Preparation of capacity development program in the fields of overall infrastructure planning, sector planning, project management, and O&M (by month 5)</p> <p>2.3 Implementation of capacity development program (by month 9, refresher training thereafter)</p> <p>2.4 Preparation of an action plan for better planning, management, and O&M by training participants (by month 12)</p> <p>2.5 Support for implementation of an action plan (by month 18)</p> <p>3. Development of GIS-based urban mapping</p> <p>3.1 Assessment of staff capacity, existing urban mapping system, identification of improvement methodology and needs for hardware and software (by month 3)</p> <p>3.2 Preparation of upgraded and updated digital base maps at 1:2,500 scale for urban areas and at 1:5,000 scale for the remaining areas (by month 9)</p> <p>3.3 Undertaking of socioeconomic survey (100% coverage), development of cadastral information, and establishment of effective house and street addressing system (by month 9)</p> <p>3.4 Customization of software to establish links with taxation system (by month 13)</p> <p>3.5 Institutionalization of GIS-based urban maps (by month 18)</p> <p>3.6 Information disclosure of various thematic maps for public use (continuous after month 9)</p>	

ADB = Asian Development Bank, CFMIP = comprehensive financial management improvement plan, GIS = geographic information system, MLD = Ministry of Local Development, O&M = operation and maintenance, TA = technical assistance.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Total Cost
A. Asian Development Bank Financing^a	
1. Consultants	
a. Remuneration and Per Diem	
i. International Consultants	234.0
ii. National Consultants	315.0
b. International and Local Travel	76.0
c. Reports and Communications	5.0
2. Equipment ^b	50.0
3. Training, Seminars, and Conferences	
a. Facilitators	5.0
b. Training Program	45.0
4. Surveys ^c	85.0
5. Miscellaneous Administration and Support Costs	3.0
6. Representative for Contract Negotiations	3.0
7. Contingencies	79.0
Subtotal (A)	900.0
B. Government Financing	
1. Office Accommodation and Transport	40.0
2. Remuneration and Per Diem of Counterpart Staff	80.0
3. Others	30.0
Subtotal (B)	150.0
Total	1,050.0

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-IV).

^b Computers, printers, GIS software, and office equipment. All equipment including software purchased under the TA will be handed over to the Executing Agency or participating municipalities after TA completion.

^c Eligible surveys include socioeconomic surveys and development of GIS-related database by support staff.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. Objective

1. The objective of the assignment is to assist participating municipalities (para. 10) in (i) improving financial management system, including revenue enhancement; (ii) strengthening the technical capacity of staff for urban services delivery; and (iii) developing and institutionalizing geographic information system (GIS)-based urban maps.

B. Scope

2. The technical assistance (TA) will require 70 person-months of consulting services (10 international and 60 national). It is intended that the support provided to participating municipalities will improve their performance, thereby leading to satisfaction of minimum conditions and better scoring of performance measures, described in the Manual for Assessment of Minimum Conditions and Performance Measures of Municipalities 2009, issued by the Ministry of Local Development (MLD) and the Local Body Fiscal Commission Secretariat.¹

3. Consulting services for the TA will be engaged in accordance with the Asian Development Bank's (ADB's) *Guidelines on the Use of Consultants* (2007, as amended from time to time). Consulting services will be engaged by an international consulting firm in association with national consulting firm(s).

1. Specific Tasks of Consultants

4. **Component 1: Improvement of financial management system.** Consultants will help improve the financial management system and increase the internal revenue of municipalities to ensure the medium- to long-term financial sustainability of urban infrastructure and service delivery. The scope of the services will include a review of the current financial management system of participating municipalities, such as revenue administration management, types of taxes and non-taxes, the status of application of the integrated property tax, collection level and efficiency of taxes and non-taxes over the years, assessment methods of tax valuation, staff capacity, and potential for revenue enhancement. The current accounting and audit system, practices, and recording status will also be reviewed, including the level of computerization of the accounting system, a plan to reduce backlogs in financial data, adoption of annual financial statements, and internal and external audits of annual financial statements.

5. Based on the review, consultants will identify areas for increasing internal revenue and prepare a realistic annual revenue projection. Public-private partnership will be addressed as a measure to increase internal revenue as well as improve service delivery, considered in conjunction with component 2. A comprehensive financial management improvement plan (CFMIP), covering 1–3 years, including revenue enhancement measures, will also be recommended and fully consulted with participating municipalities. After obtaining endorsement from the municipalities concerned, the consultants will assist the municipalities in implementing the CFMIP and implement staff capacity development programs so that the municipalities can sustain implementation after consultancy services are completed. Issues to be addressed under this component will include (i) more realistic annual revenue projection based on the past record and the potential study; (ii) an increase in internal revenue, with utilization of the integrated

¹ MLD and Secretariat of the Local Body Fiscal Commission. 2009. *Manual for Assessment of Minimum Conditions and Performance Measures (MC/PM) of Municipalities (Draft)*. Kathmandu.

property tax; (iii) the capacity to collect revenue and make expenditure in accordance with the plan; (iv) better revenue administration; (v) improvement in accounting and auditing; (vi) less irregularities reported in the audit report; and (vii) introduction of an accrual-based accounting system.²

6. **Component 2: Strengthening technical capacity for urban services delivery.** It is essential that urban services (such as water supply and sanitation, municipal solid waste management, and vehicle parking arrangements) are provided to their citizens in a sufficient and cost-effective manner. Under this component, the consultants will support developing the technical capacity of relevant officials in municipalities and central government departments in respective sectors in the fields of overall infrastructure planning, sector planning, project management, and effective and efficient operation and maintenance (O&M) for urban service delivery. Capacity development programs will include classroom and on-the-job training, and exposure visits, and may be implemented directly by the consultant or outsourced to an appropriate and capable third party at a reasonable cost. Resource persons may be invited from abroad. Consultants will finalize details of capacity development programs in consultation with ADB and implement them for the following subsectors: (i) solid waste management; (ii) urban transport (road, transport management, and regulations); (iii) water supply and sanitation (including drainage and wastewater management); and (iv) overall infrastructure planning. Training participants will prepare a municipal action plan for better planning, management, or O&M of the respective subsector under the guidance of consultants; and start implementing the plan.

7. **Component 3: Development and institutionalization of geographic information system-based urban mapping.** In this component, consultants will develop a complete GIS-based municipal information system with 1:2,500 scale for urban areas and 1:5,000 scale for the remaining areas for participating municipalities. Information in the maps will include administrative boundaries, topographic features such as contour lines and land use, transportation infrastructure, utilities infrastructure, various buildings, and cadastral data. Consultants will undertake a socioeconomic survey (100% coverage), develop cadastral information, and establish an effective house and street addressing system. Software customization will be made to link the GIS-based maps with the taxation system of the municipality. Capacity development programs will be undertaken for the municipal staff concerned so that the use of GIS-based urban maps will be institutionalized and optimized for municipal decision-making, including tax mapping and recording, land use planning, and public works engineering even after TA completion.

8. Consultants will first review the existing mapping system of participating municipalities and assess how to develop the desired GIS-based urban mapping most efficiently. Maps, images, GIS software, and necessary equipment will be procured by the consultant under the reimbursable item provision of the contract. Specification will be finalized in consultation with the Department of Urban Development and Building Construction (DUDBC) and ADB. At least three quotations are to be obtained before purchase.

9. **Coordination and sustainability.** For all the components, consultants will carefully devise and implement the capacity development programs so that the improvements made during TA implementation will be sustained and further enhanced after TA completion.

² German development cooperation through GTZ plans to develop an accrual-based accounting manual and software for the accrual-based accounting system by early 2010. The TA will support introduction of the system in participating municipalities.

Consultants will ensure coordination with relevant loan and TA projects of ADB³ and other development partners, including the Urban Development through Local Efforts Program financed by German development cooperation through GTZ.

2. Participating Municipalities and Scope

10. Municipalities supported under the TA (to different degrees as shown in Table A3) will be (i) Kathmandu metropolitan city; (ii) Biratnagar, Birgunj, and Butwal municipalities selected under the Secondary Towns Integrated Urban Environmental Improvement Project⁴ (these four municipalities are collectively referred to as participating municipalities); and (iii) those to be supported under the Development of Border Towns Project (forthcoming project preparatory TA).

Table A3: Scope of Work

Component	Kathmandu Metropolitan City	Biratnagar, Birgunj, and Butwal	Municipalities under the Forthcoming Project Preparatory TA
1	Full scope	Full scope	Participation in capacity development programs
2	Full scope for urban transport only	Full scope	Participation in capacity development programs and advisory support for action plans
3	Participation in capacity development programs	Full scope	Participation in capacity development programs

TA = technical assistance.

Source: Asian Development Bank assessment.

C. Terms of Reference for Team Members

1. Urban Planning Expert (international, 3 person-months)

11. The expert should have a postgraduate degree in urban planning or relevant fields and at least 10 years of international experience working on urban planning (specifically GIS-based urban mapping as a decision-making tool of municipalities), including work experience in at least two developing countries, preferably in South Asian countries. He or she will undertake component 3. Specifically, he or she will (i) supervise the work undertaken by the national urban planning specialist and GIS specialists; (ii) review and assess current practices and problems in participating municipalities; (iii) provide concrete, workable, and innovative suggestions and recommendations reflecting international good practices; and (iv) ensure quality of consultants' inputs and the TA outputs. He or she will supervise the implementation of capacity development programs for municipalities' staff for full utilization of the developed GIS management information system; and ensure institutionalization of GIS-based urban mapping as a municipal decision-making tool, including its utilization for taxation purposes.

2. Urban Infrastructure Expert (international, 2 persons, 2 person-months each)

12. The expert should have a postgraduate degree in civil engineering or relevant fields and at least 10 years of international experience in design, construction, and operation of urban infrastructure and services. One expert each is engaged for solid waste management and urban

³ This includes the ongoing Urban and Environmental Improvement Project. The GIS-based urban mapping system has been developed in eight municipalities, but it is yet to be institutionalized. Experiences and lessons from this project will need to be taken into account. ADB. 2002. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kingdom of Nepal for the Urban and Environmental Improvement Project*. Manila (Loan 1966-NEP).

⁴ ADB. 2008. *Technical Assistance to Nepal for Preparing the Secondary Towns Integrated Urban Environmental Improvement Project*. Manila (TA 7182-NEP).

transport (road, transport management, and regulations). Work experience in at least two developing countries is required, preferably in South Asian countries, and a good understanding of planning and operation weaknesses in the region is highly desirable. He or she will perform the necessary activities for component 2 by (i) supervising the national urban infrastructure specialists; (ii) providing guidance and suggestions on the capacity development programs for relevant officials in municipalities and central government departments; (iii) visiting participating municipalities for on-the-job and classroom training; (iv) providing concrete, workable, and innovative suggestions on the draft action plan prepared by training participants based on international good practices; (v) assisting its implementation; and (vi) ensuring the quality of consultants' inputs and the TA outputs.

3. Financial Management Expert (international, 3 person-months)

13. The expert should have a postgraduate degree in accounting, finance, business administration, or relevant fields; and have at least 10 years of international experience in financial management in at least two developing countries. Work experience in South Asian countries and a good understanding of local government finance, accounting, and auditing in the region are highly desirable. He or she will undertake component 1. Specifically, he or she will (i) guide the national financial management specialist and the national accountant; (ii) review and assess the existing financial management system and practices of participating municipalities; (iii) provide concrete, workable, and innovative suggestions and recommendations for the revenue potential assessment and CFMIP on the basis of international good practices; (iv) assist in the implementation of relevant plans, including progress review; and (v) ensure the quality of consultants' inputs and the TA outputs. He or she will supervise the implementation of capacity development programs to municipalities' staff in areas of accounting, budgeting, audit, revenue management and enhancement, and expenditure and revenue recording.

4. Team Leader and Urban Planning Specialist (national, 12 person-months)

14. The team leader should have a postgraduate degree in urban planning or relevant fields and at least 10 years of experience in urban planning or urban governance. A good understanding in a broad range of urban management and experience working for ADB or other development partners' projects in the urban sector is highly desirable. As team leader, he or she will (i) manage the overall implementation of the TA; (ii) prepare a task matrix for consultants and counterparts; (iii) ensure timely inputs from the international consultants; (iv) supervise the quality of inputs from the national consultants; (v) coordinate closely with the Executing Agency, participating municipalities, and ADB; (vi) coordinate and supervise capacity development programs implemented for each component for best outcomes; and (vii) be responsible for delivering various outputs under the TA. The team leader will ensure smooth coordination and linkage among components. For technical matters related to components 2 and 3, the consultant will work under the guidance of international experts.

5. Deputy Team Leader and Financial Management Specialist (national, 10 person-months)

15. The deputy team leader should have a postgraduate degree in finance, accounting, or relevant fields and have at least 10 years of experience working in municipal finance, accounting, or auditing. He or she will, under the guidance of the international financial management expert, take the lead in reviewing the current financial management system of municipalities, such as revenue administration management, types of taxes and non-taxes,

collection of those over the years, the status of application of integrated property tax, assessment methods of tax amounts, collection efficiency, staff capacity, and potential for revenue enhancement. He or she will assess the revenue potential of participating municipalities and assist the preparation of more realistic annual revenue estimates. In collaboration with the national accountant, he or she will draft a CFMIP covering 1–3 years, including revenue enhancement measures, in close consultation with the municipalities. After obtaining endorsement from the municipalities concerned, he or she will assist the municipalities in implementing the CFMIP, together with capacity development programs for the municipalities' staff, and information disclosure of outputs. He or she will act as a focal point to coordinate with the MLD.

6. Accountant (national, 8 person-months)

16. The accountant will work under the guidance of the international financial management expert and will take the lead in reviewing the current accounting and audit system, practices, and recording status, including the level of computerization of the accounting system, the plan to reduce backlogs in financial data, the adoption of annual financial statements, and annual internal and external audits. In collaboration with the national financial management specialist, he or she will draft a CFMIP in close consultation with the municipalities. The CFMIP will include the introduction of accrual-based accounting system. After obtaining endorsement from the municipalities concerned, the consultant will assist the municipalities in implementing the CFMIP, together with capacity development programs for the municipalities' staff, with specific focus on accounting and auditing.

7. Urban Infrastructure Specialist (national, 3 persons, 4 person-months each for solid waste management and urban transport, 3 person-months for water supply and sanitation)

17. One specialist each will be engaged for the following subsectors: solid waste management; urban transport (road, transport management, and regulations); and water supply and sanitation (including wastewater management and urban drainage). They will take the lead in component 2: urban service delivery. They will assess the existing capacity of participating municipalities in terms of staff capacity, level of skills available, and current planning and management practices. Based on the assessment, they will draft an urban services capacity development program. Upon confirmation of the program from ADB and the municipalities concerned, the specialists will implement the program, which includes classroom and on-the-job training, and exposure visits. The specialists will assist training participants in preparing a municipal action plan for improving the planning, project management, and O&M of respective subsectors in implementing the plan. The specialists for solid waste management and urban transport will work under the guidance of the international urban infrastructure experts of the respective subsector.

8. GIS Specialist (national, 9 person-months)

18. The specialist should have a postgraduate degree in geography, computer engineering, civil engineering, or relevant fields and have at least 7 years of experience in GIS. A good understanding of various GIS software is required, and experience in urban GIS-based mapping is essential. The specialist will work under the guidance of the international urban planning expert and lead the work of developing and institutionalizing the GIS-based urban mapping. He or she will (i) assess the staff level and the existing urban mapping system; (ii) identify improvement methodology in an efficient manner and needs for hardware and software;

(iii) identify the features to be captured in the maps, including administrative boundaries, topographic features, cadastral data, infrastructure, and buildings; (iv) prepare updated digital base maps at 1:2,500 scale for urban areas and at 1:5,000 scale for the remaining areas by using aerial photographs and/or satellite imagery; (v) conduct field verification surveys; (vi) develop cadastral information system; (vii) undertake socioeconomic survey (100% coverage); (viii) establish an effective house and street addressing (numbering) system; (ix) link the tax system with the GIS-based maps; and (x) undertake staff training to equip relevant staff with necessary skills to utilize, produce, interpret, and analyze outputs from the mapping system for decision making and update the maps, including demonstration and dissemination of actual usage of various thematic maps.

9. GIS Programming Specialist (national, 4 person-months)

19. The specialist will support the work of the GIS Specialist in preparing GIS-based urban maps, particularly for preparing and institutionalizing programs that could effectively assist municipalities in performing their duties, such as tax collection and recording, undertaking urban planning, engineering designs, and managing assets and facilities. He or she will customize the software to link the developed GIS system with the municipalities' taxation system.

10. Senior Surveyor (national, 6 person-months)

20. The surveyor will support the work of the GIS Specialist in preparing GIS-based urban maps. Specifically, he or she will (i) work on the selection, acquisition, and interpretation of aerial photographs, remote sensing data, and satellite imageries; (ii) conduct field verification and necessary surveys; and (iii) ensure the incorporation of verification results into digital data.

D. Reporting

21. The consultants will submit (i) an inception report within 6 weeks from the start of TA, finalizing the approach and presenting a detailed work plan and implementation schedule for the TA; (ii) a progress report every quarter (a total of four), summarizing the progress, problems, and challenges identified and actions taken or proposed to be taken to address them; major achievements to be noted and shared with other municipalities and the Government; and planned programs for the next quarter; (iii) a draft final report 15 months from the start of the TA, presenting all activities undertaken, results achieved, an assessment of achievements in comparison to original targets, a review of problems encountered during implementation and actions taken or proposed to be taken to remedy these problems; and propose recommendations for future short- to medium-term programs, with clear presentation of actors, actions, time frame, performance indicators and targets; and (iv) a final report 4 weeks after the final workshops and the receipt of comments on the draft final report from the Government and ADB, satisfying all requirements of the TA. In preparing these reports, the consultants will closely work with the Ministry of Physical Planning and Works (the Executing Agency), participating municipalities, the MLD (for component 1), and the DUDBC (for components 2 and 3).