

**ASIAN DEVELOPMENT BANK**

**TA: IND 32300**

**TECHNICAL ASSISTANCE**

(Financed by the Government of the United Kingdom)

**TO**

**INDIA**

**FOR PREPARING THE**

**KERALA SUSTAINABLE URBAN DEVELOPMENT PROJECT**

**May 2003**

## CURRENCY EQUIVALENTS

(as of 29 April 2003)

Currency Unit	–	Rupee/s (Re/Rs)
Re1.00	=	\$0.021
\$1.00	=	Rs47.25

## ABBREVIATIONS

ADB	–	Asian Development Bank
DFID	–	Department for International Development
EIA	–	environmental impact assessment
IEE	–	initial environmental examination
JBIC	–	Japan Bank for International Cooperation
LSGU	–	local self government urban
O&M	–	operation and maintenance
TA	–	technical assistance

## NOTE

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

This report was prepared by a team consisting of Hun Kim, Principal Urban Economist (Team Leader) and C.T. Abraham, Senior Finance/Administrative Officer.

## I. INTRODUCTION

1. During the Country Programming Mission in 2000, the Government of India confirmed the selection of the State of Kerala to receive support from the Asian Development Bank (ADB) for comprehensive economic and structural reforms. Following further discussions, the Government and ADB agreed that technical assistance (TA) would be provided for the Kerala Sustainable Urban Development Project in 2003 and the proposed loan in 2004<sup>1</sup>. An ADB mission visited the state from 26 February to 3 March 2003 to undertake fact-finding for the TA to prepare the Kerala Sustainable Urban Development Project.<sup>2</sup> The mission held discussions with state and central government officials as well as elected representatives of selected municipalities,<sup>3</sup> and reached an understanding on the objectives, scope, cost, and implementation arrangements of the TA. Appendix 1 provides the summary initial poverty and social analysis.

## II. ISSUES

2. The previous operational strategy for India, launched in 1996, introduced state-level operations in a few reform-oriented states to fully exploit complementarities and synergies between interventions to maximize the development impact in those states. Based on a set of criteria agreed with the Government, and consultation with other developmental partners, ADB adopted Gujarat, Kerala, and Madhya Pradesh as its focal states. Typically, ADB's state-level operations have consisted of a public resource management program to support fiscal consolidation with programs of sectoral reforms and investment in infrastructure sectors like power, transportation, and urban social infrastructure. Kerala was the third focal state selected for such state-level assistance, with a cluster loan for Modernizing Government and Fiscal Reform approved in December 2002<sup>4</sup> and a TA for Kerala Power Sector Development Program in October 2001.<sup>5</sup>

3. Kerala is a small state of 32 million inhabitants but has the third highest population density in India (819 people per square kilometer), after West Bengal and Bihar. Kerala has India's best social indicators in literacy, life expectancy, and infant mortality. Kerala is also remarkable for its high rate of participation in political life and high indicators of social capital. Despite the state's outstanding social accomplishments, Kerala's prospects for prosperity are threatened by chronic mismanagement of the economy, manifested in the growing fiscal deficits and inadequate funding for new infrastructure development. The impact is also felt with regard to accessibility to and affordability of basic urban services such as water supply, sanitation, primary health care, shelter, and social protection. The problem is aggravated by suboptimal use of public funds at all levels of the state machinery.

4. Responding to its growing economic problems and worsening social conditions, the state launched a reform program in the mid-1990s, referred to as the "Agenda for Change." One of the important features of the Agenda for Change is a strong commitment to decentralization in line with the 73<sup>rd</sup> and 74<sup>th</sup> amendments to India's Constitution. Pursuant to the 1996 Decentralization Planning Campaign, almost 40% of the state's development expenditures are currently transferred to local governments and most urban functions are now delegated to municipalities. However, due to poor planning, weak implementation capacity, and mismanagement of scarce resources by local governments, the gap between demand and supply in basic urban services has not been

---

<sup>1</sup> The country strategy and program for India 2004–2007 is scheduled for Board discussion in April 2003.

<sup>2</sup> The TA first appeared in *ADB Business Opportunities* (Internet version) on 29 November 2001.

<sup>3</sup> In 2001, a mission visited Kerala on 17–21 December to hold discussions with concerned municipal governments.

<sup>4</sup> ADB. 2002. *Report and Recommendation of the President to the Board of Directors on a Proposed Program Cluster of Loans Modernizing Government and Fiscal Reform in Kerala Program*. Manila.

<sup>5</sup> ADB. 2001. *Technical Assistance to India for Kerala Power Sector Development Program*. Manila.

narrowed. Instead, the quality of existing urban infrastructure is rapidly deteriorating with inadequate operation and maintenance while the fast pace of urbanization continues. ADB assistance is therefore timely and crucial to sustain the momentum of reform; introduce necessary changes in the administrative, legal, and institutional framework; and meet the urgent investment requirements for basic urban infrastructure.

5. Urban Kerala comprises five municipal corporations and 53 municipalities. More than one fourth of the population live in urban areas, and this is a little less than the national average.<sup>6</sup> However, unlike the other parts of the county, the urbanization in Kerala is not limited to the designated cities and towns. Except for a few isolated villages in the hills, the entire state is an urban-rural continuum. Thus, Kerala society by and large can be termed as urbanized.<sup>7</sup> The dispersed settlement pattern, however, reduces the effectiveness of investments in infrastructure development and social services. Because scarce resources are spread too thinly throughout Kerala, the accruing benefit is only marginal in each city.

6. High population density of urban areas of Kerala has resulted in urban poverty. This is manifest in many forms, such as urban slums, unemployment, lack of social services, and increasing violence and crime. Despite a sharp decline in the incidence of poverty in Kerala in the 1990s, urban poverty in Kerala remains significant (20.3%), and is much higher than rural poverty (9.4%). The magnitude of urban unemployment is also increasing due to the weak economy. In particular, due to stagnation in manufacturing industry in Kerala, sufficient employment opportunities are not available for the urban dwellers. National Sample Survey data show that urban unemployment in Kerala is the second highest in India, at 10% in 2000 (only after Goa).<sup>8</sup> Due to the high unemployment in the urban areas for the last two decades, Kerala has the highest number of people who committed suicide—most of them being young and educated but unemployed. Further, due to the rapid increase in land values and construction costs about 18% of the urban population in Kerala live in slum areas.<sup>9</sup> The living conditions of slum dwellers are very poor. Drinking water and sanitary facilities are grossly inadequate. Only one-fourth of households in slums have electricity. The number of public latrines is far short of the need—roughly one for 1,000 slum dwellers.

7. The involvement of other external agencies in the urban sector is very limited in Kerala. At present, only two bilateral agencies are active, i.e., Japan Bank for International Cooperation (JBIC) and Department for International Development (DFID) of United Kingdom. JBIC is involved in water supply and sanitation and DFID is involved in slum improvement in Cochin. The ADB mission met with the representatives of both agencies to learn from their experience. Lessons learned from urban projects in India will be fully incorporated in the project design during the TA implementation.

8. Some of the key recommendations of the recently completed urban sector<sup>10</sup> review include: (i) project design can be made simpler by focusing on large capital investments for basic services such as water supply, sewerage, and roads, and limiting the number of towns participating in a project, while the smaller revenue generating schemes such as market places, sites and services, and commercial complexes can be done by the local bodies using their own funds and through short-term commercial borrowings; (ii) since the sustainability of the assets created under a project

<sup>6</sup> Based on the Census of India 2001.

<sup>7</sup> Government of Kerala. 2002. *Urban Policy and Action Plan for Kerala*.

<sup>8</sup> Planning Commission. 2001. *National Human Development Report*. Government of India.

<sup>9</sup> Based on the sample of seven towns covered in Census of India 2001.

<sup>10</sup> ADB. 2003. *Urban Sector Review and Strategy: Draft Final Report by Staff Consultant*. Manila.

depends on the level of ownership and commitment to reform displayed by the local bodies, extensive interaction with local bodies is required throughout the entire process of planning, design, and implementation; (iii) state governments should be required to have a dedicated project management structure in place from the project preparatory TA stage and to complete the advance actions for recruitment of consultants before loan effectiveness; (iv) standard bid documents should be made mandatory, which will save several months of time taken for their review and approval; (v) the local competitive bidding limit could be raised from the current \$3 million to attract better local contractors, and bring in efficiencies of scale of operation (the limit used by the World Bank is \$10 million); (vi) a project management unit must be staffed with competent and experienced personnel, who should be allowed a reasonable tenure of 3–4 years; (vii) an operations manual should be prepared at the preparatory stage, defining the role of each entity in the implementation framework and delegating suitable powers, and should be followed strictly to avoid delays in decision making; and (viii) an attempt should be made to integrate the poverty reduction components more closely with ongoing government programs and traditional delivery mechanisms at the local level, so as to maximize impact and improve sustainability.

### III. THE TECHNICAL ASSISTANCE

#### A. Purpose and Output

9. The objective of the TA is to prepare a project that is suitable for ADB financing and will provide sustainable growth and poverty reduction in the five project cities in Kerala, and thereafter in the other cities in the state. The project will assist the selected municipalities to (i) promote good urban governance in municipal management, and (ii) develop and expand urban infrastructure to increase economic opportunities and to reduce vulnerability to environmental degradation and urban poverty. The project will also formulate a support program for improving urban social services in a sustainable manner for the elderly, destitute women, and street children. Sustainability of the project investments will be ensured through improving management and financial performance of participating municipalities.

#### B. Methodology and Key Activities

10. The project will primarily cover five municipal corporations/agglomerations (Calicut,<sup>11</sup> Cochin, Quilon, Trissur, and Trivandrum) for urban governance and infrastructure improvement. Other smaller municipalities can benefit from the project through the Kerala municipal challenge fund, which will be created under the project, based on their willingness to adopt reform measures.

11. While the exact scope of the ensuing project will be determined after the completion of the TA, the project is expected to have four parts: (i) part A: urban services and infrastructure improvement; (ii) part B: urban management reform and institutional development; (iii) part C: Kerala municipal challenge fund; and (iv) part D: project implementation assistance (including consulting services for project management, design, construction, and supervision). Part A, for urban services and infrastructure improvement, will include investments in physical infrastructure (limited to sewerage and drains, solid waste management, cleaning of inner city canals, and urban

---

<sup>11</sup> Calicut is also participating in TA 6026: Promoting Urban Poverty Reduction Through Participation in the Cities Alliance (ADB. 2002. *Technical Assistance for Promoting Urban Poverty Reduction Through Participation in the Cities Alliance*. Manila). Through the TA, Calicut is preparing its city development strategy and cities without slums initiatives. These documents will form a good basis for identifying and preparing the Calicut subproject and investment components.

transport<sup>12</sup>) as well as urban social services (e.g., urban primary health care, social protection for the weaker section of the society, and urban poverty reduction initiatives).

12. For successful preparation of the project, the key activities of the TA will cover the following: (i) sharing of the lessons learned from the other ADB-assisted urban projects in India; (ii) assessment of the minimum requirements for the five project municipalities to be eligible for financing under the proposed ADB assistance (e.g., preparation of a participatory vision paper for city development, formation of a municipal coordination committee consisting of different citizen groups, and adoption of financial management plan); (iii) review of city information through socioeconomic surveys, engineering field surveys and mapping, and secondary sources; (iv) preparation of an indicative investment program (including the specific project components to meet the priority needs) for each selected city; (v) assessment of the feasibility (technical, economic, financial, social, environmental, and institutional) of the proposed investment packages; (vi) development of a comprehensive capacity-building program for urban governance and institutional development by integrating separate initiatives under three ongoing programs, i.e., Kudumbashree (state poverty eradication program), Information Kerala Mission, and ADB-sponsored Modernizing Government Program;<sup>13</sup> (vii) formulation of the Kerala municipal challenge fund, which will be managed by a professional fund management company to promote urban sector reform in five municipal corporations and other district towns; (viii) recommendation of measures to improve access to commercial financing for municipal development (e.g., pooled municipal banking, and restructuring of Kerala Urban Development Finance Corporation); (ix) participatory workshops and stakeholder consultation in the project cities to assess needs, possibilities, and priorities of groups of urban people, including the urban poor and other vulnerable groups; and (x) recommendation of key municipal reform measures that will be adopted under the project.

### **C. Cost and Financing**

13. The total cost of the TA is estimated at \$1.255 million equivalent, comprising a foreign exchange cost of \$480,000 and local currency cost of \$775,000 equivalent. The entire foreign exchange cost and \$520,000 equivalent in local currency will be financed on a grant basis by the Government of the United Kingdom. The state government will contribute the remaining local currency cost of \$255,000 equivalent for office accommodation, counterpart staff support, facilities for seminars and meetings, and other administrative expenses. The government will also provide all information required for the TA activities. Details of the cost estimate and financing plan are in Appendix 2. The government has been advised that approval of the TA does not commit ADB to finance any ensuing project.

### **D. Implementation Arrangements**

14. The local self government urban (LSGU) of the state government will be the Executing Agency of the TA and will be responsible for overall coordination with ADB. It will also provide full administrative and technical support to the consultants and will coordinate all activities under the TA with the project municipalities. LSGU will provide adequate office space for the consultants with sufficient communication means.

<sup>12</sup> Urban water supply is not included due to the earlier commitment of JBIC to provide a large loan to the urban water supply sector in the state. However, for the cities that are not covered under the proposed JBIC assistance, a water supply component may be considered on a full cost-recovery basis.

<sup>13</sup> The additional resource requirements for integration and gap-filling will be assessed during the TA, for financing by a bilateral grant.

15. Before the fielding of the consultants, the state government will establish a TA steering committee, chaired by the secretary of LSGU, consisting of the secretaries of all concerned state departments as well as the municipal commissioners and mayors of the participating cities. The steering committee will meet at least three times during TA implementation to discuss the reports of the consultants after the inception, midterm, and final workshops.

16. The TA will be implemented over 8 months from September 2003 to April 2004. The consulting services for the TA total 78 person-months (18 international and 60 domestic), excluding the inputs of a local institution that will conduct a baseline socioeconomic survey. An international firm will be engaged to organize the TA activities and produce the intermediate and final outputs for review and approval by LSGU and ADB. The international experts (with person-months in parenthesis) to be provided by the firm will include an urban development specialist as team leader (7), municipal finance expert/financial analyst (3.5), municipal engineer and environmental specialist (3.5), project economist (2), and social development and resettlement specialist (2). The domestic consultants will include a deputy team leader with expertise in drainage and solid waste management (8), urban governance and institutional development specialist (6), environmental specialist (6), financial analyst (6), municipal engineers and sector specialists (15), urban transport engineer (6), social and gender development specialist (4), resettlement specialist (3), and public awareness consultant (6). The outline terms of reference for the consultants are in Appendix 3. In addition, international and domestic experts will be supported by (up to) 30 person months of services from technical/support staff and 16 person months of counterpart professional staff. LSGU will provide 2 counterpart staff to work with the consultants during TA implementation. The team leader will recruit and engage the subprofessional staff as required.

17. The TA will provide equipment such as computers and other office equipment that the consultant will purchase in accordance with ADB's guidelines for procurement. The equipment will be handed over to LSGU on completion of the TA. The TA will also provide funds for workshops, working group studies, and surveys (socioeconomic and technical) to be conducted by the consultants in accordance with arrangements acceptable to ADB.

18. A full technical proposal with the quality- and cost-based selection method will be used to select the consulting firm. The consultants' reporting requirements will include (i) an inception report, within 1 month of TA commencement; (ii) an interim report, within 4 months of TA commencement; (iii) a draft final report, within 7 months; and (iv) a final report, on completion of the TA study. During implementation, the consultants will organize three workshops in Trivandrum to discuss the inception, interim, and draft final reports. The consultants will also organize participatory meetings in all selected cities throughout TA implementation, to disseminate information on the project and incorporate the feedback from local stakeholders in the project design. The interim workshop will include a program for gender and development to discuss gender-related issues and the gender action plan under the project. Tripartite meetings will be held immediately after the workshops for the inception, interim, and draft final reports.

#### **IV. THE PRESIDENT'S DECISION**

19. The President, acting under the authority delegated by the Board, has approved ADB administering technical assistance not exceeding the equivalent of \$1,000,000 to the Government of India to be financed on a grant basis by the Government of the United Kingdom for preparing the Kerala Sustainable Urban Development Project, and hereby reports this action to the Board.

## SUMMARY INITIAL POVERTY AND SOCIAL ANALYSIS REPORT FORM

### A. Linkages to the Country Poverty Analysis

Sector identified as a national priority in country poverty analysis? <span style="float: right;">Yes</span>	Sector identified as a national priority in country poverty partnership agreement? <span style="float: right;">Yes</span>
--	---

**Contribution of the sector/subsector to reduce poverty in Kerala:** As in the rest of India, the data from the national sample survey (undertaken every 5 years) have been used to identify the percentage of people below the poverty line. Based on this assessment, central Government funds for poverty reduction are released to the state. The figures span two decades between 1974 and 1994 show that among India's state, Kerala has achieved the second highest decline in poverty levels, from 40.42% to 25.43%. Further, the 2000 survey shows that Kerala's poverty is only 12.72% against the national average of 26.30%, improving its position to fifth among all Indian states despite low economic growth. The achievement is partly explained by the large inflow of remittances from the overseas workers in the Middle East.

However, Kerala shows the uneven sectoral performance in poverty reduction between rural and urban sectors. While the decline of poverty between 1994 and 2000 is close to 50% in the state (from 25.43% to 12.72%), the reduction is almost entirely due to the remarkable reduction in poverty in the rural areas, from 25.76% to 9.40%. The decline was only marginal in urban areas, from 25.43% to 20.3%. As a result, the level of urban poverty is now more than twice the level of the rural poverty, while in 1994 the incidence of poverty was higher in rural areas. This points to a persistent problem of urban poverty particularly due to unemployment and underemployment resulting from lack of economic opportunities.

A well-coordinated approach is necessary to reduce urban poverty. First, employment opportunities of a permanent nature need to be made available to the poor both by macro strategies aimed at labor intensive growth and micro strategies to enable the poor to attain the skills needed by the formal and semi formal sectors. Second, self-employment through urban microenterprises can be promoted through a package of credit subsidy, skills development, product development, and marketing. Third, with the support of urban local bodies and state government, basic urban infrastructure relating to housing, water supply, sanitation, electricity, and roads has to be provided to a minimum standard. Fourth, the access of the poor to quality health and education facilities needs to be ensured, which again calls for improving the services available through hospitals and schools. Finally, the most vulnerable groups need to be identified through a transparent index. A robust social protection system has to be set up for them, with a much higher level of support than at present. Many of these issues will be addressed through the proposed project in the urban sector.

### B. Poverty Analysis

#### Proposed Classification: Poverty intervention

**What Type of Poverty Analysis is Needed?** For proper planning, a detailed and multidimensional poverty analysis will be required. The national sample survey data does not contain detailed data at the local level. Hence, the technical assistance will be required to collect in-depth socioeconomic and poverty-related data for each of the five municipal corporations. The data will include income and expenditure, demographic trends, gender issues, health, water and sanitation, child labor, and urban environment. The findings of the socioeconomic baseline survey will be used to improve the access of the poor to the existing and newly created infrastructure facilities under the proposed project. Furthermore, a review of the existing initiatives of the state government and other partners in development will be undertaken. Particular attention will be paid to the innovative initiatives in assessment of poverty, introduced in the early 1990s, under a pilot Urban Basic Services Program in Alleppey towns. The Alleppey methodology is believed to be superior to the conventional head count ratio since it captures multi-dimensional characteristics of poverty (beyond the simple income poverty) and leads to identification of the most vulnerable families. The poverty index developed under the Alleppey pilot program consists of nine nonmonetary indicators, each reflecting a different kind of deprivation (e.g., access to drinking water, access to sanitary latrines, illiterate adult in the family, family getting barely two meals a day or less, alcoholic or drug addict in the family, scheduled caste or scheduled tribe family). The Alleppey method has been tried out all the urban local bodies and is under continuing revision and refinement. Using this methodology, a transparent participatory assessment of poverty is possible.

### C. Participation Process

**Participation Strategy Required:** The TA will use participatory methods of consultation and information gathering. Using the appreciative inquiry approach and participatory and rapid assessment methods, the involvement of all concerned stakeholders, including the disadvantaged and women, will be ensured to identify the required support and possible means to ensure their participation at all stages of the project cycle. The TA will identify the need for and types of special provisions required into the project design to enable full participation of women and the marginalized and/or minority and indigenous people (if any come within the ambit of the proposed project). The socioeconomic baseline survey will be

conducted by an experienced local nongovernment organization or institution. To highlight issues at micro and macro levels, the degree of poverty among women and men and the existing labor market will be assessed through consultation with stakeholders (all categories and levels). Both primary and secondary stakeholders (state government, local administration, nongovernment organizations, citizens, aid and international agencies) along with their interests and capabilities will be assessed. By organizing a gender workshop at the central level, the TA will ensure the involvement and participation of women in all stages of the proposed project. To ensure ownership and sustainability of the project, workshops to flag milestones of the project will be organized at the state and local levels in each of the five proposed project cities. The workshops will be for information sharing, consultation, shared decision-making, and shared responsibility, and for identification of the roles and functions of the stakeholders. Participatory planning meetings with the municipalities and relevant stakeholders (ensuring that the needs of women are given positive consideration) will be held during the TA implementation.

#### D. Social Safeguards and other Social Risks

Subject	Significant/ Nonsignificant/ None	Strategy to Address Issues	Plan Required
Resettlement	Significant	The proposed project will necessitate land acquisition. Displacement from assets, and loss of income, livelihoods, and other resources are anticipated. The magnitude of land acquisition and displacement is unknown at this stage. The TA will address legal concerns to resolve both land acquisition and compensation issues. The TA will review technical options to avoid or minimize displacement, prepare in-depth social analysis of any displaced groups, and develop mechanisms to ensure participation of affected groups in choice of compensation and rehabilitation options, with scope for monitoring and evaluation.	Resettlement plans will be developed for each subproject.
Gender	Significant	The project activities will have significant gender dimensions. Poverty reduction and improvement in the living standards (urban development, slum and drainage improvement, and [thereby] environment improvement) will require women's participation as agents and beneficiaries. Detailed gender analysis will be undertaken to identify strategies, mechanisms, and components for addressing gender concerns. The TA will identify measures to ensure women's participation in the design and implementation of the proposed project components, including participation in the work force and postconstruction phases (maintenance). Findings from the gender workshop will form the basis for the TA to develop the gender action plan and to identify ways and means to enhance the capacity of the female municipality commissioners and citizens, and ensure their participation in implementing the project.	A gender action plan will be developed during the TA, and will present ways to systematically deliver proposed project benefits to women.
Indigenous Peoples	None	The presence of indigenous people in the proposed project towns is insignificant.	Need-based plan will be developed, if necessary.
Labor	Uncertain	No retrenchment of labor is anticipated. A positive impact due to increased need for labor in infrastructure development works is expected. The TA will identify mechanisms to create employment opportunities for the poor, ensure exclusion of child labor, and ensure strict compliance with core labor standards.	Plan will be prepared, if required, based on the findings of the TA.
Affordability	Uncertain	To assure the affordability (and sustainability) of the project at the municipal level, participating municipalities will enter into a performance contract with the state government in exchange for financial assistance from the Asian Development Bank's (ADB) which will focus on financial management reform and participatory planning. For the integration of the poor in the new service provision, various measures, including subsidies, will be examined based on ADB's policies and guidelines. Experience clearly indicates that municipal reform supported by the strong	The socioeconomic survey will include assessing the affordability by the poor for the new municipal services; economic and financial analysis will be provided to

			analyze the long-term affordability (sustainability) of the project components by participating municipalities.
Other Risks/ Vulnerabilities	Uncertain	Weak institutional capability of the municipality may delay project implementation. To avoid delay, stakeholder workshops and capacity building will be carried out from the beginning.	The TA will develop capacity-building and monitoring plans.

**COST ESTIMATES AND FINANCING PLAN**  
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
<b>A. Government of the United Kingdom Financing</b>			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	350	0	350
ii. Domestic Consultants	0	280	280
b. International Travel	60	0	60
2. Office Equipment <sup>a</sup>	0	20	20
3. Studies and Surveys <sup>b</sup>	0	75	75
4. Workshops	0	25	25
5. Miscellaneous Administration Costs			
a. Subprofessional Technical Staff	0	15	15
b. Vehicles and Domestic Transport	0	30	30
c. Office Management	0	15	15
6. Communications	0	4	4
7. Report Preparation	0	5	5
8. Contract Negotiations	8	0	8
9. Contingencies	62	51	113
<b>Subtotal (A)</b>	<b>480</b>	<b>520</b>	<b>1,000</b>
<b>B. Government Financing</b>			
1. Office Accommodation and Utilities	0	45	45
2. Counterpart Staff Remuneration	0	95	95
3. Data Gathering	0	45	45
4. Workshop Venues	0	25	25
5. Other Logistical Support	0	45	45
<b>Subtotal (B)</b>	<b>0</b>	<b>255</b>	<b>255</b>
<b>Total</b>	<b>480</b>	<b>775</b>	<b>1,255</b>

Note: With the application of quality cost based selection, items A.2, A.3, A.4, and A.5 are considered "provisional sums" and these allocated amounts have to be included in the financial proposal without change.

<sup>a</sup> Office equipment (3 desktop computers, uninterrupted power supply, software, 2 laser printers, 1 inkjet color printer, 1 scanner, 1 photocopier, 1 facsimile machine, 3 cellular telephones, and air conditioners) will be purchased by the consultant in accordance with ADB's Guidelines for Procurement. The equipment will be handed over to the local state government urban on completion of the technical assistance.

<sup>b</sup> Includes socioeconomic survey and engineering surveys and mapping.

Source: Asian Development Bank estimates.

## OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

### A. Review of Lessons Learned, Initial Field Visits, Workshops and Preparation of Work Plan (1 month)

1. **Lessons Learned.** Review the experience of other ADB-assisted urban projects in India assisted by the Asian Development Bank (ADB). Organize a workshop in Trivandrum to share the lessons learned with state government officials, municipal mayors, commissioners, and representatives of citizen groups.<sup>1</sup> For the workshop, invite project directors and/or project management unit staff from other ADB-assisted urban projects. Organize a similar workshop in each project municipality during the field visits to these cities in order to help the municipal stakeholders familiarize themselves with the technical assistance activities as well as the lessons learned. For each city visited, prepare a report, which will be included in the inception report.

2. **Policy and Institutional Framework.** Review the state's strategy for urban development and existing studies on urbanization in Kerala. Review the government's policy for decentralization and assess existing institutional arrangements between municipal and state governments for fiscal, technical, managerial, social, and other aspects. Review the related acts governing the operation of municipal governments, and recommend modifications and measures to promote the implementation of the decentralized urban service delivery. Specify other institutional changes at state and local levels that are needed to ensure sustainability of the investments, and to promote efficient integrated and participatory urban planning and management.

### B. Data Collection, and Preparation of Indicative Investment Program (2–3 months)

3. **Socioeconomic Survey.** Engage a local institution or nongovernment organization to conduct a socioeconomic survey of the selected towns; collect baseline data on income and expenditures, demographic trends, gender issues, health, welfare, sanitation and urban environmental situations, and other related social circumstances; and analyze the poverty incidence in each town, including the projected growth in the incidence of urban poverty, and describe the nature and characteristics of poverty in selected towns. In the survey, develop an understanding of the size, nature, needs, possibilities, and priorities of urban groups. Pay particular attention to collecting data on rural-urban migration (and urban to outside the state and country), as rural migrants tend to be excluded from surveys. Conduct demand surveys; assess capacity and willingness to pay for selected municipal services willingness to charge, and cost-sharing arrangements; and suggest alternative technical options and means of service delivery suitable for urban groups to make essential improvements at the city and local level viable.

4. **Data on Infrastructure and Municipal Services Delivery.** Collect and assess data covering the towns' assets (e.g., infrastructure system, land uses, economic infrastructure, residential, and other superstructure and essential planning data). Pay particular attention to the levels of environmental infrastructure in the selected towns (sewerage and drains, solid waste

<sup>1</sup> Review the lessons from (i) ADB's Operations Evaluations Department's impact evaluation study on water supply and sanitation projects and (ii) TAs on water tariff reforms in the People's Republic of China and Viet Nam (ADB. 1997. *Technical Assistance to the People's Republic of China for the Water Supply Tariff Study*. Manila. ; ADB. 1999. *Technical Assistance to the People's Republic of China for the Water Tariff Study II*. Manila. ; and ADB. . *Technical Assistance to the National Tariff Study* . Manila.).

management, and slum improvement); and evaluate the quality of municipal service delivery and the operations and maintenance capabilities (budget, staff, and equipment). For each urban subsector, undertake the following assessments:

- (i) Examine water supply augmentation proposals (including assistance from Japan Bank for International Cooperation) in conjunction with the existing distribution system. Review options for reducing leakages and wastes and promoting 24 hour water supply. Assess whether the water supply scheme in each city (existing and planned) is adequate for developing a sewerage system.
- (ii) Examine the sewerage and drainage systems with reference to their adequacy. Identify needs for augmentation of discharge capacities, and possible locations for sewage treatment plants and outlets for treated sewage discharge. Review the state's environmental procedures. Provide benefit-cost analysis of individual sewage management versus a piped sewage system for low-income groups of urban population, and conversion of dry latrines into pour flush toilets; and compare the options of various sewage treatment facilities.
- (iii) Analyze existing facilities and managerial arrangements for handling solid waste and suggest improvements. Base the technical recommendations on physical and chemical analysis of solid waste, quantity generated, locations of pickup points, design of collection system, transfer points, and methods and locations of disposal. Examine the option of producing compost.
- (iv) Examine the efficiency and equity of urban transport models to reduce congestion and improve road safety, including by-passes, mass parking terminals at the city entrance, traffic management, and street lighting.
- (v) Examine urban poverty initiatives under Kudumbashree (the state poverty eradication program) and develop an investment program to support the program under the proposed ADB assistance. Instead of creating a new poverty reduction program, the project will support and expand the ongoing initiatives for urban poverty reduction. To promote women's participation in project activities, successful Kudumbashree experience will be reviewed and supported, especially for the women in distress.<sup>2</sup>
- (vi) Examine the efficiency and equity of other urban social services (e.g., urban primary health care, and social safety net for the disadvantaged groups) to improve sustainability of such services for the poor.

**5. Investment Program and Project Framework.** Based on the assessment made and overall financial capability of each municipality to provide counterpart financing and service the debt, identify subsectors in each city that require integrated upgrading. Estimate the subsector-specific demand for basic urban infrastructure and services. Identify and prioritize investment components eligible for ADB financing before undertaking a full feasibility study; in particular, study and recommend to what extent the various urban infrastructure components need to be integrated and implemented simultaneously and to what extent these components can be

<sup>2</sup> Detailed information on vulnerability and gender in Kerala is available in the Country Report of RETA 5948 (ADB, 2000. *Technical Assistance for Combating Trafficking in Women and Children*. Manila). Available: <http://adb.org/gender/reta5948.asp>

implemented later under separate packages. Prepare a draft project framework to facilitate conceptualization of the design of the project, monitoring of project implementation, and evaluation of project benefits and impacts. Identify a distinct opportunity for utilizing financing from the Japan Fund for Poverty Reduction.

6. **Kerala Municipal Challenge Fund.** Design a fund to promote urban management reform in the state. Five project cities and all other district towns will be eligible for loans (or partial grants depending the state government's policy) after meeting predetermined eligibility conditions. Two sets of criteria will be developed to (i) assess the city's commitment to urban management reform; and (ii) then, to determine the technical, economic, financial, social, and environmental viability of individual investment proposals. The consultants will also develop a detailed management plan and general investment guidelines (e.g., maximum size of an individual loan/grant, subsectors to be supported, and a credit ceiling for each city) for the fund. At least five sample subprojects will be identified and assessed to demonstrate the viability of the fund. In addition, the consultants will prepare a plan for restructuring the Kerala Urban Development Finance Corporation to assume an increased role in urban infrastructure financing for municipal infrastructure development.

### C. Detailed Feasibility Study (4–5 months)

7. **Project Design.** Prepare a preliminary engineering design of the proposed project components, and detailed cost estimates in ADB's format using the COSTAB software. Include the costs for consulting services (for detailed design, implementation of the project, and institutional support), studies and training programs, interest charges on loan financing, and physical and price contingencies at rates used by ADB. Examine the flow of funds under the project and the requirements for and availability of counterpart fund. Propose procurement modes and packages based on cost-effective bid packages.

8. **Minimum Eligibility Conditions.** Five municipal corporations are expected to enter into a performance contract with the state government in exchange for ADB's financial assistance. The consultants will develop a set of minimum requirements that the project cities will meet to be eligible for ADB financing of the investments they prioritize. The requirements will mainly focus on participatory planning, inclusive municipal management, and financial management plan.

9. **Implementation Arrangements.** Assess the options for implementation arrangements for financial, accounting, technical, and managerial capabilities of the executing agency and the municipalities. Recommend appropriate measures to facilitate project implementation, including staffing and training of staff of project implementation units, supervision of construction works, monitoring and reporting of the subprojects, and provision of consulting services during implementation. Propose appropriate financial, accounting, and managerial arrangements for proper O&M of all project facilities and estimate the costs and human resources requirements. Propose cost recovery mechanisms (including necessary institutional arrangements) through taxes, user charges, and innovative land management techniques (e.g., advance land acquisition, land readjustment) for O&M and recovery of initial investments. Prepare an implementation schedule for detailed engineering, tendering, and construction of project components. Identify the requirements for key advance actions to avoid the delay in implementation. In accordance with ADB's requirements for the project performance management system, develop the project monitoring and evaluation arrangements for executing and implementing agencies including the content and format of the progress reports.

10. **Capacity Building and Institutional Strengthening.** To ensure the sustainability of the investments under the project, develop a carefully designed capacity-building program for all participating urban local bodies, especially in collecting, updating, organizing, and managing financial and other information for routine work of municipality. Capacity building efforts are most effective when they are provided as on-the-job support over 3–5 years. The key components of the capacity building program will include (i) computerizing a municipal data base for tax billing, collection, and reassessment; (ii) setting up a modern municipal accounting system based on computerized operation of financial accounts for daily entry and reporting; (iii) training local staff to operate the municipal information system; (iv) inventorying and reassessing property (conducting a property enumeration and preparing property tax maps); (v) surveying basic infrastructure conditions, preparing digitized maps, and linking property and infrastructure databases and maps for infrastructure investment planning; and (vi) training elected officials about their responsibilities and roles. Develop comprehensive 5-year program to cover all district towns. Recommend a proper institutional structure to implement a large-scale capacity building program during and after the implementation of the project. However, in developing such a program, first review similar capacity-building programs under the ongoing state-sponsored schemes, including Kudumbashree, Information Kerala Mission, and Modernizing Government Program. Instead of creating a new program, develop options to integrate the three ongoing programs under one umbrella with a shared timetable for implementing capacity-building in project and other municipalities.

11. **Financial and Economic Analyses.** (i) Review the financial performance of the selected municipalities. (ii) Prepare financial projections for operations 10 years after project completion. (iii) Compute relevant financial indicators of each town to assess its financial viability. (iv) Review cost-recovery policies and user charges in each town. (v) Assess the financial sustainability of the proposed project components. (vi) Assess the affordability of current services and the ability to increase the user charges in the short and medium term, giving special attention to the potential impact on low-income households and marginal business activities, and develop specific measures to reduce the impact of the increase in user charges where necessary. (vii) Evaluate the need for subsidies to ensure affordability to the poor. Present justifications for any such subsidies based on ADB's criteria for subsidies, and discuss how such subsidies might be financed. (viii) Quantify the subsidy element and identify the targets of the subsidy. (ix) Examine feasible cost-recovery approaches to ensure full O&M and sustainability of the initial investments. (x) Carry out a least-cost analysis of alternatives to meet the project's goal. Consider alternatives well beyond the current proposal, and include alternatives that are not directly related to the currently envisioned project. (xi) Estimate the financial and economic internal rates of return for the components, as relevant, following ADB's guidelines. (xii) Carry out sensitivity analyses, including the computation of sensitivity indicators and switching values. The sensitivity analysis should reflect changes in individual key parameters and assumptions, and not be limited to changes in aggregate costs and benefits. (xiii) Study and recommend mechanisms for initial contributions from the beneficiaries as well as the local and central governments for financing a reasonable share (i.e., 30% in India) of investment costs for urban infrastructure and services. In conducting economic and financial analyses, refer to ADB's *Framework for the Economic and Financial Appraisal of Urban Development Sector Projects* and *Guidelines for the Economic Analysis of Projects*.

12. **Environmental Assessment.** Prepare an initial environmental examination (IEE) or environmental impact assessment (EIA) for each city, and a summary IEE or EIA for the whole project in accordance with ADB's environmental guidelines. Prepare IEEs for the sample subprojects under the proposed Kerala municipal challenge fund. Environmental assessments will be prepared in accordance with ADB's environmental policy and relevant guidelines, and

rules and requirements in India. Address the impacts on urban social infrastructure services during project implementation, construction, and operation. Formulate environmental management plans (EMPs) for the proposed project.

13. **Poverty and Social Analysis.** Following ADB's guidelines in the *Handbook on Poverty and Social Analysis*. Conduct detailed poverty and social analysis as required; in particular, conduct gender analysis, and identify constraints on women's participation in project design, O&M, and training. Based on the socioeconomic survey, assess the socioeconomic benefits of the project and its possible negative impact. Prepare an overall framework for people's participation in project preparation, implementation, and postproject O&M activities.

14. **Land Acquisition and Resettlement.** At an early stage of TA implementation, apply ADB's resettlement checklists to identify resettlement issues and ascertain the nature and degree of the project's impacts on affected households and people. If the expected resettlement impacts are significant, prepare an appropriate resettlement plan based on the identified subproject design in each town, in accordance with ADB's policy on involuntary resettlement and *Handbook on Resettlement*, including the following; (i) review and assess the key policies, laws, and guidelines regarding land acquisition, resettlement, and compensation; (ii) identify and enumerate the people likely to be affected through a survey and asset inventory that identifies all types of loss; consult the affected people to ascertain their preference for relocation, compensation, and livelihood restoration; establish an entitlement cutoff date supplementing the records with video taping (if necessary); and estimate the requirements for financial resources and compare the amount with resources available from the national and state governments; (iii) identify and establish options for relocating housing and other structures, including measures required to assist with transfer and establish new sites, options to restore or enhance livelihoods, and mechanisms for redressing grievances; and (iv) specify the main responsibilities for approving, implementing, managing, financing, and monitoring the resettlement plan, capacity-building programs as required, implementation schedule, financial plan including resettlement budget, annual financing plan, and plan for internal and external monitoring and evaluation of the resettlement plan. Prepare a resettlement framework for the Kerala municipal challenge fund to address the resettlement issues that may arise out of the subloans. The resettlement framework will specify the resettlement policy that will be adopted to provide safeguards for resettlement effects, together with the applicable procedures for identifying the affected people, preparing resettlement plans, approving plans, and implementing and monitoring them.

15. **Indigenous People.** Apply the Indigenous People's Checklist in *Handbook on Poverty and Social Analysis* in order to ascertain the number of indigenous people and their socioeconomic status and anticipated project impacts on them. Also use the checklist Categorization of Indigenous People, if necessary. Prepare indigenous people development plans if necessary in accordance with ADB's policy on indigenous people.

16. **Implementation Assistance.** Estimate requirements of the project to improve skills in engineering, planning, project management and other essential disciplines. Based on available skills, recommend additional recruitment/upgrading and expertise. Assess the institutional strengths and weakness of the executing and implementing agencies and recommend strengthening of institutional capabilities through organizational changes, new implementation arrangements, and staff recruitment and training; and use domestic and international consultants for specialized requirements.