

# Project Administration Manual

Project Number: 48175-002  
Loan Number: {LXXXX; GXXXX; TXXXX}  
May 2018

Myanmar: Third Greater Mekong Subregion Corridor  
Towns Development Project



## ABBREVIATIONS

3Rs	–	Reduce, Reuse, Recycle
AAGR	–	Annual Average Growth Rates (Population)
ADB	–	Asian Development Bank
AH 1	–	Asian Highway 1
APCF	–	Asia Pacific Carbon Fund
BATNEEC	–	Best Available Techniques Not Entailing Excessive Costs
BOI	–	Thai Board of Investment
BOO	–	Build - Own - Operate
BOOT	–	Build–Operate–Own–Transfer
C:N	–	Carbon-Nitrogen (ratio)
cap	–	Capita (= 1 person)
CBO	–	community-based organization
CBP	–	Capacity Building Program
CC	–	Climate Change
CDIA	–	Cities Development Initiative for Asia
CDM	–	Clean Development Mechanism
CER	–	Certified Emission Reduction
CH <sub>4</sub>	–	Methane
CO <sub>2</sub>	–	carbon dioxide
CPCS	–	Centre for Peace and Conflict Studies
DDI	–	Domestic Direct Investment
DFR	–	draft final report
DHSHD	–	Department for Human Settlement Housing Development (DUHD)
DMF	–	design and monitoring framework
DUHD	–	Department of Urban Housing Development (MOC)
EA	–	executing agency
EA	–	environmental assessment
ECC	–	Environmental Compliance Certificate
ECD	–	Environmental Conservation Department
EIA	–	Environmental Impact Assessment
EWEC	–	East – West Economic Corridor
FDI	–	Foreign Direct Investment
GAD	–	General Administration Department
GHG	–	greenhouse gas
GMS	–	Greater Mekong Subregion
GNP	–	gross national product
GoM	–	Government of Myanmar
HDPE	–	High Density Polyethylene
HIZ	–	Hpa-An Industrial Zone
HTDC	–	Hpa-An Town Development Committee
IA	–	implementing agency
IEE	–	initial environmental examination
IFI	–	International Finance Institution
INC	–	Initial National Communication
IPNS	–	Integrated Plant Nutrient System
ISWM	–	Integrated Sustainable Waste Management
JICA	–	Japan International Cooperation Agency
KNU	–	Karen National Union

KS-DAC	–	Kayin State Development Affairs Development Committee
KS-DAO	–	Kayin State Development Affairs Office
KSG	–	Kayin State Government
m <sup>3</sup>	–	cubic meter
MaT-DAC	–	Mawlamyine Township Development Affairs Committee
MaT-DAO	–	Mawlamyine Township Development Affairs Office
MCDC	–	Mandalay City Development Committee
MDDC	–	Myawaddy District Development Committee
MoECAAF	–	Ministry of Environment Conservation and Forests
MHA	–	Ministry of Home Affairs
MMK	–	Myanmar Kyat
MOA	–	Ministry of Agriculture
MOC	–	Ministry of Construction
MOE	–	Ministry of Energy
MOSB	–	Myanmar Offshore Supply Base
MRF	–	Material Recovery Facility
MS-DA	–	Mon State Development Affairs
MS-DAC	–	Mon State Development Affairs Committee
MS-DAO	–	Mon State Development Affairs Office
MSE	–	Micro- and Small enterprises
MSG	–	Mon State Government
MS-GAD	–	Mon State General Affairs Department
MST-DAC	–	Mon-State Township-level Development Affairs Committees
MSW	–	Municipal Solid Waste
MTDC	–	Mawlamyine Town Development Committee
MW	–	Megawatt
NAPA	–	National Adaptation Programs of Actions
NECC	–	National Environmental Conservation Committee
NEDA	–	Neighbouring Countries Economic Development Cooperation Agency, Ministry of Finance, Thailand
NGO	–	nongovernment organization
NMSP	–	New Mon State Party
NPK	–	Nitrogen, Phosphorous, And Potassium
NSAG	–	Non-State Armed Groups
ODA	–	Overseas Development Assistance
PCU	–	Project Coordination Unit
PET	–	Poly-ethylene Terephthalate
PIU	–	Project Implementation Units
PPP	–	Public–Private Partnership
PPTA	–	Project Preparatory Technical Assistance
SEZ	–	Special Economic Zone
SLEDP	–	Strategic Local Economic Development Plans
SPC	–	Special Purpose Company
SPS	–	Safeguard Policy Statement
TA	–	Technical Assistance
TAO	–	Township Administration Office
THa-DAC	–	Township Hpa-An Development Affairs Committee
THa-DAO	–	Township Hpa-An Development Affairs Office
TMy-DA	–	Myawaddy Township Development Affairs
TMy-DAO	–	Myawaddy Township Development Office

TMy-DC	–	Myawaddy Township Development Committee
TZM	–	Myawaddy Township Trade Zone
UMTA	–	Union of Myanmar Travel Association
UNDP	–	United Nations Development Programme
WOP	–	Water Operator Partnership (WOP)
WWTP	–	Waste Water Treatment Plant
YCDC	–	Yangon City Development Committee
YHT	–	Yangon Heritage Trust



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### **Project Administration Manual Purpose and Process**

The project administration manual (PAM) describes the essential administrative and management requirements to implement the project on time, within budget, and in accordance with the policies and procedures of the government and Asian Development Bank (ADB). The PAM should include references to all available templates and instructions either through linkages to relevant URLs or directly incorporated in the PAM.

The executing and implementing agencies are wholly responsible for the implementation of ADB-financed projects, as agreed jointly between the borrower and ADB, and in accordance with the policies and procedures of the government and ADB. ADB staff is responsible for supporting implementation including compliance by executing and implementing agencies of their obligations and responsibilities for project implementation in accordance with ADB's policies and procedures.

At loan negotiations, the borrower and ADB shall agree to the PAM and ensure consistency with the loan agreement. Such agreement shall be reflected in the minutes of the loan negotiations. In the event of any discrepancy or contradiction between the PAM and the loan agreement, the provisions of the loan agreement shall prevail.

After ADB Board approval of the project's report and recommendations of the President (RRP), changes in implementation arrangements are subject to agreement and approval pursuant to relevant government and ADB administrative procedures (including the Project Administration Instructions) and upon such approval, they will be subsequently incorporated in the PAM.



## I. PROJECT DESCRIPTION

### A. Rationale

1. **Development of Greater Mekong Subregion corridor towns.** The GMS EWEC has contributed to economic growth in the region since its launch in 1998 as a GMS flagship initiative. The objective of developing the GMS corridor towns is to increase economic activities along these economic corridors by investing in urban infrastructure. Local economic development in Mawlamyine, Hpa-An, and Myawaddy is indispensable to transform Myanmar's portion of the EWEC into a full-fledged economic corridor. International tourist visits increased from about 50,000 in 2011 to 170,000 in 2016 in Mon State and from 5,000 in 2011 to 90,000 in 2016 in Kayin State.<sup>1</sup> Border trade at Myawaddy in Myanmar and Mae Sot in Thailand increased from about \$1 billion in 2010 to \$3 billion in 2016.<sup>2</sup> The project will be the third phase of the GMS corridor towns development initiative and will contribute to environmentally sustainable and inclusive growth of the region.

2. **Country's urbanization and urban issues.** Although 66.0% of Myanmar's population resides in rural areas, the urban population has grown by 2.5% per year, faster than the country's total population (0.8% per year). The percentage of the urban population in Myanmar increased from 27.0% of the total population in 2000 to 34.1% of the total population in 2015. It is expected to increase to 36.9% in 2020 and 42.8% in 2030.<sup>3</sup> On the other hand, chronic underinvestment in urban infrastructure has resulted in seriously deficient municipal services throughout Myanmar. Lack of urban infrastructure and limited capacity to manage municipal services are major disincentives to external investments, which are critical to socioeconomic development and growth.<sup>4</sup>

3. **Regional context.** Kayin State and Mon State have significant potential for development thanks to (i) an expected increase in trade with Thailand, (ii) better access to Yangon, (iii) its link to the Bay of Bengal, (iv) expected increases in tourist visits, and (v) connection with a new international airport in Bago. Upgrading urban infrastructure and developing urban management capacity are essential to strengthen Kayin and Mon states' competitiveness and tie-in with wider economic growth in the GMS.

4. **Project town profiles.** Mawlamyine is the capital of Mon State with an urban population of about 254,000, and has been a hub for trade with Thailand. The town's history and built heritage are also a major attraction for tourists, but they are being deteriorated because they lack proper maintenance. Hpa-An is the capital of Kayin State with an urban population of about 75,000. It is expected to grow as a service center along the EWEC for small industries such as textiles and agro-processing. The town also attracts tourists to its beautiful limestone hills and Buddhist heritage sites. Myawaddy borders Thailand and has an urban population of about 113,000. The GMS Regional Investment Framework (2013–2022) identified the border crossing between Myawaddy in Myanmar and Mae Sot in Thailand as one of the 17 key GMS border crossings.<sup>5</sup> It is expected to boost cross-border trade with Thailand upon completion of the second Thailand–Myanmar Friendship Bridge in 2019, which is supported by grant funds from the Government of Thailand. Development partners in the urban sector have supported mainly Yangon and

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<sup>1</sup> Directorate of Hotels and Tourism of Myanmar. 2017. *Tourist & Local Arrival Record*. Nay Pyi Taw.

<sup>2</sup> Mae Sot Custom House. 2017. *Trade Statistics*. Bangkok.

<sup>3</sup> United Nations. 2015. *World Urbanization Prospects: The 2014 Revision*. New York.

<sup>4</sup> Sector Assessment (Summary): Water and Other Urban Infrastructure and Services (accessible from the list of linked documents in Appendix 2).

<sup>5</sup> ADB. 2015. *GMS Urban Development Strategic Framework 2015–2022*. Manila.

Mandalay, and the proposed project is the first effort to work on the secondary cities in Myanmar in a holistic manner.

**5. Core issues and binding constraints in urban service delivery in project towns.**

Although the state governments through town development committees are tasked with urban planning and urban service delivery, they do not effectively carry out their responsibilities because they lack staff, skills, funds, and data. For urban infrastructure, improving water supply and solid waste management are priorities for the Kayin and Mon States to cater to the immediate needs of the project towns. In Mawlamyine, 30% of the population has access to piped water supply and nonrevenue water is estimated at about 80%, while in Hpa-An, only 13% of the population has access to piped water supply and nonrevenue water is estimated at 70%. Myawaddy has no public water supply system, but granted two private operators the right to distribute piped water for 54% of the population. The operators' networks are extended on an ad hoc basis without any formal planning in response to customer demands. None of the existing facilities in the three project towns treats the water, apart from a natural sedimentation process in Mawlamyine. Only about half of the generated waste are collected in the three project towns. The remaining waste is illegally dumped or burned along roads, nearby watercourses, and the riverfront. It not only causes environmental degradation but also increases damages from seasonal flooding. Waste is also taken to uncontrolled dump sites that are located upstream of water supply river intakes in Mawlamyine, near major tourist attractions in Hpa-An, and along the river bordering with Thailand in Myawaddy. The next priorities are wastewater management and flood protection. Although there is no piped sewerage system nor a centralized wastewater treatment plant in the project towns, wastewater is mostly from households and relatively small amount. A comprehensive hydraulic study covering the river basin is necessary to develop flood protection measures that will require involvement of other government agencies. Financing these priority projects have been difficult since the weak legal framework and lack of cost recovery mechanisms hinders private sector investment and other development partners have not given much assistance.

**6. Strategic alignment.** The proposed project supports the thrusts of the GMS Strategic Framework 2012–2022 in facilitating cross-border trade, investment, and tourism;<sup>6</sup> and is included in the GMS Regional Investment Framework (2013–2020).<sup>7</sup> The development of sustainable cities and reduction of pollution and environmental degradation are included in the policy measures to achieve the government's overarching goals toward inclusive and sustainable economic development.<sup>8</sup> The country partnership strategy for Myanmar 2017–2021 of the Asian Development Bank (ADB) identifies infrastructure development as a main pillar of ADB operations.<sup>9</sup> The proposed project is also consistent with ADB's Midterm Review of Strategy 2020, and urban and water operational plans as it will promote sustainable inclusive growth in cities, integrate climate change adaptation measures in the project design, and mainstream efficiencies in water use.<sup>10</sup>

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<sup>6</sup> ADB. 2011. *The Greater Mekong Subregion Economic Cooperation Program Strategic Framework 2012–2022*. Manila.

<sup>7</sup> ADB. 2013. *Greater Mekong Subregion Economic Cooperation Program: Overview of the GMS Regional Investment Framework (2013–2022)*. Manila.

<sup>8</sup> Government of Myanmar. 2016. *Economic Policy of the Union of Myanmar*. Nay Pyi Taw.

<sup>9</sup> ADB. 2017. *Country Partnership Strategy: Myanmar, 2017–2021*. Manila.

<sup>10</sup> ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and the Pacific*. Manila; ADB. 2013. *Urban Operational Plan 2012–2020*. Manila; and ADB. 2012. *Water Operational Plan 2011–2020*. Manila.

7. **Lessons learned.** Key lessons from ongoing ADB-financed urban projects in Myanmar and other GMS countries, including the first phase<sup>11</sup> and the second phase<sup>12</sup> of the GMS corridor towns development project, are that (i) civil society participation and demand-driven development activities support local ownership; (ii) a streamlined approach to procurement and contract packaging secures effective project implementation; (iii) capacity development on ADB procedures is crucial for efficient implementation; and (iv) start-up assistance for the executing and implementing agencies will accelerate project implementation. These lessons informed the project design and implementation arrangements.

8. **Value added by ADB assistance.** ADB added value by introducing new and innovative approaches to (i) conserving built heritage from the British colonial period and in traditional Mon style in Mawlamyine, and (ii) developing a joint spatial development plan for two border towns at the Thailand–Myanmar border. For the heritage conservation, the project team prepared a small book on heritage buildings in Mawlamyine as part of project preparation, and pilot renovation of one of the heritage buildings was integrated into the project design. These activities are expected to help raise awareness on conservation and effective utilization of heritage buildings, and thereby promote opportunities for and intention to scale up. The joint spatial development plan will detail the future development strategy for the two linked towns of Mae Sot in Thailand and Myawaddy in Myanmar. Development patterns of these two border towns will be substantially changed upon completion of the second Thailand–Myanmar Friendship Bridge, which will bypass the urban center of both towns. The plan will help manage the rapid urbanization expected near and along the new bridge and access roads by controlling land use and providing urban services. The plan could be a model for future GMS border area development.

## **B. Impact and Outcome**

9. The project is aligned with the following impact: increased economic activities along the GMS EWEC (footnote 8). The project will have the following outcome: urban services and development in Mawlamyine, Hpa-An, and Myawaddy improved.

## **C. Outputs**

10. **Output 1: Urban planning improved.** Output 1 comprises the (i) renovation of the government's General Administration Department building adjoining the courthouse in Mawlamyine as a pilot built-heritage conservation, (ii) preparation of a joint spatial development plan for Myawaddy and Mae Sot as a formal document detailing the future development strategy for the two linked towns, and (iii) development of the Hpa-An industrial zone development plan to help the industrial zone grow as a regional economic hub along the EWEC.

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<sup>11</sup> ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan, Grant, and Administration of Grant to the Lao People's Democratic Republic: Greater Mekong Subregion East–West Economic Corridor Towns Development Project*. Manila; ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Loan and Grants to Kingdom of Cambodia: Greater Mekong Subregion Southern Economic Corridor Towns Development Project*. Manila; and ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Grant to the Socialist Republic of Viet Nam: Greater Mekong Subregion Corridor Towns Development Project*. Manila.

<sup>12</sup> ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Kingdom of Cambodia: Second Greater Mekong Subregion Corridor Towns Development Project*. Manila; ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Lao People's Democratic Republic: Second Greater Mekong Subregion Corridor Towns Development Project*. Manila; and ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam: Second Greater Mekong Subregion Corridor Towns Development Project*. Manila.

11. **Output 2: Basic social infrastructure upgraded.** Output 2 will improve water supply and solid waste management in Mawlamyine and Hpa-An. The project will (i) rehabilitate the existing dam, construct a new water treatment plant, extend the water distribution network, and construct new connections in Mawlamyine; and (ii) build a new water intake and treatment plant, extend water distribution network, and construct new connections in Hpa-An.<sup>13</sup> The project will (i) upgrade the existing dump site to a waste management center, including sanitary landfill and compost plant, in Mawlamyine; and (ii) construct a new waste management center, including sanitary landfill and compost plant, and close the existing dump sites in Hpa-An.

12. **Output 3: Urban management capacity strengthened.** Output 3 includes (i) capacity development and policy dialogue with the Kayin State Government (KSG) and Mon State Government (MSG) in the operation and maintenance and financial management of the project facilities, and municipal financial management; (ii) assistance to the Department of Urban and Housing Development (DUHD), Ministry of Construction (MOC) to implement the Urban and Regional Development Planning Law; and (iii) a public awareness program on environmental protection and public health for the residents in Mawlamyine, Hpa-An, and Myawaddy to increase willingness to connect to and to pay for the improved water supply and solid waste collection.

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<sup>13</sup> ADB has confirmed that there is sufficient resource water to increase water supply through water demand balance analysis during project preparation.



## II. IMPLEMENTATION PLANS

### A. Project Readiness Activities

Indicative Activities	2017									2018									Responsible	
	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O		
Preparation of proposed project implementation arrangements																				DUHD, KSG, MSG
Counterpart funds allocation for the first year																				MOPF, DUHD, KSG, MSG
Government approval (DACU, Parliament)																				GOM
Establishment of PMO																				KSG, MSG
Negotiations																				GOM, ADB
Request for EOI for project implementation support consultant																				DUHD, ADB
Government approval of DBO bidding documents																				KSG, MSG
ADB Board approval																				ADB
Signing																				GOM, ADB
Government legal opinion																				GOM
Effectiveness																				GOM, ADB

ADB = Asian Development Bank, DACU = Development Assistance Coordination Unit), DBO = design-build-operate, DUHD = Department of Urban and Housing Development, EOI = expression of interest, GOM = Government of Myanmar, KSG = Kayin State Government, MOPF = Ministry of Planning and Finance, MSG = Mon State Government, PMO = project management office.

Source: ADB.

## B. Overall Project Implementation Plan

Activities	2018	2019	2020	2021	2022	2023	2024	2025
<b>Urban planning improved</b>								
Heritage Renovation								
Detailed designs								
Procure works and goods								
Renovation and upgrading								
Industrial Zone Planning								
Consultant recruitment								
Plan development								
Joint Spatial Planning								
Consultant recruitment								
Plan development								
<b>Basic social infrastructure upgraded</b>								
Water Supply Improvement								
Tendering								
Detailed designs								
Update EMPs and RPs								
Civil works and equipment installation								
Commissioning and operation								
Solid Waste Management								
Tendering								
Detailed designs								
Update EMPs and RPs								
Civil works and equipment installation								
Commissioning and operation								
<b>Urban management capacity strengthened</b>								
Establish PMO								
Consultant recruitment								
Capacity development								
Awareness programs								
EMP activities								
GESIAP activities								
Annual and midterm review								
Project completion report								

EMP = environmental management plan, GESIAP = gender equity and social inclusion plan, PMO = project management office, RP = resettlement plan.

### III. PROJECT MANAGEMENT ARRANGEMENTS

#### A. Project Implementation Organizations: Roles and Responsibilities

Project Implementation Organizations	Management Roles and Responsibilities
Department of Urban and Housing Development, Ministry of Construction	<p>Executing Agency:</p> <ul style="list-style-type: none"> <li>➤ Oversee project activities.</li> <li>➤ Provide support staff for the PMOs.</li> <li>➤ Ensure compliance with loan covenants.</li> </ul>
Mon State Government and Kayin State Government	<p>Implementing Agencies</p> <ul style="list-style-type: none"> <li>➤ Establish the PCC and perform the role of its secretariat.</li> <li>➤ Provide counterpart funds for project activities in a timely manner.</li> <li>➤ Approve long-term and annual rolling plans for implementation.</li> <li>➤ Approve a procurement plan.</li> <li>➤ Ensure that project implementation complies with ADB's safeguard policy and provisions in the EMP included in the IEE and RP.</li> <li>➤ Establish a PMO.</li> <li>➤ Establish a PIU in Myawaddy.</li> <li>➤ Coordinate and monitor project activities of the PMO and PIU.</li> <li>➤ Approve detailed engineering designs, procurement documents, bid evaluation, and contract awards.</li> <li>➤ Establish a strong financial management system and submit timely withdrawal applications to ADB, ensuring financial audits are conducted as per agreed timeframe and taking recommended actions.</li> <li>➤ Provide ADB with details of the authorized staff with specimen signatures for withdrawal application processing.</li> <li>➤ Submit disbursement projections, and ensure counterpart fund allocation.</li> <li>➤ Coordinate in providing capacity development programs for PMO and relevant government units.</li> <li>➤ Coordinate in providing awareness building programs for communities.</li> <li>➤ Oversee and support the PMO and PIU with implementation of EMP and RP.</li> <li>➤ Oversee regular reporting by PMO and PIU on implementation of EMP and RP to the executing agency.</li> <li>➤ Undertake quality control inspections of the project facilities.</li> <li>➤ Manage the handover of project facilities to the agencies responsible for operation and maintenance.</li> </ul>
	<p>Project Management Office and Project Implementation Unit:</p> <ul style="list-style-type: none"> <li>➤ Undertake day-to-day management of the project activities.</li> <li>➤ Recruit (contract negotiations and contract signing) and supervise the consultant for implementation support, capacity development, and awareness building and contractors for civil works and equipment.</li> <li>➤ Monitor the implementation of resettlement activities by respective district governments, provide guidance as needed, and submit monitoring reports to the executing agency and ADB.</li> <li>➤ Sign consultants, civil works, and goods contracts.</li> <li>➤ Prepare and submit withdrawal applications and retain supporting documents.</li> <li>➤ Ensure that environmental protection and mitigation measures in the EMP is incorporated in the detailed design and included in the civil works contracts.</li> </ul>

Project Implementation Organizations	Management Roles and Responsibilities
Asian Development Bank	<ul style="list-style-type: none"> <li>➤ Ensure implementation of the EMP, submit regular monitoring reports. through the implementing agency to the executing agency, and identify corrective actions as necessary.</li> <li>➤ Prepare and submit timely quarterly and annual project reports to ADB.</li> <li>➤ Submit updated resettlement plan to ADB for concurrence prior to implementation.</li> <li>➤ Ensure implementation of the RP, periodic monitoring, and submission of monitoring reports to the executing and implementing agencies.</li> <li>➤ Implement the gender equality and social inclusion action plan and the consultation and participation plan.</li> </ul> <hr/> <p>Project Financier:</p> <ul style="list-style-type: none"> <li>➤ Review and approve procurement and disbursement documents.</li> <li>➤ Assist PMO in selecting the project implementation support consultant up to proposal evaluation and final ranking.</li> <li>➤ Regularly update the project performance review reports with the assistance of executing agencies.</li> <li>➤ Ensure the compliance of financial audits recommendations.</li> <li>➤ Process withdrawal applications and release payments to contractors, consultants, and others, as appropriate.</li> <li>➤ Coordinate with NEDA and TICA to ensure project activities administered by ADB, and NEDA and TICA are complementing each other.</li> <li>➤ Regularly post on ADB web the updated project information documents for public disclosure, and also the safeguards documents as per disclosure provision of the ADB safeguards policy statement.</li> <li>➤ Conduct semi-annual reviews to assess: (i) overall project implementation; (ii) land acquisition and resettlement; (iii) environmental management; (iv) project expenditure, disbursements, and counterpart funding; (v) procurement and contract awards; (vi) compliance with the loan covenants; and (vii) progress in attaining the project's outputs and outcome.</li> <li>➤ Conduct mid-term review to (i) assess need to restructure or reformulate the project, (ii) update the project's design and monitoring framework, and (iii) examine the need to extend the loan closing date.</li> <li>➤ Conduct project completion review to (i) evaluate the overall performance of project implementation, and (ii) assess whether the project has achieved the outcome anticipated at appraisal.</li> </ul>

ADB = Asian Development Bank, EMP = environmental management plan, IEE = initial environmental examination, NEDA = Neighbouring Countries Economic Development Cooperation Agency, PCC = project coordination committee, PIU = project implementation unit, PMO = project management office, RP = resettlement plan, TICA = Thailand International Cooperation Agency.

Source: Asian Development Bank.

## B. Key Persons Involved in Implementation

### Executing Agency

Department of Urban  
Development and Housing of  
the Ministry of Construction

Officer's Name: Daw Aye Aye Myint

Position: Deputy Director General

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#### IV. COSTS AND FINANCING

13. The project is estimated to cost \$86.53 million (Table 1).

**Table 1: Summary Cost Estimates**  
(\$ million)

Item	Amount <sup>a</sup>
<b>A. Base Cost<sup>b</sup></b>	
1. Urban planning improved	2.88
2. Basic social infrastructure upgraded	61.72
3. Urban management capacity strengthened	6.33
<b>Subtotal (A)</b>	<b>70.93</b>
<b>B. Contingencies<sup>c</sup></b>	<b>12.33</b>
<b>C. Financing Charges During Implementation<sup>d</sup></b>	<b>3.27</b>
<b>Total (A+B+C)</b>	<b>86.53</b>

<sup>a</sup> Includes taxes and duties of \$3.32 million to be financed from government resources through cash contribution.

<sup>b</sup> In mid-2017 prices.

<sup>c</sup> Physical contingencies computed at 10% for civil works and 10% for all other costs. Price contingencies computed at 1.5% on foreign exchange costs, and at 7.5% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

<sup>d</sup> Includes interest. Interest during construction for the Asian Development Bank loan is 1% per year and will be capitalized. There are no commitment charges.

Source: Asian Development Bank estimates.

14. The government has requested a concessional loan of \$80 million from ADB's ordinary capital resources to help finance the project. The loan will have a 32-year term, including a grace period of 8 years; an interest rate of 1.0% per year during the grace period and 1.5% per year thereafter; and such other terms and conditions set forth in the draft loan agreement. The borrower will be the Republic of the Union of Myanmar, which will make the loan proceeds available to KSG and MSG. The government will finance the taxes and duties, land acquisition, and project management. Climate change mitigation is estimated to cost \$1.7 million and climate change adaptation is estimated to cost \$3.7 million of which 100% will be funded by ADB. Details are in the project administration manual (PAM).<sup>14</sup> The financing plan is in Table 2.

**Table 2: Summary Financing Plan**

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (concessional loan)	80.00	92
Government	6.53	8
<b>Total</b>	<b>86.53</b>	<b>100</b>

Source: Asian Development Bank estimates.

15. The government also requested the Government of Thailand for parallel financing of a \$24.24 million loan from the Neighbouring Countries Economic Development Cooperation Agency (NEDA) and \$0.50 million in technical cooperation from Thailand International Cooperation Agency (TICA) to complement the project. The NEDA loan will improve water supply and solid waste management in Myawaddy. TICA will provide training for the three project towns on urban infrastructure planning and management. This is the first time for ADB to collaborate with NEDA and TICA, and ADB conducted feasibility studies for the components financed by NEDA and TICA. Coordination with NEDA and TICA is detailed in the PAM. Parallel financing

<sup>14</sup> Project Administration Manual (accessible from the list of linked documents in Appendix 2).

from NEDA and TICA will significantly enhance the project impact by increasing the number of beneficiaries and will encourage public-private partnerships in Thailand to invest in Myanmar.

## A. Detailed Cost Estimates by Expenditure Category

Item	In MK Millions			In \$ millions			% of Base Cost
	Foreign Exchange	Local Currency	Total	Foreign Exchange	Local Currency	Total	
<b>A. Investment Costs</b>							
1. Civil works	33,622.05	36,975.46	70,597.51	25.38	27.91	53.28	75%
2. Equipment/Vehicles	8,943.75	882.61	9,826.36	6.92	0.49	7.42	10%
3. Consulting Services	4,476.38	2,198.84	6,675.22	3.38	1.66	5.04	7%
4. Surveys	175.43	1,063.65	1,239.08	0.13	0.80	0.93	1%
5. Land Acquisition and Resettlement	-	516.75	516.75	-	0.41	0.41	1%
<b>Subtotal (A)</b>	<b>47,217.61</b>	<b>41,417.19</b>	<b>88,854.91</b>	<b>35.81</b>	<b>31.27</b>	<b>67.08</b>	<b>95%</b>
<b>B. Project Management</b>		4,972.54	4,972.54		3.85	3.85	5%
<b>Total Base Cost (A+B)</b>	<b>47,217.61</b>	<b>46,389.73</b>	<b>93,827.45</b>	<b>35.81</b>	<b>35.12</b>	<b>70.93</b>	<b>100%</b>
<b>C. Contingencies</b>							
1. Physical Contingency	5,001.14	4,376.84	9,377.98	3.77	3.30	7.07	10%
2. Price Contingency	2,174.76	4,798.64	6,973.40	1.64	3.62	5.26	7%
<b>Sub-total (C)</b>	<b>7,175.89</b>	<b>9,175.48</b>	<b>16,351.38</b>	<b>5.41</b>	<b>6.92</b>	<b>12.33</b>	<b>17%</b>
<b>D. Financing Charges During Implementation</b>	4,338.65		4,338.65	3.27		3.27	5%
<b>Total Project Cost (A+B+C+D)</b>	<b>58,732.15</b>	<b>55,565.21</b>	<b>114,517.47</b>	<b>44.49</b>	<b>42.04</b>	<b>86.53</b>	<b>122%</b>

**B. Allocation and Withdrawal of Loan Proceeds**

<b>ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Third Greater Mekong Subregion Corridor Towns Development Project)</b>			
<b>Number</b>	<b>Item</b>	<b>Total Amount Allocated for ADB Financing (\$)</b>	<b>Basis for Withdrawal from the Loan Account</b>
1	Works*	50,750,000	95% of total expenditure claimed
2	Equipment*	6,920,000	93% of total expenditure claimed
3	Consulting Services*	4,800,000	95% of total expenditure claimed
4	Surveys*	890,000	96% of total expenditure claimed
5	Project Management*	2,040,000	100% of total expenditure claimed
6	Interest Charge	3,270,000	100% of amounts due
7	Unallocated	11,330,000	
	<b>Total</b>	<b>80,000,000</b>	

\* Subject to the condition for withdrawal described in paragraph 6 of Schedule 3.

### C. Detailed Cost Estimates by Financier

Name	ADB Loan		Mon State		Kayin State		Central Government		Total Cost
	Amount	% of Cost Category	Amount	% of Cost Category	Amount	% of Cost Category	Amount (Taxes and duties) <sup>a</sup>	% of Cost Category	
<b>A. Investment Costs</b>									
1. Civil works	50.75	95%					2.53	5%	<b>53.28</b>
2. Equipment/Vehicles	6.92	93%					0.49	7%	<b>7.42</b>
3. Consulting Services	4.80	95%					0.24	5%	<b>5.04</b>
4. Surveys	0.89	95%					0.05	5%	<b>0.93</b>
5. Land Acquisition and Resettlement			0.27	66%	0.14	34%			<b>0.41</b>
<b>Subtotal (A)</b>	<b>63.36</b>	<b>94%</b>	<b>0.27</b>	<b>0%</b>	<b>0.14</b>	<b>0%</b>	<b>3.31</b>	<b>5%</b>	<b>67.08</b>
<b>B. Project Management <sup>b</sup></b>	2.04	53%	0.84	22%	0.97	25%			<b>3.85</b>
<b>Total Base Cost (A+B)</b>	<b>65.40</b>	<b>92%</b>	<b>1.11</b>	<b>2%</b>	<b>1.11</b>	<b>2%</b>	<b>3.31</b>	<b>5%</b>	<b>70.93</b>
<b>C. Contingencies</b>									
Physical Contingency	6.52	92%	0.12	2%	0.10	1%	0.33	5%	<b>7.07</b>
Price Contingency	4.81	91%	0.10	2%	0.10	2%	0.25	5%	<b>5.26</b>
<b>Subtotal (C)</b>	<b>11.33</b>	<b>92%</b>	<b>0.22</b>	<b>2%</b>	<b>0.20</b>	<b>2%</b>	<b>0.58</b>	<b>5%</b>	<b>12.33</b>
<b>D. Financing Charges During Implementation</b>	3.27	100%							<b>3.27</b>
<b>Total Project Cost (A+B+C+D)</b>	<b>80.00</b>	<b>92%</b>	<b>1.33</b>	<b>2%</b>	<b>1.31</b>	<b>2%</b>	<b>3.90</b>	<b>5%</b>	<b>86.53</b>
<b>% Total Project Cost</b>	92%		2%		2%		5%		

ADB = Asian Development Bank.

a = taxes and duties will be financed through cash contribution.

b = Government contribution to the project management will be provided in kind.

Note: Numbers may not sum precisely due to rounding.

**D. Detailed Cost Estimates by Outputs and/or Components (\$ million)**

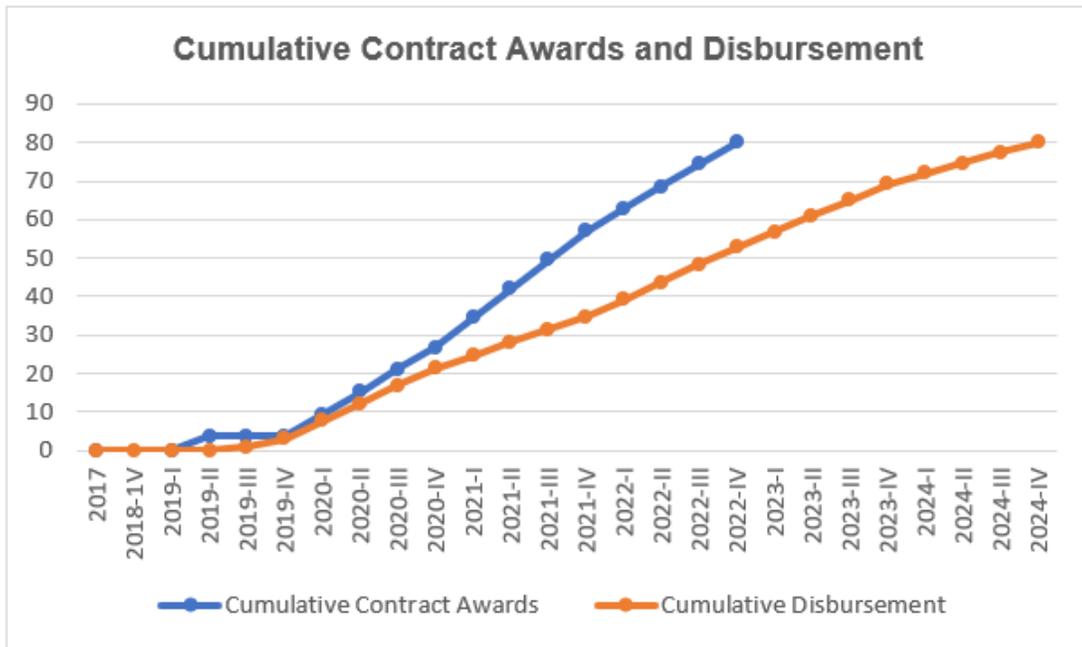
Item	Total Cost	Improved urban planning		Upgraded basic social infrastructure		Strengthened urban management capacity	
		Amount	% of Cost Category	Amount	% of Cost Category	Amount	% of Cost Category
<b>A. Investment Costs</b>							
1. Civil works	53.28	1.68	3%	51.60	97%		
2. Equipment/Vehicles	7.42			7.20	97%	0.22	3%
3. Consulting Services	5.04	1.10	22%			3.94	78%
4. Surveys	0.93			0.47	50%	0.47	50%
5. Land Acquisition and Resettlement	0.41			0.41	100%		
<b>Subtotal (A)</b>	<b>67.08</b>	<b>2.78</b>	<b>4%</b>	<b>59.68</b>	<b>89%</b>	<b>4.62</b>	<b>7%</b>
<b>B. Project Management</b>	3.85	0.10	3%	2.04	53%	1.71	44%
<b>Total Base Cost (A+B)</b>	<b>70.93</b>	<b>2.88</b>	<b>4%</b>	<b>61.72</b>	<b>87%</b>	<b>6.33</b>	<b>9%</b>
<b>C. Contingencies</b>							
Physical Contingency	7.07	0.28	4%	6.20	88%	0.60	8%
Price Contingency	5.26	0.16	3%	4.68	89%	0.42	8%
<b>Sub-total (C)</b>	<b>12.33</b>	<b>0.44</b>	<b>4%</b>	<b>10.88</b>	<b>88%</b>	<b>1.02</b>	<b>8%</b>
<b>D. Financing Charges During Implementation</b>	3.27	0.13	4%	2.92	89%	0.22	7%
<b>Total Project Cost (A+B+C+D)</b>	<b>86.53</b>	<b>3.45</b>	<b>4%</b>	<b>75.52</b>	<b>87%</b>	<b>7.57</b>	<b>9%</b>

**E. Detailed Cost Estimates by Year (\$ million)**

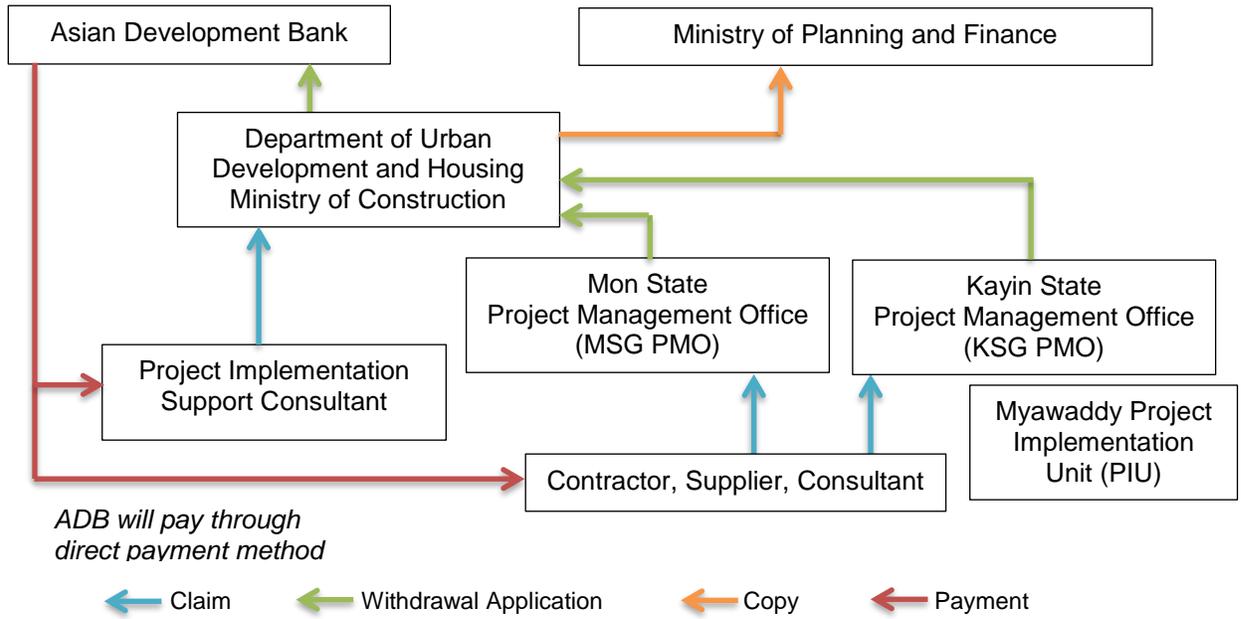
Item	Total Cost	2018	2019	2020	2021	2022	2023	2024
<b>A. Investment Costs</b>								
1. Civil works	53.28	0.55	13.81	18.20	14.50	5.54	0.45	0.24
2. Equipment/Vehicles	7.42	-	2.62	1.11	3.26	0.42	-	-
3. Consulting Services	5.04	1.46	1.32	0.66	0.53	0.50	0.26	0.30
4. Surveys	0.93	0.59	0.09	0.11	0.06	0.04	0.04	-
5. Land Acquisition and Resettlement	0.41	0.17	0.17	0.04	0.04	-	-	-
<b>Subtotal (A)</b>	<b>67.08</b>	<b>2.77</b>	<b>18.01</b>	<b>20.10</b>	<b>18.39</b>	<b>6.50</b>	<b>0.75</b>	<b>0.54</b>
<b>B. Project Management</b>	3.85	0.24	0.26	1.08	0.88	0.67	0.46	0.26
<b>Total Base Cost (A+B)</b>	<b>70.93</b>	<b>3.01</b>	<b>18.27</b>	<b>21.22</b>	<b>19.27</b>	<b>7.17</b>	<b>1.21</b>	<b>0.80</b>
<b>C. Contingencies</b>								
Physical Contingency	7.07	0.29	1.83	2.12	1.93	0.72	0.12	0.08
Price Contingency	5.26	0.08	1.00	1.53	1.71	0.82	0.09	0.04
<b>Sub-total (C)</b>	<b>12.33</b>	<b>0.37</b>	<b>2.83</b>	<b>3.64</b>	<b>3.64</b>	<b>1.53</b>	<b>0.21</b>	<b>0.11</b>
<b>D. Financing Charges During Implementation</b>	3.27	0.01	0.13	0.34	0.56	0.71	0.76	0.76
<b>Total Project Cost (A+B+C+D)</b>	<b>86.53</b>	<b>3.39</b>	<b>21.23</b>	<b>25.18</b>	<b>23.47</b>	<b>9.41</b>	<b>2.18</b>	<b>1.67</b>
<b>% Total Project Cost</b>		<b>4%</b>	<b>25%</b>	<b>29%</b>	<b>27%</b>	<b>11%</b>	<b>3%</b>	<b>2%</b>

**F. Contract and Disbursement S-Curve and Table**

Year	Contract Awards					Year	Disbursements				
	Q1	Q2	Q3	Q4	Total		Q1	Q2	Q3	Q4	Total
2017						2017					
2018						2018					
2019		3.60			3.60	2019			0.96	2.07	3.03
2020	5.8	5.77	5.79	5.79	23.15	2020	4.60	4.60	4.60	4.60	18.39
2021	7.57	7.57	7.57	7.57	30.28	2021	3.32	3.32	3.32	3.32	13.28
2022	5.75	5.74	5.74	5.74	22.97	2022	4.52	4.52	4.52	4.5	18.06
2023						2023	4.10	4.1	4.1	4.1	16.40
2024						2024	2.8	2.8	2.63	2.6	10.92
2025											
					80.00						80.00



**G. Fund Flow Diagram**



## V. FINANCIAL MANAGEMENT

### A. Financial Management Assessment

16. A financial management assessment (FMA) was conducted to determine the institutional capacity of the executing agency and the implementing agencies using a financial management assessment questionnaire (Appendix 1). The results of the questionnaire were analyzed with particular focus on the accounting and auditing procedures and staff experience. In terms of accounting and auditing procedures, it is recommended that a standalone accounting software is used for the preparation of financial reports. In terms of staff expertise, the implementing agencies have limited experience in infrastructure development projects financed by international or domestic funds. Training on ADB procedures and advanced financial management will be necessary to ensure success of implementation of the proposed project.

17. Overall risk rating for financial management is *high*. The major risks are (i) limited capacity of the executing and implementing agencies to (a) conduct project financial management, (b) prepare financial management reports, and (c) implement an internal audit; and (ii) weak financial management systems controls. The proposed risk mitigation measures involve capacity development to (i) direct payment procedure will be applied for all payments without using an advance account; (ii) provide training for the PMOs on ADB's disbursement policies and procedures, and international best practices; and (iii) improve project budgeting and accounting systems including computerization. With these measures, the risk rating is expected to be *moderate*.

18. The following actions were agreed with the executing agency and implementing agencies:

Planned Action	Output	Responsibility	Timeframe
Improved sustainability and efficiency of water supply and solid waste management operations in each of the Townships (Myawaddy's water supply operations are addressed below)	<ul style="list-style-type: none"> <li>• Capacity building for tariff setting and financial management</li> <li>• Formulation of a tariff road map for each township's water and sanitation department and cleansing department</li> <li>• Ring-fencing of each township's water and sanitation department and cleansing department</li> <li>• Formulation of a medium-term plan to corporatize each township's water and sanitation department and cleansing department</li> </ul>	DUHD, KSG, MSG, ADB	Prior to full operation
Improved sustainability and monitoring of private sector water supply operations in Myawaddy	<ul style="list-style-type: none"> <li>• Formulation of a bulk water tariff roadmap and a framework for a regular review of tariffs and the service performance of its private sector counterparts to ensure that their services meet agreed performance levels and that tariffs enable a fair return and remain affordable for low income households.</li> </ul>	DUHD, KSG, ADB	Prior to full operation
Financial management capacity of DUHD, KSG, MSG, PMOs	<ul style="list-style-type: none"> <li>• Training on project financial management, ADB financial management, and disbursement procedures</li> <li>• Training to strengthen the internal audit function and put in place systems to ensure data is safeguarded</li> </ul>	DUHD, KSG, MSG, PMOs, ADB	Upon start of loan implementation

Planned Action	Output	Responsibility	Timeframe
Project funds flow arrangements adopted and operational	<ul style="list-style-type: none"> <li>• Establishment of funds flow arrangements (including withdrawal application)</li> <li>• Development of organizational structure of the PMOs, project accounting system, and accounting policies and procedures.</li> <li>• Identification of a suitable standalone accounting software</li> <li>• Separate account to be maintained for each project township</li> <li>• Regular backups of all accounting systems</li> </ul>	DUHD, KSG, MSG, PMOs, ADB	Upon start of loan implementation

ADB = Asian Development Bank; DUHD = Department of Urban and Housing Development, Ministry of Construction; KSG = Kayin State Government; MSG = Mon State Government; PMO = project management office.

## B. Disbursement

19. The ADB loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time),<sup>15</sup> and detailed arrangements agreed upon between the government and ADB. Online training for project staff on disbursement policies and procedures is available.<sup>16</sup> Project staff are encouraged to avail of this training to help ensure efficient disbursement and fiduciary control.

20. ADB's advance account procedure will not be used for the project. Disbursements from the ADB loan for contracts of the works and consulting services will be generally through direct payment and reimbursement procedures.

21. The implementing agencies will be responsible for (i) preparing disbursement projections, (ii) requesting budgetary allocations for counterpart funds, (iii) collecting and retaining supporting documents, and (iv) preparing and sending withdrawal applications to ADB.

22. Before the submission of the first withdrawal application, the borrower should submit to ADB sufficient evidence of the authority of the person(s) who will sign the withdrawal applications on behalf of the borrower, together with the authenticated specimen signatures of each authorized person. The minimum value per withdrawal application is in accordance with the *Loan Disbursement Handbook*. Individual payments below such amounts should be paid by the implementing agencies and subsequently claimed to ADB through reimbursement, unless otherwise accepted by ADB. The borrower should ensure sufficient category and contract balances before requesting disbursements.

23. No withdrawals will be made from the loan account until the PMOs and PIU have been established with the sufficient number of qualified staff under the MSG and KSG.

## C. Accounting

24. The implementing agencies will maintain separate project accounts and records by funding source for all expenditures incurred on the project. Project accounts will follow the government's accounting laws and regulations which are consistent with international accounting principles and practices.

<sup>15</sup> Available at: [http://www.adb.org/Documents/Handbooks/Loan\\_Disbursement/loan-disbursement-final.pdf](http://www.adb.org/Documents/Handbooks/Loan_Disbursement/loan-disbursement-final.pdf).

<sup>16</sup> Available at: [http://wpqr4.adb.org/disbursement\\_elearning](http://wpqr4.adb.org/disbursement_elearning).

## D. Auditing and Public Disclosure

25. The implementing agencies will cause the detailed consolidated project accounts to be audited in accordance with International Standards on Auditing and/or in accordance with the government's audit regulations by an auditor acceptable to ADB. The audited accounts will be submitted in the English language to ADB within 6 months of the end of the fiscal year by the implementing agencies. The annual audit report will include a separate audit opinion on the use of the SOE procedures as applicable. The government, executing agency, and implementing agencies have been made aware of ADB's policy on delayed submission, and the requirements for satisfactory and acceptable quality of the audited accounts.<sup>18</sup> ADB reserves the right to verify the project's financial accounts to confirm that the share of ADB's financing is used in accordance with ADB's policies and procedures. For revenue generating projects only, ADB requires audited financial statements (AFS) for each executing and/or implementation agency associated with the project.

26. Public disclosure of the audited project financial statements, including the auditor's opinion on the project financial statements, will be guided by ADB's *Public Communications Policy 2011*.<sup>19</sup> After the review, ADB will disclose the audited project financial statements and the opinion of the auditors on the project financial statements no later than 14 days of ADB's confirmation of their acceptability by posting them on ADB's website. The management letter, additional auditor's opinions, and audited entity financial statements will not be disclosed.<sup>20</sup>

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<sup>18</sup> ADB approach and procedures regarding delayed submission of audited project financial statements:

- When audited project financial statements are not received by the due date, ADB will write to the implementing agency advising that (i) the audit documents are overdue; and (ii) if they are not received within the next six months, requests for new contract awards and disbursement such as processing of new reimbursement, and issuance of new commitment letters will not be processed.
- When audited project financial statements have not been received within 6 months after the due date, ADB will withhold processing of requests for new contract awards and disbursement such as processing of new reimbursement, and issuance of new commitment letters. ADB will (i) inform the implementing agency of ADB's actions; and (ii) advise that the loan may be suspended if the audit documents are not received within the next six months.
- When audited project financial statements have not been received within 12 months after the due date, ADB may suspend the loan.

<sup>19</sup> Available at: <http://www.adb.org/documents/pcp-2011?ref=site/disclosure/publications>

<sup>20</sup> This type of information would generally fall under public communications policy exceptions to disclosure. ADB. 2011. *Public Communications Policy*. Paragraph 97(iv) and/or 97(v).

## VI. PROCUREMENT AND CONSULTING SERVICES

### A. Advance Contracting and Retroactive Financing

27. All advance contracting will be undertaken in conformity with ADB's *Guidelines on the Use of Consultants* (2013, as amended from time to time).<sup>21</sup> The executing agency requested ADB to assist in selecting the project implementation support consultant, provided that the executing agency will negotiate and sign the consulting service contract. In addition, technical surveys and preparation of technical specifications for the proposed design-build-operate (DBO) contracts for the new water treatment plants were conducted during project preparation. These actions are expected to help expedite and ensure smooth project start-up. The borrower, executing agency, and implementing agencies have been advised that approval of advance contracting does not commit ADB to finance the project.

### B. Procurement of Goods, Works, and Consulting Services

28. All procurement of goods and works will be undertaken in accordance with ADB's *Procurement Guidelines* (2015, as amended from time to time).<sup>22</sup>

29. International competitive bidding (ICB) procedures will be used for civil works contracts estimated to cost \$3.0 million or more, and goods contracts valued at \$1.0 million or higher. Shopping will be used for contracts for procurement of works and goods worth less than \$100,000. DBO is proposed for the water supply and solid waste management to supplement the implementing agencies' capacity in operation and maintenance. Duration of the contracts are designed to last for 10 years. There was a positive market response for DBO for the wastewater treatment plant in Mandalay (estimated value of \$22.9 million). Contract packages costing between \$100,000 and \$3.0 million for works and between \$100,000 and \$1.0 million for goods may be procured using national competitive bidding (NCB) procedures, in accordance with the President's Office Notification No. 1/2013 dated 5 April 2013: Tender Rules in Granting Permit to Investments and Business Enterprises, subject to clarification to the Law that have been agreed with ADB for the purpose of ADB's *Procurement Guidelines*. The selection of suppliers and contractors and award of contracts will be subject to ADB's approval. The relevant sections of ADB's *Anticorruption Policy* will be included in all procurement documents and contracts.

30. Before the start of any procurement, ADB and the government will review the public procurement laws of the central and state governments to ensure consistency with ADB's *Procurement Guidelines*. The laws to be followed for national competitive bidding are set forth in the President's Office Notification No. 1/2013. Whenever any procedure in the national procurement laws is inconsistent with the ADB's *Procurement Guidelines*, the ADB Guidelines shall prevail.

31. An 18-month procurement plan indicating threshold and review procedures, goods, works, and consulting service contract packages and national competitive bidding guidelines is in Section C. During project implementation, this will be reviewed and updated annually.

32. All consultants will be recruited according to ADB's *Guidelines on the Use of Consultants*.<sup>23</sup> The terms of reference for all consulting services are detailed in Section E.

<sup>21</sup> Available at: <http://www.adb.org/Documents/Guidelines/Consulting/Guidelines-Consultants.pdf>.

<sup>22</sup> Available at: <http://www.adb.org/Documents/Guidelines/Procurement/Guidelines-Procurement.pdf>.

<sup>23</sup> Checklists for actions required to contract consultants by method available in e-Handbook on Project Implementation at: <http://www.adb.org/documents/handbooks/project-implementation/>.

33. An estimated 961 person-months (195 international, 766 national) of consulting services are required under ADB financing to (i) support project implementation, (ii) prepare a joint special development plan for Myawaddy and Mae Sot, (iii) prepare a Hpa-An industrial zone development plan, (iv) develop and conduct capacity development programs for the executing agency, (v) external monitoring for the environmental management plan and resettlement plans, and (vi) external financial audit services. Consulting firms will be engaged using the quality- and cost-based selection (QCBS) method with a standard quality–cost ratio of 90:10.

## C. Procurement Plan

### 2. Basic Data

<b>Project Name:</b> Third Greater Mekong Subregion Corridor Towns Development Project	
<b>Project Number:</b> 48175	<b>Approval Number:</b>
<b>Country:</b> Republic of the Union of Myanmar	<b>Executing Agency:</b> Department of Urban and Housing Development, Ministry of Construction
<b>Project Procurement Classification:</b> A	<b>Implementing Agencies:</b> Kayin State Government and Mon State government
<b>Procurement Risk:</b> Moderate	
<b>Project Financing Amount:</b> \$86.53 million <b>ADB Financing:</b> \$80.00 million <b>Non-ADB Financing:</b> \$24.74 million	<b>Project Closing Date:</b> 30 September 2025
<b>Date of First Procurement Plan</b>	<b>Date of this Procurement Plan:</b> 19 March 2018

#### 1. Methods, Thresholds, Review and 18-Month Procurement Plan

##### a. Procurement and Consulting Methods and Thresholds

34. Except as the Asian Development Bank (ADB) may otherwise agree, the following process thresholds shall apply to procurement of goods and works.

Procurement of Goods and Works		
Method	Threshold	Comments
International Competitive Bidding (ICB) for Works	\$3,000,000 and above	
International Competitive Bidding for Goods	\$1,000,000 and above	
National Competitive Bidding (NCB) for Works	Beneath that stated for ICB, Works	
National Competitive Bidding for Goods	Beneath that stated for ICB, Goods	
Shopping for Works	Below \$100,000	
Shopping for Goods	Below \$100,000	

Consulting Services	
Method	Comments
Quality and Cost Based Selection (QCBS)	90:10
Quality and Cost Based Selection (QCBS)	50:50 for Audit

##### b. Goods and Works Contracts Estimated to Cost \$1 Million or More

35. The following table lists goods and works contracts for which the procurement activity is either ongoing or expected to commence within the next 18 months.

Package Number	General Description	Estimated Value (\$million)	Procurement Method	Review [Prior/ Post/Post (sample)]	Bidding Procedure	Advertising Date (quarter/year)	Comment
MM-WS-10	Water Supply System (Mawlamyine)	21.2	DBO - ICB	Prior	1S2E	Q2, 2019	FIDIC Gold Book
MM-WS-15	Reservoir Rehabilitation (Mawlamyine)	2.6	ICB	Prior	1S2E	Q4, 2019	SBD Works (small contract)
HA-WS-10	Water Supply System (Hpa-An)	19.4	DBO - ICB	Prior	1S2E	Q2, 2019	FIDIC Gold Book
MM-SW-10	Solid Waste Management (Mawlamyine)	16.4	DBO - ICB	Prior	1S2E	Q3, 2019	FIDIC Gold Book
HA-SW-10	Solid Waste Management (Hpa-an)	10.0	DBO - ICB	Prior	1S2E	Q3, 2019	FIDIC Gold Book
MM-SW-20	Solid Waste Containers and Vehicles (Mawlamyine)	1.2	ICB	Prior	RFQ	Q1, 2019	Goods
MM-BH-01	Built Heritage Renovation (Mawlamyine)	2.0	ICB	Prior	1S2E	Q2, 2019	SBD Works (small contract)

**c. Consulting Services Contracts Estimated to Cost \$100,000 or More**

36. The following table lists consulting services contracts for which the recruitment activity is either ongoing or expected to commence within the next 18 months.

Package Number	General Description	Estimated Value (\$million)	Recruitment Method	Review (Prior/ Post)	Advertising Date (quarter/year)	Type of Proposal	Comment
GMS-CONS-01	Project Implementation Support	4.0	QCBS	Prior	Q2, 2018	FTP	International 90:10
MY-CONS-01	Joint Spatial Development Plan (Myawaddy)	0.5	QCBS	Prior	Q4, 2018	FTP	International 90:10
HA-CONS-01	Industrial Zone Development Plan (Hpa-An)	0.3	QCBS	Prior	Q4, 2018	STP	International 90:10
DUHD-CONS-01	Capacity Development (DUHD)	0.5	QCBS	Prior	Q4, 2018	STP	International 90:10
GMS-CONS-02	External Safeguard Monitoring	0.2	QCBS	Prior	Q4, 2018	BTP	International 90:10
GMS-CONS-03	Financial Audit	0.2	QCBS	Prior	Q1, 2019	BTP	National 50:50

**d. Goods and Works Contracts Estimated to Cost Less than \$1 Million and Consulting Services Contracts Less than \$100,000 (Smaller Value Contracts)**

37. The following table groups smaller-value goods, works and consulting services contracts for which the activity is either ongoing or expected to commence within the next 18 months.

Goods and Works								
Package Number	General Description	Estimated Value (\$million)	Number of Contracts	Procurement Method	Review [Prior / Post/Post (Sample)]	Bidding Procedure	Advertising Date (quarter/year)	Comments
HA-SW-20	Solid Waste Containers and Vehicles (Hpa-An)	0.5	1	NCB	Prior	RFQ	Q1, 2020	

## 2. Indicative List of Packages Required Under the Project

38. The following table provides an indicative list of goods, works and consulting services contracts over the life of the project, other than those mentioned in previous sections (i.e., those expected beyond the current period).

Package Number	General Description	Estimated Value (cumulative)	Estimated Number of Contracts	Procurement Method	Review Prior / Post / Post (Sampling)	Bidding Procedure	Comments

Package Number	General Description	Estimated Value (cumulative)	Estimated Number of Contracts	Recruitment Method	Review Prior / Post	Type of Proposal	Comments

## 3. List of Awarded and On-going, and Completed Contracts

39. The following tables list the awarded and on-going contracts, and completed contracts.

### a. Awarded and On-going Contracts

Goods and Works							
Package Number	General Description	Estimated Value	Awarded Contract Value	Procurement Method	Advertisement Date (quarter/year)	Date of ADB Approval of Contract Award	Comments

Consulting Services							
Package Number	General Description	Estimated Value	Awarded Contract Value	Recruitment Method	Advertisement Date (quarter/year)	Date of ADB Approval of Contract Award	Comments

### b. Completed Contracts

Goods and Works								
Package Number	General Description	Estimated Value	Contract Value	Procurement Method	Advertisement Date (quarter/year)	Date of ADB Approval of Contract Award	Date of Completion	Comments

Consulting Services								
Package Number	General Description	Estimated Value	Contract Value	Recruitment Method	Advertisement Date (quarter/year)	Date of ADB Approval of Contract Award	Date of Completion	Comments

#### 4. Non-ADB Financing

40. The following table lists goods, works, and consulting services contracts over the life of the project financed by non-ADB sources.

##### GOODS AND WORKS

General Description	Estimated Value (cumulative)	Estimated Number of Contracts	Procurement Method	Comments
Water Supply Systems (Myawaddy)	\$12.5 million	1	ICB - DBO	FIDIC Gold Book
Solid Waste Management (Myawaddy)	\$9.0 million	1	ICB - DBO	FIDIC Gold Book
Solid Waste Containers and Vehicles (Myawaddy)	\$0.4 million	1	Shopping	

##### CONSULTING SERVICES

General Description	Estimated Value (cumulative)	Estimated Number of Contracts	Procurement Method	Comments
Project Implementation Support (Myawaddy)	\$2.3 million	1	QCBS	
Water Supply and Solid Waste Management – Operation and Maintenance Training	\$0.5 million	1	QCBS	

#### 5. National Competitive Bidding

##### a. Regulation and Reference Documents

41. The procedures to be followed for national competitive bidding shall be those set forth in ADB's standard bidding documents, with the clarifications and modifications described in the following paragraphs required for compliance with the provisions of ADB's Procurement Guidelines (2015, as amended from time to time).

##### b. Procurement Procedures

##### Application

42. Contract packages subject to national competitive bidding procedures will be those identified as such in the project procurement plan. Any changes to the method of procurement from those provided in the procurement plan shall be made through updating of the procurement plan, and only with prior approval of ADB.

### **Eligibility**

43. The eligibility of bidders shall be as defined under section I of the Procurement Guidelines; accordingly, no bidder or potential bidder should be declared ineligible for reasons other than those provided in section I of the Guidelines, as amended from time to time.

### **Sanctioning**

44. Bidders shall not be declared ineligible or prohibited from bidding on the basis of barring procedures or sanction lists, except individuals and firms sanctioned by ADB, without prior approval of ADB.

### **Advertising**

45. The posting of NCB specific notices for contracts valued at less than \$1 million on ADB's website is not required but is highly recommended

### **Rejection of all Bids and Rebidding**

46. Bids shall not be rejected, and new bids solicited without ADB's prior concurrence.

#### **c. Bidding Documents**

### **ADB Policy Clauses**

47. A provision shall be included in all NCB works and goods contracts financed by ADB requiring suppliers and contractors to permit ADB to inspect their accounts and records and other documents relating to the bid submission and the performance of the contract, and to have them audited by auditors appointed by ADB.

48. A provision shall be included in all bidding documents for NCB works and goods contracts financed by ADB stating that the Borrower shall reject a proposal for award if it determines that the bidder recommended for award has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for the contract in question.

49. A provision shall be included in all bidding documents for NCB works and goods contracts financed by ADB stating that ADB will declare a firm or individual ineligible, either indefinitely or for a stated period, to be awarded a contract financed by ADB, if it at any time determines that the firm or individual has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices or any integrity violation in competing for, or in executing, ADB-financed contract.

**D. Consultant's Terms of Reference**

50. The terms of reference for (i) project implementation support, (ii) joint special development plan for Myawaddy and Mae Sot, (iii) Hpa-An industrial zone development plan, (iv) capacity development programs for the executing agency, (v) external financial audit services, and (vi) external monitoring for the environmental management plan and resettlement plans are provided in Appendix 2.

## VII. SAFEGUARDS

### A. Environment

51. The project is classified as **Category B** for environment in accordance with the ADB's Safeguard Policy Statement (SPS) (2009). The potential environmental impacts of the proposed components are not expected to cause irreversible adverse environmental impacts. Two Initial environmental examination (IEE) has been conducted, one for each participating state of Mon State and Kayin State. Potential impacts of climate change and/or natural hazards on the project were integrated into the IEE with recommendations for consideration during the design stage.

52. Mitigation measures for identified impacts are included in the environmental management plan (EMP). Initial costs for developing and implementing the EMP have been estimated for inputs to project costing. Stakeholder consultations were conducted and grievance redress mechanism (GRM) to facilitate resolution of complaints regarding the performance of the project, in terms of environment and involuntary resettlement, have also been established, and included in the IEE. The GRM is presented in Appendix 6. At the detailed engineering design stage, as IEE including EMP is updated and finalized, the proposed mitigating measures will be reviewed to ensure that environmental receptors are not adversely affected. The final estimated costs for implementing the EMP will be integrated into the project costs. Government's and ADB's approval of the IEEs including EMP will be made a condition to contract signing. For the design-build-operate (DBO) contracts, DBO contractor is responsible for updating the IEE including EMP once the detailed engineering designs are prepared. Government's and ADB's approval of the IEE including EMPs will be made a condition to the start of construction. Unanticipated impact will be identified and corrective actions in case of non-compliance event will be formulated during update of the IEE including EMP.

53. The EMP will be updated by the PMOs, assisted by the project implementation support consultant, to address issues or concerns that may arise during preparation of the detailed engineering designs. The detailed engineering designs will be prepared by the project implementation support consultant. The updated EMP, cleared by ADB, will form part of the contract bidding documents. For the DBO contracts, ADB's clearance of the EMP updated by the DBO contractor after the detailed engineering designs are prepared, will be required prior to the start of construction. EMP implementation will be ensured by a designated environment officer in the PMOs whose roles and responsibilities are detailed in the EMP. Environmental considerations during detailed engineering design and allocation of sufficient budget for operation and maintenance will help mitigate potential adverse impacts during operation. The PMOs will hire the services of experts, consultants, or institutions to conduct the environmental monitoring and laboratory analyses that are specified in the updated EMP. Effective environmental monitoring at all stages of project implementation will be ensured. In compliance with ADB's information disclosure and consultation requirements, the safeguard documents will be posted on ADB's website.

54. The project implementation support consultant will provide technical support to PMOs to: (i) ensure that periodic project reviews are properly carried out and coordinate the reporting activities of the PMOs, (ii) monitor and coordinate all project related procurement to ensure compliance with safeguard requirements, and (iii) prepare and implement training programs for the PMOs. The implementing agencies will oversee the implementation of the different subprojects and enforce implementation of the environment safeguard policy.

55. The PMOs will be responsible for “on-ground” implementation of environmental safeguard compliance, in particular for incorporating the mitigation measures set out in the EMPs into the detailed engineering design of the subprojects, as well as in the bid documents and construction contract documents. The PMOs will commission additional analysis, undertake environment-related investigations that may be required during implementation, and respond to environment or nuisance-related complaints from residents or businesses affected by the project works.

56. The local offices of the Ministry of Natural Resources and Environmental Conservation (MONREC) shall perform periodic inspection of ambient water, air and noise quality in the construction areas, and will review the environmental monitoring that is conducted by the PMOs (or engaged consultant) pursuant to the environmental monitoring plan of the EMP. Environmental issues requiring management intervention will be reported to the PMOs.

57. Aside from overseeing the environmental monitoring, the PMOs with support from the project implementation support consultant will be in charge of all environment and public safety and security concerns. The PMOs will ensure that the EMPs, including the impact mitigation measures, are included in all bidding documents and construction contracts. Monitoring of public nuisance and safety concerns will be carried out with the support of community-based monitoring groups which will be an integral part of the GRM. The community-based monitoring groups will be established for each subproject by the PMOs.

58. Specifically, the environment safeguard tasks of the PMOs are as follows:

- (i) assistance and guidance to relevant entities to ensure compliance with all safeguard policy provisions in accordance with the IEEs and EMPs;
- (ii) preparation and submission of updated IEEs or EMPs (as may be required) for approval;
- (iii) securing approval of subprojects from relevant national, state, and local government agencies based on environmental issues and matters that may arise; and
- (iv) updating, approval, and implementation of EMPs and ensuring that standards are monitored and maintained.

59. Safeguards compliance monitoring during the construction phase, particularly compliance with safeguard measures specified in construction contracts, will be incorporated in the duties of the construction supervision group to be engaged. Compliance inspections and audits will be documented, and findings and recommendations for corrective measures submitted to the implementing agencies through the PMOs.

60. As part of its mandate, the state offices of MONREC may conduct random water, air and noise quality sampling at construction sites, and review and inspect the environmental monitoring activities relevant to the EMP. The relevant offices may respond to public complaints related to construction activities. They may also review the monitoring reports submitted by the PMOs.

61. The environmental monitoring will be incorporated into the overall project monitoring and evaluation. Assisted by the project implementation support consultant, the PMOs will be responsible for analyzing and consolidating the performance data. The environmental monitoring will be designed to allow adequate flexibility to adopt remedial actions regarding the project design, schedules, activities, and development impact.

62. At the start of the project, the PMOs with support from the project implementation support consultants will develop comprehensive environmental monitoring procedures for systematically generating the data on inputs and outputs of the project components, and agree on the environmental and related indicators to be used to measure the project's impacts. The PMOs will refine the environmental monitoring framework, confirm the achievable goals, firm up the monitoring and recording arrangements, and establish the systems and procedures no later than three months after the project loan takes effect

## **B. Involuntary Resettlement**

63. The project is classified as Category B for involuntary resettlement. Two resettlement Plans (RPs) have been prepared for the sub projects which will trigger land acquisition and resettlement impacts.

64. The RPs are provided for (i) Mon State and (ii) Kayin State. A total area of 24.79 ha will be acquired in Kayin State and three households (17 persons) will be affected by land acquisition. However, the solid waste subproject in Kayin State will have impacts on 25 households (119 persons) that will be economically displaced of which 1 household (4 persons) require relocation. Appropriate mitigating measures have been included in the Livelihood Income Restoration Program (LIRP) for the 25 wastepicker households. One household resides in the Zayit Chaung Village Dumpsite and shall be relocated within 300 meters of the new proposed land fill. The household shall be provided land, relocation assistance and compensation to re-establish their residence near the new proposed land fill site and are included in LIRP activities. All other impacts are partial and temporary.

65. A total area of 19.82 ha will be acquired in Mon State and 2 households (10 persons) will be affected by land acquisition. However, the solid waste subproject in Mon State will have impacts on 10 households (40 persons) that will be economically displaced. Appropriate mitigating measures have been included in the LIRP for the 10 wastepicker households. All other impacts are partial and temporary. A cutoff date has been established with extensive stakeholder consultation and participation. Project information has been disclosed to affected persons throughout the project preparation and a project information booklet will be updated and distributed during the detailed measurement survey.

66. The RPs have been integrated into project costs. The cost is estimated to be \$485,105, which includes base costs, allowances, contingencies, and income restoration program. All land acquisition and resettlement costs will be financed from the counterpart funds. The draft RP at the appraisal stage and the updated RP at the detailed design stage will be cleared by ADB. The RP includes a review of local laws and regulations, gap analysis and proposed gap-filling measures. The resettlement policy proposed in the project is consistent with the provisions of the ADB's SPS and takes into consideration relevant provisions of local laws and regulations.

67. Effective monitoring and public consultation with all stakeholders and affected people at all stages of project implementation will be ensured. In compliance with ADB's information disclosure and consultation requirements, the safeguard documents will be posted on ADB's website. Stakeholder consultations will continue through formal and informal focus group discussions. Affected people were informed that a grievance redress mechanism will be established to facilitate resolution of complaints regarding project performance. The RP will be updated and disclosed after detailed engineering design and cleared by ADB prior to contract awards.

### **C. Indigenous Peoples**

68. The safeguard category for indigenous peoples is C. In the project area, population consists of Bamar (55.2%) followed by Kayin (15.7%) and Mon (11.3%). However, no communities of ethnic minorities or groups live separately in the urban area. As the project will benefit all residents in the project area equally, no adverse impact on indigenous peoples is anticipated. In accordance with ADB's SPS (2009), no separate indigenous peoples plans are required.

## VIII. GENDER AND SOCIAL DIMENSIONS

69. The project is categorized as **Effective Gender Mainstreaming**. The project design features are based on the recognition of women's roles in water and solid waste management. The gender equity and social inclusion action plan (GESIAP) will promote women's participation and equal share in the benefits, maximize positive gender equality impacts and to mitigate possible risks and negative impacts through increasing women's voices in making decisions that may affect their neighborhood urban services. Through the implementation of GESIAP, the project particularly aims to: (i) provide opportunities for and strengthen the role of women in local economic activities; (ii) targets female participation in community orientation and consultations on the design and implementation of urban services improvements; (iii) enhance female capacity through training including community management and solid waste management training; (iv) increase gender awareness and GESIAP implementation through gender training for counterpart staff at the executing agency implementing agencies, and PMOs and PIU; and (v) increase public awareness on water, sanitation, and hygiene through awareness campaigns. Advantageous connection fees and lifeline tariffs will be put in place for poor and low-income households, including female-headed households, and to ensure at least 75% of wastepickers will continue to be women in the new facility.

70. Implementation arrangements and estimated costs of the GESIAP have been integrated into the overall arrangements and total project budget. Additional costs have been allocated for affordability support funds and consultant interventions. The project director and PMO staff will be responsible for overseeing project implementation and all activities related to social development, poverty, gender, and safeguards. A national social and gender development specialist in the project implementation support consultant will integrate social and gender into all consultation, monitoring and evaluation, and capacity building activities. Sex-disaggregated baseline data will be collected and used to monitor GESIAP implementation and impact, and reported during quarterly, annual, and mid-term reviews using the ADB GESIAP reporting template.

## GENDER EQUITY AND SOCIAL INCLUSION ACTION PLAN (GESIAP)

Activities	Indicators and Targets	Responsibility
<b>Output 1: Enhanced city competitiveness</b>		
1.1 Women business owners participate in project-related business consultations and other business support measures.	<ul style="list-style-type: none"> <li>• 20% of participants at all project-related business consultations, including heritage building information sessions, should include women who own/operate businesses in the project towns.</li> <li>• Social risks, such as poverty, social and gender issue, recognized and mitigation measures put in place.</li> <li>• Ensure separate male and female toilets be installed in the upgraded General Administration Department building in Mawlamyine.</li> </ul>	<ul style="list-style-type: none"> <li>• PMOs and PIU supported by project implementation consultant</li> </ul>
<b>Output 2: Improved basic urban services</b>		
2.1 Include women, poor and vulnerable <sup>24</sup> in the orientation and consultation sessions on water system and solid waste management including project design, implementation plan, resettlement issues, connection charges, service fee, tariffs, subsidy measures and operation and maintenance plan.	<ul style="list-style-type: none"> <li>• Women, poor and vulnerable participate in project public orientation and consultations in each ward and focused group public discussions [Target: 30% of total for women and 20% of total for poor and vulnerable].</li> <li>• Ensure project design include discussion with women group.</li> </ul>	<ul style="list-style-type: none"> <li>• PMOs and PIU supported by project implementation consultant</li> </ul>
2.2 Support women, poor and vulnerable who are affected by the project with employment opportunities and livelihood enhancement training.	<ul style="list-style-type: none"> <li>• 100% of informal waste pickers near existing dumpsites ensured if desired with continued access to the landfill [Target: at least 75% of wastepickers on new dumpsites are female].</li> <li>• At least 75% of participants in alternative livelihood skill training activities are women and provided with small start-up investment.</li> <li>• Ensure contractors to employ at least 30% of total workers are poor, women and vulnerable who are affected by the project for skilled and unskilled work.</li> </ul>	<ul style="list-style-type: none"> <li>• PMOs and PIU supported by project implementation consultant</li> </ul>
2.3 Provide affordable measure for water connection for women-headed, poor and vulnerable households.	<ul style="list-style-type: none"> <li>• Ensure affordable measure for water connection in consultation with women-headed, poor and vulnerable households.</li> </ul>	<ul style="list-style-type: none"> <li>• MSG and KSG</li> <li>• PMOs and PIU supported by project implementation consultant</li> </ul>

<sup>24</sup> Include underemployed, unemployed, and people without skills.

<p>2.4 Enforcement of the core labor standards (equal pay for equal work for men and women, no child labor, etc.) and promote occupational safety and hygiene for the contractors.</p>	<ul style="list-style-type: none"> <li>• 100% of project contractors oriented on core labor standards (including equal pay for equal work) and maintaining safety and hygiene in work site.</li> </ul>	<ul style="list-style-type: none"> <li>• PMOs and PIU supported by project implementation consultant</li> </ul>
<p><b>Output 3: Strengthened urban management capacity</b></p>		
<p>3.1 Institutional strengthening for gender equity and social inclusion.</p>	<ul style="list-style-type: none"> <li>• PMOs include at least one woman at the management level</li> <li>• Social and gender development consultant to be timely hired at the project inception.</li> </ul>	<ul style="list-style-type: none"> <li>• PMOs and PIU supported by project implementation consultant</li> </ul>
<p>3.2 Build institutional capacity for government staff of Kayin and Mon States in operation and maintenance of the project facilities, and municipal financial management that are gender sensitive.</p>	<ul style="list-style-type: none"> <li>• Institutional capacity building activities, including public consultation approaches, community engagement techniques, leadership training and gender awareness, are conducted with at least 30% of all participants are women.</li> <li>• All PMO and PIU staff trained in gender awareness and GESIAP implementation.</li> </ul>	<ul style="list-style-type: none"> <li>• PMOs and PIU supported by project implementation consultant</li> </ul>
<p>3.3 Conduct public awareness campaigns on water, sanitation, and hygiene; environmental management; gender and social inclusion issues.</p>	<ul style="list-style-type: none"> <li>• 100% of public awareness raising campaigns and public health information programs are gender-sensitive.</li> <li>• The project supports women self-help groups to become the promoter for public awareness campaign on water, sanitation and hygiene.</li> </ul>	<ul style="list-style-type: none"> <li>• PMOs and PIU supported by project implementation consultant</li> </ul>
<p>3.4 Monitor and report progress on GESIAP implementation during project implementation.</p>	<ul style="list-style-type: none"> <li>• Project information system developed to regularly monitor GESIAP indicators that are sex-disaggregated data including items covering resettlement, compensation, core labor standards, women's participation and benefits.</li> </ul>	<ul style="list-style-type: none"> <li>• MSG and KSG</li> <li>• PMOs and PIU supported by project implementation consultant</li> </ul>

GESIAP = gender equity and social inclusion action plan, KSG = Kayin State Government, MSG = Mon State Government, PIU = project implementation unit, PMO = project management office.

## IX. PERFORMANCE MONITORING, EVALUATION, REPORTING, AND COMMUNICATION

### A. Project Design and Monitoring Framework

Impacts the Project is Aligned With			
Economic activities along the GMS East–West Economic Corridor increased (National Comprehensive Development Plan, 2016–2021) <sup>a</sup>			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<b>Outcome</b> Urban services and development in Mawlamyine, Hpa-An, and Myawaddy improved	By 2027 a. Households with access to improved water supply increased to 24,000 (2016 baseline: 5,000) in Mawlamyine, and 14,000 (2016 baseline: 1,000) in Hpa-An  b. Nonrevenue water reduced to 30% (2016 baseline: 80%) in Mawlamyine, and 25% (2015 baseline: 70%) in Hpa-An  c. Solid waste collection rate increased to 80% of the total households (2016 baseline: 50% of the total households) in Mawlamyine, and 80% of the total households (2016 baseline: 45% of the total households) in Hpa-An	a–b. Annual report of the Water and Sanitation Department of MSG and KSG   c. Annual report of the Cleansing Department of MSG and KSG	Revenues of KSG and MSG are insufficient to cover the operation and maintenance of project facilities.
<b>Outputs</b> 1. Urban planning improved	By 2025 1a. The General Administration Department building renovated and upgraded in Mawlamyine (2016 baseline: not applicable)  1b. Hpa-An Industrial Zone development plan developed (2016 baseline: not applicable)  1c. Joint spatial development plan for Myawaddy and Mae Sot developed (2016 baseline: not applicable)	1a–1c. Quarterly project progress report of engineering firm	PMO and PIU staff do not have sufficient knowledge and experience in the implementation of externally funded projects.
2. Basic social infrastructure upgraded	2a. Water production capacity increased to 22,000 m <sup>3</sup> /day (2016 baseline: 10,000 m <sup>3</sup> /day) by rehabilitating the existing dam and constructing a new water treatment plant in Mawlamyine, and 12,000 m <sup>3</sup> /day (2016 baseline: 2,000 m <sup>3</sup> /day) by constructing a new water intake and treatment plant in Hpa-An  2b. Water distribution network extended to 190 km (2016 baseline: 50 km) in Mawlamyine, and 110 km (2016 baseline: 30 km) in Hpa-An	2a–2e. Quarterly construction report of an engineering firm	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	<p>2c. 19,000 new water connections (2016 baseline: 5,000) constructed in Mawlamyine and 13,000 (2016 baseline: 1,000) in Hpa-An</p> <p>2d. Existing dump site upgraded to waste management center comprising sanitary landfill and compost plant in Mawlamyine (2016 baseline: 0), and existing dump site closed, and new waste management center constructed in Hpa-An (2016 baseline: not applicable)</p> <p>2e. 12 trucks in Mawlamyine (2016 baseline: 7) and 7 in Hpa-An (2016 baseline: 4) used for waste collection and transfer</p> <p>2f. At least 60 participants with increased skills in alternative livelihood, of which at least 75% are women (2016 baseline: not applicable)</p>	<p>2f. Attendance sheets, end-of-training survey conducted by PMOs</p>	
<p>3. Urban management capacity strengthened</p>	<p>3a. Capacity development assessed, training programs in urban management developed, and attended by at least 30 participants from KSG and MSG (2016 baseline: not applicable)</p> <p>3b. Urban and Regional Development Planning Law implemented (2016 baseline: none)</p> <p>3c. Awareness materials on environmental protection and public health developed, and awareness programs attended by at least 100 persons (with equitable share of male and female participants) (2016 baseline: not applicable)</p> <p>3d. Gender awareness and GAP implementation programs attended by all PMO and PIU staff increased (2016 baseline: not applicable)</p>	<p>3a. Draft legal documents</p> <p>3b–3d. Program materials, attendance sheets, end-of-training survey conducted by PMOs</p>	
<p><b>Key Activities with Milestones</b>  <b>Output 1: Urban planning improved</b>  1.1 Prepare detailed designs (by 2019), conduct procurement (by 2019), and renovate and upgrade (by 2021) the Mawlamyine General Administration Department building.  1.2 Recruit consultant (by 2019) and prepare (by 2020) the Hpa-An Industrial Zone development plan.</p>			

<b>Key Activities with Milestones</b>	
1.3	Recruit consultant (by 2019) and prepare (by 2020) the joint spatial development plan for Myawaddy and Mae Sot.
<b>Output 2: Basic social infrastructure upgraded</b>	
2.1	Prepare detailed designs (by 2019), update EMPs and resettlement plans (by 2019), procure works and goods (by 2020), and complete civil works and equipment installation (by 2024) for the water supply.
2.2	Prepare detailed designs (by 2019), update EMPs and resettlement plans (by 2019), procure works and goods (by 2020), and complete civil works and equipment installation (by 2024) for the waste management center.
2.3	Prepare specifications (by 2019) and purchase (by 2020) waste collection vehicles.
<b>Output 3: Urban management capacity strengthened</b>	
3.1	Recruit consultant (by 2019) and help DUHD implement the Urban and Regional Development Planning Law (by 2021).
3.2	Assess capacity development needs (by 2019), develop training programs (by 2020), and conduct training (by 2024) for KSG and MSG.
3.3	Develop public health and environmental protection awareness programs and materials (by 2019) and conduct awareness programs (by 2024).
<b>Project Management Activities</b>	
Conduct needs assessment for specific skills and knowledge areas (by 2018)	
Customize learning modules to fit participants' needs (by 2018)	
Deliver and evaluate training courses in disbursement, procurement, safeguard, and project management (by 2020)	
<b>Inputs</b>	
Asian Development Bank (loan): \$80,000,000	
Government of Myanmar: \$6,530,000	
<b>Assumptions for Partner Financing</b>	
The outputs financed by the following partners in parallel will be implemented without delay.	
Neighbouring Countries Economic Development Cooperation Agency (loan): \$24,200,000 for the improvement of water supply and solid waste management in Myawaddy	
Thailand International Cooperation Agency (technical cooperation): \$500,000 for part of output 3b	

DUHD = Department of Urban and Housing Development, EMP = environmental management plan, GAP = gender action plan, GMS = Greater Mekong Subregion, km = kilometer, KSG = Kayin State Government, m<sup>3</sup> = cubic meter, MSG = Mon State Government, PIU = project implementation unit, PMO = project management office.

<sup>a</sup> Government of Myanmar. 2016. *Economic Policy of the Union of Myanmar*. Nay Pyi Taw.

Source: Asian Development Bank.

## B. Monitoring

### 1. Project Performance Monitoring

71. To monitor the progress of the project in achieving the planned outcome and outputs, the PMOs will establish and maintain a project performance management system (PPMS), which will be designed to permit adequate flexibility to adopt remedial action regarding project design, schedules, activities, and development impacts. The PPMS will adopt the following agreed indicators: (i) physical progress of project implementation, (ii) results of capacity development program, (iii) household connections to the water systems, (iv) improvements in non-revenue water, (v) amount of solid waste collected, and (vi) social and poverty development. At project inception, the PMOs, in consultation with the implementing agencies, will develop comprehensive PPMS procedures to systematically generate data on inputs and outputs of the project activities, and the socioeconomic, health, and environmental indicators to measure project impacts.

72. PMOs will refine the PPMS framework, confirm achievable targets, firm up monitoring and recording arrangements, and establish systems and procedures no later than six months after project implementation begins. Baseline and progress data will be reported at the requisite time

intervals by PMOs to the implementing agency, including annual reporting on the environmental management plan. PMOs will be responsible for analysing and consolidating the reported data through its management information system (which will be proposed), and for reporting the outcome to ADB through the quarterly progress reports.

## **2. Compliance Monitoring**

73. ADB will undertake regular review missions to assess the status of compliance of the project and the executing and implementing agencies with the loan covenants related to policy, legal, economic, financial, environmental, and institutional elements. Non-compliance issues identified during the ADB review missions will be specified in the quarterly progress reports together with the recommended courses of action.

## **3. Safeguards Monitoring**

### **a. Environment**

74. The implementing agencies shall prepare and submit to the executing agency and ADB semi-annual reports on the environmental parameters and any other environment issue identified during the course of project implementation. The report will cover environment performance based on the implementation of the EMP and the environmental monitoring plan. The implementing agencies, through the project implementation support consultant, will be responsible for the consolidation and submission of the reports to ADB in accordance to the format and process described in the IEE and EMP. Incompliance with ADB's information disclosure and consultation requirements, the monitoring reports will be posted on ADB's website.

### **b. Involuntary Resettlement**

75. The PMOs with support from the project implementation support consultant will be responsible for internal monitoring of the RP implementation. The PMOs will supervise and manage the monitoring of resettlement activities and implementation arrangements. Quarterly resettlement monitoring reports will be prepared by the project implementation support consultant for submission to the executing and implementing agencies and ADB. The report will include progress on the status of RP implementation, information on location and number of people affected, and assistance provided to displaced people. The ADB review missions will monitor and assess the resettlement activities during project implementation period. Submission of the first internal and external monitoring reports are expected in Q1 2018 and Q2 2018 respectively.

76. Internal monitoring will be carried out by PMOs through township administration. These agencies will conduct internal monitoring by (i) regular meetings with the representatives of the affected people, (ii) holding group discussions with all or representatives of severely affected households, and (iii) meeting with marginally affected households.

77. The focus of internal monitoring will be as follows:

- (i) confirmation on the number of severely affected households due to the entire loss of agricultural land;
- (ii) impact on vulnerable household;
- (iii) contracting of independent appraiser (valuation expert) and external monitoring agency as per the schedule specified in the RP;

- (iv) endorsement of resettlement cost survey report and compensation rates by the implementing agencies in a timely manner;
- (v) reaching agreement with the affected households on compensation rates and issuance of summary compensation forms;
- (vi) documentation of affected people preference on rehabilitation measures;
- (vii) provision of budget by the implementing agencies to cover resettlement costs;
- (viii) progress in the disbursement of compensation and other assistance in accordance with the implementation schedule;
- (ix) issuance of notice to harvest the crops and vacate the land as per schedule;
- (x) information dissemination and public participation: (a) the number of public consultation meetings held during the preparation of the detailed compensation plan, (b) the number of affected households that participated, and (c) comments, suggestions, and concerns of the affected households and how these were addressed;
- (xi) progress in implementation of the RP: progress in planning and implementation of income rehabilitation measures including skill training;
- (xii) smooth transition period between the payment of compensation and assistance to affected people and clearing of area prior to start of civil works;
- (xiii) grievance redress: the number of affected people with complaints, nature of the complaints, status of the resolution of the complaints, assessment of efficiency of the GRM; and
- (xiv) gender concerns: participation of women in meetings and in the implementation of resettlement, concerns of women in connection with their resettlement and resolution of their grievances.

78. During subsequent monitoring periods, the PMOs will look into the issues and problems identified in the preceding reports and actions taken to address the problems in a timely manner.

79. External monitoring is recommended as it will be the first project to be undertaken by the implementing agencies, and they do not have any prior experience and capacity in addressing social safeguards issues in development projects. General objective of the external monitoring is to provide an independent verification of the Borrower's monitoring information through the conducting of a periodic review and assessment of (i) achievement of resettlement objectives; (ii) changes in living standards and livelihoods; (iii) restoration of the economic and social base of the affected people; (iii) effectiveness, impact, and sustainability of entitlements; and (iv) need for further mitigation measures if any. Based on such reviews and assessments, strategic lessons for future policy formulation and planning will be formulated. Project authorities will contract a competent independent external monitoring agency, or an independent consultant, to carry out external monitoring of resettlement implementation in the project.

80. Specific objectives of external monitoring include:

- (i) to provide project management with an effective tool for assessing RP implementation at various stages;
- (ii) to examine whether or not the implementation of the RP is carried out as planned and in compliance with the approved RP, and identify the strengths and weaknesses of the present RP;
- (iii) to identify problem areas and recommend immediately remedial measures for efficient implementation of the policy;
- (iv) to provide inputs for future RP formulation and implementation;

- (v) to assess the effectiveness of income restoration and other rehabilitation measures for affected households, and whether the affected people, including vulnerable households, have been able to improve, or at least restore their livelihood and standard of living to pre-project level; and
- (vi) to assess effectiveness of the GRM established for the project, identify specific problems if any, and suggest improvement of the GRM.

81. The monitoring of RP implementation is intended to: (i) ensure that the standard of living of affected persons are restored or improved, (ii) determine that the resettlement objectives are being met, (iii) assess that rehabilitation and compensation elements are sufficient, (v) identify problems and risks, and (vi) come up with adequate measures to mitigate resettlement problems.

82. Consequently, the range of activities and issues that need to be recorded and verified include: (i) compensation, allowance payments, and delivery of assistance measures; (ii) re-establishment of displaced person settlements and livelihoods; (iii) reaction of displaced persons to resettlement and compensation packages; and (iv) re-establishment of income levels.

83. The principal indicators for monitoring of resettlement activities include:

- (i) timely and complete disbursement of compensation to affected households according to the compensation policy agreed in the RP,
- (ii) timely income restoration and rehabilitation allowances and measures,
- (iii) allocation of replacement land,
- (iv) public information dissemination and consultation procedures,
- (v) adherence to grievance procedures and identification of outstanding issues that require further attention and resolution,
- (vi) attention given to the priorities of affected households regarding the compensation options offered,
- (vii) completion of resettlement activities required by start of civil works,
- (viii) participation of poor and vulnerable households throughout the consultation process, and
- (ix) restoration and improvement of socioeconomic conditions of affected households.

### **c. Gender and Social Dimensions Monitoring**

84. Monitoring of the implementation of the GESIAP will be undertaken by the PMOs. Progress in the achievement of the outputs in the GESIAP will be the responsibility of the PMO gender focal. The PMOs will develop a PPMS, establishing sex-disaggregated indicators for project performance monitoring and evaluation. The PPMS will include monitoring tools, reporting templates (including use of the ADB GESIAP progress report template), and output indicators, assisted by the project implementation support consultant. The PMO will submit periodic (minimum bi-annual) reports to the executing and implementing agencies and ADB using these tools, templates, and indicators. The GESIAP budget shall include the cost of monitoring and evaluation.

85. Monitoring of the pro-poor and social inclusion design measures, indicated in the SPRSS, consultation and participation plan, will be the responsibility of the PMOs. The PMOs will be assisted by the project implementation support consultant in devising the monitoring indicators and reporting templates in assessing progress of the social action plans.

## **C. Evaluation**

86. The implementation of the project will be jointly reviewed at least twice a year by the government and ADB. The project review will cover: (i) performance of the executing agency, implementing agencies, PMOa, consultants, and contractors; (ii) physical progress of project components; (iii) effectiveness of the capacity development and awareness programs; (iv) compliance with loan covenants; and (v) assessment of project sustainability in terms of technical and financial aspects.

87. Aside from the regular joint project reviews, the government and ADB will conduct a comprehensive midterm review of project implementation after three years of implementation. This is intended to identify key issues and constraints that hinder smooth project implementation and to come up with appropriate remedial courses of action.

88. Within 6 months of physical completion of the project, the implementing agencies will submit a project completion report to ADB.<sup>25</sup>

#### **D. Reporting**

89. The implementing agencies will provide ADB with (i) quarterly progress reports in a format consistent with ADB's project performance reporting system (an outline of the progress report is in Appendix 2); (ii) consolidated annual reports including (a) progress achieved by output as measured through the indicator's performance targets, (b) key implementation issues and solutions, (c) updated procurement plan, and (d) updated implementation plan for next 12 months; and (iii) a project completion report within 6 months of physical completion of the project. To ensure the subprojects continue to be viable and sustainable, project accounts and the audited financial statements, together with the associated auditor's report, should be adequately reviewed.

#### **E. Stakeholder Communication Strategy**

90. The stakeholder communication strategy (SCS) is based on the principles of transparency, timeliness, meaningful participation, and inclusiveness. The SCS ensures that the vulnerable groups, such as the poor and women whose risk being marginalized, are provided with opportunities for communication and feedback during project design and implementation. Key stakeholders, who are essential to engage to achieve project objectives and lessen project specific risks and challenges, have been identified. Stakeholders include: (i) affected people, (ii) project beneficiaries, (iii) government agencies responsible for the design, management and implementation of the project; (iv) government agencies responsible for the provision of essential urban infrastructure services and facilities; (v) civil society organizations covering a wide spectrum of interest and aptitudes, some of whom will facilitate community engagement activities to ensure appropriate consultation; (vi) international development partners and other agencies providing technical assistance and other supports for urban services improvements; and (viii) private sector entities who provide employment in their line of business. Given the history of conflict in Mon and Kayin States, there is a need for adequate consultation skills and community engagement methodologies to improve on the relation between the government and the residents. The SCS therefore is designed to ensure a regular flow of reliable project information and the inclusion of vulnerable groups in benefit distribution in project implementation.

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<sup>25</sup> Project completion report format is available at: <http://www.adb.org/Consulting/consultants-toolkits/PCR-Public-Sector-Landscape.rar>.

91. The SCS is built on three key elements: (i) developing appropriate methods to disseminate project information from design through implementation, seeking to increase public engagement and buy-in; (ii) with the support of CSO or NGO facilitators, creating a conduit for two-way flow of information between government and other stakeholders; and (iii) increasing public awareness of the “reduce, reuse, and recycle (3Rs)” and non-wasteful water use to encourage behavioral change leading to a better urban environment. The PMOs will establish webpages on the DUHD website as the primary portal for dissemination of project related information. The following table outlines key project stakeholders and their interests; and identifies key messages, means of communication, and timeline of delivery during the project cycle. Project benefits will be maximized when the population affected by project investments is informed and engaged. The SCS is designed to ensure a regular flow of project activity and timeline information to and from project beneficiaries and project affected persons.

## CONSULTATION AND PARTICIPATION PLAN

Activity	Target Stakeholders	Type of Participation	Objectives	Responsible Unit	Timing	Cost Estimates
Ward project orientation workshop	Project beneficiaries, including project affected persons, the women, poor and vulnerable, religious leaders	Information generation and sharing (H)  Consultation (H)	<ul style="list-style-type: none"> <li>• Ward level consultations through Ward leader in partnership with CSO/NGO to discuss on:               <ul style="list-style-type: none"> <li>▪ Introduce the project, objectives, anticipated outcome and outputs, roles and responsibilities of project stakeholders</li> <li>▪ Demonstrate the link between improved water supply and sanitation to good health, women's empowerment, and environmental conservation</li> <li>▪ Explain benefits of the project including benefits to poor and vulnerable, project costs and need for cost recovery</li> <li>▪ Inform on safeguards plans, potential environmental impacts and requirements; GESIAP, and consultation and participation action plan; grievance redress mechanism</li> <li>▪ Seek feedback and agree on recommendations with community</li> </ul> </li> </ul>	EA, IAs, PMOs, PIU, Ward leader and Ward development support committee members	Year 1	Project budget
Township public meeting	Representatives of community inclusive of women, poor and vulnerable, NGOs/CBOs, KNU/DKBA, NMSP/MNLA, teachers, students, township development support committee members, township level officials, township parliamentary	Information generation and sharing (H)  Consultation (H)	<ul style="list-style-type: none"> <li>• Township orientation workshop to discuss on:               <ul style="list-style-type: none"> <li>▪ Demonstrate the link between improved water supply and sanitation to good health, women's empowerment, and environmental conservation</li> <li>▪ Introduce the project, objectives, anticipated outcome and outputs, roles and responsibilities of project stakeholders</li> <li>▪ Explain benefits of the project including benefits to poor and vulnerable, project costs and need for cost recovery</li> <li>▪ Share information on proposed mitigation measures</li> <li>▪ Create awareness on water conservation, health and hygiene</li> <li>▪ Inform of potential environmental impacts and seek feedback</li> </ul> </li> </ul>	EA, IAs, PMOs, PIU, Township Administrators, TDC	Year 1	Project budget
Project implementation and coordination meeting	Representatives of EA and IAs responsible for project design and implementation, and local government leaders from IAs, township administrator,	Information generation and sharing (H)  Consultation (H)	<ul style="list-style-type: none"> <li>• Discuss progress in implementation, including problems encountered and mitigation measures through:               <ul style="list-style-type: none"> <li>▪ Report regularly on the progress of implementation</li> <li>▪ Review compliance with social and environmental safeguards, and GESIAP</li> </ul> </li> </ul>	EA, IAs, PMOs, PIU, CSOs, Township/ Ward	Biannually	Project and IAs' budgets

PMO meeting	ward representatives, township development support committee, township parliamentary  PMOs, PIU, PISC, and contractors	Partnership (H)	<ul style="list-style-type: none"> <li>▪ Review and discuss on mitigation measures to address the issues</li> <li>▪ Agree on the next steps and timelines</li> </ul>	PMOs, PIU, PISC	Monthly	Project budget
Project orientation workshop for contractors	All project-related staff and laborers in contractors	Information generation and sharing (H)	<ul style="list-style-type: none"> <li>• Orient on contractors' role in GESIAP <ul style="list-style-type: none"> <li>▪ Construction management</li> <li>▪ Quality assurance</li> <li>▪ Core labor standards, HIV/AIDS, equal pay for men and women, among others.</li> <li>▪ Environmental and social safeguards compliance, grievance redress mechanism, and health, safety, and security plan</li> <li>▪ Assistance to affected persons during construction</li> </ul> </li> </ul>	PMOs, PIU, PISC	Year 1-3	Project budget and IAs' budgets
Partnership coordination meeting	Development partner including other agencies and special development arrangements	Partnership (H)	<ul style="list-style-type: none"> <li>• Project coordination to improve urban services including technical, social, environmental, or public awareness raising consultation through: <ul style="list-style-type: none"> <li>▪ Karen-Mon Working Group established by ADB MYRM with a special focus on Kayin and Mon States</li> <li>▪ Build community engagement/M&amp;E capacity within beneficiary, government and CSO and NGO stakeholders</li> <li>▪ Improve communication flow and channel between development partners, CSOs and private sector for sustainable urban service</li> </ul> </li> </ul>	ADB project officer and international development partners	Annually	ADB mission and project budget
	Civil Society Organizations (Local NGOs, CSOs, INGOs)	Consultation (H) Collaboration (H)		EA, IAs, PMOs, PIU	Annually	Project budget
	Private sector including potential water system and solid waste operators, recycling companies, industrial zone companies, heritage building contractors, tourism interests	Information generation and sharing (M)		EA, IAs, PMOs, PIU	Annually	Project budget

ADB = Asian Development Bank, CSO = civil society organization, DKBA = Democratic Karen Buddhist Army, DUHD= Department of Urban and Housing Development of the Ministry of Construction, EA= executing agency, GESIAP = gender equity and social inclusion action plan, GOM= Government of Myanmar, IA = implementing agency, INGO = international nongovernment organization, KNU = Karen National Union, MNLA = Mon National Liberation Army, MYRM = Myanmar Resident Mission of the Asian Development Bank, NGO = nongovernment organization, NMSP = New Mon State Party, PISC = project implementation support consultant, PIU = project implementation unit, PMO = project management office, TDC = township development committee.

## **X. ANTICORRUPTION POLICY**

92. ADB reserves the right to investigate, directly or through its agents, any violations of the Anticorruption Policy (1998, as amended to date) relating to the project.<sup>26</sup> All contracts financed by ADB shall include provisions specifying the right of ADB to audit and examine the records and accounts of the executing agency, implementing agencies, and all project contractors, suppliers, consultants, and other service providers. Individuals and/or entities on ADB's anticorruption debarment list are ineligible to participate in ADB-financed activity and may not be awarded any contracts under the project.<sup>27</sup>

93. To support these efforts, relevant provisions are included in the loan agreement and the bidding documents for the project. Financial management assessment and procurement capacity assessment have concluded that appropriate control mechanisms are in place. In order to ensure that any irregularities in procurement and financial management will not occur, ADB's Anticorruption Policy (footnote 23) was explained to and discussed with the government, executing agency, and implementing agencies.

## **XI. ACCOUNTABILITY MECHANISM**

94. People who are, or may in the future be, adversely affected by the project may submit complaints to ADB's Accountability Mechanism. The Accountability Mechanism provides an independent forum and process whereby people adversely affected by ADB-assisted projects can voice, and seek a resolution of their problems, as well as report alleged violations of ADB's operational policies and procedures. Before submitting a complaint to the Accountability Mechanism, affected people should make a good faith effort to solve their problems by working with the concerned ADB operations department. Only after doing that, and if they are still dissatisfied, should they approach the Accountability Mechanism.<sup>28</sup>

## **XII. RECORD OF CHANGES TO THE PROJECT ADMINISTRATION MANUAL**

95. {All revisions and/or updates during the course of implementation should be retained in this section to provide a chronological history of changes to implemented arrangements recorded in the PAM.}

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<sup>26</sup>Anticorruption Policy is available at: <http://www.adb.org/Documents/Policies/Anticorruption-Integrity/Policies-Strategies.pdf>.

<sup>27</sup> ADB's Integrity Office web site is available at: <http://www.adb.org/integrity/unit.asp>.

<sup>28</sup> For further information on Accountability Mechanism see: <http://www.adb.org/Accountability-Mechanism/default.asp>

## FINANCIAL DIAGNOSIS AND FINANCIAL MANAGEMENT ASSESSMENT

1. This chapter includes the components required by the Terms of Reference for financial analysis, with the level of delivery corresponding to the final stage of the PPTA:
  - (i) Review of the government finance system showing the linkage between the Union State, the two States and the three Townships undertaking the Project,
  - (ii) Preliminary Financial Management Assessment (FMA) as performed at the Mon and Kayin States level,
  - (iii) Fiscal analysis of the three townships and the two states (as IA) - based on the data and information provided-showing their potential capacity to provide counterpart, and/or borrow funds from the Project if on-lending mechanism is determined by Union Government, and also to provide funds requested in addition to the tariffs proceeds for the utilities components,
  - (iv) Financial analysis of water supply, sanitation and solid waste utilities.
2. **In order to facilitate reading, the chapter is organized as follows:**
  - Fiscal decentralization system: overview
  - Mon State financial analysis (Fiscal, Financial, FMA)
  - Kayin State financial analysis (Fiscal, Financial, FMA)

### I. FISCAL DECENTRALIZATION SYSTEM: OVERVIEW

3. **Improving public sector capacity and governance for policy-making, coordination, and service delivery** are the main objectives of fiscal decentralization process as contemplated by the Union Government.
4. As the Third GMS Corridor Towns Development Project is one of the first urban and environment development projects implemented by ADB in Myanmar since 2013, the objective of this first sub-chapter is to provide an updated description of the fiscal decentralization system as implemented presently in the two States, Mon and Kayin.
5. The main issues and challenges underlined are:
  - (i) The functions assumed at the State and Township levels, more especially regarding urban and environment development sectors, and the main features regarding internal organization,
  - (ii) The financial and fiscal resources devoted to both levels by the Union State Government,
  - (iii) The main financial regulations and management practices implemented at the State and township levels.

#### 1.1 Decentralized and devoted functions regarding urban and environment development

6. The linkages between Union, State and Township levels are regulated by the State and Region Governments Law enacted in 2010 in accordance with the 2008 Constitution. The principle of “democratic centralism” is still the rule, but is gradually amended by various applications of the principle of “People centered development.” This evolution is part of the reform of the decentralization framework and has direct impact on the functioning and the budgeting of the State and Township administration.

7. The major points of the new institutional-fiscal framework to remember regarding Project preparation issues are as follow:

- The two States involved in the Project, Mon and Kayin States, have partially elected assemblies (Hluttaw), under the direction of centrally appointed Chief Ministers;
- The three Townships, involved in the project, Mawlamyine, Hpa-An and Myawaddy, have various direct and indirect representative bodies (Committees), under the direction of centrally appointed Executive Administrators;
- The administrative organization across the country is under the control of the General Administration Department (GAD), located within the Ministry of Home Affairs (MoHA), which is paramount within the system of subnational governance. Consequently, Mon and Kayin States Executive Secretaries are senior officers nominated as Deputy Director General of the GAD. It is a similar situation for the township administrators or officers in Mawlamyine, Hpa-An and Myawaddy towns. Chief ministers are directly appointed by the Myanmar President from among the State legislature representatives;
- The States implement, at the same time, (i) deconcentrated functions on behalf Union Government and (ii) devolved functions by their own. However, the distribution of both categories is still unclear, as intergovernmental transfers channelled from MoPF to the State Government are both allocated to line ministries at the State level;
- There is no Ministry at the Union/State level specifically in charge of urban planning and urban services; the function is shared between MoC (urban planning) and various departments and agencies (water, health, environment, industry, forests, internal affairs, Development affairs<sup>1</sup>), with sometime conflicting mandates. In Mandalay, where this year the first urban services improvement project funded by ADB since the reopening of the cooperation with Myanmar is underway, MCDC was officially responsible for city water supply and sanitation. In the three townships selected for the GMS3 implementation, involvement of the township level is under the direct control of the DDA at the State Government level;
- Urban utilities such as water supply, sanitation and solid waste are under the responsibility of the township level which functions with its own budget, without any transfers from the State government (except general balancing subsidy if needed). As regards the low level of revenue generation at the township level, investment effort remains weak, if not non-existent, and support from the State/Union budget is the only way to consider such capital investment development;
- Components such as industrial zones development, bridges and cultural heritage, are cross-cutting components and involve the Union, State and township level, as they also require participation from the private sector.

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<sup>1</sup> The Department of Development Affairs (DDA) is part of the Ministry of Progress of Border Areas and National Races and Development Affairs. It is responsible, **among its other functions**, for domestic and rural water supply and sanitation

## **1.2 Fiscal decentralization of urban services**

### **1.2.1 The gradual autonomy of the state government**

8. The provisions of Schedule V of the 2008 Constitution govern fiscal applications of the new decentralization framework. In accordance with those provisions, a federal budget system was introduced in the FY2011-12, with the intention of transforming the formal State Fund Account System into a new system of: (i) Union Fund for the Union Government, and (ii) Regional funds for the States and Regions.

9. The federal system is operational since 2013-14 but is still very limited in terms of decentralizing resources: State/Region governments were allocated only 4.5% of total receipts and 6.7% of total spending in 2012-2013; those percentages includes townships and cities receipts, and also budget allocation to the decentralized ministries offices. The percentage is increasing rapidly but reached only 11.8% in 2014-2015 (actual).

10. State budget merges within the same document, its own activity (State Government), as well as that conducted by the decentralized offices of the Union ministries, by the SEEs acting within the State limit, and finally the ones conducted by townships themselves. Even if the Chief Minister may guide and supervise policies at the ministerial, township and SEE levels, these entities are acting with a reasonable autonomy, and the real budget of the State is obviously reduced to the Office of the State Government consisting of nine State ministers (without ministries), the State Hluttaw, and State judiciary authorities.

11. Consequently, the progress of the fiscal decentralization reform is highly dependent upon the ability of the Union Government to improve tax collection performance and to balance public expenditure in favor of the social sector, more likely undertaken at the State/Region and Township levels.

### **1.2.2 Fiscal management of the state administration**

12. The main determinant of increases in financial intergovernmental transfers is that they are still operating at a deficit compared to the real cost of the assigned responsibilities devoted to the State Government. States are not self-administered bodies, and rely upon transfers coming from Union Government, for almost 100% of their revenues.

13. Consequently, the great majority of the State expenditures are still part of the Union budget, financed by budgetary allocations from central ministries rather than by intergovernmental transfers. Only some ministries (12 in Mon State) are managed through State/Region government, contributing also to the low percentage of fiscal decentralization: for example, health and education remain managed at the Union level with no application at the State government level. On the other hand, MoC functions are operated more and more at the State/Region level as visible within the budget of the two States involved in GMS3 (see below for further explanations). Most of the funds are dedicated to road civil works (urban and inter-cities network).

14. Although revenues are received, and payments are made, at central, state and township levels, control of budgets continues to be centralized. Like central ministries, State government receives a budget authorization directly from the MoPF to cover the annual budget allocation for all ministries operating under the State government. They allocate this authorization in line with their budget through the state budget department.

15. There are no significant intergovernmental transfers as such, but the allotments mentioned above are the only source of funds for various sectors, except for the recent and relatively small grants to the States/Regions, which are outside of the Assembly-approved budget.

16. Among the State ministers, the Development Affairs Minister plays a central role by guiding and supervising the townships (DAOs) policies, so townships and State government budgets are supposed to interact together, with the objective of supporting a common policy in the social sector (including urban development and services). To implement their capital investment budget, townships have to request approval from the State Development Affairs Department, as opposed to ordinary expenditures for which they do not need any additional approval outside the budget estimate at the beginning of the year.

### **1.3 Financial rules and management practices implemented at the State and township levels**

17. In flow of funds, the Sub-National System is the same as the Central system: According to the States/Division budget bill approved by the states/divisions Hluttaw, the Budget Department, on behalf of the MoPF, allocates funds to respective ministries, Departments and SEEs by issuing an authorization to the respective agency, as well as to the MEB (Myanmar Economic Bank). In this regard, the agency can open an MD (Ministry department) or SEE (State Economic Enterprise) account at every level.

18. Budget allocation is a drawing limit of the agency for the fiscal year. The drawing limit for the whole year is split into quarterly basis which is flexible to adjust or increase within the allocation of the year. The agencies can withdraw from the account for the expenditure incurred or add to the account for the receipts generated during the fiscal year.

19. All township DAO offices have their own bank accounts at the MEB. When the State government officially approves their budget, they can withdraw up to the limits given by the budget estimate, or the revised estimate, as submitted/approved before. The new FY starts with a zero balance, which means that any surplus remaining from the previous year must be turned over to the State government budget department and, ultimately, to the Union fund. Conversely, if DAOs are running a deficit, they must get a supplement from their State government as a loan, which they must pay back within less than 12 months (FY) at a 13% interest rate. DAOs usually shift project activities to the next budget year to avoid taking such a loan. This practice is still possible because townships do not maintain an accrual basis of accounting.

20. Sub-national financial reporting is almost the same as for the central system from the township level to the head offices (departmental level) where they are in the States and Divisions along with the respective Ministry: The head office compiles the financial report and forwards the report to the Regional Budget Department. The Regional Budget Department sends the financial reports to the Budget Department of the central government on a monthly basis.

21. The MoPF Budget Department consolidates the Regional Budget monthly. The other route of financial reporting through MEB is a little different to the central financial reporting system. MEB branches forward the financial reports to the respective Regional /State Budget Department after closing monthly accounts. Regional Budget Departments forward the reports to the MoPF Budget Department on a monthly basis. Central Budget Department arranges for financing of Regional Funds by informing CBM (Central Bank of Myanmar) appropriately.

## II. Mon State financial analysis

22. Financial analysis for Mon State project includes: (i) a fiscal analysis of the State, (ii) a fiscal analysis of Mawlamyine Township, (iii) a financial performance analysis of the water supply and the sanitation departments within the Mawlamyine Township, and (iv) the financial management assessment of the Mon State identified as possible implementing agency (IA) of the project.

23. The diagnosis is conducted with the objective to:

- Confirm the sustainability of the institutional and financial arrangements recommended for the implementation of the project;
- Fix the performance benchmark in terms of cost recovery for the utilities components (water supply and solid waste);
- Assess the capacity of the two entities (Mon State and Mawlamyine Township) to assume operating costs for the component, without direct cost recovery (drainage, cultural heritage, etc.).

### 2.1 Fiscal analysis of the State

#### 2.1.1 Overview of administrative organization

24. The Mon State is one of the seven States of Myanmar. It was established as an administrative and political entity in 2011, based on the provisions of the 2008 Constitution.

25. The State Government is not a fully decentralized government agency; **its budget is mainly made of the consolidation of the revenues and expenditures of:**

- (i) The de-concentrated offices of 10 Union ministries,<sup>2</sup>
- (ii) the 10 townships and 1 sub-township located within the State limits,<sup>3</sup> and
- (iii) the 4 SEEs among which the SEE for Road Maintenance and Construction Works which acts on behalf of the Union and State ministries. Currently, budgets of each of those entities are merged into what is named the “Mon State budget”, although the Chief Minister is not directly responsible for it in terms of management. Each entity (Ministry, SEE and township) has its own budget estimate and implements it on its own, under the management of officers who sign the checks and revenue orders, under the supervision of the Chief Minister, as well as regular audits conducted by Union Auditors.

26. The Mon State Chief Minister has a cabinet of nine (9) State ministers focusing on specific sectors, but do not have any dedicated ministries to support their work: the 10 de-concentrated ministries (including 16 to 18 departments) are not under their supervision and refer directly to their Union Minister in Naypyitaw. Only the Minister of Development Affairs, whose mandate focuses upon managing directors nominated at the head of each township or DAO (Department Affairs Organization), stands out as a

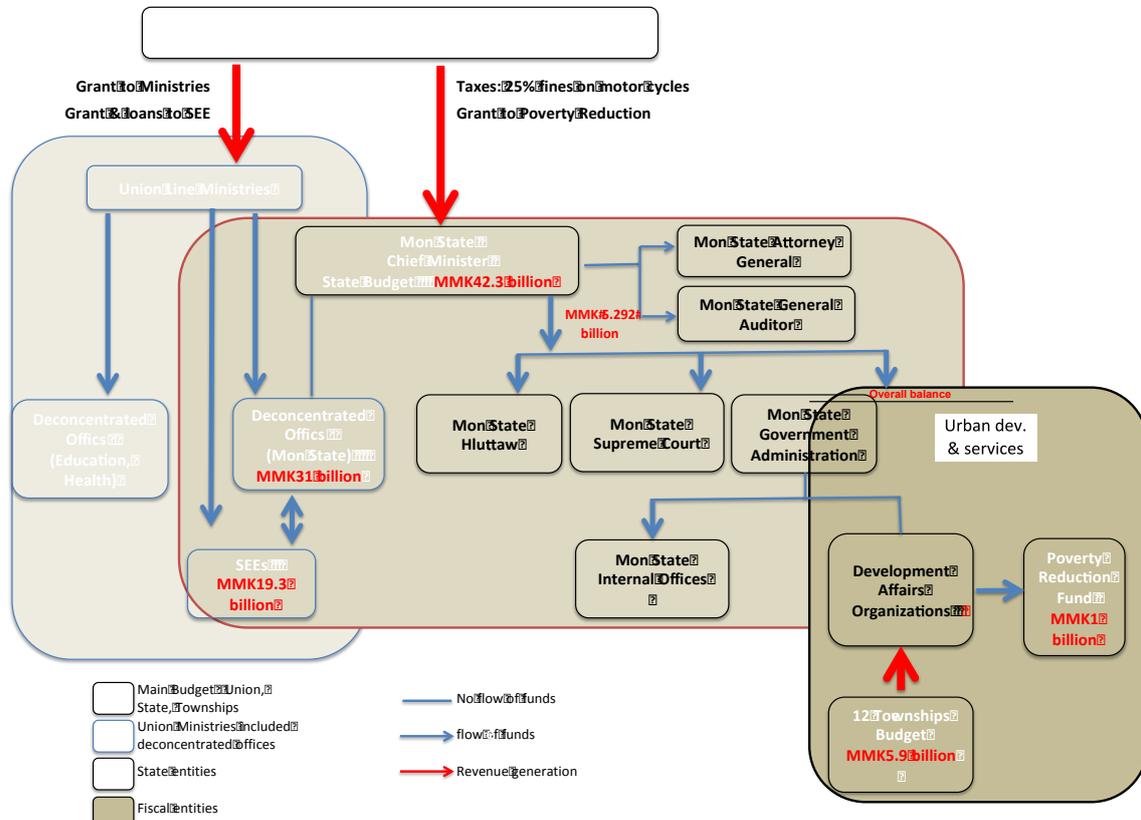
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<sup>2</sup> In the case of Mon State, 10 ministries have de-concentrated offices in 2015: (i) Home Affairs, (ii) Cooperative & Small Industries, (iii) Agriculture & Irrigation, (iv) Livestock breeding, Marine and Rural Development, (v) Forestry and Environmental Conservation, (vi) Sports, (vii) Finance, (viii) National Planning & Economic, (ix) Construction, (x) Labor, Employment and Social Security.

<sup>3</sup> The 2 districts are made of 463 wards (within the 10 townships) and villages.

sort of decentralized Government Agency with a sort of autonomous budget exclusively financed with revenues collected at the township level, without intergovernmental grant – see scheme above.

**FIG. MON STATE: FISCAL STRUCTURE & FLOW OF FUNDS**



Source: PPTA consultant based on Mon State detailed budget 2014-15

27. Urban services such as water supply, sanitation, wastewater, or solid waste are operated by the townships as primary municipal governance agencies in Myanmar.<sup>4</sup> revenues and expenditures are reflected within the townships budgets and are consolidated within the Development Affairs Organizations (DAO), under the direct control of the State Minister of Development Affairs.<sup>5</sup> The DAO is a nascent decentralized government agency that functions in contrast with the ongoing dominance of Union ministries functioning at subnational levels.

28. All budgets differentiate between operating and capital development sections, as well as category of revenues and expenditures. Surplus or deficit of the townships budgets are transferred or compensated by the State budget, throughout the year (quarterly review), as well as at the end of the year.

29. Accounting reports are prepared monthly and audits every three months, with the objectives to have control on the content and the volume of expenditure, and to adjust the amount of balancing subsidy, if needed.

<sup>4</sup> Outside Yangon City, Mandalay City and Nay Pyi Taw.  
<sup>5</sup> The Minister of Development Affairs is selected by the Chief Minister and doesn't refer to Nay Pyi Taw as Union Minister.

30. However, the lack of computerization and the transaction flow management rules preclude any easy statistical analysis and control of the spending allocation. Furthermore, the barter arrangements are not uncommon within the township's divisions and departments, and make it more difficult to read the accounts properly.

## **2.1.2 Fiscal position of the state**

31. Based on the introduction above which shows how the Mon State is not a fully decentralized entity, but rather a division into the Union State organization, the purpose of the financial analysis is not to assess the credit worthiness of the State government as potential sub-borrower of the future project, but consists in providing the big picture of the State budget, and more especially of its Development Affairs Organization (DAO), as responsible for supervising urban services and infrastructure.

32. It will be complemented by a financial analysis of Mawlamyine, as an entity operating directly to provide water supply and solid waste services within the town limits, and therefore will have to assume recurrent operating costs for those services.

### **2.1.2.1 General balancing**

33. Expenditures: The Mon state budget for 2015-16 (estimates) is MMK81 billion in expenditures (about US\$70 million) and the average annual growth of the revenues since 2011-12 is +66%, as compared to +71% for the total expenditures.

34. Revenues & financing: The Mon State Budget relies on a balancing subsidy of up to 88% of its total expenditures in 2015-16, as compared to 55% in 2011-12. However, this situation is mainly due to the large portion of Ministries' expenditures within the State budget: this portion doubled from 2011-12 to 2014-15 and should continue increasing in 2015-16 with the increase of roads & bridges O&M from MoC to its de-concentrated office in Mon State (+MMK26 billions).

35. Up to this point, fiscal decentralization system doesn't allocate any specific own revenues to the State level, which continues to operate as a mutilated part of the Union Government, with a budget made in principle of sub-budgets corresponding to each line ministry. Consequently, what is named "balancing subsidy" is mainly allocated to Ministries' budget (69% over the period) and should be more properly renamed "assigned funds."

**Table [1] TAB. MON STATE FINANCIAL POSITION (2012-2015)**

	FY1	FY2	FY3	FY4	FY4	Average annual growth	Average structure (% of current revenue)
	2011-12	2012-13	2013-14	2014-15	2015-16		
<i>in Millions Kyats</i>	Actual	Actual	Actual	Estimate	Estimate		
<b>1 CURRENT REVENUE</b>	4.882	7.217	8.745	8.326	6.446	7 %	100%
2 - Local Taxes	1.227	1.482	1.661	2.092			22%
3 - Other current revenue receipts	3.655	4.688	4.424	4.156			58%
4 - Receipts from SEE		47	268	78			
5 - Grants, subsidies and loans from Union (excluding balancing grants)	0	1.000	2.392	2.000			18%
6       25% motor cycles fines	0	0	1.392	0			
7       Grant to Poverty Reduction	0	1.000	1.000	2.000			
<b>8 OPERATING EXPENDITURES</b>	<b>6.839</b>	<b>16.145</b>	<b>15.012</b>	<b>14.626</b>	<b>52.270</b>	<b>66 %</b>	<b>180%</b>
9 - Wages and salaries / Travelling allowance	2.211	3.738	4.645	6.758			59%
10 - Goods and services	1.510	3.656	1.584	1.975			30%
11 - Petrol, oil and lubricants	274	83	547	520			5%
12 - Maintenance charges	2.727	1.707	5.710	4.099	31.249		49%
13 - Transfert payment	25	353	17	126			2%
14 - Entertainment and meal expenses	14	5.568	15	54			19%
15 - Reserve expenditure	0	12	0	0			
16 - Pensions	63	13	87	80			
17 - Reserve fund	0	0	0	0			
18 - Grants and subsidies (Minister of Development Affairs)	15	1.015	2.407	1.015	1.115	307 %	15%
19       Grant to poverty reduction	0	1.000	1.000	1.000	1.100		
20       Rural development poverty reduction Fund	15	15	15	15	15		0%
21       Motor cycles 25% fines and fees	0	0	1.392	0			5%
<b>22 OPERATING SURPLUS</b>	<b>-1.956</b>	<b>-8.928</b>	<b>-6.266</b>	<b>-6.300</b>	<b>-45.824</b>	<b>120 %</b>	
<b>23 DEBT SERVICE</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>		
<b>24 NET SAVINGS</b>	<b>-1.956</b>	<b>-8.928</b>	<b>-6.266</b>	<b>-6.300</b>	<b>-45.824</b>		
<b>25 CAPITAL EXPENDITURE</b>	<b>2.736</b>	<b>5.146</b>	<b>10.935</b>	<b>27.682</b>	<b>29.589</b>	<b>81 %</b>	<b>159%</b>
<b>26 CAPITAL REVENUE</b>	<b>53</b>	<b>18</b>	<b>192</b>	<b>0</b>	<b>0</b>		<b>1%</b>
<b>28 OVERALL BALANCE</b>	<b>-4.639</b>	<b>-14.056</b>	<b>-17.009</b>	<b>-33.982</b>	<b>-75.413</b>	<b>101 %</b>	
<b>30 BALANCING GRANTS &amp; LOANS FROM UNION</b>	<b>5.281</b>	<b>11.496</b>	<b>16.929</b>	<b>35.085</b>	<b>71.661</b>	<b>92 %</b>	<b>236%</b>
31       Grant to M&D and deficit	5.281	11.496	16.632	34.503			
32       Loans for SEE and Development organizations	0	0	297	581			

**Table [2] TAB. MON STATE FINANCIAL POSITION: RATIOS (2012-2015)**

Ratios	FY1	FY2	FY3	FY4	FY4	Average annual growth
	2011-12	2012-13	2013-14	2014-15	2015-16	
	Actual	Actual	Actual	Estimate	Estimate	
Total revenues (in millions MMK)	10.217	18.731	25.866	43.411	78.107	66 %
Total expenditures (in millions MMK)	9.575	21.291	25.947	42.309	81.859	71 %
% of capital development budget	29%	24%	42%	65%	36%	6 %
% of operating budget	71%	76%	58%	35%	64%	-3 %
% of balancing subsidy (in % of total revenue)	52%	61%	65%	81%	92%	
% of balancing subsidy (in % of total expenditures)	55%	54%	65%	83%	88%	
Operating surplus / total current revenues	-40%	-124%	-72%	-76%	-711%	
Total expenditure per capita (in MMK)	4.670	10.385	12.655	20.635	39.926	71 %

Source: Mon State Ministry of Finance

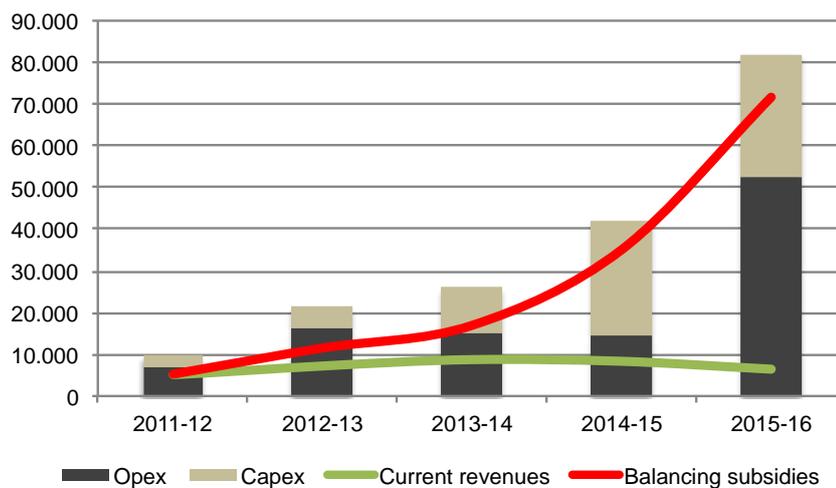
36. Union State shares only with the State level motorcycle taxes and fines, with 25% of revenue transferred to the State. Local taxes collected by the State, outside the ones collected by the townships, are apparently small, even if schedule V of the Constitution provides a substantial list of revenues to be collected by the State administration. As an example, tollgates proceeds collected within the State are totally repaid to Union State. Consequently, MoPF at the Union level allocates additional subsidy to balance the State budget (26% of the total Union allocation to the Mon State budget) – see table below.

37. Only townships and SEEs collect by themselves local revenues and receive exceptional balancing subsidy, if needed.

38. In 2012-13, Mon State was one of the less decentralized states within the Union, with the lowest level of expenditures and revenues per capita.<sup>6</sup> Updated data will be needed to confirm or adjust this position in 2015 value.

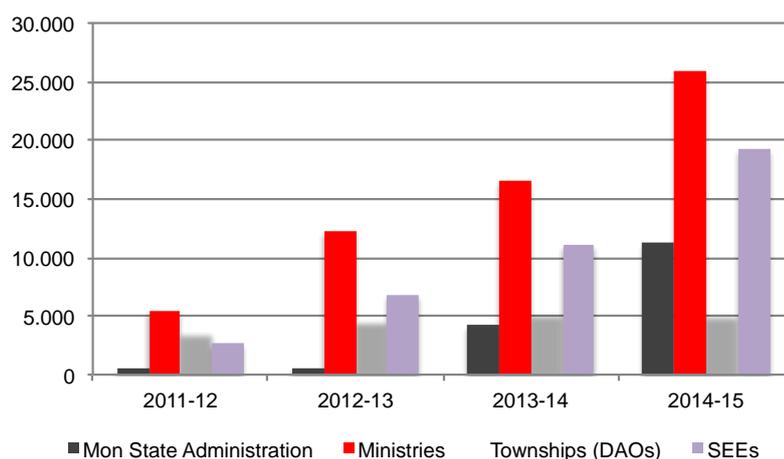
39. Capital investment: the average percentage of the capital investment budget over the period is 40% as compared to 60% for operating budget. This balance may vary significantly, depending on the way MoC costs for roads and bridges maintenance are accounted for.<sup>7</sup>

**GRAPH. FINANCIAL POSITION 2011-12 / 2015-16 - IN MMK MILLIONS**



**2.1.2.2 Breakdown between Ministries, State, Development Affairs and SEEs**  
**This breakdown is detailed as follows:**

**GRAPH. MON STATE BREAKDOWN AND BALANCING**



40. Ministries and SEEs predominate in the composition of the Mon State budget, with respectively 45% and 30% of the total State budget over the period 2012-2015. Mon State and townships represent the remaining 25% with 12% for the State and 14% for the townships.

<sup>6</sup> Source: State and Region Governments in Myanmar – MDRI-CESD & the Asia Foundation – September 2013.

<sup>7</sup> The accounting entry of those expenditures can vary, in Opex or Capex.

41. Urban development and services: these duties are under the responsibility of the township that operates directly water supply, sanitation and solid waste, but also urban road maintenance and construction, street lighting, land management and housing. With the recent establishment of the State with a State minister in charge of Development Affairs, the situation is moving toward a new framework with the State administration as potential player in urban development.

42. This new institutional feature is illustrated by the increasingly unbalanced share of the revenue between townships and State administration, with an average annual growth of the State administration budget up to +186% as compared to +12% for the Townships. The rapid increase of the Mon State budget is partly due to the Poverty Reduction Fund since 2013 (after a short period under the management of the Ministry of Internal affairs). This fund is not implemented at the township level but directly by the Minister in charge of Development Affairs.

43. Share of duties between MoC at the State level, State (in particular through the Poverty Reduction Fund), and Township regarding urban development and services, may need to be clarified, and categorized with a long-term vision, linked up with fiscal decentralization framework.

**Table [3] TAB. MON STATE BREAKDOWN AND BALANCING**

In Millions MMK	FY1 2011-12 Actual	FY2 2012-13 Actual	FY3 2013-14 Actual	FY4 2014-15 Estimate
<b>Mon State Administration</b>				
<b>Current revenues</b>	<b>20</b>	<b>32</b>	<b>2,496</b>	<b>2,015</b>
25% motor cycles fines			1,392	
Grant to Poverty Reduction	0	0	1,000	2,000
<b>Operating expenditures</b>	<b>439</b>	<b>634</b>	<b>3,822</b>	<b>3,679</b>
25% motor cycles fines			1,392	0
Grant to Poverty Reduction			1,000	1,000
<b>Operating balance</b>	<b>-419</b>	<b>-602</b>	<b>-1,326</b>	<b>-1,664</b>
<b>Capital Investment expenditures</b>	<b>43</b>	<b>10</b>	<b>356</b>	<b>7,563</b>
<b>Capital investment revenues</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Overall balance</b>	<b>-461</b>	<b>-612</b>	<b>-1,682</b>	<b>-9,227</b>
<b>Ministries (deconcentrated offices)</b>				
<b>Current revenues</b>	<b>1,009</b>	<b>2,514</b>	<b>1,553</b>	<b>1,765</b>
Grant to Poverty Reduction	0	1,000	0	0
<b>Operating expenditures</b>	<b>4,824</b>	<b>9,966</b>	<b>8,952</b>	<b>8,691</b>
Grant to Poverty Reduction	0	1,000	0	0
Rural Dvp & Poverty Reduction Fund	15	15	15	15
<b>Operating balance</b>	<b>-3,815</b>	<b>-7,452</b>	<b>-7,399</b>	<b>-6,927</b>
<b>Capital Investment expenditures</b>	<b>656</b>	<b>2,319</b>	<b>7,554</b>	<b>17,247</b>
<b>Capital investment revenue</b>	<b>0</b>	<b>14</b>	<b>4</b>	<b>0</b>
<b>Overall balance</b>	<b>-4,471</b>	<b>-9,771</b>	<b>-14,954</b>	<b>-24,174</b>
<b>Balancing Grant</b>	<b>5,281</b>	<b>11,496</b>	<b>16,929</b>	<b>35,085</b>
Grant to M&D and A/o deficit	5,281	11,496	16,632	34,503
Loans for SEEs	0	0	297	581
<b>Final Balance</b>	<b>810</b>	<b>1,725</b>	<b>1,975</b>	<b>10,911</b>
<b>Development Affairs Organizations (Townships)</b>				
<b>Current revenues</b>	<b>3,853</b>	<b>4,671</b>	<b>4,696</b>	<b>4,547</b>
<b>Operating expenditures</b>	<b>1,576</b>	<b>1,872</b>	<b>2,237</b>	<b>2,256</b>
<b>Operating balance</b>	<b>2,277</b>	<b>2,800</b>	<b>2,459</b>	<b>2,291</b>
<b>Capital Investment expenditures</b>	<b>2,038</b>	<b>2,817</b>	<b>3,024</b>	<b>2,872</b>
<b>Capital investment revenue</b>	<b>53</b>	<b>4</b>	<b>188</b>	<b>0</b>
<b>Overall balance</b>	<b>293</b>	<b>-13</b>	<b>-377</b>	<b>-581</b>
<b>SEEs</b>				
<b>Current revenues</b>	<b>2,266</b>	<b>7,565</b>	<b>11,169</b>	<b>18,101</b>
<b>Operating expenditures</b>	<b>2,741</b>	<b>6,856</b>	<b>11,089</b>	<b>17,989</b>
<b>Operating balance</b>	<b>-475</b>	<b>709</b>	<b>80</b>	<b>111</b>
<b>Capital Investment expenditures</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,214</b>
<b>Overall balance</b>	<b>-475</b>	<b>709</b>	<b>80</b>	<b>-1,102</b>

Balancing Grant from Union Gov. Managed through the MoF (Union deconcentrated office) and dedicated to Ministries, SEEs, State Gov. and Townships

	2014-15	%
Balancing grant		
Ministries	24,174	69%
State Gov.	9,227	26%
Townships	581	2%
SEEs	1,102	3%
<b>Total</b>	<b>35,085</b>	<b>100%</b>

<b>Consolidated Mon State Budget</b>				
In millions MMK	FY1 2011-12 Actual	FY2 2012-13 Actual	FY3 2013-14 Actual	FY4 2014-15 Estimate
Total current revenues	7,148	14,782	19,915	26,427
Total Operating expenditures	9,580	19,327	26,101	32,616
<b>Operating balance</b>	<b>-2,431</b>	<b>-4,545</b>	<b>-6,186</b>	<b>-6,189</b>
Total capital expenditures	2,736	5,146	10,935	28,896
Total capital revenues	53	18	192	0
<b>Overall balance/Balancing grants</b>	<b>-5,114</b>	<b>-9,673</b>	<b>-16,929</b>	<b>-35,085</b>

Source: PPTA consultant from Mon State budget

### 2.1.2.3 Mon State Development Affairs organizations

44. The DAOs budget is the consolidation of the 10 townships budgets as accounted within the Mon State Finance Department, plus a very small amount dedicated to the functioning of the department by itself.

45. Based on the statistics provided by the State Development Affairs Department, total revenues of the 10 townships members of the Mon State are MMK5,739 million in 2014-15 (actual) that is 22% of the total State budget (estimates)<sup>8</sup>. This percentage was 32% in 2012-13 and is decreasing over the years, State Revenues increase being much faster than the townships revenues.

On average over the period, Townships' revenues were allocated up to 40% to Opex and to 60% to Capex; those percentages are almost similar for all the townships, all over the period (as a budgetary rule edicted by the MoPF).

46. The consolidated deficit of the DAOs was 5% over the period and was covered by a balancing grant from Union Government (MoPF) allocated through the State budget (State Ministry of finance) – see table above. The majority of the budgets' deficits result from Mawlamyine township, while most of the other smaller townships budgets are balanced and generates even surplus – see tables in annex. Townships' budgets balancing are very closely monitored by State auditors all along the FY to avoid any budget overruns.

47. Data provided show that the execution rate of townships' budgets is high : about 97% of the estimates in operating and more than 90% for investment section. Regular revisions of the estimates all along the FY explain this apparently good performance.

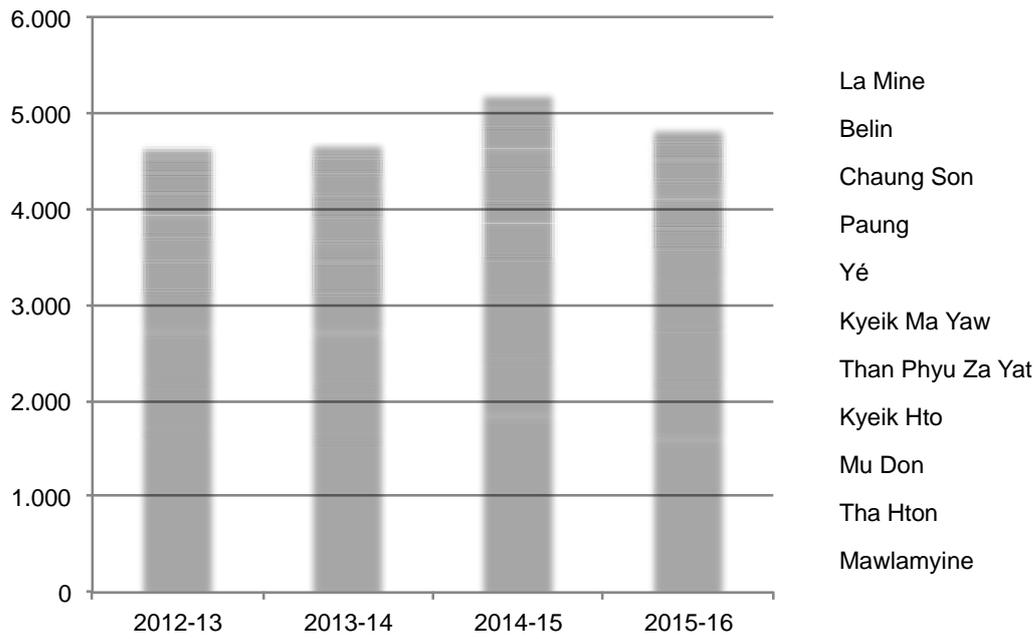
48. Mawlamyine concentrates 36% of the townships revenues as compared to 14% of the population. Its revenues per capita (MMK6.000) are much higher than the other townships: about 2.5 times the average revenue (MMK2.367) or six times the revenue per capita of Paung township (MMK998), the least funded township of the State per capita. Despite this relatively good financial situation, Mawlamyine capital investment budget is erratic, constrained by the insufficient level of its current revenue, and a chronic shortage that has been increasing over the last four FY to reach –MMK728 millions in 2014-15 (actual value) that is close to 40% of its revenues.

49. The State Development Affairs Department has a very small own budget (less than one hundred million MMK per year) made for more than two third by operating expenditures. Its financing is apparently assumed by the State budget and is not levied on each township budget.

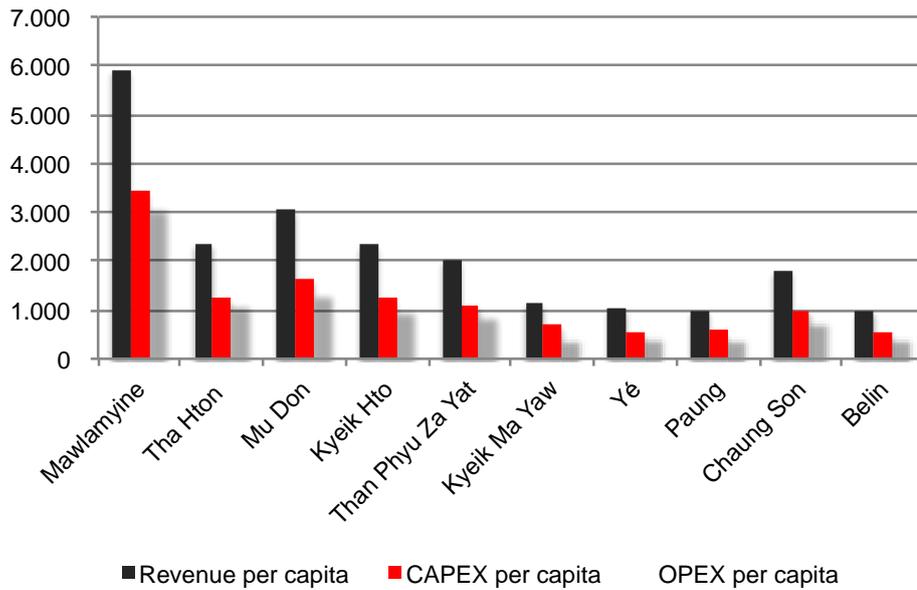
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<sup>8</sup> Data provided by the Mon State Development Affairs Department are significantly lower than the ones provided directly by the Mawlamyine township, beneficiary of the future project. Mawlamyine estimates and actual budgets are audited several times a year and it would be interesting to clarify the reason of these discrepancies during project implementation.

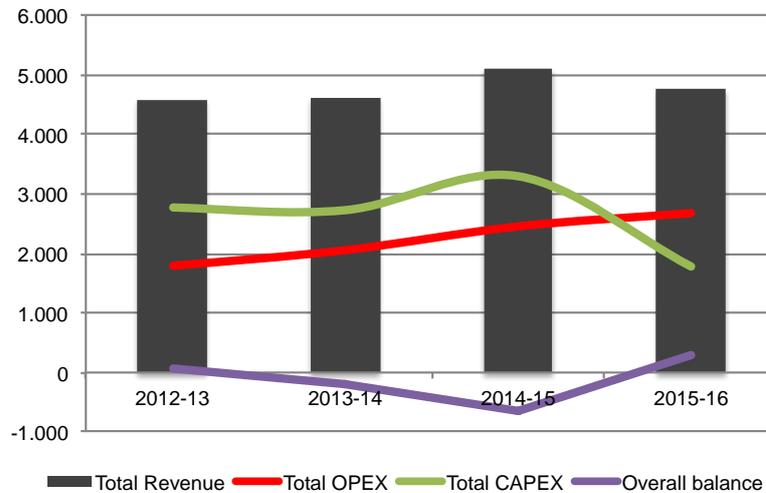
**GRAPH. MON STATE DAOs: REVENUES DISTRIBUTION (MILLIONS MMK)**



**GRAPH. MON STATE DAOs COMPARISON: REVENUES, OPEX AND CAPEX PER CAPITA (IN MMK)**



**GRAPH. MON STATE DAOs: FINANCIAL POSITION**



## 2.2 Mawlamyine Fiscal analysis

### 2.2.1 Organizational overview

50. Mawlamyine township administration is headed by a GAD officer from the Ministry of Home Affairs (MoHA) and supervised by the State Development Affairs Organization Minister (DAOs) at the State level.

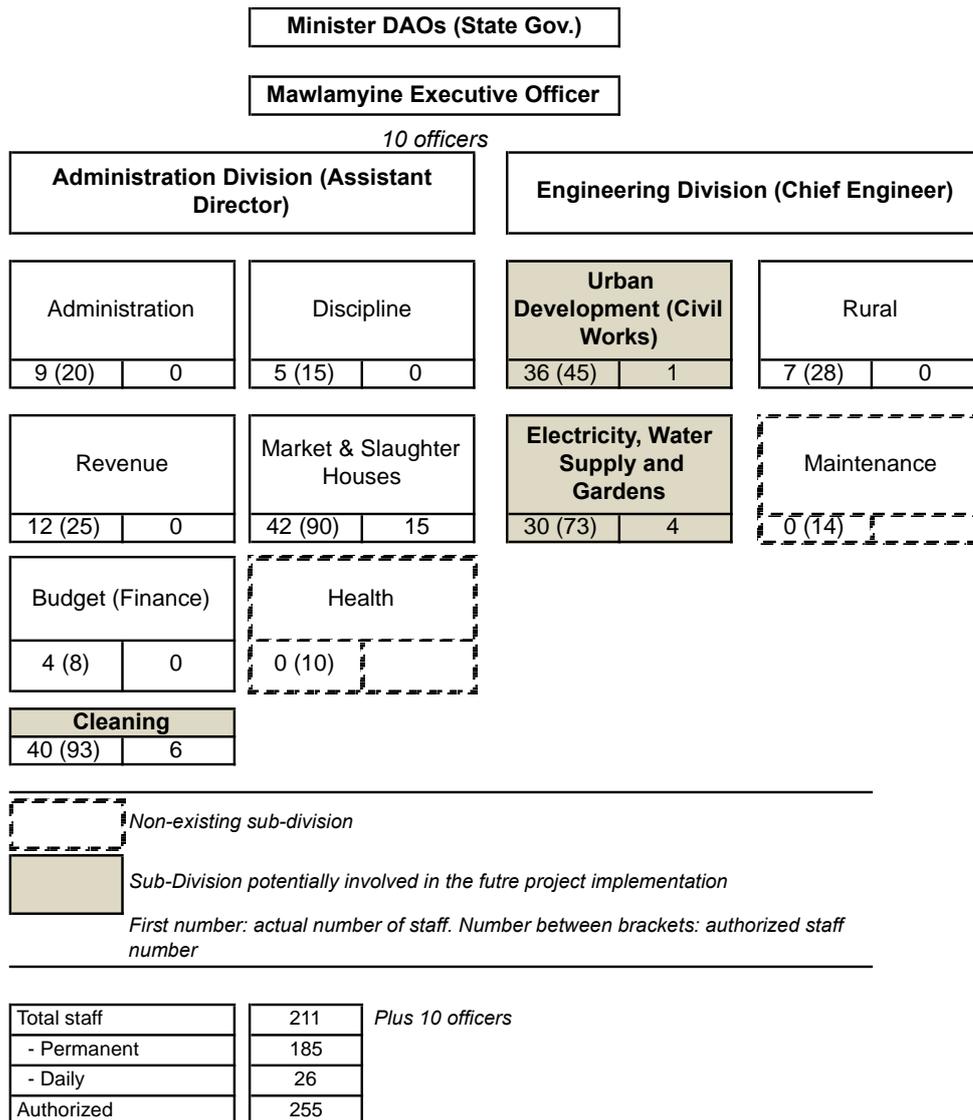
51. Township has not yet an elected representative body, but is characterized by several local Committees set up to implement the “people centered development” principle – see Institutional analysis.

52. Each Township has more than 30 core duties and responsibilities; it operates through its own staff made up of civil servants and daily workers, and funds its budget with local taxes and fees it collects itself.

53. Below a simplified organizational chart of the township administration with actual number of staff: a comparison is provided with standardized flow chart that shows that some sub-divisions are no longer existing such as health and maintenance sub-divisions, and that the number of staff is much below that authorized by the Ministry of Internal Affairs. One important reason for this downward adjustment is the budgetary ceiling of 30% of the current revenues imposed on wages and salaries by the Union Government.

54. Effective staffing is much below the authorized number of staff, in all the departments. The flexibility provided by daily workers is not used intensively, much of the daily workers being now employed as regular staff. Globally speaking, this situation illustrates the tight control by the Union/State government over the township, but also the difficulty faced by the township management to contract with private service providers to operate basic urban services.

**FIG. SIMPLIFIED ORGANIZATIONAL CHART**



**2.2.2 Fiscal position**

55. The Mawlamyine township’s budget is balanced and required recently only small support from State (Union) in 2014-15 to cover “one-off” shortage in capital investment budget, as mentioned above (State Development Affairs organizations statement).

**Table [1] MAWLAMYINE TOWNSHIP: FISCAL POSITION**

<i>in MMK millions</i>	FY 2012-13 <i>Actual</i>	FY 2013-14 <i>Actual</i>	FY 2014-15 <i>Actual</i>	FY 2015-16 <i>Estimate</i>	Average annual growth (2012-2014)
<b>CURRENT REVENUE</b>	<b>1.691</b>	<b>1.627</b>	<b>1.883</b>	<b>1.640</b>	<b>6 %</b>
- Housing Tax +lighting Tax	48	49	49	46	2 %
- Business and concession licences	979	682	581	586	-23 %
- Markets shops	142	315	338	339	54 %
- Dividend tax (5%)	76	84	134	120	32 %
- Water supply	160	143	176	218	5 %
- Sanitation	63	55	62	46	-1 %
<b>OPERATING EXPENDITURES</b>	<b>603</b>	<b>837</b>	<b>1.104</b>	<b>984</b>	<b>35 %</b>
Wages & salaries	208	392	424	367	43 %
- Permanent staff	138	156	174	175	12 %
- Daily workers	70	236	250	193	89 %
Petrol & fuel	83	46	83	120	0 %
Electricity	68	106	323	204	118 %
Repairs & maintenance	147	176	172	182	8 %
Others	97	116	102	111	2 %
OPERATING MARGIN	1.088	790	779	656	-15 %
DEBT SERVICE	0	0	0	0	
<b>NET MARGIN</b>	<b>1.088</b>	<b>790</b>	<b>779</b>	<b>656</b>	<b>-15 %</b>
<b>CAPITAL EXPENDITURES</b>	<b>1.020</b>	<b>982</b>	<b>1.245</b>	<b>466</b>	<b>11 %</b>
- Civil works	909	921	1.173	464	14 %
- Purchase	110	62	72	2	-19 %
<b>OWN CAPITAL REVENUES</b> <i>(Sales of fixed assets)</i>	<b>3</b>	<b>188</b>	<b>101</b>	<b>0</b>	<b>484 %</b>
<b>OVERALL BALANCE</b>	<b>71</b>	<b>-4</b>	<b>-364</b>	<b>190</b>	
<b>RATIOS</b>					
Net margin / Current revenues	64%	49%	41%	40%	49%
Wages & salaries / Current revenues	12%	24%	22%	22%	20%
Capital expenditures/ Current revenues	60%	60%	66%	28%	54%
Total revenue / capita	6.676	7.153	7.821	6.463	
Total expenditure / capita	6.396	7.171	9.258	5.713	

56. Revenue. Revenue per capita is about MMK7.500 over the period<sup>9</sup> (as compared to MMK30.000 in Mandalay – MCDC, country's second major town, where a first ADB funded urban development project was prepared in 2014-15). It is made up in principal (more than 50%) of business and concession license charges provided by small enterprises and business owners, more especially located within or around the market places.

57. Direct taxation of households accounts for Housing tax and lighting tax all together are about 5% of the current revenues with a tax pressure of 36% of the rental value of the houses: Rental values have not been updated since 1975. Consequently, the average annual taxation per household is MMK3.000, water tax and cleaning tax included – see details in annex (taxation database). Since 2007, the township requested several times to increase the rental value of the houses, but the State administration has consistently refused it, considering it would reduce the buying power of the households.<sup>10</sup>

58. Share tax (5% dividend tax) is about 10% of the current revenues.

<sup>9</sup> Population: 253.734 inhabitants.

<sup>10</sup> The same remark was provided in Mandalay regarding housing tax.

59. As described below in detail, taxes and tariffs on services such as water and sanitation are about 15% of current revenues, which is relatively significant. Current revenues are increasing slowly, with a +6% annual average, which is equivalent to the inflation rate.

60. The township operates in full autonomy within the limit of its budget estimate and revised estimate, with its own revenues and with no specific support from State or Union Government, except the share dividend tax (see above). If it presents a deficit at the end of the year, the MoPF will propose to cover this a short-term loan (less than 12 months) at 13% interest rate. If it presents a surplus, this surplus will be transferred to the MoPF for consolidation.

61. Operating expenditures. They have been increasing rapidly over the period starting from 35% of the current revenues in 2011-12 to reach 60% in 2015-16 (estimates); but the ability to contain them until now allows for a comfortable margin dedicated to annual capital investment expenditures. However, it is foreseeable that it will be more difficult for the township to maintain this trend of conservative policy in the next future years, and that it will have to find new sources of revenues to improve service delivery.

62. Wages and salaries, including daily workers charges, account for a relatively modest percentage of the current revenues (20% on average over the period), but have increased by +43% as an annual average over the last four years, under the pressure of the National Social Policy regarding minimum wages. Staff number could be optimized, but it is not sure an alternative system relying on privatization would reduce the charges.

63. The second cost centre of the budget is electricity: it accounts for more than 15% of the current revenue and is increasing rapidly. Electricity charge includes street lighting, water pumping, and electricity consumption of the office buildings and staff housing.

64. The township is apparently not in debt, even if it has been running at a deficit during two years, and should have possibly gotten a supplement from Mon State as a loan to pay back in one year at a 13% of interest rate.

65. Capital investment financing. Capital investment effort is about 60% of the current revenue (except in 2015-16 estimates where it is half of it) that is about MMK900 millions to 1 billion per year, totally funded by the net margin obtained on the operating budget, since sales proceeds dried up (land, buildings, equipment). Capital investment budget is mainly dedicated to urban roads and drainage, with few regular expenses in piped water with the purchase of meters and small civil works for new connections. Tertiary roads are favoured since community participation is quite active and contributes to the financing of the works in addition to the township investment. The same arrangement is possible for piped water connection, as illustrated by the recent experience in MyaingThaYar ward where population grouped together to finance connection of their quarter.

## **2.3 Mawlamyine utilities' financial diagnosis**

### **2.3.1 Water supply financial diagnosis**

66. Water supply is operated directly by the department in charge of water supply, electricity and gardens (see above organizational chart). This department assumes by

itself the maintenance of the network, the new connections and also the commercial management and the collection of the tariff proceeds.

67. Water supply revenues and expenditures have been isolated from the other cost centres managed by the same department (street lighting and gardens) and are summarized below. In the absence of analytical accounting, calculation was based on information gathered from interviews with the chief engineer. It is obviously underestimated because of the hidden costs and revenues, mainly in capital investment section: connection fees proceeds could not be identified in the township accounts, probably because it was mixed with other accounting entries and could not be identified separately; the same for the charges linked to this activity. A portion of those costs is internal costs assumed by other departments and not invoiced to the water, electricity and gardens department. One of the objectives of the project would be to improve analytical monitoring of revenues and expenditures.

68. Water charges. In 2014-15, water operating expenditures account for 30% of the total current expenditure of the township, as compared to 19% in 2013-14 and 16% the year before. It is one of the more important departments of the township administration in terms of budget, after urban development, in charge of roads maintenance. Expenditures have been increasing rapidly under the pressure of electricity charges that represent 77% of the operating charges of the service (53% in 2013-14)<sup>12</sup>. There is no charge due for the purchase of chemicals, as there is no WTP.

The staffing of the department as a whole is 34 (16% of the total staffing) of which 4 daily workers. About 20 people are working in principal on water supply, among which 13 meter-readers (2 of them are only working within the market places). Meters readers read the meters and collect cash directly from users, which they deposit in the department office for recording at the end of the day and transfer to the finance department, then the MEB.

69. OPEX for water supply is estimated at MMK40.000 / user (HH) for about MMK20.000 charged to the same users.

70. Water revenues. They are made up of three categories of revenues, excluding connection fees not recorded explicitly in the budget, as capital investment expenditures.<sup>13</sup>

- **Water tax:** all the households living within the limit of the town have to pay a water tax, calculated on the rental value of their house with a rate of 8%. Initially, this water tax was set up as a contribution to the cost of the water consumed at the public water stands. 92 water stands are still operated in Mawlamyine, distributed in 9 wards among the 29 existing ones. Piped water has been more or less provided with specific price (volumetric tariff), but the water tax has been maintained as a surcharge to the housing tax (same invoice). 81% of the households living in Mawlamyine pay the housing tax and consequently the water tax. However, the total proceeds are modest (less than MMK20 millions) that is MMK575 per HH and per year. The water tax is collected by the Revenue Department on the same invoice as the housing tax.
- **Water tariff:** Since 2003-04, the tariff for piped water is MMK150/m<sup>3</sup> plus MMK200 per month as a flat rate. It is a unique tariff: no difference is made between domestic and non-domestic (in particular small business but also hotels

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<sup>12</sup> Electricity charges to operate water supply facilities have been estimated up to 80% of the total electricity charges assumed by the township.

<sup>13</sup> Connection fee includes: (i) from MMK25.000 to MMK35.000 for the meter, (ii) civil works (pipe) based on MMK150 /feet. The average cost for a connection (domestic) is MMK100.000.

and industries). Exceptions may exist in some case, as in MyaingThaYar, where a lower tariff was negotiated by the users, to take into account their contribution to the connection works. Based on the number of meters, the population supplied by piped water is estimated at 22% in 2015, which leaves a great scope for improvement. Most of the residents are still using private wells. The water tariff proceeds are expected to reach MMK200 millions in 2015-16. The calculation based on 2014-15 actual data shows that average monthly invoice for an HH connected to piped water is MMK1.200; that represents a consumption of about 7m<sup>3</sup>. Billing is under the direct responsibility of the Water supply department; it is not computerized; access to registers would provide useful information on the performance of the billing system and the volume of water consumed.

- **Private wells license:** the same amount of MMK80.000 is accounted for every year in the township budget for the private wells license.

71. Cost recovery. Increase of electricity tariff in April 2014 changed significantly the balance of water budget in Mawlamyine. While water tariffs and tax were enough to cover OPEX until 2013-14, it is not any more the case since 2014-2015. Water tariff should be increased up to MMK280 (from MMK150 today) to cover OPEX. The other option would consist in increasing the rental value on which the water tax is based, or a mix of the two options. This decision needs the approval of the State government.

**Table [2] WATER SUPPLY BUDGET 2012-215**

<i>in thousand Kyats</i>	2012-13 Actual	2013-14 Actual	2014-15 Actual	2015-16 Estimate
<b>Revenue</b>	<b>160.294</b>	<b>143.350</b>	<b>175.625</b>	<b>218.000</b>
- Water Tax	18.477	18.914	19.257	17.900
- Water Tariffs	141.737	124.356	156.288	200.000
- Private wells license	80	80	80	100
<b>Charges</b>	<b>94.000</b>	<b>149.967</b>	<b>325.774</b>	<b>233.784</b>
- Salaries & wages (permanent staff)	11.135	14.468	15.981	22.075
- Daily workers wages	6.766	10.382	19.327	16.920
- Transport charges	11.574	11.426		5.200
- Taxes			5.390	
- Fuel	10.275	28.665	26.300	26.300
- Electricity	54.250	85.026	258.776	163.290
- Equipement				
<b>Operating balance</b>	<b>66.294</b>	<b>-6.617</b>	<b>-150.148</b>	<b>-15.784</b>
<b>Capital investment expenditures</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Overall balance (fiscal contribution if negative)</b>	<b>66.294</b>	<b>-6.617</b>	<b>-150.148</b>	<b>-15.784</b>
<b>Fiscal contribution to water supply financing</b>	<b>0</b>	<b>6.617</b>	<b>150.148</b>	<b>15.784</b>
<b>Ratios</b>	2012-13	2013-14	2014-15	2015-16
<b>Population = 253.734</b>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Estimate</i>
<b>Number of water meters = 8.000</b>				
- % of fiscal balance / Current Fiscal Revenues	0%	0%	8%	1%
- % of tariffs and tax / OPEX	171%	96%	54%	93%
- % of fiscal revenue requested / OPEX	-71%	4%	46%	7%
- OPEX / Population (in Kyats)	<b>370</b>	<b>591</b>	<b>1.284</b>	<b>921</b>
- Tariffs & tax proceeds / Population (in Kyats)	<b>631</b>	<b>565</b>	<b>692</b>	<b>859</b>
- OPEX / number of users (HH) (in Kyats)	<b>11.750</b>	<b>18.746</b>	<b>40.722</b>	<b>29.223</b>
- Tariffs & tax proceeds / number of users (HH) (in	<b>20.037</b>	<b>17.919</b>	<b>21.953</b>	<b>27.250</b>
- Need for Water Tariff/Tax increase	0%	5%	86%	7%
- Salaries & wages / OPEX	19%	17%	11%	17%
- Electricity charges / OPEX	58%	57%	79%	70%

**Table [3] WATER TARIFFS, POPULATION SERVED**

<i>Water tariff</i>	<i>Flat rate</i>	<i>Exemptions</i>	<i>Last increase</i>
Single tariff: MMK150/m3	MMK200/month	- Staff housing - Military members (2)	2003-2004
In MyaingThaYar: MMK75/m3 (1)	MMK200/month		

<i>Number of meters</i>	<i>Number of active meters</i>	<i>% of HH served by piped water</i>	<i>Number of new connections since April 2015</i>
9.150	About 8.000. Meter can served several HH living in the same house.	22% (10.000 HH)	800. In coordination with the urban development dept. (old quarter served + urban extension)

(1) 1.850 houses in a new settlement, with only one central meter paid with the community contribution of the inhabitants of the quarter.

(2) Monasteries are charged.

### 2.3.2 Solid waste financial diagnosis

72. Cost recovery: Cleaning department is responsible for garbage collection, street cleaning and night soil. About 50% of generated waste (50 tons/D) is collected and dumped at open landfill sites; the rest of the generated wastes are dumped by people at unauthorized places. Total solid waste budget was almost MMK200 million in 2014-15, as compared to MMK37 million of revenues provided by the cleaning tax and a garbage fee – see table below. Consequently, about 80% of the costs are financed by a contribution from the general operating budget of the township (fiscal revenues). The level of service provided is bad and needs urgent reform. Improvement of the service would need to more than double the operating budget for solid waste (without amortization of new trucks and other equipment) to reach about 30% of the total revenue of the township.

#### Tax and fee performance:

- Cleaning tax is charged at 10% of the rental value of the housing, same percentage as the housing tax and 2 points more than the water tax (8%). Its performance is slightly lower than the housing tax, because several quarters are not served (Hpar out, San Gyi, NganTay, Yogo, and MyaingThaYar quarters);
- Garbage fee is collected from commercial and business activities such as restaurants, market places and other small businesses. It amounts to less than MMK15 millions.

73. Night soil charges and revenue: Based on an interview with the department officer, night soil charges and revenues are not recorded within his budget. This charge might be estimated at about MMK10 million per year: an average of 15 interventions per month for emptying septic tank of restaurants, guesthouses, hospitals, etc., to be accounted at MMK45.000 each. Service is directly provided by the “municipal garage” that maintain the single truck (second hand truck).

**Table [4] SOLID WASTE BUDGET (2012-2015)**

<i>in thousand Kyats</i>	2012-13 Actual	2013-14 Actual	2014-15 Actual	2015-16 Estimate
<b>Revenue</b>	<b>35.492</b>	<b>36.226</b>	<b>37.309</b>	<b>35.700</b>
- Cleaning Tax	22.947	23.546	23.974	22.500
- Garbage fee	12.545	12.680	13.335	13.200
<b>Charges</b>	<b>77.528</b>	<b>150.325</b>	<b>191.368</b>	<b>160.399</b>
- Salaries & wages (permanent staff)	16.640	18.589	22.581	44.164
- Daily workers wages	28.114	86.900	121.451	70.975
- Transport charges				
- Taxes				
- Fuel	30.825	42.836	42.836	43.060
- Business equipment	1.949	2.000	2.500	2.200
- Equipement				
- Repairs & maintenance			2.000	
<b>Operating balance</b>	<b>-42.036</b>	<b>-114.099</b>	<b>-154.058</b>	<b>-124.699</b>
<b>Capital investment expenditures</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Overall balance (fiscal contribution if negative)</b>	<b>-42.036</b>	<b>-114.099</b>	<b>-154.058</b>	<b>-124.699</b>
<b>Ratios</b>	2012-13	2013-14	2014-15	2015-16
<b>Population = 253.734</b>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Estimate</i>
- % of fiscal balance / Current Fiscal Revenues	2%	7%	8%	8%
- % of tariffs and tax / OPEX	46%	24%	19%	22%
- % of fiscal revenue requested / OPEX	54%	76%	81%	78%
- OPEX / Population (in Kyats per year)	<b>306</b>	<b>592</b>	<b>754</b>	<b>632</b>
- Tariffs & tax proceeds / Population (in Kyats)	<b>140</b>	<b>143</b>	<b>147</b>	<b>141</b>
- Need for Water Tariff/Tax increase	118%	315%	413%	349%
- Salaries & wages / OPEX	58%	70%	75%	72%
- Fuel charges / OPEX	40%	28%	22%	27%

## 2.4 Summary in terms of financial/fiscal capacity

The budget of the Mawlamyine Township is more or less balanced over the past years with little room for additional operating expenses. Tariffs and taxes increase will be needed to improve the maintenance of the assets and improve the coverage and the quality in terms of services.

The level of revenue per inhabitant is small: about 25% of the revenues raised by MCDC. They are made in principal of business taxes and for a very small part (less than 5% of the total current revenues) of people's taxes. The rental value of the houses is particularly low and has not been updated since 1975. As a vicious circle, this lack of revenues explains the low level of service provided to residents in terms of basic services (water, sanitation, solid waste, or road accessibility<sup>14</sup>) and appears also as a spinoff of this low level of services.

Moreover, part of the services and small infrastructure delivered are under the direct responsibility of the communities organized in wards, and do not appears systematically within the budget and the financial statements of the township.

<sup>14</sup> Education and health facilities and operating are under the direct responsibility of the Union ministries.

The financing strategy adopted in the Project is consisting in supporting basic services delivery at the township level with no capital investment financing counterpart requirement (ADB and NEDA loans are on-granted). However, it is considered as crucial to make local authorities feel responsive for operational and maintenance costs. It is expected those costs be financed exclusively with tariff proceeds for water supply. Water tax would be maintained to serve in particular the neighbourhoods with public water because they cannot be connected to piped water network. However, this double taxation is probably to outlaw at the end, and be gradually replaced by user tariffs. The tariffs policy is described in the utilities financial analysis provided in this report. The tariffs increase is important, because of the significant increase of the O&M to consider, linked, on one hand, to the increase of electricity charges and, on the other hand, to the improvement of the quality of the services expected with the project.

Regarding solid waste, the financing strategy would more likely mix price and tax policies: current cost recovery, based on garbage fees and cleaning tax is less than 20%.

### III. KAYIN STATE FINANCIAL ANALYSIS

74. Several missions were conducted by the financial analyst team to Kayin State administration, more especially to the Finance Department and the accountant of the State Development Affairs Department. Unfortunately, in contrast with Mon State, and despite the great interest expressed by the Chief Minister for the project, it was not possible to get basic fiscal information regarding the Kayin State, because of confidentiality issue.

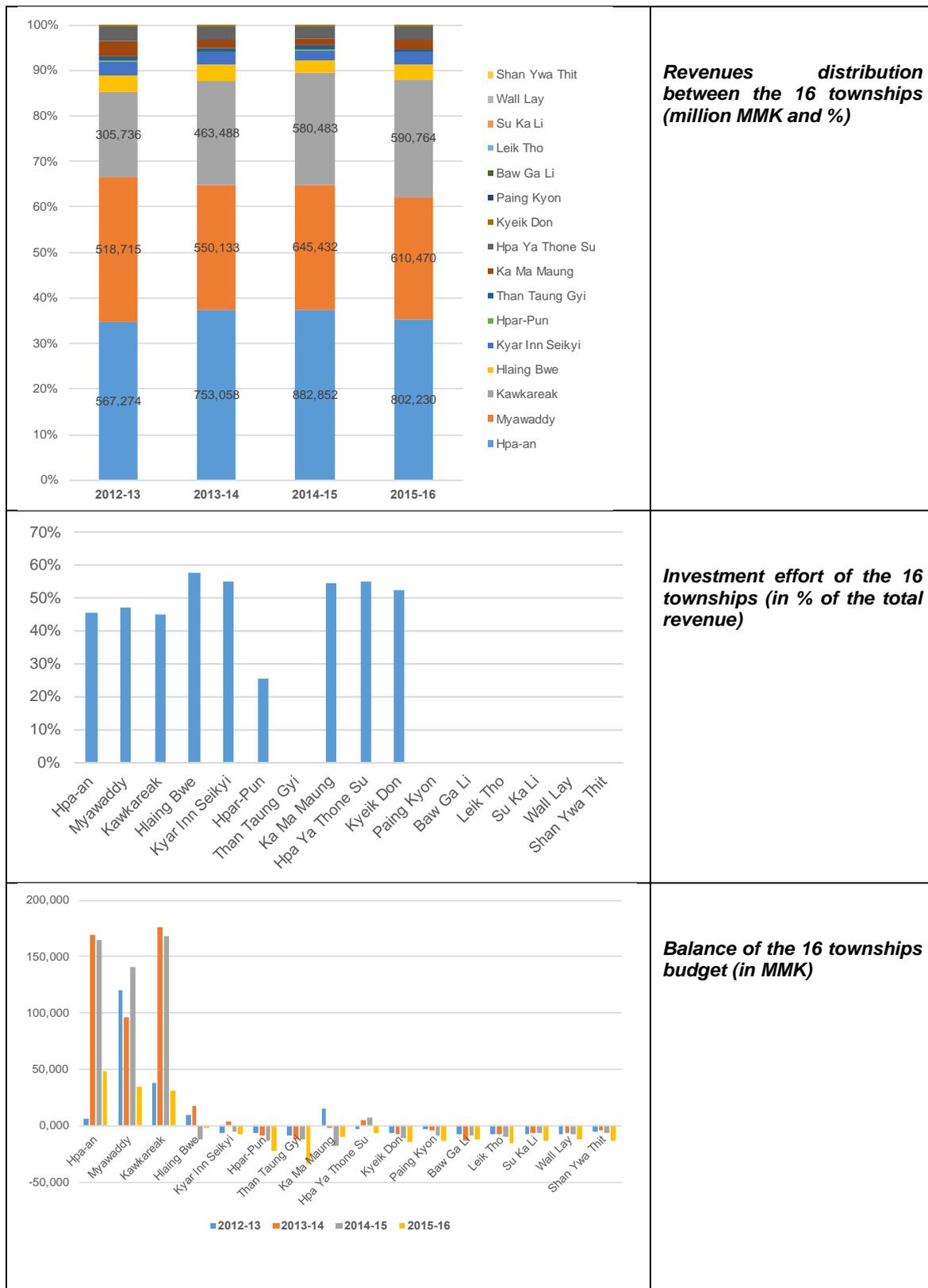
75. The only data provided by the Kayin State was about the State Development Affairs Organization: statistics on the distribution of revenues and expenditures (in total) between the 16 townships, part of the State.

76. Based on these statistics, a general overview of the situation at the townships level can be provided:

- Total revenues of the 16 townships members of the Kayin State are MMK2,355 million in 2014-15 (actual) that is two times less than in Mon State;
- Six townships among the 16 listed don't have any revenues and expend a few amount of money in operating. Source of revenue allocated to these townships need to be clarified (coming from State revenues or from surplus generated by other townships within the State).
- Hpa-An and Myawaddy concentrate the two thirds of the total revenues of the Kayin State's townships;
- By difference with the Mon State DAO that presents a deficit, the overall budget of the 16 townships is balanced and present a surplus of about MMK300 million, including the structural deficit of the small townships.
- On average over the period, Townships' revenues were allocated up to 54% to Opex and to 46% to Capex; those percentages are fairly regular year after year all over the period.
- As in Mon State, the Kayin State Development Affairs Department has a very small own budget (about 50 million MMK per year over the last three years) made for more than 80% by operating expenditures. Its financing is apparently assumed by the State budget and is not levied on each township budget. In 2015-16, those expenditures are growing up to MMK78 million (plan) which is almost the same amount than in Mon State.

77. The graphs bellow provide some basic ratio regarding the financial position of the 16 townships of the Kayin State, among which Hpa An and Myawaddy.

**GRAPH. KAYIN STATE DAOS: BASIC FINANCIAL RATIOS**



78. The State Finance Department officer only provided general information about financial management. This information corroborates the ones presented within the Mon State financial analysis and financial management assessment.

79. Consequently, it was not possible to conduct the same analysis as carried out in Mon State: financial analysis is reduced to the two townships (Hpa-An and Myawaddy) fiscal analysis, including water supply and solid waste financial review, as these two utilities are contemplated by the future project.

80. Regarding financial management assessment, the findings are similar to the ones presented for Mon State: The State Development Affairs Department would likely house the PMO, but it has to be noted the two townships manage today by themselves water supply and solid waste utilities, without any support from the State level. Consequently, it is recommended to closely associate the two townships to the implementation of the project, through PIUs set up and training and capacity building activities.

### **3.1 Hpa-An fiscal analysis**

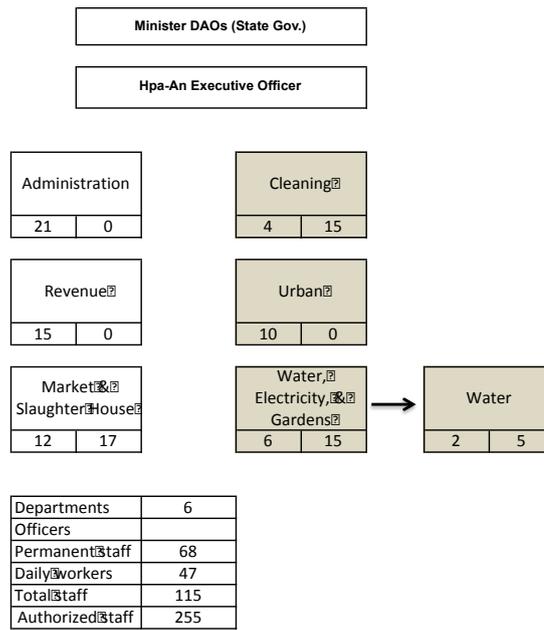
#### **3.1.1 Organizational overview**

81. Hpa-An township administration is headed by a GAD officer from the Ministry of Home Affairs (MoHA) and supervised by the State development Affairs Organization Minister (DAOs) at the Kayin State level; township has not yet an elected representative body, but is characterized by several local Committees set up in order to implement the “People centred development” principle – see institutional analysis.

82. The simplified flow chart presented below shows that Hpa-An township is made of 6 departments (against 9 in Mawlamyine) and employs 115 staff, including 47 daily workers, as compared to 255 authorized by the MoHA.

83. Water supply is mixed with electricity and gardens and greens maintenance, as in Mawlamyine. Cleaning is managed apart with 15 daily workers and 4 permanent staff. The main staffing is employed by administrative departments (Administration, Revenue and Market & slaughterhouses) and shows the little capacity of the township to provide urban services to the population.

### HPA-AN' SIMPLIFIED ORGANIZATIONAL CHART



#### 3.1.2 Fiscal position

84. The Hpa-An township' budget is characterized by a low level of operating expenditure and a significant surplus (net operating margin and overall balance). This situation is apparently due to the priority given to capital investment planning with the challenge to implement the project within the fiscal year. On a positive note, this situation gives some room to improve significantly the level of urban services provided to the population, more especially regarding solid waste management, sanitation and water supply.

85. Revenue. Revenue per capita is about MMK10.000 over the period<sup>15</sup> (as compared to MMK7.500 in Mawlamyine). It is made up in principal (more than 65%) of business and concession licenses charges provided by small enterprises and business owners, more especially located within or around the market places.

<sup>15</sup> Population: 75.141 inhabitants.

**Table [5] HPA-AN TOWNSHIP: FINANCIAL POSITION**

<i>in MMK millions</i>	FY 2012-13 <i>Actual</i>	FY 2013-14 <i>Actual</i>	FY 2014-15 <i>Actual</i>	FY 2015-16 <i>Estimate</i>	Average annual growth (2012-2014)
<b>CURRENT REVENUE</b>	<b>567</b>	<b>753</b>	<b>882</b>	<b>802</b>	<b>25 %</b>
- Housing Tax +lighting Tax	25	25	27	25	4 %
- Business and concession licences	385	524	587	606	24 %
- Markets shops	40	40	40	40	1 %
- Dividend tax (5%)	12	10	41	13	86 %
- Water supply	20	19	21	17	4 %
- Sanitation	17	18	20	17	8 %
<b>OPERATING EXPENDITURES</b>	<b>240</b>	<b>281</b>	<b>341</b>	<b>371</b>	<b>19 %</b>
Wages & salaries	97	127	163	216	30 %
- Permanent staff	54	66	95	132	33 %
- Daily workers	43	61	68	84	26 %
Petrol & fuel	17	18	25	16	21 %
Electricity	24	25	29	40	9 %
Repairs & maintenance	63	70	81	55	14 %
Others	240	281	341	371	19 %
OPERATING MARGIN	327	472	541	431	29 %
DEBT SERVICE	0	0	0	0	
<b>NET MARGIN</b>	<b>327</b>	<b>472</b>	<b>541</b>	<b>431</b>	<b>29 %</b>
<b>CAPITAL EXPENDITURES</b>	<b>320</b>	<b>252</b>	<b>335</b>	<b>382</b>	<b>2 %</b>
- Civil works		252	335		
- Purchase		50	42		
<b>OWN CAPITAL REVENUES</b> <i>(Sales of fixed assets)</i>	<b>2</b>	<b>1</b>	<b>6</b>	<b>0</b>	<b>86 %</b>
<b>OVERALL BALANCE</b>	<b>9</b>	<b>220</b>	<b>211</b>	<b>49</b>	
<b>RATIOS</b>					
Net margin / Current revenues	58%	63%	61%	54%	59%
Wages & salaries / Current revenues	17%	17%	19%	27%	20%
Capital expenditures/ Current revenue	56%	34%	38%	48%	44%
Total revenue / capita	7.569	10.030	11.816	10.676	
Total expenditure / capita	7.456	7.102	9.004	10.021	

86. Direct taxation of households accounts, for Housing tax and lighting tax all together, are 3% of the current revenues with a tax pressure of 30% of the rental value of the houses: Rental values have not been updated for a long time. Consequently, the average annual taxation per household is MMK6.820, water tax and cleaning tax included – see details in annex (taxation database); that is however two times the level observed in Mawlamyine.

87. Share tax (5% dividend tax) is very erratic, but did not exceed more than 4% of the current revenues over the past four years.

88. As described below in more detail, taxes and tariffs on services such as water and sanitation are about 5% of current revenues, which is low and significantly lower than in Mawlamyine (15%). The main reason appears to be in the very weak level of services delivered, for both water supply and solid waste and sanitation. The town area is extended and sparsely populated with small urban cores; that is a challenge for urban services development and management.

89. Current revenues are increasing significantly, with a +25% annual average, which is much higher than the inflation rate.

90. As regards the other townships, Hpa-An operates in full autonomy within the limit of its budget estimate and revised estimate, with its own revenues and with no specific

support from State or Union Government, except the share dividend tax (see above). The surplus generated at the end of the year (about 25% of its current revenues) is apparently lost for the township and transferred to the MoPF for consolidation with other entities of the Kayin State.

91. Operating expenditures. They have been increasing over the period with a +19% on average; that is less than the current revenues (+25%). The ability to contain them until now allows for a comfortable margin dedicated up to 55% to 60% to annual capital investment expenditures. The remaining 45% to 40% is lost by the township and consolidated by the MoPF as cash available to compensate deficit of other townships or State departments.

92. Wages and salaries, including daily workers charges, account for a relatively modest percentage of the current revenues (20% on average over the period), but are increasing to +31% as an annual average over the last four years, under the pressure of the National Social Policy regarding minimum wages. Staff number could be optimized, but it is not sure an alternative system relying on privatization would reduce the charges.

93. The second cost centre of the budget is maintenance: it accounts for more than 15% of the current revenue and is apparently mainly coming from roads maintenance. Electricity charge is only 8% of the total OPEX, as the level of service provided in terms of street lighting and water pumping is still relatively small.

94. The township is apparently not in debt.

95. Capital investment financing. Capital investment effort is about 40% to 50% of the current revenue, or MMK250 to 350 million per year, totally funded by the net margin obtained on the operating budget. Capital investment budget is mainly dedicated to urban roads and drainage. Tertiary roads are favoured since community participation is quite active and contributes to the financing of the works in addition to the township investment.

96. In summary, fiscal analysis of Hpa-An township shows how it is different from Mawlamyine: the size of the town, the capacity to plan and expand revenue, and possibly the supervision provided by the State Development Affairs are important factors.

## **3.2 Hpa-An utilities' financial diagnosis**

### **3.2.1 Water supply financial diagnosis**

97. If we refer to the financial information provided by the townships, piped water system is recent in Hpa-An with the first connections implemented in 2012: 903 connections implemented this year. As in Mawlamyine, water supply in Hpa-An is operated directly by the department in charge of water supply, electricity and gardens. This department assumes by itself the maintenance of the network, the new connections and the commercial management and the collection of the tariff proceeds.

98. Water supply revenues and expenditures have been isolated from the other costs centres managed by the same department (street lighting and gardens) and are summarized below. In the absence of analytical accounting, calculation was based on information received from interviews with the chief engineer. It is obviously underestimated because of the hidden costs and revenues, mainly in capital investment section: connection fee proceeds could not be identified; the same for the charges linked

to this activity. A portion of those costs are internal costs assumed by other departments and not invoiced to the water, electricity and gardens department.

99. Water charges. Over the period, water operating expenditures account for less than 10% of the total current expenditure of the township. It is one of the less important departments of the township administration in terms of budget, far behind urban development, in charge of roads maintenance, or even of cleaning department. Budget was apparently not affected by the rapid increase of electricity costs, except in the estimates for 2015-16 where electricity costs account for almost 60% of the water supply budget, as compared to 50% a year before<sup>16</sup>. There is no charge due to the purchase of chemicals, as there is no WTP.

100. The staffing of the department as a whole is 21 (18% of the total staffing) of which 15 daily workers. About 7 people are working in principle on water supply, among which 3-meter readers. Meter readers read the meters and collect cash directly from users, which they deposit in the department office for recording at the end of the day and transfer to the finance department, then the MEB. OPEX for water supply is estimated at MMK45.000 / user (HH) for about MMK20.000 charged to the same users.

**Water revenues. They consist of three categories of revenues.**

- **Water tax:** The water tax is collected by the Revenue Department on the same invoice as that of the housing tax. Its rate is 6% (by comparison: 10% in Mawlamyine). By difference with Mawlamyine, water tax proceeds are higher than tariff receipts, as all the households living in Hpa-An have to pay I, and also as the piped water network is still under construction. The average charge is MMK1.365/HH/Y.
- **Water tariff:** the tariff for piped water is MMK250/m<sup>3</sup> and the billing is monthly. It is a unique tariff: no difference is made between domestic and non-domestic (in particular small business but also hotels and industries). Based on the number of meters, the population supplied by piped water is estimated at 13% in 2015, which leaves a great scope for improvement. Most of the residents are still using private wells. The water tariff proceeds are expected to reach MMK8 millions in 2015-16. The calculation, based on 2014-15 actual data shows that average monthly invoice for an HH connected to piped water is MMK600 and represents a consumption of about 2.5m<sup>3</sup> which is very low. This result shows that non-revenue water (NRW) – physical and commercial - is high. Billing is under the direct responsibility of the Water supply department; it is not computerized; access to registers would provide useful information on the performance of the billing system and the volume of water consumed. About 134 HH pay for tap water with a flat rate from MMK1.200 to 2.000 per month. The total receipts for tap water is about MMK3 million per year.

101. Connection fee: fee charged in 2012-2013 and in 2013-14 is about MMK5.000 per connection, and was probably subsidized, as the meter cost exceeds MMK25.000, if we refer to the information provided in Mawlamyine.

102. Cost recovery. Performance of the service is bad and non-revenue water is the main constraint to acceptable cost recovery. Tariff level is fine, and effort has to focus on management (billing system, metering and maintenance of the network).

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<sup>16</sup> Electricity charges to operate water supply facilities have been estimated up to 80% of the total electricity charges assumed by the township.

**Table [6] WATER SUPPLY BUDGET 2012-215**

<i>in thousand Kyats</i>	2012-13 Actual	2013-14 Actual	2014-15 Actual	2015-16 Estimate
<b>Revenue</b>	19.610	18.864	21.367	17.237
- Water Tax	10.285	10.468	11.145	10.237
- Water Tariffs	9.325	8.311	9.977	7.000
- Connection fees		85	245	
<b>Charges</b>	26.757	28.428	31.970	40.508
- Salaries & wages (permanent staff)	1.369	2.264	812	3.552
- Daily workers wages	3.914	6.666	7.282	9.214
- Fuel	2.895	1.399	3.499	1.400
- Electricity	15.080	15.601	15.928	24.000
- Equipement	3.499	2.498	4.449	2.342
<b>Operating balance (fiscal contribution if</b>	<b>-7.147</b>	<b>-9.564</b>	<b>-10.603</b>	<b>-23.271</b>
<b>Capital investment expenditures</b>		<b>0</b>	<b>29.244</b>	
<b>Overall balance (fiscal contribution if ne</b>	<b>-7.147</b>	<b>-9.564</b>	<b>-39.847</b>	<b>-23.271</b>
<b>Ratios</b>	2012-13	2013-14	2014-15	2015-16
<b>Population = 75.141</b>				
<b>Number of water meters = 914</b>				
- % of fiscal balance / Current revenues H <sub>i</sub>	1%	1%	1%	3%
- % of tariffs and tax / OPEX	73%	66%	67%	43%
- % of fiscal revenue requested / OPEX	27%	34%	33%	57%
- OPEX / Population (in Kyats per year)	356	378	425	539
- Tariffs & tax proceeds / Population (in Ky)	261	251	284	229
- OPEX / users (HH)	29.274	31.103	34.978	44.320
- Tariffs & tax proceeds / users (HH)	21.455	20.639	23.377	18.859
- Need for Water Tariff/Tax increase	36%	51%	50%	135%
- Salaries & wages / OPEX	20%	31%	25%	32%
- Electricity charges / OPEX	56%	55%	50%	59%

**Table [7] WATER TARIFFS, POPULATION SERVED**

<b>Water tariff</b>	<b>Number of users</b>	<b>Exemptions</b>
<b>Single tariff: MMK250/m3 (established in 2011-2012 – to be confirmed)</b>	<b>1.000</b>	<b>- Staff housing - Military members</b>
<b>Flat rate/month for water tap: - 1 inch: MMK2000 - ¾ inch: MMK1.500 - ½ inch: MMK1.200</b>	<b>134</b>	
<b>Number of meters</b>	<b>Number of active meters</b>	<b>% of HH served by piped water</b>
<b>From 914 to 1.150</b>	<b>About 900. Meter can serve several HH living in the same house.</b>	<b>About 13% (1.000 HH for 7.649 HH living in Hpa-An)</b>

### 3.2.2 Solid waste financial diagnosis

103. Cost recovery: Total budget for solid waste is about MMK50 million per year, which is only 15% of the current expenditures of the township. The level of service is poor, even if the Department declares that garbage collection is made three times a day quarter by quarter with the three garbage collection trucks available in Hpa An.

104. The cleaning tax and a garbage fee provide about MMK20 million, which represents about 40% of the total costs of the department for solid waste – see, table below. Consequently, about 60% of the costs are financed by a contribution from the general operating budget of the township.

105. The communities (at least pre-collecting garbage) in several wards (in particular Wards 1 and 7) also provide part of the service. The expansion of the system to other wards would be favoured to support the township intervention more focused on waste transfer and treatment.

**Tax and fee performance:**

- Cleaning tax is charged at 10% of the rental value, same percentage of the housing tax and 4 points more than the water tax (6%). Its performance is slightly lower than the housing tax. Until 2013, it is the only revenue collected on domestic users for solid waste service; since 2013, the township started to raise solid waste tariff (or garbage fee) on domestic users – see table below;
- Garbage fee is collected from commercial and other users: restaurants, markets places, other small businesses but also hospital and clinics; since 2013, as mentioned above, it is also collected on domestic users. Even if its performance was obviously better in 2014-15 in comparison with the previous FY, it is less than MMK1 million per year – see monthly collection in graph below.

**Recommendation:**

106. The tariff/tax system implemented in Hpa-An needs to be rationalized to avoid any double taxation for the same service to be provided. The current situation is still transitional mixing tax system and tariff policy for the same purpose, but should be simplified in a near future.

107. There is a significant difference between the rationale of each system:

- (i) Cleaning tax doesn't take into account the real cost of the service and comes as one revenue among others; moreover, it is raised only on domestic users as a percentage in addition to the housing tax as principal and is under the constraint of a maximum amount of 10% of the housing rental value;
- (ii) Garbage fee should be based on the real cost of the service.

108. If the DAO wishes to maintain both systems, it should justify it by a clear earmarking of each of them to specific purpose within the solid waste collection and treatment process; based on this it would be possible to maintain both systems.

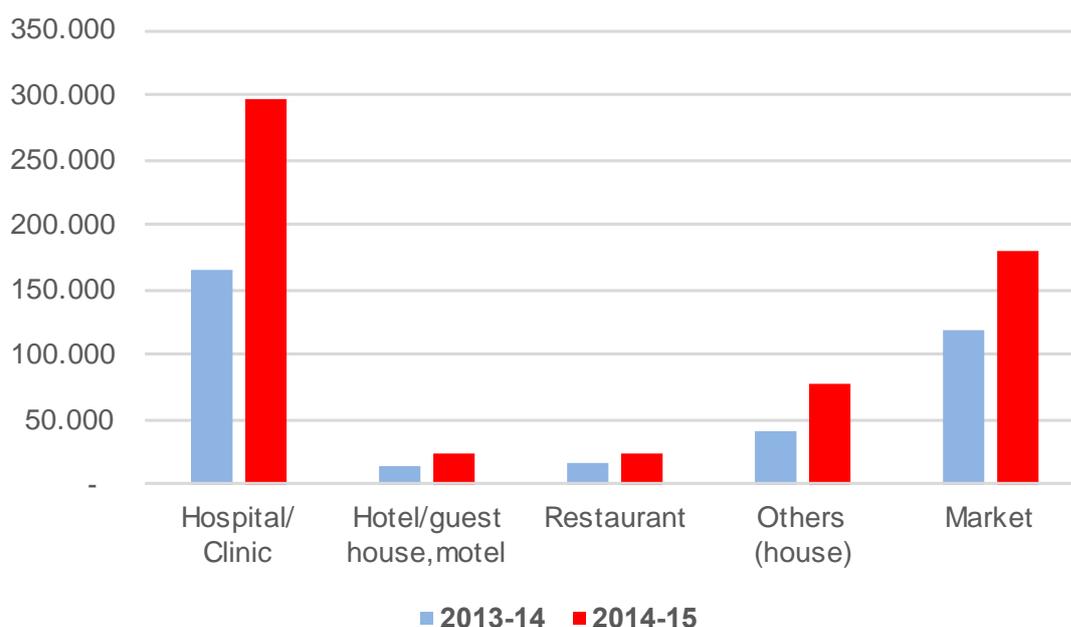
**Table [8] SOLID WASTE BUDGET (2012-2015)**

<i>in thousand Kyats</i>	2012-13 Actual	2013-14 Actual	2014-15 Actual	2015-16 Estimate
<b>Revenue</b>	17.358	17.913	20.186	17.361
- Cleaning Tax	17.219	17.526	18.654	17.161
- Garbage fee	139	387	1.532	200
<b>Charges</b>	28.951	36.565	46.743	47.528
- Salaries & wages (permanent staff)	4.354	4.597	5.580	9.528
- Daily workers wages	11.598	17.104	21.468	24.000
- Transport charges				
- Taxes				
- Fuel	10.999	13.665	17.995	12.000
- Business equipment	2.000	1.199	1.700	2.000
- Equipment				
- Repairs & maintenance				
<b>Operating balance</b>	<b>-11.593</b>	<b>-18.652</b>	<b>-26.557</b>	<b>-30.167</b>
<b>Capital investment expenditures</b>	0	0	0	0
<b>Overall balance (fiscal contribution if ne)</b>	<b>-11.593</b>	<b>-18.652</b>	<b>-26.557</b>	<b>-30.167</b>

<b>Ratios</b>	2012-13 Actual	2013-14 Actual	2014-15 Actual	2015-16 Estimate
<b>Population = 75141</b>				
- % of fiscal balance / Current Fiscal Reve	2%	2%	3%	4%
- % of tariffs and tax / OPEX	60%	49%	43%	37%
- % of fiscal revenue requested / OPEX	40%	51%	57%	63%
- OPEX / Population (in Kyats per year)	385	487	622	633
- Tariffs & tax proceeds / Population (in Ky)	231	238	269	231
- Need for Tariff/Tax increase	67%	104%	132%	174%
- Salaries & wages / OPEX	55%	59%	58%	71%
- Fuel charges / OPEX	38%	37%	38%	25%

**Table [9] GARBAGE FEE COLLECTION 2013-14 / 2014-15 (IN MMK)**



### 3.3 Myawaddy fiscal analysis

109. Fiscal data available for this township refers to FY 2013-14 and 2014-15, which is more limited than for the other ones. The presentation will be reduced to an overview of the fiscal situation of the township based on the two years' data provided.

110. The Myawaddy township' budget is characterized by a significant level of capital investment expenditure financed by a significant surplus (net operating margin and overall balance). Services charges are non-existent for water supply as well as for sanitation and solid waste.

111. Revenue. Revenue per capita is about MMK5.000 over the period<sup>17</sup> (as compared to MMK7.500 in Mawlamyine and MMK10.000 in Hpa-An). It is made up of in principal (more than 75%) of business and concession licenses charges provided by small enterprises and business owners, more especially located within or around the market places.

112. Direct taxation of households accounts for housing tax and lighting tax all together amount to 3% of the current revenues. Share tax (5% dividend tax) doubled in 2014-15, but did not exceed more than 10% of the current revenues for this last year.

113. As mentioned above, taxes and tariffs on services such as water and sanitation are non-existent, as part of the service is provided by private sector, with no impact on the township budget.

114. Current revenues are increasing by +14% in 2014-15, which is much higher than the inflation rate.

115. Myawaddy operates in full autonomy within the limit of its budget estimate and revised estimate, with its own revenues and with no specific support from State or Union Government, except the share of dividend tax (see above). The surplus generated at the end of the year (about 25% of its current revenues in 2014-15) is apparently lost for the township and transferred to the MoPF for consolidation with other entities of the Kayin State.

116. Operating expenditures. They have been decreasing by 20% in 2014-15: maintenance and repairs have been automatically reduced in order to compensate for extra-cost on wages and salaries and to increase available funds for capital investment expenditures. Operating budget is more limited than in the two other townships because of the outsourcing of water supply, amongst others. The township is apparently not in debt.

117. Capital investment financing. Capital investment effort is about 40% to 50% of the current revenue, or MMK250 to 300 million per year, totally funded by the net margin obtained on the operating budget. Capital investment budget is mainly dedicated to urban roads and drainage.

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<sup>17</sup> Population: 113.155 inhabitants.

**Table [10] MYAWADDY TOWNSHIP: FINANCIAL POSITION**

	FY 2013-14 <i>Actual</i>	FY 2014-15 <i>Actual</i>	Growth %
<i>in MMK millions</i>			
<b>Annual growth</b>	<b>547.099</b>	<b>625.010</b>	<b>14 %</b>
- Housing Tax +lighting Tax	17.200	17.224	0 %
- Business and concession licences	421.067	473.990	13 %
- Markets shops	27.002	6.614	-76 %
- Dividend tax (5%)	24.890	51.507	107 %
- Water supply	0	0	
- Sanitation	330	0	
<b>OPERATING EXPENDITURES</b>	<b>219.058</b>	<b>175.187</b>	<b>-20 %</b>
Wages & salaries	55.103	79.394	44 %
- Permanent staff	31.226	43.413	39 %
- Daily workers	23.877	35.981	51 %
Petrol & fuel	13.500	14.500	7 %
Electricity	1.050	730	-30 %
Repairs & maintenance	124.211	62.740	-49 %
Others	25.194	17.823	-29 %
OPERATING MARGIN	328.041	449.823	37 %
DEBT SERVICE	0	0	
<b>NET MARGIN</b>	<b>328.041</b>	<b>449.823</b>	<b>37 %</b>
<b>CAPITAL EXPENDITURES</b>	<b>235.369</b>	<b>297.460</b>	<b>26 %</b>
- Civil works	231.769	297.460	28 %
- Purchase	3.600	0	-100 %
<b>OWN CAPITAL REVENUES</b>	<b>495</b>	<b>696</b>	<b>41 %</b>
<i>(Sales of fixed assets)</i>			
<b>OVERALL BALANCE</b>	<b>93.167</b>	<b>153.059</b>	<b>64 %</b>
<b>RATIOS</b>			
Net margin / Current revenues	60%	72%	66%
Wages & salaries / Current revenues	10%	13%	11%
Capital expenditures/ Current revenues	43%	48%	45%
Total revenue / capita	4.839	5.530	
Total expenditure / capita	4.016	4.177	

### 3.4 Myawaddy utilities' financial diagnosis

#### 3.4.1 Water supply financial diagnosis

118. Two private companies operate water supply in Myawaddy: (i) The Myawaddy ShwePyi Company Limited and, (ii) The Aye Mya San Yee Company Limited.

119. The Myawaddy ShwePyi Company Limited was established in 1997 and reorganized in 2012. Its capital was increased with the reorganization and achieve MMK1 billion. The company is organized in four departments with 20 staff. The company signed a 30-year water concession with the KSG in 2013. In 2015, the company serves 2 500 households located in wards 4 and 5 and starts enlarging to ward 2. It produces 530.000 gallons/day. It uses two sources of water it owns in Thaug Yin River and does not want to buy raw water to the township. The company declares 50% of NRW. It pays business license to the KST, but also to the District and the township levels. The company is financially autonomous and raises itself its tariffs on the users without any township or State interference.

120. The Aye Mya San Yee Company Limited was established in 2012 and signed a 25-year BOT contract with KSG. Its capital is MMK5 million and the staff is 17. In 2015, the company serves 2 600 households (27.000 inhabitants) located in wards 1 and 2 It produces 300.000 to 400.000 gallons/day. It uses natural spring water source; water supply is not sufficient especially during summer season. The company is interested to buy raw water to the township but agreement has to be found on price. They pay business license to the KST, but also to the District and the township levels. The company raises itself its tariffs on the users without any township or State interference; but its financial situation is tight and does not allow the company to pay back all its debt service.

121. Both together the two companies serve about 25 to 30% of the township population, with a bad water quality and a service far from a 24 hour/7 day basis.

**Table [11] WATER TARIFFS, POPULATION SERVED IN MYAWADDY**

<b>Water tariff</b>	<b>Number of users (HH)</b>
Single tariff for domestic and non-domestic: MMK400/m <sup>3</sup> Special tariff for monastery: MMK200/m <sup>3</sup>	2.600 (Aye Mya San Yee Company Limited)
Single tariff for domestic and non-domestic: MMK715/m <sup>3</sup> (20 Baths) Special tariff for monastery: MMK200/m <sup>3</sup>	2.500 (Myawaddy ShwePyi Company Limited)

#### 3.4.2 Solid waste financial diagnosis

122. Solid waste collection is under the responsibility of the wards administrators and organized on a community basis. Dumpsite is more or less under the control of the township but is operated indirectly by the communities. Contribution of the users can be cash (about 200 Kyats/plastic bag) or in-kind (labour) and there is no specific revenue recorded with the township budgets and financial statements regarding solid waste.

123. In light of these underlying conditions, the updating of the solid waste process in Myawaddy needs probably to mobilize both communities and township administration on a more regular basis.

124. The corresponding price policy will have to split between the pricing for the pre-collection (under the responsibility of the communities at the ward level) and the pricing

of the transfer and the treatment more likely under the control of the township. The global pricing will have to take into account the real service cost, at least for pre-collection. It is likely to share the financing of the waste transfer and treatment between tariffs and taxes (cleaning tax).

### **3.5 Summary in terms of financial/fiscal capacity**

The budgets of Hpa-An and Myawaddy townships present significant surplus over the past years, but this surplus is apparently lost for the township and transferred to the MoPF for consolidation with other entities of the Kayin State.

Both budgets are mainly oriented capital investment, as provision of basic services such as water supply or solid waste collection are delegated to private firms, communities or are embryonic. Consequently, the situation is relatively contrasted with Mawlamyine.

The financing strategy adopted in the Project is consisting in supporting basic services delivery at the township level with no capital investment financing counterpart requirement (ADB and NEDA loans are on-granted). However, it is considered as crucial to make local authorities feel responsive for operational and maintenance costs. It is expected those costs be financed exclusively with tariff proceeds for water supply. Water tax would be maintained to serve in particular the neighbourhoods with public water because they cannot be connected to piped water network. However, this double taxation is probably to outlaw at the end, and be gradually replaced by user tariffs. The tariffs policy is described in the utilities financial analysis provided in this report. The tariffs increase is important, because of the significant increase of the O&M to consider, linked, on one hand, to the increase of electricity charges and, on the other hand, to the improvement of the quality of the services expected with the project.

Finally, the presence of two private companies in Hpa-An in charge of water production and supply for about 25 to 30% of the population oblige to consider other management approach than the direct public management implemented through township administration.

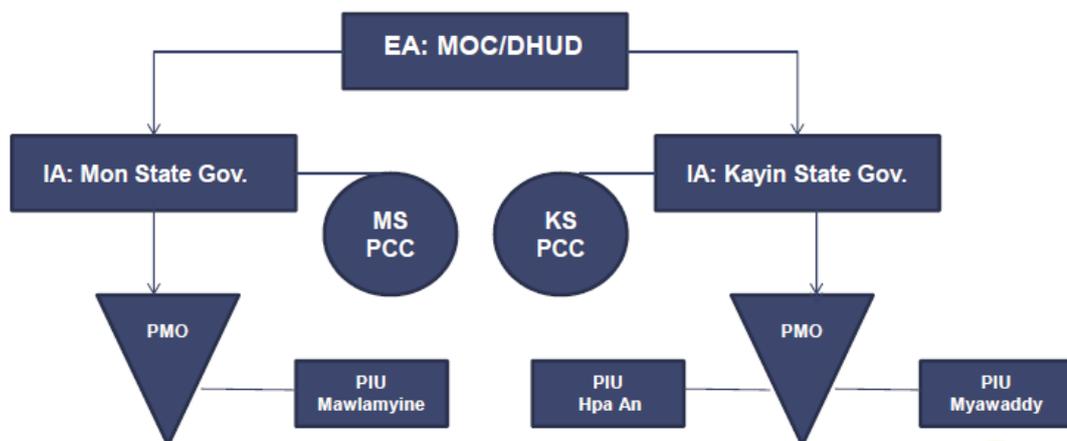
Regarding solid waste, the financing strategy would more likely mix price and tax policies: current cost recovery, based on garbage fees and cleaning tax is very poor and will need to involve both communities and township cleaning department.

## IV. FINANCIAL MANAGEMENT ASSESSMENT

### 4.1 INTRODUCTION

125. Financial Management Assessment (FMA) for the GMS3 Project was prepared in accordance with ADB's Guidelines for the Financial Management and Analysis of Projects. Its objective is to assess the capacity of the MOC/DUHD (*Ministry of Construction-Department of Urban and Housing Development*) as EA, and of the MSG (*Mon State Government*) and KSG (*Kayin State Government*) as IAs, to manage Project's expenditures and funds: institutional capacity, internal and external auditing arrangements, reporting and monitoring aspects, and information system. Consequently, FMA liaises with institutional analysis and operational arrangements recommended for the implementation of the project. The general scheme for the Project's institutional arrangements is shown below.

#### GENERAL SCHEME FOR GMS3 PROJECT INSTITUTIONAL ARRANGEMENTS



Source: institutional analysis

In addition to this general scheme, it can be specified that:

- The EA (MOC/DUHD) would be organized through a specific unit for GMS3 project, within the Urban and regional Development Division; this unit would likely comprise staff coming from the Public Works Department (within the MoC) with skills in procurement;
- The IA (MSG and KSG) would be organized through two PMOs within the Development Affairs Departments of each State, led by a State Minister and who will directly report to the Chief Minister. Relations with other departments within the MSG and the KSG will be needed: more especially with the Construction Department and the Finance Department. These PMOs should be established before the loan fact findings mission expected in early 2016;
- The PIUs have to be set up at the township level (3 townships) and will act in close collaboration with the PMO at the State Government level.

126. Staffing and organization of these three operational entities are described within the institutional analysis.

127. Regarding flow of funds, MoPF will on-grant the loan proceeds to MOC/DUHD as Executing Agency (EA), who will, on its side, on-grant those funds to the two States Governments involved in the Project as Implementing Agencies (IAs).

128. MOC/DUHD will provide policy consistency and guidance all along the project implementation and will act as the link between Union Government and decentralized entities directly involved within the implementation of the project. Technical assistance for implementation will be based at the two States level (PMO) and will maintain regular contact with MOC/DUHD all along the project for overall management and coordination of the project.

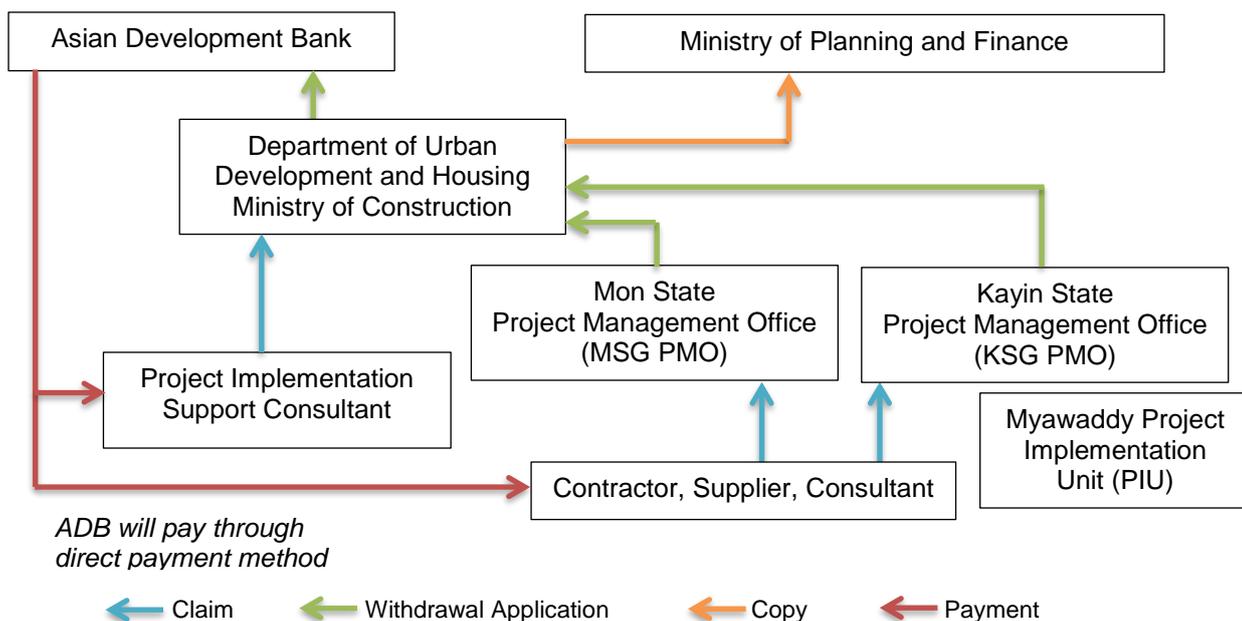
129. Financial Management Assessment Questionnaire (FMAQ) for MOC/DUHD (EA) was initially prepared by ADB in May 2014, in the context of the proposed Grant Assistance Pro-Poor Community Infrastructure and Basic Services funded by the JFPR. This FMAQ relied, in part, on the diagnostic report on public financial management for Myanmar. It has been adjusted and updated for the purpose of the GMS3.

130. The FMAQ was submitted to the MSG and the KSG, in the context of GMS3 preparation, in July 2015: the GMS3's general objective is to improve sustainable urban services as water supply and sanitation, and also to enhance city competitiveness through specific component and sub-components. Regarding current fiscal decentralization framework, both objectives are in principal under the responsibility of the three townships involved in the Project, but because townships act under the tight control of the Development Affairs Organization (DAO) of the State Government headed by a State Minister member of the cabinet of the Chief Minister (*see above the overview of the fiscal decentralization system provided within the financial analysis*), it has been considered that the best location to set up PMO would be the DAOs. Consequently, the DAO within each State organization will be in charge of the implementation of the project, and will be supported by PIUs, at the township level.

131. Among the major points to mention within this FMA introduction, there is the difference that needs to be done between State budget and internal accounting and financial Myanmar procedures, and the ones to be applied by the PMOs for the implementation of the GMS3: specific budgeting and accounting rules to be defined in the Project Implementation Management manual will have to be applied by the PMOs for the implementation of the project. It will be supported and trained by an international TA. Specific reporting will have to be prepared by the PMOs on project implementation (technical and financial). The accounting book-entry of the expenditure and revenue of the project within MSG and KSG budgets will need a specific accounting classification to be defined with the support of the TA and that will be different from the reporting of the Project itself.

132. However, the procedures will be relatively simplified based on the decision to on-grant (by difference with on-lend) the funds to the two State Governments: there is no debt service and risk attached to the repayment of the loan by the decentralized entities in charge of the implementation of the project.

## GENERAL FUND FLOW FOR PROJECT IMPLEMENTATION



## 4.2 PROJECT DESCRIPTION

133. The Project aims to improve urban environment and to enhance city competitiveness in the three GMS corridor selected townships: Mawlamyine, Hpa-An and Myawaddy. The outcomes will be (i) improved access to sustainable urban services (more especially water supply and solid waste management), (ii) built heritage regeneration (in Mawlamyine) and (iii) activity zone improvement (in Hpa An).

134. Through the strengthened urban management capacity component, the Project will (a) help ensure that project implementation will fully comply with ADB's policies and operational requirements in terms of detailed designs, procurement, construction supervision, disbursement, financial management, and social and environmental safeguards; and (b) design and conduct programs to strengthen MSG, KSG and the three townships capacity. TA training will focus on (i) urban planning and management integrating climate change resilience, (ii) utility corporatization and financial management, and (iii) increase public awareness on public health and environmental protection.

### **4.3 COUNTRY AND SECTOR FINANCIAL MANAGEMENT ISSUES**

135. Country issues, that potentially impact the financial management of the Project, include a weak public financial management (PFM) environment, and also management and skills capacity issues.

136. Public Financial Management Environment. The World Bank, using the Public Expenditure Financial Accountability (PEFA) PFM Performance Measurement Framework, assessed the Country PFM arrangements in May 2013. This was the first comprehensive review of Myanmar's PFM. The assessment suggests that Myanmar's fiscal system is facing a large amount of fiscal risk. The internal central PFM environment is relatively weak, and the central oversight function is narrow and underdeveloped. There is a lack of strategic approach to PFM with the central oversight agency focusing more on low value processes than on analysis of results and impact of spending. Public fiscal information in Myanmar is also quite limited. The weak control environment, combined with limited budget comprehensiveness and transparency suggest a system that is open to fiduciary risk.

137. The PEFA assessment also indicates that Myanmar's PFM system is highly informal, which means there is lack of foundational legal underpinnings and it is not fully clear which regulations are legally in force. Significant changes in PFM practices are being made without updating the governing rules and regulations. Significant leeway has been given to agencies to determine policy implementation. This has made the current PFM system under-regulated and largely practice-based.

138. Management and Skills Capacity. In common with many DMCs, Myanmar has a shortage of skills in general management, financial management, financial analysis, and management accounting. In particular, few accounts staff possess practical skills beyond basic book-keeping. The accounting and financial reporting system is still largely manual and paper-based, which delays the production of final reports. However, the reconciliation processes are mostly well documented, appear adequate, and are applied with sufficient rigor to provide some confidence in the accuracy of the reports.

139. ADB Country Portfolio. ADB reengaged operations in Myanmar in 2013. The first project was approved in December 2013 and became effective in March 2014. This was followed by 3 JFPR grant projects in health, energy sectors and pro-poor community infrastructure and basic services. This last project is implemented in Rangoon and Mandalay and involves MOC/DUHD as EA supported by an Implementation Contractor (IC) headed by a Project Manager and made of specialists, advisors, capacity building consultants, community organizers, international FM specialist, procurement advisor and support staff.

140. In 2015, three new proposed loan projects are under instruction, of which two projects involving the MOC as EA: (i) the GMS East-West Economic Corridor Eindu to Kawkaeik Road improvement project (\$122 million) with the Department of Highways, and (ii) the Mandalay Urban Service Improvement Project (\$130 million financed by both ADB and AFD) with the MRG as EA and MCDC as IA and where the MOC plays a role of coordination. Myanmar's ADB portfolio performance is still to be assessed.

### **4.4 PROJECT FINANCIAL MANAGEMENT SYSTEM**

#### **4.4.1 Overview of the EA/IA/Financial management system and Institutional context**

141. MOC/DHUD will be the EA, as the two States Government through their DAO will implement the Project, as IA. The MOC/DUHD will set up a Project Coordination

Unit. Each State Government will set up a PMO to deliver project activities as designed within the project description; PMO will be supported at the township level by PIUs. A TA, to be hired on the basis of an international tender, will support the PMOs and their PIUs. The PMOs will house the TA who will share its team between the two States.

142. The final share of the tasks between EA and IAs will be finalized in the Project Administration Manual. The main orientation regarding financial management involvement of each level would be as follow:

- The two PMOs will be responsible on a decentralized level for their own share, of project management, financial management consolidation, procurement, and coordination with concerned departments and offices at the State Government and township levels (PIUs).
- The overall project coordination will be under the responsibility of the PCU in MOC/DUHD who will be in direct liaison with ADB and will assume monitoring and control, and also execution of the Project covenants. The PCU in MOC/DUHD will also coordinate with the Ministry of Finance and with the IAs to control and transfer withdraw applications to be submitted to ADB.

143. Regarding procurement, the recommendation is that the PCU (MOC/DUHD) be responsible for recruitment and supervision of the TA and important procurement for goods; the two PMOs being on their side responsible for civil works and other goods procurement.

144. At the PMOs level, main tasks to carry on will be as follow:

- To develop an integrated procurement plan for the project and to review it each six months. To manage procurement activities directly linked to the components (bidding process, recruitment, contracting, project accounting and administration management);
- To monitor the application of fund covenant on a regular basis and ensure specific attention to monitoring the environmental management plan;
- To receive, review and clear invoices for payment. To prepare withdrawal applications, as necessary, in accordance with agreed procedures and following ADB/NEDA disbursement guidelines;
- To arrange all accounts in the project, for independent auditing; and to provide quarterly financial reports to ADB and NEDA.

145. The table below summarizes the tasks sharing as contemplated at this stage of the preparation. It will have to be reviewed and confirmed in the Project Implementation manual. The table is slightly different from the one developed within the institutional analysis, with the idea to give more responsibilities to the PMOs at the State level in terms of procurement and financial management and to consider that the PIUs will be mainly responsible for work supervision.

**Table [12] PROPOSED TASKS SHARING**

	<b>MOC/DUHD EA</b>	<b>States DAOs IA</b>	<b>Township s' PIU</b>
<b>Initial tasks</b>			
Preparing for project implementation.	xx	xxx	
Organizing the project management office.	x	xxx	

Recruiting and training personnel.	x	xxx	
Defining and assigning PMO staff responsibilities.	x	xxx	
Establishing a project record system.	xx	xxx	
Obtaining funds required for the initial works.	xxx	xx	
<b>Monitoring Conditions for Loan Effectiveness</b>			
Recruiting Consultants	xxx	xx	x
Supervising the Work of Consultants	xxx	xx	x
Procurement for Goods and Civil Works	xx	xxx	
Supervising Construction of Works or Installation of Equipment	x	xx	xxx
Executing Project Covenants	xxx	xx	x
Controlling Costs	xx	xxx	x
Controlling Project Changes	xxx	xx	x
Project Monitoring and Control	xxx	xx	x
Preparing Project Progress Reports	x	xxx	xx

**Note: Number of x is an estimate of respective commitment of EA, IAs and PIUs.**

#### **4.4.2 Strengths**

146. The main strength is the PMOs and the PIUs will be part of the State and township organizations and will benefit of staff already involved in the Project preparation process.

#### **4.4.3 Weaknesses**

147. Department Affairs Departments (DAOs) at the State Government level need to acquire a fair knowledge of the context. Various weaknesses were identified at the DAOs and townships levels in terms of management skills and fiduciary procedures: Senior Government officials and staff at both management and operational level have no knowledge of ADB policies and procedures on project financial management, as contained in the Operations Manual, Project Administration Instructions, Disbursement Guidelines and Handbook.

148. The level of computerization is low or even non-existent, with direct impact on quality of the management regarding accounting, control, but also assets management, commercial management and billing effectiveness or statistics.

#### **4.4.4 Personnel, Accounting policies and procedures, internal and external audit**

149. The PMOs will be made of staff coming from the various departments of MSG an KSG, and even from the EA (MOC-DUHD) to be involved in the Project, and will be supported by a TA, and by an accounting clerk (counterpart staff from the State); if needed, a national consultant with good accounting background may also be provided by the project. Each PMO will be required to adhere to sound financial management requirements during the implementation of the Project. They shall be required to maintain separate project records and accounts adequate to identify the: (i) financing resources received; and (ii) expenditures incurred on each component of the project. PIUs, will prepare at the end of each financial year, the financial management reports, which shall be audited by an independent auditor acceptable to ADB.

150. Staff. The FMA identified that States and townships would need further skills strengthening. States and townships' staff has no experience with ADB financial management policies and implementation procedures. In addition, the accounting

system they are familiar with, will need to be aligned with international standards. Training by personnel with precise knowledge of ADB policies and procedures will be needed. This will be undertaken prior to the PMO office start-up. The PMO will be supported by a dedicated accountant (a counterpart staff), who will be complemented by a national consultant, with sufficient accounting background.

151. Accounting policies and procedures. The State prepares financial statements in accordance with the financial regulations that government agencies are obliged to follow (see in particular the State Budget Law). They act under the supervision of the Chief Minister and of the State Finance Department under the supervision of the MoPF. It uses cash accounting system that is based on practices and accounting manuals established in the 1960s.

152. As explained in chapter 1 of the present report, the Sub-National System is the same as the Central system: According to the States/Division budget bill approved by the states/divisions Hluttaw, the Budget Department, on behalf of the MoPF, allocates funds to respective ministries, Departments and SEEs by issuing an authorization to the respective agency, as well as to the MEB (Myanmar Economic Bank). In this regard, the agency can open an MD (Ministry department) or SEE (State Economic Enterprise) account at every level. Budget allocation is a drawing limit of the agency for the fiscal year. The drawing limit for the whole year is split into quarterly basis which is flexible to adjust or increase within the allocation of the year. The agencies can withdraw from the account for the expenditure incurred or add to the account for the receipts generated during the fiscal year.

153. All township DAO offices have their own bank accounts at the MEB. When the State government officially approves their budget, they can withdraw up to the limits given by the budget estimate, or the revised estimate, as submitted/approved before. The new FY starts with a zero balance, which means that any surplus remaining from the previous year must be turned over to the State government budget department and, ultimately, to the Union fund. Conversely, if DAOs are running a deficit, they must get a supplement from their State government as a loan, which they must pay back within less than 12 months (FY) at a 13% interest rate. DAOs usually shift project activities to the next budget year to avoid taking such a loan. This practice is still possible because townships do not maintain an accrual basis of accounting.

154. It will take some time and a coordinated approach to update the Government's accounting policies and procedures to fully reflect international best practices. The FM system to be established for the Project will follow the accounting policies and procedures to be set up by the international FM specialist with particular focus on internal control functions.

155. Sub-national financial reporting is almost the same as for the central system from the township level to the head offices (departmental level) where they are in the States and Divisions along with the respective Ministry: The head office compiles the financial report and forwards the report to the Regional Budget Department. The Regional Budget Department sends the financial reports to the Budget Department of the central government on a monthly basis. The MoPF Budget Department consolidates the Regional Budget monthly.

156. The other route of financial reporting through MEB is a little different to the central financial reporting system. MEB branches forward the financial reports to the respective Regional /State Budget Department after closing monthly accounts. Regional Budget Departments forward the reports to the MoPF Budget Department on a monthly basis.

Central Budget Department arranges for financing of Regional Funds by informing CBM (Central Bank of Myanmar) appropriately.

157. Accounting/Financial information system. The chart of account used by the State Governments and by townships differs significantly from project activities and disbursement categories. The two States have very low levels of computerization. Their accounting system is entirely paper based with few computers used for spreadsheet analysis and reporting.

158. There is no computer at all at the township level. The Project's FM system is recommended to employ stand-alone office accounting software. The staff of PMO will be supported by on-the-job and formal training.

159. Internal audit. Both State Governments have an internal Audit Office, though it has only modest capacity and experience by comparison with modern practices. The organizational arrangement is not sound, with the Audit Office responsible to the same Director of the Finance Division who is also responsible for financial reporting. It would be preferable that the internal audit office be directly responsible to the highest level of management as is deemed good practice to ensure independence.

160. External audit. MCDC is audited by the Inspection Department of MRG. Its accounts are not audited by the Office of the Auditor General (OAG) who is responsible for audits of Union government accounts. The PMU will submit the project's financial statements. Through MRG, the project's financial statements will be audited by an independent auditor whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards on auditing or the national equivalent acceptable to ADB.

#### **4.4.5 Financial reporting systems, including use of information technology**

161. Internal control system. The structure of the finance department and internal control system in Mon and Kayin States generally provide job and authorization segregation with regard to financial management, with separate sections authorizing, executing and recording transactions. The Project's internal control will follow the controls that will be put in place by the international FM Specialist.

162. Budgeting and variance management. State Government has formal budgeting formulation processes. It merges within the same document its own activity (State Government), as well as that conducted by the decentralized offices of the Union ministries, by the SEEs acting within the State limit, and finally the ones conducted by townships themselves.

163. Even if the Chief Minister may guide and supervise policies at the ministerial, township and SEE levels, these entities are acting with a reasonable autonomy, and the real budget of the State is obviously reduced to the Office of the State Government consisting of nine ministers (without ministries), the State Hluttaw, and State judiciary authorities. Among this Office of the State Government in itself, there is the Development Affairs Minister and its department, to which the project should be attached.

164. Consolidated budget for the region to the Ministry of Finance and Revenue, which in turn forwards them to parliament through the President's Office for approval. While budget statements are prepared on a monthly basis, they are rudimentary. Monitoring of budgets is limited by the low level of computerization that makes it difficult to produce meaningful financial reports. Together with an absence of modern management practices, budget monitoring is not used as a meaningful management

tool. Variance analyses are prepared on a monthly basis, but are also done in a simplistic manner. Implementation of the new Budget Law issued in 2013, might help the overall budgeting and financial management to be improved.

165. Safeguards over assets. The States and the townships do not have fixed assets inventories. They do not have insurance coverage for their assets.

#### **4.4.6 Disbursement arrangements, funds flow mechanism**

166. The loans proceeds will be disbursed in accordance with ADB's Loan Disbursement Handbook (2015, as amended from time to time) and detailed arrangements agreed upon between the government and ADB. Pursuant to ADB's Safeguard Policy Statement (2009) (SPS), ADB funds may not be applied to the activities included in the list of prohibited investment activities provided in Appendix 5 of the SPS.

167. Payments for goods and consulting services will be disbursed by ADB through commitment and direct payment procedures as applicable, and should be certified by the IC based on the payment terms in the contracts. Direct payment procedures (where ADB pays a designated beneficiary directly) will generally be used for civil works, equipment contracts and consulting service contracts.

168. The statement of expenditures procedure will be used for all payments and transactions not exceeding \$10,000 per individual payment (or a lower ceiling amount which will be set up during the GMS3 Project Implementation Manual preparation). MOC/DUHD and State Governments (PMOs) will retain the supporting documents of project expenditures for ADB's review mission and external audit.

169. Detailed implementation arrangements on the funds flow, replenishment, and administrative procedures, will be detailed in the GMS3 Implementation Manual and established between ADB and the government.

170. The ADB loan proceeds will be included both in the MOC/DUHD and in the DAOs (townships) budgets. They will indirectly appear within the State's budget through the DAOs.

### **4.5 RISK DESCRIPTION AND RATING**

171. There have been no ADB projects in Myanmar in recent years, as ADB has resumed operations only in 2013 when Myanmar started reengagement with the international community. Senior Government officials and staff of the two States and three townships, at both management and operational level in Myanmar have no knowledge of ADB policies and procedures on project financial management, as contained in the Operations Manual, Project Administration Instructions, Disbursement Guidelines and Handbook.

172. Inherent risk was consequently assessed as high in large part due to country, entity, and project-specific risks. Control risk was rated as substantial due to entity-level risks and the absence of past ADB experiences. Particular weaknesses concern the accounting and financial reporting system, the capacity of the accounting staff and the internal audit function.

173. A Financial Management Internal Control and Risk Assessment was conducted. The risk-assessment approach is based largely on International Standard on Auditing 400: Risk Assessment and Internal Control. The following risk assessments are based

on existing circumstances, staffing and procedures, and include recommendations for risk mitigation measures.

174. The proposed disbursement arrangements for the Project assist with overall risk mitigation. Loan proceeds will be disbursed in accordance with ADB procedures. Direct payment procedures will generally be used for civil works, equipment contracts and consulting service contracts.

**Inherent Risk.** Inherent Risk is summarized in the Table below.

Risk type	Risk Asst <sup>5</sup>	Risk Description	Mitigation Measures
1. Country-Specific Risks	H	PFM system is still under-regulated and largely practice-based. Weak management skills and capacity Budgetary and fiscal information is highly limited Internal control environment is relatively weak International accounting standards are not fully met Accounting and financial reporting system is still largely manual and paper-based	Various ADB TAs are in place (additional grant assistance are in process) to provide capacity building to strengthen PFM arrangements, including raising public accounting and auditing to international standards. Other development partners are also pursuing PFM reforms in budgeting, public expenditure and PFM systems.
		Coordination between the Union Government and the regional (local) government is at nascent stage.	A coordination arrangement acceptable to MoPF, MoC and the two States will be put in place for efficient delivery of the project.
2. Entity-Specific Risks	S	Institutional and staff capacity to implement and monitor donor-funded projects is not yet present Weak project management	Recruitment of TA to support the two states (PMOs) and the three townships (PIUs) in management and implementation the project.
3. Project-Specific Risks	H	Fiduciary risks. Delays in implementation with TA to also familiarize with ADB financial management and reporting requirements.	Control of the procurement process and supervision of the quality of the work or services delivered will take place through the use of TA as an intermediary to channel project funds; Training will be provided to strengthen capacity of community development committees. Training on ADB processes and procedures will be provided.
	L	Monitoring and audit.	An independent monitoring consultant will be recruited and will conduct inspection annually; ADB will manage the recruitment process for the independent monitoring consultant. External audit will be conducted by an independent auditor acceptable to ADB.
<b>Overall Inherent Risk</b>	<b>H</b>		

**Control risk.** Control Risk is summarized in the table below:

<sup>5</sup> H = High, S = Substantial, M = Moderate, N = Negligible or Low.

Risk type	Risk Assessment	Risk Description	Risk Mitigation Measures
1. IA. (Implementing Agency) –	S	Financial management and reporting need to be strengthened	<p>A project accounting system incorporating international accounting standards with increased focus on control functions will be installed at State/PMO.</p> <p>A stand-alone accounting software is recommended which will be complemented by recruiting a national consultant with good accounting background</p> <p>The project accounting policies and procedures will be put in place by the international FM Specialist.</p> <p>Hands-on training and supervision will also be provided by the international FM specialist</p>
2. Funds Flow	S	<p>Distinct Funds Flow arrangement peculiar to Myanmar (need coordination between the Union Government and the State Government)</p> <p>Delay in funds flow brought about by poor familiarization with ADB guidelines</p> <p>Fiduciary risk</p>	<p>An efficient funds flow arrangement will be discussed and coordinated with MoPF, MOC and the two States.</p> <p>Provide regular training on ADB's disbursement policies.</p> <p>EA/IA/IC to liaise regularly with ADB to ensure that ADB guidelines are followed.</p> <p>Separate book of accounts to be maintained, and to be audited by an external auditor, whose qualifications, experience and terms of reference are acceptable to ADB.</p>
3. Staffing	S	Few staff have financial management skills; while States and townships would be needing additional FM capacity strengthening	<p>The PMOs will be supported by a dedicated accountant (counterpart staff assigned by the states), who will be complemented by a national consultant with sufficient accounting background and experience, that will be contracted initially for one year and to be extended, if needed.</p> <p>International FM Specialist will train the PMO staff on accounts recording and preparation of financial reports; will also formulate project accounting policies and procedures to provide guidance to staff</p> <p>Provide training in ADB procurement, FM and disbursement processes.</p>
4. Accounting Policies and Procedures	M	The Government Accounting System being used needs upgrading to reflect international best practice	<p>A project accounting system, with internal controls, will be developed by the international FM specialist.</p> <p>Strengthening the government accounting system may be explored with the Myanmar Government for possible technical assistance</p>
5. Internal Audit	H	Weak internal audit	Strengthening the internal audit function may be explored for possible technical assistance.
6. External Audit	M	External audit need to be independent	The financial statements shall be audited annually by an independent auditor whose qualifications, experience and terms of reference are acceptable to ADB.

7. Reporting and Monitoring	S	Financial reports are produced manually and are occasionally delayed. They should be prepared with accuracy and should be reliable Reporting is not suitable for user needs.	A separate project records and accounts shall be maintained in accordance with the guidelines provided by the international FM specialist A stand-alone accounting software is recommended which will be complemented by recruiting a national consultant with good accounting background Training and guidance on recording and preparation of financial reports shall be provided by the FM specialist Compliance with loan covenants, including submission of audited annual project financial statements shall be monitored.
8. Information Systems	S	Report preparation is manually done; Financial data security could be a concern.	A stand-alone accounting software is recommended; Regular backups of all files and records and appropriate security measures over backed-up data will need to be put in place

#### 4.6 PROPOSED ACTION PLAN

175. The proposed action plan is based on two pillars: (i) technical assistance and (ii) risk mitigation actions.

176. Technical Assistance. The completed FMA Questionnaires (FMAQ) identifies that technical assistance could be provided in the following areas: (i) capacity building in the area of PFM and ADB's financial management and reporting requirements; (ii) development of an accounting system for the project that is in line with international standards; (iii) development of accounting policies and procedures for the project; (iv) strengthening the internal audit function; and (v) putting in place systems to ensure data is safeguarded.

177. Risk Mitigation Actions. This section summarizes the actions identified throughout the Assessment for managing the risks to the project from a PFM perspective.

178. To be undertaken on establishment of the PMO:

- Establish funds flow arrangements (including withdrawal application) between MOC/DUHD and the two PMOs at the State level;
- Develop an organizational structure of the EA/IA as it relates to the project;
- Develop work plans with nominated core activities for EA/IA project personnel;
- Develop a project accounting system, including the chart of accounts, incorporating international accounting standards with increased focus on control functions; a stand-alone accounting software for the project is recommended;
- Develop accounting policies and procedures for the project;
- Strengthen the internal audit function;
- Provide training in ADB Financial Management and Disbursement Procedures;
- MOC/DUHD will engage the Office of the Auditor's General or an independent external auditor acceptable to ADB to audit the consolidated project accounts annually. MOC/DUHD will submit to ADB certified copies of audited annual consolidated project accounts as well as the auditor's report in English as well as the Management Letter within 6 months of each financial year-end during implementation.

To be undertaken during the implementation of the project:

- Regular liaison between the MOC/DUHD and ADB to ensure that ADB guidelines are followed;
- Provide regular training on ADB's disbursement policies;
- Train accounting staff in the preparation of the annual project financial statements and the underlying working papers;
- Separate accounts to be maintained for all project components financed by ADB and the Government, and to be audited by an independent auditor, whose qualifications, experience and terms of reference are acceptable to ADB;
- Accounting duties to be rotated, where feasible;
- Annual project financial statements and underlying working papers prepared on a timely basis in preparation for the annual financial statement audit;
- Prompt reporting to stakeholders after the period-end;
- Quarterly and annual progress reports on project implementation and operation prepared;
- Compliance with loan covenants monitored, including submission of audited annual project financial statements;
- Regular backups of all accounting systems and appropriate security measures over backed-up data to be put in place.

**Tab. Mon State DAOs: Main items per townships**

in Millions MMK Townships / Mon State	Population	FY2012-13 Actual				FY2013-14 Actual				FY2014-15 Actual				FY2015-16 Estimates			
		Revenue	OPEX	CAPEX	Balance	Revenue	OPEX	CAPEX	Balance	Revenue	OPEX	CAPEX	Balance	Revenue	OPEX	CAPEX	Balance
1 Mawlamyine	289.388	1.691	603	1.020	68	1.627	838	982	-193	1.884	1.104	1.508	-728	1.640	1.043	466	131
2 Tha Hton	238.106	545	238	321	-13	552	249	314	-11	581	289	287	6	577	302	249	27
3 Mu Don	190.737	527	224	313	-10	578	237	329	12	620	252	349	18	600	312	250	38
4 Kyeik Hto	184.532	431	174	255	3	406	170	229	6	438	195	235	8	440	207	203	30
5 Than Phyu Za Yat	170.536	313	135	189	-11	328	136	190	2	378	158	215	5	374	180	158	36
6 Kyeik Ma Yaw	195.810	244	79	160	6	219	84	127	8	217	80	131	6	220	95	120	5
7 Yé	263.624	220	89	124	7	258	98	154	6	340	114	215	11	290	185	88	16
8 Paung	218.459	243	94	148	1	219	95	149	-26	211	86	113	12	200	109	87	4
9 Chaung Son	122.126	207	78	127	2	232	80	147	5	235	98	131	6	217	126	83	7
10 Belin	181.075	164	67	98	-1	180	65	104	11	193	76	110	6	190	116	74	0
11 La Mine		86	24	63	0	101	34	67	0	122	40	82	0	110	65	40	5
Total	#####	4.671	1.805	2.817	50	4.700	2.088	2.792	-179	5.218	2.492	3.375	-649	4.858	2.740	1.819	299
State Devt Affairs Department		0	67			0	72	0		0	80	3		100	1.098		

Source: Mon State Finance Department

Tab. Mawlamyine Township - Budgets

**Data Base**  
**Mawlamyine**

**1. Township Budget**

	2012-13	2013-14	2014-15	2015-16
<i>in thousand Kyats</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Estimate</i>
<b>1 CURRENT REVENUE</b>	<b>1.690.864</b>	<b>1.626.844</b>	<b>1.883.279</b>	<b>1.639.972</b>
2 <i>Annual growth</i>		-3,8%	15,8%	-12,9%
<b>3 Direct Local Taxes</b>	<b>1.068.076</b>	<b>773.160</b>	<b>673.627</b>	<b>672.700</b>
4 - Housing tax	26.491	27.119	27.458	25.800
5 - Lighting tax	21.203	21.706	21.976	20.600
6 - Water tax	18.477	18.914	19.257	17.900
7 - Garbage tax	22.947	23.546	23.974	22.500
8 - Land tax (for rental)	8	8	8	8
9 - Business and concession licences	978.950	681.867	580.953	585.892
10 of which private whell licence	80	80	80	100
<b>11 Direct Shared Tax</b>	<b>76.358</b>	<b>84.256</b>	<b>133.571</b>	<b>120.000</b>
12 - Dividend tax (5 %)	76.358	84.256	133.571	120.000
<b>13 Indirect Taxes</b>	<b>113.137</b>	<b>159.030</b>	<b>217.232</b>	<b>134.683</b>
14 - Wheel tax	15.075	30.460	32.062	34.315
15 - Tax on vehicles				
16 - Tax on animals				
17 - Advertizing tax (billboards)	50.738	55.397	75.773	75.368
18 - Toll gates & ferry boats				
19 - Building inspection tax	47.324	73.173	109.397	25.000
<b>20 Services charges</b>	<b>187.452</b>	<b>161.131</b>	<b>200.377</b>	<b>229.500</b>
21 - Garbage fee	12.545	12.680	13.335	13.200
22 - Water supply tariffs	141.737	124.356	156.288	200.000
23 - Others	27.359	18.580	24.641	10.300
24 - Electricy supply (from housing staff)	5.811	5.515	6.113	6.000
<b>25 Hiring charges</b>	<b>185.051</b>	<b>404.635</b>	<b>605.698</b>	<b>431.584</b>
26 - Land and building rental charges	17.946	16.523	198.654	24.474
27 - Market shops	135.884	139.009	149.234	149.211
28 - Market daily fee	5.693	176.443	188.402	189.624
29 - Slaughter house fee	12.251	10.870	9.725	10.200
30 - Bus station	695	34.640	37.171	38.776
31 - Latrines		3.840	4.140	4.980
32 - Cemetery	2.425	2.859	2.977	2.200
33 - Fines	10.157	20.451	15.396	12.119
<b>34 Others</b>	<b>60.790</b>	<b>44.633</b>	<b>52.774</b>	<b>51.505</b>
35 - Received from Economic Development B	44.790	5.000	35.043	37.505
36 - Received from trade & business	16.000	36.106	14.000	14.000
37				
<b>38 CAPITAL INVESTMENT REVENUE</b>	<b>2.971</b>	<b>188.074</b>	<b>101.268</b>	<b>28</b>
39 <i>Annual growth</i>			-46,2%	
<b>40 Sales of fixed assets</b>	<b>2.971</b>	<b>188.074</b>	<b>101.268</b>	<b>28</b>
41 - Sales of materials	2.961	64	258	3
42 - Sales of crops	10	10	10	10
43 - Sales of buildings and lands		188.000	101.000	15
44				
<b>45 TOTAL REVENUE</b>	<b>1.693.835</b>	<b>1.814.919</b>	<b>1.984.547</b>	<b>1.640.000</b>
46 <i>Annual growth</i>			9,3%	

48	<b>OPERATING EXPENDITURES</b>	<b>603.308</b>	<b>837.060</b>	<b>1.103.940</b>	<b>984.000</b>
49					
50	<b>Salaries &amp; wages, honorarium fees</b>	<b>138.026</b>	<b>156.120</b>	<b>173.966</b>	<b>174.514</b>
	- Administration Department	28.606	31.815	33.046	31.056
	- Revenue Department	14.806	14.589	16.148	15.750
	- Market & slaughter house Department	21.045	25.871	29.224	46.928
	- Cleaning Department	16.640	18.589	22.581	44.164
	- Urban development Department	30.212	30.764	35.095	47.708
	- Water & electricity supply & playground &	18.146	23.718	26.198	36.188
	- Rural Department	8.571	10.774	11.670	8.592
	- Pension & gratuity Department				
51	<b>Travelling Expenses</b>	<b>216</b>	<b>95</b>	<b>37</b>	<b>900</b>
52	<b>Labour &amp; Service charges</b>	<b>273.612</b>	<b>448.416</b>	<b>684.977</b>	<b>553.668</b>
	- Daily workers	69.800	235.699	249.707	192.691
	- Transport charges	11.574	11.476		50
	- Telecommunication & stamps	237	2.149		2.000
	- Petrol & fuel	83.041	46.205	82.840	120.000
	- Electricity	67.812	106.283	323.470	204.112
	- Office equipment	3.448	3.799	2.188	4.200
	- Uniform	2.055			
	- Printing	5.548	6.000	6.646	6.500
	- Committee (Development Affairs)		28.248		
	- Dividend	22.727	3.293	2.384	2.575
53	<b>Repair &amp; Maintenance</b>	<b>147.247</b>	<b>176.325</b>	<b>172.146</b>	<b>181.950</b>
	- Machinery	15.350	15.085	1.161	250
	- Vehicles			15.000	15.000
	- Buildings		20.000		
	- Roads & bridges	131.897	141.240	155.524	166.700
54	<b>Donations &amp; gifts</b>	<b>300</b>	<b>500</b>	<b>1.021</b>	<b>1.000</b>
55	<b>Staff entertainment and Meal</b>	<b>500</b>	<b>500</b>	<b>500</b>	<b>500</b>
56	<b>Benefits for government staffs &amp; social</b>				
57	<b>welfare</b>	<b>43.407</b>	<b>55.104</b>	<b>71.293</b>	<b>71.468</b>
58					
59	<b>CAPITAL EXPENDITURES</b>	<b>1.019.652</b>	<b>982.342</b>	<b>1.245.054</b>	<b>465.676</b>
60					
61	<b>On-going projects</b>	<b>518.365</b>	<b>605.596</b>	<b>896.515</b>	<b>257.360</b>
62	- Building			58.345	1.500
63	- Road and Bridges			741.030	208.760
64	- Other constructions			97.140	47.100
65	<b>New projects</b>	<b>391.042</b>	<b>314.937</b>	<b>276.759</b>	<b>206.816</b>
66	- Building			92.253	0
67	- Road and Bridges			92.253	83.776
68	- Other constructions			92.253	123.040
69	<b>Purchases (vehicules, machinery, etc.)</b>	<b>110.245</b>	<b>61.808</b>	<b>71.780</b>	<b>1.500</b>

**Tab. Mawlamyine Township: Housing and water supply taxation: basic data**

Quarters	Population / Housing					Water supply coverage			Water and housing tax and tariff coverage			Taxation				Average rental value /House (in Kyats)	Average taxation / HH / Year (in Kyats)	Deviation of the mean
	Population (1)	Number of HH (1)	Number of people per HH	Number of houses (1)	Number of HH/House	Water supplied/Not supplied (3)	Number of meters (3)	Number of water stands (3)	Number of HH paying Housing Tax (2)	% of HH connected to water supply	% of Housing tax payers	Housing tax (10%)	Street Lighting Tax (8%)	Water supply Tax (8%)	Cleaning Tax (10%)			
1 Shwe Myaine Thiri	19.083	4.042	4.7	3.498	1.2	S	490		3.365	12%	83%	751	601	601	751	2.148	804	0.30
2 Zayar Thiri	8.854	1.879	4.7	2.416	0.8	S	665		2.206	35%	117%	777	622	622	777	3.216	1.268	0.47
3 Thayar Aye	4.782	1.096	4.4	1.049	1.0	S	158		1.229	14%	112%	319	255	255	319	3.040	934	0.35
4 Hlaing	19.767	3.574	5.5	3.153	1.1	S	130		2.560	4%	72%	1.126	901	901	1.126	3.572	1.584	0.59
5 Kyeik Pha Nae	6.286	1.054	6.0	993	1.1	S	210		1.016	20%	96%	693	554	554	693	6.978	2.455	0.92
6 Ait Kyin	8.366	1.487	5.6	1136	1.3	S	175		1.244	12%	84%	535	428	428	535	4.711	1.549	0.58
7 Mandalay	4.282	1.056	4.1	579	1.8	S	25		608	2%	58%	779	623	623	779	13.460	4.614	1.72
8 Phat Yan	11.270	1.322	8.5	1.405	0.9	S	194	19	1.639	15%	124%	4.121	3.296	3.296	4.121	29.327	9.051	3.38
9 Shwe Taung	8.319	1.670	5.0	1.420	1.2	S	513	7	1.325	31%	79%	1.996	1.597	1.597	1.996	14.058	5.424	2.02
10 Sit Kae Kone	6.484	1.405	4.6	784	1.8	S	238	18	914	17%	65%	1.317	1.054	1.054	1.317	16.800	5.188	1.94
11 Ma Yan Kone	4.031	813	5.0	760	1.1	S	367	7	713	45%	88%	1.580	1.264	1.264	1.580	20.786	7.976	2.98
12 Pa Bae Yan	4.490	1.062	4.2	796	1.3	S	396	27	828	37%	78%	1.934	1.547	1.547	1.934	24.295	8.408	3.14
13 Bo Kone	6.243	798	7.8	756	1.1	S	493	2	1.194	62%	150%	891	713	713	891	11.781	2.685	1.00
14 Maung Ngan	7.149	1.689	4.2	1.301	1.3	S	508	4	1.275	30%	75%	894	715	715	894	6.874	2.525	0.94
15 Kwin	9.814	1.820	5.4	1.503	1.2	S	414		1.557	23%	86%	870	696	696	870	5.788	2.011	0.75
16 Thin Myaine	10.945	2.537	4.3	2.205	1.2	S	1.007		1.918	40%	76%	474	379	379	474	2.151	890	0.33
17 Thin Mingalar	5.092	1.117	4.6	968	1.2	S	24		1.176	2%	105%	179	143	143	179	1.844	547	0.20
18 Mu Pon	8.672	1.911	4.5	1.640	1.2	S	10	1	1.220	1%	64%	271	217	217	271	1.655	801	0.30
19 Zay Kyo	12.496	2.137	5.8	1.785	1.2	S	518	7	1.610	24%	75%	2.993	2.395	2.395	2.993	16.770	6.693	2.50
20 Myay Ni Kone	5.912	1.210	4.9	1.031	1.2	S	184		889	15%	73%	474	379	379	474	4.593	1.918	0.72
21 Myaine Thayar	8.573	1.850	4.6	1.800	1.0	S (4)	2.008		854	100%	46%	415	332	332	415	2.305	1.749	0.65
22 Zayar Myaine	2.482	542	4.6	513	1.1	S	23		511	4%	94%	248	199	199	248	4.842	1.750	0.65
23 Ngan Lay	4.257	907	4.7	847	1.1	NS	0		848	0%	93%	450	360	360	0	5.313	1.380	0.51
24 San Gyi	1.127	256	4.4	245	1.0	NS	0		212	0%	83%	261	209	209	0	10.657	3.202	1.20
25 Kyauk Tan	6.460	1.041	6.2	815	1.3	S	400		672	38%	65%	97	78	78	0	1.193	376	0.14
26 Naung Kha Yi	4.980	1.344	3.7	1.204	1.1	NS	0		0	0%	0%	0	0	0	0	-	-	-
27 Chauk Mile	3.605	792	4.6	785	1.0	NS	0		0	0%	0%	0	0	0	0	-	-	-
28 Gwe Gone	4.433	807	5.5	646	1.2	NS	0		0	0%	0%	0	0	0	0	-	-	-
29 Phar Out									1.963			2.688	0	0	0		1.369	0.51
<b>TOTAL</b>	<b>208.254</b>	<b>41.218</b>	<b>5.1</b>	<b>36.033</b>	<b>1.1</b>		<b>9.150</b>	<b>92</b>	<b>33.546</b>	<b>22%</b>	<b>81%</b>	<b>27.134</b>	<b>19.557</b>	<b>19.557</b>	<b>23.638</b>	<b>7.530</b>	<b>2.679</b>	<b>1.00</b>

(1) Source: Stade Development Affairs Department for 2015  
(2) Source: Township Revenue department  
(3) Source: Township water supply Department  
(4) One meeter for all the ward with reduce volumetric rate applied (75K/m3)

**Source: Mawlamyine township Finance department**

**Tab. Mawlamyine Township: departments and staffing (July 2015)**

	Permanent staff	Daily staff	Total
1 Administration	9		9
2 Finance	4		4
3 Discipline	5		5
4 Revenue	12		12
5 Market	42	15	57
6 Cleaning	40	6	46
7 Urban	36	1	37
8 Water supply, electricity and gardens	30	4	34
9 Rural	7		7
Total	185	26	211

## Hpa-An Township: budgets

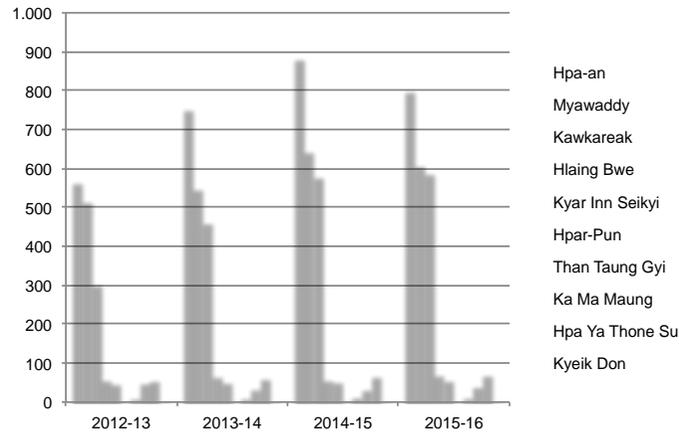
<i>in thousand Kyats</i>	2012-13 Actual	2013-14 Actual	2014-15 Actual	2015-16 Estimate
<b>CURRENT REVENUE</b>	<b>567.075</b>	<b>752.766</b>	<b>882.076</b>	<b>802.112</b>
<i>Annual growth</i>				
<b>Direct Local Taxes</b>	<b>436.854</b>	<b>577.553</b>	<b>643.348</b>	<b>658.127</b>
- Housing tax	17.671	17.979	19.107	17.940
- Lighting tax	6.959	7.083	7.535	6.825
- Water tax	10.285	10.468	11.145	10.237
- Garbage tax	17.219	17.526	18.654	17.161
- Land tax (for rental)	40	40	40	32
- Business and concession licences of which private whell licence	384.680	524.457	586.867	605.932
<b>Direct Shared Tax</b>	<b>11.743</b>	<b>10.176</b>	<b>40.568</b>	<b>12.681</b>
- Dividend tax (5 %)	11.743	10.176	40.568	12.681
<b>Indirect Taxes</b>	<b>43.448</b>	<b>86.061</b>	<b>104.424</b>	<b>48.417</b>
- Wheel tax	3.643	2.005		
- Tax on vehicles	1.540		5.349	2.100
- Tax on animals				
- Advertizing tax (billboards)	7.085	10.492	12.883	6.300
- Toll gates & ferry boats	336	175	150	17
- Building inspection tax	30.844	73.389	86.042	40.000
<b>Services charges</b>	<b>17.831</b>	<b>17.547</b>	<b>21.835</b>	<b>14.415</b>
- Garbage fee	139	387	1.532	200
- Water supply fee	9.325	8.396	10.222	7.000
- Others	1.296	1.467	2.666	1.360
- Electricity supply (fromhousing staff)	7.071	7.297	7.415	5.855
<b>Hiring charges</b>	<b>47.731</b>	<b>51.505</b>	<b>52.163</b>	<b>49.542</b>
- Land and building rental charges	3.617	4.915	5.018	2.940
- Market shops	39.765	39.910	40.234	39.682
- Market daily fee				
- Slaughter house fee				
- Bus station				
- Gardens & entrance fees				5.000
- Latrines		336		
- Cemetery	1.134	1.422	1.522	720
- Fines	3.215	4.922	5.389	1.200
<b>Others</b>	<b>9.468</b>	<b>9.924</b>	<b>19.738</b>	<b>18.930</b>
- Received from Economic Development E	9.468	9.924	19.738	18.930
- Received from trade & business				
<b>CAPITAL INVESTMENT REVENUE</b>	<b>1.667</b>	<b>895</b>	<b>5.766</b>	<b>117</b>
<i>Annual growth</i>				
<b>Sales of fixed assets</b>	<b>1.667</b>	<b>895</b>	<b>5.766</b>	<b>117</b>
- Sales of materials	1.474	251	774	
- Sales of crops	16	17		17
- Sales of buildings and lands	177	627	4.992	100
<b>TOTAL REVENUE</b>	<b>568.742</b>	<b>753.661</b>	<b>887.842</b>	<b>802.229</b>
<i>Annual growth</i>				
<b>OPERATING EXPENDITURES</b>	<b>240.233</b>	<b>281.251</b>	<b>341.473</b>	<b>370.956</b>
Salaries & wages, honorarium fees	54.117	66.156	95.247	131.892
Travelling Expenses	50	122	198	200
Labour & Service charges	110.801	126.444	225.494	163.873
Repair & Maintenance	62.617	70.044	2.450	55.282
Transfer money	1.603	2.127		1.000
Cost for entertainment and Meal	2.095	1.797		1.500
Benefits for government staffs & social welfare	8.950	14.561	18.084	17.209
<b>CAPITAL EXPENDITURES</b>	<b>320.000</b>	<b>252.423</b>	<b>335.114</b>	<b>382.000</b>
<b>On-going projects</b>		<b>199.298</b>	<b>260.813</b>	
- Building			118.600	
- Road and Bridges		182.598	112.969	
- Water supply			29.244	
- Other constructions		16.700		
<b>New projects</b>		<b>53.125</b>	<b>74.301</b>	
- Building				
- Road and Bridges		41.778	62.301	
- Other constructions		11.347	12.000	
<b>Purchases (vehicules, machinery, etc.)</b>		<b>49.691</b>	<b>42.000</b>	

**Tab. Hpa-An township: Departments and staffing**

	Permanent staff	Daily staff	Total
Administration	21		21
Finance			0
Discipline			0
Revenue	15		15
Market	12	17	29
Cleaning	4	15	19
Urban	10		10
Water supply, electricity	2	10	12
Gardens	4	5	9
<b>Total</b>	<b>68</b>	<b>47</b>	<b>115</b>

Tab. Kayin State: Townships budgets

Township	2012-13						2013-14					2014-15					2015-16			
	Actual Revenue & Ordinary Income	Actual Expenses		Total actual Expenses	Surplus/D efit	Actual Revenue & Ordinary Income	Actual Expenses		Total actual Expenses	Surplus/D efit	Actual Revenue & Ordinary Income	Actual Expenses		Total actual Expenses	Surplus/D efit	Budget Estimate Revenue & Ordinary Income	Budget Estimate		Total Estimate budget Expenses	Surplus/D efit
		Ordinary Expenditure	Capital Expenditure				Ordinary Expenditure	Capital Expenditure				Ordinary Expenditure	Capital Expenditure				Ordinary Expenditure	Capital Expenditure		
State Development Affairs	0	48	9	57	-57	38	45	11	46	(42)	0	53	11	54	(54)		77	1	78	-78
Hpa-an	567	240	321	561	7	753	281	302	583	170	883	341	377	719	164	802	371	383	754	49
Myawaddy	519	160	239	399	120	550	219	235	454	96	645	175	330	505	140	610	205	371	576	35
Kawkareak	306	108	160	268	38	463	124	163	287	176	580	131	282	413	168	591	208	351	559	31
Hlaing Bwe	60	19	31	51	10	70	25	27	52	18	60	21	51	72	(12)	73	36	39	75	-2
Kyar Inn Seiky	51	27	31	57	-6	54	24	26	50	4	56	29	32	60	(5)	59	35	32	67	-8
Hpar-Pun	3	8	2	10	-7	5	11	2	13	(8)	6	19	19	(14)	4	27			27	-23
Than Taung Gyi	13	22		22	-9	14	26		26	(12)	16	29	29	(12)	15	48			48	-33
Ka Ma Maung	53	15	22	37	16	37	17	22	39	(2)	36	30	24	54	(18)	44	40	14	54	-9
Hpa Ya Thone Su	59	26	35	61	-3	63	26	32	58	5	70	24	39	62	7	73	38	41	80	-7
Kyeik Don	2	7	1	8	-6	3	9	1	11	(8)	3	12	2	14	(11)	3	18		18	-15
Paing Kyon	0	3		3	-3	1	5		5	(5)	0	9		9	(8)	0	13		13	-13
Baw Ga Li		7		7	-7	0	14		14	(14)	0	9		9	(9)		12		12	-12
Leik Ho		8		8	-8	0	7		7	(7)	0	10		10	(10)		15		15	-15
Su Ka Li		7		7	-7	0	7		7	(7)	0	7		7	(7)		13		13	-13
Wall Lay		7		7	-7	0	7		7	(7)	0	8		8	(8)		13		13	-13
Shan Ya Thit		6		6	-6	0	5		5	(5)	0	7		7	(7)		13		13	-13
		0		0	0	0	0		0	0	0	0		0	0		0		0	0
	1.633	719	851	1.570	63	2.017	854	811	1.665	352	2.356	913	1.137	2.050	306	2.275	1.184	1.232	2.415	-140



**Tab. Myawaddy Township: budgets**

**Data Base**

**Myawaddy**

**1. Township Budget**

	2013-14	2014-15
<i>in thousand Kyats</i>	<i>Actual</i>	<i>Actual</i>
<b>CURRENT REVENUE</b>	<b>547.099</b>	<b>625.010</b>
<i>Annual growth</i>		14,2%
<b>Direct Local Taxes</b>	<b>438.599</b>	<b>491.216</b>
- Housing tax	14.334	14.354
- Lighting tax	2.866	2.870
- Water tax		
- Garbage tax	330	
- Land tax (for rental)	2	2
- Business and concession licences	421.067	473.990
of which private whell licence		
<b>Direct Shared Tax</b>	<b>24.890</b>	<b>51.507</b>
- Dividend tax (5 %)	24.890	51.507
<b>Indirect Taxes</b>	<b>40.333</b>	<b>49.830</b>
- Wheel tax	2.957	
- Tax on vehicles		2453
- Tax on animals		
- Advertizing tax (billboards)	10.782	6.633
- Toll gates & ferry boats		
- Building inspection tax	26.594	40.744
<b>Services charges</b>	<b>1.678</b>	<b>2.339</b>
- Garbage fee	0	0
- Water supply tariffs	0	0
- Others	1.678	2.339
- Electricity supply (from housing staff)		
<b>Hiring charges</b>	<b>39.218</b>	<b>19.917</b>
- Land and building rental charges	6.328	5.952
- Market shops	27.002	6.614
- Market daily fee		
- Slaughter house fee	1.692	1.692
- Bus station		
- Latrines		
- Cemetery	243	269
- Fines	3.953	5.390
<b>Others</b>	<b>2.381</b>	<b>10.201</b>
- Received from Economic Development Bar	2.381	10.201
- Received from trade & business		
<b>CAPITAL INVESTMENT REVENUE</b>	<b>495</b>	<b>696</b>
<i>Annual growth</i>		40,6%
<b>Sales of fixed assets</b>	<b>495</b>	<b>696</b>
- Sales of materials		
- Sales of crops	30	30
- Sales of buildings and lands	465	666
<b>TOTAL REVENUE</b>	<b>547.594</b>	<b>625.706</b>
<i>Annual growth</i>		

<b>OPERATING EXPENDITURES</b>	<b>219.058</b>	<b>175.187</b>
Salaries & wages, honorarium fees	31.226	43.413
Travelling Expenses	61.131	66.897
Labour & Service charges	61.131	66.897
- Daily workers	23.877	35.981
- Petrol & fuel	13.500	14.500
- Electricity	1.050	730
- Office equipment	9.230	6.350
Repair & Maintenance	124.211	62.740
- Machinery	5.171	1.300
- Vehicles	12.400	6.700
- Buildings	3.000	2.000
- Roads & bridges	85.460	50.540
Staff entertainment and Meal	900	0
Benefits for government staffs & social welfare	411	1.283
<b>CAPITAL EXPENDITURES</b>	<b>235.369</b>	<b>297.460</b>
On-going projects	32.053	133.750
- Building		
- Road and Bridges	32.053	119.150
- Other constructions		14.600
New projects	199.716	163.710
- Building	10.000	
- Road and Bridges	174.586	163.710
- Other constructions	15.130	
Purchases (vehicules, machinery, etc.)	3.600	0

## APPENDIX 3B FINANCIAL MANAGEMENT ASSESSMENT QUESTIONNAIRE

### EA: DUHD (MOC) in Nay Pyi Taw

- |  |   |
|--|---|
| 1. Name of the Organization                                  | Department of Urban and Housing Development under the Ministry of Construction (MOC-DUHD)   |
| 2. Executing or Implementing Agency                          | MOC is the EA; Project management will be delegated to two IA assumed by the Mon and Kayin States for their respective shares of the Project.   |
| 3. Project Component that the Institution is Responsible for | The three components: <b>Component 1:</b> Enhanced City Competitiveness, <b>Component 2:</b> Improved basic urban services; <b>Component 3:</b> Strengthened Urban Management capacity  |
| 4. Name of the Individual/s Completing this Questionnaire    | This FMA questionnaire was completed in May 2014 in the context of the JFPR project; then adjusted to take into account the specificities of the GMS3 requirements in terms of institutional arrangements. The people who completed this questionnaire in May 2014 were the following:<br>Myint Myint Mu, Director, Finance Department, <a href="mailto:tunmusein@gmail.com">tunmusein@gmail.com</a><br>Saw Ohn Mar Cho, Assistant Director, Finance Department, <a href="mailto:sawohmarcho@gmail.com">sawohmarcho@gmail.com</a><br>Moe Thida, Assistant Director, Foreign Relations Section, <a href="mailto:moethida.housing@gmail.com">moethida.housing@gmail.com</a> |

Topic	Response	Remarks
<b>1. Implementing Agency</b>		
1.1 What is the entity's legal status / registration?	DUHD is a legal entity (department) under the MoC at the central level (Nay Pyi Taw). It is responsible for urban and housing development.	
1.2 Has the entity implemented an externally-financed project in the past (if so, please provide details)?	Yes.	A recent project financed by ADB is currently on-going under the MOC-DUHD as EA: The Grant Assistance Pro-Poor Community Infrastructure and Basic Services financed by the JFPR for the two cities of Yangon and Mandalay. However financial management is outsourced to an Implementation Contractor (IC). The same for the projects conducted with the support of UN-Habitat, ongoing since 2007.
1.3 What are the statutory reporting requirements for the entity?	DUHD prepares reports and accounts according to Manual and Instructions for Myanmar Government Institutions	

Topic	Response	Remarks
1.4 Is the governing body for the project independent?	The governing body is a Union Government Department.	MOC/DUDH will delegate the management and implementation of the project to MSG and KSG (who will each set up a PMO under their Development Affairs Department-DAD). This PMO will work in close collaboration with PIUs at the township level (Mawlamyine, Hpa An, Myawaddy). MOC/DUHD will consolidate the financial report of the two PMOs.
1.5 Is the organizational structure appropriate for the needs of the project?	Yes	The project plans to improve urban public services and infrastructure at the township level.
<b>2. Funds Flow Arrangements</b>		
2.1 Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	Conventional funds flow arrangements are proposed with direct payments.	See Figure for the proposed funds flow in the FMA chapter of the report.
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	The proceeds of the loan from ADB will be transferred by the MoPF (Budget Department) to the account to be managed by the two PMOs at the State Government level (IAs), through the Myanmar Economic Bank.	An accounting mechanism to manage the sub-accounts in the Implementing Agencies will have to be established.
2.3 What have been the major problems in the past in receipt of funds by the entity?	NA	Under Budget Law issued in 2015, loan funds would need to be included in MOC's budget as EA and then transferred to the two State Government entities. <i>(The precise arrangements need to be clarified: In particular, is the MoC authorized to transfer funds to the State Budget - Development Affairs Department?)</i>
2.4 In which bank will the Advance Account be opened?	NA	Considering the capacity of the implementing agencies, ADB's advance account procedure will not be used.
2.5 Does the (proposed) project implementing unit (PMO) have experience in the management of disbursements from ADB?	NA	See response of the IAs
2.7 Does the entity have/need a capacity to manage foreign exchange risks?	None.	FOREX management is under the responsibility of the CBM and MEB.
2.8 How are the counterpart funds accessed?	Yes	Counterpart funds from the Union will be taxes and duties and will be managed directly by MoPF. Small counterpart would be needed from the States (IAs) for resettlement.

Topic	Response	Remarks
2.9 How are payments made from the counterpart funds?		No counterpart funds to be managed for taxes and duties: directly recorded by MoPF. Counterpart for resettlement will be under the responsibility of the two PMO ( <i>if funds will be coming from the townships or from the State budget need to be confirmed</i> )
2.10 If part of the project is implemented by communities or NGOs, does the PIU have the necessary reporting and monitoring features built into its systems to track the use of project proceeds by such agencies?	NA	
2.11 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor), are proper guidelines formulated to record and value the labor contribution?	NA	Communities will continue to contribute to pre-collection of solid waste in some townships. But those contributions are not accounted within the costs of the project.
<b>3. Staffing</b>		
3.1 What is the (proposed) organizational structure of the accounting department? Attach an organization chart.	The existing organization structure of the Finance Division of the MOC/DUHD is attached in annex of the report.	The specific Unit for GMS3 will be under the supervision of the DUHD director. It will comprise a full-time staff officer with financial control abilities.
3.2 Identify the (proposed) accounts staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.	The Head and the Deputy Heads of the Finance Division are CPAs. Two Assistant Directors are also CPA, while one Director has a master degree and diploma degrees. Most staff have bachelor degrees in accounting.	
3.3 Is the project finance and accounting function staffed adequately?	There are still some staff position vacancies to be filled; although the current staff employed can fulfill the Division's functions.	
3.4 Is the finance and accounts staff adequately qualified and experienced?	Most staff are qualified and experienced to perform accounting work.	
3.5 Is the project accounts and finance staff trained in ADB procedures?	No.	They will be trained in ADB procedures to be able to support the Project.
3.6 What is the duration of the contract with the finance and accounts staff?	All finance and accounting staff have long term appointments.	
3.7 Indicate key positions not contracted yet, and the estimated date of appointment.	All key positions are filled.	
3.10 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?		The Loan Implementation Manual will present written position descriptions that clearly define roles, duties and responsibilities, lines of supervision, and limits of authority.

Topic	Response	Remarks
3.11 At what frequency are personnel transferred?	Low frequency. Staff transfers are also within the department.	The IAs Finance Division will provide counterpart staff to the PMO (State) and PIU (township) to enable it to fulfill its functions.
3.12 What is training policy for the finance and accounting staff?	The staff are trained in current accounting and finance practices.	
<b>4. Accounting Policies and Procedures</b>		
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds? Will the project use the entity accounting system?	The accounting system used by MoC/DUHD meets the Government of Myanmar regulations. It needs improvements to reach a policy-based budgeting.	The project will use a specific project accounting system including accounting classification consistent with the project components. This system will be set up by the International FM Specialist. It will be aligned with the one used by MoC/DUHD to allow minimum integrated recording.
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes	The PMOs and PIU's project accounting system will be designed to ensure that adequate controls are in place.
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	Yes, adequate for DUHD.	A chart of accounts appropriate to the project will be established by the international FM Specialist for use by the PMOs and PIUs.
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes	Cost allocation will follow the proposed allocations as indicated in the Project Financial Management Manual. PMOs and PIUs will be supported by a TA.
4.5 Are the General Ledger and subsidiary ledgers reconciled and in balance?	Yes	
4.6 Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	Yes	The project's proposed accounting system will ensure to have a good record of the documents for easy access.
<b>Segregation of Duties</b>		
4.7 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; and (iii) custody of assets involved in the transaction?	Yes	Separate persons will authorize, execute and record transactions. This will also be outlined in the Project Financial Management Manual.
4.8 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes	The project will have these functions segregated. These will be described in the Financial Management Manual.
4.9 Are bank reconciliations prepared by someone other than those who make or approve payments?	Yes, preparation and payment is made by different persons.	Bank reconciliation and payments will be made by different persons within the PMO.
<b>Budgeting System</b>		
4.10 Do budgets include physical and financial targets?	Yes	Financial budgets are matched to physical deliveries, based on MoPF coordination.

Topic	Response	Remarks
4.11 Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	Yes	
4.12 Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	Yes. Budget implementation is compared to budget estimates on a monthly basis.	
4.13 Are approvals for variations from the budget required in advance or after the fact?	Approvals for variations from the budget are done in advance.	
4.14 Who is responsible for preparation and approval of budgets?	The Director General of DUHD	DUHD prepares budgets, and MoC reviews them and submits them to the MoPF, which in turn submits them to parliament through the President's Office for approval.
4.15 Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	Not yet	Detailed procedures will be developed as project preparation continues..
4.16 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	Yes	Plans and budgets have been initially prepared during project preparation.
<b>Payments</b>		
4.17 Do invoice-processing procedures provide for: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations?	Yes	
4.18 Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?	Yes	
4.19 Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	Yes	
<b>Policies And Procedures</b>		
4.20 What is the basis of accounting (e.g., cash, accrual)?	DUHD maintains two accounting methods: Cash basis for the Department Budget; and accrual basis for the Revolving Fund it maintains for the implementation of housing projects, land development & other infrastructure cost related to housing.	

Topic	Response	Remarks
4.21 What accounting standards are followed?	For the Budget – Government Accounting Standards; For the Revolving Fund – Myanmar Accounting Standard for Revolving Fund	The Office of the Auditor-General (OAG) sets accounting and auditing policies for the public sector. Long-established local standards are still used.
4.22 Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	DUHD has clear policies and procedures for its current system.	The Project will have policies and procedures for its use that meet ADB requirements. This will be incorporated in the Financial Management Manual for the Project.
4.23 Is the accounting policy and procedure manual updated for the project activities?		Project activities will have their own procedure manual.
4.24 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the entity?	Yes.	Only the OAG can alter government accounting policies and procedures.
4.25 Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes	Specific policies and procedures will be prepared for the Project and included in the financial management for the project.
4.26 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	Yes	These will be clearly set out in the Manual for the project.
4.27 Are manuals distributed to appropriate personnel?	Yes	
<b>Cash and Bank</b>		
4.28 Indicate names and positions of authorized signatories in the bank accounts.	Myint Myint Mu, Director for Finance	<i>To be confirmed in 2015</i>
4.29 Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	Yes	
4.30 Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	Yes	
4.31 Are bank and cash reconciled on a monthly basis?	Yes	
4.32 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes	
4.33 Are all receipts deposited on a timely basis?	Yes. DUHD is not allowed to hold cash in hand.	
<b>Safeguard over Assets</b>		
4.34 Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	Yes. Accounting and asset recording systems are in place.	
4.35 Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	Yes. Changes in fixed assets and stock are recorded as they occur.	

<b>Topic</b>	<b>Response</b>	<b>Remarks</b>
4.36 Are there periodic physical inventories of fixed assets and stocks?	Yes. Reviews of physical inventories of fixed assets and stock are undertaken twice a year and annually.	
4.37 Are assets sufficiently covered by insurance policies?	No	
<b>Other Offices and Implementing Entities</b>		
4.38 Are there any other regional offices or executing entities participating in implementation?	Yes. MSG and KSG.	Separate FMAs were also conducted for MSG and KSG.
4.39 Has the project established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities?	Yes. This will be established.	The arrangements will be finalized in the .
4.40 Does information among the different offices/implementing agencies flow in an accurate and timely fashion?	Yes.	This is the intention.
4.41 Are periodic reconciliations performed among the different offices/implementing agencies?	Yes.	This will be part of the arrangements. A consolidated financial statement to be prepared by the International FM Specialist will be conducted at year-end, with support of the DUHD counterpart staff.
<b>Other</b>		
4.42 Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	The PMOs and PIUs have not yet been established.	PMO and PIU staff will be advised.
<b>5. Internal Audit</b>		
5.1 Is there an internal audit department in the entity?	Yes. since FY 2012-2013.	
5.2 What are the qualifications and experience of audit department staff?	Business Commerce degrees related to Accounting and Finance	
5.3 To whom does the internal auditor report?	The organizational chart shows the reporting line goes to the Deputy Director in charge of accounts and reporting.	However the Finance Director indicated that the audit unit reports to the Management Board of MoC
5.4 Will the internal audit department include the project in its work program?	The Internal Audit Unit could include in their work program	
5.5 Are actions taken on the internal audit findings?	Yes	
<b>6. External Audit</b>		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	It is undertaken by the OAG, which is a semi-independent body that reports to the Parliament through the President's Office.	The OAG has adopted international audit standards and conducts mostly financial audits with some procurement and performance audits.
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	Audit is conducted every 6 months and the report is submitted two months after.	
6.3 Is the audit of the entity conducted according to the International Standards on Auditing?	Yes	

Topic	Response	Remarks
6.4 Were there any major accountability issues brought out in the audit report of the past three years?	None	
6.5 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	OAG shall audit the project or may allow a private auditor acceptable to ADB to audit.	
6.6 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	No	
6.7 Is the project subject to any kind of audit from an independent governmental entity (e.g., the supreme audit institution) in addition to the external audit?	Same as in 6.5	
6.8 Has the project prepared acceptable terms of reference for an annual project audit?	The TOR for the audit will be part of the Project Financial Management Manual	
<b>7. Reporting and Monitoring</b>		
7.1 Are financial statements prepared for the entity? In accordance with which accounting standards?	Same as in 4.21	
7.2 Are financial statements prepared for the implementing unit?	Not yet	The PMOs and PIUs have not yet been established.
7.3 What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to useful to management for decision making?	Annually, semi-annually, quarterly and monthly.	Monthly reports are submitted to the Cabinet. The quarterly reports are submitted to the Parliament (thru the Cabinet). The semi-annual and annual reports are submitted also to the Parliament and a copy provided to OAG.
7.4 Does the reporting system need to be adapted to report on the project components?	No	The Project will establish a reporting system which will be outlined in the Financial Management Manual
7.5 Does the reporting system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	Yes, DUHD's reporting system has this capacity which is verified through checking on the ground.	Spot checks may be conducted other than by MOC; Engineers from the Planning Division need to countersign.
7.6 Does the project have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used?	DUHD has this for their projects. Progress report together with work schedule, payment schedule and completion reports with photos are submitted.	The Project will establish a reporting system which will be outlined in the Project implementation manual.
7.7 Are financial management reports used by management?	Yes	
7.8 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes	

Topic	Response	Remarks
7.9 Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Automated accounting system is just being introduced for fiscal year 2014-2015.	This is being introduced by the Government of Myanmar.
<b>8. Information Systems</b>		
8.1 Is the financial management system computerized?	Financial reports are prepared manually with use of excel spreadsheets.	The PMOs and PIUs will employ a stand-alone accounting software for efficient processing and preparation of financial report
8.2 Can the system produce the necessary project financial reports?		The software should be able to do that.
8.3 Is the staff adequately trained to maintain the system?	Yes	Counterpart staff for the PMOs and PIUs should have the accounting skills and the use of the software should not be that difficult. A national staff (with accounting skills) shall supplement counterpart staff. Hands-on training will also be conducted to facilitate learning on the use of the software.
8.4 Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?	It does not fully ensure confidentiality and safeguarding.	Improved data safeguarding and confidentiality will be implemented in the proposed accounting system.

**Financial Management Assessment Questionnaire**  
**IAs: Development Affairs Departments in Mon and Kayin State Governments**  
**(Mawlamyine and Hpa An)**

1. Name of the Organizations	Mon State and Kayin and Kayin States Governments
2. Executing or Implementing Agency	Mon State's and Kayin State's Development Affairs Departments (DAD) are the IAs (PMO)
3. Project Component that the Institution is Responsible for	DAD will be responsible for the implementation of all the components to be implemented in each State.
4. Name of the Individual/s Completing this Questionnaire	Director of the Budget Department of each State <i>Interim version of FMAQ based on information collected by the PPTA with the Budget department and DAD of both States</i>

Topic	Response	Remarks
<b>1. Implementing Agency</b>		
1.1 What is the entity's legal status / registration?	Mon State and Kayin State Governments are legally set up since 2008 (Constitution) and are effective since the elections in 2010. New representatives (Hluttaws) have been elected in November 2015.	
1.2 Has the entity implemented an externally-financed project in the past (if so, please provide details)?	No	
1.3 What are the statutory reporting requirements for the entity?	MSG and KSG prepare budgets and financial statements for submission to their Chief Minister, and then to the Union Government.	Part of the MSG and KSG is made of the townships DAOs budgets of each State, that follow the same reporting process.
1.4 Is the governing body for the project independent?	MSG and KSG are governmental entities. The Chief Minister is appointed by the President of Myanmar.	MSG and KSG are new sub-national entities. Fiscal decentralization is an ongoing process.
1.5 Is the organizational structure appropriate for the needs of the project?	Yes. MSG and KSG, through their DAD Ministers, supervises townships activities that includes urban public services and infrastructure.	
<b>2. Funds Flow Arrangements</b>		
2.1 Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	Conventional funds flow arrangements are proposed with direct payments.	See Figure for the proposed funds flow in the FMA chapter in the report.
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	The proceeds of the loan from ADB will be transferred by the MoPF (Budget Department) to the account to be managed by the two PMOs at the State Government level (IAs), through the Myanmar Economic Bank.	An accounting mechanism to manage the sub-accounts in the Implementing Agencies will have to be established.

Topic	Response	Remarks
2.3 What have been the major problems in the past in receipt of funds by the entity?	NA	Under Budget Law issued in 2015, loan funds would need to be included in MOC's budget as EA and then transferred to the two State Government entities that will have also to recorder them in their own budgets (DAD budgets). <i>(The precise arrangements need to be clarified: In particular, is the MoC authorized to transfer funds to the State Budget - Development Affairs Department for an implementation that will involve the township level?)</i>
2.4 In which bank will the Advance Account be opened?	NA	
2.5 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	No	
2.7 Does the entity have/need a capacity to manage foreign exchange risks?	None.	Funds will be on-granted in MMK.
2.8 How are the counterpart funds accessed?	Small counterpart funds from MSG and KSG for resettlement will be needed for resettlement and land acquisition if needed.	The financing of those counterpart funds needs to be clarified.
2.9 How are payments made from the counterpart funds?	Counterpart for resettlement will be under the responsibility of the two PMO <i>(if funds will be coming from the townships or from the State budget need to be confirmed)</i>	State Government Own revenues are small.
2.10 If part of the project is implemented by communities or NGOs, does the PIU have the necessary reporting and monitoring features built into its systems to track the use of project proceeds by such agencies?	NA	
2.11 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor), are proper guidelines formulated to record and value the labor contribution?	No	Communities will continue to contribute to pre-collection of solid waste in some townships. But those contributions are note accounted within the costs of the project.
<b>3. Staffing</b>		
3.1 What is the (proposed) organizational structure of the accounting department? Attach an organization chart.	The DADs at the State Government level is poorly staffed: it is mainly in charge of consolidating townships' budgets and financial accounts, and send it to the State budget Department.	The PMOs and their TA will reinforce the DAD staffing. Staff from the State Finance Department will be mobilized full time or part time by the PMOs (see institutional analysis)

Topic	Response	Remarks
3.2 Identify the (proposed) accounts staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.		Mon State Finance department is made up of 17 staff in active employment (for 27 planned), in function since 2011. The Budget officer and depute director are missing and need to be contracted. With the next election, it is likely that the staff of the department will be changed.
3.3 Is the project finance and accounting function staffed adequately?	No.	It will have to be reinforced with staff from State budget department. It is expected that with the progress of fiscal decentralization finance and account staff at the Stet level will be increased.
3.4 Is the finance and accounts staff adequately qualified and experienced?	No.	
3.5 Is the project accounts and finance staff trained in ADB procedures?	No.	They will be trained in ADB procedures to be able to support the Project.
3.6 What is the duration of the contract with the finance and accounts staff?	All finance and accounting staff have long-term appointments.	
3.7 Indicate key positions not contracted yet, and the estimated date of appointment.		
3.10 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	DAD are new department set up after the 2010 elections.	
3.11 At what frequency are personnel transferred?	Low frequency, only if necessary.	
3.12 What is training policy for the finance and accounting staff?	The staff are trained in current accounting and finance practices.	The PMU staff assigned to the project will be trained by the International FM Specialist (TA).
<b>4. Accounting Policies and Procedures</b>		
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds? Will the project use the entity accounting system?	DADs supervise townships accounting operation, but doesn't operate directly.	The PMO will also have an accounting system that will be installed by the International FM Specialist aligned with the IC's system.
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes	The PMO's project accounting system will be designed to ensure that adequate controls are in place.

<b>Topic</b>	<b>Response</b>	<b>Remarks</b>
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	Yes	The TA will establish a chart of accounts, appropriate to the project.
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes	Cost allocation will follow the proposed allocations as indicated in the cost estimate and in the GMS3 implementation Manual.
4.5 Are the General Ledger and subsidiary ledgers reconciled and in balance?	Yes	The two books must be reconciled and exactly in balance.
4.6 Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	Yes	The project's proposed accounting system will ensure to have a good record of the documents for easy access.
<b>Segregation of Duties</b>		
4.7 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; and (iii) custody of assets involved in the transaction?	Yes	Separate persons will authorize, execute and record transactions. This will also be outlined in the Project Implementation Manual.
4.8 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes	The project will have these functions segregated. This will also be outlined in the Project Implementation Manual.
4.9 Are bank reconciliations prepared by someone other than those who make or approve payments?	Yes, preparation and payment are done by different persons. Approval for payments requires signature of project manager.	Bank reconciliation and payments will be made by different persons in PMO.
<b>Budgeting System</b>		
4.10 Do budgets include physical and financial targets?	Yes.	
4.11 Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	Yes	The accounting rules of the Project will be designed to provide information on components to aid management (refer to the MUSIP Implementation Manual to be finalized by the TA)
4.12 Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	Yes. DAOs revise their budget two to three times a year, and prepare detailed financial statements.	A report on budget utilization will be provided, which will also be indicated in the GMS3Implementation Manual.
4.13 Are approvals for variations from the budget required in advance or after the fact?	Approvals for variations from the budget are done in advance.	Follow-up of budget implementation is fairly accurate if we consider it is done without any computerization. Improvements have to be done regarding arrears and payment terms.

Topic	Response	Remarks
4.14 Who is responsible for preparation and approval of budgets?	DAOs budget are prepared by the townships DA Committee and approved by Chief minister.	
4.15 Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	Not yet	The TA will develop detailed procedures at the beginning of the project implementation.
4.16 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	Yes	Plans and budgets have been initially prepared during project preparation, but this will be finalized during the preparation of the Project Implementation Manual.
<b>Payments</b>		
4.17 Do invoice-processing procedures provide for: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations?	Yes	
4.18 Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?	Yes	
4.19 Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	Yes	
<b>Policies And Procedures</b>		
4.20 What is the basis of accounting (e.g., cash, accrual)?	Accounting is on cash basis, with opening and closing balance.	
4.21 What accounting standards are followed?	Myanmar Accounting Standard	Accounts are maintained in accordance with the Government Accounting procedure as prescribed by the MoPF.
4.22 Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	Not yet	The Project will have policies and procedures for its use that meet ADB requirements. This will be incorporated in the GMS3 Implementation Manual to be finalized by the TA.
4.23 Is the accounting policy and procedure manual updated for the project activities?	Yes	The accounting policies and procedures will be updated whenever needed.
4.24 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the entity?	Yes.	The MoPF can issue revisions in accounting policies and procedures.

<b>Topic</b>	<b>Response</b>	<b>Remarks</b>
4.25 Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes	Specific policies and procedures will be prepared for the Project and included in the Project implementation manual.
4.26 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	Yes	These will be clearly set out in the Manual.
4.27 Are manuals distributed to appropriate personnel?	Yes	Guiding documents issued by relevant authorities are distributed to appropriate personnel.
<b>Cash and Bank</b>		
4.28 Indicate names and positions of authorized signatories in the bank accounts.	Executive officer of each DAO and Development Affairs Minister.	
4.29 Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	Yes at the DAO level	
4.30 Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	Yes	
4.31 Are bank and cash reconciled on a monthly basis?	Yes	
4.32 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes	
4.33 Are all receipts deposited on a timely basis?	Yes	
<b>Safeguard over Assets</b>		
4.34 Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	No	
4.35 Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	No, not systematically.	Would need to be re set up.
4.36 Are there periodic physical inventories of fixed assets and stocks?	No	
4.37 Are assets sufficiently covered by insurance policies?	No	
<b>Other Offices and Implementing Entities</b>		
4.38 Are there any other regional offices or executing entities participating in implementation?	Yes PIU at the township level	
4.39 Has the project established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities?	Yes	The arrangements will be finalized in the GMS3 Implementation Manual.

Topic	Response	Remarks
4.40 Does information among the different offices/implementing agencies flow in an accurate and timely fashion?	Not yet	It is a crucial point because there are three levels of implementation within the project.
4.41 Are periodic reconciliations performed among the different offices/implementing agencies?	NA	It will have to be made, based on the financial management manual of the project.
<b>Other</b>		
4.42 Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	PMO and PIU are not yet established.	PMO and PIU staff will be advised.
<b>5. Internal Audit</b>		
5.1 Is there an internal audit department in the entity?	Yes, State auditor	
5.2 What are the qualifications and experience of audit department staff?	Mostly have Business Commerce degrees and other fields related to accounting	
5.3 To whom does the internal auditor report?	Chief Minister	
5.4 Will the internal audit department include the project in its work program?	The Internal Audit Unit could include it in its work program	
5.5 Are actions taken on the internal audit findings?	Yes	
<b>6. External Audit</b>		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	It is undertaken by	
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	Audit report is submitted within 1 week after completion of audit.	
6.3 Is the audit of the entity conducted according to the International Standards on Auditing?	Yes, according to instruction by OAG.	
6.4 Were there any major accountability issues brought out in the audit report of the past three years?	<i>Further investigations have to be conducted on this point.</i>	
6.5 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?		The consolidated financial report shall be audited by OAG or private auditors with approval by OAG.
6.6 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	Yes	<i>Further investigations have to be conducted on this point.</i>
6.7 Is the project subject to any kind of audit from an independent governmental entity (e.g., the supreme audit institution) in addition to the external audit?	See 6.5	

Topic	Response	Remarks
6.8 Has the project prepared acceptable terms of reference for an annual project audit?	The TOR for the audit of the consolidated statements shall be prepared and will be part of the GMS3 Implementation Manual.	
<b>7. Reporting and Monitoring</b>		
7.1 Are financial statements prepared for the entity? In accordance with which accounting standards?	Same as in 4.21	
7.2 Are financial statements prepared for the implementing unit?	Not yet	The PMO will be preparing the projects financial statements.
7.3 What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to useful to management for decision making?	Annually, semi-annually, quarterly and monthly.	
7.4 Does the reporting system need to be adapted to report on the project components?	Yes	The Project reporting will establish a reporting system which will be outlined in the Project Manual.
7.5 Does the reporting system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	More or less	The project's financial information should be linked with the physical progress
7.6 Does the project have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used?	Not yet	The Project will establish a reporting system which will be outlined in the Project Implementation Manual.
7.7 Are financial management reports used by management?	Yes	
7.8 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes	
7.9 Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Only spreadsheets.	
<b>8. Information Systems</b>		
8.1 Is the financial management system computerized?	Financial reports are prepared manually with use of spreadsheets. No network connection.	It is recommended that the PMO employs a stand-alone accounting software for efficient processing and preparation of financial report
8.2 Can the system produce the necessary project financial reports?	NA	The software should be able to do that.

<b>Topic</b>	<b>Response</b>	<b>Remarks</b>
8.3 Is the staff adequately trained to maintain the system?	Need training.	Counterpart staff from the both State administration shall be trained on the accounting system to be established. Hands-on training will be provided to facilitate learning on the use of the software.
8.4 Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?	Not totally.	Improved data safeguarding and confidentiality will be implemented in the proposed accounting system for the project.

## TERMS OF REFERENCE FOR CONSULTANTS

### I. PROJECT IMPLEMENTATION SUPPORT CONSULTANT

#### A. Objective

1. The consultant will support the executing agency, implementing agencies, and project management office (PMO) in project implementation and administration. The consultant will assist in (i) overall project implementation, and (ii) detailed engineering design, construction supervision, and contract management. The scope of service is summarized as follows.

#### B. Scope of Work

2. **Overall project implementation support.** The consultant will:

- (i) support the Department of Urban and Housing Development (DUHD) of the Ministry of Construction as the executing agency, and Mon State Government (MSG) and Kayin State Government (KSG) as the implementing agencies, and the project management office (PMO) established under KSG and MSG to ensure that project implementation will fully comply with the government's and ADB's policies and operational requirements in terms of detailed designs, procurement, construction supervision, disbursement, financial management, monitoring and evaluation, social and environmental safeguards policy, climate change adaptation and climate proofing guidance, poverty reduction, gender and development, social inclusion, and civil society participation policies;
- (ii) provide trainings for the executing agency, executing agencies, and PMOs on project implementation management to ensure that the project will be implemented in compliance with ADB and government's policies and procedures; and
- (iii) help the executing agency, implementing agencies, and PMOs closely coordinate with the cofinancing partners of the Government of Thailand, namely the Neighbouring Countries Economic Development Cooperation (NEDA) and the Thailand International Cooperation Agency (TICA). NEDA will finance the improvement of water supply systems and solid waste management in Myawaddy that has the similar scope to output 2 of the ADB financed project. TICA will provide training for the three project towns on urban infrastructure planning and management.

3. **Detailed engineering design, construction supervision, and contract management.** The consultant will fulfill all related tasks and duties, covering technical, administrative, financial, contractual, and legal aspects, from the preparation of relevant tender documentation up to the handover of the works, goods, and operation in compliance with contractual guaranties. Specifically, the consultant will:

- (i) help the PMO procure and supervise the civil works packages, design-build-operate (DBO) works package, and the goods package as specified in the procurement plan. In this regard, the consultant will (a) study the feasibility study, procurement plan, preliminary designs, and the DBO master bidding documents prepared under the project preparatory technical assistance (TA); (b) review and identify any changes in the circumstances since completion of the project preparatory TA, if any; and (c) assist PMO in updating the documents as needed in relation to passage of time or changed circumstances;
- (ii) perform all field surveys deemed necessary prior to carrying out the relevant detailed engineering designs including (a) conventional topographical and geotechnical surveys; and (b) complementary wastewater quality analysis, if needed; and (c) households surveys in the pilot wastewater connection area as needed;
- (iii) establish an efficient mechanism to manage all correspondence with the project stakeholders, technical documents as well as contractual, financial, administrative, and legal documents. Such a mechanism will be supported by appropriate software, relevant procedures, and clear manual;
- (iv) provide specific caution to the DBO works packages for works that are new in Mon State and Kayin State. In particular, the consultant will monitor precisely the risk of claims during the construction, compliance of the facility with the contractual performances during operation stage, determine appropriate period for operation;
- (v) provide specific caution to the solid waste management with regard to sorting and segregation of solid waste, recycling method, composting techniques, usage and marketing of materials produced by composting, and public awareness and community campaigns;
- (vi) help the executing agency, implementing agencies and PMOs achieve compliance with ADB's SPS (2009); and
- (vii) support the PMOs in managing the technical, administrative, and legal aspects of any claim that might be presented by contractor, supplier, service provider, or third party in connection with the project.

### **C. Detailed Tasks**

4. The consultants will be mainly based at the PMO-MSG (in Mawlamyine) and travel frequently to PMO-KSG (in Hpa-An). As there are two project cities in the Kayin State, a project implementation unit (PIU) will be established in Myawaddy under PMO-KSG. The consultants will work closely with the consultants for (i) joint spatial development plan for Myawaddy and Mae-Sot, (ii) Hpa-An industrial zone development plan, and (iii) capacity development for DUHD; as well as and the project implementation support consultant for the NEDA loan and TICA technical cooperation.

5. The team leader will (i) assist in the overall organization of the assignment; (ii) guide, supervise, and coordinate the work of all team members; and (iii) take overall responsibility

for assisting efficient project implementation. The deputy team leader will assist the team leader to accomplish tasks. All consultants will report directly to the team leader or in the team leader's absence to the deputy team leader, and will work closely with other consultants.

**6. Overall management and project implementation.** The consultant will:

- (i) establish the consultant's office, and coordinate and manage the overall consulting services inputs;
- (ii) develop strong working relationship with the executing agency, implementing agencies, and PMOs, and ensure smooth coordination among them;
- (iii) establish a mechanism to coordinate day-to-day activities with the other consultant teams identified in para 4, NEDA loan, and TICA technical cooperation;
- (iv) ensure that a multidisciplinary team is formed within the executing agency, implementing agencies, and PMOs necessary for project implementation in particular considering lack of their capacity in externally financed projects;
- (v) confirm commitments to project implementation from all stakeholders;
- (vi) develop detailed time-bound implementation schedule, and update it regularly;
- (vii) help oversee project overall financial management and accounting;
- (viii) ensure proper and timely submission of regular progress reports to the executing agency, implementing agencies, PMOs, and ADB, particularly the progress against target indicators;
- (ix) initiate actions in the event of any adverse variances against the original plan;
- (x) provide training on project implementation management; and
- (xi) participate as a member of an ADB's project completion review, responsible for overall project implementation.

**7. Detailed engineering design.** The consultant will:

- (i) review the preliminary designs in the final report of the project preparatory TA, and other available secondary data and reports;
- (ii) identify requirements of surveys and studies, and prepare a description including detailed survey works, timeframe, survey equipment, and material testing;
- (iii) carry out engineering surveys on topography, geological and hydrological conditions, conditions of existing facilities, construction material, and water and wastewater quality;
- (iv) evaluate site information based on the engineering survey results and determine modifications to the preliminary design;
- (v) establish the design parameters, design standards, and design criteria for preparation of the detailed engineering design;
- (vi) prepare detailed engineering designs including drawings, technical specifications, bill of quantities, and cost estimates;
- (vii) prepare bidding documents in according with ADB's procurement guidelines and standard bidding document; and
- (viii) provide training on engineering surveys, preparation of detailed engineering designs, and preparation of bidding documents.

8. **Construction supervision.** The consultant will:

- (i) ensure quality control over the detailed designs, cost estimates, bidding documents, construction, goods delivery, including the adoption of climate proofing urban infrastructure design;
- (ii) review and finalize the detailed designs, cost estimates, and bidding documents for the engineering components;
- (iii) help ensure all resettlement and environmental impact mitigation measures are fully implemented, ensure associated reporting is completed, and minimize adverse environmental and social impacts during construction;
- (iv) provide site management guidance in relation to the construction;
- (v) help conduct project planning, scheduling, and reporting of project activities under the civil construction components;
- (vi) help ensure the quality of the construction components;
- (vii) help prepare a detailed procurement for the first 18 months, and revise and update it in the subsequent years;
- (viii) help prepare the bidding documents for civil works and goods, and the detailed monitoring and evaluation surveys; and
- (ix) provide overall support and training for selection of contractors and suppliers, contract management, and quality control and inspection.

9. **Contract management.** The consultant will:

- (i) review the procurement plan and bidding documents;
- (ii) train staff of the executing agency, implementing agencies, and PMOs on ADB procurement guidelines;
- (iii) help prepare the remaining bidding documents for civil works and goods, and detailed monitoring and evaluation surveys;
- (iv) ensure that the updated environmental management plan (EMP) are included in the contract and bidding documents;
- (v) provide overall support for selection of contractors and suppliers, contract management, and quality control and inspection;
- (vi) assist with harmonization of the government's and ADB's procurement requirements;
- (vii) advise on the preparation of bidding documents, including selection criteria;
- (viii) recommend procedures to cover alternative procurement options, as needed;
- (ix) assist in drafting bidding documents for detailed monitoring and evaluation surveys, including selection criteria;
- (x) advise on the selection of shortlisted firms to undertake contracted work, and on the selection of the preferred bidder;
- (xi) ensure systems are in place for inspecting materials, equipment, and machinery used by contractors in the delivery of agreed services;
- (xii) advise on the introduction of any quality control and inspection systems to be introduced as part of the overall contracting process;
- (xiii) assist with the preparation of reports for the executing agency, implementing agencies, and ADB on procurement progress and action plans, and any associated action that may be required; and
- (xiv) provide training or mentoring on procurement and contract management issues..

10. **Project management training.** The consultant will:
- (i) provide initial training in project management and oversight for staff of the executing agency, implementing agencies, and PMOs;
  - (ii) include specific awareness building on climate change adaptation measures and climate proofing;
  - (iii) help ensure compliance with the relevant ADB policies and guidelines; and
  - (iv) help arrange for smooth handover of the project facilities to the agencies responsible for operation and maintenance.
11. **Financial management.** The consultant will:
- (i) plan and organize financial management training for the PMOs accounting staff and key staffs of the executing agency and implementing agencies which will cover loan disbursement procedures and financial management practices for ADB financed projects;
  - (ii) incorporate good practices and knowledge for project accounting by providing on-the-job training;
  - (iii) identify any issues in the financial management system for project implementation in the implementing agencies and PMOs, and recommend measures to address the issues identified;
  - (iv) advise the implementing agencies and PMOs on organizational arrangements for effective financial management for project implementation;
  - (v) assist the implementing agencies and PMOs to develop procedures for financial accounting, reporting and auditing, and loan disbursement for the project;
  - (vi) coordinate with the consultants engaged under the NEDA loan to assist the KSG in increasing the water supply tariff and introducing the solid waste tariff for cost recovery;
  - (vii) guide and assist the implementing agencies and PMOs to process ADB loan withdrawal applications in accordance with ADB's procedures;
  - (viii) assist in capacity development of the implementing agencies and PMOs in communicating with ADB in relation to financial management and loan withdrawal matters;
  - (ix) support capacity development of the executing agency, the implementing agencies and PMOs to prepare documents for loan withdrawal including certificates and reporting formats for efficient and effective flow of funds between ADB, the Borrower, the executing agency, the implementing agencies and PMOs, and contractors;
  - (x) assist in capacity development of the executing agency, the implementing agencies and PMOs to prepare and update continuously financial records, projections, and reports of the project in accordance with procedural requirements of ADB and the government;
  - (xi) review current budgeting, accounting, and financial reporting in the executing agency, the implementing agencies and PMOs; and recommend changes to improve the efficiency and accuracy of budgeting, accounting, and financial reporting systems;
  - (xii) review internal control systems in the implementing agencies and PMOs, and recommend improvements for internal control systems; and
  - (xiii) participate as a member of an ADB's project completion review responsible for financial management and economic analysis.

12. **Environmental management and monitoring.** The consultant will provide the PMOs technical assistance and advice in updating, revising of IEEs and EMPs and supervision of EMP implementation, and capacity development in environmental monitoring and reporting. Capacity development shall be highly focused in the training of the PMOs environmental officer and (environmental) grievance focal person. Specifically the consultant will:

- (i) prior to review by ADB, review the contractor's EMPs (CEMPs) and recommend modifications to be compliant with (a) the environmental requirements of the construction contracts as reflected in the EMP, (b) the national EH&S as well as national environmental requirements, and (c) ADB's Safeguards Policy Statement (2009);
  - updating and finalization of the EMPs, and (possibly), revision of IEEs, specifically in case of design changes;
  - monitoring of the incorporation of relevant mitigation measures in the detailed designs, mitigation measures and monitoring activities in the operation and maintenance manuals, where applicable;
  - preparation for the evaluation of CEMPs by establishing the environmental management criteria for bid evaluation and evaluation form (checklist);
  - close coordination and agreement with the procurement committee on the environmental management criteria, scoring and weight in the overall bid evaluation, simulation of the checklist for evaluating CEMPs;
  - coordination with the procurement committee to ensure that the final subproject EMPs are included in the respective bidding documents;
  - provide overall instruction to bidders includes requirement for the preparation of CEMPs addressing the requirements of the subproject EMPs as minimum, and overall bid evaluation criteria has incorporated the agreed on evaluation criteria, scoring and weight for environmental management;
  - ensure compliance with relevant government environmental requirements and/or approval prior to any award of contract;
- (ii) supervise ambient environmental baseline monitoring (water quality, air quality, and noise levels) to be conducted by the contractors through an appropriate laboratory;
- (iii) develop the environmental monitoring system to be used during the construction period for monitoring the contractors' performance relative to the environmental requirements, including the preparation of (a) monitoring and corrective action checklist, (b) inspection procedures, and (c) documentation procedures;
- (iv) provide technical advice and support to the PMOs in finalization of the grievance redress mechanism (GRM) and necessary preparations (materials for dissemination and posting, documentation and communication systems, etc.), and setting up of the grievance redress reporting format and system before the start of construction;
- (v) conduct orientation sessions with the contractors and other stakeholders on the GRM, environmental monitoring system to be used, notification of non-compliance, and the process of requiring contractors to implement corrective measures when necessary;

- (vi) within six months from commencement of construction, design and conduct a training program for state (Mon and Kayin) and township (Mawlamyine, Hpa-An and Myawaddy) government staff on how the environmental aspects of the project will be monitored, giving emphasis on CEMP evaluation; environmental monitoring of construction activities and preparation of corresponding reports; supervision responsibilities and interaction with contractors; and documentation, resolution and reporting of non-compliance issues and complaints;
- (vii) supervise the implementation of environmental mitigating measures required for the construction activities;
- (viii) discuss with the contractors how their respective CEMPs will be implemented including (a) requirements for each mitigation measure, and (b) implementation schedule of each mitigation measure taking into consideration the general requirement that no specific construction activity will be approved if the associated mitigation measures for such activity are not ready before work commences;
- (ix) evaluate the environmental aspects of the contractors' construction methodology and recommend corrective actions if needed, to make the methodology environmentally acceptable;
- (x) evaluate the contractors' submitted works activities and schedules relative to the requirements of the approved CEMPs;
- (xi) undertake monthly monitoring and inspection as well as random spot check of construction sites and all construction-related facilities (workers' camps, concrete batching plants, borrow pits, disposal sites for spoil and unsuitable materials, equipment maintenance areas, fuel and materials storage sites, project-specific quarries and crushers, etc.) to assess the contractors' compliance with the CEMP and EMP;
- (xii) require the contractors to update their respective CEMPs when necessary;
- (xiii) supervise any subsequent monitoring as necessary to be done by the contractors on ambient surface water quality, air quality, and noise during the construction period;
- (xiv) monitor the contractors' compliance with health and safety requirements of the project as stipulated in the contract documents;
- (xv) prepare monthly environmental monitoring reports for submission to the PMOs and semi-annual safeguard monitoring reports for submission to ADB;
- (xvi) upon completion of construction, prepare a report on the project's environmental compliance performance, including lessons learned that may help the government in its environmental monitoring of future projects. The report will be an input to the overall project completion report;
- (xv) provide guidance to the PMOs on the environmental aspects of the project with emphasis on environmental monitoring and reporting; and
- (xvi) assist in the conduct of continuing community consultations as described in the IEEs and EMPs.

13. **Resettlement management and monitoring.** The consultant will guide and assist the PMOs to prepare, update, implement, and monitor subproject resettlement plans (RPs). Specifically the consultant will:

- (i) review and revise the RPs upon finalization of the detailed engineering designs;
- (ii) lead the implementation and monitoring of the RPs;

- (iii) review and update subproject RPs to ensure they comply with the ADB's and government's social safeguards policies and guidelines;
- (iv) provide training for the PMOs on their fields of responsibility;
- (v) provide guidance and advice to the PMOs regarding ADB requirements and government expectations of their respective positions;
- (vi) provide guidance to the PMOs for social safeguard related issues;
- (vii) review subproject documents and relevant government policies, and conduct stakeholder consultations with regard to the safeguard aspects of the project;
- (viii) review all socioeconomic survey forms for collection of data to ensure consistency and adequacy;
- (ix) assist PMOs to review land acquisition and resettlement requirements are met and documented in Myanmar language, English, and any relevant dialects as needed;
- (x) assist PMOs to review any voluntary donation requirements, supervise all voluntary donation activities to ensure compliance with the project's requirements according to the government regulations and ADB policy, and prepare all required documentation in Myanmar language, English, and any relevant dialects as needed;
- (xi) prepare a general implementation plan to synchronize inputs to satisfactorily implement the PMOs' work;
- (xii) review reporting formats, and include the section for reporting of safeguard issues;
- (xiii) draft and finalize the relevant section of the project performance management system to ensure compliance with safeguard requirements;
- (xiv) review procedures for grievance resolution for contracts in subprojects;
- (xv) record important lessons learned for improved integration of social and safeguard issues into project implementation; and
- (xvi) prepare semi-annual safeguard monitoring reports for submission to ADB;
- (xvii) upon completion of construction, prepare a report on the project's resettlement compliance performance that will be an input to the overall project completion report;
- (xviii) prepare terms of reference for the external monitoring as required;
- (xix) train PMO and relevant township staff on the land acquisition and resettlement issues for the project;
- (xx) assist PMOs to prepare public information booklets in Myanmar language, English, and any relevant dialects as needed, for distribution;
- (xxi) assist PMOs in conducting consultations, information dissemination with all relevant stakeholders and affected households; and
- (xxii) assist PMOs in establishing the grievance redress mechanism (GRM).

14. **Social and gender development.** The consultant will:

- (i) review and revise the Gender Equity and Social Inclusion Action Plan (GESIAP), Stakeholder Communication Strategy (SCS) and Consultation and Participation Plan (CPP), if necessary to align plan activities with project outputs;
- (ii) build support for the GESIAP, SCS and CPP implementation through targeted meetings, presentations, and workshops with the K/MSG, PMO/PIU, and other project stakeholders;
- (iii) strengthen capacity of local officials to engage with citizens, communities, and civil society for the project success and sustainability;

- (iv) establish the institutional mechanisms to track progress of the GESIAP, SCS and CPP implementation;
- (v) maintain oversight of the GESIAP, SCS and CPP implementation, identify challenges and weaknesses in implementation, and develop strategies to overcome them; and
- (vi) prepare reports as required utilizing the GESIAP progress report template for monitoring of the GESIAP.

#### D. Qualifications and Preferred Experience

15. The firm and its associate should have experience in project implementation support in (i) urban development sector particularly in water supply and solid waste management, and (ii) Myanmar and other Greater Mekong Subregion (GMS) countries.

Expertise	Inputs	Preferred Requirements
<b>International</b>	<b>96</b>	
Team leader / Water engineer	40	15 years of professional experience in externally funded urban infrastructure projects, in particular water supply projects 10 years of experience in team leadership for externally funded projects
Electric mechanical engineer	8	10 years of professional experience in urban infrastructure projects
Hydraulic engineer	8	10 years of professional experience in urban infrastructure projects
Solid waste specialist	8	10 years of professional experience in solid waste management projects
Civil works specialist	8	10 years of professional experience in urban infrastructure projects
Contract management specialist	6	10 years of professional experience in procurement and contract management of externally funded projects
Architect	2	10 years of professional experience in renovating heritage buildings
Environment specialist	4	10 years of professional experience in environmental management assessment and monitoring of externally funded projects
Resettlement specialist	4	10 years of professional experience in implementation and monitoring of social safeguard of externally funded projects
Social and gender specialist	4	10 years of professional experience in social analysis and gender development with urban communities of externally funded projects
Financial management specialist	4	10 years of professional experience in municipal finance, financial management, and accounting of externally funded projects
<b>National</b>	<b>372</b>	
Deputy team leader / Resident engineer	84	10 years of professional experience in civil engineering of urban infrastructure projects
Electro mechanical engineer	20	8 years of professional experience in electro mechanical engineering
Design engineer / Autocad	18	8 years of professional experience in preparing engineering designs using autocad
Structure engineer	18	8 years of professional experience in urban infrastructure projects
Water supply engineer	12	8 years of professional experience in water supply projects
Solid waste specialist	12	8 years of professional experience in solid waste management projects
Civil works specialist	12	8 years of professional experience in urban infrastructure projects
Procurement specialist	12	8 years of years of professional experience in procurement and contract management of externally funded projects
Environment specialist	6	8 years of professional experience in environmental management assessment and monitoring
Resettlement specialist	6	8 years of professional experience in implementation and monitoring of social safeguard
Social and gender specialist	6	8 years of professional experience in social analysis and gender development with urban communities

Financial management specialist	6	8 years of professional experience in municipal finance, financial management, and accounting
Site engineer 1	40	8 years of professional experience in urban infrastructure projects
Site engineer 2	40	8 years of professional experience in urban infrastructure projects
Inspector 1	40	8 years of professional experience in urban infrastructure projects
Inspector 2	40	8 years of professional experience in urban infrastructure projects

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### E.18 Deliverables

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1612. The consultant will:

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- 12(i) prepare and submit an inception report within six weeks of mobilization detailing the work program and highlighting administrative and procedural issues,
- (ii) help PMO prepare quarterly progress reports and consolidated annual reports, and
- (iii) help PMO prepare a project completion report within 6 months of physical completion of the project.

### F. Client's Inputs

17. The KSG and MSG will provide an office for the consultant in Mawlamyine and Hpa-An. The KSG will also provide a liaison office in Myawaddy. The MSG and KSG will provide (i) all relevant documents, data, statistics, reports, and maps; (ii) office accommodation and office furniture; and (iii) logistic assistance; and (iv) other in-kind contributions.

### G. Cost Estimates

1. Consultants	
a. Remuneration and per diem	
i. International consultants	2,112,000
ii. National consultants	1,167,200
b. International and local travel	100,000
c. Reports and communications	80,000
2. Equipment (computer, printer, etc.)	80,000
3. Workshops, training, seminars, and conferences	80,000
4. Vehicles	80,000
5. Surveys	80,000
6. Miscellaneous administration and support cost	80,000
7. Contingencies	140,800
<b>Total</b>	<b>7,000,000</b>

\* Taxes and duties will be paid by the government in cash.

\*\* The consultant will be responsible for procurement of equipment, workshop, vehicles, and surveys.

## TERMS OF REFERENCE FOR CONSULTANTS

### II. JOINT SPATIAL DEVELOPMENT PLAN FOR MYAWADDY AND MAE SOT

#### A. Objective

1. Ongoing construction of the Second Thailand–Myanmar Friendship Bridge between Myawaddy and Mae Sot will completely change the urban settings on the two cities. The objective of the assignment is to jointly revise and expand the existing spatial development plans for both Myawaddy and Mae Sot.

#### B. Scope of Work

2. The joint spatial development plan for Myawaddy and Mae Sot will be developed considering the following aspects.

- (i) The development plans for both cities are now outdated due to the detailed alignment of the Second Thailand–Myanmar Friendship Bridge and its approach roads being published after both plans were adopted.
- (ii) The Mae Sot plan needs to take into account separate special economic zone (SEZ) proposals within Thailand which have been proposed following agreement on the alignment of the new bridge road north of Mae Sot.
- (iii) Within Myanmar, the planning for Myawaddy has the opportunity to create a more efficient plan which takes into account topography, opportunities to develop strategic sub-centres along the new road, and a need to ensure that the new bridge road only has limited access to prevent local traffic slowing cross border trade on the Asian Highway 1.
- (iv) Both plans require phasing (by 5 year investment periods) so that developers and investors are clear as to which supporting infrastructure and other projects are planned where and at what time.
- (v) The two cities are essentially one economic entity, but split by an international border. Planning together will avoid inefficiencies in terms of overlaps of provision of public facilities as well as ensuring a balance of such facilities between the two countries.
- (vi) Willingness to produce a statutory plan jointly demonstrates to investors and to the local populations that the two governments are able to act together for the mutual benefit of both countries.
- (vii) Planning certainty will reduce speculator led piecemeal development and better protect the environment through provision of clearly delineated protected areas such as watersheds and areas of natural/religious significance.
- (viii) Working directly together on joint plans will enable local government staff to better appreciate the concerns and challenges of each other.
- (ix) Incorporating both formal and informal public participation into the study will allow for local feedback and display transparency of the planning process.
- (x) Capacity building using hands-on approaches will enable local government staff to be better prepared to jointly monitor and revise each plan's implementation over time.
- (xi) The two plans should be revised together so that total projected populations can be linked to the proposed provision of housing, schools, employment and supporting infrastructure on both sides.

- (xii) There well may be opportunities for sharing of service infrastructure (power at present is provided by Thailand but will cease in future) such as water and/or solid waste disposal or even facilities such as higher education.

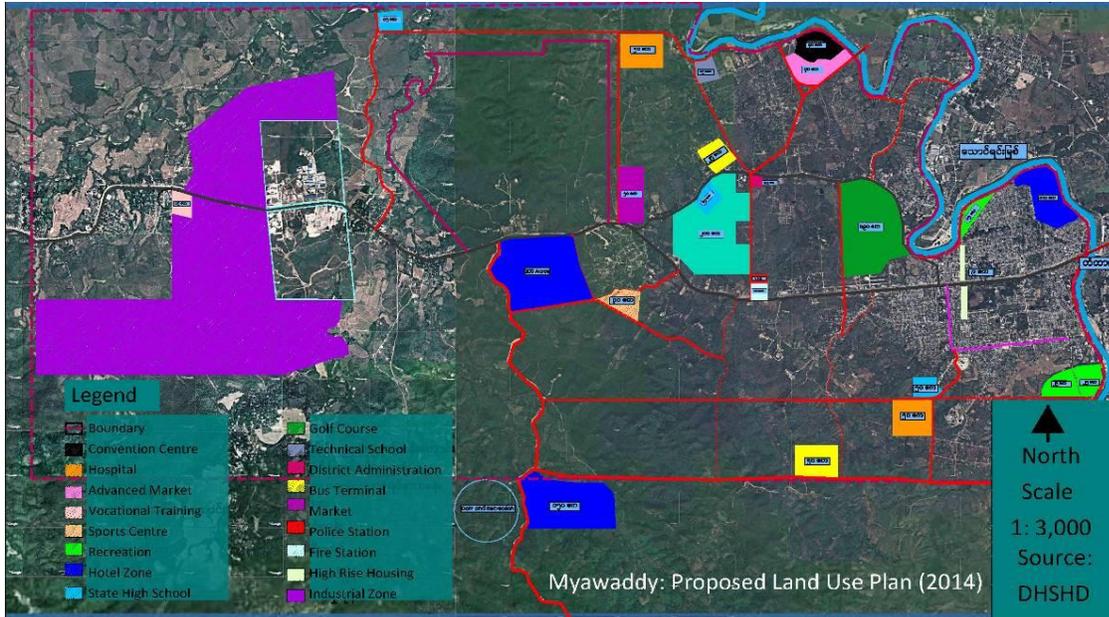
### **C. Detailed Tasks**

3. The consultant will develop a formal statutory plans for Myawaddy and Mae Sot to the year 2040 that will be endorsed and adapted by both governments as legal documents, at both local and central levels. Specifically, the consultant will undertake the followings.

- (i) The planning study will be undertaken jointly by staff from the Kayin State Government (KSG) on the Myanmar side and the Tak Province on the Thailand side with support from the consultant.
- (ii) Project offices will be established in both Myawaddy and Mae Sot by the respective State and Provincial governments for the purposes of undertaking the study.
- (iii) The study will involve capacity building of urban planning and related staff from both Myawaddy and Mae Sot through hands-on training in spatial planning techniques, urban transportation, project identification, infrastructure, financial planning, and geographic information system (GIS), directly related to the preparation of the plans.
- (iv) Strategic development plans will be produced for the wider Districts of both Myawaddy and Mae Sot to ensure that peri-urban and sub-regional aspects are also considered during the planning process.
- (v) Public participation throughout the planning process will be a key means of obtaining ideas and feedback on the planning process and outputs to date.
- (vi) Central government agencies will have an overall supervisory role to ensure that national interests and concerns are considered and incorporated into the planning process and agreed outputs.
- (vii) The study is expected to take up to one year, including time for consultations at government levels and with the public.
- (viii) The plans will include a list of supporting projects with financial implications for each future 5-year plan to year 2040.
- (ix) The planning process will also include an assessment of local government finances and how these can maximize in relation to local service provision and regulation.
- (x) The study will include establishing a GIS for both cities which will be linked to cadastral and other spatial databases required for improved urban management.
- (xi) Additional detailed plans will be produced for the entire length of the 21.4 km road which is part of the new bridge project, specifying the location of all access points along the route together with all related planned infrastructure and land uses.

4. Figure A2-2-1 shows the land use plan prepared in 2014 before the new bridge project was developed and Figure A2-2-2 shows the alignment of the new bridge and access roads in both sides.

**Figure A2-2-1: Myawaddy land Use Plan (2014)**



**Figure A2-2-2: Alignment of Second Thailand–Myanmar Friendship Bridge**



5. Figure A2-2-3 shows the detailed shot of the new bridge superimposed on the land use plan. It clearly shows the need for a revision to the plan given the large land acquisition required for the new road and border crossing facilities. A star depicts the location where the new bridge road will intersect with the old road (white). This is an area with plenty of potential in future for commercial uses and as a major subcenter.

**Figure A2-2-3: Bridge Access Road on Development Plan**



**D. Qualifications and Experience Preferred**

6. The firm and its associate should have experience in (i) urban and spatial planning, (ii) border area planning and development, and (iii) Myanmar and other Greater Mekong Subregion (GMS) countries.

Expertise	Inputs	Preferred Requirements
<b>International</b>	<b>14</b>	
Team leader / Urban planner	5	15 years of professional experience in urban planning 10 years of experience in team leadership for externally funded projects
Municipal engineer	3	10 years of professional experience in urban infrastructure projects
Municipal finance and PPP specialist	2	10 years of professional experience in municipal financial management
Environmental and social safeguard specialist	2	10 years of professional experience in social development and safeguard of externally funded projects
Urban transport specialist	2	10 years of professional experience in urban transport projects
<b>National (Myanmar)</b>	<b>14</b>	
Deputy team leader /Civil engineer	5	10 years of professional experience in urban infrastructure projects
Urban planner / Architect	3	8 years of professional experience in urban planning
Financial management specialist	2	8 years of professional experience in municipal financial management
Social specialist	2	8 years of professional experience in social development
Transport specialist	2	8 years of professional experience in transportation projects

<b>National (Thailand)</b>	<b>14</b>	
Deputy team leader /Civil engineer	5	10 years of professional experience in urban infrastructure projects
Urban planner / Architect	3	8 years of professional experience in urban planning
Financial management specialist	2	8 years of professional experience in municipal financial management
Social development specialist	2	8 years of professional experience in social development
Transport specialist	2	8 years of professional experience in transportation projects

## E. Deliverables

7. The assignment will be implemented over 12 months. The consultant will:
- (i) prepare and submit an inception report within six weeks of mobilization detailing the work program and highlighting administrative and procedural issues;
  - (ii) prepare and submit an interim report (1) within three months of mobilization detailing the existing land use, detailed plan for the Second Thailand-Myanmar Friendship Bridge and its approach roads, urban planning and management capacity of the local governments in Myawaddy and Mae Sot, and training plan;
  - (iii) prepare and submit an interim report (2) within six months of mobilization detailing the strategic development plans for Myawaddy and Mae Sot covering the town development vision, direction of future physical extension of urban areas, opportunities and constraints for future economic growth; and the outcome of the training programs
  - (iv) prepare and submit a draft final report within ten months of mobilization detailing the spatial development plans for Myawaddy and Mae Sot, and
  - (v) prepare and submit a final report within one month after receiving comments from the Myanmar counterparts, Thailand counterparts, and ADB.

## F. Cost Estimates

1. Consultants	
a. Remuneration and per diem	
i. International consultants	308,000
ii. National consultants	126,000
b. International and local travel	14,000
c. Reports and communications	5,000
2. Equipment (computer, printer, etc.)	2,000
3. Workshops, training, seminars, and conferences	5,000
4. Vehicles	5,000
5. Surveys	5,000
6. Miscellaneous administration and support cost	5,000
7. Contingencies	25,000
<b>Total</b>	<b>500,000</b>

\*Taxes and duties will be paid by the government in cash.

\*\*The consultant will be responsible for procurement of equipment, workshop, vehicles, and surveys.

## TERMS OF REFERENCE FOR CONSULTANTS

### III. HPA-AN INDUSTRIAL ZONE DEVELOPMENT PLAN

#### A. Objective

1. The Kayin State Government (KSG) is keen to develop the existing industrial zone located in the north-west of Hpa-An where 400ha of land has been allocated. The objective of the assignment is to help strengthen industrial development in Hpa-An through development of a development plan for the Hpa-An Industrial Zone.

#### B. Scope of Work

2. The Hpa-An industrial zone development plan will be based on an updated local industrial development strategy, and used to prioritize investors according to this strategy and complementarities with industries in Mawlamyine, Myawady, and Mae Sot. The consultant will help the KSG by closely interact with business community, defining and making promotion action plan for Hpa-An. The plan will also include pre-feasibility study for infrastructure services in the industrial zone and an assistance to establish a Hpa-An Investment Promotion Office.

#### C. Detailed Tasks

3. **Development of industrial development strategy and promotion action plan.** Capacities in planning and management of the industrial zone are virtually limited in Kayin State. So far, the Ministry of Construction through the Department of Urban and Housing Development (DUHD) and the Ministry of Commerce (MOC) assume tasks planning industrial and trade zones. There is a need to facilitate transfer, or at least sharing of this competence, to State and Regional level. The consultant will help the KSG by closely interact with business community, defining and making promotion action plan for Hpa An industrial zone. The plan would be based on a local industrial development strategy and used to “prioritize” investors according to this strategy (e.g. agro-business or labor intensive industries, or cluster-based or eco-park approach, etc.), and complementarities (not competition) with industries in Mawlamyine, Myawady, and Mae Sot. This strategy will be complemented with proposals of incentives measures such as tax incentives, support to recruitment of local staff, infrastructure development, and communication facilities. Such measures need to be validated by the KSG to be implemented rapidly with the support of State and Union’s budget and expectedly public-private partnership (PPP).

4. **Pre-feasibility studies for infrastructure services.** Pre-feasibility studies will be conducted for infrastructure services, particularly water supply and solid waste management. Priority infrastructure will be identified taking into account of ongoing and planned infrastructure development projects supported by the government and development partners in Hpa-An, and local industrial development strategy and promotion action plan. This task will (i) confirm the opportunity of PPP arrangement for water supply, wastewater management, and/or solid waste management; (ii) rank PPP options (not excluding other services and including SPV-type as proposed in recent JETRO’s report) according to their feasibility; (iii) prepare contractual types for the two most relevant options, and (iv) assistance to KSG to approach investors up to the end of the activity.

5. **Assistance for establishment of Hpa-An Investment Promotion Office.** The consultant will support the KSG to (i) formulate the institutional and organizational arrangements (objective and mandate, definition of tasks, reporting line, staffing, standard operation procedure,

etc.); (ii) purchase office facilities including furniture, computers with software, and printer; and (iii) elaborate a basic information system (contracts with tenants, types of industrial tenants, investment plans, etc.) and communication tools (web site, recommendations for media campaigns in Myanmar). The consultant will also develop and implement training programs for the staff of the Hpa-An Investment Promotion Office on the roles and functions of the industrial zone, principles of local industrial development in growing globalized economies, investment promotion, and financial management and infrastructure maintenance in the industrial zone. If successful, the approach could be replicated by KSG in the industrial zone in Myawaddy, and other industrial zones in Myanmar.

#### **D. Qualifications and Experience Preferred**

6. The firm and its associate should have experience in project implementation support in (i) industrial zone planning and development, and (ii) Myanmar and other Greater Mekong Subregion (GMS) countries.

<b>Expertise</b>	<b>Inputs</b>	<b>Preferred Requirements</b>
<b>International</b>	<b>10</b>	
Team leader / Industrial development specialist	4	15 years of professional experience in industrial development projects 10 years of experience in team leadership for externally funded projects
Civil engineer	2	10 years of professional experience in infrastructure development
Financial management specialist	2	10 years of professional experience in financial management
Environment and social specialist	2	10 years of professional experience in environmental impact assessment and monitoring
<b>National</b>	<b>16</b>	
Deputy team leader / Industrial development specialist	5	10 years of professional experience in industrial development projects
Civil engineer	2.5	8 years of professional experience in infrastructure development
Financial management specialist	3	8 years of professional experience in financial management
Environment specialist	1.5	8 years of professional experience in environmental impact assessment and monitoring
Social specialist	1.5	8 years of professional experience in social development

#### **E. Deliverables**

7. The assignment will be implemented over 18 months. The consultant will:

- (i) prepare and submit an inception report within six weeks of mobilization detailing the work program and highlighting administrative and procedural issues,
- (ii) prepare and submit an interim report (1) within four months of mobilization detailing the industrial development strategy and promotion action plan,
- (iii) prepare and submit an interim report (2) within eight months of mobilization detailing the pre-feasibility studies for infrastructure services and the proposal for establishment of the Hpa-An Investment Promotion Office,
- (iv) help the KSG establish the Hpa-An Investment Promotion Office and conduct training programs for the staff by 14 months of mobilization,
- (v) prepare and submit a draft final report within 16 months of mobilization detailing all project findings, and

- (vi) prepare and submit a final report within one month after receiving comments from the KSG, DUHD, MOC, and ADB.

**F. Cost Estimates**

1. Consultants	
a. Remuneration and per diem	
i. International consultants	220,000
ii. National consultants	34,000
b. International and local travel	14,000
c. Reports and communications	3,000
2. Workshops, training, seminars, and conferences	3,000
3. Vehicles	5,000
4. Surveys	3,000
5. Miscellaneous administration and support cost	3,000
6. Contingencies	15,000
<b>Total</b>	<b>300,000</b>

\* Taxes and duties will be paid by the government in cash.

\*\* The consultant will be responsible for procurement of workshop, vehicles, and surveys.

## TERMS OF REFERENCE FOR CONSULTANTS

### IV. CAPACITY DEVELOPMENT FOR DEPARTMENT OF URBAN AND HOUSING DEVELOPMENT, MINISTRY OF CONSTRUCTION

#### A. Objective

1. Urban planning in Myanmar is undertaken centrally by the Department of Urban and Housing Development (DUHD), Ministry of Construction. Specifically, the DUHD is responsible for (i) preparing and implementing urban and regional plans, (ii) overseeing property development activities, (iii) managing government buildings and housing estates, and (iv) planning and developing water and sanitation systems. Under the government's decentralization policy, the urban planning and management function will be delegated to the local levels, and the DUHD is expected to become an agency to establish legal framework and provide guidance to the local governments. The assignment will help DUHD strengthen its capacity to enable to assume the new role under the government's decentralization policy.

#### B. Scope of Work

2. The consultant will assist DUHD in strengthening its institutional capacity by supporting (i) development of various guidelines to implement the new Urban and Regional Development Planning Law (the draft has been submitted to the Union Parliament), and (ii) preparation and implementation of training programs for DUHD staff in urban planning and management.

#### C. Detailed Tasks

3. The consultant will help DUHD develop the following guidelines to support implementation of the new Urban and Regional Development Planning Law:

- (i) preparation of a strategic city development plan that will present a long-term city development vision and guide the city growth and expansion in the context of changing climate;
- (ii) preparation of a land use and spatial plan that will identify land use for different activities to maximize economic efficiency, improve living conditions, enhance climate change resilience, and protect environment and natural resources. Measures for enforcement will also be developed such as issuance for development permission and application of building codes that aim to minimize natural disaster damages and to increase energy efficiency;
- (iii) construction of urban infrastructure and municipal service standards covering a) water supply, (b) wastewater and sanitation, (c) solid waste management, (d) urban drainage and flood protection, and (e) urban transport; and
- (iv) preparation of infrastructure development plans that will cover (a) water supply, (b) wastewater and sanitation, (c) solid waste management, (d) urban drainage and flood protection, and (e) urban transport. These plans will not be limited to engineering aspects but also cover the cost estimates and financing, implementation arrangements, environment and social safeguards, as well as climate change proof design measures.

4. The consultant will develop and conduct training programs for DUHD staff in urban planning and management covering the areas of (i) socioeconomic development framework and strategic urban planning; (ii) climate change consideration in spatial planning, infrastructure

designs, and building standards; (iii) participatory process in urban planning and efficient organizational structure; and (iv) effective implementation, enforcement, and monitoring of city development plans and strategies.

#### D. Qualifications and Experience Preferred

5. The firm and its associate should have experience in project implementation support in (i) supporting development of legal framework in the urban sector, and (ii) Myanmar and other Greater Mekong Subregion (GMS) countries.

Expertise	Inputs	Preferred Requirements
<b>International</b>	<b>15</b>	
Team leader / Urban planner	7	15 years of professional experience in urban planning and management 10 years of experience in team leadership for externally funded projects
Institutional development specialist	4	10 years of experience in institutional assessments and development in urban projects
Municipal finance specialist	4	10 years of experience in municipal financial management
<b>National</b>	<b>19</b>	
Deputy team leader / Urban planner	9	10 years of professional experience in urban planning and management
Institutional development specialist	5	8 years of experience in institutional assessments and development in urban projects
Municipal finance specialist	5	8 years of experience in municipal financial management

#### E. Deliverables

7. The assignment will be implemented over 18 months. The consultant will:

- (i) prepare and submit an inception report within six weeks of mobilization detailing the work program and highlighting administrative and procedural issues,
- (ii) prepare and submit at fourth month, eighth month, 12th month, 16th month, 20th month from mobilization detailing the progress in the development of various guidelines for implementation of the new Urban and Regional Development Planning Law, and the preparation and implementation of training programs for DUHD staff in urban planning and management;
- (iii) prepare and submit a draft final report within 22 months of mobilization detailing all project findings, and
- (iv) prepare and submit a final report within one month after receiving comments from the DUHD and ADB.

#### F. Cost Estimates

1. Consultants	
a. Remuneration and per diem	
i. International consultants	330,000
ii. National consultants	76,000
b. International and local travel	15,000
c. Reports and communications	10,000
2. Equipment (computer, printer, etc.)	10,000
3. Workshops, training, seminars, and conferences	8,000
4. Vehicles	8,000
5. Surveys	10,000
6. Miscellaneous administration and support cost	8,000

7. Contingencies	25,000
<b>Total</b>	<b>500,000</b>

\* Taxes and duties will be paid by the government in cash.

\*\* The consultant will be responsible for procurement of equipment, workshop, vehicles, and surveys.

## TERMS OF REFERENCE FOR CONSULTANTS

### V. EXTERNAL MONITORING ORGANIZATION

#### A. Objective of the Assignment

1. The objective of is to assess relevance, efficiency, effectiveness and impact of the implementation processes of the resettlement plans (RPs) and environmental management plans (EMPs), and to suggest any corrective measures, if necessary. The external monitoring organization (EMO) will monitor and verify (i) compliance of RPs implementation with the approved RP; (ii) achievement of resettlement goals, including livelihood restoration; and (iii) compliance with the EMP and progress toward the expected outcomes. If EMO identifies any non-compliance issues with the approved RPs and environmental management plan (EMP), relevant recommendations should be made to lead the development of a corrective action plan by the project management office (PMO).

#### B. Scope of Services

2. The scope of services is to conduct (i) a baseline survey to establish a baseline data of affected persons before land acquisition and resettlement; and (ii) periodical monitoring missions to verify that resettlement plans and environment management plans have been implemented in an effective and timely manner and in compliance with approved plans, and guidelines and regulations related to land acquisition and resettlement as well as EH&S and environment issued by the government and ADB. External specialists shall prepare and submit semi-annual monitoring reports including recommendations for courses of actions and corrective measures to the executing agency and ADB. The EMO could mobilize surveyors for conducting baseline survey and sample surveys.

3. Specific tasks of the team shall include but not limited to the followings:

##### For baseline survey

- (i) collecting all related secondary data of affected households, including allocated land area;
- (ii) conducting a socio-economic survey of affected households to collect current household data of demography and socio-economic information;
- (iii) establish a database of affected households to be used for monitoring and evaluation;

##### For resettlement monitoring

- (i) verify the process of the detailed measurement survey and determine whether activities are carried out in a participatory and transparent manner;
- (ii) determine the level of participation of affected people in the updating and implementation of RP;
- (iii) determine whether payment of compensation and allowances are made in a timely manner to all affected people as approved in the RP;
- (iv) determine whether public consultations and awareness programs have been conducted as approved in the RP;
- (v) verify whether the implementation of resettlement activities is well coordinated with the implementation schedule of the project;
- (vi) verify the land acquisition and land transfer procedures;

- (vii) verify the level of satisfaction of affected people with the provisions of compensation and allowances and implementation of the RP;
- (viii) assess the adequacy and implementation of the grievance redress mechanism (documentation, process, resolution and satisfactory);
- (ix) determine the effectiveness, impact, and sustainability of entitlements and income restoration programs and the need for further improvement and mitigation measures;
- (x) assess the capacity of affected people to restore livelihoods and living standards with special attention to be given to severely affected people and vulnerable groups including female headed households and ethnic minorities;
- (xi) assess whether there are any impacts on the host communities with regards to gender, HIV/AIDS, other infectious diseases, and human trafficking;
- (xii) assess whether any resettlement impacts are incurred during construction activities and compensation for them;
- (xiii) assess if corrective plans are prepared for non-compliance, and follow up the implementation of these plans;
- (xiv) prepare and submit detailed monitoring reports on a semi-annual basis. The reports will describe in detail the findings, including
  - progress of RP implementation, including any deviations from the provisions in the RP
  - identification of issues and recommended solutions for improvement and resolving issues
  - identification of specific issues related to gender, ethnic minorities, and other vulnerable groups
  - reporting on progress of resolving issues and problems identified in previous reports
  - reporting on good practices;
- (xv) conduct a post-resettlement evaluation and prepare and submit a detailed resettlement monitoring completion report within 6 months of completion of all resettlement activities;

#### For environment monitoring

- (i) assess the existing environmental conditions at the project sites/sub-projects, and provide independent periodic assessment of environmental safeguard compliance in project implementation by conducting compliance monitoring and impact monitoring;
- (ii) assess relevant environmental issues such as biodiversity, terrestrial and aquatic habitat alteration, physical and cultural resources, impacts from noise, dust, emission, and hazardous materials, and occupational and community health and safety;
- (iii) assess and use the monitoring assessment system, and the recommendations in the initial environmental evaluation (IEE) and EMP prepared for the project for safeguard requirements in design, bill of quantity items, and contract agreement clauses, and make recommendations on mitigating measures;
- (iv) assess if corrective plans are prepared for non-compliance, and follow up the implementation of these plans;
- (v) assess safeguard compliance capacity of project staff, contractors, and capacity development trainings provided to these actors;
- (vi) identify possible areas of biodiversity conservation and environmentally sensitive areas, and provide measures to avoid and protect them;

- (vii) assist the implementing agency in conducting public consultations with affected people and other concerned stakeholders, and document the consultation outputs in periodical monitoring reports;
- (viii) verify institutional arrangements for coordination between safeguard and technical team during project implementation, and make recommendations for improvements;
- (ix) prepare and submit detailed environment monitoring reports on a semi-annual basis, in a format and with content compliant with ADB's Safeguard Policy Statement (2009) (SPS), including mitigating measures applicable to the environmental issues identified;
- (x) prepare and submit a detailed environment monitoring completion report within 6 months of completion of the project; and
- (xi) perform additional tasks related to the environment safeguards of the project as and when required.

### **C. Methodology and Procedure**

4. The EMO shall employ the following methods and tools for baseline survey and monitoring:

#### For baseline survey

5. The EMO will collect data of affected households at commune level and conduct a socioeconomic survey by questionnaire and organize group discussions and in depth interview.

#### For monitoring

6. **Desk review.** The EMO shall collect and review all the related documentations set by PMO, including the internal monitoring reports and compensation plans. The desk review needs to verify whether all entitlements of affected persons have been included in the compensation plans based on replacement cost.

7. **Sample survey.** A sample survey with 100% of severely affected households and 20% of marginal affected households will be conducted for each monitoring mission to assess the implementation of compensation and resettlement of the subproject. Gender and vulnerable group should be integrated in the sample. A questionnaire using for survey needs to be prepared by the EMO based on the above monitoring indicators. The post-resettlement evaluation should be conducted with the same sample to assess whether living standard, income and livelihoods of APs have been restored or improved comparing to pre-project.

8. **Group discussion and in-depth interview.** Besides sample survey, the monitoring team will organize group discussions with targeted groups such as poor and vulnerable, and conduct in-depth interviews with key persons to get their opinion and assessment on resettlement implementation. Guidelines for group discussion and in-depth interview should be prepared by the EMO.

9. **Observation.** The consultant will conduct site visits to the project sites and resettlement sites to identify if the construction implemented within the scope of land acquisition and if the resettlement sites constructed with full infrastructure. For environmental safeguard, the IEE, EMP, and test results of environmental samples at sub-project sites are used as baseline data.

10. **Impact assessment.** For social safeguard, a post-resettlement evaluation shall be carried out to find out if the objectives of the project resettlement have been attained or not. The post-resettlement evaluation will assess:

- (i) the effectiveness of delivering entitlements (compensations and rehabilitation measures) and their impact on affected persons livelihood. The assessment will look into potential differential impact or benefit those men and women affected persons experienced from the resettlement activities;
- (ii) affected persons satisfaction on the valuation of assets and entitlements, timing of payments, grievance redress, fund availability and disbursements; and
- (iii) the efficiency of the resettlement implementation to draw lessons for future resettlement planning and implementation.

11. For environmental safeguard, a post-construction or post-completion of sub-projects review shall be conducted to assess the effectiveness and efficiency of environmental protection and recommend improvement solutions.

#### **D. Implementation Arrangements**

12. The assignment is implemented on an intermittent basis following the progress of land acquisition and resettlement implementation and construction of the project. Duration of the assignment implementation is 27 months, starting from the fourth quarter of 2015 until the end of 2018.

#### **E. Reporting Requirements**

13. The EMO shall prepare semi-annual reports and a post-resettlement and environment evaluation report to submit to the executing agency for review before submitted by the executing agency to ADB for review and uploading on the ADB website. The EMO is also expected to prepare and submit to the executing agency the following deliverables: (i) inception report and work plan, (ii) baseline survey report, (iii) quarterly monitoring reports, (iv) impact assessment reports, and (v) final/evaluation report.

14. The EMO shall submit the deliverables in English and Myanmar languages in soft and hard copies along with a cover letter. A set of monitoring reporting guidelines are included in the attachment.

#### **F. Consultant Qualifications and Team Composition**

15. Prior experience in conducting land acquisition and resettlement and EMP external monitoring for development projects, including ADB-funded projects and familiarity with SPS and relevant laws, regulations, and guidelines is an advantage.

16. A professional team consisting of competent experts to implement the assignment includes two key experts:

- (i) Social safeguard specialist / Team leader (international, intermittent, 5 person-months): a bachelor degree in social science, economics or related fields with preferably 10 years of relevant experience. The consultant will be mainly responsible for the tasks related with land acquisition and resettlement and overall report preparation; and

- (ii) Environment safeguard specialist (national, intermittent, 8 person-months): a master's degree in environmental science, environmental management or related fields with preferably 10 years of relevant experience in the waste and water sector. The consultant will be mainly responsible for the tasks related with environment.

## G. Cost Estimates

1. Consultants	
a. Remuneration and per diem	
i. International consultants	125,000
ii. national consultants	40,000
b. International and local travel	10,000
c. Reports and communications	5,000
2. Contingencies	20,000
<b>Total</b>	<b>200,000</b>

\* Taxes and duties will be paid by the government in cash.

### ATTACHMENT: A SET OF MONITORING REPORTING GUIDELINES

The level of detail and comprehensiveness of a monitoring report is commensurate with the complexity and significance of social and environmental impacts. A safeguard monitoring report may include the following elements:

- Background and context of the monitoring report (adequate information on the project, including physical progress of project activities, scope of monitoring report, reporting period, and the monitoring requirements including frequency of submission as agreed upon)
- Changes in project scope and adjusted safeguard measures, if applicable
- Qualitative and quantitative monitoring data
- Monitoring parameters/indicators and methods based on the monitoring plan/program previously agreed upon with ADB
- Monitoring results compared against previously established benchmarks and compliance status (e.g., compensation rates and timeliness of payments, adequacy and timeliness of IR rehabilitation measures including serviced housing sites, house reconstruction, livelihood support measures, and training; budget for implementing RP, timeliness and adequacy of capacity building, etc.)
- Monitoring results compared against the objectives of safeguards or desired outcomes documented (e.g. impacts of involuntary resettlement avoided or minimized, livelihood restored or enhanced, etc.)
- If noncompliance or any major gaps identified, include a corrective action plan
- Records on disclosure of monitoring information to affected communities
- Identification of key issues, or complaints from affected people, or recommendations for improvement
- Monitoring adjustment measures recommended based on monitoring experience and trends, and stakeholders response
- Information about actual institutional arrangement for implementing the monitoring program/plan provided or adjusted, as may be required
- Proposed items of focus for the next report and due date

## **TERMS OF REFERENCE FOR CONSULTANTS**

### **VI. EXTERNAL FINANCIAL AUDIT SERVICES (AUDITOR) OF ANNUAL PROJECT FINANCIAL STATEMENTS (APFS)**

#### **A. Background of the Project**

1. Please refer to Annex 1 (attached to this TOR), the following information:
  - a. The background of project
  - b. Project Description
  - c. The Executing- and the Implementing Agencies (EA/IAs)

#### **B. Accounting and Financial Management**

2. If the project has a financial management manual, mention it here, please include as Annex 2, attached to this TOR for the content of the Financial Management Manual.

#### **C. Objective**

3. The objective of audit assignment is to ensure that ADB, on an annual basis, is provided with the following reliable, comprehensive, and timely information: (i) Audited Project Financial Statements (APFS); (ii) Specific additional audit opinions; and (iii). Management Letter. ADB requires these documents to be provided in English.

#### **D. Scope of Work**

##### **D.1. APFSs: Financial Statement to be audited**

4. The EAs/IAs are responsible for preparation and consolidation of APFSs. The Auditor is to express an opinion on the accompanying statements based on the audit. The accounting standard adopted should be specified in the annual audited financial statements. The content of the financial statements is expected to include, as a minimum (refer to: Annex 4-part B, attached to this TOR for a sample list of requested document.):
  - a. A Summary of all sources of funds, as well as expenditures against a classification system that is responsive to the project's objectives both for the current fiscal year and cumulative to date, showing ADB funds and counterpart fund and funding from other sources separately;
  - b. A Summary of Expenditures shown under the main project components and by main categories of expenditures, both for the current fiscal year and accumulated to date;
  - c. A Balance Sheet showing Accumulated Funds of the Project, bank balances, other assets of the project, and liabilities, if any;
  - d. Supporting schedules to the financial statements which at least include: (i) a reconciliation of the amounts shown as "received by the project from the ADB" with those shown as being disbursed by ADB; and (ii) Statement of Expenditures (SOE) procedure (if applicable) listing individual SOE withdrawal applications by specific reference number and amount.
5. In addition to the audit of the project financial statements, the Auditor is required to audit all SOEs as the basis for the submission of the Withdrawal Applications to ADB. The Auditor

should apply such tests and controls as the Auditor considers necessary under the circumstances. These expenditures should be carefully compared for project eligibility with the relevant loan agreement for guidance when considered necessary. Where ineligible expenditures are identified as having been included in Withdrawal Applications and reimbursed against, these should be separately noted by the Auditor. A note to the Project Financial Statements should be a schedule listing individual SOE withdrawal applications by specific reference number and amount. The total withdrawals under the SOE procedure should be part of the overall reconciliation of ADB disbursements described above.

6. The Auditor must form an opinion as to the degree of compliance with ADB's procedures and the balance of the EAs at year-end. The audit should examine the eligibility and correctness of financial transactions during the period under review and fund balances at the end of such a period, the operation and use of the IAs in accordance with the financing agreement, and the adequacy of internal controls for this type of disbursement mechanism.

7. The Accounting Policies adopted and Explanatory notes. A Management Assertion that ADB funds have been expended in accordance with the intended purposes. Request for form of Annual Project Financial Statements (extracted from PAI 5.07 revised on Jun.2012) including, but not limited to:

- a. Annual project financial statements should normally be presented in the local currency, with the basis for conversion of any foreign exchange transactions or commitments explicitly stated.
- b. The annual project financial statements should be presented in the English language and should reflect the operations supported by ADB financing, including ADB-administered funds.
- c. The project expenditures should be presented following the expenditure categories contained in the legal agreement and/or the PAM, and revisions thereto.
- d. The annual project financial statements should include comparative figures for the preceding reporting year and cumulative figures from the loan effectiveness date to the end of the current reporting year. For projects that receive funding from other sources, the annual project financial statements should include all sources of funds (both ADB-provided and otherwise).
- e. The accompanying Notes to Financial Statements should provide sufficient explanation and information on the financials in narrative form or appropriate supporting schedules, including description of key financial reporting policies.
- f. For projects where separate and distinct components are being administered by the EA and/or several implementing agencies (IAs) each agency should prepare separate project financial statements reporting on the funds they are administering.
- g. Financial statements should be prepared in accordance with accrual based financial reporting standards.
- h. The agreed financial reporting and auditing arrangements will be set forth in the legal agreement and detailed in the PAM.

## **D.2. Specific additional audit opinions**

8. The auditors are engaged to provide an independent and objective opinion on whether the financial statements present a true and fair view, in all material respects, in accordance with the applicable financial reporting framework. The auditors should also form an opinion from the audit evidence obtained, and clearly express that opinion through a written report. The auditor's opinion is necessary to establish the credibility of the project financial statements. The objective

of the audit of the annual project financial statements (APFS) is to enable the auditor to provide opinion(s) covering:

- a. Use of loan proceeds - to confirm whether the borrower or EA has utilized all proceeds of ADB's loan only for purposes of the project;
- b. Compliance with financial covenants: (Please refer to: Annex 3 attached to this TOR, where applicable) - to confirm or otherwise, that the borrower or EA was in compliance with the financial covenants of the loan agreement.
- c. Compliance with the Statement of Expenditure (SOE) procedures (where applicable) - to confirm or otherwise, whether adequate supporting documentation has been maintained to support claims to ADB for reimbursement of expenditures incurred and that the expenditures are eligible for financing under the loan agreement.

### **D.3. Management Letter**

9. ADB requires the EA/IAs to provide a copy to provide a copy of the auditor's Management Letter, together with the APFS/AFS. At the minimum, this should include:

- a. a general overview of the internal control systems of the project and the EA, or an opinion on the management systems;
- b. an identification of material deficiencies or weaknesses in the project or EA/IAs' internal controls over financial reporting or on the overall system of internal control;
- c. the auditor's recommendations for improvements or for rectification of identified weaknesses;
- d. the client's comments on the findings and recommendations; and
- e. follow-up action/s or status to previously identified issues and findings, if any.

10. In cases where a management letter is not received for the entity as a whole, then a management letter covering internal controls and procedures associated with the preparation of the project financial statements is required and should be submitted together with the APFS. When significant weaknesses come to attention of the auditor during the course of audit that are not reflected in the audit opinion, they should be reported in a management letter as follows;

- a. A description of specific internal control weaknesses noted in the financial management and recommendations to resolve/eliminate the internal control weaknesses;
- b. Inappropriate accounting policies and practices and effectiveness of the accounting records system in providing useful and timely information for proper management of the program/and project;
- c. Issues regarding general compliance with broad covenants on each financing agreement and give comments, if any, on internal and external matters affecting such compliance;
- d. Report significant matters raised in previous reports which have not been dealt with effectively
- e. Any other matters that the auditor considers should be brought to the attention of the borrower.
- f. A time bound actions plan that have been agreed with the management to address each of the individual issue, including date of completion, and person(s) responsible for implementation of the action plan.

### **E. Locations to be audited**

11. The project includes Union level, State level, and Township level. The auditors may have to travel to all lower levels to do the audit. If it is the case, the TOR should specify the provinces where Auditors must visit.

**F. Phasing of the Audit**

12. The TORs must specify in the following table when the report will be submitted in draft and in final format:

**Month of fiscal year (FY) and report submission**

Period	FY start	FY End	Report Submission	Remarks
1				
2				

13. Although the auditing firm will be contracted for the mentioned audit phases (maximum three years per contract), it must submit the financial proposal in US\$ in a format indicating the amount for each financial year independently: (i) If performance is not satisfactory in one year then the client will not be bound for subsequent year’s audits; and (ii) If the performance is satisfactory, the auditor may participate in bidding process for the next fiscal years, but the total assignment should be up to 6 years for one project.

**G. Auditing Requirements**

14. The audit will be carried out in accordance with International Standards of Auditing including:

- a. planning and conducting the audit in accordance with a risk based framework with a detailed audit work program which is sufficiently extensive in its coverage of the project’s FS to support the opinion given.
- b. the auditor will gather evidence and prepare working papers to properly documents the evidence seen in support of the opinion given, sufficient audit evidence will be gathered to substantiate in all material respects the accuracy of the information contained in supporting schedules attached to the FS.
- c. the auditor will review and evaluate the system of internal controls in effect, including internal audit procedures, to determine the degree of reliance that may be placed upon them and to determine the extent of testing of actual transactions needed to assure the auditor of the accuracy of the accounting records,
- d. the audit coverage will consider the risk of material misstatement(s) as a result of fraud or error. The audit program should include procedures that are designed to provide reasonable assurance that material misstatements (if any) are detected.
- e. the auditor must obtain an understanding of the design and operation of internal control over compliance with requirements that could have a direct and material financial effect on the funding agreements. The auditor’s work in this area is in addition to the consideration of internal control over financial reporting that is part of the FS audit. Specifically, the auditor must obtain an understanding of the internal control over compliance that is sufficient to plan the audit to support a low assessment level of control risk for donor program. The auditor needs to test the internal control unless the internal control is likely to be ineffective in preventing or detecting noncompliance.

15. The auditor will need also to review the following:
- a. ADB financing (and expand to all external financing where ADB is not the only financier) shall be used in accordance with the conditions of the relevant financing agreement, with due attention to economy and efficiency, and only for the purposes for which the financing was provided, as detailed in the supporting documents
  - b. Counterpart funds shall be provided and used in accordance with the relevant loan agreements, with due attention to economy and efficiency, and only for the purposes for which they were provided;
  - c. Goods, works and services financed shall be procured in accordance with the relevant financing agreements including specific provisions of the ADB Procurement Policies and Procedures and relevant laws of Borrower. However, in case there are conflicts between ADB policies and procedures with Borrower's relevant laws, ADB policies and procedures will prevail. Fixed assets procured by all financiers shall be reviewed;
  - d. The expenditures submitted to ADB shall be eligible for financing and all necessary supporting documents, records, and accounts in support of credit withdrawals have been adequately maintained with clear linkages between the books of account and reports presented to ADB;
  - e. Funds disbursed through SOEs shall be utilized for the purposed defined in the funding agreements. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed against, these should be separately noted by the auditor.

#### **H. Accounting Policies and Changes**

16. The auditor should comment on the project's accounting policies, and confirm the extent to which the agreed project accounting policies have been applied. In particular, the auditor should note the impact on the APFS arising from any material deviations from the agreed accounting standards. The auditor should also comment on any accounting policy changes, either during a financial year, or from one year to another.

#### **I. Compliance with laws, regulations and funding agreements**

17. The auditor should be aware of the unique characteristics of the compliance auditing environment. Governments and not-for-profit organizations differ from commercial enterprises in that they may be subject to diverse compliance requirements including its compliance with financial covenants and financial assurances.

18. Management is responsible for ensuring compliance with relevant laws, regulation and funding agreements. That responsibility encompasses the identification of applicable laws, regulations and funding agreements and the establishment of internal control designed to provide reasonable assurance that the auditee complies with those laws, regulations and funding agreements.

19. In addition to the opinion on the FSs, the auditor should provide an opinion on whether the auditee complied with laws, regulations and provision of contracts and funding agreements that have a direct and material financial effect on the project financial statements. The auditor should prepare a report with separate schedule of findings and questioned costs. The scope of the audit should also refer to compliance with the Procurement procedures as set out in the funding agreements.

## **J. Responsibility to Consider Fraud in an Audit**

20. The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and with management. It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. It is the responsibility of those charged with governance of the entity to ensure, through oversight of management, that the entity establishes and maintains internal control to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws, regulations and funding agreements. To do that, management is responsible for establishing a control environment and maintains policies and procedures to assist in achieving the objectives of ensuring the orderly and efficient conduct of the entity's operation.

21. Therefore, in order to ensure that those assertions are addressed in the audit of the entity, it is important that auditors must follow International Standards of Auditing (ISA 240) "The Auditor's Responsibility to consider Fraud in an Audit of Financial Statements.

## **K. Audit Report**

22. The auditor should become familiar with the following documents: Guideline for the financial governance and management of investment projects financed by the Asian Development Bank; and the Loan Disbursement Handbook. The Auditor's reports on the projects financial statements should be prepared in 8 copies (4 in English and 4 in Myanmar language) and mentions the following matters:

- a. A title identifying the person or persons to whom the report is addressed;
- b. An introductory paragraph identifying the financial statements audited;
- c. Separate sections, appropriately headed dealing with respective responsibilities of directors (or equivalent persons),
- d. The basis of the Auditor's opinion,
- e. The Auditor's opinion on the financial statements, SOEs and IAs/SAs;
- f. The manuscript or printed signature of the Auditor; and
- g. The date of the Auditor's report.

23. The audit report is required to include separate audit opinions on the Financial Statements (as described in part D. the Scope). This would include at least the following:

- a. the audit report will state the purpose of the report and its intended use,
- b. the audit report will state which/whose generally accepted accounting standards have been applied and indicate the effect of any deviations from those standards,
- c. the audit report will state that the audit was conducted in accordance with ISAs,
- d. the audit opinion will cover the current period,
- e. the audit opinion will state whether or not the financial statements presents fairly in accordance with the adopted accounting policies for the project and that the funds were utilized for the purposes defined by the funding agreements,
- f. the audit opinion will cover in all material respects the supporting schedules,
- g. the auditor should provide an opinion on whether the Project complied with applicable laws, regulations and the Procurement procedures and other provisions of the funding

agreements that have a direct and material financial effect on the Project's financial report,

- h. the auditor should provide an opinion on the effectiveness of internal control over compliance with requirements that could have a direct and material financial effect on the financial statements as well as internal control over financial reporting.

#### **L. Available Information and Services to be Provided to the Auditor**

24. Please refer to: Annex 4 attached to this TOR for a sample list of requested documents by Auditor. These include:

- a. The auditor should have access to all legal documents, correspondences, and any other information associated with the project and deemed necessary by the auditor. The auditor will also obtain confirmation of amounts disbursed and outstanding at ADB. Available information should include copies of the relevant: project appraisal document; financing agreement; financial management assessment reports; supervision mission reports and implementation status reports.
- b. The Auditor shall have the right of access to banks and depositories, consultants, contractors and other persons or firms engaged by the project. In case access has been restricted, the auditor must note this in the management letter.
- c. ADB can request access to the auditors unedited audit working papers. If necessary, the auditing company can be requested, free of charge, to participate in a wrap-up session for the Ministry of Planning and Finance (MOPF), the EA/IAs and ADB to share common findings across projects being audited and provide recommendations for addressing bottlenecks in preparation for the next audit.

#### **M. Services to be Provided to the Auditor:**

25. The following services will be provided by the EA/IAs without cost to the Auditor. The PCU should coordinate with the EA/IAs and the Auditor to ensure the following services are adequately and timely provided to the Auditor:

- a. Data: Provide the Auditor with access to all available data, information, legal documents, correspondence and any other information considered necessary by the Auditor and shall be returned at the completion of the assignment or earlier, or as may be requested by the EA/IAs.
- b. Access: The PCU and the EA will arrange for access by the Auditor to the sites which the Auditor deems necessary to visit and conduct investigations in connection with performing their duties. Access to the key officials in the Government, the project provinces and agencies concerned with subjects related to the assignment will also be arranged by the EA/IAs, as appropriate.

#### **N. Auditor Qualification**

26. Please refer to: "Guidelines on the Use of Consultants by Asian Development Bank and Its Borrowers" - Part 1: Introduction and Policies for further instruction on general consultant qualification. The detailed requirements on the qualification of auditing company are:

- a. Be a legal entity with business license granted by the competent authority, as requested by Myanmar law;

- b. Must be impartial and independent from all aspects of management or financial interests in the EA/IA being audited.
- c. Be included in the most updated list of authorized auditing companies and auditors which is approved by Ministry of Planning and Finance;
- d. Have adequate staff, with appropriate professional qualifications and suitable experience in finance/financial management in Official Development Assistance (ODA) funded projects or Government projects/ programs, including experience in auditing the Enterprise Financial system (EFS) comparable in nature, size and complexity to the entity whose audit they are to undertake;
- e. Notify and get written endorsement of the EA every time a staff member is substituted; and
- f. Subcontracting of audit services is not permitted.

27. The following are the requirements on the qualification of Individual auditor for each proposed position in the firm. The TOR must indicate clearly how many international and national experts the assignment will include. General requirements on the Qualification of Individuals are as follows: Auditors shall hold relevant professional qualifications with in-depth experience in conducting audits of project FSs. Auditors should hold a fair opinion on, and be independent of, control of the submitting entity and the employer by whom they were appointed. The auditor should follow procedures and methodology that conform to International Standards on Auditing (ISA). The following are the outline TOR of each position:

**N.1. Audit Managers (AM): (one national, eight person-months)**

28. The Manager will be responsible for:

- a. Receive the instructional directives from Directors and give detailed guidance to all team members;
- b. Monitor the audit fieldwork of engagement team, reviews staff work and ensure that it meet professional standards and the internal audit department's guidelines;
- c. Take responsibility for the quality of the audit before submitting to Director;
- d. To be the contact point with Client's Management and Chief Accountant regarding key issues identified, audit adjustments; and
- e. Monitor the progress of the audit and monitor the adherence to the deadline committed with Client.

29. The Manager should have the following minimum qualifications and experience:

- a. A university graduate (preferably with a post-graduate degree) in Accounting, finance, Certified auditor certificate by the MOPF or international certificate (ACCA or other recognized international accounting/ auditing certificate),
- b. Preferably with 10 years or above experience working in auditing services; Audit seniors who are the team leader shall have 5 years' experience in their profession;
- c. Audit experience for ADB/World Bank funded projects in Myanmar would be an advantage;
- d. Ability to work within budgetary and time constraints while providing a high-level of client satisfaction;
- e. Certified auditor certificate by the MOPF or international certificate (ACCA or other recognized international accounting/ auditing certificate).

**N.2. Auditors: (two national, 24 person-months)**

30. The Auditors will be responsible for:
- a. Implementing professional work, auditing assigned sections in the agencies, be responsible for the data and issues related to the auditing activities.
  - b. Supporting to release the official report; draft minute of audit; report to the Team leader of the rising issues related to the audit in the agencies.
31. The Auditors should have the following minimum qualifications and experience:
- a. A university graduate (preferably in recognized university in the fields of Commerce, Economics, Accounting and Auditing or equivalent);
  - b. Preferably with 3 years or above experience working in auditing services Preferably to whom holding Certified auditor certificate by the MOPF or international certificate (ACCA or other recognized international accounting/ auditing certificate);
  - c. Should have worked as Auditor for audit contracts on ADB's, the World Bank's on other international donors' funded projects would be preferable).
  - d. English proficiency would be preferable.

**O. Involvement of Technical Experts**

32. Depending on the complexity of procurement activities, the auditor may consider involving technical experts during the audit engagement. In cases where such experts are involved, the auditor is expected to comply with provisions of International Standard on Auditing 620: Using the Work of an Expert. Consideration to use of the work of experts should be brought to the early attention of the borrower and the ADB for mutual agreement and appropriate guidance.

**P. Reporting Relationships**

33. The audit services will be contracted by EAs/IAs or project management units. The Auditor shall report to: the Project manager and Chief Accountant. The Auditor should maintain and file the work papers and provide them to ADB and/or the Government when required.

**Q. Cost Estimates**

1. Consultants	
a. Remuneration and per diem	
i. National consultants	168,000
b. International and local travel	6,000
c. Reports and communications	6,000
2. Contingencies	20,000
<b>Total</b>	<b>200,000</b>

\* Taxes and duties will be paid by the government in cash.

# Safeguards Monitoring Report

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# Semiannual Report  
xxx {month} 20xx

Myanmar: xxx {Project name}, xxx {sub-project name, if report covers only one sub-project}

Prepared by the Project Management Office of {complete name of Implementing Agency} for the {complete name of the borrower} and the Asian Development Bank.

**NOTE**

- (i) In this report, "\$" refers to US dollars.

This safeguards monitoring report is a document of the borrower. The views expressed herein do not necessarily represent those of ADB's Board of Directors, Management, or staff, and may be preliminary in nature.

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian

Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

## Executive Summary

*{Read and delete: Provide short summary of the following items:*

- **Summary of EMP/RP Implementation**
- **Description of monitoring activities** carried out (e.g. field visits, environment effect monitoring, survey questionnaire, public consultation meetings, focus group discussions, etc)
- **Key issues**, any **corrective actions** already taken, and any **grievances**
- Key activities planned in the next reporting period
- Recommendations

*Use the paragraph numbering format provided below throughout the report}*

96. xxx

97. xxx

## VII. PROJECT OVERVIEW, GENERAL SAFEGUARD MATTERS

### 1. Project Overview

*{Read and delete: Briefly describe project objectives, scope and components – can be taken from PAM or other relevant document}*

98. xxx

99. xxx

### 2. Project Progress

*{Read and delete: Using most recent project progress report, describe status of project implementation, including full list of contracts, status of contract awarding and implementation, name of contractor, Engineer, Project Supervision Consultant.}*

100. xxx

101. xxx

**Table 1: Project Overview, Snapshot of Project Progress**

<b>Project Number and Title:</b>		
<b>Safeguards Category</b>	Environment	
	Indigenous Peoples	
	Involuntary Resettlement	
<b>Reporting period:</b>		

<b>Last report date:</b>	
<b>Key sub-project activities since last report:</b>	<p><i>{Read and delete: This section should include, among others, the following:}</i></p> <ul style="list-style-type: none"> <li>• Contract awarding</li> <li>• Progress of Work (% physical completion)</li> <li>• Status of Safeguard Approvals / Permits / Consents</li> </ul>
<b>Report prepared by:</b>	

**3. Safeguard Plans Implementation Arrangements**

*{Read and delete: Describe institutional arrangements and responsibilities for EMP and RP implementation, internal and external monitoring, and reporting, defining roles of PMU, Engineer, Implementation Consultant, Contractors. (Table format as needed)}*

- 102. xxx
- 103. xxx

**4. Updated EMPs and RPs, Incorporation of Safeguards Requirements into Project Contractual Arrangements**

*{Read and delete: Define manner by which EMP and RP requirements are incorporated into bidding documents, contracts. Indicate when updated EMPs and RPs were submitted for approval to ADB (Table format appropriate).}*

- 104. xxx
- 105. xxx

**VIII. ENVIRONMENTAL PERFORMANCE MONITORING**

**1. Status of EMP implementation (Mitigation Measures)**

*{Read and delete: Summarize main mitigation/protection measures implemented in the reporting period (narrative section). Structure in accordance to phases (detailed design, construction preparation, construction, and operation).}*

- 106. xxx
- 107. xxx

*{Read and delete: Include EMP table or updated EMP table if applicable. Assess compliance of environmental management activities with the original or updated EMP. For that purpose, include additional columns entitled "Compliance Status", "Comment or Reasons for Non-Compliance", and "Issues for Further Action". Example is provided below.}*

**Table 2: Compliance with EMP Requirements (Environmental Performance)**

<b>EMP Requirements</b>	<b>Compliance Status (Yes, No, Partial)</b>	<b>Comment or Reasons for Non-Compliance</b>	<b>Issues for Further Action</b>
Use environmental impact as main heading and EMP	Use EMP list as basis for rating/evaluating		

as listing (see example below)	compliance (see example below)		
Rise of employment opportunities: <ul style="list-style-type: none"> <li>Job openings of the project should give priority to local communities.</li> <li>Recruitment of local laborers should be stipulated in the contract for construction</li> </ul>	<ul style="list-style-type: none"> <li>Field inspections and interviews with communities - DONE</li> <li>Note each complaint case in the field – 3 COMPLAINTS RECEIVED</li> <li>Set up grievance center and report as part of monitoring action plan – NOT DONE</li> </ul>		

**Table 3: Issues for Further Action**

Issue	Required Action	Responsibility and Timing	Resolution
<b>Old Issues from Previous Reports</b>			
List of EMP measures or activities not completed (last column of previous table)			
<b>New Issues from This Report</b>			

**2. Health and Safety**

*{Read and delete: Provide narrative of occupational and community health and safety issues that occurred during the reporting period. Any accident involving injury or death of workers or community members must be reported. Include investigation report of DOLISA as attachment to the report. Provide details in the Table below}.*

108. xxx

109. xxx

**Table 4: Health and Safety Issues**

Issue	Required Action	Responsibility and Timing	Resolution
<b>Old Issues from Previous Reports</b>			

<b>New Issues from This Report</b>			

### 3. Environment Effect Monitoring

110. **Monitoring plan.** xxx {Read and delete: Present the environment effect monitoring plan as defined in the EMP or the updated monitoring plan. Refer to Table 4. Describe monitoring responsibilities}

111. **Monitoring activities in the reporting period.** Xxx {Read and delete: Describe the environment effect monitoring activities in the reporting period, including number of monitoring campaigns, number of samples, etc. Confirm compliance with the monitoring plan, or justify any deviation from the plan}

**Table 4: Environment Effect Monitoring Results in the Reporting Period**

{Read and delete: Present monitoring result in a Table (see example below, adjust as needed). Any non-compliance should be highlighted for attention and follow-up.}

Location	Parameter	Date	Monitoring value	Relevant government standard, standard value

112. **Assessment.** Xxx {Read and delete: Compare monitoring results with baseline conditions (if baseline data is available) and relevant government standards in qualitative terms. Additional explanatory comments should be provided as necessary. Possible reasons for non-compliance should be identified.}

### IX. INVOLUNTARY RESETTLEMENT PERFORMANCE MONITORING

{Read and delete: Provide narrative of status of implementation of the RP(s), including but not limited to: status of RP or Resettlement Framework updating; number of households relocated during the reporting period; outstanding resettlement activities; etc}.

113. xxx

114. xxx

**Table 6: Summary of Compliance with RP Requirements**

RP Requirements	Compliance status Yes/No/Partial	Comment or Reasons for Compliance, Partial Compliance/Non- Compliance	Issues for Further Action <sup>18</sup>
Establishment of personnel in PMU/PIU		<p><i>{Read and delete: This section should include, among others, the following:}</i></p> <p>Identify position and name of Safeguards/Resettlement staff of the PMU/PIU</p>	
Public consultation and socialization process		<p><i>{Read and delete: This section should include, among others, the following:}</i></p> <p>Provide information on:</p> <ul style="list-style-type: none"> <li>• Public consultation, participation activities carried out</li> <li>• Inclusive dates of these activities</li> </ul> <p>To be elaborated on in Item 5</p>	
Land area to be acquired is identified and finalized		<p><i>{Read and delete: This section should include, among others, the following:}</i></p> <p>Provide information on:</p> <ul style="list-style-type: none"> <li>• Land area (of each parcel to be acquired)</li> <li>• Current land use (residential, agri, etc)</li> <li>• Current ownership status (private, state)</li> </ul> <p>Provide attachments on land titles/user rights certificates,</p>	
Resettlement plan(s) updated after detailed design			
Land acquisition completed			
Establishment of Resettlement Site(s)		<p>Please state:</p> <ul style="list-style-type: none"> <li>• Number of AHs to be relocated as per agreed RP</li> <li>• Number of AHs already relocated</li> <li>• Number of houses built</li> </ul>	

<sup>18</sup> To be elaborated further in table 3.b (Issues for Further Action)

		<ul style="list-style-type: none"> <li>• <i>Status of installation of community facilities to be provided as per agreed RP</i></li> </ul>	
Compensation payments for affected assets is completed		<i>Please state:</i> <ul style="list-style-type: none"> <li>• <i>Total Number of Eligible AHs and APs (as per agreed RP)</i></li> <li>• <i>Number of AHs and APs compensated as of this monitoring period</i></li> <li>• <i>Total Budget allocation as per agreed RP</i></li> <li>• <i>Total budget disbursed to AHs as of this monitoring period</i></li> </ul>	
Transport assistance for relocating affected households		As above	
Additional assistance to vulnerable affected household		<i>Please state:</i> <ul style="list-style-type: none"> <li>• <i>Total Number of vulnerable AHs and APs (as per agreed RP)</i></li> <li>• <i>Agreed forms of assistance as per RP</i></li> <li>• <i>Number of AHs and APs assisted as of this monitoring period</i></li> </ul>	
Income Restoration Program		<i>Please state progress per income restoration feature/activity and actual period of implementation</i>	
Temporary impacts have been addressed (affected properties restored to at least pre-project conditions)		<i>Please state:</i> <ul style="list-style-type: none"> <li>• <i>Total Number of AHs affected by temporary impacts as per agreed RP</i></li> <li>• <i>Actual Number of AHs and total area affected by temporary impacts (if this differs from the projected number, such as in cases of unforeseen project impacts)</i></li> <li>• <i>Status of restoring affected property</i></li> </ul>	
Capacity building activities			

**Table 7: Issues for Further Action**

<b>Issue</b>	<b>Required Action</b>	<b>Responsibility and Timing</b>	<b>Resolution</b>
Old Issues from Previous Reports			
List of RP activities not completed (last column of previous table)			

New Issues from This Report			

## X. COMPLIANCE WITH SAFEGUARDS RELATED PROJECT COVENANTS

*{Read and delete: List all environment and resettlement related loan covenants, and assess project's compliance with the covenants (Table format is appropriate, with concluding statement on compliance, partial compliance or non-compliance, and corrective actions as needed)}*

Schedule	Para No.	Covenant	Remarks/Issues (Status of Compliance)
Schedule 5	xxx		Complied with / Partially complied with / Not complied with. <i>{Identify reason for partial or non-compliance}</i>

## XI. PUBLIC CONSULTATION, INFORMATION DISCLOSURE, CAPABILITY BUILDING

*{Read and delete: Describe public consultation activities during the reporting period. Confirm compliance with consultation plan defined in the IEE/EMP and the RP(s), or justify deviation from these plans. Present planned consultation activities in next reporting period. Use Tables as appropriate.}*

- Field Visits (sites visited, dates, persons met)
- Public Consultations and meetings (Date; time; location; agenda; number of participants disaggregated by sex and ethnic group, not including project staff; Issues raised by participants and how these were addressed by the project team)
- Training (Nature of training, number of participants disaggregated by gender and ethnicity, date, location, etc.)
- Press/Media Releases
- Material development/production (e.g., brochure, leaflet, posters)
- Information disclosure

## XII. GRIEVANCE REDRESS MECHANISM

*{Read and delete: Describe mechanisms established to address and redress public complaints and grievances related to social and environment safeguards. Summarize grievances received, if any, and measures implemented to redress them.}*

- Number of new grievances, if any, since last monitoring period: \_\_\_\_\_
- Number of grievances resolved: \_\_\_\_\_
- Number of outstanding grievances: \_\_\_\_\_

Type of Grievance	Details (Date, person, address, contact details, etc.)	Required Action, Responsibility and Timing	Resolution
<b>Old Issues from Previous Reports</b>			
<b>New Issues from This Report</b>			

### XIII. CONCLUSION

*{Read and delete: Highlight important results from the implementation of EMP and RP monitoring; recommendations to improve EMP and RP management, implementation, and monitoring; key activities planned in next reporting period}.*

115. xxx

116. xxx

### XIV. ATTACHMENTS

- Consents / permits
- Monitoring data (water quality, air quality, etc.)
- Inspection checklists
- Photographs
- Others

## OUTLINE QUARTERLY PROGRESS REPORT FORMAT

### A. Introduction and Basic Data

- ADB loan numbers, project title, borrower, executing agency, implementing agencies
- total estimated project cost and financing plan per loan
- status of project financing including availability of counterpart funds by loan
- dates of approval, signing, and effectiveness of ADB loans
- original and revised (if applicable) ADB loan closing date and elapsed loan period based on original and revised (if applicable) loan closing dates
- date of last ADB review mission

### B. Utilization of Funds (ADB Loan and Counterpart Funds)

- cumulative contract awards financed by the ADB loan, and counterpart funds (commitment of funds to date), and comparison with time-bound projections (targets)
- cumulative disbursements from the ADB loan and counterpart funds (expenditure to date), and comparison with time-bound projections (targets)
- reestimated costs to completion, need for reallocation within ADB loan categories, and whether an overall project cost overrun is likely

### C. Project Outcome and Outputs

- status of project scope/implementation arrangements compared with those in the report and recommendation of the President (RRP), and whether major changes have occurred or will need to be made
- an assessment of the likelihood that the project outcome and outputs will be met in part or in full, and whether remedial measures are required based on the current project scope and implementation arrangements
- an assessment of changes to the key assumptions and risks that affect attainment of the project outcome and outputs

### D. Implementation Progress

- for each loan, provide a brief summary assessment of progress or achievements in implementation since the last progress report
- assessment of the progress of each project output, such as
  - recruitment of consultants and their performance
  - procurement of goods and works (from preparation of detailed designs and bidding documents to contract awards)
  - the performance of suppliers, manufacturers, and contractors for goods and works contracts
- assessment of progress in implementing the overall project to date in comparison with the original implementation schedule—quantifiable and monitorable target, (include simple charts such as bar or milestone to illustrate progress, a chart showing actual versus planned expenditure, S-curve graph showing the relationship between physical and financial performance, and actual progress in comparison with the original schedules
- an assessment of outcome and output achievements versus targets

## **E. Major Project Issues and Problems**

Summarize the major problems and issues affecting or likely to affect implementation progress, compliance with covenants, and achievement of project outcome and outputs. Recommend actions to overcome these problems and issues (e.g., changes in scope, changes in implementation arrangements, and reallocation of loan proceeds).

## **F. Compliance with Safeguards and Covenants**

- review the borrower's compliance with policy loan covenants, and, where relevant, provide any reasons for any noncompliance or delay in compliance
- provide a summary assessment of compliance with resettlement and environmental safeguards
- provide a summary assessment and update on the implementation of the gender action plan (GAP)

## **APPENDIXES**

1. Summary Loan Covenant Review
2. Summary Safeguards Update (Resettlement and Environment)
3. Summary Gender Action Plan Progress
4. Quarterly Environmental Monitoring Report
5. Quarterly Resettlement Monitoring Report

## PROJECT PROCUREMENT RISK ASSESSMENT REPORT

### Executive Summary

#### Overall Assessment

The project is one of the first ADB interventions in the area of urban infrastructure improvement since its re-engagement with Myanmar. In the project will cover the water supply and solid waste sectors with other components to support urban planning and management in the project towns. Project financing is to be provided jointly by the ADB, by co-financiers, and by the Government of Myanmar.

In Myanmar, there is no comprehensive written legal framework for contract procurement in the public sector and as a result, the system has several major weaknesses. These include delays due to protracted approvals mechanisms and a general lack of experience in development partner-funded projects leading to practices that are generally unacceptable to donor agencies.

The procurement assessment has been limited to the level of the two recipient States who are expected to form the project management offices (PMOs) for project implementation.

#### Summary of Weaknesses

Both of the State agencies interviewed reported little in the way of past experience in the procurement of works, goods and professional services contracts – especially with regard to international development partner requirements. Some work has been carried out quite recently under such sponsorship (e.g. JICA) but invariably, the procurement aspects have been handled by appointed consultants. For contracts funded directly by the Union levels of government, procurement methods have been in accordance those prescribed by the relevant Ministry.

Overall, procurement capacity at the State level can be said to be "limited" and in need of significant enhancement through training exercises supported by the provision of modern office equipment.

#### Summary of Potential Mitigation Measures

The P-RAMP concluded that the overall procurement risk would be "high". It is necessary to improve the two States' capacity through training and the introduction of appropriate model documents as well as with regular oversight and assistance provided by the firm to be appointed as PIC during the implementation stages.

Nevertheless there would remain a residual risk of delay in the delivery of the Project due to the present approval mechanisms at the central government level. To mitigate against this the implementation stages of the Project should include provision for reviews of Government procedures and careful integration of them with ADB equivalents. Also the delivery of topical training programs in the area of procurement as a part of other capacity building exercises, would be necessary.

## A. Overview

### ADB Policy

It is an ADB requirement to conduct a procurement risk assessment at the project preparatory stage in order to identify risks and possible means to mitigate them ahead of the implementation stages. The relevant ASDB guidelines<sup>19</sup> state that the intent of procurement risk assessment is:

- (i) To identify risks in country sector, agency or project systems and/or practices that could result in sub-optimal use of ADB resources;
- (ii) To define the severity of the risks;
- (iii) To develop a practical risk management plan with which to address those risks that could adversely impact project implementation and/or achievement of project outcomes.

### National Context

The ADB's "Interim Country Partnership Strategy: Myanmar 2012-2104"<sup>20</sup>, identified a range of perceived governance-related risks and considered Myanmar to rank "**low**" when compared with other countries included in contemporary surveys. The paper emphasized issues in the areas of public financial management, procurement and anti-corruption in particular. In terms of procurement, the public procurement system was said to have... "*several major weaknesses*" due to the fact that it "*does not effectively promote transparency, accountability, and competition in the procurement of goods and services*"... with... "*management capabilities in public procurement*"... also being judged to be weak.

As result of the above assessment, the Country Partnership Strategy text went on to say that... "*it will be important over the longer term to implement procurement reforms to improve transparency and accountability in public procurement, inject competition into the procurement of goods and services, and build institutional capacity and internal audit and control systems within government agencies*".

In Myanmar, there is currently no comprehensive written legal framework for public procurement although the existing rules include:

- Two instructions from the Office of the President in 2011 - one for a change from "closed tender" to "open tender" procedures and another for decentralizing procurement to line Ministries;
- A Tender Directive which was issued by the President's Office in April, 2013 to address issues in processing open tenders;
- A Tender Directive for procurement of civil works that was prepared by the Ministry of Construction and issued by the Office of the President in January, 2014.

While individual Ministries and/or local authorities are largely responsible for formulating and following their own procurement policies and guidelines, there is a document describing the consensus reached between representatives of the Ministry of Construction<sup>21</sup> (the lead Ministry for public procurement) and other ministries on procedural needs.

In addition, there is a working committee established at the level of the Myanmar Engineering Society which is responsible for proposing "best practice" approaches.

In fact, there are presently numerous public procurement practices that are contrary to the ADB's own policies and as such, they cannot be allowed to apply in this Project. These include the establishment

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<sup>19</sup> Guide on Assessing Procurement Risks and Determining Project Procurement Classification, August 2014.

<sup>20</sup>Interim Country Partnership Strategy: Myanmar, 2012–2014: Risk Assessment and Risk Management Plan.

<sup>21</sup>Guidelines for Implementing Construction Work under Contract Systems (Naypyidaw, 12.11.13).

of minimum and maximum cost estimates below and above which, tenders can be rejected, restrictions placed on foreign competition, limitations on the level of consultants fees payable, etc.).

As a result there are currently few if any, procedures that could be regarded as “best practice” in the area of public procurement of contract. In this respect, there is therefore no option other than to require the use of the ADB’s standard bidding documents and the procedures described within them - for both International and National Competitive Bidding.

#### Project Risk Assessment procedure<sup>22</sup>

The project procurement risk assessment aims to determine the overall procurement capability at the level of the Executing Agency (EA) and Implementing Agencies (IAs) and assess their capacity in undertaking contract procurement duties for the future Project. In areas found to be deficient, the assessment will also help define the level of necessary review and supervision processes (including thresholds) for application during project implementation.

The current assessment was conducted through the use of the standard ADB questionnaire (Appendix 3) focused upon:

- i. Present organizational and staff capacity;
- ii. Information management processes adopted;
- iii. Procurement practices already in place;
- iv. Accountability.

The following agencies were identified in the ToR<sup>23</sup> to be the EA and IAs respectively:

- Department of Urban and Housing Development (DUHD) of the Ministry of Construction at the Union level;
- Mon State Governments (MSG) and Kayin State Government (KSG), separately.

#### i. Organizational and Staff Capacity

The organizational and staff capacity is considered to be “**weak**” as presently there are no formal and permanently instituted procurement units within either of the two State governments. A Procurement Committee is established on an as-and-when needed basis with the selection of procurement committee members based not on their qualifications and experience in public procurement, but more on their position and involvement in the project.

As a result of the non-permanency of procurement staff, there is a lack of continuity in the performance of the procurement tasks preventing staff from becoming fully proficient in procurement activities. A lack of regular training sessions and peer reviews further detracts from staff capabilities and inhibits the opportunity for them to acquire the necessary procurement skills.

English language proficiency is another weakness noted amongst the members of staff. However, bi-lingual proficiency does not seem to have been a major impediment in the past as national procurement is usually carried out in the national language while on foreign-funded projects, staff is invariably supported by international consultants.

#### ii. Information Management

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<sup>22</sup> Guide on Assessing Procurement Risks and Determining Project Procurement Classification-ADB, August 2014.

<sup>23</sup>Terms of Reference for Consultants, Clause 9 – Indicative Implementation Arrangements.

Another area of weakness is in the area of information management systems. The two States presently have no de-centralized procurement information management systems and document recording and referencing systems are invariably set up on a project-by-project basis.

Data storage is reportedly not computerized and no web-based systems are in place for transmission or retrieval of details.

iii. Procurement Practices

The States' procurement committees and staff have some in the procurement of Goods and Works contracts but little or no experience in procuring Professional Services. There are no processes in place locally for the collection and clearance of cargo and no established procedures for receiving imported goods. This is likely to be the result of the recruitment/hiring of consultancy services normally being executed above the State government level.

iv. Effectiveness

Contractual performance is monitored on a project-by-project basis by the department concerned but often, with no comprehensive records or reports formally recorded. The two Ministries of Finance however, do monitor contractual payment obligations and keep financial records.

v. Accountability Measures

The current Procurement Decree, its IRR and the Procurement Manual have clauses on procurement accountability measures for committee members to follow. It identifies sanctions to be brought in for any breach of the provisions of the Procurement Decree. Most of the sanctions involve court proceedings and disciplinary measures provided under the civil service law and are usually based on the severity of the activities completed. However, current procurement staff do not have any experience in handling complaints and hence, a more definitive mechanism needs to be put in place.

vi. E-Procurement

Representatives of the States to form the future IA's were also asked to outline their readiness to conduct e-procurement from which it was concluded that they are not yet ready to establish e-procurement procedures. This is blamed in part on funding allocations which essentially prevent the acquisition of the necessary equipment and staff training.

The States have set-up websites containing Procurement Notices (i.e. invitations for bids and notices of contract awards) but these are not being fully maintained for the above reasons. The Ministry of Construction does have a website for procurement notices where invitations for bids are presented but no other procurement details (e.g. contract award notices and contractors/suppliers registration lists) have been included to date. Overall, DUHD and the two State agencies are not capable of appropriately handling e-procurement at this time.

vii. Contractor's Capacity

Although Contractors may not have extensive experience in bidding under donor-funded projects, these can be addressed by means of training in ADB procurement and tendering procedures. In this way, more open and fair competition in contract bidding should be achievable.

**Table 1: Project Procurement Risk Analysis<sup>24</sup>**

Questionnaire Ref. No.	Risk	Impact	Likelihood	Strategy
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<sup>24</sup> Based on Appendix 11 of the ADB's August, 2014 Guide.

A6, A7, A9, A16, A17, A23, C1, C2, C14, C22, C23	Procurement unit at the PMOs yet to be established.  Insufficient qualified staff available to efficiently undertake the procurements required for project implementation.	High	Likely	Establish a procurement unit in the PMOs.  Provide training in the application of ADB procurement rules with reference to national procurement law.  Require English language proficiency for staff involved in procurement and/or provide training.
A19-A20	The States use practices inconsistent with national procurement law or bidding documents unsuitable for ADB-funded procurement.	Average	Likely	Ensure that the project uses ADB Standard Bidding Documents and follows ADB Procurement Guidelines.
B2-B3	Record-keeping is inadequate to enable external audit of procurement processes.	High	Likely	Provide basic facilities to the PMOs including secure office premises, office, office furniture and equipment to enable them to handle procurement documentation.  Install IT systems and provide relevant training and other support.
A25, C4-C12, C24-C44, C47, D5, E7	The States do not promote non-discriminatory participation, transparent tender processes (including advertisement, tender documentation, bid evaluation, complaints mechanism).	Average	Likely	Introduce "post-qualification" for some contracts to attract more bidders in lieu of "pre-qualification" mandated by the present legislation.  Establish a complaints mechanism.
C15, E1-E6	The States have inadequate ethics and anticorruption measures in place.	Average	Likely	Require submission of a "Declaration on Ethical Conduct and Fraud and Corruption" by appointed procurement committee members.  Include a "Statement on Ethical Conduct and Fraud and Corruption of Bidders" in released bid documents; Establish a complaints mechanism.

## B. Strengths

The EA will be the DUHD at the Union level while the IAs will be the KSG and MSG. A PMO will be established under under the KSG and MSG. It is to be noted that staff at local levels in both States do have some experience of works contract and goods procurement under previous Union and limited donor-financed projects. This can be considered to be a firm basis on which capacity can be improved under the project implementation stage.

## C. Weaknesses

While the project will benefit from some past experience in procurement at the State level, present staff members do not have recent experience in consultant services procurement nor in ADB-administered projects at all, due to a lack of recent ADB sectoral engagement in Myanmar. These deficiencies will need to be addressed in the implementation stages of the contemplated Project through a combination of expert guidance and relevant training sessions. The weaknesses including a poor level of general managerial capacity, exacerbated by small staff complements, a lack of modern office equipment, and a generally level of English-language fluency lead to a general lack of efficiency and transparency in the selection process. The assessment of the project procurement risk within the two recipient States shows that there are still gaps and deficiencies in several areas.

#### D. Procurement Risk Assessment & Management Plan (P-RAMP)<sup>25</sup>

After the assessment based on the completed questionnaires and the related round table discussions held at the State level, a Procurement Risk Assessment and Management Plan (P-RAMP) has been prepared as shown in Table 2.

**Table 2: Project Procurement Risk Assessment and Management Plan**

<b>Risk Description</b>	<b>Risk Assessment</b>	<b>Mitigation Measures or Risk Management Plan</b>
Procurement staff at the State level have insufficient qualified staff to efficiently undertake the procurements required to implement the Project.	H	Establish a procurement unit within the PMO prior to loan effectiveness. Provide procedural training to staff during the implementation stages. Develop specific procurement manuals for the anticipated ADB projects. Provide office equipment to procurement units.
The Agencies presently adopt practices inconsistent with or bidding documents unsuitable for ADB-funded procurement.	H	Enforce the use of ADB Guidelines and documentation for all procurement activities. Require the project implementation support consultant to develop model contract documents and provide training in their application and use.
Record-keeping is inadequate to enable internal or external audit of procurement processes.	H	Institute computerized record storage systems within the State agencies and provided training in their application and upkeep.

Overall with the proposed mitigation measures in place the rating can be considered to be **"high"** in both States.

#### E. Conclusion

The overall procurement capacity at the State level is considered to be **"weak"** due mainly to a lack of experience in donor-funded projects and the present use of national procurement processes - that lack transparency, a degree of local autonomy and that often require lengthy approval processes. Based on the above assessments and findings, the following are the actions recommended for consideration and later implementation by the PMOs during the project implementation.

1. Establishment of procurement units in the PMOs to act as a secretariat to a procurement committee to be instituted within each IA. These units would have an administrative function and assist the committee in all procurement undertakings and would also serve as the permanent depositories of all procurement related documentation. The unit should have staff with experience of and sufficient understanding of relevant bidding procedures, with the use of formal recording/filing systems and in organizing/coordinating meetings. The basic function of the PMOs would then include duties relating to:
  - i. the provision of general administrative support to the procurement committee;
  - ii. the organization of formal meetings of the procurement committee and preparation of minutes of meetings;
  - iii. acting as the custodian of all procurement documents and other related records;

<sup>25</sup> Based on Appendix 7 of the ADB's August, 2014 Guide

- iv. the sale and distribution of bidding documents to prospective tenderers;
  - v. monitoring of procurement activities against fixed milestones and formal reporting to all concerned agencies within the State and Union governments;
  - vi. acting as the main channel of communications related to procurement issues; and
  - vii. the management of funds generated from the sale of bidding documents and ensuring that they are only to be used on procurement-related activities.
2. Dedication of facilities and equipment for use by the PMOs when established. Facilities to include separate and secure office space with at least:
- 3.
- i. modern office furniture;
  - ii. computers and printers;
  - iii. photocopying / scanning machines;
  - iv. book shelves, filing cabinets etc.; and
  - v. internet connection[s] and telephone/fax services as required.

Conduct initial and ongoing training for dedicated PMO staff on procurement procedures. This in order to advance, professionalize and sustain the abilities of the staff of each unit. Specific training on multilateral donor's procurement guidelines vis-a-vis the government's Procurement Decree is the perhaps the foremost training need. Arrange training sessions and participatory workshops on procedural matters for the appointed staff on:

- i. bid evaluations;
  - ii. negotiations and awards;
  - iii. selection/recruitment of consultants to provide professional services; and
  - iv. complaints and dispute resolution processes.
4. Conduct training/orientation workshops for private Contractors. Issues to include:
- i. facets of the ADB [and other donors] procurement guidelines;
  - ii. integration of the above with the Government's own rules on procurement;
  - iii. general advice to firms on tender preparation and related management techniques; and
  - iv. issues relating to claims and dispute resolution.
5. Establish complaint mechanisms with instructions on procedures and subsequent actions needed to underscore the integrity of the public procurement process.
6. Formalize ethical conduct practices - these to include requirements for declarations from procurement committee members and the inclusion of clauses on fraud and corruption of bidders in all tender documents.

**APPENDIX 1 – PROJECT CLASSIFICATION<sup>26</sup>  
[PPTA STAGE]**

Characteristic	Assessor's Comments and findings summary
Is the Procurement Environment Risk for this project assessed as "High" based on the country and sector/agency risk assessments?	Yes No significant experience with donor-funded process applications.
Are multiple (typically more than three) and/or diverse Executing (EAs) and/or Implementing Agencies (IAs) envisaged during project implementation? Do EAs/IAs lack prior experience in ADB project implementation?	Yes States are to be involved separately. No significant experience with donor-funded process applications.
Are multiple contract packages and/or complex and high value contracts expected (compare to recent donor projects in DMC)?	Yes Work and Goods contracts will be required in the two States.
Does the project plan to use innovative contracts (PPP, Performance-based, Design & Build, O&M, etc.)?	No
Are contracts distributed in more than three geographical locations?	No
Are there significant ongoing contractual and/or procurement issues under ADB (or other donor) funded projects? Has miss-procurement been declared in the DMC?	No
Does the DMC have prolonged procurement lead times, experience implementation delays, or otherwise consistently fail to meet procurement timeframes?	Yes Approvals processes often become protracted.
Do EAs/IAs lack capacity to manage new and ongoing procurement? Have EAs/IAs requested ADB for procurement support under previous projects?	No
<b>OVERALL PROJECT CATEGORIZATION RECOMMENDED</b>	<b>Category "A"</b>

**Overall recommendation of the concerned project officer**

n/a
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**Recommendation of OSFMD's procurement specialist**

n/a
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<sup>26</sup> Based on Table 1 of the ADB's August, 2014 Guide4.

**APPENDIX 2 – PROJECT PROCUREMENT RISK ANALYSIS<sup>27</sup>**  
**[PPTA STAGE]**

<b>SL No</b>	<b>Risk</b>	<b>Impact</b>	<b>Likelihood</b>	<b>Strategy</b>
A6, A7, A9, A16, A17, A23, C1, C2, C14, C22, C23	Procurement staff at the State Government levels have insufficient qualified staff to efficiently undertake the procurements required to implement the Project.	High	Likely	Establish a procurement unit in MSG and KSG and provide both training and office equipment. Develop specific procurement manuals that comply with ADB procedures.
A19 – A20	Staff use methods that comply with national law but use bidding documents and methods unsuitable for ADB-funded procurement.	High	Likely	Mandate the use of ADB regulations, procedures & documentation for procurement needs.
B2 –B3	Record-keeping is inadequate to enable internal or external audit of procurement processes.	High	Likely	Introduce computerized record keeping methods and archives within each Agency. Train staff in record keeping and auditing procedures.
A25, C4 - C12, C24- C44, C47, D5, E7	No use of non-discriminatory participation or transparency in tendering (i.e. methods of advertising, use of standard forms of bid documentation, tender evaluation, complaints redress etc.,)	High		Mandate the use of ADB regulations, procedures & documentation for procurement needs.
C15, E1 – E.6	The agencies have inadequate ethics and anti-corruption measures in place.	High		As above

<sup>27</sup> Based on Appendix 11 of the ADB's August, 2014 Guide.

**APPENDIX 3A - PROJECT PROCUREMENT RISK ASSESSMENT QUESTIONNAIRE [MON STATE]**

QUESTION	RESPONSE	RISK <sup>28</sup>
<b>A. ORGANIZATIONAL AND STAFF CAPACITY</b>		
<b>PROCUREMENT DEPARTMENT/UNIT</b>		
A.1 Does the agency or Government have a Procurement Committee that is independent from the head of the agency?	For each procurement activity, the agency sets up a committee that is usually chaired by a ranking member of the agency. In the case of recent JICA work this was done through the DRD	
A.2 Does the agency have a procurement department/unit, including a permanent office that performs the function of a Secretariat of the Procurement Committee?	No	
A.3 If yes, what type of procurement does it undertake?	n/a	
A.4 How many years' experience does the head of the procurement department/unit have in a direct procurement role?	n/a	
A.5 How many staff in the procurement department/unit are: i. full time ii. part time iii. seconded	n/a	
A.6 Do the procurement staff have a high level of English language proficiency (verbal and written)?	Yes but only at upper and mid-levels	*
A.7 Are the number and qualifications of the staff sufficient to undertake the additional procurement that will be required under the proposed project?	No	*
A.8 Does the unit have adequate facilities, such as PCs, internet connection, photocopy facilities, printers etc. to undertake the planned procurement?	No	
A.9 Does the agency have, or have ready access to, a procurement training program?	Nothing formal in place	*
A.10 At what level does the department/unit report (to the head of agency, deputy etc.)?	PMU	
A.11 Do the procurement positions in the agency have job descriptions, which outline specific roles, minimum technical requirements and career routes?	No	
A.12 Is there a procurement process manual for goods and works?	Yes – Ministry of Construction, 2013	
A.13 If there is a manual, is it up to date and does it cover foreign-assisted projects?	Current but apparently only used for NCB	
A.14 Is there a procurement process manual for consulting services?	No	
A.15 If there is a manual, is it up to date and does it cover foreign-assisted projects?	No	

<sup>28</sup> Questions indicated with \* are associated with potentially 'High' or 'Substantial' risks due to the impact being 'High', therefore the strategy for managing those risks should be addressed in the Project Procurement Risk Analysis (Appendix 3).

QUESTION	RESPONSE	RISK <sup>28</sup>
<b>PROJECT MANAGEMENT UNIT</b>		
A.16 Is there a fully (or almost fully) staffed PMU for this project currently in place?	No	*
A.17 Are the number and qualifications of the staff sufficient to undertake the additional procurement that will be required under the proposed project?	No	*
A.18 Does the unit have adequate facilities, such as PCs, internet connection, photocopy facilities, printers etc. to undertake the planned procurement?	No	
A.19 Are there standard documents in use, such as Standard Procurement Documents/Forms, and have they been approved for use on ADB funded projects?	No	*
A.20 Does the agency follow the national procurement law, procurement processes, guidelines?	Yes	*
A.21 Do ToRs for consulting services follow a standard format such as background, tasks, inputs, objectives and outputs?	Yes	
A.22 Who drafts the procurement specifications?	PMU with Implementation Consultant's help	
A.23 Who approves the procurement specifications?	PMU with concurrence	
A.24 Who in the PMU has experience in drafting bidding documents?	None	*
A.25 Are records of the sale of bidding documents immediately available?	Yes	*
A.26 Who identifies the need for consulting services requirements?	PMU with Implementation Consultant's help	
A.27 Who drafts the Terms of Reference (ToR)	Implementation Consultant	
A.28 Who prepares the request for proposals (RFPs)	PMU with Implementation Consultant's help	
<b>B. INFORMATION MANAGEMENT</b>		
B.1 Is there a referencing system for procurement files?	Yes	
B.2 Are there adequate resources allocated to record keeping infrastructure, which includes the record keeping system, space, equipment and personnel to administer the procurement records management functions within the agency?	No	*
B.3 Does the agency adhere to a document retention policy (i.e. for what period are records kept)?	Yes, period varies	*
B.4 Are copies of bids or proposals retained with the evaluation?	Yes	
B.5 Are copies of the original advertisements retained with the pre-contract papers?	Yes	
B.6 Is there a single contract file with a copy of the contract and all subsequent contractual correspondence?	Yes	
B.7 Are copies of invoices included with the contract papers?	Yes	
B.8 Is the agency's record keeping function supported by IT?	No	
<b>C. PROCUREMENT PRACTICES</b>		
<b>(i) GOODS AND WORKS</b>		

QUESTION	RESPONSE	RISK <sup>28</sup>
C.1 Has the agency undertaken procurement of goods or works related to foreign assistance recently (last 12 months or last 36 months)? If yes, indicate the names of the development partner/s and project/s.	JICA, ongoing	*
C.2 If the answer is yes, what were the major challenges faced by the agency?	n/a	*
C.3 Is there a systematic process to identify procurement requirements (for a period of one year or more)?	Yes	
C.4 Is there a minimum period for the preparation of bids and if yes, how long?	Yes, varies	*
C.5 Are all queries from bidders replied to in writing?	No	*
C.6 Does the bidding document state the date and time of bid opening?	Yes	*
C.7 Are bids opened in public?	Yes	*
C.8 Can late bids be accepted?	No	*
C.9 Can bids (except late bids) be rejected at bid opening?	No	*
C.10 Are minutes of the bid opening taken?	Yes	*
C.11 Are bidders provided a copy of the minutes?	Yes, upon request	*
C.12 Are the minutes provided free of charge?	Yes	*
C.13 Who undertakes the evaluation of bids (individual(s), permanent committee, ad-hoc committee)?	Ad hoc Committee	
C.14 What are the qualifications of the evaluators with respect to procurement and the goods and/or works under evaluation?	Years of relevant experience	*
C.15 Is the decision of the evaluators final or is the evaluation subject to additional approvals?	No	*
C.16 Using the three 'worst-case' examples in the last year, how long from the issuance of the invitation for bids can the contract be awarded?	Several months	
C.17 Are there processes in place for the collection and clearance of cargo through ports of entry?	No	
C.18 Are there established goods receiving procedures?	No	
C.19 Are all goods that are received recorded as assets or inventory in a register?	Yes	
C.20 Is the agency/procurement department familiar with letters of credit?	Yes	
C.21 Does the procurement department register and track warranty and latent defects liability periods?	Yes	
<b>(ii) CONSULTING SERVICES</b>		
C.22 Has the agency undertaken foreign-assisted procurement of consulting services recently (last 12 months, or last 36 months)? (If yes, please indicate the names of the development partner/s and the Project/s.)	Procurement currently carried out by development partners.	*
C.23 If the above answer is yes, what were the major challenges?	n/a	*
C.24 Are assignments and invitations for expressions of interest (EOIs) advertised?	Yes	*
C.25 Is a consultants' selection committee formed with appropriate individuals, and what is its composition (if any)?	Yes	

QUESTION	RESPONSE	RISK <sup>28</sup>
C.26 What criteria is used to evaluate EOIs?		
C.27 Historically, what is the most common method used (QCBS, QBS, etc.) to select consultants?	QCBS	*
C.28 Do firms have to pay for the RFP document?	No	*
C.29 Does the proposal evaluation criteria follow a pre-determined structure and is it detailed in the RFP?	Yes	*
C.30 Are pre-proposal visits and meetings arranged?	Yes	
C.31 Are minutes prepared and circulated after pre-proposal meetings?	Yes	*
C.32 To whom are the minutes distributed?	Attendees	*
C.33 Are all queries from consultants answered/addressed in writing?	Yes	*
C.34 Are the technical and financial proposals required to be in separate envelopes and remain sealed until the technical evaluation is completed?	Yes	*
C.35 Are proposal securities required?	Yes	*
C.36 Are technical proposals opened in public?	Yes	*
C.37 Are minutes of the technical opening distributed?	Yes	*
C.39 Who determines the final technical ranking and how?		*
C.40 Are the technical scores sent to all firms?	Yes	*
C.41 Are the financial proposal opened in public?	Yes	*
C.42 Are minutes of the financial opening distributed?	Yes	*
C.43 How is the financial evaluation completed?		*
C.44 Are face to face contract negotiations held?	Yes	*
C.45 How long after financial evaluation is negotiation held with the selected firm?	Several weeks	
C.46 What is the usual basis for negotiation?		
C.47 Are minutes of negotiation taken and signed?		*
C.48 How long after negotiation is the contract signed, on average?	Several weeks	
C.49 Is there an evaluation system for measuring the outputs of consultants?	Yes	
<b>(iii) PAYMENTS</b>		
C.50 Are advance payments made?	Yes	
C.51 What is the standard period for payment included in contracts?		
C.52 On average, how long is it between receiving a firm's invoice and making payment?	Several weeks	
C.53 When late payment is made, are the beneficiaries paid interest?	Yes	
<b>D. EFFECTIVENESS</b>		

QUESTION	RESPONSE	RISK <sup>28</sup>
D.1 Is contractual performance systematically monitored and reported?	Yes	
D.2 Does the agency monitor and track its contractual payment obligations?	Yes	
D.3 Is a complaints resolution mechanism described in national procurement documents?	No	
D.4 Is there a formal non-judicial mechanism for dealing with complaints?	No	
D.5 Are procurement decisions and disputes supported by written narratives such as minutes of evaluation, minutes of negotiation, notices of default/withheld payment?	Yes	*
<b>E. ACCOUNTABILITY MEASURES</b>		
E.1 Is there a standard statement of ethics and are those involved in procurement required to formally commit to it?	No	*
E.2 Are those involved with procurement required to declare any potential conflict of interest and remove themselves from the procurement process?	Yes	*
E.3 Is the commencement of procurement dependent on external approvals (formal or de-facto) that are outside of the budgeting process?	No	
E.4 Who approves procurement transactions and do they have procurement experience and qualifications?	PMU, no	*
E.5 Which of the following actions require approvals outside the procurement unit or the evaluation committee, as the case may be, and who grants the approval?		
a) Bidding document, invitation to pre-qualify or RFP	PMU	
b) Advertisement of an invitation for bids, pre-qualification or call for EOIs	PMU	
c) Evaluation reports	PMU	*
d) Notice of award	PMU	*
e) Invitation to consultants to negotiate	PMU	
f) Contracts	PMU	*
E.6 Is the same official responsible for: (i) authorizing procurement transactions, procurement invitations, documents, evaluations and contracts; (ii) authorizing payments; (iii) recording procurement transactions and events; and (iv) the custody of assets?	No	*
E.7 Is there a written auditable trail of procurement decisions attributable to individuals and committees?	Yes	*

**APPENDIX 3B - PROJECT PROCUREMENT RISK ASSESSMENT QUESTIONNAIRE  
[KAYIN STATE]**

QUESTION	RESPONSE	RISK <sup>29</sup>
<b>A. ORGANIZATIONAL AND STAFF CAPACITY</b>		
<b>PROCUREMENT DEPARTMENT/UNIT</b>		
A.1 Does the agency or Government have a Procurement Committee that is independent from the head of the agency?	For each procurement activity, the agency sets up a committee that is usually chaired by a ranking member of the agency.	
A.2 Does the agency have a procurement department/unit, including a permanent office that performs the function of a Secretariat of the Procurement Committee?	No	
A.3 If yes, what type of procurement does it undertake?	n/a	
A.4 How many years' experience does the head of the procurement department/unit have in a direct procurement role?	n/a	
A.5 How many staff in the procurement department/unit are: i. full time ii. part time iii. seconded	n/a	
A.6 Do the procurement staff have a high level of English language proficiency (verbal and written)?	Yes but only at upper and mid-levels	*
A.7 Are the number and qualifications of the staff sufficient to undertake the additional procurement that will be required under the proposed project?	No	*
A.8 Does the unit have adequate facilities, such as PCs, internet connection, photocopy facilities, printers etc. to undertake the planned procurement?	No	
A.9 Does the agency have, or have ready access to, a procurement training program?	Nothing formal in place	*
A.10 At what level does the department/unit report (to the head of agency, deputy etc.)?	PMU	
A.11 Do the procurement positions in the agency have job descriptions, which outline specific roles, minimum technical requirements and career routes?	No	
A.12 Is there a procurement process manual for goods and works?	Yes – Ministry of Construction, 2013	
A.13 If there is a manual, is it up to date and does it cover foreign-assisted projects?	Current but apparently only used for NCB	
A.14 Is there a procurement process manual for consulting services?	No	
A.15 If there is a manual, is it up to date and does it cover foreign-assisted projects?	No	
<b>PROJECT MANAGEMENT UNIT</b>		
A.16 Is there a fully (or almost fully) staffed PMU for this project currently in place?	No	*

<sup>29</sup> Questions indicated with \* are associated with potentially 'High' or 'Substantial' risks due to the impact being 'High', therefore the strategy for managing those risks should be addressed in the Project Procurement Risk Analysis (Appendix 3).

QUESTION	RESPONSE	RISK <sup>29</sup>
A.17 Are the number and qualifications of the staff sufficient to undertake the additional procurement that will be required under the proposed project?	No	*
A.18 Does the unit have adequate facilities, such as PCs, internet connection, photocopy facilities, printers etc. to undertake the planned procurement?	No	
A.19 Are there standard documents in use, such as Standard Procurement Documents/Forms, and have they been approved for use on ADB funded projects?	No	*
A.20 Does the agency follow the national procurement law, procurement processes, guidelines?	Yes	*
A.21 Do ToRs for consulting services follow a standard format such as background, tasks, inputs, objectives and outputs?	Yes	
A.22 Who drafts the procurement specifications?	PMU with Implementation Consultant's help	
A.23 Who approves the procurement specifications?	PMU with concurrence	
A.24 Who in the PMU has experience in drafting bidding documents?	None	*
A.25 Are records of the sale of bidding documents immediately available?	Yes	*
A.26 Who identifies the need for consulting services requirements?	PMU with Implementation Consultant's help	
A.27 Who drafts the Terms of Reference (ToR)	Implementation Consultant	
A.28 Who prepares the request for proposals (RFPs)	PMU Implementation Consultant's help	
<b>B. INFORMATION MANAGEMENT</b>		
B.1 Is there a referencing system for procurement files?	Yes	
B.2 Are there adequate resources allocated to record keeping infrastructure, which includes the record keeping system, space, equipment and personnel to administer the procurement records management functions within the agency?	No	*
B.3 Does the agency adhere to a document retention policy (i.e. for what period are records kept)?	Yes, period varies	*
B.4 Are copies of bids or proposals retained with the evaluation?	Yes	
B.5 Are copies of the original advertisements retained with the pre-contract papers?	Yes	
B.6 Is there a single contract file with a copy of the contract and all subsequent contractual correspondence?	Yes	
B.7 Are copies of invoices included with the contract papers?	Yes	
B.8 Is the agency's record keeping function supported by IT?	No	
<b>C. PROCUREMENT PRACTICES</b>		
<b>(iv) GOODS AND WORKS</b>		
C.1 Has the agency undertaken procurement of goods or works related to foreign assistance recently (last 12 months or last 36 months)? If yes, indicate the names of the development partner/s and project/s.	JICA, ongoing	*
C.2 If the answer is yes, what were the major challenges faced by the agency?	n/a	*

QUESTION	RESPONSE	RISK <sup>29</sup>
C.3 Is there a systematic process to identify procurement requirements (for a period of one year or more)?	Yes	
C.4 Is there a minimum period for the preparation of bids and if yes, how long?	Yes, varies	*
C.5 Are all queries from bidders replied to in writing?	No	*
C.6 Does the bidding document state the date and time of bid opening?	Yes	*
C.7 Are bids opened in public?	Yes	*
C.8 Can late bids be accepted?	No	*
C.9 Can bids (except late bids) be rejected at bid opening?	No	*
C.10 Are minutes of the bid opening taken?	Yes	*
C.11 Are bidders provided a copy of the minutes?	Yes, upon request	*
C.12 Are the minutes provided free of charge?	Yes	*
C.13 Who undertakes the evaluation of bids (individual(s), permanent committee, ad-hoc committee)?	Ad hoc Committee	
C.14 What are the qualifications of the evaluators with respect to procurement and the goods and/or works under evaluation?	Years of relevant experience	*
C.15 Is the decision of the evaluators final or is the evaluation subject to additional approvals?	No	*
C.16 Using the three 'worst-case' examples in the last year, how long from the issuance of the invitation for bids can the contract be awarded?	Several months	
C.17 Are there processes in place for the collection and clearance of cargo through ports of entry?	No	
C.18 Are there established goods receiving procedures?	No	
C.19 Are all goods that are received recorded as assets or inventory in a register?	Yes	
C.20 Is the agency/procurement department familiar with letters of credit?	Yes	
C.21 Does the procurement department register and track warranty and latent defects liability periods?	Yes	
<b>(v) CONSULTING SERVICES</b>		
C.22 Has the agency undertaken foreign-assisted procurement of consulting services recently (last 12 months, or last 36 months)? (If yes, please indicate the names of the development partner/s and the Project/s.)	Procurement currently carried out by development partners.	*
C.23 If the above answer is yes, what were the major challenges?	n/a	*
C.24 Are assignments and invitations for expressions of interest (EOIs) advertised?	Yes	*
C.25 Is a consultants' selection committee formed with appropriate individuals, and what is its composition (if any)?	Yes	
C.26 What criteria is used to evaluate EOIs?		
C.27 Historically, what is the most common method used (QCBS, QBS, etc.) to select consultants?	QCBS	*

QUESTION	RESPONSE	RISK <sup>29</sup>
C.28 Do firms have to pay for the RFP document?	No	*
C.29 Does the proposal evaluation criteria follow a pre-determined structure and is it detailed in the RFP?	Yes	*
C.30 Are pre-proposal visits and meetings arranged?	Yes	
C.31 Are minutes prepared and circulated after pre-proposal meetings?	Yes	*
C.32 To whom are the minutes distributed?	Attendees	*
C.33 Are all queries from consultants answered/addressed in writing?	Yes	*
C.34 Are the technical and financial proposals required to be in separate envelopes and remain sealed until the technical evaluation is completed?	Yes	*
C.35 Are proposal securities required?	Yes	*
C.36 Are technical proposals opened in public?	Yes	*
C.37 Are minutes of the technical opening distributed?	Yes	*
C.39 Who determines the final technical ranking and how?		*
C.40 Are the technical scores sent to all firms?	Yes	*
C.41 Are the financial proposal opened in public?	Yes	*
C.42 Are minutes of the financial opening distributed?	Yes	*
C.43 How is the financial evaluation completed?		*
C.44 Are face to face contract negotiations held?	Yes	*
C.45 How long after financial evaluation is negotiation held with the selected firm?	Several weeks	
C.46 What is the usual basis for negotiation?		
C.47 Are minutes of negotiation taken and signed?		*
C.48 How long after negotiation is the contract signed, on average?	Several weeks	
C.49 Is there an evaluation system for measuring the outputs of consultants?	Yes	
<b>(vi) PAYMENTS</b>		
C.50 Are advance payments made?	Yes	
C.51 What is the standard period for payment included in contracts?		
C.52 On average, how long is it between receiving a firm's invoice and making payment?	Several weeks	
C.53 When late payment is made, are the beneficiaries paid interest?	Yes	
<b>D. EFFECTIVENESS</b>		
D.1 Is contractual performance systematically monitored and reported?	Yes	
D.2 Does the agency monitor and track its contractual payment obligations?	Yes	

QUESTION	RESPONSE	RISK <sup>29</sup>
D.3 Is a complaints resolution mechanism described in national procurement documents?	No	
D.4 Is there a formal non-judicial mechanism for dealing with complaints?	No	
D.5 Are procurement decisions and disputes supported by written narratives such as minutes of evaluation, minutes of negotiation, notices of default/withheld payment?	Yes	*
<b>E. ACCOUNTABILITY MEASURES</b>		
E.1 Is there a standard statement of ethics and are those involved in procurement required to formally commit to it?	No	*
E.2 Are those involved with procurement required to declare any potential conflict of interest and remove themselves from the procurement process?	Yes	*
E.3 Is the commencement of procurement dependent on external approvals (formal or de-facto) that are outside of the budgeting process?	No	
E.4 Who approves procurement transactions and do they have procurement experience and qualifications?	PMU, no	*
E.5 Which of the following actions require approvals outside the procurement unit or the evaluation committee, as the case may be, and who grants the approval?		
g) Bidding document, invitation to pre-qualify or RFP	PMU	
h) Advertisement of an invitation for bids, pre-qualification or call for EOIs	PMU	
i) Evaluation reports	PMU	*
j) Notice of award	PMU	*
k) Invitation to consultants to negotiate	PMU	
l) Contracts	PMU	*
E.6 Is the same official responsible for: (i) authorizing procurement transactions, procurement invitations, documents, evaluations and contracts; (ii) authorizing payments; (iii) recording procurement transactions and events; and (iv) the custody of assets?	No	*
E.7 Is there a written auditable trail of procurement decisions attributable to individuals and committees?	Yes	*