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ON A

PROPOSED CREDIT

IN THE amount SDR xx MILLION

(US$380 MILLION EQUIVALENT)

TO THE

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

FOR THE SECOND URBAN LOCAL GOVERNMENT DEVELOPMENT PROgram

February 14, 2014

Urban Services

Sustainable Development Network

Country Department 3, Ethiopia

Africa Region

|  |
| --- |
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**CURRENCY EQUIVALENTS**

(Exchange Rate Effective February11, 2014)

|  |  |  |
| --- | --- | --- |
| Currency Unit | = | Ethiopian Birr (ETB) |
| ETB 19.36 | = | US$1 |
| US$ | = | SDR xx |

**Government Fiscal Year**

|  |  |  |
| --- | --- | --- |
| July 8 | – | July 7 |

**ABBREVIATIONS AND ACRONYMS**

AMP Asset Management Plan

APA Annual performance assessment

BoFED Bureau of Finance and Economic Development

BUD Bureau of Urban Development

CIP Capital investment plan

CPS Country Partnership Strategy

DLIs Disbursement linked indicators

ECPI Ethiopian Cities Prosperity Initiative

ECSU Ethiopian Civil Service University

ERR Economic rate of return

ESMS Environmental and social management system

ESMP Environment and Social Management Plan

ESSA Environment and Social Systems Assessment

FEACC Federal Ethics and Anti-Corruption Commission

GIZ Deutsche Gesellschaft für Internationale Zusammenarbeit (German Society for International Cooperation)

GTP Growth and Transformation Plan

IBEX Integrated Budget and Expenditure

IDA International Development Association

IFMIS Integrated financial management information system

IPA Independent procurement audit

MDGs Millennium Development Goals

M&E Monitoring and evaluation

MoFED Ministry of Finance and Economic Development

MSE Micro and small enterprises

MUDHCo Ministry of Urban Development, Housing, and Construction

NPV Net present value

OFAG Office of Federal Auditor General

O&M Operations and maintenance

ORAG Office of Regional Auditor General

PAP Program Action Plan

PDO Program Development Objective

PEFA Public Expenditure and Financial Accounting

PFM Public Financial Management

PforR Program for Results

PPA Participatory Performance Agreement

PTC Program Technical Committee

PSCAP Public Sector Capacity Building Program Support Project

REACC Regional Ethics and Anti-Corruption Commission

REP Revenue enhancement plan

REPA Regional environmental protection agency

RPPAs Regional Public Procurement Agencies

SNNP Southern Nations, Nationalities, and Peoples Region

UGCBB Urban Governance Capacity Building Bureau

ULG Urban Local Government

ULGDP Urban Local Government Development program

ULGDP II Second Urban Local Government Development Program

ULGSP Tanzania Urban Local Government Strengthening Program

|  |  |  |
| --- | --- | --- |
| Vice President: |  | MakhtarDiop |
| Country Director: |  | GuangZhe Chen |
| Sector Director |  | Jamal Saghir |
| Sector Manager: |  | R.MukamiKariuki |
| Task Team Leader: |  | AbebawAlemayehu |
| Co-Task Team Leader: |  | OnurOzlu |

**ETHIOPIA**

**Second Urban Local Government Development Program**

**Program-for-Results**

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| PAD DATA SHEET | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| **SECOND URBAN LOCAL GOVERNMENT DEVELOPMENT PROGRAM** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| **PROGRAM APPRAISAL DOCUMENT** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| *AFRICA*  *AFTU1* | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| **Basic Information** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Date: | | | | | | | | | February14, 2014 | | | | | | | | | Sectors: | | | | | Sub-national government administration (100%) | | | | | | | | | | | | | |
| Country Director: | | | | | | | | | Guang Zhe Chen | | | | | | | | | Themes: | | | | | Access to urban services and housing (p);  Municipal finance (p) | | | | | | | | | | | | | |
| Sector Manager/Director: | | | | | | | | | R. Mukami Kariuki, /Jamal Saghir | | | | | | | | |  | | | | |  | | | | | | | | | | | | | |
| Program ID: | | | | | | | | | P133592 | | | | | | | | |  | | | | |  | | | | | | | | | | | | | |
| Team Leader(s): | | | | | | | | | AbebawAlemayehu | | | | | | | | |  | | | | |  | | | | | | | | | | | | | |
| Program Implementation Period: | | | | | | | | | | | | Start Date: | | | | | May15,2014 | | | | | End Date: | | | | | December 31, 2019 | | | | | | | | | |
| Expected Financing Effectiveness Date: | | | | | | | | | | | | | | | | July 7, 2014 | | | | | | | | | | | | | | | | | | | | |
| Expected Financing Closing Date: | | | | | | | | | | | | | | | | December 31, 2019 | | | | | | | | | | | | | | | | | | | | |
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| **Program Financing Data** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| [ ] | | Loan | | [ ] | | | Grant | | | | | | | [ ] | Other | | | | | | | | | | | | | | | | | | | | | |
| [X] | | Credit | |  | | |  | | | | | | |
| **For Loans/Credits/Others (US$M):** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Program Cost : | | | | | 556.53 | | | | |  | | | | | | | | | Total Bank Financing : | | | | | | | 380.00 | | | |  | | | | | | |
| Total governmentfinancing : | | | | | 176.53 | | | | |  | | | | | | | | | Financing Gap : | | | | | | | 0 | | | |  | | | | | | |
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| **Financing Source** | | | | | | | | | | | | | | | | | | | **Amount** | | | | | | | | | | | |  | | | | | |
| BORROWER/RECIPIENT | | | | | | | | | | | | | | | | | | | 176.53 | | | | | | | | | | | |  | | | | | |
| IBRD/IDA | | | | | | | | | | | | | | | | | | | 380.00 | | | | | | | | | | | |  | | | | | |
|  | | | | | | | | | | | | | | | | | | |  | | | | | | | | | | | | | | | | | |
| Total | | | | | | | | | | | | | | | | | | | 556.53 | | | | | | | | | | | |  | | | | | |
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| Borrower: Government of the Federal Democratic Republic of Ethiopia | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Responsible Agency: Ministry of Urban Development, Housing, and Construction | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Contact: | | | | | | YehyaAman | | | | | | | | | | | | | | | Title: | | | | Director, Urban Governance and Capacity Building Bureau | | | | | | | | | | | |
| Telephone No.: | | | | | | +251 (1) 0115540635 | | | | | | | | | | | | | | | Email: | | | | uggcbb@gmail.com | | | | | | | | | | | |
| . | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| **Expected IDA Disbursements (in USD Million)** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Fiscal Year | | 2015 | | | | | 2016 | | | | | 2017 | | | | 2018 | | | 2019 | | | |  | | | |  | | |  | | | |  | | |
| Annual | | 60.73 | | | | | 78.82 | | | | | 80.82 | | | | 78.82 | | | 80.82 | | | |  | | | |  | | |  | | | |  | | |
| Cumulative | | 60.73 | | | | | 139.55 | | | | | 220.37 | | | | 299.18 | | | 380.00 | | | |  | | | |  | | |  | | | |  | | |
| . | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| **Program Development Objective(s)** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| To enhance the institutional performance of participating urban local governments in developing and sustaining urban infrastructure and services | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| **Compliance** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| **Policy** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Does the program depart from the CAS in content or in other significant respects? | | | | | | | | | | | | | | | | | | | | | | | | | | | Yes | | | | [ ] | | No | | [X] | |
| . | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Does the program require any waivers of Bank policies applicable to Program-for-Results operations? | | | | | | | | | | | | | | | | | | | | | | | | | | | Yes | | | | [ ] | | No | | [X] | |
| Have these been approved by Bank management? | | | | | | | | | | | | | | | | | | | | | | | | | | | Yes | | | | [ ] | | No | | [ ] | |
| Is approval for any policy waiver sought from the Board? | | | | | | | | | | | | | | | | | | | | | | | | | | | Yes | | | | [ ] | | No | | [X] | |
| Does the program meet the Regional criteria for readiness for implementation? | | | | | | | | | | | | | | | | | | | | | | | | | | | Yes | | | | [X] | | No | | [ ] | |
| **Overall Risk Rating:**Substantial | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| **Legal Covenants** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| **Name** | | | | | | | | | | | | | | | | **Recurrent** | | | | | | | **Due Date** | | | | | | | **Frequency** | | | | | | |
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| **Description of Covenant** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| **Team Composition** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| **Bank Staff** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| **Name** | | | | | | | | | | **Title** | | | | | | | | | **Specialization** | | | | | | | | | **Unit** | | | | **UPI** | | | | |
| AbebawAlemayehu | | | | | | | | | | Senior Urban Specialist | | | | | | | | | Urban and Local governmentdevelopment | | | | | | | | | AFTU1 | | | | 165448 | | | | |
| OnurOzlu | | | | | | | | | | Senior Economist | | | | | | | | | Urban economics, fiscal decentralization | | | | | | | | | AFTU1 | | | |  | | | | |
| Mei Wang | | | | | | | | | | Senior Counsel | | | | | | | | | Law and Justice | | | | | | | | | LEGAM | | | |  | | | | |
| Chyi-Yun Huang | | | | | | | | | | Urban Specialist | | | | | | | | | Urban Planning | | | | | | | | | AFTU1 | | | |  | | | | |
| Wendy Ayres | | | | | | | | | | Consultant | | | | | | | | | Economist | | | | | | | | | AFTU1 | | | | 21392 | | | | |
| YohannesFisseha | | | | | | | | | | ET Consultant | | | | | | | | | Urban Engineering | | | | | | | | | AFTU1 | | | |  | | | | |
| DinknehTefera | | | | | | | | | | E T Consultant | | | | | | | | | Urban specialist | | | | | | | | | AFTU1 | | | |  | | | | |
| BerhanuLegesseAyane | | | | | | | | | | Senior Public Sector Specialist | | | | | | | | | Public Sector Specialist | | | | | | | | | AFTP2 | | | |  | | | | |
| Sanjay Srivastava | | | | | | | | | | Lead Environmental Safeguards Specialist | | | | | | | | | Environmental Safeguards | | | | | | | | | AFTN3 | | | |  | | | | |
| ChukwudiOkafor | | | | | | | | | | Senior Social Development Specialist | | | | | | | | | Social Safeguards | | | | | | | | | AFTCS | | | |  | | | | |
| Roland White | | | | | | | | | | Lead Urban Specialist | | | | | | | | | Urban development | | | | | | | | | AFTU1 | | | |  | | | | |
| Asferachew AbateAbebe | | | | | | | | | | Environmental Specialist | | | | | | | | | Environmental safeguards | | | | | | | | | AFTN1 | | | |  | | | | |
| TesfayeAyele | | | | | | | | | | Senior Procurement Specialist | | | | | | | | | Procurement | | | | | | | | | AFTPE | | | |  | | | | |
| Chenjerani Simon B. Chirwa | | | | | | | | | | Senior Procurement Specialist | | | | | | | | | Procurement | | | | | | | | | AFTPE | | | |  | | | | |
| ParminderBrar | | | | | | | | | | Lead Financial Management Specialist | | | | | | | | | Financial management | | | | | | | | | AFTME | | | |  | | | | |
| Jose Janeiro | | | | | | | | | | Senior Finance Officer | | | | | | | | | Financial Management | | | | | | | | | CTRLA | | | |  | | | | |
| AbiyDemessie | | | | | | | | | | Senior FM Specialist | | | | | | | | | Financial management | | | | | | | | | AFTME | | | |  | | | | |
| Roderick Babijes | | | | | | | | | | Program Assistant | | | | | | | | | Program support | | | | | | | | | AFTU1 | | | |  | | | | |
| YoditTeamirRezene | | | | | | | | | | E T Temporary | | | | | | | | | Program support | | | | | | | | | AFCE3 | | | |  | | | | |
| David De-Groot | | | | | | | | | | Consultant | | | | | | | | | Local government advice | | | | | | | | | AFTU1 | | | |  | | | | |
| WorkuYehualashet | | | | | | | | | | Consultant | | | | | | | | | Capacity building design | | | | | | | | | AFTU1 | | | |  | | | | |
| ZereuGirmay | | | | | | | | | | Consultant | | | | | | | | | Environment and Social Safeguards advice | | | | | | | | | AFTU1 | | | |  | | | | |
| **Non Bank Staff** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| **Name** | | | | | | | | | | **Title** | | | | | | | | | **Office Phone** | | | | | | | | | **City** | | | | | | | | |
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# STRATEGIC CONTEXT

## Country Context

1. **Ethiopia is a large and diverse country.**It is located in the Horn of Africa and is a land-locked country with an area of 1.1 million square kilometers—about the size of Bolivia. Its bio-physical environment includes a variety of contrasting ecosystems, with significant differences in climate, soil properties, vegetation types, and agricultural potential, biodiversity and water resources. Ethiopia is a country of many nations, nationalities and peoples, with a total population of 91.7 million (2012).[[1]](#footnote-1)Only 17 percent of the population lives in urban centers, the great majority of them in Addis Ababa. At a current annual growth rate of 2.6 percent, Ethiopia’s population is estimated to reach 130 million by 2025, and is projected by the UN to be among the world’s top ten, by 2050. Ethiopia is vulnerable to terms of trade shocks from international food and fuel prices, and to large domestic weather-related shocks as the 2011/12 East Africa drought demonstrated.
2. **Ethiopia has experienced strong economic growth over the past decade.** Economic growth averaged 10.7 percent per year in 2003/04 to 2011/12compared to the regional average of 5.4 percent. Growth reflected a mix of factors, including agricultural modernization, the development of new export sectors, strong global commodity demand, and government-led development investments. Private consumption and public investment have driven demand side growth, with the latter assuming an increasingly important role in recent years. On the supply side, growth was driven by an expansion of the services and agricultural sectors, whilethe role of the industrial sector was relatively modest. More recently annual growth rates have declined slightly, but still remain at high single-digit levels. Growth in the export of goods has also moderated in recent years and a decline was observed in 2012/13 for the first time since 2008/09. There have been bouts of high inflation in recent years and, while inflation is currently much lower, keeping it down remains a major objective for monetary policy.
3. **Ethiopia is one of the world's poorest countries, but has made substantial progress on social and human development over the past decade**. The country’s per capita income of US$370 is substantially lower than the regional average of US$1,257 and among the ten lowest worldwide.[[2]](#footnote-2)Ethiopia is ranked 173 out of 187 countries in the Human Development Index (HDI) of the United Nations Development Program (UNDP). However, high economic growth has helped reduce poverty, in both urban and rural areas. Since 2005, 2.5 million people have been lifted out of poverty, and the share of the population below the poverty line has fallen from 38.7 percent in 2004/05 to 29.6 percent in 2010/11 (using a poverty line of US$0.6/day). However, because of high population growth the absolute number of poor (about 25 million) has remained unchanged over the past fifteen years. Ethiopia is among the countries that have made the fastest progress on the Millennium Development Goals (MDGs) and HDI ranking over the past decade. It is on track to achieve the MDGs related to gender parity in education, child mortality, HIV/AIDS, and malaria. Good progress has been achieved in universal primary education, although the MDG target may not be met. The reduction of maternal mortality remains a key challenge.
4. **The Government of Ethiopia is currently implementing its ambitious Growth and Transformation Plan** (GTP) 2010/11–2014/15, which sets a long-term goal of becoming a middle-income country by 2023, with growth rates of at least 11.2 percent per annum during the plan period.To achieve the GTP goals and objectives, the government has followed a “developmental state” model with a strong role for the government in many aspects of the economy. It has prioritized key sectors such as industry and agriculture, as drivers of sustained economic growth and job creation. The GTP also reaffirms the government’s commitment to human development. Development partners have programs that are broadly aligned with GTP priorities.

## Sectoral and Institutional Context

1. **Ethiopia has a federal, democratic government system,** established in the early 1990s, with nine autonomous states (‘regions’) and two chartered cities.[[3]](#footnote-3)Decentralization of governance to the regional and district (*woreda*) levels has been actively pursued, intensively since 2003. The Ethiopian People’s Revolutionary Democratic Front has been in power in Ethiopia since 1991. EPRDF comprises four regionally-based parties from the four major regions (Amhara, Oromia, Southern Nations, Nationalities and Peoples, and Tigray). The long-serving Prime Minister, MelesZenawi, (from Tigray) died in August 2012, and was succeeded by HailemariamDesalegn(from Southern Nations, Nationalities and Peoples) who has pursued largely the same policies. The next national elections are scheduled for 2015.
2. Each regional government can create its own local government structure and its urban local governments (ULGs).[[4]](#footnote-4)Created by regional governments, there are about 84 ULGs in Ethiopia, the great majority of which have populations of 20,000 or more.
3. **In Ethiopia, ULGs are the main providers of urban services.** ULGs are managed by city administrations and have a long list of institutional mandates and responsibilities, which include both the“state” (includingeducation and health, among others) and “municipal” functions (including infrastructure and other services such as urban transport, urban roads, solid waste management and abattoirs). State functions are delegated from regional governments to ULGs, whereas municipal functions are considered to be the exclusive functions of ULGs. ULGs generally receive transfers in the form of block grants/allocations from regional governments in order to fund state functions. However, municipal functions have historically only been funded from municipal own source revenues, which are meager at best. This fiscal gap is compounded by the rapid urbanization in the country.
4. **Currently, Ethiopia is urbanizing rapidly**.[[5]](#footnote-5)Ethiopia population in 2012 was 91.73 million. Although only 17 percent of the country is urbanized, Ethiopia’s urban population is growing at about 3.6 percent per year,placing Ethiopia among the fastest urbanizing countries in Sub-Saharan Africa (see table below).[[6]](#footnote-6)It is estimated that the proportion of the population living in urban areas will rise to 19 percent in 2020 and to 23 percent in 2030. Ethiopia’s rapidly urbanizing cities are key drivers of its economic growth. No country has advanced to middle income status without significant urbanization and industrialization and if Ethiopia is to reach middle income, it needs to exploit the opportunities for generating the agglomeration economies associated with urbanization. Urban areas are estimated to now account for over 58 percent of gross domestic product (GDP) and to generate about 80 percent of the growth in GPD. Urban areas are expected to continue driving Ethiopia’s economic growth for the foreseeable future. In addition, urbanization offers new opportunities to improve education, health, and other public services, as more concentrated populations are easier to reach.

Table 1: Urbanization rates of selected African countries (1960–2012)

|  |  |  |
| --- | --- | --- |
|  | Urban Population (% ) 2012[[7]](#footnote-7) | Urban growth rate (%) 2010–2015[[8]](#footnote-8) |
| Ethiopia | **17** | **3.57** |
| South Africa | 62 | 1.21 |
| Ghana | 53 | 3.50 |
| Sudan | 33 | 2.60 |
| Kenya | 24 | 4.36 |

*Source:*United Nations. 2012. *World Urbanization Prospects, the 2011 Revision.* Department of Economic and Social Affairs, Population Division.

1. **However, the urban local government institutional systems and urban infrastructure have notkept pace with the rapid urbanization.** For the opportunities presented by rapid urbanization to contribute to economic growth, service delivery needs to be improved significantly and urban infrastructure needs to be created and managed properly. In Ethiopia, these mandates rest with urban local governments. However, a significant institutional and fiscal gap has emerged with respect to the provision of basic urban services and infrastructure development in cities.
2. **ULGs face several institutional challenges.** These pertain to:

* Local government planning and budgeting practices, which include the preparation and implementation of linked revenue enhancement, asset management, and capital investment plans to manage capital and recurrent expenditures.
* Fiduciary management, including accounting and internal audit functions.
* Recruiting and retaining staff with the necessary skills to fill key local government positions.
* Establishing and operating systems for receiving and addressing complaints.
* Generating adequate own source revenues to meet the extensive set of municipal mandates assigned to urban local governments.
* Operating land management systems, especially in developing and maintaining an up-to-date inventory of land and in servicing leased land according to national and regional standards.
* Ensuring accountability and transparency, particularly in measuring and making public information on the delivery of local services compared with national and regional standards, and in publicly disseminating annual local government budgets, approved projects, expenditures, audit reports, and results of procurement decisions.

1. **These institutional challenges, coupled with rapid urbanization, have resulted insignificant gaps in provision of infrastructure and basic urban services.** Table 2 below shows the coverage in delivery of urban services and infrastructure in Addis Ababa and 18 other large cities in Ethiopia, as found in a 2013 independent study of urban infrastructure.

Table 2: Level of access to urban services and infrastructure in the 19 largest ULGs

|  |  |
| --- | --- |
| **Service/Infrastructure** | **Level of service Provision/Coverage** |
| Residents with access to piped water | 59.1% |
| Residents with access to sewerage and sanitation services | 57.3% |
| Solid waste collected and disposed of | 52.0% |
| Liquid waste collected and disposed | 1.5% |
| Roads paved roads (surfaced with asphalt or cobblestone) | 22.8% |
| Roads with pedestrian walkways | 8% |

*Source:* SUDCA, 2013, “Evaluation of Municipal Service Delivery of Cities Participating in ULGDP, for EFY 2004,” August 2013, Addis Ababa.

1. **The government recognizes the institutional and capacity challenges across Ethiopia’s cities. It is also acutely aware of the importance of cities for the country’s growth and development.** The government issued its first Urban Development Policy Note in 2005. In addition, the second Poverty Reduction Strategy Paper and the Growth and Transformation Plan (GTP) for 2010/11–2014/15 both emphasized the importance of urban for the country’s development. Most recently, the government has further elaborated the importance of urban governance in its forthcoming Ethiopian Cities Prosperity Initiative: Building Green, Resilient and Well Governed Cities, which lays out its medium and long-term strategy for urban development. Collectively, these documents focus on building the institutional capacity at the urban local government level to promote livable urban centers and stimulate overall development.
2. **Since 2000, the World Bank and the international development community have been supporting the decentralized service delivery framework and urban policy of the government.** The Bank has been supporting the government’s efforts to build institutional capacity across the country’s ULGs to enable them to effectively meet their important responsibilities. This partnership has been ongoing through a series of projects, starting with the Capacity Building for Decentralized Service Delivery project (2003) and later the Public Sector Capacity Building program (2004).
3. **The government introduced its Urban Local Government Development Program (ULGDP, *the government program*) in 2008.** Defined in further detail in this document, the government program’s main thrust is to leverage institutional capacity at the urban local government level to improve service delivery and urban infrastructure and its overall objective is to support improved institutional performance in the planning, delivery, and sustained provision of urban services and infrastructure by local governments. Under ULGDP, grants to ULGs are provided based on their performance in a range of key urban institutional areas, such as participatory budgeting, fiduciary management, and social and environmental systems management, among others. The local governments use these funds on urban infrastructure and services.
4. **The government intends to gradually roll out this institutional performance-based fiscal transfer system to all 84 ULGs in the country with populations over 20,000.**It also plans to gradually expand the scope of the federal and regional governments in capacity building and program administration. The first phaseof the program included 18 ULGs and Addis Ababa with a budget envelope of US$416 million. The World Bank has been supporting the first phase of the program since its initiation in 2008 by providing US$300 million of the program budget in the form of a Specific Investment Loan (an original credit supplemented by additional financing).
5. **The government now wishes to embark on the second phase of the program and is seeking continued World Bank support through the use of the Program for Results (PforR) instrument.** This second phase—ULGDP II—will cover 26 new ULGs (for a total of 44 ULGs) across nine regional governments. It will maintain the performance-based disbursements modality to ULGs established under phase one. Under phase two, the scope and boundaries of the PforR will be identical to the scope and boundaries of the government program. Thus, ULGDP II is supporting ULGs with financing provided partly by the World Bank and partly by government as explained in detail below.

## Relationship to the Country Partnership Strategy and Rationale for Use of Instrument

1. **The World Bank Group’s Country Partnership Strategy(CPS)for FY13–FY16 builds on the progress achieved by Ethiopia in recent years and aims to help the government address structural transformation and assist in the implementation of the GTP**. The CPS framework includes two pillars. Pillar One, “Fostering competitiveness and employment”, aims to support Ethiopia in achieving: (a) a stable macroeconomic environment, (b) increased competitiveness and productivity, (c) increased and improved delivery of infrastructure, and (d) enhanced regional integration. Pillar Two, “Enhancing resilience and reducing vulnerabilities,” aims to support Ethiopia in improving the delivery of social services and developing a comprehensive approach to social protection and risk management. Good governance and state building form the foundation of the CPS. In line with the GTP, gender and climate change have been included as cross-cutting issues to strengthen their mainstreaming across the portfolio. The programs of IFC and MIGA are well aligned with the CPS framework, contributing mainly to the strategic objectives under Pillar One.
2. **ULGDP II’s relationship to the Country Partnership Strategy.** The Program is an integral element of the Country Partnership Strategy (CPS), discussed by the Board on September 24, 2012. The CPS has two main areas of focus: (a) fostering competitiveness and employment, including improved delivery of infrastructure; and (b) enhancing resilience and reducing vulnerabilities, including developing a comprehensive approach to social protection and risk management. The CPS has, as its foundation, good governance and state building. It stresses gender and climate change as cross-cutting issues. The proposed ULGDP II directly supports the first pillar of the CPS by financing urban infrastructure and services. These are essential to foster Ethiopia’s competitiveness. It will also assist in reducing vulnerability by encouraging cities to use labor-intensive construction practices that generate significant numbers of jobs, especially for women, youth, and vulnerable people. The ULGDP II will also directly contribute to the CPS’s objective of supporting good governance by providing resources on the basis of performance in participatory planning, financial management, procurement, execution of infrastructure projects, and sustainable delivery of services.
3. **Rationale for use of the P for R instrument.** Financing for the first phase of the government’s program employed the Specific Investment Loan, as the PforR instrument was not yet available. In this first phase, most of the resources were dedicated to performance-based grants for ULGs which achieved institutional results and implementation performance. When the government requested the Bank’s support for phase two, the PforR instrument became a natural choice, as its mechanisms are highly complementary to the program intention and design. The PforR instrument provides a superior modality because it allows the Bank’s support to: (a) focus on improving results, in addition to scaling up the government’s existing program (the ULGDP) without unnecessary duplication; (b) make use of existing federal, regional, and local government systems (including public financial management, social and environmental systems management, and procurement management),while further strengthening and integrating them; and (c) adopt a direct, incentive-driven approach to achieve the development objectives.

# PROGRAM DESCRIPTION

## Program Scope

*Existing Government Program–the ULGDP*

1. **In 2008, the government introduced the Urban Local Government Development program (ULGDP)**. In response to the institutional and fiscal gap at the urban local government level as highlighted above, the program’s overall objective is to support improved institutional performance in the planning, delivery, and sustained provision of urban services and infrastructure by local governments. It aims to fulfill this goal by providing grants to urban local governments based on their performance across a range of areas including fiduciary management, management of environmental and social systems, revenue mobilization, budgeting practices, execution of planned operations and maintenance, governance, transparency and participation, among others. The Program funds are disbursed on the basis of performance of the participating local governments and are earmarked for investment in urban infrastructure and services. As mentioned earlier, the government program comprises a phased approach as the Government intends to roll out the performance-based fiscal transfer system ultimately to all 84 ULGs in the country, while gradually expanding the scope and evolving roles for the federal and regional governments in capacity building and program administration.
2. **Phase one of the Program focused on addressing the capacity and infrastructure deficits of 36 ULGs in total**. The emphasis was on 18 major cities—which received performance-based grants for infrastructure and service delivery—to start systematically addressing the institutional gaps mentioned above in these cities. Phase one had a total budget envelope of US$416 million (US$300 million IDA, including additional financing of US$150 million, and US$116 million government),with the following three main elements:
   1. Performance based grants to 18 ULGs and Addis Ababa for urban infrastructure investments (US$403 million).
   2. Capacity building to (US$7.5 million)

* 36 ULGs (the 18 ULGs receiving performance grants under the ULGDP, and 18 additional ULGs which will participate in ULGDP II).
* The Ministry of Urban Development, Housing, and Construction (MUDHCo) to strengthen its capacity to support the cities.
  1. Implementation support (US$5.5 million).[[9]](#footnote-9)

1. **All ULGDP funds are allocated according to a simple population-based formula.** To date, an average of US$16 per capita per year (excluding Addis) has been disbursed using IDA funds. This amount is calculated by dividing the total funding disbursed over the life of the program (six years) to participating ULGs by the population in these 18 local governments. These funds are then complemented by 20 percent matching funding from the ULGs and 20 percent from the regional governments.
2. **Disbursement of the allocations is made after local governments undergo an annual performance assessment.** The actual amount disbursed to each local government is determined by the performance of that local government as measured in the annual performance assessment. Local governments cannot access the ULGDP funds if they fail to meet certain conditions, or perform below 50 percent in the assessment. This is necessary to ensure that the funds are used effectively, efficiently, and with integrity. If they perform above the expected target score, they are rewarded by an accelerated amount of 20 percent in addition to their regular allocation that is based on population. As many cities performed above the target, the ULGDP disbursed more quickly than expected under the original design.

*Key Results Achieved Under the ULGDP(Phase I)*

1. **The ULGDP has recorded a number of tangible achievements during its six years of implementation**. Overall, substantial institutional capacity was built in the 18 major cities in the key areas of planning and budgeting, financial and asset management, O&M, revenue enhancement and participatory planning. With regards to urban infrastructure, there has been a general increase in the investment in infrastructure with high rates of economic return, such as in roads and drainage. In the second cohort of cities (another 18 cities) which were later included in 2011 through additional financing, tangible, though modest, capacity strengthening occurred. This helped them put in place basic functioning systems for urban governance, such as financial management systems, internal audit systems, asset management planning framework, revenue enhancement plan, capital investment plan, andcore local government staff to support implementation of urban infrastructure and services.[[10]](#footnote-10)
2. **More specifically, major achievements were obtained in the following areas**:

* *Citizen participation in planning has become much more robust.* Citizen participation in local investment planning is now routine across all 18 participating cities, with a doubling of the number of citizen groups taking part in the annual planning process from 226 citizen groups in 2008 to 521 in 2012.
* *Budgeting and the production of key local government planning documents is greatly improved*. In 2008, none of the ULGs had urban development plans, capital investment plans (CIPs), assets management plans (AMPs), or revenue enhancement plans (REPs). As of 2013, all 18 participating ULGs produce updated CIPs, AMPs, and REPs and related annual action plans and procurement plans. Twelve of the ULGs have also established proper links between all these core planning and budgeting instruments to ensure consistency across the planning documents. All ULGs are mobilizing higher revenues (both state and municipal) than at the start of the Program, although mobilization of municipal revenues is uneven.
* *Transparency and accountability of local government operations have increased*. All 18 ULGs now disseminate to citizens information on their operations, and 12 ULGs achieved the highest score on the program’s transparency indicators by making public all core documents public, including plans, budgets, contract awards, and physical and financial progress on infrastructure investments.
* *Cities’ financial management is significantly enhanced*. All cities now prepare timely financial reports using the government’s computerized accounting program, the Integrated Budget and Expenditure (IBEX) system. In the most recent program annual assessment, 14 of the original 19ULGs received the top score with all reports submitted on time, up from zero in 2008. The four that did not receive the top score missed only because they submitted the reports late one quarter. Audit reports confirm steadily improving financial management. In 2008, no ULGs had audited accounts. As of the 2012, 18 ULGs had cleared their audit backlogs. Importantly, whereas six ULGs had adverse audit opinions as recently as 2009, none of them had adverse audit opinion in their most recent audit report, with all ULGs obtaining qualified audit opinions.
* *Infrastructure and services are improving*. As of July 2013, some 2.6 million people have benefited from the infrastructure and services financed under ULGDP. Some 670 kilometers of roads and 588 kilometers of drainage system, 171 latrines and 110 community water points have been constructed, with 29,000 people given access to improved water sources. As a result of the roads built by program funds, particularly cobblestone, mobility for residents has increased, flooding has diminished, property values and small enterprises have increased. These changes are transforming city centers into lively and welcoming places in which to live and work.
* *ULGDP has contributed to wider local economic development*. The ULGDP’s emphasis on labor-intensive construction practices has created an estimated 312,460 permanent and temporary jobs in small and micro enterprises, about one-third of which have been taken by women. The majority of jobs have gone to people with little previous experience in formal employment. Importantly, a large number of small and micro enterprises have been involved in project execution. The experience gained in business development and operation is expected to contribute to future local economic development.

*ULGDP phase two, the PforR*

1. **Under phase one, ULGDP established a robust local government performance grant system, which has successfully delivered both institutional strengthening and associated infrastructure results in the limited number of cities within its scope**. The government now wishes to expand the program to include additional cities, bringing the total to 44 ULGs, and to deepen the involvement of the nine regional governments. The new 26 ULGs represent the next tier of important cities in the country with the highest populations, totaling 4.3 million, or about 26 percent of the total urban population. In addition, under phase two, the government plans to assist the country’s nine regional governments to more effectively play their role in supporting city growth and development.
2. **In expanding the program, a number of challenges which emerged during phase one will be addressed**. In particular:

* *Institutional capacity gaps at ULGs*. Although much stronger than when the ULGDP started, the 18 cities in the current Program still have gaps in capacity in all key areas of urban management, including participatory planning, fiduciary management, mobilization of own source revenues, engineering, contract management, monitoring and evaluation, and environmental and social systems management, and the like. Urban administrations will require continuous capacity building support to enable them to adequately fulfill their mandates.
* *Slow procurement by the MUDHCo.* The MUDHCo has so far not been able to procure the services of a firm to carry out the annual performance assessment in time for the exercise to be completed by January/February. As a result, cities have had to prepare their budgets based on notional rather than actual allocations. Once they learned their actual allocations they were required to revise their budgets to reflect the actual allocations.
* *Too little funding for Addis Ababa to serve as an incentive.* The funding available to Addis under the ULGDP was a tiny fraction of its annual revenues. The Addis city government thus never properly staffed a unit to coordinate the Program. As a result, Addis has scored at a satisfactory level in the annual performance assessment only twice since the inception of the Program, each time with relatively low scores. In addition, the institutional, infrastructure and financial needs of Addis are distinctly different than all the other ULGs in Ethiopia and therefore the same program design cannot be applied to Addis.
* *Inadequate systems for tracking the specific use of Program funds.* The IBEX accounting system is not set up for cities to specify the infrastructure projects for which they have used Program funds. Instead, it aggregates data for expenditure on works, goods, and services.

1. **The ULGDP II will address these challenges**. First, the Program provides considerable support to address institutional capacity gaps at ULGs (see section II D, below for details of the Program’s capacity building approach). Second, the Program provides strong incentives for the MUDHCo to timely procure the services of the firm carrying out the annual performance assessment (APA) by including a disbursement linked indicator (DLI) focusing on this one issue. Third, Addis will not be included in the ULGDP II. Fourth, IBEX will be used by all participating cities to record transactions and to produce reports at all levels. Adequate capacity building will be provided to cities to enable them to utilize this software effectively for recording use of Program funds, and will be improved to enable tracking of funds across main expenditure groups.
2. **ULGDP II, the PforR Program, will have the following key features**:
   1. Program duration: five years: July 2014 through December 2019.
   2. Program budget envelope: US$556.53 million (see table 3, below).
   3. Main expenditure items:
   * Performance based grants to 44 ULGs for urban infrastructure and services investments and capacity building (US$499.53 million)
   * Regional governments’ capacity building and oversight/support to constituent ULGs (US$30.00 million)
   * Support to MUDHCo to administer and coordinate the program, and strengthen its capacity to support and guide the regions and ULGs (US$27.00 million).

Table 3: Program financing (US$556.5 million)

|  |  |  |
| --- | --- | --- |
| **Source** | **Amount (million)** | **Percent of Total** |
| Government[[11]](#footnote-11) | US$176.53 | 32 |
| IBRD/IDA | US$380.00 | 68 |
| **Total Program Financing** | **US$556.53** | **100** |

1. **The performance-based grants (including matching funds) to ULGs account for 90 percent of total funding for the ULGPD II.**As in the ULGDP, these performance-based grants are allocated according to a simple population-based formula and in direct proportion to the performance of that local government. The annual allocation for each full grant cycle will range between US$78.73 million (IDA: US$50.13 million, government: US$28.60 million) for the Program start year (fiscal 2015) and US$105.20 million (IDA: US$68.22 million, government: US$36.98 million) for each of the following four years. In the initial year of the Program, the 26 ULGs that are entering the program will receive funding based on compliance with minimum access conditions, but will not receive the funding related with the more qualitative performance measures. During their first year in the Program, they will receive considerable support to strengthen their capacity for effective urban management. Starting in the second year of the Program, the performance of the 26 new cities will be assessed through the APA, providing them with feedback on what they are doing well and what needs to be further improved.
2. **On average, the Program’s IDA funds will provide about US$14.85 per capita per year for investment in urban infrastructure and services**. When disaggregated, the IDA funds will provide about US$13.38 for the new 26 cities and about US$15.69 for the 18 ULGs currently benefiting from the Program. Including the financing from the regional and urban local governments, total Program financing will provide an average of US$22.97 per year, of which the 26 new cities will receive US$19.58 per year and the 18 cities already in the Program will receive US$24.88 per capita per year.
3. **APAs will be carried out each year to review each city’s performance.** The APA will review (a) a set of minimum conditions that each ULG will be required to fulfill each year of the Program, and (b) a list of performance measures which track each city’s progress each year. Minimum conditions will function like green and red lights and the performance measures will determine each city’s score. Key results areas measured are (a) participation of citizens in planning and budgeting, (b) fiduciary management, (c) mobilization of own source municipal revenues, (d) delivery of new infrastructure and services, and operation and maintenance of existing infrastructure and services, (e) accountability and oversight systems and (f) environmental and social safeguards. The results of the APA will also be used to verify the DLIs, which are elaborated in later sections. In addition, the APAs will review the performance of the regional government in the areas of (a) capacity building, (b) carrying out timely annual audits of ULGs, (c) performing social and environmental audits, and (d) supporting ULGs’ with respect to urban revenue mobilization.

*Comparing ULGDP and ULGDP II*

1. **The ULGDP II will maintain many of the design features of ULGDP.**Theseinclude the performance orientation and the measurement of progress and results through independent annual performance assessments. Also similar to the ULGDP, ULGs may use Program funds only for activities specified in the investment menu, including urban roads and drainage, water supply and sanitation services, public parks, street lighting, and other core urban infrastructure and capacity building activities menu(seeannex 1). Cities cannot use Program funds for investments that could have significant negative environmental impacts or that which would result in the resettlement of more than 200 people. Compliance with the investment and capacity building activities menu will be a minimum condition and be verified each year through the APA. A city that has used Program funds for activities outside of these menus will not receive Program funds for the following year.
2. **ULGDP II will consolidate and expand the achievements with respect to social accountabilityunder the ULGDP**. In particular, the ULGDP II will further strengthen the engagement between ULGs and citizens, by promoting participatory budgeting, financial transparency, and publication of local government budgets. The rigor of the social accountability measures inthe Program’s performance system will be strengthened. This will require, among other things, that each Program ULG:

* Has a functioning complaints handling mechanism, as required by Ethiopian law (minimum condition to access Program funds).
* Ensures participation of citizens in the planning process (performance measure).
* Identifies the top three basic municipal services in accordance with citizen demand, and prepared a standard for their delivery along with citizen charter (performance measure).
* Strives to deliver the municipal services as per the standard and citizen charter (performance measure).
* Disseminates the summary of annual budgets, approved projects, expenditures, audited accounts and results of the procurement decisions in city offices and other public places, or web-pages, newspapers (performance measure).

1. **The design of the ULGDP II takes into consideration the key challenges faced in ULGDP and supports the government’s new urban policy and strategy as highlighted below**:
   1. The Program’s technical focus will continue to leverage institutional results across ULGs. As a result of implementation of phase one, the capacity in the 18 cities has improved, although gaps still remain as mentioned above. Additionally, the new set of 26 ULGs requires strong incentives for institutional enhancements. The Program’s capacity building design, explained in detail in annex 1, fully takes this differentiation between two sets of Program ULGs into account.
   2. All cities will be assessed on the set of minimum access conditions every year, not just at the start of the Program. This is to ensure that cities maintain the staffing and basic systems required to effectively administer urban local governments.
   3. Cities will receive disbursements in line with their score on the APA. This is in contrast to the current system, which provides all cities which score above a threshold of 20 percent an accelerated allocation. The new system will mean that every point will count and that the incentives for continuous improvements are strengthened.
   4. Several new targets and results areas have been added to the performance assessment, reflecting new government policies and the growing administrative sophistication of cities. For example, results areas now include (a) urban land management and urban planning, and (b) employment generation. In addition, all cities are now expected to screen all investments for environmental and social impacts, and to prepare environmental and social impact assessments, and related documents to address any adverse impacts. All cities are also expected to reflect Program funds in IBEX, rather than using a separate accounting system.
   5. The challenges with mobilization of urban revenues have been addressed through strengthening of the minimum conditions (matching funding is a condition for access to funds), and performance measures, as well as through support to promote a more conducive environment for ULGs through dialogue and support from the regions.[[12]](#footnote-12)Performance measures under DLI 2 are now more focused on results through provision of incentives to ULGs to (a) mobilize additional municipal core revenues, (b) contribute more towards capital investments (rewards for a higher level of matching funding).[[13]](#footnote-13)Furthermore, the targeting of the regional governments’ support to ULGs in own source revenue mobilization will be strengthened by promoting stronger consultations and dialogue, and through capacity building support within this core area.
   6. Financing for the regional governments and federal government entities (including MUDHCo), will no longer be input based, but will also be results based. As detailed in the DLIs which target these two levels of government, Program funds will be disbursed to these entities only after the verification of the results for which they are responsible.
   7. Disbursements will flow to cities in two annual tranches, rather than on the basis of Interim Financial Reports and withdrawal applications.
   8. ULGDP II will not include Addis Ababa. Addis Ababa’s institutional, infrastructure, and financial needs of Addis are distinctly different than the other ULGs in Ethiopia.[[14]](#footnote-14)
   9. A more structured and systematic approach is adopted for capacity building to support all three levels of government: federal, regional and local. (Details about capacity building are provided in the later section and in the annex 1.)

## Program Development Objectives

1. The Program Development Objective (PDO) is to enhance the institutional performance of participating urban local governments in developing and sustaining urban infrastructure and services.

## Program Key Results and Disbursement Linked Indicators

1. The proposed key Program results indicators are:

* Score in the APA for institutional performance of participating ULGs, averaged across all cities.[[15]](#footnote-15)
* Score in the APA for achievement of urban infrastructure targets by ULGs, averaged across all cities.

(The complete table on the results framework and monitoring is provided in annex 2.)

1. **All Program funds will be provided through DLIs.** All the DLIs focus on strengthening institutions of urban management, by providing incentives to entities at all three levels of government that have key roles to play. The first set of DLIs (1 through 3) aims to strengthen ULGs’ institutions and delivery of infrastructure and services. The second set of DLIs (4 through 7) will target strengthening of regional government entities so that they can properly fulfill their mandates to support ULGs. The third set of DLIs (8 and 9) focus on strengthening the capacity of federal government entities to assist both regions and ULGs. Together, the nine DLIs provide strong incentives for improved management of urban areas. Details of the DLIs follow.
2. **DLIs focusing on ULGs**. A total of US$499.53million (IDA: US$323.00 million, government: US$176.53 million) has been allocated for these DLIs.

* DLI 1: ULGs have achieved Program minimum conditions as demonstrated in the APA.
* DLI2: ULGs have strengthened institutional performance as demonstrated in the APA.
* DLI 3: ULGs have delivered infrastructure, maintenance and supported job creation as per their capital investment plans and their annual action plans, as demonstrated in the APA, and ensured that value for money is achieved.

1. These DLIs support the Program’s overall results orientation. As such, these three DLIs in particular build on ULGDP performance assessment system and aim to ensure that:

* Basic fiduciary, project planning and execution, and environmental and social management systems are in place such that local governments can absorb the Program funding.
* ULGs continue to strengthen their institutions of urban management.
* ULGs use Program funds effectively in creating infrastructure and delivering services.

1. **The disbursement system for DLIs 1, 2, and 3 is flexible towards actual performance of ULGs**. It is particularly important to note that if Program ULGs perform better (or worse) than expected (as set out in disbursement targets in the DLI matrix below), disbursements will be adjusted accordingly. This means that if the Program ULGs perform better than expected, they will receive additional funds. If many ULGs perform better than expected, Program funds will be disbursed more rapidly than currently anticipated, and additional financing will be needed.
2. **DLIs focusing on regional government entities**. A total of US$30 million IDA has been allocated for these DLIs.

* DLI 4: Regional government capacity building and support teams in place and support urban service delivery.
* DLI 5: Offices of the Regional Auditor Generals (ORAGs) carry out timely audits of ULGs’ financial reports (by January 7 of each financial year).
* DLI 6: Regional environmental protection agencies (REPAs) timely review ULG safeguards compliance. This indicator will be fulfilled when the regional environmental protection agencies have carried out the safeguards reviews/audits of ULGs in their jurisdictions before the start of the annual performance assessment in each year.
* DLI 7: Regional revenue authorities support ULGs’ efforts to mobilize revenue.

1. **DLIs focusing on the federal MUDHCo.**A total of US$27 million IDA has been allocated for these DLIs.

* DLI 8: The annual MUDHCo capacity building activities for Program ULGs, regional governments, and the ministry completed.
* DLI 9: The APAs, independent procurement audits (IPAs),and value for money audits are procured and completed on time.[[16]](#footnote-16)

1. All the DLIs are aimed at achieving the Program Development Objective. The first setsupports ULGs to improve their institutional performance to deliver on their mandates. The second set encourages regional government entities to play their roles in supporting ULGs with oversight, advice, and capacity support. The third set assists the MUDHCo in building capacity of ULGs. (The complete DLI matrix is presented in annex 3.)
2. The government and Bank team will review the appropriateness of the design features of the ULGDP II each year, following the completion of the APA. The teams will focus in particular on the DLI allocations, the DLI indicators, targets, and scoring system. Based on the experience from implementation, the design may be adjusted.

Box 1: Tanzania Urban Local Government Strengthening PforR: Lessons learned during the first year of implementation

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| --- |
| The objectives and the overall design of the Tanzania Urban Local Government Strengthening Program (ULGSP)PforR is similar to that of the Ethiopia ULGDP II. The objective of the ULGSPis to improve institutional performance for urban service delivery in 18 local governments across Tanzania. The Tanzania Program links disbursements to the achievement of verified results in key areas of urban management and service provision, municipalities can use the funds to prepare and build basic urban infrastructure. The Tanzania Program also includes capacity building support to local governments to help them achieve the performance targets The independent performance assessment mechanism is functioning well. Based on its findings, the Program is on track. The first round of performance-based disbursements was made on schedule, cities have benefited from the new opportunities introduced for training and to strengthen the community of practices between municipalities, and the first phase of municipal investments is under construction.  Three important lessons from the Tanzanian experience have informed the design of the Ethiopia ULGDP II. The first is that the Bank should have an opportunity to independently verify the findings of the APA. In Tanzania, the Bank contracted independent consultants to visit a random sample of cities to check the findings of the first APA carried out under the Program to verify its accuracy. This quality review confirmed the findings of the APA and provided the national government with the assurance it needed to rely on its findings in making the allocations. The second is that, given its sensitivity, the quality review should be conducted by a team that is independent of the Bank, and not by Bank staff. Third, choosing performance-based indicators that can be objectively tracked and that are not subject to interpretation is important to avoid disputes. The design of the Ethiopia ULGDP II includes all three measures. |

## Key Capacity Building and Systems Strengthening Activities

1. **Under the ULGDP II, a more structured and systematic approach will be adopted for capacity building activitiesthat focuses on all three government levels.** First, capacity building activities for all levels throughout the program period will be supported by dedicated federal and regional mobile teams. In addition, capacity building support will be tailored to the needs of federal, regional and local levels, as follows:

* **ULGs**:will be supported through both supply and demand side interventions aimed atraising their general capacity to meet their mandates.
* **Regions**: will be supported to strengthen their urban governance and management roles. They will, in turn, provide capacity building support to ULGs in their jurisdiction.
* **MUDHCo**: the MUDHCo will be supported to strengthen its coordination, oversight, and backstopping functions in serving the regional and local governments.

1. **The main focus of the capacity building is on enhancing urban governance and management to achieve better service delivery.** Due to the cross-cutting nature of the subject, capacity building will aim to strengthen the governments’ capacity in a variety of areas. These include participatory planning, budgeting, revenue mobilization, financial management, procurement, infrastructure asset management, contract management and execution, urban planning, environmental and social safeguards, audit, ethics, fraud and corruption, monitoring and evaluation, and others. The intention is both to strengthen both human resources and systems in areas, such as IT system, accounting systems, and the like. The APA will provide a comprehensive, regular check on each entity’s capacity improvements and identify gaps and weaknesses to be strengthened in the future, including issues raised on procurement and financial management.
2. **The capacity building activities will be carried out in two phases.** This is due to the transition between ULGDP and ULGDP II. The key activities are captured in the table below.

Table 4: Main capacity building activities in phases 1 and 2

|  |  |
| --- | --- |
| *Phase 1 (November 2013 to December 2014)* | *Phase 2 (August 2014 to December 2019)* |
| 1. Federal mobile team. 2. Two technical consultant teams to provide capacity building support for ULGs (phased out by end of period). 3. GIZ financed support for capacity building of regional governments and eight cities (phased out by end of period). | 1. Expanded federal mobile team and functions. 2. Four new regional mobile teams. 3. New urban management course for ULGs. 4. Capacity building support for ULGs on the basis of demand. |

1. **Capacity Building for ULGs.** The supply side interventions will comprise primarily an urban management course to be provided by the Ethiopian Civil Service University (ECSU). The MUDHCo will facilitate access to the course. Key staff of the new 26 ULGs joining the ULGDP II will be expected to complete the course. The MUDHC will pay the costs for staff of these 26 ULGs to attend this one-time course. The course will be optional for staff of the 18 cities currently participating in the ULGDP, but can serve as a refresher or for new staff in the ULGs. These 18 ULGs will be expected to use their own resources to send staff to attend any or all of the modules. In addition to the supply side interventions, each ULG will be able to spend up to 5 percent of their performance-based grants on eligible capacity building activities, as laid out in the capacity building menu in paragraph 26 in annex 1. Having a menu allows ULGs to design their capacity building program to their specific needs, and to address weaknesses (such as issues on procurement and financial management)that are identified in the APA. However, expenditures on activities not included on the menu are ineligible for financing under the Program. The APA will monitor expenditures on capacity building each year. ULGs will have to demonstrate adherence with the menu as a minimum condition to access to the performance grant. Further details on the overall design of capacity building activities under ULGDP II are presented in annex 1.

# PROGRAM IMPLEMENTATION

## Institutional and Implementation Arrangements

1. **Implementation responsibilities by level of government**. The institutional arrangements of the ULGDP II are based on the experiences from ULGDP, with a clear division of responsibilities between levels of government, as per the government structure and consistent with existing legal provisions, regulations, and guidelines. The roles and responsibilities of the relevant entities are summarized below. Details are included in annex 1.

*Federal level*

1. At the federal level:
   1. MUDHCo will have the following main tasks:
      * Overall responsibility for day-to-day coordination of the Program.
      * Capacity building, including direct support to regional and urban local governments, and issuance of guidelines and standard regulations for matters such as municipal revenue mobilization, assets management, service delivery standards, and the like.
      * Program management, including the procurement and management of the APAs and the value for money audits.
      * Overall monitoring and evaluation.
      * Program reporting, including the annual midyear report and Program report.
      * Accounting for the ULGDP II funds to Ministry of Finance and Economic Development (MoFED).
   2. MoFED will be responsible for ensuring that Program resources are budgeted for and disbursed within the expenditure framework. MoFED will also be in charge of financial management, including reporting, program auditing, and compilation of federal fiscal reports.
   3. Several other federal entities will have guiding and supporting roles in ULGDP II. These include the Office of the Federal Auditor General (OFAG), especially for the annual program audits; the Federal Public Procurement and Asset Management Agency on procurement procedures; and the Federal Ethics and Anti-Corruption Commission (FEAC) on fraud and corruption monitoring and reporting.
2. As under the ULGDP, the Urban Governance Capacity Building Bureau (UGCBB) at the MUDHCo will be responsible for daily coordination of the Program. The significant geographic and technical scale up of the Program under the proposed PforR, and the existing staffing gaps, if unaddressed, bring considerable risk to the achievement of the operation’s development objective. Therefore there is a serious need to fill the personnel gaps and further strengthen capacity of UGCBB. The current MUDHCo multi-disciplinary team comprising 12 specialists should be further strengthened to include a minimum of 34 specialists and one long-term international advisor. The strengthened team will boost the capacity within the MUDHCo to perform the necessary functions required under ULGDP II and allow the ministry to provide greater capacity building support to the regions and the ULGs.
3. A steering committee will be established, comprising representatives from the MUDHCo and MoFED to ensure strong coordination on issues such as planning, allocations, flow of funds, compilation of data, and approval of the results from the APAs. A technical sub-committee comprising key technical staff of MUDHCo and MoFED will be formed under this committee. It will review the results of the APAs and ensure their quality. It will also respond to complaints that cannot be resolved at entity level. The technical committee is expected to meet quarterly and review Program implementation against objectives, bring policy issues to the larger coordination committee, and ensure that the Program is implemented in line with the Program Operational Manual.

*Regional level*

1. At the regional government level:
   1. The respective regional bureaus of urban development (BUDs) will be responsible for daily coordination of the Program at the regional level. Specifically, the BUDs will be in charge of:
      * Capacity building support of the ULGs in their jurisdiction.
      * Preparation of progress reports covering all ULGs in their jurisdiction.
      * Oversight and backstopping support related to aspects of the Program.
   2. The other regional entities involved are: the ORAGs for conducting external audits of ULG financial reports, REPAsto oversee the Program’s environmental and social safeguards agreements, Bureaus of Finance and Economic Development (BoFEDs) for managing regional fund flow and reporting, regional public procurement and asset management agencies to guide and support on procurement procedures and capacity building, regional revenue authorities support ULGs in the areas of own source revenue mobilization, and the Regional Ethics and Anti-Corruption Commission (REAC) for fraud and corruption monitoring and reporting.
2. Under the ULGDP II, regional governments will assume expanded roles in providing oversight and in helping ULGs within their jurisdictions build their capacity to perform. However, there is a risk that regional governments may lack capacity and sufficient incentives to undertake the expanded responsibilities. The four regional governments with relatively better capacity, with the assistance from MUDHCo, will put into place mobile teams that will help the regional bureaus of urban development develop their own capacity to guide and support the ULGs. The MUDHCo will create a multi-disciplinary mobile team comprising some 46 specialists (12 existing and 34 new) that will provide capacity building support to the four new ULGDP II developing regional states and the their ULGs.

*Urban local government level*

1. At the ULG level:
   1. The mayor’s office in each urban local government will be responsible for the overall performance of urban local governments. It will ensure compliance with all financial management, procurement, and Program environmental and social safeguards and regulations. It will also facilitate access to the information required as part of the annual performance assessments.
   2. The offices of the city manager will be responsible for day-to-day Program coordination. It will lead the participatory planning process, procure and manage works contracts, disseminate information about the Program (including contract awards, physical and financial progress of works contracts, and the like). It will also ensure that such contracts are implemented in accordance with the Program’s environmental and social safeguards.
   3. The offices of finance and economic development will be responsible for ensuring that all Program funds are included in IBEX and that financial reports are submitted to ORAG as soon as possible after the end of the Ethiopian fiscal year.
   4. The city councils will be responsible for reviewing and approving cities’ capital investment plans, revenue enhancement plans, and asset management plans.
2. ULGs require a wide range of expertise to successfully carry out their mandates. An analysis of staffing carried out as part of Program preparation reveals that most ULGs have the necessary staff, but a few need to fill key positions to access Program funds. As would be expected, the 26 cities joining the Program’s performance grant mechanism have the greatest percentage of unfilled positions. All ULGs are expected to have the necessary core staff in place by Program effectiveness; ULGs that do not meet this minimum condition will not be able to access Program funds.

## Results Monitoring and Evaluation

1. **Objectives**. The objective of the monitoring and evaluation (M&E) system is to generate timely and relevant feedback on the Program’s implementation progress and achievement of expected outcomes to enable the stakeholder to address issues as quickly as possible once they arise.
2. **Design.** Monitoring and reporting will take place at all three levels of government. As under ULGDP, the M&E specialist based at each ULG will be the key person in the system, collecting and reporting primary data related to the indicators of the Program’s key results areas. The M&E specialist will be responsible for the M&E system at the city level, and prepare comprehensive Program reports twice a year (the midyear report and the annual report) containing agreed data and transmit it to the regional government. The M&E specialists at the federal and regional levels(in the federal or regional mobile teams) will assist in establishing a computerized M&E system, provide training and back-stopping support to staff at the regional, and in turn, local levels to ensure that the city-specific reports are timely, comprehensive, and accurate. The regional M&E specialists will compile each city’s progress report into a regional progress report and submit it to the MUDHCo. Similarly, the federal M&E specialists will, depending on need, assist in compiling the regional progress reports into a national report and submitting it to the World Bank for review.
3. **M&E system and arrangements for ULGDP II will consist of four different layers**:

* *ULG level.* These systems already exist to capture information necessary for ULGDP. ULGs will use these systems to report on Program implementation, and to capture administrative data and data on local infrastructure and services delivered by Program funds.
* *Regional level*. The regional bureaus of urban development will collect Program related data from ULGs, consolidate them in a report along with their own inputs, and submit the reports to the MUDHCo.
* *Federal M&E system managed by MUDHCo*. MUDHCo will strengthen its existing M&E system to compile data from all 44 ULGs participating in the ULGDP II and produce the midyear and annual Program progress reports.

1. **Data generation and collection**. The data to track many of the key performance indicators will come primarily from the government’s own systems. The table below summarizes the various inter-linked tools which will be used to monitor and report on the Program.

Table 5: Data generation and collection

| **Type of information** | **Means** | **Frequency** |
| --- | --- | --- |
| Implementation experience, institutional performance, physical progress and outputs, technical aspects of the Program, and achievement of the key performance indicators. | ULGs, regional governments, and MUDHCo, each with responsibilities as described above. | Two reports a year, with the content as laid out below in paragraphs 58 and 59. |
| APA | Annually |
| Achievements of infrastructure plans and targets | APA | Annually |
| Value for the money | Value for the money audits, results to feed into the APA and impact on allocations | Every year starting the 2nd year |
| Financial reporting (use of funds, expenditure composition, and the like) | Annual financial statements, semiannual financial reports, internal audit reports, annual external audit reports | Semiannually  Annually |
| Detailed review of implementation experience, achievement of the key performance indicators, and progress towards the PDOs. | Midterm review. | Once in the Program (2017) |

1. **MUDHCo is responsible for planning and supervising the implementation of the APA and the value for money audit.** The APA will be carried out by an independent firm to ensure the objectivity of the findings. The assessment will be carried out in line with the Operational Manual, which is being developed by MUDHCo, with its content and quality acceptable to the Bank. The Operations Manual will provide clear definitions for each indicator as well as comprehensive guidance on the scoring. Adjustments which might be needed to the performance indicators and scoring will be done throughout implementation and particularly at the midterm review to ensure that the system is manageable and robust. Starting in year three of the ULGDP II, the value for money audits will be launched and carried out by independent firms under terms of reference acceptable to the Bank. Results of the value for money audits will be captured in the APA.
2. **Reporting**. The MUDHCo will be responsible for overall Program reporting. It will consolidate and analyze the field data submitted by regions and ULGs and update the Program’s results framework twice a year. It will also produce and submit to the World Banka midyear and an annual Program report, with information on the following:
3. **The midyear will cover the following issues**:

* Summary of aggregate Program expenditures and Program infrastructure delivered by ULGs.
* Execution of the MUDHCo capacity building plan.
* Summary of aggregate capacity building activities undertaken by ULGs and regional governments.
* Summary of aggregate environmental and social performance reports from each ULG, including information on grievances.
* Summary of progress against Program’s performance indicators.

1. **The annual Program report will include all the above, plus:**

* Summary of the assessment results, including the performance of Program ULGs and the disbursed amounts.
* Summary of aggregate information on procurement grievances.
* Summary of aggregate information on fraud and corruption issues.

1. **Capacity building for M&E**. The Program provides support for one or two additional M&E specialists at the federal level. Moreover, each regional mobile team will include at least one M&E specialist. Cities are required to appoint an M&E specialist to their Program team as a minimum access condition. The Program will finance regular training of M&E specialists, technical assistance, and other capacity support required to establish and operate an effective M&E system.

## Disbursement Arrangements and Verification Protocols

1. Disbursements of Program funds towards DLIs 1, 2 and 3 will be made twice a year. Disbursements towards the remaining DLIs 4, 5, 6, 8, and 9 will be made annually. Disbursements towards DLI 7 will be disbursed twice during the Program period (in FY17 and FY19), upon the verification of the delivery of intended results, as detailed in the verification protocol (annex 3). The basis of the verification protocol for DLIs 1 through 7 will be the independent APA. The terms of reference of the firm carrying out the APA must be acceptable to the World Bank. IDA will disburse funds to MoFED only once a year based on independent annual performance reviews.
2. The APA will measure the performance of ULGs against the Program’s minimum access conditions and performance indicators (see annex 10 for detailed list of Program minimum conditions and performance measures). The results of ULG compliance with minimum conditions will determine the disbursement of DLI 1. The results of ULG performance against Program’s performance measures will determine disbursement of DLIs 2 and 3. As part of DLI 3 verification, starting in Program year three, the findings of value for money audits will be included in the APA. In addition, the APA will also measure the performance of regional governments with respect to capacity building, timely completion of ULG financial audits, timely review of ULG safeguards practices, and support to ULG revenue enhancement, which will determine the disbursement of DLIs 4, 5, 6 and 7, respectively.
3. The firm will submit the APA simultaneously to the government and the Bank for review. The Bank will retain the right to make the final decision whether a DLI has been achieved or not. In addition, the Bank will contract an independent firm to cross-check the reliability of the findings of the ALP to ensure continued robustness. Except for factual errors, the findings of the APA (as confirmed by the Bank) will be taken as final. The firm will calculate the allocation to each ULG and regional government as per the formula in the Bank’s disbursement table, and will submit the suggested disbursement amounts (along with the full assessment report and its findings) simultaneously to the government and the Bank for review.
4. For DLIs 1, 2 and 3, ORAG’s audit results for ULGs will be used to verify that a ULG has met the minimum condition of having a clean audit. The sum of these individual amounts will comprise the disbursement to be made for that year. For DLIs 1 through 7, as part of the due diligence and implementation support, the Bank will review (a) the assessment results, and (b) the allocations for each ULG and regional government.
5. The verification of DLIs related to central government performance (DLIs 8 and 9) will be based on administrative reports and information from the APA. The information will be confirmed by the Bank during its regular implementation support missions.
6. For all DLIs, IDA will disburse funds to MoFED once a year. Once amounts against DLIs 1, 2 and 3 have been established, MoFED will disburse Program funds to the ULGs in two tranches in July and January. Transfers will be aligned with the budget cycle of ULGs (see grant cycle, annex 1). For DLIs 4through 7, MoFED will transfer funds to the regional governments’ BoFEDs once a year. BoFEDs will retain the part of the funds which pertain to the achievement of results associated with regional governments (DLIs 4, 5, 6 and 7) and transfer the funds which are associated with the achievement of results at the ULG level (DLIs 1, 2 and 3) to the local governments offices of finance and economic development. To ensure predictability, ULGDP II indicative planning figures (see annex 1) will be shared with ULGs and regional governments, although actual annual disbursements will be based on performance and achievement of the DLIs. ULGs will be informed in January of each year of their actual disbursement for the following fiscal year, as soon as the annual performance assessment is complete and the ULG audit results (financial audit, IPA, and the value for money assessment) are available. Disbursement of funds associated with the federal government (DLIs 8 and 9) will be made from MoFED to MUDHCo once a year.

# ASSESSMENT SUMMARY

## Technical (including program economic evaluation)

1. **Strategic relevance*.*** Ethiopia is urbanizing rapidly, which is a necessary condition for structural change at the macroeconomic level. While effective urbanization is key to Ethiopia’s growth, there are serious challenges to it, comprising (a) infrastructure and service delivery gaps and urban administrations institutional capacity weaknesses, (b) increasing urban population and higher demand for the already limited services and infrastructure, and (c) a significant fiscal gap to help ULGs overcome these challenges. The fiscal gap is due mainly to the inadequacy of the current fiscal system in Ethiopia to meet the financing needs of these fast growing ULGs. Within the fiscal system, ULGs receive recurrent support from regions through block grants to meet their mandate to carry out the state functions which have been delegated to them from the regional governments and some financing for core public sector employee salaries. In addition to these resources, there is almost no support for capital investments. In most cases, ULGs have to meet the infrastructure investment financing through their own source revenues. The government wishes to introduce ULGDP II to address these shortcomings, in the context of the overall evolution of its intergovernmental fiscal system. In this context, the Program rationale is to address the current urban infrastructure gaps and strengthen the institutions of both the ULGs involved in service delivery and the regions and the MUDHCo for support for urban management and improved urban services. As such, the Program will be in important continuation of the improvement of infrastructure and services in the 18 cities currently under ULGDP and an important step in rolling out the approach to the next class of 26 ULGs. Given the importance of urbanization and the role of ULGs for Ethiopia’s overall economic growth on the one hand, and the current fiscal gap which prevents ULGs from fulfilling this role on the other, the Program has high strategic relevance for Ethiopia’s development priorities.
2. **Technical soundness *.***ULGDP II draws heavily from the extensive experiences of Bank and government partnership in the urban sector, most recently under the ULGDP. These experiences, and those from other similar operations in relevant countries with the similar modalities have proved that the types of activities to be implemented using the Program funds at the ULG, regional and at the MUDHCo levels are highly likely to produce results of improved coverage and quality of core urban services and of strengthening of the institutional capacity of the participating ULGs, regions and the federal agencies involved. In addition to building on the experience of ULGDP, Program design also addresses the challenges faced under ULGDP which include ensuring that the annual assessments are undertaken on time, strengthening the capacity building support (supply and demand side), taking Addis out of the Program scope to ensure that the unique circumstances of the primate city are addressed properly under a possible Addis specific project, and the expansion of the incentives to support at all tiers of governance, including the regional governments. In addition, the design of the Program has benefitted from the knowledge and experiences of internal and external experts and the experiences from performance-based grant systems from various countries. An increasing number of countries have introduced performance-based grant systems, and most recently linked to PforR operations with focus on urban investments, such as Uganda and Tanzania.
3. Further, to ensure the sustainability of investments created by using Program funds and of the existing stock, each ULG will be supported in undertaking assets management, and in planning capital investments, operations and maintenance, and revenue mobilization. The support to help ULGs enhance own source revenues will include issues such as expanding the revenue base by source and revenue targets, billing, collection, enforcement, complaint resolution, and information, communications, and capacity building activities. To this end, the basic tenets of the current assessment system have been refined to enhance ULGs’ capacity for generating own source revenues; managing fiduciary, social, and environmental systems; implementing projects; and maintaining and operating urban infrastructure and services. Challenges experienced in the current ULGDP on ULG own source revenue mobilization have been addressed through strengthening of the minimum conditions and performance measures related to own source revenue. Minimum conditions, comprising requirements in planning, public financial management, social and environmental systems management, and procurement must be achieved and maintained by participating ULGs throughout the Program. If ULGs do not achieve the minimum conditions, they will not get access to the funds from DLIs 1, 2 and 3, but will be supported through the capacity building activities. In addition to the minimum conditions, a set of performance measures target urban institutional performance in core areas such as planning, budgeting, public financial management, own source revenue mobilization, procurement, assets management, and governance as well as infrastructure delivery. These measures are detailed in a transparent performance assessment manual, prepared by the government for the Program. The performance results approval and verification protocol process will be formalized through systems and procedures for approval, complaint handling, and publication and the assessments will be conducted in due time to fit with the ULGs budgeting and planning cycle, which will be supported through federal incentives for timely completion. The performance assessments will continue to be outsourced to a private, neutral, company to ensure that results are objectively measured, credible, and that the general credibility of the entire system is maintained. The Program will maintain the systems and procedures developed under ULGDP with a number of core refinements such as the timeliness of the assessments, sharpening and strengthening of minimum conditions and performance measures and of the incentive system through direct adjustment of grants against the performance of the ULGs. Based on the above, the technical design of the Program will contribute to the overall goal of efficiently producing results and reaching the Program’s objectives. The Program technical design reflects international good practice in the overall urban sector and specifically in technical standards and typology of Program activities. In addition, the design ensures, to the extent possible, that the incentives are in place for Program stakeholders to effectively contribute to the Program’s success. ***Therefore, the Program is technically sound***.
4. **Expenditure framework**. The Program’s expenditure framework (as per table below) consists of a total of US$556.53 million, of which US$499.53 million (of which US$176.53 is from the government and US$323.00 is from the IDA) will constitute the performance-based grants and go directly to Program ULGs for investments specified under the investment menu (annex 1). US$52.00 million will support capacity building efforts by and for the regional and federal government level activities and results directly linked to the execution of the performance-based grant system, and US$5.00 million will support the federal government’s efforts to administer the Program (focusing on APAs and value for money audits). Program funds at the ULG level will finance goods, services and training. These funds will flow from the federal government to the urban local governments, through regional governments, and will be disbursed on a bi-annual basis. The current ULGDP funding flow system will be maintained with a few improvements such as bi-annual, timely and predictable disbursements. The Program will use these well-established channels which form part of the current Ethiopian budget system.

Table 6: Program expenditure framework (US$, million)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Classification** | **FY2015** | **FY2016** | **FY2017** | **FY2018** | **FY2019** | **Total** |
| Performance based fiscal transfers to 44 ULGs (DLIs 1, 2 and 3 which measure Program minimum conditions and performance measures)  *Of which from regions and cities\**  *Of which from regions only*  *Of which from cities only* | 78.73[[17]](#footnote-17)  *28.60*  *13.13*  *15.47* | 105.20[[18]](#footnote-18)  *36.98*  *18.22*  *18.76* | 105.20  *36.98*  *18.22*  *18.76* | 105.20  *36.98*  *18.22*  *18.76* | 105.20  *36.98*  *18.22*  *18.76* | 499.53  *176.53*  *86.01*  *90.52* |
| Capacity building and ULG support by regional governments (linked to DLIs 4, 5, 6 and 7) | 5.20 | 5.20 | 7.20 | 5.20 | 7.20 | 30.0 |
| Federal support and capacity building Program administration (DLIs 8 and 9) | 5.40 | 5.40 | 5.40 | 5.40 | 5.40 | 27.00 |
| **Total** | **89.33** | **115.80** | **117.80** | **115.80** | **117,80** | **556.53** |

*Note:* Regions and cities contribute to the performance-based allocations as follows: established regions: (Amhara, Oromia, SNNPR, and Tigray) will contribute 30 funding in addition to the IDA grants, developing regional states will contribute 20 percent. New cities in the developing regional states will contribute 10 percent, new cities in the other regions will contribute 20 percent, and the cities benefiting from the ongoing ULGDP will contribute with 30 percent. Dire Dawa and Harar will contribute 50 percent of the IDA grant.

1. **Economic evaluation***.* The economic analysis of the Program assessed: (a) the rationale for public provision of infrastructure and services, (b) their economic impact, and (c) a counterfactual scenario where the Program is not introduced. The assessment shows a strong rationale for public provision and financing to increase the institutional capacity and performance of ULGs to deliver urban services. Good local governance is a combination of creating the proper legal, political, and institutional framework as well as of actively building capacity of local governments. At the ULG level, the Program will finance investments in core urban public goods and services—such as roads, drainage, sanitation, and solid waste management—which would not be provided without significant public interventions.
2. The economic rate of return reviewed by international institutions show the benefits of investing in these areas. First, a study undertaking by “Sanitation and Water for All” indicates that the economic rate of return is high, and in the range of 15-20 percent for urban investment projects in Ethiopia. Within the most important sector for ULGDP—the road sector—gravel roads have an economic rate of return ranging from 7–60 percent, depending on the length of the road. The highest rates of return are on the shortest length of the roads, exactly the types of roads to be supported by the Program. Furthermore, cost-effectiveness analysis for the roads sector on the basis of data collected under the current ULGDP shows that unit costs for ULGDP projects are generally lower than for non-ULGDP projects. Moreover, the costs of cobblestone projects—which have absorbed the majority of ULGDP funds are much lower than similar sized asphalt roads, but are creating similar benefits will lower maintenance costs.

Table 7: Cost of cobblestone roads compared with asphalt roads, selected cities

| **City** | **Cobblestone Road Cost**  **(ETB per square meter)** | **Asphalt Cost**  **(ETB per square meter)** |
| --- | --- | --- |
| Adama | 400–500 | 1,430 |
| Hawassa | 320 | 1,090 |
| Mekelle | 300 | 1,000 |
| Axum | 320 | 1,300 |

*Source:*ARPEDS CONSULT, 2011, “Assessment of the quality and value for money of investments undertaken under ULGDP.”

1. A specific economic analysis, with a cost benefit analysis, has been undertaken for the investments incobblestone roads. With and without project scenarios have been defined in order to identify the net benefits of the investment, with cash flow discounted at 10.23 percent (a discount rate developed by MoFED as a proxy for the opportunity cost of capital in Ethiopia, which is consistent with the 10–12 percent notional figure used for evaluating Bank financed projects). The analysis considers the stream of costs and benefits over a 20 year period (2015–2039). There are several other potential benefits that are not factored into the cost-benefit analysis because of lack of reliable data. Therefore, the estimated benefits from the cobblestone investments can be considered conservative, and it can reasonably be assumed that the actual benefits will be much higher. Results of the project economic viability as measured by the net present value(NPV) and the economic rate of return (ERR) and its sensitivity analysis to changes in cost and benefit streams are summarized below.

Table 8: Summary of the economic analysis of investments in cobblestone roads

| **Description** | **NPV US$ million** | **ERR (%)** |
| --- | --- | --- |
| Base case | **98.7** | **20%** |
| 20 percent cost increase | 72.7 | 16% |
| 20 percent revenue reduction | 52.9 | 15% |

1. The NPV amounting to US$98.7 million and ERR of 20 percent indicates that cobblestone investments are economically viable, even without considering other non-quantifiable benefits. The economic impacts of the project for all economic agents, including the transport users as well as the residents of the Program cities is significant. An analysis of the project sensitivity test results at 20 percent increase in cost and 20 percent reduction in benefits shows that the rate of return and the net present value remain at acceptable levels. The internal rate of return remains higher than the 10 percent opportunity cost of capital in all cases and NPVs are found to be positive, thus confirming the viability of the project under various scenarios.
2. The exact composition of investments which will be undertaken across Program ULGs are not known at this time, since they will be determined through a participatory planning process. The experience of the current program and other similar interventions indicate several potential benefits, which will be quantifiable after conducting post-construction evaluation and the value for money audits, which will start from year 3 of the Program. At this stage of design, baseline data and appropriate assumptions on the stream of benefits and costs over the life of the Program can be made to estimate quantifiable benefits for sample category of sub-projects which will be most likely chosen by the ULGs. These results will be validated after the post construction evaluations of the sub-projects are subjected to value for money audits, cost effectiveness analyses, and cost benefit analyses. Assessment of (a) the counterfactual scenario where the Program is not available and where the fiscal gap mentioned above continues, and (b) the potential economic impact of the Program discussed above, shows strong rationale for the proposed intervention.
3. Under the counterfactual scenario without the Bank-supported Program, the target ULGs would continue to face a large fiscal gap and increasing deficits of urban infrastructure and institutional capacity. This in turn would hinder the economic development of Ethiopia. This alternative route will mean that the Program ULGs will face serious challenges in meeting their ever-increasing residents’ expectations of delivering reliable urban services, as well as a possible deterioration and, in some cases, a collapse of existing infrastructure. Without the proposed Bank-supported Program, the support to ULGs under the existing intergovernmental fiscal architecture would be severely inadequate in achieving the objectives of the government’s GTP and urban policies.
4. To the extent possible and appropriate, the Program will promote local private sector development. As under the ULGDP, the implementation of almost all Program activities will be contracted out to the private sector. More than 2,000 medium and small enterprises have been involved in the construction of investment projects under the ULGDP. These numbers are expected to rise with the proposed investment menu and likely investments. ULGs, as implementing agencies, will retain their supervisory roles. The MUDHCo, as the main executing ministry, will retain oversight and quality assurance role for Program implementation. These arrangements are considered adequate in terms of economy, efficiency, and effectiveness in addressing the urban development issues at hand.

## Fiduciary

1. An integrated fiduciary assessment for the proposed Program was carried out on the fiduciary systems of MUDHCo and a sample of participating regional and urban local governments that will implement the ULGDP II, consistent with Operational Policy/Bank Procedure (OP/BP) 9.00, Program-for-Results Financing. A special survey was designed for assessing the financial management performance of cities. During September and October 2013, teams visited all 26 new cities joining the program to collect this information. For the 18 cities in the current ULGDP program, data was obtained and analyzed from the last three APAs. As part of the fiduciary assessment, the Bank carried out a procurement system assessment for the proposed ULGDP II between May and September 2013. The review included applicable procurement systems, rules and procedures, including oversight mechanisms at the program implementing entities. The program implementing entities include the MUDHCo, regional BoFEDs, and participating cities. All the regions and 18 of the 44 participating cities have been visited and assessed. Fraud and corruption and complaint handling mechanisms were also assessed.
2. The fiduciary assessment entailed a review of the capacity of the sample participating entities on their ability to(a) record, control, and manage all Program resources and produce timely, understandable, relevant, and reliable information for the Borrower and the World Bank;(b) follow procurement rules and procedures, capacity, and performance focusing on procurement performance indicators and the extent to which the capacity and performance support the program development objectives and risks associated with the Program and the implementing agency; and (c) ensure that implementation arrangements are adequate and risks are reasonably mitigated by the existing framework.

*Financial management*

1. At the national level, the assessment notes that the Public Expenditure and Financial Accounting (PEFA) ratings of 2010 had placed Ethiopia in the top tier of countries in the Africa Region in public financial management. Some of the areas where further improvements were needed are in the areas of multi-year planning, unreported government operations, Revenue generation including tax collections, budget execution, external and internal audit and external oversight. The Government of Ethiopia has a well-designed public financial reform program that is addressing these weaknesses in a systematic manner.
2. This financial management assessment builds on the lessons learnt during the implementation period of the ULGDP (2008–13). The challenges faced by the ULGDP were that the program was implemented as a special purpose grant outside of government systems at the region and city level, and that cities used a mixture of manual accounting, the IBEX accounting system, and discrete systems such as Peachtree to account for the ULGDP expenditures. In the initial years of the program, this led of large variation in reporting on ULGDP between the city level, regional level and federal level. Since the APA did not take place in a timely manner as scheduled, there were delays in release of funds, resulting in cities being forced to manage two capital investment budgets, their own and those funded by ULGDP. The flow of funds was therefore a challenge. Internal audit is an area of weakness across the country. In the cities covered by ULGDP this has remained a major area of weakness. While the backlog of external audits has been resolved and the ratings of all cities have now been classified as “qualified,” there is significant variation in risk between all the cities classified as “qualified.”There is need to improve the quality of external audits andtheir coverage. ULGs also need to address issues highlighted in the audit reports.There are five cities where follow up to audit report findings varies from 0–40 percent, and this is a major area of concern. On the revenue side, while cities seem to have made remarkable progress in increasing own source revenue, there is a possibility of “gaming” with 11 of the 18 cities exceeding their own revenue targets in EFY 2004; progress has been most significant on the state revenues rather than on the municipal revenues. Going forward there is a need for clear targets to improve revenue collection, and for performance measures that focus on municipal revenue mobilization and onthe budgetary contribution of ULGsfor urban investments and maintenance.
3. Many of these issues will be addressed during ULGDP II. It has been agreed that the template for PSCAP for proclaiming the budget will be followed. This budget will not only specify the flow of resources to the city level but will also enable the tracking of funding used at the sub-program level within the city. Fund flows will greatly improve, since funds will be disbursed twice a year through government systems, and cities will have a predictable flow of resources. All 44 cities covered by ULGDP II are now using IBEX for accounting for government funds. The use of IBEX will be standardized for ULGDP and resources for equipment and training will be provided to the cities.This should greatly improve accounting and reporting. On internal audit, MoFED’s inspection department will take the lead in improving the quality and timeliness of internal audit reports. They will engage with the internal audit units in the 44 cities and provide ongoing support in this area. In the area of external audit, OFAG will take responsibility for ensuring that quality audits are produced in a timely manner. OFAG will engage with ORAGs to ensure that this happens in a cost efficient and timely manner. To ensure effective follow up of external audit findings, an incentive system is being built into the DLI system under ULGDP II. Through these initiatives, it is expected that most of the financial management issues of concern under the ULGDP would have been adequately addressed.***It is the conclusion of the financial management assessment that the financial management risk rating is Substantial.***

*Procurement*

1. **The detailed procurement assessment reveals that in all regions and ULGs there is an adequate legislative framework and systems in place for public procurement and contracts management**. The major issues with all the implementing agencies aside from the MUDHCo are the weakness of implementation of the applicable public procurement rules and procedures, including the oversight mechanism. The regions as well as the ULGs have limited capacity to follow the rules and procedures and therefore there is risk of the entities’ performance in implementing the applicable procedures under the program. The overall performance of procuring entities (ULGs) in complying with the established system and therefore ensuring transparency, efficiency, and economy is found to be deficient. ***The conclusion of this assessment is that the risk of program procurement system to help achieve the program results is high***. Risk mitigation measures have been defined which will be part of DLIs and performance measures, procurement audits, and the Program action plan.
2. **Four types of risk mitigation measures are proposed**. The first is the use of minimum conditionsand performance measures for ULGs participating in the Program. Only those cities that have appointed a focal person for procurement can access Program funds for infrastructure and service delivery. In addition, performance with respect to preparation of procurement plans and compliance with procurement procedures is a performance measure, and will be assessed each year. The second risk mitigation measure is the implementation and monitoring of the agreed Program Action Plan (PAP). There are a number of measures in the PAP aimed at strengthening capacity of ULGs and other entities for procurement and contracts management. These have been agreed with the Borrower and are summarized in the table below. The third risk mitigation measure relates to the procurement issues in the APAs and the IPAs. Currently, the Regional Public Procurement Agencies (RPPAs)—although mandated to carry out procurement audits in their jurisdictions—do not have the capacity to carry out IPAs. Therefore, during the first two years of implementation, the APA will cover in detail indicators of procurement audits. In the third year of implementation, the RPPAs are expected to conduct the annual IPAs and to provide management corrective measures in response to their findings. The capacity building for MUDCHo, regions, and ULGS will address the identified weaknesses revealed in the APA and independent procurement audits.

*Fraud and corruption*

1. **The main factor that leads to fraud and corruption is a weak fiduciary environment**. Improving this environment in the participating ULGs is a specific goal of the Program, and will be addressed directly through various program design features. Specifically, these are:

* *Minimum conditions and performance indicators.* The annual performance assessment will include as minimum conditions and performance indicators measures related to the (a)quality of financial management and procurement systems, (b) adequacy in handling grievances related to fraud and corruption, and(c) transparency and accountability in procurement and financial management.
* *Capacity building program*. Elements of the capacity building program will focus on accountability and monitoring at all three government levels to minimize the fraud and corruption risk. Moreover, the capacity building mobile teams (federal and regional) will include core fiduciary staff.
* *Value for money audits*. Value for money audits will be conducted as part of the annual assessment (starting in year 3).

1. **There is a robust legal framework for addressing fraud and corruption in Ethiopia**. The government has established the Federal Ethics and Anti-Corruption Commission (FEACC) with a mandate to expand and promote ethics and anti-corruption education, to prevent corruption (through review of working procedures and systems), and to investigate and prosecute alleged corruption offences since 2001.[[19]](#footnote-19)The government has also declared that it follows a zero-tolerance policy toward corruption. The FEACC has received political support at the highest level in the country. Since 2007, all the nine regional governments have established their own Regional Ethics and Anti-corruption Commission (REACC) as per the regional laws. FEACC is responsible for coordinating efforts of Anti-corruption across regions including ULGs and preparing a national report on anti-corruption efforts across the country.
2. **Complaints handling mechanisms**. Complaints handling mechanisms are in place at all levels of government, as per the requirement of two national proclamations (433/2005 and 434/2005), and institutional level operational guidelines. These proclamations clearly define the procedures to follow for suspected corruption offences as well as for administrative complaints related to the Program. There are a number ways engaging citizens in complaints handling, and in promoting transparency. At the grassroots level, citizens have experience in forming community groups, or in appointing committees or representatives to liaison with government and seek solutions. Some ULGs have created forums to promote dialogue between citizens and service providers, and for joint monitoring and assessment of performance. Although the system of complaints handling is very well established in Ethiopia, the MUDHCo and the regional and local governments will take full responsibility in ensuring that the Program beneficiaries are regularly informed about the complaints system—an important requirement that will help in ensuring the program meets its development objectives.
3. **Complaints regarding the Program.** These can be received from internal or external clients through various channels, including in person or in writing. At the ULG level, complaints are lodged inthe city complaint handling body, in the unit consisting of ethics liaison unit officers, with the police, with other delegated bodies, or directly with REACC. Information on fraud and corruption and complaints regarding the ProgramComplaints lodged at the ULG level will be compiled and at the Regional level and shared with FEACC. FEACC will share the reports twice a year with the Bank.
4. **Complaints handling related to procurement.** The federal procurement proclamation established the “Board for Review and Resolution of Complaints in Public Procurement,” and instituted the board with five members. A complaints review unit in the public procurement agency receives and compiles complaints and presents them to the board. It also receives offence reports from procuring entities against suppliers. The board refers any procurement complaints perceived to involve fraud and corruption to FEACC or to REACC, or to both, for investigation.
5. **Revised procurement legislation and directives of each regional state.** These provide mechanisms for submitting complaints with which ULGs are required to comply. Complaints from suppliers or bidders can be submitted to the procuring entity; the head of the procuring entity responds to person making the complaint. If the person lodging the complaint is not satisfied, he or she will appeal the case to the procurement complaint review board (the majority of the board members are public officials and from procuring agencies), and then may take the matter to the courts if not satisfied. The head of BoFED or the head of the economic and social development department gives final approval of the recommendation of the board or committee.
6. **If the complaint review board/committee suspects the case is related to fraud and corruption, then the case is directed to the REACC or FEACC**. Any bidder, procuring entity, or citizen, including ethics unit officers, and federal and regional auditor generals, can lodge procurement related complaints to REACC or FEACC. In addition, as mentioned above, the ethics liaison unit officer of each entity report fraud and corruption related cases. Although the anti-corruption law in Ethiopia makes provision for people to complain directly to the FEACC and REACC, if they suspecta case of fraud and corruption, the Program coordinators will emphasize this point to all the procuring entities as part of the Program’s information dissemination.
7. **Fraud and corruption risks associated with fiduciary risk.** To address these risks, the proposed ULGDP II will be aligned to the Bank’s Anti-Corruption Guidelines. The memorandum of understanding signed between the Bank's Integrity Vice Presidency and FEACC on October 3, 2011 provides a framework for cooperation and sharing of information on fraud and corruption allegations, investigations and actions taken on the Program, including on procurement. The memorandum of understanding will provide the Bank and its Integrity Vice Presidency with a foundation for expanding the existing working relationship to cover future cooperative investigations under the Program when needed, and for helping to ensure that the Government of Ethiopia and the FEACC can implement their commitments under the Anti-Corruption Guidelines. The government also committed to use the Bank’s debarment list to ensure that persons or entities debarred or suspended by the Bank are not awarded a contract under the Program during the period of such debarment or suspension. Annex 5 contains detailed information on how the ULGDP II addresses the issue of fraud of corruption.
8. **Overall fiduciary risk.** For these reasons described above, ***the fiduciary risk assessed for this operation is classified as substantial.***Overall, the fiduciary assessment concludes that the ULGDP II’s financial management and procurement systems are adequate to provide reasonable assurance that the financing proceeds will be used for intended purposes, with due attention to principles of economy, efficiency, effectiveness, transparency and accountability, and for safeguarding Program assets once the proposed mitigation measures have been implemented. Appropriate systems to handle the risks of fraud and corruption, including effective complaint-handling mechanisms, have been agreed on and established. An action plan for mitigation of risks has been included in the main report of the fiduciary assessment.

## Environmental and Social Effects

1. **In accordance with the requirements outlined in the OP/BP9.0, an Environment and Social Systems Assessment (ESSA) has been undertaken**. This included a comprehensive review of systems and procedures followed by MUDHCo, regional, and ULGs to address social and environmental issues associated with the ULGDP II. The ESSA report provides an assessment of the extent to which the existing program procedures for social and environment conform to the core principals of environmental and social sustainability, outlined in OP/BP 9.0. It also recommends an action plan to address shortfalls.
2. **The ESSA confirms that Ethiopia has an adequate legal framework for environmental and social management in the urban sector**. Specifically, the country has a robust set of environment and social regulations,a functioning court system, and accountability provisions integrated into system. However, the quality of implementation and the effectiveness of existing provisions of the environment and social regulations are very uneven. An assessment of environmental and social regulations, policies and procedures, including institutional capacity and practices indicate a ***moderate level of environment and social risks*** associated with the program design and implementation. Many of the risks relate to implementation, including lack of application of standard procedures for risk screening and for implementation of mitigation measures among ULGs, lack of coordination among various agencies, and lack of technical capacity and resources.
3. **Given significant variation in the capacity of participating ULGs for environment and social management of risks, the ESSA identified the following three key areas for strengthening**:
4. *Institutional arrangements.* The institutional arrangements for program implementation will be strengthened based on the experiences from ULGDP. There will be a clear division of tasks and responsibilities between federal, regional, and ULGs, consistent with existing legal provisions, regulations and guidelines.
5. *Defining an environmental and social management system at city level.* Under the ULGDP II, as a minimum condition, ULGs must demonstrate that they have established a functional system for environmental and social management that outlines specific roles and responsibilities for environmental and social risk screening, due diligence and regulatory requirements, consultation and coordination with other local and regional agencies, technical tools for implementation and monitoring, a staffing and capacity building plan, and the like. After the first year, ULGs will be required to demonstrate that all projects are screened for impacts,that mitigation measures are defined, and that all projects have environmental approvals from the REPAs prior to initiating works.
6. *Technical guidance and capacity building.* ULGs can benefit significantly from sector specific technical guidelines that integrate environmental and social requirements for activities such as road construction, waste management, management of slaughter houses, provision of water supply, and others. The MUDHCo is compiling such guidelines to be shared with the ULGs.
7. *Addressing resource constraints.* This area includes measures to overcome constraints with respect to human and financial resources, through the Program incentive structure, as well as capacity building and training.
8. **A public consultation meeting was held to discuss with various stakeholders the key findings and proposed recommendations of ESSA.** Key points raised by participants pertained to the design of the program, processes required to access funding, areas to improve environmental and social management at city and regional levels, issues pertaining to dealing with encroachers and squatters, issues of environmental impact assessment screening and scoping requirements, challenges in monitoring and reporting on compliance during implementation, environment and social management capacity of REPAs and ULGs, lack of capacity in new participating ULGs, and issues in dealing with vulnerable groups. The meeting participants provided broad support to the program, including ESSA’s key findings and approach for future capacity building. The meeting endorsed the recommended approach taken to integrate the environment and social sustainability requirements into the Program’s DLIs, and to focus on incentives for improved performance with respect to environment and social management at ULGs, regions, and MUDHCo.
9. **Activities to be financed under the ULGDP II will be same as those being financed under the ULGDP.**These include core urban infrastructure investments in roads, water supply, sanitation, solid waste, public parks and greenery, and street lighting. To maximum gains and minimize risks, each city’s CIP will exclude all activities that are category “A” type of activities, as part of a well-defined investment menu under ULG responsibility.
10. **The design of the ULGDP II addresses environmental and social challenges and gaps.** For example, ULGs must comply with the following to participate in the Program:

* Council endorsement of city level environment and social management systems document, which includes procedures for screening of subprojects for environmental and social risks, measures to minimize and mitigate such risks, and plans for (a) monitoring environmental and social impacts and (b) implementation of mitigation measures.
* Evidence of adequate institutional capacity and systems to properly address environmental and social risks, including appointment of an environmental and social safeguards focal person.
* Establishment and operation of a grievance and redress system.

1. **The following measures have been incorporated into the ULGDP II Program Action Plan to further strengthen environmental and social safeguards:**

* *Pre-requisite for environmentally and socially sensitive investments.* Investments in sanitary or controlled landfills could cause significant environmental and social concerns if not planned, screened, and managed properly. Experience from the ULGDP indicates that a preventive approach in planning landfills has minimized the environmental and social risks. This preventive approach follows the guidelines and procedures for planning solid waste management, including for final disposal of solid waste using scientifically designed landfills. The guidelines include requirements for identification of location which is away from habitation; has a geology that causes least environmental harm to the ground water and soil of the area; requires the landfill to have a high density polyethylene liner to prevent any leaching of polluting overflow into ground water; requires a leachate collection and treatment system; and requires monitoring of ground and surface water during the operation of landfill. ULGs must also comply with the Ethiopian environmental regulations that require that an environmental and social impact assessment is undertaken for each site in consultation with the neighboring community, submit the report to the relevant REPA, and obtain REPAs clearance before proceeding with the subproject. In addition, under the Program, ULGs must demonstrate a sound and efficient system of waste segregation, recycling, collection, transportation, and treatment before they proceed with the investment to further minimize environmental and social risks of any landfill, regardless of size. All such screening of risks will be part of the environmental and social management system (ESMS) that is a Program minimum condition, and on which specific training will be provided to each ULG by a team of national and international experts. The screening procedures and implementation of environmental management planning for each site and city will be verified through an independent assessment to be undertaken annually by the REPA, and verified through another assessment, before disbursement.
* *Evidence of implementation.* The ULGs will be required to generate evidence (for independent verification) that all capital projects in the previous fiscal year were screened against the set of environment and social criteria in the planning stage. They must also show that prior to starting works (a) they have received approval from REPA for environmental management plans and resettlement action plans (where relevant), (b) implemented the resettlement action plans.
* *Incentives to ULGs for being environmental responsible and socially inclusive*. Regional governments will be able to access Program funds by monitoring verification of a functioning environment and social management system of all ULGs under their jurisdiction.

## Integrated Risk Assessment Summary

1. **Integrated Risk Assessment Summary**

Table 9: Integrated Risk Assessment Summary

|  |  |
| --- | --- |
| **Risk** | **Rating** |
| Technical | Substantial |
| Fiduciary | Substantial |
| Environmental and Social | Moderate |
| Disbursement Linked Indicators | Moderate |
| Overall Risk | Substantial |

1. **Risk Rating Explanation**
2. Although the MUDHCo, the regional governments, and the ULGs have gained considerable experience with managing a performance-based grant system under ULGDP, the Program risk is assessed as substantial. There are four main reasons why. The first relates to the weak capacity of the 26 newly participating cities to successfully manage significant new responsibilities and resources. The second major risk is that the large number of cities (44) that will receive performance grants will stretch the ability of the regional governments, the MUDHCo, and the Bank to provide adequate implementation support to cities. A third risk is that cities may not be able to fully address the fiduciary risks arising from implementation of infrastructure subprojects. The fourth risk is to the Program is the addition of the regional governments as participating entities. Regional governments were not beneficiaries of the ULGDP, so their capacity and willingness to perform timely and adequately to execute their responsibilities to support cities is unknown.
3. Significant measures have been included in the Program design to mitigate identified risks. The Bank’s Program team will continuously monitor performance to ensure that both anticipated and unanticipated risks areaddressed as quickly as possible once they arise. The Program action plan will pursue a risk-based approach and will outline the main measures through which risks to the achievement of Program’s PDO will be mitigated.

## Program Action Plan

1. To address the risks, the MUDHCo, the regional governments, and the ULGs will address the key issues as presented in the Program Action Plan. The most immediate of the actions are listed below. The full Program Action Plan is presented in annex 8.

* To ensure sufficient capacity in MUDHCo to manage the ULGDP II, the MUDHCo will fill its vacant positions and engage additional staff by early 2015.
* To ensure that the independent annual performance assessment is completed on time, the MUDHCo will contract a firm by end August each year.
* To ensure sufficient capacity at regional governments to support Program ULGs, the regional governments will fill staffing gaps in core positions such as procurement, M&E and engineering and planning support during implementation.
* To ensure that ORAGs execute their audit responsibilities towards ULGs, regional governments will provide adequate funding and agree with the ORAGs that they will complete audits oftheir respective ULGDP II cities by January 7 of each year. The ORAGs will also deal urgently with any backlogs in audits.
* To ensure that ULGs have sufficient capacity to participate in the Program, ULGs will throughout implementation maintain focal persons under the coordination of the city manager in the following areas: revenue mobilization, procurement, environmental and social sustainability, M&E, civil engineering, and public financial management, linked with the functioning internal audit unit.

Annex 1: Detailed Program Description

**PDO**

1. The Program Development Objective (PDO) is to enhance the institutional performance of participating urban local governments in developing and sustaining urban infrastructure and services.

**Program Scope**

1. **Under the proposed ULGDP II, the government of Ethiopia intends to expand the coverage of the performance-based fiscal transfer instrument to 26 additional cities, bringing the total covered to 44.** These 26 ULGs represent the next tier of important cities in the country with the highest populations. Over time, the government intends to roll out the performance-based fiscal transfer instrument to all 84 ULGs in the country. The existing ULGDP constitutes phase one of the policy. The proposed ULGDP II covering 44 ULGs will be phase two. The proposed ULGDP II will support cities with a total population of 4.3 million, or about 26 percent of the total urban population.[[20]](#footnote-20) In addition, the government plans, under ULGDP II, to assist the country’s nine regional governments to more effectively play their role in supporting cities growth and development.
2. **ULGDP-II’s main features** are defined as:
   1. ***Program duration***: five and a half years – July 2014 through December 2019.
   2. ***Program budget envelope***: US$556.53 million (table 1, below).
   3. ***Main expenditure items*:**
   * Performance based grants to 44 ULGs for urban infrastructure and services investments and capacity building (US$499.53 million);
   * Regional governments capacity building and oversight/support to constituent ULGs (US$30.00 million);
   * MUDHCo to administer and coordinate the program, and strengthen its capacity to support and guide the regions and ULGs (US$27.00 million);

**Table 1: Program financing**

|  |  |  |
| --- | --- | --- |
| **Source** | **Amount (million)** | **Percent of Total** |
| Government[[21]](#footnote-21) | US$176.53 | 32% |
| IBRD/IDA | US$380.00 | 68% |
| **Total Program Financing** | **US$556.53** | **100** |

1. **ULGDP II will maintain much of the design features of ULGDP** such as the performance orientation and the measurement of progress and results through independent annual and performance assessments (APA). Also similar to the ULGDP, ULGs may only use Program funds for activities specified in the investment menu—mainly core urban infrastructure such as urban roads and drainage, water supply and sanitation services, public parks, street lighting—and capacity building activities menu (seelater section). In addition, cities cannot use Program funds for investments that could have significant negative environmental impacts or that which would result in the resettlement of more than 200 people. Compliance with the investment and capacity building activities menu will be a minimum condition and will be verified through the APA each year. An ULG that has used Program funds for activities outside of these menus will not receive Program funds for the following year.
2. **The ULGDP II program design takes into consideration the key challenges faced in ULGDP and attempted to align with new government urban policy and strategy** (such as the Ethiopian Cities Prosperity Initiative, 2013/14-2025*)* that have come aboard since. The key changes to the ULGDP II program design addressing these are highlighted below:
3. All cities will be assessed on the set of minimum access conditions every year, not just at the start of the Program. This is to ensure that cities maintain the staffing and basic systems required to effectively administer urban local governments.
4. Cities will receive disbursements in direct relationship with their performance score on the APA. This is in contrast to the current system, which provides all cities, which score above a certain threshold with a 20 percent extra (accelerated) allocation. The new system will ensure that every point is having an impact on the actual allocation.
5. Several new results areas and targets have been added to the performance assessment, reflecting new government policies and the growing administrative sophistication of cities. For example, results areas now include (a) urban land management and urban planning, and (b) employment generation. In addition, all cities are now expected to screen all investments for environmental and social impacts, and to prepare environmental and social impact assessments, and related documents to address any adverse impacts. All cities are also expected to reflect Program funds in IBEX, rather than using a separate accounting system.
6. Financing for the regional governments and federal government entities (including MUDHCo), will no longer be input-based, but will also be results based. As detailed in the DLIs which target these two levels of government, program funds will be disbursed to these entities only after the verification of the results for which they are responsible.
7. Disbursements flow to cities in two timely and predictable annual tranches, rather than on the basis of withdrawal applications.
8. ULGDP II will not include Addis. Addis’s institutional, infrastructure, and financial needs of Addis are distinctly different than the other ULGs in Ethiopia. Therefore, a possible Addis Ababa-specific project is currently being discussed between the government and the World Bank.
9. A more structured and systematic approach is adopted for capacity building to support all three levels of government: federal, regional and local. (More details about capacity building are provided in the later section on the investment menu.)
10. **The performance-based grants (including matching funds from ULGs and Regions) to ULGs account for 90 percent of total funding in ULGPD II.** As in ULGDP, these performance-based grants are allocated according to a simple population-based formula and in direct proportion to the performance of that local government. The annual allocation for each full grant cycle will range between US$78.73 million (IDA: US$50.13 million, government: US$28.60) for the Program start year (fiscal 2015) and US$105.20 million (IDA: US$68.22 million, government: US$36.98) for each of the following four years. In the initial year of the Program, the 26 ULGs that are coming into the program will not participate in the performance assessment. Instead, they will receive allocations for fulfilling the minimum conditions. On average, the Program’s IDA funds will provide about US$14.85 per capita per year for investment in urban infrastructure and services. When disaggregated, the IDA funds will provide about US$13.38 for the new 26 cities and about US$15.69 for the 18 ULGs currently benefiting from the Program. Including the financing from the regional and urban local government, total Program financing will provide an average of US$19.58 per year for the 26 new cities and US$24.88 per capita per year for the 18 cities already in the Program. The indicative Program allocations to ULGs are presented below.

**Table 2: Indicative Program allocation to ULGs**

| **City** | **City population**  **(2013 estimates,**  **Central Statistics Agency)** | **IDA funding**  **(US$)** | **Government funding**  **(US$)** | **Total indicative Program funding**  **(US$)** |
| --- | --- | --- | --- | --- |
| Dire Dawa | 269,134 | $20,107,894 | $10,053,947 | $30,161,840 |
| Adama | 282,974 | $21,141,926 | $12,685,156 | $33,827,082 |
| Mekelle | 286,624 | $21,414,630 | $12,848,778 | $34,263,407 |
| Gondar | 264,964 | $19,796,339 | $11,877,803 | $31,674,143 |
| Hawassa | 225,686 | $16,861,749 | $10,117,050 | $26,978,799 |
| Bahir Dar | 198,909 | $14,861,151 | $8,916,691 | $23,777,842 |
| *Jijiga* | 152,674 | $9,757,346 | $2,927,204 | $12,684,550 |
| Jimma | 155,434 | $11,612,990 | $6,967,794 | $18,580,783 |
| Dessie | 153,691 | $11,482,764 | $6,889,659 | $18,372,423 |
| Shashemene | 129,084 | $9,644,294 | $5,786,576 | $15,430,870 |
| Bishoftu | 128,408 | $9,593,788 | $5,756,273 | $15,350,060 |
| Harar | 112,781 | $8,426,243 | $4,213,121 | $12,639,364 |
| Sodo | 109,225 | $8,160,562 | $4,896,337 | $13,056,899 |
| Nekemte | 96,657 | $6,177,318 | $3,088,659 | $9,265,976 |
| Arba Minch | 107,542 | $8,034,819 | $4,820,892 | $12,855,711 |
| Hosaena | 100,528 | $6,424,712 | $3,212,356 | $9,637,068 |
| Asela | 86,441 | $5,524,416 | $2,762,208 | $8,286,624 |
| DebreBrehan | 83,479 | $5,335,116 | $2,667,558 | $8,002,674 |
| Dire Dawa | 269,134 | $21,108,224 | $10,554,112 | $31,662,336 |
| Adama | 282,974 | $22,193,697 | $13,316,218 | $35,509,916 |
| Debub/Semen Mekele | 286,624 | $22,479,967 | $13,487,980 | $35,967,948 |
| Gondar | 264,964 | $20,781,170 | $12,468,702 | $33,249,872 |
| Hawassa | 225,686 | $17,700,590 | $10,620,354 | $28,320,944 |
| Bahir Dar | 198,909 | $15,600,466 | $9,360,279 | $24,960,745 |
| Jijiga | 152,674 | $10,211,319 | $3,063,396 | $13,274,714 |
| Jimma | 155,434 | $12,190,714 | $7,314,429 | $19,505,143 |
| Dessie | 153,691 | $12,054,010 | $7,232,406 | $19,286,417 |
| Shashemene | 129,084 | $10,124,079 | $6,074,448 | $16,198,527 |
| Bishoftu | 128,408 | $10,071,061 | $6,042,636 | $16,113,697 |
| Harar | 112,781 | $8,845,432 | $4,422,716 | $13,268,149 |
| Sodo | 109,225 | $8,566,535 | $5,139,921 | $13,706,456 |
| Nekemte | 96,657 | $6,464,725 | $3,232,363 | $9,697,088 |
| Arba Minch | 107,542 | $8,434,537 | $5,060,722 | $13,495,259 |
| Hosaena | 100,528 | $6,723,630 | $3,361,815 | $10,085,445 |
| Asela | 86,441 | $5,781,447 | $2,890,723 | $8,672,170 |
| Debre Brehan | 83,479 | $5,583,339 | $2,791,669 | $8,375,008 |
| Debere Markos | 79,980 | $5,349,315 | $2,674,657 | $8,023,972 |
| Dila | 84,952 | $6,662,799 | $3,997,680 | $10,660,479 |
| Kombolcha | 75,078 | $5,888,380 | $3,533,028 | $9,421,408 |
| Adigrat | 76,447 | $5,995,751 | $3,597,450 | $9,593,201 |
| DebreTabor | 71,149 | $4,758,670 | $2,379,335 | $7,138,004 |
| Sebeta | 63,391 | $4,239,790 | $2,119,895 | $6,359,685 |
| Burayu | 62,806 | $4,200,663 | $2,100,332 | $6,300,995 |
| Ambo | 61,900 | $4,140,067 | $2,070,034 | $6,210,101 |
| Shire Enidasilase | 62,769 | $4,922,983 | $2,953,790 | $7,876,773 |
| Woldiya | 59,046 | $3,949,183 | $1,974,591 | $5,923,774 |
| Axum | 59,269 | $4,648,477 | $2,789,086 | $7,437,564 |
| Robe | 57,031 | $3,814,413 | $1,907,207 | $5,721,620 |
| Zeway / Batu | 56,104 | $3,752,412 | $1,876,206 | $5,628,619 |
| Adwa | 53,763 | $3,595,839 | $1,797,920 | $5,393,759 |
| Gambella | 64,499 | $4,313,897 | $1,294,169 | $5,608,066 |
| Butajira | 47,978 | $3,208,920 | $1,604,460 | $4,813,380 |
| Alamata | 44,092 | $2,949,012 | $1,474,506 | $4,423,518 |
| Areka | 45,109 | $3,017,032 | $1,508,516 | $4,525,548 |
| Yirga Alem | 43,586 | $2,915,169 | $1,457,585 | $4,372,754 |
| Wukro | 40,103 | $2,682,215 | $1,341,108 | $4,023,323 |
| Mota | 33,500 | $2,240,586 | $1,120,293 | $3,360,878 |
| Finote Selam | 33,162 | $2,217,979 | $1,108,990 | $3,326,969 |
| Asosa | 40,686 | $2,721,208 | $816,362 | $3,537,570 |
| Mizan | 33,240 | $2,223,196 | $1,111,598 | $3,334,794 |
| Humera | 28,744 | $1,922,489 | $961,245 | $2,883,734 |
| Samera | 26,234 | $1,754,613 | $526,384 | $2,280,996 |
| **Total** | **4,348,853** | **$323,000,000** | **$176,531,315** | **$499,531,315** |

1. **Annual performance assessments (APAs)will be carried out each year to review each city’s performance.** The APAs will review (a) a set of minimum conditions that each ULG will be required to fulfill each year of the Program, and (b) a list of performance measures which track each city’s progress each year. Minimum conditions will function like green and red lights and the performance measures will determine each city’s score. Key results areas measured are (a) participation of citizens in planning and budgeting, (b) fiduciary management, (c) mobilization of own source municipal revenues, (d) delivery of new infrastructure and services, and operation and maintenance of existing infrastructure and services, (e) accountability and oversight systems and (f) environmental and social safeguards. The results of the APA will also be used to verify the DLIs, which are elaborated in later sections.
2. **The APA will be aligned with the ULG planning and budgeting process to ensure that results are available prior to the planning of the investment for the coming financial year.** Table 3 below shows the overall time-plan for the assessments when the system is fully operational. Some of the major milestones are: (a) the internal assessments to be completed no later than August, (b) external assessments to be completed in October/November, including quality assurance and verification, (c) input to the planning process (indicative planning figures) to be provided in December/January, and (d) the final input—the audit reports of the previous fiscal year—to be given in January. The assessments in the first year will be delayed due to the start-up of the program, and transitional arrangements are planned for. The first assessment will start in March and be completed prior to the start of Ethiopia’s financial year 2014/15.

Table 3: Overview of the timing of core activities in the assessment cycle

| **Activity** | **Timing** | **Responsibility** |
| --- | --- | --- |
| **General Assessment Cycle** |  |  |
| Review of experiences from past assessment and necessary changes. | Future years: February–March | MUDHCo |
| Information to cities about the assessments with overview of the minimum conditions and performance measures | Four weeks before the external assessments—early August | MUDHCo |
| Internal assessments | Undertaken continuously but no later than two weeks before the external assessment teams arrives | ULGs |
| Private firm or firms contracted to conduct the APA. | September | MUDHCo |
| Draft reports sent to MUDHCo and the World Bank simultaneously for review. | October | APA firm |
| First meeting on APA and discusses the results after quality assurance and review. | November | Technical Program Committee with broad representation of MUDHCo and MoFED. |
| Workshop with ULGs to share preliminary results. | November | MUDHCo |
| Audit results incorporated in the final APA report. | January | APA firm |
| Second meeting on APA reviews the APA for quality assurance. | January | Technical Program Committee with broad representation of MUDHCo and MoFED |
| Final endorsement of results (after review by the World Bank).  Note: As part of implementation support, the Bank team will review the quality of the assessment results. The Bank retains the right to make the final decision whether a DLI has been achieved or not. | January | MUDHCo |
| Communication of results to MoFED and the ULGs | January | MUDHCo |
| Inclusion of the figures in the budget drafts. | January | MoFED |
| Dissemination of results to the public. | January | MUDHCo, regions, and the cities |
| Planning and budgeting by ULG. | January–May | ULGs |
| Disbursement of first tranche | July | MoFED |
| Disbursement of second tranche | January | MoFED |

*Note:*In the first year prior to the assessments, the average likely figures for the ULGDP performance-based grants will be announced. However, the exact figures will depend on the performance of the cities.

1. **In the future, assessments of the performance of the cities in the previous financial will be conducted each year from September–November**. The results will determine the Program allocations in the subsequent financial year. For example, the assessment to be conducted in September**–**November 2015 of cities’ performance during2014/15 (Ethiopian fiscal year 2007) will determine the Program allocations for 2016/17 (Ethiopian fiscal year 2009). However, as the audit results are only available by January 7 after the financial year for which they are conducted, this will be the last “trigger” in the APA.
2. **In the first year, minimum conditions for all ULGs will be applied. However, the performance measures will apply only to the18 ULGs currently participating in the Program**. The first assessment, which will be completed later than in the future years, is expected be completed by May 2014 and to be used to determine the allocations for 2015/16 allocations (Ethiopian fiscal year 2007/08). The APA cycle, as planned, is presented below (with the noted delays in the first financial year):

*First Assessment: For allocations in year 2014/15*

* + December 2013: Indicative planning figures, based on expected full city compliance with the minimum conditions(all 44 cities), and average scores on the performance measures (the 18 cities in the current Program).
  + January/February 2014: ULGs budgeting process for 2014/15 starts using the indicative planning figures.
  + Minimum requirement assessment and assessment of performance (upon completion of contract with firm, expected in March 2014).
  + May/June 2014: Final disbursement figures for 2014/15 announced.
  + June 2014: Results incorporated in the city plans and budgets for 2014/15.
  + July/August 2014: Cities receive 50 percent of the first allocation disbursed.
  + January 2015: Cities receive 50 percent of the first allocation disbursed.

*Second Assessment: For allocations in 2015/16*

The APA will be conducted tracking most performance measures.

* + September 2014: Assessment of minimum conditions and performance measures started.
  + November: Assessment completed, except for the audit findings.
  + January 2015: Audit results are incorporated in the APA.
  + January 2015: Allocations announced
  + January 2015: ULG budgeting process for 2015/16 starts, based on actual allocations.
  + July 2015: 50 percent of annual allocation disbursed.
  + January 2016: 50 percent of annual allocation disbursed.

*Third assessment: 2016/17*

The full APA will be conducted tracking all performance measures.

* + September 2015: Assessment of minimum conditions and all performance measures started.
  + November 2015: Assessment completed, except for the audit results.
  + January 2016: Audit results are incorporated in the APA.
  + January 2016: Allocations announced.
  + January 2016: ULG budgeting process for 2016/17 starts, based on actual allocations.
  + July 2016: 50 percent of the allocations disbursed.
  + January 2017: 50 percent of annual allocation disbursed.

*Fourth assessment: 2017/18*

* + September 2016: Assessment started.
  + November 2016: Assessment completed.
  + January 2017: Audit results incorporated.
  + January 2017: Allocations announced.
  + January 2017: ULG budgeting process for 2017/18 starts, based on actual allocations.
  + July 2017: 50 percent of annual allocation disbursed
  + January 2018: 50 percent of the annual allocation disbursed.

*Fifth assessment: 2018/19*

* + September 2017: Third full assessment started.
  + November 2017: Assessment completed
  + January 2018: Audit results are incorporated.
  + January 2018: Allocations announced.
  + January 2018: ULG budgeting process for 2017/18 starts, based on actual allocations.
  + July 2018: 50 percent of annual allocation disbursed.
  + January 2019: 50 percent of annual allocation disbursed.
  + December 2019: End of Program.

1. Figure 1 below shows a regular assessment process, whereby the results are fitting into the cities’ annual planning and budgeting process.[[22]](#footnote-22)

**Figure 1: Regular Assessment Cycle: 2014 to 2019**

**Typology of Program activities**

1. The menu of investments eligible for funding under the Program will be the same as in Operational Manual of the ongoing ULGDP, with a few modifications. The full list is presented in the table below.ULGs are encouraged to focus on projects that will contribute directly to creating jobs and increasing incomes, including those using labor-intensive techniques.

**Table 4: ULGDP II performance grant investment menu**

|  |  |
| --- | --- |
| **Infrastructure/Service** | **Type** |
| **Roads** | *Expenditure group 1*   * Cobblestone, gravel’ and red ash roads. |
|  | *Expenditure group 2*   * Rehabilitation of roads * Bridges, fords and culverts * Pedestrian walkways * Street lighting, etc.   *Construction or rehabilitation of roadsthat require significant resettlement of people (more than 200 people) will not be eligible for funding under the ULGDP II.* |
| **Integrated multiple infrastructure and land services (residential, micro and small enterprises, industrial zones)** | *Expenditure group 3*   * Servicing of land with utilities (water supply, electricity, telecommunications, roads and drains (within existing right of way), solid and liquid waste collection and disposal, and other core urban infrastructure). |
| **Sanitation (liquid waste)** | *Expenditure group 4*   * Sewer reticulation systems(no large canals[[23]](#footnote-23)) * Wastewater treatment ponds * Sludge ponds * Community soak away pit and septic tanks * Community latrines: dry pit, ventilated improved pit, ecosan, composting * Vacuum trucks, vacuum handcarts, and the like. |
| **Solid waste management** | *Expenditure group 5*   * Collection trucks and other collection equipment, collection bins, transfer stations, collection points * Landfills (of the size of maximum 10 hectares and minimum design criteria as per the solid waste management manual) * Biogas and composting plants * Landfill site equipment including compaction vehicles, and the like. |
| **Water supply**(schemes to be financed under the program will follow the policies and principles of those of the Ministry of Water and Irrigation and Energy) | *Expenditure group 6*   * Spring catchments and gravity distribution system * River intake (run of river/dam), treatment works, and pressure distribution. * Wells with submersible pumps, treatment works, and pressure distribution. * Rehabilitation or expansion of existing system, communal standpipes, and the like. |
| **Urban drainage** | *Expenditure group 7*   * Drainage systems * Flood control systems, and the like. |
| **Built facilities** | *Expenditure group 8*   * Urban markets with associated services (water supply, drainage, access roads, and the like) * Development of production and market centers for small businesses * Slaughter houses (abattoirs), with by-products and processing facilities. |
| **Urban parks and greenery** | *Expenditure group 9*   * Support to urban parks and greenery development projects for beautification. |
| **Consultancy services for design and contract management** | *Expenditure group 10*   * For studies relating to preliminary and detailed design, contract documentation and supervision relating to the above infrastructure and services, and the like. |
| **Capacity Building Support** | *Expenditure group 11*  Up to 5 percent of investment grants can be utilized on capacity building support, see menu for capacity building support below. |

**Capacity building**

**Background**

1. **The existing ULGDP mainly relied on the legacies of capacity building support from past projects.** Capacity building of urban local governments started with the World Bank-financed Capacity Building for Decentralized Service Delivery Project (2003–08). The 18 ULGs that are benefiting under the existing ULGDP all received initial capacity building support from that project. In addition, the Public Sector Capacity Building Program Support Project (PSCAP) (2004–09), provided capacity building support for the federal ministries and agencies, and the nine regional governments. Under the ULGDP, the participating ULGs are benefitting primarily from backstopping support from the MUDHCo through a federal mobile team of experts.
2. **Three years into the ULGDP, it became apparent that continuous and strengthened capacity building support for urban management and good governance is still required.** With the opportunity of Additional Financing for ULGDP in 2011, 18 new ULGsstarted to receive capacity building support for urban management and governance, to prepare them for participation in the ULGDP II. Two multi-disciplinary consultant teams (with 20 and 25 expertsrespectively) have been deployed for this purpose.[[24]](#footnote-24)These teams are also enhancing the capacity of the 18 ULGs already participating in the ULGDP. A parallel GIZ-financed Urban Governance and Decentralization Program is providing capacity building support to a further eight citiesand nine regional governments on issues such as participatory planning, urban finance, and other areas of urban management.[[25]](#footnote-25) The work of the two consultant teams and of the GIZ-financed program will end in December 2014.

**ULGDP II Capacity Building Architecture**

1. **Under ULGDP II, a more structured and systematic approach will be adopted for capacity building activities that will focus on all three government levels: federal, regional and urban**. First, dedicated federal and regional mobile teams will support capacity building activities for all levels throughout the program period. In addition, capacity building support will be tailored to the needs of federal, regional, and local levels. For the federal level, capacity building support will aim to strengthen coordination for capacity building, oversight, and backstopping functions in serving the regional and local governments. Regions will be supported to strengthen their urban governance and management roles and in turn, provide capacity building support to ULGs in their jurisdictions. For ULGs, both supply and demand side interventions will be provided to raise their general capacity and enable them to respond to the performance incentive mechanism.
2. **The main focus of the capacity buildingsupport is on enhancing urban governance and management to achieve better service delivery.**Due to the cross-cutting nature of the subject,capacity building will aim to strengthen the governments’ capacity in a variety of areas, such as participatory planning, budgeting, revenue mobilization, financial management, procurement, infrastructure asset management, contract management and execution, urban planning, environmental and social safeguards, audit, ethics, fraud and corruption, and monitoring and evaluation. The intention is both to strengthen staff skillsand systems for urban management (such as IT system, accounting systems, monitoring and evaluation systems, and the like). The annual performance assessments will provide a comprehensive, regular check on the capacity improvements and achievements, and identify gaps and weaknesses to be improved upon for each ULG.

*Phasing*

1. **To ensure effective transition from ULGDP to ULGDP II, capacity building activities will be provided in two phases.** Phase 1, starting in November 2013 and continuing until December 2014, will be a transition period. Phase 2, starting in August 2014 and lasting until Program closing in December 2019, will constitute the main capacity building efforts of ULGDP II. In Phase 1, current capacity building arrangements under ULGDP and GIZ support will continue, and the former will start preparing for ULGDP II requirements. Concurrently, preparations for Phase 2 capacity building activities will commence and be in place before ULGDP II program effectiveness. Phase 2 will overlap with Phase 1 to allow time for proper handing-over.

Table 5: Main capacity building activities in each phase

|  |  |
| --- | --- |
| *Phase 1 (November 2013 to December 2014)* | *Phase 2 (August 2014 to December 2019)* |
| 1. Federal mobile team 2. Two technical consultant teams with capacity building support for ULGs (phased out by end of period) 3. GIZ financed support for capacity building of regional governments and eight cities (phased out by end of period) | 1. Expanded federal mobile team and functions 2. Four new regional mobile teams 3. New urban management course for ULGs 4. Demand-driven capacity building for ULGs |

*Federal and regional capacity building mobile teams*

1. **Underpinning the capacity building provided to all three levels of government throughout ULGDP II are the federal and regional capacity building mobile teams which deliver on-the-job issue-specific guidance.**With the expanded scope of ULGDP II to include a total of 44 ULGs, the current MUDHCo multi-disciplinary team comprising 12 specialistswill be further enhanced with the addition ofsome 34 specialists. MUDHCo will procure these specialists. The additional expertise will first boost the capacity within the MUDHCo to tackle the greater demands of the program and also afford greater capacity building support to the regions and ULGs. The federal mobile team will be stationed atMUDHCo but will regularly travel to the field to support both regional governments and ULGs. The main functions of the federal mobile team are:

* Focused support for:
  + The four new ULGDP II developing regional states
  + The four ULGs in the developing regional states
  + The two single-city regions of Dire Dawa and Harar
* Monitoring and evaluation
* General backstopping support for all other regions;
* Mentoring the four regional mobile teams;
* Capacity building for MUDHC
* Overall coordination and oversight of capacity building activities under ULGDP II including the urban management courses to be provided by the Ethiopian Civil Service University or other institute (described in later sections).

1. **Four new regional mobile teams will be formed under ULGDP II.** The main functions of theregional mobile teams are to (a) provide capacity building support to the host region, and (b) to provide capacity building support to the 38 participating ULGs in the respective regions. Each regional mobile team will consist of approximately ten multi-disciplinary specialists. Each will be based in the regions with large numbers of participating ULG: Amhara (10 ULGs), Tigray (8 ULGs), Oromia (11 ULGs) and SNNPR (9 ULGs). The teams will be based at the Bureau of Trade, Industry, and Urban Development(BUD) (or their equivalent). Each team will spend one out of four weeks per month working with the regional government, and the rest of the time working with the ULGs. While in the field, they will work closely with the relevant technical staff to provide mentorship and issue-specific support.
2. **The regional governments—with technical support from MUDHC—will procure the regional mobile teams.** The ministry’s support will include facilitating nation-wide advertisements to identify optimal candidates. As part of the region’s backstopping functions, this process of procuring and managing the regional mobile teams will instill ownership, confer greater responsibility, and strengthen the capacity of regional governments.
3. **The capacity of the regional governments to procure and manage these teams is assessed to be adequate.**Under past and current Bank-financed operations—including PSCAP, Protection of Basic Services, and Productive Safety Net Project—the regional governments have procured and are presently managing similar teams. For example, under the urban management capacity building sub-program of PSCAP, the regional bureaus of urban developmentare responsible for all regional level activities.[[26]](#footnote-26)Almost all regions have been engaged in providing training for mainly city administration staff and specialists on various urban related issues, ranging from urban development policies and good governance to specific knowledge on project planning and implementation, and management and technical skills. As a result, more than 18,000 people were trained in all regions, excluding SNNP. SNNP alone trained more than 160,000 people. Similarly, under PBS, regional governments procured and managed 54 teams of five specialists to provide support and training to woredas.

Table 6: Federal and regional capacity building mobile teams proposed functions and composition

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Function** | **Composition** | | | **Additional Notes** |
| **Federal mobile team** | * Focused support for the four new Developing Regional States (DRS) and their constituent four ULGs, and Dire Dawa and Harar; * General backstopping support for all other regions; * Mentor the four regional mobile teams; * Overall coordination and oversight of capacity building activities in ULGDP II (including the urban management course) | **34 specialists and one long-term advisor** | Current | Proposed | * Spends approximately three out of four weeks in the field * To be procured directly by the MUDHCo * Specialists to be recruited and in place by August 2014 |
| **Proposed composition:** |  |  |
| Program coordinator | 1 | 1 |
| Deputy coordinator |  | 1 |
| Procurement specialist | 3 | 5 |
| Environmental specialist | 1 | 3 |
| Social Development specialist | 1 | 3 |
| Engineers | 5 | 7 |
| Monitoring and evaluation specialist | 1 | 2 |
| Infrastructure asset management Specialist |  | 2 |
| Financial Management specialist (Accountant) |  | 1 |
| Internal Auditor |  | 1 |
| IT Specialist (IBEX) |  | 1 |  |
| Revenue Specialist |  | 1 |  |
| Municipal Finance Specialist |  | 1 |  |
| Urban planner |  | 2 |  |
| Land management specialist |  | 2 |  |
| Budget planning and participation specialist |  | 1 |  |
| **Regional mobile teams** | * Provide capacity building support to the four host Regions: Amhara, Tigray, Oromia and SNNPR * Provide capacity building support to participating ULGs in the respective regions, totaling 38 ULGs. | Four teams of ten specialists each | | | * One team to be based in each of the four regions: Amhara, Tigray, Oromia and SNNPR * Spends three out of four weeks in ULGs, and one week with regional administration * Regions to procure, with support from MUDHCo (for example, nation-wide advertising) * Teams to be recruited and in place by August 2014. |
| **Proposed team composition**: | | |
| Budget planning and participation specialist | | |
| Procurement specialist | | |
| Financial Management Specialist | | |
| Internal Auditor | | |
| IT Specialist (IBEX) | | |
| Infrastructure asset management specialist | | |
| Environmental management specialist | | |
| Social development specialist | | |
| Project engineer | | |
| M&E specialist | | |
| Municipal Finance Specialist (with focus on municipal revenue) | | |
| Ethics officer | | |

*Capacity building for ULGs*

New urban management course

1. **Underthe ULGDPII, capacity building for ULGs will comprise both supply side and demand side interventions.**The supply side intervention will mainly comprisean ULGDP II implementation course to be provided by the Ethiopian Civil Service University (ECSU). The course content will be based on those key areas of ULGDP II implementation with a strong emphasis on the practitioners at the ULG level. The target group for the capacity building will be the key individuals responsible for ULGDP II implementation in the 26 ULGs participating fully for the first time in the ULGDP. The proposed design of this course comprises eight modules: (a) procurement and contract management (twoweeks), (b) participatory planning, capital investment planning, budgeting and financial management (twoweeks), (c) monitoring and evaluation, reporting, performance assessment systems, records keeping and IT (twoweeks), (d) environmental and social safeguards including fraud and anti-corruption (oneweek), (e) asset management including O&M (one week), (f) revenue enhancement including land leasing (one week), (g) job creation, micro and small enterprise development (one week), and (h) urban planning and land management (one week).[[27]](#footnote-27)The eight modules will be delivered through resident training at the ECSU of 1 or 2 weeks in duration as indicated above. The eight packages will be offered over a period of four or five months during the first six months of ULGDP II implementation (August 1 to December 31, 2014) and are separated so as not to impose too great an administrative burden on the cities.
2. **Key urban staff of the 26 ULGs joining the ULGDP II will be expected to complete the course in urban management to ensure a basic level of capacity for these new ULGs.** The MUDHCo will pay the costs for staff of these 26 ULGs to attend this one-time course. After the first run, if refresher courses are needed, the 26 ULGs can send officials for further training at their own cost (or from the funding for demand-based capacity building). The course will be optional for staff of the 18 cities currently participating in the ULGDP, but can serve as a refresher or for new staff in the ULGs. These 18 ULGs can use their own resources to attend any or all of the modules.
3. **It is envisioned that the MUDHC will be the main facilitator to put the course in place.** This will involve inviting ECSU to submit a proposal, based on a course outline provided by MUDHCo. The course outline will (a) describe the eight modules and their duration indicated above. MUDHCo will work with ULGs to identify course participants. ECSU will be responsible for submitting a proposal to MUDHCo that describes the course design (including approach to delivery), course materials, system for certifying participants who successfully complete the course, individuals responsible for delivery of the eight modules.[[28]](#footnote-28)MUDHCo will enter into an agreement with ECSU for delivery of the course. To enable broader outreach, administration of this urban management course may also be provided by other appropriate in the future.

Demand-driven capacity building for ULGs

1. **In addition to the supply side interventions described above, each ULG will be able to spend up to 5 percent of performance-based grants on specific capacity building activities.**This will allow ULGs to meet their specific capacity building needs, especially in response to key areas of weaknesses identified in the annual performance assessment. This demand-based approach, which is new under the ULGDP II, will allow flexibility and cater to the varying needs of each ULG. Each ULG will procure its own training and other services in line with government procurement guidelines and using providers from the pre-qualified lists of relevant ministries and trainers and institutes that have been certified or accredited by the government. In addition, Ethiopia has a robust private market to offer technical assistance and consultancy services to the ULGs on various urban infrastructure and service areas such as water supply, drainage and flood control, roads, building, urban planning, waste collection and disposal, urban transport management, and the like.
2. **The ULGs will be required to develop a capacity building plan for the use of funds, formulated on the same timing cycle as their physical plans.**The capacity building plan, reportingand feedback will use the standard format elaborated in the Operational Manual. ULGs will be required to report on a quarterly basis on progress with capacity building activities and use of funds. Each regional BUD regional mobile teams will oversee the preparation and execution of these annual capacity building plans. The annual performance assessment will verify the execution of the capacity building plans.
3. **The capacity building activities to be funded should adhere to the prescribed capacity buildingactivities menu** (as detailed in the table below). Generally, these funds can be used for technical consultant work, backstopping support, advisory support, training, minor equipment and contract staff. Items such as vehicles and administration buildings are not part of this provision. As stated in the Operational Manual, should a ULG be in doubt about the eligibility of a capacity building activity, they will contact MUDHC to ensure that the expenditure complies with the ULGDP II expenditure framework.

**Table 7:Menu of capacity building activities**

|  |  |
| --- | --- |
| Training, seminar, and conferences | * Selected short-term training (upto duration of threemonths) * Peer-to-peer support across ULGs * Study tours as planned by the ULGs and approved by the ministry * Seminars and conferences andworkshops and meetings * Training materials * Hire of venue /hotel accommodation * Refreshments |
| Technical assistance,and organizational and systems development, and the like. | * Consultancy fees and related operating expenses * Printed material andstationery |
| Equipment | Equipment related with the capacity building support (not vehicles and buildings) including:   * Server (computing) * Networking and ICT equipment and software * Computers and accessories * Printer, photocopiers, scanner, and related equipment * Air conditioners andfans * Filing cabinets and shelves. |

*Notes:*

1. Total costs not to exceed 5 percent of total performance-based grant received.

2. Compliance with the capacity building activities menu will be a minimum condition for access to the performance grant.

*Capacity building for regional governments*

1. **Under ULGDP II, regional governments will begin assuming expanded roles in supporting ULGs within their jurisdictions.** The various regional BUD will be the main coordinating as well as recipient agencies of capacity building activities. The federal and regional mobile teams will provide support to the regional governments to build up their general capacity for urban governance and management. In turn, the regional governments will have greater capacity to provide guidance for the ULGs. In particular, regions will receive additional financial support to achieve results in three focus areas: (a) audit, (b) environmental and social safeguards, and (c) revenue enhancement and mobilization. The achievement and performance in these areas will be measured in the annual performance assessment.
2. **The four established regions with multiple participating ULGs—Amhara, Oromia, SNNP and Tigray—will have greater responsibilities to host and provide logistical support to the regional mobile teams**. In the process, the regional mobile teams will directly assist the regions themselves to enhance their capacity.

*Capacity building for federal entities*

1. **Capacity building activities for MUDHC under ULGDP II will focus on three key areas of urban management**. Theseare (a) systems development for urban management and development (such as monitoring and evaluation, IT and database systems, procurement, revenue mobilization systems and database); (b) equipment related with the enhanced capacity building; and (c) expansion of the federal mobile team and training of the core MUDHCo officials. In addition, it is proposed to have at least one international senior urban development advisor to be attached to MUDHC to provide guidance and oversee the management of capacity building activities throughout the Program.
2. **Besides MUDHC, other federal entities will have supporting roles in ULGDP II**. As the overall coordinator and implementing agency of the Program, MUDHC will inform these relevant federal agencies (for example, MoFED and FEACC) of the Program, and liaise with them to determine specific capacity building needs that could be covered within ULGDP II.

*Sustainability*

1. **The Urban Governance Capacity Building Bureau (UGCBB) of the MUDHC will handle the ministry’s capacity building functions**. The MUDHCois in the process of setting up a Center of Excellence for Urban Governance and Capacity Building, which will undertake the functions of (a) capacity building, (b) research and analysis on urban governance, and (c) performance and benchmarking to support the Ethiopian Cities Resilient, Green Growth, and Governance Programs Package. It is envisioned that capacity building support to all three levels of government will be consolidated under this Center of Excellence.
2. **At the regional and local levels, ULGDP II will build upon previous projects and programs to continue strengthening their capacity**. ULGDP II is particularly focusing on supporting the regions and ULGs that have received less capacity building support in the past. While ULGDP II will in the medium term support the 44 participating ULGs with capacity building, in the long run, government’s intention is to scale up capacity building efforts to cover all 85 ULGs in Ethiopia. The capacity building systems and activities being put in place under ULGDP II, such as the urban management course and demand-driven capacity building activities, could be scaled up and easily applied to other ULGs in the future.

**Institutional and implementation arrangements**

1. **Implementation responsibilities by level of government**. The institutional arrangements of the ULGDP II are based on the experiences from ULGDP, with a clear division of responsibilities between levels of government, as per the government structure and consistent with existing legal provisions, regulations, and guidelines. The roles and responsibilities of the relevant entities are summarized below. (Details are included in Annex 4.)

*Federal level*

1. At the federal level:
   1. MUDHCo will have the following main tasks:
      * Overall responsibility for day-to-day coordination of the Program.
      * Capacity building, including direct support to regional and urban local governments.
      * Development of core tools to be applied for the capacity building support such as guidelines, standard proclamations[[29]](#footnote-29), best practices etc.
      * Program management, including the procurement and management of the APAs and the value for money audits.
      * Program reporting, including the annual Program report.
      * Monitoring and evaluation
      * Accounting for the ULGDP II funds to Parliament.
   2. The Ministry of Finance and Economic Development (MoFED) will be responsible for ensuring that Program resources are budgeted for and disbursed within the expenditure framework, and for financial management, including reporting, program auditing and compilation of federal fiscal reports.
   3. The Office of the Federal Auditor General (OFAG) will be in charge of the annual Program audit, which will cover all Program entities (44 ULGs, nine regional governments, and MUDHCo) and that Program accounts are audited as per statutory requirements.
   4. The Federal Public Procurement and Asset Management Agency will provide guidance to the Regional Public Procurement and Asset Management Agencies and assist with the capacity building of procurement specialists.
   5. TheFederal Ethics and Anti-Corruption Commission (FEACC) has the power to prevent, expose, investigate and prosecute corruption offences and impropriety in Ethiopia. Under ULGDP II, it will ensure the Program is aligned with the World Bank’s anti-corruption guidelines. It will be responsible for fraud and corruption monitoring and reporting, and provide guidance and capacity building support to the Regional Ethics and Anti-Corruption Commissions (REACs) and ULGs on similar functions.
2. As under the ULGDP, the Urban Governance Capacity Building Bureau (UGCBB) at the MUDHCo will be responsible for daily coordination of the Program. The significant geographic and technical scale up of the Program under the proposed PforR, and the existing staffing gaps, if unaddressed, bring considerable risk to the achievement of the operation’s development objective. Therefore there is a serious need to fill the personnel gaps and further strengthen capacity of UGCBB. The current MUDHCo multi-disciplinary team comprising 12 specialists should be further strengthened to include a minimum of 34 specialists and one long-term international advisor. The strengthened team will boost the capacity within the MUDHCo to perform the necessary functions required under ULGDP II and allow the ministry to provide greater capacity building support to the regions and the ULGs.
3. In addition, the MUDHCo will be responsible for overall Program reporting and monitoring and evaluation. It will also produce and submit to the World Bank a midyear and an annual Program report, with information on the following:
4. **The midyear will cover the following issues**:

* Summary of aggregate Program expenditures and Program infrastructure delivered by ULGs.
* Execution of the MUDHCo capacity building plan.
* Summary of aggregate capacity building activities undertaken by ULGs and regional governments.
* Summary of aggregate environmental and social performance reports from each ULG, including information on grievances.
* Summary of progress against Program’s performance indicators.

1. **The annual Program report will include all the above, plus:**

* Summary of the assessment results, including the performance of Program ULGs and the disbursed amounts.
* Summary of aggregate information on procurement grievances.
* Summary of aggregate information on fraud and corruption issues.

1. A steering committee will be established,comprising representatives from the MUDHCo and MoFED to ensure strong coordination on issues such as planning, allocations, flow of funds, compilation of data, and approval of the results from the APAs. A technical sub-committee comprising key technical staff of MUDHCo and MoFEDwill be formed under this committee. It willreview the results of the APAs and ensure their quality. It will also respond to complaints that cannot be resolved at entity level. The technical committee is expected to meet quarterly and review Program implementation against objectives, bring policy issues to the larger coordination committee, and ensure that the Program is implemented in line with the Program Operational Manual.

*Regional level*

1. At the regional government level:
2. The respective regional Bureaus of Urban Development (BUDs) will be responsible for daily coordination of the Program at the regional level. Specifically, the BUDs will be in charge of:
   * + Capacity building support of the ULGs in their jurisdiction.
     + Preparation of progress reports covering all ULGs in their jurisdiction.
     + Oversight and backstopping support related to aspects of the Program.
3. Office of Regional Auditor General (ORAGs) will conduct, either directly or through delegated authority, the external audit of ULG financial reports.
4. Regional environmental protection agencies (REPAs) will oversee the implementation of the Program’s environmental and social safeguards agreements.
5. Bureaus of Finance and Economic Development (BoFEDs) will manage flow of funds at the regional level, and consolidate the fiscal reporting from the ULGs for submitting them to MoFED.
6. Regional revenue authorities will support the ULGs in revenue mobilization through conducive dialogue, support and guidance;
7. Regional Public Procurement and Asset Management Agencies will provide more direct guidance and support to the ULGs on procurement procedures; and
8. Regional Ethics and Anti-Corruption Commission (REAC) will be responsible for fraud and corruption monitoring and reporting of ULGs under their charge.
9. In contrast to ULGDP, under ULGDP II regional governments will begin assuming expanded roles in supporting ULGs within their jurisdictions to improve urban governance performance. Therefore, ULGDP II provides for the federal mobile and regional mobile capacity building teams to give support to the regional bureaus of urban development to build up their general capacity for urban governance and management, in the range of relevant areas. In turn, the regions will have greater capacity to provide guidance for the ULGs.

*Urban local government level*

1. At the ULG level:
2. The mayor’s office in each urban local government will be responsible for the overall performance of urban local governments. It will ensure compliance with all financial management, procurement, and Program environmental and social safeguards and regulations. It will also facilitate access to the information required as part of the annual performance assessments.
3. The offices of urban development and will be responsible for day-to-day Program coordination. It will lead the participatory planning process, procure and manage works contracts, disseminate information about the Program (including contract awards, physical and financial progress of works contracts, and the like). It will also ensure that such contracts are implemented in accordance with the Program’s environmental and Social Safeguards.
4. The OFEDs will be responsible for ensuring that all Program funds are included in IBEX and that financial reports are submitted to ORAG as soon as possible after the end of the Ethiopian fiscal year.
5. The city councils will be responsible for reviewing and approving cities’ capital investment plans, revenue enhancement plans, and asset management plans to contribute to the funding of the urban investments from their own source revenues.
6. ULGs require a wide range of expertise to successfully carry out their mandates. An analysis of staffing carried out as part of Program preparation reveals that most ULGs have the necessary staff, but a few need to fill key positions to access Program funds. As would be expected, the 26 cities joining the Program’s performance grant mechanism have the greatest percentage of unfilled positions. Based on data from 27 ULGs, about 82 percent of positions at OFEDs filled, with an average of 39 staff.About 84 percent of core financial management and procurement positions are filled, with an average of 22 staff. Some 85 percent of audit and inspection positions are filled, with an average of 5 staff. In budgeting and planning, some 64 percent of the positions filled, at an average of fourstaff. The 19 ULGs assessed have an average of seven engineers or similar positions. In terms of education of staff, the ULGs have an average of 15 staff with BA/BSc or higher education. However, there is great variation, ranging from three (Motta) to 44 (Hawassa). The 26 new ULGs have a lower number of filled positions (77 percent are filled with an average of 31 staff in contrast to 86 percent with an average of 47 staff for the 18 existing ULGs. They also have less capacity in the core positions(see annex7 and the summary table below). All ULGs are expected to have the necessary core staff in place by Program effectiveness; ULGs that do not meet this minimum condition will not be able to access Program funds.

**Table 8: Staff positions in ULGs**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **City** | **Required OFED positions (#)** | **Actual OFED filled (#)** | **Position filled (average, %)** | **Position filled Finance/**  **Procurement (%)** | **Position Filled Audit /**  **Inspection (%)** | **Position filled budget and planning (%)** | **Position filled - technical staff (engineers etc.) (number)** | **Staff with BA/BScs(number)** |
| All sample | 50 | 39 | 82 % | 84% | 85% | 64 % | 7 | 15 |
| ULGDP | 57 | 47 | 86% | 88% | 86% | 89% | 8 | 17 |
| Non-ULGDP | 42 | 31 | 77% | 79% | 85% | 61% | 5 | 12 |
| No. in the sample | N= 27 | N = 27 | N= 27 | N=26 | N=26 | N=15 | N =19 | N= 27 |

1. Given the substantial increase in the funds which will be made available to the new 26 ULGs entering the Program, having key staffbecomes critical to ensure that the funds are used in the appropriate fiduciary, budgeting, planning, consultation and other Program framework and rules. The design of Program will mitigate this risk by making core staffing a Program minimum condition. As such, in order for all 44 ULGs to access the Program’s performance grant funding, they have to have these staff members in place each Program year. In addition to this risk mitigation, another measure adopted under Program preparation is the agreement with the ministry that the federal and regional governments will ensure that the Program ULGs have the following requisite staff by Program effectiveness: (a) city administrator, who is also the main coordinator of the ULGDP II operations, or another dedicated officer (b) finance officer, (c) procurement officer, (d) municipal engineer, (e) physical/urban planner, (f) environmental and social systems management officers.

Annex 2: Results Framework Matrix

|  |
| --- |
| **Program Development Objective: Enhance institutional capacity of participating ULGs in developing and sustaining urban infrastructure and services.** |

| **PDO Level Results Indicators** | **Core** | **DLI** | **Unit of Meas-ure** | **Base-line**  **FY14** | **Target Values** | | | | | | | **Frequency** | | **Data Source/ Method-ology** | **Responsibility for Data Collection** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **FY15**[[30]](#footnote-30) | | | **FY16** | **FY17** | **FY18** | **FY19** |  | |  |  |
| 1. Score in the APA for institutional performance ofparticipatingULGs, averaged across all cities.[[31]](#footnote-31) |  | 2 | Number | 0 | 60 | | | 65 | 70 | 75 | 80 | Annually | APA | | APA firm collects the basic data on performance. The MUDHCo and the Bank verify the index. |
| 2. Score in the APA forachievement of urban infrastructure targets by ULGs, averaged across all cities. |  | 3 | Number | 0 | 60 | | | 65 | 70 | 75 | 80 | Annually | APA | | See above. |
| **Intermediate Results Area 1: Institutional Performance** | | | | | | | | | | | | | | | |
| 1. ULGs that achieve an increase of own source municipal revenue of at least 10% over the previous year under ULGDP II.[[32]](#footnote-32) |  | 2 | Number | 0 | 10 | 18 | | | 24 | 30 | 36 | Annually | APA | | Firm collects the data and the MUDHCo and the Bank review and confirm. |
| 2. ULGswith timely audit5[[33]](#footnote-33). |  | 8 | Number | 5 | 18 | 32 | | | 38 | 44 | 44 | Annually | APA | | Same as above. |
| 3. ULGs with clean (unqualified) audit under ULGDP II. |  | 2 | Number | 0 | 5 | 8 | | | 12 | 16 | 20 | Annually | APA | | Same as above. |
| **Intermediate Results Area 2: Infrastructure and Maintenance** | | | | | | | | | | | | | | | |
| 1. Direct Program beneficiaries under the ULGDP II | **√** | na | Number | 0 | 2.85 million | | | 3 million | 4.4 million | 4.4 million | 4.4 million | Annually | | Census and APA | MUDHCo |
| 1.a. Of which female | **√** |  | Percent | 0 | 50% | | | 50% | 50% | 50% | 50% | Annually | | Census and APA | MUDHCo |
| 2. People in participating urban local governments provided with access to all-season roads within a 500 meter range provided under the ULGDP II[[34]](#footnote-34) | **√** | 3 | Number | 0 | 1 million | | | 2 million | 3 million | 4 million | 4.2 million | Annually | | Census and APA | MUDHCo |
| 3. Urbancobblestoneroads built or rehabilitated under ULGDP II |  | 3 | Kilo-meters | 0 | 120 | | | 270 | 420 | 570 | 730 | Annually | | APA | Firm collects the data and the MUDHCo and the Bank review and confirm. |
| 4. Urbangravel roads built or rehabilitated under ULGDP II |  | 3 | Kilo-meters | 0 | 15 | | | 45 | 75 | 105 | 135 | Annually | | APA | Same as above. |
| 1. Serviced land for industry, MSEs, and housing. |  | 2 | Hectares | 0 | 300 | | | 680 | 1,060 | 1,440 | 1,820 | Annually | | APA | Same as above. |
| 6. New controlled or sanitary landfills supported under the project under the ULGDP II |  | 3 | Number | 0 | 0 | | | 2 | 5 | 9 | 13 | Annually | | APA | Same as above. |
| 7. Public parks and greenery under the ULGDP II |  | 3 | Hectares | 0 | 5 | | | 15 | 25 | 40 | 55 | Annually | | APA | Same as above. |
| 8. ULGs that execute at least 80 percent of their O&M budget under the ULGDP II. |  | 3 | Number | 0 | 9 | | | 22 | 30 | 35 | 40 | Annually | | APA | Same as above. |
| **Intermediate Results Area 3: Capacity Building** | | | | | | | | | | | | | | | |
| 1. ULGs that implement at least 80% of the budget presented in the annual capacity building plans. |  |  | Number | 0 | 9 | | 22 | | 30 | 35 | 40 | Annually | APA | | Same as above. |
| 2. Regions that implement at least 80% of the budget presented in the annual capacity building plans. |  | 4 | Number | 0 | 0 | | 3 | | 4 | 4 | 4 | Annually | APA | | Same as above. |
| 3. MUDHCo utilizes the budget presented in the annual capacity building plans. |  | 8 | Percent | 0 | 60% | | 80% | | 95% | 95% | 95% | Annually | APA | | Same as above. |

Annex 3: Disbursement Linked Indicators, Disbursement Arrangements, and Verification Protocols

Disbursement-Linked Indicator Matrix

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | ***Total financing allocated to DLI*** | ***As percent of total financing amount*** | ***DLI Baseline*** | ***Indicative timeline for DLI achievement*** | | | | |
| ***Year 1***  ***FY15*** | ***Year 2***  ***FY16*** | ***Year 3***  ***FY17*** | ***Year 4***  ***FY18*** | ***Year 5***  ***FY19*** |
| **DLI 1**  ULGs have achieved Program minimum conditions in the annual assessment |  |  | 0 | 44 ULGs | 44ULGs | 44ULGs | 44ULGs | 44ULGs |
| Allocated amount | $90 million | 23.68% |  | $18 million | $18 million | $18 million | $18 million | $18 million |
| **DLI 2**  ULGs have strengthened institutional performance as scored in the annual performance assessment |  |  | 0 | 60 (average score) | 65 (average score) | 70 (average score) | 75 (average score) | 80 (average score) |
| Allocated amount | $158 million | 41.58% |  | $21.8 million[[35]](#footnote-35) | $34.1 million | $34.1 million | $34.1 million | $34.1million |
| **DLI 3**  ULGs have delivered infrastructure, maintenance and supported job creation as per their annual action plans and the capital investment plans, as scored in the annual performance assessment, and ensured value for the money |  |  | 0 | 60 (average score) | 65 (average score) | 70 (average score) | 75 (average score) | 80 (average score) |
| Allocated amount | $75 million | 19.74% |  | $10.3 million | $16.2 million | $16.2 million | $16.2 million | $16.2 million |
| **DLI 4**  Regional government capacity building and support teams in place and support urban service delivery |  |  | 0 | Capacity building plan of and terms of referencefor regional government teams are place. | 80 in place%[[36]](#footnote-36) | 80% in place and 80 % execution rate | 80% in place and 80 % execution rate | 80% in place and 80 % execution rate |
| Allocated amount | $13million | 3.42% |  | $2.6million | $2.6 million | $2.6 million | $2.6 million | $2.6 million |
| **DLI 5**  ORAGs carry out ULG audits on time |  |  | 5[[37]](#footnote-37) | 44 ULG audits completed | 44 ULG audits completed | 44 ULG audits completed | 44 ULG audits completed | 44 ULG audits completed |
| Allocated amount | $7 million | 1.84% |  | $1.4 million | $1.4 million | $1.4 million | $1.4 million | $1.4 million |
| **DLI 6**  Regional environmental protection agencies (REPA) review of ULG safeguards compliance in a timely fashion. |  |  | 0 |  | 44 ULG safeguards reviews/audits completed | 44 ULG safeguards reviews/audits completed | 44 ULG safeguards reviews/audits completed | 44 ULG safeguards reviews/audits completed |
| Allocated amount | $6 million | 1.58% |  | $1.2 million | $1.2 million | $1.2 million | $1.2 million | $1.2 million |
| **DLI 7**  Regional revenue authority support ULG revenue mobilization[[38]](#footnote-38) |  |  | 0 |  |  | 44 ULG revenue mobilization supported |  | 44 ULG revenue mobilization supported |
| Allocated amount | $4 million | 1.05% |  |  |  | $2.0 million |  | $2.0 million |
| **DLI 8**  Completion of annual MUDHCo capacity building activities for Program ULGs, regional governments and the ministry |  |  | 0 | Compre-hensive annual Program capacity building plan in place and terms of reference developed | Capacity building plan in place, 80% of people in place and minimum 60% of the plan implemented | Capacity building plan in place, 80% of people in place and minimum 60% of the plan implemented | Capacity building plan in place, 80% of people in place and minimum 60% of the plan implemented | Capacity building plan in place, 80% of people in place and minimum 60% of the plan implemented |
| Allocated amount | $22 million | 5.79% | 0 | $4.4 million | $4.4 million | $4.4 million | $4.4 million | $4.4 million |
| **DLI 9**  Timely completion of Program annual performance assessments (APA) and value for money audits |  |  | 0 | APA completed on time | APA completed on time | APA and value for money completed on time | APA and value for money completed on time | APA and value for money completed on time |
| Allocated amount | US$5 million | 1.32% |  | $1 million | $1 million | $1 million | $1 million | $1 million |
| **Total Financing Allocated:** | US$380 million | 100% | 0 | $60.7 million | $78.8million | $80.8million | $78.8million | $80.8 million |

DLI Verification Protocol Table

| **#** | **DLI** | **Definition/**  **Description of achievement** | **Scalabi-lity** | **Data Source** | **Verification Entity** | **Procedure** |
| --- | --- | --- | --- | --- | --- | --- |
| 1 | ULGs have achieved Program minimum conditions as shown in the APA | The indicator will be satisfied when:  The APA, using only the minimum conditions, has been completed and the disbursements to Program ULGs have been determined on this basis. | Yes | ULG compliance with Program minimum conditions assessed by independent performance assessment. | Independent private firm carrying out the APA. (*Note: The terms of reference of the firm must be acceptable to the World Bank)*  Draft verification reports are submitted for review by the verification entity (APA firm) simultaneously to the government (technical sub-committee\*) and the Bank. Neither party can modify such reports except for factual errors.  \* *The technical sub-committeewill have representation from MUDHCo (chair), MoFED and other agencies as appropriate and the World Bank as observer.* | MUDHCo hires a private sector consulting/audit firm (whose terms of reference will be acceptable to the Bank) to carry out the independent APA.  APA determines whether all minimum conditions have been met.  The APA firm calculates the allocation to each ULG as per the formula in the Bank Disbursement Table, and provides the aggregate disbursement amount (along with the full APA) simultaneously to government and the Bank for review.  As part of implementation support, Bank will review the assessment results. The Bank retains the right to make the final decision whether a DLI has been achieved or not. |
| 2 | ULGs have strengthened institutional performance as scored in the APA | The indicator will be satisfied when the APA has been completed (based on the minimum conditions and performance indicators) and the allocation based on the score of all ULGs has been determined. | Yes | ULG progress against Program performance measures assessed by independent APA. | Same as above (DLI 1) | Same as in DLI 1, MUDHCo hires a private sector firm to carry out the independent APA. APA assigns a score to each ULG. The firm will calculate the allocation to each ULG as per the formula in the Bank Disbursement Table, and provide the aggregate disbursement amount simultaneously to the government and the Bank for review.  As part of implementation support, Bank will review the assessment results. The Bank retains the right to make the final decision whether a DLI has been achieved or not. |
| 3 | ULGs have delivered infrastructure, maintenance and supported job creation as per their annual action plans and the capital investment plans, as scored in the APA, and ensured value for money | Achievement under this indicator for the first two Program years will be measured on the basis of actual delivery of infrastructure against targets laid out in the plan for the former year using Program funds, maintenance performance, and performance in job-creation. Starting in Program year 3,the achievement of the DLI will also include the outcome of the value for money audits. | Yes | ULG progress against Program performance measures assessed by independent APA and performance as assessed by the independent value for money audits (which will start in year 3 of the Program) | For Program years 1 and 2, same as above (DLIs 1 and 2).  Starting in Program year 3, in addition to the above, a private firm, will verify the value for money aspects. The APA will include the findings on the value for money audits. | Similar to DLIs 1 and 2 above, in Program years 1 and 2, this DLI will also be measured through the APA and therefore the same process will apply. For these two years, as in DLIs 1 and 2, MUDHCo hires a private firm to carry out the independent APA. APA assigns a score to each ULG. The firm will calculate the allocation to each ULG as per the formula in the Bank Disbursement Table, and provide the aggregate disbursement amount simultaneously to government and the Bank for review. As part of implementation support, Bank will review the assessment results. The Bank retains the right to make the final decision whether a DLI has been achieved or not.  Starting in Program year 3, in addition to the above, MUDHCo hires a private firm to carry out the value for money audits (under terms of reference acceptable to the Bank). Itsresults will be shared with the APA firm, and included in the overall results. Then, as under DLIs 1 and 2, the firm will calculate the allocation to each ULG as per the formula in the Bank Disbursement Table, taking into account the findings of the value for money audits, and provide the aggregate disbursement amount simultaneously to government and the Bank for review. As part of implementation support, Bank will review the assessment results. The Bank retains the right to make the final decision whether a DLI has been achieved or not. |
| 4 | Regional government capacity building and support teams in place and support urban service delivery | Achievement of the DLI will be determined on the basis of (a) execution of regional governments’ capacity building plans, and (b) that the four regional support teams are in place, with the requisite 10 staff in each team. | Yes (alloca-tion per region, which is cali-brated) | Regional government performance against capacity plan, assessed by independent APA. | Same as above (DLIs 1,2 and 3) | In Program year 1, APA will check that the capacity building plan and terms of referencefor regional government teams are in place.  In Program’s second disbursement year (financial year 2015/16), the annual performance assessment(conducted in 2014) will verify that  (a) regional government teams are in place and are operating, and  (b) regional governments have adopted service delivery standards (as issued by MUDHCo\*) and issued those for the cities, and provided guidance in implementation (reports).  In Program’s third disbursement (2016/17) onwards: The annual performance assessment will verify that the:  (a) Regional government has developed capacity building plan for the ongoing financial year  (b) Regional government teams are in place  (c) Capacity building plans for the previous year have been executed  (d) Regional governments have adopted service delivery standards (as issued by MUDHCo\*) and issued those for the cities, and provided guidance in implementation (reports).  \* This condition is only valid if MUDHCo has issued the service delivery standards to the regions. |
| 5 | Regional government audit agencies (ORAG) carry out ULG audits on time | This indicator will be fulfilled when the regional audit entities, or their delegated agencies, which includes certified private audit firms, carry outand complete the financial audits of ULGs in their jurisdictions by January 7 of each year. | Yes | Annual performance assessment | Same as above (DLIs 1,2, 3 and 4) | The private consulting/audit firm will verify the results against this indicator, following the same process as in the DLIs above. |
| 6 | REPAs review of ULG safeguards compliance in a timely fashion. | This indicator will be fulfilled when the regional environmental protection agencies have carried out the safeguards reviews/audits of ULGs in their jurisdictions before the start of the annual performance assessment in each year. | Yes | Annual performance assessment | Same as above (DLIs 1,2, 3, 4 and 5) | The reputable private sector consulting/audit firm will verify the results against this indicator, following the same process as in the DLIs above. |
| 7 | Regional revenue authorities support ULG revenue mobilization | This indicator will be fulfilled when Regional revenue authorities/ BOFEDs have held consultations with the ULGs on tax rates and bands, with review of revenue enhancement plans and have updated the tariff proclamations for the ULGs | Yes | Annual performance assessment | Same as above (DLIs 1,2, 3, 4, 5 and 6) | The private consulting/audit firm will verify the results against this indicator, following the same process as in the DLIs above.The APA will review whether there have been consultations, documented with minutes, in the previous financial year. The assessments will be conducted as part of the third and the fifth APA, and regions will have to: (a) complete the consultations,(b) reviewed the REPs with the ULGs, and (c) up-dated the tariff proclamations prior to each of these APAs (all three issues will have to be achieved in the previous financial year to fulfil the conditions for the DLI). |
| 8 | Completion of annual MUDHCo capacity building activities for Program ULGs, regional governments and the ministry. | Achievement of this DLI will be determined on the basis of execution of activities specified in the MUDHCo capacity building plan for the federal, regional and urban local governments. | Yes | Comprehensive annual Program capacity building plan which will include TOR of capacity building, and details of activities planned, and staffing positions. | MUDHCo provides information and documentation to the World Bank, which verifies. | MUDHCo will put in place an annual plan to build capacity of ULGs, regional governments and the ministry. Among other things, the plan will specify the activity, its objective, the resources assigned and the implementation timeline. The template for the plan will be included in the Program Operations Manual.  60 days prior to the beginning of the forthcoming fiscal year, MUDHCo will submit the plan to the World Bank, which will verify that the plan is in the agreed format and is satisfactory.  Within 30 days of the beginning of the fiscal year, MUDHCo will submit a report of the implementation of the annual capacity building plan for the previous year to the World Bank. World Bank will verify the extent to which the plan has been executed and determine the DLI amount to be disbursed.  In the first Program year, the plan will include guideline/framework on municipal service delivery standards, job creation measurement, and land development and supply  In the second release (2015/16): The assessment will include the ECSU course delivered for 26 ULGs which will have been implemented before the end of 2014/15. |
| 9 | Timely completion ofProgram annual performance assessments (APA) and Value for the Money Audits (value for money) | Achievement of this DLI will be determined on the basis of completion of APA by June 2014 in the first Program year, and then by November with incorporation of the audit results inJanuary of each year thereafter, byMUDHCo. Starting in year three of the Program, MUDHCo will also launch the value for money audits, by August of each year to feed into the APA cycle. | Yes | Documentation showing that the APA, and later in the Program, the value for moneys have been launched and completed on time. | MUDHCo provides information and documentation to the World Bank, which verifies. The Bank will have the right to join the APA and/or value for money audits in the field, as part of its implementation support. | World Bank will review the compliance of the timeliness of the APA and later of the value for money, with the following timeline:  **APA**  For Program year one:completed by June 2014.  For subsequent Program years, APA to be completed by November of the same year with incorporation of audit results in January prior to the financial year for which the results will impact.  **Value for money**  Starting on August 2015 to be completed by November 2015 and the same timeline thereafter for each year. |

**Bank Disbursement Table**

| # | **DLI** | **Bank financing allocated to the DLI (M US$)** | **Of which Financing available for** | | **Deadline for DLI Achieve-ment** | **Minimum DLI value to be achieved to trigger disburse-ments of Bank Financing** | **Maximum DLI value(s) expected to be achieved for Bank disburse-ments purposes** | **Determination of Financing Amount to be disbursed against achieved and verified DLI values** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Prior results** | **Advan-ces** |
| 1 | ULGs have achieved Program minimum conditions in the annual performance assessment (PAM) | 90 | 0 | 0 | By Program completion | 0 | 44 | Disbursement from the Bank is calculated on the basis of compliance of ULGs with minimum access conditions. (US$18 million per annum)  Formula for disbursement from the Bank to government is:   * [total annual disbursement] = [total population in all minimum condition compliant ULGs] X [US$4.14]   Formula for disbursement from government to ULGs is:   * [disbursement to each ULG] = [total population in that ULG] X [US$4.14], provided that the ULG has complied with the minimum conditions.   Disbursement will be made provided that previous disbursements from government to ULGs have all been made. |
| 2 | ULGs have strengthened institutional performanceas scored in the annual performance assessment[[39]](#footnote-39) | 158 | 0 | 0 | By Program completion | 0 | 100 | Disbursement from the Bank to governmentwill be determined as:   1. Compliance of ULGs with minimum access conditions measured (as above); 2. Sum of scores of all ULG calculated (non-minimum condition compliant ULGs are assigned a score of zero) and divided by 44 (note in the first 2014/15 only the previous ULGDP ULGs (18 ULGs) will get access to the funds and the adjusted amount for this will be divided between those 18 ULGs); 3. A. If score equal to target for financial year, full allocation,   B. If score below target for the financial year, pro-rata reduction,  C. If score above target for financial year, pro-rata increase.  Disbursement will be made provided that previous disbursements from government to ULGs have all been made.  Disbursement from the government to ULGs will be determined as: Total disbursement amount (as calculated above) divided across compliant ULGs in accordance with population and score.  Formula for disbursement from the Bank to the government is:   * [total annual disbursement] = [{sum of individual scores of all ULGs/44 (first year only 18 ULGs)\*}/ {targetscore for the financial year}] X [target disbursement amount i.e. $34.1million for 44 ULGs from the 2015/16 and the following years (first financial year only $21.8million for the 18 ULGs)]     Performance targets for this DLI are:  2014/15: 60 points  2015/16: 65 points  2016/17: 70 points  2017/18: 75 points  2018/19: 80 points  Formula for disbursement from government to ULGs in 2014/15 is:   * [disbursement to any ULG] = [population of ULG X performance score of ULG] / [∑ (population of ULG 1-..18 X performance score of ULG 1-..18)] X [total disbursement amount for the financial year], providing that the ULG has complied with the minimum conditions.   Formula for disbursement from government to ULGs in 2015/16 and following years is:   * [disbursement to any ULG] = [population of ULG X performance score of ULG] / [∑ (population of ULG 1-..44 X performance score of ULG 1-..44)] X [total disbursement amount for the financial year], providing that the ULGA has complied with the minimum conditions.   \* *Note:*For the new 26 ULGs, this DLI will only be applied from 2015/16 and the following financial years, hence amount to be distributed (US$21.8 million in 2014/15) will only be allocated across the 18 ULGs |
| 3 | Local infrastruc-turetargets, maintenance and job creation as set out in the annual action plans are met by ULGs utilizing the Program funds[[40]](#footnote-40) | 75 | 0 | 0 | By Program completion | 0 | 100 | Disbursement from the Bank to government will be determined as:   1. Compliance of ULGs with minimum access conditions measured (as above); 2. Sum of score of all ULGs calculated (non-minimum condition compliant ULGs are assigned a score of zero) and divided by 18 (in the first 2014/15) and by 44 ULGs in 2015/16 and the following financial years (2015/16–2018/19). 3. A. If score equal to target for the financial year, full allocation,   B. If score below target for the financial year, prorata reduction,  C. If score above target for the financial year, pro-rata increase.  Disbursement from the government to ULGswill be determined as: Total disbursement amount (as calculated above) divided across compliant ULGs in accordance with population and score.  Formula for disbursement from the Bank to the government is:   * [total annual disbursement] = [{sum of individual scores of all ULGs/44 (first year only 18 ULGs)\*}/ {targetscore for the financial year}] X [target disbursement amount i.e. $16.2m for 44 ULGs from the 2015/16 and the following years (first financial year, the amount is: US$10.3million for the 18 ULGs)]   Performance targets for this DLI are:  2015/16: 60 points  2016/17: 65 points  2017/18: 70 points  2018/19: 75 points  2019/20: 80 points  Formula for disbursement from government to ULGs in 2014/15 is:   * [disbursement to any ULG] = [population of ULG X performance score of ULG] / [∑ (population of ULG 1-..18 X performance score of ULG 1-..18)] X [total disbursement amount for the financial year], providing that the ULG has complied with the minimum conditions.   Formula for disbursement from government to ULGs in 2015/16 and following years is:   * [disbursement to any ULG] = [population of ULG X performance score of ULG] / [∑ (population of ULG 1-..44 X performance score of ULG 1-..44)] X [total disbursement amount for the financial year], providing that the ULGA has complied with the minimum conditions.   \* Note: For the new 26 ULGs, this DLI will only be applied from2015/16, hence amount to be distributed (US$10.3 million in 2014/15) will only be allocated across the 18 ULGs.  Disbursement will be made provided that previous disbursements from government to ULGs have all been made. |
| 4 | Regional capacity building and support teams in place and support urban service delivery | 13 | 0 | 0 |  | X | 18 ULGAs | US$ 2,600,000 per year provided that conditions are fulfilled.  First year release for 2014/15: Condition for release is the work-plan and TOR for the **4 regional support teams** 40 staff/4 X 10 staff for the core positions defined in the OM, in place as per TOR (before the start of 2014/15), checked by APA).  Second disbursement year (2015/16): Teams are in place and operating. Minimum 80% of the staff in place: 100% allocation, 50–80%: 50% allocation, less than 50%: No allocation. Additional condition is that the region has adopted service delivery standards (as issued by MUDHCo),\* and issued those for the cities, and provided guidance in implementation (reports). (Documented by APA review October 2014).  Third disbursement (2016/17): Teams are in place (minimum 80 % of the staff), and review of execution rate in 2014/15 (more than 80 % of planned activities implemented = full allocation 60–80 = 50%, less than 50% = no allocation).  \*Note that it is an additional condition for disbursement that the region has adopted service delivery standards (as issued by MUDHCo), and issued those for the cities, and provided guidance in implementation as well as monitoring (report). Documented by APA October 2015.  Similar for following years.  \* This condition is only valid if MUDHCo has issued the service delivery standards to the regions.  Calibrated according to number of teams with the required composition and activity level. |
| 5 | Regional government audit (ORAG) carry out ULG audits on time | 7 |  |  |  |  |  | **Audit** (US$7,000,000)/ 5 years= US$1,400,000 per year  Disbursement calibrated in a manner where each region receives US$31,818 per ULG, for which the audit has been made for the accounts of the previous financial year. If a region has covered 7 ULGs in a timely fashion, it will be allocated 7 X US$31,818.  The timeliness of audit is reviewed and verified by the APA teams in January each year, with implications for the allocations for the following financial year.  Amount of funds is calibrated in accordance with number of timely audit in the regions (timely audit means that the final audit report is issued no later than January 7 after the financial year for which the audit concerns. |
| 6 | Regional environmental protection agencies (REPA) review of ULG safeguards compliance in timely fashion | 6 | 0 | 0 |  |  |  | **Environmental and social safeguards** audit and reviews: US$6,000,000 / 5 years= US$1,200,000 per year:  Disbursement calibrated in a manner where the disbursement is: US$27,273 per ULG for which the region has performed timely review/audit and approval of safeguard documents and review of implementation capacity for environmental and social mitigation and monitoring measures for CIP and environmental and social audit (annual).  If a region has conducted timely audit of 6 ULGs, the allocation will be 6 X US$27,273. |
| 7. | Regional Revenue Authorities support ULG revenue mobilization | 4 | 0 | 0 |  |  |  | US$4,000,000 /2 times (third and the fifth year) = US$2,000,000 per time for 2016/17 and 2018/19).  Disbursements are made according to the number of ULGs where regions have conducted consultative review with ULGs of municipal revenues/tariff/tax rates and bands, and revenue enhancement plans, and up-dated tariff proclamations with consultation and decisions recorded in regional council minutes in the year prior to the APA:  Disbursement calibrated as US$44,455 per ULG where conditions are fulfilled. |
| 8. | Completion of annual MUDHCoCapacity building activities for Program ULGs, regional governments, and the ministry | 22 |  |  |  |  |  | 22 million /5 years= US$4.4 million per year.  First year (2014/15):  Minimum condition for disbursement: Plan prepared for the technical federal support teams in place: (12 + 22=34 staff), covering the developing regional states, Dire Dawa, Harar + remaining regions + and for backstopping support of all ULGs and support toMUDHCo according to standard format as per the Operational Manual, and with the details on minimum level visits to ULGs, staff weeks in ULGs etc. and terms of reference for positions.  Following years (2015/2016 andthe following financial years):  *Minimum 60 days prior to the financial year, MUDHCo provides information on capacity building plan in place (up-dated for the coming financial year), and review of execution rates in the ongoing*), see below. Plan should be adopted for the future fiscal year, and minimum 80 percent of the 34 staff have to be in place and the execution rate of the planned activities should be above 60 percent: 100 percent allocation.  If minimum 60 percent of staff in place and minimum 40-60 percent execution: 60percent allocation.  Below 60 percent of staff in place and/or below 40 percent execution: No allocation. |
| 9. | Timely launch and completion of Program APA and value for money | 5 | 0 | 0 |  |  |  | US$5,000,000 = US$1,000,000 per year.  Disbursement of funds is made upon timely APAs and from third assessment (value for money audits).  “Timely” is defined as by end of January in the year prior to the fiscal year where funds to ULGs are allocated. First year will have an exemption and the deadline will be before the beginning of the financial year.  As the value for money audit is only conducted from the third year of the Program (September–December 2017), the APA will count 100 percent in fiscal 2015 and fiscal 2016 allocations. Thereafter, the two assessments will have an equal weight in the disbursement rates.  The disbursement is on/off where APAand value for money audit count 50 percent each, that is if the APAhas been conducted timely,US$500,000 is released in the following fiscal year and similar for the value for money audit. in the first two fiscal years, where there is no value for money audit, the APA will count by 100 percent, that is US$1 million. The procurement audit will be supported and conducted by the public procurement agency from the third year, and the condition is that results are fitting into the APAin the area of procurement, or is covered by the APA. |

Annex 4: Summaryof Technical Assessment

**Strategic Relevance of ULGDP II**

1. Ethiopia is urbanization rapidly – with its urban population having doubled in 35 years, from 8.5 percent in 1967 to 17.4 percent in 2012. In addition, the rapid rates of urbanization are expected to continue. The UN expects the rate of urban growth to average 3.57 per cent per annum between 2010 and 2015 placing Ethiopia among the fastest urbanizing countries in SSA. According to UN’s medium variant projection, the urban population is expected to reach 23 per cent in 2030. This is an opportunity for the country, as urbanization will be the key to Ethiopia’s transition to a middle-income country, as it will help provide the ground for the transformation of the country’s economy. Timmer and Akkus (2008) find that rapid urbanization is a necessary condition for structural change. Financing and sustaining effective urbanization will be crucial to sustaining the high rates of economic growth Ethiopia has been recording for the past decade. Ethiopia needs to shift its focus to building its urban economy, not only because this will be the source of growing competitiveness, but also because of its impact on the macroeconomic environment, livelihood improvement and poverty reduction.
2. However, there are serious challenges to effective urbanization, and this limits the country’s overall economic growth. These limitations broadly comprise; (a) infrastructure and service delivery gaps and urban administrations institutional capacity weaknesses, as indicated above in the country and sector context section; (b) an increasing urban population and higher demand for the already limited services and infrastructure, and (c) a significant fiscal gap to help ULGs overcome these challenges. The fiscal gap is due mainly to the inadequacy of the current fiscal system in Ethiopia to meet the financing needs of these fast growing ULGs*.* As explained above in the “Context” section, within the fiscal system, ULGs receive recurrent support from regions through block grants to meet their mandate to carry out the state functions which have been delegated to them from the regional governments and some financing for core public sector employee salaries. In addition to these resources, there is almost no support for capital investments. In most cases, ULGs have to meet the infrastructure investment financing through their own source revenues, see table below which presents the financing sources for urban development in the country.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| ***Urban development spending at different government levels, 2011/12 (EFY 2004)*** | | | | |
|  | **Urban development (ETB million)** | **Total Public Spending**  **(ETB million)** | **Urban dev. as percent of total** | **Urban development as percent of total urban development** |
| Federal | 232.7 | 52,893.8 | 0.4 | 4.5 |
| Federal/Regional Unassigned Capital | 223.7 | 15,532.2 | 1.4 | 4.4 |
| Regional (Bureau) | 869.6 | 28,534.2 | 3.0 | 17.0 |
| Woreda Level | 658.3 | 27,456.5 | 2.4 | 12.8 |
| Municipal (own source revenue) | 3,148.1 | 3,148.1 | 100.0 | 61.3 |
| **TOTAL** | **5,132.3** | **127,564.8** | **3.7** | **100.0** |

*Source:* Based on data from IBEX/MoFED.[[41]](#footnote-41)

1. Yet analysis of ULG fiscal position confirms this fiscal gap: Study of 12 sample ULGs shows that even with future improvement in revenue mobilization at current growth levels, ULGs will need substantive support in order to achieve the government urban development objectives: Revenues of these ULGs vary within a board range of ETB 27 (US$1.5) and ETB 400 (US$22.2) per capita. At the national level, as indicated in the table below, all municipal revenue constitutes only about 3percent of total public revenues in the country. The most significant revenue assignments are at the federal and regional levels. Given the specific figures in the sample ULGs and the aggregate national picture, the current system of relying on ULG own source revenues to meet most, if not all, ULG institutional and infrastructure/service delivery mandates is not feasible. Without additional funding, ULGs will operate at a sub-optimal level and not fulfill their roles as economic growth engines for the country.

|  |  |  |
| --- | --- | --- |
| **Revenue profile for Ethiopia (actual revenue collections, FY2011/12, EFY 2004** | | |
|  | ETB (million) | Percent |
| Consolidated (Federal / Regional) Revenue | 102,863.7 | 97.0 |
| o/w Federally Collected Revenues | 85,879.7 | 81.0 |
| o/w Regionally Collected Revenues | 16,983.9 | 16.0 |
| o/w Collected at Bureau Level | *3,910.2* | *3.7* |
| o/w Collected at Woreda Level | *13,073.7* | *12.3* |
| Municipal Revenue | 3,148.1 | 3.0 |
| Total Public Revenues (excluding Grants) | 106,011.7 | 100.0 |

*Source: MoFED/IBEX*

1. ULGDP II is intended to address these in the context of the overall evolution of the government’s program and the intergovernmental fiscal system in Ethiopia. The Program rationale is to address the current urban infrastructure gaps and strengthen the institutions of both the ULGs involved in service delivery and the regions and the MUDHCo for support for urban management and improved urban services. The Program will be in important continuation of the improvement of infrastructure and services in the 18 cities currently participating in the program, through performance-based capital grants, as well as an important kick-start on urban development in the new 26 ULGs. The Program will address urban poverty through the provision of employment opportunities during civil works activities in the ULGs, improved infrastructure important for private growth, markets opportunities and improvement of service in core areas of importance for urban development. It will also catalyze enhanced contributions from the regional and city level for core infrastructure and services.
2. To address the fiscal gap, the IDA contribution to the Program will significantly increase the resources for urban infrastructure and service delivery. The contribution of IDA to the annual performance grant of the Program, which will be around on average US$64.6 million per year (US$323 million) or 1,214,480,000 ETB constitutes about 24 percent of the estimated spending on urban development.[[42]](#footnote-42)
3. Importantly, the institutional focus and goals of the Program whereby resources to ULGs will be made available only as a result of proven enhancements in their institutional performance address the core issues facing the urban system. This approach is appropriate in the current policy environment where government is significantly enhancing its focus on and support to ULG management and service delivery.
4. There is a strong case for public funding for the Program. The types of public goods supported by the program would never be provided at a sufficient level without the ULG interventions. Private financing for key urban service delivery and infrastructure services, through public-private partnership schemes, is an important option to consider and will play a role. However such schemes are limited in nature—they cannot be used for all urban services or infrastructure-, they require significant local government institutional capacity to formulate, contract out, properly supervise implementation and mitigate various risks of failure by the private companies contracted—which currently does not exist in the majority of local governments; and they can only be implemented in national environments where the overall legal and regulatory framework is conducive and friendly towardspublic-private partnerships. Given these limitations, among others, in the targeted 44 ULGs in the Program, public financing is assessed to be the optimal decision.
5. The proposed Program will contribute directly to the government’s Growth and Transformation Plan (GTP),especially the pillar on enhancing expansion and quality of infrastructure development, enhancing expansion and quality of social development (e.g. through creation of services and employment opportunities) and building capacity and deepening good governance and the new Ethiopian Cities Prosperity Initiative, where the performance measures in the APA is designed in a manner closely related with the objectives of the new strategy. Urban development is a major tool for ensuring that there are efficient growth centers for the country-wide development and creation of employment opportunities through investments in infrastructure and the benefits of this afterwards for private development in other sectors. The labor-intensive investments funded under the ULGDP, and promotion of the activities of micro and small enterprise development through involvement in the execution of Program infrastructure investments, are key priorities. The focus on improved own source in the incentive system and capacity building support elements are also important in providing a strong, consistent and buoyant ULG revenue base and improved future levels of infrastructure investments.
6. Given the importance of urbanization and the role of ULGs for Ethiopia’s overall economic growth on the one hand, and the current fiscal gap which prevents ULGs from fulfilling this role on the other, the Program is assessed to be strategically relevant. In addition to helping reduce the fiscal gap by raising local government institutional capacity, the Program is also fully aligned with the government’s policy priorities.
7. The World Bank, as a global development institution, can, together with its partners, be an effective broker of knowledge and play a catalytic role as facilitator for the urban reform process in Ethiopia. The Bank is particularly well positioned to assist the government with the evolution of its urban infrastructure finance and management system, due to the long standing partnership in the urban sphere (see paragraphs 14 and 15), its regional -particularly through the design and implementation of urban focused performance-based grants in Tanzania, Uganda and Ghana, among other eastern and southern African countries, and international experience on similar programs and its potential to provide long-term financing as required.

Technical soundness of ULGDP II

1. The technical design of ULGDP II draws heavily from the extensive experiences of Bank and government partnership in the urban sector, most recently the ULGDP. The four annual performance assessments of the ULGs supported by the program, a program midterm review in 2011, as well as a number of specific technical design studies, including a comprehensive LG revenue enhancement study[[43]](#footnote-43) and a recent benchmarking study of urban service delivery needs and coverage[[44]](#footnote-44)are among the body of knowledge produced to determine the technical elements of the Program.
2. The proposed design and the activities to be implemented under the proposed ULGDP will contribute to the realization of the Program results and development objective. Experiences from the first phase of the program and from other similar projects in relevant countries with the similar modalities have proved that the types of activities to be implemented using the Program funds at the ULG, regional and at the MUDHCo levels are highly likely to produce results of improved coverage and quality of core urban services and of strengthening of the institutional capacity of the participating ULGs, regions and the federal agencies involved.
3. The Program aims to strengthen relevant stakeholder incentives to contribute to Program objectives, through the application of the following elements embedded in its design:

* *Use of government systems* to strengthen capacity at both the federal, regional at city level (the participating ULGs) for urban development, within flow of funds, financial management and operations.[[45]](#footnote-45)
* *Focus on ULGs as the main implementing bodies.* The ULGs will be responsible for the implementation of the Program activities at their level. The Program therefore provides an opportunity for the participating ULGs to improve their capacity, thus contributing to the achievement of the Program objective.
* *Place natural incentives through focus on performance.*Although each ULG will be given a tentative allocation(also referred to as indicative planning figure) for the duration of the Program period, the actual amount of funds they receive will be based on them meeting and maintaining the minimum condition throughout the Program period and their performance outcomes. The performance assessment system is at the core of Program design since it will be the main driver for ULG capacity building and is directly linked to the Program results and disbursements. The assessment tool, which is based on the experiences from the current ULGDP and from other relevant cases in different countries, has been refined during preparation, and will be reviewed during implementation, if necessary. By the end of the Program most ULGs are likely to receive less or more than their tentative allocations, or indicative planning figures, depending on their results. The annual performance assessment has therefore adequate inbuilt sanctions and incentives mechanisms;
* *Get the focus areas right*. The incentiveswill support core urban management areas of such as proper planning and budgeting, revenue mobilization, asset management planning, procurement and PFM, as well as strengthening of good governance and accountability;
* *Provide a flexible capacity building to allow ULGs to respond to the incentive mechanism.* All participating ULGs will benefit from municipal capacity building, to prepare them to receive the significant performance grants during the next assessment and ensure improved capacity for all ULGs by end of Program period;
* *Strengthen the links between investments, incentives and capacity building support,* whereby the capacity buildingsupport and support is applied in a targeted manner to address identified gaps in the annual performance assessments;
* *Support the incentives of federal and regional level for backstopping support, capacity building, oversight and performance of roles vis-à-vis the ULGs through result-oriented allocations.*
* *Introduce the performance-based grant element gradually*for the new ULGs, with a smaller grant funding in the first year linked with compliance with minimum conditions*;*
* *Strengthen the oversight, audit and safeguard procedures at all tiers of government, and address the few bottlenecks identified in the first ULGDP.*
* *Strengthen the sustainability of the Program support* through enhanced focus on municipal own source revenue mobilisation through incentives in the grant allocation system to improve municipal revenues, incentives to contribute towards urban development investments and through capacity building support from regions and the federal level.

1. Program design builds on the experience of ULGDP, and addressed the challenges of ULGDP raised in the earlier section of this work. These include ensuring that the annual assessments are undertaken on time, strengthening the capacity building support (supply and demand side), taking Addis out of the Program scope to ensure the unique circumstances of the primate city are addressed properly under a possible Addis specific project, and the expansion of the incentives to support at all tiers of governance (especially the involvement of the regional governments). In addition, the design of the Program has benefitted from the knowledge and experiences of internal and external experts and the experiences from performance-based grant systems from various countries. An increasing number of countries have introduced performance-based grants, and most recently linked to PforR operations with focus on urban investments, such as Uganda and Tanzania.
2. Furthermore, to ensure the sustainability of investments created by using Program funds and of the existing stock, each ULG will be supported in undertaking assets management, capital investment planning, operational and maintenance planning, and revenue enhancement planning. The support to improvement of own source revenue will include the update of revenue data base by source and revenue targets, billing, collection, enforcement, complain resolution, and information, communication and capacity building systems.
3. The basic tenants of the current assessment system have been refined to enhance ULG capacity inown source revenue generation, management of fiduciary, social and environmental systems, project implementation, operations and maintenance***.***Minimum conditions, comprising requirements in planning, PFM, social and environmental systems management and procurement must be achieved and maintained by participating ULGs throughout the Program and are put in place to ensure minimum capacity of the ULGs to handle the Program funds in full compliance with Program’s fiduciary and safeguards requirements. If ULGs do not comply with the minimum conditions, they will not get access to the funds from DLIs I, II and III, but will be supported through the capacity building activities. In addition to the minimum conditions, a set of performance measures target urban institutional performance in core areas such as planning, budgeting, PFM, own source revenue, procurement, assets management and governance as well as infrastructure delivery. These measures are detailed in a transparent performance assessment manual, prepared by the government for the Program. The performance results approval and verification protocol process will be formalized through systems and procedures for approval, complaint handling and publication and the assessments will be conducted in due time to fit with the ULGs budgeting and planning cycle, which will be supported through federal incentives for timely completion. The performance assessments will continue to be outsourced to a private, neutral and objective company to ensure that results are objectively measured, credible and that the general credibility of the entire system is maintained.
4. The Program will maintain the systems and procedures developed under ULGDP with the following refinements.

*How ULGDP II incorporates in its design lessons learned from ULGDP*

| **Area** | **Lessons learned** | **Action taken** |
| --- | --- | --- |
| Annual Performance Assessment cycle synchronized with ULG planning and budgeting cycle. | Important to ensure that results fit with the ULG planning and budgeting process | This will be ensured with a clear time-plan and linked with the DLI on timeliness of the APA and value for money audits.  This will be monitored and disbursed against a DLI. |
| Indicators sharpened and targeted | Although there were a limited number of performance measures under ULGDP, the system of registration, data collection was very comprehensive with more than 70 data collection points. | The system will be simplified with maximum 20-25 performance measures, and with clear description of how these are measured in the APA Manual, which is annexed to the Operational Manual. The new indicators are also more focusing on the results, such as delivery of infrastructure targets, value for money and actual improvements in the ULGs sustainability, such as increase in own source revenues. Second, the system of approval of results will be formalized. The indicators will also be further sharpened to target the PDO of the program. |
| System of performance incentives strengthened | Performance-based grant allocations provide incentives to perform, but can be strengthened through a system where every incremental improvement is rewarded. | The current static system, where ULGs are grouped into (1) non-access, (2) static allocation and (3) accelerated allocation (+ 20 percent) will be improved and the system of performance will be fully integrated with the allocation formula on a continuous scale where incentives are kept on all levels of performance, on a scale between 0–100. |
| Focus on municipal own source revenue and longer term sustainability strengthened | State revenues have improved faster than municipal revenues | Strengthening of the incentives to improve municipal core revenue mobilization (though the minimum conditions and PMs in the annual assessment system), and strengthening of the environment for this through improved dialogue between regions and municipalities and through strengthening of the capacity building support to ULGs within this area. |
| Capacity building support strengthened | Mostly supply driven with one federal team under ULGDP. | Supply side capacity building will be strengthened and supplemented with a demand driven element. As well, regional governments will now be strong involved in the capacity building support, especially in the 4 regions where many ULGs are targeted. This will also be supported by DLIs for the regional and federal capacity building support to ULGs. |
| Involvement of the regions in core areas of importance for Program objectives | The ULGDP has proved the importance of the regions in the support of cities | Regions will be more strongly involved and encouraged to take active part in the capacity building support, facilitation of cities own source revenue, social and environmental safeguards, audits, and backstopping support as well as mentoring and monitoring. Supported by a specific DLI. |
| The importance of timely audit | ULGDP has improved the coverage and timeliness of audit of cities’ final accounts | This will be further strengthened in the ULGDP II through a specific DLI focusing on timeliness of the audit, and through strengthening of the minimum conditions on audit results from previous FY. |
| Flow of funds improved | ULGDP has proved the importance of timely and up-front grant allocations and disbursements to ULGs to ensure that absorption and utilization of grants is strengthened | A more simple, timely and predictable system of disbursements of grants will be introduced with bi-annual equal installments. |

1. Based on the above, the technical design of the Program will contribute to the overall goal of efficiently producing results and reaching the Program’s objectives. The Program technical design reflects international good practice in the overall urban sector and specifically in technical standards and typology of Program activities. As well, design ensures, to the extent possible, that the incentives are in place for Program stakeholders to effectively contribute to the Program’s success. Therefore, the Program is assessed to be technically sound.

**Program’s expenditure framework**

1. **The expenditure framework of the Program will be a total of US$556.5 million.**US$499.5 million will constitute the performance-based allocations for investments and will go directly to Program ULGs for investments specified under the investment menu (annex 1). US$30 million will be for the results for which the regional governments will deliver (of which 14 million are related with capacity building support to the ULGs). Finally US$27 million will support MUDHCo activities and results directly linked to the execution of the performance-based grants, as well as for program management. The table below provides the overview of the main elements in the program expenditure framework.

**Program expenditure framework (US$, million)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Classification** | **FY2015** | **FY2016** | **FY2017** | **FY2018** | **FY2019** | **Total** |
| Performance based fiscal transfers to 44 ULGs (DLIs 1, 2 and 3 which measure Program minimum conditions and performance measures)  *Of which from regions and cities\**  *Of which from regions only*  *Of which from cities only* | 78.73[[46]](#footnote-46)  *28.60*  *13.13*  *15.47* | 105.20[[47]](#footnote-47)  *36.98*  *18.22*  *18.76* | 105.20  *36.98*  *18.22*  *18.76* | 105.20  *36.98*  *18.22*  *18.76* | 105.20  *36.98*  *18.22*  *18.76* | 499.53  *176.53*  *86.01*  *90.52* |
| Capacity building and ULG support by regional governments (linked to DLIs 4, 5, 6 and 7) | 5.20 | 5.20 | 7.20 | 5.20 | 7.20 | 30.00 |
| Federal support and capacity building Program administration (DLIs 8 and 9) | 5.40 | 5.40 | 5.40 | 5.40 | 5.40 | 27.00 |
| **Total** | **89.33** | **115.80** | **117.80** | **115.80** | **117,80** | **556.53** |

\* Regions and cities contribute to the performance-based allocations in the following manner: established regions: (Amhara, Oromia, SNNPR, and Tigray): 30 percent funding in addition to IDA grants, developing regional states: 20 percent. Existing ULGDP ULGs: 30 percent, new cities in the developing regional states 10 percent and other new cities: 20 percent. Harar and DiraDawa contribute 50 percent in addition to the IDA grants (both the regional and city contribution).

1. Expenditure performance under ULGDP has been satisfactory, with no major expenditure performance issues throughout implementation since 2008. Due to satisfactory implementation and higher than expected disbursements, additional IDA and counterpart funding were added to the Program in 2011. It is expected, albeit with some potential delays in the final completion, that all funds from the current ULGDP will have been exhausted by June 2014, as the ULG commitments are above the available funding from the ULGDP grants whereby ULGs will have to contribute more from own source revenues and/or other sources. The new system of disbursement linked allocations linked directly with the results of the APAs, advanced timing of the APAs, and higher reliance on government systems and procedures, is expected to further enhance the current implementation and absorption rates.
2. The simple population based allocation formula of the ULGDP, which is adjusted according to the performance of the ULG as determined in the APAs will be maintained. Disbursement model will build on and further refine the current system, and be based onthe relative performance of ULGs, where every point will count in the calculations of the disbursement amounts, and will ensure that each ULG is compared with the average performance, and rewarded if above this average. The current static system, where ULGs are grouped into (1) non-access, (2) static allocation and (3) accelerated allocation (+ 20 percent) will thus be improved and fully integrated with the allocation formula on a continuous scale where incentives are kept on all levels of performance, on a scale between 0–100.
3. Disbursements of Program funds from IDA to government will be once a year. Disbursements from MoFEDto BoFED, and from BoFEDs to OFEDs will be twice a year, based on the results of the APA (flows to ULGs will be in the beginning of Julyand January of each year).[[48]](#footnote-48)The annual disbursement amount will be predictable as determined in the APAs. Program funding will be predictable and in full sync with local government budgeting cycle. To ensure predictability, ULGDP indicative planning figures will be shared with ULGs and regional governments the entire period, although actual annual disbursements will be based on performance assessment results and compliance with the DLIs. Like the current ULGDP, the Program funds will be protected from any budget cuts. Cities will be informed about their actual disbursement for the following fiscal year in November/December (with final confirmation in January) of each year, immediately after the assessment exercise, so as to give the ULGs ample time for their planning and budgeting process which is completed in May of each year prior to the financial year where disbursements take place.
4. The current ULGDP is included in the national budget and it is proclaimed at the federal level under revenue and expenditures for MUDHCo. To ensure that the reporting of the Program expenditures are integrated into the national public financial management system codes will be established in the charts of accounts for regions and cities. This will bring greater ease in accounting for expenditure from the Program, consolidating aggregate ULG figures and strengthening the use of the national public financial management system, IBEX. Ethiopia has a well-developed budget classification and charts of accounts, which the Program will make use of, and few additional codes will be established for the main expenditure items in the government’s charts of accounts.
5. Program grants (performance-based capital grants and capacity building funds) are to be seen as specific purpose grants in the government’sfiscal decentralization strategy 2004, and will target specific outcomes in terms institutional improvements and infrastructure and service delivery, although these are not *sector* specific, but multi-sectoral reflecting the needs for urban development across sectors. It will promote the future roll out of support to ULGs as a genuine part of the intergovernmental fiscal framework.
6. As explained above, ULGDP performance-based grant will have indicative allocations (see annex 3 for detailed amounts per each Program ULG). The actual annual disbursement to a given local government will depend on that local government’s performance as determined by the annual performance assessments. The graph below shows the typical range of per capita disbursement depending on the performance of a ULG against the average performance (in this example set as 60 points on a scale from 0–100), and the allocation is the first 2014/15 with an average of US$15.69 per capita (for the existing ULGDP ULGs), and with examples of what average performance scores on the three ULG performance-related DLIs will result in. New 26 Program ULGs will only get access to the DLI 1, the minimum condition linked allocations in the first Program year, to ensure that they gradually build up the capacity to handle and absorb funds. The allocation will range between non-compliance (US$0), compliance with the minimum conditions (only US$4.14), and top performance US$22.8 per capita for 2014/15. The system is designed in manner where every point has an impact on the allocation. For example, an average size ULG with a relatively small increase in average performance on 3 point from 60 to 63 points in 2014/15 on DLI 2 (all other ULGs equal) will receive an extra per capita allocation onUS$0.4 (3.6 percent increase) or US$39,535.

**Range of annual per capita allocation for a typical ULG depending on performance on the minimum conditions and performance measures (2015/16)**

**Program’s results framework and monitoring and evaluation**

1. The Program will be monitored, and evaluated through the use of number of M&E tools throughout implementation including regularly reports from ULGs to MUDHCo, the APAs, value for money audits, and the midterm review.
2. The Program data (revenues and expenditures), including physical investments to be financed, will be captured using the national public financial managementsystem, IBEX. This financial reporting tool will be supplemented by the national ULGDP M&E system managed by MUDHCo which track, among other things, progress across ULGs towards Program’s indicators. Practice under ULGDP will be maintained where the ULGs collect key data and share it with MUDHCotwice a year. The ministry consolidates and analyzes the field data submitted by ULGs and updates the Program’s results framework twice a year. As withcurrent practice, MUDHCo will continue to share the monitoring information and analysis with the Bank on a regular basis. As explained above, it will also use this as part of the annual Program report. The ministry will also develop reporting formats for the use of the capacity building funds (under the general performance-based grant) for ULGs and regional governments. These reports will be aggregated and the information included in the annual Program report. The ministry, in addition to the regular updates of Program’s results framework, also uses the data from the national monitoring system to commission independent reviews and a series of studies of service delivery, benchmarking of services,and the like. This practice, established under ULGDP, will be maintained under the Program.
3. As under the ULGDP, MUDHCo is also responsible for planning and supervising the implementation of the annual performance assessment, which is the major M&E tool to verify the performance of the ULGs. The annual assessment will be carried out by an independent firm to ensure the objectivity of the process. The assessment will be carried out in line with the Performance Assessment Manual, which is being developed by the ministry, with its content and quality acceptable to the Bank. The manual will provide clear definitions for each indicator, as well as comprehensive guidance on the scoring. Adjustments, which might be needed to the performance indicators and scoring, will be done throughout implementation and particularly at the mid-term review to address any possible shortcomings or changes on the ground. The internal MUDHCo M&E system will capture key data that will allow an assessment of the decentralization support structure, for example, capacity of MUDHCo to ensure timely and agreed transfers of funds to the ULGs and the institutions’ ability to provide needed capacity development and technical assistance to the ULGs.
4. The results of the annual audits conducted by the ORAGs and the valuefor money audits which the ministry will commission and will be included in the annual performance assessments, will also be important tools in tracking the institutional and infrastructure performance improvements. As well, the Program monitoring system will include and leverage the results of the internal audit for internal control and the external audits done by (or on behalf of) the ORAGs. Internal audit will play an important monitoring role, going beyond fiduciary aspects and, will include adherence to the Program implementation framework as set in the operational manual. In addition the internal auditors report to the council and their reports are generally acted upon. Proper functioning of the ULG internal audit will be a performance indicator to promote improved performance in this area. In addition, the annual external audit reports by the ORAGs are tabled to the councils and at the regional level. Analysis of external audit shows that they generally adhere with international standardsand practices.[[49]](#footnote-49)
5. MUDHCo has been monitoring and reporting on the ULGDP successfully. However, given the increase in the scope of the Program, there will be a need to strengthen the M&E unit of the MUDHCo with additional staff and capacity, which is included in the Program action plan. The focus areas of the ministry’s M&E department for the Program will be (a) generation of regular consolidated data on unit costs, spending across sectors and types of investments, as well as benefits of these investments; (b) provision of support to 44 ULGs (focusing mainly on the new 26 ULGs) and regional governments on the use of the reporting formats, application of M&E information for planning and budgeting purposes, and related M&E system to capture activities and impact, and (c) production of high quality analysis regarding trends and development within ULG own source revenues.
6. The current ULGDP has shown ULGs capacity to provide physical and financial reports on a regular basis (although sometimes with delays), although the quality of these reports needs improvement. There will be need for a capacity building support within this area in ULGDP II, especially to the 26 new ULGs. M&E capacity at federal, regional and ULG level will be enhanced through training of staff in M&E, engineering, finance and procurement so that they are able to compile timely progress reports for monitoring the implementation progress of the various activities under the Program. The additional M&E specialist to be recruited under the Program at the ministry will provide hands on support and mentoring to the MUDHCo staff and to the regions in M&E issues related with urban development and the implementation of the ULGDP.
7. The Program PDO is to enhance institutional capacity of participating cities in developing and sustaining urban infrastructure and services. The Program will produce enhanced institutional performance in: (a) enhanced community participation in local government budgeting and planning; (b) efficient fiduciary management, (c) increased amount of own source revenues, (d) improved infrastructure, service delivery and operational and maintenance systems; (e) strengthening of accountability and oversight systems. The Program’s specific outcomes, outputs and targets are included in the main text of the Program Appraisal Document. The annual performance assessment system and the adjustment in the allocations are designed in a manner, which ensure that the allocations can be accelerated if the average performance of the ULGs is above the expected levels. Second, each ULG has incentives to improve performance as every point is counting in the result-based allocations.
8. The Program DLIs pertaining to ULGs (the first 3 DLIs) capture the ULG’s performance in relationship with the PDO. These will be measured by: (a) number of cities in compliance with the minimum access conditions; (b) the percentage/number of cities with strengthened performance in core areas such as planning, PFM, procurement, own source revenue, safeguards and accountability; (c) percentage of total planned infrastructure completed by participating cities, and percent planned capital investment plans actually implemented and maintenance performance. The federal and regional DLIs will closely monitor the federal and regional performance under the program in areas of timely annual performance assessments, capacity building support, oversight, and timely audit.
9. First, the annual performance assessments will be synchronized with the ULG planning and budgeting processes, and will be advanced so the results are ready by November of each year (with incorporation of the final audit results in January). Second, the M&E framework will be strengthened to ensure comprehensive information on employment generated, number of beneficiaries, and outputs of the investments in a manner, which can be quantified across the ULGs, and the physical progress reporting system will be standardized and computerized.[[50]](#footnote-50)
10. The table below presents the various inter-linked tools which will be used to monitor and report on the Program:

Data generation and collection

| **Type of information** | **Means** | **Frequency** |
| --- | --- | --- |
| Implementation experience,institutional performance, physical progress and outputs, technical aspects of the Program, and achievement of the key performance indicators. | ULGs, regional governments, and MUDHCo, each with responsibilities as described above. | Two reports a year, with the content as agreed with the Bank. |
| APA | Annually |
| Achievements of infrastructure plans and targets | APA | Annually |
| Value for the money | Value for the money audits, results to feed into the APA and impact on allocations | Every year starting in the third APA |
| Financial reporting (use of funds, expenditure composition, and the like) | Annual financial statements, semiannual financial reports, internal audit reports, annual external audit reports | Semiannually  Annually |
| Detailed review of implementation experience,achievement of the key performance indicators, and progress towards the PDOs. | Midterm review. | Once in the Program (2017) |

**Governance structure and institutional arrangements**

1. The institutional arrangements will be based on the experiences from the current ULGDP, with clear division of tasks and responsibilities between involved parties,as per the government structure and consistent with existing legal provisions, regulations and guidelines. An additional enhancement under the Program to the institutional arrangements established under ULGDP, as discussed earlier, will be the technical involvement of the regional governments in implementation, see below for a summary of the main agencies involved and their roles.

*Federal level*

1. At the federal level,
   1. MUDHCo will have the following main tasks:
      * Capacity building architecture of the Program, including direct support to regional and urban local governments;
      * Establishment and operation of the federal mobile teams as described in the annex on capacity building;
      * Monitoring and backstopping support of the regional mobile teams;
      * Program management, including the procurement and management of the annual performance assessment and value for the money audits;
      * Program reporting, including the annual Program report;
      * Backstopping and guidance in issues such as ULG planning, assets management and own source revenue mobilization.
   2. MoFED will have the responsibility for transfer of funds, financial management, including reporting and compilation of federal fiscal reports;
   3. The Office of the Auditor General (OFAG) will be in charge of the annual Program audit, which will include all Program entities (44 ULGs, 9 regional governments and MUDHCo) to ensure that Program resources are budgeted for and disbursed according to the Program’s expenditure framework, and that Program accounts are audited as per statutory requirements;
   4. Support to FEAC to strengthen their role in the program
2. As per the current ULGDP, MUDHCo will have the overall responsibility for accounting the ULGDP II funds to Parliament. Day-to-day coordination of the Program will be handled by the Urban Governance and Capacity Building Bureau (UGCBB) as per current practice (see annex for organizational structure of MUDHCo) and a diagram with an overview of the main institutional arrangements in the Technical Assessment. The division of tasks will be clearly outlined in the ULGDP Operational Manual, which is currently being updated to be ready for the start of the second phase.
3. As explained above in the capacity building section and in the section on capacity building from the PAD, MUDHCo will also be responsible for the capacity building architecture, the federal capacity building team, backstopping of the regional teams, and of the Program and management of the annual performance assessments/value for the money audits. The technical focus of the capacity building support will primarily be the gaps identified at the Program’s annual performance assessment. The results of the ministry’s capacity building support to regional governments and ULGs will be annually measured through a distinct DLI (see the DLI section on this for further details).
4. MUDHCo will produce and submit to the World Bank an annual Program report which will provide information on the following:

* Summary of the assessment results, including the performance of Program ULGs and the disbursed amounts;
* Summary of aggregate Program expenditures and Program infrastructure delivered by ULGs;
* Execution of the MUDHCo capacity building plan;
* Summary of aggregate capacity building activities undertaken by ULGs and regional governments;
* Summary of aggregate environmental and social performance reports from each ULG, including information on grievances;
* Summary of aggregate information on procurement grievances;
* Summary of progress against Program’s performance indicators;
* Summary of aggregate information on fraud and corruption issues.

1. MUDHCo has been implementing the current program in a satisfactory way and is to be commended for the program’s achievements highlighted above. Importantly, however, there staffing gaps in the ministry, where 73 percent of positions in UGCBB and 64percent of positions in the program management department are filled. The ministry is also implementing other operations in the country, in addition to the ULGDP, with similar degrees of high capacity and staffing demands. The significant geographic and technical scale up of the ULGDP under the proposed PforR, and the existing staffing gaps, if unaddressed, bring considerable risk to the achievement of the operation’s development objective. Therefore there is a serious need to fill the personnel gaps and further strengthen capacity of UGCBB. The specific actions on this area are detailed in the Program action plan below, and the strengthening of the federal capacity through the mobile teams to provide support to regions and ULGs.
2. As per ULGDP, MoFED will be responsible for handling the flow of funds to the regions and Program ULGs. It will also prepare semi-annual and annual financial reports. The flow of funds will be simplified compared to the existing system, with tranches twice a year based on results of annual performance assessments.

*Regional level*

1. At the regional government level:
   1. Regional government BUDs will be the core coordinating office. They will be responsible for the following:
      * Capacity building of the ULGs in their jurisdiction;
      * Consolidation of progress reports from ULGs;
      * Oversight functions and backstopping support on various tasks related with the Program.
   2. Regional audit offices (ORAG) will conduct, either directly or through delegated authority, the external audit of ULG audits;
   3. Regional environmental protection agencies (REPA) will ensure compliance at the ULG level with the environmental regulations;
   4. Regional revenue authorities will support the ULGs in their initiatives to improve on own source revenue mobilization;
   5. Bureaus of Finance and Economic Development (BoFED) will manage flow of funds at this level, and consolidate the fiscal reporting from the ULGs for onward submission to the federal level;
   6. Capacity building support to the ULGs, especially organized by the 4 regions Amhara, Tigray, Oromia and SNNPR where there is a stronger capacity available, and where there are several ULGs enrolled, where regional mobile teams will be established to support ULGs.
2. The track record of regional government support to ULGs to date has been mixed. While some regions have been executing their capacity building and oversight mandates vis-à-vis the ULGs in a satisfactory and even sometimes proactive manner, other regional governments have not performed as well, exemplified by delayed external audits, or lack of response to ULG request for the approval of bringing flexibility to tariff and tax structures. Given this mixed track record and the increase, under ULGDP II, in the technical role to be played by regional governments, particularly their role for supporting the enhancement of ULG capacity, and the addition of four more regional governments who did not participate in the ULGDP, collectively increase the risk at this tier of government against the achievement of Program PDO. It should be underlined, however, that the four new regional governments (Afar, BenishangulGumuz, Gambella and Somali) will only have one Program ULG each in their jurisdiction, with a total population of 284,093, which constitutes 6.5 percent of the total population in 44 ULGs. Therefore, the addition of new four regional governments to the Program is expected to add a marginal risk to the overall risk at the regional government level. The four regions will be supported by the federal mobile team, which will also provide support to DiraDawa and Harar. The Program design takes these risks into account and mitigates them, to the extent possible, through (a) DLIs which target results at the regional government level and Federal level capacity building and backstopping support, and (b) Program action plan elements which target this tier of government.

*ULG level*

1. At the ULG level, the mayor’s office will be responsible for the overall performance of the ULG, and based on a signed Program participation agreement, the tasks will be clearly defined in areas of matching funding, compliance with minimum conditions, performance criteria, accountability requirements and operations. The project selection and approval will be done at the city council level after involvement of citizens in the process of identification and prioritization and the established appraisal committees with heads of departments, chaired by the mayor or the city manager. ULGs will also ensure compliance with all financial management, procurement and environmental and social safeguards and regulations. If key parts of these areas are not complied with as stated in the Program’s minimum conditions, no Program funds will flow under DLIs 1, 2 and 3.
2. An analysis of staffing carried out as part of Program preparation reveals that most ULGs have the necessary staff, but a few need to fill key positions to access Program funds. As would be expected, the 26 cities joining the Program’s performance grant mechanism have the greatest percentage of unfilled positions. Based on data from 27 ULGs, about 82 percent of positions at OFEDs filled, with an average of 39 staff.About 84 percent of core financial management and procurement positions are filled, with an average of 22 staff. Some 85 percent of audit and inspection positions are filled, with an average of 5 staff. In budgeting and planning, some 64 percent of the positions filled, at an average of fourstaff. The 19 ULGs assessed have an average of seven engineers or similar positions. In terms of education of staff, the ULGs have an average of 15 staff with BA/BSc or higher education. However, there is great variation, ranging from three (Motta) to 44 (Hawassa). The 26 new ULGs have a lower number of filled positions (77 percent are filled with an average of 31 staff in contrast to 86 percent with an average of 47 staff for the 18 existing ULGs. They also have less capacity in the core positions(see the summary table below). All ULGs are expected to have the necessary core staff in place by Program effectiveness; ULGs that do not meet this minimum condition will not be able to access Program funds (see the summary table below).

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **City** | **Required OFED positions (#)** | **Actual OFED filled (#)** | **Position filled (average, %)** | **Positionfilled Finance/**  **Procurement (%)** | **Position Filled Audit /**  **Inspection (%)** | **Position Filled Budget & Planning (%)** | **PositionFilled - Technical Staff (engineers etc.) (#)** | **Staff with BA/BScs (filled) (#)** |
| All sample | 50 | 39 | 82 % | 84% | 85% | 64 % | 7 | 15 |
| ULGDP | 57 | 47 | 86% | 88% | 86% | 89% | 8 | 17 |
| Non-ULGDP | 42 | 31 | 77% | 79% | 85% | 61% | 5 | 12 |
| No. in the sample | N= 27 | N = 27 | N= 27 | N=26 | N=26 | N=15 | N =19 | N= 27 |

Source: Data based on collected data from 27 ULGs by SuDCA for the ULGDP IFA preparatory work and processed for by the TA. For some positions, only data from a lower “N” is available. For the technical staff, data is not available on the official required positions.

1. Given the substantial increase in the funds which will be made available to the new 26 ULGDP ULGs under the Program, having key staff, particularly in these new ULGs, becomes critical to ensure that the funds are used in the appropriate fiduciary, budgeting, planning, consultation and other Program framework and rules. The design of Program will mitigate this risk by making core staffing a Program minimum condition. As such, in order for all 44 ULGs to access the Program’s performance-based grant funding, they have to have these staff members in place each Program year. In addition to this risk mitigation, another measure adopted under Program preparation is the agreement with the ministry that the federal and regional governments will ensure that the Program ULGs have the following requisite staff by Program effectiveness; (a) city administrator, who is also the main coordinator of the ULGDP II operations, or another dedicated officer (b) finance officer, (c) 2 procurement officers, (d) municipal engineer, (e) physical/urban planner, (d) environmental and social systems management officers.

***Coordination arrangements***

1. A program coordination committee will be established with representatives from MUDHCo and MoFED to ensure strong coordination of issues on planning, allocations, flow of funds, and approval of the results from the APAs. A Program technical (sub-) committee comprising key technical staff of MUDHCo and MoFEDwill be formed under this committee, which will, among other things, compile and review the results of the APA and provide quality assurance of the results, as well as handling of complaints in a streamlined manner. The Program Technical Committee (PTC) will meet quarterly and also carry out periodic evaluation of program implementation against objectives and provide technical guidance with support from the World Bank. It will bring policy issues to the larger coordination committee and ensure that the Program is implemented in line with the Program Operational Manual.

***Fraud and Corruption***

1. Fraud and corruption during Program implementation that may affect achievement of results will be addressed by strengthening the implementation of existing fraud and corruption policies and measures available at the ULGs level. The detailed discussions of fraud and corruption within the country context, and mitigating safeguards are included in the Integrated Fiduciary Assessment, and the program design contains a number of core initiatives to address the risks of this, such as especially the: (a) minimum access conditions for the performance-basedgrants, which also encompasses a grievance/complaint mechanism, and conditions for financial management; (b) performance measures on core areas of importance for fraud and corruption such as participation, financial management, procurement, accountability and transparency;(c) procurement audits (first as covered by the APA, and from the third year as conducted separately by the Public Procurement Agency, with results which impact on the level of funding for each ULG; value formoney audits (from the third APA); and (d) comprehensive capacity building support from the federal and regional level, including team members in the technical assistance support with expertise on participation, accountability and ethics.
2. The Program has high levels of ownership at all levels of government (federal, regional and local). The coordinating ministry (MUDHCo) has been the lead entity in the implementation of ULGDP. The project management aspect of ULGDP has been consistently rated satisfactory, with the challenge of the timeliness of APA. The ministry, particularly the minister, is the main driver of the policy to scale up ULGDP. Regional and local governments of ULGDP also have a strong commitment to the Program, indicated by their past performance of signing participation agreements annually and having contributed a significant amount of their own revenues as counterpart funding to match the IDA funds. The new 26 urban local governments are equally committed to the Program and have expressed strong wish to be included over the various rounds of discussions during preparation.

**Economic justification of the Program**

1. Economic evaluation of performance-based fiscal transfer programs internationally indicates that the economic benefits are wide-ranging and mutually strengthening. Moreover, a number of ULGDP specific reviews of the major investments show: (a) a high level value for the money, (b) that the investment are highly labor intensive/ conducive to job creation, and income-generating for local communities, (c) that the modalities for delivery are efficient compared to other modes of service delivery, (d) general high levels of economic rate of return on investments. Finally, the review under the recently conducted revenue enhancement study shows that ULGs have a strong ownership in the operations, and that the incentives provided improve performance and capacity in core areas of ULG operations and management such as procurement, revenue mobilization and assets management. The box below summarizes some of these findings.

**Key benefits of ULGDP investments**

|  |
| --- |
| * Coverage of significant infrastructure and service delivery gaps with more than a doubling of the resource available at the ULG level for urban investments. * Significant employment creation, that is, more than 300,000 new jobs are expected based on experiences from phase one. * High economic rate of return in areas where most of the funds are utilized, and competitive costs compared to other modalities and investments. * Strong support of institutional improvements, incentives and longer-term sustainability in terms of strengthening of core institutions, planning, PFM, procurement, and safeguard management. |

1. Analytical work shows strong economic benefits of ULGDP investments, with strong focus on cobblestone road construction.[[51]](#footnote-51)The key benefits of this and other ULGDP investments include reduced transport costs, small and micro enterprise (private sector) development, and income and job creation activities. The economic benefit of the program towards private sector development is particularly significant. This is because a large part of ULGDP infrastructure investments, including the key infrastructure investment, which is cobblestone road construction, are executed by local small and micro enterprises at the ULG level, with the involvement of the local community.
2. ULGDP investments are highly labor intensive and support job creation. The independent studies financed by the GIZ, which analyzed the ULGDP investments and MUDHCo data and monitoring reports indicate the significant impact on employment generation impact of the ULGDP investments. The MUDHCo reports significant full and part time jobs created by the program. Specifically, a total 312,460 jobs have been created in 19 ULGDPcities between2008/09 and 2013/14 as a result of the investments initiated and funded by ULGDP, supporting the objectives to focus on job-creation in the government’s development policy, the GTP, especially for the local youth and unskilled workers. It should be underlined that most infrastructure investments have a large share of women, youth and un-skilled labor, involved in project implementation (see figure below).[[52]](#footnote-52)

**Employment Creation by ULGDP Investments from fiscal 2008–2013**

1. The economic rate of returnreviewed by international institutions show the benefits of investing in areas targeted by the ULGDP grants. First, a study undertaking by “Sanitation and Water for All” indicates that the economic rate of return is high, and in the range of 15-20 percent for urban investment projects in Ethiopia. Within the most important sector for ULGDP - the road sector- gravel roads have an economic rates of return ranging from 7 to 60 percent, depending on the length of the road, with the highest on the shortest length of the roads, which is typical the target of the urban ULGDP investments, exactly the types of roads to be supported by the Program.[[53]](#footnote-53)Furthermore, cost-effectiveness analysis for the roads sector on the basis of data collected under the current ULGDP shows that unit costs for ULGDP projects are generally lower than non-ULGDP projects, and that the costs of cobblestone works (supported under ULGDP) are much lower than similar sized asphalt roads, but that ULGDP supported roads are creating similar benefits will lower maintenance costs and other related benefits, see table below.

***Cost comparison of Cobble stone roads with Asphalt roads***

|  |  |  |
| --- | --- | --- |
| **City** | **CS Road Cost (ETB/m2)-2003** | **Asphalt Cost (ETB/square meter)** |
| Adama | 400-500 | 1,429 |
| Hawassa | 320 | 1,086 |
| Mekelle | 300 | 1,000 |
| Axum | 320 | 1,300 |

*Source:*ARPEDS CONSULT, 2011, “Assessment of the quality and value for money of investments undertaken under ULGDP.”

1. The ULGDP modality of incentive based allocations promotes planning, PFM, and governance improvements across a broad range of core areas, and has introduced a good sense of competition and awareness across the ULGs. Compared to the baselines, there are significant improvements in areas of audit reports, planning documents (CIP, procurement plans, revenue enhancement plans, planning and budgeting for maintenance and operations), as well as in accountability and involvement of citizen groups in local planning. The potential for improving the ULG performance in those core areas will be further tapped with strengthening of the targeting of performance incentives under the PforR support.
2. The exact composition of investments which will be undertaken across Program ULGs are not known at this time since they will be determined, like under the first ULGDP, through a participatory bottom-up planning process in ULGs. The experience of the current program and other similar interventions indicate several potential benefits, which will be quantifiable after conducting post-construction evaluation. At this stage of design, baseline data and appropriate assumptions on the stream of benefits and costs over the life of the Program can be made to estimate quantifiable benefits for sample category of sub-projects which will be most likely chosen by the ULGs, like the example above of the cobblestone project and the internal rate of return of water and sanitation projects. These results will be validated after the post construction evaluations of the sub-projects are subjected to value for money (from September 2015), cost effectiveness and cost benefit analysis are done. Assessment of (a) the counterfactual scenario where Program is not introduced and the fiscal gap mentioned above continues, and (b) the potential economic impact of the Program discussed above, shows strong rationale for the proposed intervention.
3. Under the counterfactual scenario without the Bank supported Program, the target ULGs would continue to face the large urban fiscal gap explained above, where, as a result of the absence of necessary investments in infrastructure and institutional capacity needed to keep up with rapid urbanization and the increase in urban residents in the targeted ULGs, would hinder the economic development of Ethiopia. This alternative route will mean that the Program ULGs will face a serious challenge in meeting their ever- increasing residents’ expectations of delivering reliable urban services, as well as a possible deterioration, and in some cases, collapse of existing infrastructure. It is evident that without the proposed Bank supported Program, the support to ULGs under the existing intergovernmental fiscal architecture would be severely inadequate in achieving the proposed objective in the GTP and urban policies of increased ULGs performance in expanding urban infrastructure.
4. To the extent possible and appropriate, the Program will promote local private sector development. As under ULGDP, the implementation of almost all Program activities will be contracted out to the private sector. More than 2,000 micro small enterpriseswere involved in the construction of investment projects from ULGDP from 2008–2011 and this is expected to expand with the proposed investment menu and likely investments.ULGs, as implementing agencies, will retain supervisory role and the MUDHCo, as the main executing ministry, will retain oversight and quality assurance role for Program implementation. These arrangements are considered adequate in terms of economy, efficiency and effectiveness in addressing the urban development issues at hand.
5. The investments supported under the Program are core urban public goods/services such as roads, drainage, sanitation and solid waste management, which would not be provided without significant public interventions. The World Bank’s expertise within support of those areas in Ethiopia and elsewhere are comprehensive, and the experiences from ULGDP shows that in addition to the necessary support for financing of these interventions, the expertise the Bank can offer in the support of the design, technical advice, monitoring and backstopping, is highly appreciated and valuable for the government and the government’s urban program.

**Evaluation of the technical risks**

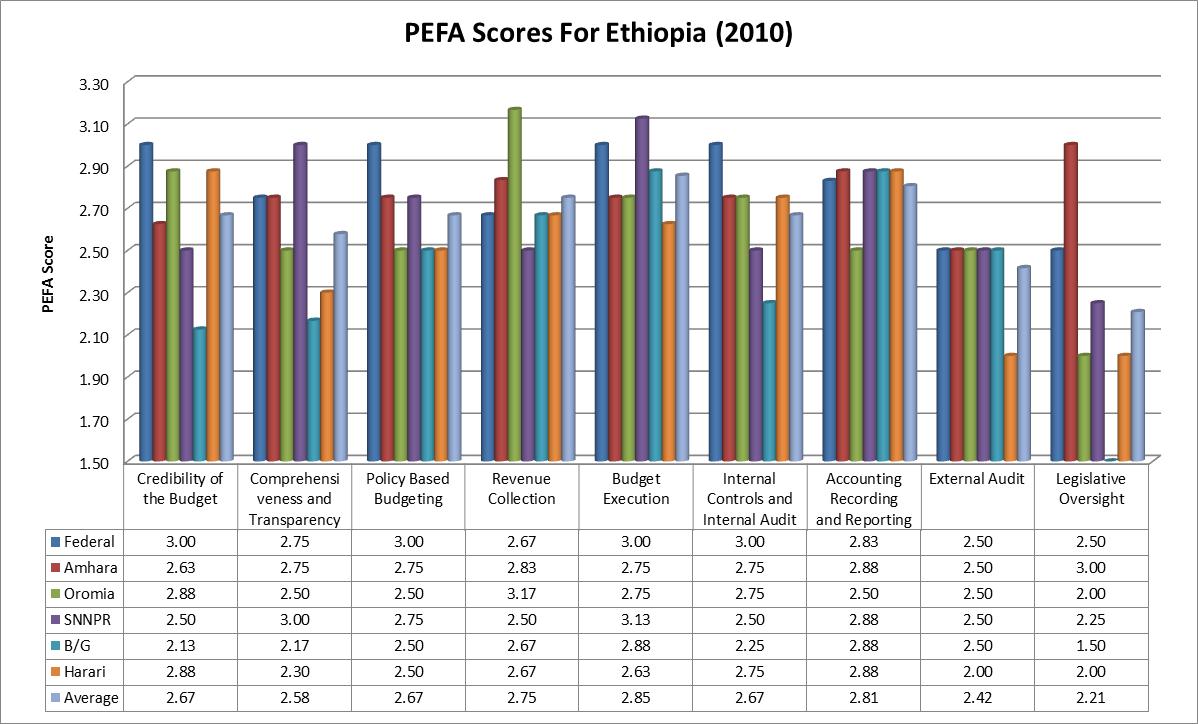
1. Based on the findings of assessments undertaken for the preparation of the Program, the overall technical risk rating is substantial. The overarching measures to mitigate these risks will be firstly the series of institutional enhancement activities, which will be financed by the two elements of the Program, and secondly the incentive mechanism under the performance-based disbursement mechanism.

Annex 5: Summary Fiduciary Systems Assessment

1. An integrated fiduciary assessment of program fiduciary systems for the proposed Program was carried out on the MUDHCo and a sample of participating regional and urban local governments that will implement the ULGDP II consistent with Operational Policy/Bank Procedure (OP/BP) 9.00, Program-for-Results Financing. A special survey was designed for assessing the financial management performance of cities. During September and October 2013, teams visited all 26 new cities joining the program to collect this information. For the 18 cities in the current ULGDP program, data was obtained and analyzed from the last three Annual Performance Assessments. The Procurement assessment is based upon data collected from 18 cities (sample of old and new cities in the program) that was collected in August and September 2013.
2. The fiduciary assessment entailed a review of the capacity of the sample participating entities on their ability (a) to record, control, and manage all Program resources and produce timely, understandable, relevant, and reliable information for the borrower and the World Bank; (b) to follow procurement rules and procedures, capacity, and performance focusing on procurement performance indicators and the extent to which the capacity and performance support the program development objectives and risks associated with the Program and the implementing agency; and (c) to ensure that implementation arrangements are adequate and risks are reasonably mitigated by the existing framework. A detailed Integrated Fiduciary Assessment is being circulated as part of the project package.

**PFM System Assessment and FM arrangements**

1. At the national level, the assessment notes that the Public Expenditure and Financial Accounting PEFA ratings of 2010 had placed Ethiopia in the top tier of countries in the Africa Region in public financial management.



1. As can be seen in the table above, there is significant variability between the Federal level and the regions. Some of the areas where further improvements were needed are in the areas of multi-year planning, unreported government operations, tax collections, budget execution, procurement, internal audit and external oversight. Government of Ethiopia has a well-designed public financial reform program that is addressing these weaknesses in a systematic manner through the Expenditure Management and Control Program. Sectoral weaknesses continue to persist and there is need for enhanced capacity building initiatives at the sectoral level, especially in sectors such as roads, energy, education, water, and urban development.
2. The key finding of the financial management assessment and the program financial management arrangements are highlighted below. On the basis of the issues It is the conclusion of the assessment that the financial management risk is rated as Substantial.

* **Revenue.** There is great potential for increasing State Revenue and Municipal Revenue during ULGDP II. In nominal terms for 17 new cities joining the program, between EFY 2002 and EFY 2005 State Revenue increased by 360% and Municipal Revenue increased by 233%. This is similar to the experience of the 18 cities currently in the program, where the last assessment showed that 11 cities exceeded their revenue targets for EFY 2003. This is not surprising since the Tax to GDP ratio in Ethiopia is only 12.5%. The draft Adam Smith study (November 2013) has assessed the tax gap as a percent of revenue as being 37.4% at the Federal level and much higher in some of the big regions where the primary focus of ULGDP II is going to be.
* **Planning and budgeting**. As indicated in the PEFA assessments and as the ULGDP I shows, Ethiopia has a well-functioning planning and budgeting system. The APA for EFY 2004 showed that fifteen of the eighteen cities in the program had fully complied with government planning processes. The program will follow government planning and budgeting arrangements as outlined budget Manuals. The budget will be proclaimed at the Federal level following the PSCAP Model at the Federal MUDHCo as a special purpose Grant classified by Regions ULGs/Cities and MUDHCo. At the Regional and ULG level,the budget will also be proclaimed without offset and double counting.
* **Budget execution.** Budget execution (of the adjusted budget) is good at the national, regional and woreda levels. In EFY 2004, the recurrent budget execution rate for the 18 cities in the program was close to 100 percent and for the capital investment program it was 78 percent. For the 26 new cities joining the program (as an average for three years – EFY 2002 to EFY 2005), the recurrent budget execution rate was almost 100% and the capital budget execution rate was 72 percent. In ULGDP I there have been significant timing delays in the completion of the APA. There have also been delays in receipt of the regional contribution and the contribution of the city. Due to this several cities have had to maintain two capital investment budgets – one being their own CIP and the other being the ULGDP CIP. This will need to be addressed as the program moves into its second phase. Semi-annual financial reports also will report on the budget utilization including variances analysis and explanation for the reasons leading them.
* **Treasury management and flow of funds**. The experience during ULGDP I has been that absorption and release of funds during the first three years of the program was slow. An initial allocation of US$99 million was made at the start of the program. Three years later, 35 percent of the initial allocation was not utilized. Cities in the ULGDP have voiced their concerns regarding the flow of funds. Things have improved in recent years and the program is expected to fully disburse US$300 million by the end of the program in December 2014.

Disbursement of program funds will be made upon achievement of the disbursement linked indicators (DLI) twice a year. Funds will be deposited to the Treasury or a separate foreign currency account. Upon achievement of the indicators, the MUDHCo will work with MoFED to inform the World Bank and provide evidence as per the verification protocols, as justification that results for the DLI have been met. In case of a scalable DLI, the task team will determine the amount to be disbursed on the basis of the programs progress report and DLI verification protocol. A notification will be made to the borrower to advise the amount to be disbursed against progress achieved towards the results of the scalable DLI. Disbursement requests will be submitted to the Bank using the Bank’s standard disbursement forms signed by an authorized signatory.

Although PforR operations do not link disbursements to individual expenditure transactions, the aggregate disbursements under such operations should not exceed the total expenditures by the borrower under the Program over its implementation period. If, by Program completion, Bank financing disbursed exceeds the total amount of program expenditures, the borrower is required to refund the difference to the Bank.

* **Accounting and Reporting.** ULGDP has been a Special Purpose Grant that has been provided through MUDHCo to the cities. It is therefore a Channel 2 program that has operated outside the core government system at the regional and city levels. During ULGDP, cities used a mix of system for accounting for ULGDP funds. These were a mix of manual, IBEX and discrete systems such as Peachtree. Accounting was a major challenge since there were major variations in figures at the city, regional and federal levels. Over the course of the program, the quality of accounting and reporting has improved significantly but is still a challenge in some of the 18 cities who joined the program in 2008. For the 26 new cities joining the program, this is going to be a challenge. In 58 percent of these cities cash flow statements are not prepared in a timely manner, the timeliness of cities who submit reports in a timely manner to BOFEDs per quarter varies from 46 percent to 76 percent and only 38 percent of cities generate income and expenditure statements in a timely manner. IBEX has been introduced in all cities for core government operations. Only a few of these cities are using IBEX for accounting and reporting on donor funded projects.

Government rules/regulations and directives as well as manuals will be in use for the Program in respect to accounting policies and procedures. Chart of accounts will be clarified to take on board of program accounting and reporting needs and this will be documented in the Program Operating Manual. IBEX will be used by all participating cities to record transactions and to produce reports at all levels. Adequate capacity building will be provided to cities to enable them to utilize this software effectively for ULGDP II. The Program will allocate adequate financial management staff at MoFED, MUDHCo and ULGs to perform program FM duties.

Semiannualaccounting reports, the format of which has been agreed will be used, to report on the use of program resources. These reports will be submitted to the World Bank by MoFED within 45 days at the end of the half year (semi annual end date). Program financial reports will be produced from the existing system and their production will be the responsibility of the each implementing entity which will be consolidated at the higher level and at the end by MoFED. (Reports of the ULG’s and other regional implementing entities will be consolidated by BoFEDwhich will be submitted to MoFED. TheBoFED and MUDHCo’s reports will be consolidated by MoFED).

* **Internal controls and internal audit**. Government rules/regulations and directives as well as manuals in regards to Internal Control procedures will apply to ULGDP II. While the internal control framework is generally recognized as being robust, a particular area of weakness in internal audit. This is an area of weakness in the 18 existing cities in the program as well as in the 26 new cities. For example, in the 26 new cities joining the program, audit coverage is low and in 77 percent of cities, internal auditors do not assess the quality of quarterly financial statements submitted by the city to BoFEDs. To deal with this risk, it has been agreed that MoFED’s Inspection Directorate, in collaboration with BoFEDs’ Inspection Directorate, will work closely with the relevant internal audit departments of the cities and provide on-going support. The Inspector Directorate will review internal audit reports on an annual basis, following risk based post audit arrangements for the program activities. To achieve this task, the Directorate will strengthen its capacity and will coordinate with MUDHCo and MoFED/Channel One Program Coordination Unit to review federal and regions and ULGs to review sample regions and ULGs. Internal audit reports will be submitted to the MoFED and MUDHCo within 30 days of completion of the audit report together with a proposed action plan to deal with identified risks. The reports will be shared with the World Bank during annual assessments.
* **External audit**. At the start of the ULGDP, there was a large backlog in audit coverage in the 18 cities in the program and their financial management practices were weak. ULGDP through its scoring system brought a particular focus to this area and over the course of the last five years, all audit backlogs have been eliminated in the cities in the program and there has been an improvement in management of public funds. In EFY 2004 all 18 cities received a “qualified” audit opinion, a major improvement for the six cities that had received an ‘adverse” opinion the previous year. However not a single city as received a “clean” opinion as yet and that is the trajectory for future reforms. Value for money during ULGDP has been mixed. The only value for money audit that has been conducted relates to cobblestone investments that have been made that account for over US$56 million of ULGDP funds. This value for money audit showed that “good” quality work on cobblestone investments ranged from 60–90 percent in the regions and there was large variability on a unit cost basis between regions; the investments made in Bahir Dar had especially high unit costs.

For the 26 new cities joining the program, their situation is quite similar to the 18 cities when they joined the program in 2008. For the 26 new cities, they have a major audit backlog from the last five years, which varies from 50 percent to 15 percent of cities per year. Their financial management practices are also weak and between 8–15 percent of these cities received an “adverse” audit opinion per year for the last four years. The main irregularities relate to issues such as weak asset management, poor cash reconciliations, long outstanding advances and payables, weaknesses in procurement and mis-coding of expenditures.

A major challenge has been the poor follow up of audit findings. For the 18 cities in ULGDP, the APA for EFY 2004 found that five cities implemented between 0-40 percent of the findings for the previous year. Due to this audit findings are repeated year after year, with limited follow up and impact.

A related challenge is the low audit coverage in the regions where most of the cities for ULGDP II are located. In SNNPR, Amhara and Oromia, audit coverage is less than 30 percent of the institutions due to be audited every year. Due to this it has been agreed with Government that the Office of the Federal Auditor General (OFAG) or an assigned auditor, in collaboration with ORAG will conduct the annual financial audit of the financial statement of the Program. The audit will be conducted in accordance with agreed upon terms of reference following international auditing standards. The resultant audit report and management letter will be submitted to the World Bank within six months after the end of the government’s fiscal year. In addition to the financial audit, OFAG will conductthe Performance audits/value for money audits for the Program. The first performance audit of the Program will commence from the second year onwards.

* **Transparency and accountability**. There is need for focusing on this area under the ULGDP II. The finding of the October 2013 assessment was that in 88 percentof cases,cities did not make public audit findings either to the staff or the public. This issue needs to be addressed since parliamentary oversight over the budget process and for ensuring accountability has been identified as probably the weakest area of the PFM cycle in Ethiopia.
* **Staffing and infrastructure.**The core functions for financial management are going to be conducted by the Office of Finance and Development in the participating cities. The October 2013 assessment has shown that 22 percent of positions are empty in Offices of Finance and Economic Development (OFED). The greatest shortfall is on the planning side where 33 percent of staff positions are vacant. In addition, there is high staff turnover. Some 36 percent of the existing staff has been in office for less than two years. There is therefore need to ensure that existing positions are filled up and that adequate training is provided to the existing staff to enable them to discharge their functions. The facility survey showed that in almost 75 percent of cities there were major basic facilities and infrastructure deficits that constrained staff from discharging their functions. This is an issue that will need to be addressed during ULGDP II.

**Procurement systems assessment**

1. The Bank carried out a fiduciary (procurement) system assessment for the proposed ULGDP II PforR operation between May and September 2013. The review included applicable procurement systems, rules and procedures, including oversight mechanisms at the program implementing entities. The program implementing entities are the federal Ministry of Urban Development, Housing and Construction (MUDHCo), BoFEDs, and participating cities (ULGs). All the regions and 18 of the 44 participating cities have been visited and assessed. The detail assessment reveals that, in all regional states and ULGs, there is adequate public procurement and contracts management legislative framework and systems in place. The major issues with all the implementing agencies are, except at the MUDHCo, the weakness of implementation of the applicable public procurement rules and procedures including oversight mechanism. The regions as well as the ULGs have limited capacity to follow the rules and procedures and therefore there is risk of the agencies’ performance in implementing the applicable procedures under the program. The overall performance of procuring entities (city administrations) in complying with established system and therefore ensure transparency, efficiency and economy is found to be underprovided. The conclusion of this assessment is therefore the risk of program procurement system to help achieve the program results is high.
2. Three sets of risk mitigation measures have been defined and proposed to be carried out. These measures are inherent in the design of the program and will be part of Disbursement Linked Indicators (DLI). These risk mitigation measures include:

* **Minimum conditions**. These will be entry conditions for release of funds to a city. Procurement aspects of minimum conditions will include institutional set up for the management of procurement to include core staff, functional tender and complaints review committees, advance orientation of staff in procurement and a procurement plan linked to the budget. These will be assessed every year by a consultant prior to release of funds.
* **Performance measures.** Annual performance assessment will be carried out annual by a consultant to inform following year allocation to cities. Procurement aspects will include delivery of audit along with management response (accountability), quarterly publication of ICB and NCB awards( Transparency), percentage contracts made within initial validity period (efficiency), reduction in number of direct contracting without justification(economy) and degree to which directives and standard bidding documents are complied with. The Regional Public Procurement and Asset Management Agencies (RPPAMAs) are legally mandated to carry out procurement audits in their jurisdictions. However since these agencies do not have the capacity at the moment, their capacity will be built over the first two years and the annual procurements audits will be carried out after the second year of the program implementation by the respective RPPAMAs. The first and second year procurement audit will be carried out as part of the APA. The audits will assess performance as well as compliance.
* **Action plan.** Program action plan included activities key stakeholders will carry out to prepare for implementation and during implementation. Program action plan is included as part of the risk mitigation measures and detailed in procurement annex of this report.

**Fraud and corruption issues**

1. There is a robust legal framework for addressing fraud and corruption in Ethiopia. The Government has established the Federal Ethics and Anti-Corruption Commission (FEACC) with a mandate to expand and promote ethics and anti-corruption education, prevent corruption (through review of working procedures and systems), and to investigate and prosecute alleged corruption offences since 2001.[[54]](#footnote-54)The Government has also declared that it follows a zero-tolerance policy toward corruption. The FEACC has received political support at the highest level in the country. Since 2007, all the nine Regional Governments have established their own Regional Ethics and Anti-corruption Commission (REACC) as per the regional laws. FEACC is responsible for coordinating efforts of Anti-corruption across regions including ULGs and preparing a national report on anti-corruption efforts across the country.
2. Complaint handling mechanisms are in place at all level of governments as per the requirement of the National Proclamations (Proclamation 433/2005 and 434/2005) and institutional level operational guidelines. These proclamations clearly define the procedures to follow under corruption offences as well as for administrative complaints related to the Program.

There are a number ways for participation and engagement of citizens in complaint handling, transparency and social accountability. At the grassroots, citizens have shown experience in forming community groups, committee or representative to liaison with constituency and seek solutions. ULGs have started to create forum for receiving in requests and information and responsiveness by local authorities. Such mechanisms include facilitating face-to-face/interface meetings and joint discussion between citizens and providers of services; joint monitoring and assessment performances.Although the system of complaints handling is very well established in Ethiopia, the MUDHCo and the regional and local governments will take full responsibility in ensuring that the Program beneficiaries are regularly informed about the complaint system which is an important requirement that will help in ensuring the program meets its development objectives.

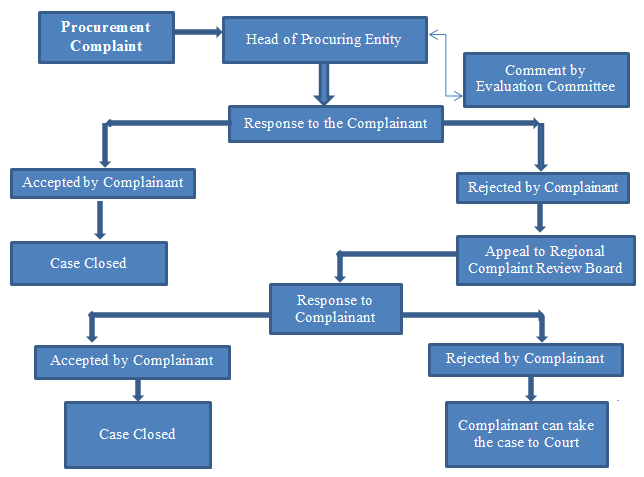
1. Complaints regarding the program can be received from internal or external clients through various channels such as suggestion boxes, verbal, written and in person. At the ULGs level, complaints are lodged to the City Complaint Handling Body or unit consisting of Ethics Liaison Unit officers, to the police, to other delegated bodies or directly to REACC. Consequently, information on fraud and corruption and complaints regarding the Program will be collected at the Regional level and shared with the Federal Ethics and Anti-Corruption Commission who will in turn share with the Bank bi-annually.
2. The City Complaint Handling Body identifies whether the complaint is F & C related complaints or other complaint (such as administrative /system, service provision related complaints) and classifies petty and grand corruption.[[55]](#footnote-55)It also identifies whether the jurisdictions in which a complaint could be treated is with either FEACC or REACC or delegated to the Police for investigations. If the complaint is classified as an administrative issue related to the Program, the Complaint Handling Body collects the required information and refers to the concerned institution or department and provides advice to take preventive and corrective actions while at the same time reporting to the Ethics infrastructure coordination Department at REACC which keeps track of the complaints that come in on the Program. Response or feedback is provided to the complainer. If the decision is not satisfying to the complainer, he/she can take the case to REACC for further action.
3. On the other hand, if the complaint is found to be related to allegation of corruption and fraud or related to wrong doing as per the screening, the Complaint - Handling body /liaison unit officer forwards the issue with the necessary data to the registrar of REACC. The Registrar sorts out the complaint in terms of its jurisdictional responsibility, whether it is petty or grand corruption, and submits to the Deputy Commissioner of REACC. The Deputy Commissioner verifies the complaint and then refers it to the investigation and prosecution team. The investigation team investigates the case and submits its findings back to the Deputy Commissioner. Then the Deputy Commissioner checks the information collected from the investigations, endorses and then forwards to the REACC Commissioner. The Commissioner refers the case to the court /prosecutor for the next action. Sometimes complainers can directly approach the police. The police, in its mandate as a delegated body in this instance, investigate the cases and forward the results to FEACC or REACC depending on the mandate given and the process moves forward as described above after the information gets to the Registrar. In terms of sharing information with the Bank on Complaints regarding the Program, the planning and evaluation section of REACCs will compile reports related to complaints from the Ethics Infrastructure Coordination Case Team,(consolidated reports coming from all ULGs), Investigation and prosecution department in REACC, Registrar, and from the Ethics Officers of the Regional Urban Development Bureau and submit on quarterly basis to FEACC who will then submit a consolidated report to the World Bank bi-annually. The general complaint handling mechanism is shown as follows:

**Figure 1: Complaint Handling Flow Chart for ULGs**



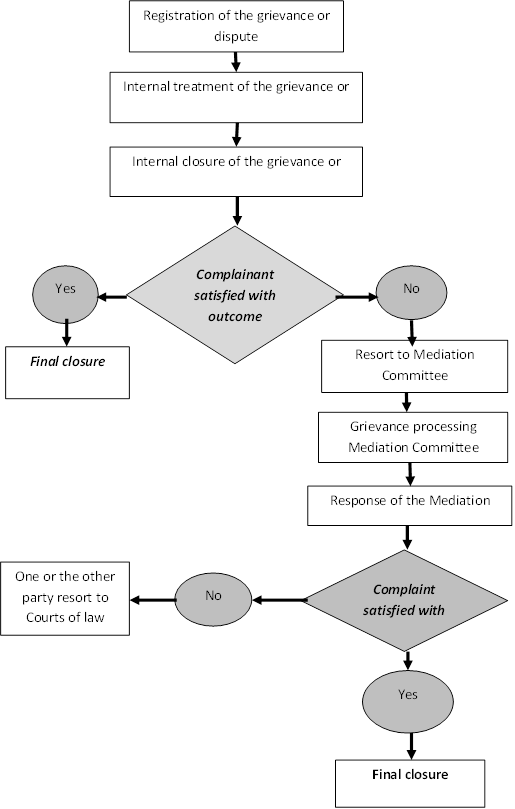
1. **Complaint handling in public procuring entity related to procurement.**The federal procurement proclamation enacted the establishment of “Board for Review and Resolution of Complaints in public procurement” and instituted the board with five members. A complaints review unit in PPA (the board member) receives and compiles complaints and presents to the board; receive offence reports from Procuring Entities against suppliers. The Board refers any procurement complaints perceived to involve fraud and corruption to the FEACC and/or REACC for investigations.
2. The revised procurement legislation/ directives of each regional state provide a mechanism for submitting complaints that ULGS are required to comply with. Complaints from suppliers or bidders can be lodged to the procuring entity and the head of the procuring entity responds to complainer. If the complainer is not satisfied, she/he will appeal the case to the procurement complaint review board (majority of the board members are public officials and from procuring agencies) and eventually take the matter to the courts. The head of BoFED or the process head of economic and social development gives final approval of the recommendation of the Board or committee. If the complaint process/procedure related and the complainer is satisfied, necessary actions are taken and responses are made to the complainer .On the other side, the procurement process can be withheld or upheld depending on the confirmation of the complaint for wrong doing or not. If the complaint review board/committee suspects the case is related to fraud and corruption, then the case is directed to the REACC or FEACC. Any bidder, procuring entity, citizen including Ethics unit officers, Federal and regional auditor generals can lodge procurement related complaints to REACC or FEACC. Besides, as mentioned above, the ethics liaison unit officer of each entity report fraud and corruption related cases. Although the Anti-Corruption law in Ethiopia makes provision for people to complain directly to the FEACC and REACC if they believe a case of fraud and corruption has been committed, the Program Coordinators will also emphasize this point to all the procuring entities as part of the program’s information dissemination.
3. The procurement complaint handling mechanism is shown as follows:

**Figure 2: Compliant Handling Flow Chart at the City Administration on Procurements**



1. Grievance redress mechanism on land and other property acquisitionreducing land acquisition risk will require systematic approach to risk management and the program has seamlessly integrated into the different safeguards instruments being designed and included in the DLI a grievance redress mechanism and any grievance that may arise from the economic or physical displacement will be filed at first instance to the city complain hub as discussed above, and will be registered for further action using the above mentioned register.Basically, grievance redress procedures and mechanism for Program affected people will be established and or incorporated into the existing city administration’s resettlement / Implementation committees. Grievance redress mechanism will ensure that Program affected people that they will be provided with the appropriate compensation payment and that all administrative measures are in line with the law. The grievance redress procedures will provide opportunity for Program affected people to settle their complaints and grievances amicably. The procedure to be adopted will allow Program affected peoples not to lose time and resources from going through lengthy administrative and legal procedures.

**Figure 3:Grievances/dispute management mechanism on land acquisition**



**Alignment with the Bank’s Anti-Corruption Guidelines**

1. The government has agreed to implement the program in accordance with the Anti-Corruption Guidelines (ACG) applicable to PforR operations. As follows.
2. **Sharing of debarment list of firms and individuals**.The Government of Ethiopia commits to use the Bank’s debarment list to ensure that persons or entities debarred or suspended by the Bank are not awarded a contract under the Program during the period of such debarment or suspension. The information on the list of debarred and suspended firms is public information in “Clients Connections”, and on the Bank’s website. Companies and individuals debarred by the Bank and the PPRA will be posted and updated regularly on MUDHCo’s website (www.mudc.gov.et), and advertised publicly by ULGs. MUDHCo will take responsibility in ensuring that the website is updated regularly with information on the list of debarred firms and individuals and share this information with all ULGs in the Program, instructing them to comply by appending the debarment list to the annual transfer of Grant notification which will be made public - and go to all Program ULGs. This list will also be used by procurement officers and council members to monitor ULGs compliance. ULG compliance with the debarment list will also be monitored through the Program annual assessment. In addition the Government also agreed that they would include some disclosure measures in bidding documents for works, goods and services to be financed under the program, including insisting that the firms and/or individuals declare they have not been debarred or suspended and/or have any links with a debarred entity or individual.
3. **Sharing information on fraud and corruption allegations***.*In line with the ACGs, the government (through FEACC) will share with the Bank all information on fraud and corruption allegations, investigations and actions taken on the Program, including on procurement. Since the proposed program is providing support to 44 ULGs, the structure of collecting and sharing information on fraud and corruption and on the program governments beyond the Federal Government and would involve Regional and local institutions as well. Consequently, information on fraud and corruption and complaints regarding the Program will be collected at the Regional level and shared with the FEACC which will in turn share with the Bank. The FEACC gets monthly reports from the REACC on fraud and corruption and other relevant activities, but in the case of this program, the FEACC would compile and share information on fraud and corruption with the Bank every six months. The details of this reporting would include the types of allegations and the status of actions taken. A template for recording and sharing the information with the Bank has been provided to the FEACC.
4. **Investigation of fraud and corruption allegations.**As indicated earlier,FEACC and REACCs were established with powers to prevent, expose, investigate and prosecute corruption offences and impropriety in Ethiopia. Over the past decade, FEACC has investigated some 2,302 suspected cases of corruption and prosecuted a number of suspected offenders; 612 offenders received sentences varying between three and 21 years imprisonment and fines. Among the cases investigated and prosecuted were those involving high-ranking government officials, ruling party members, chief executive officers and government owned enterprises.[[56]](#footnote-56)In the last ten years (2001–12), there has been a steady rise in the total number of cases prosecuted as well as an improvement in conviction rates from 77.8 percent to 85.0 percent. All REACCs received 7,037 complaints and tipoffs within their mandate amounting to two third of the total complaints under the federal and regional mandate in 2011 and 2012. Out of the total complaints and tips off, 16 percent were convicted with variation among regions.[[57]](#footnote-57)
5. The Bank's Integrity Vice Presidency has a good working relationship with the FEACC as part of a memorandum of understanding signed between them on October 3, 2011. The memorandum of understanding provides a framework for cooperation and sharing of information, where appropriate, taking into consideration the legal and policy framework and mandate of each organization. Thus far, the working relationship between Bank's Integrity Vice Presidency and FEACC based on the memorandum of understanding has been cooperative and productive. The memorandum of understanding will provide the Bank and its Integrity Vice Presidency with a foundation for expanding the existing working relationship to cover future cooperative investigations under the Program when needed, and for helping to ensure that the Government of Ethiopia and the FEACC can implement their commitments under the Anti-Corruption Guidelines. More specifically, the terms of the cooperation includes the following: (a) to provide one another (spontaneously or upon request) with information of relevance for detection, substantiation and prevention of fraud and corruption in connection with conduct which may constitute a serious crime under national legislation or a sanctionable offence under World Bank Group and Policies; (b) to undertake joint activities and collaborate when appropriate in each Party’s efforts to detect, substantiate and prevent fraud and corruption; (c) to engage one another on relevant activities which they organize and undertake, and which may be of common interest in the execution of their mandates; (d) to provide a mechanism for the reciprocal referral of inquiries and recommendations pertaining to investigations and actions residing within the mandate and jurisdiction of the respective parties; (e) to designate contact points to facilitate and expedite the effective and confidential transmission of information exchanged, and (f) to meet periodically to identify possible priority areas for cooperation that present common strategic or operational objectives. The memorandum of understanding will therefore make it possible for the Bank’s Integrity VicePresidency to collaborate with FEACC on any case of suspected fraud and corruption in the Program.
6. FEACC, as indicated earlier has the responsibility for investigating and prosecuting corruption in the country, including for funds specifically from development partners to support the Government of Ethiopia. This responsibility is sometimes delegated by the FEACC to the REACC as part of a memorandum of understanding between them, which provides among other things powers to investigate and prosecute corruption for funds and more specifically funds that seek to benefit the Regions and Cities. In addition, FEACC and REACCs meet twice a year to share information on lessons learned, conduct joint learning programs as well as discuss various issues regarding capacity building and priorities for addressing corruption in the country more broadly.

**Fiduciary risks and mitigation measures**

1. Based on the above reasons, **the fiduciary risk assessed for this operation is classified as “substantial”.** Overall, the fiduciary assessment concludes that the examined program financial management and procurement systems are adequate to provide reasonable assurance that the financing proceeds will be used for intended purposes, with due attention to principles of economy, efficiency, effectiveness, transparency and accountability, and for safeguarding Program assets once the proposed mitigation measures have been implemented. Appropriate systems to handle fiduciary risks including the fraud and corruption, including effective complaint-handling mechanisms, have been agreed on and established. Risk mitigation measures for the identified risks have been discussed and agreed with Government. The risk mitigation measures have two pronged approach: First a Disbursement Linked Indicator will be provided in the Financing Agreement to support transparency aspects of the Program. Secondly specific actions have been proposed that will support the DLI and help improve efficiency and performance monitoring are indicated in the Program action plan.
2. Summary of risks, mitigation measures and action plan are presented below:

|  |  |  |  |
| --- | --- | --- | --- |
| **Risk Description** | **Proposed mitigation measures** | | **Time Frame** |
| **Financial Management** | | | |
| **Country Level**  Weak capacity in selected areas of public financial management, especially multiyear planning, unreported government operations, tax collections, budget execution, procurement and internal audit; high staff turnover of qualified accountants and auditors, gaps in legal framework especially relating to the accounting profession | The noted weaknesses are being addressed by the ongoing Expenditure Management and Control Program and by the Civil Service Reform Program | No need to include it in the DLI or PAP | Continuous |
| **Entity Level**  Federal level- Reporting challenges were noted  ULG Level- Weak capacity in ULGs, especially the new 26 cities where large backlogs in external audit, weak internal audit function and reporting issues was noted | The program includes measures to address audit back logs, and strengthen internal audit function at city level  Federal level quarterly reports still exist and formats are agreed in advance | DLI 1,2 and 3  PAP | As per dates set in DLIs and the PAP |
| **Planning and Budgeting**  Budget execution and analysis of variances may not be as expected as a result of implementation issues. | The Program includes requirements to improve the Budget execution/utilization  Regular Semiannual Financial report include variance analysis | DLI 2/3  IFR | As per dates set in DLIs and quarterly financial reports |
| ***Accounting***  Chart of accounts need to be harmonized and clarified  IBEX, computerized accounting system utilization need follow up  Staff turnover is an issue at all levels | CoA will be clarified and documented in the Program Operating Manual and Training will be conducted  The program includes measures to use IBEX and all cities will use IBEX and training will be conducted on IBEX/IT  The Program will allocate adequate financial management staffing at MoFED, MUDHCo and ULGs to perform the program duties. The total FM staff database will be submitted in the first 6 months of effectiveness and 75% of vacant professional positions will be filled with in 2yrs. | PAP  DLI  PAP | As per dates set in DLIs and PAP |
| ***Internal Control***  Internal audit is weak at all levels and controls in place but need strengthening | Inspection Directorate at MoFED in coordination with all entities will conduct audits once per year  The Program includes requirements to address internal audit and internal control challenges/ concerns at ULGs | PAP  DLI 2/3 | As per dates set in DLIs and PAP |
| ***Treasury management & Funds Flow -***  Delays in liquidating advances emanating from project implementation issues and thus lead to delay in the utilization of funds | Twice Disbursement to ensure that regular flow of funds that are linked to the achievement of DLI  Review of semiannual reports to identify poor implementation and budget utilization  Reconciliation of fund disbursed to the Program with the expenditure will be conducted at the end | DLI  PAP  FA (Financing agreement) | As per dates set in DLIs and PAP |
| ***Program Financial Reporting***  Delay in Report could exist as a result of the level of decentralization | Training will be conducted in report preparation | PAP | As per dates set in DLIs and PAP |
| ***Program Audit***  There could be a delays in Program Financial Audit report  VFM audit has not been adequately conducted  Significant audit back logs exist for the new cities and qualification issues of the all cities are not well followed up | The program will conduct a Financial Audit annually on the basis agreed upon TORs  Value for money audits will be conducted. The Program includes measures to follow up on audit backlogs and follow up of past audit issues. | Covenant  DLI/PAP | As per dates set in DLIs and PAP/covenants |
| **Procurement** |  |  |  |
| ***Compliance with national and regional directives***  There is laxity or lack of knowledge of the bylawand therefore incompliance with national and regional governments directives with regards to procurement planning, use of direct contracting without appropriate safeguards, failure to use standard bidding Documents and subsequently contract documents and inconsistent use of committee systems for approval of contract award. Use of direct contracting is common and national competitive bidding used above thresholds as required by Directives | * Program minimum access condition (MAC) will check on the availability and functionality of the minimum systems, including legal documentation; * The PAP will include familiarization training & the mobile support team will support the ULGs to address most of the issues related with awareness/capacity issues; * The Borrower will (a) conduct Performance Assessment for the first two rounds (April-May, 2014, and September-November, 2014) and Independent Procurement audit starting with the third assessment (September –November 2015) and (b) thereafter deliver procurement audit reports with management corrective measures addressing the findings of the audit. * The Borrower will (a) conduct Performance Assessment for the first two rounds (April-May, 2014, and September-November, 2014) and Independent Procurement audit starting with the third assessment (September –November 2015) and (b) thereafter deliver procurement audit reports with management corrective measures addressing the findings of the audit. | MAC/DLI 1  APA and DLI 1  DLI 1&2 | Annually and continuousAnnually and continuous  Annually and continuous |
| ***Procurement capacity***  There are capacity limitations in terms of skilled staff to handle procurement and contract administration. As this is a PfoR operation, project units which facilitated procurement processes under ULGDP I may not be available thus further deteriorating the capacity of cities to implement the program. The cities are also experiencing high staff turnover. In most cities, most procurement staffs have been in position for less than 2 years. | * Minimum access conditions will check the availability of the minimum procurement staffing (two) in each city; * The MUDHCo will maintain its project team and the mobile support team similar to ULGDP I; * The program will provide intensive procurement contracts management training to the staffs of the ULGs as in PAP | MAC/DLI 2 &9  DLI 4  DLI 8 | Annually and continuous  Annually and continuous |
| Transparency and Fairness  Most cities use incomplete bidding documents without preset qualification and evaluation criteria and complete conditions of contract for the tender which would impact on transparency and fairness in bid evaluation and contract administration. Although it is the requirement of the procurement regulations of all regions, the contracts administration and Complaints handling set up and mechanism, in most cities, is inadequate. | * The cities have agreed to institute all procedures and avail legal document before effectiveness MAC will check on this; * Familiarization training will be conducted on the use of the program systems; * The Borrower will (a) conduct Performance Assessment for the first two rounds (April-May, 2014, and September-November, 2014) and Independent Procurement audit starting with the third assessment (September –November 2015) and (b) thereafter deliver procurement audit reports with management corrective measures addressing the findings of the audit. * The Borrower will (a) conduct Performance Assessment for the first two rounds (April-May, 2014, and September-November, 2014) and Independent Procurement audit starting with the third assessment (September –November 2015) and (b) thereafter deliver procurement audit reports with management corrective measures addressing the findings of the audit. * Continues capacity building will be provided following the Program action plan (PAP); * All regions will institute/establish complaint management Board , following the requirement of their RPP laws; | MAC/ DLI 1  PAP  DLI 9  PAP/  DLI 4  PAP/  DLI 2 | Annually and continuousAnnually and continuousAnnually and continuous  Annually and continuous |
| Competitiveness  There are some government owned enterprises in sectors of supply of goods, works and services and there have been observed preference to use them or allow them to compete alongside private sector. High margin of preference of up to 18% are applied in bids evaluation and in many regional states, there are mandatory provisions to support medium and small enterprises through reservations or preferences. Though this approach has a lot of strategic benefits, it has to be balanced with the principle of fairness to the private sector competitors’ as well. | MUDHCo will:   * Require ULGs to justify to the BoFEDs the use of government owned enterprises where private sector suppliers exist in advance of contracting; * Require ULGs to exclude award to Bank debarred firms through providing regular information;   Provide guidance to ULGs on policies on support to MSEs and the level of preferences that would be acceptable across board to ensure uniformity and minimize abuse (this guidance will be part of participatory and performance agreement, PPA and Program Operations Manual.) | Program Operational Manual | By Negotiatios |
| ***Accountability , integrity and oversight***  Contract management, including contracts delivery quality and cost controls, and resolution of contractual disputes are not adequate. Record keeping is poor. Many states do not have independent and effective institutional setup for handling of complaints. The regional PPAs do not have the capacity to carry out independent reviews and or procurement audits. Many Bank debarred firms are operating locally and participate in bidding processes locally. | * Minimum access conditions will check on the institutions and staff availability (tender committees and complaint handling mechanisms); * PAP will enhance the program management capacity issue; * The mobile support team and the intensive program management training to the ULGs staff will address the capacity issue; * The program will provide Regional Public Procurement Agencies with Procurement audit training; * Annual Performance Audit & Independent procurement audits together with management corrective measures to the findings of the audit will address the residual risks; * The MUDHCo will provide regular information to cities regarding Bank debarred firms so that Bank debarred firms will not be awarded contracts from the program | MAC  PAP  PAP  PAP  DLI 1&2  APA/IPA | Annually and continuous  Annually and continuous  Continues  Within the initial two years  Annually and continuous  Quarterly &Continues |

**Proposed Fiduciary inputs to the Program action plan**

1. The following are inputs to the program action plan from fiduciary.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No** | **Action** | **Pre-Start FY** | **FY-1** | **FY-2** | **FY-3** | **FY-4** |
| 1 | **Budgeting**:  Budget execution and analysis of variances is a challenge noted and this will be addressed through semi-annual reports. Review of reports to identify poor implementation and budget utilization will be performed. |  |  |  |  |  |
| 2 | **Accounting:**  IBEX shall be used for all cities. Fragmented use of systems will be avoided.  CoA will be clarified by MoFED and shall be included in the Operating manual and Training will be conducted |  |  |  |  |  |
| 3 | **Staffing:**  OFEDs staff database will be submitted in the first 6 months of effectiveness, and 75% of professional staff positions will be filled within 2 yrs.  Continuous Training shall be provided for the staff to cater for staff turnovers. |  |  |  |  |  |
| 4 | **Internal Controls:**  Inspection Directorate at MoFED, in collaboration with regional Inspection Directorates at BoFEDs, will oversee the conduct of internal audits at least once per year by ULGs internal auditors. |  |  |  |  |  |
| 5 | **External Audit:**  In addition to a financial audit (which is a legal covenant), a Value for Money audit will be conducted by OFAG. The first VFM audit will commence from the second year onwards and will be submitted to the World Bank with in 6 month of the end of the EFY. |  |  |  |  |  |
| 6 | Regional PPAs to enforce their legal requirements and provide reminders to Cities and organize training on the use and implementation of the procurement laws, directives, manuals, standard bidding documents and monitor the consistency of practices. |  |  |  |  |  |
| 7 | MUDHCo will (a) Require ULGs to justify to the BoFEDs the use of government owned enterprises where private sector suppliers exist in advance of contracting; (b) Require ULGs to exclude award to Bank debarred firms through providing regular information; and (c) Provide guidance to ULGs on policies on support to MSEs and the level of preferences that would be acceptable across board to ensure uniformity and minimize abuse (this guidance will be part of participatory and performance agreement, PPA and Program Operating Manual.) |  |  |  |  |  |
| 8 | BoFED will undertake audit capacity building of the regional public procurement agencies. |  |  |  |  |  |
| 9 | Each participating city’s mayors issue instructions and make all procurement legal documents including SBDs available to the staff and enforce and oversight its applications |  |  |  |  |  |
| 10 | The weakness in the existing Procurement complaints handling mechanism may be improved through: (a) The RPPAs will conduct business outreaches and sensitize the business community regarding the available procurement complaints redressing mechanism; (b) BoFEDs will review the independence and options for improving the complaint handling mechanism |  |  |  |  |  |
| 11 | The gap identified with the capacity of FEACC and REACC may be improved through: (a) providing the FEACC and REACC staffs training and capacity building on public procurement and contracts management and (b) the FEACC and REACC use specialized experts to review and investigate fraud and corruption suspicious procurement and contract issues before they take actions on cases reported, and (c) provide training on complaint handling mechanisms and reporting for staff of REACCs and Ethics units in the ULGs. |  |  |  |  |  |
| 12 | A consultant may be recruited by the Program to prepare a contract administration manual to the participating cities and provide the necessary training on it (the Contract administration manual will be based on the Governments own systems) |  |  |  |  |  |

Annex 6:Summary Environmental and Social Systems Assessment

1. **In accordance with the requirements outlined in the OP9.0, an Environment and Social Systems Assessment (ESSA) has been undertaken**. This included a comprehensive review of systems and procedures followed by MUDHCo, regional, and city governments to address social and environmental issues associated with the ULGDP II. The assessment team also visited sub-projects in 14 representative cities that have been developed under the ULGDP. A public consultation to discuss the findings was held December 4, 2013. The ESSA report provides an assessment of the extent to which the existing program procedures for social and environment conform to the core principals of environmental and social sustainability, outlined in OP9.0 (Core Principle 1: General Principle of Environmental and Social Management; Core Principle 2: Natural Habitats and Physical Cultural Resources; Core Principle 3: Public and Worker Safety; Core Principle 4: Land Acquisition; Core Principle 5: Indigenous Peoples and Vulnerable Groups; and Core Principle 6: Social Conflict). It also recommends an action plan to address shortfalls. The ESSA in particular examined the potential environmental and social effects of the proposed Program, describes Ethiopia’s existing environmental and social management system relevant to urban sector, presents an assessment of institutional capacity of participating cities, including institutions responsible for implementation of environment and social management, presents analyses of Ethiopia’s systems against the six core principles of environment and social sustainability named above, recommends measures to strengthen the system performance, and presents a summary of public consultation on ESSA findings and recommendation that are integrated into the ULGDP II design.
2. **Activities to be financed under the ULGDP II will be same as those being financed under the ULGDP**. These include core urban infrastructure investments in roads, water supply, sanitation, solid waste, public parks and greenery, and street lighting. Each city’s capital investment plan (CIP) will exclude all activities that are category “A” type of activities, as part of a well-defined investment menu under ULG responsibility to maximum gains and minimize the risks.
3. **The ESSA confirms that Ethiopia has adequate legal framework for environmental and social management in the urban sector**. Specifically, the countryhas a robust set of environment and social regulations,a functioning court system, and accountability provisions integrated into system. However, the quality implementation and the effectiveness of existing provisions of the environment and social regulations are very uneven. An assessment of environmental and social regulations, policies and procedures, including institutional capacity and practices indicate a **moderate level of environment and social risks** associated with the program design and implementation. Many of the risks relate to implementation stage, including lack of application of standard procedures for risk screening and implementation of mitigation measures among ULGs, lack of coordination among various agencies, and lack of technical capacity and resources. Given a significant variation in the capacity of participating ULGs for environment and social management of risks, the ESSA identified the following three key areas for strengthening:

* *Defining an environmental and social management system at city level.* Under the ULGDP II, as a minimum condition, ULGs must demonstrate that they have established a functional system for environmental and social management that outlines specific roles and responsibilities for environmental and social risk screening, due diligence and regulatory requirements, consultation and coordination with other local and regional agencies, technical tools for implementation and monitoring, a staffing and capacity building plan, and the like. After the first year, ULGs will be required to demonstrate that all projects are screened for impacts and mitigation measures defined, and that all projects have environmental approvals from the REPAs prior to initiating works. Experiences from the ULGDP indicate that environment and social development specialists at MUDHCo have been satisfactorily managing environmental and social risks for cities. However, operational capacity at city and regional levels needs to be strengthened to ensure that procedures—screening of subprojects for environmental risks, preparation and implementation of Environment and Social Management Plan (ESMP), and monitoring under ULGDP II—are adhered to. This is especially important to support the 26 cities that will join the Program.
* *Technical guidance and capacity building.*ULGs can benefit significantly from sector specific technical guidelines that integrate environmental and social requirements for activities such as road construction, waste management, management of slaughter houses, provision of water supply, and others. The MUDHCo is compiling such guidelines to be shared with the ULGs. Participating ULGs have learned from the experience implementing the environmental and social management framework developed under the ULGDP, the areas that require strengthening through a robust capacity building plan. Also, it is important that regions ensure that ULGs are assisted from the planning through implementation and results monitoring, including independent monitoring and verification against a baseline so that future progress can be monitored and assessed against a baseline.
* *Addressing resource constraints.* This area includes measures to overcome constraints with respect to human and financial resources, through the Program incentive structure, as well as capacity building and training. A capacity building and training program will be key to ensure that staff within ULGs clearly understands their roles, have the capacity to fulfill them, and clearly understand how outcomes will be evaluated through the annual performance assessment.

1. **The institutional arrangements for program implementation will be strengthened based on the experiences from the ULGDP**. There will be a clear division of tasks and responsibilities between federal, regional, and local governments, consistent with existing legal provisions, regulations and guidelines. At the federal level, the MUDHCo will have a core team of environment and social specialists to be responsible for coordination and capacity building of ULGs and regions. At the regional level, the BUDs assisted by REPAs will be responsible for environmental and social aspects of the program. At the local level, the OUDs staffed with environment and social development specialists will be responsible for effective environment and social management.The division of tasks is presented in the ULGDP IIOperational Manual, which will be updated prior to the start of the Program.
2. **A public consultation meeting was organized by the Bank team in** partnership **with MUDHCo at Ethiopian Management Institute campus in Bishoftu on December 4, 2013 to discuss with various stakeholders the key findings and proposed recommendations.** The public consultation meeting was attended by more than 100 stakeholders from various participating cities from 9 regions, who actively participated and contributed to the consultation objectives. Presentations were made by the Bank team on program details; ESSA process, findings and recommendations, supported by MUDHCo own assessment of ESSA process and lessons from existing ULGD project. Key points raised by participants pertained to - design of the program; process required for access funding; areas to improve environmental and social management at ULGs and regional EPA level; issues pertaining to dealing with encroachers and squatters; issues of EIA screening and scoping requirements; challenges in implementation monitoring and reporting; environment and social management capacity of REPA and ULGs; lack of capacity in new participating ULGs; issues in dealing deal with vulnerable population. The meeting participants provided broad support to the program, including ESSA's key findings and approach towards capacity building, going forward. The meeting endorsed the recommended approach taken to integrate the environment and social sustainability requirements into the program Disbursement Linked Indicators (DLIs); and focus on incentives for improved performance with respect to environment and social management at ULG level, regions and MUDHCo. The Bank team, agreed to consider comments received during public consultation meeting, while revising the ESSA, as well as, any additional written comments received until December 20, 2013. A revised ESSA will be re-disclosed through MUDHCo website and Banks' Info shop by January 5, 2014.
3. The ULGDP II is addressing environmental and social challenges and gaps by including features in its Program design. For example, the following are included in the minimum access conditions:

* **Prior agreement and advance planning for environmental and social risk screening**. A Participatory Performance Agreement (PPA) and an approved city level ESMS documentwill allow timely environment and social risk-screening and monitoring before endorsing environmentally and socially sensitive investments.
* **Institutional capacity and system**. Key positions, including environment and social development specialists, will be in place at MUDHCo, regional governments, and ULGs. This will ensure that there is a mechanism and capacity to screen environmental and social risks of the CIP prior to implementation. The city level Environmental and Social Management System (ESMS) will include procedures for due diligence; institutional procedures for grievance management and environmental, managing resettlement/land-take processes and environmental social mitigation and monitoring plan.
* **Grievance and redress system**. A grievance redress mechanism committee will be in place, with members who represent the interest of potentially affected people. The committee will receive, review, and address complaints related to environmental degradation, environmental health impacts on people, and loss of livelihood, income, or assets.

1. **Pre-requisite for environmentally and socially sensitive investments**. For any investments in landfill sites, regardless of size, the ULGs will demonstrate a sound and efficient system of waste segregation, recycling, collection, transportation, and treatment before they proceed with the project
2. **Evidence of implementation**. The ULGs will be required to generate evidence (for independent verification) that all capital projects in the previous fiscal year were screened against the set of environment and social criteria in the planning stage, including preparation and approval by REPAs the environmental management plans and resettlement action plans.
3. **Incentive to ULGs for being environmental responsible and socially inclusive**. Regional governments will be able to access Program funds by monitoring verification of a functioning environment and social management system of all ULGs under their jurisdiction.

Annex 7: Integrated Risk Assessment

**Ethiopia: Second Urban Local Government Development Program**

**Stage: Negotiations**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 1. **PROGRAM RISKS** | | | | | | | | | | | | | | |
| **2.1 Technical Risk** | **Rating:** | **Substantial** | | | | | | | | | | | | |
| **Description :**Cities may lack the human resources to comprehensively build their administrative capacities in all areas of urban management. Thus, they may fail to mobilize sufficient resources to meet their funding obligations for the Program, they may fail to adequately account for the funds, they may fall short of involving the public in planning and budgeting, they may mismanage works contracts, or they may neglect operations and maintenance.  Regional governments may lack capacity and sufficient incentives to undertake expandedresponsibilities in providing oversight and capacity building functions to ULGs. | **Risk Management :**Considerable capacity building support will be provided under the Program to entities at all levels of government through the federal and regional teams.  Funds will be disbursed to the MUDHCo, regional governments, and ULGs on the basis of performance, providing a strong incentive to perform well.  The DLI amounts allocated for regional governments are designed to ensure sufficient incentive (much greater than the estimated costs to carry out the tasks) for them to deliver the intended results. In addition, the four Developing Regional States (DRS) which may encounter the greatest challenges in capacity, account for approximately 6% of the total population under the program and thus poses relatively less risk to program overall.The 4 regional governments (with relatively better capacity), with the assistance from MUDHCo will put in place mobile teams to enhance their capacity to carry out their mandate with respect to cities. | | | | | | | | | | | | | |
| **Resp:** Government at all levels | | | | | **Stage:**All | | **Due Date :**Continuous | | | | | **Status:**Ongoing | |
| * 1. **Fiduciary Risk** | **Rating:** | **Substantial** | | | | | | | | | | | | |
| The fiduciary risk comprises the Financial management Procurement and Fraud and corruption. The details of the risks and mitigation measures are described below | | | | | | | | | | | | | | |
| **Financial Management** | **Rating:** | **Substantial** | | | | | | | | | | | | |
| **Description:** PFM:Clear accounting for ULGDP II funds may be a challenge, as cities may continue to use manual accounting procedures rather than IBEX. Data quality and variability in figures between the city level, region level and MoFED has been an area of concern under the ULGDP.  Budget monitoring and internal controls have been weak at ULGs. | **Risk Management :**PFM:The overall PFM reform program of Ethiopia—Expenditure Management and Control Program—is focused directly on addressing systemic weaknesses in PFM, procurement, and accountability at all three levels of government along with other interventions.  A disbursement-linked indicator will be provided in the Financing Agreement to address transparency aspects of the Program.  Specific actions have been proposed for implementation support and technical assistance that will support the achievement of DLI.  A detailed Action Plan will include specific risk mitigation measures. | | | | | | | | | | | | | |
| **Resp:** Government at all levels | | | | | **Stage:**All | | **Due Date :**Continuou**s** | | | | | **Status:**Ongoing | |
| **Procurement** | **Rating** | **High** | | | | | | | | | | | | |
| **Description:**The procurement assessment carried out for Program preparation revealed that cities participating in the ULGDP II do not generally adhere to the legal procurement procedures. All regions do have acceptable procurement legal framework. However, with respect to government’s own financing, all cities exhibit poor performance in the implementation of Regional Government Procurement Proclamations. | **Resp:** Government at all levels | | | | | | **Stage:**All | | | **Due Date :**Continuous | | **Status:**Ongoing | | |
| **Risk Management :**A minimum condition to access Program funds is that ULGs have appointed procurement staff to their Program coordination teams.  Procurement performance is a key results area in the annual performanceassessment, and well-performing will be rewarded.  An annual procurement assessment/audit will be conducted starting the second year of the Program by the Regional Public Procurement Oversight Agency or independent consultants. The results will serve as an input to the annual performance assessment.  Considerable capacity building support for procurement will be supported under the ULGDP II. Both the federal and regional mobile teams will have procurement specialists. The urban management course offered by the ECSU (or another institute) will include a module on procurement. | | | | | | | | | | | | | |
| **Resp:**Government at all levels | | | | | **Stage:**All | | **Due Date :**Continuous | | | | | **Status:**Ongoing | |
| **Fraud and corruption** | **Rating** | | **Moderate** | | | | | | | | | | | |
| **Description :**The program’s main fraud and corruption risks are manifested in the infrastructure development /construction sector, revenue collection, land management, procurement and FM, licensing and issuance of permits. Their impact on the program infrastructure development, service delivery, capacity building in decentralized ULGs is moderate. | **Risk Management :**The World Bank's Institutional Integrity Unit (INT) has a good working relationship with the Federal Ethics and Anti-Corruption Commission(FEACC) documented in a Memorandum of Understanding (MOU) signed between them on October 3, 2011. The MOU provides a framework for cooperation and sharing of information, where appropriate, taking into consideration the legal and policy framework and mandate of each organization. Thus far, the working relationship between INT and FEACC based on the MOU has been cooperative and productive. The MOU will provide the Bank and INT with a foundation for expanding the existing working relationship to cover future cooperative investigations under the PforR Program when needed, and for helping to ensure that the Government of Ethiopia and the FEACC can implement their commitments under the Anti-Corruption Guidelines.  The ULGDP II will support an ethics specialist as part of the federal mobile team. | | | | | | | | | | | | | |
| **Resp:** Government at all levels | | | | | | **Stage:**All | | | **Due Date :**Continuous | | **Status:**Ongoing | | |
| **2.3 Environment and Social** | **Rating: Moderate** | | | | | | | | | | | | | |
| **Description:** Ethiopia has adequate legal framework for environmental and social management in urban sector, including a robust set of environment and social regulations, a court system, and accountability provisions integrated into the system. However, the quality of implementation and effectiveness of existing provisions are highly uneven. Risks relate primarily to lack of application of standard procedures for risk screening and implementation of mitigation measures at local level, lack of coordination among agencies, and lack of technical capacity and resources. | **Risk Management :**A minimum condition to access Program funds is that a ULG demonstrate it has established a functional system for environmental and social management.  ULGDP II will support considerable capacity building for management of environmental and social risks through both federal and regional mobile teams.  A DLI provides resources to the REPAs to encourage them to effectively perform their oversight and backstopping roles. | | | | | | | | | | | | | |
| **Resp:**Government at all levels | | | | | **Stage:**All | | **Due Date :**Continuous | | | | | **Status:**Ongoing | |
| * 1. **Disbursement linked indicator risks** | **Rating:** | | **Substantial** | | | | | | | | | | | |
| **Description :**There are nine DLIs, targeting 44 ULGs, nine regional governments (and 3 regional agencies in each), and one federal ministry. With such a complex system, the likelihood that some are not achieved is substantial. | **Risk Management :**The requirements for the DLIs have been discussed exhaustively with the government and agreed. Both the Bank and government teams view them as achievable.  Targeted entities have been briefed, and can start planning immediately to achieve the DLIs.  Considerable capacity building support is being provided under the ULGDP II to assist targeted entities in achieving the DLIs. | | | | | | | | | | | | | |
| **Resp:**Government at all levels | | | **Stage:**All | | | | | **Due Date :**Continuous | | | | | **Status:**Ongoing |
| * 1. **Other Risks (Optional)** |  | |  | | | | | | | | | | | |
| **Description :** | **Risk Management :** | | | | | | | | | | | | | |
| **Resp:** | | | | | **Stage:** | | **Due Date :** | | | **Status:** | | | |
| 1. **OVERALL RISK RATING Substantial** | | | | | | | | | | | | | | |
|  | | | | |  | | | | | | | | | |

Legend: L – Low

M – Moderate

S – Substantial

H – High

Annex 8: Program Action Plan

| **Issue/risk description** | **Action/Completion** | **Timeframe** | **Responsi-ble Party** | **Instru-ment** | |
| --- | --- | --- | --- | --- | --- |
| ***Cross cutting issues*** | | | | | |
| ***Federal level – MUDHCo and MoFED*** | | | | | |
| 44 ULGs are fully aware of the Program minimum conditions and performance measures | Produce the performance assessment manual, as part of the Program Operational Manual, and share with 44 ULGs | Prior to the launch of first APA | MUDHCo |  | |
| Program is reflected in national budget | Program proclaimed at the federal and other levels as required | June 2014 | MUDHCo andMoFED |  | |
| Sufficient capacity in MUDHCoto manage ULGDP II | Current staffing gaps at MUDHCo are filled and additional staff engaged to ensure the scale up of the technical and geographic scope of the Program | One year after effectiveness | MUDHCo | DLI | |
| Coordination between MUDHCo and MoFED to ensure seamless flow of funds | Establish the Program coordination committee for ULGDP with representatives for MUDHCo, MoFED, and other entities as required. | Program effectiveness | MUDHCo |  | |
| Independent annual assessment undertaken on a timely basis | The annual assessment is contracted to an independent private firm.  In the first two full assessments, the independent procurement audit will be conducted as part of APA. To this end, the terms of reference of these APAs will be modified to reflect the IPA scope. | (a) For the allocations in 2014/15: by March 2014 (completion in May), (b) For following years procured by July/August 31 each year and APA completed in November (with incorporation of the results from the audit in January) prior to the FY for which funding is affected. | MUDHCo | DLI | |
| Capacity limitation with the FEACC and REACC to conduct investigations on fraud and corruption suspected cases | (a) Provide the FEACC and REACCs staff training on public procurement and contracts management.  (b) The FEACC and REACCs use specialized experts to review and investigate fraud and corruption suspicious procurement and contract issues in order to produce high quality assessment., (c) provide training on complaint handling mechanismsand reporting for staff of REACCs and ethics units in the ULGs. | Within the first year of the program effectiveness | MUDHCo and regional BUDs | DLI | |
| Quality assurance of APA results and monitoring of Program progress | Establish Program technical sub-committee comprising key technical staff of MUDHCo and MoFED. | Program effectiveness | MUDHCo |  | |
| Robust supply of capacity building for ULGs | * Procure and ensure implementation of standard urban local government management training program from the Ethiopia Civil Service University and other designated centers of excellence for urban development and management. * Form and deploy to the field mobile capacity building teams. | Program implementation | MUDHCo | DLI | |
| Capacity building of regional governments is planned properly | * Develop capacity building plans for second generation four emerging regional governments. * Facilitate and support first generation regional government capacity building efforts. | Program implementation | MUDHCo | DLI | |
| Absence of awareness and inconsistency of municipal service delivery standards and measurement | * Develop guidelines for setting service delivery standards and citizen charters. * Develop guideline for job creationand measurement | During the first year of program implementation | MUDHCo | DLI | |
| ***Regional Governments*** | | | | | |
| Legal foundation underpinning the participation of regional governments in the Program. | Enter into a Program Participation Agreement with the federal government, committing to the Program’s rules and regulations, including the necessary financial contribution to the Program’s performance-based grants for ULGs. | Program effectiveness | MUDHCo and regional govern-ments | Covenant | |
| Sufficient capacity at regional governments to support Program ULGs | Fill staffing gaps in core positions such as procurement, M&E and engineering and planning support. | Program implementation | Regional govern-ments | DLI | |
| ORAGs execute their audit responsibilities towards ULGs | Ensure that the ORAGs are supported and that agreements are made to complete audits of all the ULGDP II cities by January 7 of each year, and to deal urgently with any backlogs in audits. | Program implementation | Regional govern-ments | DLI | |
| ***ULGs*** | | | | | |
| Legal foundation underpinning the participation of regional governments in the Program. | Enter into a Program Participation Agreement with the federal and regional government, committing to the Program’s rules and regulations, including the necessary financial contribution to the Program’s performance-based grants | Program effectiveness | MUDHCo, Regional govern-ments, and ULGs | Covenant | |
| Sufficient capacity at ULGs to implement Program | ULGs will throughout implementation maintain focal persons under the coordination of the city manager in the following areas: revenue mobilization, procurement, environmental and social sustainability, M&E, civil engineering, and public financial management, and afunctioning internal audit unit. | Program implementation | ULGs | Minimum condition | |
| **Fiduciary** | | | | | |
| ***Federal Government*** | | | | | |
| Procurement and contracts audit | Procurement audit, which is required by Ethiopian law, will be part of the APA in the first two years of the Program. In the meantime, the capacity at Regional Public Procurement Agencies (RPPA) will be built by MoFED and respective BOFEDs. During implementation, the capacity of RPPAs will be regularly assessed by Federal PPA, those RPPAs which are assessed to have sufficient capacity will start executing the procurement audits.The Borrower will (a) conduct Performance Assessment for the first two rounds (April-May, 2014, and September-November, 2014) and Independent Procurement audit starting with the third assessment (September –November 2015) and (b) thereafter deliver procurement audit reports with management corrective measures addressing the findings of the audit. | Annually | MUDHCo | DLI | |
| MUDHCo guidance to ULGs on procurement | MUDHCo will:   * Require ULGs to justify to the BoFEDs the use of government owned enterprises where private sector suppliers exist in advance of contracting; * Require ULGs to exclude award to Bank debarred firms through providing regular information * Provide guidance to ULGs on policies on support to medium and small enterprises and the level of preferences that would be acceptable across board to ensure uniformity and minimize abuse (this guidance will be part of the Performance and ParticipationAgreement and in the Operational Manual). | Program Implementation | MUDHCo |  | |
| Contracts management capacity enhancement | (a) The MUDHCoand Bank support the cities with provision of contract management and administration training.  (b) A consultant will be recruited (in the mobile team) by the project to prepare a contract administration manual to the participating cities and provide the necessary training on it (the Contract administration manual will be based on the government’s own systems). | First year of Program implementation. | MUDHCo |  | |
| MUDHCo has sufficient budgetary resources to undertake Program activities | Sufficient budget is provided for all MUDHCo Program activities related to annual assessment, capacity building and procurement audits, and budgeted amounts are released from MoFED on a timely basis to MUDHCo throughout the Program. | Program implementation | MUDHCoand MoFED |  | |
| ***Regional Governments*** | | | | | |
| Regional public procurement and asset management agencies monitor and enforce the regional procurement legal requirements | Regional public procurement and asset management agencies:   * Organize training for ULGs on the use and implementation of the procurement laws, directives, manuals, standard bidding documents; * Monitor the consistency of procurement practices across ULGs and enforce the implementation of the procurement regulations including instituting an independent complaints review committee * Conduct business outreach and sensitize the business community the existence of complaint redressing mechanism. * From the third assessment of ULGs (September –November 2015), the Regional public procurement asset management agencies will start conducting Independent Procurement Audit (IPA) and deliver audit report with management corrective actions on the findings will be shared with the Bank for further technical supports. | By program effectiveness  During Program implementation  During Program implementation  Starting the third assessment of the ULGs (Sept–Nov 2015) | Regional public procure-mentand asset manage-mentagencies | | DLI |
| Consultations with ULGs on tax/tariff levels and ceilings | Region revenue authorities consult with ULGs, on tariffs/taxes proclamations in order to provide conducive opportunities for ULGs to enhance revenues. | Program implementation | Regional govern-ments | | DLI |
| Procurement and contracts management capacity building of ULGs | BoFEDs will undertake audit capacity building of the regional PPAs.   * The mobile support team will provide hands on support on this. | During the initial two years of the program implementation | Regional govern-ments | | DLI |
| ***Urban Local Governments*** | | | | | |
| Audit | Internal audit of funds conducted by ULG internal auditors | Program implementation | ULGs | | DLI |
| **Safeguards** | | | | | |
| Adverse environment and social impacts resulting from poor planning during construction at city level. This may result from failure to adequately identify and mitigate adverse environmental impacts of the works leading to environmental damage, including loss of natural habitats and known or unknown physical cultural resources. Risk of increased environmental pollution and occupational health impacts. | Screening for Environment and Social risks of all proposed investments at city level:   * Incorporate environmental impact and risk criteria in the site selection screening forms for all city level investment in physical works through the ULGDP II window. Ensure that the screening is explicit in addressing natural habitats and physical cultural resources considerations in order to avoid siting of infrastructures in areas that would cause significant adverse impacts. * Appropriate mitigation measures to address induced impacts should also be identified during the site screening process for all new construction activities proposed through the ULGDP II. | Prior to final selection of a site for construction. | MUDHCo, regions, and ULGs tasked with carrying out the site screening exercise for site selection of all construc-tion activities at city level. | | DLI |
| Lack of capacity for environmental and social management: Capacity gaps may lead to a weak planning, implementation and monitoring of environmental and social management plan at city, regional and federal levels. | Develop an environment and social development unit with trained environment and social development specialists to service and coordinate with regions and ULGs:   * This will include working with the REPAs on capacity building programs * Working closely with the Department of Labor to improve implementation of occupational health and safety issues | Program implementation | MUDHCo and regional gover-nments | | Partly supported by DLI |
| Risks of loss of income and livelihood for project affected people due to inadequate Land acquisition, resettlement and compensation | * Improve capacity to document consultations and participatory approaches where communal land is used or vulnerable person is involved. * Provide systematic training on environment and social management procedures as outlined in the environmental and social management framework and the resettlement policy framework of existing ULG project to all participating ULGs and regions * Provide for grievance redress mechanism * Undertake annual review of performance of implementation of environmental and social management planning. | Program implementation - prior to validating civil works contracts | MUDHCo, regional govern-ments, and ULGs | | Partly supported by DLI |

Annex 9: Implementation Support Plan

Due to the complex nature of the Program, there will be focused implementation support that will be provided by the Bank. This support will focus on the implementation of the Program action plan, providing the necessary World Bank support and monitoring progress towards the achievement of the PDO. The support will include due diligence for DLIs. To ensure rigor, the Bank will commission and undertake independent quality assurance reviews of the annual performance assessment to check for accuracy and robustness.

**Main focus of Implementation Support**

|  |  |  |
| --- | --- | --- |
| Area | Skills Needed | Estimate Staff Time Needed |
| Procurement supportand monitoring of implementation of PAPs including for RPPAs | Procurement Specialist | 5 SWs |
| Procurement & contract management Training | Procurement Specialist | 5 W |
| FM training | FM Specialist | 4 SWs |
| Task Team Leadership | TTL | 10 SWs |
| Financial Management, disbursement and reporting | FM Specialist  Local Government Specialist | 2 SWs  8 SWs |
| Technical support | Municipal Engineer | 4 SWs |
| Environment/Social monitoring support | Environment Specialist  Social Specialist | 2 SWs  2 SWs |
| Fiscal flows/ fiscal decentralization/ LG performance measurement | Economist | 5 SWs |

**Skill mix needed**

|  |  |  |  |
| --- | --- | --- | --- |
| Skill | Number of Staff Weeks (annual) | Travel Frequency (annual) | Location |
| Task Team Leader | 20 | 4field trips | Country Office based |
| Urban Specialist | 15 | 4field trips | Country Office based |
| Procurement | 10 | 2 and field trips as required | Country Office based |
| Financial Management Specialist | 6 | 2 and field trips as required | Country Office based |
| Environment Specialist | 4 | 2 and field trips as required | Country Office based |
| Social Development Specialist | 4 | 2 and field trips as required | Country Office based |
| Senior Urban Economist | 5 | 2 and field trips as required | HQ based |
| Urban Transport Specialist | 4 | 2 and field trips as required | HQ based |
| Communication Specialist | 4 | 2 and field trip as required | Country office based |
| Senior M&E Specialist/Urban Economist | 12 | 4field trips | Country Office based |

Annex 10: Program Minimum Conditions and Performance Measures

**Entry-level condition – Prior to Release:**

|  |  |  |
| --- | --- | --- |
| Participatory performance agreement (PPA) signed with MUDHCo | Show commitment by all parties and defines the rules of the system | Update the PPAs. Should be included in the ULGDP IIOperational Manual. |

**DLI: Minimum Conditions (minimum conditions)**

| **No.** | ***Minimum Condition*** | ***Reason*** | ***Comments – phasing in etc.*** |
| --- | --- | --- | --- |
| 1. | ULG has produced and the council approved a:   * Rolling three year capital investment plan (CIP) with * Annual action plan; * Annual budget * Annual procurement plan * **The planned use of the performance-based grants from ULGDP II is in compliance with investment menu (***only from assessment in 2015 of the performance in FY 2014/15).* | Document minimum capacity in planning and project handling.  Implementation readiness. | The subject for review is the plans developed in the previous year for the year where assessments are conducted, e.g. if assessment is conducted in August 2014, it is the plans for FY 2014/15 /EFY 2007), which are typically developed from March – June 2014.  In the assessment for FY 2014/15 (EFY 2007) budget allocations, which is expected conducted in March 2014, it is the plans for FY 2013/14 (EFY 2006), which are reviewed, hence the exact plan will depend on timing of the APA.  To make this effective it is important that the APAs are conducted timely in the future, see Section on APA procedures.  *Transitional arrangements. For new ULGs, procurement plans will only a minimum condition for the second year, see also below.*  *The investment menu will only be assessed from the second assessment where there has been the first planning/budgeting on the use of the performance-based grants. From the third assessment, the actual utilization of grants in the previous year will also be assessed.* |
| 2. | Submission of financial statements for the last FY (closure of the FY on time). | Show evidence on minimum capacity in PFM | In order for the external audits to start as early as possible cities should close their accounts by**end of September/ each** year.  *Phasing in the first year: The new ULGs participating in the Program should have completed the financial statements before the start of the assessment.* |
| 3. | Audit report from previous FY should not be adverse or with a disclaimer opinion. | To reduce fiduciary risks | It should be ensured that audit quality continues, and there is need to combine with other minimum conditions to ensure sufficient safeguards on PFM. Compared to previous system, this is a strengthening of the requirements, as it is reviewing the audit report from previous FY.  If the ORAG cannot conduct the audit in time, external audit firms will have to be contracted, and their results applied. (ORAG should clear the TOR and makes QA/endorsement of the results).  *Transitional arrangements:*  *A waiver is provided in the first FY for the new ULGDP ULGs providing them with sufficient time to improve, but as a minimum they should have completed the financial statements from previous FY. For the first year for the “current ULGDP” ULGs, the deadline is prior to the effectiveness.*  *Second year: All should be on time, i.e. January 7.*  *The audit report is the last “trigger” in the assessment process, and will be checked after the field-work, but prior to the consolidation of the results.* |
| 4. | Co-funding requirements (defined with various rates of co-funding depending on the type of ULG). The co-funding requirements are the following:  10 % for the new ULGs in the DRS  20 % for the new ULGs in the non-DRS regions.  30 % for the “old” ULGs.  50 % for Dire Dawa and Harar.  A higher level of co-funding is promoted in the performance measures. | Reflect sustainability of the program and ensure that the rule on counterpart funding is adhered with. The co-funding is set at a realistic level and further contributions are promoted through the performance measures.  Promote improved revenue mobilization and incentives to focus on longer-term sustainable urban finance. | Is combined with performance measures so that contribution above the minimum level is rewarded.  Co-funding should be budgeted for prior to the start of the FY, and by the end of a FY ULGs should have contributed with the specific %, measured by actual use of funding on capital investments on areas defined in the investment menu and source of funding (IBEX coding).  *Transitional arrangements/Phasing in: ULGs can only budget for this in the second assessment, as they do not know the level for this coming FY. The assessment of actual utilization of funds can only be done in the assessment following a year of actual disbursements of ULGDP funds, i.e. from the September 2015 assessment.* |
| 5. | Key positions in place/coordination team with the following positions under the coordination of the city manager: focal persons for revenue, procurement, environmental and social sustainability, M&E, PFM, and civil engineering, plus a functioning internal audit unit. | To ensure that there is minimum capacity to handle the entire program implementation process at the ULG level. | The positions should be in place at point of time for the assessments. |
| 6. | Safeguards: ULGs have demonstrated that they have established a functional system for environmental and social management as a minimum condition to access the performance-based grant, including an environmental and social safeguards focal person. | To ensure that there is a mechanism and capacity to screen environmental and social risks of the CIP prior to implementation. | Defined by:  Initiation of recruitment of environmental and social safeguards focal person at the city level;  Endorsement of city level ESMS document that includes procedures for due diligence; institutional procedures for grievance management (see below under No. 8) and environmental, managing resettlement/land take processes and environmental social mitigation and monitoring plan.  Only from second APA (September 2014) |
| 7. | Functional institutional set-up for procurement system in place according to public procurement proclamation including:   1. Procurement function and minimum core staff in place – at least two procurement specialists; 2. Functional tender committee/tender award committee (TAC) in place; 3. Participating cities have the copies of their respective region’s procurement law, directives, manuals and standard procurement documents and staffs are familiar with these legal documents | Procurement is a high-risk area, hence need to ensure that basic systems, and functioning of this is in place prior to transfer of PB grant installments.  The existence and functionality of the procurement system is basic to make sure that Program systems coupled with the mitigation measures provide reasonable assurance that the financing proceeds will be used for intended purposes with due consideration of economy, efficiency, transparency and fairness. |  |
| 8. | Complaints handling system in place, including system for reporting of complaints, system for receiving and addressing complaints and reporting on corrupt practices and complaints, through the ethics unit. | Receiving, reviewing and addressing complaints within core areas such as areas related to environmental degradation of the surrounding: Environmental health impacts on people; loss of livelihood, income or assets is an important aspect of any GRM. The system will encompass a system for complaints received, registration of these, description of where to send the various types of complaints, to whom, and how?; and description of the procedures. The information about these procedures should be published. | Only from the second APA (September 2014).  The POM will further define the requirements within this area. |

**DLI 2: Institutional Performance**

Below is a presentation of the institutional performance measures.

Main changes compared to existing ULGDP I performance assessment system are:

* Division of institutional and service delivery targets in two sets of indicators under each DLI 2and 3.
* Movement of CIP utilization rate to separate DLI (DLI 3), performance linked allocation; Similar for the utilization of maintenance budget.
* Improvement and sharpening of indicators in most areas.
* New indicators more focusing on the ULGs gaps and areas of importance for activities linked with achievement of targets of the program.
* Reorganization of some of the performance areas, and regrouping.
* Links to the government policy on Ethiopian Cities Prosperity Initiative are included.

**DLI 2: Institutional performance Improvements**

| **Ser. No.** | **Performance Areas** | **Performance measure/Indicator/score** | **Objective** | **Links to** Ethiopian Cities Prosperity Initiative | **Existing or new indicator** |
| --- | --- | --- | --- | --- | --- |
| **1** | **Planning and Budgeting**  **(maximum 10**  **points)** |  |  |  |  |
| 1.1 | Rolling three year CIP, with linkages between the annual budget, annual action plan, and annual procurement plan  (Maximum 3 points) | * Consistency of figures and alignment with revenue enhancement plan and asset management plan: 2 points. * Capturing of operational and recurrent costs of investments in the plans: 1 point. | Promote efficient planning, budgeting and procurement for efficient infrastructure development | Pillars 2, 3 and 4  Pillar 3 | Existing  Existing |
| 1.2 | Participation of citizens in the planning process to meet service delivery priorities identified by citizens  (Maximum 4 points) | * Evidence of participatory planning process with involvement of citizens   Measured by:   * Number of public consultations (minimum two per year: 1 point) * Increase or stable level of number of people involved in planning discussions and the % of women involvement is more than 40 %: 1 point. * Existence of a meeting agenda and other information has been shared in advance and evidence that issues discussed have included the prioritization of projects in the up-date of the CIP/annual plan: 1 point. * Good governance procedures on planning reflected by minutes from the consultation meetings: 1 point. | Citizens involvement and good governance | Pillars 3 and 7 | Yes, but strengthened |
| 1.3 | Budget appropriation  (Maximum 2 points) | * Budget approved by Council and proclaimed in the budget proclamation following the standard charts of accounts: 2 points. Note that both conditions have to be complied with to achieve the points. | Promote political leadership and governance | Pillar 1 | New |
| 1.4 | Budget reliability  (Maximum 1 points) | * Variance in % between total budget and actual for the previous FY (related with total budget expenditures on municipal services) is less than 10 %: 1 point. | Promote proper budgeting and implementation | Pillars 3 and 5 | Existing (but only partial) |
| **2** | **Assets Management**  **(10 points)** |  |  |  |  |
| 2.1 | Assets management plan prepared and updated  (Maximum 10 points) | * Asset inventory updated, featuring a tabular and spatial database of all infrastructure, with specification and characteristics, at least for the five categories of municipal assets (Road &Drainage, Solid and Liquid waste, Socioeconomic infrastructure &greeneries, Utilities, Public buildings including abattoirs (2 points) * Conditions of assets reflected in asset inventories correctly (professional input) (2 points) * Asset inventory show an asset value and deficit, which calculates the remaining asset value, maintenance and rehabilitation deficit based on annual depreciation rates. (2 points) * City updated the AMP according to the AMP 10 steps (as per the guideline for asset management preparation if exists) elaborating its implementation strategy, which details individual activities and their respective budgets over the course of the year (2 points) * AMP clearly show related budget for asset maintenance, rehabilitation and new assets, which lists all necessary costs (2 points) | Strengthen management of infrastructure and assets. | Pillar 5 | Existing |
| **3** | **Public Financial Management**  **(Maximum 15 points)** |  |  |  |  |
| 3.1 | Accounting and timely reporting  (Maximum 4 points) | * Use of integrated IBEX for all operations including ULGDP grants and reporting on these: 1 point * Charts of accounts adhered with, including: On site analyses of correctness of coding – in particular of municipal revenues: 1 point. * Timely financial reporting: 1 point * Monthly cash count report and Bank reconciliation submitted to region on time (within 15 days after the end of the month): 1 point | Strengthen accountability | Pillars 1 and 3 | New  New  Existing  New |
| 3.2 | External audit backlogs cleared  (3 points) | * All audit backlogs cleared for previous years (minimum 5 years back): 3 points. | Strengthen accountability | Pillars 1 and 3 | Existing |
| 3.3 | Audit Opinion for the previous audit  (3 points) | * The audit report from the previous audit has a clean audit opinion: 3 points. | Strengthen accountability | Pillars 1 and 3 | New |
| 3.4 | Compliance with audit recommendations (2 points) | * Evidence that audit queries raised in the external audit report have been acted upon by the city: Minimum 80 percent of the queries have to be cleared: 2 points. | Strengthen accountability | Pillars 1 and 3 | New (was monitored only) |
| 3.5 | Internal audit (3 points) | * Internal audit procedures adherence with good practices reflected in: (a) quarterly reports, (b) reporting to mayor, (c), and evidence of follow up on audit findings). (3 points, one point for compliance with each of a, b, c). | Strengthen accountability | Pillars 1 and 3 | New |
| **4** | **Procurement [[58]](#footnote-58)**  **(Maximum 15 points)** |  |  |  |  |
| 4.1 | Annual procurement plans for ULGDP II prepared and its implementation is monitored and updated as required.  (Maximum 3 points) | * The procurement plan implementation is monitored and procurement process milestones are achieved: 1 point. * Procurement plan is up-dated, as required at the point of time for assessment: 2 points. | Strengthen efficiency and competition in implementation of infrastructure (urban productivity and competiveness) | Pillar 2 | Existing (modified) |
| 4.2 | Adherence to procurement procedures and effectiveness of contracts  (Maximum 12 points) | Based on the review of a sample of procured contracts, the following are assessed as procurement performance indicators (the contract sampling size for review should not be less than 20 percent in each city):   * Availability of adequate relevant auditable records on the procurement process; (1 point) * All ICB and NCB contracts award published as necessary and compliance with procurement process and decisions made in accordance with the legal requirements: (11 points) divided on: (a) Procured Goods, works and services contracts are in the approved PP (1 point); (b) proper advert is made (1 point); (c) correct SBDs are used (1 point); (d) bid floating periods are acceptable (1 point); (e) BER are conducted consistent with requirements of the issued BD (1 point); (f) Evaluation results are announced to bidders and to the general public (1 point) (g) Contracts are awarded to the lowest evaluated bidder within bid validity periods (1 point); (h) procurement complaints, if any, are properly addressed (1 point); (i)contract documents contents are complete (1 point); (j) timeliness of the procurement/contracting process and decisions are consistent with the procurement plan (1 point); (k) Contracts implemented are according to planned timing and budgets. (1 point). | * Strengthen efficiency and competition in implementation of infrastructure (urban productivity and competiveness) (the first two years, the APA will conduct this assessment, and in the following year (3) and onwards, the procurement audit will fit into the results of the APA, using the regional PPA. | Pillar 2 | Existing (modified)  Existing  Existing (partly and modified) |
| **5.** | **Own source revenue enhancement**  **(Maximum 10 points)** |  |  |  | Note as 5.4 is only relevant from year 2 and 3, other indicators are increased in the first APA proportionally. |
| 5.1 | Revenue enhancement plan updated for the most recent year  (Maximum points: 2)  (Maximum 3 points in the first APA) | * The up-dated revenue enhancement plan will include: (a) city analysis of previous year’s revenue performance with detailed analyses of each main source of revenue including discussion of its revenue potential: 1 point. (2 points in the first APA) * And (b) city strategies for revenue enhancement: 1 point. | Proper planning and analysis is a condition for effective targeting of initiatives | Pillars 1 and 3 | Existing (partly)  Existing (partly |
| 5.2 | Municipal Revenues increase  (Maximum 3 points) (Maximum 4 points in the first APA) | Percentage increase of in total municipal revenues from business taxes, municipal rent and charges and fees over previous year: 5-10 percent increase: 1 point; 11-20 percent: 2 points; above 20 percent: 3 points (4 points in the first APA). (nominal increase) | Promote sustainability, ownership and accountability | Pillars 1 and 3 | New |
| 5.3 | Revenue planning capacity  (Maximum 2 points) (Maximum 3 points in the first APA) | * Percentage of municipal revenue on business taxes, municipal rent and charges and fees collected against planned target for the previous EFY. (variation less than 5 percent: 2 points (3 points in the first APA), less than 10 percent: 1 point. | Promote realism in revenue planning and efficiency in collection | Pillars 1 and 3 | Existing (but now focus on municipal revenues) |
| 5.4 | Funding from ULGs  (Maximum 3 points) | * ULG contribution level for capital investments above a certain level   + More than 10 % for new ULGDP cities in new (DRS) regions, calibrated with 11-20 %: 2 points and above 20%: 3 points;   + More than 20 % for new ULGs in non-DRS regions calibrated with 21-30 %: 2 points, and above 30 % 3 points.   + More than 30 % for old ULGDP cities calibrated with 30-40 %: 2 points and above 40%: 3 points.   + More than 50 % for Dire Dawa and Harar calibrated with 51-60 %: 2 points and above 60 % 3 points.   *Transitional arrangement: Only from second assessment (September 2014) (budget allocated), and from the third Assessment in September 2015 (both budget and account figures are checked).*  *In the first assessment, the other indicators (5.1-5.3) will be increased to 5.1: 3 points, 5.2: 4 points and 5.3: 3 points)* | Promote sustainability, ownership and accountability | Pillars 1 and 3 | New |
| **6** | **Accountability and transparency**  **(Maximum 15 points)** |  |  |  |  |
| 6.1 | Accountability and transparency in city’ operations and service delivery  (Maximum points: 15) | * City has identified the top three basic municipal services, and prepared a standard for delivery along with citizen charter and published this ( Yes/NO ==6 points) This indicator will be used only for the first year of the program. * Is municipal service delivery as per the standard and citizen charter? ( Yes/No 6= points). This will be as of the 2nd year of the program. * Dissemination of summary of annual budgets, approved projects, expenditures, audited accounts and results of the procurement decisions in city offices and other public places, or web-pages, newspapers etc.: 6 points. * Timely submission of quarterly physical progress reports: 3 points. | Strengthen accountability and good governance | Pillar 3 | Existing (but strengthen availability of information on service information)  Existing |
| **7** | **Environment and social Safeguards**  **(Maximum 10 points)** |  |  |  |  |
| 7.1 | Eligible investments for potential environmental and social safeguard impacts screened  (Maximum points: 6 points) | * All capital projects in the previous FY screened against the set of environment and social criteria in the planning stage: 3 points. * Environmental and social impact assessments, Environmental Management Plans (EMP) and Resettlement Action Plans (RAP) prepared and approved by the Regional Environmental Protection Agency as required (based on a sample review of projects): 3 points. | Avoid adverse environmental and social impact  Promote environmental and social sustainability | Pillar 6 | Existing  Existing |
| 7.2 | ESMPs and Resettlement Action Plans implemented timely  (Maximum points: 4 points) | * ESMPs and Resettlement action plans implemented prior to commencement of civil works: 4 points. | Avoid adverse environmental and social impact  Promote environmental and social sustainability | Pillar 6 | Existing |
| **8** | **Land management and urban planning**  **(Maximum 15 points)** |  |  |  |  |
| 8.1 | Statutory structure plan  (Maximum 5 points) | * Existence of up-to-date approved statutory city-wide (structure) plans (yes/no): If Yes =3 points. * CIP is in accordance with the statutory plan (structure plan) (sample 5-6 investments): Yes/No. If Yes= 2 points. | Promote efficient urban planning | Pillar 4 | New |
| 8.2 | Land management  (Maximum 10 points) | * Land released is serviced as per standards and city plan (sample 3-4 projects) Yes/No. If Yes: 5 points (all have to be fulfilled) * City has an up to date inventory of land use (Yes/No): Yes= 5 points. | Promote efficient land management | Pillar 4 | New |

**DLI 3: Achievements of Infrastructure and Maintenance Targets, planning on job creation and Value for Money in Investments**

Note as some of the indicators will only kick in from the second and the third assessment, the scores of the other indicators will be adjusted pro-rate to ensure that the scoring is always between 0-100 points

**Assessment of Infrastructure Investment Performance**[[59]](#footnote-59)

| **Ser. No.** | **Performance Areas** | **Performance measure/Indicator** | **Objective** | **Links to** Ethiopian Cities Prosperity Initiative | **Existing indicator** |
| --- | --- | --- | --- | --- | --- |
| **1** | **Job creation** (35 % weight (maximum 35 points) on this in the first two assessments and from the 3rd assessment:*30 % weight (maximum 30 points) for this theme)* |  | Promote growth and development | Pillar 7 | **New** |
| 1.1 | Job creation  (Maximum 35 points in first assessments) | Cities’ achievement of jobs created (disaggregated by gender) under the CIP against their targets (% of achievement). Note: a condition for this, and for provision of points on this, is that cities have registered/planned targets and started implementation. Score: achievement rate @ weight, e.g. 100 % achieved = 35 points, 60 percent = 21 points. As of second year, the job created will be measured (possibly person days of employment) based on standard to be developed by MUDHCo. |  |  | New |
| **2** | **Achievement of Urban infrastructure targets**  *Maximum 35 points (35 % weight) on this in the first two assessments, and from the third assessment: Max 30 point) or 30 % weight on this DLI.* |  |  | Pillar 5 | Existing |
| 2.1 | Urban infrastructure targets achieved  (Maximum 35 points in the first assessments) | * Physical targets as included in the Capital Investment Plan and annual work plan implemented.   + The % of implementation against plans will be reflected directly in the score multiplied by 35 % (weight of this indicator), i.e. 100 % implemented = 35 points, 60 % = 21 points.   The score on this indicator will be between 0-35.[[60]](#footnote-60)  Achievement under this indicator will be measured on the basis of actual delivery of infrastructure against targets laid out in the CIP and annual work plan for the previous year. The means for verification are:   * Review all planned projects and the degree to which they have been implemented by the end of the FY. * Review annual and quarterly work plans and reports * Check minimum sample of 5 projects from the field-work (on-the-spot of implementation rates) * Check the contract implementation progress and contract completions through the review of bills of quantities, see the description below.   Implementation rate of each project will be assessed and there will a weighting of these to get a total score. The weight of each project will depend on the budgeted size of the projects (see the table below the APA table).  Assessed by the performance assessment teams.  *No transitional arrangements. However, DLI 2will only kick in for the new ULGDP ULGs from the second assessment.* | Ensure effective implementation of infrastructure and service delivery | Pillar 5 | Yes (modified) |
| **3.** | **Maintenance Performance**  30% weight of this in the first assessment (maximum 30 points) and 20 % of the weight (maximum 20 points) on this DLI from the 3rd assessment when value for money kicks in). |  |  | Pillar 5 | Existing but adjusted. |
| 3.1 | Maintenance budget and implementation rate (Maximum points: 15 points in first assessments)  (10 points in the 3rd and following assessments) | * Maintenance plan derived from the assets management plan * ULGs have developed a clear maintenance budget and actual implementation rate is minimum 80% of the planned.   Note: both conditions have to be complied with to get the 15 points.  Review Overall budget and utilization rate in final accounts.  Sample of projects to review actual maintenance. | Ensure sustainability in the investments through up-keep of infrastructure | Pillar 5 | Existing, but adjusted |
| 3.2 | Actual maintenance (Maximum points 15 in first assessments)  (10 points in the 3rd and the following assessments) | * Maintenance is catered for (reward if all projects, which need maintenance, have actually been catered for). This will be based on a sample of 3-5 projects from the Assets management plan.   Note: All projects have to be catered for to achieve the points. | Ensure sustainability in the investments through up-keep of infrastructure | Pillar 5 | New |
| **4** | **Quality of infrastructure**  *(20 % weight from the 3rd assessment)* |  |  |  |  |
| 4.1 | Value for the money in the infrastructure investments funded by the Program[[61]](#footnote-61).  (Maximum points 20 from 3rd. assessment and onwards) | Percentage of projects implemented with a satisfactory level of value for the money, calibrated in the value for the money assessment tool.  The % of projects with a satisfactory level of value for the money will be reflected in the score multiplied by 0.20 (20 % which is the weight of this indicator), i.e. 80 % satisfactory projects=16 points, 60 % = 12 points.  The score on this indicator will be rated between 0-20 points.  The value for the money of each project (level of satisfactory value for the money) will be assessed and there will a weighting of these to get a total score. The weight of each project will depend on the budgeted size of the projects.  The input from this will be provided by the value for the money audits to the assessment teams to be included in the calibration and in the final calculation of the size of the allocations.  *Transitional arrangement:*  *The results of the value for money will be assessed first time at the APA in September 2015 of the performance in FY 2014/15*. | Ensure efficient and high quality infrastructure and service delivery | Pillars 2 and 5 | New |
| Maximum points 1, 2,3,4 = 100 |  |  |  |  |  |

Note: The “execution rate” will be determined by a review of the bills of quantities, and verified by the **physical progress against planned targets**. Hence, for projects not yet fully completed, e.g. a road project, the team will review the progress on the major items in the *bills of quantities*, both in the regular reports from the engineer, as well as through field trip verification of the actual implementation rate. The % (rate), of completion measured by the bills of quantifies and physical progress against planned annual target will be determined for each project as the status was in the situation at the end of each Fiscal Year. The completion rate (%) of each project, when determined, will then be weighted with the relative contracted size of the projects to get an aggregate result, see the example below.

***Weighting Completion Rates***

| **Projects** | **Contract amount** | **Implementation rate against planned completion \*** | **Weighted** | **Result** |
| --- | --- | --- | --- | --- |
| Project 1 | 100,000 | 70% | 70,000 |  |
| Project 2 | 500,000 | 80% | 400,000 |  |
| Project 3 | 50,000 | 90% | 45,000 |  |
| Total Plan | 650,000 | 100% | 515,000 |  |
| **Weighted implementation rate for this City** | | | **0.79** | **79%** |
| \*Progress of projects monitored through bills of quantities and field verification. | | | | |

1. Source: United Nations. According to the Ethiopian Central Statistical Agency, the population is 82.6 million. [↑](#footnote-ref-1)
2. Gross National Income, World Bank Atlas Method. [↑](#footnote-ref-2)
3. The Regions are Afar, Amhara, Benishangul-Gumuz, Gambella, Harari, Oromia, Somali, SNNPR (Southern Nations, Nationalities and Peoples), and Tigray. The chartered cities areAddis Ababa and Dire Dawa. [↑](#footnote-ref-3)
4. ULGs are managed by city administrations and have a long list of mandates and responsibilities which include both the woreda-level functions which are concurrent state functions, as well as city affairs of delivering services and providing urban infrastructure. [↑](#footnote-ref-4)
5. World Bank Group, Country Partnership Strategy for the Federal Republic of Ethiopia, August 29, 2012. [↑](#footnote-ref-5)
6. World Bank Development Indicators (2012 figures), based on official estimates. [↑](#footnote-ref-6)
7. World Bank Development Indicators database [↑](#footnote-ref-7)
8. UN, Department of Economic and Social Affairs, Population Division database [↑](#footnote-ref-8)
9. Some of these funds were used for technical assistants who supported ULGs in procurement, engineering, environment and social systems management. Additionally, these funds were used by MUDHCo to procure consultancy services for the annual performance assessments, environment and social audits, and other studies. [↑](#footnote-ref-9)
10. Staffincludes (a) an economist in change of preparing the participatory capital investment plan, (b) a financial management specialist, (c) a procurement specialist, (d) an environmental and social safeguards specialist, (e) a municipal/infrastructure engineer and (f) an urban planner. [↑](#footnote-ref-10)
11. The regional government and ULGs will be making funding contributions at various levels, as detailed in the annex. The contribution from the ULGs will constitute one of the minimum conditions to be met for each ULGs to qualify to receive funding from the Program. [↑](#footnote-ref-11)
12. Under the ULGDP, state revenues (which are primarily transfers from regional governments) have improved much faster than municipal revenues. [↑](#footnote-ref-12)
13. The current performance measures only focus on existence of revenue enhancement plans and compliance with planned targets for total revenues (state and municipal together). [↑](#footnote-ref-13)
14. A possible Addis Ababa-specific project is currently being discussed between the government and the World Bank. [↑](#footnote-ref-14)
15. In the areas of planning and budgeting, assets management, public financial management, procurement, own source revenues, accountability and transparency, environment and social safeguards, land management, and strategic urban planning. [↑](#footnote-ref-15)
16. Value for money audits will assess the quality, timeliness, and cost effectiveness of completed infrastructure (a sample of projects will be selected in each ULG) against standard benchmarks in line with the terms of reference for the auditors. The value for money audits will be conducted from the third assessment (of performance of investments during FY15), and the results will have a weight in the performance-based allocations of grants (see annex 10 for details). [↑](#footnote-ref-16)
17. Comprised of US$50.13 million IDA and US$28.59 million government funds from regions and ULGs. [↑](#footnote-ref-17)
18. Comprised of US$68.22 million IDA and US$ 36.98 million government funds from regions and ULGs. [↑](#footnote-ref-18)
19. Proclamation No. 433/2005 and Regulation No. 144/2008 provides for the role, powers, duties, and responsibilities of the FEACC. [↑](#footnote-ref-19)
20. The most recent official national census dates back to 2007. The official Central Statistics Agency (CSA) has provided an estimate to this in 2013. As agreed with government, the Program uses these figures. [↑](#footnote-ref-20)
21. The regional government and ULGs will be making funding contributions at various levels as detailed in the Annex. Contributions from ULGs will constitute one of the minimum conditions to be met for each of the ULGs to qualify to receive funding from the Program. [↑](#footnote-ref-21)
22. The assessments of the minimum conditions and performance measures in the first year will start later due to the start-up of the Program. [↑](#footnote-ref-22)
23. Sewer reticulation systems canals (primary canals) shall not exceed in diameter 1,000 millimeters or 10 kilometers. [↑](#footnote-ref-23)
24. The teams include specialists in urban planning, municipal finance, financial management, land management, procurement, environmental management, social development, local economic development, infrastructure/asset management, participation and service standards. [↑](#footnote-ref-24)
25. These cities are Adwa, Asosa, DebereMarkos, Gambella, Jijiga, Nekemte, Samera, Yirga, and Alem. [↑](#footnote-ref-25)
26. Specifically, for the major activities of training, consultancy and procurement, the BUDs provide specification and purchase orders to purchasing experts in the civil service bureau to effect the purchases. [↑](#footnote-ref-26)
27. In the case of modules (g) and (h) above awarenessraising as to the application of ULGDP II investment and capacity building funds will be given due attention. [↑](#footnote-ref-27)
28. ECSU may, to ensure practicality of the course, recruit trainers with practical experience of program delivery in ULGs) and costs of delivery. [↑](#footnote-ref-28)
29. An example of this is the revenue mobilization where MUDHCo in cooperation with relevant agencies will develop standard tariff proclamations, guidelines and best practices to be used by the regions in their implementation of the framework. [↑](#footnote-ref-29)
30. Fiscal 2015 is taken as year zero. [↑](#footnote-ref-30)
31. In the areas of planning and budgeting, assets management, public financial management, procurement, own source revenue, accountability and transparency, environment and social safeguards, land management, and urban planning. The performance of ULGs ranges between 0–100. The percentage reflects the score. [↑](#footnote-ref-31)
32. The increase is measured in nominal figures. [↑](#footnote-ref-32)
33. Five of the 18 cities currently participating in the ULGDP have received audits on time (by January 7, 2014) for financial year 2012/13 ((Ethiopian fiscal year 2005). [↑](#footnote-ref-33)
34. Numbers are indicative only, because the number of kilometers of roads to be constructed with Program funds will not be known until ULGs prepare and execute their CIPs. [↑](#footnote-ref-34)
35. In the first year, the performance measures will only be applicable to the 18 ULGDP cities. The assessment of progress against performance measures of all 44 ULGs (including the new 26 ULGs will begin in year 2. [↑](#footnote-ref-35)
36. See verification protocol and the Bank disbursement table for further details. [↑](#footnote-ref-36)
37. Five of the 18 cities currently participating in the ULGDP have received audits on time (by January 7, 2014) for financial year 2012/13 ((Ethiopian fiscal year 2005). [↑](#footnote-ref-37)
38. The regional revenue authorities will need time to build up the capacity within this area, and the tariff proclamations are expected to be up-dated only twice during the program period, hence results will be measured for the third and the fifth year of the Program. [↑](#footnote-ref-38)
39. Composite index of performance based on performance in the areas of planning, revenue enhancement, assets management, fiduciary systems, procurement,accountability/ oversight systems, environmental and social systems management and urban land management, see annex 10. [↑](#footnote-ref-39)
40. Composite index of performance based on areas in infrastructure implementation, maintenance performance, planning and implementation on job creation and value for the money of investments implemented. [↑](#footnote-ref-40)
41. As consolidated budget accounts only report on spending from treasury sources (that is, federal/state revenues and block grants) and external sources (international grants and loans), but exclude local expenditures funded from municipal own source revenues. In order to get a view that is as comprehensive as possible, it is assumed that municipal own sources are fully spent on urban development. Caution should be used in interpreting these data, as there are some inconsistencies in categorization and/or coding of the underlying budget data, which makes it difficult to consistently isolate urban development spending. [↑](#footnote-ref-41)
42. Ibid, Ibid, Component 2a, Table 4.5 As is the case with all reports generated by IBEX, caution is needed in interpreting the data. For instance, it is possible that inconsistencies in the coding of the underlying budget data allows to identify some—but not all—urban development spending. (Exchange rate: 1 US$ =18.8 Birr to US$ is applied in this case). [↑](#footnote-ref-42)
43. Dege Consult, Urban Institute and SuDCA Development Consultants: Ethiopian LG Revenue Enhancement Study, Component 2a Report, October 2013. [↑](#footnote-ref-43)
44. SUDCA, August 2013. [↑](#footnote-ref-44)
45. ULGDP has developed a number of guidelines issues by MUDHCo, including for Assets Management, PFM, Capital investment planning, the project operational manual, which with slight up-date and refinement, will be used for the second phase as well. [↑](#footnote-ref-45)
46. Comprised of US$50.13 million IDA and 28.60 US$ million government funds from regions and ULGs. [↑](#footnote-ref-46)
47. Comprised of US$68.22 million IDA and US$ 36.98 million government funds from regions and ULGs. [↑](#footnote-ref-47)
48. Instead of the current systems of fund requests and replenishments. [↑](#footnote-ref-48)
49. See Dege Consultant, UI, and SuDCA Development Consultants: Ethiopian LG Revenue Study, October 2013, Report on Component 2a. [↑](#footnote-ref-49)
50. The existing manual system of consolidation of M&E reports will be upgraded to a computerized electronic data system, using access, excel, or similar tools. [↑](#footnote-ref-50)
51. See GIZ: “Making Good Governance Tangible, GIZ, 2011” and the Draft Report: “Assignment on Money for Investment of ULGDP, Assessment and Evaluation Report”, Volume 1, Main Report for GIZ, 2011. See also Dege Consult, UI and SuDCA Development Consultants, “ELGRS”, Component 2a, Part One Main Report, October 2013 for examples of the benefits. [↑](#footnote-ref-51)
52. Based on M&E reports from MUDHCo, 2013. [↑](#footnote-ref-52)
53. Similar investment profiles from other countries show high IRR for urban investments in core infrastructure, see technical assessments for USMID (Uganda, 2012) and ULGSP (Tanzania, 2012). [↑](#footnote-ref-53)
54. Proclamation No. 433/2005 and Regulation No. 144/2008 provides for the role, powers, duties, and responsibilities of the FEACC. [↑](#footnote-ref-54)
55. In Oromia Region, cases which are below Birr 100,000 (About 5,000 USD) and not committed by higher official is considered to be petty corruption and will be referred to the Bureau of Justice for investigation. On the other hand a case which is above Birr 100, 000 or even below Birr 100,000 but committed with the involvement of higher official is considered to be Grand corruption and will be referred to the investigation department in REACC. [↑](#footnote-ref-55)
56. FEACC Annual Reports, 2011 and 2012. [↑](#footnote-ref-56)
57. Ibid. [↑](#footnote-ref-57)
58. Annual Independent procurement audit (IPA), including contracts effectiveness is to be conducted and reported along with management response of issues raised. The IPA will have an agreed terms of reference and conducted by regional public procurement agencies or an independent consultant. At the moment, since the RPPAs do not have the capacity, the first two years independent procurement audit will be conducted together with APA and the terms of reference of the APA will be modified to address the IPA need. The RPPAs capacity will be enhanced during the first two years and the RPPAs will take over the IPA responsibility from the APA consultant (Procurement audit is their legal mandate). The adequacy of the regional public procurement and asset management agencies to carry out IPA will be assessed and confirmed by joint review of Federal Public Procurement and Asset Management Agency and the World Bank. [↑](#footnote-ref-58)
59. For the first assessment in 2014: reviewing all investments implemented in FY 2012/13 (EFY 2005). Note that this DLI is only applied for the current ULGDP ULGs in the first assessment. The assessment will review all investments, not only the ones funded by ULGDP PB grants. [↑](#footnote-ref-59)
60. See means of verification below in the notes. [↑](#footnote-ref-60)
61. The value for money will be conducted from the 3rd assessment starting in September 2015. In case they are not completed by the time needed to be incorporated in the regular assessment, the firm, which will carry out the assessment will revise the assessment results by taking the VFM audit results into account in due course. [↑](#footnote-ref-61)