

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA34114

Project Name	Urban Productive Safety Net Project (UPSNP) (P151712)
Region	AFRICA
Country	Ethiopia
Sector(s)	Public administration- Other social services (90%), Solid waste management (10%)
Theme(s)	Social Safety Nets/Social Assistance & Social Care Services (60%), Improving labor markets (30%), Other urban development (10%)
Lending Instrument	Investment Project Financing
Project ID	P151712
Borrower(s)	FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
Implementing Agency	Ministry Urban Development Housing and Construction
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	29-Sep-2015
Date PID Approved/Disclosed	09-Oct-2015
Estimated Date of Appraisal Completion	15-Oct-2015
Estimated Date of Board Approval	15-Dec-2015
Appraisal Review Decision (from Decision Note)	

I. Project Context

Country Context

1. Ethiopia is a large and geographically diverse country, with a representation of 98 nationalities and peoples who speak 93 languages, a total population of about 90 million, and a population growth rate of 2.6 percent (2013). At that rate, the United Nations estimates that the population will reach 130 million by 2025. Ethiopia is projected to be among the world's 10 largest countries by population in 2050. IDA commitments to Ethiopia in recent years have been over US \$1 billion per year. Making progress on the two goals of the World Bank Group in Ethiopia is therefore important both for global progress and for the country itself.

2. Ethiopia remains one of the world's poorest countries but has achieved high levels of economic growth and made substantial progress on social and human development over the past decade. The country's per capita income of US\$550 (Atlas GNI, 2014) is substantially lower than the regional average of US\$1,257 and among the eleventh lowest worldwide. Ethiopia is ranked 173 out of 187 countries on the Human Development Index (2014) of the United Nations

Development Programme (UNDP). However, 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 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 close to US\$1.25/day). Ethiopia is among the countries that have made the fastest progress on the Millennium Development Goals (MDGs) and Human Development Index ranking over the past decade. It is on track to achieve the MDGs for gender parity in education, child mortality, HIV/AIDS, and malaria. Good progress has also been made in universal primary education, although the MDG target may not be met.

3. Ethiopia's constitution ensures a federal, democratic system. Ethiopia's current government system was established in the early 1990s by the Ethiopian People's Revolutionary Democratic Front, which took over the country in 1991 after militarily defeating the previous regime. Since 2003 the country has actively pursued decentralization of governance to the regional and woreda levels—a woreda is a district with an average population of 100,000. Ethiopia marked an important milestone in August 2012 with the first peaceful and constitutional transition of power in Ethiopia's modern history, with the appointment of H.E. Hailemariam Desalegn as prime minister, following the death of Meles Zenawi, who had led Ethiopia since the Ethiopian People's Revolutionary Democratic Front took over.

4. The Government of Ethiopia (GoE) has completed its Growth and Transformation Plan (GTP) (2010/11–2014/15), which set a long-term goal for Ethiopia to become a middle-income country by 2025, with growth rates of at least 11.2 percent per year during the plan period. A second phase of the GTP is currently being finalized. To achieve the GTP goals and objectives, the GoE has followed a “developmental state” model with a strong role for the government in certain 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 GoE's commitment to human development. The programs of development partners (DPs) are broadly aligned with GTP priorities. A successor to the GTP, covering 2015/16 to 2020/2021, is currently under preparation.

5. The Bank Group's Country Partnership Strategy (CPS) for FY13–FY16 sets out the principles for engagement within this framework, as recently reviewed in the 2014 CPS Progress Report. The CPS supports the GoE in implementing the GTP. It includes two primary pillars and seven strategic objectives. Pillar One (Fostering Competitiveness and Employment) aims to support Ethiopia in achieving the following strategic objectives: (a) a stable macroeconomic environment; (b) increased competitiveness and productivity (a particular area of focus for the IFC); (c) increased and improved delivery of infrastructure; and (d) enhanced regional integration. Pillar Two (Enhancing Resilience and Reducing Vulnerabilities) aims to support Ethiopia through (e) improved delivery of social services, and (f) comprehensive social protection and risk management. The CPS also has a foundation of (g) good governance and state building. In line with the GTP, gender and climate change have been included as cross-cutting issues in the CPS. The CPS Progress Report of October 2014 reconfirmed these strategic objectives while noting that the Bank Group will place renewed emphasis on a stable macroeconomic environment, increased competitiveness and productivity, regional integration, and the urbanization process.

Sectoral and institutional Context

6. Ethiopia has a strong record of reducing extreme poverty in recent years; however, the main drivers of this progress have been rural: agricultural growth, provision of basic services, and

safety nets. The structural transformation that has taken place in value addition (a shift from agriculture to services) has contributed very little to poverty reduction.

7. Although Ethiopia remains predominantly rural, urbanization is taking place, and as Ethiopia urbanizes, poverty becomes more urban. In 2000, 11 percent of Ethiopia's poor lived in cities, but this rose to 14 percent in 2011. The urban population reached 11.9 million by the last census in 2007 and was estimated to reach 16.7 million in 2014, with an average population growth rate of 3.8 percent. Urban population growth is expected to increase, with a tripling of the urban population expected by 2034 and 30 percent of the population in urban areas by 2028 (Ethiopia Urbanization Review, World Bank 2015). As more of the urban poor live in large urban centers, expanding development programs to address key challenges to urban poverty reduction is imperative.

8. An economically productive urban transformation is necessary for Ethiopia to reach middle income status, end poverty and improve shared prosperity. Getting urban growth right now, is crucial to develop the type of cities that foster inclusive growth in the long run. If managed proactively, urban population growth presents an opportunity to shift the structure and location of economic activity from rural agriculture to the larger and more diversified urban industrial and service sectors. If not managed proactively, rapid urban population growth may pose a demographic challenge as cities struggle to provide citizens with jobs, infrastructure and services, and housing (Ethiopia Urbanization Review, World Bank 2015).

Characteristics of Urban Poverty

9. Urban poverty rates in Ethiopia are quite high, particularly in the large cities. The urban-rural poverty rate differential is low in comparison to other countries. The total national poverty head count in 2011 was 30.4 percent in rural Ethiopia and 25.7 percent in urban areas. Poverty rates in Addis Ababa and Dire Dawa were as high as 28.1 percent and 28.3 percent respectively. The poverty gap index is estimated to be 8 percent in rural Ethiopia and 6.9 percent in urban Ethiopia.

10. In large cities, poverty has been falling, but not as fast as in rural areas and smaller urban centers. From 2005 to 2011, consumption growth was negative for the poorest 15 percent of the urban population and for the majority of households in Addis Ababa as wages did not increase to compensate households for the rising food prices that they faced. One-fifth of Ethiopia's urban population lives in Addis Ababa and reducing poverty rates in this and other large urban centers is a key priority toward addressing poverty reduction in Ethiopia.

11. Access to the labor market is a key determinant of poverty in urban areas. The poorest are those with inadequate employment or those who cannot engage in labor markets because of age, disability or ill-health. Distinct groups of urban poor can be identified, each with diverse needs.

12. The most visible faces of urban poverty are the destitute. These are the poor that live on the street and comprise street children, the homeless, and beggars, who need housing, health care, counseling, and often repatriation to families, in addition to financial support. This group is very poor but also relatively small in number (an estimated 3 percent of the poorest 15 percent of urban households).

13. Another clearly identifiable group of the urban poor are the elderly and disabled living in

households with no working-age members (7 percent of poorest 15 percent). Financial and community support is weaker for this group in cities than in rural communities and as a result they are both poorer and more vulnerable than the elderly and disabled in rural areas. Households with an elderly head are 13 percentage points more likely to be poor in urban areas (in rural areas they are no poorer than the average rural household). Households with disabled members have poverty rates 19 percentage points above the urban average. This group needs long term financial support in addition to home-based care services.

14. However, the largest groups of urban poor are those with too little work or those in low-paid employment. Unemployment is strongly correlated with poverty, it is not just found among a more-educated middle class: households with unemployed or underemployed comprise 42 percent of the poorest 15 percent. Almost half (48 percent) of the poorest 15 percent of urban households live in households where, at a given point in time, all adults are working: half in marginal self-employment (mostly in services) and half in low-wage employment in services, manufacturing and construction. Very often individuals move in and out of unemployment, self-employment and employment over time.

15. High rates of unemployment are present in large cities, reflecting a number of imperfections in urban labor markets (Urban Labor Market Study, World Bank 2015). The overall unemployment rate in urban areas is 18.4 percent, but this is higher in Addis Ababa (21.7 percent) and among the youth (27.9 per cent and 18.3 per cent for age groups 20-24 and 25-29 respectively). A public sector premium in both wages and job satisfaction encourages queuing for public sector jobs among those with secondary and graduate education; as they queue they enter into temporary unskilled employment opportunities, crowding out unskilled workers better suited to permanent employment in these activities. Wages for unskilled jobs in Ethiopia are unable to fall any further to clear the market as they currently barely cover the cost of basic food and other requirements for workers to be able to engage in a full day of work. There is also evidence of high job search costs, with 84 percent in unemployment stating that they reduce their search efforts because search is costly (it involves travelling to job bulletin boards).

16. Low wages reflect low rates of labor productivity (World Bank Ethiopia Economic Update 2015). Increasing the productivity of work through training and perhaps also ancillary support to workers, such as transportation assistance, lunches, and support for children or elderly dependents, can increase productivity and the value of take-home pay. Lack of access to capital is cited as a constraint to entering and expanding self-employment activities. A recent impact evaluation suggests that provision of grants and some basic training on business planning can have a large impact on self-employment income (Blattman and Dercon 2015). Lack of space is a particularly binding constraint on self-employment in Addis Ababa as all businesses are required to register and have business premises.

17. The government is encouraging the creation of new jobs in large cities through favorable incentives to foreign direct investment and the development of large industrial zones in Addis Ababa and other cities, with some success. However, new firms complain about the cost of hiring workers given the lack of soft skills and factory work experience among new hires and the high rates of turnover. The GoE sees Technical and Vocational Education and Training (TVET) as an important means by which to improve worker productivity. However, the quality of public TVET is low and firms report not hiring TVET graduates, using other training institutes, or conducting the in-house training instead (World Bank 2014).

18. The close relationship between employment and poverty in urban areas is distinct and requires a tailored approach. Social protection for the poorest in urban areas needs to combine income support with support to improve employability for those households with working-age adults.

Characteristics of Social Safety Nets

19. Recently, the GoE has shown a strong commitment to social protection in order to sustain economic growth while protecting the social and economic rights of citizens, and preventing social disintegration and instability that widening inequality may generate. This has been recognized in the current GTP and the government has confirmed the need to put stronger emphasis on social protection in the second GTP which is currently being finalized. In line with the African Union Social Protection Framework, to which Ethiopia is a signatory, the GoE finalized a National Social Protection Policy in a consultative manner, which was approved by the Council of Ministers in November 2014. The Social Protection Policy has a broad objective of providing an overall social protection system and creating an enabling environment in which Ethiopian citizens have equitable access to social protection services that will enhance inclusive growth and development. The policy has identified social safety nets and livelihood and employment generation as important pillars. Overall, the policy commits the government to move beyond the partial, and fragmented, provision of social protection in order to establish a comprehensive social protection system. Currently, the National Social Protection Platform (NSPP), has developed a strategy for the implementation of the policy. Both the policy and strategy put strong emphasis on the need to expand social safety nets and livelihood interventions in rural areas and for initiating the same in urban areas in a more effectively targeted and coordinated manner.

20. The GoE has considerable experience in delivering safety net and public works programs. The Productive Safety Net Project (PSNP), supported by the World Bank, has been providing transfers to rural beneficiaries since 2005 and in its current phase is reaching 10 million beneficiaries. Transfers are made in return for engagement in public works. The project has resulted in considerable experience being built within the GoE on how to target poor beneficiaries; deliver timely and predictable transfers; and design and implement public works on a large scale. The Urban Local Government Development Project (ULGDP) supported by the World Bank provides block grants to municipal local governments that are largely used by municipalities for developing infrastructure, in part through labor-intensive public works. The ULGDP has been successfully implemented for several years in a number of Ethiopian cities and is now into its second phase. It has effectively delivered labor-intensive public works programs in urban areas, mainly cobblestone projects and brick making.

21. The PSNP is exclusively focused on rural areas, and urban-focused social protection support programs are inadequate compared to the need, less systematic, and fragmented. The GoE has implemented a number of poverty-focused measures to tackle the increasing level of vulnerability in urban areas. In addition, nongovernment organizations are implementing small programs to address the specific needs of vulnerable groups such as people affected by HIV/AIDS, the elderly, orphans, street children, and people with disability. Traditional social support mechanisms, locally known as Iddirs and Equbs, have also been providing support for the poorest communities in specific localities. However, given the high number of poor and vulnerable in many urban areas, the coverage of the existing support is very limited and insufficient to bring about the

required impact at scale.

22. Currently, the GoE's support to urban households is largely provided in the form of subsidies for wheat, energy, and housing: these programs absorb about 20 percent of social protection spending, yet the value of these subsidies is much lower than the value of direct transfers made in the PSNP and there is also considerable leakage in these programs as they are not targeted to the most vulnerable groups (World Bank 2014). The government has adopted several programs to improve the quality of affordable urban housing by replacing slums with condominiums. However, few poor households have directly benefited from the program. In addition, city administrations are improving urban slum areas by building access roads, providing public toilets, and improving the public tap water supply. Furthermore, the government has set up different youth employment schemes for unemployed youth and has created employment opportunities through different programs, including the ULGDP. In most circumstances, youth are not hired directly but small groups of youth that have registered as small and micro enterprises (SME) (as a result of a significant government program to promote SMEs) have been hired.

23. The Ministry of Urban Development, Housing, and Construction (MUDHCo) is leading the design of a systematic productive urban safety net and livelihood support intervention. The ministry, in close collaboration with other ministries, has finalized an Urban Safety Net Strategy as an element of the Urban Food Security and Job Creation Strategy, which was approved by the Government on May 08, 2015. MUDHCo is finalizing a long-term Urban Productive Safety Net Program Framework.

24. The long-term objective of the government's Urban Productive Safety Net Strategy and Urban Productive Safety Net Program Framework is to reduce poverty and vulnerability among the urban poor living below the poverty line over a period of 10 years in a series of five-year phases. This will be done by implementing productive and predictable urban safety nets and complimentary livelihood interventions among the 4.7 million urban poor. The first phase supported by the proposed project will run from 2016 to 2020 and will focus on putting in place basic safety net building blocks, including productive and predictable transfers through public works (PW), livelihood interventions, and capacity building, in response to the GoE's request for immediate safety net support for the urban poor.

25. In the long run, the proposed Urban Productive Safety Net Project (UPSNP) and the rural PSNP will allow the GoE to gradually expand the safety net to national coverage. UPSNP and the rural PSNP will be guided by a common policy framework and will also share a number of operational modalities and systems to ensure a coherent national safety net program.

26. The UPSNP is grounded in the unique challenges that shape and perpetuate urban poverty. In particular, the approach underpinning the UPSNP recognizes that urban poverty is highly complex, is dynamic, and has its own unique features. While ensuring technical and operational rigor, the project will put a significant premium on adaptation and learning, including establishing flexible arrangements that can be molded based on prevailing circumstances and are informed by systematic feedback loops as the program is gradually rolled out. The learning will draw from the UPSNP itself, as well as from relevant lessons from the rural PSNP, the Women Entrepreneur Development Project (WEDP), and the ULGDP. In addition the program will draw on international experience with social safety nets from among others in Argentina, El Salvador, India and Pakistan.

27. The rural PSNP is moving from delivery of a safety net service to supporting the development of a national system. The design of the urban safety net will make linkages with PSNP to benefit from the PSNP's systems investments. These will include such areas as the national unified registry and the management information system (MIS). Efforts will be made to establish strong coordination and a resource and knowledge-sharing mechanism between the implementers of the two programs. In addition to the lead ministries of the MUDHCo and Ministry of Agriculture (MoA), the implementers of the proposed UPSNP and the rural PSNP respectively, the Ministry of Labor and Social Affairs (MoLSA) and the Ministry of Finance and Economic Development (MoFED) will play important roles in this regard.

II. Proposed Development Objectives

The PDO of the proposed project is to support the government of Ethiopia to increase income of targeted households living below the poverty line in selected urban areas

III. Project Description

Component Name

1. Safety Nets grants

Comments (optional)

31.36. This component will support the delivery of a predictable, timely and productive safety net through conditional and unconditional safety net transfers. The conditional transfers will target able bodied persons in households eligible for project support. Transfers will be conditional on participation in public works. Unconditional transfers will target persons that for various reasons are unable to perform work (e.g. the chronically ill, the elderly and people with disabilities, urban destitute).

Component Name

2. Livelihood Support

Comments (optional)

This component will support interventions that will facilitate graduation from the program and promote moving out of poverty. The targets of these interventions are selected individuals in households receiving conditional transfers that desire increased access to quality work.

Component Name

3. Institutional Strengthening and Program Management

Comments (optional)

This component will support the development and strengthening of project systems for targeting, M&E and MIS, payments, and citizens engagement including social accountability and grievances redress mechanism. It will also finance capacity building (human resource, training, administrative, physical capacity) and strengthening program management (coordination, financial management, procurement, safeguards).

IV. Financing (in USD Million)

Total Project Cost:	559.00	Total Bank Financing:	300.00
Financing Gap:	109.00		
For Loans/Credits/Others			Amount
BORROWER/RECIPIENT			150.00

International Development Association (IDA)	300.00
Total	450.00

V. Implementation

28. Integration with existing government strategy and structures. The institutional arrangement for Urban Productive Safety Net will be framed within the overall arrangement set in the GoE's Urban Food Security and Job Creation Strategy under which Productive Safety Net is a major component. The implementation of the program will be fully streamlined into the existing government structure at the federal, regional, city, and local levels. Additional technical assistance and coordination support will be provided through the project by supporting existing institutions and systems for planning and implementation.

29. Overall coordination and management. The overall coordination of the management and implementation of the Urban Productive Safety Net Strategy and programs will be the responsibility of the MUDHCo. The MoLSA will closely work with the MUDHCo to support the coordination and implementation of the unconditional support and transfers systems. The MoFED and MoLSA will also have an important role in providing overall guidance, mobilizing and allocating resources, and ensuring linkages with the National Social Protection Policy and Strategy.

30. Project Coordination Unit (PCU). The overall management and coordination of the project will be supported by a PCU reporting to the Urban Good Governance and Capacity Building Bureau (UGGCBB) under the guidance of the state minister and/or the minister of the MUDHCo. The PCU will be staffed with appropriate technical and management staff. The MoLSA and FEMSEDA will assign staff to constitute the respective subunits that will closely support the coordination of project activities in both institutions.

31. Technical oversight and coordination. The technical oversight and coordination responsibility for each component is assigned to the relevant institutions. For the Conditional Transfers sub-component 1.1, the UGGCBB, and the Urban Planning, Sanitation and Beautification Bureau (UPSBB) of the MUDHCo will be responsible. For the livelihoods component, FEMSEDA in close collaboration with the MoLSA will play the overall coordination role. For unconditional transfer support and the safety net system, sub-component 1.2, the MoLSA will take responsibility in consultation with the MUDHCo. The PCU will coordinate institutional capacity-development activities and facilitate effective coordination and implementation of the project. Financial management, procurement, and safeguard issues will also be coordinated by the PCU. The MoFED will be responsible for the financial management of the project.

32. Implementation. The regional Bureaus of Urban Development Housing and Construction and Labor and Social Affairs; Regional Micro and Small Enterprise Agencies; and concerned city administrations will be responsible for the actual implementation of the project.

33. Role of financial institutions. Microfinance institutions and saving and credit cooperatives will have a role in providing financial services, including saving, credit, and training on financial literacy. The TVETs and other technical schools as well as NGOs and the private sector will play an important role in the skill-development and capacity-building activities.

34. Coordination Arrangements. A National Steering Committee to be chaired by the minister

of the MUDHCo and co-chaired by the MoLSA will be established. Members will include the MUDHCo, MoLSA, MoFED, FEMSEDA, the Ministry of Women Children and Youth Affairs (MoWCYA), and regions. The PCU will serve as a secretariat. The steering committee will meet once every six months and the detailed roles and responsibilities will be outlined in a terms of reference (ToR) that is to be developed.

35. A project Management and Coordination Committee (MCC), which will report to the National Steering Committee, will be established. The MCC will have a role to follow up on regular project management and coordination issues. It will also be responsible for coordinating the technical committees. The MCC will be chaired by the director of the UGGCBB of the MUDHCo and co-chaired by the director of the MoLSA and will meet on a monthly basis. Members will include the MUDHCo, MoLSA, FEMSEDA, MoWCYA, and MoFED.

36. To ensure regular technical support and guidance for project implementation, a Technical Coordination Committee (TCC) will be established for each component. In this regard, the MoLSA and MUDHCo will lead on the safety net transfer and public works technical committee, respectively. The MoFED and MoWCYA will be members of this joint technical committee. For the livelihoods component 2, FEMSEDA will take the lead role and the MoLSA will co-lead. Other relevant institutions such as the TVET and other service providers will be members. The technical committees will meet once every month and will regularly report to the MCC. Similar structures will be established at the regional and city administration levels.

37. Coordination with other programs. The proposed UPSNP is a cross-sectoral project supporting financial inclusion, improvements in sanitation, urban infrastructure development, skill acquisition, and employment in addition to providing income support. The project will promote strong linkages and coordination with other urban-based development programs and projects through a coordinated planning process, sharing of approaches and intervention modalities, coordinated capacity-building activities, a joint coordination mechanism, and so on. Specific coordination mechanisms will be established between the proposed UPSNP and ULGDP in the implementation arrangements. Both the PSNP and UPSNP support the implementation of the GoE's Social Protection Policy through the design and implementation of targeted safety nets and complementary livelihood support in both rural and urban areas respectively. The unit to be established in the MoLSA will work on both projects and ensure the necessary synergies and collaboration. By design, the project is well-coordinated with the CJC project in providing support to potential employees of industrial zones. During implementation, coordination will be sought in the provision of information on employment opportunities and training. In addition, the project will build on the lessons learned and materials developed for training women entrepreneurs in the WEDP. Finally, the UPSNP can build on the experiences from the PBS on SA and CE activities.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11	x	
Indigenous Peoples OP/BP 4.10		x

Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

VII. Contact point

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