

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC18382

Project Name	RW-Urban Development Project (P150844)
Region	AFRICA
Country	Rwanda
Sector(s)	Urban Transport (20%), Sub-national government administration (50%), General water, sanitation and flood protection sector (20%), Water supply (10%)
Theme(s)	City-wide Infrastructure and Service Delivery (30%), Urban planning and housing policy (15%), Urban services and housing for the poor (40%), Municipal governance and institution building (15%)
Lending Instrument	Investment Project Financing
Project ID	P150844
Borrower(s)	MINECOFIN
Implementing Agency	Ministry of Infrastructure
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	08-Dec-2014
Date PID Approved/ Disclosed	13-Jul-2015
Estimated Date of Appraisal Completion	21-Jan-2016
Estimated Date of Board Approval	29-Mar-2016
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Rwanda has made remarkable progress in economic, environmental, human and social development. The country's strategic approach to development has mobilized resources and delivered 8 percent economic growth per year between 2011 and 2013. This was accompanied by a decrease in poverty rates from 60 to 45 percent and a modest reduction in inequality with the Gini coefficient falling from 0.52 to 0.49 between the early 2000s and 2011. During this time, the country also made impressive progress in achieving the Millennium Development Goals. Home-grown initiatives, most notably Umuganda (community work) and Imihigo (performance contracts), have contributed to this development progress. Post genocide, such solutions have been leveraged to turn adversity into opportunity, leading the country to adopt its Vision 2020 which in the year 2000

presented an innovative and strategic framework for development that remains a guiding document.

Urbanization is seen as a key driver in achieving the 7 percent annual economic growth needed to move the country to middle income status by 2020. Poverty data suggest that poor households in Rwanda's urban areas were 14 percentage points more likely to exit poverty than their rural equivalents and the rate of chronic poverty was three times lower for urban households than rural households. Vision 2020 specifically sets an urban population target of 35 percent (up from 10 percent in 2000) and the creation of 1.8 million new off-farm jobs, all meant to reduce poverty.

Furthermore, the country's Economic Development and Poverty Reduction Strategy 2013-2018 (EDPRS II) prioritizes secondary cities as poles of economic and urban population growth that will promote sustainable development. Secondary cities are seen as functional regional hubs that would attract economic activities that create off-farm jobs. In order to ensure these cities are livable, the strategy highlights that they would need to provide enhanced public services, affordable housing, and an attractive social life. Rapid urbanization, however, in a landlocked and land-scarce country can lead to unplanned urban growth and environmental degradation. In recognition of this challenge, the EPDRSII highlights the need to institute an appropriate framework for promoting a green economy where secondary cities and Kigali would establish a full value chain of green growth opportunities.

Sectoral and Institutional Context

Despite recent progress, access to quality public services in urban areas continues to be a challenge. Roughly 70 percent of urban households in Rwanda live in unplanned areas where access to adequate tap water, electricity and sanitation is limited. Unemployment is higher in urban areas (7.7 percent) compared to the national rate of 3.4 percent, making provision of urban services and local economic development a priority. The annual urbanization rate over the next 20 years is expected to be around 3.5 percent. Today, 15 percent of the country's population is urban and at current growth rates, it is projected that this number will reach 28 percent by 2030. Kigali – which is home to more than half of the country's urban population – has an annual population growth rate of 9 percent which is also resulting in an increase in unplanned and informal settlements. In response, the city has made informal settlement upgrading a key priority for the next 5 years. In addition, to reduce the pressures on Kigali and achieve a more balanced spatial and economic development, the GOR's Urbanization and Rural Settlement Sector Strategic Plan 2012/2013-2017/2018 aims to establish a hierarchical network of urban centers starting with the country's six secondary cities.

The six secondary cities – Muhanga, Rubavu, Rusizi, Nyagatare, Huye, and Musanze – were selected on the basis of their strategic location, economic potential and current growth trends. Several are border towns where trade with neighboring countries is expected to spur their economic growth. All are located within districts (the highest form of local government) that are largely rural with urban populations that range between thirty to one hundred thousand. The towns differ in their geographic endowments and comparative advantages—some have high tourist potential, others are located in fertile agricultural terrain. All require significant investment in basic infrastructure to become poles for population and economic growth. For instance, although there has been an improvement in the quality and coverage of urban roads, there is strong need to further expand networks and to prepare for future demand as well as to connect isolated areas. All cities have non-revenue water (leakage) of more than 35 percent and need water treatment capacity to meet urban water demand. Solid waste is collected on a community based collection system in partnership with small and medium enterprises, but there are major gaps in waste management. No town has a

functional waste management or recycling system, let alone a fully functional and properly managed landfill site, resulting in haphazard and short term solutions to waste disposal. Most waste water is managed through household based solutions. None have centralized wastewater collection and treatment services, but over time with increased population several of the larger towns will require substantial investments to be able to manage wastewater at scale.

For secondary towns to harness their economic potential infrastructure investments would need to be carefully prioritized to attract the private sector. The GOR has identified local economic development potential in all 30 districts, but the transition to sustainable and economically viable projects would require significant and consistent attention both at district and national levels. This would require facilitation, oversight, and outreach, and the provision of direct interventions to lower the cost of doing business (i.e. provision of reliable water and electricity and good standard roads and streets, facilitation of establishment of businesses and allocation of land, and situating business development within the overall framework of the spatial planning of the city).

Rwanda's decentralization process has advanced significantly in the last decade, but districts face consistent challenges in regards to planning, budgeting, financial management and revenue collection, thus reducing their ability to deliver effectively on their mandate. Rwanda is currently in the third phase of the implementation of the Decentralization Strategic Framework published in 2007 and has successfully managed to create viable local governments with progressively improving capacities. Nevertheless, urban districts still face challenges meeting service delivery targets, managing their resources effectively and efficiently and overseeing and planning for rapid urbanization.

The financing of Rwanda's cities is largely insufficient given the limited own source revenue base, and the built-in rural bias of the intergovernmental fiscal framework. The capital budget in each district corresponds to around US\$13 per capita, which is well below the general level of investments required for transformative infrastructure investments (typically, investment needs for secondary towns are around \$20-\$30 per capita). Districts are largely unable to generate own source revenues (collecting just about 10% from own sources) and remain dependent on the central government. In contrast, estimates indicate that secondary cities would need to invest between US \$490 and \$610 million over the next 10 years to improve levels of public service and cater to the targeted flow of new migrants from rural areas. These investments represent close to 4% of GDP and far exceed the financial resources currently available.

Relationship to CAS

This project is aligned with the Country Partnership Strategy (CPS) for fiscal years 2014–2018 which identifies urban development as a key pillar in promoting the inclusive growth agenda and poverty reduction. The project's focus on secondary cities also supports the CPS's focus on small towns as viable centers for urban transformation.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The project development objective is to support urban management for the delivery of basic services and to promote local economic development in selected urban centers.

Key Results (From PCN)

The key results areas for the project are: (i) number of people with improved access to services in

secondary cities; (ii) improved urban management in secondary cities as measured through the performance indicators; and (iii) increased private sector activity in six secondary cities.

Intermediate results indicators include: (a) Number of people in urban areas provided with access to “Improved Water Sources” (b) Number of people in urban areas provided with access to “Improved Sanitation” (c) Number of people in urban areas provided with access to all-season roads within a 500 meter range and (d) Area provided with drainage services.

Baseline data will be collected during project preparation.

III. Preliminary Description

Concept Description

The project supports Rwanda’s six secondary cities to improve access to services, build the capacity of districts for urban management, and spur local economic development. District capacity building will be in relation to functions that they actually perform (“learning by doing”); they will be held to account (by citizens and national government) and will be rewarded for the performance of these functions. Key elements of the project would include the following but will be further elaborated and refined during the project preparation process (US\$ 85m total project cost):

Component 1: Improving urban management for basic services in the six secondary cities (US\$ 70m)

This component will support provision of basic infrastructure in the 6 secondary cities to enhance living conditions for residents and also support local economic development. The funds for the investments will be allocated through annual Urban Development Grants consisting of two elements: an unconditional formula (e.g., percent urban population and urban area) and performance criteria. An independent entity will carry out annual assessments and a baseline will be established during preparation. The grant will be phased in order to ensure that there is full uptake of the performance requirements. The grant will be in addition to existing GOR grants and transfers, and will be specifically targeted to finance investments in urban areas of the districts. Assuming a phased introduction of the grant, each district would receive around 11m US\$ in total (or about 180 \$ per capita) over 5 years, or about 37\$ per capita per year. The Assessment, operational and fund disbursement procedures will be closely aligned with the existing government grant mechanisms.

Component 2: Modeling Inclusive Urbanization in Nyarugenge District of Kigali (US\$ 10m)

This component will support the upgrading of the Nyarugenge District and in particular Agatare neighborhood in the City of Kigali. This site is located within the Central Business District and comprises an 80 hectare informal settlement site and is home to 3,000 households. The upgrading of the site is to serve as a model for community based urban regeneration that can be scaled up to other parts of Kigali and to secondary towns. A learning-by-doing approach will be adopted to identify the most appropriate approach for upgrading in the Rwandan context and these lessons will be shared and disseminated among key stakeholders, especially district leaders with the hopes of scaling it up.

Component 3: Technical support for implementing some aspects of the National Urbanization Strategy (US\$ 2.5 m)

This component will include three subcomponents: (i) support to local economic development; (ii) capacity building for urban management; and (iii) enabling coordinated urban planning.

3.1 Support to local economic development: This component will finance TA for the six secondary cities to facilitate the implementation of local economic development plans. This could include: (a) TA to One Stop Centers and the Business Development Units to meet their existing and additional responsibilities to help accelerate permit and licensing times for infrastructure, land, construction and private sector registration and growth, and (b) advisory support and training to districts to conduct detailed economic feasibility studies for their potential LED focused investment projects. This would also include direct technical support for district officials to design better updates to and next set of LED plans, taking into account budgeting, staffing and other implementation strategies. Additional TA areas being considered include design and implementation of business or market centers and integration of local economic development and urban planning principles.

3.2 Capacity Building for urban management: Technical Assistance will be provided to the six Districts to enable them to improve their performance as measured through the criteria for allocating Urban Development Grants (e.g., planning, managing local finances – such as asset management, O&M, budget execution - and project management). This will be delivered through a combination of coaching, training and peer-to-peer learning.

3.3 Developing information systems for coordinated planning and strategic decision making: The project will support a geodata platform that integrates GIS data that are currently scattered across a number of national agencies and district governments in order to better integrate information on all municipal infrastructure services. This will allow for better coordination in service delivery/ infrastructure investment. The project will also ensure that the portal will be shared across key national and local actors operating in the urban sector. This national system will be rolled out to the six districts and training will be provided in the analysis and use of GIS data for local level decision making. This GIS will also be complemented with a system for collecting and curating data on urbanization (e.g., data on demand and supply of housing; employment in urban areas; number of off farm jobs created etc – all data that are expected to be tracked under the government’s EPDRS2).

Component 4: Project management support (US\$ 2.5 m):

Support will be provided to the implementing agencies at national (Ministry of Infrastructure, Rwanda Housing Authority and Local Development Agency) and District levels on project management, including for the recruitment of staff as needed (e.g. engineers, financial management, procurement, social and environmental safeguards specialists). The districts may also be provided with technical assistance for managing and supervising infrastructure works.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
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	

V. Financing (in USD Million)

Total Project Cost:	85.00	Total Bank Financing:	85.00
Financing Gap:	0.00		
Financing Source			Amount
BORROWER/RECIPIENT			0.00
International Development Association (IDA)			85.00
Total			85.00

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