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THE WORLD BANK  
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Report no: PAD123029-ET

PROGRAM APPRAISAL DOCUMENT

ON PROPOSED

IDA CREDIT  
IN THE AMOUNT OF SDR89.2 MILLION  
(US\$127 MILLION EQUIVALENT),

IDA GRANT  
IN THE AMOUNT OF SDR 191.7 MILLION  
(US\$273 MILLION EQUIVALENT),

AND

SCALE UP FACILITY CREDIT  
IN THE AMOUNT OF US\$200 MILLION

TO THE

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

FOR AN

URBAN INSTITUTIONAL AND INFRASTRUCTURE DEVELOPMENT PROGRAM

February 21, 2018

Social, Urban, Rural, and Resilience Global Practice  
Africa

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective December 31, 2017)

|               |   |                      |
|---------------|---|----------------------|
| Currency Unit | = | Ethiopian Birr (ETB) |
| ETB 27.40     | = | US\$1                |
| US\$1.42413   | = | SDR 1                |
| Currency      |   | US\$1                |

## FISCAL YEAR

July 8 – July 7

## ABBREVIATIONS AND ACRONYMS

|         |  |
|---------|--|
| AFD     | French Development Agency ( <i>Agence Française de Développement</i> ) |
| AMP     | Asset Management Plan  |
| APA     | Annual Performance Assessment  |
| APACRC  | Annual Performance Assessment Complaints Resolution Committee          |
| APAG    | Annual Performance Assessment Guidelines                               |
| BoFED   | Bureau of Finance and Economic Development (Regional)                  |
| BUD     | Bureau of Urban Development (part of regional governments)             |
| CIP     | Capital Investment Plan  |
| CPA     | Country Procurement Assessment   |
| CPF     | Country Partnership Framework  |
| CPS     | Country Partnership Strategy   |
| CSA     | Central Statistics Agency  |
| DLI     | Disbursement Linked indicator  |
| DRM     | Disaster Risk Management   |
| DRS     | Developing Regional States   |
| ECSPG   | Ethiopian Cities Sustainable Prosperity Goal                           |
| ECSU    | Ethiopian Civil Service University                                     |
| EFY     | Ethiopian Financial Year   |
| EMP     | Environmental Management Plan  |
| ERCA    | Ethiopian Revenues and Customs Authority                               |
| ESMP    | Environment and Social Management Plan                                 |
| ESMSG   | Environmental and Social Management System Guideline                   |
| ESSA    | Environment and Social Systems Assessment                              |
| FEACC   | Federal Ethics and Anti-Corruption Commission                          |
| FM      | Financial Management   |
| FMT     | Federal Mobile Team  |
| FPPAA   | Federal Public Procurement and Property Administration Agency          |
| FUJCFSA | Federal Urban Job Creation and Food Security Agency                    |
| GoE     | Government of Ethiopia   |
| GRS     | Grievance Redress Service  |

|       |   |
|-------|---|
| GTP   | Growth and Transformation Program                                     |
| IBEX  | Integrated Budget and Expenditure                                     |
| IFMIS | Integrated Financial Management Information System                    |
| IMF   | International Monetary Fund   |
| INT   | Integrity Vice Presidency   |
| IPF   | Investment Project Financing  |
| IRR   | Internal Rate of Return   |
| LED   | Local Economic Development  |
| M&E   | Monitoring and Evaluation   |
| MEFCC | Ministry of Environment, Forest, and Climate Change                   |
| MFI   | Microfinance Institution  |
| MoFEC | Ministry of Finance and Economic Cooperation                          |
| MSEs  | Micro and Small Enterprises   |
| MTR   | Midterm Review  |
| MUDHo | Ministry of Urban Development and Housing                             |
| NBE   | National Bank of Ethiopia   |
| NDRMC | National Disaster Risk Management Commission                          |
| NPV   | Net Present Value   |
| O&M   | Operation and Maintenance   |
| OFAG  | Office of the Federal Auditor General                                 |
| OFED  | Office of Finance and Economic Development (at ULGs)                  |
| ORAG  | Office of the Regional Auditor General                                |
| OSR   | Own Source Revenue  |
| PAP   | Program Action Plan   |
| PDO   | Program Development Objective   |
| PEFA  | Public Expenditure Financial Accountability                           |
| PforR | Program-for-Results   |
| POM   | Program Operational Manual  |
| RAP   | Resettlement Action Plan  |
| REACC | Regional Ethics and Anti-Corruption Commission                        |
| REFA  | Regional Environment Protection, Forest, and Climate Change Authority |
| REP   | Revenue Enhancement Plan  |
| RMT   | Regional Mobile Team  |
| RPPAA | Regional Public Procurement and Property Administration Agency        |
| RRB   | Regional Revenue Bureau   |
| RSG   | Resettlement System Guideline   |
| SC    | Steering Committee  |
| SMP   | Safety Management Plan  |
| SNNPR | Southern Nations, Nationalities, and People's Region                  |
| SORT  | Systematic Operations Risk Rating                                     |
| SUF   | Scale-up Facility   |
| TAC   | Tender Awarding Committee   |
| TC    | Technical Committee   |

|          |   |
|----------|---|
| ToR      | Terms of Reference  |
| ToT      | Training of trainer   |
| UIIDP    | Urban Institutional and Infrastructure Development Program      |
| ULG      | Urban Local Government  |
| ULGDP    | Urban Local Government Development Project                      |
| ULGDP II | Second Urban Local Government Development Program               |
| UREFMFB  | Urban Revenue Enhancement, Fund Mobilization and Finance Bureau |
| VfM      | Value for Money   |
| WCO      | Women and Children Affairs Office                               |
| WMP      | Waste Management Plan   |
| WB       | World Bank  |
| ZOFED    | Zonal Office of Finance and Economic Development                |

|                                  |                          |
|----------------------------------|--------------------------|
| Regional Vice President:         | Makhtar Diop             |
| Global Practice Vice President:  | Laura Tuck               |
| Global Practice Senior Director: | Ede Jorge Ijjisz-Vasquez |
| Country Director:                | Carolyn Turk             |
| Practice Manager:                | Bernice Van Bronkhorst   |
| Task Team Leader:                | Abebaw Alemayehu         |
| Co-Task Team Leader:             | Chyi-Yun Huang           |

**ETHIOPIA**  
**Urban Institutional and Infrastructure Development Program**  
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**PAD DATA SHEET**

**ETHIOPIA**

**Urban Institutional and Infrastructure Development Program**

**PROGRAM APPRAISAL DOCUMENT**

**AFRICA**

*Social, Urban, Rural, Resilience Global Practice*

Report No.: PAD123029-ET

| Basic Information                                |                                    |                                     |  |                                     |              |
|--|------------------------------------|-------------------------------------|--|-------------------------------------|--------------|
| Date:  | January 24, 2018                   | Sectors:                            | Sub-national government administration (100 percent)                                 |                                     |              |
| Country Director:                                | Carolyn Turk                       | Themes:                             | Access to urban services and housing (50 percent);<br>Municipal finance (50 percent) |                                     |              |
| Practice Manager                                 | Bernice Van Bronkhorst             |                                     |  |                                     |              |
| Global Practice Vice President:                  | Laura Tuck                         |                                     |  |                                     |              |
| Program ID:                                      | P163452                            |                                     |  |                                     |              |
| Team Leader(s):                                  | Abebaw Alemayehu<br>Chyi-Yun Huang |                                     |  |                                     |              |
| Program Implementation Period:                   |                                    | Start Date:                         | March 2018   | End Date:                           | July 7, 2023 |
| Expected Financing Effectiveness Date: May 2018  |                                    |                                     |  |                                     |              |
| Expected Financing Closing Date: January 7, 2024 |                                    |                                     |  |                                     |              |
| Program Financing Data                           |                                    |                                     |  |                                     |              |
| <input type="checkbox"/>                         | Loan                               | <input checked="" type="checkbox"/> | Grant  | <input checked="" type="checkbox"/> | Other        |
| <input checked="" type="checkbox"/>              | Credit                             |                                     |  |                                     |              |
| <b>For Loans/Credits/Others (US\$M):</b>         |                                    |                                     |  |                                     |              |
| Total Program Cost:                              |                                    | 859.5                               | Total Bank Financing:  | US\$600.0                           |              |
| Total Cofinancing:                               |                                    | 259.5                               | Financing Gap:   | 0.0                                 |              |

| <b>Financing Source</b>                            | <b>Amount</b> | <b>(US\$M)</b> |
|--|---------------|----------------|
| BORROWER/RECIPIENT                                 |               | 248.7          |
| International Development Association (IDA) Grant  |               | 273.0          |
| International Development Association (IDA) Credit |               | 127.0          |
| IDA Scale Up Facility (IDA-SUF)                    |               | 200.0          |
| <i>Agence Française de Développement</i> (AFD)     |               | 10.8           |
| Total  |               | 859.5          |

Borrower: Federal Democratic Republic of Ethiopia

Responsible Agency: Ministry of Urban Development and Housing

|          |                    |        |   |
|----------|--------------------|--------|---|
| Contact: | Amlaku Adamu Ayele | Title: | Head, Urban Revenue Enhancement, Fund Mobilization and Finance Bureau |
|----------|--------------------|--------|---|

|                |                  |        |                    |
|----------------|------------------|--------|--------------------|
| Telephone No.: | +251 115 54 1277 | Email: | adamuaye@gmail.com |
|----------------|------------------|--------|--------------------|

Responsible Agency:

|          |        |
|----------|--------|
| Contact: | Title: |
|----------|--------|

|                |        |
|----------------|--------|
| Telephone No.: | Email: |
|----------------|--------|

#### **Expected Disbursements (in US\$, Million)**

| Fiscal Year | 2019 | 2020 | 2021 | 2022 | 2023 |  |  |  |  |
|-------------|------|------|------|------|------|--|--|--|--|
| Annual      | 60   | 95   | 142  | 145  | 158  |  |  |  |  |
| Cumulative  | 60   | 155  | 297  | 442  | 600  |  |  |  |  |

**Program Development Objective:** to enhance the institutional performance of participating urban local governments to develop and sustain urban infrastructure, services, and local economic development.

#### **Compliance**

##### **Policy**

|   |                              |  |
|---|------------------------------|--|
| Does the program depart from the CAS in content or in other significant respects? | Yes <input type="checkbox"/> | No <input checked="" type="checkbox"/> |
|---|------------------------------|--|

|   |                              |  |
|---|------------------------------|--|
| Does the program require any waivers of Bank policies applicable to Program-for-Results operations? | Yes <input type="checkbox"/> | No <input checked="" type="checkbox"/> |
|---|------------------------------|--|

|  |                              |                             |
|--|------------------------------|-----------------------------|
| Have these been approved by Bank management? | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
|--|------------------------------|-----------------------------|

|  |                              |  |
|--|------------------------------|--|
| Is approval for any policy waiver sought from the Board? | Yes <input type="checkbox"/> | No <input checked="" type="checkbox"/> |
|--|------------------------------|--|

|   |   |                             |
|---|---|-----------------------------|
| Does the program meet the Regional criteria for readiness for implementation? | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> |
|---|---|-----------------------------|

**Overall Risk Rating: Substantial**

| <b>Legal Covenants</b>  |  |                               |                  |
|---|--|-------------------------------|------------------|
| <b>Name</b>   | <b>Recurrent</b>                       | <b>Due Date</b>               | <b>Frequency</b> |
| Final draft of first Annual Performance Assessment  | No                                     | April 29, 2019                | Once             |
| <b>Description of Covenant</b>  |  |                               |                  |
| Furnish the final draft of the first annual performance assessment to the WB for its review.  |  |                               |                  |
| <b>Legal Conditions</b>   |  |                               |                  |
| <b>Name</b>   | <b>Type</b>                            |                               |                  |
| Execution of the Grant agreement Schedule 2 Section IV, B 1 a and b for PforR.  | Withdrawal                             |                               |                  |
| <b>Description of Condition</b>   |  |                               |                  |
| Withdrawals up to an aggregate amount not to exceed SDR 44,760,000 may be made for DLR#10 achieved on or after February 21, 2017; and no withdrawal shall be made for any DLR until and unless the Recipient has furnished evidence satisfactory to the WB that said DLR has been achieved, including verification reports from the Verification Agent, based on reports prepared by the Recipient certifying the achievement of the DLRs in accordance with the Verification Protocol. |  |                               |                  |
|   |  |                               |                  |
| <b>Team Composition</b>   |  |                               |                  |
| <b>Bank Staff</b>   |  |                               |                  |
| <b>Name</b>   | <b>Title</b>                           | <b>Specialization</b>         | <b>Unit</b>      |
| Abebaw Alemayehu  | Sr. Urban Specialist                   | TTL                           | GSU13            |
| Chyi-Yun Huang  | Sr. Urban Specialist                   | Co-TTL                        | GSU13            |
| Dinkneh Tefera  | Urban Specialist                       | Urban development             | GSU13            |
| Su Jung Song  | Urban Specialist                       | Urban development             | GSU13            |
| Abebe Zerihun   | Senior Operations Officer              | Overall Program design        | AFCE3            |
| Berhanu Legesse   | Senior Public Sector Specialist        | Governance and accountability | GGO27            |
| Margaret Png  | Lead Counsel                           | Legal agreement               | LEGAM            |
| Maiada Mahmoud Abdel Fattah Kassem  | Finance Officer                        | Financial Management          | WFACS            |
| Peter D. Ellis  | Lead Urban Economist                   | Overall Program design        | GSU13            |
| Ayalew Kebede   | Senior Procurement Specialist          | Procurement                   | GGO01            |
| Abiy Demissie   | Senior Financial Management Specialist | Financial Management          | GGO25            |
| Yacob Wondimkun   | Environmental Specialist               | Environmental Safeguards      | GEN01            |
| Wendy Schreiber Ayres   | Consultant                             | Economic analysis and M&E     | GSU13            |
| Wendwosen Feleke  | Operations Officer                     | Economic analysis             | GWA08            |



|                         |  |   |       |
|-------------------------|--|---|-------|
| Yalemzewud Simachew     | Social Development Specialist                        | Social Safeguards                       | GSU07 |
| Asmita Tiwari           | Senior Urban and Disaster Risk Management Specialist | Resilience                              | GSU13 |
| Emma Sameh Wadie Hobson | Urban Specialist                                     | Local economic development/job creation | GSU13 |
| Azeb Afework            | Program Assistant                                    | Team support                            | AFCE3 |
| Roderick Babijes        | Program Assistant                                    | Team support                            | GSU13 |
| Feben Demissie          | Consultant   | Social Safeguards                       | GSU07 |
| Tesfaye Gashaw          | Consultant   | Financial management                    | GGO25 |
| Bizuneh Gultu Lakew     | Consultant   | Capacity building                       | GSU13 |
| Yohannes Fisseha        | Consultant   | Infrastructure engineering              | GSU13 |
| Renjit Sukumaran        | Consultant   | Capacity building                       | GSU13 |
| Jesper Steffensen       | Consultant   | Technical Assessment                    | GSU13 |
| Bisrat Teshome          | Consultant   | LED, and job creation                   | GSU13 |
| Bedilu Amare Reta       | Consultant   | Environmental Safeguards                | GEE01 |
| <b>Non-Bank Staff</b>   |  |   |       |
| <b>Name</b>             | <b>Title</b>   | <b>City</b>                             |       |
| Shayan Kassim           | Deputy Regional Coordinator, AFD                     | Addis Ababa                             |       |
| Marie Alexandra Coste   | Project manager, AFD                                 | Paris                                   |       |

## I. STRATEGIC CONTEXT

### A. Country Context

1. **Ethiopia has experienced strong economic growth over the past decade and is amongst the fastest growing in the world.** Although still one of the poorest countries in the world, Ethiopia's per capita income has increased from US\$350 per capita in 2010 to US\$619 in 2016.<sup>1</sup> Economic growth averaged 10.7 percent per year in FY2003/04 to FY2011/12 compared to the regional average of 5.4 percent and had a continued high level throughout FY2013/14 and FY2014/15 with some decline to estimated 8 percent in FY2015/16 due to especially severe drought and global economic factors.<sup>2</sup> Over the medium-term, the International Monetary Fund (IMF) projected that growth will be sustained at 8.0-8.3 percent.<sup>3</sup> If the trend continues, Ethiopia may reach middle-income status by 2025. The rapid growth is based on 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.

2. **Ethiopia is urbanizing rapidly and has one of the fastest growing urban populations in the world.** The number of people living in urban centers is expected to nearly triple in the next two decades, from 15.2 million in 2012 to 42.3 million in 2037, growing at 3.8 percent a year. The Ethiopia Urbanization Review 2015 indicates that the rate of urbanization will be even faster, at about 5.4 percent a year.<sup>4</sup> That would mean that the urban population will triple by 2034, with 30 percent of the country's people in urban areas by 2028. Ethiopia is undergoing a demographic transition. The labor force has doubled in the past 20 years and is projected to rise to 82 million by 2030, from 33 million in 2005. Well-functioning cities will be essential if Ethiopia is to reap this demographic dividend and avoid agglomeration diseconomies.

3. **Rapid urbanization poses challenges as cities struggle to provide infrastructure and services and jobs and run the risk of becoming unattractive places for people and economic activity.** Coverage for sanitation services is low, even by Sub-Saharan Africa standards. Ethiopian cities (except Addis Ababa) do not have municipal sewerage systems, and are struggling to manage solid waste, which is often dumped into open areas, endangering public health. Roads and drainage density are below the African average, although higher in urban areas than the national average. Estimates from the Ethiopia Urbanization Review revealed that the average actual spending of ETB 300 per urban resident (around US\$17) would be required to maintain the existing level of services for current urban residents, let alone meeting the needs of rapidly increasing urban populations and the existing gaps.

4. **Formal job creation is not keeping pace with population increases and demand for jobs in urban areas.** While urban unemployment and underemployment have recently reduced, they remain high in comparison to other African countries.<sup>5</sup> It is estimated that an additional around 1 million urban jobs per year will be required between now and 2035 to maintain the current levels of unemployment, and more to reduce unemployment.<sup>6</sup> Although cities in Ethiopia offer migrants greater employment opportunities than rural areas, most jobs in the cities are in the informal or household sectors. Ethiopia needs to aggressively

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<sup>1</sup> World Bank Indicators, 2017 and Gross National Income, World Bank Atlas Method.

<sup>2</sup> IMF, January 17 2018, Article IV consultation, <http://www.imf.org/en/News/Articles/2018/01/17/pr1806-imf-executive-board-concludes-2017-article-iv-consultation-with-ethiopia>.

<sup>3</sup> ibid

<sup>4</sup> World Bank and Cities Alliance. Ethiopia Urbanization Review. 2015.

<sup>5</sup> Urban unemployment was 17 percent in 2014, compared with 7 percent in Rwanda, 9.5 percent in Uganda, 6.5 percent in Ghana, and 8.8 percent in Nigeria.

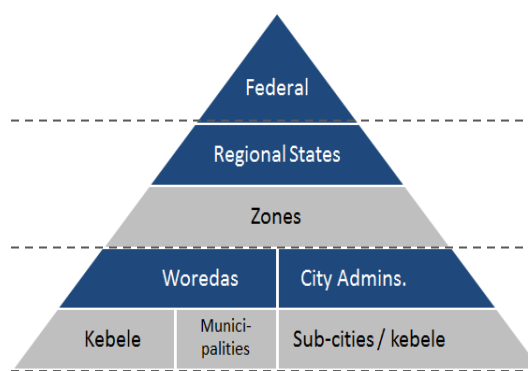
<sup>6</sup> Government of Ethiopia. 2016. "National Urban Development Spatial Plan." Prepared by Egis International in association with IAU-IdF & Urba Lyon, March.

expand job opportunities in urban areas, especially in formal sectors which are more productive and higher paying.

5. **The urbanization challenges are exacerbated by climate change impacts and limited disaster preparedness and management.** Climate change impacts in Ethiopia include an increase in average temperature and changes in rainfall distribution or occurrence of extreme rainfall events which is likely to increase flood and drought risks. In addition, these are exacerbated by current vulnerabilities that are highly interlinked with rapid urbanization. For example, the vulnerability to flooding is intimately linked with informal settlements along river banks or in flood plains, use of housing material such as mud and wood that is not resilient to flooding, and poorly constructed and maintained drainage systems along roadways. Many Ethiopian cities are exposed to earthquake and volcano risks, but lack resilient building construction. In addition, the current emergency preparedness and response capacities of Ethiopian cities are non-existent or low. Most lack basic emergency response resources (for example, fire suppression, search and rescue, and emergency communications equipment) and qualified personnel. Strengthening urban resilience and disaster risk management (DRM) will be crucial to improve living conditions in Ethiopian cities for residents and increase their attractiveness for private sector investment and job creation.

6. **However, if managed well, urbanization presents a huge opportunity in bringing about structural transformation and in reducing poverty in Ethiopia by shifting the structure and location of economic activity from rural agriculture to larger and more diversified urban industrial and service sectors.** Urban centers already play an important role in the economy, contributing to 38 percent of GDP, although they employ (both formally and informally) only 15 percent of the total workforce. This is due primarily to the high productivity associated with sectors such as services and manufacturing, which are located mostly in urban areas. The higher productivity in urban areas has been associated with poverty reduction. In recent years, poverty has fallen much faster in urban than in rural areas. The proportion of urban residents living below the poverty line decreased from 26 percent in 2010/11 to 15 percent in 2015/16, while the proportion of those living in rural areas fell much less sharply from 30 to 26 percent over the same period.<sup>7</sup> In addition, of the nearly 2.8 million new jobs created in Ethiopia between 2005 and 2011, 60 percent were in urban areas.<sup>8</sup> The decline in urban poverty is likely due to government policies in recent years to promote private sector investment, create jobs, and establishment of urban safety nets, and food subsidies.

7. **Ethiopia has a federal, democratic government system, established in the early 1990s, with nine autonomous states (‘regions’) and two chartered cities.**<sup>9</sup> Although the federal constitution formally establishes two government levels, in practice, Ethiopia has three main government levels: *Federal, regional, and local government.*<sup>10</sup> Regional states have their own constitutions and are typically subdivided into administrative zones, which is a de-concentrated territorial level. Local governments, as the third tier, are established by regions according to their own constitutions and governance structures. City administrations/urban local governments



<sup>7</sup> Government of Ethiopia. 2017. “Ethiopia’s Progress Towards Eradicating Poverty: An Interim Report on 2015/16 Poverty Analysis Study.” National Planning Commission, September.

<sup>8</sup> World Bank Group. 2015. “Ethiopia Urbanization Review: Urban Institutions for a Middle-Income Ethiopia.” Washington, DC. Available at <https://openknowledge.worldbank.org/handle/10986/22979> License: CC BY 3.0 IGO.”

<sup>9</sup> The Regions are Afar, Amhara, Benishangul-Gumuz, Gambella, Harari, Oromia, Somali, Southern Nations, Nationalities, and People’s Region (SNNPR), and Tigray. The chartered cities are Addis Ababa and Dire Dawa.

<sup>10</sup> The constitution refers to “member states.”

(ULGs) and woredas (or rural local governments) are semi-autonomous local government entities, with legal status as corporate bodies with their own political leadership (council) and their own budget.

## **B. Sector and Institutional Context**

8. **ULGs have the primary mandate to provide state and municipal services and in enhancing local economic development (LED), although these were established only recently.** Urban areas in Ethiopia have had functioning governments only since 2000, when proclamations to establish ULGs were first issued. Combined with a commitment to fiscal decentralization, the proclamations are intended to give local governments more direct and transparent control over public spending. The objective has been to create and strengthen ULGs that will ensure public participation in making choices and will enhance urban service delivery. ULGs became responsible for an extensive list of public service delivery functions,<sup>11</sup> including those which they are required to execute on behalf of their regions. In addition, ULGs have a significant role to play in LED and job creation. Legislatively, cities are mandated to lead and coordinate LED activities. Practically, all cities have major roles in (a) infrastructure investments and facilitating access to land, (b) providing support to micro and small enterprises (MSEs), and (c) encouraging private sector investment.

9. **However, cities still lack the capacity of exercising adequately their mandate; such deficiencies in the urban institutions for municipal governance, municipal finance, and land management underlie the gaps in infrastructure and services and jobs.** Despite progress over the past decade in building institutions, and providing infrastructure and services across all urban sectors, there is still much to do. While decentralization efforts have increased the role of ULGs, they often lack the financial, system and professional capacity to govern and deliver services. Further, certain important powers are still retained at the regional level due to continuous need to support and complement ULGs. However, some of these existing regional roles particularly in municipal finance, personnel management, and city operating practices make it harder for cities to carry out their mandates. These challenges directly translate to low and poor provision of infrastructure and services in the cities. This further prevents cities from maximizing their potential productivity and agglomeration effects, and limits their ability to contribute to overall economic growth.

10. **In general, municipal finances are inadequate to fund urban development.** Intergovernmental transfers and own-source revenues cover local expenditures but are insufficient to fully fund urban services and infrastructure. State functions are financed through regional transfers, often barely enough to cover recurrent needs. Municipal functions are expected to be funded from own local revenues, both for recurrent and capital spending. But revenues rarely meet demand for services. Moreover, many cities lack control over rate-setting, while larger cities rely heavily on unsustainable land-lease revenues. Federal and regional government tiers, in addition to the existing focus on mobilization of state revenues, urgently need to focus their support on municipal finance mobilization at the local government level.

11. **The key challenge is to ensure that all Ethiopian cities are urbanizing smartly. This means strengthening the institutional performance and capacity of ULGs and putting in place the right policies, systems, and investments now, when incomes and urbanization levels are low.** To do so, innovative ways are required to help ULGs develop the capacities, incentives, and the financial resources needed to deliver infrastructure and services to residents effectively and efficiently, as well as to create a conducive and competitive business environment for job creation and the private sector. In deepening the decentralization process, Ethiopia would benefit from strengthening the overall capacity of local governments and the legislative functions of city councils for greater fiscal autonomy and better service

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<sup>11</sup> ULGs are tasked with providing state services, such as education, health, justice, and security, as well as municipal services, such as roads, drainage, street lighting, and solid waste collection and disposal.

delivery. The roles for national, regional, and ULGs will also need to evolve as they transition from urban planning, management, and implementation to enabling and coordinating action by a growing number of stakeholders, both public and private.

12. **The Government of Ethiopia (GoE) acknowledges these challenges and has prioritized resilient urban development to enable overall economic growth and poverty reduction.** The government's 5-year development plan, currently the Second Growth and Transformation Program (GTP 2) (2015/2016–2019/2020), and the strategies of policies of the Ministry of Urban Development and Housing's (MUDHo), the Ethiopian Cities Sustainable Prosperity Goals (ECSPGs): *Building Green, Resilient and Well Governed Cities*, and the National Urban Development Spatial Plan provide the frameworks for the urban strategic engagement and the development of resilient urban systems in Ethiopia. Additionally, the 2013 National Policy and Strategy on Disaster Risk Management recognizes the need to strengthen urban resilience, as well as Ethiopia's Climate Change National Adaptation Program of Action. These lay out its medium and long-term strategy for urban development, and present the ECSPGs for 2015/2016–2024/2025. The GTP promises doubling of GDP in the next five years, driven by industrial and manufacturing growth, while the ECSPGs aim to promote green growth, resilient, and well-governed cities that support Ethiopia's transformation. As part of the preparation of the ECSPGs and GTP 2, it has been estimated, that cities' capital investments will need to increase by over three-fold during the next 10 years to enable Ethiopia to attain middle-income status by 2025.

13. **The GoE and the World Bank (WB) have been working in partnership since the early 2000s to foster smart urbanization and help Ethiopia's ULGs effectively meet their responsibilities.** The WB has supported the government's strategy through a series of projects,<sup>12</sup> and continued doing so in the first phase of Urban Local Government Development Project (ULGDP) (P101474) since its initiation in 2008 and the Second Urban Local Government Development Program (ULGDP II) (P133592) since 2014. The ULGDP and ULGDP II are jointly funded by the government and the WB, where the WB contributed US\$300 million and US\$380 million respectively; while the counterpart funding was US\$116 million and US\$176.55 million respectively.

14. **The ULGDP and ULGDP II have demonstrated remarkable achievements in improving the institutional performance of local governments and contributed significantly to job creation and poverty reduction, and serve as the foundation upon which this proposed Operation is built.** For example, the ULGDP II introduced several firsts in the country for ULGs. These include: the undertaking of value for money (VfM) audits, procurement audits, and environment and social safeguard compliance audits. Institutional capacity for planning, revenue mobilization, asset management, budgeting, financial management (FM), investment planning, procurement, and project execution has grown significantly in the cities participating in the ULGDP II. These improvements have enabled cities to provide critical infrastructure and services and to create jobs. An in-depth study on the employment impact of cobblestone construction (the largest infrastructure expenditure item) under the ULGDP II found that the program created a considerable number of jobs and has become instrumental in employing the urban jobless in participating cities. In fact, in selecting the cobblestone workers to organize into MSEs, the unemployed are the main target group (with priority given to women and vulnerable groups, including people with moderate disabilities, returning refugees, 'poorest of the poor', and ex-combatants). Beyond the jobs created, the cobblestone work also serves as a reliable 'boot-camp' for the unemployed to receive training on construction techniques, FM, etc. and provided the critical seed capital for self-employment later on. The annual number of jobs directly created by ULGDP has increased from 60-80,000 per year under the first phase of ULGDP to around 140,000 under ULGDP II, with a continued increase due to investments in labor intensive infrastructure.

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<sup>12</sup> Capacity Building for Decentralized Service Delivery project (2003) and the Public Sector Capacity Building program (2004).

### C. Relationship to the CAS/CPF and Rationale for Use of Instrument

15. **The proposed Urban Institutional and Infrastructure Development Program (UIIDP or Operation) will support the objectives of the WB’s Ethiopia Country Partnership Framework (CPF) (2018–22).** The CPF for Ethiopia, discussed by the Board on June 27, 2017, has three strategic focus areas: (a) promoting structural and economic transformation through increased productivity, (b) building resilience and inclusiveness, and (c) supporting institutional accountability and confronting corruption. The proposed UIIDP supports all three focus areas. The UIIDP’s fundamental objectives and funding directly target the strengthening of urban governance and management systems, participatory strategic and spatial planning, improved transparency and accountability enhanced citizen engagement in decision-making of urban governments (including of women), public private dialogue, and directly financing urban infrastructure and services. Together, these improve the quality of lives for urban residents and promote economic development through increased access to services such as drainage, roads, sanitation and solid waste management, and create positive health and productivity externalities. The program also creates jobs directly – through engaging unemployed persons in labor-intensive urban infrastructure subprojects such as cobblestone roads; and indirectly – through increased provision of work premises for local firms and MSEs including sheds, clusters, market places and serviced industrial land. Finally, the proposed operation will contribute to the CPF goals related to climate change, DRM, and environmental sustainability. In that respect, UIIDP is also well-aligned with the objectives of the IDA Scale-up Facility (SUF) to prioritize projects with potentially transformational impact, given how the Operation will crowd-in resources and facilitate local economic development, promote urban resilience and enhance gender equality, scaling up impact to reach more than 6.5 million people (further elaborated below).

16. **By assisting to create well-functioning and productive urban centers, the UIIDP contributes to the WB’s twin goals of ending extreme poverty and boosting shared prosperity.** The positive poverty trends<sup>13</sup> in urban areas are largely the result of improving labor markets, especially since 2005. Urban unemployment in the formal sector, while still high, decreased from 23 percent in 2004 to 22 percent in 2013 and 17 percent in 2016.<sup>14</sup> The decrease in unemployment was associated with solid real wage growth from a low base. The faster progress in urban (as compared to rural) areas is having an upward effect on inequality, with the Gini coefficient increasing from 0.30 in 2011 to 0.33 in 2016–still low by global standards. The extent to which well-functioning and productive urban centers will boost national, as opposed to only urban, shared prosperity will depend on whether fast-growing urban centers can pull in surrounding rural areas through strengthened rural-urban linkages and increased labor mobility.

17. **The UIIDP complements other WB-supported initiatives in urban centers.** The WB is supporting multiple programs and projects in urban areas (see annex 1, attachment 3). These include (a) the Urban Safety Nets Project, which is aimed at improving incomes and livelihood opportunities for poor households in urban areas across Ethiopia; and (b) the Second Urban Water and Sanitation Project (P156433), which is intended to increase access to water supply and sanitation services in an operationally efficient manner in Addis Ababa and selected secondary cities. The WB is also supporting analytical and advisory services on urban development issues, including on (a) urban land and affordable housing, (b) gender and wage employment, (c) women’s entrepreneurship development, and (d) economic performance of cities. The support provided under the UIIDP is strengthening urban institutions to help them maximize

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<sup>13</sup> On the national level, the proportion of people living below the poverty line declined from 38.7 percent in 2005 to 23.5 percent in 2016 (Government of Ethiopia. 2017. “Ethiopia’s Progress Towards Eradicating Poverty: An Interim Report on 2015/16 Poverty Analysis Study.” National Planning Commission, September). The reduction in monetary poverty was greater in urban areas (decrease of 46 percent) than in rural areas (22 percent).

<sup>14</sup>World Bank. 2016. “Fifth Ethiopia Economic Update: Why so Idle? Wages and Employment in a Crowded Labor Market.” December 2.

the benefits of all urban projects and to implement the recommendations of studies and advice on urban issues.

18. **The proposed UIIDP directly supports the GoE’s program, and is aligned with its National Spatial Plan and GTP 2.** The previous phases of the WB-supported ULGDP and ULGDP II directly contributed to the achievements of government strategies and plans for urban areas. The proposed UIIDP will directly support the follow-on phase of the GoE’s program, also named the UIIDP. The Operation’s design will also align and directly link with the ECSPGs, the Ethiopia National Spatial Plan, and the GTP 2. In its efforts to promote more balanced spatial development, the government’s National Spatial Plan entails supporting economic development in 12 regional centers, based on their economic potential. This spatial framework envisages that development will largely be driven by growth of secondary cities and that development occurs in their rural hinterlands, with an emphasis on the balanced development of the urban hierarchy within each urban cluster. The government’s UIIDP proposes to cover a larger number of cities than the WB-supported UIIDP. This phased scale-up approach as envisaged at the inception of ULGDP and carried on under the UIIDP supports the GoE’s intention to roll out performance-based fiscal transfer modality as a country-wide system to encompass all ULGs with more than 20,000 residents by 2025.

19. **The WB is uniquely placed to support Ethiopia’s efforts to strengthen ULGs.** First, it has developed considerable experience through its support to the urban sector in Ethiopia since the early 2000s. IDA’s engagement has shown the importance of improving ULGs’ legal, institutional, organizational, systems and capacities to lead to effective, sustainable outcomes in terms of service delivery. Second, the WB has global and regional experience with building capacity for urban governance, particularly in Tanzania, Uganda, Kenya, Ghana, and Mozambique, and can draw on this experience in designing support for Ethiopia. Finally, the WB brings considerable resources to GoE efforts, which are critical in encouraging ULGs to improve performance and to meet their substantial infrastructure gaps. Recognizing these strengths, the GoE has invited the WB to take the lead in promoting urban development in Ethiopia.

20. **The proposed Operation will be financed through a hybrid of Investment Project Financing (IPF) and Program-for-Results (PforR) instruments.** The hybrid operation will be referred to as the “Operation” unless specified otherwise. Where necessary, the IPF element will be referred to as the “Project” and the PforR element will be referred to as the “Program.” A key factor in adopting a hybrid lies in the very different nature of the Federal level interventions required and outcomes expected, as compared to those at the regional and ULG levels in this Operation.

21. **Most of the Operation is financed through the PforR instrument, which has proven to be the optimal and effective mechanism for providing conditional grants to regional states and ULGs, as demonstrated in the ULGDP II.** There are four primary reasons for this. First, the UIIDP directly supports the government program and forms a core part of the existing intergovernmental fiscal architecture. Second, the basic goal of the UIIDP is to leverage the improved institutional performance of the local governments it supports to more effectively deliver infrastructure and service delivery, and ensure meeting of broader objectives and maximizing of development impact. Due to the direct relationship between the institutional results and the Program disbursements, the PforR instrument allows for a directly incentive-driven approach to achieve the Program Development Objective (PDO). Through the use of disbursement linked indicators (DLIs), the UIIDP will ensure that incentives of the regional and local levels of government are effectively aligned around the goals of the Program. Third, the Program will use, improve, and integrate GoE and local government systems, including public FM, social and environmental systems management and procurement systems. Fourth, the PforR instrument has proven as an effective and efficient tool in the implementation of the ULGDP II and this modality is critical to the success of the program.

22. **A complementary small IPF window will enhance overall Operation management, effectiveness and impact.** The IPF will be used to fund a range of institutional and capacity development

interventions at or coordinated by the MUDHo. The rationale for adopting an IPF window arises from the lessons learned from the ULGDP II and other PforR operations. An IPF allows greater operational certainty, budget predictability and reduced risks for undertaking federal level actions that are critical for the success of the Operation in particular, for conducting the ULG annual performance assessments (APAs) and VfM audits. The IPF implementation modality also allows targeted interventions where tailoring to specific needs or sub-groups of cities/regional agencies are required in terms of technical assistance, capacity building, and institutional support activities. A close working relationship between the MUDHo and the WB through the IPF modality would also allow the WB to provide better and just-in-time support when required.

## II. PROGRAM DESCRIPTION

### A. Government Program

23. **The government established the UIIDP (*the government program*) as a follow-on phase of the ULGDP.** The GoE started the ULGDP in 2008 as a performance grant to ULGs. This is the predecessor to UIIDP. The main goal of both government programs is to leverage institutional capacity at the ULG level to improve urban infrastructure and services. Its overall objective is to support improved institutional performance in the planning, delivery, and sustained provision of urban services and infrastructure by ULGs. The GoE envisions the implementation timeframe for UIIDP to coincide with the ECSPGs, GTP 2, and the country's goal of achievement of middle income status by the year 2025. The intention is to mobilize funding and resources from development partners, regions, and ULGs (as matching funds). The government will also explore the possibilities of mobilizing private sector financing for revenue generating investments, including through public private partnerships.

24. **A programmatic and phased approach was adopted as a key strategy since the first phase of ULGDP (starting 2008), continued under ULGDP II (beginning in 2014) and maturing in the UIIDP.** Mindful that institutional strengthening and positive urban transformation require long-term nurturing, a phased approach was adopted and this aligns with the MUDHo's strategy, plans, and the ECSPGs. Phase 1 (ULGDP) supported 19 cities.<sup>15</sup> Phase 2 (ULGDP II) covered an additional 26 ULGs, bringing the total to 44.<sup>16</sup> The intention now is to roll-out the proposed UIIDP to all ULGs (a total of 117 cities) that (a) have autonomous urban administration status (with a responsibility of municipal and state functions), defined as having a city council and a mayor; and (b) have a population above and equal to 20,000 people.<sup>17</sup> (See annex 1 table 1.1 for the confirmed list of participating ULGs.).

25. **The government's new UIIDP (2018–23) envisions that all cities will gradually generate increasing levels of municipal own-source revenues, with which to finance investments in infrastructure and deliver services. However, this will be a long-term process.** Currently, municipal revenues account for only 3 percent of total revenues (state and municipal) collected in Ethiopia. The Constitution of Ethiopia defines the division of main revenue sources between federal and regional state levels. The revenues assigned to the federal government, given the existing tax structure, generate the large portion of the domestic revenue. Thus, the federal government collects about 81 percent of all revenues,

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<sup>15</sup>The 19 cities include Addis Ababa.

<sup>16</sup> Addis Ababa has been excluded from ULGDPII learning from the ULGDP experience that the unique context and conditions of Addis Ababa required a different approach from the other cities.

<sup>17</sup>Some 41 cities had a population of at least 20,000 in 2007, according to the census conducted by the Central Statistics Agency (CSA) and 32 cities had populations of at least 20,000, according to 2013 projections of the CSA. The last available census was conducted in 2007, and the next one in 2017 is not yet available during the preparation of this Operation. A mid-term census project conducted in 2012 and released in 2013 is the latest one conducted with actual sampling. While every year a census projection is made, they typically assume a similar growth rate for all cities. Hence, the basis of the population numbers used to determine if ULGs are eligible for the Program and for per capita allocations to ULGs, is drawn from one common database – the 2013 published populations figures from the CSA. These population figures will be applied throughout the duration of this Operation.



while regional governments collect about 19 percent. This significant vertical fiscal imbalance is addressed through fiscal transfers from the federal to the regional governments. Intergovernmental fiscal transfers form a critical component of sub-national finances in Ethiopia. Regions receive most of their financial resources through fiscal transfers from the federal government, and in turn, provide fiscal transfers to the local level. The main federal to regional transfer is in the form of unconditional or general purpose grants. Although resources flowing through the general-purpose grant system are increasing, on average 80 percent of these resources are used to fund salaries and other recurrent expenditures related to state functions, while resources for capital expenditures are limited.

26. **There is now a need to update the government’s urban development program—the ECSPGs—and to develop a clearly linked urban financing strategy that articulate how investment in cities will be financed once the proposed UIIDP ends.** The UIIDP includes actions to prepare for a transition of the current system to a future longer-term coherent sustainable urban development strategy with related fiscal architecture for funding of urban infrastructure and delivery of services. To ensure that the transition is smooth and well-coordinated, the UIIDP is supporting the following initiatives:

- **First, cities and regions contribute matching funds, which increase as their revenue generation capacity improves and revenues increase.** Thus, 16 cities that have been participating in the Program since it began in 2008 will have to contribute 40 percent of matching funds, and Dire Dawa and Harar will contribute 50 percent due to their special status as federal cities and regional status respectively. Some of these cities have established industrial zones that will require large investments in infrastructure to ensure that they operate effectively with linkages to import and export markets. Financing these will require new sources and modalities of financing.
- **Second, the MUDHo will continuously monitor the revenue generation capacities and revenues of all cities participating in the UIIDP.** It will support this with the issuance of guidelines and provision of technical assistance.
- **Third, the UIIDP contains specific DLIs that reward ULGs for performance in generating own-source revenues and that reward regional government entities for helping to build the capacity of ULGs for revenue generation.** The support provided under the two phases of the ULGDP has clearly helped the participating cities in improving revenue performance. For example, cities that have been in the Program for the last nine years generate about US\$30 per capita per year compared to the newly participating UIIDP ULGs, which generate US\$20, but with great variations across the ULGs in each of the groups (EFY 2008 data).<sup>18</sup>
- **Fourth, the program will strengthen the support to promote longer-term sustainability.** It will do this through incentives, capacity building, technical assistance and issuance of guidelines from the regional level on own-source revenue.
- **Fifth, the program will promote LED and the creation of jobs.** This means a potentially more expanded and explicit focus on sustainable job creation, beyond participation in public works, to better enable cities to alleviate some of the bottlenecks facing MSEs and private sector job creation. This will also contribute to boosting own-source revenue and longer-term sustainability.

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<sup>18</sup> Based on a sample of 9 original ULGDP ULGs and 16 new UIIDP ULGs. Revenue data is from the EFY 2008 final accounts (FY2015/16).

- **Finally, the MUDHo, with support from the Ministry of Finance and Economic Cooperation (MoFEC) and technical assistance from development partners, will start exploring other financing modalities for cities.** The MUDHo under the UIIDP will undertake a comprehensive review and update of the ECSPGs and develop an integrated and clearly linked urban financing strategy.

27. **Despite these initiatives under the coming UIIDP, there is a clear need to think beyond the coming five years of the UIIDP, both for the currently enrolled ULGs, and those which are not yet covered.** The review and update of the ECSPGs and urban fiscal strategy will consider the following issues, among others:

- Review of the urban development mandates; including divisions between state and municipal functions and update of major initiatives and programs.
- Costing of the core mandates and estimates of overall funding requirement and gaps.
- Review of urban revenue collected and potential revenues at the ULG level.
- Review of alternative revenue sources, including improved framework for own-source revenue, options for borrowing, issuing of bonds, and the like.
- Review of the current intergovernmental fiscal transfers system and the location of the ULGs in this architecture, and review of the linkages between the current UIIDP performance-based capital grants and the linkages with the government’s general purpose grant and the specific purpose grants.
- Review of future options and modalities for a sustainable and comprehensive intergovernmental fiscal transfer system targeting the urban centers, which fits well with the legal framework (which may be up-dated in required areas as well). This will include a review of the balance between own source revenues (OSR), intergovernmental fiscal transfers and other funding modalities such as, for example, borrowing.
- Review and design of the future institutional framework, including grant management, flow of funds, reporting and accountability systems, and the like.
- Review and design of future incentive structures, capacity enhancement modalities and support to ULGs performance enhancement. (Further details are presented in annex 1.)

**Table 1. Envisioned Trajectory of Support Varied by ULG Groups**

| Groups of ULG   | UIIDP<br>(Phase 1: 2018/19–2022/23)   | Beyond UIIDP  |
|---|---|---|
| <b>18 ULGDP ULGs joined the first ULGDP<sup>19</sup></b><br>Populations ranging from 59,300 to 286,600. | Covered by grant support with a higher requirement on co-funding (40 or 50 percent).<br><br>Strong support to improve own-source revenue. | The urban development financing strategy will determine the need for and modalities of possible grants closely linked with the government’s intergovernmental fiscal framework, targeted and probably with some form of performance-based allocations, based on the good lessons learned from Ethiopia and international best practices. The strategy will also explore the possibility of mixing grants with |

<sup>19</sup> Excludes Addis Ababa.

| Groups of ULG   | UIIDP<br>(Phase 1: 2018/19–2022/23)   | Beyond UIIDP  |
|---|---|---|
|   |   | borrowing if the cities are close to credit worthiness by the end of UIIDP.   |
| <b>26 ULGs newly joined the ULGDP II</b><br>Populations ranging from 25,200 to 152,700. | Covered by grant support, and with an increased requirement on co-funding (30 percent), still need strong continued support.<br><br>Strong support to improve own-source revenue. | Will be followed-up by a mix of initiatives, public-private partnerships, special support on larger projects, specific project support, support from regions, and the like. The urban development financing strategy will determine the need for and modalities of possible grants closely linked with the intergovernmental fiscal framework, targeted and probably with some form of performance-based allocations.   |
| <b>73 ULGs newly joined the UIIDP</b><br>Populations ranging from 20,300 to 65,200.     | Covered by grants (enrolled gradually); relatively lower requirement on co-funding (10–20 percent)<br><br>Strong support to improve own-source revenue.                           | Increased co-funding.<br><br>Will need a stronger support for some years from regions/central level and take part in the overall funding system to be elaborated.<br><br>Strong support to improve own-source revenue.<br><br>The urban development financing strategy will determine the need for and modalities of possible grants closely linked with the intergovernmental fiscal framework, targeted and probably with some form of performance-based allocations. |
| <b>Other cities not covered by UIIDP</b>  | Not covered   | Will require strong fiscal and capacity building support.<br><br>Will be targeted through the city-wide funding arrangement to be developed under the updated ECSPG with its urban financing strategy.  |

28. **However, even the cities that have participated in the performance grant mechanism for the last eight years still do not have sufficient own-source revenues or regional block grant transfers to meet investment financing gaps.** Although the program will help those cities to realize their revenue potential, cities are likely to require fiscal transfers for the foreseeable future if they are to successfully manage urbanization and deliver on their evolving mandates. For instance, the national spatial plan envisages that most of the cities that participated in the ULGDP (Hawassa, Mekelle, Kombolcha, Adama, Bahirdar, Gondar, Jimma, Diredawa, and Harar) will serve as regional urban clusters and drive economic development and ensure that development occurs in their rural hinterlands. There is a need for proper planning and investment in these cities to ensure that they provide a conducive environment for industrial development and generate strong rural-urban linkages. Thus, these cities will need to provide adequate connective infrastructure, access to land, solid waste service, and a friendly business environment for investors and local firms.

## **B. Program Development Objective (PDO) and Key Results**

29. **The PDO** is to enhance the institutional performance of participating ULGs to develop and sustain urban infrastructure, services, and local economic development. The Operation will provide direct support to 117 potentially eligible ULGs, as well as to all nine regions and the federal government (primarily MUDHo) to enable them to effectively support urban development. The primary beneficiaries of the Operation are the 6.62 million residents of the 117 ULGs.

30. **Key result areas.** In line with the government’s UIIDP policy, the Operation will undertake activities to support seven key results areas. These are:

- (a) Enhanced citizen participation and engagement in ULG planning and budgeting;
- (b) Increased OSR at the ULG level;
- (c) Improved infrastructure, service delivery, O&M systems;
- (d) Improved efficiency and effectiveness in fiduciary management;
- (e) Improved environmental and social management and safeguards;
- (f) Strengthened accountability and oversight systems;
- (g) Strengthened ULG resilience, improved LED and enhanced gender equity in the ULG operations.

31. **The proposed key results indicators are:**

- (a) People provided with improved urban living conditions under the UIIDP [corporate indicator].
- (b) Cities with improved livability, sustainability, and management [corporate indicator].
- (c) Composite institutional performance of participating ULGs, averaged across all cities.<sup>20</sup>
- (d) Composite performance for achievement of urban infrastructure and service targets, maintenance performance and VfM in investments by ULGs, averaged across all cities.
- (e) Composite performance for achievement of LED, urban resilience, and gender targets by ULGs, averaged across all cities.

(The complete table on the results framework and monitoring is provided in annex 3.)

**C. Program Scope**

32. **The proposed Program will finance the government’s UIIDP.** The proposed UIIDP targets 117 ULGs. This will be implemented in a period of 5 years and 4 months (from March 2018 to July 2023), and consist of four rounds of performance-based grant allocations, with DLI achievements in EFY2011, EFY2012, EFY2013 and EFY2014. The Program consists of the provision of performance-based grants to ULGs for eligible Investments and support to achieve Program results at the regional level on capacity building, financial audit, procurement audit and environmental and social safeguards audits.

33. **This substantial scale-up to 117 cities will bring about greater impact** in terms of population coverage and size of the Program. An estimated 6.62 million people will benefit from the UIIDP, compared with 4.36 million under the UGLDP II. Ethiopia has a significant number of secondary cities that are spatially distributed across the country. The government’s current policies of industrial development and promoting urban-rural linkages present good opportunities for promoting more balanced regional growth through the creation of a linked system of cities. The scale-up also allows strengthening of the overall programmatic and performance-based approach to support sustainable urban development and leverages on economies of scale for program management and implementation. In addition, the scale-up is built on the solid foundations and tried-and-tested overall successful experiences of ULGDP I and II. Timely

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<sup>20</sup> In the core thematic areas of: Planning and budgeting, assets management, public FM, procurement, own source revenues, accountability and transparency, environment and social safeguards, land management, and strategic urban planning.

support to improve institutional performance in the planning, delivery, and sustained provision of urban services and infrastructure by local governments is critical especially for these rapidly growing cities.

34. **The proposed UIIDP includes several new focus areas in line with government priorities: gender equality, resilience and DRM, and LED and long-term job creation.** UIIDP contains a new DLI covering these thematic areas with substantial financial incentives built in to ensure ULGs act to promote gender equality, strengthen capacity to mitigate and respond to disasters and climate change, and enhance LED and long-term job creation. The WB and government teams have undertaken analyses with respect to these focal areas and designed UIIDP to support them through a three-pronged approach and applied for each of the focus areas.

- **LED.** There are four key challenges and constraints identified: (a) infrastructure challenges hinder firm success and public private dialogue is not sufficiently informing capital investment plans (CIPs); (b) low survival and graduation rates among supported MSEs; (c) low levels of capacity among city administration staff and offices; and (d) lack of access to land and electricity are also major binding constraints, delaying new investments but are more within the remit of the federal government. The UIIDP is designed to alleviate these challenges. Firstly, the investment menu includes infrastructure important to firm establishment and growth, as well as poverty reduction (including serviced land for MSEs, industrial zones and tourism sites, built facilities such as markets for small businesses, MSE one-stop shops, sales and display centers for MSEs, community centers, youth centers, and cultural centers). Secondly, new performance measures have been introduced to incentivize public private dialogue and participation in planning, better targeting of MSEs to identify genuine entrepreneurs, further provision of support to new as well as graduating MSEs, and better measurement of long term job creation. Thirdly, the IPF window includes technical assistance and skills development in LED, including spatial planning of cities with new industrial parks, tourism expert support, public private dialogue, investment promotion, and so on (See further details in annex 1, attachment 2).
- **Urban Resilience.** The analysis found: (a) with climate change, cities will face growing impacts from flooding and water scarcity; (b) cities need to enhance disaster preparedness with dedicated budget and staff to plan, mainstream, and implement disaster and climate risk management actions; (c) cities lack adequate equipment and resource to respond to fires or take fire safety measures. To alleviate these challenges, UIIDP will support the most urgent and critical needs. Firstly, the investment menu includes climate- and disaster-resilient infrastructure and equipment to enhance resilience, important to both adaptation and mitigation, including urban drainage and flood control systems, solid waste management facilities, renewable energy supply, urban green infrastructure, pedestrian walkway, cycle path, bus terminal and station, as well as firefighting equipment. Secondly, new performance measures have been introduced to encourage ULGs to assess climate and disaster risk (by preparing risk map for example, flood, landslide, drought, earthquake) to guide siting and design of resilient infrastructure investment, establish disaster management units, complete emergency response plans, and to start the training and procurement of equipment that will enable the authorities to respond in the event of a natural disaster. Thirdly, IPF window includes technical assistance on DRM, including development of national urban DRM plan, information system, and training programs. Such measures are expected to increase preparedness, longer-term resilience, and reduced climate and disaster impacts (See further details in annex 1, attachment 2).
- **Gender mainstreaming.** Gender analysis identified three key challenges and constraints that hinder gender mainstreaming in ULGs: (a) lack of awareness of women’s voice and rights;

(b) absence of institutional gender mainstreaming system; and (c) lack of women’s economic empowerment. To address these challenges, UIIDP will take a gender-sensitive approach. *Firstly*, the investment menu includes services and infrastructure from which both men and women benefit (for example, street lighting, pedestrian walkways, sanitation facilities, servicing land with utilities, and urban parks). *Secondly*, new performance measures have been introduced to incentivize ULGs to pay more attention to women’s participation in decision making and women’s rights at workplace, to establish gender mainstreaming system, both staff and planning, implementing and monitoring system, and to give more economic opportunity and support to women and women-headed MSEs. *Thirdly*, IPF window includes technical assistance on updating gender mainstreaming guideline for urban development, carrying out gender audit, raising awareness workshop and trainings for public officers and community members, as well as training for trainers with the development of training manuals. The Program Action Plan in addition includes development and adaptation of code of conduct in employment and sub-project contract documents for women’s rights in workplace (including gender based violence, sexual harassment, and equal payment for equal work) (See further details in annex 1, attachment 2).

**35. The proposed UIIDP will have the following key features:**

36. The total IDA funding envelope for the UIIDP is US\$600 million (of which US\$200 million is from the IDA Scale-Up Facility (SUF), US\$273 million from IDA Grant and US\$127 million from IDA Credit). In addition, the French Development Agency (*Agence Française de Développement, AFD*) will contribute co-financing of euro 9.8 million (estimated US\$10.8 million).<sup>21</sup> The GoE (from regions and cities) will contribute around US\$248.7 million.<sup>22</sup> This brings the total Operation budget envelope to around US\$859.5 million. (The detailed budget breakdown is included in annex 4.) The main expenditure items are:

**Window 1 for PforR:**

- ***US\$691.11 million (ULG level).*** Performance-based grants to 117 ULGs for infrastructure investments as listed under the Program investment menu (*US\$248.66 million from regions and ULGs; around US\$433.65 million from IDA; and estimated US\$8.8 million from AFD*).
- ***US\$70.04 million (regional level).*** Support for regional government to strengthen its capacity to support and guide the ULGs in core areas such as financial audit, environmental and social audit, procurement audit, revenue enhancement, and others (*IDA funding*).
- ***US\$63.74 million (prior results).*** Allocation against prior results on institutional performance, service delivery, maintenance, and job creation for 44 ULGs as determined in the APA conducted in FY2017/18 for FY2018/19 allocations (*IDA funding*).

**Window 2 for IPF:**

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<sup>21</sup>Assuming an exchange rate of 1 euro is to US\$1.102.

<sup>22</sup> Regions and cities contribute to the performance based transfers in the following manner: Amhara, Oromiya, SNNPR, and Tigray: 30 percent funding in addition to IDA funded grants; DRS regions: 20 percent; original 16 ULGDP I ULGs: 40 percent; new cities under ULGDP II in the DRS regions 10 percent; and other new ULGDP II cities: 20 percent; Harar and Dire Dawa contribute 50 percent in addition to the IDA funded grants. The new 73 ULGs under UIIDP will follow the same principles as the ULGDP II newcomers.

- **US\$34.57 million (federal level).** Enable MUDHo to support and guide the regions and ULGs and also to administer and coordinate the Operation (US\$32.57 million from IDA; and about US\$2.0 million from AFD).

**Table 2. Program financing (US\$, million)**

| Source   | Amount           | Percent of Total |
|--|------------------|------------------|
| Government <sup>23</sup>                           | US\$248.7        | 29               |
| International Development Association (IDA) Grant  | US\$273.0        | 32               |
| International Development Association (IDA) Credit | US\$127.0        | 15               |
| IDA Scale Up Facility (IDA-SUF)                    | US\$200.0        | 23               |
| AFD  | US\$10.8         | 1                |
| <b>Total Program Financing</b>                     | <b>US\$859.5</b> | <b>100</b>       |

37. **UIIDP funding to ULGs will be allocated using a simple formula, based on population size and the performance of the ULGs.** An approximate US\$16–18 per capita per year (with phasing in of the new ULGs in the first financial year) has been assessed to be the optimal level of funding.<sup>24</sup> As a core principle, the per capita amount would at least maintain the similar level as at the start of the ULGDP II to ensure minimum level of incentives and meaningful infrastructure and services investments. The size of this performance grant has been determined considering various factors such as international good practice (from an expanding number of countries with performance-based grant allocations), the costs of investments, expenditure needs and current level of investments, opportunities for co-funding as well as generation of sufficiently strong incentive to drive the performance. This has been informed by a comprehensive review of ULG fiscal and revenue positions.

38. **ULGs will use the Program funds to finance urban infrastructure works as well as capacity building activities, in compliance with the Program’s investment menu and capacity building manual.** Eligible infrastructure investments fall under eight groups including: (a) urban roads, (b) integrated infrastructure and land services, (c) sanitation (liquid waste), (d) solid waste management, (e) urban drainage, (f) urban DRM and urban resilience, (g) built facilities, and (h) urban green infrastructure (see annex 1 table 1.3 for details). Compliance with the investment menu is a minimum condition for receiving funds. In addition, ULGs will be required to prepare the project in a participatory manner, including dialogue with the private sector, and consider social inclusion, gender and disability considerations, and climate change and disaster adaptation.<sup>25</sup> ULGs can spend up to 5 percent of investment grants and regional/city contributions on capacity building support. For regional government entities, the grants will mainly be used for capacity building, operations and management expenses, subject to the eligible capacity building areas, similar to the ULGs.

39. **The IPF window will be used to fund a range of institutional and capacity development interventions at or coordinated by the MUDHo.** The MUDHo will undertake activities in five areas: (a)

<sup>23</sup> The regional government and ULGs will be making funding contributions at various levels, as detailed in the Technical Assessment. The contribution from the ULGs constitutes one of the minimum conditions to be met for each ULG to qualify to receive funding from the Program.

<sup>24</sup> In the first year, the simple average per capita for the new 73 ULGs and the ULGDP II 44 ULGs will be US\$14.79 and US\$17.68 per capita respectively. From the second year, the per capita allocation uses an average figure similar for the two groups, which is US\$17.68.

<sup>25</sup> Details of and procedures for the use of investment project prioritization and selection criteria will be included in the Program Operational Manual (POM).

developing capacity, systems, and organizations of *federal entities*<sup>26</sup>; (b) developing capacity, systems, and organizations of *regional and ULG entities*, (c) conducting project preparation studies, pre-feasibilities and feasibility studies for ULGs with specific needs for further investments, (d) UIIDP management, monitoring and evaluation (M&E) and feasibility/preparatory studies for future execution; and (e) procuring and managing APAs and VfM audits. The capacity building activities, technical assistance and feasibility studies will focus on core and strategic areas such as revenue enhancement, asset management, CIP preparation, FM, as well as introducing initiatives on LED, urban resilience, cultural heritage, and urban planning. (See annex 1 table 1.4 for details of the activities.)

40. **The AFD will provide joint co-financing (around euro 9.8 million) to UIIDP through both the PforR and the IPF windows.** Specifically, around euro 8 million (about US\$8.8 million) will be dedicated to supporting the performance-based grants under the PforR while around euro 1.8 million (about US\$2.0 million) will be used for subcomponent 3 under the IPF window, on conducting project preparation studies, pre-feasibilities and feasibility studies for further investments for ULGs with specific needs on LED and cultural heritage. The AFD-supported areas would be seamlessly incorporated as part of the UIIDP design, hence adopting all WB's implementation system, guidelines and policies without separate reporting requirements.

#### **D. Disbursement Linked Indicators and Verification Protocols**

41. **Almost 96 percent (or around US\$576 million) of the Operation's funds will be disbursed against DLIs.** The DLIs are structured to provide incentives to participating ULGs and regional governments for improved management and development of urban areas.

42. **DLIs 1 to 4 focus on ULGs to strengthen ULG institutional roles in the delivery of infrastructure and services, and enhance LED.** Each of these DLIs is a composite index of defined MCs and PMs. Adjustments to these performance indicators and scoring may be done throughout Program implementation and particularly following the midterm review (MTR) to ensure that the system remains relevant, manageable and robust. These four DLIs build on ULGDP II performance assessment system and will ensure that:

- Basic fiduciary, project planning and execution, and environmental and social management conditions are in place such that local governments can absorb the Program funding;
- ULGs continue to strengthen their institutions of urban management in a socially inclusive manner;
- ULGs use program funds effectively in creating sustainable and resilient infrastructure and delivering services, achieve the targets in infrastructure delivery, maintenance, and development and to promote the GoE's strategy on urban development at the city level.
- ULGs improve on systematic and foundational aspects to promote long term job creation, urban resilience and gender empowerment.

43. The funding proportion against DLIs 1 to 4 have been adjusted to align incentives with emerging priorities. As compared to ULGDPII, fewer rewards are given for achieving the MCs (DLI1) and instead emphasis is placed on achieving the PMs (DLIs 2 to 4) which have higher performance criteria. In addition,

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<sup>26</sup> MoFEC, MUDHo, Ministry of Federal Affairs, Ministry of Environment, Forest, and Climate Change (MEFCC), Ministry of Women and Children Affairs and Ministry of Labor and Social Affairs, OFAG, FEACC, FPPAA, Ethiopian Revenues and Customs Authority (ERCA).



DLI4 focuses on the new thematic areas of local governments' performance in LED, resilience and gender and gives a substantial sum to incentivize improvements in these areas.

44. **The disbursement system for DLI 1, 2, 3, and 4 is scalable based on actual performance of ULGs.** It is particularly important to note that if the ULGs perform better (or poorer) than expected (as set out in the disbursement related targets in the DLI matrix), disbursements will be adjusted accordingly. This means that if ULGs perform better than expected they will receive higher than expected disbursements. If this continues throughout the Program, additional financing may be needed.

45. **DLIs 5 to 9 focus on regional government entities to enhance their abilities in fulfilling their mandates to support ULGs.** These DLIs will disburse based on results achieved by regional government entities in providing support to ULGs (DLI 5) as well as focusing on their performance in conducting essential audits for ULGs such as on fiduciary and environmental and social management.

46. **DLI 10 is a legacy DLI, disbursing against prior results on institutional performance, service delivery, maintenance, and job creation for 44 ULGs.** Based on the APA conducted in FY2017/18 and review of results against 92 average points, DLI 10 will disburse to 44 ULGs in FY2018/19 to an extent to which the ULGs have (a) strengthened their institutional performance and (b) have implemented their local infrastructure, maintenance, and job creation activities (as measured against their CIPs and their Annual Action Plans).

47. **Collectively the DLIs address the PDO and key result areas.** The DLIs are designed to address the challenges of ULGs' and regional governments' institutional performance and, in turn, ULGs' ability to deliver, operate, and manage infrastructure and services, and expand LED. They provide incentives to address the core issues such as timely audits, social and environmental management, own-source revenue generation, and strengthen the system and procedures for capacity building. In addition, there is enhanced focus to strengthen urban resilience, promote LED and job creation, and enhance gender equality. The PMs have a direct link to the key result areas and the GoE's program intended outcomes.

48. **The expenditure areas are designed to correspond with the structure of the DLIs.** These reflect (a) the performance-based grants to ULGs for urban infrastructure and services investments and capacity building, and (b) the regional governments' capacity building and oversight/support to participating cities. The support to the MUDHo to administer and coordinate the program, and strengthen its capacity to support and guide the regions and ULGs is covered by the IPF.

49. Table 3 provides a summary of the Program DLIs, the estimated financing amounts and the linkage to the results areas.

**Table 3. Program DLIs**

| Results area                             | DLIs  | Approximate Amount (IDA+SUF+AFD) (US\$, million) | Percent of Total PforR Amount |
|--|---|--|-------------------------------|
| ULGs deliver infrastructure and services | <b>DLI 1:</b> Eligible ULGs have achieved Program MCs. <sup>27</sup>  | 109.33   | 18.97                         |
|  | <b>DLI 2:</b> Eligible ULGs have strengthened institutional performance.  | 190.09   | 32.99                         |
|  | <b>DLI 3:</b> Eligible ULGs have implemented quality infrastructure and maintenance activities and ensured value for money. | 90.09  | 15.63                         |

<sup>27</sup> ULGs must comply with the MCs to get access to the allocations from DLIs 2, 3, and 4, as the MCs are the basic safeguards for handling of larger discretionary funds.

| Results area   | DLIs  | Approximate Amount (IDA+SUF +AFD) (US\$, million) | Percent of Total PforR Amount |
|--|---|---|-------------------------------|
|  | <b>DLI 4:</b> Eligible ULGs have strengthened performance on LED, urban resilience and gender mainstreaming.  | 52.94   | 9.19                          |
| Regional government entities support ULGs to strengthen institutions and enable them to deliver infrastructure and services. | <b>DLI 5:</b> Regional support teams have delivered effective capacity building services to Eligible ULGs in urban institutional and infrastructure development.                            | 27.88   | 4.84                          |
|  | <b>DLI 6:</b> Regional Government Audit Agencies (ORAGs) have carried out timely audits of Eligible ULGs' financial reports.  | 14.96   | 2.60                          |
|  | <b>DLI 7:</b> Regional Environment Protection, Forest and Climate Change Authorities (REFAs) have completed timely review of Eligible ULGs' environmental and social safeguards compliance. | 13.12   | 2.28                          |
|  | <b>DLI 8:</b> Regional Revenue Bureaus (RRBs) have supported Eligible ULG revenue mobilization.   | 7.04  | 1.22                          |
|  | <b>DLI 9:</b> Regional Public Procurement and Property Administration Agencies (RPPPAAs) conduct timely and quality procurement audit of Eligible ULG's accounts and performance.           | 7.04  | 1.22                          |
| Prior results  | <b>DLI 10:</b> Strengthening institutional performance, infrastructure and service delivery, maintenance, and job creation for 44 ULGDP II ULGs.  | 63.74   | 11.06                         |
|  | <b>Total</b>  | 576.23  | 100.0                         |

50. **An independent performance assessment will be carried out every year to review the performance of cities and regions against the set of agreed indicators and PMs.** This is the main mechanism to measure the performance and progress of ULGs and regions in UIIDP. (See the detailed DLI matrix and verification protocol in annex 4). The APA results are used to verify the DLIs and form the basis for disbursements:

- **For ULGs.** Allocations will be determined by: (a) a set of MCs, and (b) a further list of PMs. MCs determine if the ULG is eligible to participate in that year's program to receive grant support, and the PMs track progress of each city in specific areas and determine each city's score. Key result areas include: (a) participation of citizens in planning and budgeting; (b) fiduciary management; (c) generation of own source municipal revenues; (d) asset management, (e) delivery as well as operation and maintenance (O&M) of new infrastructure and services, and direct job creation; (f) accountability and oversight systems; (g) environmental and social safeguards; and (h) new areas such as resilience, LED and gender.
- **For regional governments.** Key result areas include: (a) capacity building (for various regional bureaus of urban development (BUDs) and the quality of this, (b) carrying out timely annual audits of ULGs (for Office of the Regional Auditor Generals [ORAGs] according to standards, (c) performing social and environmental audits (for Regional Environment Protection, Forest, and Climate Change Authorities [REFAs]), (d) supporting ULGs' with respect to urban revenue generation (for Regional Revenue Bureaus [RRBs]) and (e) carrying out the annual procurement audits (for Regional Public Procurement and Property Administration Agencies (RPPPAAs) according to defined standards.

51. **The APA design includes measures such as independent assessments, quality assurance, a complaint handling system, and approval procedures to ensure its robustness.** The MUDHo will recruit an independent firm to conduct the APA in a timely manner. The draft assessment results will be

shared simultaneously with the WB and the government and the WB will conduct a quality assurance review (QAR). Finally, the UIIDP Technical Committee (TC) will verify the APA results, and these will be further endorsed by the UIIDP Steering Committee (SC). Based on the final APA results, the GoE will send a Results Achievement Notification summarizing how the Program DLIs have been met. The WB will retain the right to make the final decision on whether a DLI has been achieved or not. (annex 4 describes the detailed steps and timing of the process.)

52. **At the federal level under the IPF window, a robust system for support and quality assurance of results will be ensured, through a separate mechanism from the APA.** This will mainly consist of verification and endorsement by the TC and SC respectively with review by the WB. The focus areas include: (a) capacity building support from the central level to regions and ULGs, and (b) the timeliness of the APAs and VfM audits, system development, and support in areas of core importance for the key result areas. These assessments and the federal capacity building support and system development will be covered by the IPF, hence not directly linked to DLIs.

53. **The technical design of UIIDP draws heavily from the extensive experiences of WB and GoE partnership in the urban sector, most recently under the ULGDP I and II.** The four APAs of the ULGs so far, the ULGDP II MTR, the 2015 Ethiopia Urbanization Review, recent fieldwork in 10 ULGs conducted to inform the design of the UIIDP, and several studies carried out by the government underpin the technical elements of the UIIDP. Four key lessons learned and applied are described below. (The full set of lessons learned is presented in annex 5 and table 5.1 details the Achievements and lessons learned on specific areas and implication on UIIDP Design.)

- **Use government systems.** This will strengthen capacity at the federal, regional, and ULG levels for urban development, within flow of funds, FM, and operations.<sup>28</sup>
- **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 UIIDP development objective.
- **Provide strong incentives to perform.** Based on experiences from ULGDP I and II as well as comparing with other international performance-based grant system, the UIIDP incentive amounts and structures have been meticulously crafted. The main aim is to ensure that sufficiently strong incentives are provided, and for each of the key results areas or technical aspects. This also required a careful balance amongst competing demands on one pool of resources.
- **Get the focus areas right.** Based on the performance results and capacity assessments of ULGs, it was found that the ULGDP II identified core urban management areas continue to be extremely relevant and important. These include proper planning and budgeting, revenue mobilization, asset management planning, procurement and public FM, as well as strengthening of good governance and accountability. However, new priority areas such as LED, urban resilience and gender have emerged and are a new focus in UIIDP.

## **E. Capacity Building and Institutional Strengthening**

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<sup>28</sup> The MUDHo has developed a number of guidelines under the ULGDP, including for Assets Management, public FM, capital investment planning, the POM (most recently November 2016) accounting, M&E, and others. With revisions and refinement, these will be used for the UIIDP.

54. **The UIIDP will further strengthen the capacity building architecture established under the ULGDP II, by adopting a systematic, cascading and coordinated vision and approach.** The key challenges identified during ULGDP II and the emerging lessons formed critical inputs in sharpening the capacity building architecture. To enhance coordination and improve synergies on capacity building efforts across the three levels of government, a Capacity Building Manual<sup>29</sup> will be developed for the Operation providing guidance on prioritized themes, cascading objectives, allowable activities, and capacity building templates for all three levels. The interrelationship of the templates will ensure a cascading and complementary capacity building planning and implementation process. Feedback arrangements on the capacity building will also be established to allow adjustments and improvements during implementation.

55. **The capacity building efforts will dovetail with the Program's prioritized thematic focus areas, and further incentivized through PMs.** Capacity building PMs will encourage better planning and implementation of capacity building activities. It will reward the undertaking of systematic assessment and gap analysis to inform and better tailor capacity building plans, which in turn address the performance in key result areas. These include: (a) participatory planning and budgeting, (b) revenue generation, (c) FM, (d) procurement; (e) infrastructure asset management, (f) contract management, (g) urban planning, (h) environmental and social management; (i) auditing; (j) ethics, fraud and corruption, (k) M&E, (l) gender equality, (m) urban resilience, and (n) LED. It will further reward the effective execution and reporting of capacity building activities in accordance with the capacity building plans to strengthen the linkage between planning and implementation.

56. **Every year, a capacity assessment will be conducted at all three levels.** This assessment will include (a) an implementation report (of past year's activities), (b) a self-assessment/gap analysis (to review the past year's activities as well as specific weaknesses identified in the APA), and (c) the development of a capacity building plan for the coming year. The capacity building plan will consist of cascading but individual plans for each level (and for each ULG). For example, the capacity building plans at the ULG level will include activities which will be implemented by themselves and those for which support from the regional and federal levels are required. Before finalizing the plans of the regions and federal levels, consultations forums will be held to ensure that the demands and priorities of the lower tiers are adequately reflected in the plans of the higher tiers. The annual training calendar and TA schedule will be part of the planning exercise.

57. **The capacity building activities would focus on all three levels of governments and tailored to each of their needs.** In addition, four main modalities will be used for building capacity at the three levels. These include: (a) structured learning through classroom training, (b) technical assistance and on-the-job training, (c) learning and knowledge exchange platforms, and (d) guidelines and systems rollout. Further details of the execution at each level are as elaborated below and further in annex 1.

- **ULGs.** Both supply-driven and demand-driven approaches are adopted for capacity building at the ULG level. On the supply-driven side, the ULGs will have access to a range of capacity building activities offered by both the regional and federal government entities, including the support from the regional mobile teams (RMTs) and the federal mobile team (FMT). Structured training courses on overall urban management and governance, and specific technical aspects such as procurement and safeguard management would also be made available through arrangements with appropriate regional universities, management institutes

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<sup>29</sup> The comprehensive Capacity Building Manual will be prepared by the MUDHo as an annex to the POM. This will serve as the framework for shared understanding among the different entities and provide detailed guidance to structure and prioritize capacity building activities at all three government levels.

and other national and regional level capacity building institutions or private providers, coordinated by the federal or regional levels.

On the demand-driven side, each ULG may use up to 5 percent of their investment grants on capacity building activities in accordance with the menu of eligible uses (see annex 1 table 1.4). The ULGs will be required to prepare capacity building plans following the guidelines and formats presented in the Capacity Building Manual. The capacity building plans will be expected to include activities that address specific weaknesses identified in the APAs and in systematic self-assessments. A capacity coordination unit will be established in ULGs and comprise focal persons drawn from various departments within the government, with the city manager as the lead and the head of the capacity coordination unit as the convener. The capacity building coordination unit will lead the self-assessment, gap analysis, preparation of the capacity building plans, and monitor and report on implementation.

**A phased and targeted approach will be taken to raise the capacity of the 73 new ULGs to meet Program requirements.** The 73 new cities inducted under UIIDP will be provided with upfront technical assistance to sensitize, orient and gear them up for Program implementation. These new cities will receive at least 8 months of capacity building from technical assistance consultants (3 firms) being hired by MUDHo before undergoing the first assessment, where they will be assessed on the MCs only. Thereafter, they will continue to receive at least an additional 10 months' capacity building from these technical assistance consultants on all the UIIDP performance measures making up a total of 18 months' support. This is also based on the successful up-scaling experience from ULGDP to ULGDP II which followed similar principles. Mentoring and other knowledge exchange tools will be used to support new ULGs utilizing experienced ULGs.

- **Regional government entities.** Regional BUDs will take the lead in providing capacity building support to ULGs, through formation of the RMTs. RMTs will provide technical assistance to ULGs in the areas of core urban management focusing on those corresponding with the MCs and PMs. The RMTs will partner with regional entities responsible for key result areas and will jointly draw up capacity building plans and in delivering them in a coordinated manner. The various regional entities are further incentivized to improve their capacity and that of ULGs to deliver the results as demanded through the regional DLIs. Beyond the ULGs, various regional government entities—such as the Construction Bureaus, the Land Development and Management Agency, the Urban Planning Institute, the Urban Safety Net and Job Creation Bureaus, the Women Affairs Bureaus, and the Investment Commissions—will also benefit from regional capacity building activities, strengthening their urban governance and management roles. (The RMTs will spend at least 15 working days per month in the field.)
- **Federal government entities.** The MUDHo will lead the federal level capacity building efforts, form the FMTs and coordinate the support provided by other federal government entities. The FMTs will provide technical assistance and advice to the regional government entities and ULGs. Specifically, the FMTs will: (a) backstop the ten RMTs and the four ULGs in the regions without RMTs; (b) provide general backstopping for all regions; (c) mentor the regional authorities in key results areas; (d) conduct or coordinate capacity building for the MUDHo, and guide consultancies, studies and other initiatives; and (e) provide overall coordination and oversight of capacity building activities under the UIIDP, including the initial training of new teams. (The FMTs will spend at least 15 working days per month in the field.)

To avoid duplication of efforts by RMTs and FMTs, the roles of both sets of teams will be clearly defined in the capacity building manual. While the RMTs will be focusing on delivery of capacity building activities, the FMTs will focus on module development, training of trainers (ToTs) and TA identification and certification, quality assurance and feedback mechanisms and needed technical back-stopping to ULGs. The FMTs will also partner with universities, management institutes and other national and regional level capacity building institutions to deliver programs.

58. **Capacity building monitoring framework.** A robust monitoring and information system covering ULG, regional, and federal level, will be established to monitor timeliness, adequacy, and effectiveness of the planning and execution of capacity building activities and resources. The capacity building plan and implementation reports will also contain result/outcome indicators to be measured annually. ULGs, regional government entities, and the MUDHo will report on the capacity building activities, achievements and these indicators in their progress reports and capacity building implementation plans. In addition, each of the capacity building events carried out will include a participant evaluation, rating the relevance and quality of the event. There will be a feedback mechanism as part of the capacity building monitoring system. Performance of capacity building institutions (ULG capacity coordination unit, RMTs, FMT), and service providers (universities, ToTs, and technical assistants) will also be assessed. The formats for reporting will be included in the Capacity Building Manual.

### III. PROGRAM IMPLEMENTATION

#### A. Institutional and Implementation Arrangements

59. **The Operation will be implemented through institutional arrangements at the Federal, regional, and ULG levels, with clear division of tasks and responsibilities between the three levels.** It follows the government structure and is consistent with existing legal provisions, regulations and guidelines. The roles and responsibilities of the relevant entities are summarized below.

##### *Federal Level*

60. At the federal level:

(a) *Ministry, Department, and Agencies with statutory mandates for the program—MUDHo and MoFEC*

- **The MUDHo will be the lead implementing agency, with a FMT in the Urban Revenue Enhancement, Fund Mobilization, and Finance Bureau (UREFMFB) responsible for daily coordination of the Operation.** The FMT consists of a Program Coordinator, a deputy Program Coordinator and 30 other staff who also serve as members of the FMT. They will have expertise in the various Program focus areas, including newly introduced areas on gender equity, resilience, and LED. The UIIDP Program Coordinator will report to and act under the direction of the Bureau Head of the UREFMFB, MUDHo. The main tasks of the FMT are:
  - Overall responsibility for day-to-day coordination and management of the Operation.
  - Capacity building, including direct support to regional and ULGs, and issuance of guidelines and procedures for matters such as municipal revenue generation, assets management, service delivery standards, and the like.

- Program management and implementation of activities under the IPF window, including the procurement and management of the APAs and the VfM audits and to ensure their timeliness.
- Overall Operation M&E.
- Operation reporting, including the semi-annual progress reports.
- Ensuring together with MUDHo Finance Department (which also accounts for the UIIDP funds to MoFEC) that Operation resources are budgeted for and disbursed within the expenditure framework.
- Evaluating the performance of team members as per the agreement made between UREFMFB and the FMT team members.
- **MoFEC is responsible for fund flow, disbursement, financial reporting and arranging program auditing for the Operation.** MoFEC will also be responsible for compilation of financial reports, drawdown of funds from IDA, transfers of funds to MUDHo, Regional States (including Dire Dawa City Administration) and through Regional Bureau of Finance and Economic Development (BoFEDs), to the ULGs as per the request from MUDHo.

*(b) Ministries, departments, and agencies with guiding/supporting roles*

- **Several other federal entities have guiding and supporting roles in UIIDP.** These include the Office of the Federal Auditor General (OFAG), especially for the annual program audits; the Federal Public Procurement and Property Administration Agency (FPPAA) on procurement procedures; ERCA on revenue generation, MEFCC on environmental and social management, the Federal Urban Job Creation and Food Security Agency (FUJCFSA), Ministry of Industry on job creation and support to MSEs, the Federal Ethics and Anti-Corruption Commission (FEACC) on fraud and corruption monitoring and reporting and Ministry of Federal Affairs which has special responsibility for Developing Regional States (DRS) and will work with MUDHo to support participating cities in these regions.

*(c) Ministries, departments, and agencies with technical oversight roles–UIIDP TC*

- **A UIIDP TC will support the SC, providing advice, conflict resolution at the technical level, and verify Program performance and compliance.** Like the SC, the ULGDP II TC will transition into the UIIDP TC. It will comprise key technical staff (at least directors or director general level) of the MUDHo, MoFEC, MEFCC, Ministry of Federal Affairs, Ministry of Labor and Social Affairs, FUJCFSA, OFAG, FEACC, FPPAA, and ERCA. It will verify the results of the APAs and resolve complaints that cannot be resolved at entity level. The TC is expected to meet quarterly and to review Program implementation against objectives, bring policy issues to the SC, and ensure that the Operation is implemented in line with the Program Operational Manual (POM).

*(d) Ministries, department, and agencies with policy roles–UIIDP SC*

- **A UIIDP SC will provide Operation oversight, endorse Program performance and allocations, arbitrate conflicts and strengthen inter-ministerial coordination.** The ULGDP

II SC will transition into the UIIDP SC as ULGDP II concludes. The SC comprises representatives (Minister/State Minister and heads of agencies) from MUDHo, MoFEC, MEFCC, Ministry of Federal Affairs, FEACC, OFAG, Ministry of Industry, and the Ministry of Labor and Social Affairs (new additions under the UIIDP). It will ensure proper coordination of issues on planning, allocations, flow of funds, compilation of data, and endorsement of the results of the APA and final yearly allocations. It will meet at least quarterly and as and when required.

### *Regional Level*

61. **Regional governments will have a greater role under the UIIDP as compared to ULGDP II, in providing oversight and in building ULGs' capacity.** Six of the nine regional governments, each with many participating ULGs, will establish RMTs that will directly backstop ULGs as well as strengthen the regional BUD's own capacity to guide and support the ULGs. The FMT will directly support the other three regional governments, which have fewer participating ULGs and relatively modest capacity.

62. At the regional government level:

- **The respective regional BUDs are responsible for daily coordination of the Operation at the regional level.** Specifically, the BUDs are responsible for:
  - Capacity building support of the ULGs in their jurisdiction.
  - Preparation of consolidated (ULG and regional government) progress reports covering all ULGs in their jurisdiction.
  - Oversight and backstopping support related to aspects of the Operation.
- **Other regional entities will play important roles.** The (a) ORAGs will conduct external audits of ULG financial reports; (b) the REFAs will oversee the Program's environmental and social safeguards agreements; (c) the BoFEDs will manage the regional fund flow and reporting, (d) the RPPPAA will guide and support on procurement procedures and capacity building and conduct the annual procurement audits of ULGs; (e) the RRBs will support ULGs in the areas of OSR generation; and (f) the Regional Ethics and Anti-Corruption Commissions (REACCs) will be responsible for fraud and corruption monitoring and reporting.

### *ULG level*

63. At the ULG level:

- **The Mayor and the Mayor's office in each ULG is responsible for overall performance of the ULG.** It ensures compliance with all FM, procurement, and Operation environmental and social safeguards and regulations. It also facilitates access to the information required as part of the APA. Finally, it will be responsible for public private dialogue and involving the private sector in planning activities.
- **Each city is required to establish a UIIDP Coordination Team, reporting to the City Manager.** This team will be responsible for day-to-day coordination of the Operation, working closely with relevant offices of the city. The team should consist full-time focal persons from the relevant departments for each Operation focus area (as defined in the MCs).



Their key responsibilities would include liaising with respective city offices to ensure implementation is in accordance with the Operation’s environmental and social safeguards and fiduciary guidelines; monitoring, reporting and disseminating information about the Operation (including contract awards, physical and financial progress of works contracts , and so on), contribute to capacity building activities, and act as resource persons for the Operation.

- **The various offices of the City Manager will be responsible for implementation of infrastructure and activities supported through Program Funds.** Implementation of infrastructure, services and activities supported through Program funds are mainstreamed in each ULG and carried out by the relevant offices in the city administration.
- **The Offices of Finance and Economic Development (OFEDs) hold overall fiduciary responsibilities.** They will ensure that all Operation funds are included in Integrated Budget and Expenditure (IBEX) and that financial reports are submitted to ORAG as soon as possible after the end of the Ethiopian fiscal year.
- **The ethics liaison unit of the ULG is responsible for dealing with fraud and corruption, handling related complaints and consolidating reporting of** complaints on environment and social aspect as well as procurement.<sup>30</sup>
- **City councils are responsible for reviewing and approving** cities’ CIPs, revenue enhancement plans (REPs), asset management plans (AMPs), and capacity building plans.
- **Each ULG will also establish a capacity building coordination unit.** This will coordinate the planning and implementation of capacity building activities, and reporting of these activities.
- **FUJCFSA** is responsible for leading initiatives relating to supporting micro, small and medium size enterprises.
- **The Women and Children Affairs Office (WCO)** is responsible for leading and coordinating initiatives identified in the gender action plan and champion gender mainstreaming in planning, M&E, reporting and management.
- **A DRM unit is proposed to be established in each ULG.** This will lead efforts in risk assessment, develop emergency response plans and related capacity building activities.

## **B. Results Monitoring and Evaluation**

64. **Objectives.** The objective of the M&E system is to generate timely and relevant tracking on the Operation’s implementation progress and achievement of expected outcomes to enable the implementing agencies and stakeholders to address issues as quickly as possible as they arise.

65. **Design and reporting.** Monitoring and reporting will take place at all three levels of government. The M&E specialist based in each ULG will be responsible for the M&E system at the ULG level and is the key person collecting and reporting primary data related to the indicators of the Operation’s key results areas. The M&E specialist will prepare comprehensive quarterly Operation progress reports containing agreed data and transmit it to the regional government. The M&E specialists at the federal and regional levels (in the federal or RMTs) will assist in establishing a computerized M&E system, provide training

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<sup>30</sup> Note that units with the same mandates may have different names in different places.

and back-stopping support to staff at the regional level, and in turn, local levels to ensure that the city-specific reports are timely, comprehensive, and accurate. In addition, the regional M&E specialists will compile each city’s progress report into a regional progress report and submit it to the MUDHo. Similarly, the federal M&E specialists will compile/consolidate the regional progress reports into a national report and submit it to UREFMFB and the WB for review.

66. **The MUDHo will be responsible for overall UIIDP Operation 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 WB a midyear and annual progress report each year. In addition, regional BUDs will prepare quarterly progress reports for internal use by the MUDHo to monitor progress and take timely action on issues arising. The UIIDP coordinator will submit the quarterly progress reports to the SC, ministers and relevant bureau heads in the MUDHo. They will also submit it to the WB upon request.

67. **Data generation and collection.** The data to track many of the key performance indicators will come primarily from the government’s own systems, as tracked by the three layers of government outlined in the paragraph above. These systems will be further strengthened through the capacity building component to establish strong data collection and retrieval systems at the ULG level. Table 4 summarizes the various inter-linked tools which will be used to monitor and report on the Operation.

**Table 4. Data Generation and Collection**

| <b>Type of Information</b>   | <b>Means</b>  | <b>Frequency</b>                                    |
|--|---|---|
| Progress on UIIDP development objectives and technical aspects   | ULGs, regional governments, and MUDHo.  | Bi-annually and Annually                            |
|  | APA.  | Annually  |
| Institutional performance, including the new areas of LED, urban resilience, and gender  | APA.  | Annually  |
| Achievements of infrastructure plans and targets.  | APA.  | Annually  |
| VfM.   | VfM audits, results to feed into the APA.   | Every year starting the second year in the new ULGs |
| Physical progress and outputs  | ULGs’ regular progress reports to regions and then to MUDHo   | Quarterly & Bi-annually                             |
| Financial reporting (use of funds, expenditure composition, and the like).   | Annual financial statements, semiannual financial reports, internal audit reports, annual external audit reports. | Bi-annually and annually                            |
| MTR:<br>Detailed review of implementation experience, achievement of the key performance indicators, and progress towards the PDO. | MTR.  | Once in the Program (2020)                          |

68. **Capacity building for M&E.** The UIIDP ensures that there is minimally one M&E specialist at the federal level, in each RMT and in each ULG’s UIIDP Coordination team. ULGs are required to appoint an M&E specialist to their Program team as a minimum access condition. The UIIDP will finance regular training of M&E specialists, technical assistance, and other capacity support required to establish and operate an effective M&E system.

**C. Disbursement Arrangements and Fund Flow**

69. **Disbursements under the Program are subject to PforR procedures and disbursed against DLIs.** The PforR funds will be disbursed from IDA and IDA SUF to MoFEC *once a year* upon achievement of the DLIs. Disbursements from MoFEC to regions’ BoFEDs, and from BoFEDs to ULGs’ Offices of Finance and Development (OFED) will be done *twice a year* (around January and July each year). For DLIs

4 through 8, MoFEC will transfer funds to the regional governments' BoFEDs once a year, with onward transfer to the relevant regional entities according to achievements against these DLIs.

70. **The timing of the UIIDP fund flow is designed to be in line with the ULGs' budget and planning cycles.** To enhance predictability, UIIDP indicative disbursement figures (according to simulations done for the Program design; see annex 1) will be shared with ULGs and regional governments, although the actual amounts will vary and are scalable based on the performance and achievement of the DLIs each year. ULGs will be informed, around February each year, of their actual disbursement for the following fiscal year, as soon as the APA is complete and the ULG audit results (financial audit, procurement audit, and the VfM audits) are available. It is critical to ensure that there are no delays in availing resources to ULGs to enable realistic and effective planning and implementation especially for capital investments.

71. **For window 2, disbursement arrangements will be based on procedures that are consistent with IPF modalities.** For the IPF, funds will be disbursed from IDA and IDA SUF to MoFEC and then to MUDHo (and for the subcomponent funded by AFD, directly from AFD to MoFEC, then to MUDHo). The detailed disbursement modalities are discussed in the fiduciary section below and in annex 6.

#### IV. ASSESSMENT SUMMARY

##### A. Technical (including program economic evaluation)

72. **The UIIDP has strong strategic relevance.** The proposed Operation is well aligned with various Government urban policies and the WB's CPF. It supports the ULGs as drivers of change for development to address the large gaps in funding for capacity building, institutional strengthening, and delivery of infrastructure and services in ULGs across the country. Data from field visits and review of documents shows the importance of the UIIDP grants compared with the current level of own-source revenues and planned and execution of investments by the ULGs.<sup>31</sup> From year two onwards, the UIIDP grants more than double the funds available for capital investments.<sup>32</sup> Comparing using the size of typical capital investment projects, the UIIDP grants will also be significant. Based on a review of unit costs of typical projects, the UIIDP performance-based grants (using average figures) will enable the larger ULGs to finance about on average 12 projects per year, and the smaller ones about 8-9 projects per year.

73. **Public funding and WB financing for the UIIDP are well justified** as the types of infrastructure and outputs are public goods with substantial benefits (positive externalities). Private financing for revenue-generating projects is an important option to consider in the future and will play an increasing role, while the UIIDP lays the foundation for it through a focus on LED and public private dialogue.

74. **The design of the Operation is assessed to be technically sound.** This was assessed on the aspects of formulation of the PDO, the level of and effectiveness of incentives that the grant will create, experiences and lessons learned from earlier programs in Ethiopia and other places, and detailed design issues such as the applicability of grant size and allocation system. Analysis considering other ULG funding sources and the current fiscal system, deduced that the size and modalities of the UIIDP grant is technically feasible and sound. The design of the UIIDP—offering capital grants for investment in infrastructure and services, capacity building support (both demand and supply driven), and incentives through the robust APA process that links funding levels with performance—has been highly effective under the ULGDP I and II.

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<sup>31</sup> Based on a sample of 22 ULGDP ULGs and 21 non-ULGDP ULGs through a combination of document review (12 new ULGs) and field visits to 9 new ULGs.

<sup>32</sup>The impact of the grants on the ULG investment level will vary greatly across ULGs, see the technical assessment.

75. **The UIIDP builds on the solid foundation established in ULGDP I and II, and consolidates lessons learned to create a third-generation performance-based Program.** In addition to reducing the gap in provision of critical infrastructure and services, the UIIDP incentive based system of grant provision, coupled with targeted capacity building, induce fundamental changes and improvements to the institutional and systems capacity of ULGs and regional entities. The selection of DLI focus areas, and the design of the MCs and PMs have been tried and tested under the ULGDP I and II, with continuous improvements and “upgrades” incorporated into the design of the UIIDP. Further, innovative initiatives are now introduced in the UIIDP to promote gender mainstreaming, urban resilience, job creation and LED, implementing them through multiple modalities. (See details of lessons learned under the ULGDP I and II and integrated into the design of the UIIDP in annex 1 and lessons learnt and incorporated in annex 5.)

76. **Institutional arrangements for the proposed Operation are assessed as being appropriate and adequate.** Responsibilities for UIIDP management and implementation are divided among the three tiers of ULG, regional, and federal level government entities in ways that are fully consistent with the mandate and role of each level, and with clear division of tasks and responsibilities between involved parties. It follows the GoE structure and is consistent with existing legal provisions, regulations and guidelines. In addition, UIIDP aims to strengthen the regional as well as federal tiers for supporting the ULG levels and introduces a more formalized and improved system for verification of the DLIs.

77. **Economic evaluation.** By design, the proposed Program provides ULGs with considerable discretion in deciding on the types of infrastructure investments that will be financed out of their capital grants. It is therefore not possible to determine a priori which infrastructure services will be implemented in participating ULGs. Nonetheless, based on experience with the ULGDP II, about 69 percent of funds are likely to be spent on cobblestone and gravel roads. A detailed benefit-cost analysis has been undertaken for such roads.

78. **Many UIIDP investments envisioned (cobblestone and gravel roads) will generate significant returns with IRRs of more than 19 percent (or amounting to US\$63.9 million) in the base case scenario.** This indicates that investments in cobblestone roads are economically viable, even without considering other non-quantifiable benefits. The rate of return and the net present value (NPV) remain at acceptable levels even when sensitivity analysis is applied with a 20 percent increase in cost and a 20 percent reduction in benefits (see table 5). The internal rate of return (IRR) remains higher than the 12 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. The economic impacts of the project for all economic agents, including the transport users as well as the residents of the Program ULGs is significant. (annex 5 presents the details of the benefit-cost analysis, including the assumptions.)

**Table 5. Summary of Benefit-cost Analysis**

| Descriptions                           | NPV (US\$, millions) | IRR in percent |
|--|----------------------|----------------|
| Base case                              | 63.9                 | 19.3           |
| Sensitivity analysis                   |                      |                |
| 20 percent cost increase               | 35.0                 | 15.5           |
| 20 percent reduction of total benefits | 22.3                 | 14.7           |

79. **Under the counterfactual scenario without the WB-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 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.

80. **To the extent possible and appropriate, the Program will promote local private sector development.** The implementation of almost all Program activities will be contracted out to the private sector. More than 3,000 MSEs have been involved in the construction of investment projects under the ULGDP II. These numbers will rise with the addition of new ULGs.

81. **Fiscal impact.** The UIIDP is expected to have a positive impact on the nation's fiscal framework by strengthening municipal governance, revenue performance, and FM. By encouraging the consideration of cost-benefit analysis for urban project selection, the project will help to strengthen the fiscal framework by ensuring that only investments whose benefits exceed their costs are pursued. In addition, the UIIDP will demonstrate the benefits of transferring federal funds to ULGs through conditional block grants to encourage good performance. It will help the government to consider establishing such a mechanism as part of Ethiopia's fiscal architecture.

## **B. Fiduciary**

### *For the PforR window (the Program)*

82. **An integrated fiduciary assessment for the proposed Program was carried out on the fiduciary systems of MUDHo, in a sample of the cities to benefit from the UIIDP, consistent with WB policy, directives, and guidance for PforR financing.** The objective of the assessment is to ensure that implementation arrangements are adequate and risks are reasonably mitigated by the existing framework. The fiduciary assessment entailed a review of the capacity of the sampled 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 WB; (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 PDOs and risks associated with the Program and the implementing agencies; and (c) to identify and mitigate fraud and corruption risks and effectively handle public grievances and complaints. A special survey was designed for assessing the fiduciary assessment of the cities to be included in the UIIDP. While the assessment of the new 73 cities was conducted on sample basis, the fiduciary team used data obtained from the APAs that have been carried out under the ULGDP II.

83. **The assessment highlights risks and internal weaknesses of Program implementing agencies, which will be mitigated through measures to be included as MCs and PMs and through actions specified in the Program Action Plan (PAP).** For the reasons mentioned below, the fiduciary risk of the proposed Program is rated as Substantial.<sup>33</sup> (For details of the issues, risks, and proposed mitigation measures, see the summary of the integrated fiduciary assessment in annex 6 and the PAP in annex 9.) Overall, the fiduciary assessment concludes that the examined program FM 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.

### *Financial management*

84. **The 2014 Public Expenditure Financial Accountability (PEFA) assessment for the federal government noted the major improvements that have been made.** Ethiopia has significantly improved

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<sup>33</sup> The fiduciary risk rating is the combination of the overall risk ratings of the FM, procurement, and fraud and corruption.

its performance over the last three years. Expenditure deviation was less than 5 percent per year during EFY 2003–2005, which is less than half of what it was noted during the period of EFY 1999 to 2001 (11.6 percent). Revenue forecasting also improved with revenue collection being 94 percent to 112 percent of the budget during the last three years. Bills are cleared on time. Arrears are therefore, not a major issue. The internal control system is comprehensive, widely understood and effective at the federal government level. Audit coverage at the federal level has increased in recent years from 56 percent to 100 percent of budgetary institutions and audit reports are produced in a timely manner. However, the federal government needs to improve its PEFA ratings in following areas: (a) legislative scrutiny of audit reports; (b) oversight of fiscal risk from public sector entities (c) public access to key fiscal information effectiveness in collection of tax payments and (d) predictability of funds for commitment of funds and quality of in-year budget execution reports.

**85. At the same time, as per the PEFA assessment, the regional government entities need to improve in several areas.** These are: (a) the extent of unreported government operations, (b) effectiveness in collection of taxes, (c) comprehensiveness of information included in budget documents, (d) weaknesses in multi-year planning, (e) composition of expenditure outturn compared to the original budget, and (f) availability of information received by service delivery units. However, it was noted that some of these issues are being addressed through the GoE’s flagship public FM reform program, the Expenditure Management and Control Program.

**86. The assessment found several strengths in ULGs’ FM systems.** Specifically, in most ULGs strong FM systems are in place; the IBEX, is rolled out; the annual budget is prepared timely, approved by the city council, and notified to sector offices; and the budget and actual expenditures are disclosed to the public. In all ULGs visited, accounting, IBEX, budget, and internal audit manuals are available. In addition, block grants and special capital subsidies had been released to all ULGs in a timely manner. Segregation of duties on payment is generally satisfactory, the payroll system is strong and timeliness of reports has improved. Most ULGs visited closed their books of account for EFY 2008 and the accounts of some cities have been audited, while others are underway.

**87. The assessment found areas of weakness in the ULGs visited.** These are (a) lack of credible budget; (b) use of manual ledger to control budget (instead of budget control module of the IBEX); (c) absence of proper accounting system and use of manual accounting system (in some ULGs); (d) absence of payroll software to process the monthly salary (in most ULGs); (e) weak performance internal audit; (f) weak property management and control thereof; (g) weak cash control (absence of regular cash count and not performing monthly bank reconciliation); (h) improper recording budget in the IBEX; (i) existence of external audit backlog (some ULGs); (j) weak audit findings rectification plan; (k) failure to disclose external audit findings to the public; and (l) inadequate man power and facilities.

**88. The Program will continue to follow GoE planning and budgeting accounting and internal control arrangements.** In addition, the POM will detail out the arrangements. The Program budget will be included in the national budget and will be proclaimed at the federal level at the MUDHo as a special purpose grant classified by regions, ULGs, and the MUDHo. Program budgeting is structured as an upstream process starting at the ULGs and moving upwards to the regional and the federal levels, where it is consolidated and approved. To ensure reporting of the Program expenditures is integrated in the national public financial system and codes, the established charts of account (codes) under the ULGDP II will be continued under the UIIDP, taking into consideration the new features of the UIIDP. Budget control is exercised at all levels at the transaction level, using the IBEX or other systems, and at the report level. For the Program the semiannual interim financial reports will document and compare the Program budget with actual expenditures and report on variances.

89. **Disbursements under the Program are subject to PforR procedures and disbursed against DLIs.** The PforR funds will be disbursed from IDA to MoFEC once a year upon confirmation of achievement of the DLIs. A double-entry accounting system will be implemented in all newly participating cities, and IBEX will be rolled out in either a stand-alone or integrated manner. Adequate FM staff at MoFEC and the MUDHo will be in place. It is envisaged that the Program activities will be audited by the ULG internal auditor. Challenges noted during the assessment will be mitigated by providing continuous training under the IPF window to accountants and internal auditors. As under the ULGDP II, both the financial and VfM audits will be carried out under the UIIDP. The OFAGs or a delegated auditor acceptable to the WB will conduct the annual financial and VfM audits. The audits will be conducted in accordance with terms of reference (ToR) agreed during negotiations. The audit reports and management letters will be submitted to the WB within six months of the end of the GoE's fiscal year. Following the WB's formal receipt of these statements from the borrower, the WB will make them available to the public in accordance with the World Bank Policy on Access to Information. Details of the FM arrangements are presented in the POM.

#### *Procurement*

90. **Applicable procurement rules and procedures.** In Ethiopia, for federal level budgetary bodies, public procurement is regulated by the Public Procurement and Property Administration Proclamation No. 649/2009. The Proclamation established the FPPAA as a body responsible for regulation and monitoring of federal bodies' public procurement activities. The nine regional states and two federal city administrations, Addis Ababa and Dire Dawa, have their own procurement proclamations and directives, which are based on the federal prototype. The ULGs are required to abide by their respective regional procurement laws. At the federal level, directives, manuals, and standard bidding documents and standard requests for proposals templates have been issued. Most of the regional states have also issued these. However, some of the standard bidding documents and standard requests for proposals templates are not comprehensive, and some of the procuring entities lack knowledge and understanding of the proper implementations of the procurement legal framework. As a general assessment, the procurement legal framework of the nine regional states and two city administrations are found to be sufficient, with some shortcomings with respect to content and many weaknesses in implementation.

91. **As part of the fiduciary assessment, the WB carried out a procurement system assessment between March and May 2017.** The assessment included: (a) review of applicable procurement systems, rules and procedures, practices, including complaint handling, and oversight mechanisms; (b) procurement organization and capacity of the implementing entities; and (c) procurement cycle management. The Program implementing entities include the federal MUDHo, regional BoFEDs, and participating ULGs. The team visited 12 of 73 new cities, two of which were later excluded from the Program.

92. **The major issues with all the implementing agencies are the weakness of implementation of the applicable public procurement rules and procedures including complaints handling and oversight mechanisms.** Both the regional government entities and the ULGs have limited capacity to follow the rules and procedures, so there is a risk of the agencies under performance in implementing the applicable procedures under the program. The overall performance of procuring entities in complying with the established system and therefore ensure transparency, efficiency, and economy is found to be deficient.

93. **Several risks have been identified for Program procurement and contracts administration.** These are (a) non-compliance with national and regional directives; (b) weak procurement capacity at the ULGs; (c) transparency and fairness issues related to procurement process, as the result of not implementing the legal procedures available; (d) competitiveness issues as the result of involvement of state-owned enterprises in tenders and application of different preferential treatment and reservation schemes to MSEs; (d) weak accountability, integrity and oversight arrangements; (e) weak contracts administration,

complaints handling mechanism, and the inefficient resolution of contractual disputes; and (f) poor procurement recording. Based on the assessment, the procurement risk in the 73 new ULGs is rated as High, before risk mitigation measures are put in place.

94. **Four types of risk mitigation measures are proposed.** First, ULGs must comply with the MCs to participate in the Program. These include having the minimum institutional and staff capacity in place. Second, implementation of activities specified in the PAP will be closely monitored. This includes measures to build capacity of ULGs and other entities for procurement. Third, an annual procurement performance audit will be carried out through the RPPPAAs. This will also be supported by DLI 9 providing an incentive for the RPPPAAs to perform. Fourth, the MUDHo through the OFAG or an independent consultant will carry out VfM audits of ULGs' investments in infrastructure. The APAs, under DLI 2 and DLI 3, will consider the performance of the ULGs based on the findings of the procurement and VfM audits.

*Fraud and corruption and complaint handling mechanism*

95. **There is a robust legal framework for addressing fraud and corruption risks at the country level in Ethiopia.** The principal institutions for the fight against corruption are the Federal Ethics, Anti-Corruption Commission (FEACC) established in 2001, and the Federal Attorney General formed in 2016.<sup>34</sup> Since 2007, all nine regional governments have established their own REACCs. FEACC, REACCs, and the Federal Attorney General have adopted both preventive and curative approaches in combating corruption in the country. FEACC is responsible for coordinating anti-corruption efforts across regions and preparing a country report. Performance of FEACC and REACCs has been encouraging. The conviction rate between 2013 and 2015 was 86.1 percent in terms of files and 78.7 percent in terms of accused persons. In 2016, the conviction rate in terms of files reached 89.6 percent.

96. **Despite the progress in tackling fraud and corruption under the ULGDP, the risks and challenges of fraud and corruption in urban land administration and provision of municipal services remain high.** Allegations of fraud and corruption take the form of abuse of power and bribery, breach of trust, fraud and deception, preparing and using forged certificates and documents, illegal revenue collection, procurement handling, construction design, supervision and payment certification, and low quality of constructed activities. On the other hand, the rate of responsiveness to public grievances regarding land and related Program activities is generally low. Some of the reasons for complaints include delay of compensation of land, not providing compensation in kind, illegal landholdings and buildings, and demolitions, transferring land or sheds to others, not being selected as a beneficiary of an MSE, and the lack of provision of land and inputs.

97. **To address the fraud and corruption risk, the UIIDP will be aligned with the WB's Anti-Corruption Guidelines.** The memorandum of understanding signed between the WB's Integrity Vice Presidency (INT) and the 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 provides the WB 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 GoE and FEACC can implement their commitments under the Anti-Corruption Guidelines. The GoE is also committed to using the WB's debarment list to ensure that persons or entities debarred or suspended by the WB are not awarded a contract under the Program during the period of such debarment or suspension. Based on the assessment, fraud and corruption Risk is rated as Substantial.

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<sup>34</sup>Federal Attorney General Establishment Proclamation No. 943/2016, Federal Ethics and Anti-Corruption Commission Proclamation No. 880/2015.



98. **Despite the weaknesses, procurement systems and fraud and corruption and complaint handling arrangements are adequate to provide reasonable assurance that the financing proceeds will be used for intended purposes.** They will also ensure 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. A minimum condition, an action plan, and a capacity building program for mitigation of risks has been included in the main report of the integrated fiduciary assessment.

*For the IPF window (the Project)*

*Financial management*

99. **An FM assessment was conducted in accordance with the FM Practices Manual for WB-financed Investment Operations.**<sup>35</sup> The assessment is also conducted as per the requirements of the WB policy and directive on IPF. The assessment was conducted at the federal level only at the MUDHo and MoFEC. The objective of the assessment was to determine whether the implementing entities have acceptable FM arrangements to ensure: (a) that funds are used only for the intended purposes in an efficient and economical way; (b) that accurate, reliable, and timely periodic financial reports are produced; and (c) that the implementing entities assets are safeguarded.

100. **The FM residual risk for the project is rated as Substantial.** The mitigation measures proposed in the PAP will help to reduce the risk of the Project once implemented. The main strengths are the Project will inherit the various strengths of the country's public FM system. Several aspects of the system function well, such as the budget process, classification system, and compliance with financial regulations. Significant ongoing work is directed at improving country public FM systems through the GoE's Expenditure Management and Control Program. The Project also benefits from the country's internal control system, which adequately provides for the separation of responsibilities, powers, and duties. In addition, both MoFEC and the MUDHo have experience in implementing WB-financed projects. The main weaknesses noted were the MUDHo's unsatisfactory utilization of the budgets of both the government and ULGDP II, and understaffing of the internal audit department. In addition, a delay was noted in finalizing the FM manual for the ULGDP II.

101. **The Project will follow the existing government rules and regulations under channel 1 fund flow mechanisms.** The Project will prepare a FM manual as an annex to the POM, laying out operational matters including FM issues/arrangements. Under the Project, special emphasis will be placed on assessing, identifying, and mitigating gaps in the FM systems of the newly participating ULGs, and in building their capacity for FM on an ongoing basis. All disbursement methods are available to the Project. Funds from IDA will flow directly to MoFEC through a segregated designated account for onward use and transfer to the MUDHo. The Project will use report-based disbursement, with submission, through MoFEC, of quarterly interim financial reports within 45 days of end of the quarter that include forecasts for advances/replenishment of the Designated Account. Staffing arrangements have been outlined. The Project will have its accounts audited on an annual basis by an independent external auditor acceptable to the WB. The financial audit report will be submitted within six months of the end of the fiscal year end.

102. **It is the conclusion of the assessment that the FM arrangements meet the IDA requirements as laid out on the WB policy and directive on IPF, as well as the Financial Manual.** An action plan has

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<sup>35</sup> Issued by the FM Sector Board on March 1, 2010, and retrofitted on February 4, 2015, along with its supporting guidelines.

been developed and agreed to mitigate the risks and address the overall identified in the project. See annexes 6 and 9 for details.

#### *Procurement*

103. **Procurement under the project will be carried out in accordance with the WB’s Procurement Regulations for IPF Borrowers, “Procurement in Investment Project Financing, Goods, Works, Non-Consulting, and Consulting Services,” dated July 2016, revised November 2017 and “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants,” revised as of July 1, 2016; and the provisions stipulated in the Financing Agreement.** As per the requirement of the regulations, a Project Procurement Strategy Document has been prepared by the MUDHo and the WB has reviewed this and in general agreed to the draft Procurement Plan prepared for the first 18 months of the project life.

104. **A procurement capacity assessment was carried out on the MUDHo, as per the WB’s directive on procurement.** This shows that capacity of the MUDHo is generally sufficient to handle the procurement. However, several weaknesses will need to be mitigated following the measures as detailed in annex 6. Based on the assessment, the procurement risk of the IPF window of the project is rated Substantial.

#### **C. Environmental and Social Systems Assessment**

105. **An Environment and Social Systems Assessment (ESSA) was conducted to review the systems and procedures followed by federal, regional and ULG levels of government to address social and environmental issues related to the UIIDP.** The ESSA provides an assessment and a summary of key environmental and social risks associated with the program and existing institutions and system of the GoE to manage and mitigate risks and ensure effective and successful implementation of the Program.

106. **Infrastructure works to be financed under the UIIDP are similar in nature to those being financed under the ULGDP II.** These include roads, street lights, sanitation services, solid waste management, urban drainage, and public parks and greenery. The infrastructure investments are likely to deliver significant social benefits, if they are planned in an inclusive manner, and are designed to ensure a distribution of benefits to vulnerable groups including the elderly, youth, women, and the poorest. However, in some cases there may be risks related to the physical or economic displacement of people, which will require careful planning and timely implementation of Resettlement Action Plans (RAPs). For most of infrastructure investments that will be financed through UIIDP, the environmental and social risks anticipated during constructions phase are likely to be site-specific and limited in scale. These impacts include air pollution from dust and exhaust; nuisances such as noise, traffic interruptions, and blocking of access paths; water and soil pollution from the accidental spillage of fuels or other materials, point source

pollutions from landfills<sup>36</sup> and abattoirs/slaughter house,<sup>37</sup> solid and liquid wastes from construction sites, and occupational health and safety issues.

107. **With respect to the establishment of landfills, experience from the ULGDP I and ULGDP II indicates that a preventive approach in planning landfills can minimize their associated environmental and social risks.** The preventive approach follows the guidelines and procedures for planning solid waste collection systems, transportation, temporary storage facilities, and final disposal of solid waste in scientifically designed landfills with wastewater treatment plants. The guidelines include the requirements for (a) appropriate site selection to minimize environmental harm to the groundwater and soil, (b) inclusion of a geomembrane lining to avoid any seepage of leachate to ground water, (c) design of leachate collection and treatment systems, and (d) systems for monitoring of ground and surface water quality during the operation of the landfill. 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. The participating ULGs also must demonstrate that subprojects related to abattoirs and roads will be implemented and operated in ways that minimize damage to the environment.

108. **The ESSA shows that Ethiopia has an adequate legal framework, including environment and social regulations, which are basically in line with PforR financing core principles.** Under the ULGDP II environment and social management system and resettlement management guidelines have been prepared to ensure sound implementation of environmental and social management activities over the program period, which these guidelines are expected to be updated for UIIDP to be used as an instrument. Moreover, to strengthen the environmental and social system under ULGDP II, environmental and social development specialists have been assigned and annual environmental and social audits have been conducted. Many of the ULGs participating in the ULGDP II have made significant improvements in integrating the environmental and social management system requirements into their development planning and creating the basic capacity to implement them, as shown by the screening exercise carried for all CIP sub-projects and the opening of permanent positions for safeguard specialists within the infrastructure offices. These achievements represent the growing institutionalization and strengthening of the environmental and social management systems within the ULGs.

109. **The experience of the ULGDP II shows mixed implementation of the Environmental and Social Management System Guideline (ESMSG) and the Resettlement System Guideline (RSG).**

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<sup>36</sup> Landfills: To ensure that all landfills activities are environment friendly and socially acceptable with no or minimum impacts to the nearby environment, landfill construction and operation activities should not exceed 10 hectares and should comply with provisions as stated in MUDHo standards. These include, among others: all landfills should have: 1. bottom lining system with compact clay soil and covered by geo-membrane (synthetic linings) to separate the trash and subsequent leachate from groundwater; 2. Leachate collection system to collect rain or other water percolated through landfill which possibly contains contaminating substances (leachate); 3. Oxidation or other treatment ponds for further treatment of leachate; 4. Methane collection system/gas management to collect methane gas that is formed during the breakdown of trash; 5. Run-off water drainage system to prevent rain water flash from the nearby area; and 6. Composting yard and other facilities within the landfill site and upstream collection and transportation area. Cities should comply with the national standard and classification set by MUDHo. Also, cities must conduct landfill feasibility study, ESIA and RAP for review and clearance by REFAs. All landfills are subject to regional environmental and social performance review and annual audits.

<sup>37</sup> Slaughterhouse/abattoir: Slaughterhouse construction should follow the MUDHo standards and classification for environmentally safe implementation of the investment. Slaughterhouse under the program should not exceed 2 hectares (level B, C, and D of the MUDHo classification). The following provisions should be included in the design for construction and operation phase. These are: 1. liquid waste treatment plant, which is sited at minimum distance of 50 meter from slaughter house; 2. separate closed drainage line for collection of liquid wastes from slaughterhouse to the septic tank; 3. septic tank bed level shall be below nearby ground water level; 4. slaughter house at metropolitan cities shall have rendering plant with smell nuisance control; 5. Run-off water drainage system to prevent rain water flash from the nearby area; and 6. other facilities like guardhouse and water points. Cities should comply with the national standard and classification set by MUDHo. Cities must conduct slaughterhouse feasibility study, ESIA and RAP for review and clearance by REFAs. All slaughterhouses are subject to regional environmental and social performance review and annual audits.

While some of the ULGs are able to use the prepared safeguards instruments properly, others are not. There are also staffing (for instance social experts) and training gaps in some ULGs. The capacity of some of the ULGs that will newly participate in the UIIDP is low, with some ULGs having no system at all. Given the significant geographic dispersion of the participating ULGs and the addition of 73 new ULGs, as well as different scale of proposed investments, the environment and social risk for UIIDP is rated Substantial.

110. **The design of the UIIDP addresses environmental and social challenges and gaps.** Key action areas have been identified to strengthen environmental and social management capacity and performance at all levels of government. They are: (a) establishing and strengthening the environmental and social management system at ULG level; (b) providing technical guidance and capacity building; (c) addressing resource constraints; (d) undertaking regular performance review and annual environmental and social audit each year; (e) increasing community and other stakeholders' awareness on social and environmental impacts of UIIDP sub-projects; and (f) strengthening consultation and stakeholders' collaboration. In addition, MCs ensure that participating ULGs have some capacity in place at the start of the Program. PMs provide incentives for ULGs to perform better over time. Further, a series of actions are included in the PAP to improve the proposed program environmental and social management and to strengthen country systems. Finally, to maximize gains and minimize risks, the investment menu excludes WB environmental assessment category A sub-projects and infrastructure subprojects that require displacement of more than 200 individuals. All investment activities under the UIIDP will go through stringent screening process and any project falling under "Category A" would not be eligible for financing by the UIIDP. Based on the output of the screening result, the corresponding instruments ESIA/Environment and Social Management Plan (ESMP)/RAP will be prepared and cleared by designated authority before the commencement of the construction activities.

#### **D. World Bank Grievance Redress**

111. Communities and individuals who believe that they are adversely affected because of a Bank supported PforR operation, as defined by the applicable policy and procedures, may submit complaints to the existing program grievance redress mechanism or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org)

#### **E. Risk Assessment**

112. **The overall risk rating for the Operation is Substantial.** Governance and country-wide political risks are Substantial. Technical design risk is rated substantial due to the complexity of the Operation design and implementation, and the cross-country coverage of the Operation. The institutional capacity for implementation and sustainability risk is rated substantial, mainly due to the inclusion of 73 new ULGs whose capacity has not yet been tested. Fiduciary risk is rated as substantial, largely due to weaknesses at the ULGs level to properly account for Program funds. Environment and Social Safeguards risk is rated substantial, due to the large number of urban centers and activities that the UIIDP will support. (See summary of ratings in annex 8: Systematic Operations Risk-Rating Tool (SORT).

113. **Other risks: climate and disaster risk is rated as moderate.** A climate and disaster risk screening has been carried out and the risk is rated as moderate (the climate risk screening report is in the project file).

The UIIDP is designed to mitigate and adapt climate and disaster risks through a three-pronged approach. *Firstly*, the investment menu includes climate- and disaster-resilient infrastructure and equipment to enhance resilience, important to both adaptation and mitigation, including urban drainage and flood control systems, solid waste management facilities, renewable energy supply, urban green infrastructure, pedestrian walkway, cycle path, bus terminal and station, as well as firefighting equipment. *Secondly*, new performance measures have been introduced to encourage ULGs to assess climate and disaster risk (by preparing risk map for example, flood, landslide, drought, earthquake) to guide siting and design of resilient infrastructure investment, establish disaster management units, complete emergency response plans, and to start the training and procurement of equipment that will enable the authorities to respond in the event of a natural disaster. *Thirdly*, IPF window includes technical assistance on DRM, including development of national urban DRM plan, information system, and training programs. Such measures are expected to increase preparedness, longer-term resilience, and reduced climate and disaster impacts.

114. **Significant measures have been included in the Operation design to mitigate the identified risks.** These measures include the minimum access conditions, detailed APA, VfM audits, strengthening of complaint and grievance handling mechanisms, and preparation and execution of capacity building and technical assistance activities. Operation financing has also been structured to ensure that critical federal-level activities (such as the APA and institutional support) are secured upfront (through the IPF), allowing the MUDHo to procure the APA and VfM consultancies and to start its support for regional government entities and ULGs as soon as the Operation is effective. The WB's UIIDP team will continuously monitor performance to ensure that both anticipated and unanticipated risks are addressed as quickly as possible once they arise. The PAP follows a risk-based approach and outlines the main measures through which risks to the achievement of Program's development objective will be mitigated.

#### **F. Program Action Plan (Summary)**

115. To address the risks, MUDHo, the regional government and the ULGs, a PAP has been prepared with the agreed actions. The key ones are highlighted as below. The full PAP is presented in annex 9.

- To ensure sufficient capacity in MUDHo to manage the UIIDP, the UIIDP Unit will be further enhanced to 32 staff. MUDHo will fill its vacant positions and engage additional staff by UIIDP effectiveness.
- To ensure that the independent APA is completed on time, MUDHo will initiate the procurement process for selection and assignment of independent consultants for the APA through multi-year contract, and ready to deploy for the 1<sup>st</sup> UIIDP APA by August 2018 (APA Consultants to be engaged and onboard by this date). Completion of all APAs as per the verification protocol, enclosed.
- To enable the supply-side capacity building activities for ULGs, MUDHo will sign agreement(s) (memorandum of understanding) with relevant federal, and regional training institutions for course design and administration for new ULGs by UIIDP effectiveness.
- To ensure sufficient capacity in regional governments to support the up-scaled UIIDP, the regional governments will fill staffing gaps and procure and deploy RMTs by UIIDP effectiveness.

- To provide guidance and ensure compliance on social and environmental management, MUDHo working with relevant ULGs will update and adopt ESMSG and RSGs in all ULGs by end February 2018.
- To provide clearer guidelines to ULGs on strengthening impact on short and long term job creation, MUDHo will revise the UIIDP Job Creation Guidelines and provide these to ULGs by end May 2018.
- The technical assistance to be engaged under the IPF component will provide a multifaceted procurement and contract management, and procurement audit trainings. The technical assistance will also prepare guidelines and manuals to the ULGs, and federal and regional support institutions to streamline their activities.



## Annex 1: Detailed Program (PforR) Description

### UIIDP Scope

1. **The PDO is to enhance the institutional performance of participating ULGs to develop and sustain urban infrastructure, services, and LED.** The Operation will provide direct support to all 117 potentially eligible ULGs, as well as to all nine regions and the federal government (primarily MUDHo) to enable them to effectively support urban development. The primary beneficiaries of the Operation are the 6.5 million residents of the 117 ULGs, half of whom are female.

2. **The proposed operation will be financed through a hybrid of IPF and PforR instruments.** Most of the Operation is financed through the PforR instrument, the optimal and effective mechanism for providing conditional grants to regional states and ULGs, as demonstrated under the ULGDP II. A complementary small IPF window will enhance overall Operation management, effectiveness, and impact.

3. **A programmatic and phased approach was adopted as a key strategy since the first phase of ULGDP (starting 2008), continued under ULGDP II (beginning in 2014) and maturing in the UIIDP.** Mindful that institutional strengthening and positive urban transformation require long-term nurturing, a phased approach was adopted and this aligns with the MUDHo's strategy, plans, and the ECSPGs. Phase 1 (ULGDP) supported 19 cities.<sup>38</sup> Phase 2 (ULGDP II) covered an additional 26 ULGs, bringing the total to 44.<sup>39</sup> The intention now is to roll-out the proposed UIIDP to all ULGs (a total of 117 cities) that (a) have autonomous urban administration status (with a responsibility of municipal and state functions), defined as having a city council and a mayor; and (b) have a population above 20,000 people.<sup>40</sup> (See attachment 1 on details on ULGDP I and II, challenges, lessons learned and revisions adopted.)

4. **Key result areas.** In line with the government's UIIDP policy, the Operation will undertake activities to support seven key results areas. These are:

- (a) Enhanced citizen participation and engagement in ULG planning and budgeting;
- (b) Increased OSR at the ULG level;
- (c) Improved infrastructure, service delivery, O&M systems;
- (d) Improved efficiency and effectiveness in fiduciary management;
- (e) Improved environmental and social management and safeguards;
- (f) Strengthened accountability and oversight systems;

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<sup>38</sup>The 19 cities include Addis Ababa.

<sup>39</sup> Addis Ababa has been excluded from ULGDPII learning from the ULGDP experience that the unique context and conditions of Addis Ababa required a different approach from the other cities.

<sup>40</sup> 41 cities had a population of at least 20,000 in 2007, according to the census conducted by the CSA and 32 cities had populations of at least 20,000, according to 2013 projections of the CSA. The last available census was conducted in 2007, and the next one in 2017 is not yet available during the preparation of this Operation. A mid-term census project conducted in 2012 and released in 2013 is the latest one conducted with actual sampling. While every year a census projection is made, they typically assume a similar growth rate for all cities. Hence, the basis of the population numbers used to determine if ULGs are eligible for the Program and for per capita allocations to ULGs, is drawn from one common database – the 2013 published populations figures from the CSA. These population figures will be applied throughout the duration of this Operation.



- (g) Strengthened ULG resilience, improved LED and enhanced gender equity in the ULG operations. (See attachment 2 on summary findings on these three new focus areas under UIIDP.)

5. **The proposed key results indicators are:**

- People provided with improved urban living conditions under the UIIDP [corporate indicator].
- Cities with improved livability, sustainability, and management [corporate indicator].
- Composite institutional performance of participating ULGs, averaged across all cities.<sup>41</sup>
- Composite performance for achievement of urban infrastructure and service targets, maintenance performance and VfM in investments by ULGs, averaged across all cities.
- Composite performance for achievement of LED, urban resilience and gender targets by ULGs, averaged across all cities.

6. **The proposed Program will finance the government’s UIIDP.** The proposed UIIDP targets 117 ULGs. This will be implemented in a period of 5 years and 4 months (from March 2018 to July 2023), and consist of four rounds of performance-based grant allocations, with DLI achievements in EFY2011, EFY2012, EFY2013 and EFY2014. The Program consists of the provision of performance-based grants to ULGs for eligible investments and support to achieve Program results at the regional level on capacity building, financial audit, procurement audit and environmental and social safeguards audits.

7. **This substantial scale-up to 117 cities will bring about greater impact** in terms of population coverage and size of the Program. An estimated 6.62 million people will benefit from the UIIDP, compared with 4.36 million under the UGLDP II. Ethiopia has a significant number of secondary cities that are spatially distributed across the country. The government’s current policies of industrial development and promoting urban-rural linkages present good opportunities for promoting more balanced regional growth through the creation of a linked system of cities. The scale-up also allows strengthening of the overall programmatic and performance-based approach to support sustainable urban development and leverages on economies of scale for program management and implementation. In addition, the scale-up is built on the solid foundations and tried-and-tested overall successful experiences of ULGDP I and II. Timely support to improve institutional performance in the planning, delivery, and sustained provision of urban services and infrastructure by local governments is critical especially for these rapidly growing cities.

**Table 1.1. ULGs Eligible to Participate in the UIIDP**

| S/N   | ULG          | City population 2013 CSA estimates |
|---|--------------|------------------------------------|
| <b>A. 44 ULGs participating in the ULGDP II</b> |              |                                    |
| <b>AMHARA REGION</b>                            |              |                                    |
| 1   | Bahir Dar    | 198,909                            |
| 2   | Dessie       | 153,691                            |
| 3   | Gondar       | 264,964                            |
| 4   | Kombolcha    | 75,078                             |
| 5   | Debre Markos | 79,980                             |
| 6   | Debre Brehan | 83,479                             |
| 7   | Debre Tabor  | 71,149                             |

<sup>41</sup> In the core areas of planning and budgeting, assets management, public FM, procurement, own source revenues, accountability and transparency, environment and social safeguards, land management, and strategic urban planning.

| S/N   | ULG                       | City population 2013 CSA estimates |
|---|---------------------------|------------------------------------|
| 8   | Woldiya                   | 59,046                             |
| 9   | Mota                      | 33,500                             |
| 10  | Finote Selam              | 33,162                             |
| <b>Total Amhara</b>                                   |                           | <b>1,052,958</b>                   |
| <b>TIGRAY REGION</b>                                  |                           |                                    |
| 11  | Mekelle                   | 286,624                            |
| 12  | Adigrat                   | 76,447                             |
| 13  | Axum                      | 59,269                             |
| 14  | Shire Endasselassie       | 62,769                             |
| 15  | Adwa                      | 53,763                             |
| 16  | Alamata                   | 44,092                             |
| 17  | Wukro                     | 40,103                             |
| 18  | Humera                    | 28,744                             |
| <b>Total Tigray Region</b>                            |                           | <b>651,811</b>                     |
| <b>OROMIA REGION</b>                                  |                           |                                    |
| 19  | Adama                     | 282,97                             |
| 20  | Bishoftu                  | 128,408                            |
| 21  | Jimma                     | 155,43                             |
| 22  | Shashemane                | 129,084                            |
| 23  | Nekemte                   | 96,657                             |
| 24  | Assela                    | 86,441                             |
| 25  | Sebeta                    | 63,391                             |
| 26  | Burayu                    | 62,806                             |
| 27  | Ambo                      | 61,900                             |
| 28  | Robe                      | 57,031                             |
| 29  | Ziway/ Batu               | 56,104                             |
| <b>Total Oromia Region</b>                            |                           | <b>1,180,230</b>                   |
| <b>SNNP REGION</b>                                    |                           |                                    |
| 30  | Hawassa                   | 225,686                            |
| 31  | Arbaminch                 | 107,542                            |
| 32  | Dilla                     | 84,952                             |
| 33  | Sodo                      | 109,225                            |
| 34  | Hosaena                   | 100,528                            |
| 35  | Butajira                  | 47,978                             |
| 36  | Areka                     | 45,109                             |
| 37  | Yirga Alem                | 43,586                             |
| 38  | Mizanaman                 | 48,946                             |
| <b>Total SNNP Region</b>                              |                           | <b>813,552</b>                     |
| <b>DEVELOPING REGIONAL STATES (DRS)</b>               |                           |                                    |
| 39  | Samera/ Logiya (Afar)     | 25,209                             |
| 40  | Assosa (B. Gumuz)         | 40,686                             |
| 41  | Gambella (Gambella)       | 64,499                             |
| 42  | Jigjiga (Ethiopia Somali) | 152,674                            |
| <b>Total DRS</b>                                      |                           | <b>283,068</b>                     |
| 43  | Harar (Harari)            | 112,781                            |
| 44  | Dire Dawa                 | 269,134                            |
| <b>Grand Total for 44 ULGs &amp; Regions</b>          |                           | <b>4,363,534</b>                   |
| <b>B. Proposed new ULGs to benefit from the UIIDP</b> |                           |                                    |
| <b>AMHARA NATIONAL REGIONAL STATE</b>                 |                           |                                    |
| 1   | Debark                    | 29,068                             |
| 2   | Wereta                    | 27,159                             |
| 3   | Kobo                      | 31,824                             |
| 4   | Buri                      | 26,120                             |
| 5   | Sekota                    | 28,597                             |
| 6   | Dangila                   | 31,773                             |
| 7   | Injebara                  | 26,958                             |
| 8   | Chagni                    | 29,731                             |
| 9   | Adis Zemen                | 20,620                             |

| S/N | ULG   | City population 2013 CSA estimates |
|-----|---|------------------------------------|
| 10  | Nefas Mewicha   | 25,108                             |
| 11  | Mersa   | 20,632                             |
| 12  | Lalibela  | 22,225                             |
| 13  | Shewa Robit   | 22,491                             |
| 14  | Bichena   | 20,739                             |
| 15  | Adet  | 24,532                             |
| 16  | Merawi  | 23,909                             |
| 17  | Bati  | 21,385                             |
| 18  | Kemise  | 24,852                             |
| 19  | Ayikel  | 21,105                             |
| 20  | Hayik   | 49,389                             |
| 21  | Gendawuha   | 36,403                             |
| 22  | Dejen   | 27,682                             |
|     | <b>Subtotal (22 cities)</b>                                       | <b>592,302</b>                     |
|     | <b>OROMIYA NATIONAL REGIONAL STATE</b>                            |                                    |
| 1   | Gimbi   | 39,811                             |
| 2   | Metu  | 36,985                             |
| 3   | Agaro   | 32,714                             |
| 4   | Holeta  | 29,936                             |
| 5   | Fiche   | 35,329                             |
| 6   | Mojo  | 37,968                             |
| 7   | Chiro   | 43,266                             |
| 8   | Haromaya  | 39,486                             |
| 9   | Goba  | 41,152                             |
| 10  | Hagere Mariyam (Bule Hora)  | 35,749                             |
| 11  | Weliso  | 48,674                             |
| 12  | Shakiso   | 29,466                             |
| 13  | Adola   | 29,475                             |
| 14  | Negele  | 45,314                             |
| 15  | Arsi Negele   | 60,770                             |
| 16  | Dodola  | 26,766                             |
| 17  | Dembi Dolo  | 37,841                             |
| 18  | Nejo  | 24,412                             |
| 19  | Bedele  | 25,080                             |
| 20  | Bokoji  | 22,797                             |
| 21  | Bedesa  | 23,371                             |
| 22  | Babile  | 22,760                             |
| 23  | Ginir   | 21,976                             |
| 24  | Yabelo  | 22,483                             |
| 25  | Suluita   | 37,492                             |
| 26  | Laga Tafo   | 20,284                             |
| 27  | Shambu  | 35,136                             |
|     | <b>Subtotal (27 cities)</b>                                       | <b>906,493</b>                     |
|     | <b>SOUTHERN NATIONS, NATIONALITIES AND PEOPLES REGIONAL STATE</b> |                                    |
| 1   | Welkite   | 41,458                             |
| 2   | Durame  | 35,147                             |
| 3   | Aleta Wondo   | 31,730                             |
| 4   | Bodite  | 34,661                             |
| 5   | Jinka   | 29,108                             |
| 6   | Tapi  | 35,660                             |
| 7   | Bonga   | 29,956                             |
| 8   | Sawula  | 32,608                             |
| 9   | Halaba (Alaba Kulito)   | 38,587                             |
| 10  | Shone   | 22,428                             |
| 11  | ShinShicho  | 20,517                             |
| 12  | Hadero  | 25,609                             |
| 13  | Yirga Chefe   | 21,713                             |
| 14  | Worabe  | 65,199                             |

| S/N | ULG                                    | City population 2013 CSA estimates |
|-----|--|------------------------------------|
|     | <b>Subtotal (14 cities)</b>            | <b>464,381</b>                     |
|     | <b>TIGRAY NATIONAL REGIONAL STATE</b>  |                                    |
| 1   | Maychew                                | 31,088                             |
| 2   | Ablyl Adl                              | 21,393                             |
| 3   | Korem                                  | 22,377                             |
| 4   | Shiraro                                | 23,013                             |
|     | <b>Subtotal (4 cities)</b>             | <b>97,871</b>                      |
|     | <b>ETHIOPIAN SOMALI REGIONAL STATE</b> |                                    |
| 1   | Degehabur                              | 36,419                             |
| 2   | Kebridehar                             | 35,466                             |
| 3   | Gode                                   | 52,438                             |
|     | <b>Subtotal (3 cities)</b>             | <b>124,323</b>                     |
|     | <b>AFAR NATIONAL REGIONAL STATE</b>    |                                    |
| 1   | Dubti                                  | 22,263                             |
| 2   | Asayta                                 | 24,286                             |
| 3   | Awash Sebat Kilo                       | 22,513                             |
|     | <b>Subtotal (3 cities)</b>             | <b>69,062</b>                      |
|     | <b>Total (73 cities)</b>               | <b>2,254,432</b>                   |

8. The total IDA funding envelope for the UIIDP is US\$600 million (of which US\$200 million is from the IDA SUF, US\$273 million from IDA Grant and US\$127 million from IDA Credit). In addition, AFD will contribute co-financing of Euro 9.8 million (estimated US\$10.8 million).<sup>42</sup> The GoE (from regions and cities) will contribute around US\$248.7 million.<sup>43</sup> This brings the total Operation budget envelope to around US\$859.5 million. (The detailed budget breakdown is included in annex 4.) The main expenditure items are:

#### Window 1 for PforR:

- **US\$691.11 million (ULG level).** Performance-based grants to 117 ULGs for infrastructure investments as listed under the Program investment menu (*US\$248.66 million from regions and ULGs; around US\$433.65 million from IDA; and estimated US\$8.8 million from AFD*).
- **US\$70.04 million (regional level).** Support for regional government to strengthen its capacity to support and guide the ULGs in core areas such as financial audit, environmental and social audit, procurement audit, revenue enhancement, and others (*IDA funding*).
- **US\$63.74 million (prior results).** Allocation against prior results on institutional performance, service delivery, maintenance, and job creation for 44 ULGs as determined in the APA conducted in FY2017/18 for FY2018/19 allocations (*IDA funding*).

#### Window 2 for IPF:

- **US\$34.57 million (federal level).** Enable MUDHo to support and guide the regions and ULGs and also to administer and coordinate the Operation (*US\$32.57 from IDA; and about US\$2.0 million from AFD*).

<sup>42</sup>Assuming an exchange rate of 1 euro is to US\$1.102.

<sup>43</sup> Regions and cities contribute to the performance based transfers in the following manner: Amhara, Oromiya, SNNPR, and Tigray: 30 percent funding in addition to IDA funded grants; DRS regions: 20 percent; original 16 ULGDPI I ULGs: 40 percent; new cities under ULGDPI II in the DRS regions 10 percent; and other new (ULGDPII) cities: 20 percent; Harar and Dire Dawa contribute 50 percent in addition to the IDA funded grants. The new 73 ULGs under UIIDP will follow the same principles as the ULGDPII newcomers.

**Table 1.2. Program Financing (US\$, million)**

| Source   | Amount           | Percent of Total |
|--|------------------|------------------|
| Government <sup>44</sup>                           | US\$248.7        | 29               |
| International Development Association (IDA) Grant  | US\$273.0        | 32               |
| International Development Association (IDA) Credit | US\$127.0        | 15               |
| IDA Scale Up Facility (IDA-SUF)                    | US\$200.0        | 23               |
| AFD  | US\$10.8         | 1                |
| <b>Total Program Financing</b>                     | <b>US\$859.5</b> | <b>100</b>       |

9. **UIIDP funding to ULGs will be allocated using a simple formula, based on population size and the performance of the ULGs.** An approximate US\$16–18 per capita per year (with phasing in of the new ULGs in the first financial year) has been assessed to be the optimal level of funding.<sup>45</sup> As a core principle, the per capita amount would at least maintain the similar level as at the start of the ULGDP II to ensure minimum level of incentives and meaningful infrastructure and services investments. The size of this performance grant has been determined considering various factors such as international good practice (from an expanding number of countries with performance-based grant allocations), the costs of investments, expenditure needs and current level of investments, opportunities for co-funding as well as generation of sufficiently strong incentive to drive the performance. This has been informed by a comprehensive review of ULG fiscal and revenue positions.

10. **ULGs will use the Program funds to finance urban infrastructure works as well as capacity building activities, in compliance with the Program’s investment menu and capacity building manual.** Eligible infrastructure investments fall under eight groups including: (a) urban roads, (b) integrated infrastructure and land services, (c) sanitation (liquid waste), (d) solid waste management, (e) urban drainage, (f) urban DRM and urban resilience, (g) built facilities, and (h) urban green infrastructure (see annex 1 table 1.3 for details). Compliance with the investment menu is a minimum condition for receiving funds. In addition, ULGs will be required to prepare the project in a participatory manner, including dialogue with the private sector, and consider social inclusion, gender and disability considerations, and climate change and disaster adaptation.<sup>46</sup> ULGs can spend up to 5 percent of investment grants and regional/city contributions on capacity building support. For regional government entities, the grants will mainly be used for capacity building, operations and management expenses, subject to the eligible capacity building areas, similar to the ULGs.

**Table 1.3. Investment Menu for ULGs: Eligible Areas in Infrastructure and Services**

| Infrastructure/Service | Type   |
|------------------------|--|
| <b>Roads</b>           | <u>Expenditure group 1:</u> Cobblestone, <sup>47</sup> gravel, red ash and earthen roads. (asphalt roads are not eligible)   |
|                        | <u>Expenditure group 2:</u> Rehabilitation of roads (except asphalt), bridges, fords and culverts, pedestrian walkways or footpath, cycle path, paved area, roundabout, street lighting, road signs and traffic lights, bus terminals, bus stop/station. |

<sup>44</sup>The regional government and ULGs will be making funding contributions at various levels, as detailed in the Technical Assessment. The contribution from the ULGs constitutes one of the minimum conditions to be met for each ULG to qualify to receive funding from the Program.

<sup>45</sup> In the first year, the simple average per capita for the new 73 ULGs and the ULGDP II 44 ULGs will be US\$14.79 and US\$17.68 per capita respectively. From the second year, the per capita allocation uses an average figure similar for the two groups, which is US\$17.68.

<sup>46</sup> Details of and procedures for the use of investment project prioritization and selection criteria will be included in the POM.

<sup>47</sup> The construction material for cobblestone roads will be available and produced locally and thereby reducing the need for long haul transport and minimize related carbon footprint. When installed on a permeable base, the cobblestone will allow water to permeate as well as filter into the porous joints in-between the stone pavers. In addition, cobblestone, as a road surface stabilization material, helps to protect the roadbed from damage and reduce the frequency of maintenance needed. While not specifically used for traffic calming, cobblestone streets can have a latent calming effect. Vibrations caused by small, constant changes in the roadway surface cue drivers to slow down.

| Infrastructure/Service   | Type   |
|--|--|
|  | <i>Note: Road works outside of existing rights-of-way or requiring significant resettlement of people (more than 200 people, project-specific) will not be eligible for funding under the UIIDP.</i>   |
| <b>Integrated multiple infrastructure and land services (residential, MSEs, industrial zones, tourism sites)</b> | <u>Expenditure group 3:</u> Servicing of land with utilities (water supply, electricity, telecommunications, roads and drains (within planned right of way, as per the structural plan/local development plan)), solid and liquid waste collection and disposal.   |
| <b>Sanitation (liquid waste)</b>   | <u>Expenditure group 4:</u> Sewer reticulation systems, <sup>48</sup> wastewater treatment ponds/treatment plants, sludge ponds, community soak away pit and septic tanks, public and communal toilets, ventilated improved pit, Ecosan, biogas and vacuum trucks, vacuum handcart. (in planning and implementation cities must follow manual and standard from Urban Water Supply and Sanitation Project.)  |
| <b>Solid waste management</b>  | <u>Expenditure group 5:</u> Collection trucks and other collection tools, collection bins, transfer stations, recycling center/sorting facilities, collection points; skips and skip loaders, hand push carts, landfills <sup>49</sup> (of the size of maximum 10ha and minimum design criteria as per the solid waste management manual), biogas and composting plants; and landfill site equipment including compaction vehicles, garbage truck, grader, dozer, loader, dump truck and excavator                                   |
| <b>Urban drainage</b>  | <u>Expenditure group 6:</u> Drainage systems (follow the guideline developed by the MUDHo), flood control systems.   |
| <b>Urban DRM and initiatives to enhance resilience<sup>50</sup></b>  | <u>Expenditure group 7:</u> Fire brigade equipment, trucks, facilities, fire stations, non-grid renewable energy supply (for example, solar, wind), landslide protection structures  |
| <b>Built facilities</b>  | <u>Expenditure group 8:</u> Markets for small businesses <i>not exceeding ground floor</i> with associated services (water supply, drainage, access roads, sanitation facilities), upgrading the existing markets, one-stop shops, slaughter houses (abattoirs) <sup>51</sup> ( <i>not exceeding size of 2 ha and the category of level B, C, and D</i> ) with by-products and processing facilities, abattoir trucks, production and premises, sales and display centers for MSEs, community center, youth center, cultural centers |
| <b>Urban green infrastructure</b>  | <u>Expenditure group 9:</u> Urban parks, public spaces and greenery development projects.  |

<sup>48</sup> Sewer reticulation systems canals (primary canals) shall not exceed in diameter 1,000 millimeters or 10 kilometers.

<sup>49</sup> Landfills: To ensure that all landfills activities are environment friendly and socially acceptable with no or minimum impacts to the nearby environment, landfills construction and operation activities should not exceed 10 hectares and should comply with provisions as stated in MUDHo standard. These include, among others: all landfills should have 1. bottom lining system with compact clay soil and covered by geo-membrane (synthetic linings) to separate the trash and subsequent leachate from groundwater; 2. Leachate collection system to collect rain or other water percolated through landfill which possibly contains contaminating substances (leachate); 3. Oxidation or other treatment ponds for further treatment of leachate; 4. Methane collection system/gas management to collect methane gas that is formed during the breakdown of trash; 5. Run-off water drainage system to prevent rain water flash from the nearby area; and 6. Composting yard and other facilities within the landfill site and upstream collection and transportation area. Cities should comply with the national standard and classification set by MUDHo. Also, cities must conduct landfill feasibility study, ESIA and RAP for review and clearance. All landfills are subject to regional environmental and social performance review and annual audits.

<sup>50</sup> Only cities which have emergency response unit and emergency plan are eligible.

<sup>51</sup> Slaughterhouse/abattoir: Slaughterhouse construction should follow the MUDHo standards and classification for environmentally safe implementation of the investment. Slaughterhouse under the program should not exceed 2 hectares (level B, C, and D of the MUDHo classification). The following provisions should be included in the design for construction and operation phase. These are: 1. liquid waste treatment plant, which is sited at minimum distance of 50 meter from slaughter house; 2. separate closed drainage line for collection of liquid wastes from slaughterhouse to the septic tank; 3. septic tank bed level shall be below nearby ground water level; 4. slaughter house at metropolitan cities shall have rendering plant with smell nuisance control; 5. Runoff water drainage system to prevent rain water flash from the nearby area; and 6. Other facilities like guardhouse and water points. Cities should comply with the national standard and classification set by MUDHo. Cities must conduct Slaughterhouse feasibility study, ESIA and RAP for review and clearance. All slaughterhouses are subject to regional environmental and social performance review and annual audits

| Infrastructure/Service   | Type   |
|--|--|
| Consultancy services for design, studies and contract management | <u>Expenditure group 10</u> : For studies relating to preliminary and detailed design, contract documentation and supervision relating to the above infrastructure and services.               |
| Capacity Building Support  | <u>Expenditure group 11</u> : Up to 5 percent of investment grants and regional/city contributions can be utilized on capacity building support, see menu for capacity building support below. |

*Notes for investments:*

- a) Current **maintenance and operational costs, including salaries**, should not be funded by the UIIDP grant. Other ULG sources, including OSR should be used for these expenditures. The performance system will promote planning and actual provision for this to ensure longer-term sustainability.
- b) **The investment menu above explicitly excludes possible high-risk activities and Category “A” types of activities.** Investments, which according to the WB Operational Manual for Environmental Assessment (OP 4.01) are classified in Category A are explicitly excluded from the Program. These “...are projects which are likely to have significant adverse environmental impacts that are sensitive, diverse, or unprecedented. These impacts may affect an area broader than the sites or facilities subject to physical works”. Category A projects are not supported by PforR operations and ULGs cannot use the UIIDP funds for these types of investments.
- c) **While the scope and scale of works under the Program are not expected to cause significant adverse environment and social impacts, the current Environmental Impact Assessment procedures in Ethiopia require that all investments are screened** for negative impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people.
- d) **Siting, design, construction and implementation of all physical infrastructure must consider risk map/DRM plan and integrate measures to make them resilient to climate change and disaster impacts.**
  - Siting and construction: Steps should be taken to screen location of physical infrastructure to minimize exposure to disasters (flood, earthquake, drought, fire, landslides).
  - Design and implementation: Design and operation of infrastructure and services need to consider climate and disaster impacts. Additionally, sanitation and solid waste management facilities are to consider waste segregation, treatment and reduce contamination of water sources in the event of flooding or other disasters.
- e) **In addition to screening for significant negative impacts, the following works will be ineligible for financing under the UIIDP:**
  - Road works outside of existing rights-of-way;
  - Infrastructure works that require significant resettlement of people (more than 200 people, project-specific)
  - Activities that would significantly convert natural habitats or significantly alter potentially important biodiversity and/or cultural resource areas.

**The following works have additional conditions under the UIIDP:**

- Canals (sewer reticulation systems canals (primary canals)) should not exceed a diameter of 1,000 millimeters or 10 kilometers.
- All landfills should comply with minimum design criteria as per the solid waste management manual, and not exceed 10 hectares. ULGs, in the design of sanitary landfills, will be required to demonstrate a system of waste segregation, collection, transportation, treatment, and disposal of leachates, before they start landfill constructions.
- Slaughter houses (abattoirs) should not exceed 2 hectares (within level B, C, and D of the MUDHo classification).

**Table 1.4. Eligible Capacity Building Areas for ULGs, and Regional Government Entities**

| Capacity Building Area                       | Capacity Building activity  |
|--|---|
| <b>Training, seminar, and conferences</b>    | <ol style="list-style-type: none"> <li>1. Short-term local training and related operating expenses</li> <li>2. Selected short-term training/courses (up to three months’ duration)</li> <li>3. Peer to peer support across ULGs</li> <li>4. Study tours as planned by the ULGs, with clearly defined learning objectives and follow-up action plan (study tours by ULGs must be coordinated by the region/ MUDHo as part of the planning process)</li> <li>5. Seminars/conferences/workshops/meetings expenses</li> <li>6. Training materials, trainers/resource person fees</li> <li>7. Hire of venue /hotel accommodation</li> <li>8. Refreshments</li> </ol> |
| <b>Organizational and System Development</b> | <ol style="list-style-type: none"> <li>9. Training needs assessment</li> <li>10. Assessment of IT system needs</li> <li>11. Organizational culture change – one stop shop, client orientation, contracting out, and so on.</li> <li>12. Social accountability and behavior change</li> </ol>  |

| Capacity Building Area      | Capacity Building activity   |
|-----------------------------|--|
|                             | 13. Organizational structure<br>14. Filing and archive system<br>15. Land management and administration systems<br>16. Disaster detection, response and risk reduction systems<br>17. Financial systems (IBEX, and so on.)<br>18. Management information and decision-making systems<br>19. Public consultation and engagement platforms |
| <b>Technical assistance</b> | 20. Consultancy fees and related operating expenses (for studies related to ULG service delivery operations, and institutional policies, laws, bye-laws, regulations, procedures) and organizational development (see above)<br>21. Printed material and stationery  |
| <b>Equipment</b>            | Equipment related with the capacity building support (not buildings) including:<br>22. Motor bikes (up to 1 percent of investment grants and regional/city contributions) <sup>52</sup><br>23. Office and field equipment  |

11. **The AFD will provide joint co-financing (around euro 9.8 million) to UIIDP through both the PforR and the IPF windows.** Specifically, around euro 8 million (about US\$8.8 million) will be dedicated to supporting the performance-based grants under the PforR while around euro 1.8 million (about US\$2.0 million) will be used for subcomponent 3 under the IPF window, on conducting project preparation studies, pre-feasibilities and feasibility studies for further investments for ULGs with specific needs on LED and cultural heritage. The AFD-supported areas would be seamlessly incorporated as part of the UIIDP design, hence adopting all WB’s implementation system, guidelines and policies without separate reporting requirements.

**A. Capacity Building and Institutional Strengthening**

12. **The UIIDP will further strengthen the capacity building architecture established under the ULGDP II, by adopting a systematic, cascading and coordinated vision and approach.** The key challenges identified during ULGDP II and the emerging lessons formed critical inputs in sharpening the capacity building architecture. To enhance coordination and improve synergies on capacity building efforts across the three levels of government, a Capacity Building Manual<sup>53</sup> will be developed for the Operation providing guidance on prioritized themes, cascading objectives, allowable activities, and capacity building templates for all three levels. The interrelationship of the templates will ensure a cascading and complementary capacity building planning and implementation process. Feedback arrangements on the capacity building will also be established to allow adjustments and improvements during implementation.

13. **The capacity building efforts will dovetail with the Program’s prioritized thematic focus areas, and further incentivized through PMs.** Capacity building PMs will encourage better planning and implementation of capacity building activities. It will reward the undertaking of systematic assessment and gap analysis to inform and better tailor capacity building plans, which in turn address the performance in key result areas. These include: (a) participatory planning and budgeting, (b) revenue generation, (c) FM, (d) procurement; (e) infrastructure asset management, (f) contract management, (g) urban planning, (h) environmental and social management; (i) auditing; (j) ethics, fraud and corruption, (k) M&E, (l) gender equality, (m) urban resilience, and (n) LED. It will further reward the effective execution and reporting of capacity building activities in accordance with the capacity building plans to strengthen the linkage between planning and implementation.

<sup>52</sup> Regions can procure vehicles only for RMTs (maximum 2 cars per team)

<sup>53</sup> The comprehensive Capacity Building Manual will be prepared by the MUDHo as an annex to the POM. This will serve as the framework for shared understanding among the different entities and provide detailed guidance to structure and prioritize capacity building activities at all three government levels.



14. **Every year, a capacity assessment will be conducted at all three levels.** This assessment will include (a) an implementation report (of past year's activities), (b) a self-assessment/gap analysis (to review the past year's activities as well as specific weaknesses identified in the APA), and (c) the development of a capacity building plan for the coming year. The capacity building plan will consist of cascading but individual plans for each level (and for each ULG). For example, the capacity building plans at the ULG level will include activities which will be implemented by themselves and those for which support from the regional and federal levels are required. Before finalizing the plans of the regions and federal levels, consultations forums will be held to ensure that the demands and priorities of the lower tiers are adequately reflected in the plans of the higher tiers. The annual training calendar and TA schedule will be part of the planning exercise.

15. **The capacity building activities would focus on all three levels of governments and tailored to each of their needs.** In addition, four main modalities will be used for building capacity at the three levels. These include: (a) structured learning through classroom training, (b) technical assistance and on-the-job training, (c) learning and knowledge exchange platforms, and (d) guidelines and systems rollout. Further details of the execution at each level are as elaborated below.

- **ULGs.** Both supply-driven and demand-driven approaches are adopted for capacity building at the ULG level. On the supply-driven side, the ULGs will have access to a range of capacity building activities offered by both the regional and federal government entities, including the support from the RMTs and the FMT. Structured training courses on overall urban management and governance, and specific technical aspects such as procurement and safeguard management would also be made available through arrangements with appropriate regional universities, management institutes and other national and regional level capacity building institutions or private providers, coordinated by the federal or regional levels.

On the demand-driven side, each ULG may use up to 5 percent of their investment grants on capacity building activities in accordance to the menu of eligible uses (see table 1.4). The ULGs will be required to prepare capacity building plans following the guidelines and formats presented in the Capacity Building Manual. The capacity building plans will be expected to include activities that address specific weaknesses identified in the APAs and in systematic self-assessments. A capacity coordination unit will be established in ULGs and comprise focal persons drawn from various departments within the government, with the city manager as the lead and the head of the capacity coordination unit as the convener. The capacity building coordination unit will lead the self-assessment, gap analysis, preparation of the capacity building plans, and monitor and report on implementation.

**A phased and targeted approach will be taken to raise the capacity of the 73 new ULGs to meet Program requirements.** The new 73 cities inducted under UIIDP will be provided with upfront technical assistance to sensitize, orient and gear them up for Program implementation. These new cities will receive at least 8 months of capacity building from technical assistance consultants (3 firms) being hired by MUDHo before undergoing the first assessment, where they will be assessed on the MCs only. Thereafter, they will continue to receive at least an additional 10 months' capacity building from these technical assistance consultants on all the UIIDP performance measures making up a total of 18 months' support. This is also based on the successful up-scaling experience from ULGDP to ULGDP II which followed similar principles. Mentoring and other knowledge exchange tools will be used to support new ULGs utilizing experienced ULGs.

- **Regional government entities.** Regional BUDs will take the lead in providing capacity building support to ULGs, through formation of the RMTs. RMTs will provide technical

assistance to ULGs in the areas of core urban management focusing on those corresponding with the MCs and PMs. The RMTs will partner with regional entities responsible for key result areas and will jointly draw up capacity building plans and in delivering them in a coordinated manner. The various regional entities are further incentivized to improve their capacity and that of ULGs to deliver the results as demanded through the regional DLIs. Beyond the ULGs, various regional government entities—such as the Construction Bureaus, the Land Development and Management Agency, the Urban Planning Institute, the Urban Safety Net and Job Creation Bureaus, the Women Affairs Bureaus, and the Investment Commissions—will also benefit from regional capacity building activities, strengthening their urban governance and management roles. (The RMTs will spend at least 15 days per month in the field.)

- **Federal government entities.** The MUDHo will lead the federal level capacity building efforts, form the FMTs and coordinate the support provided by other federal government entities. The FMTs will provide technical assistance and advice to the regional government entities and ULGs. Specifically, the FMTs will: (a) backstop the ten RMTs and the four ULGs in the regions without RMTs; (b) provide general backstopping for all regions; (c) mentor the regional authorities in key results areas; (d) conduct or coordinate capacity building for the MUDHo, and guide consultancies, studies and other initiatives; and (e) provide overall coordination and oversight of capacity building activities under the UIIDP, including the initial training of new teams. (The FMTs will spend at least 15 days per month in the field.)

To avoid duplication of efforts by RMTs and FMTs, the roles of both sets of teams will be clearly defined in the capacity building manual. While the RMTs will be focusing on delivery of capacity building activities, the FMTs will focus on module development, ToTs and TA identification and certification, quality assurance and feedback mechanisms and needed technical back-stopping to ULGs. The FMTs will also partner with universities, management institutes and other national and regional level capacity building institutions to deliver programs.

16. **Four main modalities will be used for building capacity:**

- **Structured learning through classroom training.** This being the most common and classic capacity building modality, it will be used widely in capacity building activities. In addition to the current system of the regional and federal teams training officers of ULGs, an added focus will be on classroom ToTs at regional and federal levels. The ULGs will then be able to draw on resource persons from such a trained pool of ToTs, in addition to their dedicated RMT/FMTs. ToTs will be developed for each of the thematic areas and thematic champions identified from the ULGDP II ULGs.
- **Technical assistance and on-the-job training.** The modality is aimed at transferring on-the-job skills and backstopping support to ULGs. Experienced staff (including those with proven skills and experience, as well as retired staff, or those from relevant institutions or NGOs) will be identified and accredited as providers of technical assistance. RMTs and FMT will be responsible for quality assurance of these technical assistance providers.
- **Learning and knowledge exchange platforms.** Knowledge exchange platforms will be organized among ULGs and practitioners within the thematic areas. ULGs and practitioners will be provided with peer-to-peer, face-to-face learning and knowledge exchange opportunities. These could include thematic working groups, periodic meetings with ULG representatives and RMTs and FMT, and mentoring by successful ULGs of weaker ones.

- **Guidelines and systems rollout.** This modality will allow more systematic and accessible rollout of guidelines and systems to the ULGs. This could include publishing a compendium of the latest and updated reference handbooks on important thematic areas, or building an electronic repository of all such rules regulations and guidelines by region with appropriate indexing. Processes for archiving and retrieving information in areas of core urban management could also be enhanced through innovative system improvements.

17. **Capacity building monitoring framework.** A robust monitoring and information system covering ULG, regional, and federal level, will be established to monitor timeliness, adequacy, and effectiveness of the planning and execution of capacity building activities and resources. The capacity building plan and implementation reports will also contain result/outcome indicators to be measured annually, in addition to strengthening the DLIs on capacity building for DLI 2 and DLI 5. ULGs, regional government entities, and the MUDHo will report on the capacity building activities, achievements and these indicators in their progress reports and capacity building implementation plans. In addition, each of the capacity building events carried out will include a participant evaluation, rating the relevance and quality of the event. There will be a feedback mechanism as part of capacity building monitoring system. Performance of capacity building institutions (ULG capacity coordination unit, RMTs, FMT), and service providers (universities, ToTs, and technical assistants) will also be assessed. The formats for reporting will be included in the Capacity Building Manual.

### C. UIIDP Transitional Framework- Update of the Urban Development Program and Development of an Urban Fiscal Strategy

#### *Background*

18. **Ethiopia is urbanizing rapidly and has one of the fastest growing urban populations in the world.** The number of people living in urban centers is expected to nearly triple in the next two decades, from 15.2 million in 2012 to 42.3 million in 2037, growing at 3.8 percent a year. The Ethiopia Urbanization Review 2015 indicates that the rate of urbanization will be even faster, at about 5.4 percent a year.<sup>54</sup> That would mean that the urban population will triple by 2034, with 30 percent of the country’s people in urban areas by 2028. Ethiopia is undergoing a demographic transition. The labor force has doubled in the past 20 years and is projected to rise to 82 million by 2030, from 33 million in 2005. Well-functioning cities will be essential if Ethiopia is to reap this demographic dividend and avoid agglomeration diseconomies.

19. **Most of the growth in urban areas is expected to be in secondary cities, which are currently relatively small.** For example, Ethiopia’s second largest city, Mekelle, has about 300,000 residents, compared with Addis Ababa, which has about 4 million people. Ethiopia has a significant number of secondary cities, which are spatially distributed across the country. In its efforts to promote more balanced spatial development, the government’s National Spatial Plan entails supporting economic development in 12 regional centers, based on their economic potential. This spatial framework envisages that development will largely be driven by growth of secondary cities and development of their rural hinterlands, with an emphasis on the balanced development of the urban hierarchy within each urban cluster. This will require major institutional and infrastructure investments in Ethiopia’s cities to provide a conducive environment for growth.

20. **The government’s new UIIDP (2018–2023) envisions that all cities will gradually generate increasing levels of municipal own-source revenues, with which to finance investments in infrastructure and deliver services. However, this will be a long-term process.** Currently, municipal revenues account for only 3 percent of all revenues collected in Ethiopia. The Constitution of Ethiopia

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<sup>54</sup> World Bank and Cities Alliance. Ethiopia Urbanization Review. 2015.

defines the division of main revenue sources between federal and regional state levels. The revenues assigned to the federal government, given the existing tax structure, generate the large portion of the domestic revenue. Thus, the federal government collects about 81 percent of all revenues, while regional governments collect about 19 percent. This significant vertical fiscal imbalance is addressed through fiscal transfers from the federal to the regional governments. Intergovernmental fiscal transfers form a critical component of sub-national finances in Ethiopia. Regions receive most of their financial resources through fiscal transfers from the federal government, and in turn, provide fiscal transfers to the local level. The main federal to regional transfer is in the form of unconditional or general purpose grants. Although resources flowing through the general-purpose grant system are increasing, on average 80 percent of these resources are used to fund salaries and other recurrent expenditures related to state functions, while resources for capital expenditures are limited. Moreover, small towns (*woreda* administrations and about 130 ULGs) are using their general purpose grant only for the salary payments of staff executing state functions.

21. **Municipal functions are financed exclusively from local revenues, through taxes, income from leasing land, fees, and user charges.** These funds that average between US\$20 and US\$30 per capita per year across ULGs are too small to meet the significant and growing demand for urban infrastructure and services. The WB's 2015 Ethiopia Urbanization Review has estimated that some US\$400 per capita per year will be needed to meet the infrastructure gap. This is well above the current funding of about US\$26 per capita per year, with the support under the UIIDP, including the contributions of the cities and the regions.

22. **To help ULGs meet their investment needs, the GoE in 2008 established the ULGDP.** This specific purpose grant nature of financing urban development through a fiscal transfer program that disbursed to the participating 18 ULGs based on the scores they achieved in an independent APA in the areas of institutional performance (participatory planning, own-source revenue generation, budgeting, procurement, FM, land management, and compliance with environment and social safeguards, and others) and achievement of infrastructure and O&M targets. Based on the success of the first phase which ended in 2014, the WB supported the Second ULGDP, expanding the performance grant system to 44 ULGs. While technically the ULGDP should be mainstreamed into the government's intergovernmental fiscal transfer system, tracked in the public financial management system and be reported as a transfer, it is currently not linked with the other transfers.

### *Short- to Medium-term Initiatives*

23. **There is now a need to update the government's urban development program, the ECSPGs, and to develop a clearly linked urban financing strategy that articulate how investment in cities will be financed once the proposed UIIDP ends.** The UIIDP includes actions to prepare for a transition of the current system to a future longer-term coherent sustainable urban development strategy with related fiscal architecture for funding of urban infrastructure and delivery of services. To ensure that the transition is smooth and well-coordinated, the UIIDP is supporting the following initiatives:

- **First, cities and regions contribute matching funds, which increase as their revenue generation capacity improves and revenues increase.** Thus, 16 cities that have been participating in the Program since it began in 2008 will have to contribute 40 percent of matching funds, and Dire Dawa and Harar will contribute 50 percent due to their special status as federal cities and regional status respectively. Some of these cities have established industrial zones that will require large investments in infrastructure to ensure that they operate effectively with linkages to import and export markets. Financing these will require new sources and modalities of financing.

- **Second, the MUDHo will continuously monitor the revenue generation capacities and revenues of all cities participating in the UIIDP.** It will support this with the issuance of guidelines and provision of technical assistance.
- **Third, the UIIDP contains specific DLIs that reward ULGs for performance in generating own-source revenues and that reward regional government entities for helping to build the capacity of ULGs for revenue generation.** The support provided under the two phases of the ULGDP has clearly helped the participating cities in improving revenue performance. For example, cities that have been in the Program for the last nine years generate about US\$30 per capita per year compared with the ULGs newly participating in the UIIDP, which generate US\$20 but with great variations across the ULGs in each of the groups (EFY 2008 data).<sup>55</sup>
- **Fourth, the program will strengthen the support to promote longer-term sustainability** through incentives, capacity building, technical assistance and guidelines from the regional level on own-source revenue.
- **Fifth, the initiatives to create jobs and promote LED,** will again contribute to boosting own-source revenue and longer term sustainability.
- **Finally, the MUDHo, with support from the MoFEC and technical assistance from development partners, will start exploring other financing modalities for cities.** The MUDHo under the UIIDP will undertake a comprehensive review and update of the ECSPGs and develop an integrated and clearly linked urban financing strategy.

### *Medium to Longer Term*

24. **Despite these initiatives under the coming UIIDP, there is a clear need to think beyond the coming five years of the UIIDP,** both for the currently enrolled ULGs, and ULGs which are not yet covered. The review and update of the ECSPGs and urban fiscal strategy will consider the following issues (amongst others):

- Review of the urban development mandates; including divisions between state and municipal functions and update of major initiatives and programs.
- Costing of the core mandates and estimates of overall funding requirement and gaps.
- Review of urban revenue collected and potential revenues at the ULG level.
- Review of alternative revenue sources, including improved framework for own-source revenue, options for borrowing, issuing of bonds, and the like.
- Review of the current intergovernmental fiscal transfers system and the location of the ULGs in this architecture, and review of the linkages between the current UIIDP performance-based capital grants and the linkages with the government's general purpose grant and the specific purpose grants.

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<sup>55</sup> Based on a sample of 9 original ULGDP ULGs and 16 new UIIDP ULGs. Revenue data is from the EFY 2008 final accounts (FY2015/16).

- Review of future options and modalities for a sustainable and comprehensive intergovernmental fiscal transfer system targeting the urban centers, which fits well with the legal framework (which may be up-dated in required areas as well). This will include a review of the balance between OSRs, intergovernmental fiscal transfers and other funding modalities such as, for example, borrowing.
- Review and design of the future institutional framework, including grant management, flow of funds, reporting and accountability systems, and the like.
- Review and design of future incentive structures, capacity enhancement modalities and support to ULGs performance enhancement.

25. **This strategy will be coherent and well-phased.** The strategy will be developed with due consideration of the capabilities and experiences from the various ULGs, for example, the ULGs which first joined the ULGDP in 2008 years ago, versus the newly entering ULGs (or ULGs not yet covered). The strategy will also review international experiences and realism in the funding system compared with urban mandates and revenue sources and potential.

26. **The relevant authorities (cabinet and parliament) will have to approve the strategy to allow for the new system to be integrated into Ethiopia’s intergovernmental grant system.** It is expected that such approval will be granted at least two years before the conclusion of the UIIDP to allow time for the new system to be established, and capacity for its implementation built.

27. **Table 1.5 summarizes the envisioned trajectory on the financial support and initiatives for the various groups of ULGs.** The specifics of the initiatives after UIIDP will be determined 1–2 years before the end of the UIIDP through the comprehensive review and strategy development mentioned above.

**Table 1.5. Envisioned Trajectory of Support Varied by ULG Groups**

| Groups of ULG   | UIIDP<br>(Phase 1: 2018/19–2022/23)   | Beyond UIIDP  |
|---|---|---|
| <b>18 ULGDP ULGs<sup>56</sup></b><br>Populations ranging from 59,300 to 286,600.        | Covered by grant support with a higher requirement on co-funding (40 or 50 percent).<br><br>Strong support to improve own-source revenue.   | The urban development financing strategy will determine the need for and modalities of possible grants closely linked with the government’s intergovernmental fiscal framework, targeted and probably with some form of performance-based allocations, based on the good lessons learned from Ethiopia and international best practices. The strategy will also explore the possibility of mixing grants with borrowing if the cities are close to credit worthiness by the end of UIIDP. |
| <b>26 ULGs newly joined the ULGDP II</b><br>Populations ranging from 25,200 to 152,700. | Covered by grant support, and with an increased requirement on co-funding (30 percent), still need strong continued support.<br><br>Strong support to improve own-source revenue. | Will be followed-up by a mix of initiatives, public-private partnerships, special support on larger projects, specific project support, support from regions, and the like. The urban development financing strategy will determine the need for and modalities of possible grants closely linked with the intergovernmental fiscal framework, targeted and probably with some form of performance-based allocations.   |
| <b>73 ULGs newly joined the UIIDP</b><br>Populations ranging from 20,300 to 65,200.     | Covered by grants (enrolled gradually); relatively lower requirement on co-funding (10–20 percent)<br><br>Strong support to improve own-source revenue.                           | Increased co-funding.<br><br>Will need a stronger support for some years from regions/central level and take part in the overall funding system to be elaborated.<br><br>Strong support to improve own-source revenue.  |

<sup>56</sup> Excludes Addis Ababa.

|  |             |   |
|--|-------------|---|
|  |             | The urban development financing strategy will determine the need for and modalities of possible grants closely linked with the intergovernmental fiscal framework, targeted and probably with some form of performance-based allocations. |
| <b>Other cities not covered by UIIDP</b> | Not covered | Will require strong fiscal and capacity building support.<br><br>Will be targeted through the city-wide funding arrangement to be developed under the updated ECSPG with its urban financing strategy.                                    |

## Attachment 1: Experience of the ULGDP and ULGDP II

1. **The GoE and the WB have been working in partnership since the early 2000s to help Ethiopia’s ULGs effectively meet their new responsibilities.** The WB has supported the government’s strategy through a series of projects,<sup>57</sup> and continued doing so in the first phase of ULGDP since its initiation in 2008 and the second phase of the program (ULGDP II) since 2014. Both programs’ main thrust is to leverage institutional capacity at the ULG level to improve service delivery and urban infrastructure. Its overall objective is to support improved institutional performance in the planning, delivery, and sustained provision of urban services and infrastructure by ULGs.

2. **Phase 1 of the program, ULGDP, focused on addressing the institutional capacity and infrastructure deficits of 37 ULGs.** Program’s focus was on 19 participating ULGs (including Addis Ababa)—which received both capacity building and performance-based grants for infrastructure and service delivery. The remaining 18 ULGs only received capacity building grants with a view to preparing them to receive performance grants in phase 2.

3. **ULGDP II included 44 ULGs and expanded the scope of support to federal and regional governments to strengthen their capacity to backstop ULGs.** The ULGDP I and II are jointly funded by the government and the WB, where the IDA contributed US\$300 million and US\$380 million respectively; while the counterpart funding was US\$116 million and US\$176.55 million respectively. For this UIIDP, the scope and boundaries will be identical to the scope and boundaries of the new government UIIDP program (see table 1.6). Thus, the UIIDP is supporting ULGs with financing provided partly by the WB and partly by government.<sup>58</sup>

**Table 1.6. Government Program and WB Support**

| Program and Target                | 1 <sup>st</sup> Phase<br>(2008- 2014) | 2 <sup>nd</sup> Phase<br>(2014 – 2019) | UIIDP<br>(2018- 2023)         |
|-----------------------------------|---------------------------------------|--|-------------------------------|
| Government program (program)      | <b>ULGDP</b>                          |  | <b>UIIDP</b>                  |
| WB Program<br>(Program/Operation) | <b>ULGDP (IPF)</b>                    | <b>ULGDP II (PforR)</b>                | <b>UIIDP (PforR with IPF)</b> |
| Target ULGs                       | <b>19+18 (37)</b>                     | <b>18+26 (44)</b>                      | <b>44+41+32 (117)</b>         |

4. **Performance-based grants in both Programs are allocated according to a population and performance-based formula.** The grant allocation to each ULG is determined by the performance of the ULG, as measured in the APA, and it considers the population. In ULGDP, an average of US\$16 per capita per year is allocated to the 18 smaller ULGs. These funds are then complemented by 20 percent matching funding from the ULGs and 20 percent from the regional governments. Under ULGDP II, US\$15.68 per capita per year was designed, with an innovative system whereby the ULGs could receive more if the performance was above target. The regions and ULGs contribute to the grants in the range between 30 percent and 60 percent depending on the category they belong to.

### Key Results of ULGDP and ULGDP II

5. **The ULGDP was completed in December 31, 2014 with full disbursement and ULGDP II is due to close in 31 December 2019 with 84 percent disbursement (as of June 2017).** ULGDP II made four rounds of disbursements and they were all above original estimates due to better-than-average performance by the ULGs. In total, ULGDP II has disbursed US\$319 million (or 84 percent). This trend is

<sup>57</sup> Capacity Building for Decentralized Service Delivery project (2003) and the Public Sector Capacity Building program (2004).

<sup>58</sup> Program (with a capital P) refers to the PforR hybrid program, while program (with a lowercase p) refers to the government’s program.



expected to continue in the remaining two years as cities continue to improve their performance, and the high achievement rate will lead to a fiscal gap in the last year of the ULGDP II.

6. **Due to the better-than-expected performance of cities in ULGDP II, there is a need to replenish the funding resource pool.** The disbursement system for DLIs 1, 2, 3, and 4 (targeted at ULGs) is designed to be scalable and rewards actual performance (that is, if the ULGs perform better than expected, they will receive additional funds). Including the expected performance trends, the total projected additional funding required for the existing 44 cities to disburse against the ULGDP II expected results is approximately US\$63.74 million.<sup>59</sup> (It is expected that DLI 5–9 will perform as expected and no additional funds are required or significant savings expected for these regional and MUDHo DLIs.) DLI 10 of the UIIDP therefore will disburse performance-based grants in FY2018/19 against prior results on institutional performance, service delivery, maintenance, and job creation for 44 ULGs, based on the APA conducted in FY2017/18.

7. **Significant achievements have been made under the program through the two phases.** This is reflected through the substantial institutional strengthening achieved, direct jobs created, enhanced implementation of the CIPs of ULGs, urban infrastructure and services improved and strengthening of the O&M, creating visible impacts on the ground across the country in the 44 participating cities.

- ***Leaps were made in institutional strengthening and urban governance which formed the bedrock in enabling better infrastructure and services delivery in cities as well as job creation.*** ULGs participating in the ULGDP have improved their capacity to deliver infrastructure and services and to maintain the actual assets. Before the ULGDP, participating ULGs had mainly dirt roads and few infrastructure and services. Under phase 1, around 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. Under phase 2, the direct program beneficiaries totaled more than 3 million. Over the last 2.5 years under ULGDP II, nearly 615 kilometers of urban gravel roads were built or rehabilitated, 930 kilometers of cobblestone roads were constructed, more than 100 hectares of public parks and greenery were developed, over 3,700 hectares of land were serviced for industry, MSEs, or housing; and numerous drainage systems, landfills, flood protection walls, public toilets, street lights were constructed. Furthermore, the annual jobs directly created by ULGDP has increased from 60,000–80,000 per year under the ULGDP I to around 140,000 per year under ULGDP II, with the increase due to construction of infrastructure using labor-intensive practices.
- ***On the ground, communities in the participating cities expressed high appreciation of the program.*** Cobblestone streets and drainage systems built with the program funds have become visible ULGDP trademarks. Communities appreciate these so much that they are now contributing their own funds to scale-up their construction, and have even spurred creations of MSEs locally to take on the construction work. The roads have led to improved access and mobility, and together with drainage improvements, reduced flooding, enhanced public health, as well as improved business/trading environment. In addition, the cities became more livable; neighborhoods are being revitalized, increasing property values and tax revenues. These infrastructure and services improvement are also key to local job generation (with the cobblestone construction benefitting largely youth, women and the unemployed) and assisted in the economic and social development of the cities, regions, and the country.

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<sup>59</sup> Assumption here, is that the performance on each of DLIs 2 and 3 will increase to 92 points out of 100.

- ***The Program introduced several firsts in the country – the conduct of VfM audits, procurement and environment and social audits of local governments.*** At the beginning of the program, none of the cities had VfM audits. VfM audits started from the 3<sup>rd</sup> APA and have assessed the quality, timeliness, and cost effectiveness of completed infrastructure against standard benchmarks. REFAs conducted environmental audits and RPPPAAs conducted timely procurement audit annually. These new instruments have contributed to ensuring transparency, efficiency and effectiveness of the established system and the Program.
- ***Institutional capacity in the participating cities has made impressive improvements in their planning, revenue mobilization, asset management, budgeting, FM, investment planning, procurement, and project execution.*** While before ULGDP cities did not systematically consult with citizens in determining priorities, all program cities now have regular citizen consultation practice; in nearly all ULGDP cities the number of citizens participating in planning forums has more than doubled since the start of the program. Similarly, financial accounting and management have improved. All 44 cities have transitioned from manual to computerized systems for generating financial reports. At the beginning of the program, none of the cities has a timely audit, and now all 44 do. Further, since enrolling in the program, all ULGs were found not to have audit backlogs. REPs are in place in all cities. AMPs are enabling the cities to plan for new investments and budget for O&M needs in a more systematic and comprehensive way. Cities are now systematically implementing maintenance programs. Own-source revenues are increasing in many cities, with 34 of the 44 cities increasing it by more than 10 percent in fiscal 2015, although overall levels remain low and have much room for improvement.

### **Key Challenges in Capacity Building**

8. ULGDP II implemented two channels of capacity building: (a) supply side intervention consisting of implementation course provided by Ethiopian Civil Service University (ECSU) and (b) demand side interventions up to 5 percent of the performance grants to meet their capacity building needs to bridge the capacity gaps identified in the APA. On the supply side ECSU carried out two training programs of two-week duration covering eight modules of topics relevant to project implementation to 26 ULGs representatives during November 2014 and February 2015. The usefulness and relevance of the course and inputs provided are not well established. Absence of a data base on trained personnel constrains the tracking and inference that the trained personnel remained to be deployed in critical positions for successful project implementation. On the demand side at ULG level sample analysis of data revealed that most of the ULGs spend the funds allocated capacity building between training and office equipment; the most preferred being office equipment. On the training side, systematic development of modules to be delivered, careful identification of resource person and robust feedback mechanism to monitor quality of the training provided were conspicuously absent.

**Box 1: Snapshots on Progress on ULGDP II.****Snapshot from the annual progress report of ULGDP II, 2017:**

The PDO of ULGDP II is to enhance the institutional and organizational performance of participating ULGs in developing and sustaining urban infrastructure and services. The program is making very good progress in achieving the PDO as demonstrated by the following key program indicators which measure the first and second part of the PDO:

**Key Performance Indicators and Achievement in the 4 APAs**

| DLI   | 1 <sup>st</sup> APA | 2 <sup>nd</sup> APA | 3 <sup>rd</sup> APA | 4 <sup>th</sup> APA |
|---|---------------------|---------------------|---------------------|---------------------|
| <b>Expected/ Target</b><br>(average score of all 44 cities)                       | <b>60</b>           | <b>65</b>           | <b>70</b>           | <b>75</b>           |
| Actual Score: DLI 2. Institutional Performance                                    | 67                  | 70                  | 83                  | 84                  |
| Actual Score: DLI 3 Infrastructure development, service delivery and job creation | 87                  | 72                  | 85                  | 92                  |
| <b>AVERAGE ACTUAL SCORE (DLI 2 &amp; 3)</b>                                       | <b>77</b>           | <b>71</b>           | <b>84</b>           | <b>88</b>           |

The DLI 2 and DLI 3 scores have been above average over the last four (4) APAs and the end of program target has been achieved in the third year of the five-year program.

**Key performance on infrastructure targets.**

| S/N | Infrastructure Indicators   | Cumulative Actual from start of program | End of Program target as per PAD and POM | Achievement To Date over Target (%) |
|-----|---|---|--|-------------------------------------|
| 1   | Number of people in ULGs with access to all-season roads within a 500 meter range provided under ULGDP II | 4.4 million                             | <b>4.2 million</b>                       | 105                                 |
| 2   | Urban cobblestone roads built or rehabilitated under ULGDP II   | 928 kilometers                          | <b>620 kilometers</b>                    | 150                                 |
| 3   | Urban gravel roads built or rehabilitated under ULGDP II  | 614 kilometers                          | <b>120 kilometers</b>                    | 512                                 |
| 4   | Serviced land for industry, MSEs and housing  | 5,511 hectares                          | <b>1,500 hectares</b>                    | 367                                 |
| 5   | New controlled or sanitary landfills supported under the ULGDP II   | 8                                       | <b>11</b>                                | 72                                  |
| 6   | Public parks and greenery under the ULGDP II  | 180 hectares                            | <b>45 hectares</b>                       | 400                                 |

## Attachment 2: Local Economic Development, Urban Resilience, and Gender Mainstreaming

### RAPID LOCAL ECONOMIC DEVELOPMENT ANALYSIS AND ACTION PLAN

#### A. Rapid LED Analysis

- 1. Economic development and job creation in cities is an important agenda for Ethiopia.** While urban unemployment and underemployment have recently reduced, they remain high in comparison to other African countries. Urban unemployment was 17 percent in 2014, compared with 7 and 9.5 percent in Rwanda and Uganda, respectively<sup>60</sup> and underemployment rates are also still staggeringly high at 43 percent.<sup>61</sup> Ethiopia's GTP 2 has put a major emphasis on urban development and job creation, on the one hand, and industrialization, on the other. Yet city administrations have not received sufficient support and capacity development to enable them to realize the full job creation potential of public investments in infrastructure and service delivery. Urban unemployment is particularly acute for youth and for people with a secondary education.
- 2. ULGDP II has made contributions to the job creation agenda which can be further strengthened to achieve more impact.** ULGDP II's emphasis on labor-intensive infrastructure construction has created over 93,913 permanent and 293,397 temporary jobs<sup>62</sup>, with about 44 percent of them for women. Cities have used the cobblestone road work as an instrument to systematically create jobs for the unemployed; jobless youth are grouped into MSEs, trained, and invited to compete for cobblestone construction contracts.
- 3. For the next stage of the program, the government has a higher level of ambition and the need for initiatives that “transform urban centers to centers of innovation and local employment generation in the country and to improve the socio- economic status of the citizens.”<sup>63</sup>** This means a potentially more expanded and explicit focus on sustainable job creation, beyond participation in public works, to better enable cities to alleviate some of the bottlenecks facing MSEs and private sector job creation. There is also a need for better impact assessment as well as M&E indicators of the program to capture its effects on job creation as well as on incomes within targeted cities.
- 4. A rapid LED assessment was conducted to assess city administrations' current mandates and capacities in this area, employment impact from ULGDP II cobblestone works as well as the major bottlenecks hindering wider job creation.** Two main rounds of field work were conducted. The first is a rapid assessment mission deployed to six cities of varying sizes and levels of capacity; Bahir Dar, Adama, Jijiga, Arsi Negele, Woreta and Gode. Focus group discussions were held in all cities with city administration officials, and private sector representatives, including MSEs. The second round visited eight ULGDP II cities—Mekele, Wukro, Adama, Burayu, Hawassa, Yirgalem, Bahir Dar, and Gondar—to learn about the job creation experience of ULGDP II subprojects in cobblestone road construction. The team met with city officials including mayors, deputy mayors, construction bureaus, heads of MSE office, job creation experts, and/or ULGDP coordinators to discuss the process of recruitment, training, bidding, management, earning prospects and post-completion support for cobblestone workers. In addition, 28 semi-structured interviews were conducted with former cobblestone workers, in the form of individual interviews

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<sup>60</sup> Although those countries do have higher informal employment.

<sup>61</sup> CSA Urban Employment and Unemployment Survey 2014.

<sup>62</sup> The aggregated numbers were calculated based on each city's APA data on job creation. Note that the methodology for calculating job creation varies across cities. Typically, permanent jobs are defined as the number of people in the cooperatives that were contracted for the construction, while temporary jobs are defined as the number of daily laborers hired subsequently by the cooperatives, or in some cities, the estimated number of a jobs created upstream the value chain (for example, jobs created at the quarry sites that supply stones for cobblestone road work). As noted, these job numbers are not derived from a robust or consistent methodology or definition, and hence the numbers should be viewed as rough estimates only.

<sup>63</sup> Excerpt from the GoE's request to the World Bank for additional financing.

or focus group discussions, to learn about their experiences, earnings, support received and labor market outcomes.

5. **The results of the assessment showed that all city administrations play a significant role in LED but with low levels of capacity.** Legislatively, cities are mandated to lead and coordinate LED activities, including creating conducive conditions for industrial development, effective land management, increasing attractiveness of the city for dwellers and investors, coordinating with other government organs for the provision of infrastructure (for example, electricity and water), and facilitating job creation through MSE development. In practice, all cities visited, big and small, had a major role in three main areas (a) infrastructure investments and facilitating access to land, (b) support to MSEs. For example, even in a small city like Woreta, the MSE office provides shades (premises), technical support, training on Kaizen management techniques and inspection services for final products. In addition, all cities visited outside of Somali Region played a role in (c) investment facilitation.<sup>64</sup> Investment offices were found to facilitate duty free import of machinery, equipment and vehicles as well as promote investment potentials through various radio, TV, and print media. Finally, all cities have some sort of dialogue with local private sector representatives, but most often on an ad hoc basis.

6. **On the job creation front, the assessment showed that the cobblestone road construction (and to a lesser extent, the drainage and urban greenery) subprojects financed by the ULGDP II are creating income opportunities for unemployed youth.** Instead of hiring existing private sector contractors, registered unemployment persons (with priority given to vulnerable groups including women, military retirees, returned refugees, the disabled) are grouped into cooperatives on the kebele-level, provided with free technical and business training, and given the opportunity to bid for cobblestone road contract. The earnings bestowed by cobblestone contract work, coupled with support from MSE offices, enabled many workers to engage in sustainable self-employment after the completion of cobblestone work. Examples of these new livelihoods include brick-making, welding, retail shops, urban agriculture, bajaj (three-wheeled motor vehicles), and minivans. Findings from the assessment suggest the significant potential of urban infrastructure subprojects to serve as boot camp to give a financial head-start for the unemployed, and this potential can be further exploited with better design and inter-agency collaboration.

## **B. Key LED Challenges and the Role of UIIDP in Alleviating Them**

7. **There are four key challenges and constraints identified during the rapid assessment.** These are: (a) infrastructure challenges hinder firm success and public private dialogue is not sufficiently informing CIPs; (b) low survival and graduation rates among supported MSEs; (c) low levels of capacity among city administration staff and offices; and (d) lack of access to land and electricity are also major binding constraints, delaying new investments but are more within the remit of the federal government.

*(a) Infrastructure challenges hinder firm success and public private dialogue is not sufficiently informing CIPs.*

8. **While firms appreciated investments in MSE shades and clusters, serviced land for industry zones, and the like, many of them reported a problem with lack of proper access roads to their sites.** This substantially raises their costs for getting inputs and transporting goods to market. For example, in Adama, firms indicated that roads connecting their factory site with the inner city are badly damaged and require heavy maintenance. Firms also mentioned that strategic infrastructure investments could promote the development of high potential sectors. For example, in Bahir Dar, there is no proper paved road or other tourist amenities at the city's top tourist attraction, the Blue Nile Falls. Free work premises provided to

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<sup>64</sup>In the Somali region this role was played by the Regional Investment Board, which is likely to be the case in Ethiopia's other Emerging Regions.

service or trade MSEs are often located in remote areas with few customer flow, which negatively impact profitability.

9. **City administrations should use public private dialogue to identify such key infrastructure bottlenecks as well as the potential to unlock economic opportunities (for example, for tourism, agribusiness, and the like) to inform their CIPs.** All cities indicated they undertake some sort of public private dialogue, but levels of frequency varied and many firms indicated that there was little action because of it. Private sector representatives consulted recommended that this dialogue should be institutionalized and held on a quarterly basis. This should include a wide variety of private sector representatives, including Chambers of commerce, MSEs and women traders' associations, professional associations, and the like. This type of dialogue could also open the door to public private partnerships. One excellent example comes from Adama, where the private sector is now contributing a significant proportion of the costs of rehabilitating internal roads and building sub-city government offices in partnership with the city administration.

*(b) Low survival and graduation rates among supported MSEs*

10. **A common issue that tends to be raised by MSE offices is the low survival and graduation rates of supported MSEs and their dependency on government support.** Studies on the GoE's MSE program have pointed out that this might be the case because the support is more akin to social welfare, where unemployed youth are grouped together and often assigned a business idea by the Government staff, rather than supporting motivated, growth-oriented entrepreneurs to establish and succeed<sup>65</sup>. Given that MSE support is a core responsibility for all city administrations, UIIDP should build their capacity and remodel the approach of MSE support. ULGs should be encouraged to identify at least a proportion of autonomously formed firms to be supported through open business plan competitions for entrepreneurs to present their own ideas. The MSE office could then work with a local university or micro-finance institution to assess these ideas for viability. The other challenge is the lack of strategic direction, ad hoc nature and variation of MSE policies across regions. The policies and strategies lack comprehensiveness and harmonization in terms of clear registration, incentive mechanisms, monitoring and follow up, and graduation procedures. The ad hoc incentive mechanisms and reservation schemes prepared to respond to short-term needs may have serious impacts on other non-MSE actors and reduce competitiveness.

11. **While urban MSEs are faced with multiple challenges to establish and grow, 'access to finance' has often been cited as the top constraint.** Collateral requirements for loans at microfinance institution (MFI) and commercial bank are high in contrast with comparable countries, discouraging aspiring entrepreneurs from borrowing. The application process for MFI loans are onerous and time-consuming, and this has significantly delayed business development of many MSEs. Moving forward, the city could play a larger role in facilitating access to finance for MSEs through the provision of reference letters, signaling good track records and financial solvency to financial institutions, or expediting the provision of work premises or business licenses which usually are inputs of the MFI loan application.

12. **Weak backward linkages to access quality raw materials and forward linkages to buyers and markets were mentioned as a key binding constraint by MSEs in all cities consulted.** MSE offices do try to foster some of these linkages but lack capacity to do so beyond government contracting. For example, MSEs involved in cobblestone production were able to grow and succeed as a result of being given preference in government construction contracts. The capacity of MSE offices could be further strengthened to encourage MSEs to aggregate into voluntary associations, for example, that could engage in bulk input purchase and bulk marketing, among other services. Assistance will be provided to prepare a harmonized

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<sup>65</sup> For example, Gebre Egziahber, T. and M. Ayenew (2010). Micro and Small Enterprises as Vehicles for Poverty Reduction, Employment Creation and Business Development: The Ethiopian Experience. FSS Research Report Number 6.

and comprehensive registration, incentive mechanisms, monitoring and follow up, and graduation procedures for MSEs.

*(c) Low levels of capacity among city administration staff and offices*

13. **While city administrations had a lot of LED mandates, the relevant staff and offices lack the capacities to execute them effectively.** Some firms even indicated that they felt they had higher capacities and knowledge than the officials in the MSE office meant to support them. Respondents also highlighted the broader issues of low public sector salaries as well as wage inequalities across different departments, which is demoralizing staff. Given that all cities, outside of Emerging Regions, undertake investment promotion, they should also be trained in promotion tools as well as in how to undertake aftercare services for investors.

14. **Given the large amount of cobblestone workers graduated from ULGDP II every year and the vulnerable nature of these beneficiaries, better collaboration between the local project implementation office and the MSE office is needed to streamline the self-employment support provided to workers.** Currently, the MSE office and ULGDP II office lack effective communication mechanisms to smoothly transfer cobblestone workers to MSE support, leaving many entrepreneurial attempts in failure due to the absence of proper business guidance, technical training or follow-ups.

15. **Lack of access to land and electricity are also major issues delaying new investment.** For example, in Adama, city administration officials indicated that investors had been stuck for the last 2 years, as a decision by the Oromia Regional Government was taken to stop land allotment<sup>66</sup>. Electric power shortages were also reported as a severe impediment to industrializations in all cities. These issues, however, need Federal level action urban land policy reform and increasing electricity provision capacity.

**C. Specific LED Aspects Included in the UIIDP**

**Table 1.7. Specific LED Aspects Included in the UIIDP**

| Output  | Action   | Responsible body  | Instrument |
|---|--|-------------------|------------|
| Improved public private dialogue to inform CIPs.                                | - Institute quarterly dialogue with private sector reps to inform CIPs.  | ULGs, Mayors      | PforR      |
| Improved impact of MSE support.   | - Target growth-oriented entrepreneurs and conduct selection through open business plan competition.<br>- Aggregate MSEs into cooperatives to enable bulk marketing and input supply.<br>- Facilitate access to MFI loans through the provision of reference letters, expedited provision of work premise, and expedited business licensing. | ULGs, MSE offices |            |
| Understand impacts of job creation and other LED interventions under the UIIDP. | - Commission household survey-based impact assessment at midterm and end of program to capture its wider impacts on cities compared to control group. <sup>67</sup><br>- Systematically track the survival of city-supported MSEs to gain better understanding of successes and challenges of current system.                                | MUDHo             | IPF        |

<sup>66</sup> Due to irregularities in the allotment process as well as the expense of compensation costs to farmers for loss of land.

<sup>67</sup> This needs to be designed by experts in impact evaluation. Control group of non-supported cities might not be possible due to the difference in characteristics of non-supported cities. Perhaps comparison with cities new to the program is an option.

|                    |  |       |     |
|--------------------|--|-------|-----|
| Capacity building. | - Commission technical assistance and training to increase capacity of federal, regional and ULG staff on LED planning, investment promotion, public private partnerships, private sector support and tourism investments. | MUDHo | IPF |
|--------------------|--|-------|-----|

## RAPID URBAN RESILIENCE AND DISASTER RISK MANAGEMENT ANALYSIS AND ACTION PLAN

### A. Overview and Need for Strengthening Urban Resilience in Ethiopia

1. **Ethiopia has one of the fastest growing urban populations in the world.** Population is projected to nearly triple from 15 million in 2012 to 42 million in 2034, an average annual growth rate of 5.4 percent.<sup>68</sup> With rapid growth comes a significant amount of new construction, much of which will occur in cities with limited capacity to ensure the structures in which people live, work and gather are safely built. During this time of transition to an emerging economy, when significant investments in infrastructure are made and resources are committed for years to come, it is critical for Ethiopia to steer settlement growth and construction toward safe areas and ensure the construction of safe buildings and infrastructure. Ethiopian cities are already struggling with access to jobs, infrastructure, services, and housing.<sup>69</sup> Rapid urbanization will lead to greater concentrations of people, assets, and infrastructure, thus increasing exposure to shocks and stresses. Limited capacity for land use planning, coordination of services, and mobilization of financing for infrastructure pose major constraints to healthy urbanization and will compound Ethiopia’s continued exposure to shocks and stresses.

2. **Together, these risks increase cities’ vulnerability to disasters such as floods, fire, and earthquakes, with potentially devastating effects on Ethiopia’s economic performance and its poverty-alleviation agenda.** Without systems and services for resilience, disasters can push vulnerable people into, or further into, poverty. Recurrent shocks can undermine past gains and hamper future economic growth, leading to a pernicious “poverty trap” for many of the urban poor.<sup>70</sup> If managed proactively, urban population growth presents an enormous opportunity to foster economic growth and support the GoE’s vision to reach middle-income status by 2025.<sup>71</sup> Timely and effective interventions *now* to promote resilience can have significant positive impacts on the long-term safety, productivity, and smooth functioning of the urban built environment. These interventions can reduce the impact of floods, fire, and landslides—which disrupt a city’s fabric and the lives and livelihoods of the people who live there. Socio-economic stresses—such as unemployment, air and water pollution, lack of housing, or lack of public services—can have the same impacts unless actions are taken to improve urban resilience.

3. **Resilience is the capacity of a city to provide services, adapt and grow, despite chronic stresses and acute shocks that may threaten its collective viability.**<sup>72</sup> Strengthening urban resilience in Ethiopian cities will require better understanding of risks, and incorporating resilience into land use planning and development, undertaking measures to mitigate risk through disaster and climate risk management, and improving regulatory decisions and emergency preparedness. Box 1 presents the participatory technical assistance employed to identify key priorities for urban resilience in Ethiopia.

<sup>68</sup>World Bank Group and Cities Alliance, 2015. “Ethiopia Urbanization Review: Urban Institutions for a Middle-Income Ethiopia.” Washington, DC.

<sup>69</sup> Ibid.

<sup>70</sup> Hallegatte, et al, 2017. “Shock waves: managing the impacts of climate change on poverty.”

<sup>71</sup> World Bank, 2013. “Ethiopia Economic Update II.”

<sup>72</sup> World Bank, 2015. “City Strength Diagnostic Methodological Guidebook.” Washington, DC.



4. **Increasing investment in resilience supports the strategic and long-term national priorities of the GoE.** The government's GTP 2 (2014/15–2020) emphasizes the fundamental importance of building green, resilient, and well-governed cities to achieving its vision of reaching middle-income country status. The Ethiopian Cities Prosperity Initiative, which builds on the GTP 2, focuses on inclusive and safer cities development as a key strategic pillar. Complementing Ethiopia's urban development policies, the government has developed policies to systematically manage its disaster risks, thereby also enhancing urban resilience. These include the 2013 National Policy and Strategy on Disaster Risk Management, recognizing the need to strengthen urban resilience, considering the growing risks of fire and other hazards associated with rapid urbanization, and the Disaster Risk Management Strategic Program and Investment Framework. Ethiopia's Climate Change National Adaptation Program of Action further contributes to the enhancement of urban resilience. Climate and disaster resilient development is also a focus of the WB's CPF for Ethiopia, given its importance to achieve the WB's twin goals of reducing poverty and increasing shared prosperity.

## **B. Key Urban Resilience Challenges and Potential Support Under UIIDP**

5. **To assess the key challenges in improving urban resilience, a technical assistance program was supported by the WB to identify actions to foster resilience in nine regional capitals and one city administration.** These are Adama, Assosa, Bahir Dar, Gambella, Harar, Hawassa, Jijjiga, Mekelle, and Semera-Logia, and Dire Dawa City Administration. The program was led by the MUDHo along with the Ministry of Construction, National Disaster Risk Management Commission (NDRMC), MoFEC, Ministry of Water Resources, Irrigation and Electricity, and Ministry of Labor and Social Affairs as well as numerous national, regional, and local government entities, local universities, civil society organizations, development partners, residents, and the private sector. The program was conducted between 2015 and 2017, primarily using City Strength diagnostic methodology to facilitate dialogue among stakeholders.

6. **The technical assistance found (a) impacts from disaster and climate shocks and stresses will increase in business as usual scenario, and (b) there are tangible social and economic benefits of strengthening urban resilience.** There are three core challenges:

- ***Managing flooding and water scarcity.*** The ten regional capitals face growing impacts from flooding, even as a majority also face severe water scarcity. With climate change, the frequency and intensity of flooding and water scarcity will increase if long-term preventive actions are not taken. The current piecemeal approach of relying on structural measures (primarily retention walls or drainage channels) and/or relocating at-risk populations does not provide effective and long-term flood-mitigation solutions.
- ***Disaster preparedness.*** The regional capitals do not have any dedicated budget or staff to plan, mainstream, and implement disaster and climate risk management actions; neither is there contingency financing. The cities do not provide flood warnings or earthquake, landslide, or volcano alerts, and no contingency plans are in place to prepare communities for disasters. Cities also lack adequate equipment and resources to respond to fires or take fire safety measures, especially in tall buildings and informal markets. With growth in city populations, higher fire-related mortality is expected, which is already close to 20 times the rate in middle- and high-income countries.<sup>73</sup> Improvements are needed not only for overall safety, but also to enhance each city's competitiveness and its potential to attract and retain new investments.

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<sup>73</sup> Based on the World Bank's 2016 building regulatory review, Ethiopia is spending roughly 1.5 percent less on fire protection features in buildings than middle and high-income countries (as a fraction of total building cost) and suffering close to 20 times the mortality, which currently totals close to 12,000 deaths per year.

- ***Building a regulatory framework.*** The regional capitals are witnessing rapid growth in new construction but have limited capacity to ensure that the new and existing structures are safely built to withstand earthquake, flooding, and fire, and avoid spontaneous collapse and other harmful conditions. Building regulatory review assessments found four key challenges that hamper the resilience of the built environment: (a) limited human and technical capacity as regional and municipal building agencies are increasingly overwhelmed by the influx of building permit applications and the growing complexity of building projects; (b) limited effectiveness of quality assurance mechanisms and information on hazard risks; (c) lack of implementation of new building standards; and (d) larger institutional and structural factors such as improving safety in informal construction. Improvements in planning, building inspection, and regulations can have significant impacts on the long-term safety, productivity, and resilience of the urban built environment.

7. Improved disaster preparedness itself will bring large benefits in Ethiopia.<sup>74</sup>

- Improved fire protection would effectively save 2,900 lives per year, equivalent to 160,000 lives saved in the next 34 years;
- Compliance with the seismic provisions of the building code would reduce the average annual loss by 30 percent by 2050, from US\$128 million to US\$90 million; and
- Improved flood management practices would reduce the average annual loss to about US\$93 million, a net annual reduction of about US\$230 million each year.

### C. Specific Urban Resilience Components to Supported Under UIIDP

8. While a larger program of investment is needed to support all the recommendations from the technical assistance, UIIDP can support the most urgent and critical need of investing in disaster preparedness to set the ground for a large operation later. The key areas are:

- ***Establish urban DRM institutional framework.*** Following the new national DRM policy, extend the existing national and regional DRM structure to the cities with dedicated staff and budget within city administrations. The urban DRM unit will oversee developing a DRM strategy, including: (a) securing early warning on flooding, drought, and high winds, and alerts for earthquakes and landslides; (b) ensuring community disaster preparedness; (c) developing contingency planning and budgeting; and (d) exploring risk financing and insurance options.
- ***Improve urban disaster data collection, risk assessment, and information sharing.*** Understanding what and where potential risks from urban disasters are, it's necessary to allocate resources rationally. This requires the generation and analysis of hazard and risk information, building on *woreda* risk profiles and improving seismic and flood hazard monitoring instruments and stations. At the national level, this information system can be housed in the MUDHo, linked to the National DRM Commission and other relevant ministries such as Ministry of Construction. The same information system will need to be extended at regional and local government levels. A joint task force between the MUDHo and the National DRM Commission can identify next steps to improve risk information collection and sharing, and coordination on DRM actions.

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<sup>74</sup> Based on assessment conducted as a part of the World Bank's 2016 building regulatory review assessment.

- **Improve fire and rescue response capacity by providing financial and technical support to fire services.** Cities need to undertake an assessment of the fire support services to identify the specific training and equipment needed to improve response capacity for densely populated buildings and neighborhoods. Based on the assessment, a local plan can be developed to assist in providing mobile firefighting units and search and rescue equipment appropriate for city responses to fire incidents under the UIIDP.

#### D. Specific Resilience and DRM Management Aspects to be Included in the UIIDP

Table 1.8. Specific Resilience and DRM Management Aspects to be Included in the UIIDP

| Output  | Action  | Responsible body    | Instrument |
|---|---|---------------------|------------|
| Establish local DRM unit.   | - As per national DRM policy and in consultation with NDRMC.  | ULGs, Mayors, NDRMC | PforR      |
| Develop local DRM and emergency plan to inform CIPs.                        | - Carry out quick risk assessment<br>- Identify needs and develop local DRM and emergency plan (building on woreda risk profile).   | ULGs, NDRMC         |            |
| Develop national urban DRM plan, information system, and training programs. | - With NDRMC carry out detailed risk assessment to develop national urban DRM plan; establish information and warning system; and develop training program and guidance notes.  | MUDHo, NDRMC        | IPF        |
| Build capacity.   | - Commission technical assistance and training to increase capacity of federal, regional and ULG staff on urban resilience planning, investment and setting up of urban disaster information system, and local DRM units. | MUDHo, NDRMC        | IPF        |

### RAPID GENDER ANALYSIS AND ACTION PLAN

#### A. Methodology

1. Rapid gender analysis is based on the findings from literature review, focus group discussions in selected ULGs,<sup>75</sup> regional and federal level consultations along with policy documents. ULGDPII data/findings from mid-term review and technical assessment field visit<sup>76</sup> also used for analysis.

#### B. Context

2. **Ethiopia has committed to gender equality.** Ethiopia has its own Constitution and its National Policy on Women (1993), which guarantee women's equality and the protection of women's human rights. This has been enhanced by the Family Law (revised 2000) and the Penal Code (revised 2005). The Ministry of Women and Children Affairs (MoWCA) has led on provision of support to vulnerable women, children and youth and on gender mainstreaming. While domestic laws and policies fundamentally support the advancement of gender equality and empowerment, enforcement and implementation at different levels needs more attention.

3. **While urban women in Ethiopia enjoy some advantages over rural counterparts, a range of gender inequalities remain in urban areas and hinder women's development.** These include unequal

<sup>75</sup> Jijiga, Adama, Bahir Dar, Gode, Wereta, and Negele

<sup>76</sup> Technical assessment field visit to 10 potential UIIDP cities was conducted in April 2017 in order to identify the capacity of prospective UIIDP cities and make recommendations on capacity building and preparatory activities. 10 cities are: Injibara and Kemissie from Amhara; Michew and Korem from Tigray; Modjo and Ginchi from Oromia; Worabe and Hossana from SNNPRS; Godey from Somali; and Assayita from Afar.

access to urban infrastructure and basic services, decent works, financial services and knowledge, financial and physical assets, and representation in formal structures of urban governance. *Women's development and change package* highlighted that further actions are required to enhance women's access to the services, at the same time, to ensure socioeconomic and political benefits.<sup>77</sup>

4. **In terms of urban development sector, Gender and Youth Mainstreaming Directorate is in place under the MUDHo to ensure gender-responsiveness in urban policies, strategies, programs and projects at federal level.** The Directorate is composed of one director, two senior experts and one junior expert, while at regional level, most regions have one designated focal person for monitoring and managing ULGs.<sup>78</sup> ULGs do not have urban specific gender focal person, however, women and child office is in place to promote gender mainstreaming in general term. The Directorate recently started gender audits for four of regional capitals and envisions to expand the scope across other cities, this will be reflected in gender support activities in UIIDP.

### C. Key Gender Challenges and the Role of UIIDP

5. **The results of the assessment and the lessons learned from ULGDPII showed that ULGs play a limited role in gender equality and empowerment with low levels of capacity.** Legislatively, cities are mandated to lead and coordinate gender mainstreaming activities including equal access to urban infrastructure and social services, employment opportunities, financial services, and participation in decision-making. In practice, the cities visited had three key challenges and constraints that hinder gender mainstreaming in ULGs: (a) women's voice and rights; (b) absence of institutional gender mainstreaming system; and (c) lack of women's economic empowerment.

#### *(a) Women's voice and rights*

6. **ULGDP II has made contributions to women's participation in community decision-making structures, which can be further strengthened to achieve more impact.** In planning and budgeting of capital projects, women representatives from women association at kebele level express their needs and these are discussed during the participatory consultations. Disaggregated information is available on the number of women and men engaged in annual plan and budget consultation meetings. According to mid-term evaluation of ULGDPII, in 14 sample cities, there was an increase in female participation in decision making process, from 44.9 percent in EFY2007 (1,653 out of 3,681 persons) to 47.1 percent in EFY2009 (3,250 out of 6,901 persons).

7. **For the next stage of the program, UIIDP will raise the bar to 50 percent participation of women in consultation meetings** to enable women to actively engage in socio-economic and political activities. Focus group interview and field visits found out that some women could not attend the meetings or raise their voice due to cultural barriers, UIIDP will incentivize ULGs to have at least two consultation meetings; (a) an initial consultation meeting separately organized for women and men and (b) the meeting for final decision of investment with both women and men having more than 50 percent women participation.

8. **There is also a need for enforcing code of conduct in employment and sub-project contract documents for women's rights in workplace including gender based violence, sexual harassment, and equal payment for equal work.** This will be guided through government policy and Program Operation Manual (POM) and related training/workshop on women's rights in workplace will be provided by ULGs and contractors. At community level, attitude towards women's roles has been changing but still need more

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<sup>77</sup> Ministry of Women Affairs (2005) Ethiopian Women's Development and Change Package. (English translated version).

<sup>78</sup> Only Tigray and SSNPR have more than two gender focal persons in regional urban development bureau.

efforts. Some women indicated that they have limitations on economic activities due to cultural reasons, pregnancy, as well as lack of childcare and training and support from the government.

*(b) Absence of an institutional gender mainstreaming system in ULGs*

9. **Low levels of capacity and gender awareness in ULGs are identified as challenges.** Staffing level of women public professionals in city municipal service administration is improving, amounting to 37 percent in average of sampled 10 ULGs.<sup>79</sup> However, leadership positions (for example, head of office and above) in the city administration requires more balanced approach, since the proportion of women was only 27 percent. Lack of awareness of gender equality and women empowerment among ULG officials need more attention. In general, ULG officials regard gender mainstreaming as works only for the WCO, not having working knowledge of the issues. In terms of systematic training for officials, there are meetings organized by WCO on an irregular basis, and no regular trainings for the officials.

10. **ULGs need to institutionalize annual gender development planning and budgeting and UIIDP will incentivize gender mainstreaming system.** It is encouraging the women's participation is increasing in ULG decision-making process and officers in WCO participate in consultation meetings and monitor the progress quarterly. However, there are still challenges in systematic planning, budgeting, monitoring and reporting on how WCO works with other sector offices and regional bureaus. Some ULGs reported they do not have their own policy and strategy to mainstream gender addressing their own circumstances. There are some attempts to align works in different Offices to develop strategic gender plan and plan activities, however, it is rarely done by system nor policy, but depending on personal leadership and capacity. Hardly any gender action plans and annual gender development plans and budgets have been prepared at ULG level in an integrated manner. Some ULGs have women empowerment activities (for example, loans and training), and yet in piecemeal approach, often without strategy, plans and adequate budget allocation due to ULG's budget and capacity constraints.

11. **To address these challenges, UIIDP will take gender-sensitive approach and develop a system to improve planning, budgeting, and monitoring.** Through performance measures in APA, UIIDP will encourage and incentivize the ULGs that have annual gender development plan and implement 80 percent of the budget presented in the plan. Templates for planning, budgeting and progress report as well as manual will be included in POM and RMTs and FMT will support ULGs. In terms of monitoring, collection of data, reporting and documenting will be tracked through annual progress report. This progress report will track what has been implemented and what the remaining gaps are.

12. **UIIDP will ensure gender specialists in place at ULG, regions, and federal level and develop training manuals to support awareness and capacity building for both city officers and community members.** It will incentivize ULGs that have at least one gender focal person in WCO, and gender specialist will be included in each of RMT and FMT to support ULGs. Hiring a gender expert at federal is also suggested to support *Gender and Youth Mainstreaming Directorate* on building technical competencies. UIIDP will raise awareness of the issues through trainings for government officials and community members to make them more sensitive to gender equality and women empowerment. Concerning sustainability of gender mainstreaming, training manuals and training for trainer will also be included in gender capacity building subcomponent in IPF.

*(c) Lack of women's economic empowerment*

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<sup>79</sup> 8-10 sector offices' staffing level (municipal function) in Michew, Kemissie, Godey, Mojjo, Worabe, Injibara, Korem, Hossana, Mekele, and Burayou.

13. **Women are less likely to engage in the labor market, and receive adequate support for own businesses.** Female labor force participation rates in urban Ethiopia are 13 percentage points lower than male participation rates, female youth unemployment is particularly high (25 percent compared to 15 percent for men), and women are much more likely to be in informal employment than men. In terms of MSEs, opportunities for women entrepreneurs in Ethiopia lag far behind those of men. MFIs primarily cater to micro-firms with group lending schemes that provide very small loans, and tend to have low outreach to women (30 percent). Growth-oriented women-owned enterprises are therefore starved of the investment they need to thrive.

14. **Given that the MSE support is a core responsibility for ULGs, in accordance with LED analysis, UIIDP will incentivize support for women-headed MSEs and women labor force** through performance measures in APA. Women’s participation in labor intensive public works will be encouraged, incentivizing ULGs to hire over 40 percent female labor. While temporary job itself is not sustainable, it is observed that the saving from the payment of works became a seed money for starting MSEs or is used for skill training or higher education. Furthermore, to close the gaps in support for female-headed MSEs, the Program will offer incentives to cities to provide working premises/sheds and serviced land to those MSEs, empowering women’s economic activities.

#### D. Monitoring and Evaluation

15. **In addition to planning and budgeting, monitoring systems need more attention.** While data disaggregated by gender exists, M&E system is limited in terms of reviewing the impacts of activities. Collection of data, reporting and documenting is limited and it is hard to track what has been implemented and what the remaining gaps are. Monitoring furthermore needs to shift focus to quality and depth, rather than on process and quantitative tracking alone.

16. The UIIDP will have sex-disaggregated indicators so that potential differential outcomes can be tracked. The following table shows action and selected indicators in results framework linked to intermediate outcomes and in performance measures in DLI 4.

**Table 1.9. Selected Actions and Indicators on Gender Mainstreaming**

| Category               | Key challenges   | Actions   | M&E<br>(Gender Indicators in RF/Performance Measure)   |
|------------------------|--|---|--|
| Institutional capacity | Lack of gender planning and budgeting in ULGs.           | ULGs to have annual gender development plan and budget allocation and implement the plan. | Number of ULGs that implement 80 percent of the budget presented in the annual gender development plan   |
| Voice/ Participation   | Ensure women’s participation in decision-making process. | ULGs to promote above 50 percent women participation in citizen for a.                    | Number of ULGs for which citizen fora (public consultations between government and residents, including plan and budget consultations) have been held at least twice a year, with above 50 percent women participation |
| Awareness building     | Enhance awareness on gender issues.                      | ULGs to promote awareness raising workshop/ training on women’s right at workplace        | Number of workshop/training on gender issues in workplace: gender based violence, sexual harassment, and equal payment for equal work;   |
| Economic empowerment   | Women’s equal opportunity to employment                  | ULGs to promote above 40 percent women participation in labor intensive sub-projects      | Of which female percentage (40 percent) in number of jobs created through UIIDP labor intensive infrastructure works.  |

|  |   |   |  |
|--|---|---|--|
|  | Lack of economic empowerment for women-headed MSEs. | ULGs to support women-headed MSEs with working premises, sheds and serviced land. | % of women-headed MSEs supported with working premises, sheds and serviced land under UIIDP. |
|  |   | ULGs to support women-headed MSEs to take contracts of UIIDP sub-projects         | % of women-headed MSEs awarded with contracts under UIIDP                                    |

## E. Gender Action Plan

17. **The Gender Action Plan outlines a set of responses to address bottlenecks to gender mainstreaming and implementation of UIIDP.** The action plan builds on lessons from ULGDP II and findings from the analysis. It identifies concrete strategies to ensure gender equality and women empowerment in UIIDP ULGs, and guides the gender mainstreaming system to better perform in planning, M&E, reporting and management.

**Table 1.7. UIIDP Gender Action Plan**

| Program component                                 |  | Action  | Responsible body     | Instrument |
|---|--|---|----------------------|------------|
| Develop an integrated gender mainstreaming system | Staffing   | - Ensure gender specialist in place at ULGs (both WCO and UIIDP focal group)<br>- Ensure gender specialist in place at federal and regional level (FMT and RMTs)  | MUDHo, Regions, ULG  | PforR      |
|   | Awareness building   | - Held quarterly meetings with focal persons, assigned in each sector office  | WCYO and ULG         |            |
|   | Planning and budgeting   | - Strengthen annual gender development planning and budgeting template (annexed into POM) to better capture gender activities across all sectors  | MUDHo                |            |
|   |  | - Plan and budget annual gender development using the template in POM   | WCYO and ULG         |            |
| M&E   | - Develop Indicators and update regularly<br>- Monitor Implementation rate<br>- Produce annual progress report<br>- FMT and RMTs to conduct supervision visits regularly | WCYO and ULG  |                      |            |
| Enhance women's voice and rights                  |  | - Promote women's participation in decision making process, through strengthening of the performance measures   | WCYO and ULG         | PAP        |
|   |  | - Incentivize ULGs to provide awareness raising program/ workshop/ training on gender issues (a) in workplace: gender based violence, sexual harassment, and equal payment for equal work; (b) gender equality and economic empowerment | MUDHo and ULG        |            |
|   |  | - Enforcing code of conduct in employment and sub-project contract documents for gender based violence, sexual harassment, and equal payment for equal work.  | MUDHo, WCYO and ULG  |            |
| Promote women's economic empowerment              |  | - Incentivize ULGs to support (a) women employment in labor intensive public works and firms; (b) women-headed MSEs with working premises, sheds and serviced land; (c) women-headed MSEs to take the contract                          | MSE offices and ULGs | PforR      |
| Capacity building                                 | Staffing at Federal level  | - Hire gender specialist/consultant at Gender and Youth Mainstreaming Directorate to provide technical support (including update of urban development sector guideline)   | MUDHo                | IPF        |
|   | TA for gender mainstreaming guideline for urban  | - Update gender mainstreaming guideline for urban development   |                      |            |

|  |  |  |  |  |
|--|--|--|--|--|
|  | development sector                                 |  |  |  |
|  | TA for gender audit                                | - Conduct gender audit for cities (expanded the scope of cities, from the recent audits initiated and conducted by the <i>Directorate</i> )  |  |  |
|  | Training for gender audit                          | - training in gender audit for gender specialist in ULGs and regions   |  |  |
|  | Training for gender equality and women empowerment | - Training for FMT and RMTs<br>- Training for ULG officers, focal persons in different sector offices<br>- Training for trainer (for officer trainings)<br>- Training for trainer (for community members)  |  |  |
|  | Training material/manual development               | - Gender mainstreaming <ul style="list-style-type: none"> <li>▪ Training materials/manual for officers in ULGs</li> <li>▪ Training materials/manual for community members</li> </ul> - Gender audit <ul style="list-style-type: none"> <li>▪ Training materials/manual for officers in ULGs and regions</li> </ul> |  |  |





### Attachment 3: WB Investments and Cross Sector Collaboration in Ethiopia's Secondary Cities<sup>80</sup>

1. **Introduction.** Ethiopia has been experiencing rapid urbanization during the last couple of decades that has resulted in significant transformation of its urban landscape. The changes were driven by the country's substantial shifts in urban development policy as well as demographic and economic structures. The WB has been providing substantial support to secondary cities in Ethiopia on multiple sectors and through both investment projects and technical assistance/analytical work. This brief summarizes the findings of a stock-take of WB engagements through investment lending of various sectors to highlight the substantial and complementary support provided and how such efforts are aligned with development policy and strategies presented in the Government policy and the WB's Country Partnership Strategy (CPS). For illustrative purposes, the exercise focused on a sample of Ethiopia's six most populous secondary cities (Dire Dawa, Mekelle, Adama, Gondar, Hawassa, and Bahir Dar) in five regions, and with projects under implementation in FY2010–2017.<sup>81</sup>

2. **Cross-Sectoral support for secondary cities development.** WB's Ethiopia portfolio is diverse and designed to support the achievement of the development priorities established by the Ethiopian government, along with the WB's CPS and twin goals of eliminating extreme poverty and promoting shared prosperity. The numerous WB projects and investments across different sectors offer synergies and complementarity for secondary cities development.

3. To illustrate the WB initiatives in urban areas, examples are drawn from Ethiopia's six most populous secondary cities (Dire Dawa, Mekelle, Adama, Gondar, Hawassa, and Bahir Dar) in five regions, WB projects under implementation in FY2010-2017 were compiled. These projects range across multiple sectors, are complementary and have directly benefited these six secondary cities and the five regions where these cities belong. At the city level, these range across initiatives in urban development as well as energy, transport, water and sanitation, to finance and social protection. At the regional level, there are further efforts in the areas of agricultural productivity, agro-pastoral development, energy, and watershed management. In addition, investments at the national level cover the areas of education quality improvement and governance. The key initiatives under the various sectors as well as the complementarity with supporting urban development in these secondary cities, and five regions are described below and summarized in Figure 1: Overview of WB Projects in the Six Secondary Cities.

- (a) **Urban development and local government strengthening.** Through the ULGDP and ULGDP II, investments are being provided to better livelihoods and improve living conditions by supporting ULGs' institutional capacity and ability to provide for municipal services and infrastructure. Performance grants and capacity building programs under the ULGDP targets secondary cities (19 cities in ULGDP and 44 cities in ULGDP II) to address the capacity and infrastructure deficits. The programs have also had positive impacts on wider LED of secondary cities by creating temporary/permanent jobs in construction and MSEs. ULGDP third generation is in preparation and intends to expand the Program scope and focus areas so that more cities can benefit from the program and transformational impacts.
- (b) **Energy.** In the early 2000s, the limited supply of modern forms of energy and their high costs, as well as the dependence on biomass were major hindrances to the development of an efficient and cost-effective energy sector. To address these challenges, an Energy Access

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<sup>80</sup> This attachment focuses on secondary city investments in Ethiopia, taking into account the lending projects within six most populous cities and five regions (Dire Dawa, Mekelle, Adama, Gondar, Hawassa, and Bahir Dar), which were implemented during the period of 2010–2017.

<sup>81</sup> As every project has a different starting and ending year, and could not be neatly disaggregated only for FY10–17, the IDA funds detailed in this note made various assumptions, and considered project which overlaps with this period.

Project was implemented (2002 -2013) in Addis Ababa and seven secondary cities.<sup>82</sup> The project supported GoE to expand access to electricity, improve the quality and adequacy, and promote renewable energy. Following the project focused on city electrification, there is an on-going Electricity Network Reinforcement and Expansion Project in all five regions where the six secondary cities reside. ENREP has been improving reliability and accessibility of electricity services, developing market for renewable energy, as well as strengthening institutional capacity. In the Oromiya region, a geothermal site development project (Ethiopia Geothermal Sector Development Project) is in operation. There are two more projects in the pipeline to continue to support expanding energy service delivery and enhance renewable energy development.<sup>83</sup> Together with the quality of life improvements that come with electricity access to households, sustainable energy products and services, institutional capacity building have been taken into consideration for more integrated and sustainable energy sector development.

- (c) **Finance and markets.** Finance and Market sector projects include funding, programs and support for financial sector capacity building and MSEs' finance to improve the overall business environment in Ethiopia. These are ultimately essential for poverty reduction and economic development. In addition to national projects that support MSEs and financial sector capacity building, a project with specific impacts on secondary cities is to develop female entrepreneurship in Dire Dawa, Hawassa, Bahirdar, Mekele, and Adama.<sup>84</sup> The project has been providing both financing (credits) and trainings for females who own or partly own enterprises and are willing to grow their business. The six secondary cities will benefit greatly from improved reliability and accessibility to energy and overall improved business environments to boost LED, integrating gender in economic development.
- (d) **Social protection.** Prevalent urban poverty and high vulnerability to shocks and stresses in Ethiopia continue to be widespread challenges. Projects under the Social Protection and Labor Global Practice include safety net supports through conditional cash transfer, basic service provision,<sup>85</sup> food security improvement, and institutional support, while integrating DRM and citizen engagement into the project's multi-sectoral approach. Among the six secondary cities, Dire Dawa, Hawassa, Mekelle, and Adama have city-specific projects while there are five projects which have been implementing at the national and regional level to improve the weak social protection system.
- (e) **Transport.** Since the implementation of the GoE's Road Sector Development Program, there have been remarkable achievements in physical, organizational, social and financial transformation in transport development. However, density and quality of the road network to support an efficient production and distribution system were limited compared to other countries in Africa. Limitations in traffic management and public transport network, pedestrian safety concerns, high accident rates, and inadequate institutional capacity were the main hindrances to a safe and reliable mobility system. To tackle these challenges, there have been projects both in Addis Ababa and secondary cities. Among the six secondary cities, inter-urban roads were constructed between Gondar and Debark, together with installation of regular maintenance mechanism. The fifth phase of the Road Sector Development Program

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<sup>82</sup> Dire dawa, Hawassa, Bahar dar, Mekelle, Adama, Jima, Dessie, and Addis Ababa

<sup>83</sup> (P160395) Ethiopia Electrification Program, (P162604) Renewable Energy Guarantees Project

<sup>84</sup> (P148447) Ethiopia: SME Finance Project, (P094704) Ethiopia: Financial Sector Capacity Building Project

<sup>85</sup> The Projects define basic services as education, health, agriculture, water supply and sanitation, and transportation

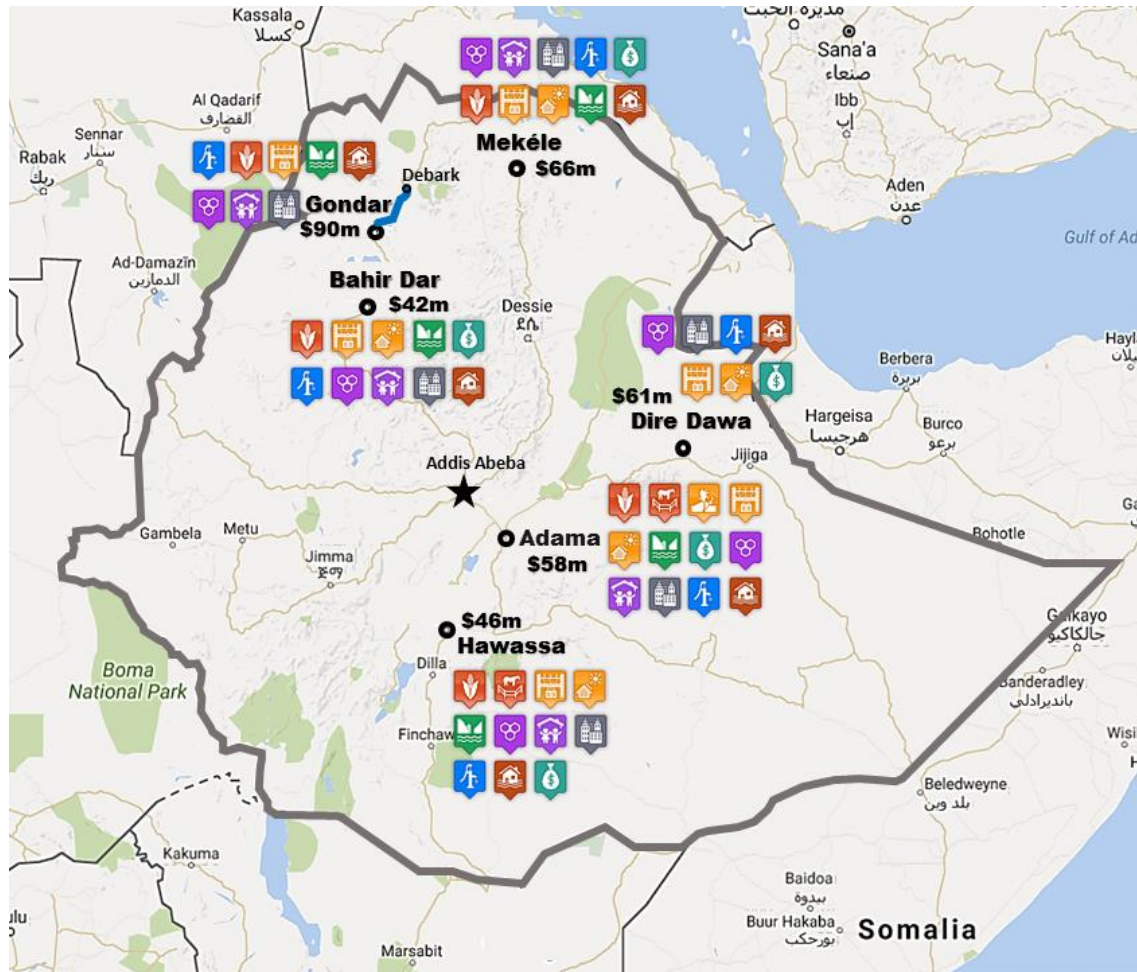
is in the pipeline and planned to be implemented in the period of the GTP II and the WB will also fund construction of inter-urban roads.<sup>86</sup>

- (f) **Water supply and sanitation.** In the GTP, the GoE has set aggressive targets of reaching 98 percent coverage for improved water supply and 84 percent for improved sanitation by 2015. While progress in achieving the GTP targets has been commendable (reported as 79.8 percent for access to safe drinking water and 93 percent for access to sanitation coverage in 2011/12), a recent national WASH inventory has shown that actual progress has been slower than initially planned. Current challenges facing the sector are households, schools and health facilities without improved water supply, open defecation, increased demand for improved water supply and sanitation services, and equitable service delivery to urban and rural areas. To address these limitations, regional projects have been under implementation for both urban and rural water supply and sanitation. While in the most populous secondary cities—Hawassa, Gondar, Jima, Mekelle, Dire Dawa—which experience rapid urbanization, there have been city-specific interventions to meet the increasing needs.

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<sup>86</sup> Construction of Dembi Dollo-Gambella Road (102 km), Haik-Bistima-Chifra Road (60 km), Harar-Ejersa Goro-Bombass Road (90 km) and Shi shinda-Teppi Road (74 km)

Figure 1.1. Overview of WB Projects in the Six Secondary Cities (FY2010–2017)



## ETHIOPIA

### Secondary Cities Investment

Cities: 6 most populous cities

Project Category: Lending

Implementation Date: FY2010 - FY2017

#### NATIONAL

|  |                                    |  |                          |
|--|------------------------------------|--|--------------------------|
|  | Education quality improvement      |  | Child/maternal nutrition |
|  | Financial sector capacity building |  | Safety net support       |
|  | SME finance                        |  | Basic service*           |
|  | Public sector capacity building    |  | Disaster Risk Management |

#### REGIONAL & CITY

|  |                                   |  |                               |
|--|-----------------------------------|--|-------------------------------|
|  | Agricultural productivity         |  | Electricity network           |
|  | Agro pastoral development         |  | Geothermal development        |
|  | Watershed management              |  | Renewable energy technologies |
|  | Water & Sanitation                |  | Safety net support            |
|  | Disaster Risk Management          |  | Basic service*                |
|  | Municipal services/infrastructure |  | SME finance                   |
|  |                                   |  | Road infrastructure           |

\*Basic service includes: education, health, agriculture, water supply and sanitation, and transport

## Annex 2: Detailed Project (IPF) Description

1. **The IPF window has a total funding of US\$34.57 million** (*US\$32.57 from IDA; and about US\$2.0 million from AFD*). The IPF will enable MUDHo to support and guide the regions and ULGs and also to administer and coordinate the Operation. The IPF will be used to fund a range of institutional and capacity development interventions for or coordinated by MUDHo.

2. **The IPF window will enhance overall operation management, effectiveness, and impact.** The rationale for adopting an IPF window arises from the lessons learned from the ULGDP II and other PforR operations. An IPF allows greater operational certainty, budget predictability and reduced risks for undertaking federal level actions that are critical for the success of the Operation in particular, for conducting the ULG APAs and VfM audits. The IPF implementation modality also allows targeted interventions where tailoring to specific needs or sub-groups of cities/regional agencies are required in terms of technical assistance, capacity building, and institutional support activities. A close working relationship between the federal government and the WB through the IPF modality would also allow the WB to provide better and just-in-time support when required.

3. **Under the IPF, the MUDHo will undertake activities in five areas:** (a) developing capacity, systems, and organizations of *federal entities*;<sup>87</sup> (b) developing capacity, systems, and organizations of *regional and ULG entities*, (c) conducting project preparation studies, pre-feasibilities and feasibility studies for ULGs with specific needs for further investments, (d) UIIDP management, M&E and feasibility/preparatory studies for future execution; and (e) procuring and managing APAs and VfM audits. The capacity building activities, technical assistance and feasibility studies will focus on core and strategic areas such as revenue enhancement, asset management, CIP preparation, FM, as well as introducing initiatives on LED, urban resilience, cultural heritage, and urban planning (see table 2.1 for details of the activities).

4. **The AFD will provide joint co-financing to the IPF window in support of Subcomponent 3.** Around euro 1.8 million will be used for Subcomponent 3 on project-preparation studies, aimed at allowing local authorities with specific needs to benefit from technical assistance on the preparation of large-scale projects, focusing on cities oriented towards LED and cultural heritage. This technical assistance could prepare further investment-oriented packages that could be implemented with the support of MUDHo and donors. More specifically, this subcomponent is envisioned as one single international consultancy (fully funded by AFD) which covers six main tasks:

- (a) Task 1: Diagnosis, opportunities, challenges of Heritage and Industrial Park Cities
- (b) Task 2: Participatory needs assessment and collaborative workshop on cultural heritage and tourism, and LED, to identify possible categories of actions and investments to promote an integrated urban development (shared vision, strategy workshops, and so on);
- (c) Task 3: Support to MUDHo for the selection of a first set of cities (5-6) with potential (criteria matrix, maturity index, and so on);
- (d) Task 4: Pre-feasibility studies for specific targeted cities (among all sectors listed);
- (e) Task 5: Preparation of a new program (preparation of implementation, financial sustainability, environmental and social safeguards, and so on);

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<sup>87</sup> MoFEC, MUDHo, Ministry of Construction, MEFCC, Ministry of Women and Children Affairs and Ministry of Labor and Social Affairs, OFAG, FEACC, FPPAA.

(f) Task 6: Global Program management

5. The AFD-supported areas would be seamlessly incorporated as part of the UIIDP design, hence adopting all WB's implementation system, guidelines and policies without separate reporting requirements.

**Table 2.1. IPF Supported Areas**

| Components   | Activities  | Key result targeted*            | Estimated Costs for Entire Operation (US\$, million) | Categories                         |
|--|---|---------------------------------|--|------------------------------------|
| <b>Component 1: Capacity building and system or organizational development of federal institutional entities</b> |   |                                 | <b>7.5</b>   |                                    |
| - Urban development and financing strategy   | - Study on future funding modalities and options for urban development, including integrating performance grant into intergovernmental fiscal transfer system, balancing of grants, improved own-source revenue, and other mixed funding modalities such as borrowing, and so on.   | - 1 to 7                        |  | Consultancy                        |
| - Rural-urban migration and inclusion study  | - A study to understand how cities are managing migration and inclusion issue, especially how the rural poor who move into cities are being integrated and provided for.  | - 1,7                           |  | Consultancy                        |
| - Public financial management support  | - Support to MoFEC for project accounting and training<br>- Support to ULGs, FPPPA, RPPPAAs, OFAG and ORAGs   | - 4<br>- 4                      |  | Systems<br>Consultancy<br>Training |
| - Procurement management   | - Support to FPPPA and RPPPAAs  | - 4                             |  |                                    |
| - Fraud and Corruption   | - Provide capacity building support for FEACC for an effective fraud and corruption and complaint handling system improvement   | - 6                             |  | Training and workshop              |
| - ESSA support   | - Training for Ministry of Construction, MUDHo, MEFCC, Ministry of Women and Children Affairs and Ministry of Labor and Social Affairs  | - 5                             |  | Training                           |
| - Strategic technical assistance or studies or training  | - Urban Planning: spatial and land use planning for priority city regions/ regional clusters, in line with the National Spatial Plan.<br>- LED: Technical assistance, training and development of guidelines/manuals in areas such as public private partnership, cultural heritage and tourism, investment promotion, and so on.<br>- Urban resilience: Technical assistance such as for multi-hazards risk and vulnerability assessment for each city, urban early warning systems (building on national meteorological/DRM coordination capacity and linking it with regional/local DRM centers)<br>- Gender: Technical assistance such as for ULG's gender audit/assessment and gender mainstreaming guideline (strategy) | - 1<br>- 7<br>- 7<br>- 7<br>- 7 |  | Training and consultancy studies   |

|  |  |  |                                       |  |
|--|--|--|---------------------------------------|--|
| - Training and capacity building for MUDHo   | - Training, seminars, study trips  | 1 to 7   |                                       | Training and workshop                        |
| - Manual preparation   | - Update of the POM<br>- Fit-for-purpose procurement and contract management, and auditing manuals   | 1 to 7   |                                       | Consulting services                          |
| <b>Component 2: Capacity building and system development coordinated by MUDHo to support Regions and ULGs</b>                          |  |  | <b>8.67</b>                           |  |
| - Familiarization/ orientation/refresher training for FMT and RMTs   | - Focus on UIIDP implementation and thematic areas   | 1 to 7   |                                       | Training and workshop                        |
| - FMT  | - Staff in FMT<br>- International consulting firm(s)<br>- Work scope: Backstop support to 10 RMTs and direct support to Benishagul-Gumuz, Gambella, Harari, Dire Dawa  | 1 to 7   |                                       | Consultant/contract staff                    |
| - Support for BOFED  | - Training and capacity building on FM   | - 4  |                                       | Training and workshop<br>Consulting services |
| - Supply-side capacity building courses/training for Regions and ULGs (by ECSU, Federal/Regional Institutions or private institutions) | All thematic areas for example,<br>- Urban planning & management<br>- Revenue enhancement<br>- Asset management<br>- CIP preparation<br>- Fraud and Corruption - Provide capacity building support for REACC and ULGs for an effective fraud and corruption and complaint handling system improvement<br>- public financial management<br>- Environment and social management<br>- LED<br>- Urban Resilience | - 1<br>- 2<br>- 3, 4<br>- 1<br>- 6<br><br>- 4<br>- 5<br>- 7<br>- 7 |                                       | Training and workshop                        |
| <b>Component 3: Project-preparation studies for selected ULGs</b>  |  |  | <b>2.0</b><br>(fully financed by AFD) |  |
| - Project-preparation studies  | Preparation studies <sup>88</sup> (prefeasibility or feasibility studies) for investment projects that are likely to contribute to sustainable urban development and LED, and targeting cities with specific needs for further investments (targets: ULGs with associated industrial parks; ULGs with a cultural heritage or tourism potential)  | - 3, 7   |                                       | Consultancies                                |
| <b>Component 4: UIIDP Operation Management and Future Outlook</b>  |  |  | <b>8.5</b>                            |  |
| - Function of FMT under UREFMFB of MUDHo   | - FMT staff/consultant/advisor<br>o Long-term consultant(s)<br>- Support TC and SC (task force from MUDHo will be part of TC)<br>- Equipment   | 1 to 7   |                                       | -Consultant/<br>contract staff<br>-Goods     |

<sup>88</sup> Studies could include: Liquid/solid waste management, promotion of sustainable transport system (for example bus rapid transit), expanding access to water and sanitation services, integration of green and public spaces, heritage restoration and tourism promotion, serviced land for industry, MSEs, tourist sites and housing, premises and markets for MSEs, housing, and upgrading of city centers.



|  |   |        |                           |   |
|--|---|--------|---------------------------|---|
| - MoFEC  | - Two accountants in MoFEC dedicated to UIIDP (paid through MUDHo) and accountants in MUDHo   | 4      |                           | Consultant/contract staff                       |
| - M&E system   | - IT system for monitoring, and so on. including support to MoFEC on accounting, and so on.<br>- Impact evaluation<br>- MTR, end of Operation Implementation Completion Report and workshop   | 6      |                           | System development<br>Equipment and consultancy |
| - Preparation of future projects   | - Relevant studies/consultancies  | 1 to 7 |                           | Consulting services                             |
| - Operating costs  | - Incremental operating costs: <sup>89</sup> the reasonable incremental expenses incurred, based on annual work plan and budget (AWBP) approved by the Association, incurred by the Recipient on account of Project implementation, management, and monitoring, including expenditures for vehicle O&M, office supplies and consumables, utilities, communication, translation and interpretation, bank charges, Operation-related national and international travel, as well as per diem and accommodations (but excluding salaries of the Recipient's civil servants), and other miscellaneous costs directly associated with the Operation implementation. | 1 to 7 |                           | Operating cost                                  |
| <b>Component 5: Annual performance Assessment and Value for Money Audits for UIIDP</b> |   |        | <b>7.4</b>                | Consultancies                                   |
| <b>IDA SUF fee</b>   |   |        | <b>0.5</b>                |   |
| <b>TOTAL for IPF</b>   |   |        | <b>34.57<sup>90</sup></b> |   |

Note: \*Key Results

- (a) Enhanced citizen participation and engagement in ULG planning and budgeting;
- (b) Increased OSR at the ULG level;
- (c) Improved infrastructure, service delivery, O&M systems and job creation;
- (d) Improved efficiency and effectiveness in fiduciary management;
- (e) Improved environmental and social management and safeguards;
- (f) Strengthened accountability and oversight systems;
- (g) Strengthened ULG resilience, improved LED and enhanced gender equity in the ULG operations.

6. **Implementation arrangements.** The MUDHo will be responsible for the overall coordination and implementation of UIIDP. MoFEC will be responsible for the fund flow, disbursement, financial reporting, and overall project auditing.

7. **Disbursement arrangements will be based on procedures that are consistent with IPF modalities.** Funds will be disbursed from IDA and AFD to MoFEC and then to MUDHo. IDA funds will be deposited into a separate designated account to be opened at the National Bank of Ethiopia (NBE) by MoFEC. The authorized ceiling of the Designated Account would be two quarters forecasted expenditure based on the approved annual work plan and budget. MoFEC will also open a local currency account in the name of the project. Report-based disbursements will be made quarterly and cover cash requirements for the next six months, based on the forecasts contained in the Interim Financial Reports (IFRs). Provision

<sup>89</sup> Incremental operating cost: these are operating costs that are not already covered by the government (or are additional costs) included in the annual work plan and budget and to be approved by the Bank.

<sup>90</sup> This total amount includes IDA's Grant contribution amount of US\$32.57 million and AFD's contribution of US\$2.0 million.

would also be made in the Disbursement letter for the other disbursement methods, that is, direct payments, special commitments, and reimbursements.

### *Financial Management*

8. **A FM assessment was conducted in accordance with the FM Practices Manual for WB-financed Investment Operations.**<sup>91</sup> The assessment is also conducted as per the requirements of the WB policy and directive on IPF. The assessment was conducted at the federal level only at the MUDHo and MoFEC. The objective of the assessment was to determine whether the implementing entities have acceptable FM arrangements to ensure: (a) that funds are used only for the intended purposes in an efficient and economical way; (b) that accurate, reliable, and timely periodic financial reports are produced; and (c) that the implementing entities assets are safeguarded.

9. **The FM residual risk for the project is rated as Substantial.** The mitigation measures proposed in the PAP will help to reduce the risk of the Project once implemented. The main strengths are the Project will inherit the various strengths of the country's public FM system. Several aspects of the system function well, such as the budget process, classification system, and compliance with financial regulations. Significant ongoing work is directed at improving country public FM systems through the GoE's Expenditure Management and Control Program. The Project also benefits from the country's internal control system, which adequately provides for the separation of responsibilities, powers, and duties. In addition, both MoFEC and the MUDHo have experience in implementing WB-financed projects. The main weaknesses noted were the MUDHo's unsatisfactory utilization of the budgets of both the government and ULGDP II, and understaffing of the internal audit department. In addition, a delay was noted in finalizing the FM manual for the ULGDP II.

10. **The Project will follow the existing government rules and regulations under channel 1 fund flow mechanisms.** The Project will prepare a FM manual as an annex to the POM, laying out operational matters including FM issues/arrangements. Under the Project, special emphasis will be placed on assessing, identifying, and mitigating gaps in the FM systems of the newly participating ULGs, and in building their capacity for FM on an ongoing basis. All disbursement methods are available to the Project. Funds from IDA will flow directly to MoFEC through a segregated designated account for onward use and transfer to the MUDHo. The Project will use report-based disbursement, with submission, through MoFEC, of quarterly interim financial reports within 45 days of end of the quarter that include forecasts for advances/replenishment of the Designated Account. Staffing arrangements have been outlined. The Project will have its accounts audited on an annual basis by an independent external auditor acceptable to the WB. The financial audit report will be submitted within six months of the end of the EFY.

11. **It is the conclusion of the assessment that the FM arrangements meet the IDA requirements as laid out on the WB policy and directive on IPF, as well as the Financial Manual.** An action plan has been developed and agreed to mitigate the risks and address the overall identified in the project. See annexes 6 and 9 for details.

### *Procurement*

12. **Procurement under the project will be carried out in accordance with the WB's Procurement Regulations for IPF Borrowers, "Procurement in Investment Project Financing, Goods, Works, Non-Consulting, and Consulting Services," dated July 2016 and "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants," revised as of July 1, 2016; and the provisions stipulated in the Financing Agreement.** As per

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<sup>91</sup> Issued by the FM Sector Board on March 1, 2010, and retrofitted on February 4, 2015, along with its supporting guidelines.

the requirement of the regulations, a Project Procurement Strategy Document has been prepared by the MUDHo and the WB has reviewed this and in general agreed to the draft Procurement Plan prepared for the first 18 months of the project life.

13. **A procurement capacity assessment was carried out on the MUDHo, as per the WB's directive on procurement.** This shows that capacity of the MUDHo is generally sufficient to handle the procurement. However, several weaknesses will need to be mitigated following the measures as detailed in annex 6. Based on the assessment, the procurement risk of the IPF window of the project is rated Substantial.

### Annex 3: Results Framework and Monitoring

| The Program Development Objective (PDO) is to enhance the institutional performance of participating urban local governments to develop and sustain urban infrastructure, services, and local economic development. |      |     |                 |                |                    |             |             |             |           |                          |  |
|---|------|-----|-----------------|----------------|--------------------|-------------|-------------|-------------|-----------|--------------------------|--|
| PDO Level Results Indicators  | Core | DLI | Unit of Measure | Base-line FY18 | Target Values      |             |             |             | Frequency | Data Source/ Methodology | Responsibility for Data Collection   |
|   |      |     |                 |                | FY19 <sup>92</sup> | FY20        | FY21        | FY22        |           |                          |  |
| 1. People provided with improved urban living conditions under the UIIDP <sup>93</sup> .  | √    | 3   | Number          | 0              | 4.4 million        | 6.6 million | 6.6 million | 6.6 million | Annually  | M&E                      | MUDHo  |
| a. Of which female  | √    |     | Percent         | 0              | 50 percent         | 50 percent  | 50 percent  | 50 percent  | Annually  | M&E                      | MUDHo  |
| 2. Cities with improved livability, sustainability, and management. <sup>94</sup>   | √    | 1-4 | Number          | 0              | 117                | 117         | 117         | 117         | Annually  | M&E                      | MUDHo  |
| 3. Composite institutional performance of participating ULGs, averaged across all cities. <sup>95</sup>   |      | 2   | Number          | 0              | 70                 | 75          | 80          | 85          | Annually  | APA                      | Measured by the score in the APA, averaged across all cities. The APA firm collects the basic data on performance. The PTC and MUDHo verify the index. |
| 4. Composite performance for achievement of urban infrastructure and service targets, maintenance performance and VfM in investments by ULGs, averaged across all cities.   |      | 3   | Number          | 0              | 70                 | 75          | 80          | 85          | Annually  | APA                      | See above.   |

<sup>92</sup>FY2019 is year zero.

<sup>93</sup> The indicator measures hard infrastructure only.

<sup>94</sup> This indicator measures the cumulative number of ULGs that have benefited under the UIIDP from investments in infrastructure or from investments in areas such institutional reform, municipal finance and the like: (a) living conditions for residents; (b) financial, economic, environmental, and/or social sustainability of the city; and/or (c) city planning, systems, and governance.

<sup>95</sup>In the areas of planning and budgeting, assets management, public FM, 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.

**The Program Development Objective (PDO) is to enhance the institutional performance of participating urban local governments to develop and sustain urban infrastructure, services, and local economic development.**

| PDO Level Results Indicators  | Core | DLI | Unit of Measure | Base-line FY18 | Target Values      |      |       |       | Frequency | Data Source/ Methodology | Responsibility for Data Collection                              |
|---|------|-----|-----------------|----------------|--------------------|------|-------|-------|-----------|--------------------------|---|
|   |      |     |                 |                | FY19 <sup>92</sup> | FY20 | FY21  | FY22  |           |                          |   |
| 5. Composite performance for achievement of LED, urban resilience and gender targets by ULGs, averaged across all cities.                 |      | 4   | Number          | 0              | 0                  | 60   | 65    | 70    | Annually  | APA                      | See above.  |
| <b>Intermediate Results Area 1: Institutional Performance</b>   |      |     |                 |                |                    |      |       |       |           |                          |   |
| 1. ULGs that achieve an increase of own source municipal revenue of at least 10 percent over the previous year under UIIDP. <sup>96</sup> |      | 2   | Number          | 0              | 34                 | 45   | 60    | 80    | Annually  | APA                      | Firm collects the data and MUDHo and the WB review and confirm. |
| 2. ULGs with timely audits. <sup>97</sup>   |      | 9   | Number          | 44             | 60                 | 117  | 117   | 117   | Annually  | APA                      | Same as above.  |
| 3. ULGs with clean (unqualified) audit.   |      | 2   | Number          | 13             | 18                 | 22   | 26    | 35    | Annually  | APA                      | Same as above.  |
| <b>Intermediate Results Area 2: Infrastructure and Maintenance</b>  |      |     |                 |                |                    |      |       |       |           |                          |   |
| 4. Urban cobblestone roads built or rehabilitated under UIIDP.  | √    | 3   | Kilo-meters     | 0              | 400                | 800  | 1,200 | 2,000 | Annually  | M&E                      | Firm collects the data and MUDHo and the WB review and confirm. |
| 5. Urban gravel roads built or rehabilitated under UIIDP.   |      | 3   | Kilo-meters     | 0              | 300                | 500  | 700   | 900   | Annually  | M&E                      | Same as above.  |

<sup>96</sup> The increase is measured in nominal figures (excluding land lease).

<sup>97</sup> All 44 cities participating in the ULGDP II have received audits on time for the most recent two fiscal years (by January 7) 2015/16 and 2016/17 (Ethiopian fiscal years 2008 and 2009).

**The Program Development Objective (PDO) is to enhance the institutional performance of participating urban local governments to develop and sustain urban infrastructure, services, and local economic development.**

| PDO Level Results Indicators   | Core | DLI | Unit of Measure | Base-line FY18 | Target Values      |            |            |            | Frequency | Data Source/ Method-ology | Responsibility for Data Collection |
|--|------|-----|-----------------|----------------|--------------------|------------|------------|------------|-----------|---------------------------|------------------------------------|
|  |      |     |                 |                | FY19 <sup>92</sup> | FY20       | FY21       | FY22       |           |                           |                                    |
| 6. Serviced land for industry, MSE sheds, and housing under UIIDP  |      | 3   | Hectares        | 0              | 5,000              | 8,500      | 12,000     | 15,500     | Annually  | M&E                       | Same as above.                     |
| 7. Drains <sup>98</sup> built or rehabilitated under UIIDP.  |      | 3   | Kilo-meters     | 0              | 0                  | 800        | 1,200      | 2,000      | Annually  | M&E                       | Same as above.                     |
| 8. Public parks and greenery built or rehabilitated under UIIDP.   |      | 3   | Hectares        | 0              | 100                | 200        | 300        | 400        | Annually  | M&E                       | Same as above.                     |
| 9. ULGs that execute at least 80 percent of their O&M budget under UIIDP.  |      | 3   | Number          | 0              | 45                 | 60         | 80         | 100        | Annually  | M&E                       | Same as above.                     |
| <b>Intermediate Results Area 3: Urban Resilience, Local Economic Development, Job Creation, and Gender Mainstreaming</b> |      |     |                 |                |                    |            |            |            |           |                           |                                    |
| 10. Temporary jobs created under UIIDP-supported infrastructure works.   |      | 4   | Number          | 0              | 150,000            | 300,000    | 450,000    | 600,000    | Annually  | M&E                       | Same as above.                     |
| a. Of which female   |      | 4   | Percent         | 0              | 40 percent         | 40 percent | 40 percent | 40 percent | Annually  | M&E                       | Same as above.                     |
| 11. People employed <sup>99</sup> in firms provided with serviced land and in MSE sheds under UIIDP.                     |      | 4   | Number          | 0              | 45,000             | 67,500     | 101,250    | 151,875    | Annually  | M&E                       | Same as above.                     |
| Of which female  |      | 4   | Percent         | 0              | 40 percent         | 40 percent | 40 percent | 40 percent | Annually  | M&E                       | Same as above.                     |
| 12. ULGs that have established emergency response unit, and prepared emergency response plan.                            |      | 4   | Number          | 0              | 0                  | 44         | 80         | 100        | Annually  | APA                       | Same as above.                     |

<sup>98</sup> Drains may be roadside drains or stand-alone drains.

<sup>99</sup> Including employees and business owners, excluding people employed by companies constructing the facilities.

**The Program Development Objective (PDO) is to enhance the institutional performance of participating urban local governments to develop and sustain urban infrastructure, services, and local economic development.**

| PDO Level Results Indicators   | Core | DLI | Unit of Measure | Base-line FY18 | Target Values      |      |      |      | Fre-quency | Data Source/ Method-ology | Responsibility for Data Collection |
|--|------|-----|-----------------|----------------|--------------------|------|------|------|------------|---------------------------|------------------------------------|
|  |      |     |                 |                | FY19 <sup>92</sup> | FY20 | FY21 | FY22 |            |                           |                                    |
| 13. ULGs for which citizen fora (public consultations between government, residents and the private sector including plan and budget consultations) have been held at least twice a year, with at least 50 percent women participation |      | 2,4 | Number          | 0              | 44                 | 117  | 117  | 117  | Annually   | APA                       | Same as above.                     |
| 14. ULGs that implement 80 percent of the budget presented in the annual gender development plans.   |      | 4   | Number          | 0              | 35                 | 45   | 65   | 90   | Annually   | APA                       | Same as above.                     |
| <b>Intermediate Results Area 4: Capacity Building</b>  |      |     |                 |                |                    |      |      |      |            |                           |                                    |
| 15. ULGs that implement at least 80 percent of the budget presented in the annual capacity building plans.   |      | 2   | Number          | 0              | 35                 | 45   | 65   | 90   | Annually   | M&E                       | Same as above.                     |
| 16. Regions that implement at least 80 percent of the budget presented in the annual capacity building plans.  |      | 5-9 | Number          | 0              | 4                  | 5    | 6    | 8    | Annually   | M&E/APA                   | Same as above.                     |
| 17. Urban development program updated and financing strategy   |      |     | Yes/No          | No             | No                 | Yes  | Yes  | Yes  | Annually   | UREFMFB                   | MUDHo                              |
| a. developed   |      |     | Yes/No          | No             | No                 | No   | Yes  | Yes  | Annually   | UREFMFB                   | MUDHo                              |
| b. approved  |      |     | Yes/No          | Yes            | Yes                | Yes  | Yes  | Yes  | Annually   | UREFMFB                   | MUDHo                              |
| 18. MUDHo procures and conducts APA in a timely fashion.   |      |     | Yes/No          | Yes            | Yes                | Yes  | Yes  | Yes  | Annually   | UREFMFB                   | MUDHo                              |

## Annex 4: Disbursement Linked Indicators, Disbursement Arrangements, and Verification Protocols

### DLI Matrix

| DLI  | Total financing allocated to DLI <sup>100</sup> | As percent of total financing amount | DLI Baseline <sup>101</sup> | Indicative Timeline for DLI Achievement        |  |  |  |   |
|--|---|--------------------------------------|-----------------------------|--|--|--|--|---|
|  |   |                                      |                             | Year 1<br>EFY2010<br>(year ended July 7, 2018) | Year 2<br>EFY2011<br>(year ended July 7, 2019) | Year 3<br>EFY2012<br>(year ended July 7, 2020) | Year 4<br>EFY2013<br>(year ended July 7, 2021) | Year 5<br>EFY 2014<br>(year ended July 7, 2022) |
| <b>DLI 1</b><br>Eligible ULGs have achieved Program minimum conditions.  |   |                                      | 0                           |  | 117 ULGs                                       | 117 ULGs                                       | 117 ULGs                                       | 117 ULGs  |
| <b>DLI 1 Allocated amount</b>  | <b>\$109.32 million</b>                         | <b>19.0%</b>                         |                             |  | <b>\$27.33 million</b>                         | <b>\$27.33 million</b>                         | <b>\$ 27.33 million</b>                        | <b>\$ 27.33 million</b>                         |
| <b>DLI 2</b><br>Eligible ULGs have strengthened institutional performance.   |   |                                      | 0                           |  | 70<br>(average score)                          | 75<br>(average score)                          | 80<br>(average score)                          | 85<br>(average score)                           |
| <b>DLI 2 Allocated amount</b>  | <b>\$190.09<sup>102</sup> million</b>           | <b>33.0%</b>                         |                             |  | <b>\$ 34.21 million<sup>103</sup></b>          | <b>\$51.96 million</b>                         | <b>\$51.96 million</b>                         | <b>\$51.96 million</b>                          |
| <b>DLI 3</b><br>Eligible ULGs have implemented quality infrastructure and maintenance activities and ensured value for money |   |                                      | 0                           |  | 70<br>(average score)                          | 75<br>(average score)                          | 80<br>(average score)                          | 85<br>(average score)                           |
| <b>DLI 3 Allocated amount</b>  | <b>\$90.09 million</b>                          | <b>15.6%</b>                         |                             |  | <b>\$16.23 million</b>                         | <b>\$24.62 million</b>                         | <b>\$24.62 million</b>                         | <b>\$24.62 million</b>                          |
| <b>DLI 4</b><br>Eligible ULGs have strengthened performance on LED, urban resilience and gender mainstreaming                |   |                                      | 0                           |  |  | 60<br>(average score)                          | 65<br>(average score)                          | 70<br>(average score)                           |
| <b>DLI 4 Allocated amount</b>  | <b>\$52.95 million</b>                          | <b>9.2%</b>                          |                             |  |  | <b>\$17.65 million<sup>104</sup></b>           | <b>\$17.65 million</b>                         | <b>\$17.65 million</b>                          |

<sup>100</sup> See annex 11 for calibration for each DLI.

<sup>101</sup> Baselines on DLIs 1 to 9 are 0, as the system of minimum condition/PMs have changed since the ULGDPII, with strengthening of some of the performance measures.

<sup>102</sup> For DLI2, assuming the average score is achieved every year, the total disbursement amount will be \$189.62 million (and at \$34.17million for year 2, and \$51.82 million each year for years 3-5). However, an additional amount of \$0.47 million is allocated to this DLI2, bringing the total amount allocated to US\$190.09 million to allow for better than average performance. This is based on previous experience from ULGDPII. The higher overall amount of US\$190.09 million does not affect the disbursement formulation and verifications for DLI2 and its performance measures, which are as detailed in this annex 4, and in annex 11, as well as the POM.

<sup>103</sup> In the first APA, only the 44 ULGDP II cities will be assessed for the performance measures under DLI 2 and 3. In subsequent APAs, all 117 ULGs will be assessed.

<sup>104</sup> Assessment against DLI 4 performance measures starts from the second APA.



| DLI  | Total financing allocated to DLI <sup>100</sup> | As percent of total financing amount | DLI Baseline <sup>101</sup> | Indicative Timeline for DLI Achievement  |  |   |   |   |
|--|---|--------------------------------------|-----------------------------|--|--|---|---|---|
|  |   |                                      |                             | Year 1 EFY2010 (year ended July 7, 2018) | Year 2 EFY2011 (year ended July 7, 2019)   | Year 3 EFY2012 (year ended July 7, 2020)  | Year 4 EFY2013 (year ended July 7, 2021)  | Year 5 EFY 2014 (year ended July 7, 2022)   |
| <b>DLI 5</b><br>Regional support teams have delivered effective capacity building services to Eligible ULGs in urban institutional and infrastructure development. |   |                                      |                             |  | CB Plan of and TOR for RMTs prepared and positions are in place. The CB plan covers at least 4 modalities and at least 80% of the thematic focus areas from the POM. Teams are in place and operating. | CB Plan of and TOR for RMTs prepared and positions are in place. The CB plan covers at least 4 modalities and at least 80% of the thematic focus areas from the POM. Teams are in place and operating. Annual CB needs assessment conducted by involving all regional entities covering all thematic areas and representatives of the ULGs. | CB Plan of and TOR for RMTs prepared and positions are in place. The CB plan covers at least 4 modalities and at least 80% of the thematic focus areas from the POM. Teams are in place and operating. Annual CB needs assessment conducted by involving all regional entities covering all thematic areas and representatives of the ULGs. Execution of CB plan and outputs. | CB Plan of and TOR for RMTs prepared and positions are in place. The CB plan covers at least 4 modalities and at least 80% of the thematic focus areas from the POM. Teams are in place and operating. Annual CB needs assessment conducted by involving all regional entities covering all thematic areas and representatives of the ULGs. Execution of CB plan and outputs. |
| <b>DLI 5 Allocated amount</b>  | <b>\$27.88 million</b>                          | <b>4.8 %</b>                         |                             |  | <b>\$6.97 million</b>  | <b>\$6.97 million</b>   | <b>\$6.97 million</b>   | <b>\$6.97 million</b>   |
| <b>DLI 6</b><br>Regional Government Audit Agencies (ORAGs) have carried out timely audits of Eligible ULGs' financial reports                                      |   |                                      | 0                           |  | 117 ULG audits completed   | 117 ULG audits completed  | 117 ULG audits completed  | 117 ULG audits completed  |
| <b>DLI 6 Allocated amount</b>  | <b>\$14.96 million</b>                          | <b>2.6 %</b>                         |                             |  | <b>\$3.74 million</b>  | <b>\$3.74 million</b>   | <b>\$3.74 million</b>   | <b>\$3.74 million</b>   |
| <b>DLI 7</b><br>Regional environment protection, forest and climate change authorities (REFAs) have completed timely review of Eligible                            |   |                                      | 0                           |  | 117 ULGs safeguards performance reviews and  | 117 ULGs safeguards performance reviews and   | 117 ULGs safeguards performance reviews and   | 117 ULGs safeguards performance reviews and   |

| DLI  | Total financing allocated to DLI <sup>100</sup> | As percent of total financing amount | DLI Baseline <sup>101</sup> | Indicative Timeline for DLI Achievement          |   |  |  |  |
|--|---|--------------------------------------|-----------------------------|--|---|--|--|--|
|  |   |                                      |                             | Year 1 EFY2010 (year ended July 7, 2018)         | Year 2 EFY2011 (year ended July 7, 2019)                  | Year 3 EFY2012 (year ended July 7, 2020)   | Year 4 EFY2013 (year ended July 7, 2021)   | Year 5 EFY 2014 (year ended July 7, 2022)  |
| ULGs' environmental and social safeguards compliance.  |   |                                      |                             |  | annual audits completed                                   | annual audits completed  | annual audits completed  | annual audits completed  |
| <b>DLI 7 Allocated amount</b>  | <b>\$13.12 million</b>                          | <b>2.3 %</b>                         |                             |  | <b>\$3.28 million</b>                                     | <b>\$3.28 million</b>  | <b>\$3.28 million</b>  | <b>\$3.28 million</b>  |
| <b>DLI 8</b><br>Regional Revenue Bureaus (RRBs) have supported Eligible ULG revenue mobilization <sup>105</sup>  |   |                                      | 0                           |  | 117 ULGs revenue mobilization supported                   | 117 ULGs revenue mobilization supported  | 117 ULGs revenue mobilization supported  | 117 ULGs revenue mobilization supported  |
| <b>DLI 8 Allocated amount</b>  | <b>\$7.04 million</b>                           | <b>1.2%</b>                          |                             |  | <b>\$1.76 million</b>                                     | <b>\$1.76 million</b>  | <b>\$1.76 million</b>  | <b>\$1.76 million</b>  |
| <b>DLI 9</b><br>Regional Public Procurement and Property Administration Agencies (RPPAA) conduct timely and quality procurement audit of Eligible ULG's accounts and performance. <sup>106</sup> |   |                                      | 0                           |  | Procurement audit plan with ToR for the audit elaborated. | 117 ULGs audits completed on time to be incorporated in the APA. ie. audit is planned and procurement audit conducted for 117 ULGs by end of November in compliance with the APAG. | 117 ULGs audits completed on time to be incorporated in the APA. ie. audit is planned and procurement audit conducted for 117 ULGs by end of November in compliance with the APAG. | 117 ULGs audits completed on time to be incorporated in the APA. ie. audit is planned and procurement audit conducted for 117 ULGs by end of November in compliance with the APAG. |
| <b>DLI 9 Allocated amount</b>  | <b>\$7.04 million</b>                           | <b>1.2 %</b>                         |                             |  | <b>\$1.76 million</b>                                     | <b>\$1.76million</b>   | <b>\$1.76 million</b>  | <b>\$1.76 million</b>  |
| <b>DLI 10</b><br>Strengthening institutional performance, infrastructure and service delivery, maintenance, and job creation for 44 ULGs (Prior Results).  |   |                                      | 0                           | Achieved average target of 92 points in the APA. |   |  |  |  |
| <b>DLI 10 Allocated amount</b>   | <b>US\$63.74 million</b>                        | <b>11.1%</b>                         |                             | <b>\$63.74 million</b>                           |   |  |  |  |
| <b>Total Financing Allocated based on DLIs:</b>  | <b>US\$576.23 million</b>                       | <b>100.0%</b>                        | <b>0</b>                    | <b>\$63.74 million</b>                           | <b>\$95.29million</b>                                     | <b>\$139.07 million</b>  | <b>\$139.07 million</b>  | <b>\$139.07 million</b>  |

Note: APAG = Annual Performance Assessment Guidelines.

<sup>105</sup> The regional revenue authorities will need time to build up the capacity within this area, and the tariff regulations. Support is expected to be rendered every year.

<sup>106</sup> Costs of procurement audit up to the first round of disbursements is covered by the ULGDP II.

**DLI Verification Protocol Table**

| # | DLI  | Definition/ Description of achievement <sup>107</sup>  | Scalability | Data Source  | Verification Entity  | Procedure   |
|---|--|--|-------------|--|--|---|
| 1 | ULGs have achieved Program minimum conditions.                   | The indicator will be satisfied when the APA has been completed, and based only on the minimum conditions, the disbursements to Program ULGs have been determined.   | Yes         | ULG compliance with Program minimum conditions assessed by the independent performance assessment. | TC, based on inputs from the independent private firm carrying out the APA ( <i>Note: The ToR of the firm must be acceptable to the WB</i> ).<br><br>Draft Assessment reports are submitted by the APA simultaneously for review to the final verification entity – the TC <sup>108</sup> , which verifies the results, and the WB for review.<br><br>Neither party can modify such reports except for factual errors. | MUDHo hires private sector consulting/audit firm(s) (whose TOR must be acceptable to the WB) to carry out the independent APA.<br>APA determines whether all minimum conditions have been met for each ULG.<br><br>The APA firm calculates the allocation to each ULG as per the formula in the WB disbursement table, and provides the aggregate disbursement amount (along with the full APA) simultaneously to government and the WB for review.<br><br>The TC reviews and verifies the results which are and then approved by the SC.<br><br>QAR/review by the WB.<br><br>As part of implementation support, WB will review the assessment results. WB retains the right to make the final decision as to whether a DLI has been achieved or not. The WB reviews and provides QAR of sample findings to ascertain that it is satisfied with the quality of results. |
| 2 | ULGs have strengthened institutional performance. <sup>109</sup> | The indicator will be satisfied when the APA has been completed (based on the minimum conditions and performance measures) and the allocation based on the score of all ULGs has been determined. The achievement rate will be determined by the results | Yes         | ULG progress against Program performance measures assessed by independent APA.                     | Same as above  | Same as in DLI 1, MUDHo hires private sector firm(s) to carry out the independent APA. APA assigns a score to each ULG. The firm(s) will calculate the allocation to each ULG as per the formula in the WB disbursement table, and provide the aggregate disbursement amount simultaneously to the government and the WB for review.<br>The APA results are finally verified by the TC, and approved by SC.<br>QAR by the WB.   |

<sup>107</sup> See detailed verification protocol /narrative for further details on the verification, means of verification and calibration.

<sup>108</sup>The TC will have representation from MUDHo (chair), MoFEC and other agencies as appropriate.

<sup>109</sup>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 11 for detailed performance measures.

|   |   |   |  |   |                |  |
|---|---|---|--|---|----------------|--|
|   |   | in the APA (average scores against the annual targets set).   |  |   |                | As part of implementation support, WB will review the assessment results. The WB retains the right to make the final decision as to whether a DLI has been achieved or not.  |
| 3 | ULGs have implemented quality infrastructure and maintenance activities and ensured VfM.                      | The indicator will be satisfied when the APA has been completed (based on the minimum conditions and performance measures) and the allocation based on the score of all ULGs has been determined.<br><br>The achievement rate will be determined by the results in the APA (average scores against the annual targets set). | Yes  | ULG progress against Program performance measures assessed by independent APA and performance as assessed by the independent VfM audits (which contribute as part of the results in the APA). | Same as above. | Similar to DLIs 1 and 2 above.<br><br>In addition to the above, the VfM Audit results will be incorporated in the APA results. Its results 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 WB disbursement table, considering the findings of the VfM and provide the aggregate disbursement amount simultaneously to government and the WB for review.<br><br>QAR by the WB.<br>The TC finally verifies the results which are approved by the SC.<br>As part of implementation support, WB will review the assessment results. The WB retains the right to make the final decision as to whether a DLI has been achieved or not. |
| 4 | ULGs have strengthened performance on LED, resilience and gender mainstreaming.                               | The indicator will be satisfied when the APA has been completed (based on the minimum conditions and performance measures) and the allocation based on the score of all ULGs has been determined. The achievement rate will be determined by the results in the APA (average scores against the annual targets set).        | Yes  | ULG progress against Program performance measures assessed by independent APA.  | Same as above  | Same as DLI 1 and 2 above.   |
| 5 | Regional support teams have delivered effective capacity building services to ULGs in urban institutional and | Achievement of the DLI will be determined on the basis of (a) existence of work plans, (b) staff deployment as per plan, (c) field work as per plan, and (d) effectiveness of   | Yes (allocation per region, which is calibrated) | Regional government performance against capacity plan reviewed and assessed by the APA team.  | Same as above  | This will be finally verified by the TC, and approved by SC and after review by the WB.<br><br>SC finally verifies the results.<br><br>Sample QAR (WB).  |

|   |   |   |     |     |               |  |
|---|---|---|-----|-----|---------------|--|
|   | infrastructure development.   | the support, measured in the percentage of ULGs under the team's care that pass the Minimum Conditions.   |     |     |               | SC and WB approve.   |
| 6 | ORAGs have carried out timely audits of ULGs' financial reports.                            | This indicator will be fulfilled when the regional audit entities, or their delegated agencies, which includes certified private audit firms, carry out and complete the financial audits of ULGs in their jurisdictions by January 7 of each year. | Yes | APA | Same as above | The private consulting/audit firm will assess that the results against this indicator, following the same process of verification as in the DLIs above.  |
| 7 | REFAs have completed timely review of ULGs' environmental and social safeguards compliance. | This indicator will be fulfilled when the REFAs have carried out the regular performance safeguards reviews and annual audits of ULGs in their jurisdictions before end of October each year.   | Yes | APA | Same as above | The private sector consulting/audit firm will assess that the results against this indicator, following the same process of verification as in the DLIs above.   |
| 8 | RRBs have supported 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 REPs and have updated the tariff regulations as per the verification protocol.              | Yes | APA | Same as above | The private consulting/audit firm (APA) will assess and verify the results against this indicator, following the same process of verification as in the DLIs above. The APA will review whether there have been consultations, documented with minutes.  |
| 9 | RPPPA conduct timely and quality procurement audit of ULG's accounts and performance.       | This indicator will be fulfilled when the regional procurement audit entities, or their delegated agencies, performing procurement audits of ULGs in their jurisdictions by no later by January 7 of each year.                                     | Yes | APA | Same as above | The private sector consulting/audit firm will assess that the results against this indicator, following the same process of verification as in the DLIs above under DLIs 4-7. The APA team will check that the quality of the procurement audit is in accordance with the APA guidelines on MCs and PMs for procurement. |

|    |  |  |     |  |                |  |
|----|--|--|-----|--|----------------|--|
| 10 | Strengthening institutional performance, infrastructure and service delivery, maintenance, and job creation for 44 ULGs. (Prior Results) | This result will be fully achieved if ULGs have the average score of 92 points on institutional performance, service delivery, maintenance and job creation in the APA in FY2017/18. | Yes | APAs which have documented results against targets | Same as above. | Based on the APA conducted in FY2017/18 and review of results against prior result defined as 92 points. |
|----|--|--|-----|--|----------------|--|

**Verification Protocol for UIIDP – PforR Window**

The DLIs related to performance of the ULGs and regions will be verified by independent firm(s) which will be hired to conduct annual assessments of the performances of ULGs using the verification protocol instrument (minimum conditions and performance measures), detailed and updated in the POM. In addition, the verification will be reinforced by other technical assessment reports such as VfM audit and regular WB supervision missions, reviews by the TC, and finally the SC and the WB.

The verification Protocol suggested for the UIIDP is based on the ULGDP II with improvements in terms of the system of verification and clarification of the steps in the process, timing and institutional arrangements.

The details of the Verification Protocol include three areas and are further elaborated below:

- (a) Overview of **schedule and timeframe for verification**;
- (b) Narrative of the **process** and institutional **arrangements**.
- (c) **Means of verification** DLIs 1-10

**A) Overview of the schedule and timeframe for verification**

For **DLIs 1-4**, focusing on ULGs’ performance and for **DLIs 5-9**, focusing on regions’ performance, the system of verification will be conducted as described in the tables below. For means of verification and actual calibration, please see the DLI Verification Protocol Table.

- **For the first APA (Allocations for DLIs 1–4 and DLIs 5–9)**

| Date (Gregorian Calendar)      | Activity  |
|--------------------------------|---|
| By End of August 2018          | Independent APA consultants engaged and onboard   |
| October 1, 2018                | APA commences – data collection in the field.   |
| By November 30, 2018           | APA consultant completes all field assessments, including minimum conditions and performance measures (DLIs 1–4), (including VfM audit).<br>For 73 new cities, only Minimum Conditions will be assessed and VfM Audit is waived for this first round. The APA also assesses the result for regions against <b>DLI 5–9</b> . |
| By December 31, 2018           | APA consultant completes and submits <b>first draft Preliminary</b> APA reports and draft Preliminary Synthesis Report (excluding the audit results for the ULGs) to MUDHo as well as to the WB.  |
| January 15 – February 28, 2019 | Conduct <b>Quality Assurance Review (WB)</b> ; Quality Assurance Review comments and findings to inform APA ready by no later than February 15, 2019 and TC review findings for consistency by February 28, 2019.   |
| By February 28, 2019           | MUDHo provides indicative allocations for EFY 2012 (2019/20) to all regions for all 117 cities to start the capital investment planning process.  |
| By March 15, 2019              | APA team incorporates QAR comments and submits <b>second draft Preliminary</b> APA reports and draft preliminary synthesis report (including audit results for ULGs) simultaneously to MUDHo and WB.  |
| By March 31, 2019              | Review by MUDHo and WB, and APA team reconcile comments received, into the <b>third draft Preliminary</b> report produced by the APA team and submitted simultaneously to WB and MUDHo.   |
| By April 1, 2019               | MUDHo shares the third draft report with ULGs /Regions which have 14 days for submitting complaints, if any   |
| By April 15, 2019              | ULGs/Regions submit their complaints.   |
| By April 22, 2019              | Review by the Annual Performance Assessment Complaints Resolution Committee (APACRC) of ULG/Regions’ complaints<br>Reconciliation between complaints and APA findings (APACRC)<br>Recommendations from the APACRC on changes to be made by the APA team.  |
| By April 29, 2019              | <b>Final draft APA report</b> for each ULG/region and the Final Draft Synthesis Report as well as report on changes made and not made (with justification) by APA team, submitted to WB and MUDHo   |
| By May 2, 2019                 | Final Verification of the APA results by <b>the UIIDP Technical Subcommittee (TSC)</b>  |
| By May 15, 2019                | Formal review and approval of results by the SC; review and endorsement by WB (for the coming financial year’s allocations to ULGs)   |
| By May 22, 2019                | <b>Final APA report</b> for each ULG/region and the Final Draft Synthesis Report incorporating changes and endorsement by the WB.   |
| By May 31, 2019                | Final Results and Allocations announced and workshop with regions and ULGs held.  |
| In June 2019                   | ULG budgeting process for 2019/20 continues based on actual allocations.  |

|                  |  |
|------------------|--|
| By June 30, 2019 | Submission of CIPs, REPs, and AMPs by ULGs to regions/MUDHo for approval |
| By July 15, 2019 | Approval of CIPs, REPs, and AMPs by regions/MUDHo                        |
| July 15, 2019    | Start of implementation of CIPs by ULGs                                  |
| By June 30, 2019 | WB disburse to MOFEC the full amount.                                    |
| In July 2019     | 50 percent of the allocations disbursed to Regions and ULGs.             |
| In January 2020  | 50 percent of annual allocation disbursed to Regions and ULGs.           |

- **For the subsequent (2<sup>nd</sup> - 4<sup>th</sup>) APAs (Allocations for DLIs 1–4 and DLIs 5–9)**

| Date<br>(Gregorian Calendar) | Activity   |
|------------------------------|--|
| By mid-July                  | Independent APA consultants engaged and onboard  |
| Early August                 | APA commences – data collection in the field.  |
| By September 30              | Complete all field assessments, including minimum conditions and performance measures (DLIs 1–4), (including VfM audit). The APA also assesses the result against <b>DLI 5–9</b> .   |
| By October 15                | APA consultant completes and submits <b>first draft Preliminary</b> APA reports and draft Preliminary Synthesis Report (excluding the audit results for the ULGs) to MUDHo as well as to the WB.   |
| October 16- November 30      | Conduct Quality Assurance Review (WB); Quality Assurance Review comments and findings to inform APA ready by no later than November 25 and TC review findings for consistency by November 30.  |
| By December 10               | APA team completes and submits <b>second draft Preliminary</b> APA reports and draft preliminary synthesis report (excluding the audit results) and share with MUDHo and WB.   |
| By December 19               | Review by MUDHo and WB, and APA team reconcile comments received, into the <b>third draft report produced by the APA team</b> .  |
| By December 20               | MUDHo shares the third draft report with ULGs /Regions which have 14 days for submitting complaints, if any  |
| By January 4                 | ULGs/Regions submit their complaints   |
| By January 10                | APA consultant: Incorporate audit results in the APA.<br>Review by the APA Complaints Resolution Committee of ULG/Regions' complaints<br>Reconciliation between complaints and APA findings (Complaints Committee)<br>Recommendations from the Complaints Committee on changes to be made. |
| By January 21                | <b>Final draft APA report</b> for each ULG/region and the Final Draft Synthesis Report as well as report from the Complaints Committee on changes made by APA team, submitted to WB and MUDHo  |
| By February 5                | Final Verification of the APA results by <b>the UIIDP TC</b>   |



|                |   |
|----------------|---|
| By February 15 | Formal review and approval of results by the SC; review and endorsement by WB (for the coming financial year's allocations to ULGs) |
| By February 28 | Allocations announced and workshop with regions and ULGs held.  |
| In March       | ULG budgeting process for 2019/20 starts, based on actual allocations   |
| By June 30     | WB disburse to MoFEC the full amount  |
| In July        | 50 percent of the allocations disbursed to Regions and ULGs   |
| In January     | 50 percent of annual allocation disbursed to Regions and ULGs   |

- **Schedule for Assessment: Allocations for DLI 10– Prior results on institutional performance, service delivery, maintenance, and job creation for 44 ULGs**

| Date (Gregorian Calendar)                           | Activity   |
|---|--|
| End of February 2018: Verification of FY2017/18 APA | With final approval of results in February 2018.   |
| March 2018  | Calculation of fiscal gap due to overachievement and exchange rates<br>Review by TSC (verification) and SC (endorsement) |
| April 2018  | Review and Approval by WB  |
| May 2018  | Disbursement from WB to Government for DLI 10.   |

## B) Verification Process and Institutional Framework

Below are further details on the verification process.

### DLIs 1–4 – MCs and PMs

| Future APAs   |
|---|
| <b>Submission of First Draft Preliminary APA reports (without audit results/scores)</b>   |
| Field visits and the APA assessment will start from the beginning of August, and all be completed by end September, the Consultant's Team Leader will prepare and submit the first draft Preliminary APA Report (without audit results/scores) for each ULG and the first draft Preliminary Synthesis Report simultaneously to the WB and to MUDHo by end October or not later than twelve weeks after commencement of the assignment, whichever is earlier, using the formats provided (in the POM, APAG). The APA (preliminary/draft) Report Forms must be signed by the ULG Mayor and City Manager and the Consultant's Team Leader irrespective of the outcome of the assessment. The Assessment Reports will include an explicit reference to the nature and substance of any disagreement (APAG) (enclosed as a volume in the POM). |
| <b>Quality Assurance Review</b>   |
| The WB will carry out a Quality Assurance Review in November, based on the first draft preliminary APA report, or once the report has been received, whichever is earlier. The QAR will communicate its findings to MUDHo. MUDHo will communicate to the Consultant the QAR findings.   |

|   |
|---|
| <b>Submission of Second Draft APA reports to MUDHo and WB</b>   |
| Based on the QAR (conducted in November), MUDHo and WB will provide feedback on the first draft Preliminary APA reports. The consultants will address and incorporate necessary amendments and will prepare and submit simultaneously to MUDHo and WB the revised and high quality second draft individual city reports for all the cities and the second draft synthesis report (all without audit results/scores) by end December of each year. The Second Draft Reports are then reviewed jointly by the WB and MUDHo to check whether all comments have been incorporated. If not, additional comments will be sent to the APA Consultant to be incorporated in the Final (3 <sup>rd</sup> ) Draft reports. |
| <b>Complaints handling procedures</b>   |
| The <b>(third) draft final</b> reports are also provided to ULGs and regions for review and, if there are disagreement with the results, they may submit their complaints within 14 days of the date of the letter from MUDHo. The TC will also consider recommendations from the APA complaints resolution committee in regard to any complaints received from cities/regions on the APA and review inconsistent findings (APA team may be asked to provide further evidence for the conclusions reached as well as the complainants).   |
| The ULGs/regions have 14 days for complaints which will be reviewed by the complaints committee. The complaints committee submit the recommendations to the TC and the WB by January.   |
| Based on the handling of complaints, the APA team submits its final APA report to MUDHo and the WB.   |
| <b>Submission of Final Draft APA reports to MUDHo and WB</b>  |
| The APA Consultant will incorporate the audit results/scores in the individual ULG reports and the Synthesis Report in January. The APA Consultant will also calculate, and incorporate in the Synthesis Report, the IDA disbursement to Government and the allocation to each ULG and regional government as per the formula in the Program disbursement table and the DLI allocation table, both of which are in the POM- APAG.   |
| The APA Consultant will incorporate any additional comments and submit the Final Draft APA report for each ULG and the Final Draft Synthesis Report simultaneously to Government (MUDHo) and WB by not later by end of January each year.   |
| <b>Post-assessment activities</b>   |
| <b><i>Verification of the assessment reports submitted by consultants conducted by the TC and approval by SC and WB.</i></b>  |
| The MUDHo and WB will review whether the Final APA report is complete and consistent. The final reports are then submitted to the UIIDP TPC by end January for <b>verification</b> of the accuracy and consistency of the reports and scores on the indicators. The UIIDP TC will finally verify and then submit the agreed final revised reports and its summary of the results of the APA and its recommendations on complaints and for allocation of UIIDP DLI related funds for the forthcoming EFY to the UIIDP II SC in the first week of February each year (copy to the WB).  |
| Following approval by SC, the summary of results (and how the complaints have been handled) and recommendations will be submitted to WB by mid-February for formal approval of results and fund allocations.  |
| <b><i>Notification of assessment score.</i></b> Following WB approval in February, MUDHo will provide official notification of assessment scores and allocations to all ULGs and regions. A Workshop will be held by end February of each year with regions and ULGs to share results of the APA and the allocations for the coming financial year. Each of the assessed ULGs will also receive a copy of their city's final assessment report – as approved by the UIIDP SC and WB.  |

### **Details on the processing of complaints from ULGs by the MUDHo**

While draft final reports of the APA are submitted to MUDHo, the draft final reports are also provided to ULGs and regions to review and submit their complaints within 14 days of the date of the letter from MUDHo.

Where a ULG or Region is not satisfied with the outcome of the assessment, a complaint should be submitted to the UREFMFB, MUDHo not later than 14 days following receipt of notification of official scores. When submitting the complaint, the ULG/Region must enclose any relevant documentation in support of the issues in question. A UIIDP APA Complaints Resolution Committee will review and examine the complaint and recommend action to be taken on the complaints.

The examination of the complaint will lead to one of the following results:

1. Correction of errors
2. Re-assessment in case of laxity by the assessment team
3. Rejection of the complaint

**Composition of Complaints Resolution Committee:**

1. Representative from MUDHo,
2. Representative of MoFEC,
3. Representative of Ethiopian Cities Association,
4. Independent Expert in the area of concern, and the
5. UIIDP Program Coordinator.

Based upon the report from the Complaints Resolution Committee, the APA Consultants will either incorporate changes which they are convinced are justified and provide reasons on those changes they do not accept. The APA Consultants will submit simultaneously to MUDHo and WB, the Final Draft Reports incorporating changes which they consider justified and provide a report on changes made and not made (with justification).

The UIIDP Federal Technical Subcommittee (FTSC) will verify the APA results and complaints resolution and submit its recommendations to the UIIDP Federal Steering Committee (FSC). The APA results will be formally reviewed and approved by the FSC, reviewed and endorsed by the WB. The APA Consultant will incorporate the final changes and endorsement of the WB of the APA results and allocations and produce the **Final** ULG and Synthesis APA Reports. MUDHo will distribute the Final ULG and Synthesis APA Reports to all regions and will also officially notify them of the final allocations approved by the WB. (The details on the verification procedures are also included in the Verification Table of the TA and the POM.)

## Bank Disbursement Table

| # | DLI  | Bank financing allocated to the DLI (US\$, million) | Of which Financing available for |          | Deadline for DLI Achievement | Minimum DLI value to be achieved to trigger disbursements of Bank Financing | Maximum DLI value(s) expected to be achieved for Bank disbursements purposes | Determination of Financing Amount to be disbursed against achieved and verified DLI values   |
|---|--|---|----------------------------------|----------|------------------------------|---|--|--|
|   |  |   | Prior results                    | Advances |                              |   |  |  |
| 1 | ULGs have achieved Program minimum conditions.                   | US\$109.32 million                                  | 0                                | 0        | At point of time for the APA | 0   | 117 ULGs   | <p>Disbursement from the WB is calculated on the basis of compliance of ULGs with minimum conditions. (US\$27.33million per annum) for 4 years FY2019/20, 2020/21, FY2021/22 and FY2022/23</p> <p>Formula for disbursement from the WB to government is:<br/>[total annual disbursement] = [total population in all minimum condition compliant ULGs] X [US\$4.13]</p> <p>Formula for disbursement from government to ULGs is:<br/>[disbursement to each ULG] = [total population in that ULG] X [US\$4.13], provided that the ULG has complied with the minimum conditions.</p> <p>Disbursement will be made if previous financial year's disbursements from government to ULGs have all been made.</p> |
| 2 | ULGs have strengthened institutional performance. <sup>110</sup> | US\$190.09 <sup>111</sup> million                   | 0                                | 0        | At point of time for the APA | 0   | 100% performance   | <p>Disbursement from the WB to government will be determined as:<br/>Compliance of ULGs with minimum conditions measured (as above);<br/>Sum of scores of all ULG calculated (non-minimum condition compliant ULGs are assigned a score of zero) and divided by 117 (note in FY2019/20 only the 44 current ULGDP-II ULGs will get access to the funds and the</p>  |

<sup>110</sup>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.

<sup>111</sup> For DLI2, assuming the average score is achieved every year, the total disbursement amount will be \$189.62 million (and at \$34.17million for year 2, and \$51.82 million each year for years 3-5). However, an additional amount of \$0.47 million is allocated to this DLI2, bringing the total amount allocated to US\$190.09 million to allow for better than average performance. This is based on previous experience from ULGDP-II. The higher overall amount of US\$190.09 million does not affect the disbursement formulation and verifications for DLI2 and its performance measures, which are as detailed in this annex 4, and in annex 11, as well as the POM.

| # | DLI | Bank financing allocated to the DLI (US\$, million) | Of which Financing available for |          | Deadline for DLI Achievement | Minimum DLI value to be achieved to trigger disbursements of Bank Financing | Maximum DLI value(s) expected to be achieved for Bank disbursements purposes | Determination of Financing Amount to be disbursed against achieved and verified DLI values  |
|---|-----|---|----------------------------------|----------|------------------------------|---|--|---|
|   |     |   | Prior results                    | Advances |                              |   |  |   |
|   |     |   |                                  |          |                              |   |  | <p>adjusted amount for this will be divided between those 44 ULGs);</p> <p>A. If score equal to target for financial year, full allocation,<br/> B. If score below target for the financial year, pro-rata reduction,<br/> C. If score above target for financial year, pro-rata increase.<br/> Disbursement will be made if previous disbursements from government to ULGs have all been made.</p> <p>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.</p> <p>Formula for disbursement from the WB to the government is:<br/> [total annual disbursement] = [{sum of individual scores of all ULGs/117 (first year only 44 ULGs)*} / {target score for the financial year}] X [target disbursement amount that is, <b>US\$51.87 million for 117 ULGs</b> in FY2020/21, FY2021/22 and FY2022/23 (first financial year only <b>US\$34.17 million</b> for the 44 targeted ULGs)]</p> <p>Performance targets for this DLI are:<br/> 2019/20: 70 points<br/> 2020/21: 75 points<br/> 2021/22: 80 points<br/> 2022/23: 85 points</p> <p>Formula for disbursement from government to ULGs in 2019/20 is:<br/> [disbursement to any ULG] = [population of ULG X performance score of ULG] / [Σ (population of ULG 1-..44</p> |

| # | DLI   | Bank financing allocated to the DLI (US\$, million) | Of which Financing available for |          | Deadline for DLI Achievement | Minimum DLI value to be achieved to trigger disbursements of Bank Financing | Maximum DLI value(s) expected to be achieved for Bank disbursements purposes | Determination of Financing Amount to be disbursed against achieved and verified DLI values  |
|---|---|---|----------------------------------|----------|------------------------------|---|--|---|
|   |   |   | Prior results                    | Advances |                              |   |  |   |
|   |   |   |                                  |          |                              |   |  | <p>X performance score of ULG 1-..44)] X [total disbursement amount for the financial year], if the ULG has complied with the minimum conditions.</p> <p>Formula for disbursement from government to ULGs in FY2020/21, FY2021/22 and FY2022/23 is:</p> <p>[disbursement to any ULG] = [population of ULG X performance score of ULG] / [Σ (population of ULG 1-..117 X performance score of ULG 1-..117) X [total disbursement amount for the financial year], if the ULGA has complied with the minimum conditions.</p> <p>* <i>Note:</i> For the new 73 ULGs, this DLI will only be applied from 2020/21 and the following financial year, hence amount to be distributed in FY2019/20 is only <b>US\$34.17</b> million which will only be allocated across the 44 ULGs.</p> |
| 3 | ULGs have implemented quality infrastructure and maintenance activities and ensured VfM. <sup>112</sup> | US\$90.09 million                                   | 0                                | 0        | At point of time for the APA | 0   | 100% performance   | <p>Disbursement from the WB to government will be determined as:</p> <p>Compliance of ULGs with minimum conditions measured (as above);</p> <p>Sum of score of all ULGs calculated (non-minimum condition compliant ULGs are assigned a score of zero) and divided by 44 ULGs (in 2019/20) and by 117 ULGs in FY2020/21, FY2021/22 and FY2022/23.</p> <p>A. If score equal to target for the financial year, full allocation,</p> <p>B. If score below target for the financial year, pro-rata reduction,</p> <p>C. If score above target for the financial year, pro-rata increase.</p>  |

<sup>112</sup> Composite index of performance based on areas in infrastructure implementation, maintenance performance, and value for the money of investments implemented.

| # | DLI | Bank financing allocated to the DLI (US\$, million) | Of which Financing available for |          | Deadline for DLI Achievement | Minimum DLI value to be achieved to trigger disbursements of Bank Financing | Maximum DLI value(s) expected to be achieved for Bank disbursements purposes | Determination of Financing Amount to be disbursed against achieved and verified DLI values   |
|---|-----|---|----------------------------------|----------|------------------------------|---|--|--|
|   |     |   | Prior results                    | Advances |                              |   |  |  |
|   |     |   |                                  |          |                              |   |  | <p>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.</p> <p>Formula for disbursement from the WB to the government is:</p> <p>[total annual disbursement] = [{sum of individual scores of all ULGs/117 (first year only 44 ULGs)*}/ {target score for the financial year}] X [target disbursement amount that is, US\$24.62m for 117 ULGs in FY2020/21, FY2021/22 and FY2022/23. In FY2019/20, the amount is: US\$16.23 million for the 44 targeted ULGs]</p> <p>2019/20: 70 points<br/> 2020/21: 75 points<br/> 2021/22: 80 points<br/> 2022/23: 85 points</p> <p>Formula for disbursement from government to ULGs in 2019/20 is:<br/> [disbursement to any ULG] = [population of ULG X performance score of ULG] / [Σ (population of ULG 1-..44 X performance score of ULG 1-..44)] X [total disbursement amount for the financial year], if the ULG has complied with the minimum conditions.</p> <p>Formula for disbursement from government to ULGs in FY2020/21, FY2021/22 and FY2022/23 is:</p> <p>[disbursement to any ULG] = [population of ULG X performance score of ULG] / [Σ (population of ULG 1-..117 X performance score of ULG 1-..117)] X [total disbursement</p> |

| # | DLI   | Bank financing allocated to the DLI (US\$, million) | Of which Financing available for |          | Deadline for DLI Achievement | Minimum DLI value to be achieved to trigger disbursements of Bank Financing | Maximum DLI value(s) expected to be achieved for Bank disbursements purposes | Determination of Financing Amount to be disbursed against achieved and verified DLI values  |
|---|---|---|----------------------------------|----------|------------------------------|---|--|---|
|   |   |   | Prior results                    | Advances |                              |   |  |   |
|   |   |   |                                  |          |                              |   |  | <p>amount for the financial year], if the ULGA has complied with the minimum conditions.</p> <p>* Note: For the new 73 ULGs, this DLI will only be applied for 2020/21, FY2021/22 and FY2022/23, hence amount to be distributed in FY2019/20: US\$16.23 million will only be allocated across the 44 targeted ULGs.</p> <p>Disbursement will be made if previous disbursements from government to ULGs have all been made.</p>  |
| 4 | ULGs have strengthened performance on LED, urban resilience and gender mainstreaming. | US\$52.95 million                                   | 0                                | 0        | At point of time for the APA | 0   | 100% performance   | <p>Disbursement from the WB to government will be determined as:<br/>Compliance of ULGs with minimum conditions measured (as above);</p> <p>Sum of score of all ULGs calculated (non-minimum condition compliant ULGs are assigned a score of zero) by 117 ULGs in FY2020/21, FY2021/22 and FY2022/23.<br/>A. If score equal to target for the financial year, full allocation,<br/>B. If score below target for the financial year, pro-rata reduction,<br/>C. If score above target for the financial year, pro-rata increase.</p> <p>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.</p> <p>Formula for disbursement from the WB to the government is:<br/>[total annual disbursement] = [{sum of individual scores of all ULGs/117 *} / {target score for the financial year}] X</p> |



| # | DLI   | Bank financing allocated to the DLI (US\$, million) | Of which Financing available for |          | Deadline for DLI Achievement        | Minimum DLI value to be achieved to trigger disbursements of Bank Financing | Maximum DLI value(s) expected to be achieved for Bank disbursements purposes | Determination of Financing Amount to be disbursed against achieved and verified DLI values  |
|---|---|---|----------------------------------|----------|-------------------------------------|---|--|---|
|   |   |   | Prior results                    | Advances |                                     |   |  |   |
|   |   |   |                                  |          |                                     |   |  | <p>[target disbursement amount that is, US\$17.65m for 117 ULGs in FY2020/21, FY2021/22 and FY2022/23]</p> <p>2020/21: 70 points<br/>2021/22: 75 points<br/>2022/23: 80 points</p> <p>Formula for disbursement from government to ULGs in FY2020/21, FY2021/22 and FY2022/23 is:</p> <p>[disbursement to any ULG] = [population of ULG X performance score of ULG] / [<math>\sum</math> (population of ULG 1-..117) X performance score of ULG 1-..117)] X [total disbursement amount for the financial year], if the ULGA has complied with the minimum conditions.</p> <p>Disbursement will be made if previous disbursements from government to ULGs have all been made.</p> |
| 5 | Regional support teams have delivered effective capacity building services to ULGs in urban institutional and infrastructure development. | US\$27.88 million                                   | 0                                | 0        | At the point of time for assessment | n.a.  | 10 RMTs (US\$6.97 million per year)  | <p>10 teams X 697,000 (if targets achieved) Reductions in case minimum requirements and results are not met.</p> <p>Maximum amount per regional mobile where the CB plans, formats and achievement is achieved as per requirements: <b>US\$697,000 per team</b>. Reduction for lack of achievement rates according to protocol.</p> <p>See the verification protocol and narrative in annex 11 for the details</p>  |
| 6 | Regional Government Audit Agencies (ORAGs) have carried out   | US\$14.96 million                                   | 0                                | 0        | By end of February each year        |   | All regions supporting all 117 ULGs (US\$3.74                                | <p>Audit: US\$14.98 million/ = US\$3.74 million per year</p> <p>Disbursement calibrated in a manner where each region receives <b>US\$32,000 per ULG</b>, for which the audit has been made for the accounts of the previous financial year. If a</p>   |

| # | DLI  | Bank financing allocated to the DLI (US\$, million) | Of which Financing available for |          | Deadline for DLI Achievement | Minimum DLI value to be achieved to trigger disbursements of Bank Financing | Maximum DLI value(s) expected to be achieved for Bank disbursements purposes | Determination of Financing Amount to be disbursed against achieved and verified DLI values  |
|---|--|---|----------------------------------|----------|------------------------------|---|--|---|
|   |  |   | Prior results                    | Advances |                              |   |  |   |
|   | timely audits of ULGs' financial reports.  |   |                                  |          |                              |   | million per year)  | <p>region has covered 7 ULGs in a timely fashion, it will be allocated 7 X US\$32,000. Reduction in amounts <b>if standards</b> are not followed as per the verification protocol.</p> <p>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.</p> <p>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.</p>                                  |
| 7 | Regional environment protection, forest and climate change authorities (REFAs) have completed timely review of ULGs' environmental and social safeguards compliance. | US\$13.12 million                                   | 0                                | 0        | By end of February each Year |   | All regions supporting all 117 ULGs (US\$3.28 million per year)              | <p>Environmental and social safeguards audit and reviews: US\$13.02 million / 4years = US\$3.28 million per year:</p> <p>Disbursement calibrated in a manner where the disbursement is: <b>US\$28,000 per ULG</b> 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). Reduction and calibration as per the narrative, annex 11.</p> <p>If a region has conducted timely audit of 6 ULGs, the allocation will be 6 x US\$28,000.</p> |
| 8 | Regional Revenue Authorities have supported ULG revenue mobilization.  | US\$7.04 million                                    | 0                                | 0        | By end of February each year |   | All regions supporting all 117 ULGs (US\$1.76 million per year)              | <p>Regional revenue authorities providing support to revenue mobilization: US\$7.02 million / 4 years = US\$1.76 million per year.</p> <p><b>US\$15,000</b> per ULG per year which is supported in accordance with target in the protocol.</p> <p>Disbursements are made according to the number of ULGs where regions have conducted consultative review with</p>  |

| #   | DLI  | Bank financing allocated to the DLI (US\$, million) | Of which Financing available for |          | Deadline for DLI Achievement | Minimum DLI value to be achieved to trigger disbursements of Bank Financing | Maximum DLI value(s) expected to be achieved for Bank disbursements purposes | Determination of Financing Amount to be disbursed against achieved and verified DLI values   |
|-----|--|---|----------------------------------|----------|------------------------------|---|--|--|
|     |  |   | Prior results                    | Advances |                              |   |  |  |
|     |  |   |                                  |          |                              |   |  | <p>ULGs of municipal revenues/tariff/tax rates and bands, and REPs, and up-dated tariff proclamations with consultation and decisions recorded in regional council minutes in the year before the APA:</p> <p>Disbursement calibrated as US\$15,000 per ULG where conditions are fulfilled, as per the annex 11 with calibration for performance.</p>  |
| 9.  | Regional Public Procurement and Property Administration Agencies (RPPPA) conduct timely and quality procurement audit of ULG's accounts and performance. | US\$7.04 million                                    | 0                                | 0        | By end of February each Year |   | All regions supporting all 117 ULGs (US\$1.76 million per year)              | <p>Procurement audit: US\$7.02m/ 4 years = US\$1.76 million per year.</p> <p>Disbursement calibrated in a manner where each region receives <b>US\$15,000 per ULG</b>, for which the audit has been made for the accounts of the previous financial year in accordance with the standards outlined in the APA Guidelines, and with compiled timely reports (by January 7). If a region has covered 7 ULGs in a timely fashion, it will be allocated 7 X US\$15,000.</p> <p>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.</p> <p>Amount of funds is calibrated in accordance with number of timely audit in the regions (timely audit means that the final procurement audit report is issued no later than January 7 after the financial year for which the audit concerns). To achieve the compliance, the quality of the reports has to comply with the APA guidelines and compiled in a consolidated report. Calibration of amounts per audit as per narrative in annex 11.</p> |
| 10. | Strengthening institutional performance, infrastructure  | US\$63.74 million                                   | Yes                              | 0        | As per the legal agreement   |   | 63.74 million  | The target score for disbursement of US\$63.74 million is an average score of 92 for all ULGs for the 44 ULGDPII Program ULGs: (a) institutional performance and (b) implementation of their local infrastructure, maintenance,  |

| # | DLI  | Bank financing allocated to the DLI (US\$, million) | Of which Financing available for |          | Deadline for DLI Achievement | Minimum DLI value to be achieved to trigger disbursements of Bank Financing | Maximum DLI value(s) expected to be achieved for Bank disbursements purposes | Determination of Financing Amount to be disbursed against achieved and verified DLI values   |
|---|--|---|----------------------------------|----------|------------------------------|---|--|--|
|   |  |   | Prior results                    | Advances |                              |   |  |  |
|   | and service delivery, maintenance, and job creation for 44 ULGs. (Prior Results) |   |                                  |          |                              |   |  | <p>and job creation activities (as measured against their CIPs and their Annual Action Plans) as determined in the APA conducted in FY2017/18 for FY2018/19 allocations.</p> <p>Proportional scalability up and down with less and more points than targeted, that is, if 90 points, it is 90/92 X US\$63.74 million, and so on.</p> |

## Annex 5: Technical Assessment Summary

### A. *Strategic Relevance*

1. **Given the importance of well-managed urbanization for Ethiopia’s economic development, the need for adequate urban institutions, and the shortage of financial resources for delivery of urban infrastructure and services, the Operation is assessed to be strategically relevant.** The proposed Operation is well aligned with Ethiopia’s new urban policy, with the ULGs as driver of change for development. In addition, the proposed UIIDP will build on the achievements in ULGDP II on development of core urban infrastructure and services, but will also assist in promoting gender equity, resilience, and LED. All ULGs will now be assessed on their progress with addressing gender equity, preparation and implementation of disaster management plans, and progress with promoting LED, including through provision of serviced land for private investors, facilities for MSEs, and in creating jobs. Finally, through its conditional grants for urban development, the Program will help to address the large gaps in funding for capacity building, institutional strengthening, and delivery of infrastructure and services across all the ULGs in the country.<sup>113</sup> The average UIIDP grant is significant compared to the capital budget, OSR and other sources of funds.<sup>114</sup>

2. **The proposed operation will support the objectives of all three focus areas of the WB’s Ethiopia CPF (2018–22) and will contribute to achieving the WB’s twin goals of reducing extreme poverty and boosting shared prosperity.** The CPF for Ethiopia (115135-ET), discussed by the Board on June 27, 2017, has three strategic focus areas: (a) promoting structural and economic transformation through increased productivity, (b) building resilience and inclusiveness, and (c) supporting institutional accountability and confronting corruption. The proposed UIIDP supports all three strategic results areas.

3. **The proposed UIIDP will follow-up on the achievements in ULGDP II on development of core urban infrastructure and services, but will also assist in creating more jobs and reducing economic vulnerability.** It will continue to encourage cities to use labor-intensive construction practices that generate significant numbers of jobs, especially for women, youth, and vulnerable people.

4. **The proposed UIIDP directly supports the well-defined GoE’s program, and is also aligned with the government’s strategies and goals.** The previous phases of ULGDP were main instruments for the achievement of the goals and objectives of these government strategies and plans in the urban areas. Going forward, the UIIDP directly support the follow-on phase of the GoE’s program. UIIDP’s design is also aligned and directly linked with the goals and strategies set in the ECSPGs and GTP 2. The UIIDP proposes to cover a larger number of cities than the ULGDP. This phased scale-up approach was already envisaged at the inception of ULGDP, and the commitment by Government to implement this is robust and reflected in the policy as well a significant level of counterpart funding, and strong ownership from the regions and ULGs.<sup>115</sup>

5. **The WB Program directly supports the new UIIDP policy and Program, linked with 9 of the 10 pillars in the ECSPG.**<sup>116</sup> It offers 117 ULGs with performance-based grants combined with

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<sup>113</sup>Except for Addis Ababa.

<sup>114</sup> See the TA for details. Based on a sample of 22 ULGDP ULGs and 21 non-ULGDP ULGs through a combination of desk-based review (12 new ULGs) and actual field visits to 9 new ULGs.

<sup>115</sup> This was documented in the MTR where the ULGs in ULGDP II contributed far beyond the minimum required level and the commitment from the in-coming UIIDP ULGs to support and prepare for the program (documented in the field visits to 10 ULGs).

<sup>116</sup> The last pillar 10: Urban Social Development is supported by MoE and MoH.

comprehensive capacity building support for institutional strengthening and performance in infrastructure enhancement.

6. **The UIIDP will strengthen the initiatives to support the evolution of the government’s program and the overall intergovernmental fiscal system in Ethiopia.** The UIIDP will address the current urban infrastructure gaps, improve services and urban resilience, promote LED and job creation, and strengthen the institutions of the ULGs, the regional states, and the MUDHo for support of urban management and improved urban services. The UIIDP will help the 44 ULGs currently participating in the program to further strengthen their delivery of infrastructure and services, and will initiate urban development in the new 73 ULGs. The UIIDP will help to reduce urban poverty directly through the provision of jobs in civil works, and indirectly by promoting private sector investment. It will also catalyze enhanced contributions from the regional and ULG level for core urban infrastructure and services.

### **B. Technical Soundness**

7. **The technical design of UIIDP draws heavily from the extensive experiences of WB—government partnership in the urban sector, most recently under the ULGDP I and II.** The four APAs of the ULGs so far, the ULGDP II MTR, the 2015 Ethiopia Urban Review, recent fieldwork in 10 ULGs conducted to inform the design of the UIIDP, and several studies carried out by the government underpin the technical elements of the UIIDP. Specific lessons are:

- **Use government systems.** This will strengthen capacity at the federal, regional, and ULG levels for urban development, within flow of funds, FM, and operations.<sup>117</sup>
- **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 UIIDP development objective.
- **Provide strong incentives to perform.** Based on experiences from ULGDP I and II as well as comparing with other international performance-based grant system, the UIIDP incentive amounts and structures have been meticulously crafted. The main aim is to ensure that sufficiently strong incentives are provided, and for each of the key results areas or technical aspects. This also required a careful balance amongst competing demands on one pool of resources.
- **Get the focus areas right.** Based on the performance results and capacity assessments of ULGs, it was found that the ULGDP II identified core urban management areas continue to be extremely relevant and important. These include proper planning and budgeting, revenue mobilization, asset management planning, procurement and public FM, as well as strengthening of good governance and accountability. However, new priority areas such as LED, urban resilience and gender have emerged and are a new focus in UIIDP.
- **Provide a flexible capacity building to allow ULGs to respond to incentives.** All participating ULGs will benefit from municipal capacity building, to prepare them to receive

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<sup>117</sup> The MUDHo has developed guidelines on issues of urban management, including for assets management, public FM, capital investment planning, the POM (most recently November 2016) accounting, M&E, and the like. With revision and refinement, they will be used for the UIIDP.

the significant performance grants during the next assessment and ensure improved capacity for all ULGs by end of Program period with a combination of supply and demand driven CB;

- **Strengthen the links between investments, incentives and capacity building support.** The capacity building support is applied in a targeted manner to address gaps identified in the self-assessments and the APAs.
- **Introduce the performance-based grants gradually for the new ULGs.** Provide the new ULGs with grants in the first year linked only to meeting the MCs. Starting in the second year, assess performance of the new ULGs against both the MCs and the PMs.
- **Focus on improved municipal revenue generation to help ensure sustainability of the infrastructure and the entire ULG funding system.** By providing incentives for improved ULG own-source revenue generation and by strengthening support and guidance from the regional and federal government entities, ULGs will be able to mobilize funds they need to operate and maintain their infrastructure and services. This will improve the environment for private sector investment, which in turn will strengthen the tax bases of the ULGs.
- **Continue to strengthen the oversight, audit, and safeguard procedures at all levels of government.** This is particularly important to address weaknesses identified in the APAs.
- **Strengthen the timeliness of the APAs.** This will be done by starting the procurement process earlier and by providing a multiyear contract (one of the challenges of the ULGDP II).

**Table 5.1. Achievements and Lessons Learned on Specific Areas and Implication on UIIDP Design**

| Area                              | Achievements  | Lessons Learned   | Future Implications for UIIDP and New Initiatives  |
|-----------------------------------|---|---|--|
| Environment and social management | Environmental and social audit rolled out to 44 ULGs.   | Core for improved performance on ESSA related areas. Need to improve the quality of the audits.                       | Expand and roll out. Further refinement of the PMs in this area. More specific description of the audit requirements in the POM. |
| Public financial management/M&E   | VfM audits and procurement audits rolled out to all 44 ULGs for the first time. The VfM audits have shown improvements in the quality of the investments over time. | Useful to track performance and quality in service delivery.  | Expand and roll out.   |
| Public financial management       | PMs on public financial management shows improvements over time and above targets. Audit reports shows significant improvements since start of program.             | Ensure stronger accountability and efficient use of funding.  | PMs will be rolled-out and strengthened and fine-tuned. A new DLI will be introduced for a regional procurement audit.           |
| Own source revenues               | REPs are now in place in all ULGs, and the OSR have increased. For example, in 2015/16, 34 of 44 ULGs managed to  | Combined incentives, capacity building support and focus on better institutional framework with incentives and target | Continue to be a target area for to improve sustainability and higher resilience and strengthening of the PMs.                   |

| Area                                     | Achievements   | Lessons Learned   | Future Implications for UIIDP and New Initiatives  |
|--|--|---|--|
|  | increase their revenues by more than 10 percent.   | for regions as well, pay off in terms of results  |  |
| Co-funding/matching funds                | The co-funding requirements have been complied with and ULGs have contributed above target.  | The co-funding has promoted contribution and ownership.   | Will continue with small adjustment (increase) in the size for the original ULGDP ULGs.  |
| Incentive system                         | Incentive system in the grant system has been effective to enhance performance over time, and new ULGs will quickly catch up when incentives and capacity building are combined.   | Targeted financial incentives when combined with CB support can have significant positive impact on areas such as planning, OSR generation, public financial management, assets management, and the like. | Will be rolled out and refined. The lessons from the mainstreaming of performance with the core formula will continue, and results will reflect the absorption capacity, hence after the first initial year, all ULGs will be compared on an equal footing. Design will ensure that grants are sufficient to generate incentives. System of verification of results will be formalized, and initiatives will be taken (including multi-year contracting) to ensure timeliness in the assessment. |
| Service delivery                         | Significant expansion in urban services in target ULGs (roads, drainage systems, latrines, and the like). For example, in the first years some 500 kilometers of urban gravel roads and 719 km of cobblestone roads constructed. | Focus on service delivery in DLI 3 and VfM has increased attention on this.   | Will expand and continue to deepen in increasing number of ULGs.<br>Number of beneficiaries is expected to increase by 50 percent.<br>Improvement of PMs.  |
| Job creation                             | ULGDP II has expanded on the annual number of jobs created (around 140,000 jobs per year), increased from the 60–80,000 during ULGDPI)   | The types of investments supported in these urban grant systems are labor-intensive.  | Stronger focus on job-creation and LED in the new PMs, and the roll out means that more than 200,000 jobs per year should be created in the future.<br>Improvement of PMs.   |
| Timing of performance assessments        | Continued delays in the timing of the results of the annual assessments.   | Incentives were not sufficient due to procurement challenges.   | Need to introduce multi-year contract of assessments company and strengthen/continue incentives for timely APAs.   |
| Performance of ULGs                      | Despite general improvements some few ULGs are still lacking behind  | Need for more focused capacity building support to weaker ULGs.   | Strengthening of the capacity building modalities in the UIIDP will strengthen its focus on results in the DLI for regions and IPF for federal level.  |
| Focus of ULGDP and sharpening of the PMs | ULG has rather limited scope in terms of areas for performance improvements and some need improvements.  | What is measured will be addressed, hence important to ensure that new areas of resilience, gender, and LED are paid due attention.   | Adjust and refine the APA tool to ensure that each indicator is clear, and that new performance areas such as  |



| Area  | Achievements   | Lessons Learned   | Future Implications for UIIDP and New Initiatives  |
|---|--|---|--|
|   |  |   | urban resilience, gender and LED are properly addressed.   |
| M&E challenges  | M&E needs strengthening in terms of information on types of investments and use of funds.                              | Procedures under ULGDP II to strengthen this were useful, but insufficient. | Will be strengthened in UIIDP through the formulation of DLIs and legal agreement.   |
| Delays in the conduct of the APAs and of provision of capacity building support from MUDHo. | APAs and capacity building have been significantly delayed and not sufficiently incentivized through the DLI triggers. | PforR has been strong in achieving ULG and regional level results.          | An IPF window will be introduced under the UIIDP to help the MUDHo better manage its role in oversight, guidance, capacity building, and the timely undertaking of the APAs. |

**Table 5.2. Lessons Learned on the Capacity Building and How They Will Be Addressed Under the UIIDP**

| Area   | Lessons learned  | How reflected in the UIIDP   |
|--|--|--|
| Capacity building implementation arrangement           | Establishment of federal and regional mobile teams for providing capacity building and technical back stopping support aligned with the federal structure of the country turned out to be a successful strategy in supporting regional government entities and ULGs.   | The program will strengthen and build on such an institutional arrangement for capacity delivery. Number of teams will be allocated based on the size of the regional and improved conditions to address high turn-over will be installed. |
| Committing resources for capacity building             | Strong linkages of capacity building efforts to performance results proved to be a better mechanism to incentivize channeling of resources for capacity building especially at the ULG level.  | ULG, regional governments with support from federal team will sensitize and increase awareness on the areas in need of strengthening and support   |
| Thematic focus on capacity building                    | The capacity building followed a thematic approach focusing on the key priorities of ULGs relating to urban planning and management. The identification of focal persons conformed to these focal areas and the skill mix at the RMT also followed such a thematic focus. There was an expanded skill set available at the FMT level.  | The approach along with strengthening of the composition will be continued and the number of mobile teams expanded to reflect the larger number of ULGs to be enrolled. Key target areas have identified.                                  |
| Bottom up process driven approach to capacity building | Following a fully bottom up approach based on needs assessment and review of results from the APA would have helped to systematically capture capacity building demands of the ULGs while the capacity building plans at the regional and federal level would have balanced demands with supply side interventions. The absence of such an approach led to random efforts at the three levels resulting in ad-hoc activities and piecemeal efforts at regional and federal level on some of the thematic areas. Yet another bonus from such an approach would be that the capacity building plans at all levels will never be under or over ambitious. | In the future, a closer link between the APA results, needs assessment, and planning of capacity building support will be established. A capacity building manual will guide the process.  |
| Coordinated and orchestrated capacity building efforts | The federal level MUDHo and counterpart institutions for revenue enhancement and finance bureau need to work together. Similarly, at the regional level, the BUDs must work together with BoFEDs, asset management agencies, regional revenue authorities, regional procurement agencies, regional ethics and anti-corruption agencies, and ORAGs to help ULGs achieve a coordinated vision for capacity building.   | The coordination and working together of different institutions at the regional and federal level will be further strengthened.  |
| The supply side capacity building interventions are    | The usefulness and effectiveness of capacity building delivered to through ECSU could not be established   | Alternate public and private capacity building institutions including regional   |

| Area  | Lessons learned  | How reflected in the UIIDP   |
|---|--|--|
| to be carefully planned and executed  | due to lack of documentation on participant feedback and absence of a database to track whether that trained personnel remained performing project related tasks.  | universities would be explored for supply side capacity building along with ECSU.  |
| Balanced deployment of capacity building funds among different capacity building modalities | Deployment of CB funds relating to the demand side was arbitrarily shared between training and office equipment. This prevented judicious selection of appropriate modalities for capacity building. Even there were challenges in tracking fund deployment to different modalities. | The capacity building manual would help ULGs informed selection from a bundle of capacity building modalities. The manual presents a capacity building report format to track deployment of funds, key milestones and outputs achieved to map the capacity building plan as implemented. |

8. **UIIDP funding to ULGs will be allocated using a simple formula, based on population size and the performance of the ULGs.** An approximate US\$16–18 per capita per year (with phasing in of the new ULGs in the first financial year) has been assessed to be the optimal level of funding.<sup>118</sup> As a core principle, the per capita amount would at least maintain the similar level as at the start of the ULGDP II to ensure minimum level of incentives and meaningful infrastructure and services investments. The size of this performance grant has been determined considering various factors such as international good practice (from an expanding number of countries with performance-based grant allocations), the costs of investments, expenditure needs and current level of investments, as well as generation of a strong incentive to drive performance. This has been informed by a comprehensive review of ULG fiscal and revenue positions.

9. **The APA system is assessed to be robust.** The independent assessments, process of ensuring quality, the complaint handling system and the approval procedures have led to performance above target levels. However, the assessment has also shown a need to clarify a range of PMs. Some of these have been clarified during design, others will be updated before effectiveness in the POM and APA Guidelines.

10. **Overall, the Operation is assessed as technically sound.** Based on the above, the technical design of the UIIDP will contribute to the overall goal of efficiently producing results and reaching its objectives. The Program technical design reflects international good practice in the overall urban sector and specifically in technical standards and typology of Program activities. Furthermore, the design ensures, to the extent possible, that the incentives are in place for Program stakeholders to effectively contribute to the Program’s success.

**C. Institutional Arrangements**

11. **The Operation will be implemented through institutional arrangements at the Federal, regional, and urban government levels, with clear division of tasks and responsibilities between the three levels.** It follows the government structure and is consistent with existing legal provisions, regulations and guidelines. The roles and responsibilities of the relevant entities are summarized below.

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<sup>118</sup> In the first year, the simple average per capita for the new 73 ULGs and the ULGDP II 44 ULGs will be US\$14.79 and US\$17.68 per capita respectively. From the second year, the per capita allocation uses an average figure similar for the two groups, which is US\$17.68.

*Federal Level*

12. At the federal level:

(a) *Ministry, Department, and Agencies with statutory mandates for the program—MUDHo and MoFEC*

- **The MUDHo will be the lead implementing agency, with a FMT in the UREFMFB responsible for daily coordination of the Operation.** The FMT consists of a Program Coordinator, a deputy Program Coordinator and 30 other staff who also serve as members of the FMT. They will have expertise in the various Program focus areas, including newly introduced areas on gender equity, resilience, and LED. The UIIDP Program Coordinator will report to and act under the direction of the Bureau Head of the UREFMFB, MUDHo. The main tasks of the FMT are:
  - Overall responsibility for day-to-day coordination and management of the Operation.
  - Capacity building, including direct support to regional and ULGs, and issuance of guidelines and standard regulations for matters such as municipal revenue generation, assets management, service delivery standards, and the like.
  - Program management and implementation of activities under the IPF window, including the procurement and management of the APAs and the VfM audits and to ensure the timeliness.
  - Overall Operation M&E.
  - Operation reporting, including the semi-annual progress reports.
  - Ensuring that Operation resources are budgeted for and disbursed within the expenditure framework.
  - Accounting for the UIIDP funds to MoFEC.
  - Evaluating the performance of team members as per the agreement made between UREFMFB and the FMT team members.
- **MoFEC is responsible for fund flow, disbursement, financial reporting and arranging program auditing for the Operation.** MoFEC will also be responsible for compilation of financial reports, drawdown of funds from IDA, transfers of funds to MUDHo, Regional States (including Dire Dawa City Administration) and through Regional BoFEDs, to the ULGs as per the request from MUDHo.

(b) *Ministries, departments, and agencies with guiding/supporting roles*

- **Several other federal entities have guiding and supporting roles in UIIDP.** These include the OFAG, especially for the annual program audits; the FPPPAA on procurement procedures; ERCA on revenue generation, MEFCC on environmental and social management, the FUJCFSA, Ministry of Industry on job creation and support to MSEs, the FEACC on fraud and corruption monitoring and reporting and Ministry of

Federal Affairs which has special responsibility for DRS and will work with MUDHo to support participating cities in these regions.

(c) *Ministries, departments, and agencies with technical oversight roles–UIIDP TC*

- **A UIIDP TC will support the SC, providing advice, conflict resolution at the technical level, and verify Program performance and compliance.** Like the SC, the ULGDP II TC will transition into the UIIDP TC. It will comprise key technical staff (at least directors or director general level) of the MUDHo, MoFEC, MEFCC, Ministry of Federal Affairs, Ministry of Labor and Social Affairs, FUJCFSA, OFAG, FEACC, FPPAA, and ERCA. It will verify the results of the APAs and resolve complaints that cannot be resolved at entity level. The TC is expected to meet quarterly and to review Program implementation against objectives, bring policy issues to the SC, and ensure that the Operation is implemented in line with the POM.

(d) *Ministries, department, and agencies with policy roles–UIIDP SC*

- **A UIIDP SC will provide Operation oversight, endorse Program performance and allocations, arbitrate conflicts and strengthen inter-ministerial coordination.** The ULGDP II SC will transition into the UIIDP SC as ULGDP II concludes. The SC comprises representatives (Minister and heads of agencies) from MUDHo, MoFEC, MEFCC, Ministry of Federal Affairs, FEACC, OFAG, Ministry of Industry, and the Ministry of Labor and Social Affairs (new additions under the UIIDP). It will ensure proper coordination of issues on planning, allocations, flow of funds, compilation of data, and endorsement of the results of the APA and final yearly allocations. It will meet at least quarterly and as and when required.

*Regional Level*

13. **Regional governments will have a greater role under the UIIDP as compared to ULGDP II, in providing oversight and in building ULGs’ capacity.** Six of the nine regional governments, each with many participating ULGs, will establish RMTs that will directly backstop ULGs as well as strengthen the regional BUD’s own capacity to guide and support the ULGs. The FMT will directly support the other three regional governments, which have fewer participating ULGs and relatively modest capacity.

14. At the regional government level:

- **The respective regional BUDs are responsible for daily coordination of the Operation at the regional level.** Specifically, the BUDs are responsible for:
  - Capacity building support of the ULGs in their jurisdiction.
  - Preparation of consolidated (ULG and regional government) progress reports covering all ULGs in their jurisdiction.
  - Oversight and backstopping support related to aspects of the Operation.
- **Other regional entities will play important roles.** The (a) ORAGs will conduct external audits of ULG financial reports; (b) the REFAs will oversee the Program’s environmental and social safeguards agreements; (c) the BoFEDs will manage the regional fund flow and reporting, (d) the Regional public procurement and property administration agencies will

guide and support on procurement procedures and capacity building; (d) the RRBs will support ULGs in the areas of OSR generation; (e) the RPPPAA to conduct the annual procurement audits of ULGs; and (f) the REACCs will be responsible for fraud and corruption monitoring and reporting.

#### *ULG Level*

15. At the ULG level:

- **The Mayor and the Mayor’s office in each ULG is responsible for overall performance of the ULG.** It ensures compliance with all FM, procurement, and Operation environmental and social safeguards and regulations. It also facilitates access to the information required as part of the APA. Finally, it will be responsible for public private dialogue and involving the private sector in planning activities.
- **Each city is required to establish a UIIDP Coordination Team, reporting to the City Manager.** This team will be responsible for day-to-day coordination of the Operation, working closely with relevant offices of the city. The team should consist of full-time focal persons from the relevant departments for each Operation focus area (as defined in the MCs). Their key responsibilities would include liaising with respective city offices to ensure implementation are in accordance with the Operation’s environmental and social safeguards and fiduciary guidelines; monitoring, reporting and disseminating information about the Operation (including contract awards, physical and financial progress of works contracts, and so on), contribute to capacity building activities, and act as resource persons for the Operation.
- **The various offices of the City Manager will be responsible for implementation of infrastructure and activities supported through Program Funds.** Implementation of infrastructure, services and activities supported through Program funds are mainstreamed in each ULG and carried out by the relevant offices in the city administration.
- **The OFEDs hold overall fiduciary responsibilities.** They will ensure that all Operation 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.
- **The ethics liaison unit of the ULG is responsible for dealing with fraud and corruption, handling related complaints and consolidating reporting of** complaints on environment and social aspect as well as procurement.<sup>119</sup>
- **City councils are responsible for reviewing and approving** cities’ CIPs, REPs, AMPs and capacity building plans.
- **Each ULG will also establish a capacity building coordination unit.** This will coordinate the planning and implementation of capacity building activities, and reporting of these activities.
- **FUJCFSA** is responsible for leading initiatives relating to supporting micro, small and medium size enterprises.

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<sup>119</sup> Note that units with the same mandates may have different names in different places.

- **The WCO** is responsible for leading and coordinating initiatives identified in the gender action plan and champion gender mainstreaming in planning, M&E, reporting and management.
- **A DRM unit is proposed to be established in each ULG.** This will lead efforts in risk assessment, develop emergency response plans and related capacity building activities.

#### **D. Economic Evaluation**

16. **Benefits of investment in urban infrastructure and services.** The primary objective of the performance-based grant is to improve urban infrastructure and services. The menu of eligible investments includes among others: (a) construction of roads (cobblestone, red ash, and gravel), (b) rehabilitation of roads, footpaths, bridges, and installation of street lights; (c) storm water drainage, (d) sanitation; (e) solid waste management; and (f) urban economic and social infrastructure (markets, public parks, bus parks, facilities for micro, small, and medium-sized enterprises). ULGs will select investments from this menu through a participatory process that will take place only after the program is effective. Therefore, this economic evaluation is based on investments that have been made in the past in Ethiopia under the previous urban development operations.

#### **Urban Roads**

17. Under the ULGDP II, some 69 percent of the performance-based grant has been spent on constructing or rehabilitating roads (see table 5.3). Most of the work has been to upgrade dirt tracks that flood and become impassable during rains to all-season cobblestone roads. Because this trend is expected to continue under the proposed UIIDP, a specific cost-benefit analysis was conducted for cobblestone roads.

**Table 5.3. ULGDP II Expenditure by Category of Investment**

|                            | EFY 2007             |            | EFY 2008             |            | Average (EFY 2007+2008) |            |
|----------------------------|----------------------|------------|----------------------|------------|-------------------------|------------|
|                            | Birr                 | Percentage | Birr                 | Percentage | Birr                    | Percentage |
| Roads                      | 902,357,068          | 66         | 1,433,171,605        | 60         | 2,335,528,672           | 63         |
| Rehabilitation of roads    | 82,244,763           | 6          | 147,331,248          | 6          | 229,576,011             | 6          |
| Integrated infrastructure  | 30,745,696           | 2          | 93,647,270           | 4          | 124,392,966             | 3          |
| Sanitation                 | 2,910,646            | 0          | 14,306,186           | 1          | 17,216,832              | 0          |
| Solid Waste                | 19,601,858           | 1          | 60,943,853           | 3          | 80,545,711              | 2          |
| Urban drainage             | 215,614,189          | 16         | 322,490,146          | 14         | 538,104,33              | 14         |
| Built facilities           | 41,016,267           | 3          | 131,260,387          | 6          | 172,276,654             | 5          |
| Urban park/greenery        | 29,201,341           | 2          | 92,807,928           | 4          | 122,009,269             | 3          |
| Consultancy                | 16,032,273           | 1          | 28,890,979           | 1          | 44,923,253              | 1          |
| Capacity building for ULGs | 20,852,991           | 2          | 47,204,516           | 2          | 68,057,506              | 2          |
| <b>Total</b>               | <b>1,360,577,091</b> | <b>100</b> | <b>2,372,054,117</b> | <b>100</b> | <b>3,732,631,209</b>    | <b>100</b> |

#### **Assumptions of the Analysis**

18. The analysis is based on the following assumptions:

- ULGs benefiting from the program will allocate about 60 percent of their performance grants on construction of cobblestone roads. Accordingly, about US\$413.7 million will be spent on cobblestone roads.

- The program is expected to be implemented over a period of five years and four months (2018/19-2022/23).
- Cobblestone roads have economic life of 20 years, with zero residual value at the end.
- The number of motor vehicles traveling on the roads in the participating ULGs varies depending on level and nature of economic activities, place within the regional hierarchy of urban centers, proximity to major trunk roads, and the like. Although no mobility survey was conducted showing mode of transport used, most residents in the participating ULGs are expected to walk as their primary means of transport.
- In the larger ULGs (such as those benefiting from the ULGDP II), some 35 percent of the residents use motorized transport and one person (household head) in each household will make one unavoidable trip per week using motorized transport (to market, bank, health facility, and the like).
- In the 73 new Program ULGs, about 20 percent of the residents will use motorized transport, and one person in each household will make one unavoidable trip per week using motorized transport (to market, bank, health facility, and the like).
- Residents living within 500 meters' radius of the cobblestone road in each program town are direct beneficiaries of the cobblestone roads (calculated based on the average effective population density per square kilometer).
- Pedestrians (ages 10 to 64 years) will walk an average of 3.5 kilometers per day.<sup>120</sup> The average speed without the cobblestone road was 4 kilometers per hour, and 5 kilometers per hour with the cobblestone road.
- The annual inflation rate is 8 percent.
- The exchange rate is 23.3 ETB per 1 US dollar.<sup>121</sup>
- O&M cost of the cobblestone road is assumed to be 10 percent of the total investment cost evenly distributed over the operations 20 years of the life of the road.

## Costs

19. **Investment cost.** Of US\$689.5 million allocated for performance-based grants, about US\$413.7 million is expected to be spent on cobblestone roads. This is fully spent in domestic currency. The average unit cost per kilometer of cobblestone road constructed is estimated at ETB 4,230,800 (US\$181,579 equivalent) in line with the actual costs of cobblestone road construction under the ULGDP II.<sup>122</sup> Accordingly, a total of 2,278 kilometers of cobblestone roads will be constructed over the three-year period.

<sup>120</sup> The Ethiopia time use survey has estimated that students spent 23 minutes per day for learning related travel on foot. Ethiopian CSA, 2014.

<sup>121</sup> Inflation is projected to remain single digit around 8 percent through the medium term (during the GTP II period). Since 2010 the real exchange rate appreciation of ETB against U.S. dollar is 2.5 percent annually (IMF country Report October 2016).

<sup>122</sup> The unit cost is adjusted for inflation over the project implementation period.

20. **Maintenance costs.** It is assumed that annual maintenance costs will be 10 percent of the construction cost over the life of the road. Although the unit cost of maintenance increases as the road gets older, the analysis assumes that maintenance costs are evenly distributed during the life of the road.

## Benefits

21. The benefits associated with improved roads are (a) travel time savings; (b) travel cost savings; (c) enhanced access to jobs, markets, health facilities schools, and other services at lower cost than otherwise available (reflected in enhanced land values); and (d) promotion of economic growth in the region through enhanced trade, increased efficiency, and higher productivity. Due to data limitations, this cost-benefit analysis is based on travel time savings and travel costs savings alone.

### *Quantified Benefits*

22. **Travel time savings.** Reduced travel time permits people to engage in more productive and enjoyable activities.<sup>123</sup> However, attaching a value to time savings is complex and depends on various factors including purpose of the trip (work versus leisure), the hourly wage rate of traveler, the length of the journey, and the total time spent travelling. This analysis measures travel time savings by (a) work and business-related travel, and (b) nonwork-related travel.

23. *Work and business travel.* This analysis assumes that the time saved from work/business related travel is used in productive activities. People between the ages of 15–64 will travel to work 300 days each year, excluding Sundays and holidays. The average wage rate of ETB 60 for unskilled labor is used to estimate the value of time saved.<sup>124</sup> This analysis uses ETB 60 birr daily average wage rate to value the time saved from all work-related travels.

24. *Nonwork-related travel.* The value of time saved from non-work related trips is calculated at 30 percent of the value of time saving for work travel.<sup>125</sup>

25. **Travel cost savings.** Users of cobblestone roads interviewed as part of the preparation of the MTR report for ULGDP II<sup>126</sup> and other studies<sup>127</sup> have stated that public transport service providers now enter their neighborhoods, making it much easier and less costly to access services outside their neighborhoods. For this evaluation, it is assumed that transport costs fall from 5 to 2 birr in the program towns.

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<sup>123</sup> Reducing travel times is assumed to provide three major benefits. First, time saved from travel could be dedicated to production, yielding a monetary benefit to either travelers or their employers. Second, time saved could be spent in recreation or other enjoyable or necessary activities for which individuals are willing to pay. Third, time saved may reduce tension, fatigue, or discomfort associated with some trips.

<sup>124</sup> The average daily wage for unskilled workers ranges between ETB 40–100, according to the 2015 Urban Employment and Unemployment Survey. Salaried jobs are more common in large urban centers than in small ones and rural areas. About 21 percent of men and 12 percent of women have salaried jobs in large urban centers. In small urban centers, only about 14 percent of men and 6 percent women have salaried jobs.

<sup>125</sup> Many studies recommend that a common value of time be used for non-work journeys unless there is strong local evidence to the contrary with a default value of 30 percent of household income per hour being used for the valuation of nonwork time.

<sup>126</sup> According to one respondent, transportation costs from the neighborhood to the main city (two kilometers) have fallen from five to two ETB using a small three-wheel vehicle. Respondent in Harar for the MTR, 2016.

<sup>127</sup> Per a respondent to a UN Habitat study, “Minibus drivers declined to operate in the area. Residents thus had to pay two to three euro per trip, which was a major financial burden for most families. A minibus line now operates on the new all-season cobblestone road, and 7,200 residents are currently benefitting from public transport services for only nine euro cents per trip.” The Selle condominium site in Adama, UN Habitat, 2013.



### *Total Quantified Benefits*

26. Cost-benefit analysis is used to assess the economic rate of return of the cobblestone roads. With and without project scenarios are defined based on the findings of the ULGDP II MTR and other studies on the benefits of cobblestone roads. Cash flows are discounted at 12 percent. The results of the cost benefit analysis as measured by the NPV and IRR and its sensitivity to changes in cost and benefit streams are summarized on the table 5.4.

**Table 5.4. Summary of Economic Analysis**

| <b>Descriptions</b>              | <b>NPV (US\$, millions)</b> | <b>IRR in percent</b> |
|----------------------------------|-----------------------------|-----------------------|
| Base case                        | 63.9                        | 19.3                  |
| Sensitivity analysis             |                             |                       |
| 20 percent cost increase         | 35.0                        | 15.5                  |
| 20 percent reduction in benefits | 22.3                        | 14.7                  |

27. The NPV of US\$63.9 million and an IRR of 19.3 percent indicate that construction of cobblestone roads is economically viable even without considering the non-quantified benefits. An analysis of the project sensitivity test results at 20 percent increase in cost and 20 percent reduction in benefits shows that the NPV and rate of return remain at acceptable levels. The IRR remains higher than the 12 percent opportunity cost of capital and NPVs are positive, thus confirming the viability of the project under various scenarios.

### *Switching Values*

28. The inability of the 73 newly participating ULGs to successfully manage new responsibilities and resources, delays in implementation of the program, and limited capacity of the private sector are some of the risks that may raise the costs or lower benefits of the investments in cobblestone roads. The program's resilience against these risks is assessed by estimating the switching values on the cost and benefits of the project. Accordingly, for the NPV to drop to zero or the IRR to be equal to the discount rate, the investment costs must increase by 44.2 percent, or the benefits must fall by more than 30.6 percent. A combination of 18 percent cost increases with 18 percent decline in benefit will result in negative NPV and an IRR of less than the discount rate.

29. *Estimates from other studies of the returns of investment in infrastructure.* The World Economic Forum estimates that every dollar spent on infrastructure (utilities, energy, transport, waste management, flood defense or telecommunications) generates an economic return of between 5–25 percent per year.<sup>128</sup> The estimated rates of return for urban infrastructure projects in Ethiopia and other relevant countries have revealed high returns to the investments. The Project Appraisal Documents for the Ethiopia's Water Supply and Sanitation Project and the Urban Water Supply and Sanitation Project have estimated that investment in water supply and sanitation services have IRRs ranging from 16 percent in cities to 23.8 percent in Addis Ababa. In Uganda, the weighted average rate of return for standard protected springs, shallow wells and boreholes is estimated at 18 percent. In Indonesia, a newly paved road is estimated to generate an IRR of 19 percent and a new market is estimated to produce an IRR of 25 percent.<sup>129</sup> In Uganda, construction of a

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<sup>128</sup>Cited in Price Waterhouse Coopers, "Trends, challenges and future outlook capital projects and infrastructure in East Africa, Southern Africa and West Africa. November 2014. [www.pwc.co.za/infrastructure](http://www.pwc.co.za/infrastructure).

<sup>129</sup>World Bank. Indonesia: Regional Infrastructure Development Fund Project Appraisal Document. February 16, 2017.

road is estimated to generate an IRR between 27.5–33 percent, investment in drainage produces an IRR of 10.6 percent, and erection and operation of streetlights results in an IRR of 27 percent.<sup>130</sup>

### *Non-quantified Benefits of Urban Infrastructure*

30. **Roads.** Newly paved roads allow users to more cheaply access jobs, markets, health facilities, schools, and other services. Such access to opportunities is more likely to benefit the poor than saving time traveling. Moreover, many of the new paved roads financed under the ULGDP II and likely to be financed under the UIIDP are opening new areas of the ULG to housing and development. This links well with one of the UIIDP's objectives of improving urban planning and land management, tools which can be used to manage traffic flows and mitigate traffic congestion.<sup>131</sup> Indeed a VfM study carried out by the German Technical Cooperation in 2011 on cobblestone roads constructed under the ULGDP, indicates that there is often a change in land use that following the construction of a cobblestone road. Many structures that were previously used as residences transformed into commercial properties following the opening of the road. Increases in the price of land adjacent to the roads were also a notable. With a robust property tax system, such enhanced property values could result in higher own-source revenues for ULGs.

31. **Non-motorized transport facilities.** Non-motorized transport facilities—including, traffic calming measures (for example, speed bumps, zebra crossings), footpaths, cycle tracks, and foot bridges—provide significant benefits. These include (a) reductions in fatal or serious injuries due to vehicle-pedestrian and cycle accidents; and (b) time savings for pedestrians and cyclists, who can now walk on smooth pathways without interference from trucks, buses, vans, and cars. Under the ULGDP, about 25 percent of the cobblestone roads are dedicated to pedestrians and cyclists. Such benefits are in addition to those of travel time and travel cost savings presented above.

32. **Stormwater drainage.** Some 14 percent of the ULGDP II performance-based grants have been spent on storm water drainage. Storm water drainage provides significant benefits in reduced flooding during rainy periods, resulting in reduced property damage in addition to improved accessibility.<sup>132</sup> Well-constructed and maintained storm water drains also reduce costs of maintaining roads and lengthen their useful life. The NPV and ERR of such investments cannot be calculated for the analysis, due to lack of data, and are in addition to those named above.<sup>133</sup>

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<sup>130</sup> World Bank. Uganda Support to Municipal Infrastructure Development Program, Technical Assessment. November 2012.

<sup>131</sup> See Robert Cervero for the value of shifting the framing of the objective of new roads as making cities more accessible versus more mobile by prompting a paradigmatic shift in planning, elevating land-use management and information technologies as tools for managing traffic flows and mitigating traffic congestion. Cervero, Robert. 2011. "Beyond Travel Time Savings." Transport Research Support, World Bank, Washington, DC.

<sup>132</sup> Per a respondent during the MTR when asked about the new drainage system, "Our homes are built around the slopes of the Hakingara mountainous areas, which experiences flooding, especially during the rainy season in the months of June–September. The floods led to death of one member, caused us to leave our homes for safety due to fear of the in-coming floods, at times we would lose our property. Floods used to also cause blockage of the road causing difficulty in mobility by foot in the community. But after the ULGDP II program intervention, we are now happy the drainage has been setup" and we request it continue up to the mountain to assure us of no further flooding. It has eased mobility by foot and we feel more secure in our homes..." Beneficiary in Harar.

Another person interviewed stated, "...Before the drainage was constructed, this place used to receive partial flush floods from water gushing down a deep river gully. Movement of people was difficult and the flood pools would ramify into breeding places for malaria causing mosquitoes. The situation had deteriorated and epitomized by the death of one person who drowned into the running water. After a lot of pressing by residents, the city administration prioritized and constructed the drainage and put a five-meter-wide cover slab that also acts as a walk way for the people. As a result of this landmark project, many commercial units have come up hosting medium enterprises such as produce (red pepper and garlic stores) as well as Buna kiosks. The major complaint now is that during heavy rains, some inlets cannot accommodate the large volume of water ends up temporarily flooding..." Focus group discussion with beneficiaries (three women and seven men) residing and doing business in the area adjacent to drainage at Kebele 4; Shire Endasselassie city, Tigray.

<sup>133</sup> The result of economic analysis for the drainage systems in Kampala shows positive NPVs and IRRs of 18 percent and higher.

33. **Institutional benefits.** The ULGDP II provides capacity building support and incentives for participating ULGs to improve spatial and investment planning, public FM, and governance improvements across a broad range of core areas, and has introduced a good sense of competition and awareness across the ULGs. Compared with the baselines, there are significant improvements in areas of audit reports, planning documents (CIP, procurement plans, REPs, planning and budgeting for maintenance and operations), revenue enhancement, and in accountability and involvement of citizen groups in local planning. The UIIDP will continue to strengthen core urban management functions in both the existing and the newly participating ULGs. The improved performance will affect the use of all funds available to ULGs for urban development, not just those available under the UIIDP.

34. **Job creation.** Cobblestone road construction is highly labor intensive and supports job creation. Under the ULGDP II, some 321,430 jobs<sup>134</sup> were created in EFY 2007–2009. Of these, some 44 percent went to women. About one-third of the jobs created are permanent. Overall, the jobs created under the ULGDP II contributed 45 percent of the GTP II target (717,114 jobs created under the urban development, housing and construction).<sup>135</sup>

### **With and Without Program Interventions**

35. **Under the counterfactual scenario, without the WB-supported UIIDP, the target ULGs would continue to face a large urban fiscal gap which 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 WB-supported Program, the support to ULGs under the existing intergovernmental fiscal architecture would be highly inadequate in achieving the proposed objective in the GTP and urban policies of increased ULGs performance in expanding urban infrastructure.

36. **To the extent possible and appropriate, the Program will promote local private sector development.** As under ULGDP II, the implementation of almost all Program activities will be contracted out to the private sector. More than 2,000 MSEs were involved in the construction of investment projects from ULGDP II from 2013–2016 and this is expected to expand with the proposed investment menu and likely investments.<sup>136</sup> ULGs, as implementing agencies, will retain supervisory role and the MUDHo, 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.

37. **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 WB's expertise in those areas in Ethiopia and elsewhere are comprehensive. The experiences from ULGDP I and ULGDP II shows that in addition to the necessary support for financing of these interventions, the expertise that the WB can offer in the support of the design, technical advice, monitoring and backstopping, is highly appreciated and valuable for the GoE and the GoE's urban program. Experiences from VfM audits for the ULGDP II and other countries such as Uganda, also show strong VfM in investment modalities like the proposed Program.<sup>137</sup>

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<sup>134</sup> The job numbers are not derived from a robust or consistent methodology or definition, and hence the number should be viewed as rough estimates only.

<sup>135</sup> MUDHo. 2016. Midterm review.

<sup>136</sup> German Technical Cooperation, (GIZ), 2011.

<sup>137</sup> Uganda, Ministry of Local Government. "Technical and Value for Money Audit of LGDP II, Synthesis Report," December, 2007.

## Annex 6: Fiduciary Systems Assessment Summary for the Operation

1. **The UIIDP is designed as a hybrid Operation that includes two windows, one of which uses the PforR instrument and the other uses the IPF instrument.** The design of the UIIDP is based on the lessons learned under the ULGDP I and II that were successful in getting funds out to the ULG level for investments in core urban infrastructure and services, delivery of numerous infrastructure investments, and in enhancing the capacity of the participating cities in planning, budgeting, FM, procurement, accountability, social and environmental systems management, controlling fraud and corruption, and responding to complaints. The Operation will also address the challenges identified under ULGDP II by strengthening capacity for procurement and contract management, improving the quality of the procurement audit, enhancing generation of own-source revenue, improving intra-governmental coordination, and strengthening M&E. It will also include the new core areas of resilience, LED, and gender equality.

2. **This annex provides a summary of the assessments conducted for both windows, following relevant WB policy and directive.** The section is divided into (a) For the PforR window and (b) for the IPF window.

### *(a) For the PforR window (the Program)*

3. **The objective of the integrated fiduciary assessment is to ensure that implementation arrangements are adequate and risks are reasonably mitigated by the existing framework.** The fiduciary assessment entailed a review of the capacity of the sampled 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 WB; (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 PDOs and risks associated with the Program and the implementing agencies; and (c) to identify and mitigate fraud and corruption and effectively handle public grievances and complaints. A special survey was designed for the fiduciary assessment of the ULGs that will participate in the UIIDP. While the assessment of the new 73 cities was conducted on a sample basis, the fiduciary team used data obtained from the past APAs for the assessment of the 44 ULGs participating in the ULGDP II.

4. **The assessment highlights risks and internal weaknesses of Program implementing agencies, which will be mitigated through measures to be included as MCs and PMs and through actions specified in the PAP.** For the reasons mentioned below, the fiduciary risk of the proposed Program is rated as Substantial.<sup>138</sup> For details of the issues, risks, and proposed mitigation measures, see below and annex 9 (PAP). Overall, the fiduciary assessment concludes that the examined program FM 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. Further details of the Integrated Fiduciary Assessment and associated actions required are detailed below and in annex 9.

5. Overall, the fiduciary assessment concludes that the examined program FM 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.

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<sup>138</sup> The fiduciary risk rating is the combination of the overall risk ratings of the FM, procurement, and fraud and corruption.

## *Financial Management*

6. **The 2014 PEFA for the Federal Government noted the major improvements that have been made.** Ethiopia has significantly improved its performance over the last three years. Expenditure deviation was less than 5 percent per year during EFY 2003–2005, which is less than half of what it was noted during the period of EFY 1999 to 2001 (11.6 percent). Revenue forecasting also improved with revenue collection being 94 percent to 112 percent of the budget during the last three years. Bills are cleared on time. Arrears are therefore, not a major issue. The internal control system is comprehensive, widely understood and effective at the federal government level. Audit coverage at the Federal level has increased in recent years from 56 percent to 100 percent of budgetary institutions and audit reports are produced in a timely manner. However, the federal government needs to improve its PEFA ratings in following areas: (a) legislative scrutiny of audit reports; (b) oversight of fiscal risk from public sector entities (c) public access to key fiscal information effectiveness in collection of tax payments and (d) predictability of funds for commitment of funds and quality of in-year budget execution reports.

7. **At the same time, as per the PEFA assessment, the regional government entities need to improve in several areas.** These are: (a) the extent of unreported government operations, (b) effectiveness in collection of taxes, (c) comprehensiveness of information included in budget documents, (d) weaknesses in multi-year planning, (e) composition of expenditure outturn compared to the original budget, and (f) availability of information received by service delivery units. However, it was noted that some of these issues are being addressed through the GoE’s flagship public FM reform program, the Expenditure Management and Control Program. The following key FM findings and performance issues and risks, and the envisaged Program FM arrangements are detailed below.

8. **Planning and budgeting.** The GoE has a well-functioning planning and budgeting system, as indicated in the PEFA. Under the ULGDP II, budgeting and budget preparation is well structured. The budget of the Program is proclaimed under the name of MUDHo. The contributions of the regional governments are declared through regional proclamations. The three-year CIP is approved by the city council and made public using notice boards and mass media. All the new ULGs visited have prepared a five years’ urban strategic plan from which the annual budget is prepared based on the government budget system. However, about 50 percent of the visited cities prepared a three-year rolling CIP, REPs, and AMPs. However, only 55 percent the visited ULGs produced evidence for the approval of the budget by the city council, and only 64 percent provided evidence of BoFEDs annual budget notification. The filing system should be strengthened at all ULGs to produce documentation that the proper process has been followed. The budgets of some ULGs visited have credibility challenges, as actual expenditures deviated from budget by more than 10 percent. Experience from the ULGDP II, however, shows that the budget amount notified by MoFEC and reported in the financial reports often does not match the budget amount in the approved CIP and in IBEX records. Some visited ULGs did not record the Program budget in the stand-alone IBEX. There are also instances of erroneous recordings. All this will lead to distorted performance reporting. Overall budget utilization could be improved, particularly in the Harari region, the Dire Dawa city administration, and the MUDHo. On the other hand, the budget control for the existing ULGs and the new ULGs visited is reasonable, where budget checks are done at the transaction level. However, system based control is not adequate, as ULGs do not use the budget control module of the IBEX system to track expenditure.

9. **Transparency.** The PEFA highlighted challenges with fiscal transparency. However, experience under the ULGDP II shows that MoFEC has not started disclosing the Program budget and expenditure. On the other hand, as stated in the fourth APA report, the clear majority of the existing ULGs demonstrated transparency by disseminating information to the public on the annual budget, approved projects, expenditure, and findings of external audit reports using notice boards and, in some ULGs, other print formats. About 83 percent of the new ULGs visited disclosed their approved budget for EFY and 67 percent

disclosed their quarterly budget utilization. However, none of the ULGs visited have never disclosed external audit reports.

10. **Program budgeting arrangements.** The Program will continue to follow GoE planning and budgeting accounting and internal control arrangements. The Program budget will be included at in the national budget and will be proclaimed at the federal level at the MUDHo as a special purpose grant classified by regions, ULGs, and the MUDHo. The Program budgeting is structured as an upstream process starting at the ULGs and moving upwards to the regional and the federal levels, where it is consolidated and approved. To ensure reporting of the Program expenditures is integrated in the national public financial system and codes, the established charts of account (codes) under the ULGDP II will be continued under the UIIDP, taking into consideration the new features of the UIIDP. Budget control is exercised at all levels at transaction level, using the IBEX or other systems and at report level. Budget control is exercised at all levels at the transaction level, using the IBEX or other systems, and at the report level. For the Program the semiannual interim financial reports will document and compare the Program budget with actual expenditures and report on variances. The POM will provide details of these arrangements.

11. **Treasury management and fund flow.** The PEFA notes robust systems of treasury management and flow of funds. Funds flow from MoFEC to ministries is based on cash flow forecast prepared and approved and daily zero balance account withdrawal limit. At the Program level, the main observation from ULGDP II is that there is some delay in fund releases from MoFEC to BoFEDs. Apart from the ULGDP II funds, the sources of funds for the ULGs were municipal and state revenue as well as a block grant subsidy and the federal road fund and other special grant funds. As per the fourth APA, all ULGs fulfilled their minimum co-funding requirement and most exceeded it. Only 21 percent of the ULGs visited recorded state and municipal revenue in the IBEX, inhibiting availability on revenue collection performance. Some 67 percent of the ULGs visited collected land lease revenue, which constitutes a large amount of the municipal revenue, and about 75 percent contribute funds for infrastructure development.

12. **Program disbursement and flow of funds arrangement.** Disbursements under the Program are subject to PforR procedures and disbursed against DLIs. The PforR funds will be disbursed from the WB to MoFEC once a year upon confirmation of achievement of the DLIs. Fund transfers from MoFEC to the regional government entities and ULGs will be made based on results and will be either annually or semiannually. IDA funds will be deposited to a separate foreign currency account (as per the request of the government). Local currency accounts also will be opened. Upon achievement of the results, the MUDHo will work with MoFEC to inform the WB and provide evidence, as per the verification protocols, that the results of the DLI have been met. For a scalable DLI, the task team will determine the amount to be disbursed on the basis of the Program's progress report and DLI verification protocol. A notification will be made to the Borrower on the amount to be disbursed against a scalable DLI. Disbursement requests will be submitted to the WB using the WB'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 program expenditures framework under the Program over its implementation period. If, by Program completion, WB financing disbursed exceeds the total amount of Program expenditures, the Borrower will be required to refund the difference to the WB. Once IDA resources reach the separate foreign currency account, the funds can be used to finance Program expenditures or can be transferred to a local currency account. Funds from the local currency account can be transferred to federal level implementing entities and to regions' BoFEDs. At the regional level, BoFEDs will, in consultation with the BUDs, disburse resources to ULGs and regional entities. Duties and responsibilities of the various implementing entities and their roles in fund flows and management of resources will be documented in the POM.

13. **Accounting and reporting.** The PEFA notes strong accounting and reporting systems in the country. The existing ULGs and majority of the new ULGs visited use the government accounting system,

which is a double entry and a modified cash basis of accounting. Most existing ULGs also use the government chart of account, which includes municipal revenue. Most cities use double-entry accounting. IBEX is rolled out in most ULGs and about 92 percent of ULGs visited record their transactions on time. However, access to the IBEX system was not granted to the internal audit unit. At all new ULGs visited, finance-related proclamations, regulations, directives, guidelines, and working manuals (for budget, accounting, IBEX, cash management and internal audit) are available. In regards to financial reporting, for the ULGDP II, ULGs send semi-annual interim financial reports to their respective BoFEDs. BoFEDs in turn consolidate the reports and send them to MoFEC. MoFEC then submits the consolidated reports to the WB within 45 days of the end of the half year (semiannual). On the other hand, OFEDs in existing ULGs and new ULGs visited submit monthly reports to their respective zonal OFED and some to BoFEDs. The monthly financial statements are submitted in both soft and hard copies. Some ULGs in the Amhara and Tigray regions submit only soft copies. About 92 percent of the new ULGs visited submitted their monthly financial statements within the deadline. Only 67 percent retained and filed hard copies of the submitted reports. All ULGs participating in the UIIDP are required to retain complete official hard copies in the future.

14. ***Program accounting and reporting arrangements.*** 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 reflect Program accounting and reporting needs, and this will be documented in the POM. A double-entry accounting system will be implemented in all newly participating cities, and IBEX will be rolled out in either a stand-alone or integrated manner. Adequate capacity building will be provided to new participating ULGs to enable them to utilize the IBEX effectively. Internal auditors will be granted system access. Under the ULGDP II, adequate FM staff were in place at MoFEC and the MUDHo to perform Program FM duties. This will continue under the proposed UIIDP. A semiannual interim financial report will continue to be used. MoFEC will submit these reports to the WB within 60 days at the end of the half year (semiannual end date). The Program financial reports will be produced from the existing system and their production will be the responsibility of each implementing entity, which will be consolidated at the higher level, and finally by MoFEC. The format of the semiannual financial report of the existing Program will be used, with some amendments as appropriate and agreed by negotiations. MoFEC will also prepare annual Program financial statements in accordance with acceptable standards, within three months of the end of fiscal year and provide them to the auditors to enable them to carry out and complete the financial audit on time.

15. ***Internal controls (including internal audit).*** The PEFA notes strong internal controls. At the Program level, the internal control framework is generally robust. However, weaknesses were noted in some of the new ULGs visited on segregation of duties where there were challenges in the bank reconciliation functions and stock handling functions. Cash management control weaknesses were also observed, whereby there were failures to conduct regular cash count and when conducted there were unexplained discrepancies between cash count and ledger balances. There were cases where monthly bank reconciliations were not performed at all. In some cases, improper bank reconciliations were done. In addition, there were weak property management control (absence of proper fixed asset register, not reconciling inventory count balance with record). Weaknesses was also observed in the internal audit area. About 25 percent of the ULGs visited do not have an internal audit unit. About 50 percent have established internal audit units, but they are not adequately staffed. The audit coverage in many of the ULGs visited was also inadequate. Internal auditors in most of the ULGs do not provide their quarterly reports to the mayors.

16. ***Program internal control and internal audit arrangements.*** Government rules, regulations, and directives, as well as manuals on internal control procedures will apply to the Program. The internal control framework is generally recognized as being robust. However, challenges in internal control noted during the assessment must be addressed. Continuous training and support to all ULGs will be provided to enhance

capacity in these areas. Internal audit units will need to be established and made functional at all ULGs entering the UIIDP, and internal audit units will need to be adequately staffed. Copies of internal audit reports will need to be sent to mayors. Continuous training will be provided through the IPF window to internal auditors to build their capacity. It is envisaged that the ULG internal auditor will audit Program activities and will report to the mayor on weaknesses.

17. **External audit.** The financial statement audit of the ULGDP II is conducted annually. The latest audit was for the year ended July 7, 2016. The audit report was submitted timely, and a clean audit opinion was given by the auditors. An action plan has been prepared to rectify findings raised in the management letter, and the feedback on the status of the rectification has been submitted to the WB. The Program financial statement audit was complemented with VfM audit that was performed by the same external auditors. So far two VfM audits were conducted on all the 44 ULGs participating in the ULGDP II. The latest was for the year ended July 7, 2016. The report was submitted within the deadline. The second VfM audit noted significant improvements in ULGs on efficiency, effectiveness, and economy. Another complementary audit are ULGs financial statement audits, which is conducted by ORAGs. Audits have been conducted of the financial of all 44 ULGs, and all backlogs have been cleared. For the year ended July 7, 2016 audit, all ORAGs have submitted the audit reports of the 44 ULGs, within the deadline. A total of 13 ULGs received a clean opinion. Compared to the previous year, the number of ULGs receiving a clean opinion has increased by 63 percent. More than 90 percent of the ULGs rectified most of the audit findings raised in the audit report.

18. **The financial statements of 83 percent of the new ULGs visited were audited annually by their respective ORAGs.** External audit reports for EFY 2008 were issued to 50 percent of the ULGs, and external audit reports for EFY 2007 were issued to 90 percent of the ULGs. For EFY 2007 and 2008, the short form report, which contains opinion, was issued to only 80 percent of the cities, while the others were provided only with the long form report (management letter). Audited financial statements were attached with the short form report only to 50 percent of the cities. In EFY 2008 audit, one qualified (adverse) opinion and 4 qualified (except for) opinions were given. In EFY 2007 all the opinions were “except for”. There was no practice in preparing action plan to rectify audit findings and status reports on rectified audit findings except for one city. Quality issues were noted such as no uniform basis of opinion in use, not attaching audited financial statements with the short form report, unclear qualification points, insignificant issues incorporated in qualification points, issuance of separate audit reports for state/municipal and ULGDP (SNNPR, Dire Dawa, and Harari) were noted, which needs improvement in future audit.

19. **Program external audit.** As under the ULGDP II, the both financial and VfM audits will be carried out under the UIIDP. The OFAGs or a delegated auditor acceptable to the WB will conduct the annual financial and VfM audits. The audits will be conducted in accordance with ToR agreed during negotiations. The audit reports and management letters will be submitted to the WB within six months of the end of the GoE’s fiscal year. Following the WB’s formal receipt of these statements from the borrower, the WB will make them available to the public in accordance with the WB Policy on Access to Information. During implementation of the new Program, annual financial statements of all ULGs entering the UIIDP will need to be audited by ORAGs or other external auditors endorsed by ORAGs. ORAGs will issue both the short form report (with attached audited financial statements) and long form report (management letter) within the agreed deadline. All the new ULGs will prepare action plans to rectify weaknesses identified in the external audit reports and implementation status of previous actions. The OFAG will intensively intervene in capacity building of the regional auditors to apply uniform reporting format across the regions and improve the quality and reliability of the audit. The IPF will support training of ORAGs to improve on quality of audit and reports.

20. **Staffing and facilities.** The ULGs visited have inadequate staff to maintain proper FM system. However, in about 25 percent of the ULGs, fewer than 75 percent of the required positions are filled. Staff



of internal audit units, especially at ULGs in Amhara and Tigray, were too few compared to the volume of work. During implementation of the UIIDP, existing positions will need to be filled. Various training on budget, accounts, IBEX, internal audit, and property were given in EFY 2008 and 2009. However, additional training is needed. About 17 percent of the ULGs visited have inadequate facilities to discharge their duties effectively. This should be addressed during the implementation of the new Program.

21. **Conclusion.** It is the conclusion of the assessment that the FM risk is rated as “Substantial.” A combination of DLIs and PAPs have been proposed as risk mitigation measures for the identified risks and to improve the quality of the FM performance.

### ***Procurement***

22. **As part of the fiduciary assessment, the WB carried out a procurement system assessment between March and May 2017.** The assessment included: (a) review of applicable procurement systems, rules and procedures, practices, including complaint handling, and oversight mechanisms; (b) procurement organization and capacity of the implementing entities; and (c) procurement cycle management. The Program implementing entities include the federal MUDHo, regional BoFEDs, and participating ULGs. The team visited 12 of 73 new cities, two of which were later excluded from the Program.

23. **Applicable procurement rules and procedures.** In Ethiopia, for federal level budgetary bodies, public procurement is regulated by the Public Procurement and Property Administration Proclamation No. 649/2009. The Proclamation established the FPPPAA as a body responsible for regulation and monitoring of federal bodies’ public procurement activities. The nine regional states and two federal city administrations, Addis Ababa and Dire Dawa, have their own procurement proclamations and directives, which are based on the federal prototype. The ULGs are required to abide by their respective regional procurement laws. At the federal level, directives, manuals, and standard bidding documents and standard requests for proposals templates have been issued. Most of the regional states have also issued these. However, some of the standard bidding documents and standard requests for proposals templates are not comprehensive, and some of the procuring entities lack knowledge and understanding of the proper implementations of the procurement legal framework. As a general assessment, the procurement legal framework of the nine regional states and two city administrations are found to be sufficient, with some shortcomings with respect to content and many weaknesses in implementation.

24. **Country procurement assessment (CPA).** A CPA was carried out in 2002 and updated in 2010 mainly to respond to Ethiopia’s progress in decentralization since 2002 and to address the gaps identified during the 2002 CPA. Although some improvements were achieved since 2002, the 2010 report highlighted several risk areas and inadequacies in the legal, institutional setup, and procurement practices. These include: (a) the FPPPAA does not have regulatory and monitoring responsibility over government owned enterprises; (b) the FPPPAA reports to MoFEC and the Regional Public Procurement and Property Administration Agencies report to their respective BoFEDs and cannot be considered independent of the executive bodies (although it seems they have some level of management autonomy); (c) capacity of FPPPAA and regional agencies to monitor procurement activities and carry out comprehensive procurement audits are weak; (d) there are no formal oversight or complaint mechanisms in some regional states; (e) there is lack of adequate recognition for the procurement profession, and a shortage of capacity to effectively enforce and implement the procurement law; and (f) staff skills in understanding procurement process and management requirements of the government’s own system is low and the private sector is not organized and mature. The 2010 CPA also highlighted concerns with: (a) the minimum time given to bidders to prepare meaningful bids; (b) the local preferences given to MSEs; and (c) the legal framework which allows a merit point system to be used for both goods and works procurement, which may lead to reduced transparency in the award of contracts.

25. **Program procurement capacity assessment.** The assessment included four cities from the Amhara, one from Tigray, four from Oromia, two from SNNPR and one from the Somali region. Of these, nine ULGs have their own procurement units, and three handle procurements through their *woreda* OFED. Overall, the performance of the ULGs assessed appears to be low regarding implementation of regional government procurement proclamations and directives.

26. **Procurement organization.** Most of the ULGs have their own procurement units, but the organizational arrangement differs by region. Some of the ULGs carry out procurement through a pool system based at the *woreda* OFED. For Tigray, the procurement unit is positioned in a core process level reporting to the bureau of plan and finance. In the OFEDs, the unit responsible for managing procurement activities is finance, procurement, and property administration process owner. In all cases, purchase up to ETB 100,000 (~US\$4,400) is approved and signed by this person, while procurements above ETB 100,000 are approved by head of the OFEDs, upon recommendation of the tender/procurement endorsing committee. In some of the regions, different thresholds for award approval is practiced. For example, in Tigray, all goods contracts categorized above ETB 1 million are subject to approval of the head of the office of plan and finance, while for contracts below ETB 1 million, the process owner of Procurement and Property Management Support approves. Similarly, for works contracts, the approvals are made by the office of construction and road transport and the relevant process owner respectively. Award notifications are posted on notice boards inside the ULGs office allowing for a period of five days to receive complaints from bidders before awarding the contract. However, award notifications are generally not officially issued to bidders.

27. **Staffing.** Most of the procurement officers in all ULGs assessed have the required general qualification, however, their specific procurement experience is limited. All assessed offices have three procurement staff on average including their procurement case team leader, and the deployment of staff seems to be adequate for the current workload. However, additional procurement proficient staff will be needed to handle procurement activities under the proposed UIIDP. In most ULGs, the provision of procurement training to the staffs appears to be inadequate, but there are cases procurement staff not having benefited from any training. In all ULGs assessed, there is no issued code of ethics related to procurement processes other than what was mentioned in the regional procurement proclamations and directives.

28. **Procurement planning.** Preparation of annual procurement plan is a requirement by under regions' procurement directives (prototype of the FPPPAA directives). The directives have detailed parameters to be included in the procurement planning template and accordingly consists: procurement type/category, description of contract, lots, quantity, procurement method, procurement lead time for different milestones, and estimated contract amount and the source of financing as well as contract type. However, the quality of the procurement plans being prepared by most of the ULGs are not up to the required standard. Most of the ULGs assessed do not update their procurement plans, even though it is required. ULGs which do revise their procurement plans do not include the items already procured during the financial year. Another challenge is lack of knowledge on the use of procurement plan as a monitoring tool and absence of updated contract registers. The assessment found that, in general, the ULGs prepare a list of procurement items with budgets only for budget processing purposes, but not for proper planning, managing and monitoring of all procurement processes. This is mainly due to lack of experience and skill limitations in preparation and use of a procurement plan. Moreover, there is lack of proper enforcement through regional public procurement bodies on the requirement of proper procurement planning and its update by all entities.

29. **Procurement market assessment.** There are adequate suppliers of goods, works and services in most regions. For most national competitive bids, the number of bidders is overwhelming, making the evaluation process cumbersome. This may partly be due to not using appropriate qualification criteria to screen out non-capable bidders. Similarly, for local competitive bidding, for which MSEs are bidders, there is no shortage, as the city administrations can organize, train, and deploy as many MSEs as they require, if

there are sufficient contracts to engage them. The assessment of the regional procurement markets has not identified any exceptional circumstances involving natural monopolies that could be involved in the supply of goods, works, and services under the Program. Technical experts who prepare the design and bidding documents also prepare cost estimates for works contracts.

30. **The participation of government-owned enterprises, in bids for supply of goods, works and services is allowed in some cases through direct contracting and in some cases on a competitive basis.** Like the federal procurement law, the regional procurement laws have provisions that allow a domestic margin of preference to be applied in the following three cases: (a) pharmaceutical materials, which are produced locally will be given 25 percent of margin of preference, (b) other goods, which are produced in the country will be given 15 percent of margin of preference, and (c) works and consultancy services are given a margin of preference of 7.5 percent.

31. **Procurement notices.** In all the ULGs assessed, tenders under national competitive bidding are advertised in widely circulated national and regional newspapers. Regional television and radio broadcasts are also used in some ULGs. Local tenders are posted inside ULG offices and notice boards located in different parts of the city. Tenders under national competitive bidding are advertised in the Ethiopian Herald, and not in international media.

32. **Bidding document preparation.** In the regional procurement directives, there is a requirement for procurement staff to include important information such as instructions to bidders, bid data sheet, conditions of contract, bill of quantities, specifications, and the like in the bidding documents. Standard Bidding Documents are also issued by the regional public procurement agencies, and for low-value contracts they are prepared in local languages. The assessment noted that in most ULGs, the Standard Bidding Documents are not used consistently and in their complete form. Mainly, the bidding documents prepared by the ULGs lack completeness on basic information required for implementation of the procurement process, such as instructions to bidders, evaluation and qualification criteria, general and special condition of contracts. It was further noted that preparing the right specifications for the specified procurement type is a challenge. Specifications for goods procurement are prepared by the respective user sectors, but most sector offices have limited capacity for preparation of technical specifications (purchaser's requirements) in their procurement requests. Specifications for works contract are prepared by the construction units of the ULGs or the *woredas*. However, most specifications are presented as item descriptions in the bills of quantity, and such presentations do not clearly specify the measurement and payment provisions and detailed quality requirements. In general, bids are retendered due to insufficient and incorrect specifications prepared for works and goods procurements.

33. **Bidding and bid opening.** As per the regional procurement proclamations and directives, the default procurement method is an open tendering, which includes, international competitive bidding, national competitive bidding, regional, and local open bidding. A clear and applicable guideline for procurement method selection is elaborated in the procurement manual of the regions. The most common procurement method for medium to large value procurement in most of the visited ULGs is national competitive bidding, followed by local competitive bidding. Almost all procurement directives discourage direct contracting and shopping. However, the actual practice by some procuring entities is contrary to the legal provisions. For example, award of contracts through direct contracting to private or government owned enterprise is a common practice in Amhara Region. It was noted that some large value contracts were procured using direct contracting, although the default procurement method is open bidding. Generally, bids are opened and closed on the dates and times specified in the bidding documents. Bid submission and closing times are generally observed and bids are opened promptly after the closing time. However, during the bid opening sessions, inconsistencies are sometimes observed through disclosing unnecessary information such as declaring rejection of a bidder. In addition, bid opening minutes and related records lack adequate information.

34. **Evaluation and award.** After bid opening, evaluation of goods contracts is done by the tender committee, which normally is comprised of five members from procurement, finance, user sector and internal auditor as observer. The Finance, Procurement, and Property Administration process owner works as chairman of the tender committee and one procurement officer works as secretary. The secretary is responsible for safe keeping of bid documents and evaluation recommendations. For evaluation of works contracts, professionals from infrastructure design and construction units work jointly with the tender committee. It was noted that ULGs do not use a standard evaluation format. Instead the evaluation and approval of bids are recorded in the respective tender committee diaries, and mostly in handwritten form. In all procurement directives, it is a requirement that evaluations shall be carried out using the evaluation criteria provided in the bidding documents and requests for proposal. However, the assessment found various shortcomings in the evaluation process, including (a) disqualifying a bidder during the bid opening session, (b) disqualifying bids because of non-material non-conformities, (c) introducing qualification criteria during the evaluation process, and (d) not using some of the evaluation criteria included in the bidding documents. The use of a merit point system in the evaluation process of non-complex goods and works is also prevalent. These types of practices in most cases disqualify attractive bids or quotations, and most importantly compromise the VFM, transparency, fairness and integrity of the evaluation process.

35. **Complaint handling.** Reports from REACCs/FEACC have shown that about half of the complaints submitted by bidders/stakeholders were on procurement. The ToRs of RPPPAAs and APA should include adequate provisions to closely examine any potential loopholes in the procurement process which might be source of complaints.

36. **Contract management.** In most cases, bidding documents are distributed to bidders without including both general and special conditions of contract, and hence bidders are not well informed about the conditions of contract to be applied. In addition, there is capacity limitation on contract documents preparation and contract administration of works contracts. In most of the selected cases, there is no proper and complete contract documents; and the signed contracts do not exhaustively include important contract conditions; in most cases, contract documents contain only form of agreement and the priced bills of quantity, missing the general and special conditions, completed contract forms and specifications. It is commendable that most ULGs are submitting the draft contract documents for legal review and endorsement by the city justice bureau. Works contracts are administered by the relevant construction units of the ULGs, *woredas* or the region, as appropriate, based on the applicable regulations. The regional directives contain reasonably adequate guidance on basic contracts administration procedures like the FPPPAA. But the awareness and implementation of the contract administration procedures is very limited. In general, the staff engaged in contract management do not have adequate knowledge and experience on contract administration and they are not aware of the contract administration procedures. Management of goods contracts are handled by procurement and property administration officers, without involving technical staff from the respective user sections. Inspection and acceptance of goods is done by the procurement units. All purchased goods are inspected and verified against the specifications in the contract by TCs before they delivered. A good practice has been observed in Tigray region that goods inspections are made using a checklist. Generally, payments are made on time and contracts are implemented with no substantial cost and time overruns. Actions have been included in the PAP to strengthen contract management.

37. **Dispute handling.** To acceptably resolve contractual disputes, proper contract documents are required. But in most cases, the contract agreements lack detailed contractual clauses and provisions not only for dispute resolution, but also for obligations and rights of the parties. Thus, ability to resolve contractual disputes in a proactive manner is very limited.

38. **Recording.** In all the ULGs assessed procurement documents are filed in the procurement unit. However, there is concern that the procurement records are not kept in a safe and proper manner. There is

inadequate space and adequate basic facilities such as computers, tables, chairs, shelves and filing cabinets, lockers and the like for safe keeping of and management of procurement records and data.

39. **Procurement oversight.** The FPPPA and the RPPPA are responsible for oversight and auditing of public procurement processes. However, regional agencies do not regularly inspect, audit, and monitor procurement processes in all ULGs. ORAGs audit procurement activities of ULGs every six months. However, the audits lack specificity. This needs to be improved. There are also internal Audit units in ULGs, but their capacity is inadequate and internal audits are functional only in selective sectors where frequent auditing is required.

40. **Procurement performance and monitoring.** All regional states and ULGs spend more than 50 percent of their annual budget procuring goods, works, and services. At the federal level, this percentage is 65 percent. The scope of procurement of contracts in terms of number and value of items undertaken by the towns/cities, each year, varies from city to city. The total number of contracts procured each year ranges from 13 in smaller towns to 58 in some larger cities. Procurement of works and goods contracts account for the largest numbers, while procurement of works contracts is the largest in terms of contract values. ULGs do not have procurement performance monitoring and measurement system to monitor their procurement workload and measure their procurement performance.

41. **Several risks have been identified for Program procurement and contracts administration.** These are (a) non-compliance with national and regional directives; (b) weak procurement capacity at the ULGs; (c) transparency and fairness issues related to procurement process, as the result of not implementing the legal procedures available; (d) competitiveness issues as the result of involvement of state-owned enterprises in tenders and application of different preferential treatment and reservation schemes to MSEs; (e) weak accountability, integrity and oversight arrangements; (f) weak contracts administration, complaints handling mechanism, and the inefficient resolution of contractual disputes; and (g) poor procurement recording. Based on the assessment, the procurement risk in the 73 new ULGs is rated as High, before risk mitigation measures are put in place.

42. **Four types of risk mitigation measures are proposed.** First, ULGs must comply with the MCs to participate in the Program. These include having the minimum institutional and staff capacity in place. This will be checked annually through APA. Second, implementation of activities specified in the PAP will be closely monitored. This includes measures to build capacity of ULGs and other entities for procurement. Third, an annual procurement performance audit will be carried out through the RPPPAs. This will also be supported by DLI 9 providing an incentive for the RPPPAs to perform. Fourth, the MUDHo through the OFAG or an independent consultant will carry out VfM audits of ULGs' investments in infrastructure. The APAs, under DLI 2 and DLI 3, will consider the performance of the ULGs based on the findings of the procurement and VfM audits.

### ***Fraud and Corruption and Complaint Handling Mechanism***

43. **Fraud and corruption and compliant handling mechanisms were assessed for ten new cities of the 73 new ULGs during April–June 2017.** Based on the assessment, fraud and corruption risk is rated as Substantial. In line with the WB's Anti-Corruption Guidelines, the FEACC verified and provided fraud and corruption allegations biannual reports on ULGDP II covering the existing ULGs and conducted investigations jointly as needed. Despite the progress made in tackling fraud and corruption in the ULGDP II, the risk/challenges of fraud and corruption and grievance in urban land administration and provision of municipal services is still high. Allegations of fraud and corruption take the form of abuse of power and bribery, breach of trust, fraud and deception, preparing and using forged certificates and documents, illegal revenue collection, procurement handling, construction design, supervision and payment certification, and low quality of constructed activities. On the other hand, the rate of responsiveness to public grievances

regarding land and related Program activities is generally low. Some of the reasons for complaints include delay of compensation of land, not providing compensation in kind, illegal landholdings and buildings, and demolitions, transferring land or sheds to others, not being selected as a beneficiary of an MSE, and the lack of provision of land and inputs.

44. ***At country level, the systems to handle the risks of fraud and corruption, including checks and balances, have been established.*** Fraud and corruption complaints handling mechanisms are in place as per the requirement of the two national proclamations (433/2005 and 434/2005); and the Council of Ministers Regulation No. 144/2008 that provides for the functioning of ethics liaison units across public offices and public enterprises in the country. As required by the proclamation and operational regulation, the scope of FEACC and REACCs covers all sectors, including the UIIDP. Thus, the existence of ethics and anticorruption officer with renewed functional responsibilities in ULGs is mandatory for the operation of the UIIDP. FEACC has also introduced an integrated corruption prevention strategic approach, including oversight forums. In line with this, the ethics and anticorruption officers have adapted the strategy of integrated prevention of corruption and illicit acts, drafted corruption and maladministration prevention strategic plan.

45. ***Public grievance handling mechanism.*** Regional states and ULGs have established the legal framework and structure for public grievance hearing. The regional regulations, proclamations provide for the establishment and functioning of grievance handling bodies at different administrative levels of regional states. The ULGs have deployed the structure of primary and secondary level of handling service delivery grievances follow up the regional procedures, regulations, and proclamations on public grievance hearings. Public grievance hearings are handled within the mayor's office and has at least one staff. On the other hand, the enforcement of decisions required involvement of different of actors in the realization of decisions. Many of the complaints remained suspended after creating contacts with legal and executing institutions. Therefore, to enhance responsiveness, experts that follow up the enforcement of decisions and action must be assigned properly.

46. ***The system and procedures for handling bidder's enquiries and complaints at federal level for procurement under the ULGDP II will continue.*** Remedial actions are taken on complaint review Board decisions and observations made following appeals. At the regional level, the Public Procurement Agency, head of BoFED gives final approval of the recommendation of the board or committee. However, the complaint handling in ULGs as a public procuring entity requires strengthening. Most of the ULGs lack internal process committed to primary complaint receiving/hearing. On the other hand, responsiveness to public grievances of land and closely related program activities is generally low. The performance of ULGs on public grievance handling must be improved.

47. ***Moreover, the incidents of fraud and corruption are not yet systematically tracked in ULGs.*** A few new ULGs responded and organized data on response rates of public grievances and complaints on land and closely related program activities. The response rates of public grievances/complaints on land and closely related program activities are not recorded in detail and reliably. For the analysis of public grievance, the responses decided and enforcement actions taken must be properly recorded and verified with reliable data of indicators. The data recording both in the ethics and anti-corruption officer or public grievance office is not supported by information technology, computers, adequate logistics, and the like. The ULGs lack unified reports on fraud and corruption, public grievances, and procurement complaints. It is necessary to develop action and streamline the fraud and corruption, public grievance and procurement complaint functions, recording and reporting arrangements in the ULG including in the public grievance office that also follow up fraud and corruption.

48. ***Risks mitigation measures will be carried out through PMs, the PAP, and capacity building under the IPF window by focusing on perceived and real incident areas and strengthening of the***

**fiduciary system.** With respect to the incident area, the perceived and real corruption areas must be searched, investigated, and prosecuted. It is also necessary to enhance the rate of responsiveness to public grievances on land and closely related program activities. Others include strengthening the weak fiduciary environment in handling fraud and corruption and public grievances. The MUDHo together with the BUDs must play important roles in setting up coordinators as member of capacity building mobile team, in building capacities of the public grievance offices and monitoring the performance of ULGs as well as organizing an overall performance report about the risk areas of the program. Appropriate systems to handle the risks of fraud and corruption, including effective complaint-handling mechanisms, have been agreed on and established.

49. **Several actions are proposed for effective handling of the risks of fraud and corruption and public grievances in ULGs.** These are: (a) assign Ethics and Anticorruption officer or increase manpower in ULG public grievance office to follow up fraud and corruption in the new ULGs and verify the existence of officers in the existing ULGs (As a result, FEACC will share the unified data on Fraud and Corruption and public grievances with the WB bi-annually with regards to program activities at the ULG level; (b) streamline the fraud and corruption function, recording and reporting arrangements in ULG public grievance office that also follow up fraud and corruption; (c) assign coordinating mobile team members and ethics and anticorruption officer in the MUDHo for supporting/building accountability and monitoring fiduciary personnel at ULGs; (d) start introducing systematic measures to record, respond to public grievances effectively, monitor response rate, enforcement of actions and disclose to public grievances in regards to public grievances/complaints on program activities in sample ULGs; (e) provide cascaded training on the functional roles, process of tracking, recording, and data organization and reporting to ULGs; (f) supervise/check sample participating ULGs for effective recording of fraud and corruption cases/tip-offs as per the format (to be verified by report of REACCs/FEACC); (g) use public media for disclosure and information sharing related to program activities, procurements and providing awareness to the public and enhances transparency of the procedures of the fraud and corruption and grievance/complaint handling system

### ***Conclusion***

50. For the reasons mentioned above, the fiduciary risk of the proposed Program is rated as Substantial.<sup>139</sup> The main risk areas and the mitigation measures that should be put in place are provided in the full Integrated Fiduciary Assessment. In addition, details of risks identified and mitigation measures are included in the PAP in annex 9.

***(b) For the IPF window (the Project)***

### ***Financial Management***

51. ***Budgeting.*** Both MoFEC and MUDHo follow the Federal GoE's budgeting procedure and calendar. Budget procedures are documented in the Federal GoE Budget manual. In addition, the Operation will have a Project Operation Manual prepared that will have the overall arrangements including FM laid out. The Project will also follow these budget procedures. PIU will prepare an annual work plan and budget for the Project, considering the project's objectives and resources. The work plan and budgets will identify the activities to be undertaken by each implementing entities at Federal level. The project budget preparation should be prudent, realistic, and made with professional estimates to avoid unrealistic budgets. Then the annual work plan and budget will be forwarded to the project SC for approval. The WB no objection is also

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<sup>139</sup> The fiduciary risk rating is the combination of the overall risk ratings of the FM, procurement, and fraud and corruption.

required. Finally, the budget will be submitted to MoFEC for final endorsement and proclamation. The project budget will be proclaimed under MUDHo budget.

52. **Budget control and monitoring.** Before payments are effected, verification of availability of budget is made at both MoFEC and MUDHo. Both the Integrated Financial Management Information System (IFMIS) (MoFEC) and IBEX (MUDHo) system produce comparison of budget with actual expenditures reports for monitoring. The Project will use the existing budget controlling and monitoring systems. The budget utilization by MUDHo was not at satisfactory level for ULGDP II (EFY 2009-76 percent, project cumulative- 61 percent). To improve the budget utilization, the project budget will be monitored at least quarterly against actual expenditure. The budget variances will be adequately explained and justified through the quarterly IFRs.

53. **Accounting.** The Government's accounting policies and procedures<sup>140</sup> will be largely used for the accounting of the project. In addition, the Operation will have a Project Operation Manual that will have the overall arrangements including FM laid out. Further, the project will use the FM manual of the ULGDP II (updated to address differences in the UIIDP). The FM manual will largely follow the Government accounting manual and will incorporate budgeting, accounting policies, procedures, chart of account, internal control issues, financial reporting, fund flow arrangements, and external audit. Training will be conducted on the FM manual after the FM manual is approved by the WB.

54. **Accounting software and chart of account.** MoFEC uses IFMIS while MUDHo uses IBEX system to record transactions and producing reports. The proposed project will use the respective system at the two entities. Chart of accounts: the chart of account for the project will be developed using the government's chart of account to properly capture the components, sub components and categories. The chart of account should enable the budget codes to be identified and the IBEX system to be used easily. The developed chart of accounts shall form part of the FM Manual.

55. **Accounting center.** The Accounting center for the project will be MUDHo and MoFEC. Currently no fund is expected to flow to other Federal implementing entities. Both will maintain accounting books and records and prepare financial reports in line with the system outlined in the FM Manual. The two are responsible for maintaining the project's records and documents of the project transactions which will be made available to the WB's regular supervision missions and to the external auditors. Detail procedures for maintaining and retaining documents are discussed in the FM Manual.

56. **Capacity building/training.** Focused and continued training on FM is essential for the success of the project. Once the project becomes effective, the accountants at both entities will be trained on the basics of the project including FM manual, WB policies and procedures, preparation of IFRs, among others.

57. **Accounting staff.** In MoFEC under the Finance and Procurement Service Directorate, the program and project fund team is responsible for maintaining the projects' bank accounts and disbursement activities. Two Government accountants are assigned in the team. Under Channel One Program Coordination Directorate, two accountants are assigned for ULGDP II project and will transition to support UIIDP. Both have BA degrees and adequate experience on the WB project. The two accounts collect the necessary supporting documents (payment vouchers, receipts, and journal vouchers, and so on) from finance and procurement service and maintain for the account. They are responsible to collect semi-annual IFRs from federal implementing entities and prepare consolidated IFRs and submit to the WB. They are also responsible for the annual project financial audit. The assessment team believes that the existing number and experience of accountant is adequate to handle the proposed project accounts. Under

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<sup>140</sup> The Ethiopian Government follows a double entry bookkeeping system and modified cash basis of accounting. This is documented in the Government's Accounting Manual. This has been implemented at the federal level and in many regions. The Government's Accounting Manual provides detailed information on the major accounting procedures.



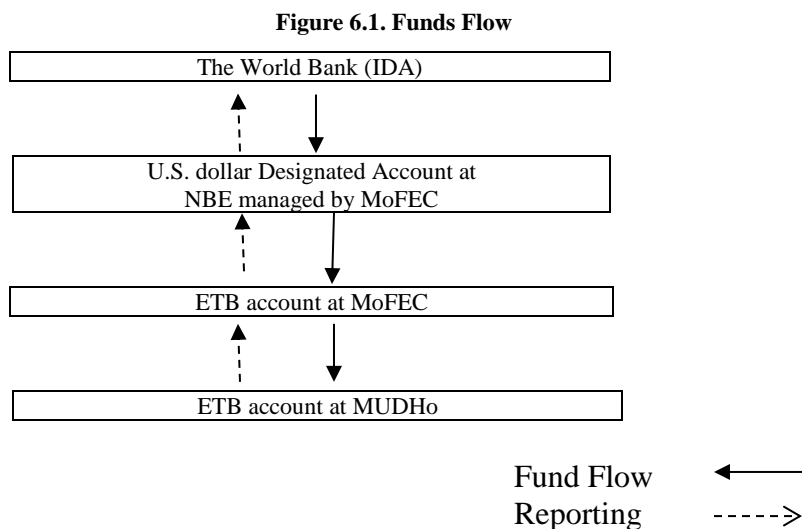
UREFMFB s, Project Finance Directorate is responsible to handle projects' accounts. The Directorate currently handles the ULGDP II accounts and will do so for UIIDP. Currently there are nine staff including the Director Budget (2), accountant (5) and cashier (1). All have BA degrees. Only one staff (accountant) is recruited by the project on contract basis. The proposed number of accountants for the Directorate is six (four regular and two contract) but one contract account has not yet been recruited and assigned. Again, the assessment team believes that the existing number and experience of accountants is adequate to handle the proposed project account if the one vacant accountant position is filled.

58. **Internal controls.** This comprises the whole system of control, financial or otherwise, established by management in order to: (a) carry out the project activities in an orderly and efficient manner; (b) ensure adherence to policies and procedures; (c) ensure maintenance of complete and accurate accounting records; and (d) safeguard the assets of the project. Regular government systems and procedures will be followed, including those relating to authorization, recording and custody controls. The project's internal controls, including segregation of duties on payments, cash management control, and safeguarding of assets, will be documented in the project's FM manual (included as an annex to the Program Operation Manual). The internal control in the two entities (MUDHo & MoFEC) found to be adequate. Monthly bank reconciliation is prepared and up-to-date. Cash count is conducted once a month and reconciled with ledger balance. The control on payroll process is good. Furthermore, there was proper segregation of duties on the payment approval cycle. However as disclosed in OFAG report and program audit there is weak advance settlement, long outstanding receivable and payable balances and weak property management. The FM manual will clearly capture these weaknesses to strengthen the system for the project.

59. **Internal audit.** There is an internal audit directorate and department at MoFEC and MUDHo respectively. At MoFEC all project funds are properly reviewed by the Directorate. However, at MUDHo the review is unsatisfactory because of insufficient number of internal auditors in the department. The department is understaffed with only six auditors (including the head) in place, out of a structure for 15. Budget is available but the allocated salary does not attract new applicants though the vacant positions are repeatedly advertised. If it is not possible to attract the required internal auditors with the current salary, other options to strengthen the department should be explored such as recruiting and assigning contract audit staff. Although the capacity limitations exist, effort should be exerted to review the proposed project's account.

60. **Fund flow and disbursement arrangement.** IDA funds will be deposited into a separate designated account to be opened at the NBE by MoFEC. The authorized ceiling of the Designated Account would be two quarters forecasted expenditure based on the approved annual work plan and budget. MoFEC will also open a local currency account in the name of the project. Report-based disbursements will be made quarterly and cover cash requirements for the next six months, based on the forecasts contained in the IFRs. Provision would also be made in the Disbursement letter for the other disbursement methods, that is, direct payments, special commitments and reimbursements.

61. The fund flow and report chart is depicted in figure 6.1.



62. **Financial reporting.** For Government budget, MUDHo sends monthly reports to MoFEC both in soft and hard copies. The Ministry is required to submit the monthly report within 15 days after the end of the month. The Ministry was submitting the monthly reports within the deadline. MUDHo also was submitting the semi-annual IFR for ULGDP II to MoFEC within the deadline.

63. For the project, MUDHo will prepare quarterly IFRs and submit to MoFEC within 30 days after the end of the quarter. MoFEC in turn will prepare quarterly consolidated Interim Unaudited Financial Reports (IFR). This will be submitted to the WB within 45 days of the end of the quarter, using the agreed format and content, consistent with the WB’s standards. At a minimum, the report will include: A statement of sources and uses of funds and opening and closing balances for the quarter and cumulative, a statement of uses of fund that shows actual expenditures, appropriately classified by main project activities (categories, components, and subcomponents), actual versus budget comparisons for the quarter, annual and cumulative will also be included, a statement on movements (inflows and outflows) of the project Designated Account, including opening and closing balances, expenditure forecast for the next two quarters together with the cash requirement and notes and explanations, other supporting schedules and documents.

64. In compliance with the government’s financial rules and regulations as well as IDA requirements, MoFEC will produce annual financial statements similar to the contents of the quarterly IFRs. The annual financial statement will be similar to the IFRs with some modifications as to be indicated in the audit TOR. These financial statements will be submitted for audit at the end of each year.

65. **External audit.** MUDHo’s regular account is audited by OFAG, while the ULGDP II account is audited by Audit Service Corporation. Qualified (except for) and unqualified audit opinions were issued respectively for the year ended July 7, 2016. Some of the qualification points in the OFAG report were long outstanding receivables and payable balances, expenditure recognized without the proper budget year, unutilized budget.

66. Annual audited financial statements and audit reports (including Management Letter) will be submitted to IDA within 6 months from the end of the fiscal year. The annual financial statements will be prepared in accordance with the standards indicated in the audit TOR agreed during negotiation. The audit will be carried out by the OFAG, or a qualified auditor nominated by OFAG and acceptable to IDA. The audit will be carried out in accordance with the International Standards of Auditing issued by the

International Federation of Accountants. The auditor will prepare a work plan to ensure adequate coverage of both entities (MoFEC & MUDHo) and cover all the major risk areas. Once the audit report is issued, the audit report findings should be rectified within a maximum of two months' times from the receipt of the audit report. In accordance with the WB's policies, the WB requires that the borrower disclose the audited financial statements in a manner acceptable to the WB; following the WB's formal receipt of these statements from the borrower, the WB makes them available to the public in accordance with the WB Policy on Access to Information.

67. **FM risk assessment, strengths, weaknesses, lessons learned, action plan.** The FM residual risk for the project is rated as substantial. The mitigation measures proposed in the action plan will help to reduce the risk of the project once implemented. The main strengths are the project will inherit the various strengths of the country's PFM system. Several aspects of the PFM system function well, such as the budget process, classification system, and compliance with financial regulations. Significant ongoing work is directed at improving country PFM systems through the Government's Expenditure Management and Control Sub-Program. The program also benefits from the country's internal control system, which provides sufficiently for the separation of responsibilities, powers, and duties. In addition, both entities (MoFEC & MUDHo) have experience for the operation of the WB' projects. The main weaknesses noted are at MUDHo budget utilization for both government budget and ULGDP II was not at satisfactory level and understaffing of internal audit department. In addition, delay was noted in finalizing the FM manual for the existing project (ULGDP II). Factoring in the above strengths and weaknesses, the inherent and control risk of the project is rated as substantial. The following actions are agreed to be performed to mitigate the identified risks in the project.

**Table 6.1. List of Agreed Action to Mitigate FM Risk**

| # | Action   | Due  | Responsible   |
|---|--|--|---------------|
| 1 | Budget:<br>1. Annual budget for the project proclaimed at MUDHo<br>2. Follow the budget calendar to prepare budgets<br>3. Follow on the performance of budget utilization<br>4. Prepare detailed budget variance   | Every year following the government budget calendar and on going   | MoFEC & MUDHo |
| 2 | Expedite the preparation of the FM manual (already started for ULGDP II) which will largely follow the Government accounting manual and will incorporate budgeting, accounting policies, procedures, chart of account internal control issues, financial reporting, fund flow arrangements, and external audit.  | 1 month after effectiveness  | MoFEC         |
| 3 | Fill the vacant one project accountant at MUDHo  | 1 month after effectiveness  | MUDHo         |
| 4 | Capacity building:<br>Ongoing FM training will be conducted (Budget analysis, basics FM, IFR preparation, IBEX and other themes to be covered.)  | On going   | MoFEC & MUDHo |
| 5 | Internal audit: fill the vacant positions at MUDHo and provide training on the FM of the project   | Immediate  | MUDHo         |
| 6 | Submit quarterly IFRs  | Quarterly  | MoFEC         |
| 7 | External audit for the project<br>a) Early Recruitment of external auditors.<br>b) Closing annual financial statement<br>c) Comply with the audit ToR.<br>d) Submission of the annual financial audit report<br>e) Prepare audit action plan for all findings reported<br>f) Preparing status report on action taken on audit findings<br>g) Disclosure of the audit report as per the WBs Access to Information policy. | a) Within three months of effectiveness<br>b) Three months after the end of the fiscal year<br>c) Ongoing on yearly basis<br>d) January 7 of every year<br>e) one month after receipt of the audit report<br>f) Four months after the receipt of the audit report<br>g) Annually | MoFEC         |

68. FM-related covenants for the IPF include:

- (a) Maintenance of a satisfactory FM system for the project;
- (b) Submission of IFRs for the project for each fiscal quarter within 45 days after the end of the quarter by MoFEC; and
- (c) Submission of annual audited financial statements and audit report within six months after the end of each fiscal year, at January 7.

69. The project will be supervised twice per year in view of the risk rating. Following each supervision risks will be measured and recalibrated accordingly. Implementation support will also include: follow up of compliance with the agreed upon FM arrangements; review of quarterly IFRs; review of annual audited financial statements, timely follow-up of issues arising and updating the FM rating in the Implementation Status Report.

### ***Procurement***

70. The implementing agency for the IPF window is the MUDHo. The PCA was carried out between September 20 and 26, 2017. The assessment included applicable procurement systems, Proclamations, Directives, Rules, Regulations, Manuals and procedures, and procurement processes including control and oversight mechanisms. Details of the assessment carried out is presented below.

71. ***Procurement legal framework.*** MUDHo follows the federal government procurement legal framework for the project implementations. During the assessment, it was noted that the procurement staffs have adequate understanding and application of procurement legal framework for the effective implementation of the project procurement. The legal framework is further supported with federal public procurement directive, manual and standard bidding documents. open tender is the default procurement method for NCB and ICB contracts with wider circulation and bidding opportunity. The Ministry doesn't have fit for purpose internal procurement manual for day-to-day reference of staff. *The TA to be engaged under the project will prepare a step-by-step internal procurement manual for day-to-day reference of staff.*

72. ***Accountability for procurement decisions.*** In MUDHo, ULGDPII is implemented under Urban Revenue Enhancements, Fund Mobilization and Finance Bureau. There are four Bureaus and two State Ministers under the Ministry. Urban Revenue Enhancements, Fund Mobilization and Finance Bureau is one of the four bureaus working under the Ministry. The Bureau has six directorates working under it. The Project Procurement Management Directorate is one of the six directorates under Urban Revenue Enhancements, Fund Mobilization and Finance Bureau, responsible for all procurement activities of the program implementation in MUDHo.

73. The Bureau has authority to initiate and approve procurement processes with clear accountability and responsibility. The Head of Urban Revenue Enhancements, Fund Mobilization and Finance Bureau approves procurement initiations and signs all the contracts executed under the program. During the assessment, it was noted that the director of the Project Procurement Management directorate has no authority to initiate and approve any procurement activities. *The bureau should revise the Authority delegation of Project Procurement Management directorate to initiate and approve procurements up to a certain value of contracts to facilitate the procurement processes.*

### ***Procurement Cycle Management***

74. ***Procurement planning.*** Procurement accomplished in MUDHo under ULGDP II program is mostly procurement of goods and consultancy services. Consultancy services are predominantly on the

sectorial capacity buildings and performance audits. These capacity buildings activities consider other related sectors in the program in addition to the minister bureaus.

75. Procurement plan preparations and implementations is one of the focus of MUDHo. Procurement Plan preparation is the responsibility of project procurement management directorate. Before procurement planning, the directorate prepares capacity building Budget utilizations of all bureaus under the minister. Budget for the New Year is prepared including consideration of the remaining budget of the previous year. Accordingly, Bureaus are requested to give their capacity building procurement plans based on the prepared budget. Thus, compiled capacity building plan proposal of all bureaus is submitted to TC for review and comment, before it is submitted to the SC of the program for final approval. Following the approval of the SC, annual procurement plan is prepared by the project procurement management unit and approved by the Tender Awarding Committee (TAC) of the Ministry. In MUDHo, there is one common TAC for capital and project budget procurements. Annual procurement plan is given adequate considerations. Estimated cost, quantity, procurement methods, bid preparation evaluation, contract preparation and implementation dates are described in detail in the procurement plan. However, annual procurement plan updates and revisions were not regularly done. During the assessment, it was noted that some procurements are executed without considering the procurement plan, even unrelated activities are procured under the program with direct instructions. *MUDHo shall update their procurement plan and use it as progress monitoring tool, as well as for proper utilizations of the project program budget for the intended purpose. Furthermore, procurements shall not be conducted outside the procurement plan.*

76. **Record-keeping.** Project procurement management unit of the MUDHo has sufficient recording system for procurement process and contract management records. Relevant files and documents are recorded in one project file for easy reference. Moreover, the unit is under preparations to improve its quality of recording system. Procurement staffs have awareness and understanding on the importance of quality recording system. Moreover, the unit has sufficient space and recording facilities under the program.

77. **Staffing.** The Project Procurement management directorate has adequate procurement proficiency staff to handle all procurement activities for the program implementation. As per the organization structure of the directorate, it was provided to have four senior, two junior and four assistant procurement staffs. However, currently there are three senior, two junior and two assistant procurement staffs available for all project procurement under the program. It is, however, necessary to assign the required staffs to properly handle the procurement activities under the project.

78. Most of the Procurement staffs have exposure in WB projects as they were in position when ULGDP I was implemented by WB financing. Three of the seven procurement staffs have taken training on WB procurement guidelines. *Generally, it's noted that the qualification of staff deployed for procurement activities in Project Procurement Management units of MUDHo is seen to be reasonable. However, the vacant positions shall be filled in order to handle the workload under the project and relevant basic and refresher trainings shall be given for the staff.*

79. **Bidding document.** MUDHo mostly procures goods and consulting services intended for institutional capacity building under the project. Since ULGDP II is implemented through PforR program operation, Federal PPPAA Standard Bidding Documents and Standard RFP are used for bidding document preparation under the project. Procurement notices are advertised in nationally circulated newspaper (Ethiopian Herald, Reporter) and on UNDB websites. It is observed that project procurement management office of MUDHo, has prepared adequate quality bidding document with clear selection criteria and detailed specifications. Specifications and estimated costs are prepared by the user Bureaus and other parts of the bidding document are prepared by the project procurement unit. It takes 2-4 weeks to prepare bidding documents including technical specifications. Prompt actions are also taken to give response for bidders' request for clarifications during tendering. Bid opening is held immediately after bid submission deadline.

Three procurement staffs in the presence of bidder's representative open the bids. During consultancy service, procurement financial proposals are kept under the custody of the project procurement management directorate director until technical evaluation is finalized.

80. ***Bid evaluation and award.*** Evaluation of bids/RFPs is carried out using the evaluation criteria provided in the BDs/RFPs and the evaluation reports are substantially completed that provide the required information. Generally, Evaluation is done by ad-hoc committees composed of representative from user Bureaus and project finance and procurement including relevant technical experts. The ad-hoc technical evaluation committees conduct evaluation of bids and submit the report to Virtual committee. In MUDHo, Virtual committee is the one who reviews and comments the bid evaluation reports of the ad-hoc committees. The Virtual Committee reviews all procurement process, such as approval of the TOR by the TAC, bid advertisements and selection criteria and evaluation of respective bidders' bids. Thus, after reviewing the report, the virtual committee gives recommendation to TAC for approval. After financial proposal is opened, other ad-hoc Committee is selected for financial evaluation. Virtual Committee reviews the financial evaluations including complaints on the technical result and how the complaints are resolved. Contract award recommendations are finally approved by the TAC. *Procurement staff shall be given refreshment trainings on bid preparation, evaluation, award of contract and contract management. Evaluation of technical and financial proposals shall be done with same ad-hoc evaluation committee as well as Virtual Committee to facilitate the bid evaluation process and improve quality of bid evaluation. MUDHo shall also secure space for bid evaluation and for safe keeping of bids and proposals until the evaluation process is over.*

81. ***Complaint handling mechanisms.*** Complaint handling procedures at MUDHo follow the federal public procurement compliant handling procedures, as the project is implemented under PforR operations. As observed in the assessment, procurement staffs of the procurement unit have good knowledge and understanding about the compliant handling procedures described in the FPPAA directives. In MUDHo, procurement complaints are submitted either for Project Procurement Management directorate or Bureau Head. After consulting with the technical evaluators as well as the virtual committees, necessary actions are taken including prompt clarification responses to complaint. However, during the assessment, it was noted that both complaint receiving bodies are not independent from the procurement processes.

82. In some cases, complaints are presented to the Ministry directly in which the minister assigned an Ad-hoc complaint handling committee for the specific complaint to investigate and report. After checking the committee review and recommendations, the minister takes appropriate actions and gives responses to the complaint. If complainants are not satisfied by the response of the Ministry, the case will be forwarded to the public procurement complaint Board. During the assessment, it was noted that no complaint case was presented so far to the complaint Board under the project program. In MUDHo, however, there is no system which keeps complaint data with respect to volume and nature of complaints. Incoming complaints are recorded in their respective contract files. Moreover, procurement complaints and responses given are not disclosed to the public. *MUDHo shall create awareness on complaint handling and ensure independent complaint handling mechanism. Complaints shall be properly recorded and reported to the public. Furthermore, complaints shall be handled by the Ministry not the Bureau to ensure independence of the complaint handling process.*

83. ***Contract management.*** Contract Administration Capacity limitation is a source for poor procurement and contract administration performance. In MUDHo, there is no separate contract management unit responsible to manage all project contracts under the program. The procurement unit mostly procures consultancy service for sectorial capacity buildings and goods for its service and office facilities. Hence, responsibility for contract administration and management for both goods and consultancy services are given for user Bureaus, where there are no experienced contract administration officers.

84. Project procurement management unit approves payment certificate after getting verification from user bureaus of the work executed; then payment is forwarded to project finance directorate to be paid. However, during the assessment it was noted that since there is no responsible contract staff in user Bureaus, verification of payment certificates takes longer time than the usual, thus most of the delay in payment certificate verifications and approval is source of contractual claims. *MUDHo shall improve the current contract management and administration system through appointing experienced contract administrator in project procurement management directorate office.*

85. **Procurement audit.** MUDHo internal audit service was supposed to conduct audits every three months. However, due lack of experienced staff, internal audit is done once in a year. Internal audit examines all the procurement process cycles. Although internal audits are working in MUDHo, its obligations and responsibility is under MoFEC. In addition, MUDHo is audited externally by Auditor General once a year. Currently, the Auditor General gave delegation to Audit Service Corporations (Government Owned Enterprise) to audit every year the procurement processes and VfM. Further to this, APA was also carried out by the WB once a year. FPPPAA is responsible to provide oversight in public procurement performance at federal level. However, MUDHo is not yet audited by FPPPAA. Federal Anti-corruption agency has reviewed procurement processes recordings of MUDHo at different times but no official investigations are done so far. *MUDHo shall strengthen internal audit system to ensure that procurement is examined under the internal control system appropriately on timely manner.*

## **Annex 7: Environmental and Social Systems Assessment Summary**

1. **This ESSA has been carried out to review the systems and procedures followed by federal, regional and ULG levels of government to address social and environmental issues related to the UIIDP.** The ESSA review and update is limited to the scope of the proposed UIIDP, and provides an assessment and a summary of the key environment and social risks associated with the program and existing institutions and system of the GoE to manage and mitigate associated risks and ensure effective and successful implementation of the Program. As is a standard practice, operations to be prepared under this lending instrument will follow a set of principles and attributes as set out in the WB policy on PforR financing. The purpose of this ESSA is to: (a) review the environmental and social management rules and procedures and institutional responsibilities that are being used by the Program; (b) assess the implementing agency MUDHo institutional capacity and performance to date to manage potential adverse environmental and social issues; and (c) recommend specific actions for improving the capacity of the main implementing institutions with regard to effective management of environmental, social, health and safety issues during implementation.

2. **The ESSA provides a comprehensive review of relevant government systems and procedures that address environmental and social issues associated with the Program.** The ESSA describes the extent to which the applicable government environmental and social policies, legislations, program procedures and institutional systems are consistent with the six ‘core principles’ of the WB policy for PforR financing, and recommends actions to address the gaps and to enhance performance during Program implementation. This ESSA presents summary of findings based on assessment of extent to which the existing program procedures for social and environment meet the applicable core principles, and where they do not, recommends an action plan to address shortfalls.

### **Scope and Methodology**

3. **Various methods were used for the assessment.** These include: (a) desk review of policies, legal framework, environment and social audits and APAs; (b) institutional analysis conducted to identify the roles and responsibilities of implementing institutions and the respective capacity in place to implement the environmental and social management systems of UIIDP, (c) interviews were held with key experts/decision makers at the federal, regional, and ULG level; (d) field visits conducted at the regional capitals (Oromia, Amhara, Somali, and SNNPR) and at eleven new ULGs cities (Gode, Injibara, Woreta, Kobo, Holeta, Modjo, Arsi Negele, Dodolla, Halaba Kulito, Durame, Bodit) and three existing ULGs cities, to assess existing systems and practices of ULGs as part of the ESSA.

### **Institutional Arrangement**

4. **The institutional arrangements for program implementation will be based on the experiences from the current ULGDP, with clear division of tasks and responsibilities between federal government, regional government and ULGs levels.** At the central level, the MUDHo will be responsible for the overall proposed program management and operations through its UREFMFB. At the regional level, the regional BUDs assisted by respective regional environmental authorities and bureaus will be responsible to implement and monitor the environmental and social aspects of the program, while at Local Government level, a unit/office in charge of environment and social management will be responsible for effective implementation of environment and social management activities over the UIID program period. The division of tasks will be clearly outlined in the UIIDP POM.



## Findings

5. **The ESSA provides an assessment of the current conditions of environmental and social management system and proposes measures that are built into the Program in order to strengthen implementing institutions towards sound implementation of environmental and social safeguards and management.** The ESSA reviewed and evaluated the Ethiopian environmental and social management system against the following six core principles of environment and social sustainability:

- 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.
- Core principle 6: Social Conflict.

6. **The UIIDP ESSA identified the gaps and opportunities in Ethiopia’s environmental and social management system to effectively addressing the environmental and social risks associated with the Program.** An assessment of environmental and social regulations, policies, and procedures, including institutional capacity and practices indicate “Substantial” environment and social risk 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 by ULGs; lack of coordination among relevant agencies; and lack of technical capacity among implementers at different levels.

7. **The ESSA shows that Ethiopia has an adequate legal framework, including environment and social regulations, which are basically in line with PforR financing core principles.** Under the ULGDP II guidelines on environment and social management system and resettlement management have been put into place. Safeguard specialists have been assigned to strengthen the system. Moreover, annual environmental and social audits have been conducted. Many of the ULGs participating in the ULGDP II have made significant improvements in integrating the environmental and social management system requirements into their development planning and creating the basic capacity to implement them, as shown by the screening carried for all CIP sub-projects and the opening of permanent positions for safeguard specialists within the infrastructure offices. These achievements represent the growing institutionalization and strengthening of the environmental and social management systems within the ULGs.

8. **Although there is a general improvement in strengthening the institutional mechanism for environmental and social management in the ULGs and growing clarity in the roles and responsibilities of the regulatory agencies, the experience of the ULGDP II shows mixed implementation of the ESMSG and the RSG.** While some of the ULGs are able to use the prepared safeguards instruments properly, others are not. There are also staffing (for instance social experts) and training gaps in some ULGs. The capacity of some of the ULGs that will newly participate in the UIIDP is low, with some ULGs having no system at all.

9. **To maximize gains and minimize risks, the investment menu excludes WB environmental assessment category A sub-projects** and infrastructure subprojects that require displacement of more than 200 individuals. All investment activities under the UIIDP will go through stringent screening process and

any project falling under “Category A” would not be eligible for financing by the UIIDP. Based on the output of the screening result, the corresponding instruments ESIA/ESMP/RAP will be prepared and cleared by designated authority before the commencement of the construction activities.

10. **The ESSA analysis identified and proposed the following main areas for actions/recommendations to ensure that the Program interventions are sustainable and aligned with the core principles specified above:**

- ***Establishing and strengthening the environmental and social management system at ULG level.*** Under UIIDP, all ULGs must demonstrate that they have established a functional system for Environmental and Social Management as a minimum requirement to access grant. However, a distinction needs to be made between the performance of the 44 ULGs currently participating in the ULGDP II, and the 73 new ULGs. Before commencement of the program MUDHo should update the ESMSG and RSG prepared under the ULGDP II. Accordingly, during the first year of the program implementation period, all participating ULGs will be required to endorse ESMSG and RSG and demonstrate that all projects are screened for environmental and social impacts and to prepare and implement the required safeguards instruments with appropriate mitigation measures, and that all projects shall have approvals from the relevant woreda, zonal or REFAs before initiating sub project activities/works. The same applies also for the 44 ULGs participating in the ULGDP II, but they should demonstrate the presence of a higher quality and seamless system in place with better knowledge and understanding of the guidelines and tools. All ULGs need a system that will outline specific roles and responsibilities for environmental and social risk screening, due diligence and regulatory requirements, consultations and coordination with other local and regional agencies, technical instruments for safeguards implementation and monitoring, staffing, and training and capacity building.
- ***Providing technical guidance and capacity building support.*** ULGs can benefit significantly from sector specific technical guidelines that integrates environmental and social management requirements for subprojects under each sector such as road and drainage construction, waste and landfill site management, building slaughter houses, water supply, and so on. MUDHo shall update the existing guidelines (ESMSG, RSG) and share for all ULGs to be used as a safeguards instrument for sound management of environmental and social risks. ULGs participating in the ULGDP II have learned and establish environmental and social management system from ESMSG and RSG implementation, through the preparation of relevant documents including screening report, Abbreviated Resettlement Action Plans, Environmental Management Plans (EMPs).
- The new ULGs joining the proposed UIIDP required to raise environment and social management awareness for all participants and community residing in the project area, including city administrators and experts, endorse and implement the two guidelines and other environmental and social management tools, assign a dedicated and qualified social and environmental safeguards staffs/specialists and train professionals to put in place a well-functioning environmental and social management system. It is also essential to provide a refresher course for the specialists under 44 cities from ULGDPII. All UIIDP cities institutional strengthening endeavors should focus on environmental and social safeguards and include diversity in expertise (for example more social workers) and gender balance (hiring more female workers) for enhanced performance. Continuous training should be effective over the program implementation period to ensure the level of understanding of environmental and social risk management along with the project activities and to broaden knowledge and understanding of new thinking and practice of safeguards management, which align with the UIIDP scope. This will not only enhance performance but also help to minimize staff turnover that all ULG faced particularly at local governments levels in emerging regions.

- ***Addressing resource constraints.*** This area includes measures to overcome constraints with respect to human and budgetary resources, through the Program incentive structure, as well as capacity building and training. Transport and other logistics are required to ensure close follow up and monitoring of environmental and social management issues, as stated in the environmental and social guidelines and management plans that will be prepared for the UIIDP. Both the financial and human resources are required to address the identified gaps during the assessment of environmental and social management system. Moreover, a capacity building and training program will be key to ensure that staff within ULGs understand their roles, have adequate capacity on environmental and social risk management during program implementation period and clearly understand how they will be evaluated through the APAs.
- ***Undertaking annual environmental and social performance review and audit.*** Annual performance reviews and audits on environment and social safeguards management have a vital role to ensure the implementation of safeguards instruments to avoid and/or minimize potential negative impacts associated with the UIID Program. From ULGDP II experience, the environmental and social audit needs to improve and strengthen by developing a harmonized and standardized ToRs that define the environmental and social management audit objectives, scope, tasks and criteria, so that comparable audit results could be obtained from all ULGs in environmental and social management.
- ***Increasing community awareness on social and respective management practices.*** Throughout the program implementation period, the MUDHo will organize briefings and awareness creation on social and environmental impacts and the respective mitigation measures for ULG administrators and other relevant experts, as well as affected communities.
- ***Strengthening consultation and stakeholders' collaboration.*** Like the already existing safeguards management practice under the ULGDP II, all ULGs in UIIDP need to establish and strengthen the consultation and stakeholder collaboration with community members and other relevant beneficiaries and institutions. Previous practices have shown that well informed residents tend to support local governments efforts by cooperating in fund raising, organizing themselves and regulating performance of contractors. UIIDP intends not only strengthen results achieved in ULGDP II but also broaden coverage which requires broadening stakeholders and actors' including the involvement of office of Labour and social affairs and Women and child affairs in the program planning and implementation process, including supervision of subprojects, as required.

11. The UIIDP will adopt similar tools to ULGDP II with concrete results, to scaling up its coverage as well as addressing persisting environmental and social challenges and gaps by integrating into the overall Program a minimum condition, and PMs. These include:

- ***Prior agreement and planning for environmental and social risk screening.*** Each participating Cities/ULGs will sign a Participatory Performance Agreement with the respective region (in addition to Participation Agreements to be signed between MUDHo and each region) to show commitment by all parties to work under a common set of rules. This includes a process for ULG to prepare an approved CIP, annual plan, and budget. This will allow timely environment and social risk-screening and monitoring before endorsing environmentally and socially sensitive investments.
- ***Institutional capacity and systems.*** To ensure that there is minimum capacity to handle the entire project implementation process at ULGs, key positions, including environment and social development specialists will be in place at the MUDHo, regional and ULGs levels, with a clear distinction among new and previously covered cities. Under the UIIDP, ULGs will demonstrate

that they have established a functional system for environmental and social management and appointed environmental and social specialists as a minimum condition to access Program funds. This will ensure that there is a mechanism and capacity to screen environmental and social risks of the CIP before implementation. The ULG level environment and social management system to be adopted for new 73 cities will include procedures for due diligence; institutional procedures for grievance management and environmental, managing resettlement/land-take processes and environmental and social mitigation and monitoring plan.

- ***Prerequisite for environmentally and socially sensitive investments.*** Investments like landfills and slaughterhouse could cause significant environmental and social impacts if not planned/designed, screened, managed properly as per the MUDHo standards, with all required measures stated to avoid and/or minimize the potential impacts and risks. Experience from current ULGDP II sub projects shows that application of ESMSG and RSG have created opportunities to minimize environmental and social risks as well as prepare sound mitigation measures, when it is inevitable. Moreover, to ensure the management of waste impacts and sustainable implementation of landfills and abattoirs during program implementation period, MUDHo will develop a waste management plan (WMP) that encompasses the general waste management practices applicable to UIIDP, including land fill and abattoirs management. These activities will be supported by respective institution at Regions / Ministry levels before dealing with sensitive investments. However, all ULGs should be aware and commit to avoid the undertaking investments listed under UIIDP's exclusion list.
- ***Training.*** Appropriate induction and on job training will be provided to the environmental and social specialists and other technical staffs, as required, in the following major topics, subproject screening, identification and management of environment and social impacts, preparation and implementation of safeguards instruments, implementation of program safeguards instruments (WMP, LIMP, Safety Management Plan [SMP], ESMP), and so on. These training activities will be supported by MEFCC and regional environmental agencies before dealing with sensitive investments. However, all ULGs should be aware and commit to avoid the implementation of sensitive subprojects under the exclusion lists of sensitive project for the UIIDP.
- ***Grievance redress system (GRS).*** To receive, review and address complaints related to environmental degradation of the surrounding and adverse social and health impacts on people including; loss of livelihood, income or assets, a function office and GRS committee needs to be in place with members who are independent from the government and represent interest of potentially affected people.
- ***Evidence of implementation.*** As one of the PMs under DLI 1, the ULGs will be required to generate evidence that all capital sub projects in previous fiscal year were screened against the set of environment and social criteria in the planning stage, including preparation and approval of EMPs, RAPs by relevant authority. Evidence of public consultation as a process of the environmental and social management process should also be generated.
- ***Incentive to ULGs for being environmentally responsible and socially inclusive.*** Against DLI 7, the REFAs will be able to access grants by supporting and reviewing the preparation of environmental and social management instruments, which ultimately demonstrates a functioning environment and social management system for all ULGs under their jurisdiction.

**Annex 8: Systematic Operations Risk Rating (SORT)**

| <b>Systematic Operations Risk-Rating Tool (SORT)</b>            |                            |
|---|----------------------------|
| <b>Risk Category</b>  | <b>Rating (H, S, M, L)</b> |
| 1. Political and Governance                                     | S                          |
| 2. Macroeconomic  | M                          |
| 3. Sector Strategies and Policies                               | M                          |
| 4. Technical Design of Project or Program                       | S                          |
| 5. Institutional Capacity for Implementation and Sustainability | S                          |
| 6. Fiduciary  | S                          |
| 7. Environment and Social                                       | S                          |
| 8. Stakeholders   | M                          |
| 9. Other  | M                          |
| <b>OVERALL</b>  | <b>S</b>                   |

**Annex 9: PAP**

| <b>Action Description</b>  | <b>DLI</b>                          | <b>IPF</b>                          | <b>Covenant</b>                     | <b>Due Date</b>  | <b>Responsible Party</b> | <b>Completion Measurement</b>                                 |
|--|-------------------------------------|-------------------------------------|-------------------------------------|--|--------------------------|---|
| <b>General</b>   |                                     |                                     |                                     |  |                          |   |
| The UIIDP Unit in REFMB will be further enhanced to 32 staff. MUDHo filled its vacant positions and engage additional staff to fulfill the 32 staff positions.   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | Program effectiveness  | MUDHo                    |   |
| To ensure that the independent APA is completed on time, MUDHo will initiate the procurement process for selection and assignment of independent consultants for the APA through multi-year contract.  | <input type="checkbox"/>            | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | To be engaged and onboard by August 2018 for the first UIIDP APA which commences in October 2018 | MUDHo                    |   |
| To enable the supply-side capacity building activities for ULGs, MUDHo will sign agreement(s) (memorandum of understanding) with relevant federal, and regional training institutions for course design and administration for new ULGs.   | <input type="checkbox"/>            | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | Program effectiveness  | MUDHo                    |   |
| To ensure sufficient capacity in regional governments to support the up-scaled UIIDP, the regional governments will fill staffing gaps and procure and deploy RMTs.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/>            | Program effectiveness  | regional governments     |   |
| Annual Performance review and audit on Environment and social management: Produce the Performance Assessment Manual, as part of the Program Operation Manual and share with 117 ULGs   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/>            | Prior to the launch of first APA.  | MUDHo                    |   |
| Establish Program technical subcommittee comprising key technical staff of MUDHo and MoFEC including environmental and social management.  | <input type="checkbox"/>            | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | Program effectiveness  | MUDHo                    | • Briefing note on established Program technical subcommittee |
| <b>Local Economic Development</b>  |                                     |                                     |                                     |  |                          |   |
| Revision of the program's Employment / Job Creation Guideline to better clarify the two ways in which the program contributes to job creation, (a) direct employment in public works and (b) indirect employment creation through providing serviced land, MSE sheds and other built facilities benefiting local firms. The guidelines also need to be clearer on the standards that need to be followed by ULGs under these two types of employment creating activities. Clear guidelines need to be established on what should be considered temporary versus permanent employment. Guidelines also need to be given regarding what other types of follow up and support ULGs need to give MSEs to increase their chances of survival and success. | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | By end of Year 1 of UIIDP implementation   | MUDHo                    |   |
| <b>Resilience</b>  |                                     |                                     |                                     |  |                          |   |
| Identify needs and develop local DRM and emergency plan (building on woreda risk profile)  | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | By end of Year 2 of UIIDP implementation   | MUDHo, NDRMC             |   |
| With NDRMC, carry out detailed risk assessment to develop national urban DRM plan; establish information and warning system; and develop training program and guidance notes   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | By end of Year 2 of UIIDP implementation   | MUDHo, NDRMC             |   |
| <b>Gender</b>  |                                     |                                     |                                     |  |                          |   |
| Development and adaptation of (a) code of conduct in employment and sub-project contract documents for women's rights in workplace including   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | By end of Year 1 of UIIDP implementation   | MUDHo,                   | • UIIDP Code of conduct document and                          |

| Action Description   | DLI                      | IPF                                 | Covenant                            | Due Date  | Responsible Party          | Completion Measurement  |
|--|--------------------------|-------------------------------------|-------------------------------------|---|----------------------------|---|
| gender based violence, sexual harassment, and equal payment for equal work and (b) potential procedures for addressing complaints about women's rights in workplace (including complaint addressing system, accountability measures, M&E, awareness-raising strategy, response protocol, sanctions)  |                          |                                     |                                     |   | regional governments, ULGs | protocol/procedure document                                   |
| <b>Financial Management</b>  |                          |                                     |                                     |   |                            |   |
| Conduct FM Trainings to cities on the following 6 areas to build capacities and reduce risks:<br>1. Budgeting-Budget preparation (including both expenditure and revenue) and Budget monitoring<br>2. IBEX system (on its full functionalities)<br>3. Accounting processes and procedures<br>4. Internal control procedures with a focus on cash management, bank reconciliations, stock and fixed asset controls<br>5. Internal audit<br>6. External audit- on audit preparation planning, on conducting, and most importantly on audit report preparation  | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | Annually  | MUDHo                      | • Trainings conducted   |
| Prepare detailed annual training report and submit to the WB on the conduct of the FM trainings noted above  | <input type="checkbox"/> | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | By August 30 of each year for the past year trainings     | MUDHo                      | • Training report submitted                                   |
| Program funds need to be transferred in the agreed time to cities  | <input type="checkbox"/> | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | Annually  | MoFEC and BoFED            | • Funds transfer data reported on IFRs                        |
| Ensure correct recording of budget figures in accounts/IBEX. Close follow up is required by stakeholders on low budget utilization   | <input type="checkbox"/> | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | Annually  | MoFEC and MUDHo            | • Reported on APA and IFRs                                    |
| Transparency -MUDHo should disclose on its website the program annual budget, in year budget executions, and program financial and VfM external audit reports. Cities should also disclose annual budget, in year budget executions, and external audit reports.   | <input type="checkbox"/> | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | Annually  | MUDHo and ULGs             | • APA   |
| For VFM audit findings -Prepare time bounded action plan for rectifying audit findings, follow up with Cities. Prepare regular follow up status report on rectified audit findings   | <input type="checkbox"/> | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | Annually  | MUDHo                      | • Reports submitted by MUDHo                                  |
| <b>Procurement</b>   |                          |                                     |                                     |   |                            |   |
| Provide intensive procurement and contracts management training to staff of the ULGs. The IPF component of the Program will deploy a TA consultant who will provide technical support and training to the ULGs; prepare step-by step contract management guidelines/manuals, which should include dispute handling mechanisms; and prepare customized procurement and VfM/performance audit guidelines/manuals. The training shall include ULGs Procurement staff, and staff involved in the implementation of procurement activities such as procurement committee members, user department staff and tender/procurement endorsing committee members. | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | Within six months of Program effectiveness and continuous | MUDHo                      | • Training Reports and contract management guidelines/manuals |
| The ToRs of RPPAAs and APA should include adequate provisions to closely examine any potential loopholes in the procurement process which might be source of complaints.   | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | Each annual audit /assessment and Continuous              | MUDHo                      | • Approved ToRs   |
| The POM to state that ICB contracts should also be published in the international media such as UNDB online.   | <input type="checkbox"/> | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | By program effectiveness and continuous                   | MUDHo                      | • POM   |
| As part of the Project Operations Manual (POM), MUDHo to prepare and agree with the WB on the procedures of use of SOEs and MSEs including   | <input type="checkbox"/> | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | By Program effectiveness                                  | MUDHo                      | • POM   |

| Action Description  | DLI                                 | IPF                                 | Covenant                            | Due Date  | Responsible Party    | Completion Measurement  |
|---|-------------------------------------|-------------------------------------|-------------------------------------|---|----------------------|---|
| their registration, incentive mechanisms, monitoring and graduation procedures without affecting the participation of other non-SOE and non-MSE actors. Non-MSE actors will not be excluded from bidding with MSEs of similar capacity.   |                                     |                                     |                                     |   |                      |   |
| Include a provision in the Project Operations Manual (POM) for the ULGs to state in the bidding documents to exclude award to WB debarred and suspended firms   | <input type="checkbox"/>            | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | By Program effectiveness  | MUDHo                | • POM   |
| Provide Regional Public Procurement and Property Administration Agencies and Internal Audit units of ULGs with Procurement Audit Training   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | Within four months of Program effectiveness and Continuous                | MUDHo                | • Training Reports  |
| <b>Fraud and Corruption &amp; Compliant Handling Mechanism</b>  |                                     |                                     |                                     |   |                      |   |
| FEACC will share the data with the WB Semi-annually on Fraud and Corruption, public grievances, procurement complaints in regard to program activities at the ULG level.  | <input type="checkbox"/>            | <input type="checkbox"/>            | <input type="checkbox"/>            | Semi-annual Report for the whole Program Period                           | FEACC/ REACCs, ULGs  | • Semi-annual Report  |
| Assign complaint handling focal person for recording processing and reporting F&C, grievances and procumbent complaints at ULGs   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/>            | By end of Year 1 of UIIDP implementation                                  | ULGs/ MUDHo          |   |
| Allocate sufficient TA resource and assign coordinating mobile team focal person/ Ethics and Anticorruption officer in MUDHo and RMT for supporting/ building accountability and monitoring fiduciary personnel at ULGs   | <input type="checkbox"/>            | <input type="checkbox"/>            | <input type="checkbox"/>            | By end of Year 1 of UIIDP implementation                                  | MUDHo/ BUD           |   |
| Develop a prototype template and provide cascaded training to streamline the F & C, public grievance and procurement function, recording and reporting arrangements in those ULGs where public grievance office also follow up F & C cases.   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | By end of Year 1 of UIIDP implementation                                  | FEACC/ REACCs, MUDHo |   |
| Provide cascaded training on the functional roles, process of tracking, recording, data organization, reporting and related methods, approaches.  | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | Year 1, 2   | FEACC/ REACCs, MUDHo |   |
| Use public media for disclosure and information sharing related to program activities, providing awareness to the public and enhancing the transparency of the procedures of grievance/complaint handling system.   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | Year 1,2,3  | FEACC/ REACCs, MUDHo |   |
| <b>Environment and Social risk management</b>   |                                     |                                     |                                     |   |                      |   |
| <b>Establishing the Environmental and Social Management System</b> at new 73 UIIDP cities <b>and strengthen at MUDHo, BoU and previous</b> ULGDP II 44 cities;<br><ul style="list-style-type: none"> <li>Update and endorse ULGDP II environment and social risk management guidelines mainly on Health and Safety (ESMSG, RSG)</li> <li>Staffing (Environmental, Social development specialist, gender specialist) in place</li> <li>Screening for Environment and Social Risks of all proposed investments and preparation of safeguards instruments (ESMP, RAP, WMP, SMP)</li> </ul> | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/>            | Program effectiveness<br><br>Before commencing of construction activities | MUDHo and BUDs       | <ul style="list-style-type: none"> <li>Established and strengthened ESMS</li> <li>Updated ESMG and RSG</li> <li>Staffs in place</li> <li>Screening reports</li> <li>Safeguards instruments are prepared, as required</li> </ul> |
| Ensure that the federal and RMTs are adequately staffed with environment gender and social management specialists having appropriate skills   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | Program effectiveness   | MUDHo and BUDs       | • The mentioned staffing in place, Program Reports  |
| <b>Technical Guidance and Capacity Building:</b> Develop capacity building and training plans, Procure and ensure implementation of standard ULG environment and social management training program from University   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | Program implementation  | MUDHo, BUDs and ULGs | <ul style="list-style-type: none"> <li>Prepared Capacity building and Training plans</li> <li>Training reports</li> </ul>   |



| Action Description   | DLI                                 | IPF                                 | Covenant                 | Due Date   | Responsible Party   | Completion Measurement   |
|--|-------------------------------------|-------------------------------------|--------------------------|--|---|--|
| and/or other designated centres of excellence on urban Environment and Social Management System (ESMS) and <i>Addressing Resource Constraints through availing</i> the required facilities for environmental and social management activities at all level   |                                     |                                     |                          |  |   | <ul style="list-style-type: none"> <li>Procurement reports on resources and facilities</li> </ul>  |
| Increase stakeholders' awareness on social and environmental impacts of UIIDP sub-projects by developing a guideline for setting service delivery standards, and citizen charters including vulnerable groups and organize awareness raising session for city administrators and other experts and community members as applicable on environment and social risk management                     | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/> | Throughout program implementation  | MUDHo, BoUD and local level UGs, MoEFCC and REFA  | <ul style="list-style-type: none"> <li>Developed service delivery standards, and citizen charters</li> <li>Briefing note on conducted awareness and sensitization program</li> <li>Environment and Social Management Implementation Reports</li> <li>Training reports</li> </ul> |
| Broaden stakeholders' involvement by including and working closely with the offices in charge of environmental protection, Labour and Social Affairs and WCOs to improve planning and implementation of environment and social management instruments, health, safety and gender equality issues and access to service by vulnerable group (specially the elderly and people with disabilities). | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/> | During Annual Planning, program implementation and Monitoring  | MUDHo<br>BUD, ULGs,<br>MoEFCC, REFA,<br>Ministry of Labor and Social Affairs, MoWCA<br>BoLSA,<br>BoWCA<br>City LSA and<br>WAs offices | <ul style="list-style-type: none"> <li>Briefing note on coordination mechanism of the various relevant parties</li> <li>Annual Plans, and progress reports</li> <li>Joint monitoring reports</li> </ul>  |
| Develop a harmonized and standardized Environment and Social Audit ToRs; and ensure quarterly performance review and annual environmental and social audit.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/> | Quarterly<br><br>At the end of every year  | REFA<br>MUDHo   | <ul style="list-style-type: none"> <li>Developed TOR</li> <li>Quarterly performance review report</li> <li>Annual audit report</li> </ul>  |
| Ensure management of community and worker's health and safety risk and develop SMP as required, include Health and Safety considerations/articles in the program design, make available safety protection materials, tools and Personal Protective Equipment over the program implementation period  | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/> | Program effectiveness<br><br>Program implementation<br><br>Prior to validating civil works contracts | MUDHo,<br>BoUD and ULGs   | <ul style="list-style-type: none"> <li>Developed SMP</li> <li>Included EHS code of practice on contract document</li> <li>Progress report and incident notification checklist</li> </ul>   |
| Conduct adequate consultations where land (communal or private) is acquired and/or vulnerable person is involved and ensure proper documentation of the same   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/> | Throughout the program   | MUDHo, BUD,<br>ULGs   | <ul style="list-style-type: none"> <li>Minutes of Consultations</li> <li>Implementation Reports</li> </ul>   |

## Annex 10: Implementation Support Plan

1. The **key objectives for the implementation support** are: to (a) review Program implementation progress and achievement of Operation results and DLIs, (b) provide technical advice, as necessary, to GoE for implementation of the PAP and to contribute to the quality of the institutional development and capacity building of stakeholders by providing best practices and benchmarks; (c) provide support for resolving emerging Operation implementation issues; (d) monitor changes in risks and the implementation of the risk mitigation defined in the technical, fiduciary, and safeguard assessments, and (e) ensure compliance with the provisions of legal covenants.

2. **Strategy and approach to implementation support.** UIIDP includes a number of measures aimed at ensuring implementation progress as expected:

- First, most of WB's implementation support team members (fiduciary, environmental and social systems, and fraud and anti-corruption), including the Task Team Leader, are based in the Ethiopia Country office. This will ensure timely, efficient and effective implementation support and facilitate overall implementation and timely communication with the client, and various stakeholders involved in the implementation phase;
- Second, the WB will conduct routine implementation supervision missions and additional technical assistance. Formal implementation support missions and field visits will be carried out semi-annually, or as deemed necessary. The missions will be carried out jointly with development partners and will include the WB's FM, safeguards specialists, procurement staff and other specialists as required.
- Third, the WB will focus on strengthening the Program's systems and institutional activities necessary to achieve the DLIs. The first implementation support mission will take place after the Operation becomes effective to provide direct and timely feedback on quality of implementation.
- Lastly, a multi-disciplinary WB team will be deployed during the Operation's mid-term review (MTR). They will join the GoE team and other development partners. The Operation's progress will be reviewed with a particular focus on the performance mechanism and associated disbursement, as well as the capacity building activities and necessary adjustments will be made to the Program structure as required.

3. Further to the above, due to the complex nature of the Program, there will be focused implementation support that will be provided by the WB in a number of areas and especially related to the IPF components. The WB will be primarily responsible for:

- Support and monitor the implementation of the IPF window, review ToRs, and the like.
- M&E: Review of the APA, verification protocol and provide technical input.
- Environmental and social: Provide the necessary training and support during implementation and on the implementation of the POM
- Fraud and corruption: Supervise the implementation of the agreed fraud and anti-corruption measures under the program and provide guidance in resolving any issues identified.

- Procurement: (a) review of procurement performance from APAs/independent procurement audits; and (b) provide training and guidance on Procurement to MUDHo, regional governments and ULGs; and
- FM: Review the financial reports and the assessment results reports as the basis for disbursements, audit reports, and agreement on measures to address any audit observation and monitoring their implementation.
- Specific focus on the IPF component which compared with the PforR modality will require additional support and monitoring.

**Table 10.1. Task Team Skill-mix Needed for Implementation Support**

| <b>Skill</b>                          | <b>Number of Staff Weeks (annual)</b> | <b>Travel Frequency (annual)</b> | <b>Location</b>      |
|---------------------------------------|---------------------------------------|----------------------------------|----------------------|
| Task team leader                      | 25                                    | 4 field trips                    | Country office based |
| Senior Urban Specialist               | 20                                    | 4 field trips                    | HQ based             |
| Urban Specialist                      | 25                                    | 8 field trips                    | Country office based |
| Urban Specialist                      | 20                                    | 4 field trips                    | HQ based             |
| Sr Infrastructure Specialist/Engineer | 20                                    | 8 field trips                    | Country office based |
| Senior urban economist                | 10                                    | 4 field trips                    | HQ based             |
| Senior Governance Specialist          | 20                                    | 8 field trips                    | Country office based |
| Capacity building/communication       | 8                                     | 2 field trips                    | Country office based |
| Senior Procurement specialist         | 12                                    | 3 and field trips as required    | Country office based |
| Procurement specialist                | 12                                    | 3 and field trips as required    | Country office based |
| Senior FM specialist                  | 12                                    | 3 and field trips as required    | Country office based |
| FM specialist                         | 12                                    | 3 and field trips as required    | Country office based |
| Senior Environment specialist         | 12                                    | 3 and field trips as required    | Country office based |
| Environment specialist                | 12                                    | 3 and field trips as required    | Country office based |
| Senior Social specialist              | 12                                    | 3 and field trips as required    | Country office based |
| Social specialist                     | 12                                    | 3 and field trips as required    | Country office based |
| LED specialist                        | 10                                    | 1 field trip as required         | HQ based             |
| Gender specialist                     | 5                                     | 1 field trip as required         | HQ based             |
| Urban Resilience specialist           | 5                                     | 1 field trip as required         | HQ based             |
| Cultural Heritage specialist          | 5                                     | 1 field trip as required         | HQ based             |

## Annex 11: Program Minimum Conditions and Performance Measures

### 1. DLI 1 - Minimum Conditions

| No. | Minimum Condition  | Justification for Minimum Condition   | Evidences to be Produced  | Comments, phasing in and others  |
|-----|--|---|---|--|
| 1.1 | <p>ULG has produced and the council approved a:</p> <ul style="list-style-type: none"> <li>• Rolling three-year CIP with</li> <li>• Annual action plan;</li> <li>• Annual budget;</li> <li>• Annual procurement plan</li> </ul> <ul style="list-style-type: none"> <li>• <b>The planned use of the performance-based grants from UIIDP follows investment menu</b> (<i>only from assessment in 2019 of the performance in FY2018/19</i>).</li> </ul> | <p>Document minimum capacity in planning and project handling.</p> <p>Implementation readiness.</p> | <ol style="list-style-type: none"> <li>1. A consolidated CIP document prepared as per CIP manual</li> <li>2. Annual Action Plan</li> <li>3. Annual Budget</li> <li>4. Annual Procurement Plan.</li> <li>5. Minutes of meeting of city councils showing the approval of CIP or published newsletter/newspaper that reports approval of CIP, AAP, annual budget and APP by the council</li> <li>6. IBEX report on Capital Expenditures to verify actual use of grants as per the investment menu</li> </ol> | <p>The subject for review is the plans developed in the previous year for the year where assessments are conducted, for example, if assessment is conducted in September 2018, it is the plans for FY 2018/19 /EFY 2011), which are typically developed from March – June 2018.</p> <p>The plans to be reviewed are as follows: -<br/>                     1<sup>st</sup> APA (September 2018) for EFY 2012 Allocations: Plans for EFY 2011 (2018/19);<br/>                     2<sup>nd</sup> APA (September 2019) for EFY 2013 Allocations: Plans for EFY 2012 (2019/20);<br/>                     3<sup>rd</sup> APA (September 2020) for EFY 2014 Allocations: Plans for EFY 2013 (2020/21);<br/>                     4<sup>th</sup> APA (September 2021) for EFY 2015 Allocations: Plans for EFY 2014 (2021/22);</p> <p>To make this effective it is important that the APAs are conducted timely in the future, see Section on APA procedures.</p> <p><i>Transitional arrangements. For new ULGs, 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.</i></p> |

| No.  | Minimum Condition  | Justification for Minimum Condition      | Evidences to be Produced   | Comments, phasing in and others   |
|------|--|--|--|---|
| 1.2. | Submission of financial statements prepared from IBEX for the last FY (closure of the EFY accounts on time) by <b>October 10</b> each year.                        | Show evidence on minimum capacity in PFM | <p>(a) Financial statements folder with</p> <ol style="list-style-type: none"> <li>1. Balance sheet</li> <li>2. Income and Expenditure Summary of the last EFY, and</li> <li>3. Post-closing trial balance of the last EFY.</li> </ol> <p>(b) Official Letters submitting the financial statements to Council and external auditor. This can also be verified or double checked with ORAG.</p> | For the external audits to start as early as possible cities should close their accounts by <b>October 10 / each</b> year. This will be applied from the first APA for all ULGs. The financial statements should be consolidated by the ULGs to include all sources (income) and uses (expenditure) of the ULG  |
| 1.3. | Audit report from previous fiscal year should be issued by the deadline of January 7 of the following year and should not be adverse or with a disclaimer opinion. | To reduce fiduciary risks                | <ol style="list-style-type: none"> <li>1. Audit report of ORAG for previous EFY. If done by an external private or government audit firms; letter of endorsement by ORAG for the clearance of the TOR and endorsement of the audit findings.</li> </ol>  | <p>Audit Report - consolidated audit report for the ULG should be issued which review all sources and expenditure of the ULG.</p> <p>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 the previous system, this is a strengthening of the requirements, as it is reviewing the audit report from previous financial year.</p> <p>If the ORAG cannot conduct the audit in time, external audit firms must be contracted, and their results applied. (ORAG should clear the TOR and makes QA/endorsement of the results).</p> <p><i>Transitional arrangements:</i><br/> <i>In the first APA the audit report is a waiver for the new ULGs.</i><br/> <i>Second and subsequent years (2<sup>nd</sup>- 4<sup>th</sup> APAs): All should be on time, that is, January 7.</i><br/> <i>The deadlines for audit reports are as follows:</i><br/> <i>2<sup>nd</sup> APA (September 2019): Audit Report for EFY 2010 (2017/18, deadline January 7, 2019;</i><br/> <i>3<sup>rd</sup> APA (September 2020): Audit Report for EFY 2011 (2018/19), deadline January 7, 2020;</i><br/> <i>4<sup>th</sup> APA (September 2021): Audit Report for EFY 2012 (2019/20, deadline January 7, 2021;</i></p> |

| No.  | Minimum Condition  | Justification for Minimum Condition  | Evidences to be Produced  | Comments, phasing in and others  |
|------|--|--|---|--|
|      |  |  |   | <i>The audit report is the last “trigger” in the assessment process, and will be checked after the field-work, but before the consolidation of the results.</i>  |
| 1.4. | <p>Co-funding requirements (defined with various rates of co-funding depending on the type of ULG). The co-funding requirements are the following:<br/> 10 percent for the new ULGs in the DRS<br/> 20 percent for the new ULGs in the non-DRS regions.<br/> 40 percent for the “old” 16 ULGs. (ULGDP One)<br/> 50 percent for Dire Dawa and Harar.<br/> A higher level of co-funding is promoted in the performance measures.</p> | <p>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.<br/> Promote improved revenue mobilization and incentives to focus on longer-term sustainable urban finance.</p> | <p>Budget Plan documents:</p> <ol style="list-style-type: none"> <li>1. Budget for own Revenue</li> <li>2. Budget for recurrent expenditure</li> <li>3. Budget (surplus) for Capital Expenditure from own Revenue</li> <li>4. Budget from (IDA) Performance Grant (as approved by the UIIDP Federal SC)</li> <li>5. Budget for ‘Capital Investment Projects’</li> <li>6. % of co-funding from ULG calculated from the approved CIP and the proclaimed Annual Budget.</li> <li>7. Bank statement to show actual co-funding contributed for the prior year</li> </ol> | <p>Is combined with performance measures so that contribution above the minimum level is rewarded. Co-funding should be budgeted for before the start of the fiscal year, and by the end of a fiscal year ULGs should have contributed with the specific percentage, measured by actual use of funding on capital investments on areas defined in the investment menu and source of funding (IBEX coding).<br/> <i>Transitional arrangements/Phasing in: ULGs can only budget for this in the second assessment, as they do not know the level for this coming financial year. The assessment of actual utilization of funds can only be done in the assessment following a year of actual disbursements of UIIDP funds, that is, from the September 2019 assessments. (after a full year of spending in EFY2012 /FY2019/20)</i><br/> <i>The % of co-funding to be assessed will be as follows:</i><br/> 2<sup>nd</sup> APA (September 2019) for EFY 2013 Allocations: Budgeted co-funding for EFY 2012 (2019/20);<br/> 3<sup>rd</sup> APA (September 2020) for EFY 2014 Allocations: Budgeted co-funding for EFY 2013 (2020/21) and Actual co-funding applied for EFY 2012 (2019/20), that is, year before assessment.<br/> 4<sup>th</sup> APA (September 2021) for EFY 2015 Allocations: Budgeted co-funding for EFY 2014 (2021/22) and Actual co-funding applied for EFY 2013 (2020/21), that is, year before assessment.<br/> Note: As the first APA is in Sep. 2018, and as the first grant allocation is for <b>EFY 2012/FY2019/20</b>, the ULGs cannot budget fully for the co-funding at the point of time for this first APA, but must revise their budgets and allocations when results are known.</p> |
| 1.5. | <p>Key staff in place/coordination team with the following staff under the coordination of the city manager: full-time focal persons from relevant departments for revenue, procurement, environmental, social management,</p>   | <p>To ensure that there is minimum capacity to handle the entire program implementation process at the ULG level.</p>  | <ol style="list-style-type: none"> <li>1. Box file with personnel assignment letters signed by City Mayor and copied to the City Manager and operational office of the staff.</li> </ol>  | <p>The position should be filled for more than six months within a year<br/> <i>Transitional arrangement/phasing in (first year only): The minimum period of position being filled is waived for new ULGs</i></p>  |

| No.  | Minimum Condition  | Justification for Minimum Condition  | Evidences to be Produced   | Comments, phasing in and others   |
|------|--|--|--|---|
|      | M&E, PFM, and civil engineering, AMP expert, Urban planning and land management, plus an internal auditor.   |  |  |   |
| 1.6. | Safeguards: ULGs have demonstrated that they have established a functional system for environmental and social management including full time dedicated one environmental and one social safeguards person and updated ESMSG and RSG endorsed by City Councils   | To ensure that there is a mechanism and capacity to screen environmental and social risks of the CIP before implementation.  | <ol style="list-style-type: none"> <li>1. A letter of appointment or assignment of focal person signed by City Mayor and copied to the City Manager and host office of the staff</li> <li>2. Minutes of meeting of city council for endorsing city level ESMSG and RSG documents</li> <li>3. A folder containing endorsed city level ESMSG and RSG documents that includes: <ol style="list-style-type: none"> <li>a. ESMSG provides procedures for due diligence; ESAs, EMPs, RAPs, SMP, WMP</li> <li>b. institutional procedures for complaints handling, environmental management, resettlement and land acquisition processes</li> </ol> </li> </ol> | <p>Defined by:<br/> Appointment/assignment of environmental and social safeguards focal person at the city level;<br/> Endorsement of city level ESMSG and RSG documents that includes procedures for due diligence; institutional procedures for grievance management (see below under number 8) and management of environmental risks, managing resettlement/land take processes and environmental social mitigation and monitoring plan.<br/> The minimum period for the position being filled (review past year's performance) is: 06 months. <i>Transitional arrangement/phasing in: In the first assessment conducted from September 2018, it is sufficient for the new ULGs that the positions are in place.</i></p> |
| 1.7. | Functional institutional set-up for procurement system in place according to public procurement proclamation including: <ol style="list-style-type: none"> <li>1. Procurement function and minimum core staff in place – at least two procurement specialists within procurement unit in ULG; with first degree and experience in procurement at least for two years*</li> </ol> | Procurement is a high-risk area, hence need to ensure that basic systems, and functioning of this is in place before transfer of PB grant installments.<br>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 | <ol style="list-style-type: none"> <li>1. Functional unit is one recognized by the city's organizational structure, having defined mandate, working procedures, with defined responsibilities, accountability and decision matrix, and the like.</li> <li>2. (i) Box file with letters of assignment, signed by City Mayor or authorized government officials copied to the host office of the staff to be a member of tender committee/ TAC.</li> </ol>   | <p>None<br/> The minimum period for the position being filled (review past year's performance) is: 06 months</p> <p><i>* Transitional arrangement/phasing in: 1<sup>st</sup> APA: For new ULGs it is sufficient that the positions are in place.</i><br/> ** Transitional arrangement/phasing in: For new ULGs, it is applicable from the 2<sup>nd</sup> APA</p>  |

| No.  | Minimum Condition   | Justification for Minimum Condition  | Evidences to be Produced  | Comments, phasing in and others   |
|------|---|--|---|---|
|      | <p>2. Functional tender committee/TAC at ULG level in place;</p> <p>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</p> <p>4. Establishment of procurement performance monitoring and measurement using Public Procurement Key Performance Indicators Guideline or equivalent. **</p> | <p>with due consideration of economy, efficiency, transparency and fairness.</p>   | <p>2. (ii) Box file with minutes of TAC for recent procurements</p> <p>3. (i) A folder containing copies of their respective region's procurement law, directives, manuals and standard procurement documents in secured space for Procurement Records</p> <p>3. (ii) Training report/plan: with 'pre and post-test' to ensure staffs are familiar with these legal documents. Plus, ULG staff involved are conversant with the RGs procurement law, directives, manuals and standard procurement documents if asked by APA assessors.</p> <p>4. A record or spreadsheet containing data on procurement performance for the agreed KPIs<sup>141</sup> as per procurement guideline.</p> |   |
| 1.8. | <p>Complaints handling system related to corrupt practice, environment and social aspect as well as related to procurement in place. The system at least consists of legal base, existence of permanent structure with sufficient manpower, recording and consolidated reporting mechanism through the ethics unit and addressing the complaints.</p>   | <p>Receiving, reviewing and addressing complaints within core areas such as fraud and corruption; related to environmental and social impact; loss of livelihood, income or assets is an important aspect of any grievance redress mechanism. The system will encompass a system for complaints received, registration of these,</p> | <p>1. The existence of legal base (Proclamation, regulation or Minutes of meeting of city cabinet for endorsing city level complaints handling system in core areas that is fraud and corruption, procurement and grievance related to environment and social impact);</p> <p>2. Existence of permanent structure with at least a person</p>  | <p>The UIIDP Program Operations Manual defines further the requirements within this area.</p> |

<sup>141</sup> (i)Percentage (by no. and value) of procurement items not included in the original annual procurement plan should not exceed 5 percent; (ii) Average deviation between original Planned and Actual Procurement cycle time (procurement initiation-contract completion) should not exceed 5 percent; (iii) deviation between original price in the procurement plan and award price should not exceed 20 percent; (iv) deviation between contract price and completion price (turnout cost) should not exceed 25 percent; (v) Percentage (by no. and value) of procurements conducted through open bidding procedure is 85 percent ; (vi) Complaints resolved within the standard time frame is 100 percent; and (vii) the percentage of action taken from the previous procurement audit qualifications/ recommendations equals or exceeds 90 percent.



| No. | Minimum Condition | Justification for Minimum Condition   | Evidences to be Produced  | Comments, phasing in and others |
|-----|-------------------|---|---|---------------------------------|
|     |                   | 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. | <p>in each structure to handle complaints related to the core areas (Fraud and corruption, procurement and grievance related to environment and social impact);</p> <p>3. Existence of recording on received complaints and the follow-up measures undertaken;</p> <p>4. Existence of reporting system this include a consolidated report on the complaint cases and measures taken (in all areas through the Ethic officers to REACC), and reports on the respective areas to the mayor and city council as appropriate.</p> |                                 |

**2. DLI 2 - Institutional Performance (ULG Performance Measures)**

| No. | Performance Measure/Indicators  | Year Assessed | Maximum points | Evidence to be Produced   | Objective   | Waivers/Exceptions |
|-----|---|---------------|----------------|---|---|--------------------|
| 2.1 | <b>Planning and Budgeting</b>   |               | 10             |   |   |                    |
| 1.  | CIP with linkages among the annual budget, annual action plan, annual procurement plan, asset management plan and REP | current       | 3              | <p>1. A consolidated CIP document with rolling three-year Capital Investment Projects, annual budget, annual action plan, and annual procurement plan</p> <p>2. REP</p> <p>3. AMP</p> <p>1<sup>st</sup> APA (September 2018 for EFY 2012 Allocations: Plans for EFY 2011 (2018/19);</p> <p>2<sup>nd</sup> APA (September 2019) for EFY 2013 Allocations: Plans for EFY 2012 (2019/120);</p> <p>3<sup>rd</sup> APA (September 2020) for EFY 2014 Allocations: Plans for EFY 2013 (2020/21);</p> <p>4<sup>th</sup> APA (September 2021) for EFY 2015 Allocations: Plans for EFY 2014 (2021/22);</p> | To promote efficient planning, budgeting and procurement for effective infrastructure development |                    |

| No. |    | Performance Measure/Indicators  | Year Assessed   | Maximum points | Evidence to be Produced   | Objective   | Waivers/Exceptions |
|-----|----|---|-----------------|----------------|---|---|--------------------|
|     | 1  | Quality, consistency, and alignment<br>In rolling three 3-year CIP, to ensure effective rolling in the planning process | current         | 2              | 1. CIP should include: expenditure framework for 3 years, source of finance, REP and AMP<br>2. Consistency of figures on all tables (summary, yearly budget, budget source, annual procurement plan and annual action plan)<br>3. Alignment with REP and AMP forecast of three years<br>If all satisfied, then point 2. Otherwise 0.  | To promote the rolling nature should not be fictitious and encourage ULGs to rely on the five-year strategic plan to derive the three-year rolling plan |                    |
|     | 2  | Capturing infrastructure, O&M, including using the appropriate IBEX code in the annual budget                           | current         | 1              | 1. Check the IBEX code in the annual budget applied is capturing the correct code of infrastructure, O&M.<br>2. Total O&M budget for infrastructure should be captured in IBEX (excluding Road Fund).   |   |                    |
|     | 2. | Participation of citizens in the planning process to meet service delivery priorities identified by citizens            |                 | 2              |   | To ensure citizens' involvement and promote good governance   |                    |
|     | 1  | No. of public consultations (lower level and city level)  | current         | 1              | Invitation letters or call for the meeting notice posted in the public places or through mass media for the public to attend public consultations meeting indicating date of meeting and purpose of the meeting.<br>Public consultations should be held at <b>least two times</b> :<br>(a) initial consultation, separated organized by women and men, and (b) meeting for the final choice of investments, invited both women and men.   |   |                    |
|     | 2  | 1. Increase in no. of people involved<br>2. Evidence of agenda and issues discussed                                     | current & prior | 1              | 1. Signed attendance sheets of the meetings participants indicating sex of participants, community or Citizens/ Social groups they represent both for: initial consultation and for the final choice of investments<br><br>1 <sup>st</sup> APA: Current is CIP 2011-13; Prior is CIP 2010-12;<br>2 <sup>nd</sup> APA: Current is CIP 2012-14; Prior is CIP 2011-13;<br>3 <sup>rd</sup> APA: Current is CIP 2013-15; Prior is CIP 2012-14;<br>4 <sup>th</sup> APA: Current is CIP 2014-16; Prior is CIP 2013-15; |   |                    |

| No. |    | Performance Measure/Indicators  | Year Assessed | Maximum points | Evidence to be Produced   | Objective   | Waivers/Exceptions                                   |
|-----|----|---|---------------|----------------|---|---|--|
|     |    |   |               |                | <p>The increase in number of people to be assessed is from the prior year to the current year.</p> <p>2. Minutes of participatory consultations indicating:<br/> a) Agendas for the meetings, b) Other issues raised by the participants and discussed, and c) lists of priorities and voting results of the participants/ stakeholders + photographs and/or audio/video records- both for initial consultation and for the final choice of investments.<br/> If 1 and 2 satisfied, then 1 point.</p> |   |  |
|     | 3. | Budget appropriation  |               | 2              |   | To promote effective political leadership and good urban governance |  |
|     | 1  | Budget approved by Council (Yes/No Indicator)   | current       | 2              | <p>1. Minutes of meeting of councils or published newsletter/newspaper that reported approval of the budget by the council AND</p> <p>2. Budget proclamation or notification to the citizens using public notice board and/or mass media showing the budget following the standard charts of accounts</p> <p><b>Scoring:</b> (Yes/No indicator)<br/> If all satisfied, point 2. Otherwise 0.</p>  |   |  |
|     | 4. | Budget Reliability  |               | 1              | 1. Consolidated capital and recurrent budget vs. expenditure for all city's funds (including state, municipal services, ULG program, and so on) as generated by IBEX, for the last year   | To promote proper budgeting and implementation                      |  |
|     | 1  | Variance between overall city budget and actual expenditure (each capital and recurrent) for previous EFY less than 10%. Yes/No | prior         | 1              | <p>1<sup>st</sup> APA: EFY 2010 expenditures;</p> <p>2<sup>nd</sup> APA: EFY 2011 expenditures;</p> <p>3<sup>rd</sup> APA: EFY 2012 expenditures;</p> <p>4<sup>th</sup> APA: EFY 2013 expenditures</p>  |   |  |
|     | 5  | Capacity building performance   |               | 2              |   |   |  |
|     | 1  | Capacity building planning:<br>1. The capacity building plan has been produced through a systematic assessment and gap          | current       | 1              | 1. The documented assessment reports clearly identifying and prioritizing capacity gaps in each of the thematic focus areas through participatory   | To help ULGs positively respond to institutional                    | Review the capacity building and check the planning. |

| No.        |   |   | Performance Measure/Indicators  | Year Assessed | Maximum points |          |          | Evidence to be Produced   | Objective   | Waivers/Exceptions |
|------------|---|---|---|---------------|----------------|----------|----------|---|---|--------------------|
|            |   |   | <p>analysis in the main thematic focus areas.</p> <p>2. The capacity building plan includes activities covering at least two capacity building modalities.</p> <p>3. The capacity building activities are clearly traceable to the identified capacity building gaps</p> <p>If all above satisfied, then 1 point.</p> |               |                |          |          | <p>community involvement, internal self-assessment, and APA report.</p> <p>2. The capacity building plan prepared in the format detailed in the capacity building manual.</p> | performance gaps and access fund  |                    |
|            |   | 2 | <p>Implementation of capacity building activities:</p> <p>1. More than 80% of capacity building activities included in the capacity building plan successfully completed</p> <p>2. More than 80% of the funds budgeted in the capacity building plan are utilized</p> <p>If all above satisfied, then 1 point.</p>    | Prior         |                |          | 1        | <p>1. Capacity building plans</p> <p>2. Execution and reporting on capacity building</p> <p>3. Annual financial statements.</p>   | To ensure that planning is realistic and activities are implemented.        |                    |
| <b>2.2</b> |   |   | <b>Asset Management</b>   |               | <b>1</b>       | <b>0</b> |          |   |   |                    |
|            | 1 |   | Asset Management Plan prepared and updated <sup>142</sup>   |               |                | <b>1</b> | <b>0</b> |   | To strengthen the management of ULG assets - infrastructure and facilities. |                    |

<sup>142</sup>Where a ULG has not correctly updated asset inventory, the APA cannot then award points for subsequent steps of asset management without considering that those subsequent steps would be deeply flawed if they were based on a deeply flawed inventory. Awarding points for such deeply flawed subsequent steps do not reflect the expectation that is obviously expressed in the indicator, namely that the ULGs manage their assets professionally.

| No.         |   | Performance Measure/Indicators   | Year Assessed | Maximum points |          | Evidence to be Produced   | Objective | Waivers/Exceptions |
|-------------|---|--|---------------|----------------|----------|---|-----------|--------------------|
|             | 1 | Asset inventory <sup>143</sup> updated as per Asset Management Manual featuring a tabular and spatial database of all infrastructure, with specification and characteristics, for all categories of assets of the cities as listed in the AMM <sup>144</sup> | prior         |                | 4        | Consolidated Asset Inventory updated, for all categories of assets, for the last EFY as per the Asset Management Manual.<br>1 <sup>st</sup> APA: EFY 2010 asset inventory (conducted during EFY 2010);<br>2 <sup>nd</sup> APA: EFY 2011 asset inventory;<br>3 <sup>rd</sup> APA: EFY 2012 asset inventory;<br>4 <sup>th</sup> APA: EFY 2013 asset inventory;<br><br>APA consultants are required to review and apply the latest Asset Management Manual (applicable for the year being reviewed) in their assessment. |           |                    |
|             | 2 | Asset conditions correctly reflected in inventories as per procedures in Asset Management Manual   | prior         |                | 3        | Consolidated Asset Inventory updated, for at least five categories of municipal assets, for the last EFY as per the Asset Management Manual.<br>Evidence from selective field checks by APA team APA Consultant to provide/state in the city reports the names of the sampled infrastructure used in the field checks.<br>APA consultants are required to review and apply the latest Asset Management Manual (applicable for the year being reviewed) in their assessment.   |           |                    |
|             | 3 | Asset inventory shows an asset value and deficit, which calculates the remaining asset value, maintenance and rehabilitation deficit based on annual depreciation rates as per procedures in Asset Management Manual.  | prior         |                | 3        | Consolidated Asset Inventory updated, for at least five categories of municipal assets, for the last EFY as per the Asset Management Manual.<br>APA consultants are required to review and apply the latest Asset Management Manual (applicable for the year being reviewed) in their assessment.   |           |                    |
| <b>2.3.</b> |   | <b>Public Financial Management</b>   |               | <b>1</b>       | <b>6</b> |   |           |                    |

<sup>143</sup> An asset inventory which qualifies should feature a tabular and spatial database of all infrastructure, with specification and characteristics, at least for the five categories of municipal assets (roads and drainage, solid and liquid waste, socioeconomic infrastructure and public parks and greenery, utilities, public buildings including abattoirs).

<sup>144</sup>The existence of two or more tabulations with different figures is in itself not sufficient evidence of correct updating.

| No. |   | Performance Measure/Indicators  | Year Assessed | Maximum points | Evidence to be Produced | Objective  | Waivers/Exceptions |
|-----|---|---|---------------|----------------|-------------------------|--|--------------------|
|     | 1 | Accounting and timely reporting   |               | 4              |                         | To strengthen accountability, proper management of ULG finances and ensure provision of useful up-to-date management information.  |                    |
|     | 1 | Use of IBEX for all operations except Road Fund and other specialist projects done by ULGs that are not part of Budget coding system for IBEX | prior         |                | 1                       | Consolidated Capital Budget vs. Expenditure as per the budget proclamation and as generated by IBEX, for the last year<br>Income and Expenditure Summary of the last EFY, as generated by IBEX   | As above           |
|     | 2 | Timely financial reporting  | prior         |                | 1                       | Quarterly financial reports formally submitted to the regional office with registered cover letter by deadline in accordance with regional FM manual and regulations<br>The date on the cover letter can be crosschecked with date of the IBEX print out to ensure the reports are submitted within the deadline.  | As above           |
|     | 3 | Monthly cash & bank reconciliation reports submitted to BoFED timely as per regional regulations and manuals                                  | prior         |                | 2                       | 1. Cash count-Monthly cash count report and bank reconciliation formally submitted to the regional office with registered cover letter to BoFED timely as per regional regulations and manuals. In addition: -<br>(i) For any differences -The cash count report and bank reconciliations statement should provide valid justifications and explanations for the differences between the count or bank balance with the balance shown on IBEX. Furthermore, it should recommend specific actions to address the difference.<br>(ii) For bank reconciliation- Proper monthly bank reconciliation should be prepared. <ul style="list-style-type: none"> <li>▪ Break down for reconciling items with reference number and dates</li> <li>▪ Payments made by the bank but not recorded in the IBEX should not be shown in the reconciling items especially</li> </ul> | As above           |

| No. |   |   | Performance Measure/Indicators   | Year Assessed | Maximum points |   |   | Evidence to be Produced   | Objective | Waivers/Exceptions |
|-----|---|---|--|---------------|----------------|---|---|---|-----------|--------------------|
|     |   |   |  |               |                |   |   | <p>at the yearend (should be recorded in the IBEX)</p> <ul style="list-style-type: none"> <li>Deposits by the bank but not recorded in the IBEX should not be shown as reconciling items especially at the yearend (should be identified and recorded in the IBEX)</li> </ul> <p>If both (i) and (ii) satisfied, then 2 points, otherwise 0 point</p>   |           |                    |
|     | 2 |   | Audit Opinion  |               |                | 3 |   |   | As above  |                    |
|     |   | 1 | The external financial audit report of the previous audit has a clean opinion                        | prior         |                |   | 3 | External audit report for the previous financial year   |           |                    |
|     | 3 |   | Audit Compliance   |               |                | 2 |   |   | As above  |                    |
|     |   | 1 | Evidence that audit queries raised in the external audit report have been acted on – 80% minimum     | prior         |                |   | 2 | <ol style="list-style-type: none"> <li>External audit reports for the pervious FYs, both the short and long form reports</li> <li>Audit findings rectification plan to address audit queries raised in the previous year external audit report</li> <li>Status report on audit findings rectification plan</li> <li>Supporting documents such as letters, accounting records, count sheets, registers, vouchers, documents showing evidences such as refunds and internal control procedures adopted as per the recommendations of the auditors.</li> </ol> |           |                    |
|     | 4 |   | Internal Audit – adherence to procedures with good practices, reflected by:                          |               |                | 3 |   |   | As above  |                    |
|     |   | 1 | Production of quarterly reports  | prior         |                |   | 1 | The internal audit unit is adequately staffed (80%) with required number and qualification of internal auditors as per the structure. Quarterly internal audit reports produced by internal audit unit  |           |                    |
|     |   | 2 | Reports submitted to BoFED/ Zonal Office of Finance and Economic Development and copied to the Mayor | prior         |                |   | 1 | Formal submission of Quarterly internal audit reports produced by internal audit unit to BoFED/ Zonal Office of Finance and Economic Development and copied to Mayor with cover letter  |           |                    |

| No.         |   | Performance Measure/Indicators  | Year Assessed | Maximum points |          | Evidence to be Produced   | Objective | Waivers/Exceptions   |
|-------------|---|---|---------------|----------------|----------|---|-----------|--|
|             | 3 | Evidence of follow-up of audit findings   | prior         |                | 1        | Status report on external audit findings rectification  |           |  |
|             | 5 | ULG level Fixed asset and inventory (stock) management weaknesses are addressed | prior         |                | 4        |   | As above  |  |
|             | 1 | Record keeping- maintain fixed asset register, stock card and bin card          |               |                | 1        | (i)Fixed asset register which includes as a minimum asset name, type, cost, date of purchase, location, user or custodianship, identification number and condition<br>(ii) stock card kept with finance department – that includes as a minimum the movement and balance of inventory items, goods receiving vouchers and goods issuing vouchers<br>(iii) Bin cards kept at store -includes as a minimum the movement and balance of inventory items, goods receiving vouchers and goods issuing vouchers<br><br>If all satisfied, then 1 point, otherwise 0 point. |           |  |
|             | 2 | Count and Reconciliation  |               |                | 2        | There should be a minimum of annual fixed asset and stock/inventory count -The evidence for this is (a) cover letter by the inventory/count team; (b) detail listing of assets/stocks with quantities counted and quantities in records (stock card/fixed asset register) and differences there of; (c) final summary report with recommendation for action on discrepancies, obsolete stocks, damaged items, and so on.<br><br>If all satisfied 2 points, otherwise 0 point.   |           |  |
|             | 3 | Segregation of duties   |               |                | 1        | Placement of separate individuals one responsible for stock cards at finance department and one person at stores responsible for the inventory custodianship and bin card.  |           |  |
| <b>2.4.</b> |   | <b>Procurement</b>  |               | <b>1</b>       | <b>5</b> |   |           |  |
|             |   | <b>Procurement Performance</b>  |               |                |          | <i>Proportional scores will be provided based on level of compliance on the parameters to be assessed.</i>  |           | New ULGs will be assessed based on performance starting from the second APA. |



| No. |   | Performance Measure/Indicators                             | Year Assessed | Maximum points |   | Evidence to be Produced   | Objective  | Waivers/Exceptions |
|-----|---|--|---------------|----------------|---|---|--|--------------------|
|     | 1 | <b>Annual Procurement Planning, Oversight and Controls</b> |               | 2              | 2 | <p><b>Parameters to be assessed.</b></p> <p>(i) Annual procurement plans are prepared and updated;</p> <p>(ii) Internal procurement audits are conducted and they are acceptable;</p> <p>(iii) Follow up and update was done on the action plan for implementation of internal and external audit findings.</p> <p><b>Evidences/documents to be assessed.</b></p> <p>1. (i) Comprehensive and complete annual procurement plan was prepared for the financial year as part of the CIP in accordance with the requirements of the regional procurement proclamation, directive, manual and prescribed templates and approved by procurement endorsing committee and management.<br/>(ii) Procurement plan was updated as necessary with justifications.</p> <p>2. Internal procurement audit reports (submitted by 31<sup>st</sup> August and the audit planning, execution and reporting are as per accepted internal audit standards)</p> <p>3. Updated action plan for implementation of internal and external audit findings.</p> <p>If two out of three completed: 2 points, otherwise 0 point.</p> |  |                    |
|     | 2 | <b>Individual Procurement Transactions</b>                 |               |                | 8 | <p>1. The assessment and scoring for individual procurement transactions will be based on a reasonable sample (minimum 25% of all contracts) with a good mixture of low risk-high value, high risk-low value, high risk-high value contracts and different procurement methods and categories.</p> <p>NB. The APA Consultant will record and present in all the city reports, the particulars of the reviewed contracts including contract description, contract reference numbers, name and address of awardee, contract amount and implementation status of the contracts that were sampled and reviewed.</p>   | To ensure that each individual procurement transaction is carried out following the set-out procurement rules in a way that assures VfM to the ULG and fairness to eligible bidders. |                    |

| No. |   | Performance Measure/Indicators    | Year Assessed | Maximum points | Evidence to be Produced   | Objective | Waivers/Exceptions |
|-----|---|-----------------------------------|---------------|----------------|---|-----------|--------------------|
|     |   |                                   |               |                | <p>2. The APA Consultants, in carrying out the procurement performance assessment, are required to also use the Procedures for selection of sample contracts in annex</p> <p><i>For the samples taken, average of the individual score should be taken. If decimal, round it to the nearest whole number.</i></p>   |           |                    |
|     | 1 | Procurement Planning and Bidding  |               | 2              | <p><b>Parameters to be assessed.</b></p> <p>(i) The procurement item is included in the approved annual procurement plan;</p> <p>(ii) Advertisements were made as required by the law;</p> <p>(iii) Correct standard bidding documents are used;</p> <p>(iv) Bid floating periods are as provided in the law;</p> <p>(v) Bid openings are conducted immediately after bid submission and minutes are acceptable</p> <p><b>Evidences/documents to be assessed.</b></p> <p>1. Annual Expenditure summary and Annual Procurement Plan for the prior year and contract registers</p> <p>2. Extracts of adverts (as it was advertised) of invitation for bid or request for expression of interest using appropriate public media</p> <p>3. Standard Bidding Documents issued by RPPPAAs/FPPA</p> <p>4. Folders for specific bidding documents issued consisting: invitation for bids, invitation to bid, BDS, Evaluation and Qualifications criteria, Schedule of requirements (specifications and bill of quantities), bidding forms, General Conditions of Contract, Special Conditions of Contract and other necessary formats for all items procured. Similar documents for Consultancy services selection.</p> <p>5. Bid opening records/minutes signed by the bid opening committee and bid opening attendance sheet. If all five completed: 2 points, otherwise 0 point.</p> |           |                    |
|     | 2 | Bid Evaluation and Contract Award |               | 3              | <p><b>Parameters to be assessed.</b></p> <p>(i) Bid evaluations are consistent with bidding documents;</p>  |           |                    |

| No. | Performance Measure/Indicators                    | Year Assessed | Maximum points | Evidence to be Produced   | Objective | Waivers/Exceptions |
|-----|---|---------------|----------------|---|-----------|--------------------|
|     |   |               |                | <p>(ii) Contract was awarded to the legitimate bidder within bid validity period;</p> <p>(iii) Bid evaluation results are announced to bidders and public;</p> <p>(iv) Contract document contents are complete</p> <p><b>Evidences/documents to be assessed.</b></p> <p>1. Folders for bid evaluation report and verify if only those selection and qualification criteria stipulated in the issued Bidding Document are applied during bid evaluation for the sampled contract;</p> <p>2. Check whether the legitimate bidder is awarded the contract</p> <p>3. (i) Issued bidding document containing the required bid validity and submitted bids containing the same.</p> <p>(ii) Any requests for extension(s) of bid validity and subsequent extension(s) including bid securities.</p> <p>(iii) Letter of Contract Award</p> <p>(iv) Folders for bid evaluation results announcement to bidders and to the general public for all items procured (extracts of advertisements, signed letters issued to bidders)</p> <p>4. Contract documents containing all the relevant sections included in the bidding document to be part of the contract. Check for example, form of contract, special conditions of contract, general conditions of contract, priced schedule items /scope of works, specifications, drawings, securities, and so on.</p> <p>If three out of four satisfied, then 3 points.</p> <p>If two out of four satisfied, then 2 points.</p> <p>If less: 0 point.</p> |           |                    |
| 3   | Contract implementation and procurement recording |               | 3              | <p><b>Parameters to be assessed.</b></p> <p>(i) Contracts implemented within planned time</p> <p>(ii) Contracts implemented as per contract price</p> <p>(iii) Availability of adequate auditable procurement records in a secured space.</p> <p><b>Evidences/documents to be assessed</b></p> <p>(i) Approved annual procurement plan with monitoring report, procurement and contract</p>   |           |                    |

| No. | Performance Measure/Indicators           | Year Assessed | Maximum points | Evidence to be Produced  | Objective | Waivers/Exceptions |
|-----|--|---------------|----------------|--|-----------|--------------------|
|     |  |               |                | <p>management file including invoices and payment certificates, commencement orders, provisional and final acceptance letters, variation orders, and so on.</p> <p>(ii) Check by comparing it with the contractual provisions for acceptability of contract management plan, agreed delivery/work program, timelines, variation orders, cost overruns...)</p> <p>(iii) Procurement documents (transactions records) for the sample contract for review is kept in a secured space and available and evidenced (procurements documents for current year all key documents from Advertisement up to contract closure or hand over)</p> <p>1 point for each; if all satisfied, 3 points.</p>  |           |                    |
| 3   | Procurement Outcomes                     |               | 5              | <p>The assessment will be done based on the data available in the procurement performance monitoring and measurement database/sheet. The APA consultant shall verify the consistency of the records/sheet to rely upon the data provided in the records/sheet as measured below.</p>   |           |                    |
| 1   | Procurement efficiency and effectiveness |               | 3              | <p><b>Parameters to be assessed.</b></p> <p>(i) Percentage (by no. and value) of procurement items not included in the original annual procurement plan should not exceed 5%;</p> <p>(ii) Average deviation between original Planned and Actual Procurement cycle time (procurement initiation-contract completion) should not exceed 5%;</p> <p>(iii) deviation between original price in the procurement plan and award price should not exceed 20%;</p> <p>(iv) deviation between contract price and completion price (turnout cost) should not exceed 25%.</p> <p><b>Evidences/documents to be assessed.</b></p> <p>Procurement Performance Monitoring and Measurement records/spreadsheet and procurement files/records, for spot verification.</p> <p>If one out of four satisfied, then 1 points.</p> <p>If two out of four satisfied, then 2 points.</p> <p>If three out of four or all four satisfied, then 3 points.</p> |           |                    |

| No.  |   | Performance Measure/Indicators  | Year Assessed | Maximum points |   | Evidence to be Produced   | Objective | Waivers/Exceptions |
|------|---|---|---------------|----------------|---|---|-----------|--------------------|
|      | 2 | Competitiveness, Fairness and Transparency and Controls   |               |                | 2 | <p><b>Parameters to be assessed.</b></p> <p>(i) Percentage (by no. and value) of procurements conducted through open bidding procedure is 85%;</p> <p>(ii) Complaints resolved within the standard time frame is 100%;</p> <p>(iii) the percentage of action taken from the previous procurement audit qualifications/ recommendations equals or exceeds 90%.</p> <p><b>Evidences/documents to be assessed.</b></p> <p>Procurement Performance Monitoring and Measurement database/spreadsheet and procurement files/records, for spot verification.</p> <p>If two satisfied, then 1 point.</p> <p>If all satisfied, then 2 points.</p> |           |                    |
| 2.5. |   | <b>Own source revenue enhancement</b>   |               | <b>10</b>      |   |   |           |                    |
|      | 1 | REP updated for prior year as per the REP Manual  |               |                | 2 |   |           |                    |
|      | 1 | ULG has carried out detailed analysis of each main revenue source and potential as per the REP Manual. (manual and template to be provided) | prior         |                | 1 | <p>1. Up-dated and approved REP of the city for the prior EFY</p> <p>2. APA consultants are also required to review and apply the REP Manual in their assessment.</p>   |           |                    |
|      | 2 | ULG has developed strategies for revenue enhancement as per the REP Manual.   | prior         |                | 1 | <p>1. Up-dated and approved REP of the city for the prior EFY</p> <p>2. APA consultants are also required to review and apply the REP Manual in their assessment.</p>   |           |                    |
|      | 2 | ULG's municipal revenues (excluding land lease income) increase   |               |                | 3 | 1. Municipal revenues (excluding land lease income) by account code for prior year (EFY) and the year before that, as generated by IBEX.  |           |                    |
|      | 1 | 5 to 10% increase   | prior         |                | 1 |   |           |                    |
|      | 2 | 11 to 20% increase  | prior         |                | 2 |   |           |                    |
|      | 3 | Greater than 20% increase   | prior         |                | 3 |   |           |                    |

| No.        |          | Performance Measure/Indicators   | Year Assessed | Maximum points |          | Evidence to be Produced   | Objective   | Waivers/Exceptions |
|------------|----------|--|---------------|----------------|----------|---|---|--------------------|
|            | 3        | Revenue Planning: Percentage of municipal revenue (excluding land lease income) on business taxes, municipal rent and charges and fees collected against planned target for the previous EFY | prior         |                | 2        | 1. Municipal revenues plan by account code for prior year (EFY). The municipal revenue budget should be recorded in the IBEX. Planned figures should be obtained from IBEX which should be the same as the figure reported in the approved REP<br>2. Actual Municipal Revenue by account code for prior EFY, as generated by IBEX   |   |                    |
|            | 1        | Variation less than 5%   | prior         |                | 2        |   |   |                    |
|            | 2        | Variation less than 10%  | prior         |                | 1        |   |   |                    |
|            | 4        | Co-funding from ULGs is above minimum threshold level – as percentage of performance grant amount  | prior         |                | 3        | 1. Approved CIP for prior year<br>2. Schedule of Allocations and Disbursements for prior year. To be used by APA Consultants to cross check figures in CIP. (MUDHo to provide schedule)<br>3. Bank statement showing deposit of co-funding amount and date for prior year.<br><i>The % of co-funding to be assessed will be as follows:</i><br>2 <sup>nd</sup> APA (September 2019) for EFY 2013<br>Allocations: Budgeted co-funding for EFY 2012 (2019/20);<br>3 <sup>rd</sup> APA (September 2020) for EFY 2014<br>Allocations: Actual co-funding for EFY 2013 (2020/21);<br>4 <sup>th</sup> APA (September 2021) for EFY 2015<br>Allocations: Actual co-funding for EFY 2014 (2021/22) | To promote sustainability, ownership and accountability |                    |
|            | 1        | Co-finance from 1-10 percentage points more than the minimum required level: 2 points  |               |                |          | for example, If the minimum requirement is 10%, and the city co-finances 12% (that is, 2 percentage points above), then the city gets 2 points.   |   |                    |
|            | 2        | Co-financing above 10 percentage points more than the minimum required level: 3 points   |               |                |          | for example, If the minimum requirement is 10%, and the city co-finances 22% (that is, 12 percentage points above), then the city gets 3 points.  |   |                    |
| <b>2.6</b> |          | <b>Accountability and transparency<sup>145</sup></b>   |               | <b>1</b>       | <b>4</b> |   |   |                    |
|            | <b>1</b> | <b>Accountability and transparency in city operations and service delivery</b>   |               |                |          |   | To strengthen accountability and good governance        |                    |

<sup>145</sup>For all Yes/No indicators, partial points shall not be awarded. It is either Yes= full points or No = zero points.

| No. |   | Performance Measure/Indicators   | Year Assessed | Maximum points |   |   | Evidence to be Produced  | Objective | Waivers/Exceptions |
|-----|---|--|---------------|----------------|---|---|--|-----------|--------------------|
|     | 1 | Municipal service delivery as per service standards for solid waste management, land management, building permits issued by the Ministry | prior         |                | 6 |   | 1. Service delivery standards issued by the Ministry and endorsed by the cities (Minutes of Council showing endorsement or approval of service standards)<br>2. Implementation report produced by the city for the prior year for solid waste management; land management; building permits as per the standards<br>3. On site verification by APA Consultant taking 3 service standard indicators <sup>146</sup> from each of the 3 basic services (same indicators to be used across all cities each year) making a total of nine indicators for the city. The Consultant will review the evidences/ documentation for the indicators to see whether services were actually delivered as per the service indicators. Score will be split into 2 points for each of the three services. Minimum of 80% achievement for each of the three indicators for the service will score 2 points for the service (All three indicators need to score minimum 80%); 70-79% achievement for each of the three indicators for the service will score 1 point for that service (All three indicators need to score minimum 70%). |           |                    |
|     | a | Solid Waste Management as per the standard   |               |                |   | 2 |  |           |                    |
|     | b | Land Management as per the standard  |               |                |   | 2 |  |           |                    |
|     | c | Building Permits as per the standard   |               |                |   | 2 |  |           |                    |
|     | 2 | Public dissemination (in city offices and other public places or web-pages, newspapers) of information about:                            | prior         |                | 6 |   | A box file/folder containing office notices, public notices or newspapers or web-pages used to disseminate information in city offices and for the public on:<br>a. summary of annual budgets<br>b. approved projects,<br>c. expenditures<br>d. audited accounts, and<br>e. results of the procurement decisions.<br>f. APA results as reported by the consultants and endorsed by MUDHo   |           |                    |
|     | a | Annual budgets   | prior         |                |   | 1 |  |           |                    |
|     | b | Approved projects  | prior         |                |   | 1 |  |           |                    |
|     | c | Expenditures   | prior         |                |   | 1 |  |           |                    |
|     | d | Audited accounts   | prior         |                |   | 1 |  |           |                    |
|     | e | Procurement decisions  | prior         |                |   | 1 |  |           |                    |
|     | f | APA results announced to public  |               |                |   | 1 |  |           |                    |

<sup>146</sup> Three indicators will be selected by APA consultants has to refer the Ministry's standard document and select at least three indicators for each service. These indicators will be presented in APA guideline.

| No.         |   | Performance Measure/Indicators   | Year Assessed | Maximum points |   | Evidence to be Produced   | Objective  | Waivers/Exceptions |
|-------------|---|--|---------------|----------------|---|---|--|--------------------|
|             | 3 | Timely submission of quarterly progress reports for UIIDP as per the UIIDP M & E Guidelines (Yes/No indicator)   | prior         | 2              | 2 | Quarterly physical reports formally submitted to the regional office with registered cover letter.  |  |                    |
| <b>2.7.</b> |   | <b>Environment and Social Safeguards</b>   |               | <b>10</b>      |   |   |  |                    |
|             | 1 | Environmental and Social Screening   |               | 6              |   |   | To avoid adverse environmental and social impact and promote environmental and social sustainability |                    |
|             | 1 | All capital project screened and approved by REFA as per ESMSG and RSG at planning stage (before construction starts) (Yes/No indicator)   | prior         |                | 3 | 1. Screening reports of all capital projects in the previous EFY against the set of environment and social criteria<br>2. Letters of approval by regional or regional designated authority  |  |                    |
|             | 2 | ESIAs, ESMPs, RAPs, and so on., prepared and approved by regional or regional designated authority as required (Yes/No indicator)  | prior         |                | 3 | 1. Environmental and Social Impact Assessments, Environmental and Social Management Plans and RAPs (as applicable) prepared by the city. For schedule I projects (for example, abattoirs and landfills), ESIA, ESMP, WMP and RAP should be prepared by independent consultants on behalf of the city.<br>2. Evidence of public consultation, minutes of the meetings<br>3. Letters of approval by regional or regional designated authority |  |                    |
|             | 2 | RAPs are implemented before commencement of construction<br><br>Environmental and Social Management Plans are implemented before construction and during construction and operation <sup>147</sup> (Yes/No indicator). | prior         | 4              | 4 | 1. Project design documents, contract documents and project progress reports<br>2. Physical (Field) check of sample of 3 projects that have EMPs and/or RAPs (sub-projects with RAPs must be included in samples) and verification of relevant implementation documentation.<br>3. Community consultation before and during implementation of ESMP and RAPs   | As above.  |                    |

<sup>147</sup> Depending on the project phase



| No.         |   | Performance Measure/Indicators   | Year Assessed | Maximum points | Evidence to be Produced  | Objective   | Waivers/Exceptions |
|-------------|---|--|---------------|----------------|--|---|--------------------|
|             |   | based on a sample of 3 projects that have ESMPs and/or RAPs and all three must comply  |               |                | <ol style="list-style-type: none"> <li>4. All sampled projects must comply to score the 4 points, otherwise 0 point.</li> <li>5. APA Consultant to provide/state in the city reports the names of the sampled projects.</li> <li>6. If cities have properly screened projects and, with regional or regional designated authority approval, it is clearly determined that they do not require ESMPs or RAPs then 4 points can still be awarded to these cities.</li> </ol> |   |                    |
| <b>2.8.</b> |   | <b>Land Management and Urban Planning</b>  |               | <b>15</b>      |  |   |                    |
|             | 1 | Statutory structure plan and or expansion plan approved/in place   |               | 5              |  | To promote planned urban development in ULGs  |                    |
|             | 1 | Existence of up-to-date approved statutory city-wide (structure) plan and/or expansion plan as at the point of assessment (Yes/No indicator) Excluding extension of an existing plan | current       |                | 3  | <ol style="list-style-type: none"> <li>1. Approved statutory city-wide (structure) plans including base map, existing land use map, existing road network map, proposed road network, drainage and land use map</li> <li>2. Council minutes approving statutory city-wide (structure) plan</li> <li>3. The period of coverage should be in the plan and APA Consultant should check the expiry date to see if the plan is “up-to-date”.</li> </ol> <p>If all satisfied, then 3 points. Otherwise 0 point.</p> |                    |
|             | 2 | CIP is in accordance with city-wide (structure) plan and/or expansion plan at the time of preparation (Yes/No indicator)   | prior         |                | 2  | <ol style="list-style-type: none"> <li>1. Approved statutory city-wide (structure) plans and local (neighborhood) development plans</li> <li>2. Approved CIP document in accordance with structure plan</li> </ol> <p>If all satisfied, then 2 points. Otherwise 0.</p>   |                    |
|             | 2 | Effective land management  |               |                | 10   | To promote effective land management and serviced land delivery of ULGs   |                    |

| No. |   | Performance Measure/Indicators  | Year Assessed | Maximum points | Evidence to be Produced  | Objective | Waivers/Exceptions |
|-----|---|---|---------------|----------------|--|-----------|--------------------|
|     | 1 | Land released for different uses are as per the laws of land management and have access to basic infrastructure facilities i.e road, water, electricity at a radius of 250 meters | Prior         | 3              | <p>1. Location map/site plan of the released site and basic infrastructure services;</p> <p>2. Land lease records and documents showing land leased to the public;</p> <p>To verify that the land released is as per the laws of land management and have access to basic infrastructure facilities, the APA Consultants will take a sample of 3-4 sites and provide/state in the city reports</p> <p><b>Scoring:</b> Yes/No indicator, based on a sample of 3-4 projects</p> <p><b>Note:</b> If city has not released any lands in the prior year, 0 point.</p> |           |                    |
|     | 2 | Proportion of land plots released through competitive auction/bidding process (and not through direct allocation)   | Prior         | 2              | <p>Land supply data and documents showing methods of land release</p> <p><b>Scoring:</b> If more than 25%, then 2points. Otherwise 0 point.</p>  |           |                    |
|     | 3 | Updated land inventory featuring a tabular and/or spatial database for example, a map <sup>148</sup> (Yes/No indicator)   | Current       | 5              | <p>Consolidated Urban Land Inventory updated for vacant, residential, commercial and industrial areas.</p> <p>1. Existence of tabular and/or spatial database for the corresponding land uses</p> <p>2. To verify that the land inventory is up to date, the APA Consultant will take a sample of 3-4 land use categories;</p> <p>APA Consultant to provide/state in the city report the names of the sampled land inventory used in the field checks;</p>   |           |                    |

<sup>148</sup>The linkage may not be fully automatic (e. g. by simple mouse click) but where maps show ID numbers of plots and these ID numbers are also included in the tabular database then the linking is possible (in reverse direction, the linking is facilitated if the “*kebele*” – the urban neighborhood –is listed in every record

**3. DLI 3 - Service Delivery Performance (ULG Performance Measures)**

| No.        |   | Performance Measure / Indicators   |       | Maximum points |          | Evidence to be Produced  | Objective  | Waivers |
|------------|---|--|-------|----------------|----------|--|--|---------|
| <b>3.1</b> |   | <b>Urban Infrastructure Targets (for weighting, see the note following this table)</b>   |       | <b>30</b>      |          |  |  |         |
|            | 1 | Physical targets as included in the CIP and annual work plan implemented (The % of implementation against original plans will be reflected directly in the score multiplied by 30% (weight of this indicator), that is, 100 % implemented = 30 points, 60 % implemented = 18 points. Note: Assessment is done only for all civil works projects planned in the CIP for that EFY and the final contract prices should be used in the calculation. The assessment table should consist of ALL CIP civil works projects and not just the sampled ones. (If there is no monthly engineering standard report no points will be given) | prior |                | 30       | <ol style="list-style-type: none"> <li>1. Minimum condition for any point: monthly progress reports (due by fifth of the next month) from the engineer, based on the field verification and compared with the plan. The report should be submitted to the region and MUDHo.</li> <li>2. Urban infrastructure development plan (disaggregated by categories and locations) under the CIP for the EFY</li> <li>3. Urban infrastructure physical implementation/ progress report (disaggregated by categories and locations) under the CIP for the EFY)</li> <li>4. Field trip verification of a sample of the projects. APA Consultant to state in the city reports the names of projects visited</li> </ol> | To ensure effective implementation of infrastructure and service delivery                  |         |
| <b>3.2</b> |   | <b>Maintenance performance</b>   |       | <b>30</b>      |          |  |  |         |
|            | 1 | Maintenance Budgeting and Implementation   |       |                |          |  |  |         |
|            | 1 | <ol style="list-style-type: none"> <li>a. Maintenance plan derived from the Assets Management Plan;</li> <li>b. Maintenance Budget either 2% of the asset replacement cost or 10% of CIP budget (whichever is less)</li> </ol>   | prior |                | 10<br>10 | <ol style="list-style-type: none"> <li>1. Assets management plan updated for the EFY as per the asset management manual/ guideline with clear budget for maintenance and new assets.</li> <li>2. Urban infrastructure maintenance budget (disaggregated by categories) under the CIP for the EFY</li> <li>3. Urban infrastructure maintenance expenditure report (disaggregated by categories) under the CIP for the EFY</li> </ol>  | Ensure sustainability in the investments through up-keep of infrastructure                 |         |
|            | 2 | Actual Maintenance   |       |                |          |  |  |         |
|            | 1 | ULGs have developed a clear maintenance budget and actual implementation rate (review overall budget and utilization rate in final accounts of all maintenance projects to review actual maintenance) is   | prior |                | 10       | 1. Urban infrastructure maintenance physical plan (disaggregated by categories and locations) under the CIP for the EFY.   | To ensure sustainability in the investments through effective recurrent and rehabilitative |         |

| No.        |  |   | Performance Measure / Indicators  |       | Maximum points | Evidence to be Produced   | Objective  | Waivers |
|------------|--|---|---|-------|----------------|---|--|---------|
|            |  |   | <p>minimum 80% (financial) of the planned. indicator: The assessment table compiled by the APA Consultants should consist of ALL planned maintenance projects as per the AMP/CIP (and not just the sampled ones) whose budgets and expenditures will be individually stated and aggregated to arrive at the utilization rate.</p> <p>NB: only infrastructure asset including construction machineries</p> |       |                | 2. Urban infrastructure maintenance physical progress report (disaggregated by categories and locations) under the CIP for the EFY.   | maintenance of infrastructure and facilities                           |         |
| <b>3.3</b> |  |   | <b>Quality of Infrastructure</b>  |       | <b>40</b>      |   |  |         |
|            |  | 1 | Value for the money in the infrastructure investments funded by the UIIDP. The VfM audit will be conducted as a separate exercise from the APA and then calibrated from 0 – 30 points.  | prior | 30             | <p><b>The following evidence will be presented by OFAG or independent consultant to APA Consultants to make the assessment on “quality of infrastructure”:</b></p> <p>1. Draft Final Report (or Final Report if available at the time) from OFAG or independent consultant on the VfM Audit</p> <p><b>The following evidences will be presented by cities to OFAG or independent consultant to carry out the VfM Audit:</b></p> <p>1. Urban infrastructure physical implementation/ progress report (disaggregated by categories and locations) under the CIP for the pervious FYs since the beginning of the program</p> <p>2. Urban infrastructure budget expenditure report (disaggregated by categories and locations) under the CIP for the pervious FYs since the beginning of the program</p> <p>3. Design documents, bidding documents including specifications and bill of quantities for all items procured.</p> <p>4. Contract agreement and contract amendments for all items procured.</p> | Ensure efficient and high- quality infrastructure and service delivery |         |

| No. |  |   | Performance Measure / Indicators  |       | Maximum points |    |  | Evidence to be Produced   | Objective  | Waivers  |
|-----|--|---|---|-------|----------------|----|--|---|--|--|
|     |  |   |   |       |                |    |  | 5. Change Orders and payment certificates for all items procured. Provisional and final handover (acceptance) for all items procured.   |  |  |
|     |  | 2 | Proportion of recommendations of previous VFM audit addressed (80 to 100% gets full mark; 50 to 80% gets half mark and below 50% will get zero) | prior |                | 10 |  | 1. List of recommendations from the previous VFM report.<br>2. Quarterly progress report of cities<br>3. VFM auditor to report back on follow-up actions for the previous recommendations | To ensure and enhance the quality of VFM audit and response the implementation of recommendations for assuring sustainability and operability of the investment. | New ULG's will be waived from this for the first year and will be part as of the second year. In the meantime, the point allocated for this indicator will be divided among infrastructure target and maintenance equally. |

**4. DLI 4 - Performance on Local Economic Development, Urban Resilience and Gender Mainstreaming (ULG Performance Measures)**

| No.         |   |   | Performance Measure / Indicators  | Year Assessed | Maximum points |    |  | Evidence to be Produced  | Objective | Waivers/Exceptions   |
|-------------|---|---|---|---------------|----------------|----|--|--|-----------|--|
| <b>4.1.</b> |   |   | <b>Local Economic Development</b>   |               | <b>40</b>      |    |  |  |           | DLI 4 performance measures will only be applied in the 2 <sup>nd</sup> APA |
|             | 1 |   | Job creation  |               |                | 20 |  |  |           |  |
|             |   | 1 | No. of people employed through infrastructure works under UIIDP against annual target | prior         |                | 10 |  | 1. No. of people employed in infrastructure works; disaggregated by gender and age<br>2. Data collected from contractor's log books, job registration in the M&E system of projects, and so on.<br><b>Scoring:</b> max 10 points for achieving 100%; calibrated proportionally; decimals will be rounded to the nearest whole number |           |  |

| No. |   | Performance Measure / Indicators  | Year Assessed | Maximum points |    | Evidence to be Produced   | Objective | Waivers/Exceptions |
|-----|---|---|---------------|----------------|----|---|-----------|--------------------|
|     | 2 | No. of people employed in firms provided with serviced land <sup>149</sup> and/or MSE sheds <sup>150</sup> under CIP against annual target  | prior         |                | 10 | <ol style="list-style-type: none"> <li>No. of people employed in firms provided with serviced land and/or MSE sheds in the last year against targets in CIP</li> <li>Data collected from ULG's records, APA consultants to visit minimum 3 plots of land or MSE sheds to verify firms are operational, and so on.</li> </ol> <p><b>Scoring:</b> max 10 points for achieving 100%; calibrated proportionally; decimals will be rounded to the nearest whole number</p>   |           |                    |
|     | 2 | Public private dialogue   |               |                | 10 |   |           |                    |
|     | 1 | ULG held at least 2 public private dialogue/open meetings with city mayor and a wide range of private sector representatives -structured meeting, mayor participation, presentation of constraints and economic potentials to inform the CIP. | selected      |                | 5  | <ol style="list-style-type: none"> <li>Existence of meeting agenda and minutes, including participant list, agreed actions/ responsibility/ timeline</li> <li>Private sector representatives should include: (i) trader's associations, (ii) local chamber of commerce, (iii) local business owners and MSEs; and (iv) foreign and domestic investors from industrial parks (if any)</li> </ol> <p><b>Scoring:</b> If all satisfied: 5 points, otherwise 0 point.</p>   |           |                    |
|     | 2 | Implementation of min. 2 agreed actions from each meeting   | selected      |                | 5  | <ol style="list-style-type: none"> <li>Subsequent meeting minutes indicate that at least 2 agreed actions were implemented per meeting – 5 points, otherwise 0 point.</li> </ol>  |           |                    |
|     | 3 | Micro Small Enterprise  |               |                | 10 |   |           |                    |
|     | 1 | No. of MSEs supported through open business plan competitions, against annual target  |               |                | 3  | <ol style="list-style-type: none"> <li>Support can include: MSE setting up, working premises, financing/loan or training</li> <li>Open business plan competition will be verified by evidence of public issue of call for business plan through public media channels</li> <li>Business plan</li> <li>Records of MSE office</li> </ol> <p><b>Scoring:</b> Max 3 points for achieving 100%; otherwise calibrated proportionally, decimals will be rounded to the nearest whole number. If 0 planned, then 0 point.</p> |           |                    |

<sup>149</sup> This refers to all serviced land allotted to firms engaged in economic activities including agriculture, services and manufacturing.

<sup>150</sup> This refers to working premises / sheds allotted to microenterprises, which should be serviced and provided with water, electricity and a connective road

| No.         |    | Performance Measure / Indicators   | Year Assessed | Maximum points |    | Evidence to be Produced  | Objective   | Waivers/Exceptions   |
|-------------|----|--|---------------|----------------|----|--|---|--|
|             | 2  | No. of MSE One Stop Center (OSC) supported to be fully functional against annual target  |               |                | 4  | <p>Fully functional OSC means:</p> <ol style="list-style-type: none"> <li>1. caters for 15,000 individuals or maximum of 500 MSEs;</li> <li>2. has at least 5 key positions filled<sup>151</sup>;</li> <li>3. is equipped with equipment and furniture;</li> <li>4. provides fundamental trainings to staffs, at least 2 areas in the OSC Service Provision Standard 2017;</li> <li>5. documents consultation notes as an evidence of operationality.</li> </ol> <p>Scoring: max 4 points for achieving 100%; otherwise calibrated proportionally, decimals will be rounded to the nearest whole number. If 0 planned, then 0 point.</p> |   |  |
|             | 3  | No. of graduated MSEs provided with support from the Medium Manufacturing Enterprises Development Unit in the city administration, against annual target |               |                | 3  | <ol style="list-style-type: none"> <li>1. follow up of status/progress of graduated MSEs and continue training and coaching for two years</li> </ol> <p><b>Scoring:</b> Max 3 points for achieving 100%; otherwise calibrated proportionally, decimals will be rounded to the nearest whole number. If 0 planned, then 0 point.</p>  |   |  |
| <b>4.2.</b> |    | <b>Urban Resilience</b>  |               | <b>30</b>      |    |  |   | DLI 4 performance measures will only be applied in the 2 <sup>nd</sup> APA |
|             | 1. | DRM and emergency response   |               |                | 30 |  | To promote disaster management and emergency response |  |
|             | 1. | Disaster and Climate Risk Management   |               |                | 10 | Risk map(s) developed showing flood/landslide/earthquake risk areas, prepared in accordance to guidelines developed by MUDHo and Disaster Risk Management Commission.  |   |  |

<sup>151</sup> According to the new One Stop Center Service Provision Standard (2017), the following seven positions are the key staffs: 1. OSC coordinator; 2. Office Administrator/Secretary/Information Desk; 3. Job Seekers Registration, Trade Registration, Trade License, and TIN preparation Expert; 4. Saving and Loan Facilitation Officer; 5. Accounts and Audit Officer; 6. Production and Sells Site Facilitation, Training Industry Extension and Market Linkage Expert; 7. Graduation/Transfer facilitation expert

| No.         |          | Performance Measure / Indicators  | Year Assessed | Maximum points |          | Evidence to be Produced   | Objective | Waivers/Exceptions   |
|-------------|----------|---|---------------|----------------|----------|---|-----------|--|
|             |          |   |               |                |          | <b>Scoring:</b> Yes/No  |           |  |
|             | 2.       | Emergency Response institutional structure  |               |                | 10       | Emergency response unit established with minimum staffing including DRM officer, rapid assessment officer, and emergency response officer.<br><b>Scoring:</b> Yes/No  |           |  |
|             | 3.       | Emergency Response Plan   |               |                | 10       | Emergency Response Plan developed and approved by the city council/mayor. The emergency response plan should contain these elements: (i) Emergency Declaration/Proclamation Process; (ii) Response Activities/Process; (iii) Direction, Control and Coordination; (iv) Responsibilities; (v) Communications; (vi) Administration, Finance and Logistics; (vii) Plan Development and Maintenance<br><b>Scoring:</b> Yes/No   |           |  |
| <b>4.3.</b> |          | <b>Gender Mainstreaming</b>   |               | <b>30</b>      |          |   |           | DLI 4 performance measures will only be applied in the 2 <sup>nd</sup> APA |
|             | <b>1</b> | <b>Women's voice and rights</b>   |               |                | <b>7</b> |   |           |  |
|             | 1.       | Women's participation in decision making process:<br><br>1. total women involved in all consultation meetings > <b>50%</b><br><br>2. women involved in the meeting for the final choice of investments > <b>50%</b><br><br>*Linked to Performance Measure 2.1.2 citizen participation | current       |                | 2        | Invitation letters or call for the meeting notice posted in the public places or through mass media for the public to attend public consultations meeting indicating date of meeting and purpose of the meeting. Public consultations should be held at least two times: (a) initial consultation, organized separated for women and men, and (b) meeting for the final choice of investments, invited both women and men.<br><b>Evidence:</b> Signed attendance sheets of the meetings participants indicating sex of participants, community or Citizens/ Social groups they represent both for: initial consultation and for the final choice of investments |           |  |



| No.       | Performance Measure / Indicators   | Year Assessed | Maximum points | Evidence to be Produced   | Objective | Waivers/Exceptions |
|-----------|--|---------------|----------------|---|-----------|--------------------|
|           |  |               |                | The percentage of women involved will be for the current year.<br><b>Scoring:</b> If all satisfied, then 2 points, otherwise 0 point.   |           |                    |
|           | 2<br>Women's voice heard<br>*Linked to Performance Measure 2.1.2 citizen participation                                   |               |                | 2<br>Minutes of participatory consultations indicating a compiled list of issues raised by women during consultations,<br><b>Scoring:</b> Yes/No  |           |                    |
|           | 3<br>No. of awareness raising workshop/training on <b>women's right in workplace</b> against annual target               | current       |                | 3<br>Workshop/training on women's right in workplace (gender based violence, sexual harassment, and equal payment) targeting both men and women.<br>Annual target must be consistent with capacity building plan and gender development plan.<br><b>Evidence:</b> Program/workshop attendance sheet (aggregated by gender), capacity building plan and gender development plan.<br><b>Scoring:</b><br>Minimum three workshops/trainings in the year, otherwise 0 point.<br>3 points for 100% achievement; otherwise, calibrated proportionally, decimals will be rounded to the nearest whole number. |           |                    |
| <b>2.</b> | <b>Gender mainstreaming system</b>   |               | <b>13</b>      |   |           |                    |
|           | 1<br>Gender-balanced employment:<br>1. Proportion of women public professionals in city municipal service administration |               |                | 3<br><b>Evidence:</b> ULG HR plan<br><b>Scoring:</b><br>women professionals >= 25% (1 point)<br>women professionals >= 35% (2 points)<br>women professionals >= 45% (3 points)  |           |                    |
|           | 2. Proportion of women as a head of office and above in city municipal service administration                            |               |                | 3<br><b>Evidence:</b> ULG HR plan<br><b>Scoring:</b><br>women leadership >= 20% (1 point)<br>women leadership >= 30% (2 points)<br>women leadership >= 40% (3 points)   |           |                    |
|           | 2.<br>1. Gender focal person dedicated for UIIDP<br>2. Annual gender and development planning and budgeting              | current       |                | 3<br><b>Evidence:</b><br>1. Gender focal person dedicated for UIDP in place in WCO or/and UIIDP coordination team"  |           |                    |

| No.       | Performance Measure / Indicators   | Year Assessed | Maximum points | Evidence to be Produced   | Objective | Waivers/Exceptions |
|-----------|--|---------------|----------------|---|-----------|--------------------|
|           |  |               |                | 2. Annual gender development plan and budget (template/manual in POM): i) approved by the city council, ii) consistent with ULG annual plan and budget, capacity building plan, and gender mainstreaming guideline*<br>NB. *Gender mainstreaming guideline is only valid when gender and youth mainstreaming directorate in MUDHo developed and disseminated it.<br><b>Scoring:</b> If all above satisfied, then 3 points, otherwise 0 point. |           |                    |
|           | 3.<br>1. Quarterly meeting with gender focal persons from each sector Office<br>2. More than 80% of gender activities in the gender plan successfully completed and more than 80% of the funds budgeted in the gender plan are utilized. | prior         | 4              | <b>Evidence:</b><br>1. Signed attendance sheet of focal persons (indicating gender, occupation) from each sector Office and meeting notes (quarterly)<br>2. Compare annual gender plan to annual gender progress report<br><b>Scoring:</b> If one of two satisfied, then 2 points. If both satisfied, then 4 points.  |           |                    |
| <b>3.</b> | <b>Economic empowerment</b>  |               | <b>10</b>      |   |           |                    |
|           | 1.<br>% of women employed through infrastructure works under UIIDP<br><br>*linked to 4.1.1.1 LED indicator   |               | 2              | <b>Evidence:</b><br>1. No. of people employed in infrastructure works; disaggregated by gender and age<br>2. Data collected from contractor's log books, job registration in the M&E system of projects, and so on.<br><b>Scoring:</b><br>women >= 30% (1 point)<br>women >= 40% (2 points)<br>women >= 50% (3 points)  |           |                    |
|           | 2.<br>% of women employed in firms provided with serviced land <sup>152</sup> and/or MSE sheds <sup>153</sup> under CIP<br><br>*linked to 4.1.1.2 LED indicator  |               | 3              | <b>Evidence:</b><br>1. No. of people employed in firms provided with serviced land and/or MSE sheds in the last year against targets in CIP<br>2. Data collected from ULG's records, APA consultants to visit minimum 3 plots of land   |           |                    |

<sup>152</sup> This refers to all serviced land allotted to firms engaged in economic activities including agriculture, services and manufacturing.

<sup>153</sup> This refers to working premises / sheds allotted to microenterprises, which should be serviced and provided with water, electricity and a connective road

| No. | Performance Measure / Indicators   | Year Assessed | Maximum points | Evidence to be Produced   | Objective | Waivers/Exceptions |
|-----|--|---------------|----------------|---|-----------|--------------------|
|     |  |               |                | or MSE sheds to verify firms are operational, and so on.<br><b>Scoring:</b><br>women >= 30% (1 point)<br>women >= 40% (2 points)<br>women >= 50% (3 points)                             |           |                    |
|     | 3<br>% of women-headed MSEs supported to access working premises/sheds and/or serviced land under UIIDP                  |               | 3              | <b>Evidence:</b><br>1. Records of MSE office<br>2. Data collected from ULG's records<br><b>Scoring:</b><br>women >= 20% (1 point)<br>women >= 30% (2 points)<br>women >= 40% (3 points) |           |                    |
|     | 4<br>%of women-headed MSEs awarded with civil contracts under UIIDP<br>More than 10% (1 point), more than 20% (2 points) |               | 2              | <b>Evidence:</b><br>1. Records of MSE office<br>2. Data collected from ULG's records<br><b>Scoring:</b><br>women >= 10% (1 point)<br>women >= 20% (2 points)                            |           |                    |

**5. DLI 5, 6, 7, 8 and 9 - Regional Implementing Agencies' performance measures**

| DLI      | No.   | Regional Implementing Agency / Performance Measures  | Year Assessed | Scoring  | Evidence to be Produced                     | Application   |
|----------|---|--|---------------|--|---|---|
| <b>5</b> | <b>Bureau of Urban Development, Housing and Construction</b> (or regional state equivalent) |  |               |  |   |   |
|          | 1.  | Regional government capacity building and support teams in place and deliver effective capacity building services to ULGs  |               |  |   |   |
|          | 1   | 1. Regional government has developed plans according to formats in the POM<br>2. Regional mobile capacity building & mentoring teams are in place and are operating. | current       | 1. Capacity Building Plan of and TOR for regional mobile capacity building and mentoring teams and positions are in place. The capacity building plan cover all 4 modalities and at least 80% of the thematic focus areas from the POM. The plan is prepared with inputs from the regional entities. | CB Plan for region & TOR for regional team. | 1 <sup>st</sup> APA (2018 with impact on FY2019/20) |

| DLI | No. | Regional Implementing Agency / Performance Measures   | Year Assessed  | Scoring   | Evidence to be Produced   | Application   |
|-----|-----|---|--|---|---|---|
|     |     |   |  | <p>2. Teams are in place and operating. More than 80% of the staff in place: 100% allocation, 50-80%: 50% allocation, less than 50%: No allocation.</p> <p><b>Scoring: (Result 1) must be in achieved before any points (allocations) are awarded.</b> Calibration (reduction) against achievement rate on item 2: teams in place.</p>  |   |   |
|     | 2   | <p>1. Regional government has developed plans according to formats in the POM.</p> <p>2. Regional mobile CB &amp; mentoring teams are in place and are operating,</p> <p>3. Needs assessments</p> <p>4. Regional governments have adopted service delivery standards (as issued by MUDHo) and issued those for the cities, and provided guidance in implementation (reports).</p> | current  | <p>1.Capacity Building Plan of and TOR for regional mobile CB &amp; mentoring teams and positions are in place. The capacity building plan cover all 4 modalities and at least 80% of the thematic focus areas from the POM. The plan is prepared with inputs from the regional entities.</p> <p>2.Teams are in place and operating. More than 80% of the staff in place: 100% allocation; 50-80%: 50% allocation; less than 50%: no allocation. (weight 40 %)</p> <p>3. Annual capacity building need assessment has been done by involving all regional entities covering all thematic areas and representatives of the ULGs. If not, 40% reduction.</p> <p>4. The region has adopted service delivery standards (as issued by MUDHo). If not, 20% reduction.</p> <p><b>Scoring: (Result 1) must be achieved to get allocations.</b> Calibration (reduction) in allocation on target 2, 3 and 4 according to weightage if no achievement of defined result.</p> | <p>CBP; Staff assignment letters and physical check/confirmation; service delivery standards issued to ULGs; implementation reports. Work plan, evidence of approval by the client, approved ToR for regional team.</p> | 2 <sup>nd</sup> APA (2019 with impact on 2020/21)   |
|     | 3   | <p>1. Regional government has developed CB plan for the ongoing EFY according to formats in the POM.</p> <p>2. Regional CB &amp; mentoring teams are in place</p> <p>3. Needs assessment</p> <p>4. Execution of the CB plan.</p> <p>5. Improvement in average scores of the ULGs within the region on DLIs 2 and 3.</p>   | <p>current</p> <p>current</p> <p>previous</p> <p>current</p> | <p>1. Capacity Building Plan of and TOR for regional mobile CB &amp; mentoring teams and positions are in place. The capacity building plan cover at least 4 modalities and all 80% of the thematic focus areas from the POM. The plan is prepared with inputs from the regional entities.</p>  | <p>CBP for ongoing EFY; CBP for previous year and expenditures; Staff assignment letters and physical check/confirmation; service delivery standards</p>  | <p>3<sup>rd</sup>APA (2020 with impact on 2021/22.);</p> <p>4<sup>th</sup> APA (2021 with</p> |

| DLI      | No.   | Regional Implementing Agency / Performance Measures  | Year Assessed | Scoring  | Evidence to be Produced   | Application                             |
|----------|---|--|---------------|--|---|---|
|          |   |  |               | <p>2. Teams are in place and operating. More than 80% of the staff in place: 100% allocation; 50-80%: 50% allocation; less than 50%: no allocation. (weight 30%)</p> <p>3. Annual capacity building need assessment has been done by involving all regional entities covering all thematic areas and representatives of the ULGs. If not, 10 % reduction.</p> <p>4. Execution of plan above 80%: full allocation; execution between 60-80%: 80% allocation, 40-59%: 40% allocation; and below 40%: no allocation. Reduction based on a 30 % weightage.</p> <p>5. Average score on the ULGs on DLIs 2 and 3 (average) in the region should increase from the previous year's APA, otherwise proportional reduction (weight: 30%, that is, max reduction 30 %)</p> <p><b>Scoring: (Result 1) has to be in place to get allocations.</b> Calibration (Reduction) in allocation on target 2, 3, 4, and 5 according to weightage.</p> | issued to ULGs; implementation reports                                | impact on 2022/23)                      |
| <b>6</b> | <b>Office of the Regional Auditor General</b> |  |               |  |   |   |
|          | 1   | ORAGs carry out timely audits of ULGs' financial reports (final audit report is issued no later than <b>January 7</b> after the EFY to which the audit applies). | current       | <p>Scoring calibrated by number of ULGs for which ORAG has conducted external audit and delivered audit report in a thorough and timely (by <b>7 January</b>) manner.</p> <p><b>As a minimum condition</b> to access fund related to audit of a ULG, ORAG must deliver timely audit. If the condition is satisfied, scoring calibrated as follow with full unit allocation if all complied with:</p> <p><b>(i) Quality of the report-</b> -Audit Report - consolidated audit report for the ULG should be issued which review all sources and expenditure of the ULG. The audit report should be structured to include the following as a minimum:</p>   | Audit Reports of ULGs and letters from ORAG issuing the audit report. | 1 <sup>st</sup> to 4 <sup>th</sup> APAs |

| DLI | No. | Regional Implementing Agency / Performance Measures | Year Assessed | Scoring   | Evidence to be Produced | Application |
|-----|-----|---|---------------|---|-------------------------|-------------|
|     |     |   |               | <ul style="list-style-type: none"> <li>a. Cover letter from ORAG to City</li> <li>b. Audited financial statements (Audited accounts)- which includes at least- (i) Balance sheet and (ii) Incomes statement or Income and expenditure Statements or Sources and Uses of Fund</li> <li>c. Notes to the financial statements (notes to the Accounts)</li> <li>d. Short form Audit report which includes as a minimum the following paragraphs: <ul style="list-style-type: none"> <li>i. The mentioning of city's financial statement under audit stating the period covered by the audit;</li> <li>ii. The main accounting standards/policy in use by the city and the audit standards followed;</li> <li>iii. The responsibilities of city management and that of the auditor,</li> <li>iv. The basis of opinion- key findings leading to qualifications <b>if any</b>. This is only needed if there are qualification points that will qualify the audit opinion;</li> <li>v. The Audit opinion expressed- clearly stating the opinion expressed-that is, Unqualified (unmodified), qualified, Adverse, Disclaimer.</li> </ul> </li> <li>e. Long for audit Report or Management letter or Internal Control Memorandum that details out findings on internal</li> </ul> |                         |             |

| DLI      | No.   | Regional Implementing Agency / Performance Measures   | Year Assessed | Scoring  | Evidence to be Produced          | Application                             |
|----------|---|---|---------------|--|----------------------------------|---|
|          |   |   |               | <p>control weaknesses and noncompliance with rules/regulations</p> <p><b>(ii) Audit opinion- -The fairness or correctness of the opinion expressed</b> -the fairness of the audit opinion by looking at the findings reported in the short form audit report and the long form or management letter.</p> <p>Reduction by 25% per ULG if (i) is not complied with for these ULGs,<br/>Reduction by 25% per ULG if (ii) is not complied with for these ULGs.</p>   |                                  |   |
| <b>7</b> | <b>Regional Environmental Protection Agency</b> |   |               |  |                                  |   |
|          | 1   | Regional environment, forest and climate change authorities (REFAs) carry out timely review of ULG safeguards compliance. This indicator will be fulfilled when the REFAs have carried out the safeguards reviews/audits of ULGs in their jurisdictions <b>by end October</b> | prior         | <p>Scoring calibrated per ULG for which the REFA has performed timely review/audit as per standard (report template) and approval of safeguard documents and review of implementation capacity for environmental and social mitigation and monitoring measures for CIP and annual environmental and social audits.</p> <p>As a minimum condition to access funds for audit of a ULG: timely environmental audit <b>(by end of October)</b>, and the calibration as follows:</p> <p>(i) Quality of audit must indicate:</p> <ul style="list-style-type: none"> <li>• Key staffing involved: environmental specialist, social specialist</li> <li>• Evidence of site visits</li> <li>• Evidence of follow-up of previous audit recommendations</li> </ul> <p>(ii) REFA has to ensure timely review and approval of safeguards instruments.</p> | Safeguards Audit/Review Reports. | 1 <sup>st</sup> to 4 <sup>th</sup> APAs |

| DLI      | No.                               | Regional Implementing Agency / Performance Measures | Year Assessed | Scoring  | Evidence to be Produced   | Application                             |
|----------|-----------------------------------|---|---------------|--|---|---|
|          |                                   |   |               | Reduction by 25% per ULG if (i) is not complied with.<br>Reduction by 25% per ULG if (ii) is not complied with.  |   |   |
| <b>8</b> | <b>Regional Revenue Authority</b> |   |               |  |   |   |
|          | 1                                 | RRBs support ULGs' efforts to mobilize revenue.     | prior         | <p><b>As a minimum condition</b> to access funds for support to a ULG is that: Capacity building focal point in place to coordinate with RMTs.</p> <p>The RRB has provide inputs to annual capacity building program. Then the calibration is as follows:</p> <p>(i) The numbers of ULGs where regions have conducted consultative meetings with ULGs of municipal revenues/tariff/tax rates and bands, evidenced by meeting minutes weighting 25% of total allocation per ULG.</p> <p>(ii) Review tariff and tax directive and provide ULG's flexibility compared to the previous year weighting 25% of total allocation per ULG.</p> <p>(iii) Technical review, feedback of ULG's REP, weighting 25% of total allocation per ULG.</p> <p>(iv) Undertake revenue potential studies (including user fees) for at least 30% of participating ULGs, weighing 25% of total allocation per ULG.</p> <p>For example, if a region has provided support on (i) and (iii), but not (ii) and (iv) for a ULG, it will get the annual disbursement amount X 50% for this ULG.</p> | Minutes of consultation/ support meetings between RRB/BoFED and ULGs; up-to-date tax bands for major taxes and charges. | 1 <sup>st</sup> to 4 <sup>th</sup> APAs |



| DLI | No.                                       | Regional Implementing Agency / Performance Measures | Year Assessed | Scoring   | Evidence to be Produced  | Application  |
|-----|---|---|---------------|---|--|--|
| 9   | Regional Procurement Audit by the RPPPAAs |   |               |   |  |  |
|     | 1.  | Procurement Audit report produced timely.           | prior         | <p><i>First Year</i>, RPPPAA must prepare a procurement audit plan with TOR for the audit to get access to funds.</p> <p><i>From Second APA:</i><br/> <b>As a minimum condition to access fund</b> related to audit of a ULG, RPPPAA must deliver timely audit (<b>by 7 January</b> of the year following the performance year). If the condition is satisfied, scoring calibrated as shown in (2) and (3) below: -:</p>  | Procurement Audit with its transmittal letter dated before <b>7 January</b> of the year following the performance year.  | 1 <sup>st</sup> APA<br><br>2 <sup>st</sup> to 4 <sup>th</sup> APAs |
|     | 2.  | Quality of Audit ( <b>25% reduction max</b> )       | prior         | <p>Audit Planning Sampling, Audit Execution, and Audit Reporting as per the TOR included in the POM</p> <ul style="list-style-type: none"> <li>• The Audit Planning includes audit schedules, audit entry meeting; timely notification of the auditee on the audit to be conducted;</li> <li>• The Audit staff/consultant shall have a minimum of 5 years relevant experience and BA/BSC Degree in procurement and supply chain management, Economics, Law, Engineering, Management, Accounting or other related fields of study</li> <li>• The selected samples are representative considering the nature, complexity, value, and method of procurement;</li> <li>• The Audit was conducted as schedule without unnecessary disruptions;</li> <li>• The Audit Report is completed enough documenting the auditing procedures followed, audits carried out on all the stages of the procurement and contract</li> </ul> | Audit report duly signed by the RPPPAA.<br>Attendance sheets for Audit entry and exit meetings.<br>Letters from RPPPAA notifying the auditee on the audit schedule;<br>Letters from RPPPAA submitting the Audit reports. |  |

| DLI | No. | Regional Implementing Agency / Performance Measures  | Year Assessed | Scoring  | Evidence to be Produced                                      | Application |
|-----|-----|--|---------------|--|--|-------------|
|     |     |  |               | <p>management process, audit findings/recommendations, audit report written in a clear language and concise and manner;</p> <ul style="list-style-type: none"> <li>Consistency of Audit Recommendations with Audit findings;</li> </ul> <p>If 4 out of 6 satisfied, no reduction for each ULG</p> <p><b>Scoring:</b><br/>If below, reduction for respective ULGs that are not complied with 25 %</p> |  |             |
|     | 3.  | Follow up of implementation of Audit Findings and Recommendations ( <b>25% reduction max</b> ) | prior         | <p>A checklist of audit findings/recommendations showing all audit findings/recommendations of the previous year (including those spilled over from previous years, if not addressed); status of implementation of each finding/recommendation, action taken on offenders</p> <p><b>Scoring:</b><br/>If not complied with 25% reduction for each ULG there this is not complied with.</p>            | RPPPAAs' audit findings/recommendations follow up checklist. |             |

**DLI 10 - Prior Result Performance Measures**

| DLI | No.  |  | Scoring  | Verification Procedure   | Application  |
|-----|--|--|--|--|--------------|
| 10  | Prior results on institutional performance, service delivery, maintenance, and job creation for 44 ULGs. |  |  |  |              |
|     | 1  | Prior results on institutional performance, service delivery, maintenance, and job creation for 44 ULGs. | <p>The target score for disbursement of US\$63.74 million is an average score of 92 for all ULGs on the two dimensions for the 44 ULGDPII Program ULGs:<br/>                     (a)institutional performance and (b) implementation of their local infrastructure, maintenance, and job creation activities (as measured against their CIPs and their Annual Action Plans) as determined in the APA conducted in FY2017/18 for FY2018/19 allocations.</p> <p>Proportional scalability up and down with less and more points than targeted, that is, if 90 points, it is 90/92 X US\$63.74 million, and so on.</p> | <p>TC, based on inputs from the independent private firm carrying out the APA Draft Assessment reports are submitted by the APA simultaneously for review to the final verification entity – the TC, which verifies the results*, and the WB for review.</p> <p>Neither party can modify such reports except for factual errors.</p> <p><i>* The TC will have representation from MUDHo (chair), MoFEC and other agencies as appropriate</i></p> | 2017/18 APAs |

## Annex 12: Map of Ethiopia

