

**PROGRAM-FOR-RESULTS INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: 122468

Program Name	Ethiopia Urban Institutional and Infrastructure Development Program (UIIDP)
Region	Africa
Country	Ethiopia
Sector	Urban
Financing Instrument	Program for Results and IPF
Program ID	P163452
Parent Program ID	
Borrower(s)	Government of the Federal Democratic Republic of Ethiopia
Implementing Agency	Ministry of Urban Development and Housing
Date PID Prepared	November 15, 2017
Estimated Date of Appraisal Completion	December 8, 2017
Estimated Date of Board Approval	March 15, 2018

I. Country Context

1. **Ethiopia is urbanizing rapidly and has one of the fastest growing urban populations in the world.** However, 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. Further, formal job creation is not keeping pace with population increases and demand for jobs in urban areas. The urbanization challenges are also exacerbated by climate change impacts and limited disaster preparedness and management.

2. **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. 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.¹

II. Sectoral (or multi-sectoral) and Institutional Context

3. **ULGs have the primary mandate to provide for state and municipal services and in enhancing local economic development (LED), although these were established only recently.**

¹ Government of Ethiopia. 2017. "Ethiopia's Progress Towards Eradicating Poverty: An Interim Report on 2015/16 Poverty Analysis Study." National Planning Commission, September.

However, cities still lack the capacity and authority to adequately fulfill 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. In general, municipal finances are inadequate to fund urban development.

4. **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 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.

5. **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 (MoUDH), the Ethiopian Cities Sustainable Prosperity Goals (ECSSPG): *Building Green, Resilient and Well Governed Cities*, and the National Urban Development Spatial Plan (NUDSP) provide the frameworks for the urban strategic engagement and the development of resilient urban systems in Ethiopia.

6. **The GoE and the World Bank have been working in partnership since the early 2000s to foster smart urbanization and help Ethiopia's ULGs effectively meet their responsibilities.** The Bank has supported the government's strategy through a series of projects,² and continued doing so in the first phase of Urban Local Government Development Program (ULGDP) since its initiation in 2008 and the second phase of the program (ULGDP II) since 2014. The ULGDP and ULGDP II are jointly funded by the government and the World Bank, where the Bank contributed US\$300 million and US\$380 million respectively; while the counterpart funding was US\$116 million and US\$176.55 million respectively. 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.

III. Program Scope

7. **The proposed Program will finance the government's UIIDP.** The proposed UIIDP targets 117 ULGs. This will be implemented in a period of 5.5 years (estimated from March 2018 to September 2023), and consist of four rounds of performance-based grant allocations, cover the fiscal years: 2019/20, 2020/21, 2021/22, and 2022/23.

8. **The proposed UIIDP includes several new focus areas in line with government priorities: gender equality, resilience and disaster risk management, and LED and long-term job creation.** UIIDP contains a new DLI covering these thematic areas with substantial financial incentives built in to

² Capacity Building for Decentralized Service Delivery project (2003) and the Public Sector Capacity Building program (2004).

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.

9. **The total IDA funding envelope for the UIIDP is US\$600 million** (of which US\$200 million is from the IDA Scale-Up Funding (SUF)). In addition, AFD will contribute co-financing of euro 10 million (US\$11–12 million equivalent). The GoE (from regions and cities) will contribute around US\$248.7 million.³ This brings the total Operation budget envelope to about US\$859.86 million.

10. **The 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 FY) has been assessed to be the optimal level of funding.⁴ 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.

11. **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 disaster risk management and urban resilience, (g) built facilities, and (h) urban green infrastructure. Compliance with the investment menu is a minimum condition for receiving funds. 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.

12. **The IPF will be used to fund a range of institutional and capacity development interventions at or coordinated by the federal government level.** The MoUDH will undertake activities in four areas: (a) developing capacity, systems, and organizations of *federal entities*; (b) developing capacity, systems, and organizations of *regional and ULG entities*, (c) UIIDP management, monitoring and evaluation and feasibility/preparatory studies for future execution; and (d) 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, financial management, as well as introducing initiatives on local economic development, urban resilience, cultural heritage, and urban planning.

IV. Program Development Objective(s)

13. **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. The Operation will provide direct support to 117 potentially eligible ULGs, as well as to all nine regions and the federal government (primarily MoUDH) to enable them to effectively support urban development. The primary beneficiaries of the Operation are the 6.62 million residents of the 117 urban local governments.

³ 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 (ULGDPII) cities: 20 percent; Harar and Diwa 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.

⁴ 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.

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

1. Enhanced citizen participation and engagement in ULG planning and budgeting;
2. Increased own source revenue at the ULG level;
3. Improved infrastructure, service delivery, O&M systems;
4. Improved efficiency and effectiveness in fiduciary management;
5. Improved environmental and social management and safeguards;
6. Strengthened accountability and oversight systems;
7. Strengthened ULG resilience, improved local economic development (LED) and enhanced gender equity in the ULG operations.

V. Assessment Summary

15. **A Technical Assessment (TA)** was conducted to review the technical and economic soundness of the program and design issues such as grant size and allocation system. 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. The design of the Operation is assessed to be technically and economically sound.

16. **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. The ESSA has satisfactorily identified and built in mitigation measures to address the social and environmental risks.

17. **An integrated fiduciary assessment for the proposed Program was carried out on the fiduciary systems of MoUDH, in a sample of the cities to benefit from the UIIDP, consistent with Bank 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 World Bank; (b) to follow procurement rules and procedures, capacity, and performance focusing on procurement performance indicators and the extent to which the capacity and performance support the program development objectives and risks associated with the Program and the implementing agencies; and (c) to identify and mitigate fraud and corruption risks and effectively handle public grievances and complaints. The assessment concludes that the examined program financial management and procurement systems are adequate to provide reasonable assurance that the financing proceeds will be used for intended purposes, with due attention to principles of economy, efficiency, effectiveness, transparency and accountability, and for safeguarding Program assets once the proposed mitigation measures have been implemented.

VI. Program Institutional and Implementation Arrangements

18. **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.

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