

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

Report No.: 77905

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<b>Program Name</b>	Ethiopia Local Government Development Program II
<b>Region</b>	Africa
<b>Country</b>	Ethiopia
<b>Sector</b>	Urban
<b>Lending Instrument</b>	Program for Results
<b>Program ID</b>	P133592
<b>Borrower(s)</b>	Government of Federal Democratic Republic of Ethiopia
<b>Implementing Agency</b>	Ministry of Urban Development and Construction
<b>Date PID Prepared</b>	May 7, 2013
<b>Estimated Date of Appraisal Completion</b>	January 20, 2014
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<b>Concept Review Decision</b>	May 2, 2013

## **I. Introduction and Context**

1. Ethiopia has had a strong development track record in recent years. Since the early 1990s, Ethiopia has pursued a public sector-led development strategy with a strong role for government in many aspects of the economy. This approach, based on high levels of public sector investment, has been associated with broad-based growth since 2003/04, when the Ethiopian economy recovered from a severe drought in 2002/03. The Government of Ethiopia (GoE) since 2010 has pursued a particularly ambitious program for growth and economic transformation, laid out in its Growth and Transformation Plan (GTP), its five year economic development strategy. Significant improvements have been made in basic infrastructure, and in strengthening government capacity at all levels.

2. **Ethiopia is rapidly urbanizing.** With the urban population increasing at about 4 percent per year, Ethiopia's urban areas are growing faster than the global and middle-income average, and are among the fastest growing in Africa. It is projected that the proportion of Ethiopians living in cities will rise from 17 percent in 2012 to 30 percent in 2020.

3. **Most cities are characterized by high level of poverty and poor access to basic services.** Urban poverty is significant and more prevalent than rural poverty (46 percent of urban residents are poor compared with 30 percent of rural dwellers).<sup>1</sup> Infrastructure and service delivery in Ethiopia's urban centers are inadequate. Even in Addis Ababa, Ethiopia's most well-endowed city, 45 percent of households have no access to piped water supply, 40 percent have no access to improved sanitation, 35 percent of houses are not connected to a road network, and

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<sup>1</sup> World Bank, "The Challenge of Urbanization in Ethiopia: Implications for Growth and Poverty Alleviation," AFTU1, June 2007.

67 percent of houses have no connection to any drainage facility. The situation is worse in most other cities.

4. **Urbanization is key to Ethiopia's growth prospects.** The urban economy in Ethiopia is a major driver of growth. Urban areas are estimated to now account for over 58 percent of gross domestic product (GDP). About 80 percent of the growth in GDP in recent years is linked to the urban economy. Urban areas are expected to continue to drive Ethiopia's economic growth for the foreseeable future.

5. **Urban areas in Ethiopia have had functioning governments only since 2000, when proclamations to establish urban local governments 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 urban local governments that will ensure public participation in making choices and will enhance urban service delivery. The challenge has been to find ways to help urban local governments develop the capacities, incentives, and the financial resources needed to deliver infrastructure and services to residents effectively and efficiently.

6. **The government introduced the Urban Local Government Development program (ULGDP) in 2008 as a performance grant to urban local governments.** The ULGDP was preceded by a series of Bank supported interventions, which aimed to build capacity at urban local governments.<sup>2</sup> Based on local government capacity enhanced through these projects, the government introduced the ULGDP as a performance-based programmatic fiscal transfer to urban local governments. The overall goal of the government program is to support improved performance in the planning, delivery, and sustained provision of urban services and infrastructure by local governments. It aims to fulfill this goal by providing grants to urban local governments based on their performance across a range of areas. The program funds are allocated for institutional performance and are earmarked for expenditure on local infrastructure.

7. **The Government of Ethiopia now wants to extend the program to new cities through the Program for Results (PforR) instrument.** The government's rationale in expanding the urban performance grant system to new cities under the proposed ULGDP II stems from its acknowledgement of the key role that cities play in economic growth and development and from its desire to expand ULGDP's successful approach to additional fast-urbanizing cities. The proposed PforR Program will mainly cover 44 large urban local governments. These 44 cities include (a) the 18 local governments participating in the existing Government program, and (b) 26 additional local governments.<sup>3</sup> Some 18 of the 26 new cities have been receiving capacity building support from the Government program and 8 of them have been supported by the technical assistance provided by the German Society for International Cooperation. In addition to scaling up the performance-based fiscal transfer to these new local

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<sup>2</sup> The government and the Bank have been working in partnership since the early 2000s to help Ethiopia's urban local governments effectively meet their new responsibilities. The Bank has supported the government's strategy through a series of projects, starting with the Capacity Building for Decentralized Service Delivery project (2003) and the Public Sector Capacity Building program (2004).

<sup>3</sup> There are 19 local governments under the existing Government program. Addis Ababa will not be included in the scale up under the PforR program as the government wishes to prepare an Addis specific operation in the near future.

governments, the government would like the PforR operation to also include a set of capacity building activities for 41 cities with populations of 20,000 or more with the view to include them in the performance grant system in the future. The program will also introduce incentives at the federal and potentially at the regional government level to encourage improvements in the intergovernmental system.

**8. The project is an integral element of the Country Partnership Strategy (CPS), discussed by the Board on September 24, 2012.** The CPS has two main areas of focus: (1) fostering competitiveness and employment, including improved delivery of infrastructure; and (2) enhancing resilience and reducing vulnerabilities, including developing a comprehensive approach to social protection and risk management. The CPS has as its foundation good governance and state building. It stresses gender and climate change as cross-cutting issues. The proposed ULGDP II directly supports the first pillar of the CPS by financing urban infrastructure and services. These are essential to promote job creation and foster Ethiopia's competitiveness. In addition, the ULGDP II will help to reduce vulnerability by encouraging cities to undertake infrastructure projects—such as cobblestone roads—that generate significant numbers of jobs, especially for women, youth, and vulnerable people. The ULGDP II will also directly contribute to the CPS's objective of supporting good governance by providing resources on the basis of performance in participatory planning, financial management, procurement, execution of infrastructure projects, and sustainable delivery of services.

**9. A Program-for-Results is the optimal instrument for the proposed ULGDP II.** There are three primary reasons for this. First, the ULGDP II is the extension of the current Government program and forms a core part of the existing intergovernmental fiscal architecture. The program will continue on a permanent basis, as an ongoing fiscal program leveraging both government and development partner resources. Second, the basic goal of the ULGDP II is to leverage the institutional performance of the local governments it will target in an enhanced manner, while ensuring that expanded local urban infrastructure is developed. Because of the direct relationship between the local government institutional results, and the Program disbursements to federal and then to local governments, the PforR instrument allows for a directly incentive-driven approach to achieve the PDO. Through the use of DLIs targeted specifically at federal, and perhaps at the regional government actions required to optimize the administration and execution of local governments, ULGDP II ensures that incentives of the federal, regional and local levels of government are effectively aligned around the goals of the Program. Finally, the Program will use, improve and integrate government and local government systems, including public financial management, social and environmental systems management and procurement systems.

## **II. Program Development Objective(s)**

10. The proposed project development objective is to enhance the institutional performance of participating urban local governments in developing and sustaining urban infrastructure and services.

## **III. Program Description**

11. **The current Government program will be extended to an increased number of local governments.** The proposed operation will mainly expand the existing urban performance grant system to 44 large urban local governments (with a total population of 3,312,107 people, covering all nine regions and Dire Dawa city administration).

12. **The PforR operation will fully utilize and enhance the key elements of the existing government system.** Similar to current practice, it will determine allocations to local governments through a population based formula, and disburse funds on the basis of an enhanced local government performance assessment. In doing so, ULGDP II will leverage institutional strengthening and support local capacity building. Program funds will be primarily used by local governments to meet their infrastructure needs. The ULGDP II will have an associated set of implementation activities which will include capacity building needed for local governments to deliver infrastructure and services. It is also finance the independent annual performance assessment, the findings of which will determine the disbursements for each local government for the following year.

13. **The program will be implemented through the same institutional architecture used under the current government program.** At the federal level, the Ministry of Urban Development and Construction through its Urban Governance and Capacity Building Bureau will be responsible for the overall management of program activities, ensuring coordination and providing technical support to Program local governments. The Ministry of Finance and Economic Development will be responsible for the overall financial aspects of the program. Local governments will take primary responsibility for implementing their own subprojects, including all fiduciary and reporting requirements. ULGDP II is expected to run for a period of five years – from 2014 to 2019.

#### **IV. Initial Environmental and Social Screening**

14. **The program will finance urban roads, integrated infrastructure and land services, sanitation, solid waste management, water source development, and urban drainage in the 44 urban local governments, which are expected to have a positive impact on the environment.** The program will not finance subprojects that are likely to have significant environment and social risks. One of the criteria in the choice of specific infrastructure investments under program will be associated or likely social and environmental effects, particularly risks associated with potential loss or conversion of natural habitats; effects on physical and cultural resources; potential pollution or other project externalities; and changes in land or resource use. The program will also consider social effects such as nature and scale of involuntary resettlement or land acquisition required; potential impacts on vulnerable communities; changes in resource access; and impacts on indigenous peoples.

15. **The program is expected to involve multiple jurisdiction and implementing partners with varying capacity to implement regulations and procedures.** The implementing capacity and commitment of various cities will be assessed during program preparation. The existing ULGDP cities have since 2008 used an Environmental and Social Management Framework (ESMF) and a Resettlement Policy Framework (RPF) that is consistent with the Bank's safeguards policies. The cities screen all infrastructure investments for environment and social

risks, seek approval by the Regional Environmental Protection Agency (REPA) of relevant safeguard instruments (environmental impact assessments), environmental management plans, and resettlement action plans; and regularly visit the sites during and following construction to ensure that the agreed measures to mitigate negative impacts are being implemented.

**16. The experience of the government program shows mixed institutional capacity.** While some of cities are able to use the prepared safeguards instruments properly, others show poor implementation performance in the use of the approved tools and approaches. This lesson will be incorporated in ULGDP II by proactively fostering collaboration with participating cities in the use of similar risk management tools and approaches which will be incorporate in the Program design and further, in the program action plan, if needed.

**17. An Environmental and Social Systems Assessment (ESSA) will be undertaken to review the existing systems of for the execution of the program in terms of capacity to plan and implement effective measures for environmental and social impact management.** Specifically, the ESSA will review the government’s regulatory and administrative framework and the capacity of the relevant implementing agencies, including local governments, to implement these, including consideration of previous relevant experience in the sector, against the environmental and social effects that are likely to be associated with the program. The assessment will involve extensive consultation with stakeholders. The draft systems assessment will be disclosed to the public prior to appraisal.

**18. Environmental and social monitoring will be critical to successful program execution.** The government will ensure that safeguards supervision will be adequately funded and reinforced by the federal, regional, and local governments. Under the ULGDP II, the REPAs, with the city-level safeguards specialists, will review and monitor implementation of the environmental and social safeguards policies and instruments. Furthermore, environmental and social specialists will be maintained at the regional and city levels to provide additional technical assistance on environmental and social matters, including development of a functional grievance redress mechanism to assist in systematically handling complaints and grievances.

**V. Tentative financing**

Source:		(\$m.)
Borrower/Recipient		100
IDA		250
IBRD		
Others (specify)		
	Total	350

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