I. Introduction and Context

Country Context

1. Over the past two decades, Uganda has established a strong record of prudent macroeconomic management and structural reform. By 2006, Uganda had graduated into a mature reformer. Annual gross domestic product (GDP) growth rates averaged 7 percent in the 1990s and accelerated to more than 8 percent over the seven years to 2007/08. However, due to rapid population growth, real GDP growth per capita averaged only 3.4 percent in the 1990s and around 4 percent in the 2000s. The proportion of people living in poverty fell from 57 percent in FY93 to 24.5 percent in FY2010.

2. The economy has undergone a gradual structural transformation over the past two decades, but at an increasingly slower pace. As a share of total output, services increased from 32 percent in 1990 to 48 percent in 2000 and to 52 percent in 2008. Industry as a share of total output increased from 11 percent in 1990 to 23 percent in 2000, but then remained almost unchanged at 26 percent in
2008. Over the same period, agriculture as a share of total output decreased sharply from 57 percent in 1990 to 30 percent in 2000 and to 23 percent in 2008.

3. In recent years, the government has shifted public expenditure towards addressing Uganda's infrastructure constraints. The 2006 energy crisis, the deterioration of transport infrastructure, and analytical work highlighting the binding constraints to growth have led to a scaling up of infrastructure investments in the budget since FY 2008.

4. Uganda's population dynamics pose a challenge to development. It has a large population base of 30 million, with high population growth rate (3.2 per cent per year) making it one of fastest growing countries in Africa. It also has the third highest total fertility rate in the world (6.7 births per woman according to government data). Population has doubled since 1988; and the median age is just above 15 years.

5. Accelerating structural transformation will require further addressing the infrastructure gap. Across the country urban infrastructure is needed to accommodate the rapid urbanization associated with this structural transformation. In large urban centers such as Kampala, better urban transport is needed to, reduce congestion, improve connectivity and increase access to markets. The labor force will also need to be equipped with skills that meet the demands of a changing economic structure.

6. The recent discovery of oil brings both development opportunities and challenges. Oil production will change Uganda’s economic outlook, although it is too early for projections. Making Uganda's oil a blessing will largely depend on the establishment of an institutional framework that will ensure fair and equitable distribution of resource rents and appropriate consideration of economic, social, and environmental issues.

**Sectoral and Institutional Context**

7. Uganda has a high rate of urban population growth - 5.1% per annum. It is projected that by 2035 Uganda's population will be 68 million and 30% (20 million people) will be in urban areas. The urban sector is important for the structural transformation of the Ugandan economy. Urban areas are centers for major economic activities (industry, services, and commerce). Already it accounts for about 72% of manufacturing output and over 55% of the national GDP.

8. Kampala is the capital city of Uganda with a rapid growth of over 5% per annum. Today, the Greater Kampala Metropolitan Area (GKMA) is estimated to have around 3.15 million persons, while Kampala City has about 1.53 million people.

9. Kampala is also the hub of the country's economic, political, and administrative activities. While accurate data on the special distribution of economic activity in Uganda are not available, it is estimated that about 80 percent of the country's industrial sector is located in Kampala and the City generates about 50 percent of national GDP. The growth of the Uganda economy is therefore intrinsically linked to how well the city is managed and connected to the rest of the country.

10. The City lacks the capacity to cater for every increasing in-migration. The levels of service delivery in key sectors (roads, drainage, solid waste management, housing, green parks, education and health) in Kampala are overwhelmed by ongoing flow of migration. On average, about 1 million people from outside the city come to Kampala daily to transact businesses. This kind of situation will require comprehensive, strategic and transformative investments to be undertaken in
order to improve Kampala’s comparative advantage with other Cities in the region.

11. Major improvements in basic services in Kampala City are critical to the national economic and commercial growth. There is urgent need to address deficiencies in core urban infrastructure, organizational management, financial and human resource capacities, and own source revenue (OSR) mobilization capacity to make Kampala play its proper and competitive role in the region as a primary city of Uganda.

Relationship to CAS
12. The CAS (FY2011-2015) notes that the pace of Uganda’s structural transformation will depend on the efficiency of its spatial transformation. The project will specifically contribute to the achievement of CAS strategic objective 2 – Enhanced public infrastructure, and outcome 2.4 - improved management and delivery of urban services.

13. World Bank support to the sector – The Bank has a long history of engagement in the urban and local government sectors of Uganda since the 1990s, which included the Uganda First Urban Project (1991), Nakivubo Channel Rehabilitation Project (1999), first and second Local Government Development Project (1999 - 2007), Local Government Management and Service Delivery (2007 – 2012), the Uganda Support to Municipal Infrastructure Development (USMID) - a PforR Program, The Kampala Institutional and Infrastructure Development Project (KIIDP) APL1. The proposed project (KIIDP APL 2) will build on the achievements of KIIDP APL 1 which will close on December 31, 2013. In order to achieve the desired impact and transformative objective, KIIDP APL 2 will focus on limited core infrastructure investments and institutional support in critical areas.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)
14. Project Development Objective (PDO) - The proposed project development objective (PDO) is to “deepen the institutional reforms and enhance city infrastructure to improve urban mobility and foster economic development”.

Key Results (From PCN)
15. Achievement of the PDO will be measured based on the following key results areas:

i. Increase in paved city roads (% Kms)
ii. Increase in own source revenue (% UGX)
iii. Reduction in time taken in traffic jam (%)
iv. New investments in Kampala City and additional jobs created (No of new firms, No of new jobs created).

16. Results indicators (i) to (iii) are intended to measure the impact of institutional reforms and improvements in city infrastructure; and indicator (iv) is intended to measure the impact of reforms and investments in infrastructure on economic development in Kampala.

III. Preliminary Description

Concept Description
17. This project is proposed as the second phase of a Series of Projects (SOP) -originally
conceived as an APL (Kampala Institutional Infrastructure Development Project (KIIDP) - P078382 approved by Board on November 6, 2007. The Project Development Objective of Phase 1 (of the APL) is to improve the institutional efficiency of Kampala Capital City (KCC) through implementation of the Strategic Framework for Reform of the KCC. Both the objectives of KIIDP 1 and triggers to move to KIIDP 2 have been met. As of April 2013 the project had achieved the following intended outcomes: (i) overdue liabilities were reduced to zero (baseline - UGX8.9 billion, and project target – UGX0.5 billion), (ii) share of KCCA own source revenue spent on service delivery – 39% (baseline 18%, target – 34%), (iii) KCCA own source revenue increased to UGX 45.687 billion (base line – UGX 22 billion, and target – UGX 33.5 billion). The only targets which have not yet been achieved, because of the delays in the civil works, are those associated with public satisfaction with service delivery in: (a) Roads, (b) Drainage, and (c) solid waste from 18%, 22% and 44% (baseline) to 50%, 80%, and 70% respectively (targets). Levels of current public satisfaction, as measured by the last Citizen Report Card, were 29%, 22% and 46% respectively. In addition, the triggers have been met as follows: (i) KCCA new organizational system is in place and operational, (ii) establish and implementation of a formal public consultation process, (iii) implementation of financial recovery action plan (FRAP), (iv) a comprehensive O&M plan for infrastructure in place, and (v) effective implementation of the infrastructure rehabilitation and maintenance in place. Given the change in investment lending policy, the team intends to move from an APL to an SOP.

18. In order to deepen institutional reforms and enhance city infrastructure for improved urban mobility and foster economic development, the interventions through KIIDP 2 will build on achievements under KIIDP 1 while taking into consideration the following (i) the Kampala Transport Improvement Plan (2003), (ii) the Kampala Drainage Master Plan (2003), (iii) the Kampala Physical Development Plan (2012), (iv) the new corporate strategy of KCCA (2012), (v) the proposed Bus Rapid Transport (BRT) system for the GMKA, (vi) the Kampala – Entebbe Super highway (2013), and (vii) the findings and recommendations of the Uganda Urbanization Review (2012) conducted as part of “Promoting Inclusive Growth” study.

19. Project Components - The project will have two components: (i) support to City Wide Road Infrastructure and associated investments, and (ii) Institutional and Systems Development Support. The preliminary descriptions of the components are presented below.

20. Component 1: City Wide Road Infrastructure and associated investments (Approx. US $190m). The objective of this component is to improve the quality of roads infrastructure and associated investments in Kampala City so as to improve mobility and enhance economic viability of the city. This component will complete some of the infrastructure investments which were designed but could not be implemented under KIIDP 1 due to inadequate funding. The component will therefore focus on road up-grades and traffic management (Motorized and NMT) and associated primary and secondary drainage improvements. Selection of roads to be upgraded will be based on their economic viability and complementarity to the BRT so as to improve mobility within the city and reduce congestion.

21. Given the inter-linkages between roads, drainage and traffic flow, this component will address these three transport elements in an integrated manner. Traffic improvement plans have been developed for the CBD and elsewhere in the City, in order to reduce congestion and improve road safety. The proposed plans range from changes in traffic circulation and introduction of one-way streets to major junction improvements and road widening schemes to remove traffic
22. About 200 KMs of roads in the City have attained the traffic threshold of 300 vpd and need to be upgraded to bitumen standard. In addition, to reduce traffic accidents the design of these roads needs to make provision for non-motorized transport (NMT) within the city. The component will therefore be used to widen and upgrade about 100 Kms - 200 Kms of city roads from gravel to bitumen standards. The Component will also upgrade associated primary and secondary drains which are linked to the roads network. In addition, the component will support KCCA in activities associated with the civil works implementation such as engineering designs, and implementation supervision.

23. Component 2: Institutional and Systems Development Support (Approx. US$10m). The objective of this component is to develop KCCA organizational capacity, revenue capacity, financial management, promotion of alternative service delivery mechanisms, and management of urban development. In doing this, the proposed KIIDP 2 will support KCCA to train its staff and use ICT as a means of automating its business processes to achieve real time responses to service delivery needs of its clients and citizens. Supporting the urban planning function of the city is so critical to ensure orderly urban planning, reduce the city's environmental footprint and boost economic development of the city. In order to enhance its own source revenue (OSR), KCCA will need to update its revenue data bases, refine its collection methodologies, procedures, and operations to reap the maximum result from the existing revenue sources which potentials are not yet fully utilized. KCCA has also started on the process of lobbying for the review of the Rating Act 2004 to make payment of the property tax mandatory to all people with properties in Kampala City. To improve the image, responsiveness to clients’ demand and credibility of KCCA, this component will also support social accountability activities such as KCCA day – once a year, CSOs and non-state engagements, and complaints/grievances handling mechanisms. This Component will also support project audit (financial and technical), MTR and preparation of future follow-on operation (funding for design/prepare bidding docs/ESMPs for future investments in the next project in the SOP).

IV. Safeguard Policies that might apply

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V. Financing (in USD Million)
Total Project Cost: 175.00  
Total Bank Financing: 175.00  
Total Cofinancing:  
Financing Gap: 0.00

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