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PROJECT PAPER

ON A

PROPOSED ADDITIONAL CREDIT

IN THE AMOUNT OF SDR 94.7 MILLION
(US\$150 MILLION EQUIVALENT)

TO THE

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

FOR THE

URBAN LOCAL GOVERNMENT DEVELOPMENT PROJECT

June 6, 2011

Urban and Water Unit
Sustainable Development Department
Africa Region

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Currency Equivalents

(Exchange Rate Effective June 6, 2011)

Currency Unit = Ethiopian Birr (ETB)
ETB 16.9 = US\$1
US\$ = SDR 0.631

Government Fiscal Year

July 8 – July 7

ABBREVIATIONS AND ACRONYMS

CAS	Country Assistance Strategy
CIP	Capital investment plan
CPP	Community Participation in Procurement
EFY	Ethiopia fiscal year
ESMF	Environment and Social Management Framework
FY	Fiscal year
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Society for International Cooperation)
GTP	Growth and Transformation Plan
ISR	Implementation Status and Results
MoFED	Ministry of Finance and Economic Development
MUDC	Ministry of Urban Development and Construction
O&M	Operations and maintenance
PBS	Protection of Basic Services Program
PDO	Project development objective
RPF	Resettlement policy framework
UGCBB	Urban Governance Capacity Building Bureau
ULG	Urban local government
ULGDP	Urban Local Government Development Project

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FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
ADDITIONAL FINANCING FOR THE
URBAN LOCAL GOVERNMENT DEVELOPMENT PROJECT

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ETHIOPIA

ADDITIONAL FINANCING FOR THE URBAN LOCAL GOVERNMENT DEVELOPMENT PROJECT

DATA SHEET

Basic Information - Additional Financing (AF)			
Country Director: Kenichi Ohashi	Sectors: Sub-national government administration		
Sector Manager/Director: Junaid Ahmad/ Jamal Saghir	(100%)		
Team Leader: Abebaw Alemayehu	Themes: Access to urban services and housing (p);		
Project ID: P125316	Municipal finance (p)		
Expected Effectiveness Date: September 30, 2011	Environmental category: B – partial assessment		
Lending Instrument: Specific Investment Loan	Expected Closing Date: December 31, 2014		
Additional Financing Type: Scale-up	Joint IFC:		
	Joint Level:		
Basic Information - Original Project			
Project ID: P101474	Environmental category: B, partial assessment		
Project Name: Urban Local Government Development Project	Expected Closing Date: December 31, 2014		
Lending Instrument: Specific Investment Loan	Joint IFC:		
	Joint Level:		
AF Project Financing Data			
<input type="checkbox"/> Loan <input checked="" type="checkbox"/> Credit <input type="checkbox"/> Grant <input type="checkbox"/> Guarantee <input type="checkbox"/> Other:			
Proposed terms: The Credit has a final maturity of forty years including a grace period of ten years.			
AF Financing Plan (US\$m)			
Component	IDA	Recipient	Total
1: Performance grants	142.0	58.0	200.0
2: Implementation support	6.0	0.0	6.0
Unallocated	2.0	0.0	2.0
Total Project Cost	150.0	58.0	208.0
New	150.0		
Recommitted	0.0		
Client Information			
Recipient: Government of the Federal Democratic Republic of Ethiopia			
Responsible Agency: Ministry of Urban Development and Construction			
Contact Person: Abuye Anley, Director, Urban Governance and Capacity Building Office			
Telephone No.: +251 (1) 0115550635			
Fax No.: +251 (1) 0115540630			
Email: udss@ethionet.et			
AF Estimated Disbursements (Bank FY/US\$m)			

FY	2012	2013	2014	2015		
Annual	40	60	50	0		
Cumulative	40	100	150	150		
Project Development Objective and Description						
<p>Project development objective: To support improved performance in the planning, delivery, and sustained provision of priority municipal services and infrastructure by Ethiopia’s urban local governments.</p> <p>Project description:</p> <p><i>Component 1: Performance grants (US\$142 million).</i> This component will support a grant transfer mechanism—in the form of a conditional specific purpose grant—to 19 of Ethiopia’s urban local governments. The grant mechanism is designed to promote positive change in the institutional performance of recipients, by offering higher levels of finance to better performing administrations.</p> <p><i>Component 2: Implementation support (US\$6 million).</i> This component will support technical assistance and training to assist 18 additional cities to build basic capacities in good governance to prepare them to participate in a potential second phase of the project anticipated to commence in 2014. It will also finance the management activities associated with program implementation, including establishment and operation of a monitoring and evaluation system, studies, training, and technical assistance.</p>						
Safeguard and Exception to Policies						
Safeguard policies triggered: Environmental Assessment (OP/BP 4.01) Natural Habitats (OP/BP 4.04) Forests (OP/BP 4.36) Pest Management (OP 4.09) Physical Cultural Resources (OP/BP 4.11) Indigenous Peoples (OP/BP 4.10) Involuntary Resettlement (OP/BP 4.12) Safety of Dams (OP/BP 4.37) Projects on International Waters (OP/BP 7.50) Projects in Disputed Areas (OP/BP 7.60)					<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
Does the project require any waivers of Bank policies? Have these been endorsed or approved by Bank management?					<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes <input type="checkbox"/> No	

Conditions and Legal Covenants:		
Financing Agreement Reference	Description of Condition/Covenant	Date Due
Article V (5.01)	The Recipient has revised the Operational Manual, as referred to in Section 5.01 (b) of the Original Financial Agreement in form and substance satisfactory to the Association.	Condition of effectiveness.

ETHIOPIA

ADDITIONAL FINANCING FOR THE URBAN LOCAL GOVERNMENT DEVELOPMENT PROJECT

1. Introduction

1. In a letter dated December 24, 2010, the Ministry of Finance and Economic Development (MoFED) requested additional financing for the Project to scale up its impact and development effectiveness. This Project Paper seeks the approval of the Executive Directors to provide an additional credit in an amount of SDRs 94.7 million (US\$150 million equivalent) to the Federal Democratic Republic of Ethiopia for the Urban Local Government Development Project (ULGDP, Project P101474) (Credit 4456-ET). Of this amount, US\$142 million is for performance grants, US\$6 million is for implementation support, and US\$2 million is unallocated. The proposed additional credit would help finance the costs associated with scaling up the project's activities to enhance the impact of this well-performing project. Specifically, the proposed Additional Financing would finance additional investments to improve the administration of the 19 participating cities and to help address a large infrastructure backlog. This will enable the administrations of the 19 cities currently benefiting from the project to further improve their performance in participatory planning, financial management, procurement, execution of infrastructure projects, and sustainable delivery of services. It will also assist 18 additional cities to build basic capacities in good governance to prepare them to participate in the second phase of the project anticipated to commence in 2014. The Additional Finance will result in the restructuring of the project, expanding the geographic coverage to an additional 18 cities (that will benefit from capacity building support under component 2), updating the results targets to reflect the scaling up of ongoing interventions in 19 cities, and substituting some of the original indicators with new ones designed to better track the outcomes of the project.

2. Background and Rationale for Additional Financing

Original Project Background

Country and sector context

2. Ethiopia is one of the least urbanized countries in Africa, with less than 16 percent of the population (about 12 million people) currently living in cities. However, the country's urban areas are among the fastest growing in Africa, with urban populations rising at about 4 percent per year. By 2020 cities are projected to be home to 30 percent of Ethiopia's population.

3. The urban economy is major driver of growth. Urban areas now account for over 55 percent of GDP. Moreover, about 60 percent of the growth in GDP in recent years is linked to the urban economy. Urban areas are expected to contribute even more under Ethiopia's new Growth and Transformation Plan for 2010/11–2014/15.

4. In 2008, a credit in the amount of US\$150 million equivalent was made available to the government for the Urban Local Government Development Project (ULGDP), under which 19 of

the largest cities in Ethiopia were able to avail annual grant funding for infrastructure and services based on their performance in key areas related to city management. The project has performed well, and the funds have been disbursed faster than anticipated. After two and a half years of the planned six-year implementation, the actual disbursements for the ULGDP total US\$101 million, or 67 percent of the original credit amount. These disbursements are significantly higher than the US\$56 million projected at the time of ULGDP approval for this point in project implementation.

5. The government's rationale in requesting additional financing stems from its acknowledgement of the key role that cities play in economic growth and development and from its desire to support and consolidate performance and service delivery improvements made possible under the ULGDP. As most cities will exhaust their performance allocation in fiscal 2011, additional funding would need to be made available in early fiscal 2012.

Institutional framework for urban local governments

6. Under the highly centralized Derg regime (1975 to 1991), Ethiopia's municipalities were marginalized and did not function as independent local authorities. After the fall of the Derg, the government adopted decentralization as the cornerstone for building a democratic country. Since 2000, proclamations to establish city governments have formed part of a large-scale reform of government resulting in the creation of institutional and legal frameworks for urban local governments. Combined with a commitment to fiscal decentralization, these reforms demonstrate the government's intention 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 and democratization, and enhance decentralized service delivery.

7. Under the decentralized system, Addis Ababa and Dire Dawa are federal chartered cities with the status of regions (whose city councils report directly to the federal government). Addis Ababa is Ethiopia's capital city and its largest with a population of over 2.7 million (about 23 percent of the country's urban population) and is twelve times larger than Dire Dawa, the second largest city. There are nine regional states, all of which have adopted city proclamations creating urban local governments which have the authority and mandate to raise revenues, deliver services and be accountable to their own councils (which report to the regional government). These urban local governments have a governance model that includes an elected council, an elected mayor, a mayor's committee and city manager system. About 84 cities have been granted this status, although this number increases regularly as more urban local governments are brought under the proclamations. Addis Ababa, Dire Dawa, and the urban local governments in Ethiopia comprise more than 60 percent of the total urban population. In most regions, the bureaus of urban development and construction are responsible for urban management and development issues within the regional government, supported by regional urban planning institutes.

8. Urban local governments in Ethiopia have been assigned dual responsibilities. These are the provision of "state services," such as education, health, justice and security, and the provision of "municipal services," such as urban roads, drainage, solid waste collection and disposal, and

sanitation. State functions are financed through regional to local block grant transfers, which are often barely enough to cover the recurrent needs in these sectors. All municipal functions are expected to be funded from own local revenues for both recurrent and capital expenditures. In reality, many services related to state functions are cross-subsidized through municipal or other revenues.

Bank's country assistance strategy

9. The project is an integral element of the Country Assistance Strategy (CAS), discussed by the Board on November 27, 2008. The CAS has four strategic objectives. These are: (a) fostering economic growth (b) improving access to and quality of basic service delivery, (c) reducing vulnerability, and (d) fostering improved governance. The ULGDP supports all four strategic objectives. It helps to foster economic growth by improving infrastructure and services in urban areas, which are central to the country's GDP growth. It supports improvements in delivery of services through investments in the software of city administration and in infrastructure. It helps 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. Finally, it promotes improved urban governance by providing resources on the basis of performance in participatory planning, financial management, procurement, execution of infrastructure projects, and sustainable delivery of services. The project is fully consistent with the World Bank's new strategy for Africa.¹

Original project development objectives and description

10. The development objective of the ULGDP is to support improved performance in the planning, delivery, and sustained provision of priority municipal services and infrastructure by Ethiopia's urban local governments.

11. The project comprises two components, (1) performance grants, and (2) implementation support. Component 1 supports a grant transfer mechanism—in the form of a conditional Specific Purpose Grant fully integrated within the intergovernmental fiscal framework—to Ethiopia's urban local governments. It supports 19 urban local governments, including Addis Ababa, Dire Dawa and four regional capitals.² The 19 cities are home to about 5 million people, or 42 percent of Ethiopia's urban population.³ Component 2 supports project management and technical support, including a monitoring and evaluation system, annual urban local government performance assessments, training, and technical assistance in environment and social management, procurement, financial management, and other areas to strengthen capacity of the Ministry of Urban Development and Construction (formerly known as the Ministry of Works and Urban Development) and of urban local government to effectively execute their

¹ "Africa's Future and the World Bank's Support to It." March 2011. Available at http://siteresources.worldbank.org/INTAFRICA/Resources/AFR_Regional_Strategy_3-2-11.pdf.

² The 19 urban local governments are the chartered cities of Addis Ababa and Dire Dawa; Bahir Dar, Kombolcha, Gondar and Dessie in Amhara Region; Mekelle, Adigrat, Axum and Shire Endeselassie in Tigray Region; Adama, Bishoftu, Jimma and Shashemene in Oromia Region; Awassa, Arbaminch, Wolayta Sodo and Dilla in Southern Nations, Nationalities, and Peoples Region; and Harar in Harari Region. In this document, the words "cities" and "ULGs" are used interchangeably to refer to all 19, unless otherwise specified.

³ Ethiopia 2007 population census.

responsibilities. About 97 percent (US\$145 million) of the IDA credit is allocated for the performance grants, 2 percent (US\$3 million) for implementation support, and the remainder (US\$2 million) for contingencies.

Original project financing and effectiveness

12. The original project's estimated cost was US\$208.0 million, of which the Bank financed SDR 93.8 million (US\$150 million equivalent). The project was approved by the Board on May 29, 2008, and became effective on November 10, 2008. The initially established deadline for effectiveness of the project (September 11, 2008), was extended by three months in order to enable the government to meet the conditions of effectiveness, including the (a) recruitment and deployment of an accountant at the Ministry of Finance and Economic Development (MoFED), (b) training on financial management procedures to relevant project staff, and (c) the preparation and adoption of the Operational Manual (including the financial management guidelines) and the project implementation plan, all in form and substance satisfactory to the Association. The project team is now fully staffed, key staff have been trained and are working on the project implementation, and the Operational Manual is in place and in use.

Project performance

13. The ULGDP is performing above expectations. The project has been consistently rated as satisfactory for both the project development objective and implementation progress. The outputs and outcomes recording in the most recent Implementation Status and Results report (ISR) reveal that its impact so far has been better than the targets set out in the Project Appraisal Document (PAD). The government is committed to the project, and has complied with the covenants specified in the Financing Agreement. There are no outstanding or unresolved fiduciary, environmental, or social safeguard problems. Safeguard compliance specifically with regard to policies on environmental assessment, physical cultural resources, and involuntary resettlement have been consistently rated satisfactory, including in the most recent ISR dated (January 2011).

14. An assessment of the project's financial management arrangements, including compliance with the legal covenants related to financial management, found that they provide reasonable assurance that the project funds are being used for the intended purposes. The project account has been audited for the fiscal years ending July 7, 2009 and 2010, and an unqualified report has been issued for both years. Procurement is proceeding moderately satisfactorily, with some delays, particularly at the federal government level. Monitoring and reporting are generally satisfactory. Recent ISRs rate financial management, procurement, and counterpart funding as moderately satisfactory. Financial management weaknesses result from delays in submitting interim financial reports and audit reports and from some inaccuracies in the data reported. Procurement weaknesses are due to delays in submitting procurement plans to the Bank for approval and in executing the plans according to the timetable. Less than satisfactory counterpart funding is due to delays of some cities and regions in depositing in the project account their counterpart contributions for the project. Action plans have been agreed with the Urban Governance Capacity Building Bureau (UGCBB) at the Ministry of Urban Development and Construction (MUDC) to upgrade these ratings to satisfactory.

15. The project supports a grant transfer mechanism—in the form of a conditional specific purpose grant—to 19 of Ethiopia’s urban local governments. The grant mechanism is designed to promote positive change in the institutional performance of recipients, by offering higher levels of finance to better performing administrations. Performance of the participating cities, as verified by the independent assessors, has improved significantly under the ULGDP. Citizen participation in investment planning has increased dramatically across the board, and investment plans are now closely aligned with the expressed priorities of citizens. All of the cities are recording strong gains in own revenue generation. All cities have prepared asset management plans, and allocated funding to operate and maintain the assets. Most cities have cleared audit backlogs and are now regularly disseminating information to the public through a variety of media. Cities have also constructed or upgraded their infrastructure. For example, some 204 kilometers of cobblestone roads have been constructed. These have greatly improved access and drainage, while also creating more than 70,000 jobs specifically targeted to the urban poor, including women (50 percent of workers) and the handicapped. Cities have also constructed new water points, markets, sanitation facilities, retaining walls, and solid waste disposal facilities. An estimated 2.4 million people living in the 19 participating cities have so far directly benefited from the infrastructure investments and upgrades.

Rationale for Recipient to request Additional Financing

16. Disbursements under the project are significantly ahead of forecasts. After two and a half years of the planned six-year implementation, the actual disbursements for the ULGDP total US\$101 million, or 67 percent of the original credit amount of US\$150 million equivalent. These disbursements are significantly higher than the US\$56 million projected at the time of ULGDP approval for this point in project implementation.

17. Disbursements are ahead of forecasts because allocations to cities—which are based on performance across a range of measures—have been much higher than expected at the time the project was prepared. On the basis of good performance, as confirmed by a team of independent assessors, 13 of 19 cities have qualified for accelerated funding and the remaining six are eligible for full funding. Cities qualify for accelerated funding if they make adequate progress in implementing their capital investment plans and meet minimum standards for five of the six performance measures. The performance measures are (a) timely submission of all progress reports to regions; (b) timely submission of annual updates of three-year rolling plans and budgets and annual action plans, including evidence of effective public participation in defining the annual updates; (c) achievement of annual targets in revenue generation and implementation of accounting system improvements; (d) submission of annually updated infrastructure asset inventories; (e) timely submission of external audits; and (f) evidence of effective public dissemination of information on budgets, expenditures, physical progress of investments, and results of bid evaluations and contract awards.

18. With the fiscal 2011 (Ethiopian fiscal year 2003) allocations to cities, the initial IDA credit will be substantially committed. Therefore additional funding will be necessary to finance activities during 2012–2014. Indeed, during preparation of ULGDP, the government estimated the investment needs of the six-year project to be US\$416 million, and that with the US\$150

million IDA credit, the project would be completed in three years. Based on the experience of the Capacity Building for Decentralized Service Delivery—a three-year project that ultimately required six years to complete—the Bank team and the government maintained the six year implementation period, with the understanding that Additional Financing could be mobilized in the event that implementation proceeded on an accelerated timetable.

Rationale for Additional Financing, rather than alternatives

19. The proposed Additional Financing would finance investments to improve the administration of the 19 participating cities and to further reduce the gap in the large infrastructure backlog that exists in these cities. These investments would permit the scale up of the project’s impact and development effectiveness. Additional Financing for expanded activities is considered the best mechanism to maximize development impact and results in the urban local government sector. The Recipient is fully committed to scaling up the project activities, and processing an additional credit would bring procedural and other cost-effectiveness gains for the Recipient, as compared to preparing a new project. Moreover, the scale-up of activities can be easily accommodated in the context of the ongoing project, as implementation will rely on the borrower’s existing capacity and existing project arrangements. The additional activities will not raise the environmental category of the original project (category B) or trigger any new safeguard policies. Several changes to the project’s key performance indicators are proposed for the original project to reflect the Bank’s core indicators. These will be also used to monitor the outcomes of the proposed Additional Financing.

Consistency with OP/BP 13.20

20. The proposed Additional Financing is fully consistent with OP/BP 13.20. Activities would be completed by the original project closing date of December 31, 2014, meaning that the Additional Financing will not require an extension of the current project closing date. The economic justification for the additional activities remains the same as in the original project, and the project remains economically feasible with the Additional Financing. The proposed operation is consistent with the Ethiopia’s Growth and Transformation Plan (GTP) for 2010/11–2014/15 that names urban development as a priority. The proposed activities are fully consistent with the Bank’s current Country Assistance Strategy for Ethiopia, discussed by the Board on November 27, 2008.

Moving towards sustainability

21. The ULGDP matching grant mechanism is explicitly designed to support Ethiopia’s urban local governments in achieving operational and financial sustainability. Cities are expected to be eligible for matching grants from the federal government for a fixed period of time, approximately 5–6 years. During that eligibility period, participating cities build both their asset and revenue bases to the point at which they will “graduate” to self-sustaining operations and creditworthiness. Once creditworthy, the cities should be able to access the domestic financial market to fund future investments in “lumpy” infrastructure, debt servicing for which will be met from the cities’ improved revenue bases.

22. During preparation of the Additional Financing, the Ministry of Urban Development and Construction (MUDC) clarified its intention to help all 61 priority ULGs to build the capacity to effectively deliver infrastructure and services. MoFED also emphasized that the GTP places a clear priority on urban development. In the next Ethiopian fiscal year, MoFED indicated that block grants to regions will be significantly increased, and that regions will be encouraged to utilize the additional resources to meet GTP objectives, including through increased transfers to ULGs. MUDC further indicated that discussions are underway with regions and ULGs to increase their matching funding for the ULGDP to 25 percent each, from the current 20 percent each.

23. Another important element of program sustainability is developing the internal capacity at the federal and regional level to support capacity building in the urban local governments. The ULGDP is helping to strengthen the capacity of the Urban Governance Capacity Building Office (UGCBB) at the MUDC so that it can continue to support cities over the medium to long terms. Similarly, GIZ is strengthening the capacity of the regional administrations so that they can take over from GIZ in assisting cities. The Urban Management Master's Degree program established at the Ethiopian Civil Service College, with support from the earlier Bank-financed Capacity Building for Decentralized Service Delivery Project (scaled-up under the Bank-financed Public Sector Capacity Building Project), will continue to train people to manage cities. Since 2007, over 2,000 people have graduated from the program. Each year about 700 new students enroll in the program, ensuring that highly qualified professionals will be available in the future to staff urban administrations. In addition, the MUDC is working with the Ministry of Education to provide technical and vocational training to city workers in key urban development issues—including service delivery, land management, and construction—as part of an overall effort to support ULGs in developing its human resources.

3. Proposed Changes

24. No changes are proposed to the project's development objectives, design, or implementation arrangements. The project's scope would increase, both by scaling up support to the 19 cities currently participating in the project and by assisting 18 additional cities to build basic capacities in the areas of capital investment plan preparation, asset management, financial management and revenue enhancement to prepare them for participation in a potential second phase of the project. The overall cost of the project will approach US\$416 million, or some US\$208 million more than what was originally estimated. With the US\$150 million in Additional Financing, IDA's contribution to the overall project will be US\$300 million. Matching financing from the participating cities (20 percent) and regions (20 percent) will be available, given the strong revenue performance of all participating cities.

25. The Additional Financing will support the same types of activities as in the original project, specifically local roads, water, sanitation, solid waste management, markets, terminals, and other infrastructure for which urban local governments are responsible. As with the original project, funds will be provided through performance grants. This approach has proven highly successful in focusing the administrations of urban local governments on performance in planning, budgeting, financial management, the preparation and implementation of participatory capital investment plans, operations and maintenance, and the preparation and implementation of

revenue enhancement plans and of asset management plans. No changes are proposed in the project's financial management, disbursement arrangements, or procurement arrangements.

Component 1: Performance grants (US\$200 million, of which IDA US\$142 million)

26. Under this component, grants will be disbursed to eligible ULGs on the basis of performance along a range of measures designed to encourage them to develop their capacities to deliver on their responsibilities in a decentralized system. In addition to the performance measures presented in paragraph 16, performance measures on procurement and environmental and social safeguard management have been added. Moreover, cities will have to meet increasingly stringent performance targets to be eligible for accelerated funding to ensure that the cities that can best make use of the funds receive the largest share of the Additional Financing. For example, to qualify for funding for fiscal 2013, cities are expected to not only submit external audit reports to the regional governments in a timely manner, but also to receive an audit report which is unqualified or qualified with minor comments. Annex 3 presents the detailed performance measures to be used in assessing cities' performance under the Additional Financing.

27. The performance grants will be provided in three rounds, with the first round of US\$40 million to be made available for use in fiscal 2012 (EFY 2004). Grants will be allocated to all eligible ULGs on the basis of their performance during fiscal 2010 (EFY 2002), as recorded in the annual performance assessment. A second round of US\$60 million will be awarded in fiscal 2013 to ULGs based on their performance during fiscal 2012 (EFY 2004), and a third round of US\$40 million will be disbursed in fiscal 2014 on the basis of performance during fiscal 2013 (EFY 2005).

Component 2: Implementation support (US\$6 million from IDA)

28. The Additional Financing will assist an additional 18 cities that are relatively advanced in developing administrative capacity and are committed to good governance to prepare them to benefit from performance grants in a potential second Bank-financed ULGDP. Specifically, this subcomponent will first assist the government conduct an analysis of capacity in the 18 cities. It will then help cities to strengthen capacity in preparing participatory capital investment plans, improving financial management (including revenue enhancement and asset management) and procurement, strengthening the link between citizens and the city administration through dissemination to the public of key information, enhancing environmental and social management, and other areas identified in the capacity gap analysis. This component will also continue to finance project management activities, including establishment and operation of a monitoring and evaluation system, preparation and rolling out of a municipal performance measurement system, studies, training, and technical assistance. This component will also support training of ULG staff in areas related to urban management.

Table 1: ULGDP costs and financing by component (US\$ million)*

Component	Original cost*	Changes with Additional Finance*	Revised Cost	Government Financing	IDA Financing	% IDA Financing
1. Performance grants	203	200	403	116	287	71
2. Implementation support	3	6	9	0	9	100
Unallocated	2	2	4	0	4	100
Total project costs	208	208	416	116	300	72
Total financing required	208	208	416	116	300	72

* Includes counterpart funding from the government

Project development objective level results indicators

29. Several changes to the project's key performance indicators are proposed for the Additional Financing. Several of the original indicators have been dropped because of measurement difficulties. In their place, Bank core indicators for urban programs have been added. Outcome targets have been adjusted upwards to reflect the expected increased impact of the project with respect to both administrative performance of cities and in delivery of infrastructure and services. Specifically, more cities are now expected to submit timely audit reports which are unqualified or qualified with minor comments. More cities are also expected to achieve at least 85 percent of revenue targets. Cities are now also expected to demonstrate that they have largely spent the funds they have allocated for operations and maintenance.

30. Key project outcome indicators proposed are:⁴

- ULGs that achieve targets specified in ULG revenue enhancement plans (number that achieve 85 percent of targets by end fiscal 2014).
- Urban local governments producing timely external audit reports, which are either unqualified, or qualified with minor comments (number).
- Urban local governments using 75 percent of annual operations and maintenance budgets as specified in their CIPs (number).
- Direct project beneficiaries (number), of which female (percent).
- People in participating urban local governments provided with access to all-season roads within a 500 meter range under the ULGDP (number).

4. Appraisal Summary

Economic and financial analyses

31. **Economic analysis.** The ULGDP is a framework-type project, meaning that the investments are not known in advance of Board approval. Urban local governments will choose to invest from the menu of legally mandated municipal infrastructure (for example, local roads,

⁴ The final two indicators are core indicators for the Bank.

water, sanitation, solid waste management, markets, and bus terminals). Economic rates of return for various infrastructure investments have been estimated for the original project. Estimates of rates of return for investments financed under the Additional Finance will follow the approach of the original project. Cost-benefit analyses are not required for the project's institutional strengthening, enhancing tenure security, or planning for urban growth components.

32. **Financial analysis.** All investments will require funds for operations and maintenance (O&M). As part of their proposals for financing, municipalities will be required to provide estimates of costs for O&M over the expected life of the subproject and plans of how the costs will be financed, including through user fees (markets and solid waste management), or budgetary allocations (drainage, disaster management facilities and equipment, public parks, and street lighting). The O&M plans for subprojects will generally be carried out as part of the feasibility studies for the subprojects. The planned expenditures for O&M of infrastructure for which ULGs are responsible will be reflected in the proposed CIPs and budgets for the municipalities. Actual spending on O&M in relation to planned/budgeted expenditures is a PDO outcome indicator for the project.

33. **Fiscal impact.** The ULGDP is expected to have a positive impact on the nation's fiscal framework by strengthening municipal governance, revenue performance, and financial management. 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 ULGDP will demonstrate the benefits of transferring federal funds to ULGs through conditional block grants to encourage good performance. It will help the government to establish such a mechanism as part of Ethiopia's fiscal architecture. The project also contributes to improved accountability mechanisms by supporting the existing financial management and procurement systems of urban local governments.

Financial management

34. **Financial management assessment.** The objective of the assessment was to determine the adequacy of the project's proposed financial management arrangements and whether they meet IDA's requirements as per OP/BP10.02. The assessment included the identification of financial risks that may affect project implementation and risk mitigation measures. The financial management residual risk rating for the project has been assessed as "medium risk, high impact." There is no change to the current/existing financial management arrangements as a result of the additional financing. It is the conclusion of team that the project's existing financial management arrangements, based on recent ISRs and in-depth reviews, meet the Bank's minimum requirements under OP/BP10.02 and that the current system provides the necessary reasonable assurance that Bank loan proceeds are being used for the intended purposes, provided the government continues to implement the capacity building action plan agreed between the two parties.

35. **Funds flow.** Funds flow mechanisms will be the same as those being used by the existing project. Funds flow will follow the standard government mechanisms for Channel 1B (budget proclaimed at federal level), with funds flowing from the Ministry of Finance and

Economic Development to bureaus of finance and economic development to ULGs; separate project accounts at regional and ULG levels, and report-based replenishment of funds. The ULGDP funds will flow using the government system and based on annual plans, budgets and cash forecasts submitted quarterly through interim unaudited financial reports. The project team will every quarter monitor reconciliation of accounting records with interim financial reports, and work with the government to address any issues that may arise. Details of the financial management arrangements are presented in the project's Operations Manual, which has been cleared by the Bank.

Procurement

36. **Bank guidelines to apply to procurement under the ULGDP.** Procurement associated with the project activities supported through the additional financing would be carried out in accordance with the World Bank's "Guidelines for Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers, dated January 2011," and "Guidelines for Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers, dated January 2011." Implementation of the project will be in accordance with the Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants," dated October 15, 2006 and revised in January 2011.

37. **Procurement risk assessment.** Despite some progress in building capacity for procurement, a procurement assessment shows that there is a capacity constraint at the ULGs and at UGCBB to carry out procurement activities related to ULGDP. The main issues include: (a) inability of ULGs to attract and retain adequately trained and experienced staff; (b) poor procurement oversight systems at ULGs, (c) change of institutional procurement arrangement at the MUDC from the initially agreed arrangements, where it was established that UGCBB would be responsible for procurement under International Competitive Bidding and for component 2 activities; (d) need for clearly defined roles and responsibilities at the MUDC. As a result, procurement risk continues to be assessed as 'high.' Risk mitigating measures have been agreed with UGCBB. The initial procurement arrangements under the project shall remain valid and will continue under the Additional Financing. The following actions to improve procurement capacity are agreed with UGCBB. The Bank's procurement specialists will, during implementation support missions, monitor its implementation and continuously assess the level of procurement risk.

- Conduct procurement training annually for ULG procurement staff using the services of a procurement consultant.
- Conduct regular procurement training at city or regional level for all ULG staff involved in the ULGDP through UGCBB procurement specialists.
- UGCBB will develop a user-friendly project procurement manual consistent with World Bank procurement Guidelines of January 2011 by end June 2011 and use it for continuous training and re-training of all ULGDP staff.
- ULGs shall strengthen an internal procurement audit system.

- UGCBB shall be responsible and accountable for procurement through International Competitive Bidding and component 2 activities. UGCBB will continue to retain two procurement specialists, who will also assist ULGs.

38. **Cobblestone roads.** Cobblestone roads construction constitutes a major share of infrastructure investments in all cities. The implementation of cobblestone projects is for the most part carried out through micro and small enterprises using the community participation in procurement (CPP) method. The Manual for Community Participation in the Procurement and Construction of Cobblestone Roads under ULGDP was revised in June 2010 and agreed with the Bank. The CPP manual emphasizes the need for competitiveness in procurement for cobblestone works to ensure efficiency and economy. The manual also recognizes the need for allowing a learning period for cities during the initial year of implementation of cobblestone projects. The cities shall fully implement the provisions of the CPP manual, and micro and small enterprises will bid for works contracts in competition between themselves and with other licensed contractors. To address quality concerns, ULGs shall employ professional supervision services for all cobblestone road projects. Quality assurance and progress reports shall be prepared for the projects and provided to UGCBB.

39. **Procurement plan.** The existing procurement plan for the ULGDP remains valid until the end of fiscal 2011. Cities are updating their rolling three-year capital investment plans and their procurement plans for fiscal 2012. The procurement plan for component 2 has been updated and agreed to reflect the technical assistance that will be provided to the 18 new cities benefiting from capacity building support.

Social

40. **Participatory approach and social accountability.** The project promotes participatory decision making for capital investments at the local levels, and promotes improved downward accountability of local government budgets and expenditures. More broadly, it seeks to strengthen mechanisms for downward accountability in ULGs by promoting public dissemination of key information and encouraging citizen participation in planning and monitoring implementation of capital investment projects. A performance criterion for cities to access funds for the following year is evidence that diverse stakeholder groups participated in public forums to set investment priorities and that the final CIP is endorsed by the city council. The Bank will encourage all cities to use the new financial accountability and transparency tools, developed under the Protection of Basic Services (PBS) Program, in disseminating key information to the public. In addition, the ULGDP team will work with PBS's social accountability team to strengthen citizens' participation in monitoring the performance of municipalities, with the ultimate objective of making basic service delivery more effective, efficient, transparent, responsive, and accountable. For example, the social accountability team can give priority to ULGDP cities and services when they roll out accountability tools in the next phase of the PBS. Through such approaches, the ULGDP is expected to promote good governance.

41. **Emphasis on job creation.** ULG investments in improved services and infrastructure are expected to have positive social benefits by improving access of residents to basic municipal

services and improving their living conditions. Each ULG will be encouraged to prioritize investments that use labor-based technologies (including through the employment of micro and small enterprises) and promote use of local materials. This approach has proven an excellent way of providing employment for women and disadvantaged people, and generates further economic activity through spillovers. MUDC's gender mainstreaming strategy will apply equally to ULGDP, with a focus on ensuring women's participation in the investment planning process, and monitoring of jobs created for women.

42. **Safeguards.** The project will provide performance grants which will constitute the vast majority of the project funds and which will be disbursed based on cities performance across a range of measures, one of which is compliance with the Bank's Safeguard Policies. Given that the specific locations of individual investments are not known in advance of cities' preparation of their annual capital investment plans, an ESMF and a RPF have been prepared to address the potential negative environmental and social impacts. The government has also recently prepared environmental and social management guidelines for cobblestone quarry sites. As some 60 percent of project finance is used to build cobblestone roads, this is an important document. The government and the Bank will monitor its use throughout project implementation. During implementation of the original project, an environmental impact assessment, an environmental and social management plan, and a Resettlement Action Plan (RAP) for a sanitary landfill subproject were prepared, as the latter involved land acquisition and involuntary resettlement. In the Additional Financing, as in the Original Project, the Involuntary Resettlement Policy OP 4.12 will be triggered when a proposed investment project to be financed under the Additional Finance involves the involuntary taking of land resulting in relocation or loss of shelter, loss of assets or access to assets; or loss of income sources or means of livelihood, whether or not the affected persons must move to another location. The project investments will follow the process and guidelines proposed in the RPF. RAPs will be prepared as and when necessary.

43. Anticipated ULG investments include roads, integrated infrastructure and land services, sanitation, solid waste management, water supply, and urban drainage in the 19 participating urban local governments. In general, these investments are expected to have a positive impact on the environment, particularly investments related to solid waste management, sanitation and drainage.

44. The investments, however, could also have potential negative environmental impacts. The potential direct environmental impacts associated with the investments include: damage/destruction to cultural heritage, soil erosion, exploitation of natural resources, and depletion and pollution of surface and ground water resources. The Environment and Social Management Framework (ESMF) will assist subproject implementers in the identification, assessment, mitigation and monitoring of potential adverse environmental impacts of future subprojects, including provisions for addressing physical cultural resources as required under OP 4.11.

45. The ESMF constitutes an environmental and social screening process for subprojects. In addition, the ESMF includes: (a) guidelines for contractors to ensure environmentally and socially sustainable construction techniques, including handling of cultural heritage sites; (b) the institutional responsibilities for implementing the ESMF as well as related cost estimates; and (c)

a capacity building plan for training ULG and regional authorities in ensuring compliance with the framework. During implementation of the original project, environmental and social management plans have been prepared as necessary; the same shall be done for the Additional Financing.

46. The expanded activities made possible with the Additional Financing do not raise the environmental category of the project, which remains at B, partial assessment. Nor do they trigger any additional safeguard policies.

Policy exceptions and readiness

47. The proposed Additional Financing does not require any exceptions to Bank policies. The Additional Financing complies with the Regional criteria for readiness for implementation. A procurement plan for the first 18 months of project implementation has been prepared. Core staff are in place at the MUDC and in the urban administrations.

Annex 1: Results Framework and Monitoring

ETHIOPIA: Urban Local Government Development Project

Results Framework

Revisions to the Results Framework		Comments/ Rationale for Change
PDO		
<i>Current (PAD)</i>	<i>Proposed</i>	
To support improved performance in the planning, delivery, and sustained provision of priority municipal services and infrastructure by urban local governments.	To support improved performance in the planning, delivery, and sustained provision of priority municipal services and infrastructure by urban local governments.	No change
PDO indicators		
<i>Current (PAD)</i>	<i>Proposed change*</i>	
1. Urban local governments that increase the number of citizens groups participating in the CIP planning process (number that achieve a 50% increase and a 75% increase).	The original indicator has been moved to intermediate results.	The team has been advised that PDO level indicators should number no more than five.
2. Alignment of Capital Investment Plans with surveyed infrastructure service delivery priorities of citizens.	Dropped.	The current PDO indicator is difficult to measure. Replaced with a core indicator for the Bank relating to urban infrastructure (new PDO indicator 5).
3. % achievement of targets under the ULG revenue enhancement plans	1. ULGs that achieve annual targets specified in ULG revenue enhancement plans (number that achieve an 85% increase at the end of calendar 2014).	The indicator is now more clearly specified.
4. # of ULGs producing timely external audit reports.	2. Urban local governments producing timely external audit report, which is either unqualified, or qualified with minor comments (number).	The new indicator reflects the improved performance expected from the cities as a result of the Additional Financing.
5. % of infrastructure assets the condition of which has improved	3. Urban local governments using 75 percent of annual operations and maintenance budgets as specified in their CIPs (number).	The new indicator is measurable and focuses attention on the important issue of operations and maintenance.
6. # of ULGs disseminating information to the public on budgets (including investment plans); expenditures; physical progress of investments; and results of bid evaluations and contract awards.	The original indicator has been moved to intermediate results.	The team has been advised that PDO level indicators should number no more than five; the original indicator does not directly align to the PDO.
	4. Direct project beneficiaries (number), of which female (percent).	The new indicator is a core indicator for the Bank.

Revisions to the Results Framework		Comments/ Rationale for Change
7. Increase in ULGs' infrastructure assets.	5. People in participating urban local governments provided with access to all-season roads within a 500 meter range under the ULGDP (number).	It is difficult to calculate a figure representing the increase in different types on infrastructure. The new indicator is also more relevant and a core indicator for the Bank.
8. For a sample of capital investments, % value that are of appropriate standards suited to local conditions and needs.	Dropped.	The original indicator is difficult to measure.
Intermediate Results indicators		
<i>Current (PAD)</i>	<i>Proposed change*</i>	
Each ULG submits approved capital investment plan (CIP) with evidence of adequate participation.	ULGs submitting approved CIP with evidence of adequate participation (number).	No substantive change.
	ULGs that increase the number of citizens groups participating in the CIP planning process (number that achieve an 85 percent increase over the baseline).	Moved from PDO indicator set.
	ULGs disseminating information to the public on budgets (including investment plans), expenditures, physical progress of investments, and results of bid evaluations and contract awards (number).	Moved from PDO indicator set.
Each ULG prepares 3-year rolling budget.	ULGs preparing 3-year rolling budget (number).	No substantive change.
% of annual financial reports prepared on time and as per required format.	ULGs preparing annual financial reports on time and as per required format (number).	No substantive change.
Each ULG prepares and adopts a revenue enhancement plan.	ULGs preparing and adopting a revenue enhancement plan (number).	No substantive change.
Infrastructure asset inventories updated annually indicating additional assets and condition of existing assets.	ULGs submitting annually updated infrastructure asset inventories indicating additional assets and condition of existing assets (number).	No substantive change.
	Roads constructed non-rural under the ULGDP (kilometers).	The new indicator is a core indicator for the Bank.
	Drainage systems constructed under the ULGDP (kilometers).	The new indicator reflects infrastructure in which most cities are investing.
	Improved community water points constructed or rehabilitated under the project (number).	The new indicator is a core indicator for the Bank.
	People in urban areas provided with access to "Improved Water Sources" under the project (number).	The new indicator is a core indicator for the Bank.
	New cities meeting access criteria for a potential second ULGDP (number).	This indicator reflects the support under the Additional Finance to 18 new cities.

* Indicate if the indicator is Dropped, Continued, New, Revised, or if there is a change in the end of project target value

REVISED PROJECT RESULTS FRAMEWORK

Project Development Objective												
To support improved performance in the planning, delivery, and sustained provision of priority municipal services and infrastructure by Ethiopia's urban local governments.												
PDO Level Results Indicators	Core	Unit of Measurement	Baseline Original Project Start (EFY 2001) (2009)	Progress To Date (EFY2002) (FY2010) ⁵	Cumulative Target Values ⁶					Frequency	Data Source/ Methodology	Responsibility for Data Collection
					EFY 2003 FY 2011	EFY 2004 FY 2012	EFY 2005 FY 2013	EFY 2006 FY 2014	EFY 2007 FY 2015			
1. ULGs that achieve annual targets specified in ULG revenue enhancement plans (number that achieve an 85% increase at the end of calendar 2014).	<input type="checkbox"/>	Number	0	19 cities have achieved 75% of their revenue targets. 4 cities achieved 100% or more of their revenue targets.	19 cities meet 75% of their targets.	19 cities meet 80% of their targets.	19 cities meet 85% of their targets.	19 cities meet 85% of their targets.	19 cities meet 85% of their targets.	Annually	Annual performance review.	UGCBB
2. Urban local governments producing timely external audit report, which is either unqualified, or qualified with minor comments (number).	<input type="checkbox"/>	Number	0	11 cities have external audit reports for FY 2009. Of these, 11 are qualified with minor comments and submitted on time/available during	13	15	17	18	19	Annually	Annual performance review.	UGCBB

⁵ For new indicators introduced as part of the additional financing, the progress to date column is used to reflect the baseline value.

⁶ Target values should be entered for the years data will be available, not necessarily annually. Target values should normally be cumulative. If targets refer to annual values, please indicate this in the indicator name and in the "Comments" column.

Project Development Objective

To support improved performance in the planning, delivery, and sustained provision of priority municipal services and infrastructure by Ethiopia's urban local governments.

PDO Level Results Indicators	Core	Unit of Measurement	Baseline Original Project Start (EFY 2001) (2009)	Progress To Date (EFY2002) (FY2010) ⁵	Cumulative Target Values ⁶					Frequency	Data Source/ Methodology	Responsibility for Data Collection
					EFY 2003	EFY 2004	EFY 2005	EFY 2006	EFY 2007			
					FY 2011	FY 2012	FY 2013	FY 2014	FY 2015			
				the first assessment.								
3. Urban local governments using 75 percent of annual operations and maintenance budgets as specified in cities' CIPs (number).	<input type="checkbox"/>	Number		0	10 out of 19 cities meet 75% of their targets.	12 meet 75% of their targets	14 meet 75% of their targets.	15 cities meet 75% of their targets.	16 cities meet 75% of their targets.	Annually	Annual performance review	UGCBB
4. Direct project beneficiaries (number), of which female (percent). ⁷	X	Number and percent		0	2.5 million (50% female)	2.6 million (50% female)	2.7 million (50% female)	2.8 million (50% female)	2.85 million (50% female)	Annually	Census, and Annual performance review.	UGCBB
5. People in participating urban local governments provided with access to all-season roads within a 500 meter range under the ULGDP (number). ⁸	X	Number		0	1.3 million	1.4 million	1.5 million	1.5 million	1.5 million	Annually	Annual performance review	UGCBB

⁷ Direct beneficiaries are people or groups who directly derive benefits from the project intervention (for example, people living in cities who benefit from improved roads, or people who benefit from improved drainage systems). People who benefit from more than one intervention (for example, people benefiting from both improved roads and drainage systems) will be counted only once with respect to this indicator. In 18 cities except for Addis, it is estimated that the entire cities' population is benefiting from project's investments in infrastructure and services. It is estimated that 200,000 people in Addis are benefiting from the ULGDP-financed infrastructure and services. It is estimated that the population of cities is growing at about 4 percent a year.

⁸ The number of beneficiaries has been estimated by assessing the kilometers of roads constructed or rehabilitated, and estimating the population in the project area within a 500 meter range that will access these roads (based on population density estimates). Estimates for FY2012–14 are provisional. They will be updated based on cities' updated capital investment plans.

Intermediate Results and Indicators												
Intermediate Results Indicators	Core	Unit of Measurement	Baseline Original Project Start (EFY 2001) (2009)	Progress To Date (EFY2002) (FY2010) ⁹	Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection
					EFY 2003 FY 2011	EFY 2004 FY 2012	EFY 2005 FY 2013	EFY 2006 FY 2014	EFY 2007 FY 2015			
Intermediate Result 1: Enhanced participatory planning processes												
ULGs submitting approved CIP with evidence of adequate participation (number).	<input type="checkbox"/>		0	18	19	19	19	19	19	Annually	Annual performance review	UGCBB
Urban local governments that increase the number of citizens groups participating in the CIP planning process (number achieving an 85% increase over baseline).	<input type="checkbox"/>	Number	0	13 cities have achieved 50% increase over the baseline. 6 cities have achieved 75% increase over the baseline.	10 cities achieving 85% increase over baseline	13 cities achieving 85% increase over baseline	16 cities achieving 85% increase over baseline	19 cities achieving 85% increase over baseline	19 cities achieving 85% increase over baseline	Annually	Annual performance review	UGCBB
Intermediate Result 2: Improved transparency												
ULGs disseminating information to the public on budgets (including investment plans), expenditures, physical progress of investments, and results of bid evaluations and contract awards (number).	<input type="checkbox"/>	Number	0	All 19 cities are disseminating key information on city functions. However, 5 cities need to improve	19	19	19	19	19	Annually	Annual performance review	UGCBB

⁹ For new indicators introduced as part of the additional financing, the progress to date column is used to reflect the baseline value.

Intermediate Results and Indicators												
Intermediate Results Indicators	Core	Unit of Measurement	Baseline Original Project Start (EFY 2001) (2009)	Progress To Date (EFY2002) (FY2010) ⁹	Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection
					EFY 2003 FY 2011	EFY 2004 FY 2012	EFY 2005 FY 2013	EFY 2006 FY 2014	EFY 2007 FY 2015			
				dissemination of key information.								
Intermediate Result 3: Improved budgeting and financial management												
ULGs preparing 3-year rolling budget (number).	<input type="checkbox"/>	Number	0	18	19	19	19	19	19	Annually	Annual performance review	UGCBB
ULGs preparing annual financial reports on time and as per required format (number).	<input type="checkbox"/>	Number	0	19	19	19	19	19	19	Annually	Annual performance review	UGCBB
ULGs preparing and adopting a revenue enhancement plan (number).	<input type="checkbox"/>	Number	0	18	18	19	19	19	19	Annually	Annual performance review	UGCBB
Intermediate Result 4: Improved urban infrastructure and service delivery												
ULGs submitting infrastructure asset inventories updated annually indicating additional assets and condition of existing assets (number).	<input type="checkbox"/>	Number	0	18	19	19	19	19	19	Annually	Annual performance review	UGCBB
Roads constructed non-rural under the ULGDP (kilometers). ¹⁰	X	Kilometers	0	204 kilometers	400 kms	550 kms	750 kms	900 kms	1,000 kms	Annually	Annually	Annual performance review

¹⁰ Estimates for FY2012–14 are provisional. The figures will be updated based on cities' updated capital investment plans.

Intermediate Results and Indicators

Intermediate Results Indicators	Core	Unit of Measurement	Baseline Original Project Start (EFY 2001) (2009)	Progress To Date (EFY2002) (FY2010) ⁹	Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection
					EFY 2003	EFY 2004	EFY 2005	EFY 2006	EFY 2007			
					FY 2011	FY 2012	FY 2013	FY 2014	FY 2015			
Drainage systems constructed under the ULGDP (kilometers). ¹¹	<input type="checkbox"/>	Kilometers	0	260 kilometers	340 kms	450 kms	700 kms	825 kms	900 kms	Annually	Annual performance review	UGCBB
Improved community water points constructed or rehabilitated under the ULGDP (number).	X	Number		10	10	10	10	10	10	Annually	Annual performance review	UGCBB
People in urban areas provided with access to “Improved Water Sources” under the ULGDP (number).	X	Number		2,500	2,500	2,500	2,500	2,500	2,500	Annually	Annual performance review	UGCBB
Intermediate Result 5: New cities ready to participate in a potential second ULGDP												
New cities meeting access criteria for a potential second ULGDP (number) ¹²	<input type="checkbox"/>	Number		0	0	0	8	11	14	Annually	Review of cities performance in relation to access criteria.	UGCBB

¹¹ Estimates for FY2012–14 are provisional. The figures will be updated based on cities’ updated capital investment plans.

¹² The access criteria are presented in the Project Appraisal Document of the original project. They are: (a) submission of a signed participation and performance agreement, (b) submission of a rolling 3-year capital investment plan based on a consultative participatory process, with an annual action plan (comprising the detailed annual investment plan and budget, and a procurement plan), approved by the city council, (c) demonstration of own budgetary resources adequate to meet counterpart funding requirements, existing O&M requirements, and estimated O&M costs resulting from the proposed investments, and (d) evidence of adequate staff to support implementation.

Annex 2: Operational Risk Assessment Framework (ORAF)

ETHIOPIA: Urban Local Government Development Project

Negotiations Package Version

Project Development Objective(s)

The project's development objective is to support improved performance in the planning, delivery, and sustained provision of priority municipal services and infrastructure by Ethiopia's urban local governments.

PDO Level Results Indicators:

1. ULGs that achieve annual targets specified in ULG revenue enhancement plans (number that achieve an 85 percent increase).
2. Urban local governments producing timely external audit reports, which are either unqualified, or qualified with minor comments (number).
3. Urban local governments using 75 percent of annual operations and maintenance budgets as specified in cities' CIPs (number).
4. Direct project beneficiaries (number), of which female (percent).
5. People in participating urban local governments provided with access to all-season roads within a 500 meter range under the ULGDP (number).

Risk Category	Risk Rating	Risk Description	Proposed Mitigation Measures
Project Stakeholder Risks			
Stakeholder	Low	<p>The Federal Government may limit the autonomy of urban local governments.</p> <p>GIZ may withdraw capacity building support before ULGs are fully able to take on their new responsibilities.</p> <p>Urban residents may feel that their preferences are not fully taken into account in setting priorities for investment.</p>	<ul style="list-style-type: none"> The project closely monitors the participation of citizen's groups in the preparation of CIPs. GIZ will maintain experts in the capital cities to help build capacity of regional bureaus to take over the work they have been doing. The regional administrations can contract experts under project finance. Evidence that the cities are consulting with diverse stakeholders in preparing their capital investment plans is a performance measure under the project.
Implementing Agency Risks (including financial management and procurement risks)	Medium-I	<p>Cities may not be able to attract or retain staff qualified to handle procurement, financial management, and environmental and social safeguards, due to low public sector salaries.</p> <p>Staff with training and experience with Bank procurement may not remain for long at the MUDC, due to low public sector salaries.</p> <p>Implementation may be slow due to lack or prior experience with Bank-financed projects.</p> <p>Weak financial management capacity at municipalities may lead to improper recording of use of funds.</p>	<ul style="list-style-type: none"> The Ethiopian Civil Service College is offering master's in urban management. The Bank-financed Public Sector Capacity Building Program is financing of participation of city employees, who are required to remain in city administrations for three years after completion of the degree. The ULGDP is providing substantial support for capacity building, complementing support offered by GIZ. The ULGDP contains a performance measure with respect to clearing audit backlogs and preparing timely audits. This is providing an incentive to cities to hire independent audit firms, using their available resources. The ULGDP provides support to ULGs through the UGCBB for assistance with procurement issues.
Project Risks			
Design	Low	<p>The ULGDP provides support to 19 municipalities. Operating in numerous cities may be a major challenge.</p> <p>Municipal administrations involve many ministries and bureaus, in addition to the</p>	<ul style="list-style-type: none"> The Bank and the MUDC maintain a close dialogue to identify and address challenges as soon as they arise. The Bank team visits each participating city at least once a year to assess performance and to offer advice on how to overcome issues. The team

		MUDC, which creates to its complexity.	will devise a rating system identifying riskier cities and arrange to visit them more frequently. It will also ensure that riskier cities receive access to capacity building support.
Social and Environmental	Medium-L	Infrastructure subprojects could have adverse environmental impacts or could displace people from homes or businesses.	<ul style="list-style-type: none"> • The ULGDP offers hands-on safeguard training to all the agencies, including the MUDC prior to the implementation of the Additional Financing. • UGCBB will contract a social safeguards specialist to oversee implementation of the resettlement policy framework. • The Bank's environment and social safeguards specialists are closely monitoring the implementation of the social management framework and the resettlement policy framework, and addressing challenges quickly. • Waste water treatment plants and solid waste management facilities will receive special attention.
Program and Donor	Low	A withdrawal of GIZ technical support to selected ULGDP cities could leave cities unprepared for their new responsibilities.	<ul style="list-style-type: none"> • GIZ will continue to maintain experts in the regional capitals, who will help to build capacity of bureaus to take on the work that GIZ has been doing. • The ULGDP can finance expertise to fill gaps where needed.
Delivery Quality	Medium-I	<p>The ULGDP supports investment in infrastructure, all of which will require resources for operations and maintenance, yet this has not traditionally been a priority of the government.</p> <p>Cities have not in the past had direct responsibility for operations and maintenance and the lack of experience could result in neglect of this important area.</p> <p>The project teams at central, regional, and city levels have little experience with collecting and compiling data into coherent reports. Good coordination between the</p>	<ul style="list-style-type: none"> • All cities have prepared asset management plans that contain clear financing needs for operations and maintenance, which are then included in the budget. • The ULGDP contains a PDO indicator related to use of the operations and maintenance budget, focusing attention of the cities on the issue. • All cities have prepared revenue enhancement plans. Achievement is mobilizing revenues is a performance measure, creating an incentive to do well in this area. • The ULGDP contains clear key performance indicators and provides support for establishment of a robust M&E system. The MUDC M&E specialists will provide periodic training and

		central, regional, and city M&E specialists is required to produce high-quality, accurate and timely quarterly progress reports.	<p>backstopping for the M&E specialists at the city level.</p> <ul style="list-style-type: none"> • UGCBB and cities will offer training to local firms in bid preparation. • To enhance sustainability, the ULGDP will help cities increase their own-source revenues. The ULGDP will support the establishment of the intergovernmental fiscal transfer mechanism.
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Overall Risk Rating at Preparation	Overall Risk Rating during Implementation	Comments
Medium-I	Medium-I	While the project involves one high-risk area, related to weak capacity at the city level to manage substantial new responsibilities, the risk overall is medium. To manage the risks, extensive implementation support for the ULGDP is required. Overall, the risk ratings of preparation and implementation are medium because of the government's high commitment to the ULGDP and extensive implementation support to manage the risks.

Annex 3: Performance Measures

ETHIOPIA: Urban Local Government Development Project

	Performance measure	Suspension / reallocation	Full allocation	Accelerated allocation / performance bonus
1	Progress in the utilization of CIP	< 65%,	Between 65 and 80%	>80%,
2	Financial Management			
2.1	Audit backlogs cleared	Still pending for EFY 2001 (FY2009) and earlier years	Cleared up to EFY 2002 (FY2010)	Cleared, up to EFY 2003 (FY2011)
2.2	Auditors opinion for the most recent audit	Adverse or disclaimer, suspension	Qualified with minor comments	Unqualified
3	Asset management and plan			
3.1	Updated asset management plan	No updated asset management plan	Updated inventory only	Updated asset management plan
3.2	Operation and maintenance expenditures as per CIP	Below O&M expenditure	50–80%,	Above 80%
4	Revenue enhancement			
4.1	Revenue enhancement plan updated for the most recent year	Plan not updated		Plan updated
4.2	percentage of revenue collected against planned for the previous year	Below 50%	50–80%	80% > of the target
5	Planning and budgeting			
5.1	Clear description of the planning process with evidence of the involvement and participation of citizens	No evidence	Evidence exists, but is not comprehensive	Comprehensive evidence of planning process exists
5.2	O&M and recurrent costs as specified in the asset management plan are reflected in the annual action plan and budget	No	Partial	Fully
5.3	Evidence of clear linkages between the CIP and the annual action plan and the procurement plan	No	Partial	Full
6	Transparency and accountability			
6.1	Posting of summary annual budgets, approved projects, expenditures, audited accounts and results of procurement decisions in city offices and other public places	No evidence	Partial evidence	Full evidence on all
6.2	Timely submission of quarterly financial and physical progress reports for the	No	Partial	All

	previous fiscal year			
7	Procurement			
7.1	Annual procurement plans for ULGDP procurement prepared and implemented according to the timeline ¹³	Less than 50 percent achieved	50–75 percent achieved	More than 75 percent achieved
7.2	Procurement procedures adhered to	Major noncompliance	Minor noncompliance	Full compliance
7.3	Annual procurement audit reports are available that include physical inspections and compliance checks	No		Yes, procurement audit reports are available, showing compliance with procedures
7.4	Adequate relevant auditable records on the procurement process maintained	No	Partial	Full
8	Environment and social safeguard management			
8.1	All capital project in the previous FY screened against set environment and social criteria in the planning stage	Major noncompliance	Minor noncompliance	Full compliance
8.2	If required, environmental management plans and resettlement action plans prepared and approved by relevant authority	Major noncompliance	Minor noncompliance	Full compliance
8.3	Resettlement action plans implemented prior to commencement of civil works	Major noncompliance	Minor noncompliance	Full compliance

Performance rating	Scores	Reward or sanction
Suspension/reallocation	Score of 49 percent, and below, or audit report with adverse opinion or disclaimer	No capital grants
Full allocation or basic allocation for next fiscal year	Score 50–74 percent	Full allocation
Accelerated allocation / performance bonus	Score above 75 percent	+ 20 percent capital grant allocation

¹³ Assessment to be based on the most recent procurement plan submitted by cities for the fiscal year being assessed. Assessment is based on performance of cities in procuring goods, works, and services for which they are responsible.