Report Number : ICRR0022284

1. Project Data

Project ID	Project Name	
P133592	ET-Local Govt Dev Project II	
Country	**Practice Area(Lead)**	**Additional Financing**
Ethiopia	Urban, Resilience and Land	P161436

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IDA-54350	31-Dec-2019	347,436,379.27
Bank Approval Date	**Closing Date (Actual)**	
02-May-2014	31-Dec-2019	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	380,000,000.00	0.00
Revised Commitment	380,000,000.00	0.00
Actual	347,436,379.27	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

According to the Financing Agreement (FA, p. 5) and the Program Appraisal Document (PAD, paragraph 39), the Program Development Objective (PDO) was "to assist the recipient in enhancing the institutional performance of participating urban local governments (ULGs) in developing and sustaining urban infrastructure services."

This Program for Results (PforR) program was the second phase of the Urban Local Government Development Program (ULGDP Phase II). The first phase of the ULGDP was a US$416 million investment project that financed grants for infrastructure investments in Addis Ababa and 18 urban local governments (ULGs) and capacity building grants for both these ULGs and the national Ministry of Urban Development

Housing and Construction (MUDHC) (ICR, paragraph 7). This Phase II PforR supported 26 new ULGs bringing to 44 the ULGs assisted under the program. Ethiopia has 85 ULGs (PAD, paragraph 5). Phase II program activities would build the capacity of one federal agency, 4 regional entities, and 44 ULGs, supported by a team of experts (ICR, paragraph 17).

Outcomes were expressed as improved scores in three Results Areas: (1) Institutional Performance; (2) Infrastructure and Maintenance; and (3) Capacity Building. Participating ULGs received two sets of scores in their Annual Performance Assessments (APAs). First, for indicators associated with institutional performance and second, with achieving infrastructure service targets. The APAs were carried out by an independent consultant (ICR, footnote 5, paragraphs 72,79, and Annexes 6 and 7).

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Components

Components were classified according to two results areas:

1. **Institutional performance at the federal, regional, and local levels.** (US$57.0 million at appraisal, US$60.1 million actual) would support capacity building at the regional level (US$30 million at appraisal, US$11.7 million actual) and at the federal level through support to the Ministry of Urban Development, Housing, and Construction (MUDHC) (US$27 million at appraisal, US$48.4 million actual). This component would finance federal and regional mobile teams who would assist government agencies at the federal, regional, and local levels to enhance their capacity in the areas of participatory urban planning, budgeting, revenue generation, financial, infrastructure asset, and contract management, procurement, environmental and social safeguards, audit, ethics, fraud and corruption, and monitoring and evaluation, among others. In addition, this component would finance participation in training, seminars, conferences, and study tours to enhance human resources in information technology and accounting systems, among others (PAD, Table 7 and ICR, Annex 8). According to the Task Team, resources were shifted to those activities that supported Disbursement Linked Indicators that were over performing. Four Disbursement Linked Indicators (DLIs 4-7) supported this results area to improved institutional performance of regional entities to enhance the capacity of participating ULGs while another two (DLIs 8-9) reflected support for the federal level to enhance the capacity of both the regions and participant ULGs.
2. **Investments in urban infrastructure and services.** (US$323.0 million at appraisal, US$287.3 million actual) supported the delivery of infrastructure, such as urban roads, drainage, sanitation services, public parks, street lighting; its maintenance, while supporting job creation. These investments demonstrated value for money and were based on the respective capital investment plans (CIPs) and annual action plans (AAPs) of participating Urban Local Governments (ULGs). DLI 3 supported this results area (ICR, Figure 1).

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Program Cost: The total project cost was US$380 million. The credit disbursed a total of US$347.4 million. According to the Task Team, exchange rate losses accounted for the US$32.6 million difference.
Financing: The International Development Association (IDA) fully funded this program under the PforR financing instrument for US$380 million.
Borrower Contribution: The borrower committed and disbursed a total contribution of US$176 million. Commitment was equal to 31.7 percent of overall program cost at appraisal and 33.6 percent at closing.
Dates: The project was approved on May 2, 2014 and became effective on July 11, 2014. A Mid Term Review was conducted on July 11, 2017. The project closed on December 31, 2019, as planned. No restructurings took place.

3. Relevance of Objectives

Rationale

Alignment with Urban Development Strategy. Ethiopia experienced rapid urbanization in the past two decades (Ethiopia Urbanization Review, World Bank Group and Cities Alliance, paragraph 3). Ethiopia's urban population has more than doubled from 7.3 million in 1994 to an estimated 16.7 million in 2014 (Central Statistical Agency, Population and Housing Census (2007) and Population Projection of Ethiopia for All Regions at Woreda Level (Woreda describes the district level, the third level of administrative division of regional state in Ethiopia) from 2014 – 2017 (2013). With the annual rate of urbanization projected to average 5.4 percent over the coming decade, 30 percent of Ethiopians were anticipated to live in urban areas by 2028, tripling its urban population by 2034 (World Bank Country Partnership Framework (CPF) for Ethiopia 2018-2022 (2017), page 25). The government recognized these urban areas as key contributors to the country's growth. However, institutional systems and urban infrastructure did not match the pace of urbanization. Urban local governments (ULGs) faced challenges in planning and budgeting, fiduciary systems, staff recruitment, complaint mechanisms, own resource mobilization, land management, maintaining transparency in accountability. In 2005, Ethiopia issued its first Urban Development Policy Note. This was followed by the second Poverty Reduction Strategy Paper and a Growth and Transformation Plan for 2010-2015. Both plans, acknowledging urban development contribution to the country's growth, highlighted addressing capacity gaps to optimize this contribution.
The PDO was relevant and directly contributed to the government's urban development objectives presented in its Second Growth and Transformation Plan (GTP II, 2015-2020) and the Ethiopian Cities Sustainable Prosperity Goal (2015-2025). These plans defined ways to expand the quality and financing of urban infrastructure and strengthen urban governance. The PDO was also relevant to mobilizing citizen participation to achieve development outcomes.
The PDO was also relevant to three focus areas of the World Bank's Country Partnership Framework (CPF) for Ethiopia (FY18-FY22). These included productivity and private sector development for structural transformation, building resilience and inclusiveness, and supporting accountability and fighting corruption. This program's support to urban infrastructure and institutional performance addressed 8 of the 15 economic and social development objectives of the CPF.
World Bank Previous Sector and Country Experience. The World Bank has supported the government's efforts in decentralization and urban policy since 2000. The Capacity Building for Decentralized Service

Delivery project in 2003, the Public Sector Capacity Building Program in 2004, and the Urban Local Government Development Program (ULGDP) Phase I in 2008. The ULGDP Phase II followed the first phase, but this time under a PforR financing mechanism.

Country Capacity and Adequacy of PforR Instrument. The PDO was outcome oriented, designed to build on the results of the preceding Urban Local Government Development Project (ULGDP) Phase I. Phase I focused on building the capacity of 19 ULGs (including the capital Addis Ababa) to deliver infrastructure services and support the capacity needs of the federal Ministry of Urban Development, Housing, and Construction (MUDHC) to support these ULGs As a result, Phase II focused capacity building needs not just at two but at all three levels of government, 44 local, 4 regional, and one federal agency. The country's capacity in technical, fiduciary, environmental and social systems were assessed to inform the scope, targets, and results area of the program. The PDO was pitched at the level that recognized the development needs of the government at the local, regional, and federal levels. The program would build capacity at the federal, regional, and local levels of government. A team of experts supported implementation at the federal and four regional levels. The PforR instrument was adequate as it framed systematic incentive mechanisms to trigger results-based financing, avoiding duplication of efforts while scaling up the government program. By using existing federal, regional, and local government systems in public financial management, social and environmental management, and procurement systems allowed concerted efforts to strengthen and integrate these. The instrument facilitated the adoption of a direct, incentive-driven approach to achieve the PDO (ICR, paragraph 10). For example, if cities received scores on their APA higher than target, they would receive an accelerated amount of 20 percent in addition to their regular allocation (ICR, paragraph 92). The three Results Area, (1) Institutional Performance; (2) Infrastructure and Maintenance; and (3) Capacity Building addressed the country's capacity in meeting the challenges of rapid urbanization.

In summary, the relevance of objective is rated substantial based on the program components and its objective synchronized to address the development problems posed by the country's plans and the World Bank's response to these needs as embodied in the current CPF. The PDO expressed in this second phase, with a focus on enhancing capacity of all levels of government to support urban ULGs provide a good foundation to reach the rest of the ULGs. The existing capacity of the country at all levels, local, regional, and federal, were appropriately addressed in the formulation of the PDO. The PforR instrument had the appropriate mechanisms that used incentives to trigger disbursements and achieve the PDO.

Rating

Substantial

4. Achievement of Objectives (Efficacy)

Objective 1

Objective

To enhance the institutional performance of participating urban local governments (ULGs) in developing and sustaining urban infrastructure services.

Rationale

Theory of Change: A theory of change (TOC) was re-constructed during the completion of the ICR. The participating ULGs were provided fiscal incentives and technical support to build their capacity and enhance institutional performance to improve the provision of infrastructure investments and related service delivery. At the same time, regional entities were assisted in the conduct of their respective mandates to deliver support and further enhance the institutional performance of the ULGs under their jurisdiction. The regional entities assisted ULGs in compliance with the requirements for financial audit, environmental and social safeguards, procurement, and own-source revenue mobilization. In addition, the federal entity implementing the program also provided support in capacity building planning and budgeting to both lower level government entities, i.e., the region and the local governments, to boost local government performance. These capacity inputs allowed the local governments to arrive at outputs such as mobilizing own source revenues and increase their investments in infrastructure for their constituents. These sub-projects were expected to contribute to creating jobs, including those using labor-intensive techniques,
and increase incomes. These inputs and outputs would further enhance the ULGs institutional performance measured through scores in the Annual Performance Assessment (APA). Two critical assumptions marked this TOC: the first related to the timely conduct of the APAs, funds were transferred on time, in a transparent and predictable manner. The second referred to the infrastructure investments, that there were no corrupt practices experienced during the contracting process, that there was no misuse of funds, and that local contractors had sufficient capacity to carry out the works (ICR, Figure 1). During implementation, the Regional Procurement Agency would conduct periodic audits of ULG procurement to improve the transparency of the process. The regions carrying out these audits would strengthen the accountability and oversight systems. A key related assumption was the adequacy of the technical design of the contracted works, which would affect the quality of completed investments. The results area of enhanced institutional capacity of ULGs as an outcome of this objective was reflected in DLI 2 in direct support of ULGs, DLIs 4-7 in support of the actions of regional entities, and DLIs 8 and 9 in support of the actions of the federal agency to enhance the institutional capacity of both the region and ULGs. DLI 3 supported the results area covering infrastructure and maintenance.

OUTPUTS

The following targets were exceeded:

- 25 participating ULGs were found to have clean or unqualified audits (baseline 0, original target 22). DLI 5 was associated with this output.
- The project benefited a total of 4,400,000 direct beneficiaries, 50 percent of whom were female, meeting targets. These beneficiaries, equivalent to the number of residents in the participating ULGs, were provided access to all-season roads within a 500-meter range (original target 4,300,000)
- 42 participating ULGs executed at least 80 percent of their operations and maintenance (O&M) budget (baseline 0, original target 40)
- 1,299 km of urban cobblestone roads were built or rehabilitated (baseline 0, original target 730 km)
- 796 km of urban gravel roads were built or rehabilitated (baseline 0, original target 135 km)
- 9,683 hectares of land were serviced for industry, micro and small enterprises, and housing (baseline 0, original target 1,820 hectares)

- 284 hectares of public parks and greenery were constructed (baseline 0, original target 55 hectares)

The following targets were achieved or partly achieved:

- All 44 participating ULGs had timely audits conducted as planned (baseline 5, original target 44).
- 34 participating ULGs achieved an increase in own sourced municipal revenue of at least 10 percent over the previous year (baseline 0, original target 38, target substantially achieved). Own-source revenues came from business taxes, municipal rent, charges and fees resulting from a revenue plan. Own source revenue increased from 2.5 billion ETB (Ethiopian local currency) in FY 2016 to 5.1 billion ETB by FY 2019, based on the government ICR (ICR, footnote 7).
- All 44 ULGs completed their annual procurement plans (original target 44).
- At the federal level, MUDHC utilized 63 percent of the budget presented in their annual capacity building plans (baseline 0, original target 95 percent)
- 657,494 jobs were created during construction of the roads, of which 45 percent were female (according to the Task Team, there was no original target). This figure was broken down into 485,209 temporary jobs created, of which 45 percent were female and another 172,285 permanent jobs, of which 43 percent were female.
- 43 of 44 ULGs had up to date structural plans, with regular land inventories to guide investments.

The following targets were not achieved:

- The Dire Dawa Millennium Park was not completed but was temporarily occupied by Internally Displaced Persons (IDP) who escaped conflict and instability from neighboring regions. According to the ICR, the authorities would prepare a resettlement plan for the remaining IDP, sheltering in the Dire Dawa Millennium Park to provide safety and basic services while awaiting resettlement in Somalia, and restore the use of the park to the its original purpose (ICR, Annex 5).
- The Dire Dawa slaughterhouse was not completed at closing. Obtaining foreign currency for importation of materials for the structure was delayed.
- No sanitary landfills were completed (baseline 0, original target 13); only design and related studies for the new landfills were completed. According to the ICR and as confirmed by the Task Team, during implementation, the government and the Bank discouraged further planning or implementation of landfills since similar facilities pursued under the previous ULGDP project were not used properly and were instead turned into dump sites (ICR, paragraph 52). The government added that the previously completed landfills were not operational due to a lack of trained manpower and ULGs inability to import plant and machinery to operate them (ICR, Annex 4, paragraph 6). The targets remained in the results framework.

OUTCOMES

- **Institutional Performance**

- Across all cities, average score reached 91.34 percent (original target 80 percent, target exceeded). This achievement was associated with meeting DLI 2 where ULGs have strengthened their institutional performance (see DLI 2 for areas assessed and scored).
- The average score in the APA for achieving urban infrastructure and service targets by participating ULGs reached 93.13 percent (original target 80 percent, target exceeded)
- 43 ULGs had up-to-date structural plans and regular land inventories (target 44, target substantially achieved). The conduct of land inventories helped determine revenue potential to assist in mobilizing own source revenues.

- **Capacity Building**:
  - At the regional level, 10 percent of the regions implemented at least 80 percent of their budgets presented in their respective annual capacity building plans (baseline 0, original target 4 percent, target exceeded). According to Annex 7 of the ICR, all four regions executed the capacity building plans and obtained full allocations. This output was associated with DLI 4, where regional government capacity building and support teams were in place and support to urban service delivery was undertaken. Achievement was determined on the basis of executing regional governments capacity building plans, with four regional support teams in place and fully staffed by 8 team members each. Regional Procurement Agency audited ULG procurement to enhance transparency in procurement.
  - 43 ULGs had up-to-date structural plans and regular land inventories (target 44). The conduct of land inventories helped determine revenue potential to assist in mobilizing own source revenues.
  - At the local level, 37 of the participating ULGs implemented at least 80 percent of the budget presented in their respective annual capacity building plans (baseline 0, original target 40, target exceeded)
- **Improved Livelihoods of Communities**
  - Infrastructure investments such as roads and bridges, micro and small enterprises, bus shades or terminals (as clarified by the Task Team in the February 3, 2021 email to IEG) and slaughterhouses led to improved livelihoods in the communities served through better connectivity, enhanced road safety, created jobs, enhanced incomes, improved road safety. Cities allocated appropriate land for infrastructure investments since ULGs regularly updated land inventories. Data in beneficiary assessments also pointed to an appreciation in land value by as much as 24.7 percent during the implementation period (ICR, footnote 8). The investments also improved flood protection, sanitation, and contributed to positive environmental impacts, such as control of erosion. However, in some cases, ULGs were reported to have completed infrastructure investments of poor quality because of not having engaged professional design and supervision consultants (ICR, paragraph 111), even as the ULGs themselves achieved minimum requirements and complied with the agreed program action plan (see Section 11 for Lessons).
  - The targets for the infrastructure investments were all exceeded, but the original targets were set at a low level. According to the Task Team, the 26 new participant ULGs lacked baseline data and based targets on Phase I experience. Infrastructure services were reported as improved. For example, 52.9 percent of respondents to the beneficiary assessment confirmed that cobblestones improved connectivity, reduced road accidents, reduced travel times, and led to job creation and

business opportunities. However, performance of the infrastructure services delivered was not supported by data collected as part of the results framework. The assessment of ULG performance in this results area focused mostly on apex institutions and not on the users.

- **Enhanced Infrastructure Operations and Maintenance**
  - Operations and Maintenance (O&M) expenditures increased in more cities, from 36 cities in FY 2015 to 38 cities in FY 2019 with annual increase in O&M expenditures. O&M expenditure increase during the five-year program by 35 percent, from 195 million ETB in FY 2015 to 753 million ETB in FY 2019. Five cities in FY 2015 increased to 39 cities in FY 2019 budgeted at least 10 percent of their Capital Investment Plan toward O&M. However, not all completed infrastructure investments such as slaughterhouses and markets were put into operation because of absent business plans and associated O&M arrangements (ICR, paragraph 111) (see Section 11, Lessons below).
- **Citizen Engagement in Infrastructure Planning**
  - As part of minimum conditions, community members were involved in identifying, prioritizing, and selecting infrastructure projects. According to the Borrower's ICR, 16 cities of the 44 ULGs who participated in the beneficiary assessment noted that community members witnessed the handover of completed infrastructure projects (ICR, paragraph 36). In addition, participants indicated that as a result of increased business opportunities and jobs, their households were food secure, they were able to pay for their utilities, had accumulated household assets, and had saved and invested in business. The assessment also reported that 75.6 percent of respondents invested their income generated from the project, 76.2 percent acquired household assets and 71.4 percent said they were better positioned to pay their children's educational fees. The ICR did not provide data to support these outcomes.

In summary, the efficacy of the project in achieving this objective expressed as outcomes of the results area is rated substantial. Participant ULGs exceeded the target APA score of 80, on average. More importantly, ULGs reported an increase in mobilizing own source revenues, demonstrated transparency by disseminating information about annual budgets, approved projects, expenditures, audited accounts, and procurement. These actions improved institutional performance by fostering transparency and facilitating accountability. Participant ULGs exceeded the targets for most of its infrastructure investments. Beneficiary assessments were carried out in 16 of the 44 cities after closing and some of the results were reported (ICR, footnote 6). Outcomes expressed as expanded connectivity of residents, increase in road safety, jobs created and resulting enhanced incomes were reportedly discovered as part of the beneficiary assessments. A shortcoming is that no further supporting outcome data was provided. Achievements of targets under this objective also led to improved flood protection and raised the standard of living of the beneficiary communities. However, no supporting data was provided for user level benefits. The performance indicators signifying the achievement of targets under DLI 3 were mostly focused on apex institutions and did not report end users assessment (ICR, Annex 7). Targets under sanitary landfill were unmet and two other works in Dire Dawa were not completed at closing. Yet, according to the Task Team, these works remained in the follow-on program.

Rating
Substantial

Rationale

Overall Efficacy Rating

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5. Efficiency

Efficiency Rating

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a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐Not Applicable
ICR Estimate		0	0 ☐Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The relevance of objective is rated substantial based on its direct contribution to government policies and the World Bank's program in Ethiopia. The efficacy of the project to achieve the objective is substantial because most target indicators were exceeded or achieved with noted shortcomings in a couple of output targets. Overall, the outcome of the project is rated satisfactory.

a. **Outcome Rating**
Satisfactory

7. Risk to Development Outcome

- **Infrastructure Sustainability Risk**. The Bank team raised concerns on the quality of some completed sub-projects. This problem was not widespread. To mitigate this risk, concerned ULG were advised to undertake two corrective measures. One was to hire credible supervision consultants to ensure good quality of completed assets. Two was to implement adequate operations and maintenance (O&M) plans to make these investments sustainable. Some completed sub-projects lacked O&M plans to be fully operational. To mitigate the decline of these assets into disuse, ULGs need to be enjoined to apply sound investment principles such as market analysis, business planning, and O&M measures. Evidence of the use of these business practices may encourage the private sector to participate in running these ULG assets.

- **Increased influx of refugees fleeing conflict and insecurity in neighboring countries**: Some areas, such as the Dire Dawa Millennium Park, temporarily housed about 150 internally displaced persons (IDPs) who fled the Somali conflict. To mitigate the risk of transforming the park to a permanent refugee camp, MUDHC would ask the Dire Dawa and Jijiga authorities to (i) prepare a resettlement plan for the displaced persons; (ii) provide for their safety and basic services during the transition; and (iii) revert to the park's original use.

8. Assessment of Bank Performance

a. Quality-at-Entry

The design of this ULGDP Phase II was informed by the challenges experienced by the preceding Phase I operation. This included the lesson from social accountability, the continued use of the performance-based disbursements, and use of the existing federal, regional, and urban local government systems, while strengthening these where needed (PAD, paragraphs 36-38). These systems included public financial management, social and environmental systems management, and procurement management. Design incorporated a structured approach to build capacity at the federal, regional, and local government levels. For example, Disbursement Linked Indicators (DLIs) 4-7 served as incentives for regional entities to adequately support participating ULGs performance in the areas of timely financial audits, urban service delivery, environmental and social safeguards compliance, and resource mobilization. However, risks associated with infrastructure investments in sanitary landfills investments only noted the need to strengthen environmental safeguards (PAD, paragraph 108). At the start of this program, both the federal agency and the Bank discouraged ULGs from planning or implementing these landfills due to the problems experienced under the first ULGDP (but not cited in the PAD) such as similar facilities not used properly and were turned into dump sites (ICR, paragraph 52) or ULGs unable to import the plant and machinery to operate them, shortage of trained manpower (ICR, Annex 4). Cities complied and did not include them in their Capital Investments Plans (CIPs) under this program, but the indicator and targets remained in the Results Framework. In addition, risks associated with the timely conduct of the APAs were not mitigated since initial procurement delays resulted in initial delays in some sub-project infrastructure investment implementation.

The PforR financing mechanism was appropriate, as it allowed the use of incentives to achieve results. Cities were allocated funds based on achieving target performance scores. As an additional incentive, ULGs exceeding performance targets were awarded another 20 percent on top of their allocation based on population. As another incentive, beyond the initial assessments, annual assessments of meeting Minimum Access Conditions meant that cities had adequate staff and basic systems in place to manage the program. At preparation, technical, fiduciary systems, and environmental and social systems, as well as risks were adequately assessed. Mitigating measures were identified and included in the Program Action Plan (PAP). M&E focal persons were installed at each of the three levels of government. Capacity building was supported as part of the incentive mechanism design, as part of meeting minimum access conditions assuring sufficient staff throughout the five-year implementation period.
Implementation arrangements during Phase I differed in Phase II particularly since instead of two levels of government, all three levels were involved in the Phase II program - local, regional and federal levels. However, some designs from Phase I were retained in Phase II (PAD, paragraph 36). These included using independent annual performance assessments to measure performance and results; a predetermined list of eligible infrastructure investments to choose from; program funds not usable for investments with significant negative environmental impacts or could result in resettling more than 200 people. Phase II consolidated achievements under Phase I and expanded lessons from social accountability. This meant promoting participatory budgeting, transparency in financial transactions and publishing local budgets (PAD, paragraph 37). In addition, Phase II design considered the key challenges identified under Phase I and introduced changes such as 18 ULGs supported under Phase I would receive funding under DLIs 1, 2 and 3 from year one while the new 26 ULGs would receive funding under DLI 1 in year one, and DLIs 2 and 3 starting in year two to give these new ULGs a period to catch up with their performance. In addition, ULGs would receive disbursement according to their APA scores. New targets and results were also added to assessing performance due to new policies and growing administrative sophistication of cities (PAD, paragraph 38).

Quality-at-Entry Rating

Satisfactory

b. Quality of supervision

The Task Team Leader and most task team members were based in Addis Ababa. This allowed the Task Team to work closely with the Bank's Country Management Unit and counterpart entities. The Bank team conducted 13 supervision mission over the 5-year implementation period. The team met regularly with officials to assess progress during field visits of all 44 ULGs (ICR, paragraph 97). In some cases, insecurity and restricted travel to some areas did not allow the task team to address implementation challenges. Some infrastructure investments took longer to complete or once completed, some could not be operational due to a lack of business or O&M plans (ICR, paragraph 76). The team reviewed program progress through independently prepared Quality Assurance Reviews of the Annual Performance Assessments of ULGs. These reviews assessed ULG readiness, verification protocols, methods of performance assessments of consultants. The fiduciary, safeguards, and technical teams offered timely technical support. The Bank team reviewed results of assessments, monitored disbursements, and tracked compliance with the fiduciary and environmental and social systems. The Bank team prepared a follow-on PforR-financed Urban Institutional and Infrastructure Development Program (UIIDP or

P163452) to advance the gains under this program and continue to work with ULGs and MUDHC. The government confirmed in its comments on the ICR that UIDP adopted the challenges met during implementations as lessons and were addressed in its design (ICR, Annex 4, PAD for P163452, paragraphs 53 - 57, Annexes 1 and 5). However, it was unclear if the issue surrounding the operational needs of the completed slaughterhouses were adequately addressed.

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating

Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

M&E was designed following the system established under the precedent ULGDP Phase 1 to track progress of implementation and use feedback from stakeholders to achieve outcomes at the federal, regional, and ULG levels. The results framework was sound and reflected a logical causal chain. Capacity building inputs strengthened the participating ULGs to identify and deliver infrastructure services to its residents. These outputs, once independently verified, triggered disbursements. Program interventions directly contributed to the outcomes. While the objective was stated simply and offered that enhanced local capacity would deliver improved infrastructure investments, indicators covered the PDO outcomes at the apex institutional level but did not include performance indicators regarding infrastructure services delivered. There were no indicators to assess the quality, reliability, or affordability of the services delivered. There was a lack of data to support consumer assessment of improved services. Beneficiary assessments after project closing captured some of these indicators but were not systematically captured under the M&E system. Disbursements were linked to intermediate outcome indicators that contributed to achieving the PDO level outcomes. The indicators were specific, time bound, and relevant. They were measurable and achievable.

b. M&E Implementation

The federal agency MUDHC implemented the M&E system as designed. Each level of government, federal, regional and ULG, assigned an M&E focal person who contributed to the quarterly, semi-annual, and annual M&E program reports prepared by MUDHC. Implementation started with initial delays, but timeliness of reporting and quality of reports improved over time. An independent consultant assessed ULG performance every year against minimum conditions and in meeting institutional capacity targets. However, initial delays in the annual performance assessment caused a significant delay in planning and budgeting processes and, by extension, delayed some infrastructure sub-project implementation. The Ministry of Urban Development and Construction (MUDC) was required to contract a firm by end August each year as corrective measure (ICR, paragraph 72). By year three, value for money audits were added to the annual ULG performance assessments. Mobile teams provided capacity building support and contributed to ensuring data recording and collection to aid in evaluation. Toward program completion, some ULGs, such as Jigiga, Dire Dawa, and Harar, experienced instability and staff turnover, which affected timely data collection and reporting.

c. M&E Utilization

The M&E outputs were used to trigger program disbursement verifications. The Bank and the implementing agency also used these assessments to identify capacity needs and prioritize field visits. In addition, the reports provided ULGs with incentives to improve their own performance, evident in improvement in scores as implementation progressed. However, initial delays in the conduct of APAs, delayed the implementation of some infrastructure sub-projects. There was a lack of use in indicators as evidence of consumer satisfaction with improved services delivered by ULGs.

In summary, design generated M&E products measured effectively the progress toward achieving its objective. Participant ULGs used the M&E products to improve their own performance and informed the implementing agency where capacity gaps needed to be filled. However, there was a minor shortcoming in the lack of indicators to show outcomes under the infrastructure investments and thus, they were not tracked as a result. M&E is rated substantial.

M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

At appraisal, the program was assigned OP/BP 9.00. Elements of this policy guided Bank implementation and support and assessed the government systems and their capacity to plan and implement effective measures for environmental and social risk management. The Bank team conducted an Environmental and Social Systems Assessment (ESSA). They confirmed that the government had adequate legal framework for environment and social management of the urban sector. The assessment identified risks and mitigating measures (PAD, paragraph 108). Environmental and social audits identified outstanding safeguards risks at the ULG level that required strengthening. These areas included institutional arrangements; a well-defined environment and social management system at the city level; sector specific technical guidance and capacity building needs; and human and financial resource constraints (PAD, paragraph 104 following). Training addressed uneven implementation of assessments, quality of environmental and social audit reports, and follow up of audit findings. No major outstanding environmental safeguards issues were reported. Compliance with environmental and social safeguards was rated satisfactory (ICR, paragraph 85). During implementation, specialists were deployed to ULGs. Environment and social impacts were considered in screening sub-projects. Regulatory agencies reviewed and cleared environmental and social safeguards screening reports, environmental and social management plans, and partial Environmental and Social Impact Assessments. The Task Team clarified that all partial Environmental Management Plans (EMPs) and partial Resettlement Action Plans (RAPs) were prepared and implemented before, during, and after the project implementation.

Grievance redress mechanisms were in place and were reported to have been widely used. The complaint handling system, including Fraud and Anti-Corruption system was embedded in the program and formed part of the minimum conditions that ULGs fulfill each year. The system had a legal base, permanent structure with at least one person in each structure (to be clarified by the Task Team if this meant level of government) to handle complaints related to fraud and corruption, procurement, grievance related to environment and social impact; recording complaints received and follow-up measures to be taken; and consolidated report on the complaint cases and resolution. More than 100 complaint cases were reported biannually. Few were related to fraud and corruption. The ULGs, regions and the court system resolved all of the complaints (ICR, paragraph 34).

b. Fiduciary Compliance

Financial Management: Under the PforR financing instrument, the program relied on the country's public financial management (PFM) system for budgeting, accounting, internal control systems, and reporting. According to the ICR (paragraph 87), financial management was adequately implemented. The program submitted all required semi-annual and annual financial reports and value for money audits. Twenty-five ULGs received unqualified (no issues) opinions from external auditors. The Offices of Regional Auditor Generals conducted annual audit reviews of ULGs under their jurisdictions. There were no audit backlogs during implementation. However, the ICR reported that the status of corrective measures against the findings in the value for money audit reports (for the period July 2017 to July 2018) were not yet submitted at project closing (tbc by Task Team).

Procurement: Procurement capacity was strengthened at the local, regional, and federal levels. Each ULG prepared annual procurement plans. Implementation reports of uneven quality and detail showed planned and actual status of these plans (ICR, paragraph 89). A sampling of the contracts showed compliance with standards or regional legal requirements. Ethiopian law required procurement audits and these audits were included in the first two years of the program. Thereafter, the Regional Public Procurement Agencies (RPPAs) built their oversight capacities by conducting annual Independent Procurement Audits (IPAs). However, contract implementation delays and high staff turnover were evidence of weakened capacity in some regional and ULG procurement agencies. Reports were delayed, of poor quality, or its preparation exceeded budgets (ICR, paragraph 89). Regions issued ad-hoc directives to create jobs among the youth by hiring small and micro enterprises (SMEs) for cobblestone road construction contracts. However, the practice of preferring SMEs raised issues of competitiveness, fairness, and poor quality of completed works. There was no standardized mechanism on registering SMEs, baselines, or incentives. Procurement practices varied across regions.

c. Unintended impacts (Positive or Negative)

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d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Satisfactory	---
Bank Performance	Satisfactory	Satisfactory	---
Quality of M&E	Substantial	Substantial	---
Quality of ICR		Substantial	---

12. Lessons

The ULGDP II PforR aimed to build capacity and help strengthen a government's resolve to use urban development as a building block to economic growth. The ICR offered nine lessons that were considered in the follow-on PforR Urban Infrastructure and Investment Development Program and that task teams may consider for similar future operations. Some of these are presented below with slight modifications.

- **Effective decentralization that strengthens local governments require a long term commitment and partnership**. This program benefited from a series of urban operations. The government used lessons from these operations to pursue decentralization by strengthening institutional capacities of cities.
- **Incorporating an incentive to exceed performance targets provides participating local governments an avenue to own investment results**. In this program, ULGs, who exceeded performance targets were rewarded with 20 percent more resources to their regular population-based allocation. Performance grants accounted for 35 to 85 percent of their local capital budgets. Additional resources meant more local infrastructure investments. The government synchronized its commitment to use all levels of government, from federal, to regional, to local governments, to achieve this goal.
- **The different levels of government have different ways to address local government capacity gaps**. In this program, implementation discovered that federal support may be timed differently or require a different set of technical skills (e.g., conduct of Annual Performance Assessments) from capacity support provided by regional entities (e.g., value for money audits). This lesson informed the follow-on PforR program to include an Investment Project Financing window for targeted institutional capacity building.
- **Strengthening indicators by including professional design elements may help ensure the quality of infrastructure investments.** In this program, some ULGs did not engage professional design or supervision consultants for their projects and ran the risk of poor quality of completed works. DLIs were

achieved without these aspects of contracted works. Mechanisms to address capacity gaps that reduces the risk of poorly executed works may be needed. One way this risk was mitigated in this project was the conduct of value for money audits of completed projects. But ex ante mechanisms through clear elements of indicators may prove useful too.

- **Having viable business plans and O&M arrangements of infrastructure early on increases the chances of operationalizing completed infrastructure.** In this program, some infrastructure such as abattoirs and markets did not have business plans or O&M arrangements prior to completion. Such plans may identify potential private sector participation in investing in revenue generating economic infrastructure and could identify challenges posed by import restrictions or availability of trained manpower to run the completed infrastructure investments.
- **Adopting an independent monitoring and evaluation (M&E) function increases accountability and transparency of government sponsored programs.** In this program, an independent consultant conducted the ULG performance assessments using consistent indicators monitored under the M&E system to trigger disbursements. Predictable periodic reporting helped establish accountability. Achieving targets facilitated transparency. Challenges faced in monitoring and achieving indicators in public financial management, for example, informed the additional performance indicators adopted under the follow-on PforR program. A strong M&E system using independent performance verification increases transparency and fosters accountability in delivering services at all levels of government.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR followed the guidelines and provided a concise yet detailed overview of the program. The quality of the analysis showed sufficient interrogation of the evidence, offering candid assessments behind initial delays in planning and budgeting and in implementing some infrastructure sub-projects (less than 100 percent disbursement against DLI 9, for example, and providing reasons why some completed infrastructure investments were not fully operational). Important points were summarized, such as the outcomes associated with the achievements of ULGs in meeting minimum access conditions. The report highlighted the link between the activities focused at all levels of government, from federal, to regional, to local and how these components improved ULG performance. The report was internally consistent, pointing to the lessons throughout the report, not only under the section of Lessons Learned that would prove useful in improving the design and implementation of the follow-on PforR program. The report substantiated the evidence with well described annexes, including methods used described in Annex 6. The Borrower's comments in Annex 4 asserted that the works not completed at closing would likely be completed in the near term. The only drawback was in the lack of detail with regard to beneficiary assessments to support user level performance of services delivered, although some results were cited in reporting outcomes of the infrastructure investments and citizen participation. An annex of the summary results of the beneficiary assessment conducted after closing could have strengthened program outcomes.

a. Quality of ICR Rating

Substantial