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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM PAPER

ON A

PROPOSED ADDITIONAL CREDIT

IN THE AMOUNT OF SDR 231.70 MILLION
(US\$335 MILLION EQUIVALENT)
INCLUDING US\$ 25 MILLION EQUIVALENT FROM THE
IDA 18 HOST COMMUNITY AND REFUGEE SUB-WINDOW

AND AN ADDITIONAL GRANT

FROM THE IDA-18 HOST COMMUNITY AND REFUGEE SUB-WINDOW
IN THE AMOUNT OF SDR 17.30 MILLION (US\$25 MILLION EQUIVALENT)

TO THE

REPUBLIC OF UGANDA

FOR THE

UGANDA SUPPORT TO MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROGRAM

April 19, 2018

Social, Urban, Rural, and Resilience Global Practice
AFRICA

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CURRENCY EQUIVALENTS

(Exchange Rate Effective April 15, 2018)

Currency Unit = Ugandan Shillings (UGX)
UGX 3,692 = US\$1
US\$ 1.46 = SDR 1

FISCAL YEAR

July 1 – June 30

ABBREVIATIONS AND ACRONYMS

ACGs	Anti-Corruption Guidelines (for PforR)
AFA	Annual Financial Accounts
APA	Annual Performance Assessment
B&A	Budgeting and Accountability
BFP	Budget Framework Paper
BoU	Bank of Uganda
CAS	Country Assistance Strategy
CBG	Capacity Building Grant (under DDEG for USMID MLGs)
CBOs	Community Based Organizations
CBP	Capacity Building Plan
CDOs	Community Development Organizations
CDS	City Development Strategy
CFO	Chief Finance Officer
CIID	Criminal Investigation and Intelligence Directorate
CSO	Civil Society Organization
DLIs	Disbursement Link Indicators
DPAC	District Public Accounts Committee
DPU	District Procurement Unit
DPs	Development Partners
EFT	Electronic Fund Transfer
EIA	Environmental Impact Assessment
ESMF	Environmental and Social Management Framework
ESMP	Environmental and Social Management Plan
ESSA	Environmental and Social System Assessment
F&C	Fraud and Corruption
GBV	Gender Based Violence
GDP	Gross Domestic Product
GGAC	Good Governance and Anti-Corruption
GoU	Government of Uganda
GRM	Grievance Redress Mechanism
IA	Internal Audit
ICE	Information Communication and Education
IDA	International Development Association
IFA	Integrated Fiduciary Assessment
IFMIS	Integrated Financial Management Information System
IG	Inspectorate of Government
IGFT	Inter-Governmental Fiscal Transfer

IGG	Inspectorate General of Government
IPFs	Indicative Planning Figures
IVA	Independent Verification Agent
LED	Local Economic Development
LDG	Local Development Grant
LG	Local Government
LGA	Local Government Act
LGDP	Local Government Development Program
LGFC	Local Government Finance Commission
LGMSDP	Local Government Management and Service Delivery Program
LG PAM	Local government Performance Assessment Manual
LG FAR	Local Government Financial and Accountability Regulations
LGFC	Local Government Finance Commission
LGs	Local Governments
LGPAC	Local Government Public Accounts Committee
LGPAM	Local Government Performance Assessment Manual
LGROC	Local Government Releases and Operations Committee
LGTC	Local Government Transfer Committee
LHT	Local Hotel Tax
LST	Local Service Tax
MDG	Municipal Development Grant (under DDEG for USMID MLGs)
M&E	Monitoring and Evaluation
MEC	Municipal Executive Committee
MEO	Municipal Environment Officer
MLG	Municipal Local Governments
MoFPED	Ministry of Finance Planning and Economic Development
MoLG	Ministry of Local Government
MoLHUD	Ministry of Lands Housing and Urban Development
MoPS	Ministry of Public Service
MoWE	Ministry of Water and Environment
MoWT	Ministry of Works and Transport
MTEF	Medium Term Expenditure Framework
NAT	National Assessment Team
NDP	National Development Plan
NEMA	National Environmental and Management Authority
NGOs	Non-Governmental Organizations
O&M	Operations and Maintenance
OAG	Office of the Auditor General
OPAMS	On-line Performance Assessment Monitoring System
OSR	Own Source Revenue
PA	Performance Assessment
PAC	Public Accounts Committee
PAP	Program Action Plan
PBS	Program Budgeting System
PBGS	Performance Based Grant System
PFM	Public Financial Management
PMC	Program Minimum Condition
PPDA	Procurement and Disposal of Public Assets Authority
PSC	Program Steering Committee
PST	Program Support Team

PTC	Program Technical Committee
QA	Quality Assurance
RPF	Resettlement Policy Framework
STA	Settlement Transformative Agenda
TC	Town Clerk or Town Council
UAAU	Urban Authorities Association of Uganda
UGX	Uganda Shillings
ULGs	Urban Local Governments
USMID	Uganda Support to Municipal Infrastructure Development
USMID – AF	Uganda Support to Municipal Infrastructure Development – Additional Finance
UNRA	Uganda National Road Authority
URF	Uganda Road Fund
VFM	Value for Money

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UGANDA

Uganda: Support to Municipal Infrastructure Development Program Additional Financing (P163515)

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UGANDA

Uganda: Support to Municipal Infrastructure Development Program Additional Financing

ADDITIONAL FINANCING DATA SHEET

Basic Information - Additional Financing (AF)					
Country Director: Diarietou Gaye			Sectors: Roads and Highways, Sub-national Government Administration, General Water, Sanitation and Protection		
Practice Manager/Senior GP Director: Bernice Van Bronkhorst/Ede Ijjasz-Vasquez			Themes: Access to urban services and housing, Municipal Finance, Municipal Governance and Institutions		
Team Leader(s): Martin Onyach-Olaa; Stephen John Ajalu; Emma Wadie Hobson			Expected Effectiveness Date: October 1, 2018		
Program ID: P163515			Expected Closing Date: December 31, 2023		
Basic Information - Original Program					
Program ID: P117876			Effectiveness Date: August 20, 2013		
Program Name: Uganda: Support to Municipal Infrastructure Development			Expected Closing Date: December 31, 2018		
Lending Instrument: Program for Results					
AF Project Financing Data					
<input type="checkbox"/> Loan <input checked="" type="checkbox"/> Credit <input checked="" type="checkbox"/> Grant <input type="checkbox"/> Other:					
Proposed terms: Standard IDA terms with final maturity of thirty-eight (38) years including a grace period of six (6) years.					
AF Financing Plan (US \$ m)					
Source			Total Amount (US \$ million)		
Total Program Cost:			400.00		
Co-financing:			N/A		
Borrower:			40.00		
Total Bank Financing:			360.00		
IDA			310.00		
New					
Recommitted					
Host Community and Refugee Sub-Window			50.00		
Gap			N/A		
Client Information					
Recipient: Republic of Uganda, Ministry of Finance Responsible Agency: Ministry of Lands, Housing and Urban Development (MoLHUD) Contact Person: Mrs. Dorcus W. Okalany Permanent Secretary Telephone No.: +256 772 458020 Email: dokalany59@gmail.com					
AF Estimated Disbursements (Bank FY/US \$ m)					
FY	2018/19	2019/20	2020/21	2021/22	2022/23
Annual	64.10	84.10	108.50	91.80	11.50
Cumulative	64.10	148.20	256.70	348.50	360.00

Project Development Objective and Description		
Original Program development objective: To enhance the institutional performance of Program Local Governments (LGs) to improve urban service delivery.		
Revised Program development objective: Same as above		
Program description: USMID is a Program for Results (PforR) operation supporting municipal local governments in Uganda to improve their institutional performance for urban service delivery as well as deliver infrastructure in line with locally identified priorities.		
Exception to Policies		
Is approval of any policy waiver sought from the Board (or MD if RETF operation is RVP approved)?	[] Yes [X] No	
Has this been endorsed by Bank Management? (<i>Only applies to Board approved operations</i>)	[] Yes [] No	
Does the Program require any exception to Bank policy?	[] Yes [X] No	
Has this been approved by Bank Management?	[] Yes [] No	
Conditions and Legal Covenants:		
Financing Agreement Reference	Description of Condition/Covenant	Date Due
Section I.A.2 of Schedule 2 to the Financing Agreement.	The Recipient has appointed or designated: (i) a social safeguard specialist and a communication specialist for the Program Support Team; and (ii) additional members to the Program Technical Committee.	Effectiveness Date
Section I.B.3 of Schedule 2 to the Financing Agreement.	The Recipient, through MoHLUD, has entered into Program Participation Agreements (“PPA”) with each of the Program LGs participating in year 1 of the Program.	Effectiveness Date
Section I.B of Schedule 2 to the Financing Agreement.	The Recipient has entered into an Inter-Agency Memorandum of Understanding with Program MDAs participating in year 1 of the Program, respectively.	Effectiveness Date
	The Recipient shall appoint in each Fiscal Year, an Independent Verification Agent, with qualifications, experience and terms and conditions of employment satisfactory to the Association, to be responsible for carrying out the Annual Performance Assessment	Each Fiscal Year
	The Recipient shall by not later than three (3) months after the Effectiveness Date, update, and thereafter, adopt the Program Operational Manual, in form and substance satisfactory to the Association.	November 2018
	The Recipient, through MoLHUD, shall prepare and adopt, not later than March 31 of each Fiscal Year (“FY”) during the implementation of the Program, a Performance Improvement Plan (“PIP”) specifying activities to be carried out by said MoLHUD during said FY, and implement said PIP.	Each Fiscal Year
Section IV.B of Schedule 2 to the Financing Agreement	The Recipient, through MoLHUD, shall make withdrawal for DLRs under Categories (1), (2), (3) and (4) achieved prior to the Signature Date, except for withdrawals up to an aggregate amount not to exceed SDR57,925,000 under the Credit for such DLRs achieved prior to this date but on or after March 1, 2018;	Effectiveness date

	The Recipient, through the MoLHUD, shall furnished evidence satisfactory to the Association that the said DLRs have been achieved and verified in accordance with the Verification Protocol.	Each Fiscal Year
	The Recipient, through the MoLHUD, shall furnished evidence satisfactory to the Association that for any DLR under Categories (1), (2), (3) and (4), an aggregate amount equivalent to the amount of the Financing to be withdrawn in respect of said DLR, was transferred by the Recipient to Program LGs in the previous Fiscal Year, in accordance with the provisions of Section V of the Financing Agreement	Each Fiscal Year
	The Recipient, through the MoLHUD, shall make withdrawal for any DLR under Categories (7) and (8) unless and until the Association is satisfied that the Recipient has an adequate refugee protection framework.	Each Fiscal Year

Summary of Proposed Changes

Change in Program's Development Objectives	Yes []	No [X]
Change in Program Scope	Yes [X]	No []
Change in Results Framework	Yes [X]	No []
Change in Legal Covenants	Yes [X]	No []
Change in Loan Closing Date(s)	Yes [X]	No []
Cancellations Proposed	Yes []	No [X]
Change to Financing Plan	Yes [X]	No []
Reallocation between and/or Change in DLI	Yes [X]	No []
Change in DLI Verification Protocol	Yes [X]	No []
Change in Key Parameters (Disbursement Arrangements, Institutional Arrangements, Technical, Fiduciary, and Environmental and Social aspects)	Yes [X]	No []
Change in Program Action Plan	Yes [X]	No []
Other Change(s)	Yes [X]	No []

Team Composition

Bank Staff

Name	Title	Specialization	Unit
Martin Onyach-Olaa	Sr. Urban Specialist	Task Team Leader	GSU13
Stephen John Ajalu	Sr. Urban Specialist	Co-Task Team Leader	GSU13
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I. INTRODUCTION

1. *This Program Paper seeks the approval of the Executive Directors to provide an additional credit in the amount of \$335 million and a grant in an amount of \$25 million to the Republic of Uganda, for the Uganda Support to Municipal Infrastructure Development Program (P117876), Credit no. 5223-UG.* This is to support the scale up of the existing Program, which had an original credit amount of US\$150 million and US\$10 million from Government of Uganda (GoU), which was approved on March 28, 2013 and became effective on August 20, 2013. The parent program will close in December 31, 2018 and has so far disbursed 98% of the total loan amount. Progress towards achieving the PDO has been rated satisfactory throughout the whole Program period and overall implementation progress has been rated satisfactory. All covenants, including audit and financial management reporting requirements, have been complied with.

2. *The proposed additional financing would help finance the scale-up of and deepen the Program results as well as extend the duration of the Program. As part of processing the AF, the Program is also being restructured to :* (i) extend the geographical coverage of the Program to eight additional municipal local governments (MLGs)¹; (ii) extend the duration of the Program by 5 years; (iii) introduce support to 8 districts that have faced a high influx of refugees through financing from the new IDA18 Sub-Window for Refugees and Host Communities; (iv) and update the DLIs and performance measures to deepen impact and results in terms of institutional strengthening, planning and financial management, infrastructure provision and local economic development. Together, these changes are expected to scale up the success of the current Program by achieving a more transformational impact in the currently targeted local governments (LGs) as well as extending achievement of similar results to further target LGs. The support to be provided through the Sub-Window for Refugees and Host Communities represents an important opportunity to strengthen LGs abilities to cope with the recent and future refugee influx in Uganda and to deliver critical infrastructure to host communities/local governments (LGs) as well as refugees.

II. BACKGROUND AND RATIONALE FOR ADDITIONAL FINANCING.

a) Background and recent sectoral context

3. *Uganda is urbanizing at an unprecedented pace, putting a major strain on local governments to meet the developmental needs of the urban population.* While Uganda's urbanization is just beginning, with only 18% of its population residing in cities and towns, it is one of the most rapidly urbanizing countries in Africa. The total number of people residing in urban areas is expected to quadruple from 6 million people at present to more than 20 million people by 2040. This has posed challenges to urban development. Key challenges include high rates of urban unemployment and underemployment, with the rate of creation of productive jobs being lower than the rate of growth of the urban population. As a result, over 75% of employment in urban areas is in the informal sector², characterized by low productivity and wages. In addition, congestion and lack of public transport options in many cities restricts the movement of goods and people. The quality of housing remains inadequate for a large proportion of the urban population, with more than 60 percent of the residents of urban areas living in slums. Finally, the delivery of social services of an adequate quality to a rapidly expanding urban population is also a source of concern³.

4. *Rapid Urbanization has resulted in a huge infrastructure backlog.* For example, the backlog of bituminized roads in the 14 Municipalities targeted in the current phase of USMID was estimated at around

¹ Currently the Program targets 14 municipalities, namely: Arua, Gulu, Lira, Mbale, Soroti, Tororo, Jinja, Entebbe, Masaka, Mbarara, Kabale, Fort Portal, Hoima, and Moroto.

² Uganda Urban Labor Force Survey 2009.

³ World Bank. 2015. *The growth challenge: Can Ugandan cities get to work?*. Washington, DC: World Bank Group.

80%⁴. From the quick survey of estimated needs during the Technical Assessment, severe gaps in service coverage were noted, with less than 50% of urban roads covered in 10 sample municipal LGs, less than 70% of solid waste covered (with only a maximum of 56% in the additional municipal LGs) and street lights coverage level of less than 28% of the required roads in any of the sampled municipal LGs. Increasingly, larger-scale, strategic infrastructure investment is required to improve the efficiency of urban markets and to enhance the agglomeration economies that lie at the heart of urban productivity. The LGs responsible for these areas also need to develop the systems and human resource capacities needed to effectively plan and execute such infrastructure projects, manage and regulate increasingly complex built environments, and generate and administer the resources that are required to sustain these activities.

5. ***Yet deficiencies in local government financial and institutional capacity continue to hinder local development.*** Sources of finance available to LGs are insufficient to meet local investment needs. While central level transfers have increased in nominal terms⁵, this was not commensurate with the increase in service demands due to population growth. At the same time, LG own revenues plummeted over the last decade, with the abolishment of the Graduated Tax. Financing gaps in LGs' abilities to meet service delivery requirements were estimated at 54% or Ugandan Shillings (UGX) 2.1 billion for the average LG⁶. Intergovernmental Fiscal Transfers (IGFT) constitutes the most significant part of the overall local government financing arrangements, currently financing approximately 95% of LG budgets. However, these have been declining. In per capita terms, the LG transfer budget has declined by 13% from its peak of UGX 80,303 in 2002/03 to UGX 69,858 in the 2017/18 budget⁷. Since 2015/16, the Government started to implement intergovernmental fiscal transfer (IGFT) reforms to address the challenges. But despite this progress, Discretionary Development Equalization Grant (DDEG)⁸ transfers are low (9% of total transfers), reducing the amount of funding available to invest in locally-determined development priorities. The DDEG is entirely inadequate - providing only around US\$ 1-2 per capita/annum for municipalities. This results in an allocation varying between US\$100,000 and US\$150,000/municipality/annum, allowing only a few small projects to be undertaken, none of which at sufficient scale to make an impact⁹. Other capacity constraints at municipal level include inadequate staffing, low operational budgets and a need for skill development among technical staff in procurement, contract management, and project monitoring, amongst other. Only 57% of established LG posts are filled¹⁰.

6. ***Performance improvements of municipal LGs are also needed if they are to help rather than hinder private sector development in their localities.*** Recent research has shown low trust in LGs among the private sector, due to irregularities and lack of transparency in local tax administration, obstruction of investments by some unscrupulous politicians, and a general perception that LGs do not offer useful support, within their mandates, for local private sector development¹¹. In addition, little support is provided to local firms by municipal LGs, even though they have the mandate to provide support to micro-enterprises and other firms through the Commercial Office. There is also an absence of meaningful public private dialogue, particularly in terms of consulting the private sector in the development of local development plans. The study made three main recommendations to LGs in Uganda: (i) to make infrastructure investments that are better prioritized according to local economic potentials – building on the major recent investments in roads and connectivity to transition to other strategic investments in tourism site development, market

⁴ Arch Design Ltd, 2012 – Municipal Assets Inventory and Conditions Assessment Final Report

⁵ From UGX 37 million in 1993/4 to UGX1.6 trillion in 2011/12.

⁶ Local Government Finance Commission (2012). Review of Local Government Financing: Financing Management and Accountability for Decentralized Service Delivery.

⁷ FDA section 7.2

⁸ DDEG has replaced the Local Development Grant (LDG) as part of the broader GoU IGFT reform

⁹ For example, unit costs of paving 1 km of urban road ranges between US\$800,000 to US\$1 million and for a primary drainage (with box culverts at road crossings and armoflex linings) about US\$500,000 to US\$1.1 million per km.

¹⁰ USAID (2015) Ugandan Decentralization Policy and Issues Arising in the Health and Education Sectors: A Political Economy Study. October 2015.

¹¹ World Bank 2016. *Uganda - Repositioning local governments for economic growth*. Washington, DC: World Bank.

infrastructures, serviced industrial parks and zones, premises for cottage industries and incubators/innovation centers for youth, etc. (ii) to improve service delivery to the private sector - such as piloting e-government services for Local Government tax collection, establishing One Stop Centers at the City level where a business can get advice on all Government procedures in one place and providing investor after care services. Increasing public awareness and transparency of Government processes relating to tax assessment was also highlighted. And finally, (iii) re-activating the role of LGs in the provision of support to local firms through the Commercial Office, particularly on financial literacy, business plan development, and collective bargaining.

7. ***The GoU has prioritized urban development as a key to achieving its objective of attaining middle income status by 2040.*** This is clearly outlined in Uganda's Second National Development Plan (NDP II) and the NRM Manifesto (2016-2021), which both set out important commitments, particularly on physical planning and infrastructure investments. These include a plan to elevate Arua, Gulu, Mbale and Mbarara municipalities to regional cities; and elevating another five towns to strategic cities focusing on key economic sectors - Fort Portal (tourism), Hoima (oil and gas), Jinja (industry), Nakasongola (industry) and Moroto (mining). A comprehensive draft National Urban Policy (NUP) has also been completed, with the goal of promoting "livable urban areas that are organized, inclusive, productive and sustainable", the Policy seeks to achieve the objectives of: a) promoting spatially integrated urban development; b) facilitating balanced regional development; c) promoting urban competitiveness and productivity for employment creation; d) promoting urban environmental conservation and protection, climate change, mitigation and adaptation mechanisms; and e) promoting good urban governance¹².

8. ***Furthermore, the influx of refugees in Uganda is currently a major challenge, stretching LG capacities for service delivery due to the rapid increase in population.*** Uganda is currently the largest host of refugees in Africa and the third-largest host in the world, with over 1.4 million refugees. Refugees settled in Northern Uganda, predominantly in the West-Nile sub-region, now constitute more than one-third of district populations¹³, with refugee population in Moyo and Adjumani districts constituting close to 60 percent. Uganda has one of the most progressive refugee regimes in the world, where refugees have right to work, establish business, move freely within the country, access social services, own property, and obtain documentation. Refugees are also given plots of land on which to cultivate and build houses. This is putting enormous pressure on LGs' ability to provide adequate infrastructure and services to this rapidly increased population, given that refugees are not limited to refugee settlements and can freely move to urban areas and access services. The influx of around 900,000 refugees from South Sudan since July 2016 is stretching local planning systems and capacities in Northern Uganda to the limit, in one of the poorest and most underserved sub-regions in the country. Recently, there has also been an increase in new arrivals from DRC who are predominantly settled in the Western and South West of the country. Finally, most long-term refugees have failed to "graduate" from humanitarian aid at a time when humanitarian budgets are shrinking. It is therefore critical to find ways to transition from humanitarian to development responses in Uganda and move from parallel to integrated service provision.

9. ***At the same time, the GoU has made a strong policy commitment to promote investments and socio-economic development in the areas hosting refugees so as to respond to the challenges of inadequate service delivery in those areas due to increase in population due to refugee influx.*** The Government's NDP II outlines its commitment to "Enhance national response capacity for refugee emergency management" and to pursue a long-term development approach through the Settlement Transformative Agenda (STA). The Government's commitment to sustain its generous policy regime and pursue long-term solutions was solidified in a Letter of Government Policy on Refugees and Host Communities (dated August 30, 2017).

¹² The Policy has been adopted but has not yet been launched.

¹³ Data from UNHCR shows that as of December 17, 2017, the districts of Arua, Yumbe, Moyo, Adjumani and Lamwo host a total of 971,572 refugees in addition to a host population of 1,832,831 nationals.

Development Partners have rallied to support the STA through the Refugee and Host Community Empowering (ReHoPE) initiative, which provides a common programming framework for multiple stakeholders, and aims to bridge short term humanitarian response with longer term development responses. ReHoPE puts emphasis on building and strengthening ownership and capacity of LGs to ensure delivery of services to the entire population in refugee hosting districts to build resilience and self-reliance of refugees and host communities.

10. ***Municipalities are exposed to climate variability and are vulnerable to climate-induced events.***

These further aggravate the pressures on urban infrastructure due to increasing population and striving for greater economic growth. When planning urban infrastructure, integrating climate-resilient considerations are imperative for ensuring that the assets are effectively used for a longer period. For instance, the climate variability is causing unexpected intense precipitation that leads to heavy urban storm water run-offs, which needs to be discharged through a drainage network. Without a proper drainage network, urban roads are negatively impacted due to erosion. Both the drainage network and the urban roads assets, wherever relevant, needs to effectively serve their respective intended purposes. These assets should not be adversely affected by climate-induced events.

11. ***With urban centers becoming engines of growth, their contribution towards GHG emissions is bound to increase.*** Wherever possible, the sector should adopt low and no carbon/GHG measures in order to reduce its contribution to the climate change problem. As a whole, the sector should move towards clean energy options (particularly solar), enhancing carbon sinks (increased urban green cover) and streamlining waste management (methane management from municipal waste). And, last but not the least, the GHG/carbon-related interventions contributes towards building the widespread awareness of the urban populace, which could lead to a signaling effect in terms of greater adoption of carbon/GHG-reducing measures in other private/business areas of investment.

b) Revised Government program

12. ***The GoU's Local Government Management and Service Delivery Program (LGMSDP) has been replaced by the program on Intergovernmental Fiscal Transfer (IGFT) Reform, 2017.*** The USMID AF Program will support this GoU program through a focus on the DDEG for 22 target MLGs. USMID AF will use the same procedures as the IGFT program, notably the allocation formula and core features of the assessment system as well as the institutional arrangements. It will contribute to the attainment of the three government reform objectives of (i) restoring adequacy in financing of decentralized service delivery; (ii) ensure equity in allocation of funds to LGs for service delivery; and (iii) improving the efficiency of LGs in the delivery of services, through improvement of the overall grants to LGs. The GoU program is no longer time-bound, but now focuses on a longer-term improvement of the overall funding system of LG infrastructure and services, and encompasses all intergovernmental fiscal transfers with a core focus on the DDEG, and a few core sectors. The Government program – the DDEG (Districts and Urban) which now replaces the LGMSD and excludes the USMID Municipal DDEG – is a total of UGX1,172.98 billion¹⁴ (US\$293.81 million) over the Program period. The USMID Program, which is UGX973.12 billion (US\$266.46 million) is about 48 percent of the total DDEG, and is clearly defined to the urban window for 22 target MLGs and the DDEG funding system and aligned with the 3 core objectives above (see Table 1 below). Below is an overview of the projected MTEF ceilings over the medium term.

¹⁴ Total DDEG of UGX2,046.10 billion, less the USMID Municipal DDEG of UGX973.12 billion (UGX3652 = US\$1)

Table 1: IGFT in the GoU MTEF (UGX Billions)

IGFT Grants	17/18	18/19	19/20	20/21	21/22	Total
Total grants	2,653.92	2,950.66	3,243.08	3,602.38	3,661.41	16,111.45
<i>of this total wage</i>	<i>1,704.00</i>	<i>1,789.20</i>	<i>1,878.66</i>	<i>1,972.59</i>	<i>2,071.22</i>	<i>9,415.67</i>
<i>of this total non-wage recurrent</i>	<i>564.38</i>	<i>645.14</i>	<i>709.66</i>	<i>816.10</i>	<i>816.10</i>	<i>3,551.38</i>
<i>of this development</i>	<i>385.53</i>	<i>515.46</i>	<i>653.73</i>	<i>812.44</i>	<i>772.84</i>	<i>3,140.00</i>
Total DDEG	232.22	327.45	428.93	548.55	508.95	2,046.10
District DDEG¹⁵	121.90	158.47	190.17	228.19	228.19	926.92
<i>PRDP</i>	<i>92.85</i>	<i>120.71</i>	<i>144.85</i>	<i>173.82</i>	<i>173.82</i>	<i>706.05</i>
<i>LRDP</i>	<i>13.42</i>	<i>17.44</i>	<i>20.93</i>	<i>25.11</i>	<i>25.11</i>	<i>102.01</i>
<i>LG Grant</i>	<i>15.63</i>	<i>20.32</i>	<i>24.39</i>	<i>29.26</i>	<i>29.26</i>	<i>118.86</i>
Urban DDEG	110.32	168.98	238.76	320.36	280.76	1,119.18
USMID Municipal DDEG¹⁶	91.12	144.00	208.80	284.40	244.80	973.12
<i>USMID Divisions DDEG</i>	<i>5.67</i>	<i>7.38</i>	<i>8.85</i>	<i>10.62</i>	<i>10.62</i>	<i>43.14</i>
<i>Non-USMID Municipal DDEG</i>	<i>4.14</i>	<i>5.39</i>	<i>6.46</i>	<i>7.76</i>	<i>7.76</i>	<i>31.51</i>
<i>Non-USMID Divisions DDEG</i>	<i>3.39</i>	<i>4.41</i>	<i>5.29</i>	<i>6.35</i>	<i>6.35</i>	<i>25.79</i>
<i>Town Councils</i>	<i>6.00</i>	<i>7.80</i>	<i>9.36</i>	<i>11.23</i>	<i>11.23</i>	<i>45.62</i>
USMID AF as % of IGFT	4%	5%	6%	8%	7%	6%
USMID AF as % of total DDEG	39%	44%	49%	52%	48%	48%

Source: Ministry of Finance, Planning and Economic Development; Uganda.

13. **The PforR AF will also contribute to the achievement of the objectives in the Government’s Letter of Policy on Refugees and Host Communities.** The Government STA is designed to support socio-economic development in districts hosting refugees through investments in infrastructure, livelihoods, peaceful coexistence initiatives and environmental protection. USMID AF will contribute directly to this aim through infrastructure investments and strengthening of the planning process, which will seek to facilitate the transition from the emergency response to long-term development and socio-economic integration. USMID AF will contribute particularly to one of the key GoU priorities outlined in the Letter of Policy on Refugees and Host Communities (August 30, 2017) aimed at “enhancing economic and social infrastructure in refugee hosting areas...in accordance with local government plans and systems,...(including)..construction and maintenance of major access roads, markets, building and maintaining of water systems and water for production and the establishment of solid waste disposal infrastructure, among others”. The Program will focus on the delivery of basic infrastructure in urban centers as well as their wider sub-counties within the LGs hosting a large number of refugees, according to local priorities and needs. An integrated, area-based approach to infrastructure provision, prioritized in a participatory and inclusive manner and delivered through LG systems will provide services for refugees and host communities in a more efficient and integrated way to build local capacities and resilience, compared with short term humanitarian approaches.

14. **The existing USMID Program, a US\$160 million¹⁷, PforR operation, was approved on March 20, 2013, became effective on August 20, 2013 and will close in December 31, 2018.** Its PDO is to enhance the institutional performance of Program LGs to improve urban service delivery. Disbursement currently stands at 98%. Under the Program, a total of US\$136 million were allocated to the municipal LG level, for two areas, namely (i) US\$126 million for Municipal Development Grant (MDG) to finance urban infrastructure

¹⁵ Includes allocations to both the District and Sub-county levels.

¹⁶ USMID Municipal DDEG from FY 2018/19 is also not yet captured in the MTEF, but included in this table as per proposed Program. In addition, the grant allocation in FY 2022/23 from USMID for grants will be included in the next MTEF (exchange rate applied is \$ 1 = UGX3,600)

¹⁷ Of which IDA was US\$150 million and GoU co-funding was US\$10 million.

investments; and (ii) US\$10 million Municipal Capacity Building Grant (MCBG) to strengthen institutional capacities for the achievement of the Program objectives and results. The balance of US\$24 million was allocated to the central government (Ministry of Lands, Housing and Urban Development) to support capacity building activities for urban development and management, systems development, and overall support for Program implementation. The Program’s investment menu included: (i) Urban roads and associated infrastructure; (ii) Urban solid and liquid waste management; (iii) Water and sewerage extension; to peri-urban areas, (iv) Urban economic infrastructure (markets, slaughter houses, etc), (v) Urban transport (bus/taxi/lorry parks), and (vi) Urban beautification (public parks; play grounds, etc.). The DLIs focused on the following seven thematic institutional improvement areas: (i) Improved linkages between Municipal Physical Development Plans and the Five year Development Plans and Budgeting; (ii) Increased municipal own source revenue (OSR); (iii) Improved procurement performance; (iv) Improved municipal accounting and core financial management; (v) Improved execution/implementation of budget for improved urban service delivery; (vi) Improved accountability and transparency (monitoring and communication); and (vii) Enhanced environmental and social sustainability (Environmental, social and resettlement due diligence).

15. *The Program implementation progress is rated satisfactory and the overall progress towards achievement of objectives is rated satisfactory as of October 2017 Implementation Support Mission (ISM).* The GoU fully disbursed the US\$10 million co-funding, and paid for 18% VAT for all the civil works following change in government policy not to exempt works from VAT. It also fully disbursed UGX325 billion (US\$130 million equivalent) of its program funding of the Local Development Grant (LDG) under the government Local Government management service delivery program (LGMSD) – the government program. The technical, fiduciary, environment and social progress are all rated satisfactory. A total of 53 km of equivalent 2-lane roads have been rehabilitated and upgraded under batch 1 subprojects¹⁸ together with associated road infrastructure which includes 59 km of covered lined drains, 70.5 km open lined drains and several cross drains, 52 km of pedestrian walkways, 20.8 km of cycle lanes, 38.5 km of parking lanes, 1,296 solar street lights and 576 trash cans to manage litter. The project has improved 54,237 square meters of green area and planted 1,768 trees. A modern bus terminal is nearly completed. Under Batch 2, three taxi parks are under construction and more than 20 km of roads and associated infrastructure will be completed.

Table 2: Program implementation progress rating

	Rating of Parent Program at AF Concept Memo Stage	Updated Rating	Summary Action(s)	Responsible	Date	Progress since Concept/Next Steps
PDO	MS	S	Completion of outstanding Batch 1 works in the 4 Municipal LGs	MCs with technical support from MoLHUD	Oct 30, 2017	Only 2 municipalities are yet to complete batch 1 works. Batch 1(a) works are now substantially completed in 10 MCs, nearly completed in 2 MCs. For Batch 1(b), works have been completed in 5 MCs and almost substantially completed in the remaining MCs.
IP	MS	S	Contracting and signing of batch 2 works contracts.	MCs with technical support from MoLHUD	June 15, 2017	10 out of the expected 12 MCs have signed contracts and commenced batch 2 works and are at different stages of progress.

¹⁸ Batch 1 subproject expenditure is about 50percent of the projected infrastructure expenditure under USMID.

Technical	MS	S	Finalize the design of Batch 2 works including cost estimates, associated RAP costs, packaging, and tender documents for each MC.	MCs with technical support from MoLHUD	April 15, 2017	Preparation of batch 2 works including cost estimates and associated RAP costs, packaging, tender documents for municipalities was finalized and procurement process commenced at the end of March 2017.
Fiduciary	S	S	Value for Money (VfM) exercise finalized	Office of the Auditor General	April 20, 2017	There has been improved and adequate fiduciary arrangements in place at both MoLHUD and the MCs
E&S	MS	S	Address environmental and safety hazards pertaining to unfinished Batch 1 works in the 4 municipal LGs including completing and strengthening compensatory tree plantation across all sub-projects.	Municipal LGs	May 31, 2017	There has been increased involvement of safeguard teams from MoLHUD, PST as well as at the MCs level in the implementation of sub-projects.
DLI	S	S	Review relevancy of some of the DLIs	MoLHUD/ IDA	Dec 31, 2017	All the DLIs both at MC level and at the national level have been adequately reviewed, harmonized and updated.

MS – Moderately Satisfactory; S – Satisfactory; IP – Implementation Progress; E&S – Environmental and Social.

c) Rationale for the Additional Financing

16. ***The GoU requested the additional financing to scale up the successful impacts of the current Program, both within currently targeted as well as new localities.*** On March 27, 2017 the client submitted a letter to the Bank requesting a follow-on operation based on the satisfactory performance of the Program over the last four years. The client further noted that during the Program mid-term review carried out in May 2016, it was recommended that a second phase of the Program be implemented to consolidate the achievements and keep momentum of progress made under the ongoing phase. The client also submitted a concept note providing the rationale for the roll-out of the Program to additional MLGs. In particular, the rationale for expansion of the Program is aiming to operationalize the vision of NDP II to transform local governments into vibrant institutions able to deliver quality services to their communities, develop their local economies, and sustainably generate local revenue.

17. ***AF is the preferred modality, as opposed to preparation of a new activity, as the major components of the Program will continue, while adding the support to LGs facing high influx of refugees.*** The proposed AF will support the same main set of expenditure areas: (a) performance-based municipal development grants (MDGs) to participating municipal LGs for urban infrastructure and associated investment costs and municipal institutional strengthening grants (ISG) for capacity development; and (b) support to MoLHUD to administer and coordinate the Program, and strengthen its capacity to support and guide urban development, including providing technical back-up support to MLGs. Within these existing components, the Program will build on current achievements and expand Program scope to achieve more transformative impacts on service delivery and local economic development, in line with the GoU's policy direction. At the same time, the AF will extend similar support to urban areas and their wider Districts, which have faced a high influx of refugees. This will include institutional strengthening in critical areas as well as infrastructure delivery based on local priorities decided in consultation with host communities and refugees.

18. ***The Program’s geographic scope will increase by scaling up support to four additional Municipal LGs initially and to another additional four in the second year of implementation. In addition, it will also target 8 urban centers and their wider Districts hosting high numbers of refugees.*** In addition to the 14 municipal LGs currently participating in the Program, the Program will expand the support to include four additional municipalities at Program commencement and another four in the second year after building their capacity during the first year of implementation. The Government has developed a criterion for the selection of these additional Municipal LGs, including: (i) considerations for regional balance and strategic location, (ii) municipal population, (iii) must be outside the Greater Kampala Metropolitan Area, and (iv) having an approved Urban Physical Development Plan to facilitate infrastructure development. In accordance with the agreed criteria, the four additional Municipal LGs proposed by the Government to be included initially under the USMID AF include: (1) Kamuli (Eastern), (2) Kitgum (Northern), (3) Kasese (Western), and (4) Mubende (Central). After 1 year of implementation and through targeted institutional support from the MLHUD, 4 additional Municipalities that are regionally distributed shall be added to the program. The remaining 19 municipalities in the country will be supported through the central government component to have the necessary capacity to meet the Program minimum conditions and be able to join the Program in the subsequent phase.

19. In addition, the Program includes a new component which will target support to urban centers and their wider District LGs hosting refugees. District level LGs, in addition to municipalities will be supported to increase the flexibility of the Program to respond to the needs arising from refugees’ influx to rural communities often turning them into settlements with urban characteristics. The table below provides the list of current districts hosting refugees.

Table 3: Population of the Districts/Authorities hosting refugees in Uganda

#	District/ Authority	Total population	Population of host districts	Population of Refugees	% of refugees to total population	% of refugees to host population	Population density (total population / km2)	District area (km ²)	Arable land area (km ²)	Poverty head count
1	Arua	1,029,574	782,077	247,497	24%	32%	241	4,274	3,719	35.5
2	Yumbe	771,909	484,822	287,087	37%	59%	320	2,411	1,931	53.3
3	Hoima	609,699	572,986	36,713	6%	6%	106	5,735	3,612	10.6
4	Isingiro	595,221	486,360	108,861	18%	22%	228	2,610		9.1
5	Kamwenge	491,489	414,454	77,035	16%	19%	143	3,439	2,300	10.5
6	Adjumani	451,700	225,251	226,449	50%	101%	144	3,128	1,455	37.2
7	Kyegewa	314,293	281,637	32,656	10%	12%	180	1,747	1,747	10.8
8	Kiryandongo	323,836	266,197	57,639	18%	22%	89	3,624	1,747	10.4
9	Moyo	272,366	139,012	133,354	49%	96%	132	2,059	1,867	39.0
10	Lamwo	155,851	134,379	21,472	14%	16%	28	5,588	5,030	57.6
11	Koboko	210,936	206,495	4,441	2%	2%	278	760		47.6
12	Kampala	1,610,774	1,507,080	103,694	6%	7%	8,523	189		0.1
	Total	6,837,648	5,500,750	1,336,898			192	35,565	23,408	

Source: Office of the Prime Minister Website, Uganda

20. The proposed selection criteria for the refugee hosting districts to benefit from the sub-window will be based on the following factors:

- Only districts local governments are considered for this selection.

- The percentage of refugees in the districts is at least 10 percent of the total population.
- The district should have a poverty head count of at least 9.0 percent.
- Districts whose population density is greater than 100 will be selected to start implementation in year 1 while those with population densities less than 100 will be included in year 2 of the Program.

21. Accordingly, the eight districts of Adjumani, Moyo, Yumbe, Arua, Isingiro, Kiryandongo, Kamwenge and Lamwo which are hosting sizable refugee populations, and the eight urban centers and parishes within these Districts will be targeted¹⁹. Two of these districts, namely; Kiryandongo and Lamwo shall be included under this sub-window in the second year of project implementation. This geographical expansion will enhance the population coverage under USMID from 1,285,300 to 1,611,200 people, i.e. an increase of 25.4 percent, covering 37.5 percent of the municipal population and 4,091,946 people within the 8 districts. Project interventions will benefit all refugees and host communities in target districts (including the 8 urban centers and parishes).

22. ***The Program scope will also be expanded to better align with NDP II goals of wealth creation as well as the World Bank's twin goals on ending extreme poverty and boosting shared prosperity.*** Various elements have been introduced into the design of the AF to strengthen participating MLGs impact on promoting local economic development (LED) and job creation. Local firms in the formal sector face considerable constraints in establishing and sustaining their businesses, limiting prospects for the creation of more and better jobs. For example, according to World Bank Enterprise Survey Data for Uganda (2013), the main constraints include infrastructure deficits and access to land; regulatory barriers and corruption; and access to finance²⁰. LGs have a role in helping or hindering the alleviation of these constraints to support private sector development and, consequently, job creation. The recent study undertaken by the World Bank/Ministry of Local Government (MoLG) on LED²¹ highlighted that LGs are currently doing little in this direction, with their main relationship with the private sector centering on tax collection and requests for donations. The study outlined some of the constraints faced by the private sector which are within the mandate of LGs. These fell under the four broad categories of infrastructure deficits, regulatory barriers, absence of enterprise support and institutional capacity gaps within LGs.

23. ***In line with the technical assessment and recent studies on LED in Uganda, design elements have therefore been introduced to support and incentivize MLGs to alleviate some of the local constraints that the private sector faces.*** LGs need a better understanding of their local economic potentials and the constraints that key sectors face, a closer dialogue with the private sector, and improved incentives and capacities to respond to the local needs of the private sector. The main design elements, therefore, introduced are:

- The addition of Municipal Commercial Officers²² as one of the minimum staffing requirements for participating MLGs by year 2 of the Program,
- The infrastructure investment menu has been expanded to include infrastructure which was highlighted by firms as important to establishment of new firms and / or to increasing productivity of existing firms²³.

¹⁹ Selection of the eight urban centers for planning and support for infrastructure development, and eight parishes for land tenure intervention will be done during the district planning process. The districts have the following population figures (FY2017/18): Adjumani – 452,700; Moyo – 272,366; Yumbe – 771,909; Arua – 1,029,574; Isingiro – 595,221; Kiryandongo – 323,836; Kamwenge – 491,489; and Lamwo – 155,851.

²⁰ Highlighted as the biggest obstacles by 33.4, 31.7 and 12.3 percent of firms in Uganda, respectively.

²¹ World Bank (2016). *Re-positioning Local Governments for Economic Growth*. The role of Local Governments in Promoting Local Economic Development in Uganda – focusing on Jinja Municipal LG, and Arua and Nwoya District LGs.

²² Municipal Commercial Officers will be responsible for providing the necessary support to the private sector in their jurisdictions

²³ The LED study undertook Focus Group Discussions with a total of 116 firms and 89 Government and other stakeholders from Arua, Nwoya and Jinja Districts / Municipalities.

This includes servicing land for industrial or tourist sites, zoning and servicing parks for micro-enterprises and cottage industries, establishing incubation centers, etc.; and

- DLI indicators and performance measures have been expanded to incentivize municipal LGs towards greater public private dialogue, transparency in revenue collection, supporting local micro-enterprises and unblocking bottlenecks hindering new investors.

d) Alignment with objectives of CPF and IDA 18 Sub-window for Refugees and Host Communities

24. ***The proposed changes to Program scope are fully consistent with the current Country Partnership Framework (CPF) for the period 2016 – 2021²⁴.*** The current design as well as the enhancements being introduced to further strengthen MLG capacity to deliver urban infrastructure and services and to contribute to Local Economic Development will particularly support the achievement of CPF Strategic Focus Area C: *Boosting inclusive growth in urban areas*. Specifically, the program will contribute to both thematic objectives under this area, particularly thematic objective 6) *improved access to urban services* and thematic objective 5) *improved business environment*. The CPF lays out a vision whereby WBG investments will “support private investment for more and better jobs, while improving living conditions and connectivity for urban populations”. The Program will directly contribute to achieving this vision through its support to municipal governments to deliver critical infrastructure investments as well as improved municipal service delivery to local citizens and the private sector. In line with the CPF, the Program will furthermore support refugee host districts with a view to address the distinct circumstances affecting their livelihoods, including limited economic opportunities and inadequate infrastructure.

25. ***Uganda is eligible to access the IDA18 sub-window for refugees and host communities.*** First, Uganda was hosting 940,835 refugees by the end of 2016 and this number has since increased to over 1.4 million. Second, the WBG in consultation with the UNHCR has confirmed that Uganda’s protection framework is adequate for the purposes of the sub-window. And third, the Government has articulated a strategic approach to further move towards long-term solutions that benefit refugees and host communities²⁵. The proposed component to support areas affected by the refugee influx is fully consistent with the three objectives of the sub-window for refugees and host communities: (i) mitigate the shocks caused by an influx of refugees and creating social and economic development opportunities for refugees and host communities; (ii) facilitate sustainable solutions to protracted refugee situations including through the sustainable socio-economic inclusion of refugees in the host country; and (iii) strengthen preparedness for increased or potential new refugee flows. Given that Uganda faces a medium to long term challenge of fragile neighbors and repeated waves of refugees, the Program’s focus on LG planning and strengthening of service delivery will contribute to the preparedness of affected LGs for the future waves of refugee influx. The Program’s approach to participatory planning through local development forums and implementation through LGs is also a more efficient and developmental approach that strengthens Government systems through the response to the refugee crisis.

26. ***Uganda has an adequate protection framework for refugees, and the USMID AF will contribute to sustaining this framework and addressing key protection challenges.*** The activities to be implemented under the AF will directly contribute to improving some of the protection issues highlighted by the UNHCR Protection Note. For example, the participatory nature of the prioritization process for infrastructure investments is expected to enhance social coherence and continued peaceful co-existence in refugee host communities in line with the Government’s STA. Also, activities related to increasing the security of land tenure for both host communities and refugees in certain parishes, will help mitigate risk of tensions arising

²⁴ World Bank Report No. 101173-UG.

²⁵ For more details, see IDA 18 Refugee Sub-Window Board Consultation on Eligibility AFR, MNA, SAR paper, September 19, 2017

from land disputes and ensure that future infrastructure-related land acquisition and compensation is undertaken transparently. Finally, the infrastructure investments that will be implemented will help ease the pressure on social services in the most affected Districts and municipalities and facilitate a gradual shift from parallel to integrated service provision targeting both refugees and host communities.

III. PROPOSED CHANGES

a) Program Development Objective (PDO) and Key Results

27. *The PDO is being retained from the previous phase, given that the major components of the Program will continue under the AF.* The current PDO remains relevant and accurately describes the main focus of the AF: “to enhance the institutional performance of Program LGs to improve urban service delivery” As mentioned, the Program will, however, deepen activities in current target municipalities to maximize the transformative impact; as well as expand to eight additional municipalities and eight additional urban centers and their wider District LGs facing a large influx of refugees. The inclusion of District LGs is designed so that the Program can be flexible to respond to the needs of communities hosting refugees in the rural hinterland surrounding the urban areas targeted.

28. *The key results are also being retained while strengthening emphasis in certain areas, as well as adding a new key result to measure the performance of support to host communities and refugees.* The Program will retain two sets of results from the previous phase, while reflecting the increase in the number of MLGs targeted and the enhanced performance measures. These are:

- 22 municipal local governments with enhanced capacity in generating own source revenues, in urban planning, in providing a conducive environment for private sector investment and job creation, and in managing their financial, procurement, environmental and social systems;
- Expanded urban infrastructure; and
- Enhanced service delivery through improved local infrastructure in Local Governments Hosting Refugees.

29. *Attention in this phase will, therefore, focus on deepening institutional performance improvements.* Particularly regarding fiduciary aspects, safeguards, urban planning, own source revenue (OSR) generation, and strengthening the roles of MLGs in promoting Local Economic Development; as well as on increasing planned infrastructure completed by MLGs, and improved handling of operations and maintenance.

30. *In addition, a new results indicator has been added to monitor support through the sub-window for refugees and host communities.* Namely, this indicator is - *improved planning, land tenure security and small-scale infrastructure investments within refugee hosting urban centers and their wider Districts.* This is designed to measure progress in supporting LGs in the refugees’ host LGs to mitigate the impact of the recent influx of refugees from South Sudan and ease the pressure on local infrastructure and service delivery. This component will be implemented by the targeted LGs, with intensive support by the MoLHUD in addition to other relevant central level actors who are already members of the Program Technical Committee (PTC).

b) Program Financing and Expenditure Framework

31. *As mentioned in the background, the government, as part of its overall IGFT reform is financing the DDEG which covers all LGs (rural as well as urban).* The government funding to the non-USMID urban LGs (covering non-USMID Municipal and Division LGs, as well as USMID Division LGs and Town

Councils) over the Program period is UGX146.06 billion (US\$40 million) – see table 1. This government funding of US\$40 million is being considered as part of the Government contributing to the DDEG urban window for development investments. However, the Government DDEG urban investment menu covers the entire urban service delivery mandates, as provided for under the LGs Act CAP 243 of which the USMID Program is only a sub-set focusing on limited core urban infrastructures.

32. ***The proposed AF will increase the scale of funding to the Program by US\$360 million and extend its duration by a further 5 years.*** The following financing table outlines the original loan financing together with the proposed AF, as well as the Government funding under the non-USMID window DDEG.

Table 4: Program Funding for USMID and USMID AF

Financing Source	Original Credit	AF Credit	AF Grant	Total
BORROWER/RECIPIENT	\$ 10 million ²⁶	\$ 40 ²⁷ million	NA	\$ 50 million
IBRD/IDA	\$ 150 million	\$ 310 million	NA	\$ 460 million
IDA SUB-WINDOW	\$ 0	\$ 25 million ²⁸	\$ 25 million	\$ 50 million
TOTAL	\$ 160 million	\$ 375 million	\$ 25 million	\$ 560 million

33. ***Of this increased funding, \$60 million would be used to support activities under the IDA18 Sub-Window for Host Communities and Refugees.*** Uganda has been declared eligible to access the Sub-Window²⁹. Activities targeting refugee hosting LGs of Uganda and benefitting both refugees and host communities will accordingly be financed, one sixth from the national IDA allocation and five sixth from the sub-window of which 50 percent will be grant, and remaining 50 percent of the five sixth on IDA credit terms.

34. ***The proposed AF will support the same set of previous expenditure areas, while adding an additional expenditure area for support to LGs hosting refugees.*** The Program will continue with the previous expenditure areas of: (a) performance-based municipal development grants (MDGs) to participating MLGs for urban infrastructure and associated investments servicing costs, as well as municipal institutional support grants (ISG); and (b) support to MoLHUD to administer and coordinate the Program, and strengthen its capacity to support and guide urban development, and providing technical back-up support to MLGs. An additional expenditure area (c) has been added to support selected LGs hosting refugees to improve planning, land tenure security and small-scale infrastructure investments³⁰ targeting refugees and host communities.

35. ***Under expenditure area (a), the investment menu for the MDG will be modified and expanded to increase infrastructure development gains made in target MLGs.*** The expanded menu will include:

- Associated axillary infrastructure to road investments (pedestrian walk ways, solar street lightings, beautification/planting of trees, etc.)
- Solid waste management (based on solid waste management plans completed under the original USMID for each of the 14 MLG)

²⁶ Includes the original US\$10 million provided under the Government program (local development grant) plus 18 percent VAT equivalent to US\$15 million paid by GoU as part of civil works contracts under the USMID Program.

²⁷ This comprises the non-USMID urban DDEG provided for in the GoU MTEF from FY2018/19 – 2021/22 which is a total of UGX146.06 billion (equivalent to about US\$ 40 million).

²⁸ IDA18 Sub-Window for Host Communities and Refugees

²⁹ See IDA 18 Refugee Sub-Window Board Consultation on Eligibility AFR, MNA, SAR paper, September 19, 2017

³⁰ These may include small bridges, culverts in swampy areas and working on black spots on Districts/Community roads to make them motorable throughout the year for easy mobility and access of services by both host communities as well as refugees.

- Drainage improvements (based on drainage master plans completed under the original USMID for each of the 14 MLG)
- Other urban local economic infrastructure (based on economic potential constraints analysis & PPP screening to be conducted for each MLG)

36. *The project will largely continue with the original investment menu with a few expansions to increase infrastructure development gains made in target MLGs.* The Table below shows the previous investment menu with the new elements. Detailed designs for transport and drainage infrastructure have already been financed under the current operation for the 14 original MLGs. Plans and designs for LED related infrastructure investments³¹ will be completed during the first year of implementation, for the municipal LGs that choose such investments.

Table 5: Investment Menu for USMID and the USMID AF

Objective – enhance the financial resources of the participating municipal LGs for provision of improved core municipal services	Previous phase infrastructure investment menu	AF infrastructure investment menu
1. Urban Roads and associated infrastructure (rehabilitation and construction)	<i>Urban Roads and associated infrastructure:</i> Integrated road construction with drainage works, cycle lanes, bus bays, pedestrian walkways, street lights, trash cans,	<i>Urban Roads and associated infrastructure:</i> Integrated road construction with drainage works, cycle lanes, pedestrian walk ways, street lights, trash cans, traffic lights, etc.
2. Urban Transport	<i>Urban Transport and beautification:</i> Bus/taxi/lorry parks and associated market stalls for vendors at these sites	<i>Urban Transport and beautification:</i> Bus, taxi and lorry parks and associated market stalls for vendors at these sites ³² ,
3. Urban solid and liquid waste management	<i>Urban solid and liquid waste management:</i> Solid waste management strategies for each MC, liquid waste related to slaughter houses	<i>Urban Solid and liquid waste management:</i> Addressing bottlenecks in the solid waste management ³³ cycle, IEC materials, institutional capacity, including waste reduction strategies
4. Drainage	Drainage Master Plans for each MC, standalone drainages	Urban drainage - not necessarily linked to the road networks incl. implementation of the Drainage Master Plans
5. Water and sewerage extension ³⁴ ; to peri-urban areas	<i>Water and sewerage extension; to peri-urban areas:</i>	<i>Water and sewerage extension; to peri-urban areas:</i>
6. Urban Local Economic Infrastructure	<i>Urban Local Economic Infrastructure:</i>	<i>Urban Local Economic Infrastructure:</i>

³¹ Such as servicing land for industrial or tourist sites, parks for micro-enterprises and cottage industries, central business district upgrading, incubation centers.

³² Investments in bus, taxi and lorry parks will be complemented with market stalls in the same locations to support local producers and vendors' access markets and consumers.

³³ Category A projects shall be excluded and are not eligible for funding under the project

³⁴ Water and sewerage being under the jurisdiction of National Water and Sewerage Corporation (NWSC), may be included on a case by case basis through partnership arrangements between the corporation and the municipalities that chose to prioritize it.

	Markets, Slaughter houses,	Markets, Slaughter houses including provision for waste management <u>Additional LED Infrastructure:</u> <ul style="list-style-type: none"> • Servicing land for industrial and commercial uses³⁵ • Public infrastructure servicing tourism, including roads to sites, site upgrading, toilets, craft markets, etc. • Parks for micro enterprises and cottage industries e.g. artisan/Jua Kali parks and other cottage industries³⁶ • Incubators / innovation centers for quality upgrading and business management skills³⁷
7. Urban beautification	Urban beautification: Public parks; play grounds; urban landscaping; urban greening (e.g. planting of trees on roads verges,)	Urban beautification: Public parks; play grounds; urban landscaping; urban greening (e.g. planting of trees on roads verges,)
8. Support to Infrastructure in Local Governments Hosting Refugees: a) District and Community Access Roads to make them motorable throughout the year for easy mobility and access of services by both host communities as well as refugees; and b) Infrastructure strengthening interaction and peaceful co-existence amongst host communities and refugees.	NA	Infrastructure in Local Governments hosting refugees: <ol style="list-style-type: none"> a. small bridges and box culverts on impassable sections; b. Culverts and fill material to address bottlenecks in swampy areas; c. Removing black spots prone to accidents <p>Infrastructure promoting sports, art and culture (play fields, resource centers, community buildings,</p>

37. **The investment menu covers all the adaptation and mitigation opportunities relevant to providing basic urban infrastructure.** For instance, urban greening will be done for its local environmental benefits as well as the extent of these serving the purpose of carbon sinks. Another instance is improving the drainage management, which is an adaptation measure that is particularly relevant during climate-induced flood events. Being a PforR, the menu is limited to those with no single large investments (with significant environmental impacts) and climate-responsive measures have been integrated using a climate lens. Respective municipalities will choose the appropriate investments from this menu. Based on their choice, during implementation, the climate-co-benefits will be tracked and documented. GHG accounting calculations would be done using approved methodologies as found appropriate. Case studies on how the

³⁵ Including extending electricity, water and other utilities.

³⁶ Common use infrastructure and other quality upgrading services could also be provided within these parks to support firms and link them with key supporting agencies. For example, firms called for a decentralization of UNBS product certification services to the local government level to improve their access to these services.

³⁷ To be run in partnership with institutions with experience in this area such as Uganda Small Scale Industries Association (USSIA), Uganda Industrial Research Institute, etc.

adaptation measures served the municipalities during climate-induced events, if any, will also be documented and shared. It is intended to demonstrate how adaptation and mitigation opportunities can be gainfully weaved into urban infrastructure development at the municipality level.

38. *In addition to the expanded menu, the Program Operational Manual (POM) will be updated to detail guidelines on investments standards including a negative list for ineligible investments.* To minimize risks, the investment menu will exclude World Bank environmental assessment category A projects from the Program. In addition, MLG investment in private business or non-public goods investments³⁸ will also be excluded to avoid political/elite capture.

39. *Expenditure area (b) – support to MoLHUD³⁹ will be expanded to include additional support to strengthen valuation services to include:*

- development of national valuation principles, standards and guidelines,
- training of CGV staff in valuation skills other than estate valuation,
- providing the necessary tools/equipment to the Department to allow it to perform its mandate given the importance and strategic role played in approval of RAP reports and compensation to Program/Project affected persons (PAPs) nationally.

40. *The new Expenditure area (c) – support to selected LGs hosting refugees - will include support on planning, land tenure security and small-scale infrastructure investments targeting refugees and host communities, including:*

- preparing, through a Rapid Physical Planning Assessment (RAPPA) process, district Physical Development Plans (PDPs) for eight districts hosting refugees and later full-scale PDPs for the same districts.
- preparing PDPs for 8 selected urban centers experiencing or expected to experience influence by a high influx of refugees.
- preparing local PDPs for 8 selected sub-counties from the sub-region
- small scale infrastructure investments benefiting refugees and host communities in the 8 urban centers and their wider districts to be identified through a local participatory process - potentially including bridges, culverts, black spots on roads and infrastructure for social cohesion such as community centers, sports facilities, etc.⁴⁰.
- measures to enhance land tenure security for refugees and host communities in 8 priority selected parishes in the sub-region building on MoLHUD's previous experience in this area.
- measures to improve the capacity of participating LGs in planning and provision of services.

41. *In summary, the AF will provide the following financing components:*

- a) Program grants to 22 municipal LGs for infrastructure investments as listed under the Program investment menu - **US\$245 million**
- b) Institutional performance-based grants to 22 LGs for institutional improvements: **US\$10 million**
- c) Support to central level system and institutional development: **US\$45 million**

³⁸ such as shopping malls, hotels, factories, gas stations, stadiums, etc.

³⁹ The MoLHUD will work with other MDAs to support the LED agenda for (i) development and roll out of guidelines for economic infrastructure and MLG support to the private sector - MoLG; (ii) conducting economic potentials and constraints analysis & PPP screening for all participating MLGs – MoFPED PPP Unit; (iii) developing and piloting an LED module, with a view to institutionalize it in the Uganda Civil Service College - MoPS; (iv) developing an e-governance framework for MLGs, particularly with regards to online revenue collection – KCCA/MoLG

⁴⁰ For the refugee window a clear and targeted investment menu will be in the POM to ensure that investments are within the principles of the GoU Transitional Development Grant guidelines as well as in adherence with necessary safeguards.

- d) Support to LGs in the LGs/communities hosting refugee for improved planning, land tenure security and infrastructure investments to benefit both refugees and host communities: **US\$60 million.**

The table provides the summary of the funds allocation under the three investments areas (a) – (c) above which will be funded under the Program.

Table 6: USMID AF Disbursement Projections over 5-year Period

No	Description	Total funding (US\$ mn)	% of total funding	Project Disbursements (US\$ millions)				
				Year 1 FY18/19	Year 2 FY19/20	Year 3 FY20/21	Year 4 FY21/22	Year 5 FY22/23
<i>A. Funds for Infrastructure Development in Local Governments</i>								
1	Infrastructure improvement in the 22 USMID Municipalities	245.00	68.06%	40.00	58.00	79.00	68.00	0.00
2	Infrastructure improvement in the 8 District Local Governments hosting refugees	45.40	12.61%	10.00	12.00	13.40	10.00	0.00
Sub-Total Infrastructure Investments		290.40	80.67%	50.00	70.00	92.40	78.00	0.00
<i>B. Funds for Institutional strengthening, support to physical planning, land tenure security, systems development, strengthening of valuation and program management</i>								
3	Institutional Support to the 22 USMID Municipal LGs	10.00	2.78%	2.50	2.50	2.50	2.50	0.00
4	Support to land tenure security, physical planning, institutional support through outreach activities to 8 refugee host districts.	14.60	4.06%	3.00	3.00	5.00	2.70	0.90
5	Physical Planning and Valuation services improvement by MoLHUD and oversight support to 22 Municipalities and program management	45.00	12.50%	8.60	8.60	8.60	8.60	10.60
<i>Sub-Total Institutional strengthening, physical planning, valuation services etc and program management</i>		<i>69.60</i>	<i>19.33%</i>	<i>14.10</i>	<i>14.10</i>	<i>16.10</i>	<i>13.80</i>	<i>11.50</i>
Grand Total		360.00	100.00%	64.10	84.10	108.50	91.80	11.50

c) Revised Disbursement Linked Indicators (DLIs)

42. *All IDA funding under the USMID AF will be disbursed against the achievement of results on the updated DLIs.* Based on the experiences from the current program, and the development of the new GoU national system for Annual Performance Assessment (APA), minimum conditions and indicators have been revised and strengthened. Data collection, assessment and verification systems will be strengthened, and aligned with the new GoU APA design coordinated by the Office of the Prime Minister. The expenditure areas have been designed to correspond to the following structure of the DLIs.

- DLIs 1 - 4 will focus on the 22 municipal LG's performance on institutional and service delivery themes,
- DLIs 5 - 6 will focus on the central level results to strengthen the functioning of the entire urban LG system, and
- DLIs 7 - 8 will focus on the performance of the MoLHUD on central level results (especially within physical planning, land tenure security and infrastructure development) and of the 8 districts which host refugees to respond to the recent refugee influx.

43. ***DLIs 1 - 4 on the institutional performance of and service delivery by the 22 MLGs have evolved to incentivize further institutional improvements.*** Given the high attainment of performance measures in the current phase by all participating municipal LGs, the same thematic areas have been retained under the AF but the indicators have been revised and strengthened to incentivize further improvement⁴¹. For example, Annual Program Assessments showed that most MLGs scored above 90 percent in the last years assessment of environmental and procurement indicators. The bar for such indicators has therefore been raised throughout. Several new indicators have also been introduced, to ensure that municipalities play their roles in promoting LED, including: (i) addition of Municipal Commercial Officer as a minimum condition in year 2 and incentives for LGs that prioritize investments through a participatory process that includes private sector representatives; (ii) organization of regular forums to hear concerns of the private sector and take action on them; (iii) creation of a One Stop Center providing registration, tax education, investor aftercare and grievance desk services; and implementation of enterprise support activities through their commercial office.

44. ***DLIs 5 - 6 on the support to MoLHUD to develop the necessary systems for urban development and management have also been strengthened and improved to focus on key results.*** In the previous phase, disbursement in this area was based on measuring the progress of implementation of MoLHUD's annual workplan in general terms. In the AF, this has been strengthened to include specific indicators and targets that need to be met to release the funding. Implementation support from MoLHUD to municipal LGs will continue to be provided in critical areas such as urban planning, project design, and contract management. Several new prioritized areas have been identified including support and results delivered by the Chief Government Valuer (CGV)'s Office; guidance to municipal LGs and results achieved in LED; and results to ensure effective operations and maintenance.

45. ***The new DLIs 7 - 8 will focus on support to MoLHUD on physical planning and land tenure security as well as on selected districts to improve planning, land tenure and infrastructure delivery for host communities and refugees.*** LGs will be allocated these funds as a Transitional Development Grant which is provided for in the grant structure for such initiatives under the overall GoU intergovernmental fiscal transfer reform program. While the planning and land tenure activities will be done by the MoLHUD in consultation with relevant MDAs, the small-scale infrastructure sub-projects will be implemented by the: (i) Districts; and (ii) urban centers⁴² themselves. A transparent allocation formula for the allocation of funds across the LGs targeted under the sub-window will be defined prior to the effectiveness of the Program, and included in the POM. Funds will be transferred to the target LGs based on their compliance with a few core minimum access conditions, see Annex 4, drawn from the budgeting and accountability requirements under the national performance assessment. The LGs will use the general GoU system for Planning, Budgeting, Procurement, Project Execution, Monitoring, Reporting systems. The sub-projects that will be selected for implementation, will comply to the following:

- be within the mandate of LGs as provided for in the Local Government Act CAP 243;
- must be incorporated in the approved Annual Work Plan and Budget for the financial, year;
- be approved by the Physical Planning Committee and consistent with the approved Physical Plan;
- can be completed and made fully functional with the budgeted resources;
- do not have negative environmental and social impacts and take equity issues into consideration (e.g. gender, HIV, nutrition etc.).

⁴¹ The AF will retain the same seven thematic areas: i) linkages between municipal physical plan, five-year development plan and annual budget, ii) own source revenue generation, iii) procurement, iv) financial management, v) program execution and implementation (budget execution), vi) monitoring, enhanced accountability, transparency and communication and vii) environmental and social sustainability. Service delivery will be measured through i) quantitative outputs against plans, and ii) value for the money audits as well as iii) review of operational and maintenance performance, which an added parameter.

⁴² These will be further clarified during the preparation of the support in 2018.

- must also comply with the investment menu covering the GoU Transitional Development Grant;
- be consistent with the guidelines developed for the DDEG and the respective Sector Development Grants.

46. The table below reflects the core changes to the DLI tables, whereas the full set of new DLIs, verification protocol and disbursement tables are included in annex 2. DLIs 1-6 have been maintained but strengthened, whereas 7-8 are new DLIs targeting the sub-window for refugees and host communities.

Table 7: DLI status and revisions made under the AF⁴³

DLIs (targets & disbursements)	Original DLIs, Targets and actuals.						Revised USMID AF for 18 MLGs (only include changes/new DLIs)
	Targets vs Actuals	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yrs 6-10 (1-5) in new USMID AF
DLI 1: Program LGs have met all Program Minimum Conditions	Targets (MLGs)	14	14	14	14	14	Strengthened minimum access conditions
	Actuals (MLGs)	14	14	14	14	14	Not yet due
DLI 2: Program LGs have strengthened institutional performance	Targets (% scores)	50%	60%	70%	80%	90%	Strengthened institutional performance with bar increased
	Actuals (% scores)	60.99%	64.93%	72.49%	84.48%	92.42%	Not yet due
DLI 3: Program LGs have implemented Infrastructure Action Plans	Targets (delivery) (%)	NA	NA	70%	80%	90%	Targets strengthened and bar increased to include O&M
	Actual (delivery) (%)	NA	NA	77.99%	71.00 %	75.24%	Not yet due
DLI 4: Program LGs have implemented Institutional Strengthening Plans	Targets (Adoption and % implementation)	NA	CBP adopted	60%	70%	NA	Kept largely unchanged with targets and utilization focusing on institutional strengthening
	Actuals	NA	Met	78%	74%	NA	Not yet due
DLI 5: MoLHUD has executed Performance Improvement Plans for Program LGs	Targets (Adoption and % implementation)	CBP adopted	60%	70%	80%	90%	Same focus but with specific results defined for the DLI under the AF including Physical Planning and "Support to improved valuation services".
	Actuals	Met	85.9%	91%	87%	94.2%	Not yet due
DLI 6: Program LGs with Town Clerks in Place	Target (Nos. MLGs)	14	14	14	14	14	Maintained and increased to 18 – core for implementation
	Actual Nos.	14	14	14	14	14	Not yet due
DLI 7: Results on physical planning, land tenure security and urban infrastructure development in Program	Target (MoLHUD results in support to the window)	NA	NA	NA	NA	NA	Old DLI 7 – IFMS rolled out dropped. This is a new DLI for specific results to be achieved by MoLHUD in support to the sub-window.
	Actual	NA	NA	NA	NA	NA	Not yet due

⁴³ Please refer to annex DLI table for detailed breakdown of the DLIs per year.

LGs hosting refugees							
DLI 8: Results on planning and infrastructure investments in Program LGs hosting refugees	Target	NA	NA	NA	NA	NA	New DLI. Investments in LGs which host a large Nos. of refugees targeting small scale infrastructure investments
	Actual	NA	NA	NA	NA	NA	Not yet due

47. ***The verification protocol has been strengthened (See annex 2).*** The independent verification of results to trigger disbursement is the main verification protocol. MLHUD will recruit an independent verification agent (private) firm to verify Program results on an annual basis which will be reviewed by MoLHUD, under the Program Technical Committee, and the World Bank. The Bank will retain the right to make the final decision whether a DLI has been achieved or not. In addition, the Bank will undertake regular independent quality assurance (quality enhancement review) of the APAs.

48. ***The allocation formula to the 22 participating MLGs has changed in line with the Government's fiscal transfer reform.*** The parent Program was using the allocation formula of the government program – previously the LGMSD - which was based on the following parameters for each municipality: administrative land area (15%); municipal population projection based on population growth rate of the municipality (45 percent); and municipal poverty head count (40 percent). However, following an intergovernmental fiscal transfer reform, Government has revised the allocation formula for its program. Like the original formula, the revised formula is simple, transparent, based on easily available data from a reputable institution – Uganda Bureau of Statistics (UBoS) - and nationally accepted. To be consistent with the Government program, the AF will use the revised government formula to allocate the MDG window of the Program to the participating municipal LGs. Similarly, the refugee window, will use the Government allocation formula.

d) Institutional arrangement changes

49. ***The main institutional arrangements will remain largely unchanged from the previous phase and the alignment with the intergovernmental fiscal transfer reforms strengthened.*** MoLHUD will continue to be the coordinating ministry for the Program. As part of the AF preparation an institutional capacity assessment of the MoLHUD was done to update the 2012 baseline and established whether there had been improvements in capacity during the Program period. The results show that not much has changed at the executive, technical and professional level. As a result, the Program Support Team⁴⁴ will be maintained and strengthened, based on the experiences of implementation of the original Program, with one additional specialists – a Social Safeguard Specialist. The Communication Specialist working on the Albertine project in the MoLHUD, who will be on board before credit effectiveness, will also handle the communication needs under the USMID AF. However, to enhance leadership and skills transfer to MoLHUD staff, PST staff will only be answerable to the respective heads of Departments and reporting responsibility will be transferred to the MoLHUD.

50. ***Following lessons learnt from the ongoing Program, where some Municipal LGs did not implement advice and guidance from the executing Ministry, the Program will now enhance the implementing authority of the MoLHUD.*** The Program Operation Manual (POM) and the Program Participation Agreement (PPA) will detail what sanctions can be invoked to a Municipal LG that does not follow guidance from the MoLHUD.

⁴⁴Currently comprising of (i) Program Coordination, (ii) Procurement, (iii) Financial Management, (iv) Engineering, (v) Physical Planning, (vi) Environmental Safeguards Specialist; and 9vii) M&E Specialist

51. ***MoLHUD is accountable overall for program delivery.*** The delivery and accountability mandates require that the links between the PST and the mainstream MLHUD staff has been strengthened. The next phase will focus on increasing MoLHUD’s accountability and ownership of implementation. The intention is to gradually phase out or reduce the services of the PST once there is evidence that the MoLHUD is adequately staffed and has developed the necessary internal capacity to manage the Program (which will be reviewed during the MTR).

52. ***The membership of the Program Technical Committee (PTC) will be expanded to ensure proper linkages with the overall fiscal reforms and assessments.*** The PTC comprises key technical staff of relevant MDAs to advise MoLHUD and the municipalities on technical issues. The current membership⁴⁵ will be broadened to include:

- Commissioner Budget Policy and Evaluation Department (BPED) in MoFPED who is the Secretary to the fiscal decentralization (FD) Technical Committee,
- Commissioner Development Assistance and Regional Cooperation Department of MoFPED – responsible for overall debt management,
- Commissioner M&E in office of the Prime Minister (OPM) who is the Chair of the LGs’ performance assessment Task Force,
- Commissioner for Policy Implementation Coordination (PIC) in OPM who coordinates the implementation of DDEG,
- National Planning Authority – responsible for vetting all projects and ensuring alignments with the National Development Plan, and
- Representative from Roads Funds - to ensure stronger linkages between investments and maintenance.
- Coopt any relevant MDAs to the PTC

53. ***USMID has substantially informed and influenced GoU intergovernmental fiscal transfer reforms at the national level.*** Policy issues arising during the implementation of USMID AF Program will be coordinated at the national level through the **Fiscal Decentralization Steering Committee (FDSC)**⁴⁶, chaired by the Permanent Secretary/Secretary to the Treasury with members comprising of the Permanent Secretaries of MoH, MoES, MoWE, OPM, MoLG, MoPS, MoLHUD and Secretary of the Local Government Finance Commission (LGFC). Other Permanent Secretaries can be co-opted depending on the issues being discussed.

54. ***The existing Government institutional arrangements will be used for coordinating support to the refugee host Districts.*** MoLHUD will be responsible for coordination of this support in the eight targeted urban centers and their wider Districts. Activities related to planning and land tenure security will be implemented by MoLHUD since they fall within its mandate. The provision of small scale infrastructure will be implemented by the respective LGs with funds allocated based on the DDEG national allocation formula and the GoU national APA assessment (supported by another World Bank Program – UigFT PforR Program). The current Program Support Team (PST) will also support the MoLHUD on this window, and will have a few dedicated support staff with relevant skills, with clear reference to the Commissioner for Physical Planning in MoLHUD. In particular, MoLHUD and the PST will focus on building LG’s procurement and contract management capacities to manage the infrastructure works. A Grievance Redress Mechanism (GRM) system will be cascaded from sub-project level, community, as well as LG structure

⁴⁵ Comprising of MoLHUD, MoLG, USMID/PST, MoFPED, LGFC, UAAU, MoWT, OAG, and IGG

⁴⁶ This is a new committee established from 2017 to coordinate all fiscal issues related with LG finance and will replace the current USMID steering committee given the overlaps of membership.

with the Community Development Officer playing a key role in following up and ensuring that grievances are logged and addressed. The refugees will be part of the GRM system.

e) Fiduciary arrangement changes

55. As part of the USMID AF Program preparation and in accordance with Bank Policy: Program for Results Financing, a fiduciary assessment was carried out that evaluated the Program Procurement, Financial Management, Governance and Anti-corruption systems. The Fiduciary Systems Assessment noted the marked improvements in the capacities of the participating MLGs as shown by their performance assessment scores over the Program period. There are no high-value contracts under the Program. However there still remain risks to the Program due to: (i) low staffing levels and skills with one MLG - Mubende still not on Integrated Financial Management System (IFMS); (ii) Poor internet connectivity; (iii) disconnects between budget figures and actual releases from the center; (iv) weak contract management; and (v) weak cash flow management. Based on this analysis, the overall fiduciary risk of the operation is rated as **Substantial**. To address these challenges and gaps, the DLIs and the fiduciary assessment indicators have been enhanced and the bar raised (see Annex 2).

f) Environmental and social arrangement changes

56. *A full Environmental and Social System Assessment (ESSA) was conducted for the original program in 2012-2013 that had included stakeholder consultations and full disclosure. An ESSA Update was done to build on the original ESSA* This ESSA update (refer Annex 6) was done as the basis to propose changes to the implementation arrangements: (1) Staffing at the national level both within the Ministry and the PST will be strengthened; (2) the standard bid documents will be improved to integrate environmental and social requirements in both the contractor and consultant engagement; (3) bid evaluation will consider environmental and social criteria; (4) contractor sign-off & payments will involve the Municipal Environmental Officer; (5) Grievance redressal mechanism will be made more site / project-specific and not be restricted to the Municipal level, (6) sensitization of social risks due to labor influx, particularly relating to gender based violence (GBV) will be carried out at the community level, (7) the overall Program Action Plan, Disbursement Linked Indicators, and the Program Operations Manual will be strengthened in line with the recommendations of the ESSA and (8) further risk assessments associated with the sub-window for refugees and host communities and identification of mitigation measures will be carried out in conjunction with other Bank financed projects in Uganda. Stakeholder consultation on the ESSA addendum and the above recommendations was conducted on January 24, 2018.

IV. APPRAISAL SUMMARY

a) Summary of incremental assessments

57. The Summary of incremental assessments for technical, fiduciary, environmental and social are provided in annexes 4, 5 and 6.

b) Economic analysis

58. *The result of economic analysis of all the components of municipal road improvement (urban road, street lighting, drainage and walkways) yielded positive NPVs and EIRRs greater than the discount rate of 5 percent and 15 percent.* Cost-benefit analysis of the quantifiable benefits suggests that the urban infrastructure investments in the sampled five municipalities are economically viable as shown by the net present values (NPVs) ranging from of UGX 26.7 billion to UGX216 billion at 5 percent with an economic internal rates of return (EIRRs) ranging from 17- 23 percent. When a sensitivity analysis is carried out with

a discount rate of 15% the NPVs of all the investments are still positive with a range of UGX3 billion to UGX23 billion over a 20 years' life of the investment (details in Table 12). The sensitivity analysis using 15% as the discount rate shows that NPVs remained positive indicating that the infrastructure investments represent a positive return on investment even in bad case scenarios.

59. ***The preparation included a detailed review of the capacity of the new MLGs to be enrolled in the Program, and the phasing in of grants compared to the typical investment cycle of these larger and bulky investments.*** The entire design and the institutional strengthening components have factored in the additional need for technical assistance and support from especially the MLHUD to the MLGs to ensure compliance with access conditions and safeguards. The conditions and performance measures on DLIs 1-4 have been strengthened to address the weaknesses identified. For the refugee window, the minimum access conditions will also ensure the capacity to handle the additional funding is available prior to any disbursement.

60. ***The activities supported under the Program will continue to focus on rehabilitation or upgrading and new construction of existing municipal infrastructure.*** The scale and social and environmental impact of such investments has been and will be moderate. No large-scale or high-risk projects (i.e. equivalent to Category A in a World Bank project investment financing (IPF)) were and will be financed under the Program. To ensure compliance with the World Bank Policy for Program-for-Results Financing, the screening process in the Program Operational Manual has criteria to exclude certain categories of projects as well as projects of a scale that would include significant adverse impacts that are sensitive, diverse, or unprecedented on the environment. The existing legal and regulatory framework, as relevant to the Program activities, is largely adequate in its coverage of environmental aspects. All municipalities have a position of the Environmental Officer, which has been filled in the existing USMID municipalities and will be filled in the new municipalities under the AF program. The additional capacity made available through project-specific implementation arrangements will be continued under the AF program.

61. ***The potential risks that would have to be addressed include the following:*** (i) Localized community and worker's health and safety risks associated with construction/rehabilitation work; (ii) impacts associated with improving currently deficient liquid and solid waste management systems; (iii) adverse impacts on biodiversity and physical cultural heritage incidental to sub-projects; (iv) adverse impacts from expanding investments in storm water and drainage management and (v) project works initiated without mandatory NEMA clearances both by the Municipality and the contractors. To address these issues, the following actions have been proposed: (i) Appropriate E&S controls and staffing are included in the procurement, contractor selection, and supervision phases of civil works; (ii) Strengthening particular ESMP provisions pertaining to borrow pits, quarry sites, tree plantation particularly indigenous species, downstream impacts due to drainage improvements, waste management for slaughterhouses and screening checklists for new town markets and (iii) strengthening overall capacity of municipality on environmental management issues.

62. ***The Program also brings environmental benefits*** that include improved air quality, reduced traffic congestion, reduced road flooding, better public health, and enhanced green cover through tree planting & landscaping.

c) Changes to risk profile

63. ***The operation's risk rating is revised from moderate to substantial. Firstly, there is increased risk due to macroeconomic issues and sector strategies and policies.*** Since 2012, Uganda's economic growth progress has slowed, whereby the Ugandan economy has been growing at an average of 4.5 percent per year, generating only modest per capita growth as it rallied against a fast-growing population. Poverty levels have also increased, rising from 19.7 percent in 2012 to 27 percent in 2016/17⁴⁷. Changes in urban and local

⁴⁷ Uganda National Household Survey 2016/17.

government sector policies to increase the number of cities and municipal LGs in the country, have also put pressure on both human and financial resources. There are now 125 Districts and 42 municipalities (an increase from 69 Districts and about 16 municipalities in 2003). The staffing level and technical capacity of the 22 municipalities vary, the situation being worse in the eight MLGs that are expected to join the Program from FY 2018/19⁴⁸.

64. ***The Program's minimum conditions are, however, designed to mitigate the risk of staffing shortages at LG level.*** The program will continue to use minimum conditions to ensure that any municipal LG receiving USMID grants has all the most critical staff in place. The position of Commercial Officer has been added to the previous minimum staffing conditions, to ensure capacity to manage LED activities. The challenges with staffing positions will be addressed through DLI 1 (core staff⁴⁹) and DLI 6 (town clerks), as well as substantial institutional strengthening support throughout implementation. Minimum staffing and institutional performance conditions for LGs accessing the sub-window for refugees and host communities have also been added within DLIs 7-8.

65. ***Secondly, risks associated with the technical design of the Program have also been upgraded given the expansion in the scope of the operation, including the investment menu and the sub-window for refugees and host communities.*** The expansion of the investment menu to include drainage not associated with road infrastructure, solid waste management, and other infrastructure to support local economic development, requires new skills and capacities within participating LGs as well as at MoLHUD. Some of the main technical design risks include:

- Solid waste management is an area that could lead to reputational risk for the Bank, if interventions do not adequately consider the whole waste management value chain.
- Local economic infrastructure such as serviced industrial land and parks for cottage industries could lead to elite capture if not targeted and implemented in an inclusive manner

66. ***The inclusion of support to refugee hosting districts also poses a substantial risk.*** This is a new area of engagement for the MoLHUD as well as for the Bank, in which there is less knowledge and previous experiences. The Program will also be working with LGs which are not municipal local governments (Districts as well as urban town councils) which have variable capacities. Hence the coordination in the PTC will be strengthened with especially MoLG and LGFC to ensure coordinated capacity building support and backstopping. Increased supervision will also be provided by the PST and MoLHUD, in addition to the Bank.

67. ***Design measures have been put in place to mitigate risks associated with technical design dealing with expansion of investment menu as well as the support to refugee hosting districts.*** The overarching measures to mitigate these risks will be firstly the series of institutional enhancement activities, which will be financed under the Program, secondly the incentive mechanism under the performance-based disbursement mechanism, thirdly the DLIs, and fourthly the Program Action Plans to address those risks.

68. ***Risk mitigations associated with solid waste management*** - the Program will focus on addressing bottlenecks identified in the solid waste management cycle as documented in the solid waste management strategies developed for the 14 municipalities based on the situation analysis of each municipality. Similar strategies will be developed for the additional municipalities. High risk projects and activities (i.e. equivalent to category A in a World Bank project investment financing, e.g. centralized wastewater treatment plants,

⁴⁸ For example, none of these 4 MLG had the position of the Municipal Engineer and Principal Commercial Officer filled. Only

⁴⁹ As a minimum requirement, the following core technical staff are required before a MLG can access the MDG under the Program: (i) Treasurer, (ii) Procurement Officer, (iii) Engineer, (iv) Physical/Urban Planner, (v) Environmental officer, (vi) Community Development Officer, and (vii) Commercial Officer.

new or expanded sanitary landfills, activities that would significantly convert natural habitats or significantly alter potentially important biodiversity and/or cultural resource areas) shall be screened and excluded from the support.

69. ***The solid waste management support will also focus on changing people's attitude*** towards waste management through good information, education and communication (IEC) materials and strategies including waste segregation at source and attitude change towards disposal of waste into storm water drainage channels. The program will ensure that the municipal councils put in place Bylaws to strengthen enforcement of waste management measures. Capacity of MDF and their representatives shall be built on selected aspects that include community participation and community solid waste management, particularly sorting of biodegradable and non-biodegradable and to conduct environmental monitoring. These initiatives are already being spearheaded by some municipalities in the current program (e.g. Entebbe).

70. At least nine out of the proposed twenty-two municipalities have composting plants in place but with many operational challenges. The USMID AF will support investments to improve garbage collection and processing of urban solid waste at National Environmental Management Agency (NEMA) licensed composting sites, and/or possibly rehabilitation of existing NEMA-licensed urban sewage lagoons or pre-treatment of wastewater from small municipal slaughterhouses that are within the project investment category (not excluded).

71. ***To mitigate risks associated with local economic infrastructure investments, several design measures have been put in place.*** For LGs that choose to invest in the expanded menu, it is critical that the process to prioritize the investments is inclusive and participatory. Similar to other categories of USMID investments, projects will be prioritized by LGs in conjunction with Municipal Development Forums that include a wide representation of stakeholders. Under MoLHUD institutional strengthening support, economic potentials analysis will be conducted for all target municipalities and guidelines developed for local economic infrastructure investments. In addition, under DLI 2 MLGs are incentivized to establish one-stop centers⁵⁰ and hold bi-annual forums to hear the local concerns of the private sector and that these fora include a wide range of stakeholders⁵¹. This will help ensure that private sector stakeholders can voice any concerns over the nature or targeting of investments.

72. ***The risk associated to the support to refugee host districts is rated substantial.*** Uganda has a progressive and generous policy regime for refugee management, including freedom of movement, right to work, I.D.s, free access to basic social services, etc. While at the same time there is some risk of policy reversal if the current rate of refugee influx continues and if support to host communities is not forthcoming. The UNHCR has confirmed that Uganda's protection framework is adequate for the purposes of the sub-window, while highlighting several remaining protection challenges: (i) the high proportion of women and girls within the refugee population poses specific protection challenges – particularly those related to the potential for GBV. Access to maternal health care, clean water and sanitation services is limited. Education opportunities beyond the primary level are scarce for girls, which constrains their economic and employment prospects; (ii) the policy of distributing land to refugees for subsistence farming has become harder to maintain due to the growing scale of the crisis and there is an urgent need to also improve economic opportunities and social service delivery for host communities. Looking ahead, this tension poses a key challenge to the country's current approach as the pressure on land continues; (iii) rapid refugee influx coupled with population growth have placed growing pressure on natural resources and social services and in some cases, host communities have felt neglected; (iv) while refugees have freedom of movement, those who leave rural settlements to seek economic opportunities in cities forfeit access to regular humanitarian

⁵⁰ providing various services to the private sector, including a grievance desk.

⁵¹ including chambers of commerce, investors associations, traders' associations, etc

assistance. Pursuing livelihood opportunities in cities implies competing directly with nationals in the informal sector, which can hinder self-reliance and raise protection concerns for some refugees.

73. ***While the Program cannot mitigate for all refugee protection related risks, the activities have been designed with these in mind.*** The participatory nature of the prioritization process for infrastructure investments is expected to bring refugees and host communities together and ensure that all will benefit from the investments being made. The Program will require detailed socio-economic studies of the targeted intervention areas to inform mitigation measures for identified risks, including those related to GBV. The activities related to increasing the security of land tenure for both refugees and host communities in select parishes will contribute to mitigating some of the tensions arising from the policy to distribute land to refugees. Finally, the infrastructure investments that will be implemented will help ease the pressure on social services in the most affected Districts and urban centers.

V. WORLD BANK CORPORATE REQUIREMENTS

Rapid Gender Assessment

74. A rapid gender assessment⁵² was conducted in six sampled MLGs that are already participating in the USMID Program. The key findings of the rapid assessment were that:

- ***Awareness of national gender laws*** - The municipalities were aware of the national laws on gender. For example, Lira LG had customized the national gender law on child rights into ***Lira District Child Protection Ordinance 2009***. However, most of the MLGs sampled called for additional activities to raise awareness of national gender laws.
- ***Staffing*** – the situation is mixed. Only one out of the six sampled MLG had a Gender Officer (Fort Portal MLG) while the rest had assigned Community Development Office as the Gender Focal Persons. The staff are aware about their roles - to ensure mainstreaming of gender into development plans, budgets and projects, awareness rising on gender issues, and monitoring and reporting.
- ***Gender Budgeting and Planning*** – all sampled MLGs had gender budgets and plans incorporated in the Municipal LG 5 years’ development plans which are reviewed annually.
- ***Implementation of gender budgets and plans*** – the assessment found mixed results. Two (Lira and Fort Portal) out of the six MLGs sampled had formed gender focused committees and groups to spearhead gender implementation. These included the District Orphans and other Vulnerable Children Coordination Committee (DOVCC); People with Disability (PWD); the Youth; Women and disabled Councils; Functional Adult Literacy (FAL). They had also programs⁵³ for Gender Equality and Girl Child Empowerment Campaigns.
- ***Citizen Engagement*** – There is adequate citizen engagement through the Municipal Development Forum (MDF) which was instituted as a platform for citizens’ engagement with the MLG in all the

⁵² The rapid assessment focused on establishing whether the six sample municipalities were aware of any gender related laws or policies (international, regional, national or at MLG level), whether the MLG has a gender officer and his/her role; whether the MLG has a gender plan and budget; existence of any gender focused program or project in the MLG; citizens’ engagements, and the monitoring and evaluation of gender activities; grievances mechanism; availability of gender documents, and gender gaps and how it could be addressed.

⁵³ funded by Ministry of Gender Labour and Social Development, Northern Uganda Social Action Fund (NUSAF 3), SWEGU and the Local Governments.

participating MLGs and is linked the DLI 2. The MDFs have played key roles in carrying out the needs assessment studies, budget conferences, facilitating community dialogue meetings, and Grievance redress activities. **Monitoring and Evaluation** - Routine monitoring and support supervision is taking place and is being done by the municipal political leaders and the technical staff. In addition, various stakeholders including Civil Society Organizations, and the MDFs also undertake community monitoring. For infrastructure implementation (roads), the Ministry of Works and Transport (MoWT) has developed a standardized tool which is being used by the MLGs.

- **Gender indicators** – the common indicator in all the municipalities sampled was a disaggregated gender indicator of project beneficiaries/employees. The interviewed MLGs suggested other indicators such as *equal employment opportunities and stakeholder consultative meetings* to be included. Such indicators are desirable although they are not currently used by MLGs. They could better inform the quality of service delivery.
- **Grievance Redress** - All the existing 14 USMID MLGs have functional Grievance Redress Mechanism (GRM) since 2014. The GRM was earlier designed as part of municipal LGs institutional strengthening for governance, transparency and accountability and linked to DLI 2. To operationalize the GRM, a GRM Strategy was developed by each MLG and a committee established with a dedicated Complaints Handling Focal Person who registers and manages the complaints in the municipality. The complaints are received verbally or in writing or by phone and analyzed by category (i.e. environment, land acquisition, corruption or fraud). The report is discussed by the committee and resolutions communicated to the complainant in writing. In order to enhance the grievance reporting, the municipalities need capacity building in areas such as conflict resolution and a toll-free line to ease reporting. In compliance with national gender mainstreaming policy, the GRM committees have 1/3 female representation to facilitate gender mainstreaming. There is however need for the MLG to start recording of complaints by gender to improve gender analysis and mainstreaming.
- **Gender Gap** - The rapid assessment of the sampled MLGs identified the following gaps which need to be addressed under the USMID AF:
 - i. Capacity to mainstream gender in sector plans, implementation and gender analysis
 - ii. Gender documents – need to avail MLGs with the national gender policy, laws and data.
 - iii. Supporting MLGs to implement gender sensitive recruitment plans and designs (i.e. work places with facilities for working mothers and sanitation favorable for women)

75. To address the gaps above, further gender awareness activities will be included under the USMID AF - capacity building for the technical staff; an integrated approach to development planning; and gender advocacy and exchange visits to facilitate benchmarking, amongst other. In addition, part of the institutional strengthening grant (ISG) for participating MLGs will be used to address gender issues under the Program including skill enhancement for the gender officers. A detailed step to be followed to ensure gender mainstreaming in the sub-projects investments cycle will be included in the Program Operational Manual.

76. Municipalities will also be required to carry out detailed Social Analysis (SA) of the population in the sub-project's targeted during preparation. Women and members of various vulnerable groups (including refugees) from the selected areas will be consulted in gender-disaggregated groups to ensure their specific needs are reflected in the design and implementation of the Project - and that they fully benefit from Program activities, measures for social inclusion, land certification activities, and activities to minimize risks of social conflicts. Additionally, Gender Analysis (GA) will be carried out as part of the SA to examine gender-related issues, promote gender equality and enhance the Project's development effectiveness. The Municipalities

will therefore also be required to develop gender action plans and monitoring plan based on the GA to enable gender mainstreaming for the identified subprojects during Project implementation.

Climate and Disaster Risk Management

77. Climate and disaster risk screening tool was administered and the report was generated. The climate-induced exposures include extreme precipitation and drought, and these will be relevant to the urban development interventions. The exposure is slight with low potential impact or risk. There are no moderate or high risks identified.

The AF has been assessed for Climate Co-benefits, which amount to US\$71.21 million USD (20 percent). The AF Program delivers adaptation as well as mitigation co-benefits:

- Adaptation co-benefits: The proposed investments in urban roads & drainages, stand-alone urban drainages and emphasis on maintenance (avoidance of solid waste dumping) builds the climate resilience capacity of the Program municipalities to deal with extreme precipitation events. Historical data/information or trends or specific future projections with respect to the municipalities on extreme precipitation are not available. However, these proposed investments would reduce the climate vulnerabilities and risks if there are such occurrences. The urban local economic infrastructure will protect businesses in not being directly exposed to climate-induced events. Hence there would be greater resilience and reduced economic damages. Moreover, local economic infrastructure will support the establishment and growth of enterprises that provide non-farm livelihoods for people, and thereby increasing resilience to increased climate stresses in agricultural livelihoods. The overall institutional capacity strengthening of the municipalities will also bring trickle-down climate co-benefits.
- Mitigation co-benefits: As a part of the urban roads, solar street lighting is being provided every 50m. This decentralized solar photovoltaic power reduces the dependence on the electricity grid. In Uganda, the primary source is climate-friendly hydropower with a small generation of thermal power. Therefore, the incidental climate mitigation co-benefits arising from these solar streetlights are minimal. Tree planting pertaining to the urban roads and also enhancing green spaces will be done in each of the municipalities. The trees will also act as carbon sinks and contribute in a small way to climate mitigation co-benefits. There are also investments in the solid waste sector but these will not pertain to processing and hence no climate mitigation co-benefits.

Citizen Engagement

78. The Municipal Development Forum's (MDFs) continue to function relatively well and provide opportunity for citizen engagement in Program activities and other service delivery interventions in the MLGs. The role of the MDFs has been expanded to cover all project issues beyond the USMID Program activities to support enhanced transparency, accountability and better service delivery in the MLGs. Elections for change in leadership or extension of two-year term for existing leaders have been conducted and induction and sensitization is ongoing. Overall MDFs have contributed to securing citizens trust and leadership confidence and this has supported project implementation and other MLGs activities beyond the Program. The following challenges remain; (a) access to information from the executive in a format that is easily appreciated by the MDF members; (b) sustainability of the MDFs beyond the USMID Program given the important role they play; and (c) clearly defining the role of the MDFs in the new urban policy to avoid capture.

Grievance Redress

79. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

ANNEXES

Annex 1: Revised Results Framework and Monitoring Indicators

USMID AF Revised Results Framework

PDO Level Results Indicators	Core	DLI	Unit of Measure	Baseline	Target Values					Frequency	Data Source/Methodology	Responsibility for Data Collection
					FY2018/19	FY2019/20	FY2020/21	FY2021/22	FY2022/23			
Program Development Objective: Enhance institutional performance of selected municipal Local Governments to improve urban service delivery												
1. Average annual performance score of participating LGs in the seven thematic areas as assessed by the independent annual performance assessment	<input type="checkbox"/>	2	% Targets	0	50%	60%	70%	80%	90%	Annually	Annual performance assessments (PAs), bi-annual WB supervision missions	MoLHUD hires a reputable private sector consulting/audit firm to carry out the independent annual performance assessment (APA) to measure the performance of each municipal LG against the Program's performance indicators.
			Actuals									
2. Local infrastructure targets as set out in the annual work plans delivered by municipal LGs utilizing the Program funds.	<input type="checkbox"/>	3	% Targets	0	60%	70%	75%	85%	90%	Annually	Annual PAs, bi-annual supervision missions	Participating municipal LGs; MoLHUD through independent private consulting/Audit firm
			Actuals									
3. Direct Program beneficiaries (number), of which female (percentage)	<input checked="" type="checkbox"/>		Numbers Targets	1400000	1900000	2300000	2700000	3100000	3500000	Annually	Annual PAs	Direct beneficiaries of actual investments financed by USMID
			Actuals									
Intermediate Results Area 1 (MDG Element): Improve urban service delivery through enhanced urban local development grant												
4. Municipal roads built or rehabilitated with related infrastructure using urban LDG	<input checked="" type="checkbox"/>	3	Km Targets	53.02	Measured Annually	Measured Annually	Measured Annually	Measured Annually	Measured Annually	Annually	Municipal reports	Participating municipalities; MoLHUD
			Actuals									
5. Garbage collected and disposed.	<input checked="" type="checkbox"/>	3	Tonnage	520000	Measured Annually	Measured Annually	Measured Annually	Measured Annually	Measured Annually	Quarterly, Bi-annually, annually.	Municipal reports	Participating municipalities; MoLHUD
			Actuals									

PDO Level Results Indicators	Core	DLI	Unit of Measure	Baseline	Target Values					Frequency	Data Source/Methodology	Responsibility for Data Collection
					FY2018/19	FY2019/20	FY2020/21	FY2021/22	FY2022/23			
6. Municipal local economic infrastructure (bus parks, markets, parking lots etc) built or rehabilitated using the urban LDG.	<input type="checkbox"/>	3	Numbers Targets	3	Measured Annually	Measured Annually	Measured Annually	Measured Annually	Measured Annually	Measured Annually	Annual PAs, bi-annual supervision missions, quarterly progress reports (OBT), VFM audit	Participating municipalities; MoLHUD
			Actuals									
Intermediate Results Area 2: (Municipal ISG Element): Enhanced capacity of participating municipal LGs and MoLHUD in urban development and management												
7. Municipal LGs with qualified core staff	<input type="checkbox"/>	1 & 6	Numbers Targets	14	18	22	22	22	22	Annually	Annual PAs	Participating municipal LGs; MoLG, MoLHUD through independent private consulting/Audit firm
			Actuals									
8. Municipal LGs with at least 10% annual increase in own source revenue (OSR)	<input type="checkbox"/>	2	Numbers Targets	0	6	10	14	22	22	Annually	Audited final accounts	Participating municipal LGs; MoLG, MoLHUD through independent private consulting/Audit firm
			Actuals									
9. Municipal LGs with clean audit reports for previous year	<input type="checkbox"/>	2	Numbers Targets	8	12	14	16	18	22	Annually	Annual PAs	Participating municipal LGs; OAG, MoLG
			Actuals									
10. Municipal LGs with actual expenditures on O&M more than 75% of the O&M budgeted amount	<input type="checkbox"/>	3	Numbers Targets	6	12	14	16	18	22	Annually	Annual PAs	Participating municipal LGs; MoLHUD through independent private consulting/ Audit firm
			Actuals									
11. Technical support by MoLHUD and implementation of the Program action plan to ensure achievement of Program results.	<input type="checkbox"/>	5	% Targets	NA	ISP adopted	60%	70%	80%	90%	Annually	Quarterly progress reports (OBT), Bi-annual supervision missions, Annual PAs	MoLHUD
			Actuals									
Intermediate Results Area 3: Strengthened municipal capacity achieved by central government												
12. Valuation Services strengthened by CGV office	<input type="checkbox"/>	7	Numbers Targets	NA	PIP developed	Annual PIP implemented	Annual PIP implemented	Annual PIP implemented	Annual PIP implemented	Annually	Accountant General	Accountant General reports and WB PFM missions
			Actuals									
Intermediate Results Area 4: Sub-window for refugees and host communities												
13. MoLHUD results under sub-window	<input type="checkbox"/>	7	Numbers Targets	MoLHUD plan for refugee and host communities	Rapid physical planning assessment completed in	9 PDPs completed in 8 districts and 8 urban areas (8 final	District office supported in the creation and use of	PDPs disseminated and second round of training of		Annually	Accountant General	Accountant General reports and WB PFM missions

PDO Level Results Indicators	Core	DLI	Unit of Measure	Baseline	Target Values					Frequency	Data Source/Methodology	Responsibility for Data Collection
					FY2018/19	FY2019/20	FY2020/21	FY2021/22	FY2022/23			
					ies for FY 2018/19 ⁵⁴ developed : 100 % allocation based on the plan	the 8 target districts the target municipal LG Physical Development Frameworks completed in 8 target districts (8 PPFs) (assessment report with framework).	PDP documents) as well as 1 MLG	the data-base and Systematic Land Adjudication & Certification (SLAC) for the refugees and host communities in 8 selected parishes completed & certificates issued ⁵⁵ (progress report)	physical planning committees & political leadership in 8 districts to implement the PDPs ⁵⁶ M&E and Review of plan implementation. (progress report and M&E report)			
			Actuals									
13. Absorption and grant utilization within eligible expenditure of total development grants	<input type="checkbox"/>		% Targets	0	60%	70%	75%	80%	90%	Annually		
			Actuals									

⁵⁴ The plan, according to the POM, will contain a complete overview of all activities for the coming year under the DLI 8. The plan will also specify the target areas, districts, urban centers and parishes, based on analysis of the needs and coverage. The plan will also specify the allocation formulas, based on quick assessment of the needs of the 7 target areas.

⁵⁵ This will clarify the land rights in the wake of pressure on land occasioned by influx of refugees. The data base will provide quick information on land ownership in case any entity needs to acquire land for any purpose.

⁵⁶ This will encompass, minimum mission p.a. to each target areas to ensure that the LGs mainstream the PDPs in the annual work-plans, support identification of eligible projects, and ensure that procurement processes are conducted in accordance with the legal framework.

Annex 2: Disbursement Linked Indicators, Disbursement Arrangements and Verification Protocols

Changes made to DLIs, disbursement arrangements and verification protocols

Compared with USMID, the DLI structure and the content of the USMID AF has been refined in the following manner, see below for the new set of DLIs.

Firstly, the DLIs 1-4 and the sub-results related to each of these, have been strengthened and refined. An example of this is the inclusion of new performance measures on Local Economic Development under DLI 3.

Second, DLI 5 – results provided by MLHUD has been strengthened, moving away from only reviewing plans and achievement rates from a system focusing on **key results to be achieved every year** and calibration along these lines.

Third, the previous DLI focusing on IFMIS, has been changed to results focusing on the performance of the CGV in valuation and related land issues, as IFMIS is now rolled out to the MLGs, and as the valuation issues are core for the attainment of the future Program results.

Finally, two new DLIs have been developed to focus on results on the new window on refugee host areas – one focusing on the results at the central level – MLHUD, and another on the compliance with core capacity issues to handle extra funds at the local government level.

Disbursement-Linked Indicator Matrix

Disbursement Link Indicators (DLIs)	Total Financing allocated to DLI (million US\$)	As % of Total Financing Amount	DLI Baseline	Indicative timeline for DLI achievement				
				Year or period 1 FY2018/19	Year or period 2 FY2019/20	Year or period 3 FY2020/21	Year or period 4 FY2021/22	Year or period 5 FY2022/23
DLIs 1, 2, 3 and 4: Enhanced institutional and infrastructure delivery performance achieved by municipal LGs								
DLI 1 Program LGs have met all Program minimum conditions (PMCs) (as assessed by the APA)	60	20.0%	N/A (new system developed)	100% of Program minimum conditions ⁵⁷	100% of Program minimum conditions	100% of Program minimum conditions	100% of Program minimum conditions	
Allocated amount				9.80	14.20	19.35	16.65	

⁵⁷ All these results are achieved in the year prior to this disbursement year, and identified during the first annual performance assessment.

Disbursement Link Indicators (DLIs)	Total Financing allocated to DLI (million US\$)	As % of Total Financing Amount	DLI Baseline	Indicative timeline for DLI achievement				
				Year or period 1 FY2018/19	Year or period 2 FY2019/20	Year or period 3 FY2020/21	Year or period 4 FY2021/22	Year or period 5 FY2022/23
DLI 2 Program LGs have strengthened their institutional performance ⁵⁸ in seven thematic areas (as scored in the APA)	110	37.0%	N/A (new system developed)	60 % ⁵⁹	70%	80%	90%	
Allocated amount				17.96	26.04	35.47	30.53	
DLI 3 Program LGs have implemented their Infrastructure Action Plans, value for money and maintenance of key infrastructure (as scored by APA)	75	25.0%	N/A (new system developed)	60% ⁶⁰	70 %	75%	80 %	
Allocated amount				12.24	17.76	24.18	20.82	
DLI 4 Program LGs have implemented their Institutional Strengthening Plans (ISPs), utilizing the Financing (as scored by APA)	10	3.33%	N/A (new system developed)	i) Annual Institutional strengthening plan for FY2018/19 adopted ⁶¹ .	i) Annual Institutional strengthening plan for FY2019/20 adopted.	i) Annual Institutional strengthening plan for FY2020/21 adopted ii) 75 % of FY2019/20 plan implemented	i) Institutional strengthening plan for FY2021/22 adopted ii) 80 % of FY2020/21 plan implemented	N/A
Allocated amount				2.50	2.50	2.50	2.50	
DLIs 5 and 6: Strengthened municipal capacity achieved by central government								

⁵⁸ In the areas of linkage between municipal physical development plan, five-year development plan and budgeting; municipal own source revenue; procurement performance; municipal core financial management; execution/implementation of budget for improved urban service delivery; including LED, accountability and transparency (monitoring and communication); environmental and social sustainability.

⁵⁹ See the verification tool. Average score of all MLGs in the annual performance assessment, DLI 2. The targets are based on the estimates, based on review of the Mock Assessment conducted in November 2017.

⁶⁰ See the verification tool. Average score of all MLGs in the annual performance assessment, DLI 2.

⁶¹ The reason for disbursing against the adoption of capacity building plan in FY2018/19 is as follows: The performance assessments will be done between September and November of each FY. These assessments will measure LG performance in the preceding FY and will impact grant disbursement for the following FY. LG budgeting and planning process starts in December and runs through June, using the indicative grant funding amounts announced at the end of the assessment in November. Therefore, the execution of the first Program capacity building plan), will be measured in the assessment in Sept-Nov 2020, and its findings will affect disbursements in FY2021/22.

Disbursement Link Indicators (DLIs)	Total Financing allocated to DLI (million US\$)	As % of Total Financing Amount	DLI Baseline	Indicative timeline for DLI achievement				
				Year or period 1 FY2018/19	Year or period 2 FY2019/20	Year or period 3 FY2020/21	Year or period 4 FY2021/22	Year or period 5 FY2022/23
DLI 5 MoLHUD has executed Performance Improvement Plans (PIPs) for Program LGs (including physical Planning and valuation services)	37	12.3%	N/A	i) Institutional strengthening plan for FY 2018/19 adopted.	i) Institutional strengthening plan for FY 2019/20 adopted ii) 60 % of previous plan implemented (see verification narrative for results) ⁶²	i) Institutional strengthening plan for FY 2020/21 adopted ii) 70% implemented (see narrative on specific results)	i) Institutional strengthening plan for FY 2021/22 adopted ii) 80% implemented (see narrative on specific results)	i) Institutional strengthening plan for FY 2022/23 adopted ii) 90% implement-ted (see narrative on specific results)
Allocated amount				7	7	7	7	9
DLI 6 Program LGs with Town Clerks in place ⁶³	8	2.7%	14	18	18	18	18	18
Allocated amount				1.6	1.6	1.6	1.6	1.6
Total financing Allocated	300	100%		51.10	69.10	90.10	79.10	10.60
DLI Matrix for DLIs 7 and 8 Results on Physical Planning, Land Tenure Security and Urban Infrastructure Development in Refugee Host Areas.⁶⁴								
Disbursement Link Indicators (DLIs)	Total Financing allocated to DLI (million US\$)	As % of Total Financing Amount	DLI Baseline	Indicative timeline for DLI achievement				
				Year 1 FY2018/19	Year 2 FY2019/20	Year 3 FY2020/21	Year 4 FY2021/22	Year 5 FY2022/23
DLI 7 Results on Physical Planning, land tenure security and urban infrastructure development in Program LGs hosting refugees	14.6	28%	N/A	i) Plan for FY 2018/19 adopted.	i) Plan for FY 2019/20 adopted ii) Results implemented (see verification narrative for results and calibration). ⁶⁵	i) Plan for FY 2020/21 adopted ii) Results achieved (see assessment tool narrative).	i) Plan for FY 2021/22 adopted ii) Results achieved (see narrative).	i) Plan for FY 2022/23 adopted ii) Results achieved (see assessment tool narrative).
Allocated amount				3.0	3.0	5.0	2.7	0.9

⁶² See the **verification/assessment tool** below for the specific results per year and calibration.

⁶³ Central government is responsible for the appointment town clerks in LGs.

⁶⁴ Note that the results will be achieved in the year prior to the column where they are mentioned, and that the text indicators disbursement against results, e.g. in on DLI 7 the plan for the first year will be developed prior to FY 2018/19.

⁶⁵ See the **verification/assessment tool** in the Assessment Manual for the specific results per year and calibration.

Disbursement Link Indicators (DLIs)	Total Financing allocated to DLI (million US\$)	As % of Total Financing Amount	DLI Baseline	Indicative timeline for DLI achievement				
				Year or period 1 FY2018/19	Year or period 2 FY2019/20	Year or period 3 FY2020/21	Year or period 4 FY2021/22	Year or period 5 FY2022/23
DLI 8 Results on planning and infrastructure investments in Program LGs hosting refugees	45.4	72%	N/A	100% of the target LGs comply with minimum conditions for access to the transitional grant for refugee host areas ⁶⁶	100% of the target LGs comply with minimum conditions for access to the transitional grant for refugee host areas.	100% of the target LGs comply with minimum conditions for access to the condition grant and provide service in accordance with planned targets ⁶⁷	100% of the target LGs comply with minimum conditions for access to the conditional grant and provide services in accordance with planned targets	
	36.0			10.0	12.0	13.4	10.0	
Sub-total: Allocated amount DLI 7 & 8	60.0	100%	N/A	13.0	15.0	18.4	12.7	0.9

⁶⁶ All these results are achieved in the year prior to this disbursement year, and identified during the first annual performance assessment. The conditions and results are outlined in the detailed verification protocol in the assessment tool for DLI 8.

⁶⁷ See detailed verification protocol in the assessment tool for DLI 8.

DLI Verification Protocol Table

The verification protocol is largely unchanged compared with the current USMID, but the system of verification by the IVA and the QA has been clarified in the text.

#	DLI	Definition/ Description of achievement	Scalability of Disbursements (Yes/No)	Protocol to evaluate achievement of the DLI and data/result verification		
				Data source/agency	Verification Entity	Procedure
1	DLI 1 Program LGs have met all Program minimum conditions (PMCs) (as assessed by the APA)	The indicator will be satisfied when: (i) The annual performance assessment, using only the minimum conditions, has been completed and the allocations to Program MLGs have been determined on the number of compliant MLGs; (ii) The Government has disbursed the previous urban (DDEG) tranche to all eligible 22 LGs (applicable from year 2)	Yes	For (i) Private firm (IVA) will carry out the annual assessment. For (ii) from MoFPED from the budget and outturns.	Level one: Independent firm IVA advice to the: Program Technical Committee (PTC) verifies.	i) MoLHUD hires a reputable private sector consulting/audit firm (whose terms of reference will be acceptable to the Bank) to carry out the independent annual performance assessment (APA) to measure the performance of each MLG against the Program's minimum conditions. APA determines whether all minimum conditions have been met. After completion of the results, the APA firm will calculate the allocation to each MLG as per the formula in the Bank Disbursement Table, and provide the aggregate disbursement amount (along with the full assessment report and its findings) simultaneously to GoU and the Bank for review. PTC sub-committee will verify that the assessment results are accurate. (ii) MoFPED presents to the PTC, evidence for the disbursement from the central government to LGs of Program funds in the last FY period has been done on time (starting with the second disbursement of DDEG for Program duration). After approval of the results, the MoFPED in liaison with MLHUD will calculate the allocation to each MLG as per the formula in the Bank Disbursement Table, and provide the aggregate disbursement amount to the Word Bank for review. As part of implementation support, Bank will review the assessment results (QAR), the allocation amount and will ensure the timely disbursement of Program funds.
	DLI 2 Program LGs have strengthened their institutional performance in seven thematic areas (as scored in the APA)	(i) The indicator will be satisfied when the annual performance assessment has been completed (based on the minimum conditions and performance indicators) and the allocation based on the score of all LGs has been determined;	Yes	Private IVA firm will carry out the annual assessment. Re. (ii) from MoFPED.	Level one: Independent firm IVA advice to the PTC	i) MoLHUD hires a reputable private sector consulting/audit firm (whose terms of reference will be acceptable to the Bank) to carry out the independent annual performance assessment (APA) to measure the performance of each LG against the Program's performance indicators and following the assessment procedures. APA firm assigns a score to each MLG. PTC sub-committee will verify that the assessment results are accurate.

#	DLI	Definition/ Description of achievement	Scalability of Disbursements (Yes/No)	Protocol to evaluate achievement of the DLI and data/result verification		
				Data source/agency	Verification Entity	Procedure
		(ii) The Government has disbursed the previous urban (DDEG) tranche to all eligible 22 LGs (applicable from year 2)				<p>(ii) MoFPED presents to the PTC, evidence for the disbursement from the central government to MLGs of Program funds in the last FY period has been done on time (starting with the second disbursement of DDEG for Program duration)</p> <p>After approval of the results, the MoFPED in liaison with MLHUD will calculate the allocation to each MLG as per the formula in the Bank Disbursement Table, and provide the aggregate disbursement amount to the Word Bank for review.</p> <p>As part of implementation support, Bank will review the assessment results (QAR), the allocation amount and will ensure the timely disbursement of Program funds.</p>
3	DLI 3 Program LGs have implemented their Infrastructure Action Plans, value for money and maintenance of key infrastructure (as scored by APA)	<p>(i) Achievement under this indicator will be measured on the basis of actual delivery of infrastructure against targets laid out in the plan for the former year using DDEG funds</p> <p>(ii) The Government has disbursed the previous urban (DDEG) tranche to all eligible 22 LGs (applicable from year 2)</p>	Yes	<p>Private IVA firm will carry out the annual assessment.</p> <p>Value for money results from OAG</p> <p>Re. (ii) from MoFPED.</p>	<p>Level one: Independent firm IVA and OAG advise to the: PTC</p>	<p>Similar to DLIs 1 and 2 above, this DLI will also be measured through the annual assessment and therefore the same process will apply.</p> <p>As per mandate of the OAG, the Value for Money Part of the APA will be conducted by the OAG who submits results to PTC.</p> <p>PTC sub-committee will verify that the assessment results are accurate.</p> <p>(ii) MoFPED presents to the PTC, evidence for the disbursement from the central government to LGs of Program funds in the last FY period has been done on time (starting with the second disbursement of DDEG for Program duration).</p> <p>After approval of the results, the MoFPED in liaison with MLHUD will calculate the allocation to each MLG as per the formula in the Bank Disbursement Table, and provide the aggregate disbursement amount to the Word Bank for review.</p> <p>As part of implementation support, Bank will review the assessment results (QAR), the allocation amount and will ensure the timely disbursement of Program funds.</p>
4	DLI 4 Program LGs have implemented their Institutional Strengthening Plans (ISPs), utilizing the	<p>(i) Achievement of the DLI will be determined on the basis of execution of activities specified in the LG capacity building plan.</p> <p>(ii) The Government has disbursed the previous</p>	Yes	<p>Private IVA firm.</p> <p>Re. (ii) from MoFPED.</p>	<p>Level one: Independent firm IVA advice to the: PTC</p>	<p>Similar to DLIs 1 and 2 above, this DLI will also be measured through the annual assessment and therefore the same process will apply.</p> <p>MLGs will put in place an annual plan to build their capacity. Among other things, the plan will specify the activity, objective, the resources assigned and the implementation timeline. The template for the plan will be included in the operations manual.</p>

#	DLI	Definition/Description of achievement	Scalability of Disbursements (Yes/No)	Protocol to evaluate achievement of the DLI and data/result verification		
				Data source/agency	Verification Entity	Procedure
	Financing (as scored by APA)	urban (DDEG) tranche to all eligible 22 LGs (applicable from year 2)				The APA will review the execution performance of the LG against the planned target and an implementation rate.
5	DLI 5: MoLHUD has executed Performance Improvement Plans (PIPs) for Program LGs (including physical Planning and valuation services)	Achievement of the DLI will be determined on the basis of execution of activities specified in the MoLHUD Institutional Strengthening Plan and technical program support for LGs	Yes	From MoLHUD receive documents and annual progress on all results from the verification protocol below.	PTC	<p>MoLHUD will put in place an annual institutional strengthening plan, which will include support to Physical Planning, strengthening of valuation services and activities to build capacity of LGs and to support the Program objectives and provide system results (see the verification tool for specification of results and calibration). Among other things, the plan will specify the activity, its objective, the resources assigned, results and the implementation timeline. The template for the plan will be included in the program operations manual and contains specific targets for each year.</p> <p>No less than 60 days prior to the beginning of the forthcoming fiscal year, MoLHUD will submit the plan to the PTC which will verify that the plan in the agreed format, including the targets defined, and is satisfactory.</p> <p>Within 30 days of the beginning of the fiscal year, MoLHUD will submit a report of the implementation of the institutional strengthening plan, including documentation for the results achieved for the previous year to PTC for verification (as the documents required in the narrative to the verification).</p> <p>PTC will verify the extent to which the plan has been executed, results achieved and determine the DLI amount to be disbursed.</p> <p><u>World Bank will review for compliance with the disbursement triggers.</u></p>
6	DLI 6 Program LGs with Town Clerks in place	Each Program LG has a town clerk in place (assessed every year of the Program).	No	Private firm with information from MoLG/MLHUD.	Independent firm IVA advice to the PTC	<p>Similar to DLIs 1 above, this DLI will also be measured through the annual assessment and therefore the same process will apply.</p> <p>No less than 60 days prior to the beginning of the new fiscal year, MoLHUD will submit to the PTC a schedule listing the names of 18 town clerks designated by MoLG. APA will also assess the compliance during the assessment of minimum conditions. PTC will verify.</p> <p>The World Bank will review.</p>

DLI Verification Protocol Table for DLIs 7 and 8

#	DLI	Definition/Description of achievement	Scalability of Disbursements (Yes/No)	Protocol to evaluate achievement of the DLI and data/result verification		
				Data source/agency	Verification Entity	Procedure
8	DLI 7: Results on Physical Planning, land tenure security and urban infrastructure development in Program LGs hosting refugees	Achievement of the DLI will be determined on the basis of execution of activities specified in the MoLHUD plan for refugee host areas and calibrated in the narrative below.	Yes	MoLHUD –	Independent firm IVA advice to the: Program Technical Committee (PTC) verifies.	<p>MoLHUD will put in place an annual plan to support the Program objectives and provide system results (see the verification tool for specification of results and calibration). Among other things, the plan will specify the activity, its objective, the resources assigned, results and the implementation timeline. The template for the plan will be included in the program operations manual and contains specific target results for each year. From second year, there will be a review of the achieved results and implementation ratios. No less than 60 days prior to the beginning of the forthcoming fiscal year, MoLHUD will submit the plan to the PTC which will verify that the plan in the agreed format, including the targets defined, and is satisfactory.</p> <p>Within 30 days of the beginning of the fiscal year, MoLHUD will submit a report of the implementation of the plan, including specific and overall results achieved for the previous year to PTC for verification. PTC will verify the extent to which the plan has been executed in accordance with the clearly defined results in the verification protocol, results achieved and determine the DLI amount to be disbursed.</p> <p>World Bank will review for compliance with the disbursement triggers.</p>
9	DLI 8 Results on planning and infrastructure investments in Program LGs hosting refugees	<p>The indicator will be satisfied when:</p> <p>(i) The annual performance assessment, using only the minimum conditions, has been completed and the allocations to Program districts with refugee host areas have been determined on the number of compliant LGs;</p> <p>(ii) The Government has disbursed the previous urban (DDEG) tranche to all eligible LGs (applicable from year 2)</p>	Yes	<p>For (i) Private firm (IVA) will carry out the annual assessment</p> <p>For (ii) from MoFPED from the budget and outturns.</p>	<p>Independent firm IVA advice to the: Program Technical Committee (PTC) verifies.</p>	<p>i) MoLHUD hires a reputable private sector consulting/audit firm (whose terms of reference will be acceptable to the Bank) to carry out the independent annual performance assessment (APA) to measure the performance of each LG against the Program’s minimum conditions. APA determines whether all minimum conditions have been met.</p> <p>After reconciliation of the results, the APA firm will calculate the draft allocation to each LG as per the formula in the Bank Disbursement Table, and provide the aggregate disbursement amount (along with the full assessment report and its findings) simultaneously to GoU and the Bank for review.</p> <p>PTC sub-committee will verify that the assessment results are accurate.</p> <p>(ii) MoFPED presents to the PTC, evidence for the disbursement from the central government to LGs of Program funds in the last FY period has been done on time (starting with the second disbursement of DDEG for Program duration)</p> <p>After approval of the results, the MoFPED in liaison with MLHUD will calculate the final allocation to each LG as per the formula in the Bank Disbursement Table, and provide the aggregate disbursement amount to the Word Bank for review.</p> <p>As part of implementation support, Bank will review the assessment results, the allocation amount and will ensure the timely disbursement of Program funds.</p>

Bank Disbursement Table

#	DLI	Bank financing allocated to the DLI	Of which Financing available for		Deadline for DLI Achievement	Minimum DLI value to be achieved to trigger disbursements of Bank Financing	Maximum DLI value(s) expected to be achieved for Bank disbursements purposes	Determination of Financing Amount to be disbursed against achieved and verified DLI value(s)
			Prior results	Advances				
1	DLI 1: Program LGs have met all Program minimum conditions (PMCs) (as assessed by the APA)	60 million US\$	First APA	0	At point of time for the APA.	1 MLG	22 MLGs	<p>Disbursement from the Bank is calculated on the basis of compliance of MLGs with minimum access conditions.</p> <p>Disbursement from the Bank to GoU will be determined as: Compliance of MLGs with minimum access conditions: A. If score equal to target compliance level for FY, full allocation, B. If score below target for FY, pro-rata reduction,</p> <p>Disbursement will be made provided that previous disbursements from GoU to MLGs have all been made.</p> <p>Formula for disbursement from the Bank to GoU is:</p> <ul style="list-style-type: none"> Total funds available for each FY are divided across MLGs using the formula below. Then the total amount to be disbursed to GoU is the sum of the compliant MLGs in this formula, as only the compliant MLGs will get disbursements. <p>Formula for disbursement from GoU to each MLGs is:</p> <ul style="list-style-type: none"> $[(MLG\ population/total\ population\ for\ all\ MLGs) \times 0.65 + (MLG\ number\ of\ poor\ people/total\ number\ of\ poor\ people\ in\ all\ MLGs) \times 0.15 + 1/18 \times 0.20] \times Amount\ to\ be\ disbursed\ for\ this\ FY\ for\ compliant\ MLGs]$.
2	DLI 2 Program LGs have strengthened their institutional performance in seven thematic areas (as scored in the APA)	110 million US\$	First APA	0	By Program completion	0	100%	<p>Disbursement from the Bank to GoU will be determined as: Compliance of MLGs with minimum access conditions; Sum of scores of all MLGs calculated (non-minimum condition compliant LGs are assigned a score of zero) and divided by 18; A. If score equal to target for FY, full allocation, B. If score below target for FY, pro-rata reduction, C. If score above target for FY, pro-rata increase.</p> <p>Disbursement will be made provided that previous disbursements from GoU to LGs have all been made.</p>

#	DLI	Bank financing allocated to the DLI	Of which Financing available for		Deadline for DLI Achievement	Minimum DLI value to be achieved to trigger disbursements of Bank Financing	Maximum DLI value(s) expected to be achieved for Bank disbursements purposes	Determination of Financing Amount to be disbursed against achieved and verified DLI value(s)
			Prior results	Advances				
								<p>Formula for disbursement from the bank to GoU in the FY 2018/19, 2019/20, 2020/21 and 2021/22:</p> <p>[total annual disbursement] = [$\frac{\text{sum of individual scores of all MLGs}}{18}$] / [target score for the FY] x [target disbursement amount]</p> <p>Performance targets:</p> <ul style="list-style-type: none"> • FY 2018/19: 60% • FY 2019/20: 70% • FY 2020/21: 80% • FY 2021/22: 90% <p>Formula for disbursement from GoU to MLGs is:</p> <p>$[(\text{MLG population} / \text{total population for all MLG}) \times 0.65 + (1/18 \times 0.20) + (\text{number of poor people in MLG} / \text{total no. of poor people in all MLG}) \times 0.15] \times \text{score of MLG} / \text{sum of weighted scores of all MLGs}$] x amount to be disbursed for the DLI 2 for compliant MLGs</p>
3	DLI 3 Program LGs have implemented their Infrastructure Action Plans, value for money and maintenance of key infrastructure	75 million US\$	First APA	0	By Program completion	0	100%	<p>Disbursement from the Bank to GoU will be determined as:</p> <p>Compliance of LGs with minimum access conditions; Sum of scores of all MLGs calculated (non-minimum condition compliant LGs are assigned a score of zero) and divided by 18; A. If score equal to target for FY, full allocation, B. If score below target for FY, pro-rata reduction, C. If score above target for FY, pro-rata increase.</p> <p>Disbursement will be made provided that previous disbursements from GoU to LGs have all been made.</p> <p>Formula for disbursement from the Bank to GoU in the FY 2018/19, 2019/20, 2020/21, 2021/22:</p>

#	DLI	Bank financing allocated to the DLI	Of which Financing available for		Deadline for DLI Achievement	Minimum DLI value to be achieved to trigger disbursements of Bank Financing	Maximum DLI value(s) expected to be achieved for Bank disbursements purposes	Determination of Financing Amount to be disbursed against achieved and verified DLI value(s)
			Prior results	Advances				
	(as scored by APA)							<p>[total annual disbursement] = [{sum of individual scores of all MLGs/18} / {target score for the FY}] X [target disbursement amount].</p> <p>Performance targets: FY 2018/19: 60% FY 2019/20: 70% FY 2020/21: 75% FY 2021/22: 80%</p> <p>Formula for disbursement from GoU to MLGs is: [(MLG population/Total population for all MLG) X 0.65 + (1/18 X 0.20) + (number of poor people in MLG/total no. of poor people in all MLGs) X 0.15] X Score of MLG/Sum of weighted scores of all MLGs] X amount to be disbursed for the DLI 3 for compliant MLGs</p>
4	DLI 4 Program LGs have implemented their Institutional Strengthening Plans (ISPs), utilizing the Financing (as scored by APA)	10 million US\$.	First APA.	0	Annually for four years, starting in FY 2018/19	0	22 (100 % of annual amount).	<p>Disbursements from the Bank to GoU in FY 2018/19, FY 2019/20, FY 2020/21 and FY 2021/22 will be:</p> <p>(The amount for this FY US\$ 2.50 million) X by number of compliant LGs/all 18). E.g. if 8 comply the figure for this FY will be US\$ 1.11 million.</p> <p>Amounts to be disbursed to each MLG will be: Amount to be disbursed to all compliant MLGs (as calculated above) /number of compliant MLGs</p> <p>First Years (2018/19) and FY 2019/20: Provided that MLGs have prepared the capacity building plan for the forthcoming year; and for the Years FY 2020/21 and FY 2021/22 at least 90 % of the previous year's activities have been executed, \$2.5 million will be disbursed. Non-compliant LGs will count as zero in the scores.</p> <p>Disbursement to MLGs calculated as: Total funds available for FY divided by 18 (US\$ 138,889)</p>

#	DLI	Bank financing allocated to the DLI	Of which Financing available for		Deadline for DLI Achievement	Minimum DLI value to be achieved to trigger disbursements of Bank Financing	Maximum DLI value(s) expected to be achieved for Bank disbursements purposes	Determination of Financing Amount to be disbursed against achieved and verified DLI value(s)
			Prior results	Advances				
								<p>A. If MLG score equal to target for FY, full allocation, B. If MLG score below target for FY, pro-rata reduction, C. If score above target for FY, pro-rata increase.</p> <p>Disbursement to a MLG will be: $[(1/18) \times \text{Score of MLG}] / \text{Sum of weighted score of all MLGs}] \times \text{amount to be disbursed for the DLI4 compliant MLGs}$</p>
5	DLI 5: MoLHUD has executed Performance Improvement Plans (PIPs) for Program LGs (including physical Planning and valuation services)	37 million US\$	6.4 million US\$		Annually, starting in FY 2018/19	Calibrated as per the MoLHUD institutional plan formulated for the forthcoming year and minimum execution rates and results specified achieved for the preceding year.	100% of annual amount.	<p>FY 2018/19: Once MoLHUD submits plan in agreed format, \$7.0 million will be disbursed.</p> <p>FY 2019/20 –FY 2022/23: Allocation based target achievements in the verification protocol. Reduction per each target not achieved, as per the narrative in the verification protocol.</p> <p>\$7 million will be disbursed each FY 2018/19 to FY 2021/22 and 9 million in FY 2023/14, if all targets are achieved. Proportional reduction per target not achieved, see the verification narrative for scaling.</p>
6	DLI 6 Program LGs with Town Clerks in place	8 million US\$	0	0	By Program completion	18 Town Clerks in year 1 and 22 Town Clerks thereafter	100% of annual amount	US\$1.6 million per year with required town clerk in Program Municipal LGs each year FY 2018/19, FY 2019/20, FY 2020/21, FY 2021/22 and FY 2022/23.
7	DLI 7: Results on Physical Planning, land tenure security and urban infrastructure development in Program LGs hosting refugees	14.6 million US\$	3.0		Annually, starting in FY 2018/19	MoLHUD plan for support to refugee host areas formulated for the forthcoming year and minimum execution of key results specified achieved for the preceding year.	100% of annual amount.	<p>FY 2018/19: Once MoLHUD submits plan in agreed format, 3.0 million will be disbursed.</p> <p>FY 2019/20 –FY 2022/23: Allocation based target achievements in the verification protocol. Reduction per each (sub-) target not achieved, as per the narrative in the verification protocol.</p> <p>If all targets are achieved the following will be disbursed every year:</p> <p>FY 2018/19: US\$3.0 million FY2019/20: US\$3.0 million</p>

#	DLI	Bank financing allocated to the DLI	Of which Financing available for		Deadline for DLI Achievement	Minimum DLI value to be achieved to trigger disbursements of Bank Financing	Maximum DLI value(s) expected to be achieved for Bank disbursements purposes	Determination of Financing Amount to be disbursed against achieved and verified DLI value(s)
			Prior results	Advances				
								FY 2020/21: US\$5.0 million FY 2021/22: US\$2.7 million FY 2022/23: US\$0.9 million Proportional reduction per target not achieved, see the verification narrative for scaling.
9	DLI 8 Results on planning and infrastructure investments in Program LGs hosting refugees	45.4 million US\$	9.0		Annually starting in FY 2018/19	Minimum conditions for access to the funding complied with	100 % of the annual amount (6 LGs compliance)	<p>Disbursement from the Bank is calculated on the basis of compliance of LGs with minimum access conditions.</p> <p>Disbursement from the Bank to GoU will be determined as:</p> <p>Compliance of LGs with minimum access conditions: A. If score equal to target compliance level for FY, full allocation, B. If score below target for FY, pro-rata reduction,</p> <p>Disbursement will be made provided that previous disbursements from GoU to LGs have all been made. If conditions are complied with by all the amounts to be disbursed will be US\$ 9 million per year from FY 2018/19 to FY 2021/22.</p> <p>Formula for disbursement from the Bank to GoU is:</p> <ul style="list-style-type: none"> Total funds available for each FY are divided across LGs using the formula defined. Then the total amount to be disbursed to GoU is the sum of the compliant LGs in this formula, as only the compliant LGs will get disbursements. <p>In year 3 and year 4, pro-rate reduction of the allocation amount will be conducted if the execution/implementation ratio is below target.</p> <p>Formula for disbursement from GoU to each LGs is based on the formula provided in the Program Operational Manual.</p>

Annex 3: Integrated Risk Assessment

Systematic Operations Risk-Rating Tool (SORT)			
Risk Category	Original Rating (H, S, M, L)	Revised Rating (H, S, M, L)	Rationale for Change
1. Political and Governance	S	No change	
2. Macroeconomic	L	S	increased due to slow economic growth and increase in poverty rates at country level
3. Sector Strategies and Policies	M	S	change in sector policy to increase the number of cities and municipal LGs is putting pressure on both human and financial resources
4. Technical Design of Project or Program	L	M	Expanded investment menu and inclusion of sub-window for refugees and host communities has expanded into areas requiring different sets of skills at municipal LGs as well as MoLHUD
5. Institutional Capacity for Implementation and Sustainability	S	M	decreased due to the increased capacity resulting from institutional support provided both to the MoLHUD and MLGs under the original USMID Program.
6. Fiduciary	M	No change	
7. Environment and Social	M	No change	
8. Stakeholders	L	No change	
9. Other (risks related to refugee protection)	N/A	S	Rated substantial because while Uganda has progressive policies in place, there is some risk of policy reversal or tension with host communities if current rate of refugee influx continues.
OVERALL	M	S	Increased due to increased risk associated with sector strategies and policies and technical design of the Program

Annex 4: Technical Assessment – Addendum

1. **A technical assessment was undertaken in October 2017** for USMID AF operation in accordance with Bank Policy, Program for Results Financing. The following sections constitute a summary of the Technical Assessment, which focused on up-date of the USMID TA conducted in 2012. The assessment was based on a series of comprehensive studies, lessons learnt from implementation to date including the completed Mid-Term Review and a series of review missions. Moreover, as the Program will be up-scaling to eight additional municipalities, a detailed review of the capacity, preparedness and performance of the additional municipalities as well as comparison on key dimensions with the original 14 municipalities was undertaken.

Detailed Program Description

2. **The design of USMID AF is an extension of the current program and will retain all its major components.** The current phase had a total Program Budget of US\$ 160 million, of which IDA funding constitutes US\$ 150 million and GoU funding is US\$ 10 million. USMID currently supports 14 municipal LGs as well as the Ministry of Lands, Housing and Urban Development (MLHUD). The largest part of the funding goes to the LG level – the municipal development grant (now named DDEG under the IGFTR) US\$ 136 million, and the CB grants (CBG) US\$ 15 million with the balance going to support results at the MLHUD level to support CB activities as well as Program implementation. The last grant cycle has just been released, based on the results from the annual performance assessments (APA).

3. **USMID AF will provide support to part of the overall GoU Intergovernmental Fiscal Transfer Reform Program,** which is aiming at improving the overall grant system, including size, allocation, modalities and efficiency in the use of transfers. Under this program, the discretionary development equalisation grant (DDEG) is supporting multi-sectoral investments at the LG level, and under this is the “urban window” with the targeting of the USMID municipalities being a critical element. The sub-window “USMID municipalities” as mentioned in the MTEF and DDEG guidelines from Office of the Prime Minister, 2017 will be the target for financial support, and the transitional grant window for development grants when it comes to the sub-window for refugees and host communities providing additional funding the DDEG allocations for these host areas.⁶⁸

4. **Program funds will be provided through disbursement-linked indicators (DLI).** The first set of DLIs (1 through 4) will aim to strengthen institutions and delivery of infrastructure and services by Municipal Councils and will be supported by **US\$ 255 million from IDA funds** over the Program implementation period. The DLI structure is based on the USMID with a few adjustments. Each of these DLIs will represent a composite defined index of a range of minimum conditions and performance measures (see Annex 2 for further details):

- **DLI 1:** Program LGs have met all Program Minimum Conditions (as assessed by the APA) – **US\$ 60 million;**
- **DLI 2:** Program LGs have strengthened their institutional performance in seven thematic areas (as scored by the APA)⁶⁹ - **US\$ 110 million;**

⁶⁸ The DDEG guidelines mention budget allocations to DDEG USMID municipalities (funded by the WB loan) and DDEG USMID Divisional Allocations, which are funded from the GoU, Discretionary Development Grant (DDEG) 2018/19 Grant, Budget and Implementation Guidelines, September 2017, OPM.

⁶⁹ It should be noted that ULGs will have to comply with the DLI 2 conditions to get access to the allocations from DLIs III and IV as well, as the conditions are the basic safeguards for handling of larger discretionary funds. The allocations for compliance with MCs (DLI 1) and DLI 3 have been increased from 56 million to 60 million and from 72 to 75 million respectively due to the

- DLI 3: Program LGs have implemented their Infrastructure Action Plans, value for money and maintenance of key infrastructure (as scored by APA)– **US\$ 75 million.**
- DLI 4: Program LGs have implemented their Institutional Strengthening Plans utilizing the financing (as scored by APA)– **US\$ \$10 million;**

5. These four DLIs in particular build municipal performance assessment system and will aim to ensure that:

- Basic fiduciary, project planning and execution, and environmental and social management conditions are in place such that Program LGs can absorb the Program funding;
- Program municipalities continue to strengthen their institutions of urban management in a social inclusive manner;
- Municipalities use program funds effectively in creating sustainable and resilient infrastructure and delivering services, achieve the targets in infrastructure delivery, maintenance and development and to promote the GoU’s strategy and new policy on urban development at the municipal level.

6. **The disbursement system for DLI 1, 2, 3 and 4 is flexible towards actual performance of program municipalities.** It is particularly important to note that if Program Municipalities perform better (or poorer) than expected (as set out in the disbursement related targets in the DLI matrix), disbursements will be adjusted accordingly.

7. The second **set of DLIs 5 AND 6** will target strengthening of MLHUD’s capacity to support municipal councils in core performance areas.

- DLI 5: MoLHUD has executed Performance Improvement Plans for Program LGs (including physical planning and valuation services). This DLI concerns results related with system development of benefit for the urban LGs, including guidelines and systems for urban planning and development, LED and operational and maintenance, assets management etc. It will ensure that MLHUD has incentives to strengthen core prioritized areas such as physical planning, land valuation and related tasks FOR urban development and handling of planning for the increasing challenges with refugees in urban LGs – **US\$ 37 million;**
- DLI 6: Program LG with Town Clerks in place. This will ensure that the most critical staff is in place prior to any disbursement of funds. Government is responsible for provision of this result, as the TCs are posted centrally – **US\$ 8 million;**

8. The final set of (new) DLIs 7-8 are focusing on the new window for refugee host areas:

- DLI 7: DLI 7 Results on physical planning, land tenure security and urban infrastructure development in Program LGs hosting refugees: US\$ 14.6 million – this will focus on the support by MLHUD for critical areas of physical planning, land tenure issues and backstopping support to LGs in refugee host areas.
- DLI 8: Results on planning and infrastructure investments in Program LGs hosting refugees: US\$ 45.4 million. This DLI will provide additional funding for small –scale infrastructure in the 8 targeted host districts with urban centers

9. **Similar to USMID, Municipal LGs are mandated to use Program funds to only finance core infrastructure investments.** These are spelled out in detail in the Program’s investment menu. Such

importance of these results. The CB grants, considering the size of the funds available for institutional strengthening have been reduced from 15 to 10 million USD over the Program period.

investments include roads, solid waste management, street lighting, greenery, servicing industrial land and tourist sites, parks for micro-enterprises and cottage industries, youth centers and incubators, etc. Compliance with the investment menu will be a minimum condition and be verified by the APA each Program year. If a municipal LG has not invested Program funds in full compliance with the investment menu, it will be sanctioned in the following year. Municipal LGs will be required to identify and prepare investments in a participatory manner and use the screening tools developed under USMID and the new DDEG guidelines. Participatory approaches and proper planning and budgeting will be promoted through the annual assessments, and municipal LGs will be incentivized to involve the divisions, the municipal development forum as well as the private sector in the prior dialogue on planning and budgeting as well as monitoring of execution.

10. Institutional strengthening for infrastructure provision will continue in USMID AF, targeting both the participating municipalities as well as MoLHUD and MDAs. Firstly, the participating municipalities will receive grants to strengthen their capacities to execute their mandates for delivering a wide range of urban infrastructure and services. Each municipal LG will be required to develop a comprehensive institutional strengthening plan that will respond to its capacity gaps especially those that will be unearthed by the annual assessments under the Program and to ensure that the plan is executed on eligible expenditures. The activities will continue to focus on: tooling, discretionary capacity building /institutional strengthening, and career development. US\$ 10 million will be provided as Municipal Institutional Strengthening Grant (ISG) as part of the overall DDEG allocation. Secondly, MoLHUD, which is responsible for the oversight of Program implementation as well as other MDAs, will also receive support to perform their mandate for urban development as well as for providing supply driven institutional support to the municipalities for activities which can be pooled together for economies of scale and that cut across all municipalities. US\$ 45 million will be retained at the Central Government level to support these activities.

11. Institutional support to MoLHUD and other MDAs will include: (i) development of the necessary systems for urban development and management – including development of laws, regulations and standards) and the implementation of those which were developed under the ongoing operation by providing targeted support to Physical Planning; (ii) strengthening of the capacity of the Chief Government Valuer (CGV) office – to perform its Constitutional mandate for the approval of valuation reports for compensation in Uganda; (iii) targeted support to the MoLHUD - for Program implementation support to ensure the achievement of Program results including annual performance assessments; (iv) development of guidelines and systems for supporting MLGs on LED including assessment of economic potentials for all MLGs; (v) response to the refugees' influx into Uganda focusing on supporting the sub-regions which are hosting refugees with physical development plans to guide sectors as well as working towards improving land tenure security to respond to the needs of both refugees and host communities; (vi) tooling of the MoLHUD including purchase of equipment and tools such as GIS computer equipment, office related furniture, support to transportation facilitation etc.; and (vii) USMID Program Implementation including overall coordination, implementation, monitoring and evaluation of the Program. The LGFC will be supported to stimulate OSR revenue mobilization at MLG level⁷⁰. MoLG will be supported to follow-up on IFMIS support. MoLHUD will also collaborate with other MDAs in supporting MLGs. Collaboration with MoFPED to strengthen guidelines and systems for operational and maintenance which will involve development of assets management system and procedures and related guidelines and manuals for MLGs and roll-out of these from year 2 and onwards.

⁷⁰ Increasing OSR revenue for municipalities has been a major area of focus under the current phase and is a key performance measure for MLGs. Efforts to increase OSR have, however, been thwarted by restrictive national government policy pronouncements, limiting local level revenue collection. In the next phase, the program will continue to build capacity at local levels while also raising awareness of these difficulties at national level.

12. **The following summarizes the steps to be followed for disbursing funds under the program:**

- i. Preparation of a draft self-assessment report by government (MoLHUD/MCs)
- ii. Verification of the assessment results by an Independent Verification Agent and calculation of program amounts for each DLI.
- iii. Validation by the Program Technical Committee (PTC) of the assessment results and the DLIs amounts as set out in the verification protocol.
- iv. MoFPED notifies IDA and requests for disbursement of funds based on the verified and agreed assessment results.
- v. IDA gives a No Objection and GoU requests the approved amount through a withdrawal application.
- vi. IDA transfers funds to GoU Treasury Holding Account in Bank of Uganda and notifies the client.
- vii. MoLHUD instructs the treasury to transfer respective amounts to MLG as per assessment results.

13. **The disbursement of Municipal Development Grants from the World Bank to GoU for municipal LGs will be based on 3 DLIs:** Compliance with minimum conditions (US\$ 60 million), performance on the institutional performance areas (US\$ 110 million), and project implementation performance (project execution, VfM and O&M) (US\$ 75 million), and transferred proportionally over the 4 cycles, see table below. The horizontal allocation across MLGs of the MDG will be based on the following parameters: i) size of the population (65 %), ii) poverty level (15%) and iii) constant/equal share (20%)⁷¹, and then combined with the results of the annual performance assessment in weighted/scaled manner as per the current USMID. The allocations in the first year will range from US\$ 861,553 in Moroto (the smallest municipal LG) to US\$ 4,172,453 in the largest municipal LG (Gulu) and from US\$ 1,701,566 to US\$ 8,240,595 in the peak year (FY 2020/21). As per the current USMID, the USMID AF will allocate against the municipal LG performance level (the total pool to be distributed will be influenced by the average performance of all municipal LGs), and the horizontal allocation by the municipal LGs' scores in a weighted and scaled manner, determined by the results of the APA.

Table 1: Overview of the Municipal Development Grant and links with DLIs

Million USD	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	All years
Municipal Development Grant	40.00	58.00	79.00	68.00	245.00
DLI 1: Minimum Condition	9.80	14.20	19.35	16.65	60.00
DLI 2: Inst. Performance	17.96	26.04	35.47	30.53	110.00
DLI 3: Service Delivery Performance	12.24	17.76	24.18	20.82	75.00
Total	40.00	58.00	79.00	68.00	245.00

14. **USMID target municipalities will have a specific window within the overall Government program.** The USMID window of the government DDEG is following the newly adopted DDEG guidelines issued by Office of the Prime Minister in September 2017, but with specific features to be determined in

⁷¹ The formula will follow the national system for DDEG, but the fourth criterion in this- the conflict factor - is kept similar for all USMID MLGs, leading to an increase in the population factor for the USMID MLGs from 62 to 65percent.

the POM of the USMID AF. The DDEG for USMID municipal LGs will comprise two windows – the Municipal Development Grant (MDG) and the Institutional Strengthening Grant (ISG). It will provide annual disbursements of MDG to the 18 MCs included in the Program in the tune of US\$ 40 million in the first year (FY 2018/19) increasing to US\$ 58 million in the second, US\$ 79 million in the third and US\$68 million in the last cycle (FY 2021/22), see the table below. The smaller grant for institutional strengthening will be kept constant to enable MLGs to follow up on the findings from the annual performance assessment.

15. **The disbursement of funds to the 8 Districts and urban centers targeted under the sub-window for refugees and host communities will be based on DLI 8.** Different options for the integration of the sub-window have been considered, while following the principle of aligning with GoU systems and procedures, and the objectives in the new transfer reforms.

16. The design has divided the funds in two parts: i) funding to enable the MLHUD to support implementation of the sub-window, and 2) funding for small scale infrastructure investments in the host areas, which follow the GoU procedures for these types of funding schemes, the new “transitional development grant” modality. Based on a technical assessment of the USMID program objectives, the GoU policies on funding of LG infrastructure and divisions of mandates between central and LG level, **option 1** is the basis for the design. Option 2 has been reviewed as an alternative, but has major disadvantages and has therefore been rejected.

Table 2: Options for handling of the investment window of the support to refugee host areas.

Option Description	Advantages	Disadvantages	Implications
1. Transfer to LGs as a Transitional Development Grant (selected options based on the quick technical assessment)			
<ul style="list-style-type: none"> • The Transitional Development Grant was included into the GoU Grant structure to enable the financing of special projects to Local Governments. • The funds are appropriated by Parliament under the respective LG Votes; (like USMID grants) • The LGs identify, prioritize and incorporate the sub-projects in their AWP and Budgets; 	<ul style="list-style-type: none"> • Aligned to the Government program (“p”) – the Intergovernmental Fiscal Transfer Reforms (see the grant structure in the annex 1)⁷² • The funds will be earmarked to the specific LGs, for a specific purpose and only for a specified Program period. • In case of institutionalization, additional funds should be under the DDEG. • It fits with the program objectives, expenditure framework, grant modalities and 	<ul style="list-style-type: none"> • Capacity challenges (which need to be overcome through significant support, will be supported through the other sub-DLIs, especially from MLHUD with assistance to planning, procurement support, monitoring etc.). 	<ul style="list-style-type: none"> • Need a DLI for meeting the Minimum Conditions (as a basic fiduciary safeguard); and that there is evidence that the funds were spent on eligible activities. • Need to develop a simple specific guideline for this Grant (e.g. an appropriate allocation formula) as part of the POM. Other design issues should in as much as possible be aligned to the USMID DDEG guidelines (eligible activities, flow of funds, addressing environmental and social safeguards issues etc...). To make this grant as closely aligned to the USMID Program (“P”) which is USMID DDEG, and the GoU program.

⁷² The GoU policy is to streamline all transfers to LGs, and various program funding such as PRDP, LRDP, etc. have been harmonized with the DDEG.

Option Description	Advantages	Disadvantages	Implications
<ul style="list-style-type: none"> The LGs procures and manages the contracts MoLHUD provides back-stopping support from (CB etc.). 	<p>principles in a PforR USMID model.</p>		
<p>2. (alternative) Subvention by MoLHUD considered but dropped.</p>			
<ul style="list-style-type: none"> The funds are appropriated by Parliament under the MoLHUD Vote LGs identify and prioritizes sub-projects Investments handled by MLHUD (contracts, implementation support, supervision, management etc.). MLHUD responsible agent and funds stay there until paid to contractors. 	<ul style="list-style-type: none"> May provide some economies of scale in some types of investments (if all do the same), if effective contracting. Central procurement and contract management that may enhance value for money (no guarantee for this). 	<ul style="list-style-type: none"> Implementation of infrastructure under the mandate of LGs by MoLHUD will be <u>against</u> the principle of decentralization. Against Cap 243 on division of mandates. In particular, it will <u>not</u> be aligned to the Government program (“p”) supported by USMID – the Intergovernmental Fiscal Transfer Reform Program Not included in the LG Budget, hence less transparency Limited ownership of the sub-projects, e.g. less chance for linkages with operational and maintenance planning etc. 	<ul style="list-style-type: none"> DLI: Implementation of infrastructure (first year plan) but this will be under MLHUD’s performance/ result area. Need to boost Project supervision in MoLHUD (PST) Very hard to define DLIs on this, as this is more on project modalities. Handled better in project modality if this option is pursued.

Table 3: Overview of the new GoU Consolidated Grant Framework and the location of the Refugee host window – the transitional development grant (red colour):

Sector	Recurrent		Development
Sector Conditional Grants			
Health	Wage	Non Wage	Development
Education	Wage	Non Wage	Development
Agriculture & Commerce	Wage	Non Wage	Development
Water & Environment		Non Wage	Development
Works & Transport		Non Wage	Development
Community Dev't		Non Wage	
Ad Hoc Grants			
Support Services		Non Wage	
Transitional Development			Development
Discretionary Grants			
Unconditional Grant	Wage	Non Wage	
Discretionary Development Equalisation			Development

Strategic relevance and technical soundness of the Program

17. **USMID PforR has been running successfully, with satisfactory ratings, from 2013 to 2017 and the GoU has requested its extension.** Progress towards the PDO has been rated satisfactory throughout and overall implementation progress has been rated moderately satisfactory or above. All loan covenants, including audit and financial management reporting requirements have been met.

18. **USMID and the wider GoU program have a proven record of successful implementation.** The MTR and the recent review mission confirmed that USMID's PDO is likely to be achieved by the end of the Program, and this is also the assessment of the TA. USMID's implementation experience has shown that the combination of performance incentives and supply side inputs provided by the Local Development Grant and Capacity Building Grant offered to LGs by the program, have had a definitive and positive impact on the institutional performance and capacity of LGs. For example, under USMID between 2013/14 and 2017/18, the average scores of participating MLGs improved from 60.9 percent to 92.4 percent. It is important to note that the institutional performance areas which USMID targets (budgeting, planning, financial management etc.) are generic in character and thus impact LG delivery performance across the full range of their sectoral responsibilities. In other words, the strengthening of LG systems in areas targeted by the USMID are as important to determining delivery success in key sectors such as primary health and education as it is to general "municipal services" such as roads and solid waste removal.

19. **The USMID AF Program, as with the USMID, has been assessed as strategically relevant and well aligned with the new GoU urban policy, national development plan and new policy on intergovernmental fiscal reforms.** It is based on well-tested tools such as the neutral and external annual performance assessment, formula-based grant allocations combined with a comprehensive element of support for institutional strengthening. The size of the grants, is well fitted with type of bulky investments required at the municipal LG level. The formula for horizontal allocation follows the new national DDEG improved formula combined with a strong element of performance incentives in the adjustment of the size of the grants against performance. The lessons learned from the MTR and technical assessment, and from other urban programs, which are in-built in the design are that:

- There is a very significant investment gap (backlog) in areas such as roads, markets, drainage, street lights, - the areas targeted by USMID;
- The investments are costly, bulky and often multi-year in nature- i.e. some investments take more than a year to complete, and will evolve in phases. There are very high unit costs for these types of urban investments, based on the USMID cost experiences;
- There is a need for initial very high inflow of resources for investments to ensure a transitional development and to address the very comprehensive fiscal gaps on urban capital investments;
- Absorption capacity is not directly related with amount of funds, i.e. often higher allocations make it easier to implement and then absorb. It is also closely related to the capacity of the MLGs and the options for sharing capacity and investment support with other MLGs (clustering where possible);
- Small grants, and insufficient funding lead to lack of interest from high quality contractors;
- High quality construction, decreases the operational and maintenance costs;
- Most maintenance costs, i.e. on roads are covered by the road funds, and new roads are included in the work-plans submitted by USMID MLGs (this is an area which will be strengthened in the AF).

20. **USMID increased the per capita allocation for the development grant from about 1-2 USD, which was insufficient for any meaning urban investments to about 20-30 US\$,** and this amount will be further increased to the average size of US\$ 35 over the 4 cycles of allocations, with the highest amount in the third year: average US\$ 45 per capita and modalities of the USMID grant, which will be maintained as per the start of the USMID, is technical feasible and sound compared with the parameters mentioned above. The assessment revealed that the overall size of the grants is significant and without comparison with the own source revenues, which currently is only a fraction of the grant size, especially in the additional MLGs.

21. **The Program was assessed as technically sound.** Based on the experiences from the first phase of USMID, the USMID AF has strengthened and up-dated the performance measures, strengthened focus on sustainability through enhanced focus on maintenance and own source revenue mobilization. It has also introduced new supplementary performance elements such as LED in the investment menu as well as in the CB support and incentive framework. The selection of DLIs is well-targeting the objectives of the program where the first 4 targets MLG performance and last 3 the performance of central level efforts. The two sets together work in a coherent direction towards achieving the development objectives, as also proved from 2013-2017. Compared to the original USMID, the targets at MLG and central levels have been further sharpened, see Annex 1 and the verification protocol. The institutional framework is robust and well aligned at the SC with the overall intergovernmental fiscal reforms.

22. **The experiences from USMID in terms of the capacity to absorb and utilize funds are generally satisfactory** with recent rating of satisfactory in implementation capacity. Most of the 14 (12 of 14) are on track in terms of implementation of planned projects, but the new large, bulky investments with more complex procurement and implementation arrangements and lack of capacity amongst some contracts, have been a challenge. However, the Program has responded to these challenges and will continue this in the AF, through: (strengthening of) incentives in the APA, through CB support and guidance, through support to clustering of procurement where feasibility, cost effective and effective, and through continued central level support to the MLGs. The challenges are not directly related to the size of projects per se, i.e. often opposite, as the relatively low amounts compared to the types investments required (e.g. integrated urban road projects), has made it difficult to attract larger and more competent contractors. Hence the increase in the grant size is not expected to create additional challenges, but the current ones will have to continue being addressed.

23. **The current USMID APA system is assessed to be robust** with independent assessments, quality assurance, complaint handling system and approval procedures, and the combined incentives, capacity development support and APAs, have increased performance above target levels. The system will be further strengthened in USMID AF, through improved performance measures, see the list in **Annex 1 (verification tool)**, which is based on lessons learned from USMID and other APA tools, and the newly developed national LG Performance Assessment Manual issued by OPM, and the system will be strongly aligned with this, improvement in the system of quality assurance with a new level for control and QA, and improvement in the linkages with the national system of assessment and M&E through involvement of OPM and the related linkages with the national task force on APA.

24. **The indicators are well-designed and aligned with the KRA of the Program and linked clearly with the new national system of APA.** It will be ensured that MLGs will only be assessed one time, and covers the USMID requirements as well as other national requirements for sector performance assessment as per the new national APA system. Also in terms of timing and organization of the APA, the system will be aligned with the national system.

25. **The 4 additional ULGs joining the Program in the first year have the basic capacity needed but require significant institutional strengthening support.** In terms of capacity to implement the Program activities, the assessment made a thorough review of the capacity of 4 additional MLGs as well as desk review of all the current 14 MLGs in areas of MLG finance, staffing and project implementation capacity, and paid visits to selected MLGs covered by USMID, and the design is well positioned to address the gaps. The basic systems and procedures for financial management, procurement, etc. are in place in the new municipal LGs. However, they are only used to plan, budget, contract, operate and monitor very small projects, on average annually max 300-400 million shillings against the grant amounts estimated for the USMID MDG, which will be in average per MLH on UGSH 7.5 billion in the first year going up to UGSH 14.7 billion in the peak FY 2020/21, and with project size in the tune of several billion UGSH especially for road projects. Hence there will be need for significant CB (demand and supply driven as well as hands on support) in planning, design, costing and contract management. IFMS is also only newly installed in 3 of the 4 MLGs, and yet to be established in Mubende. All the additional municipal LGs structural plans are due to expire, and only cover a very small area of the total territory/boundaries. OSR are much lower than current USMID municipalities, and operations and maintenance budgets insufficient. Many critical staff positions are also currently vacant or not substantially filled.

26. For the grants to the refugee host districts with urban centers (under DLI 8), the amounts will approximate US\$ 6 per capita for the four grant cycles, which is a significant boost to investments in small-scale infrastructure compared to the general DDEG, which is only about US\$ 1-2.

27. **Based on the above, the technical design of the Program will contribute to the overall goal of efficiently producing results and reaching the Program's objectives.** The Program technical design reflects international good practice in the overall urban sector and specifically in technical standards and typology of Program activities. Furthermore, the design ensures, to the extent possible, that the incentives are in place for Program stakeholders to effectively contribute to the Program's success. Therefore, the Program is assessed to be **technically sound**.

Program expenditure framework and assessment

28. **The GoU has a well-developed budget classification system** to track government expenditures under the Program and the new PBS (from OBT) will further improve the program reporting facilities, combined with roll-out of IFMS to all the participating MLGs. In terms of the **intergovernmental fiscal transfers**, the MTEF clearly outlines the respective grants, classified in recurrent and development grant transfers. For FY 2017/18, the total grants to LGs constituted about 2.8 trillion UGSH, of which the DDEG

was about 234 billion UGSH, of which the USMID support to the 14 MLGs constituted 93 billion UGSH, see the overview below. The size of the municipal development grants will increase over 4 cycles: FY 2018/19, FY 2019/20, FY 2020/21 and FY 2021/22.

Table 4: Overview of the Current Grant System in Uganda

Overview of total grants to LGs	FY 2017/18	%
1. Total grants	2,837,242,105,211	100%
1.1 Of this Total wage	1,703,996,273,194	60.1
1.1 Of this Non-Salary Recurrent	646,167,340,812	22.8
1.3 Of this Development	385,438,684,053	13.6
1.3.1. DDEG (discretionary)	234,470,058,597	60.8% of the Development Grant
<i>1.3.1.1. Of this USMID DDEG – support to 14 Municipal LGs</i>	93,360,973,850	<i>39.8% of the DDEG</i>

29. As mentioned in the context, USMID will support defined parts of the new Uganda Intergovernmental Fiscal Transfer program, which focuses on the improvements in grants across the development sectors the DDEG as well as improvements of systems in Health and Education, with a total MTEF budget of 3,361 billion UGSH from FY 2018/19 to FY 2022/23.⁷³ USMID will only support specific budget lines in this larger program, namely the DDEG grants to the 22 MLGs under the USMID grant window (part of the urban DDEG, and within this window, only the municipal level grant focusing on core urban infrastructure, e.g. Health and Education).

30. The table below provides the overview of the USMID AF Program expenditures. Of the total Program Expenditures, **255 million or about 1 trillion UGSH, equal to 85 % of the Program funds will go for transfers to the 22 USMID MLGs over 4 cycles**, starting in FY 2018/19 –FY 2021/22 of which **96% will go for municipal development grants** (performance-based).

31. The government is contributing to major parts of the overall grants to LGs, and to MLGs, but the Program expenditures will focus on the specific performance-based DDEG parts of this system, and is only focusing at the higher level of LG, i.e. the municipal core urban investments, and not on funding of the divisions, which focus on social areas such as health, education, social development etc.; hence this GoU support will not be counted directly as counterpart funding as it is different in nature and targeting.

32. However, the GoU through its recently adopted transfer reform program, as well as the MTEF has indicated an increased allocation to the DDEG for non-USMID budget lines, e.g. for the divisional level in the 3 remaining years of the MTEF, and this signals a strong commitment to improve funding for ULGs in general over the coming period. Second, it should be noted that Government, since 2014, changed its policy on VAT for infrastructure projects and the contracts for civil works awarded by the municipal LGs now attract 18% VAT. This was expected to lead to financial constraints in the execution of the ongoing infrastructure projects since VAT was neither envisaged nor budgeted for, it was also expected to result in contract amendments and reduced scope of work. However, GoU has since then covered the costs of these through disbursements to USMID MLGs of 25.6 Billion UGSH (by end of June 2017). This system is expected to continue during the USMID AF.

⁷³ GoU, MoFPED. Uganda Intergovernmental Fiscal Transfer Program, April 2017.

33. **The expenditure framework of the USMID AF Program comprises a total of US\$ 400 million, including US\$40 million GoU contribution and US\$60 million for activities under the sub-window for refugees and host communities.** The table below provides the overview of the main elements in the program expenditure framework, considering the fact that the Program will end in December 2023. The funding for the grant parts will be front-loaded due to the nature of the urban investments, i.e. the time required from allocation to actual spending, and utilization of funds for larger multi-year investment projects like integrated urban roads. The last half year of the Program will be used for support, finalization of the CB support and preparation of continued strategies for urban development.

Table 5: Program Expenditure Framework (US\$ million) of the USMID AF (excluding the USMID⁷⁴)

Classification – Expenditure Areas	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	Total Program
DDEG Municipal Development Grants to 18 MLGs (performance-based)	40.0	58.0	79.0	68.0	0.0	245.0
DDEG- Capacity Building Grants (to 18 MLGs)	2.5	2.5	2.5	2.5	0.0	10.0
Central level: Institutional Strengthening support from MLHUD (incl. CGV) to support capacity at the MLG level and of the MLHUD to support MLGs	8.6	8.6	8.6	8.6	10.6	45.0
GoU DDEG to Urban non USMID	5.3	6.8	8.2	9.8	9.8	40.0
Sub-Total	56.40	75.90	98.30	88.90	20.4	340.00
MLHUD support to refugee host areas	4.0	3.7	5.7	3.7	1.9	18.0
Support to small scale infrastructure in the 6 district host areas with urban centers	9.0	11.0	11.0	11.0		42.0
Sub-total	12.0	11.7	13.7	11.7	0.9	60.0
Grand total	68.4	87.6	112.0	100.6	21.4	400.0

Compared with the USMID, the following main changes have been made in the USMID AF:

II. Changes to the DLI Framework

34. The successful core focus in DLI 1-4 has been maintained with focus on achievement of minimum conditions, performance improvements on institutional and infrastructure delivery areas (DLIs 2-3) and on the capacity building initiatives (DLI 4). However, all the sub-results under these have been up-dated, refined and strengthened to reflect learning from USMID as well as from the national APA recently designed. DLI 5 has been improved to focus more on specific annual results e.g. physical planning and support to MLGs. This DLI also focuses on the performance of the CGV. DLI 6 on town clerks in place is retained, and DLI 7 changed from a focus on IFMS (which has now been rolled out to all MLGs), to issues on government valuation of land, land management systems etc., of core importance for urban infrastructure investments and operations of revenue mobilization systems etc. DLIs 7-8 are new, and focus on the results under the refugee window at the central (DLI 7) and local levels (DLI 8).

III. Update to the Program definition and boundary

⁷⁴ See below for the full USMID + USMID AF expenditure framework.

35. The boundaries of the GoU program have changed, as the LGMSD is no longer operational, and as the GoU has introduced a wider intergovernmental fiscal transfer program with a range of grant schemes to LGs. USMID AF is supporting specific budget lines in this program – the USMID Municipal DDEG and the transitional development grant (for the refugee window).

IV. Updated Program expenditure framework and assessment, accounting for the AF and any other changes in expenditure parameters

36. The table below shows the full overview of the USMID and the USMID expenditure framework. The total Program is increased from 160 million US\$ to 520 million US\$, with a time extension on 5 ½ years.

Table 6: Total USMID and USMID AF

Classification – Expenditure Areas	FY 2012/13 - 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	Total Program
USMID	160.00						160.00
DDEG Municipal Development Grants to 18 MLGs (performance-based) <i>USMID AF</i>		40.0	58.0	79.0	68.0	0.0	245.0
DDEG- Capacity Building Grants (to 18 MLGs) <i>USMID AF</i>		2.5	2.5	2.5	2.5	0.0	10.0
<u>Central level</u> : Institutional Strengthening support from MLHUD (incl. CGV) to support capacity at the MLG level and of the MLHUD to support MLGs <i>USMID AF</i>		8.6	8.6	8.6	8.6	10.6	45.0
Sub-Total		51.10	69.10	90.10	79.10	10.60	300.0
MLHUD support to refugee host areas – <i>USMID AF</i>		4.0	3.7	5.7	3.7	1.9	18.0
Support to small scale infrastructure in the 6 district host areas with urban centers – <i>USMID AF</i>		9.0	11.0	11.0	11.0		42.0
Sub-total		12.0	11.7	13.7	11.7	0.9	60.0
Grand total USMID AF		63.1	80.8	103.8	90.8	11.5	360.0
Grand total USMID + USMID AF	160.00	63.1	80.8	103.8	90.9	11.5	520.0

V. Update of the capacity assessment of existing implementing agencies to adequately implement the expanded Program, taking into account the AF needs

37. A detailed capacity assessment of the MLHUD as well as of the MLGs were conducted as part of the preparatory work.

VI. Capacity of the Ministry of Lands, Housing and Urban Development

38. As mentioned above, the MoLHUD is mandated to oversee urban development in the country and will continue to be the coordinating ministry for the Program. However, the ministry is inadequately staffed and has a weak capacity. The vacancy level in its establishment is very high at executive, technical and professional personnel. The Table below gives a summary of the current staffing of the Physical Planning and Urban Development Directorate of the MoLHUD which will be responsible for the implementation of USMID Program as well as CGV. The capacity constraints in the MoLHUD therefore poses risk to its role to effectively oversee the implementation for the Program and provide the necessary technical back-up support and mentoring to the participating municipal LGs in the implementation of the Program. This risk will be mitigated by providing the Program Support Team (PST) with expertise in (i) Program Coordination, (ii) Procurement, (iii) Financial Management, (iv) Engineering, (v) Physical Planning, (vi) Safeguards and (vii) M&E and (viii) communication to support the MoLHUD with the Program implementation. As under the current USMID, members of the PST will be mapped to the necessary departments within the MoLHUD. However, to enhance leadership and skills transfer to the MoLHUD staff, PST staff will not only be answerable to the respective heads of Departments **but the reporting responsibility will be transferred to the MoLHUD.**

39. **The assessment revealed that the PST will be required to support the MLHUD. However, the role of the PST** will hence be purely support whereby accountability for results will be by the respective MoLHUD staff. The potential risk of slowing down the pace of implementation of Program activities will be mitigated by DLIs that are more results oriented. The intention will be to phase out or reduce the services of these teams once there is evidence that the MoLHUD is adequately staffed and has developed the necessary internal capacity to manage the Program (first time reviewed during the MTR). The table below shows the filling of key staffing positions, and it reveals that there are still significant gaps.

Table 7: MoLHUD - Staffing levels for Directorate of Physical Planning and Urban Development and Department of Valuation Services. Positions of U2 and above as at October 2017

POST new structure	Appr.NO	Filled No.	vacant
Director	1	1	0
DEPARTMENT OF PHYSICAL PLANNING			
Commissioner	1	1	0
Assistant Commissioner	1	0	1
Principal Physical Planner	4	2	2
DEPARTMENT OF URBAN DEVELOPMENT			
Commissioner	1	1	0
Assistant Commissioner	2	0	2
Principal Urban Development Officer	2	1	1
DEPARTMENT OF LAND USE MANGEMENT			
Commissioner	1	0	1
Assistant Commissioner	2	1	1
Principle planner	1	3	-2
DEPARTMENT OF VALUATION SERVICES			
Commissioner	1	0	1
Assistant Commissioner	1	0	1

POST new structure	Appr.NO	Filled No.	vacant
Principal Government valuer	3	0	3

VII. Current Institutional strengthening activities at the MLG level

40. As under the LGMSDP (government program for USMID), the thrust of capacity building activities under the DDEG (government program for USMID AF), is towards individual rather than organizational needs hence the main focus being more on training rather than other capacity areas such as facilities, equipment and tools. However, the scope of capacity building activities under USMID to the 14 participating municipalities was broadened and focused on core skills and tools of importance for urban development and for handling of infrastructure programmes as well as some core equipment for effective operations of the LGs. As a result, there is increased institutional capacity in all 7 thematic areas where capacity development interventions were undertaken as evidenced by improvements in the results of the annual performance assessment by the IVA.

VIII. Assessment of municipal capacity to implement the Program

41. The review of the previous CB at the MLG was up-dated. The staffing level and technical capacity of the 22 municipalities vary, the situation being worse in the new MLGs that are expected to join the Program from FY 2018/19. For example, none of these 4 MLG had the position of the Municipal Engineer and Principal Commercial Officer filled. Only Kasese MLG has the position of the Town Clerk, Principal Treasurer and Senior Environment Officer substantively filled. Moreover, even the staff substantively appointed do not have previous experience in handling activities to the magnitude expected under USMID AF.

42. An analysis of the staffing levels for a sample of 7 USMID and 4 coming MLGs indicates that there are gaps in both USMID and 4 additional MLGs, see the summary table below. The sample shows that the coming 4 additional USMID MLGs have significant gaps in especially procurement and engineering whereas the Finance and IA positions are filled with gaps as per the current 14 MLGs.

Table 8: Overview of Required Staffing Positions

Filled of required positions (%)	Finance Department	Internal Audit	Procurement	Planning	Engineering
7 USMID (average)	66 %	62 %	92%	79%	54%
4 “additional” ULGs	66 %	71%	50%	63%	49%

Source: Self-reported data during field level collections, October 2017.

43. The capacity gaps identified across all the 18 municipal LGs assessed still falls into three broad categories, namely: (i) gaps in numbers of key positions filled, (ii) operation skills to backup academic qualifications, and (iii) inadequate tools, equipment and facilities. The USMID Program will contribute to addressing the last two gaps. The first gap is structural and can only be addressed with the involvement of Ministry of Finance, Ministry of Public Service, and Ministry of LGs. Although the municipal LGs can use part of the Program fund for investment servicing cost (procurement of technical support for engineering design, preparation of bidding documents and supervision), there is need to continue building their technical and managerial capacity to handle the significant increase in development funds. For the additional

municipalities, the development grants will increase from the current average of about 1 US\$ per capita to the proposed US\$ 45 (in the peak year) per capita and for the old municipalities from the current average of US\$ 20⁷⁵ per capita to the proposed US\$ 45 (peak year) per capita under the USMID AF Program. The Program will provide funding for supporting capacity building/institutional strengthening activities at the eighteen municipal LGs level so as to strengthen their capacity for urban management, investment and operations and maintenance (O&M) of urban infrastructure services. The support will continue to focus on: (i) discretionary institutional strengthening – to address the gaps regarding operation skills focusing on bridging the gaps identified during the performance assessments, in core areas of importance for urban development and for handling of infrastructure programmes; (ii) tooling – to address the gap of inadequate tools, equipment and facilities; and (iii) career development.

44. **USMID AF will maintain the requirement of minimum staffing level before a MLG can access the MDG.** USMID AF will address capacity issues that if not attended to would pose serious threats to the successful implementation of the Program. The widespread vacancies in key professional and technical cadres pose a significant risk to the successful implementation of the Program especially in the additional MLGs joining the Program from 2018/19. It is therefore necessary for some basic staffing requirements to be met by each of the participating municipal LGs before they access the enhanced MDG under the Program. These requirements are aimed at providing the basic safeguards in ensuring that each participating municipal LG has in place a core team necessary for effective physical planning, financial management, procurement, execution of infrastructure projects and promotion of local economic development.

45. **As a minimum requirement**, the following core administrative and technical positions should be substantively filled before a municipal LG can access the MDG under the Program: (i) Town Clerk, (ii) Treasurer, (iii) Procurement Officer, (iv) Engineer, (v) Physical/Urban Planner, (vi) Environmental officer, (vii) Community Development Officer, and (viii) Commercial Officer (from year 2). For the refugee window, it will be required that the LG have a substantial CAO in place.

IX. Update of the results framework, as well as the monitoring and the verification protocols, taking into account the AF

46. The Result framework has been up-dated based on the experiences and progress on USMID in the first phase. The verification protocol is kept in terms of basic features, but has been clarified in terms of steps and the content of the means of verification and more focus on specific results

X. Update of economic analysis of the Program

Quantifiable benefits

Benefits due to improved urban roads

47. Improved urban road benefits are measured in terms of: saving in vehicle operation costs (i.e., fuel, tyres, depreciation, etc.), benefits of reduction in travel time, and reduction in costs to the economy of road accidents. The social and environmental effects comprise: vehicle emissions, energy consumption, traffic noise and other welfare benefits to the population served by the roads.

48. In the absence of comprehensive surveys on the above variables, the economic internal rate of return (EIRR) for USMID roads were obtained from previous studies with more or less the same environment to generate the stream of benefits. The Net Present Values show the net economic benefits

⁷⁵ Using up-dated population figures from FY 2017/18.

generated by investing a given amount of resources, for example, an investment of UGX 42.94 billion in Gulu municipality is expected to generate net benefits of UGX107.41 billion after 20 years which is more than twice the initial investment. All urban roads investments in the sampled municipalities show high return on investment as shown by IRR rates of return above the discount rate of 5%. Even with the use of a higher discount rate of 20% (sensitivity analysis), all the urban road investments in all the sampled municipalities would remain viable or profitable. Below are the voices regarding the economic benefits of urban roads from the various stakeholders and sources. The reconstructed roads have had positive impacts to local economic developments (LED).

“The construction of Nyakana ring road around the Nyakana market (second largest market in Fort Portal) where less than half of stalls were rented is now oversubscribed. Before Nyakana road was constructed there used to be only 750 vendors compared to 1,373 outside vendors now who operate on Mondays, Wednesdays and Thursdays in an open market. In the last two years 14 more additional stalls and 26 additional lockups were built and the number of butchers increased from 4 to 7”, Chairman, Nyakakana Market, Fort Port Portal municipality.

Benefits due to improved street lighting and Walkways

49. Improved street lighting and improved walkways has enhanced living and economic conditions in the sampled municipalities. Improved lighting has led to significant reduction in road accidents and reduction in crime rates. Areas which have street lights and walkways in the sampled municipalities have become generally much safer (reduction in crime), livable and attractive places (reduction in traffic-related accidents) compared to those areas where such interventions are missing. Street light poles are generating huge revenues to municipalities through advertisement.

50. Improved street lighting has also improved economic activity in the evening hours in areas that have functioning street lights as compared to those areas without street lights. There was general increase of between two to three hours of operation per day by informal and informal sector vendors, bars, boda boda riders, among others.

51. All the police stations visited in the five sampled municipalities indicated a substantial reduction of accidents and crime on well-lit roads and improved walkways. The results show that the EIRRs of investment in street lights ranges between 19% – 27%. The net benefits generated by investment in walkways are positive with average IRR of 6%.

“The area is busy throughout the night and we are also grateful since there has been improved road network and security has improved unlike in the past when there were a lot of crimes in the areas,” Mr Komakech , the LC3 chairperson of Pece Division , Gulu Municipality.

Drainage works improvements Benefits

52. Improvement in drainage generates benefits in various ways. Poor drainage leads to damage of buildings and structures, which again adversely impacts on the value of property, and causes additional expenses in cleaning-up and flood prevention and reduction measures. Flooding impacts significantly on rental value and can cause damage to commercial and industrial physical including property and goods. Residential houses in flooded areas have rents below the rents of similar houses in non-flooded areas of the municipality. The operating and maintenance (O&M) cost in cleaning-up, maintenance and flood prevention and reduction measures attributable to improved drainage has been estimated to be about 5% of the construction cost of drainage in previous studies.

53. Under the Uganda rainfall condition, the frequency of flooding in most municipalities is between 10 to 15 times in a year lasting 3 to 4 hours per flooding. Private and commercial vehicles are disrupted leading to loss of time and income. Improved drainage also leads to improvements to the environment and health benefits from reduced incidence of water borne disease. The internal rate of return obtained in previous studies in similar environments was used to estimate the stream of benefits generated by improved drainage. The EIRR of drainage under USMID was calculated at 6%.

Increase in Property Values

54. Improvements in urban roads in all the municipalities sampled has led to increases in value of properties (land, buildings) and rental prices of properties in the adjacent areas of the constructed roads ranging from 20% to 100% as per the table below. In Hoima municipality, the sharp increase in both rent and land values can also be attributed to speculations about oil extraction impact on the local economy.

Table 9: Changes in Rent and Land values

	FortPortal	Hoima	Gulu	Mbale	Masaka
Land (50/100)	50-60%	50-100%	30-50%	0-20%	20-40%
Rent	40-60%	80-100%	20-30%	0-30%	20-30%

“The town is now beautiful. Storied buildings are coming up. Land prices and rent prices have gone up. There is no more dust”, Property broker, Hoima Municipality.

Employment Creation

55. Construction of urban roads created direct and indirect jobs during construction. However, most of the urban road infrastructure projects visited had been completed or partially completed. It was only Nyakana road in Fort Portal where construction was still ongoing and therefore data on employment was obtained. The construction of Nyakana road in Fort Portal with a length of 0.94km, was directly employing 56 workers out of which, 10% were highly skilled, 10% were skilled and 80 % unskilled. The highly skilled workers, skilled workers and unskilled workers were earning UGX35,000, UGX25,000 and UGX12,000 per day respectively. The construction of the road was also indirectly employing approximately 70 workers. The construction of the road was expected to last for one year and three months.

56. It can therefore be estimated from this data that construction of one kilometer creates direct employment for 60 workers at a weighted average daily wage rate of UGX13,100 for 15 months. Construction of one kilometer of an urban road also creates indirect employment for 74 workers who supply goods and services and also through increased consumption from workers who are employed directly, ie, for each direct job created during construction of an urban road, 1.2 jobs are created which is consistent with estimates from previous studies⁷⁶. It can also be estimated that the total wage bill for 60 workers, working for 65 weeks and working 5 days per week is estimated at UGX255,450,000 or 5% of the total cost of one kilometer of a road.

Road works project has created a positive impact in lives of the Gulu residents in terms of employment especially among youth. Since 2014, at least 854 youth have been employed as truck drivers, machine operators, mechanics, builders and manual laborers on the multi-billion-shilling road works project”. Francis Barabanawe Gulu Municipality Town Clerk.

⁷⁶ See literature for IFC jobs study available at www.ifc.org/jobcreation

Non-Quantifiable benefits from institutional strengthening

57. **At the National level** USMID supported systems and policy development through the Ministry of Lands, Housing and Urban Development (MoLHUD). USMID contributed to the development of the national urban policy, housing policy, land acquisition policy, revising building standards, among others. At the Ministry level, the Program enhanced institutional capacities, including physical planning, training and coordination among key stakeholders.

58. **At the Municipal level** the USMID Program provided institutional support to the municipal LGs, in a number of areas including (i) all the 14 municipalities were supported to develop drainage master plans and are currently implementing drainage investments drawing from the master plans, (ii) all the five municipalities sampled had developed Urban Physical Development Plans (structural plans) and Local Physical Development Plans (Detailed plans)⁷⁷, (iii) all the 14 municipalities have been supported to develop solid waste management plans, (iv) all the five municipalities sampled had carried out property valuation, (v) all the five municipalities sampled had been provided with road engineering and physical planning equipment including; Total station, GPS, water testing portable kit, printer, GIS system, a complete set of G's noise meter, oxygen meter, plotter, computers with GIS software plus server, motor cycles for revenue mobilization and for supervision of civil, roads and building work. These equipments have built the local engineering capacity and hence improvements in quality control of road construction. Road engineering designs are in place in most of the sampled municipalities.

“Municipalities have now developed capacity to handle large amounts of money. USMID capacity building programs have improved the quality of credit opinion from fair to good opinion. Collection of revenue has improved and there is also improved accountability through MDF interfacing with the public. The capacity to present to the public through barazas has improved. Staff have learnt a lot during benchmarking trips to Rwanda and Gulu”, Treasurer, Hoima Municipality

Fiscal analysis of Sustainability of Municipal Financing at the National and Local level

59. **Municipal Past and Projected Revenues:** Municipalities have improved own source revenue and property related taxes generation (5% - 10%) as a result of improvement in processes. Improvement in total own source revenues and property related taxes will enable municipalities to contribute to operations and maintenance of infrastructure and thus, enhancing the sustainability of the Program. The improving trend in both total own source revenue and property related tax revenue will potentially improve operations and maintenance of infrastructure investments at the municipality level.

⁷⁷ Having in place spatial plans will lead to better planned municipalities.

Annex 5: Fiduciary Systems Assessment – Addendum

1. **As part of the USMID additional financing Program preparation and in accordance with OP/BP 9.0, a fiduciary assessment was carried out that evaluated the Program Procurement, Financial Management, Governance and Anti-corruption systems.** The assessment determined that existing systems can provide reasonable assurance that the Program expenditures will be used appropriately to achieve their intended purpose with due attention to the principles of economy, efficiency, effectiveness and transparency. There is sufficient evidence under the current original USMID financing, as documented in the five years of independent Annual Performance Assessments and audits, that funds have been used as intended.

2. **The Fiduciary Systems Assessment has identified the various implementation and Program risks and their potential impact on the ability of the Program to attain its development objective.** As discussed in detail below, the Program Implementation framework is characterized by the following main risks: (i) low staffing levels, (ii) limited staff knowledge about systems and lack of full systems availability where one MC - Mubende is not on IFMS, (iii) Poor internet connectivity, (iv) An environment of low levels of compliance to laws and regulations with weak enforcement regimes, (v) Planning and budgeting figures are not consistently adhered to with mismatch between annual budgeted funds and annual assessment results resulting in releases that have not been appropriated, (vi) weak contract management, (vii) Low bidder participation and poor quality bids, (viii) Poor record keeping, and (ix) Weak cash flow management. The gaps in the functioning of monitoring and oversight systems like internal audit and procurement audits regarding capacity and limited coverage of MCs also pose additional risks. Based on the above analysis of the risks, the overall fiduciary risk of the operation is rated as Substantial.

3. **Key design features of the USMID PforR incentivize change by rewarding desired MC operational and institutional performance through the enhanced assessment tool.** The various government interventions coupled with the original USMID financing and implementation have witnessed great improvements in funds flow from the treasury to MCs (by straight through processing (STP) and electronic fund transfers, streamlined banking systems, better use of Program funds and improved quality of external audits. The formation of MC Development Forums (MDFs) has increased transparency, citizen participation and accountability in the operation. The Program has no procurement exclusions since there are no high-value contracts anticipated under USMID.

4. **With regards to fraud and corruption, the assessment showed that the initial USMID Program had benefitted positively from the proactive support of the IG, and other accountability agencies.** Under the USMID performance measurement 6 “Improved Accountability and Transparency (monitoring and communication)”, during the FY2012/13 to FY2017/18, average municipal accountability and transparency performance showed a positive upward trend. While this positive outlook could be attributed in part to the strict adherence of the watch-dog institutions that have elevated the risk of engaging in abuse of office, fraud and corruption practices, still, the OAG reports continue to unearth cases of abuse and poor accountabilities at the local authorities’ level. At the LG level, based on the complaints (abuse of office and funds) received by the Inspectorate of Government June 2016 Report to Parliament, the most complained against departments/institutions were the District administrations, Municipal and Town Councils, school administrations both in primary and secondary schools; district service commissions, local councils, and sub-county chiefs. Further, the effectiveness of entities mandated to perform prevention/deterrence, detection and sanctions across the public sector are still constrained by structural and systemic weaknesses, limited capacities and poor coordination. The inadequate staffing in the new MCs under the USMID will also hinder the effective management and accountability for resources.

5. **To enhance transparency, accountability and participation (TAP), the role of the MDF will be strengthened and measures to ensure independence and sustainability in funding sought.** The assessment noted that the challenge of structuring MDF engagement remains and where the MDFs members have previously held political positions in the Municipal political leadership, this has led to some levels of mistrust. Under the USMID AF, the MCs will be encouraged to ensure that MDF members are apolitical, and ensure that their role remain outside the established Government structures to avoid capture. The effectiveness of the complaints handling system across the MCs, focusing on the grievance redress committees will also be strengthened. Fiduciary risk mitigation measures will be built into the USMID AF Program using a set of Minimum Conditions, Linking the achievement of Results to the disbursement of Bank funds (through Performance Indicators) along with Program Action Plans (PAPs).

Annex 6: Environment and Social Systems Assessment - Addendum

1. **Environmental and Social Effects** - A full Environmental and Social System Assessment (ESSA) was conducted for the original program in 2012-2013 that had included stakeholder consultations and full disclosure. This Update builds on the original ESSA to reflect changes in the institutional arrangement of the national and local institutions, and the progress made and lessons learned over the Program period. The ESSA Update was informed by the findings from relevant document reviews including the original ESSA, subsequent reports of World Bank's implementation support missions, progress reports from the Program Support Team (PST), the last annual assessment by an independent verification agent, as well as interviews of key stakeholders including national level agencies (Ministry of Land, Housing & Urban Development & Program Support Team, National Environmental Management Agency, Ministry of Works, Ministry of Local Government, Public Procurement and Disposal of Public Assets), management and staff of municipal councils, local community leaders, and project-affected communities. Field level assessments in 2 current USMID Municipalities (Lira and Mbale) and 4 other Municipalities (Kitgum, Kamuli, Mubende and Kasese) were carried out during the period from September 20 to October 3, 2017. Formal consultations on the ESSA Update were held on January 24, 2018 in Kampala.

2. **The activities supported under the Program will continue to focus on rehabilitation or upgrading and new construction of existing municipal infrastructure.** The scale of such investments has been and will be modest. No large-scale or high-risk projects (i.e. equivalent to Category A in a World Bank project investment financing (IPF)) were and will be financed under the Program. To ensure the compliance with the World Bank Policy for Program-for-Results Financing, the screening process in the Program Operational Manual has criteria to exclude certain categories of projects as well as projects of a scale that would include significant adverse impacts that are sensitive, diverse, or unprecedented on the environment. The existing legal and regulatory framework, as relevant to the Program activities, is largely adequate in its coverage of environmental and social aspects.

All municipalities have a position of the Environmental Officer and Community Development Officer, which have been filled in the USMID municipalities and will be filled in the new municipalities under the AF program. The additional capacity made available through project-specific implementation arrangements were satisfactory and will be continued under the AF Program.

Environment

3. **Potential risks:** The following would have to be addressed: (i) Localized community and worker's health and safety risks associated with construction/rehabilitation work (*ongoing and AF activities*); (ii) impacts associated with improving currently deficient liquid and solid waste management systems (*AF activities*); (iii) adverse impacts on biodiversity and physical cultural heritage incidental to sub-projects (*ongoing and AF activities*); (iv) adverse impacts from expanding investments in storm water and drainage management (*AF activities*) and (v) project works initiated without mandatory NEMA clearances both by the Municipality and the contractors (*ongoing and AF activities*).

4. **Areas of improvement:**

- The existing legal and regulatory framework, as relevant to the Program activities, is largely adequate in its coverage of environmental aspects. Implementation of E&S systems should be strengthened to ensure that permissions/approvals are obtained in a timely manner and also compliance effectiveness is proactively ensured.

- All municipalities have or will have a position of the Environmental Officer, who will adhere to the NEMA Environmental Assessment procedures. Further, the supervision consultants and the contractors have environmental and safety officers to ensure on-the-ground implementation of project-level mitigation measures. All of these implementation arrangements will have to be strengthened on the potential risks in the expanded AF program.
- The following mitigation actions have been proposed for the AF: (i) Appropriate E&S controls and staffing are included in the procurement, contractor selection, and supervision phases of civil works; (ii) Strengthening particular ESMP provisions pertaining to borrow pits, quarry sites, tree plantation particularly indigenous species, downstream impacts due to drainage improvements, waste management for slaughterhouses and screening checklists for new town markets and (iii) strengthening overall capacity of municipality on environmental management issues.

Consultations - Key points

5. Environment: Consultations for preparing the ESSA Update revealed environmental issues, risks and actions that were relevant for the AF. The key points are the following: (i) proposed investments do not pose any significant environmental risks, (ii) municipalities understand what is required to address environmental risks arising from investments though their individual capacities vary, (iii) all municipalities have an environmental officer, who needs to be supported by their engineering and social colleagues, and also by the consultants & contractor's environmental capacity, (iv) strengthening incorporation of environmental issues including safety in the procurement, contract and supervision is required; (v) strengthening of Municipality capacity on safeguards management through training; and (vi) importance of addressing solid waste management, drainage and sewage management.

Social

6. The main adverse social impacts to be addressed by the Program include potential risks associated with (i) land acquisition and physical and economic displacement, (ii) influx of labor into municipalities during construction activities, (iii) exclusion of vulnerable groups from Program benefits, (iv) and the risk of social tension in the community due to lack of access to a functioning grievance redress and limited community engagement.

7. The Program also has several social benefits, particularly owing to its design to enhance the institutional performance of participating LGs to improve urban service delivery to the local community. From the perspective of socio-economic development, new or refurbished streets, centralized and modern market areas, and general improvement in municipal services are all enabling factors for the community at large. Some examples of social benefits include improved community accessibility to schools, health care centers, and other livelihood activities through better roads and associated auxiliary infrastructure, improved security and safety through improved walkways and street lights, Employment opportunities for the community through construction and maintenance of the municipal infrastructure, positive economic impact on livelihood and the businesses through better accessibility and improved security, and strengthened local capacity to deliver.

8. **Grievance management** - Communities and individuals who believe that they are adversely affected as a result of a Bank supported PforR operation, as defined by the applicable policy and procedures, may submit complaints to the existing Program grievance redress mechanism or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel, which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns

have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

Annex 7: Program Action Plan

1. **Most of the agreed actions in the current PAP have been completed.** There are only a few actions which are on-going and are continuous throughout the duration of the program. Under the AF there will be more attention to areas that have not seen as considerable progress as was originally anticipated, as well as new areas which have been identified during the implementation of the current Program.

Action Description	Due Date	Responsible Party	Completion Measurement**	Original or Revised? (and Rationale)
Inadequate core staffing in 4 new Municipal LGs, i.e., Mubend, Kamuli, Kitgum and Kasese	All staff in post before July 1, 2018 and staff in post throughout the Program period	MoLG for Town Clerks and Municipal LGs for rest of the staff	All 18 MLGs to have the eight core staffing ⁷⁸ positions substantively filled as a minimum requirement to be able to access funding under the Program.	Revised. MLGs expanded from 14 to 18 and The Commercial Officer added so as to deepen the role of MLGs in promoting LED
Sufficient capacity at MoLHUD for Program implementation and back-up support to 18 municipal LGs	By Program effectiveness	MoLHUD	MoLHUD to maintain Program Support Team ⁷⁹	Revised based on lessons from implementation of on-going Program with Social Safeguards and Communication Specialist as added staff
Timely and effective execution of capacity building activities	Annual	MoLHUD	MoLHUD to develop and implement Institutional support activities consistent with its mandate under the Program and it to Program Technical Committee not later than March 31, every year.	Maintained but revised given the refugee window
Consolidate overall Program progress report	Annually	MoLHUD	MoLHUD will consolidate and produce at least an annual Program report highlighting progress and key emerging issues for review and discussion by Program Technical Committee (PTC) meetings and for discussion at the National Urban Forum.	Maintained due to raised bar
Fiduciary				
Procurement audit	Throughout Program period	Municipal LGs PPDA	Cause internal audit to cover audit of Program procurement transactions.	Maintained due to raised bar

⁷⁸ The core staffing positions are (i) Town Clerk, (ii) Municipal Engineer, (iii) Physical/Urban Planner, (iv) Municipal Treasurer, (v) Municipal Environment Officer, (vi) Procurement Officer, (vii) Community Development Officer, and (viii) Commercial Officer (by year 2)

⁷⁹ comprising of (i) Program Coordinator (ii) Infrastructure Engineer, (iii) Financial Specialist, (iv) Procurement Specialist, (v) Physical/Urban Planner, (vi) M&E Specialist, (vii) Environmental Specialist, (viii) Social Safeguard Specialist, and (ix) Communication specialist

			Carry out annual procurement audits.	
Forgery of Bid, performance and advance payment Securities where Bank guarantees are required	Throughout Program period	Municipal LGs	Verification of bank guarantees during evaluation in the case of bid securities and prior to contract signing or release of advance payments in the case of performance guarantees and advance payment guarantees respectively Encouraging use of Bid securing declarations in lieu of Bank Securities in the case of Bid Securities	Maintained due to raised bar
Treasury management and funds flow through Potential diversion of funds by municipalities from Program purposes Delayed release of funds to Municipal LGs	Throughout Program period	Municipal LGs MoFPED	Grant expenditure menu Separate Vote Book to be opened in Municipal LGs for Program funds Funds release to be done 6 monthly to Municipal LGs in timely manner.	Maintained due to raised bar
Internal controls including internal audit Management override of controls, internal audit being compromised and not independent, lack of resources by internal audit, and failure to implement internal audit findings	Throughout Program period	Municipal LGs, MoLHUD, OAG	Implementing Internal Audit activities as per regulations is a minimum condition of accessing grant Capacity building for internal audit staff, facilitation and segregation of key duties as per regulations Independent Audit to report any outstanding Internal Audit recommendations in annual Audit	Maintained due to raised bar
External audit and integrated audit Failure to submit accounts for audit in time, Poor following up to rectify issues raised in audit reports	Throughout Program period	MoLHUD, Municipal LGs	Capacity building for finance staff, Segregation of key duties as per regulations, Implementation of audit findings Timely assessment of DLIs by MoLHUD	Maintained because it is a statutory requirement
Technical				
Weak contract management	Throughout Program period	MoLHUD and municipal LGs	Program to provide funds for supervision of works to improve contract management Timely certification of works by municipal LGs.	Maintained because of raised bar

Low efficiency, effectiveness and economy in infrastructure implementation	Starting on July 2018 and Throughout Program period	OAG	OAG to conduct value for money (VFM) audits of infrastructure projects implemented at municipal level	Maintained due to raised bar
Poor quality works and higher costs	Throughout Program period	Municipal LGs, MoLHUD and OAG	Make a number of contract management indicators to be performance measures to contribute to the determination of the grant received by Municipal LGs and VFM audit	Maintained due to raised bar
Environment, Social and Resettlement				
Weak capacity of municipalities to assess and manage social and environmental impacts. Lack of a clear framework and inadequate resources to manage land acquisition	Manual before effectiveness, implementation through Program period	MoLHUD and Municipal LGs	Program Operational Manual prepared and implemented by Program municipalities, which includes a system for environmental and social impact assessment, land acquisition, and handling grievances which is consistent with Ugandan law as well as principles of environmental and social management in Bank Policy: Program for Results Financing.	Maintained due to raised bar
	Before effectiveness	MoLHUD, Municipal LGs	Staff in place at the national level Staff in place at Municipal LGs to handle environmental and social management.	
	Throughout Program period	MoLHUD, Municipal LGs	Capacity Building Plans include training for Municipal Environmental Officers and Community Development Officers on environmental and social management.	