PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: AB5385
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Project Name	Uganda Support to Municipal Infrastructure Development Project
Region	AFRICA
Country	Republic of Uganda
Sector	Sector: Roads and highways (60%); Sub-national government administration (30%); General water, sanitation and flood protection sector (10%)
Lending Instrument	Adaptable Program Loan
Project ID	P117876
{If Add. Fin.} **Parent Project ID**	NA
Borrower(s)	GOVERNMENT OF UGANDA
Implementing Agency	Ministry of Lands, Housing and Urban Development (MoLHUD) Century House, Parliamentary AV P.O. Box 7096 Kampala Uganda Tel: (256-41)434-2931 Fax: (256-41)423-0891
Environmental Screening Category	[ ]A [X]B [ ]C [ ]FI [ ]TBD (to be determined)
Date PID Prepared	August 4, 2010
Estimated Date of Appraisal Completion	May 2011
Estimated Date of Board Approval	July 2011
Concept Review Decision	{*Insert the following*} Following the review of the concept, the decision was taken to proceed with the preparation of the operation.
Other Decision *{Optional}*	*Teams can add more if they wish or delete this row if no other decisions are added*

I. Introduction and Context

{Same as in Sections I parts A-B-C of the PCN: Country Context; Sectoral and Institutional Context; Relationship to CAS.}

Country Context

1. ***Uganda adopted liberalization policy, strong macro-economic management and promoted pro-market reforms in the late eighties***. Since 1986, the country has experienced high economic growth, poverty decreased from 57 percent (1992/93) to 31 percent (2005/06), and an average annual GDP growth of 8.1 percent over the last six years (2003/04 – 2009/10). It has reduced donor assistance from 52 percent of the annual budget in the early 1990s, to the current

level of 32%. Donor support is expected to decline further with the recent discovery of oil which may come into commercial production in the next three to five years.

2. ***Major policy reforms in the governance front.*** The decentralization policy which was announced by Government in 1992, embedded in the Constitution and further elaborated in the LG Act, 1997 Cap 243, devolved substantial powers and functions to Local Governments (LGs). The policy redefined the intergovernmental system and relationships between central and LGs. Administrative, political, fiscal and the bulk of service delivery have been devolved to LGs. Line ministries retained the roles for setting national policies and standards, inspecting, monitoring, technical advice, support supervision and training LGs.

3. ***The country faces a serious demographic challenge.*** It has a large population base of 30 million with 51 percent of the population under the age of 18 years, with high population growth rate (3.2 per cent per year)[1] making it one of fastest growing countries in Africa. This has serious implications in terms of demand for jobs, land, housing, water, health, education, jobs, and municipal services as well as expected impacts on the environment.

Sectoral and Institutional Context

4. ***Uganda has a high rate of urban population growth - 5.1% per annum***. While the current level of urbanization[2] in Uganda is still low at about 12%, Uganda has one of the highest population growth rate - 3.2% per annum. It is projected that by 2035 Uganda's population will be 68 million and 30% (20 million people) will be in urban areas. This is putting pressure on demand for land, housing, water, health, education, jobs, and municipal services as well as expected impacts on the environment.

5. ***The urban sector is important for the structural transformation of the Ugandan economy***. Urban areas are centers for major economic activities (industry, services, and commerce). Already it accounts for about 72% of manufacturing output and over 55% of the national GDP. It has high per capita consumption (average US$1,533 per annum with annual growth rate of about 4.9%) compared to national rural average (only US$344 per annum with annual growth of 3%). It is therefore important that it is managed efficiently and effectively to contribute to growth. A failure to address the needs and requirements of such locations will lead to the creation of critical negative externalities for the country's economy as a whole. Efficiency of Uganda's spatial transformation will determine the pace and nature of the overall structural transformation of the economy. The urban sector is therefore key for the structural transformation of Uganda into middle income country

6. ***The Intergovernmental system and relationship is characterized by decentralization through devolution –*** The decentralization policy announced by Government in 1992, embedded in the Constitution and further elaborated in the LG Act, 1997 Cap 243, devolved substantial powers and functions to Local Governments (LGs). The policy redefined the intergovernmental

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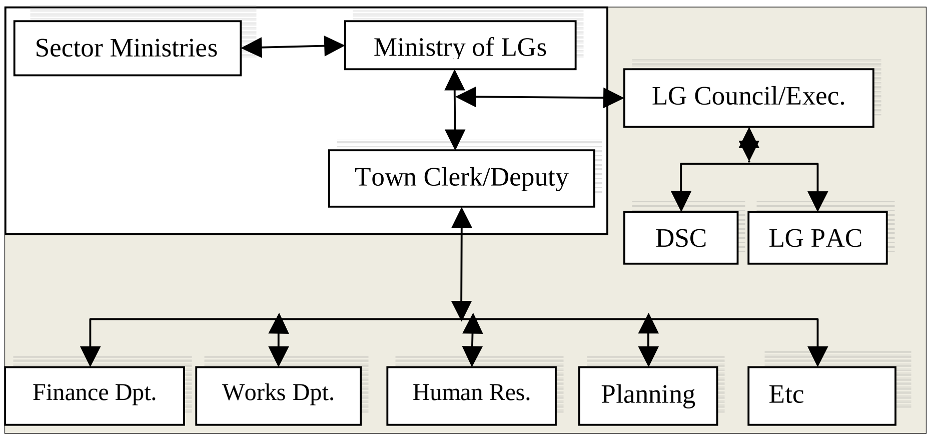
[1] Uganda Bureau of Statistics (UBoS) 2002 - Housing and population census,

[2] Uganda has one city (Kampala) – 1.5 million people, 13 municipalities (secondary cities) – average population of 76,000 people (ranging from 38,000 people in Moroto municipality to 146,500 people in Gulu municipality) and 96 Towns – 2.1 million (average 22,000 people per town).

system and relationships between central and LGs. Administrative, political, fiscal and the bulk of service delivery have been devolved to LGs, with the exception of urban water and sewerages, and electricity which are provided by national corporations. Line ministries retained the roles for setting national policies and standards, inspecting, monitoring, technical advice, support supervision and training LGs[3]. LGs hire and fire staff[4], prepare three year development plan and appropriate annual budget without recourse to the centre. LGs are run as fully fledged governments with legislative and executive powers. The District Service Commission (DSC) is responsible for recruitment of staff and all other associated personnel issues while the LG Public Accounts Committee (LG PAC) is responsible for following on all audit issues. The chart below gives a schematic intergovernmental system and relationship.



Key: ***Central Government*** ***Local Government***

7. ***The Intergovernmental fiscal transfer (IGFT) system is characterized by high conditionality*** – Although the country has all the elements of traditional intergovernmental fiscal transfers, i.e. conditional grants, unconditional grants, equalization transfers, the share of conditional grants as percentage of total IGFT has increased from 66% in FY95/06 to about 95% now. LGs have therefore lost discretion and have less incentive to perform. In FY2008/09 urban LGs received only 3.4% of the UGX1.2 trillion transferred to LGs. The current trend of IGFT architecture is therefore not consistent with the decentralization policy adopted by government.

8. ***Municipal Infrastructure financing system is inadequate and highly dependent on project financing*** **–** Current legal framework allows for LGs to be financed from (i) grants (conditional, unconditional, equalization and performance base), (ii) own source revenues, (iii) projects and (iv) borrowing[5]. Despite this framework, LGs have become increasingly dependent on central government transfers and the fiscal decentralization strategy is not fully achieving the intended objectives of devolution. There is no capital market where LGs could go for long term borrowing to finance infrastructure development. Some earlier reforms providing LGs with their own tax base have been reversed[6]. The own source revenues (OSR) as percentage of the LG budgets have decreased from about 9% in FY05/6 to only about 3% at present. Most municipal

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[3] LG Act CAP 243 Sections 95 – 99 (GoU: 2000, p77-79)

[4] With the exception of the Chief Administrative Officer/Town Clerks and their deputies which have been recentralized and now being appointed by the National Public Service Commission, not the LG Service Commission.

[5] A national framework exists for local government borrowing and debt.

[6] Graduated tax was abolished in FY2005/06 and Owners occupied residential houses were exempted from paying property rates in FY2006/07 immediately after a new LG (Rating) Act 2005 was just approved by Parliament.

infrastructure developments are being financed through projects. Operation and maintenance of physical infrastructure are almost non-existent, except urban roads being financed from the recently introduced Road Fund. Significant challenges therefore remain in the fiscal decentralization reform process in Uganda, as reflected in recent trends. The recently discovered oil could become a potential source for municipal infrastructure financing. Based on international experiences, the country need to transition from grant financing to capital market base options.

9. ***Investments in urban infrastructure and services have not therefore kept pace with the growing demographic and economic importance of urban centers, resulting in the growth of unplanned settlements, urban poverty, inadequate basic urban services, and deteriorating urban environment***. It is estimated that slums and informal settlements provide accommodation to more that 60% of the urban dwellers in Uganda. Such settlements are characterized by lack of basic services, overcrowding, tenure insecurity, makeshift dwelling units, crime, and poor sanitation. High urban growth has also negatively impacted on the environment resulting into poor urban sanitation, pollution, environmental degradation, as well as the problems related to the uncollected solid wastes. Poor and deteriorating condition of municipal infrastructure will adversely impact the ability of urban centers to effectively contribute to growth.

10. ***There is weak institutional, policy, and legal framework for urban development***. The Ministry of Lands, Housing and Urban Development (MoLHUD) is a new ministry with inadequate capacity to coordinate urban development and management. Although urban development planning and management is a decentralized function, many LGs lack physical planners for preparing physical development plans and guiding developers. Both the Ministry and LGs lack the capacity to enforce compliance to plans, standards and regulations. Additionally, there is no national Urban Policy and planning is based on an out-dated British Town and Country Planning Law of 1951.

11. ***USMID linkage with on-going initiatives –*** The proposed project will build on the Bank's long history of engagement in the urban and local government sectors since the 1990s, which included the Uganda First Urban Project (1991), Nakivubo Channel Rehabilitation Project (1999), first and second Local Government Development Project (1999 - 2007), and the ongoing Kampala Institutional and Infrastructure Project (KIIDP) and Local Government Management and Service Delivery (LGMSD). It will be the third element in the Bank support, complementing KIIDP and LGMSD, for an efficient and inclusive system of cities and towns, and a strengthened, accountable local government system. In addition, Cities Alliance has provided a grant of US$4.2m to government to implement "*A Strategy for Transforming Settlement of the Urban Poor in Uganda – A Secondary Cities support program*" covering five municipalities of Arua, Mbale, Jinja, Mbarara, and Kabale. The Bank will work closely with Cities Alliance to ensure complementarity and synergy in their support to the sector.

Relationship to CAS

12. ***The National Development Plan (NDP)[7] 2010/11 – 2014/15 has broadened the country's development strategy from poverty reduction to structural transformation and has***

[7] The NDP is the GoU medium term development strategy for the period 2010/11 to 2014/15. It is a 5-year Plan consistent with the planning framework adopted by Cabinet for the realisation of the 30-Year National Vision.

identified urban as one of the complementary sectors for growth. In response to the urban challenges, government has created the MoLHUD with a Directorate of Physical Planning and Urban Development and has also passed a new Physical Planning Act, 2010. Government is in the process of formulating a National Urban Policy and Strategy. These steps are a strong indicator of government's commitment to address the challenges in the urban sector.

13. ***The CAS (FY2011-2015) notes that the pace of Uganda's structural transformation will also depend on the efficiency of its spatial transformation and the country has an opportunity to proactively strengthen decentralization and urban management to maximize the economic opportunities inherent in urbanization***. The project will specifically contribute to the achievement of CAS strategic objective 2 – Enhanced public infrastructure, and outcome 2.4 - improved management and delivery of urban services. The World Bank, as a global development institution, can together with its partners be an effective broker of knowledge and play a catalytic role as facilitator for the urban reform process in Uganda and its small and medium cities. The Bank is particularly well positioned to assist the Government of Uganda with the evolution of its urban infrastructure finance and management system, due to the long-term partnership, international experience, and potential to provide long-term financing as required.

II. Proposed Development Objective(s)

{Same as in Section II of the PCN: Proposed PDO and key results}

Proposed PDO

14. The long-term development program objective is to improve municipal management and delivery of urban services. The specific objective of the project is to ***enhance financing and management capacity in pilot municipalities[8] to address service gaps***.

Key Results

15. The key results of the proposed Phase 1 of the project are expected to be:

- National municipal infrastructure financing instrument in place
- Increase in the population living in planned urban settlement (number, %);
- Roads/drainage systems in good or fair condition (Kms, %);
- Increase in municipalities' own source revenue (UGX, %);
- Waste collected out of total waste generated (Kgs, %).

16. The project will also identify and measure direct and indirect project beneficiaries (numbers/percentages) disaggregated by gender.

III. Preliminary Description

{Same as in Section III A 1of the PCN – description of project.}

Concept

17. ***Demographic challenge is the major driver of urbanization in Uganda. In addition there are a number of challenges in the urban sector which require reforms and long term***

[8] namely (i) Arua MC, (ii) Gulu MC, (iii) Lira MC, (iv) Moroto MC, (v) Soroti MC, (vi) Tororo MC, (vii) Mbale MC, (viii) Jinja MC, (ix) Entebbe MC, (x) Masaka MC, (xi) Mbarara MC, (xii) Kabale (xiii) Fort Portal and (xiv) Hoima MC.

engagement of IDA to influence the policy direction. The lending instrument chosen for the project is therefore an Adaptable Program Loan (APL). This is because a project has limited scope in influencing major policy reforms but could provide the necessary building blocks for a long term engagement in the sector and start influencing the urban agenda in terms of (i) urban policy and legislative reforms, (ii) intergovernmental fiscal transfer (IGFT) system reforms, (iii) urban management and (iv) financing of urban infrastructure and development, and (iv) urban management. The project will pilot some of these reforms in selected municipalities with eventual roll-out to cover all urban centers (municipalities, towns and town boards). The table below summarizes the project concept, taking into consideration what can be achieved under a project, by providing the proposed program/project objective, phasing of the APL, and the triggers. These will be refined during project preparation in consultation with Government.

Program Phases	**Phase 1 (Piloting)**	**Phase II (Scaling-up)**	**Phase III (Consolidation and deepening)**
Years	**2012-2017**	**2017-2021**	**2022- onwards**
Program Objective	**Development Objective**	**Development Objective**	**Development Objective**
Improved management and delivery of urban services. (a) Triggers	Enhanced Municipal financing and management capacity in pilot municipalities to address service delivery gaps. • Implementation of municipal own source revenue (OSR) enhancement plan • Passage of Physical Planning Regulation to operationalize the Physical Planning Act, 2010. • Enhancement of municipal service delivery through increased contracting to private sector for efficiency gains. • Comprehensive municipal development strategy and an Institutional Strengthening Plan (ISP) in place. • National municipal infrastructure financing strategy	Scale-up municipal infrastructure financing and enhanced municipal management to cover all municipalities for enhanced service delivery • Functional national municipal infrastructure financing mechanism in place. • Increase rate of implementation of municipal structural plan. • Increase in municipal OSR and share spend on O&M.	Consolidate urban financing and management for local economic development

Description

18. ***The first phase of the APL is estimated to cost approximately US$ 150 million and will be implemented over a period of four (5) years – 2012 - 2017.*** It will provide financial support to the participating municipalities based on an agreed national formula[9] and disbursed using existing intergovernmental transfer arrangement as a deliberate strategy of strengthening existing system. The program will also provide funds for building the capacity of the MoLHUD and the municipalities, including support for the training of municipal leaders, staff, and beneficiary communities for improved urban management and increase in OSR for sustained urban infrastructure development and O&M.

[9] Current formula used for transfers to LGs is based the weights of 45% population, 15% land area, and 40% poverty head counts.

19. ***The following principles will be used to guide the design of the project*** (i) *use of existing intergovernmental system(IGS)* to strengthen capacity at both central and LGs for urban development and management, (ii) *municipalities as the implementing agency* consistent with the Government decentralization policy, *(iii) inbuilt performance* to encourage competition amongst municipalities to avoid tying of project funds but improve disbursement, (iv*) all pilot municipalities to benefit from some basic minimum institutional strengthening* to prepare them for future investment and avoid penalizing weak municipalities. The details of the design principles will be discussed with the client and the participating municipalities during project preparation.

20. ***Project components*** - The project will have four components: (i) Municipal infrastructure development; (ii) Institutional support to MoLHUD (iii) Institutional support to participating municipalities; and (iv) Monitoring and Evaluation and project implementation support. The preliminary descriptions of the components are presented below.

21. ***Component 1: Municipal infrastructure development (Approx. US$130m).*** The objective of this component is to pilot municipal infrastructure financing instrument consistent with the national intergovernmental fiscal transfer system (IGFTS) to address infrastructure gaps in the participating municipalities. The component will support the improvement of the existing municipal infrastructure services as well as developing new ones based on the municipal structure plan, including the upgrading of services in slums. It will cover development and improvement of urban infrastructure services such as roads, drainage, street lighting, sewerage, water, solid waste management, economic investments (establishment of industrial parks, markets, bus parks, lorry stands), urban landscaping and planting of trees on the verge of roads.

22. ***Component 2: Institutional support to MoLHUD (Approx. US$2m)***. The objective of this component is to strengthen the capacity of national institution for urban development and management. The component will support the MoLHUD to build its capacity in three areas: (i) systems development - development of physical planning regulations[10], building regulations, physical planning standards and guidelines; (ii) retooling - purchase of equipment such as GIS computer equipment, office related furniture, support to transportation facilitation to enable timely monitoring and technical back-up support to municipalities, and (iii) strengthening the capacity of the National Physical Planning Institute.

23. ***Component 3: Institutional support to Participating Municipalities (Approx. US$13m)***. The objective of this component is to strengthen the capacity of participating municipalities for urban management and investment and O&M of urban infrastructure services. It will cover four areas (i) planning (municipal development strategy) - integrated urban planning and management, physical planning, and surveying; (ii) finances - enhanced OSR revenue mobilization (property tax, local service tax and hotel tax) and management including possibility of introducing new revenue sources taking into consideration the political economy and drivers of policy changes within the sector; and (iii) improvement in management of municipal services - project management (design, procurement, implementation and supervisions of projects),

[10] The Physical Planning Bill was approved by Parliament in February 2010. There is need to support the Ministry to develop the necessary Regulations to operationalize this new law.

operation and maintenance of infrastructure investments (both existing and new ones), and environmental management[11].

24. ***Component 4: M&E and project implementation support (Approx. US$5m).*** This component will supporting project implementation, including M&E functions for the project encompassing reporting, fiduciary and other tasks; outcome and impact evaluation; project audits, qualitative enquiries to inform government policies, project implementation support team and the design of the subsequent phase of the project.

IV. Safeguard Policies that might apply

{Same as in last approved ISDS}

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment (OP/BP 4.01)	x		
Natural Habitats (OP/BP 4.04)		x	
Pest Management (OP 4.09)		x	
Physical Cultural Resources (OP/BP 4.11)	x		
Involuntary Resettlement (OP/BP 4.12)		x	
Indigenous Peoples (OP/BP 4.10)		x	
Forests (OP/BP 4.36)	x		
Safety of Dams (OP/BP 4.37)		x	
Projects in Disputed Areas (OP/BP 7.60)*		x	
Projects on International Waterways (OP/BP 7.50)		x	

V. Tentative financing

{Same as in AUS}

Source:		($m.)
Borrower/Recipient		
IBRD		
IDA		150
Others (specify)		
	Total	150

VI. Contact point

World Bank *{Same as TTL information in AUS}*

Contact: Martin Onyach-Olaa
Title: Sr. Urban Specialist
Tel: 256-414-302218
Email: monyacholaa@worldbank.org

Borrower/Client/Recipient

Contact: Mr. Chris Kasami,
Title: Permanent Secretary/Secretary to the Treasury
Tel:

[11] Solid and liquid waste collection and disposal, and planting of trees.

* *By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas*

Email:

Implementing Agencies

Contact: Mr. Samuel Mabala,
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VII. For more information contact:

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