PROGRAM-FOR-RESULTS INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: 75346

Program Name	Uganda Support to Municipal Infrastructure Development Program
Region	Africa
Country	Republic of Uganda
Sector	Roads and highways (60%); Sub-national government administration (30%); General water, sanitation and flood protection sector (10%)
Lending Instrument	Investment Lending (initial); Program for Result (PforR) (revised)
Program ID	P117876
Parent Program ID	NA
Borrower(s)	GOVERNMENT OF UGANDA
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I. Country Context

1. ***Uganda liberalized, developed a strong macro-economic management system, and promoted pro-market reforms in the late eighties.*** Since 1986, the country has experienced high economic growth rates, with poverty decreasing from 57 percent in1992/93 to 24.5 percent in 2009/10. Annual Gross Domestic Product (GDP) growth has averaged over 8.1 per cent over the six year period 2003/04–2009/10. Donor assistance has reduced from 52 percent of the annual budget in the early 1990s, to the current level of 32 percent[1], and is expected to decline further with the recent discovery of oil which may come into commercial production in the next three to five years. Nonetheless, in the short to medium term, Uganda will continue to require external financing to maintain its fiscal policy for growth**.** Domestic revenue mobilization remains low at 13 percent of GDP in FY10/11 and is not expected to increase beyond 15 percent in the medium term. Further external financing will thus be required to sustain its fiscal position.

2. ***Uganda faces serious demographic and urban challenges.*** Uganda has a population of 32 million - 51 percent of which is under the age of 18 years - and an annual population growth rate of 3.2 per cent,[2] making it one of the fastest growing countries in Africa. Like many other sub-Saharan African countries, Uganda is also in the relatively early stages of its demographic and urban transition, when

[1] About 21.5% in FY2011/12 if arrears and non-VAT taxes are excluded.
[2] Uganda Bureau of Statistics (UBoS) 2002 - Housing and population census,

urban growth rates are most rapid and the challenges deriving from these most acute. While the overall urbanization[3] level is only 12%, the urban population growth rate is over 5% per annum, significantly above the national average. It is projected that by 2035 the total population will be 68 million with about 30 percent (20 million) living in urban areas. This has two important and interrelated implications. First, the demand for urban services, jobs and housing is escalating rapidly, aggravating a situation in which these areas are currently chronically underserved and poorly managed, infrastructure backlogs are severe, and more than 60% of urban dwellers are accommodated in informal settlements. Second, unless these challenges are dealt with successfully, the efficiency of Uganda's urban system will be constrained thus undermining the productivity of Uganda's cities and towns and limiting the contribution they can make to national economic growth and poverty reduction.

3. ***Over the past two decades, Uganda has also modernized its governance and service delivery institutions, one aspect of which has been a process of decentralization and intergovernmental institutional and fiscal reform***. Government's decentralization policy - which was first announced in 1992, and subsequently embedded in the 1995 Constitution, the 1997 Local Government Act (and subsequent amendments), and a range of additional policy initiatives, such as the Fiscal Decentralization Strategy of 2002 – has incrementally devolved substantial powers, functions and resources to Local Governments (LGs)[4]. Today, LGs are run as fully fledged elected governments with legislative and executive powers. They have extensive service delivery responsibilities in areas such as health, education, water, transport, environmental management etc., receive and raise significant fiscal resources, hire and fire staff[5] and prepare and execute five year development plans and annual budgets. Overall, LGs now account for a little more than 23% of total public sector expenditure (FY 2010/11).

4. As in most countries, the process of decentralization in Uganda has been evolving. In 2005 changes to the Constitution (and, later, related local government legislation) transferred the powers to appoint the LG Chief and Deputy Administrative Officers back to the central Public Service Commission. Over the past five years, the intergovernmental fiscal structure has also become more centralized, with earmarked grants to LGs now accounting for almost 85% of total fiscal transfers (up from around 77% in 1998/99), and important sources of own source LG revenue having been eliminated or curtailed by the center[6]. In 2010, Kampala ceased to be governed by an autonomous LG and became controlled by the Kampala Capital City Authority, which falls directly under the central government. In addition, other changes to the LG system have arguably weakened it at the structural level and made the resourcing and functioning of the overall LG system more difficult and less efficient. Particularly important among these has been the proliferation of LGs, with the number of Districts increasing from 45 in 1997 to 111 in 2011.

5. Government has commissioned two studies to assess the impact of these trends and determine whether any formal revision of decentralization policy is required.[7] For the moment, outside of South Africa, Uganda remains possibly the most decentralized country in SSA and while the devolution process is characterized by several contradictory trends - some of which appear to arise from dynamics within the broader political environment - structural pressures emanating from the urban transition outlined above will continue to keep strong urban local government institutions, and increasing urban investment, among Uganda's key development priorities for the foreseeable future. It is in the context of these two enduring

[3] 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).
[4] Municipalities are urban Local Governments.
[5] 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.
[6] OSRs now account for only 5% of total local revenues, down from 8% in FY2004/05
[7] Review of LGs set up in Uganda (2012) and Review of LGs Financing: Financial Management and Accountability for Decentralized Service Delivery

sectoral themes – the need to improve the performance of urban local governments and the need to provide enhanced resources for urban infrastructure – that the Uganda Support to Municipal Infrastructure Development (USMID) Program has emerged.

II. Sectoral and Institutional Context

6. ***Urban areas already account for about 72 percent of Uganda's manufacturing output and over 55 percent of GDP, a proportion which will inevitably rise over time***. However, urban infrastructure deficits are extensive and urban service delivery is poor. For example, the backlog of bituminized roads in the 14 Municipalities which form the focus of the Program is estimated at around 80%[8], and only 35% of garbage in urban authority areas overall is collected weekly (on average[9]). While urban local governments bear an increasing share of the service-delivery burden for both enterprises and households in Uganda, they are not funded accordingly: while around 14% of Uganda's population now resides within urban LG jurisdictions, urban LGs only received an average of 6% of the share of total local government grants over the period FY 2004/05-09/10[10]. Unless adequate resources are made available to deal with the escalating urban infrastructure challenge, and unless urban LGs develop the capacities and systems needed to manage increasingly large, dense and complex settlements, Uganda's cities and towns will be unable to either cater effectively for a growing proportion of its population, or optimize the contribution the urban sector will need to make to enable accelerated economic growth and to propel the country from low to middle income status.

7. More specifically, as is common with countries in the early stages of the urban transition, Uganda's urban hierarchy has been characterized by the strong dominance of the primary city. Greater metropolitan Kampala has an estimated population (by 2009) of around 4.14 million[11] and accounts for about 50 percent of GDP, whereas the next largest cities – Gulu and Lira – have total populations (by 2009) of only 256,423. However, in line with established international experience, as urbanization deepens, this pattern is starting to shift. The growth rates of secondary cities, which are managed by Municipal LGs, now exceed that of Kampala[12]. These municipalities have begun to play a more significant role in the Ugandan economy and their investment and institutional needs have begun to shift accordingly. Increasingly, larger-scale, strategic infrastructure investment is required in order to improve the efficiency of urban markets that operate within them 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 sorts of 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.

8. ***Uganda's intergovernmental fiscal system has evolved incrementally over time***. Today, it includes a range of central-local fiscal transfers which can broadly be divided into two categories: (i) earmarked grants which fund specific sectoral expenditures corresponding to the service delivery mandates of LGs (primary health, education etc.), and (ii) non-earmarked transfers which allow for local expenditure and investment discretion within the parameters of their expenditure assignments. One key element of this system – which comprises part of the non-earmarked 15% component - is the Local Government Development Program, now termed the Local Government Management and Service Delivery (LGMSD) Program, which was first initiated in 2000 on the basis of pilot program which began

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[8] Arch Design Ltd, 2012 – Municipal Assets Inventory and Conditions Assessment Final Report
[9] Dege, 2011, p. 43
[10] Dege, June 2011, p. 53. The minor difference between the 14% urban population figure given here and the 12% figure given in par 2 arises because some urban authorities have boundaries which include rural areas.
[11] Comprising of Kampala City – 1, 533,000 people, and the surrounding districts of Wakiso District – 1,205, 100 people, Mukono District – 952,300 people, and Mpigi District – 447,000 people
[12] UBoS 2002 census

in 1997. The core of the LGMSD program is a performance grant which provides modest investment and capacity-building resources to local governments in a manner which is designed to improve their institutional performance steadily over time. At inception (in 2000) it covered 12 Districts (at the time this was around a quarter of District governments in Uganda), and was supported almost entirely by the World Bank with a small counterpart contribution from GoU. Successive phases expanded it over an increasing number of LGs and drew in increasing donor and GoU funding resources[13]. Today, it covers all 111 Districts LGs in the country, is funded almost entirely from the budget of GoU, and forms an integral part of the country's intergovernmental fiscal architecture.

9. The LGMSD program comprises two key grant windows, together with the centrally administered activities which are required to implement the grant and support its objectives. The first is a formula-driven[14] Local Development Grant (LDG) which is allocated annually on the basis of the performance of LGs as measured by an annual assessment. The second element is a Capacity Building Grant (CBG) which goes to all LGs annually for expenditure on training and other capacity building activities on the single condition that they have an annual capacity building plan which guides the usage of the grant. The purpose of the CBG is to provide LGs with resources to access the supply side inputs so as to respond effectively to the demand side incentives that the LDG creates. The CBG is funded at a level of roughly 10% of LDG. As with all fiscal transfers, the two grants which comprise the LGMSD program are recorded in the annual GoU budget and accessed through the annual appropriations process.

10. ***The LGMSD has registered some important achievements to date, with respect to strengthening both LGs themselves and the intergovernmental fiscal system as a whole***. The most significant of these include: (i) local expenditure autonomy; (ii) rationalized, equitable fiscal flows and strengthened intergovernmental fiscal system through allocation on a transparent and equitable formula basis; (iii) strengthened local governments through the performance incentives and supply side inputs provided by the LDG and CBG respectively; (iv) significant physical outputs funded under the LDG system - under the first phase of the program (2000 – 2003), the LDG funds have constructed 1,918 kms of roads, 12,411 class rooms, 166 health units and 176 teachers' houses, and (v) the system has proven to be fiscally sustainable.

11. ***Nonetheless, and in light of the specific urbanization dynamics being faced by the country, the LGMSD faces a number of significant challenges*** notably: (i) declining local expenditure autonomy given the sustained increase in earmarked grants (the LDG now comprises only around five per cent of total transfers to LGs); (ii) the LDG is grossly inadequate as a funding source for urban local governments in the face of the rapidly escalating urban infrastructure investment needs. The LDG provides only around US$ 1.57/capita/annum for municipalities, resulting in an allocation of between US$100,000 and US$ 150,000/municipality/annum. However, the unit costs of paving 1 km of urban road ranges between US$800,000 to US$1 million and primary drainage costs between US$500,000 and 1.1 million per km[15]. In sum, there is a deep and growing disconnect between the nature of Uganda's intergovernmental fiscal instruments and the funding needs of urban local governments, (iii) as urbanization has progressed, the institutional needs of urban local governments have become increasingly differentiated from those of rural local governments. However, the annual assessment system for the LDG has not evolved in a manner which is capable of recognizing this differentiation or incentivizing the distinct sorts of LG systems and capacity building which derives from this. For example, there is need to, amongst other things, enhance urban LG capacity in developing a shared vision for a city development strategy (CDS)

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[13] UNCDF District Development Project pilot in four Districts – US$14.5 million from 1997 – 2000; World Bank first LG Development Project pilot in 12 Districts – US$65 million from 2000 – 2003; and World Bank, Irish Aid, DANIDA, Netherland Government, and Austria Government second LG Development Project in all LGs – US$165million from 2004 – 2007.

[14] The formula includes population (15%), land area (45%), and poverty head count (40%)

[15] Average unit cost under the Kampala Institutional and Infrastructure Development (KIID) Project

linked to the physical development plan, the five year investment plan and the annual budget, including environmental and social management and transparency and accountability, and (iv) the need to improve the robustness of the LGMSD assessment system in terms of independent assessment for integrity and incentive system to make it more attractive since it has lost traction.

5. ***Given these imperatives, GoU wishes to expand the LGMSD such that it comprises two basic elements.*** The first, which will be very similar to current system, will cover all rural (District) LGs[16] at roughly the current funding levels sourced from the GoU budget, using the existing horizontal allocation formula and annual performance assessment process and system. This element will comprise two grant flows - the Local Development Grant and Capacity Building Grant, as they are currently known. The second (and new) element will comprise a new Municipal Development Grant (MDG) and Municipal Capacity Building Grant (MCBG) focused on Municipal Local Governments in Uganda in which about 50% of the urban population of the country resides. This element will initially be funded through a combination of the GoU funds which currently flow to these LGs through the existing LDG and CBG windows and substantial additional resources provided by the Bank using a PforR instrument. The basic parameters and modalities of the MDG and MCBG have been designed to address the key challenges and imperatives outlined above.

III. Program Scope

12. ***The proposed Uganda Support to Municipal Infrastructure Development (USMID) Program (referred to hereafter as the "Program") will be added to the existing government program – the LGMSD.*** The core of the Program will comprise two grant flows to Municipalities: (i) the Municipal Development Grant (MDG) which will provide substantial additional funds to the targeted Municipalities for investment in urban infrastructure, designed in such a way as to leverage and incentivize improved institutional and delivery performance of these bodies; (ii) the Municipal Capacity Building Grant (MCBG), which will provide Municipalities with the resources to access the capacity building inputs that are required for them to achieve the performance that the MDG will incentivize. The Program will also involve a range of administration, oversight and support activities to be undertaken by the Ministry of Lands Housing and Urban Development (MoLHUD) responsible for the coordination of the implementation of the Program. The USMID will run over five years (2013/14-2017/18) at a total cost of US$ 160 million. As with the other elements of the LGMSDP, the USMID will constitute an integral part of the intergovernmental fiscal architecture of Uganda and is expected to continue indefinitely after the first phase.

13. ***Initially the Program will be limited to 14 of the 22 Municipal LGs in Uganda*** i.e. Arua, Gulu, Lira (Northern Uganda); Soroti, Moroto, Mbale, Jinja (Eastern Uganda); Entebbe, Masaka (Central); Mbarara, Kabale, Fort Portal and Hoima (Western Uganda). With the exception of Hoima – which is the urban epicentre of the oil region and is expected to develop particularly rapidly, thus generating accelerated funding needs – these are the most mature of the Municipalities in Uganda (the others were only upgraded to municipal status in mid-2011), and are not most capable of handling the increased funding that the Program will bring. The remaining Municipalities will continue to be covered by the existing LDG/CBG but will graduate into the Program depending on funding availability and demonstrated improvements in capacity either during or following the first phase[17]. Kampala has been excluded from the Program in this initial phase, mainly because, given its unique size and complexity, it has unique development and institutional needs which are currently being addressed by GoU, the Bank and other DPs (through an ongoing APL operation).

[16] It would also include a few, smaller municipal governments which will not be included in the urban element of the Program for reasons given below.
[17] Annex 1 contains a fuller description of the reasons for limiting the MDP to the 14 targeted municipalities.

14. In order to ensure that sufficient funding is available – and that incentives are sufficiently sharp – the grant amounts which will be provided to these Municipalities through the MDG will increase steeply from the existing (approximate) US$ 1.57/capita/annum LDG average level to US$ 16.88 per/capita/annum in the first year of the Program and to around $ US$ 29.39/capita/annum by Program year five (FY2016/17). Depending on the size of the Municipality, this will provide somewhere between $ 351,698 and $ 6,635,867 per Municipality per annum[18], which – in contrast to the past - will be sufficient to allow for the development of significant strategic infrastructure projects. While Municipalities will have significant discretion in selecting priority projects, from a menu of typical investments which are currently not supported through any earmarked transfers and which are key to developing and managing the built environment, mainly (i) roads and associated infrastructure; (ii) liquid and solid waste management; (iii) water and sewerage; (iv) local economic infrastructure (e.g. markets); (v) urban transport (e.g. bus terminals).

15. ***In order to maximize the objectivity and robustness of the annual assessment it will be conducted by an external private firm contracted in to perform the task***. The assessment will cover four areas:

i. a Minimum Conditions assessment, which will determine whether the Municipality has met a number of key basic conditions to ensure that it is capable of handling at least a fraction of the MDG amount and to provide basic comfort in respect of fiduciary and other (e.g. social and environmental management) risks. In order to receive any MDG funding, a Municipality will need to comply with all the minimum conditions, and such compliance (alone) will allow it to receive around 19% of its allocated amount (by year 2014/15, when the system will have been fully introduced);

ii. an Institutional Performance assessment which will cover amongst others: planning, fiduciary, own source revenue generation, environmental and social and operations and maintenance. Assuming that the Municipality has met all the minimum conditions it will receive an additional allocation of up to 38% of the MDG amount in direct proportion to its performance score;

iii. an Infrastructure Delivery assessment which will measure the performance of the Municipality in the actual delivery of urban infrastructure in both quantitative and qualitative terms. This will account for up to 42% of the MDG amount. As with the institutional performance assessment, individual Municipal allocations will be determined in direct relation to the score they achieve in this area;

iv. a Capacity Building plan assessment, which will focus on whether the Municipality has a Capacity Building plan in place and if previous expenditures have been within allowed parameters. If so, the Municipality will receive its annual capacity building grant, amounting to roughly 7% of the MDG.

Exclusion of possible high-risk activities

16. Investments which will be made by municipal LGs using the Program funds will exclude activities that would have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people. Additionally, contracts for Program funded LG sub-projects will not include high-value contracts[19] which require mandatory review by the Bank's Operations Procurement Review Committee. At the municipal level, Program LGs will be given an indicative planning figure averaging somewhere between $ 351,698 and $ 6,635,867 per Municipality per annum and actual disbursement of Program funds to each municipal LG, which will be determined by its annual

[18] The amounts are for FY2015/16, when DLIs 1, 2 and 3 kick in, assuming that (i) the average actual performance of LGs is at annual target of 70% and (ii) the actual performance of individual LGs is at annual target of 70%.

[19] High value contracts are defined as those whose monetary amounts require mandatory review by the Bank's Operations Procurement Review Committee (OPRC).

performance, will not reach the high value contract thresholds. Similarly, at the central government level, none of the contracts for Program activities can reach the high value contract thresholds.

IV. Program Development Objective(s)

18. The PDO is to enhance the institutional performance of selected municipal[20] LGs to improve urban service delivery. The Program is expected to produce the following two set of results: (i) 14 municipal local governments with enhanced capacity in generating own source revenues, in urban planning, and in managing their financial, procurement, environmental and social systems; and (ii) expanded urban infrastructure investments.

V. Environmental and Social Effects

19. ***An Environmental and Social System Assessment (ESSA) for USMID was conducted*** to examine Uganda's existing environmental and social management systems for municipal infrastructure projects to ensure consistency with the core principles outlined in OP/BP 9.00 *Program-for-Results Financing*. The purpose of the ESSA is to ensure that PforR operations are designed and implemented in a manner that maximizes potential environmental and social benefits and mitigates risks of adverse impacts.

20. ***USMID activities were assessed to have moderate environmental and social effects.*** Overall, the types of activities to be financed by USMID are intended in part to remedy environmental degradation and social issues linked to rapid urbanization, and their overall effect will therefore be positive. Based on the type, scope and scale of works allowable under USMID, adverse impacts are expected to be limited to typical construction impacts that are site-specific and generally occur in the construction phase. Similarly, given the scope of activities under USMID, it is highly unlikely that large-scale resettlement would occur. Because of the significant geographic dispersion of the participating municipalities and the scale of proposed investments, cumulative effects of the Program as a whole are unlikely. However, the screening process for all projects includes criteria to exclude certain types of projects (e.g. new landfills and wastewater treatment plants) as well as projects of a scale that would include significant negative impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people (which are excluded from PforR financing).

21. ***The system for environmental and social management under USMID will be largely based on the existing legal, regulatory and institutional system for environmental and social assessment and management in Uganda***, drawing on experience with implementation of safeguards instruments during the previous IDA local government and urban infrastructure projects. The ESSA found that the Ugandan system for environmental and social impact assessment is well established and relatively comprehensive, reflecting international practice although the system is constrained by human resource and financing gaps at various levels. To address gaps identified by ESSA, USMID will support specific measures for strengthening the performance of Uganda's environmental and social management system as reflected in the Program Operational Manual.

VI. Financing

17. The total Program cost is US$160 million, and the expenditure and financing framework is as follows:

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[20] The fourteen municipal councils (Municipal LGs) are Arua, Gulu, Lira, Soroti, Moroto, Mbale, Jinja, Entebbe, Masaka, Mbarara, Kabale, Fort Portal and Hoima, and Tororo

ITEM	AMOUNT (US$)	OF TOTAL
Estimated Program Expenditures		
Grant to Municipalities	140,000,000.00	88%
MoHLUD executed activities for grant administration and capacity support	20,000,000.00	12%
TOTAL	160,000,000.00	100%
Program Funding Sources		
IDA	150,000,000.00	94%
GoU	10,000,000.00	6%
TOTAL	160,000,000.00	100%

VII. Program Institutional and Implementation Arrangements

18. The institutional arrangement for Program implementation will broadly follow the Government program structure, with the following institutions playing the following roles:

- ***Program Steering Committee (PSC)*** will comprise the Permanent Secretaries of the relevant sector ministries (Finance, Planning & Economic Development, Lands Housing and Urban Development, Local Government, and Public Service). The PSC will be responsible for addressing emerging policy issues which have impact on the Program.
- ***National Program Technical Committees (PTC)*** will comprise the key technical staff from relevant ministries, departments and agencies (MDAs)[21] and will be responsible for addressing technical issues which might have impacts on the Program implementation and referring emerging policy issues to the PSC for resolution.
- ***MoLHUD*** will be the coordinating ministry for the Program and will have overall responsibility for implementation and accounting for the Program funds to the National Parliament. In addition the ministry will be responsible for producing and submitting to IDA annual Program reports.
- ***Municipalities*** will be responsible for planning, budgeting, implementing and reporting on Program funded activities, consistent with their mandate under the LGs Act CAP243.
- In addition, the **Ministry of Finance, Planning and Economic Development** (MoFPED) and the Office of the **Auditor General** (OAG) will ensure that Program resources are budgeted for and disbursed within the national Medium Term Expenditure Framework (MTEF), and that the Program audit and the value for money audits are carried out respectively.

VIII. Contact point

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