INTERNATIONAL DEVELOPMENT ASSOCIATION

IDA

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IDA/R2013-0054/2

March 29, 2013

FROM: The Acting Corporate Secretary

Uganda
Uganda Support to Municipal Infrastructure Development (USMID) Program

Final Text for Disclosure

1. The Uganda - Uganda Support to Municipal Infrastructure Development (USMID) Program (IDA/R2013-0054, dated March 8, 2013) was discussed at the meeting of the Executive Directors on Thursday, March 28, 2013. Due to a printing error, attached is page 87 of the Project Appraisal Document. No other changes were made; and the fully revised text of the document has been replaced on eBoard and will be disclosed.

2. Questions on these documents should be referred to Mr.White (ext. 85980) or Mr. Onyach-Olaa (Kampala: 5393+2218).

Distribution:
Executive Directors and Alternates
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REPORT NO. 73174 - UG

PROGRAM APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 97.4 MILLION
(US$150 MILLION EQUIVALENT)

TO THE

REPUBLIC OF UGANDA

FOR THE

UGANDA SUPPORT TO MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROGRAM
(PROGRAM-FOR-RESULTS OPERATION)

March 5, 2013

Urban Development & Services Practice 1 (AFTU1)
AFCE1
Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective January 31, 2013)
Currency Unit = Uganda Shillings (UGX)
US$1 = UGX 2,650
US$1 = SDR0.65 (0.64878621)

FISCAL YEAR
July 1 – June 30

ABBREVIATIONS AND ACRONYMS

ACGs	Anti-Corruption Guidelines (for PforR)
APA	Annual Performance Assessment
BFP	Budget Framework Paper
BoU	Bank of Uganda
CA	Cities Alliance
CAS	Country Assistance Strategy
CASP	Cities Alliance Support Program
CBG	Capacity Building Grant
CBOs	Community Based Organizations
CBP	Capacity Building Plan
CDOs	Community Development Organizations
CDS	City Development Strategy
CIID	Criminal Investigation and Intelligence Directorate
CSO	Civil Society Organization
DANIDA	Danish International Development Association
DDP	District Development Project
DfID	Department for International Development (UK)
DLIs	Disbursement Link Indicators
DLR	Disbursement Linked Result
DPAC	District Public Accounts Committee
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 Analysis
F&C	Fraud and Corruption
GDP	Gross Domestic Product
GGAC	Good Governance and Anti-Corruption
GoU	Government of Uganda
GTMs	Generic Training Modules
HIV/AIDS	Human Immune Virus/Acquired Immune Deficiency Syndrome
ICE	Information Communication and Education
IDA	International Development Association
IFA	Integrated Fiduciary Assessment
IFMS	Integrated Financial Management System
IG	Inspectorate of Government
IGFT	Inter-Governmental Fiscal Transfer
IGG	Inspectorate General of Government
IPFs	Indicative Planning Figures
KCCA	Kampala Capital City Authority
KIIDP	Kampala Institutional and Infrastructure Development Project

LDG	Local Development Grant
LGA	Local Government Act
LGDP	Local Government Development Program
LGFC	Local Government Finance Commission
LGMSDP	Local Government Management and Service Delivery Program
LGs	Local Governments
LGPAC	Local Government Public Accounts Committee
LHT	Local Hotel Tax
LST	Local Service Tax
M&E	Monitoring and Evaluation
MEC	Municipal Executive Committee
MEO	Municipal Environment Officer
MF	Municipal Forum
MoFPED	Ministry of Finance Planning and Economic Development
MoLG	Ministry of Local Government
MoLHUD	Ministry of Lands Housing and Urban Development
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
OSR	Own Source Revenue
PAP	Program Action Plan
PFM	Public Financial Management
PforR	Program for Results
PMC	Program Minimum Condition
PPDA	Procurement and Disposal of Public Assets Authority
PPIAF	Public Private Infrastructure Advisory facility
PRSC	Poverty Reduction Support Credit
PS/MoLHUD	Permanent Secretary, Ministry of Lands Housing and Urban Development
PSC	Program Steering Committee
PST	Program Support Team
PTC	Program Technical Committee
QA	Quality Assurance
RPF	Resettlement Policy Framework
TC	Town Clerk
TSUPU	Transformation of Settlement of Urban Poor in Uganda
UGX	Uganda Shillings
ULGs	Urban Local Governments
UNCDF	United Nations Capital Development Fund
USMID	Uganda Support to Municipal Infrastructure Development
VFM	Value for Money

Vice President:	Makhtar Diop
Country Director:	Philippe Dongier
Sector Director:	Jamal Saghir
Sector Manager:	R. Mukami Kariuki
Task Team Leader:	Martin Onyach-Olaa

UGANDA

SUPPORT TO MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROGRAM

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UGANDA

SUPPORT TO MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROGRAM

PROGRAM APPRAISAL DOCUMENT

AFRICA
AFTU1 (Eastern and Southern Africa)

Basic Information

Date:	March 5, 2013	Sectors:	Roads and Highways (60%), Sub-national Government Administration (30%); General Water, Sanitation and Flood Protection (10%)
Country Director:	Philippe Dongier	Themes:	Access to urban services and housing (80%); Municipal Finance (10%); Municipal Governance and Institution Building (10%)
Sector Director: Sector Manager:	Jamal Saghir R. Mukami Kariuki		
Program ID:	P117876		
Lending Instrument:	PforR		
Team Leader:	Martin Onyach-Olaa		

Program Implementation Period: Start Date: 03/28/2013 End Date: 12/31/2018
Expected Financing Effectiveness Date: 06/10/2013
Expected Financing Closing Date: 06/30/2018

Program Financing Data

[ ] [X]	Loan Credit	[ ]	Grant	Term: Standard IDA terms and has a final maturity of forty (40) years including a grace period of ten (10) years.

For Loans/Credits/Others (US$M):

Total Program Cost:	160.0	Total Bank Financing:	150.0
Total Co-financing:	10.0	Financing Gap:	0.0

Financing Source	**Amount**
BORROWER/RECIPIENT	10.0
IDA (New)	150.0
Total	160.0

Borrower: Republic of Uganda							
Responsible Agency: Ministry of Lands, Housing and Urban Development (MoLHUD), Century House, Parliament Avenue, P.O. Box 7096, Kampala, Uganda							
Contact:	Mr. Gabindadde Musoke			Title:	Permanent Secretary		
Telephone No:	+256-414-342931/3, +256-414-230891			Email:	ps@mlhud.go.ug		
Expected Disbursements (in USD Million)							
Bank Fiscal Year	**FY2013**	**FY2014**	**FY2015**	**FY2016**	**FY2017**	**FY2018**	
Amount (US$ m)	1.00	25.60	24.60	33.70	33.70	31.40	
Cumulative	1.00	26.60	51.20	84.90	118.60	150.00	

Program Development Objective(s) To enhance the institutional performance of Program LGs to improve urban service delivery.

Compliance				
Policy				
Does the project depart from the CAS in content or in other significant respects?	Yes	[ ]	No	[X]
Does the project require any waivers of Bank policies applicable to Program-for-Results operations?	Yes	[ ]	No	[X]
Have these been approved by Bank management?	Yes	[ ]	No	[ ]
Is approval for any policy waiver sought from the Board?	Yes	[ ]	No	[ ]
Does the project meet the Regional criteria for readiness for implementation?	Yes	[X]	No	[ ]
Overall Risk Rating: Substantial				

Legal Covenants:

Name	**Recurrent**	**Due Date**	**Frequency**
Description of Covenant			
The Recipient has established the Program Support Team, the Program Steering Committee, and the Program Technical Committee, respectively, each in accordance with the provisions of Section I.C.1 (b) (i), (ii) and (iii), respectively, of Schedule 2 to the Financing Agreement	Once	Effective Date	
The Recipient has prepared and adopted the Program Operational Manual, in accordance with the provisions of Section I.C.2 (a) of Schedule 2 to the Financing Agreement	Once	Effective Date	
The Recipient has appointed the Independent Verification Agent, in accordance with the provisions of Section I.C.1 (c) of Schedule 2 to the Financing Agreement	Once	Effective Date	
The Recipient, through MoLHUD, has entered into the Inter-Agency Memorandum of Understanding, in accordance with the provisions of Section I.C.2 (c) of	Once	Effective Date	

Schedule 2 to the Financing Agreement			
The Recipient shall, through MoLHUD, not later than April 30, 2013, enter into a Program Participation Agreement ("PPA") with each Program LG detailing mutual responsibilities for the implementation of activities under the Program.	Once	April 30, 2013	
The Recipient shall, through MoLHUD, not later than April 30, 2013, enter into an Inter-Agency Memorandum of Understanding with Program MDAs.	Once	April 30, 2013	
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 Capacity Building Plan ("CBP") specifying activities to be carried out by said MoLHUD during said FY, and implement said CBP.	Annually	March 31	
The Recipient shall, not later than one month prior to the mid-term review referred to in paragraph 3 of this Part A, furnish to the Association for comments, a report, in such detail as the Association shall reasonably request, on the progress of the Program, and giving details of the various matters to be discussed at such review.	Once	Thirty-five (35) Months after Effective Date	
The Recipient shall, through OAG, in each Fiscal Year ("FY") beginning FY 2016: (a) carry out, under terms of reference satisfactory to the Association, a value for money audit of Program activities under DLI#3, set forth in the table under paragraph 2 of Section IV.A of Schedule 2 to this Agreement, implemented in the preceding FY and furnish said audit to the Association not later than six months after the end of the FY to which the audit relates; and (b) ensure that the findings of said audit are taken into account in the Annual Performance Assessment for the FY to which said audit relates.	Annually	Commencing FY 2016	
The Recipient shall, through the Public Procurement and Disposal of Public Assets Authority, in each Fiscal Year ("FY") beginning FY 2013: (a) carry out under terms of reference satisfactory to the Association, an audit of contracts procured in the preceding FY and furnish said audit to the Association not later than six months after the end of the FY to which said audit relates; and (b) ensure that the findings of said audit are taken into account in the Annual Performance Assessment for the FY to which said audit relates.	Annually	Commencing FY 2013	
The Recipient shall, in each Fiscal Year during the implementation of the Program carry out or cause to be carried out, in accordance with the Program Operational Manual, an Annual Performance Assessment ("APA")	Annually	Commencing FY 2014	

covering the previous Fiscal Year ("FY") to determine: (i) whether Program LGs have met all PMCs for said FY; (ii) the Program LGs' Institutional Performance Average Score ("Program LGs' IPAS") for said FY; (iii) the Program LGs' Infrastructure Action Plan Average Score ("Program LGs' IAPAS") for said FY; (iv) whether Program LGs have prepared and adopted capacity building plans for the following FY; and (v) the Program LGs' Capacity Building Plan Average Score ("Program LGs' CBPAS"), for said FY; and furnish said APA, not later than six (6) months after the end of said FY, to the Association			
Notwithstanding the provisions of Part A of Section IV of the Financing Agreement, no withdrawal shall be made: (a) for purposes of Section 2.05 of the General Conditions, for payments made prior to the date of the Financing Agreement; (b) for any DLR referred to in the table in Paragraph A.2 of the Financing Agreement unless and until the Recipient has furnished evidence satisfactory to the Association that said DLR has been achieved and verified in accordance with the Verification Protocol; (c) for any DLR under Categories (1), (2), (3) and (4), unless and until the Recipient has furnished evidence satisfactory to the Association that 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 below; or (d) for any DLR under Category (7), unless and until the Recipient has furnished evidence satisfactory to the Association, that the IFMS was delivered by a consultant with qualifications, experience, and on terms and conditions of employment satisfactory to the Association.		Disbursement Condition	
Notwithstanding the provisions of Part B.1(b) of Section IV of the Financing Agreement, the Recipient may withdraw: (a) an amount not to exceed SDR1,300,000 as an advance under Category (5); and (b) an amount not to exceed SDR1,300,000 as an advance under Category (7); provided, in each case, however, that if the DLRs for said Category in the opinion of the Association, are not achieved (or are only partially achieved) by the Closing	Once	Disbursement Condition	

Date, the Recipient shall refund such advance (or portion of such advance as determined by the Association) to the Association promptly upon notice thereof by the Association. Except as otherwise agreed with the Recipient, the Association shall cancel the amount so refunded. Any further withdrawals requested as an advance under any Category shall be permitted only on such terms and conditions as the Association shall specify by notice to the Recipient			
Notwithstanding the provisions of Part B.1 (b) of the Financing Agreement, if the Association is not satisfied that any of the DLRs for Categories (1), (2), (3), (4), (5), (6) or (7) has been fully achieved by end of each Fiscal Year, the Association may at any time, in each case, by notice to the Recipient, decide in its sole discretion to: (a) authorize the withdrawal of all or a portion of the unwithdrawn proceeds of the Financing then allocated to said Category, at such later date (prior to the Closing Date) as the Association shall be satisfied that such DLR(s) has/have been achieved; (b) reallocate all or a portion of the proceeds of the Financing then allocated to such Category to any other Category; and/or (c) cancel all or a portion of the proceeds of the Financing then allocated to such Category.		Disbursement Condition	

Team Composition				
Bank Staff				
Name	**Title**	**Specialization**	**Unit**	**UPI**
Martin Onyach-Olaa	Sr. Urban Specialist,	Task Team Leader	AFTU1	
Roland White	Lead Urban Specialist	Program Coordinator	AFTU1	
Onur Ozlu	Economist	Fiscal Dec/Urban Economist	AFTU1	
Abdu Muwonge	Economist	Economic Analysis	SASDU	
Paul K. Kamuchwezi	Fin. Mgmt Specialist	Financial Management	AFTFM	
Parminder Brar	Lead Fin. Mgmt Spec.	Public Financial Mgmt	AFTME	
Howard Bariira	Procurement Specialist	Procurement	AFTPC	
Elizabeth A. Mutesi	Procurement Specialist	Procurement	AFTPC	
Labite Victorio Ocaya	Sr. Highway Engineer	Transport	AFTTR	
Helen Shahriari	Sr. Social Scientist	Social Safeguards	AFTCS	
Martin Fodor	Sr. Env. Specialist	Environment	AFTEN	
Barbara Magezi	Sr. Pub. Sector Spec.	Governance	AFTPR	
Rosemary Kyabukooli	Team Assistant	Administrative Support	AFTUG	
Marie Claire LiTinYue	Sr. Program Assistant	Administrative Support	AFTUW	
Luis Schwarz	Senior Finance Officer	Disbursement	CTRLA	
Christine Makori	Counsel	Legal	LEGAF	
Elijah Osiro	Consultant	Governance	AFTPR	

I. STRATEGIC CONTEXT

A. 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% in 1992/93 to 24.5% in 2009/10. Annual Gross Domestic Product (GDP) growth has averaged over 8.1 percent during the six year period 2003/04–2009/10. Donor assistance has declined from 52% of the annual budget in the early 1990s, to the current level of 32%[1], and is expected to continue 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 space for growth**.** Domestic revenue mobilization remains low at 13% of GDP in FY 2010/11 and is not expected to increase beyond 15% in the medium term. Further external financing will thus be required to sustain its fiscal position.

2. ***Uganda faces demographic and urban challenges.*** Uganda has a population of 34.5 million - 51% of which is under the age of 18 years - and an annual population growth rate of 3.2%,[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 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% (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 the existing 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, and the National Development Plan (NDP), Section 8.14 – 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, and environmental

[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,
[3] As of 2010 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.

management, 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 around 20% of total public sector expenditure (FY 2010/11).

4. ***The local government system in Uganda comprises multiple layers of higher level LGs supported by lower level LGs and administrative units***. The highest level local governments are Districts, followed by Municipal LGs and, below this, Sub-Counties, Municipal Divisions and Town Councils[6]. Administrative units below the LGs include County Councils, Parish Councils and Village Councils. Local Governments are corporate bodies charged with service provision responsibilities with service delivery mandates and related powers clearly delineated in the Local Government Act. Administrative Units do not have service delivery mandates, but do oversee the implementation of government programs and handle administrative matters. The overall system is diagrammatically presented in Annex 1.

5. ***As in most countries, the process of decentralization in Uganda has not been monotonic, and in recent years, some recentralization has taken place***. 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.[7] 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 appear to have 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. Partially as a result of this, the local government wage bill is now substantially underfunded which led to the emergence of significant and chronic staff vacancies[8]. Local governments also find it challenging to meet their obligations to residents in areas such as primary education, as distribution formulae are not always properly followed. For example, there is evidence of significant per student variations in allocations under the Universal Primary Education program.

6. ***Government has commissioned two studies to assess the impact of these trends and determine whether any formal revision of decentralization policy is required***.[9] Currently, the outlook as regards to further possible recentralization is unclear. It should also be noted that the current situation, which among other things is characterized by a disconnect between the requirements of local government system and the fiscal and other resources dedicated to it, hampers local government performance. 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

[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] As of June 2012 there were 111 Districts, (22 Municipal LGs, 1147 Sub-Counties, 64 Municipal Divisions and 165 Town Councils.
[7] OSRs now account for only 5% of total local revenues, down from 8% in FY2004/05.
[8] For more discussion on the staffing issues, refer to (i) Fiduciary section of the main text, (ii) Annex 1 – section on staffing at Program LGs, and (iii) Annex 5, Fiduciary systems.
[9] Review of LGs set up in Uganda (2012) and Review of LGs Financing: Financial Management and Accountability for Decentralized Service Delivery

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 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.

B. Sectoral and Institutional Context of the Program

7. ***Urban areas already account for about 72% of Uganda's manufacturing output and over 55% 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%[10] and only 35% of garbage in urban authority areas overall is collected weekly on average.[11] It is also important to note that 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, these LGs only received an average of 6% of the share of total local government grants over the period FY 2004/05-09/10.[12] It is clear that 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.

8. 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[13] and accounts for about 50% 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.[14] These cities 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.

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[10] Arch Design Ltd, 2012 – Municipal Assets Inventory and Conditions Assessment Final Report

[11] Dege, 2011, p. 43

[12] 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.

[13] 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

[14] UBoS 2002 census

9. ***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, or discretionary, transfers which allow for local expenditure and investment discretion within the parameters of their expenditure assignments. Broadly speaking, the framework for these transfers is established by the Uganda Constitution and Local Governments Act (CAP 243), as amended from time to time, which identifies sources from which local governments may obtain revenues to finance their functions, including (i) own source revenues, (ii) grants from central government, (iii) contributions from donors or other agencies including NGOs, and (iv) borrowing. More specifically, driven by decentralization policy in general and the 2002 Fiscal Decentralization Strategy in particular, total transfers to local governments have risen very substantially over time, from around UGX 117,754,762 in FY 1995/96 to UGX 1,490,015,157 in FY 2010/11, although in real terms the increase is obviously less dramatic from around UGX 741,467,435 in FY 2003/04 to UGX 856,867,079 (16%) in FY 2010/11. Generally, the most significant increases have been in the earmarked or conditional grant streams, so total discretionary grants now account only around 15% of total transfers (as of FY 2010/11).

10. ***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 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. [15] Today, it covers all 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. While details of the program have varied somewhat, its main characteristics are as follows:

- While the LGMSD comprises only around 5% of the total transfers to LGs, it is the primary (indeed, the only) grant which is specifically focused *both* on improving performance and expanding LG expenditure autonomy. The basic goals of the program have been to continuously improve the capacity and institutional performance of LGs and to increase their compliance with legal provisions and accountability procedures in areas such as planning, budgeting and financial management, procurement, managing social and environmental externalities etc., while also providing resources for LGs to invest in local infrastructure development.

- To this end, the 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[16] Local Development Grant (LDG) which is allocated annually on the basis of the performance of LGs in the areas mentioned above

[15] 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, DANID, Netherland Government, and Austria Government second LG Development Project in all LGs – US$165million from 2004 – 2007.

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

as measured by an annual assessment. The assessment examines compliance of all LGs with a number of Minimum Conditions which establish whether the LGs have sufficiently robust systems in place to handle the basic amounts due to them as determined by the formula. It also measures LG performance against a number of Performance Indicators which determine whether LGs may receive a premium (for good performance) or a discount (for poor performance) against the basic formula-determined amount. The key purpose of the LDG is to create an incentive on the demand side for LG strengthening, while also providing some funding to support investments in local development and service delivery priorities as these are determined through local participatory and planning processes. On average, the per capita allocation of the LDG is now $1.57/annum for urban LGs and $0.84 for rural local governments (FY 2009/10). In municipalities, the annual allocation is shared 50:50 between the municipality itself and the municipal divisions below it.

- 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 use 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 the 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. They are administered by the Ministry of Local Government, which oversees the annual assessment and undertakes a range of additional support, monitoring and oversight activities to ensure that capacity building inputs are delivered to LGs appropriately, that grant funds are spent in accordance with grant rules[17], and that LG reporting procedures and requirements are properly adhered to.

11. ***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:

- Local expenditure autonomy. Notwithstanding some of the relative trends noted above, the amount of funding available for discretionary spending by LGs in line with local needs and priorities has grown very significantly in absolute terms from around UGX 109.1 billion in FY 2000/01 to UGX 223.5 billion in FY 2010/11. This has provided a critical fiscal foundation for ongoing devolution in the country in an environment where the great majority of fiscal flows to LGs remain earmarked to specific sectoral expenditures and particular usages (e.g. salary payments).

- Rationalized, equitable fiscal flows and strengthened intergovernmental fiscal system. LDG funds are also allocated on a transparent and equitable formula basis. Over time, LDG has provided the central instrument into which donors have been able to integrate funding support for local development programmatically, thus strengthening the overall intergovernmental fiscal system and moving away from arbitrary – and often inequitably allocated – “regional projects”. While transfer delays remain a problem, recent reviews

[17] For example, while LGs have significant discretion over the expenditure of LGD funds, this discretion may only be exercised within the parameters of their legal mandates.

show that almost all funding is transferred to LGs and the system is working relatively well[18].

- Strengthened local governments. Evidence shows that the combination of performance incentives and supply side inputs provided by the LDG and CBG respectively have had a definitive and positive impact on the institutional performance and capacity of LGs. For example, between 2008 and 2010 the number of Districts meeting the minimum access requirements increased from 34% to 85%, and from FY 2009/10 to 2010/11 the number of LGs with unqualified audit opinion increased from 78 (36%) to 133 (48%). It is important to note here that the institutional performance areas which the LGMSD 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 LGMSD is 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.

- Physical outputs. The actual physical outputs supported by LDG funding are also impressive. For example, since inception under the first phase of the program (2000 – 2003), the LDG funds have constructed 1918 km of local roads, 12,411 class rooms, 166 health units and 176 teachers' houses.

- Sustainability. Finally, the system has proven to be fiscally sustainable. As indicated earlier, whereas LGMSD began (in 2000) as an almost entirely donor-funded program, today it is completely funded from the general budget of GoU, which has provided steadily increasing amounts to the program with the FY 2010/11 allocation having been the largest to date.

12. ***Nonetheless, and in light of the specific reference to the urbanization dynamics mentioned earlier, the LGMSD faces a number of significant challenges***:

- Local expenditure autonomy. Although the total LGMSD transfers have risen to UGX79.5 billion (US$31.8 million) in FY 2010/11 from UGX62.3 billion (US$24.92 million) in FY 2005/06, given the sustained increase in earmarked grants the LDG now comprises only around five percent of total transfers (around half of the proportion it comprised in FY 2003/04). In essence, this reduces the relative amount of funding available to invest in locally-determined development priorities and weakens the fiscal basis for local autonomy. It also means that the total proportion of grant funding which is focused on directly leveraging improvements in LG institutional and delivery performance has dwindled over time. It is important that these trends be reversed if substantive devolution and improvements in local government performance in Uganda are to be sustained, particularly given some of the countervailing trends in the current environment.

- Funding urban development needs. In the face of the rapidly escalating urban infrastructure investment needs, the LDG is entirely inadequate as a funding source for urban local governments. As indicated earlier, LDG provides only around US$1.57/capita/annum for municipalities, resulting in an allocation which varies between US$100,000 and US$150,000/municipality/annum. Given the 50:50 municipality:

[18] General delays in transferring funds to local governments average around five weeks from the start of the quarter.

division funding split, this allows for only a few, small projects to be undertaken by any given municipality annually, none of which can be taken at sufficient scale to make an impact on the strategic urban infrastructure investment priorities mentioned above. 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 1.1 million per km[19]. In sum, there is a deep and growing disconnect between the existing intergovernmental fiscal instruments and the funding needs of urban local governments. This disconnect is particularly acute with respect to Uganda's secondary cities which are growing fastest and are beginning to play an increasingly critical role in the Ugandan economy. It has become clear that an order-of-magnitude shift in the funding of urban infrastructure and service delivery is now overdue.

- Urban local government institutional development needs. 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 these differences or incentivizing the distinct sorts of urban LG systems and capacity building which derive from this. In fact, it has become apparent that the current LG annual assessment carried out using existing minimum condition and performance indicator criteria is too blunt an instrument to respond to the current urban challenges and ensure that the sorts of capacities required for effective urban local government management and governance are effectively incentivized and built. For example, it will be necessary to enhance urban LG capacity to develop a shared vision for a city development strategy (CDS) linked to the physical development plan, five year investment plan and the annual budget, including environmental and social management measures.

- Assessment system. Finally, recent reviews have indicated that the LGMSD assessment and allocation system itself appears to have a number of weaknesses that need to be addressed. The most important of these are: (i) delays in undertaking and finalizing the assessments; (ii) failure to adequately publicize the assessment results; (iii) the objectivity and robustness of the assessment is poor and must be strengthened, primarily by ensuring that it is undertaken by an independent team which is contracted to do the job (rather than – as is currently the case – undertaken by government officials which may suffer unavoidable conflicts of interest arising from their regular occupations); (iv) the system for awarding gross (i.e. 20%) premia (and discounts) over and above the basic allocation amount for enhanced (or below par) performance is not adequately calibrated to leverage the improved performance that the allocation system intends. It is important that the annual assessment process, or at least a significant part of it, be revised in order to experiment with approaches which attempt to deal with these difficulties. If successful, these approaches could then be expanded to the system as a whole over time.

13. ***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[20] at roughly the current funding levels sourced from the GoU budget, using the existing horizontal allocation formula and annual performance assessment process and system.

[19] Average unit cost under the Kampala Institutional and Infrastructure Development (KIID) Project
[20] 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.

This element will comprise two grant flows - the Local Development Grant (LDG) and Capacity Building Grant (CBG), 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, which forms the heart of the Uganda Support to Municipal Infrastructure Development (USMID) Program appraised in this document, 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 in paragraph 12 above. The overall structure of the GoU LGMSD (ie. the "Government program") and its relationship to the Uganda Support to the Municipal Infrastructure Development Program (i.e. "the Program" which comprises part of the LGMSD), is outlined in diagram under section II – USMID Program description below.

C. Relationship to the Country Assistance Strategy (CAS) and Rationale for Use of Instrument

14. ***The USMID Program will contribute to the National Development Plan (NDP)***[21] ***2010/11 – 2014/15*** which has broadened the country's development strategy from poverty reduction to structural transformation and has identified the urban sector as one of the complementary sectors for growth. It will also assist in strengthening the capacity of the newly created MoLHUD with a Directorate of Physical Planning and Urban Development and the implementation of the newly passed Physical Planning Act, 2010.

15. ***The Bank CAS is aligned with Uganda's National Development Plan (NDP) to support structural transformation of the economy.*** It provides a framework for World Bank Group support for five years (FY 2011/12 – FY 2015/16). The CAS focuses on four strategic objectives and eleven outcomes. The USMID Program 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. IDA resources under the CAS (FY 2011/12 – FY 2015/16) are estimated at about SDR1.3 billion (US$1.97 billion equivalent).

16. ***From an operational perspective, the World Bank's support to the urban sector in Uganda will be provided through two complementary interventions over the short to medium term***. The first operation supports secondary cities (Municipalities) through the Program which is the subject of this document. The second operation supports Kampala City, the capital city and the country's economically most significant urban area, with an estimated night population (2008 figures) of around 1.5 million and an additional day population of one million. Kampala is currently receiving Bank support under the first phase of an APL, the Kampala Institutional and Infrastructure Development Project (KIIDP), which will close by December 31, 2013. The intention is to continue this support under phase two of the APL (KIIDP II) on the basis of the achievements of KIIDP I while aligning the proposed activities to the new governance structure of the city (the KCCA).

17. ***There are three main reasons that a PforR instrument has been chosen as the operational modality for the Uganda Support to Municipal Infrastructure Development***

[21] 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.

(USMID Program. First, the grant flows which form the core of the Program will constitute an integral part of a previously established program (LGMSD) which itself is an important element of the overall intergovernmental fiscal framework in the country. And, as with the other elements of the LGMSD, it is intended that once established, the support to municipal infrastructure development will continue indefinitely drawing in both government and other donor funding. Second, the basic goal of the Program is to leverage the institutional and delivery performance of Municipalities while ensuring that expanded urban infrastructure is developed. Because a PforR can be (and in this case is) structured to disburse in direct relationship to the achievement of such results by the targeted municipalities, the PforR instrument provides a much cleaner and more direct approach to achieve the PDO than is possible in a SIL. Moreover, through the use of Disbursement Link Indicators (DLIs) targeted specifically at national government actions required to optimize the administration and execution of the Program grant flows, a PforR can ensure that the incentives of national government are optimally aligned with those of municipal local governments around the goals of the Program. Finally, it is fundamental to the objective of the Program that government systems at local and central levels are both utilized and strengthened. Again, the PforR instrument is particularly appropriate for achieving this. In this regard, the integration of the operation's assessment and disbursement modalities with the budgeting, planning and funds flow mechanisms and cycles of both the central and local governments is of particular importance.

II. PROGRAM DESCRIPTION

A. Program Scope

18. The existing Government program together with the proposed new (sub)Program to be funded by the PforR instrument, as of FY 2013/14 (i.e. beginning in July 1, 2013 ending June 30, 2014) can be summarized as follows:

Table 1: USMID in the context of the overall Government program

<table>
<tr><td colspan="4">LOCAL GOVERNMENT MANAGEMENT AND SERVICE DELIVERY PROGRAM (OVERALL GOVERNMENT PROGRAM)
- total allocation FY 2013/14 US$57.44 million (includes grant amount and grant implementation/support activities)</td></tr>
<tr><td colspan="2">LOCAL GOVERNMENT DEVELOPMENT GRANT PROGRAM
- Covers 111 Districts and 8 non-Program Municipalities
- Total funding allocation FY 2013/14 – US$36.94 million
- Fully funded from GoU budget
- Uses existing assessment and allocation system
- Administered and supported by MoLG</td><td colspan="2">SUPPORT TO MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROGRAM
- Covers 14 Program Municipalities
- Total funding allocation FY 2013/14 – US$20.10 million[22]
- 94% Bank funded; 6 % GoU funded
- Substantially increased amounts for Municipalities for urban infrastructure investment and to leverage improved institutional and delivery performance
- Enhanced annual assessment system
- Administered and supported by MoLHUD</td></tr>
<tr><td>LOCAL DEVELOPMENT GRANT
- Total allocation US$33.246 million
- Av. per capita allocation US$1.57/annum for urban LGs, US$0.84 for rural LGs</td><td>CAPACITY BUILDING GRANT
- Total allocation US$3.69 million
- Av. Per capita allocation US$0.11</td><td>MUNICIPAL DEVELOPMENT GRANT
- Total allocation US$17.60 million
- Av. Per capita allocation US$16.51</td><td>MUNICIPAL CAPACITY BUILDING GRANT
- Total allocation US$2.50 million
- Av. Per capita allocation US$2.34</td></tr>
</table>

[22] The figure is for FY2013/14 and FY2014/15. It will go up to US$32.80 million in FY2015/16.

19. ***The proposed Uganda Support to Municipal Infrastructure Development (USMID) Program (the "Program") will be added to the existing Local Government Development Grant Program and constitute an additional element of the existing 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), amounting to about 7% of the MDG, 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 relevant central government entities responsible for the various elements of the implementation of the Program. The first phase of the USMID will run over a period of six years (FY 2013/14 - FY 2018/19) at a total cost of US$160 million[23]. 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. As such, the Bank will finance USMID jointly with GoU, enhancing the allocations as per table above. This will mean that for the 14 Program LGs, the financing of the existing Local Development Grant will be included in the Municipal Development Grant and the Capacity Building Grant will be included in the Municipal Capacity Building Grant. This will constitute the GoU contribution of US$10 million and will be disbursed to Program LGs under DLIs 1, 2 and 3 (US$2 million for DLIs 1 and 2 each, and US$6 million for DLI 3).

20. ***Initially (i.e. in the first phase), the Program will be limited to 14 of the 22 Municipal LGs in Uganda*** i.e. Arua, Gulu, Lira (Northern Uganda); Soroti, Moroto, Mbale, Tororo, 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.[24] It should also be noted that 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 the GoU, the Bank and other DPs (through an ongoing APL operation). In the long term, however, it may be possible to integrate Kampala in the Program system.

21. ***The main aim of the Program is to enhance the capacity of the targeted Municipalities to improve urban service delivery in the context of a rapidly urbanizing society in which significant service delivery responsibilities have been decentralized.*** In order to ensure that

[23] It is important to note that the amount disbursed annually against MDG will be determined by the scores achieved by Program LGs on the annual assessment. The annual amounts for DLIs 1, 2 and 3 are fixed against expected targets for each FY. If LGs perform below the expected level, actual disbursement will be lower. If they perform higher than expected, actual disbursement will be higher than planned. If LG performance exceeds expected targets cumulatively, there will potentially be a financing gap and additional financing will be needed. Any financing gap or surplus arising out of the difference between expected and actual performance (hence actual disbursement against this budget line item) will be assessed and addressed within the Program during mid-term review and throughout implementation.

[24] Annex 1 contains a fuller description of the reasons for limiting the USMID to the 14 targeted municipalities.

sufficient funding is available – and that incentives are sufficiently sharp – to meet this objective, 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$16.51 per/capita/annum in the first year of the Program and to around US$28.39/capita/annum by Program year four (FY 2015/16). Depending on the size of the Municipality, the MDG and MCBG combined is expected to provide somewhere between US$518,296 and US$6,588,537 per Municipality per annum,[25] which – in contrast to the past - will be sufficient to allow for the development of significant urban 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); and (v) urban transport (e.g. bus terminals).

22. ***Given that the main goal of the Program is to achieve improved institutional and delivery of performance results on the part of the targeted municipalities, MDG funds will be allocated annually to Municipalities on the basis of a transparent, equitable formula[26] combined with a performance score as determined through an annual assessment.*** The MDG assessment criteria have been enhanced and rationalized from those currently applied through the LDG so as to focus on areas of critical relevance to improved Municipal performance and "raise the bar" in these areas, namely.:

a. Improved linkage between Municipal Physical Development Plan, Five year Development Plan and Budgeting;
b. Increased municipal own source revenue (OSR) performance;
c. Improved procurement performance;
d. Improved financial management performance;
e. Improved budget execution performance;
f. Improved accountability and transparency;
g. Improved environmental and social management;
h. Improved delivery of urban infrastructure (quantity and quality).

23. Improvements in these areas constitute the core results of the Program, hence four DLIs (1-4) which together account for around 85% of Program financing, are focused directly on leveraging them. In other words, funds are disbursed in direct proportion to results achieved in these areas. Further detail on the functioning of the DLIs is contained in Section C below and in Annex 3.

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

i. A Minimum Conditions assessment (focused on performance related to DLI 1), which will determine whether the Municipality has met a number of key minimum conditions to ensure that it is capable of handling at least a proportion of the MDG amount and to provide basic comfort in respect of fiduciary and other (e.g. social and environmental

[25] The amounts are for FY2015/16, when DLIs 1, 2, 3 and 4 have been fully introduced, 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.
[26] MDG will use the existing government program formula: (i) administrative land area (15% weight); (ii) population (45% weight); and (iii) poverty head count (40% weight).

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 18% of the total Program amount.

ii. An Institutional Performance assessment (focused on DL1 2 performance) which will cover areas a.-g. in paragraph 22 above. Assuming that a Municipality has met all the minimum conditions it will receive an additional allocation of up to 36.25% of the Program amount in direct proportion to its performance score.

iii. An Infrastructure Delivery assessment (focused on DLI 3 performance) which will measure the performance of the Municipality in the actual delivery of urban infrastructure in both quantitative and qualitative terms (i.e. area h. above). This will account for up to 23.75% of the Program 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 (focused on DLI 4 performance) which will focus on whether the Municipality has a Capacity Building plan in place and assess whether the previous CBG expenditures have been within allowed parameters. If so, the Municipality will receive its annual capacity building grant, amounting to roughly 6.25% of the Program amount.

25. ***The annual assessment cycle has been designed to support the regular budget and planning processes of the target Municipalities***. Detail on the timing of this is provided in Annex 1. However, it should be noted here that the Infrastructure Delivery assessment – and the funding related to that process – will only be introduced for the first time in FY 2014/15, once it is possible to measure the delivery performance of Municipalities utilizing the Program funding they will previously have received. This will have the added benefit of ensuring that the amounts that flow to the Municipalities in the first years of the Program are increased as capacity is built, thus reducing fiduciary risk and increasing absorption.

26. ***Estimated disbursement for the MDG and CBG in FY 2013/14 are given in the table below***[27]**.** The MDG ceilings have been determined on the basis of an assessment of a number of different variables, including funding levels required to meet urban infrastructure investment needs, Municipal absorption constraints, incentive effects, and funding constraints. MDG inflows in the first year of the Program (under DLIs 1, 2 and 4) will increase average Municipal revenues by around 75%. With specific regard to revenues to fund development activities, these will rise, on average, from around US$155,657 (pre-USMID) to around US$1.6 million. Once DLI 3 is introduced, in FY 2015/16 - by which time substantial additional capacity is expected to have been built in the target Municipalities - MDG amounts will increase by an additional average amount of around US$950,000 per municipality. These increases will fundamentally change the fiscal position of the target Municipalities and put them in a position to deal with their key infrastructure development challenges much more effectively than can possibly be done under current circumstances. It will also have very powerful performance incentive effects. The CBG amounts have been determined on the basis of an assessment of the likely training and systems

[27] The estimates provided in the table assume that all Municipalities achieve the Minimum Conditions and the Institutional Results performance targeted in the DLI matrix and that overall Municipal fiscal performance in FY13/14 – outside of the USMID grants – is basically the same as for FY10/11 (the most recent year for which all relevant data are available). The CBG amount will remain constant over the life of the Program, whereas MDG will increase starting in FY2014/15 with the disbursement against DLI 3.

strengthening costs that will need to be borne by the target Municipalities annually. It should be noted that the CBG is front-loaded over the course of the Program on the assumption that as capacity is built and sustained capacity-building activities will gradually decline.

Table 2: Estimated MDG and MCBG disbursements

All figures in US$	**FY 2013/14**
Total USMID to all Program LGs	20,100,000
- MDG	- 17,600,000
- MCBG	- 2,500,000
Average USMID per Program LG	1,435,714
- MDG	- 1,257,143
- MCBG	- 178,571
Total Program LG budgets	46,780,400
- of which own source revenue	- 6,724,000
- of which existing grants	- 19,956,400
- of which USMID	- 20,100,000
- Increase in total budget with USMID	- 75%
Average budget of each Program LG	3,341,457
- of which USMID	- 1,435,714
- of which total development revenue (inclu. USMID)	- 1,591,371
- Increase in average budget with USMID	- 75%

27. ***Impact of USMID on intergovernmental fiscal system.*** The introduction of the Program will also have tangible impacts on the overall intergovernmental fiscal framework in Uganda. Key estimates are summarized in the table below. In general terms, the Program will reverse the recent trend towards decreasing the proportion of fiscal transfers which support discretionary expenditure in the Program LGs and provide a robust basis for the exercise of expanded fiscal autonomy. It should also be noted that the innovation introduced in the assessment process and performance system to be applied to the target Municipalities under the Program will be used by GoU as a test for the assessment system which will continue to be applied to District LGs under the other elements of the LGMSD – if successful, these approaches will be appropriately customized and expanded throughout the program.

Table 3: Impact of USMID on intergovernmental fiscal system

All figures in US$	**FY 2013/14**
Total grants to LGs	616,103,663
- earmarked	- 443,407,614 – 72% of all grants to LGs
- discretionary[28]	- 172,696,049 – 28% of all grants to LGs
o LGMSD – within discretionary grants	o 57,004,000
LGMSD[29]	
- As % of discretionary grants to LGs	- 33%
- As % of total grants to LGs	- 9.25%

28. In addition to the MDG and CBG flows themselves, the Program will involve a number of activities which will be centrally executed by MoLHUD to ensure that the grant is effectively

[28] Discretionary grants comprise (i) NAADs, (ii) Unconditional Grants to urban LGs and districts – both at FY2010/11- (iii) LGDP estimated disbursement for FY2013/14 (US$36.94) and (iv) proposed USMID estimated disbursement for FY2013/14 (US$20.1)

[29] LGMSD comprises the government LDG/CBG projections for FY2012/13 (US$36.94) and the proposed USMID estimated disbursement for FY2013/14 (US$20.1)

administered, monitored and reported on, and to support and guide the capacity-building activities that the Municipalities will undertake. These include overseeing the annual assessment, ensuring that key municipal officials are in place, and undertaking the capacity-building activities outlined in section D below and, in greater detail, in Annex 1. DLIs 5, 6 and 7, accounting for 15% of the total Program cost, focus on results in these areas.

29. Total Program cost will be US$160 million. The expenditure and financing framework for the Program is provided later under the summary of the Technical Assessment, with further detail on the USMID Program budget structure in Annex 4.

30. ***Contributions by other Development Partners*** **–** Given the importance of the urban sector to the Uganda economy, various development partners are supporting the broader GoU program through a number of activities. Cities Alliance (CA) has provided a grant of US$4.2 million to support the Government in the formulation of a national urban policy and implement a program for the Transformation of Settlement of Urban Poor in Uganda (TSUPU). In addition, Cities Alliance is supporting the development and operationalization of Municipal Urban Forums (MF) that bring together various stakeholders to play the role of monitoring. Bill and Melinda Gates Foundation has provided a grant of US$1.4 million to provide technical support for initial engineering design and preparation of bidding documents for the first package of municipal infrastructure to be financed under the Program. The Public Private Infrastructure Advisory Facility (PPIAF) has provided a grant of US$390,000 to support own source revenue enhancement in five of the participating municipalities. Finally, DfID has provided a grant of US$341,000 to support the various diagnostic studies to inform the design of the Program and assisted government generally in taking forward its urban agenda. During implementation these activities will be built on in order to develop more direct involvement on the part of these and other Development Partners in the Program in future.

31. ***The Program will help sustain and strengthen the overall LGMSD government program in a number of different ways***. First, it will expand the size of the LGMSD very substantially – the current rough estimate shows that the LGMSD will grow from its current level of US$29,984,000 (UGX 74.96 billion[30]) in FY 2012/13 to US$62,840,000[31] by FY 2014/15, thus more than doubling the size of the LGMSD and adding substantially to total funding flows going to LGs (i.e. by about 5% off a high base relative to other countries in the region).

32. Second, while the Program itself will begin with a modest contribution from the GoU budget, this is expected to grow over time such that the Program (and thus the LGMSD as a whole) is funded largely or entirely from the government budget. The model here is the evolution of the grant flows under LGMSD itself from 2000 to the present time, which began (as LGDP 1) on the basis of a 90% funding contribution from the World Bank (10% came from GoU), expanded through LGDP 2 to draw in other donor funding and a steadily increasing GoU contribution, and are now – as LGMSD – entirely funded from the GoU budget. A similar trend is expected in respect of the MDG and MCBG windows which will be established under the Program. In other words, as with the initial LGDP, the initial Bank funding provided to the USMID is intended to play a catalytic role to establish the Program initially and leverage in increasing amounts of non-Bank funding over time.

[30] Source: Draft estimates of revenue and expenditure (recurrent and development), FY2011/12, MoFPED, Vol 1 Central Government Vote.
[31] Based on expected USMID disbursement of $20,100,000 and expected LGDP disbursement of $42,740,000 (UGX106.85 bn).

33. Third, the Program will establish an ongoing system into which increasingly urbanized LGs can graduate, thus providing them with access to an enhanced resource, management and incentive environment appropriate to their needs as these needs evolve. The mid-term review of the Program will provide one opportunity for this, but the graduation process is intended to be a dynamic one which can take place at any appropriate time assuming sufficient funding is available. Finally, the experience of the Program – for example, in the implementation of the enhanced assessment process – will provide valuable lessons for the broader LGMSD which could then be expanded throughout the program to strengthen it.

Exclusion of possible high-risk activities

34. The activities eligible for Program financing are detailed in the investment menu in Annex 1. These activities include road rehabilitation and upgrading, activities associated with urban solid and liquid waste management, water and sewerage extension to peri-urban areas, markets and abattoirs, bus, truck or taxi stands and activities for urban beautification. The eligibility criteria (detailed in Annex 1) will be included in the Program operation manual, and each Program LGs' compliance with the eligibility criteria will be measured through a minimum access condition. Moreover, investments using Program funds will exclude activities that would have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people. Each Program funded sub-project will be screened for its potential environmental and social impacts by the LG using a standard screening form that meets the requirements of the National Environment Management Authority (NEMA), in line with the provisions in the National Environment Act CAP 153 and the Regulations there under, and has clear criteria to screen out certain types of projects (e.g. new landfills or wastewater treatment plants) as well as projects that are high risk based on the project context (e.g. protected areas, large-scale resettlement). These types of projects will not be eligible for funding under the Program. Further, all Program funded investments, including dumpsite rehabilitation, will remain at a scale that would not include significant negative impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people, which are excluded from PforR financing. Additionally, contracts for Program funded LG sub-projects will not include high-value contracts[32] 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 US$518,296 and US$6,588,537 per Municipality per annum and actual disbursement of Program funds to each LG, which will be determined by annual LG 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.

B. Program Development Objective (PDO)

35. The PDO is to enhance the institutional performance of Program LGs[33] to improve urban service delivery. The Program is expected to produce the following two sets 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.

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

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

C. Program Key Results and Disbursement Linked Indicators

36. Program's progress towards achieving the two groups of results mentioned immediately above will be measured through the annual performance assessment. The performance indicators which will be used in the assessment are an enhanced version of the indicators used under the current Government program. The enhancements to the performance measurement system are necessary to reflect the significant increase in funds under the Program the LGs will receive. These enhanced performance indicators have been refined in close consultation with MoLHUD and the Program LGs. The detailed performance measurement system is provided in Annex 10 and a summary of the performance indicators is provided below:

Table 4: Summary overview of the main areas to be assessed

A.	**ENHANCED MUNICIPAL INSTITUTIONAL PERFORMANCE**
•	Established linkage between Municipal Physical Plan, Five year Development Plan and the Annual Budget
•	Enhanced own source revenue (OSR) mobilized
•	Procurement systems enhanced
•	Accounting and financial management systems enhanced
•	Program and budget execution improved
•	Monitoring, accountability, transparency and communication systems enhanced
•	Environmental and social management systems improved
B.	**EXPANDED URBAN INFRASTRUCTURE**
•	LGs meet the infrastructure targets they set out in the annual work plans
•	LG scores in the value for money audits

37. Progress towards the achievement of PDO will be measured through the following indicators:

- *PDO indicator 1*: Enhance institutional performance of selected municipal Local Governments to improve urban service delivery.

- *PDO indicator 2*: Local infrastructure targets as set out in the annual work plans delivered by municipal LGs utilizing the Program funds. The municipal infrastructure investments which will be financed by the Program will be determined by LGs. As this is a demand driven process, the indicator will measure the actual investments completed.

38. The first PDO indicator reflects results area 1 and the second PDO will capture the results area 2.

Disbursement Linked Indicators (DLIs)

39. USMID will have two groups of DLIs:

I. ***DLIs 1, 2, 3 and 4: Enhanced institutional and infrastructure delivery performance achieved by municipal LGs (US$136 million)***. These DLIs target comprehensive improvements at the LG level. The objective of these DLIs are as follows:

- ***DLI 1*** *– Municipal LGs have met Program minimum conditions in the annual assessment (US$30 million - US$28 million IDA and US$2 million GoU).* This DLI will ensure that Program LGs have minimum capacity in fiduciary, technical (project planning and execution), and environmental and social management to absorb the increased funding provided under the Program. The way to ensure the existence of this capacity will be by applying the Program's minimum access conditions. Assessment of each LG's compliance with the minimum access conditions, which will be done annually by an independent reputable firm, will determine whether the LG is eligible to receive Program funds. Only those LGs, which fully abide by the minimum conditions will receive funds under DLI 1, and become eligible to receive funds under DLIs 2 and 3. Those LGs which do not fully comply with the minimum access conditions will not receive funds under DLIs 1, 2 and 3, and will only be eligible for funds to build their capacity, under DLI 4;

- ***DLI 2*** *– Municipal LGs have achieved institutional performance*[34] *as scored in the annual performance assessment (US$58 million - US$56 million IDA and US$2 million GoU).* This DLI focuses on strengthening the local government institutional capacity. Similar to DLI 1, the Program's independent assessment will measure the extent to which each Program LG has enhanced its institutional capacity, by applying the Program's institutional performance indicators. The score obtained by each Program LG against the performance indicators will determine the amount of funding it will receive from GoU against DLI 2. The sum of these amounts for all LGs will determine the Bank to GoU disbursement for this DLI. The DLI is designed to be fully compatible with performance enhancement, where an LG which scores higher in its institutional performance assessment than another LG will receive a higher amount of funding; in other words, every point scored by a Municipality counts in determining the actual amount that will be disbursed to that Municipality for that year (the same principle applies to DLI 3);

- ***DLI 3*** *– Municipal LGs have delivered local infrastructure as per their annual action plans by utilizing Program funds (US$38 million - US$32 million IDA and US$6 million GoU).* This DLI will reward Program LGs' delivery of improved urban infrastructure while using the Program funds effectively and efficiently. The extent to which LGs complete their infrastructure investments against targets set in LG annual work plans will be measured by the Program's infrastructure investment performance indicators. The efficiency with which the infrastructure investments have been carried out will be measured by the value for money audits which will be conducted, starting in July 2014, by the country's Auditor General. The independent annual assessment, which will determine progress against targets in infrastructure delivery, will also incorporate the outcome of the value for money audits. The combination of these two elements for each LG will determine the amount of funding that LGs will receive against DLI 3 from GoU;

- ***DLI 4*** *– Municipal LGs have built local capacity by utilizing Program funds (US$10 million IDA).* The DLI will ensure (i) that municipal LGs have a comprehensive capacity building plan, and (ii) that they execute this plan. The LG capacity building plan will be LG specific and will comprise measures to improve gaps in technical,

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

fiduciary and environmental and social systems, as revealed by the Program's annual performance assessment. Among other things, each municipal capacity building plan will specify the activity, objective, the resources assigned and the implementation timeline. The template for the plan will be included in the Program operations manual. Municipalities which have not complied with minimum access conditions (i.e. are not eligible for DLIs 1, 2, and 3) will receive funding under DLI 4 so as to address their institutional capacity gap (provided they have a capacity building plan) and prepare themselves to qualify to receive funding in the following year[35].

II. ***DLIs 5, 6 and 7: Strengthened municipal capacity achieved by central government (US$24 million).*** These DLIs leverage and disburse according to results achieved by MoLHUD in strengthening the urban management capacity of Program LGs. Disbursements under DLIs 5, 6 and 7 remain with the central government.

- ***DLI 5*** *– Annual MoLHUD capacity building activities for Program municipalities executed (US$12 million).* This DLI ensures that MoLHUD provides the necessary technical support to municipal LGs. Similar to the municipal capacity building plans mentioned under DLI 4, MoLHUD will put in place an annual plan which will comprise (i) activities to build its own capacity and (ii) actions it will take to enhance the capacity of participating municipal LGs, so as to achieve the program objectives. Among other things, the plan will specify the activity, its objective, the resources assigned and the implementation timeline.

  DLI 6 *–LGs with town clerks in place (US$6 million).*While all LG staff are local government employees, chief accounting and deputy accounting officers are appointed by the central government. Without these officers in place, the risk that Program LGs are not managed properly increases, thereby increasing the risk to the Program's objectives. The main purpose of this DLI is therefore to provide an inventive to the central government to ensure that all Program LGs have their chief accounting and deputy accounting officers in place.

- ***DLI 7*** *- Municipalities with functional Integrated Financial Management System (IFMS) in place (US$6 million).* With the exception of two (Jinja and Hoima, as of end December 2012), the financial management systems of the Program municipalities are all manual. Given the very substantially increased amounts that municipalities will receive under the Program, it is important for fiduciary reasons that financial management systems are strengthened as quickly as possible. The Uganda Accountant General, working together with MoLG, successfully implemented an Integrated Financial Management System in selected LGs in Uganda. The first six went online in March 2012, and an additional twenty will be online by December 2012. The IFMS solution that is being implemented is Microsoft Dynamic with seven modules: General ledger (cash and accrual system, fund accounting, commitment accounting), budget planning, purchasing and commitment, accounts payable, cash management, inventory/stocks and revenue management. Quality assurance for this implementation is provided by PWC. The purpose of DLI 7 is to

[35] From FY2015/16 onwards, DLI 4 will disburse against the execution – not just adoption - by Municipal LGs of the annual capacity building plan. It is not possible to do this for the first two years as the annual financing and disbursement cycle does not permit sufficient execution time to have lapsed for an "execution assessment" to be made.

leverage a rapid roll-out of the IFMS to the remaining twelve Program municipalities by the end of year 2 of the Program.

40. Further detail on the DLIs, including the formulae which will be used to determine the disbursement amounts, is provided in Annex 1.

Results Framework

41. The results of DLIs 1 and 2 will feed into PDO indicator # 1, which will record the overall institutional strengthening of the Program LGs, while the result of DLI 3 will be reflected under PDO indicator # 2. Intermediate level results indicators will reflect progress towards DLIs 4, 5, 6 and 7, as well as some progress towards DLI 2.

D. Key Capacity Building and Systems Strengthening Activities

42. ***Much of the focus of the Program is on strengthening the capacities and operating systems of Municipal governments in Uganda, and on the intergovernmental system which provides the basic resource, institutional and incentive framework within which they operate***. In general terms, this systemic and capacity-building activity is addressed through three interrelated mechanisms: (i) the performance-based grant (MDG) which provides the demand-side incentives for local capacity-building activity; (ii) the capacity-building grant (MCBG) which provides Municipalities with dedicated resources to invest in capacity-building activity; and (iii) activities undertaken by the MoLHUD to support and guide the capacity-building efforts of the Municipalities and to develop national systems for improved urban development and management.

43. ***The first of these, the MDG, is discussed in detail above. So far as the MCBG is concerned the funds will be used by Municipalities for both human resource development and the installation, enhancement and improvement of operating systems in accordance with local priorities***. On the human resource side, Municipalities will use this funding to access formal training from existing pre-qualified local institutions as is the current practice under government funded LGMSD. Training and support of this type – and for systems enhancement - will be procured by municipal LGs themselves on the basis of their annual capacity-building plans which will be formulated on the same timing cycle as their five year development plans. The key areas of focus are expected to accord with the key areas targeted in the annual assessment for the MDG, particularly:

a) Urban planning focusing on improving and linking of the Municipal Development Strategy, five year Municipal Development Plan, and Budget. Municipalities will be supported to develop a long term municipal development strategy (MDS), update their physical development plans, conduct detailed surveys and mapping and develop the necessary municipal data base (socio, economic and services) to inform municipal urban planning, development, management and service delivery.

b) Enhancement of municipal own source revenue (OSR) and financial management, covering, but not limited to, property tax, local service tax and hotel tax (at least five major OSRs) including revenue data base, billing, collection, enforcement as well as expenditure management (budget controls, and municipal debt management).

c) Improvement of municipal LGs' capacities in fiduciary (procurement and financial), environmental and social management, and technical (design, implementation and supervision of projects) areas, as well as O&M of infrastructure investments (both existing and new ones).

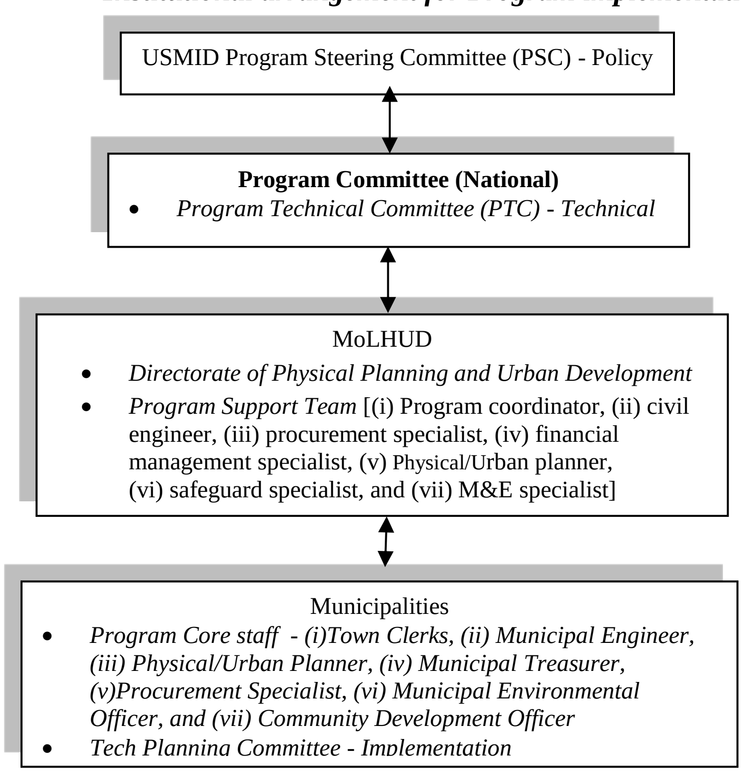
44. ***At the central level, MoLHUD will provide guidance to Municipalities for the formulation and execution of their capacity-building plans, as well as a limited amount of supply driven capacity-building support directly to the municipal LGs***. Training of this type will be provided through a number of MoLHUD centrally procured and managed mentoring activities intended to address specific issues in a municipality or cross cutting issues affecting all the municipal LGs. The Program Support Team (PST) will support the MoLHUD in providing the necessary technical back-up support to the municipal LGs, including but not limited to, reviewing the Program LGs' annual work plans and ensuring the robustness of the infrastructure targets set out in them. The Program will also support the MoLHUD to develop the necessary systems for urban development and management (development of laws, regulations and standards) such as (i) Physical Planning Regulations[36] with Standards and Guidelines, (ii) Building regulations, (iii) Urban data base indicators[37], and (iv) the law for the establishment of the Registration Board for the new National Physical Planning Institute.

III. PROGRAM IMPLEMENTATION

A. Institutional and Implementation Arrangements

45. The institutional arrangement for Program implementation will broadly follow the Government program structure, outlined as per the chart below.

Institutional arrangement for Program implementation



[36] To operationalized the newly passed a Physical Planning Act, 2010
[37] The urban data base indicators will be developed with support from Uganda Bureau of Statistics (UBoS).

Specific function(s) of each entity in the chart is as follows:

- ***Program Steering Committee (PSC)*** will comprise of 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 making policy decisions regarding 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) (MoFPED, MoLHUD, MoLG, LGFC, OAG, NEMA, MoWT, and the IG). The PTC will be responsible for addressing technical issues which might have impacts on the Program implementation. It will meet quarterly, on rotational basis, at the municipal LGs to have on sight inspection, provide real time guidance/support and promote community of practices, amongst others. Any emerging policy issues identified will be forwarded by the PTC to the PSC for resolution.

- ***MoLHUD*** will be the coordinating ministry for the Program and it will be responsible for carrying out a number of capacity building activities. Thus, MoLHUD will have the overall responsibility for implementation and accounting for the Program funds to the National Parliament. Assessment of MoLHUD's capacity to implement the Program indicated staffing as a major risk to the achievement of Program's development objective. To mitigate this risk and ensure that the Ministry has the adequate staffing to fulfill its duties under the Program, a Program Support Team (PST) will be put in place prior to Program implementation. The PST will, at a minimum, be comprised of the following seven professional staff: (i) Program coordinator, (ii) civil engineer, (iii) procurement specialist, (iv) financial management specialist, (v) urban/physical planner, (vi) safeguard specialist, and (vii) monitoring and evaluation specialist. These professionals will be mapped to the relevant departmental staff in the MoLHUD whom they will report to and provide mentoring support during Program implementation. The performance of PST staff will be evaluated annually and their services will be phased out once there is evidence that the MoLHUD is adequately staffed and has developed the necessary internal capacity to manage the Program.

- ***Municipalities*** will be responsible for planning, budgeting, implementing and reporting on Program funded activities, consistent with their mandate under the LGs Act CAP243. The municipal town clerks will be responsible for implementing and reporting on Program activities, with support from the municipal technical planning committee (heads of departments). Municipal councilors (elected representatives) and the municipal development forum (MF) will monitor Program implementation and provide oversight functions at the municipal level.

- In addition, the ***Ministry of Finance, Planning and Economic Development (MoFPED)*** and the ***Office of the Auditor General (OAG)*** will also play significant roles in Program implementation. MoFPED will be responsible for ensuring that Program resources are budgeted for and disbursed within the national Medium Term Expenditure Framework (MTEF), while the OAG will ensure that the Program audit and the value for money audits, which will begin by July 2014[38], are carried out. The Inspectorate of Government (IG) as the primary agency mandated to investigate and prosecute cases of corruption will be responsible for the investigation and prosecution of any case of suspected fraud and corruption. The Uganda Police through its Directorate of Criminal Investigation (CID) and the Directorate of Public Prosecution (DPP) as secondary agencies mandated to investigate and prosecute cases of crime respectively will also investigate and prosecute any case of suspected fraud and corruption. Where findings of the IG, CID and DPP disclose administrative liability, MoLHUD and the Municipalities will be responsible for enforcing the administrative action.

- ***The National Parliament*** will provide the general oversight through its two committees – the Public Service and LGs Parliamentary committee, and the Parliamentary Public Accounts Committee (PAC). The Minister of Lands Housing and Urban Development will be held accountable by Parliament for the Program implementation. These measures will bolster risk mitigation measures for F&C under the Program.

- ***The Bank team*** will be responsible for: (a) Reviewing implementation progress and achievement of Program results and DLIs; (b) providing support for implementation issues as well as institutional capacity building; (c) monitoring systems performance to ensure their continuing adequacy through Program monitoring reports, audit reports, as well as field visits; and (d) monitoring changes in risks to the Program and compliance with legal agreements and, as needed, the Program Action Plan.

46. ***An important measure to enhance transparency, accountability and participation under the Program will be the Municipal Urban Fora.*** From 2010, GoU, supported by Cities Alliance, has begun a process of establishing a Municipal Urban Forum (MF) in municipalities in Uganda. The chief purpose of the MFs is to enhance governance through increasing bottom-up transparency, accountability, and participation in key urban development and management activities. MFs have representation from local stakeholders including the private sector, NGOs, faith based organizations, CBOs, settlement level representatives as well as council officials, service providers and politicians. They meet in plenary on a regular basis to scrutinize and inform municipal decision-making on issues like the annual municipal plans and major investment activities, development funding and the municipal budget, and to monitor infrastructure project implementation progress. Thus far, MFs have been successfully established in five Ugandan towns – Jinja, Mbale, Mbarara, Kabale and Arua – all of which are Program municipalities.

47. MoLHUD, with the ongoing support of Cities Alliance, is in the process of rolling out the MFs to the additional nine municipalities which fall within the Program. Under the Program, the MFs will play a central role in enhancing local transparency, accountability, and participation thereby strengthening governance and mitigating risk in areas such as fraud and corruption. Thus a number of the Performance Indicators in DLI2 require that the Program municipalities establish and maintain the MFs, and submit and discuss regular reports in these fora e.g on matters related to key planning and investment decisions, the results achieved by the municipalities under the annual performance assessment, fraud and corruption, and so on. MFs are expected to be established in all Program towns by end February 2013.

[38] The findings of the first set of value for money audits will be considered in the 2014 assessment and will have implications on the disbursements starting on July 2015 (FY15/16).

B. Results Monitoring and Evaluation

48. ***The Program will be monitored and reported on using the existing Government systems***. Key elements of the monitoring and reporting structure during implementation will include regular reports from municipal LGs to MoFPED and MoLHUD, the annual performance assessments, value for money audits, and the midterm review report.

49. The current Government program is monitored and reported on by using the (i) Output/outcome/impact monitoring report which captures LG project outputs, outcomes and impacts in terms of numbers of facilities created, the size of the structure in case of construction, their outcome and impact on the people, the employment generated by the project, and the number of beneficiaries by sex and (ii) Report on investment inventories, which compiles an inventory of all the program investments, complete and in progress. The Program results listed in Annex 2 will be monitored and evaluated building on the existing government program M&E framework.

50. ***MoLHUD, as the coordinating ministry, will produce and submit to the World Bank within three months of the beginning of each new fiscal year an annual Program report*** which will provide information on the following:

- Summary of the municipal LGs assessment results and the corresponding disbursed amounts;
- Summary of aggregate Program expenditures and infrastructure delivered by municipal LGs;
- Progress report on activities executed under the MoLHUD capacity building plan;
- Summary of aggregate capacity building activities executed by the municipal LGs;
- Summary report on aggregate environmental and social measures undertaken by each municipal LG, including grievances handled;
- Summary of aggregate information on procurement grievances;
- Summary of aggregate information on fraud and corruption issues – including, but not limited to complaints and investigations- will be captured in Program reporting as provided by or reported to PPDA, IG, CID and DPP (see section on Fraud and Corruption).

51. The Program report will be shared with the National Urban Forum (NUF) for discussion. Established in May 2011, the NUF provides the opportunity for an open accountability of the Program at the national level. NUF brings together the national government, local authorities, civil society, and other development partners.

52. A mid-term review will be conducted within 36 months of Program implementation to evaluate progress and any adjustment to Program design.

53. Value for money audits which will be conducted by the office of the Auditor General that will begin in July 2014 will be an important tool in tracking institutional and infrastructure performance improvements. The outcome of the value for money audits will be a significant factor in determining disbursement to Program LGs (from FY 2015/16 onwards which is when the disbursements linked to the delivery of municipal infrastructure investments begin), linked to infrastructure delivery under the Program, i.e. DLI 3.

54. The Program will enhance the capacity of local governments and MoLHUD in monitoring and evaluation. At the LG level, the Program will provide training and assistance on M&E, which will focus on (i) data collection, (ii) data quality and integrity control and (iii) linking data to informing local government decision making processes. At the MoLHUD level, the Program Support Team which will be in place by effectiveness, as per Program's legal covenant, will include an M&E specialist who will be responsible, among other things, for providing assistance to Program LGs in ensuring quality of data, and for linking the results of the annual performance assessment to the capacity building activities pertaining to M&E.

C. Disbursement Arrangements and Verification Protocols

55. Upon confirmation of the achievement of Program DLIs, the Bank will disburse the corresponding amount to the Government. Disbursements for DLIs 1, 2, 3 and 4 will be made twice-yearly and for DLIs 5, 6 and 7 annually, though for DLI 7 disbursement can be made at any time the result is achieved. Funds for DLIs 1, 2, 3 and 4 will be transferred by the Government to the eligible Program local governments within 30 days of Bank to GoU transfer. Funds for DLIs 5, 6 and 7 will remain at the central government level, as these aim to leverage central government actions. The Government will ensure that the funds released from the Bank upon satisfaction of DLI 5 will be transferred to MoLHUD within 30 days of the Bank to GoU transfer and the funds released from the Bank upon satisfaction of DLI 7 will be transferred to the Accountant General (MoFPED) within 30 days of the Bank to GoU transfer. A detailed explanation of the steps needed for disbursement against each Program DLI is provided in Annex 1. A summary of these steps is provided below.

56. Verification protocol for DLIs 1, 2, 3 and 4 will comprise the following steps:

(i) An annual assessment will be commissioned by MoLHUD and will be undertaken by a reputable independent firm. MoLHUD will ensure that the terms of reference for this firm are satisfactory to the Bank. The annual performance assessment will measure the performance of each Program LG against the Program's minimum conditions, performance indicators (detailed in Annex 10) and the execution performance of the capacity building plan. Part of the performance indicators for DLI 3 will rely on the results of the VFM audit which will be conducted by OAG. On the basis of the assessment findings, the firm will assign a score to each LG and calculate the allocation to each LG as per 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;

(ii) The Program Technical Committee (PTC), consisting of MoLHUD, MoLG, USMID/PST, MoFPED, LGFC, OAG, NEMA, MoWT, IG and DPs will verify that the assessment results are accurate and the disbursement from the central government to LGs of Program funds in the last 6-month period has been done on time (starting with the second disbursement of Program duration). PTC will review the assessment results for clear and indisputable errors (e.g. whether a given LG received a clean audit report);

(iii) As part of implementation support, the Bank will review the assessment results, the allocation amount and will ensure the timely disbursement of Program funds in the previous period. Bank's final review will prevail in the case of any disputes.

Verification protocol for DLI 5 will comprise the following steps:

(i) MoLHUD will put in place an annual plan to build capacity of LGs and to support the Program objectives. Among other things, the plan will specify the activity, its objective, the resources assigned and the implementation timeline. The template for the plan will be included in the operations manual.

(ii) In FY 2012/13, when the credit becomes effective, MoLHUD will have the option to receive an initial advance of US$2 million under DLI 5. If drawn, the advance will provide the ministry the necessary resources to implement a number of activities, including capacity building activities, which are critical to the achievement of DLI 5, and the procurement of the independent annual performance assessment, which is key for DLIs 1, 2, 3, 4 and 6.

(iii) In other Program years, within 60 days of the beginning of the forthcoming fiscal year, MoLHUD will submit the plan to the World Bank which will verify that the plan is in the agreed format and is satisfactory;

(iv) Within 30 days of the beginning of the fiscal year, MoLHUD will submit a report of the implementation of the annual capacity building plan for the previous year.

(v) The Bank will verify the extent to which the plan has been executed and determine the DLI amount to be disbursed.

57. Verification protocol for DLI 6 will comprise the following steps:

(i) 60 days prior to the beginning of the new fiscal year, MoLHUD will submit to the Bank a schedule listing the names of 14 town clerks.

(ii) The independent annual assessment will verify that these town clerks are in place.

(iii) The Bank will review consistency of the lists.

58. Verification protocol for DLI 7 will occur through public financial management (PFM) team missions to the Program LGs to ensure that IFMS has been properly installed and is being effectively used by the municipality. Similar to DLI 5, GoU will have the option of an advance under this DLI, of up to US$2 million. This advance will be available starting in FY 2012/13, when the credit becomes effective. If drawn, the advance will provide the Government the necessary resources to kick start the implementation of a set of activities needed to achieve the results expected under this DLI.

IV. ASSESSMENT SUMMARY

A. Technical (including program economic evaluation)

59. A Technical Assessment was undertaken for the preparation of USMID. The analysis included, among other things, Program's strategic relevance, technical soundness and produced the basis for the Program expenditure framework, results framework and monitoring and reporting system. It also reviewed Program's economic rationale, its expected impact, and the technical risks associated with the Program and the actions to help mitigate them. The

assessment concluded that the Program can be implemented within existing Government legal and institutional framework.

60. USMID design builds on the existing Government program, with the most distinct feature being the performance based nature of grants which will flow to the 14 municipalities. Additionally, the Program deepens the Government's efforts for decentralization, while also responding to the rising importance of the country's urban municipalities to enhance service delivery and respond to the needs of rapidly rising urban populations. Thus, USMID has high ***strategic relevance*** for Uganda's development priorities.

61. ***Program expenditure framework –***The total Program funding, given in the table below, is US$160 million of which IDA financing is US$150.0 million (94%) and GoU funding is US$10 million (6%) over the five years (FY 2013 – FY 2018) Program period. US$136 million will constitute grants (MDG/MCBG) that will go directly to the 14 municipal LGs. US$24 million will support and leverage MoLHUD and the municipal LGs capacity building, including system improvements directly linked to the Program execution. The Program funds will flow from the Treasury to the relevant central government agencies and the municipal LGs and will be disbursed on a bi-annual basis. The Government's program (LGMSD) currently uses funds flow mechanisms to disburse funds to all LGs nationally and the Program will use these channels which are well established (see Annex 1 for funds flow details).

Table 5: USMID financing and expenditure framework

ITEM	AMOUNT (US$)	OF TOTAL
Estimated Program Expenditures		
Grants to Municipalities	136,000,000.00	85%
Central government executed activities for grant administration and capacity support	24,000,000.00	15%
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%

62. The GoU general rules governing the utilization of donor funded as well as government financed activities will govern the utilization of the Program fund. These rules are clearly elaborated in the Public Finance and Accountability Act 2003 and Accountant General Treasury Manual. The rules for the utilization of the Program funds will therefore be the same as that of the LGMSD funds, with minor modifications, to respond to some of the differences as evidenced by the difference in the menu of investment activities that can be taken under the LGMSD and the USMID.

63. ***Program expenditure as a percentage of the government program*** - The total Program expenditure of US$160 million for five years will be equivalent to 64.2% of the estimated government program (LGMSD) transfers of US$233.69 million to LGs over the same period. However as a percentage of total direct discretionary funds transfers (unconditional grant, LGMSD and equalization grants) from central government to LGs, the USMID Program expenditure will be only 20.6% of the US$728.48 million (UGX1,821.21 billion) to be transferred over the Program period.

64. ***Program sustainability risks***. However, as with any program, budget sustainability risk is unavoidable. GoU's overall fiscal position could decline, placing downward budgetary pressure on total transfers to LGs. In the context of Uganda's broad fiscal outlook, particularly following the discovery of oil, this appears unlikely. It is also possible that overall policy could shift unfavorably regarding support to urban investment, or that the "re-centralizing" trends which have emerged in recent years could magnify, which could lead to decreased funding to programs such as the USMID. This is mitigated by the fact that urbanization will almost inevitably persist – indeed, is likely to intensify - for the foreseeable future. Moreover, in committing to the introduction of the USMID, which, from a general budgetary point of view, substantially expands the aggregate national fiscal resource directed at supporting local government discretionary expenditures, GoU has given a clear indication of an ongoing commitment to local expenditure autonomy. Clearly, however, the degree to which the Program will generate support, hence attract expanded Government and donor funding, will depend on the degree to which it succeeds. An additional form of sustainability risk relates to the sustainability of the assets that the Municipalities will create utilizing MDG funding. This risk will be mitigated in the Program by ensuring that municipal investments under the Program are limited to few activities, some of which – like roads – already have operations and maintenance funding through the roads funds. In addition, the Program will support municipal own source revenue (OSR) enhancement and provision of O&M in the municipal annual budgets, both of which are included in the municipal performance assessments.

65. ***Government program (the LGMSD) expenditure performance track record*** - Under the LGMSD there are no major expenditure performance issues. In addition, Government, currently under its PFM reforms is considering making the third and fourth quarter releases to LGs during the third quarter so as to give LGs ample time to fully utilize the release. Given the nature of investments under the Program, releases to the participating municipalities will be done twice a year.

66. ***The Program Economic Evaluation*** assessed (i) the counterfactual scenario where the Program is not introduced and (ii) the potential economic impact of the Program. The assessment showed a strong rationale for the proposed interventions. The counterfactual scenario where the government's LDG of approximately US$1.57 per capita moves forward without the proposed Bank supported Program means that the target municipalities continue not to receive the necessary investments in infrastructure and institutional capacity needed to keep up with the rapid urbanization and the increase in urban residents in the Program municipalities. This means the Program municipalities face a serious challenge in meeting their ever- increasing residents' expectations of delivering reliable urban services, as well as a possible deterioration, and in some cases, collapse of existing infrastructure. To give an idea of the quality of existing infrastructure in the Program municipalities, out of the total 1611 kilometers of roads network in the 14 municipal LGs only 344 kilometers are paved (21%); out of a total of 1297 tons of garbage generated annually only 668 tons (52%) are collected; and out of a total of 230 street lights only 32 (14%) are functional. Given these infrastructure and service gaps, the existing government program is not adequate to achieve the proposed Program's objective of enhancing the institutional capacity of the municipal LGs and expanding the urban infrastructure, due mostly to its low per capita allocation. While it is clear that capacity and performance challenges among the municipal LGs continue and urban infrastructure and services remains low; it is evident that without the proposed Bank supported Program, the government LDG would not be adequate for achieving the proposed objective of increased municipal LGs performance in expanding urban infrastructure.

67. The second dimension of the Program economic analysis is the potential economic impact of the investments. An analysis of similar investments in the Uganda indicate that the economic impact of urban infrastructure investments are positive, with a high average economic internal rate of return (average EIRR ranging from 27.5 to 33% for urban roads, 10.6% for drainage and 27% for street lights). Additionally, the Program will produce unquantifiable benefits by deepening decentralization reforms in the participating municipal LGs for enhanced implementation of key urban services. At the ministerial level, the Program will enhance institutional capacities, including physical planning, training and coordination among key stakeholders. At the municipality level, institutional capacities to plan, implement and better monitor infrastructure investments will be improved. Improvements in physical planning, financial management, environmental and social management, and procurement will likely contribute to improved efficiency in delivery of key urban services and better management of the municipalities. Municipalities are more likely to improve own source revenue generation when systems and processes are improved. As a result, their abilities to contribute to operations and maintenance of infrastructure and thus, sustainability of the Program will be enhanced.

B. Fiduciary

68. ***An Integrated Fiduciary Assessment was conducted for the 14 Municipalities that are the beneficiaries of the Program.*** Of the fourteen municipal LGs that are the beneficiaries of this program, the chief findings with respect to FM issues, were as follows: (i) improving but mixed performance on external audit results, with the number of Municipalities receiving an Unqualified opinion rising from one in FY 2008/09 to five in 2010/11 (seven received a Qualified opinion) but two receiving a "Disclaimer" opinion; (ii) a challenging budget formulation process with communities not able to get their voice heard in the process; (iii) weak and ineffective internal audit that is not undertaking risk based auditing and that does not implement up to 50% of its annual work plan; and (iv) large staffing gaps, with some local governments having only 35% of their positions filled, and overall gaps of 50% in key technical areas of engineering and finance.

69. ***On procurement the assessment found that the procurement framework is based on clear, mandatory and enforceable rules that are freely accessible to the public is sound and appropriate for the achievement of competition, cost effectiveness, timelines in the delivery of services.*** However, the participating agencies performance in complying with the system both qualitatively and quantitatively limits the overall effectives in achieving these objectives. While most of the procurement in these 14 municipal LGs is through competitive bidding, compliance in procurement is a challenge with (i) inadequate specification of qualification requirements in bidding documents; (ii) inappropriate advertising of opportunities; (iii) departure from pre-disclosed evaluation criteria during bid evaluation; and (iv) incomplete procurement records. These contribute low bidder participation with 1 to 3 bids received for competitive procurement, which limits the competitiveness of procurement and the achievement of cost effectiveness in the delivery of services. Timely service delivery is impeded by late delivery of goods and services due to (i) budget credibility and planning weaknesses which result in delayed procurement commencement and (ii) weaknesses in contract administration which result in delays in contract performance or even underperformance. The procurement complaints system is well established, but is unsurprisingly underutilized by bidders given the low bidder participation.

70. ***Overall fiduciary risk in the Program municipal LGs will increase as a result of the significant increases in funding they will receive under USMID.*** As indicated earlier, average overall revenues are estimated to rise by more than 70%, with development revenues specifically rising by a range of $351,698 to $1.6 million in FY 2013/14[39]. Overall fiduciary risk is assessed as high.

71. ***Risk Mitigation measures will be anchored in the combination of the annual assessment of progress under the program action plan, targeted implementation support and the DLIs, which are an integral part of the program and present a good opportunity to address fiduciary risk.*** Key fiduciary risk mitigation measures have been included either as a minimum condition (DLI 1) or as performance indicators (DLI 2) in the annual assessment. Moreover, DLI 7 – which leverages the roll-out of IFMS to all Program municipalities – constitutes a key fiduciary and fraud and corruption risk measure for the Program. These measures will be complemented by capacity building for the 14 municipal LGs and MoLHUD in Program management, procurement and financial management to help strengthen their fiduciary systems. Emphasis will also be placed (and leveraged through DLI 2) on bottom up enhancing transparency and accountability at the local level through the scrutiny that the Municipal Fora will provide.

72. ***The program audit will entail the audit of the individual Municipalities as entities with distinct audit reports and then consolidated with MOLHUD to capture the whole program.*** This type of audit will help in assessing individual Municipal Council performance. Adequate independent audit and verification arrangements are in place, taking into account the country context and the nature and overall risk assessment of the Program and will be relied on for the program. The program will be audited under the OAG existing framework. The Auditor General shall conduct annual statutory audits of participating municipal LGs and the MoLHUD. There shall be annual statutory audits with expanded scope after 2 years to cover Value for Money (VFM) aspects by the Auditor General in the 14 municipal LGs in light of the increase in expenditure on the infrastructure under the program as per agreed ToRs. The VFM audits will be carried out as per agreed ToRs and will provide the basis for a significant proportion of the performance score awarded to the Municipalities in the Infrastructure Delivery part of the annual assessment.

Fraud and Corruption (F & C)

73. ***Fraud and Corruption (F&C) remains a major risk for the Program despite the stated zero tolerance to corruption policy of the Government***. The main risks are (i) Collusion between bidders and LGs staff especially given the compliance problems highlighted; (ii) bribery in procurement with PPDA Surveys showing that 69.8% of surveyed service providers acknowledging that corruption influences procurement; and (iii) embezzlement of funds.

74. The Program will significantly increase the work load under the participating Municipal LGs due to the increase in the MDG from the current US$1.57 per capita to US$16.51 in the first year rising to US$28.39 by end of Program period and at the same time the MDG will provide greatly increased fiscal resources to Municipalities. These will heighten, particularly in the early years, fiduciary and fraud and corruption risks. The vulnerable areas where fraud and corruption

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[39] The amounts are for FY2013/14, taking into account MDG and MCBG combined (DLIs 1, 2 and 4), assuming that (i) the average actual performance of LGs is at annual target of 50 and (ii) the actual performance of individual LGs is at annual target of 50.

challenges may arise are particularly during (i) Procurement of works, goods and services; (ii) Supervision and certification; (iii) Receipt of goods – weak stock verification and inventory records; and (iv) Authorizing and effecting payments.

75. ***Fraud and corruption mitigation measures -*** Fraud and corruption in the Program will be mitigated through a three prong approach, namely: preventive actions, deterrent, and detection mechanisms. These measures will include: (i) stringent oversight arrangement by the MoLHUD of Program implementation activities especially in the areas of fiduciary, technical supervision and oversight including provision of modular engineering designs for some of the sub-projects where possible, (ii) ensuring that only those municipal LGs which have the core staff in post will qualify to access the investment grants and, (iii) engaging as much as possible the communities in monitoring of Program through enhanced information sharing, centered on the activities of the MFs. Improving the environment to mitigate F&C in the participating municipal LGs is a specific goal of the Program, and will be addressed directly through the various measures outlined in the PAP – Annex 8 and elsewhere in this document. More specifically:

- The Minimum Condition and Institutional Performance aspects of the annual assessment will include measures such as strengthened financial management and procurement systems, development and adoption of a customized local version of the *Framework For Promoting Good Governance and Anti-Corruption in Local Governments 2012-2015*, establishment of an operational Complaints Handling System for handling grievances related to fraud and corruption (as well as environmental and social issues), publicly advertising the bidding procedures, and disclosing contract awards to the public. The value for money audits to be undertaken starting in July 2014 will form half of the score for the Infrastructure Delivery assessment will also provide a powerful institutional disincentive for corrupt practices in project procurement and implementation;

- The capacity building programs to be managed at MoLHUD and by municipal LGs using the MCBG will specifically focus, among other things, on accountability and monitoring at the municipal LG level to mitigate fraud and corruption risk.

76. In addition, the responsibility for ensuring that any case of suspected fraud and corruption are expeditiously reported to the national primary and secondary agencies mandated to investigate and prosecute cases of corruption and crime, (IG, CIID or DPP) will be placed on the municipalities and MoLHUD, who will also be required to strictly enforce any necessary administrative sanction within their remits to raise the bar on corruption**.** The Municipalities and MoLHUD will provide bi-annual reports of complaints and any case of suspected fraud and corruption reported to the IG, CIID or DPP and also on administrative sanctions within their remits. The Inspectorate of Government will publicize in its statutory bi-annual report of its activities to Parliament action taken or being taken on any case of suspected fraud and corruption in the Program. The municipalities and MoLHUD will also establish and implement comprehensive complaints and grievance handling mechanisms and have initiatives for participation of Non-State Actors, professional groups, civil society coalitions to monitor all stages of the program implementation to help improve chances of meeting Program outcomes. The various fraud and corruption mitigation measures have been included in the PAP in Annex 8.

77. ***Alignment with ACG for PforR Operation -*** To address the F&C associated with fiduciary risk, USMID implementation will be aligned to the Anti-Corruption Guidelines (ACG) applicable to PforR Operations - Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing", dated February 1, 2012. The measures that will be instituted under the Program to raise the bar on fraud and corruption will include the following:

- *Sharing of debarment list of firms and individuals.* The GoU Public Procurement and Disposal of Public Assets Authority (PPDA) will share with MoLHUD and the municipal LGs and also the IG, CIID and DPP, on a quarterly basis, the list of firms and individuals which have been debarred or suspended from participating in procurement in Uganda. Likewise, MoLHUD will obtain a list of temporary suspended firms and individuals from the Bank and share this list with the PPDA, municipal LGs, IG, CIID and DPP. The bidding documents for works, goods and services to be financed under the Program will have explicit clauses to the effect that firms and/or individuals which have been debarred or suspended by the Bank or PPDA would not be eligible to bid under the program. The Program will put in place enhanced information flows by leveraging ICT innovations and encouraging MoLHUD and participating Municipal LGs and stakeholders to disclose information through mobile platforms.

- *Sharing of information on F&C allegations* – in line with the PforR ACGs, the Inspectorate of Government (IG) will share with the Bank, through its statutory bi-annual reports of its activities to Parliament, action taken or being taken on complaints and grievances received from the general public on F&C. The CIID and DPP will also share with the Bank, through the Annual Report of Corruption Trends in Uganda using the Data Tracking Mechanism action taken or being taken on cases reported to them. The IG, CIID and DPP are mandated by their governing Statutes to receive complaints and reports from the public and other stakeholders, including participating Municipal LG staff. However for the Program, the IG will be the coordinating institution for receiving and reporting on cases of suspected fraud and corruption. A complaint, grievance or report can be a notification in writing, verbal or electronic regarding any Program activity and/or conduct of staff, consultants, service providers, partners and/or sub-contractors of the implementing agencies, which the complainant perceives to be wrong. The complainant is not required to be personally aggrieved or impacted and therefore could act merely out of a sense of civic duty in bringing an occurrence to the attention of the authority. The IG and CIID receive such complaints and reports electronically through their respective websites, and alongside DPP also in writing or verbally through a dedicated hotline which are then processed as outlined in the Flow Charts in Appendix 4. The IG has so far established 16 IG Regional Offices strategically throughout the country to deliver its services closer to the people and all the 14 Municipal LGs have IG Regional Offices. The CIID and DPP also have District Offices and Stations respectively in all the Districts in which the 14 Municipal LGs are located. At the participating Municipalities, each municipal LG will be required to establish grievance committees as one of the minimum conditions for fighting F&C under the Program.

- *Investigation of F&C allegations* – The IG and CIID as the primary and secondary agencies for investigation, and in the case of IG, prosecution, of cases of corruption and crime respectively, are granted powers by the Constitution (1995) and their governing Statutes to enable the agencies perform these functions. These include the power to: (i) conduct an investigation and prosecution, (ii) summon a public officer and/or witness,

(iii) compel production of documents, (iv) arrest and detain suspects, (v) access and search premises and other property, and (vi) inspect any bank account. The IG is also granted independence in the performance of its functions and is not subject to the direction and control of any authority and is only responsible to Parliament. The IG governing Statute empowers the IG to work in consultation with other technical experts to enhance the performance of its functions. In 2010 the IG entered into an MoU with the Integrity Vice Presidency (INT) of the World Bank to cooperate with each other within the scope of their mandates, and specifically to closely cooperate and consult each other regularly on matters of mutual interest by, amongst others; (i) sharing information of relevance for detection, substantiation and prevention of F&C in connection with conduct which may constitute a serious crime under national legislation or a sanctionable offence under the World Bank Group rules and policies and (ii) undertake joint activities and collaborate when appropriate in each party's efforts to detect, substantiate and prevent F&C. The MoU will therefore make it possible for the INT to collaborate with the IG on any case of suspected fraud and corruption in the Program and INT will also leverage the synergies of the MoU to similarly collaborate with the CIID and DPP on such cases.

78. In addition to the above measures, the Program will build in scope for Non-State Actors, professional groups, civil society coalitions to participate in monitoring both implementation processes at all stages of the Program to help improve chances of meeting Program outcomes. The Municipalities and MoLHUD will be required to publicly disseminate information on program implementation and results on municipal bulletin board and full plenary meeting at the MFs. In addition, the Program minimum condition and key performance measures have incorporated measures to mitigate F&C. The recruitment of key staff to cover the shortfall across municipalities and the MHLUD will help meet Program objectives and act as a mitigation measure for fraud and corruption and other challenges identified under fiduciary assessment. In addition several of the performance measures target improvements in transparency, procurement, financial management quality of works and sound environmental management. The Program reward/sanction system provides incentives for Municipal LGs to implement measures to address F&C.

C. Environmental and Social

79. ***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 through including measures in the Program to strengthen systems for environmental and social management.

80. ***The ESSA analyzes the system for environmental and social management as it is written and how the system is applied in practice*** in order to assess the constraints and gaps between those systems and the PforR principles. Measures to fill those gaps and strengthen systems are then incorporated in the overall Program design. The portfolio of projects to be undertaken was also analyzed to identify typical environmental and social effects (both positive and negative impacts) for the types of projects that are eligible for finance under the Program. The ESSA was informed by a desk review of relevant laws, policies and regulations, field visits

by consultants to all fourteen Municipal Councils included in the Program, and a robust stakeholder consultation process.

81. ***Negative impacts from USMID activities are likely to have low to moderate environmental and social impacts.*** While 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 should be positive, adverse environmental and social impacts are possible. Based on the type, scope and scale of works allowable under USMID, adverse impacts are expected to be typical construction impacts that are site-specific and generally limited to the construction phase. Similarly, given the scope of activities under USMID it is highly unlikely that large-scale resettlement would occur, although land acquisition is likely for the construction of infrastructure works, for example in widening roads in the existing rights-of-way or acquiring land for new market areas. This has the potential to impact land, assets, property, crops, and shared community facilities such as water points, community roads, and roadside markets. 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. As described below and in more detail in Annex 6, a 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 and ineligible under the Program).

82. ***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. As written, it is sufficient to ensure that potential impacts will be identified and managed. However, the system is constrained by human resource gaps at various levels, and its implementation is at times inadequate as personnel lack resources (e.g. to make site inspection visits, or to adequately carry out consultations).

83. Due diligence and oversight of the impact assessment process for projects with lower levels of environmental risk are typically handled by local governments, while projects requiring full Environmental Impact Assessments are handled by the National Environmental Management Authority (NEMA) at the central level. Most projects under USMID would be classified for local government oversight, which is where the ESSA focused the assessment of current performance. The ESSA found that 4 of the 14 municipalities did not have a Municipal Environmental Officer (MEO) in place though this position is required by law and is the focal point for handling due diligence. A performance assessment specific to environmental and social management carried out in 2011 by MoLG found that 58% of municipalities did screen projects, only half included mitigation measures in bidding documents, and only one third required that MEOs certify projects, thereby leaving little to no required environmental oversight for the majority of projects implemented by municipalities. The MoLG assessment concluded that about 40% of municipalities' projects did meet environmental standards.

84. ***For issues related to land acquisition, resettlement and compensation, the ESSA found significant gaps between the Ugandan system and PforR requirements***. The legal framework related to land acquisition dates back to the 1960s and other land laws are insufficiently operationalized. The visits to all fourteen municipal local governments and the consultations for the ESSA also indicated that no municipality had staff designated to handle land acquisition, though all municipalities did have Community Development Officers (CDOs) whose roles include community mobilization and empowerment. The lack of a clear legal and institutional framework coupled with budget constraints and a lack of designated staff responsibilities result in practices such as individuals being requested to voluntarily contribute land for projects. Compensation payments, when they are made, are inconsistently applied and take a long time to process. At the inter-governmental level, lack of clarity on legal mandates and on coordination among key institutions allows for conflicting land allocation decisions between municipalities, districts, and Land Boards.

85. Additionally, for both environmental and social impact assessment and land acquisition, the ESSA found notable gaps with respect to transparency, public consultation, and the system for grievance resolution.

86. ***To address gaps identified by ESSA, USMID will support specific measures for strengthening the performance of Uganda's environmental and social management systems.*** These measures, described in more detail in PAD Annex 6, relate to strengthening the foundation, implementation and oversight of the system for environmental and social impact assessment as well as land acquisition. Actions will be carried out through several mechanisms embedded in the Program: (i) The Program Operational Manual, which is a set of technical tools that build on a guide to environmental and social management already in use by the Ministry of Local Governments and a Land Acquisition Framework prepared by MoLHUD, (ii) Capacity building, and (iii) performance incentives and oversight .through the Annual Performance Assessment, which is directly tied to Disbursement-Linked Indicators. The Performance Assessment requires a minimum condition to access the MDG that each Municipal LG has an Environmental Management Officer, a focal point for land acquisition, a Complaints Handling System, and demonstrates a system for environmental and social management is in place and functioning.

D. Integrated Risk Assessment Summary

1. Integrated Risk Assessment Summary

Risk	**Rating**
Technical	Substantial
Fiduciary	High
Environmental and Social	Moderate
Disbursement Link Indicator	Moderate
Overall Risk	**Substantial**

2. Risk Rating Explanation

87. ***The overall risk rating for the Program is Substantial.*** In view of the moderate level of stakeholder and environmental and social systems risks, substantial level of technical risks, high level of fiduciary risks and uncertainties regarding the outlook for ongoing decentralization, the overall operation risk is rated ***substantial***. The overarching measures to mitigate these risks will

be firstly the series of institutional enhancement activities which will be financed by the Program to address capacity gaps both at the MoLHUD and the municipal LGs, and secondly the incentive mechanism under the enhanced municipal local development grant (LDG).

E. Program Action Plan

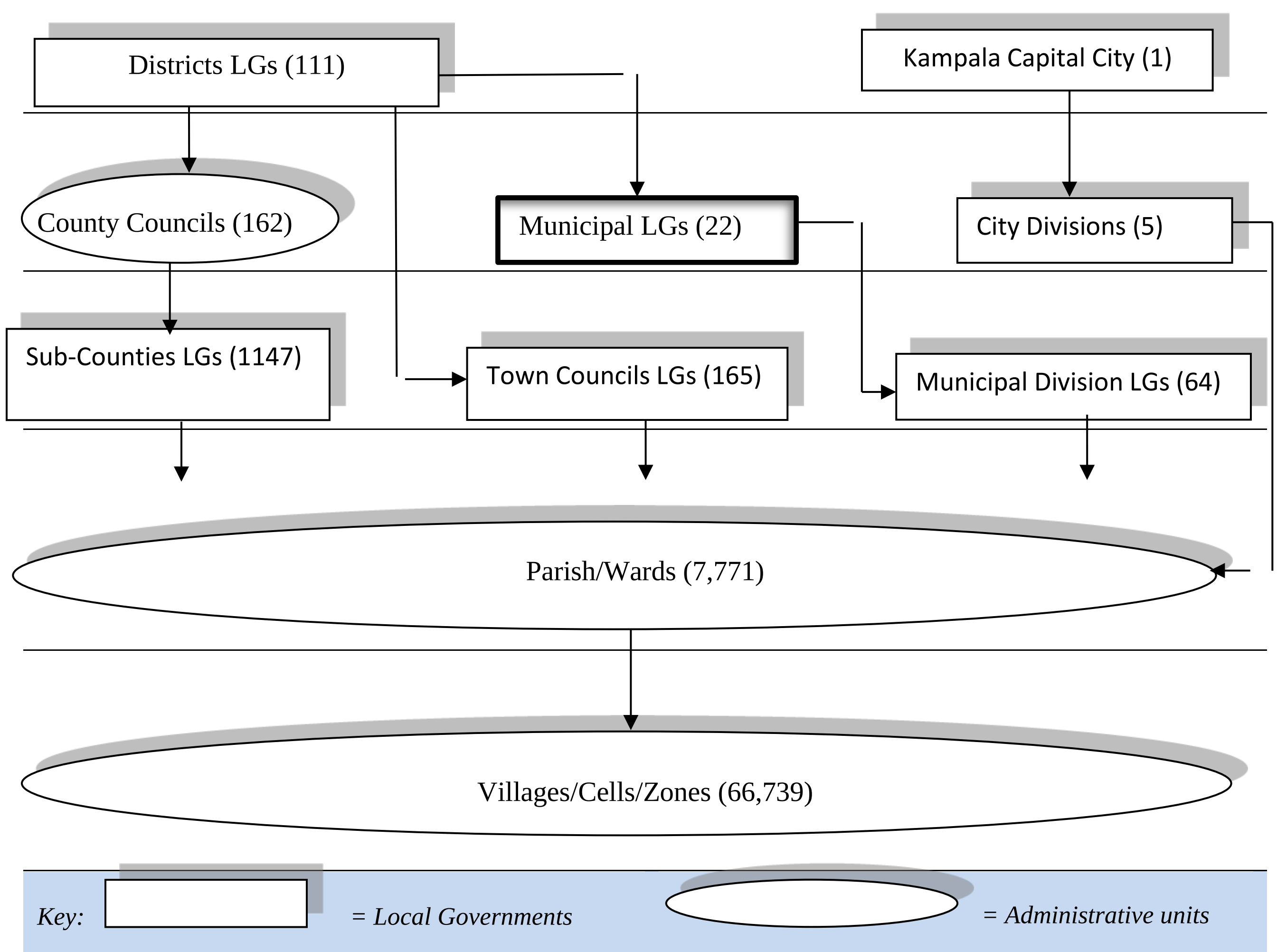
88. ***Program Action Plan (PAP)*** - To ensure efficient Program implementation and maximize the likelihood of achieving the Program development objective a number of actions will be taken. These actions aim to mitigate risks identified through the various assessments conducted to inform the Program design. They also build on the lessons from the implementation of the Government program LGDP. They will address shortcomings which cut across the Program, as well as risks which are specific to technical, fiduciary, social and environmental management. A number of these issues/risks have been addressed at the Program design and DLI level, while others are legal covenants and agreements. The detailed Program Action Plan is presented in Annex 8.

Annex 1: Detailed Program Description

Context

1. As part of overall decentralization policy, from 2000 – 2007, the World Bank and other Development Partners supported GoU to pilot the Local Government Development program (LGDP) to LGs. The core element of the program was the local development grant (LDG) and capacity building grant (CBG). Under the program LGs were required to meet certain minimum conditions consistent with the legal and statutory provisions governing their operations. Every year the performances of LGs were assessed and those which performed above average were rewarded with an additional 20% in their grant allocation in the following year, while those which performed poorly were sanctioned and lost 20% of their grant allocation. From 2003 – 2007, with support from the Bank, DANIDA, Irish Aid, Netherlands Government, and Austria Government – through joint financing, the program was scaled nationally to cover all the LGs in the country[40]. See chart 1 below.

Uganda Government PBG program



[40] As of June 2012 there were 1445 LGs in the country (111 Districts LGs, 22 municipal LGs, 165 Town council LGs, and 1147 Sub-Counties LGs.

2. From 2008 to date, GoU has fully taken over the financing of the LDG and CBG through the Local Government Management and Services Delivery (LGMSD) program (the government program) from its national budget and over the four years it has provided on average about UGX64 billion annually to all LGs. The government program (LGMSD) in the FY 2012/13 will account for 27.26% of the decentralized funding to LGs (unconditional grants (UG), equalization grants (EG) and the LDG/CBG).

3. The horizontal allocation of the LGMSD funds between the Districts is based on population (15% weight); land area (45%) and poverty head count (40%). Of this, the District retains 35% and the remaining 65% is shared between the sub-counties (rural LG horizontal allocation) using the same formulae. The urban LGs receive US$1.57 per capita (urban LG horizontal allocation) and the municipal LGs retain 50% while the remaining 50% is shared between its divisions based on population (urban LG horizontal allocation).

USMID

Program Scope

4. ***Program Development Objective (PDO)*** – to enhance the institutional performance of Program LGs to improve urban service delivery.

5. ***Program amount and Period*** – The Program will be US$160 million of which IDA funding will be US$150 million and GoU contribution from the existing LGMSD will be US$10 million. The Program will be implemented over a six year period (FY 2013 – FY 2018)

6. ***Program scope and coverage -*** 14 municipalities namely: Arua, Gulu, Lira (Northern Uganda); Soroti, Moroto, Mbale, Jinja, Tororo (Eastern Uganda); Entebbe, Masaka (Central); Mbarara, Kabale, Fort Portal and Hoima (Western Uganda).

7. ***Justification for choosing the 14 municipal LGs*** - Although there are currently 22 municipal LGs, USMID as a PforR Program will be implemented in the above 14 municipal LGs. These 14 municipalities were chosen because (i) 13 had been in existence since 1994 and relatively mature in terms of capacity to handle the increased investments under the Program, (ii) Hoima, which became a Municipality in July 2011 was included because of its potential of becoming an oil city due to the recent discovery of oil in the Western (Albertine Graben) region, (iii) the municipalities represent regional balance (see Annex 10), (iv) are growing faster than Kampala City, which is the capital city of the country, and (v) the current Government LGMSD program does not provide them with adequate funds to meet their strategic infrastructure investment needs. The remaining eight municipalities, which were towns but upgraded to municipal status in July 1, 2011, may join the Program later given availability of additional resources.

Expenditures

8. USMID will finance two major areas of activity at the LG level, namely (i) urban infrastructure investments with associated investments servicing costs (engineering design, preparation of bidding documents and supervision) - and (ii) capacity building activities to strengthen the institutional capacities of both the MoLHUD and the municipal LGs for the

achievement of the Program objectives and results. Over the Program period US$136 million will be transferred to the 14 municipal LGs of which US$126 million will be municipal development grant (MDG) for infrastructure investments and US$10 million as municipal capacity building grant (MCBG). The balance of US$24 million will be retained at the central government to support capacity building activities for urban development and management, and overall support for Program implementation.

9. ***Urban infrastructure investments activities–*** The Program will provide an enhanced municipal development grant (MDG) for infrastructure investments to the fourteen municipalities. Under the Program, the average per capita allocation per municipality will gradually increase from the current US$1.57 under the government LGMSD to US$16.51 in first year to US$28.39 by end of the Program period. The objective of the enhancement in the MDG is to allow the participating municipal LGs to provide improved urban services consistent with their mandates under the Second Schedule of the LGs Act CAP 243, while addressing the current investment backlog. Municipalities will access the enhanced MDG window based on them meeting the minimum access criteria and will also be rewarded or sanctioned based on their performances as assessed by an independent firm every year. The government assessment tool has been revised and enhanced to take into consideration the increase in the per capita allocation under the Program and the need to enhance municipal LGs capacities. The revised tool will be used as the single tool for both the government program as well as the Bank Program.

10. In order to achieve the intended Program impact, the investments activities to be funded by the MDG will be limited to a number of sub-set of infrastructure works, consistent with municipal service delivery mandate[41] (see the investment menu table immediately below) as provided for under the LGs Act (CAP243), second schedule. This set of infrastructure investments is also critical for the functionality of a municipal LG. MoLHUD will coordinate support and inputs from the various sector ministries with respect to design standards for the various sub-projects to be funded under the Program. Program execution will be contracted out through open competitive bidding to competent firms in line with government policy. As in the government program, municipal LGs may use part of the Program funds to procure consultancy services for preparation of engineering designs, preparation of bidding documents, and supervision.

11. The sub-set of investment activities eligible for funding under the Program are presented in the table below and are consistent with the mandates of municipal LGs under the LGs Act.

Table 1: Activities eligible for funding under the MDG (investment menu)

Objective – enhance the financial resources of the participating municipal LGs for provision of improved core municipal services
1. Urban Roads and associated infrastructure (rehabilitation and construction)
2. Urban solid and liquid waste management
3. Water and sewerage extension[42]; to peri-urban areas
4. Urban Local Economic Infrastructure (markets, slaughter houses)
5. Urban Transport (bus/taxi/lorry parks)
6. Urban beautification[43]

[41] Eligible infrastructures to be funded under the Program were agreed through consultative meetings with Government and the participating municipalities.

[42] 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.

12. The Municipal LGs will be required to prepare the various sub-projects to be funded under the Program in a participatory manner, with involvement of the municipal divisions as well as the Municipal Urban Forum (MF). This is consistent with the legal requirement which provides for bottom-up participatory planning and budgeting in Uganda LGs. Since municipal LGs have great funding gaps in core infrastructure areas; municipalities will be encouraged to finance a few larger tangible sub-projects per FY, to ensure that funds are not fragmented into large number of (often) non-completed projects. To ensure transparency and accountability, the sub-projects to be funded under the Program will be included in the municipal five year development plan, which means it has been demanded by the community/CSOs/MF; reviewed by the technical planning committee of the municipal LG; the municipal LG budget committee provided for the financing in the annual budget; and both the municipal plan and budget discussed and approved by the municipal elected council. Each sub-project will be screened by the municipal technical planning committee (heads of departments) using the screening criterions which are presented in the table below.

Table 2: Screening criteria in the selection of sub-projects to be funded under the Program

- Municipal needs and a wide number of beneficiaries with due consideration of the gender balance;
- Economic impact and justification, focusing of project which have large impact on the urban growth and local economic development;
- Spatial location of the investments to ensure some equity across the areas;[44]
- Focus on projects which will benefit more than one division, i.e. cross-divisional projects;
- Crosscutting issues are properly addressed in the proposals;
- Linked to the physical plan and the spatial development;
- Capacity available for operational and maintenance; and support instruments in place to ensure this in future;
- Consultations with the sectors on the links with sector plans, investments and prioritization;
- HIV/AIDs implications and handling of these issues, e.g. in the contracting process and project implementation;
- Systems for project implementation and monitoring to ensure completion and future quality and sustainability;
- Issues of environmental impact and screening;
- Issues of land acquisition and its attendant measures and adherence to the Land Acquisition Framework.
- Projects, which can be efficiently completed within budgets and commissioned for use.

13. The allocation of the MDG to the participating municipal LGs will be based the government program formula - relation to the municipal (i) administrative land area (15% weight); (ii) projected population (45% weight); and (iii) poverty head count (40% weight). The table below gives the indicative planning figure (IPFs) for the MDG and MCBG under the Program to the participating municipalities over the Program period. This IPF assumes that all the municipal LGs have met the minimum conditions and all have scored the same points in the performance assessment. The actual allocation to each municipality will in reality be determined by the actual weighted scores for each of the DLIs 1 to 4 so as to provide the necessary incentives for institutional improvement as well as improvement in urban infrastructure services.

[43] This may include *Public parks; Play grounds; Urban landscaping; Planting of tree on roads verges*
[44] See NPA: National Guidelines for Development Planning in Local Governments, Draft March 2011.

Table 3: Program IPFs (MDG and MCBG) for 5 years

LG	Pop.	Land Km2	Poverty headcount	LG share of coefficient	FY2013/14	FY2014/15	FY2015/16	FY2016/17	FY2017/18	Total
Arua	59,800	10	13,156	0.06	$1,163,723	$1,163,723	$1,872,734	$1,872,734	$1,694,163	$7,767,078
Entebbe	79,800	34	7,980	0.06	$1,242,444	$1,242,444	$2,008,110	$2,008,110	$1,829,539	$8,330,648
Fort Portal	47,100	41	7,536	0.05	$1,018,782	$1,018,782	$1,623,479	$1,623,479	$1,444,908	$6,729,431
Gulu	154,400	55	61,760	0.21	$3,905,952	$3,905,952	$6,588,537	$6,588,537	$6,409,965	$27,398,943
Hoima	99,100	89	12,883	0.09	$1,849,733	$1,849,733	$3,052,462	$3,052,462	$2,873,891	$12,678,281
Jinja	89,700	32	9,867	0.07	$1,376,004	$1,376,004	$2,237,792	$2,237,792	$2,059,221	$9,286,812
Kabale	45,400	33	5,902	0.04	$904,400	$904,400	$1,426,777	$1,426,777	$1,248,206	$5,910,561
Lira	109,000	36	21,800	0.10	$1,984,034	$1,984,034	$3,283,421	$3,283,421	$3,104,849	$13,639,760
Masaka	77,200	46	11,580	0.07	$1,418,523	$1,418,523	$2,310,912	$2,310,912	$2,132,341	$9,591,211
Mbale	98,000	24	11,760	0.07	$1,467,201	$1,467,201	$2,394,624	$2,394,624	$2,216,053	$9,939,704
Mbarara	84,400	46	5,908	0.06	$1,260,891	$1,260,891	$2,039,834	$2,039,834	$1,861,262	$8,462,713
Moroto	12,500	5	2,125	0.01	$376,121	$376,121	$518,296	$518,296	$339,725	$2,128,559
Soroti	65,900	26	9,885	0.06	$1,169,150	$1,169,150	$1,882,067	$1,882,067	$1,703,496	$7,805,931
Tororo	43,700	39	6,992	0.04	$963,040	$963,040	$1,527,620	$1,527,620	$1,349,048	$6,330,367
Total	1,066,000	516	189,134	1.00	$20,100,000	$20,100,000	$32,766,667	$32,766,667	$30,266,667	$136,000,000

Capacity Building and Strengthening

14. ***Capacity building and systems strengthening activities*** - The Program will involve extensive capacity building activities, comprising both systems enhancement and human resource development, focused on strengthening the institutional capacities of the participating municipal LGs and the MoLHUD for improved urban management and development. These activities will respond to the capacity building needs of the municipal LGs under the Program, as well as those for MoLHUD to perform its overarching mandate for urban development.

15. Capacity building of municipalities. The Program will support capacity enhancement at the municipal LGs related to the following seven thematic institutional improvement areas:

i. Improved linkage between Municipal Physical Development Plan, Five year Development Plan 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);
vii. Enhanced environmental and social sustainability (Environmental, social and resettlement due diligence).

16. Municipal capacity building will be provided through two main avenues. First, using funds allocated under the Capacity Building Grant (DLI 4), municipal LGs will procure basic

equipment and systems and access training from existing pre-qualified local institutions as is the current practice under government funded LGMSD. These activities will be detailed in their annual capacity-building plans which will be formulated on the same timing cycle as their five year development plans. These plans – a format for which will be provided in the Program Operation Manual - will need to specify all intended training courses and activities, equipment and systems purchases, the budget for each, and the execution timeframe. One of the functions of the PST will be to support the Program municipalities with the formulation and execution of these plans to ensure that they respond adequately and appropriately to the unique needs of each municipality. In terms of the CBG rules, funding may be spent on:

- Formal training not exceeding 9 months in the seven thematic areas above;
- Tailor made training offered by pre-qualified local institutions;
- Attachments for on-job training;
- Procurement of equipment and tools relevant to improve municipal performances in the seven thematic areas above.

17. Second, in addition to this demand driven capacity building, the MoLHUD will also provide supply side capacity-building support to the municipal LGs. The main modalities through which this will be delivered will include:

- Activities of the PST itself at the municipal level working directly with municipalities in the field to address particular needs and issues as these arise through direct assistance, mentoring and just-in-time response. As indicated above, one such activity will include supporting municipalities' own capacity-building planning and efforts. In addition, the PST will directly support the annual work planning activities of the Program municipalities in order to ensure that these are robust and realistic.

- In addition, a number of full and part time consultants, working under the overall direction of the PST, will provide supplementary capacity-building support to Program municipalities by working directly with municipalities in the field.

18. Overall, it is estimated that each municipality will receive at least three full months per annum of direct capacity building attention provided through these modalities across all seven areas outlined above. These activities will be secured through DLI 5 which requires that MoLHUD produces and successfully executes a capacity building plan, which will follow a format prescribed in the POM. This plan will need to detail the specific activities to be undertaken, how these will be provided (including the manpower required for this and level of effort of each), timeframe for execution including time to be spent in the field, and a detailed budget.

19. MoLHUD capacity. The Program will involve capacity building and system development at the MoLHUD related to the development of Regulations, standards and guidelines for the implementation of the recently approve Physical Planning Act , 2010 including the establishment of the Registration Board which will oversee and enforce compliance and professional code of conduct in Physical Planning. Other MoLHUD activities which will be undertaken to support Program execution will include conducting the annual performance assessment through

contracting to an independent entity and undertaking the Program MTR. All such activities are encompassed within DLI 5 and will be included in the annual capacity building plan of the MoLHUD referred to above.

Transparency, Accountability and Participation

20. An important element of governance under the Program which will enhance bottom up accountability will be the Municipal Urban Forum (MF). From 2010, GoU municipalities with oversight from MoLHUD, supported by Cities Alliance, have begun a process of establishing a Municipal Urban Forum (MF) in municipalities in Uganda. Thus far, MFs have been successfully established in five Ugandan towns – Jinja, Mbale, Mbarara, Kabale and Arua – all of which are Program municipalities.

21. The chief purpose of the MFs is to enhance governance through increasing bottom-up transparency, accountability, and participation in key urban development and management activities. MFs are established under a Charter that defines roles and responsibilities and institutional structure and relations. The Charter is signed by a representative of each of the local stakeholders that collectively combine to form the Forum including the private sector, NGOs, faith based organizations, CBOs, settlement level representatives as well as council officials, service providers and politicians. Each Forum has an executive committee that comprises an elected President and a representative of each of the stakeholders. The council provides a secretariat to the Forum and all proceedings are recorded. The executive committee meets monthly and the plenary meetings of the MF take place on a regular basis, varying from bi-monthly to biannually. The five Fora already established also have local settlement level Fora that meet more often and report back to the Municipal Forum plenary meeting.

22. These fora meet in plenary on a regular basis to scrutinize and inform municipal decision-making on issues like the annual municipal plans and major investment activities, development funding and the municipal budget, and to monitor infrastructure project implementation progress. In addition, a project management team is established by the MF to monitor the implementation of major projects. The team records project progress and reports on this back to the Forum.

23. In those areas where they do not already exist, the Program municipalities, with the ongoing support of MoLHUD and Cities Alliance, are in the process of establishing MFs. Under the Program, the MFs will play a central role in enhancing local transparency, accountability, and participation thereby strengthening governance and mitigating risk in areas such as fraud and corruption. Thus, a number of the Performance Indicators in DLI2 require that the Program municipalities establish and maintain the MFs, and submit and discuss regular reports in these fora e.g on matters related to key planning and investment decisions, the results achieved by the municipalities under the annual performance assessment, fraud and corruption, and so on. MFs are expected to be established in all Program towns by end February 2013.

Disbursement Linked Indicators

24. The Program has a total of seven DLIs.

- *DLIs 1, 2, 3 and 4: Enhanced institutional and infrastructure delivery performance achieved by municipal LGs (US$136 million).* DLIs 1, 2 and 3 are intended to achieve three objectives i.e. (i) that municipal LGs have the basic minimum capacities in fiduciary, technical (project planning and execution), and environmental and social management conditions to enable them absorb the increased funding provided under the Program; (ii) that these basic institutional capacities are enhanced during Program period to ensure sustainable, long-term improvements in urban development and management; (iii) that they deliver improved urban infrastructure using the enhanced MDG effectively, efficiently and economically to realize value for money over the life of the Program. Actual annual disbursement under these DLIs is determined by Municipal performance in the three respective areas together with the horizontal distribution formula currently utilized by LGMSD.[45] DLI 4 is intended to ensure that the Municipalities complete their annual capacity building activities funded under the Program. Disbursement under this DLI is determined by Municipal performance as described below, with an equal total amount being potentially available to each Municipality annually. Collectively, these four DLIs address the PDO. Performances against these four DLIs are core to the USMID design and overall disbursement from the Bank under the Program.

- *DLIs 5, 6 and 7: Strengthened municipal capacity achieved by central government (US$24 million)* are intended to leverage the roles to be played by MoLHUD and other relevant central government agencies in strengthening the public sector management capacity of municipal LGs for urban development generally, but specifically for the Program implementation. However in the FY 2012/13 when the credit becomes effective, US$2.00 million will be available to be advanced to the central government under DLI 5. In the subsequent years assuming all the DLIs targets have been met by the municipal LGs, the annual Program disbursements plan is presented in the table below (US$ million).

Table 4: Disbursement Link Indicators Annual Allocations

Disbursement Link Indicators (DLIs)	**FY2012/13**	**FY2013/14**	**FY2014/15**	**FY2015/16**	**FY2016/17**	**FY2017/18**	**Total**
DLI 1 – Program minimum conditions met	0.00	6.00	6.00	6.00	6.00	6.00	30.00
DLI 2 – Municipal Institutional improvement	0.00	11.60	11.60	11.60	11.60	11.60	58.00
DLI 3 – Urban infrastructure delivery	0.00	0.00	0.00	12.67	12.67	12.67	38.00
DLI 4 – Municipal CB implementation	0.00	2.50	2.50	2.50	2.50	0.00	10.00
DLI 5 – MoLHUD CB implementation	0.00	4.00	2.00	2.00	2.00	2.00	12.00
DLI 6 – Town Clerks in post	0.00	2.00	1.00	1.00	1.00	1.00	6.00
DLI 7 – IFMS rollout	0.00	2.50	3.50	0.00	0.00	0.00	6.00
Total	0.00	**28.60**	**26.60**	**35.76**	**35.76**	**33.26**	**160.00**

25. ***DLI 1 - Municipal LGs have strengthened institutional performance, achieved and maintained Program minimum conditions throughout Program period (US$28 million IDA, US$2 million GoU)***. This DLI is intended to ensure that each municipal LG has the critical core staffing and functional capacity in the seven thematic areas for institutional strengthening above so as to achieve the Program results. The scoring of this DLI will simply be a yes or no for each of the municipal LGs based on whether it has met all the requirements under section A of the assessment tool in annex 10. The minimum conditions are derived from the current LGMSD program and are intended to ensure that all participating municipal LGs do have at least:

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

(i) functional capacity for Municipal Physical, Development Planning and Budgeting, (ii) having in place the core staff[46] responsible for designing and implementation of municipal infrastructure projects, (iii) functional capacity in finance management, and internal audit, (iv) functional capacity in procurement, and (v) signed a Participatory Agreement between MoLHUD and the participating municipal LGs. The details of the minimum requirements to allow a municipal LG to participate in the Program are presented as section A of the municipal performance assessment manual, and are contained in annex 10. Although they have been enhanced relative to the current system, it appears feasible and provides the necessary assurances for the realization of the Program objective and the linkage to DLIs 2, 3, and 4 which targets municipal institutional improvement and infrastructure delivery. The target for this DLI is 100% compliance by all the 14 municipal LGs. First year disbursement from the Bank will be calculated on the basis of the number of municipal LGs which have met the minimum access conditions. Subsequent years' disbursement from Bank will be made provided that previous disbursements from GoU to municipal LGs have all been made. Disbursement from the Bank to GoU will be calculated as follows:

- Total fund available in a fiscal year - US$6 million
- Allocation to each municipal LG will be based on the formula:

[(municipal population/Total population for all 14 municipalities) X 0.45 + (number of poor people in the municipality/Total number of poor people in all 14 municipalities) X 0.40 + (municipal land area/Land area of all 14 municipalities) X 0.15) X US$6 million].

- Actual amount to be disbursed from Bank to GoU will be the sum of the allocation to only compliant municipal LGs as calculated above.

26. ***DLI 2 - Municipal LGs have strengthened institutional performance in the seven thematic areas as scored in the annual performance assessment (US$56 million IDA, US$2 million GoU)***. This DLI is intended to ensure enhancement of municipal LG capacities in the core areas of technical, fiduciary (financial and procurement), and environmental and social with respect to local project execution. Given the enhancement in the existing government LGMSD performance assessment tool, it is envisaged that the capacities of the participating municipal LGs will increase incrementally over the Program period. However, to promote rapid municipal capacity improvement in the above areas, the Program will promote inter-municipal competition by having incentives and sanction mechanisms which are built as a weighted average of their performance scores based on their institutional improvement relating to the following seven thematic areas which are crucial for the Program success:

- Improved linkage between Municipal Physical Development Plan, Five year Development Plan and Budgeting;
- Increased municipal own source revenue (OSR);
- improved procurement performance;
- improved municipal Accounting and core financial management
- Improved Execution/Implementation of budget for improved urban service delivery;
- Improved accountability and transparency (monitoring and communication);

[46] (i) Town Clerk, (ii) Treasurer, (iii) Procurement Officer, (iv) Engineer, (v) Physical/Urban Planner, (vi) Environmental officer, and (vii) Community Development Officer.

- Enhanced environmental and social sustainability (Environmental, social and resettlement due diligence).

27. Disbursements to participating municipalities under DLI 2 will be based on their annual performance results, as measured by an independent (third party) using section B of the assessment tool attached in annex 10. The institutional performance improvement in the above seven thematic areas will be scored out of a total of 100 points. Disbursement from the Bank to GoU and municipal LGs will follow the following steps:

i. Municipal LGs which have minimum access conditions under DLI 1;

ii. Average score of all municipal institutional performance improvement scores (i.e. total scores of all 14 municipal LGs under section B of the assessment tool divided by 14. Note municipal LGs which did not meet the minimum condition will get a score of zero under section B of the assessment tool).

iii. ***Step 1 - Determination of the DLI 2 annual amount (the pool)*** - The pool of funds from the Bank to GoU and municipal LG under the DLI will be determined based on the following annual institutional performance improvement targets scores:

- FY 2013/14 – target average score 50% (US$11.6m)
- FY 2014/15 – target average score 60% (US$11.6m)
- FY 2015/16 – target average score 70% (US$11.6m)
- FY 2016/17 – target average score 80% (US$11.6m)
  FY 2017/18 – target average score 90% (US$11.6m)

- Disbursement from Bank to GoU will be made provided that previous disbursements from GoU to municipal LGs have all been made and will be based on the following formula which will determine the overall pool:

[total annual disbursement from Bank to GoU] = [(sum of individual scores of all 14 municipal LGs for DLI 2/14)/(target score for the FY)] X [target DLI 2 disbursement amount for the FY i.e. $11.6m]

28. Depending on the average municipal institutional improvement score for DLI 2, there are three possible outcomes regarding the pool of funds to be made available under this DLI:

- Option 1 – If the average score is less than the year target, then the allocation for DLI 2 will be less than the budgeted amount in the disbursement table, adjusted on a pro-rata basis.

- Option 2 - If the average score is equal to year target, then the allocation for DLI 2 will be the full budgeted amount in the disbursement table.

- Option 3 - If the average score is more than the year target, then the allocation for DLI 2 will be more than the budgeted amount in the disbursement table, adjusted on a pro-rata basis.

iv. ***Step 2 – determination of DLI 2 disbursement from GoU to each municipal LG*** – DLI 2 is intended to incentivize institutional performance improvement of the municipal LGs and disbursements will be based on weighted performance improvement for each municipality. Only those municipal LGs which have met the requirements for DLI 1 will be eligible to receive funding under DLI 2. The formula for disbursement from GoU to municipal LGs will therefore be:

[(municipal population/Total population for all 14 municipalities) X 0.45 + (Size of municipal land/Total size of all 14 municipal land) X 0.15 + (number of poor people in the municipality/total no. of poor people in all 14 municipalities) X 0.40) X (institutional improvement score for the municipality/total sum of weighted institutional improvement scores of all 14 municipalities) X total amount (pool) to be disbursed for the municipalities which have complied with DLI2.

29. ***DLI 3 - Local infrastructure targets as set out in the annual work plans delivered by municipal LGs utilizing the Program funds (US$32 million IDA, US$6 million GoU).*** This DLI will focus on the delivery of urban infrastructure by the municipalities under the Program. In addition to the municipal institutional strengthening, this is one of the Program results areas since the municipal capacities are being strengthened to make them be able to improve urban services in their localities. Since infrastructure delivery usually has a time lag, the measure of the performance target under DLI 3 will only begin in the second year of the Program implementation, and will influence disbursement from the third year onwards.

30. Disbursements to participating municipalities under DLI 3 will be based on their annual performance results, as measured by an independent (third party) using section C of the assessment tool attached in annex 10. The achievements of the infrastructure target by each municipality will be scored out of a total of 100 points. The verification will be through a comparison of the municipal annual work-plans for investment with the actual execution rate of the (sub)-projects, funded under the Program. Hence, for projects not yet fully completed, e.g. a road project, the team will review the progress on the major items in the *bills of quantities*[47], both in the regular reports from the engineer, as well as through field trip verification of the actual implementation rate. The completion rate (%) of each project, when determined, will then be weighted with the relative contracted size of the projects to get an aggregate result – details of which are provided in the assessment tool. The assessment tool will be tightened during the fourth and fifth year of the Program to allow for the assessment of the Physical Progress on Infrastructure funded under the Program. During this period DLI 3 assessment will also be elevated to include results on the value for money audit which will be done by the OAG under its expanded scope of statutory audit, but verified by the independent assessment team, with a focus on the 3Es – efficiency, effectiveness and economy of the municipal use of the program fund for sample infrastructure delivery.

31. Disbursement for DLI 3 from the Bank to GoU and municipal LGs will follow the steps similar to that under DLI2. The only variation will be in the score which would be related to infrastructure indicators and targets:

i. Municipal LGs which have minimum access conditions under DLI 1;

[47] This will be done e.g. for roads by reviewing the bills of quantities on earthwork, sub-base, base, wearing course asphalt, etc used, other inputs compared to the full project amount. .

ii. Average score of all municipal infrastructure improvement scores (i.e. total scores of all 14 municipal LGs under section C of the assessment tool divided by 14. Note municipal LGs which did not meet the minimum condition will get a score of zero under section C of the assessment tool).

iii. ***Step 1 - Determination of the DLI 3 annual amount (the pool)*** - The pool of funds from the Bank to GoU and municipal LG under DLI 3 will be determined based on the following annual institutional performance improvement targets scores:

- FY 2013/14 - NA
- FY 2014/15 - NA
- FY 2015/16 – target average score 70% (US$12.67m)
- FY 2016/17 – target average score 80% (US$12.67m)
  FY 2017/18 – target average score 90% (US$12.67m)

32. Disbursement from Bank to GoU will be made provided that previous disbursements from GoU to municipal LGs have all been made and will be based on the following formula which will determine the overall pool:

[total annual disbursement] = [(sum of individual municipal scores of all municipal LGs for DLI 3/14)/ (target score for the FY)] X target disbursement amount for DLI 3 for FY i.e. $12.67m]

33. Depending on the average municipal infrastructure delivery target score for DLI 3, there are three possible outcomes regarding the pool of funds to be made available under this DLI:

- Option 1 – If the average score is less than the year target, then the allocation for DLI 3 will be less than the budgeted amount in the disbursement table, adjusted on a pro-rata basis.

- Option 2 - If the average score is equal to year target, then the allocation for DLI 3 will be the full budgeted amount in the disbursement table.

- Option 3 - If the average score is more than the year target, then the allocation for DLI 3 will be more than the budgeted amount in the disbursement table, adjusted on a pro-rata basis.

iv. ***Step 2 – determination of DLI 3 disbursement from GoU to each municipal LG*** – DLI 3 is intended to incentivize urban infrastructure improvement in the municipal LGs and disbursements will be based on weighted performance improvement for each municipality. Only those municipal LGs which have met the requirements for DLI 1 will be eligible to receive funding under DLI 2 and 3. The formula for disbursement from GoU to municipal LGs, is similar to that of DLI 2 but adjusted for infrastructure improvement, and will therefore be:

[(municipal population/Total population for all 14 municipalities) X 0.45 + (Size of municipal land/Total size of all 14 municipal land) X 0.15 + (number of poor people in the municipality/total no. of poor people in all 14 municipalities) X 0.40) X (infrastructure improvement score for the municipality/total sum of weighted infrastructure improvement scores of all 14 municipalities) X total amount (pool) to be disbursed for the municipalities which have complied with DLI3.

34. ***The DLI 4 – Completion of annual municipal LG USMID funded capacity building activities (US$10 million IDA).*** DLI 4 is intended to ensure that municipal LGs have in place and have implemented their capacity building plan which will address technical, fiduciary and environmental and social management gaps as revealed through the annual assessment. It responds to the demand side and will ensure that the institutional capacities of the municipalities are strengthened for the achievement of the Program results and long term sustainability of their roles in provision of urban services. The requirement for disbursement during the first two years of the Program for DLI 4 is for the municipalities to have a three year municipal capacity building plan. Among other things, the plan should specify the activity, objective, the resources assigned and the implementation timeline. The template for the plan will be included in the Program operations manual. Starting in Program year three, the requirement for the capacity building plan will be complemented with the requirement that funds have been spent according to the eligible expenditures (see Annex 10, *Section B Minimum Conditions for MCBG*). Also starting in year three, the achievement of DLI 4 will be determined on the basis of execution of activities specified in the LG capacity building plan, which will be measured through the annual assessment. The annual performance assessment will review the execution performance of each municipal LG against the planned target and an implementation rate. Municipalities which have not met DLI 1, 2, or 3 will qualify to receive funding under DLI 4 so as to address their institutional capacity gap (provided they have a capacity building plan) and prepare themselves to qualify to receive funding in the following year. The disbursement under DLI 4 will be based on the following:

i. FY 2013/14 – preparation of municipal capacity building plan (US$2.5m)
ii. FY 2014/15 – Municipal capacity building plan adopted (US$2.5m)
iii. FY 2015/16 – 60% of municipal capacity building plan implemented (US$2.5m)
iv. FY 2016/17 – 70% of municipal capacity building plan implemented (US$2.5m)
v. FY 2017/18 - NA

35. The reason for disbursing against the preparation and adoption of capacity building plan in FY 2013/14 and FY 2014/15 respectively are because the municipal performance assessments will be done between September and November of each FY and the first performance assessment will be in FY 2014/15 (year 2 of the program to measure performance in year 1). The performance assessment results will impact disbursement of the following FY to inform LG budgeting and planning process which starts in December and ends by June. Therefore, the execution of the first Program capacity building plan for FY 2013/14 will be measured in the assessment in Sept-Nov 2014, and its findings will affect disbursements in FY 2015/16.

36. ***DLI 5 - Technical support by MoLHUD (US$12 million IDA).*** DLI 5 is intended to incentivize and build the capacity of the MoLHUD to provide the necessary technical support to the municipal LGs consistent with its overarching mandate for urban development generally but more specifically to ensure that the Program objective and results are achieved. Like in the case of DLI 4 at the municipal level, under DLI 5 the MoLHUD will put in place an annual plan to build its own capacity and the capacity of participating municipal LGs so as to achieve the program objectives. Among other things, the plan will specify the activity, its objective, the resources assigned and the implementation timeline. The disbursement for DLI 5 will be based on the results below and up to US$2 million of this DLI can be made available as an advance:

i. FY 2013/14 – adoption of capacity building plan for FY 2013-14 (US$4m total of which a maximum of $2m is available as an advance)

ii. FY 2014/15 – 60% implementation of FY 2013-14 plan (US$2m)
iii. FY 2015/16 – 70% implementation of FY 2014-15plan (US$2m)
iv. FY 2016/17 – 80% implementation of FY 2015-16 plan (US$2m)
v. FY 2017/18 – 90% implementation of FY 2016-17 plan (US$2m)

37. ***DLI 6 – Program LGs with Town Clerks in place[48] (US$6 million IDA)***. Under the GoU decentralization policy framework, all LG staff are appointed, promoted, disciplined and fired by the respective LGs. However, the Town Clerks as the municipal overall accounting officer is appointed and deployed by the central government. DLI 6 is therefore intended to achieve two objectives (i) to incentivize central government to ensure that substantive Town Clerks are appointed in the Program municipalities and (ii) minimize fiduciary risk which might be associated with having no overall accounting officer in the municipality. DLI 6 is linked to DLI 1. The DLI target is that all the 14 municipalities (100%) will have substantive Town Clerks appointed by central government. Annual disbursement against DLI 6 is US$1 million. For the first Program year (FY 2012/13), if the TCs are in place yet the payment cannot be verified and processed on time due to the fact that this will be the year when the Program gains effectiveness, the disbursement for that year will be done in FY 2013/14, in addition to the original disbursement for FY 2013/14.

38. ***DLI 7 – Program LGs with IFMS in place[49] (US$6 million IDA)***. With the exception of two (Jinja and Hoima, as of end December 2012), the financial management systems of the Program municipalities are all manual. Given the very substantially increased amounts that municipalities will receive under the Program, it is important for fiduciary reasons that financial management systems are strengthened as quickly as possible.

39. GoU is currently implementing Integrated Financial Management Systems (IFMS) in LGs throughout Uganda. The seven modules the IFMS covers are general ledger (cash and accrual system, fund accounting, commitment accounting), budget planning, purchasing and commitment, accounts payable, cash management, inventory/stocks and revenue management. These modules cover all core financial management activities performed at the local government level, both on the revenue side as well as on the expenditure side. The software can function in both a networked as well in stand-alone mode. This solution brings with it a significant amount of inbuilt controls as well as improved accountability. No payments can be made unless the supplier is registered in the system along with his tax details and all payments are by way of electronic transfers into bank accounts, providing a clear audit trail that can be followed up in case of mismanagement or misappropriation of funds.

40. The Accountant General of Uganda has been responsible for the implementation of this system, as well as the IFMS that is running at the Central Government, since 2004. The implementation of the system at the local government level is being undertaken by a team based in the Ministry of Local Government working under the overall authority of the Accountant General. The IFMS is being implemented on a turnkey basis which covers supply of the hardware and software, training of users on the software, successful implementation of the software solution, civil works at site, networking, setting up the database server in Kampala and connectivity from all the remote locations to the central server. Independent quality assurance on the implementation process is provided by PriceWaterhouse Coopers.

[48] Central government is responsible for the appointment of the town clerks in LGs.
[49] Central government is responsible for the roll-out of the implementation of IFMS in MDAs and LGs.

41. Thus far, the implementation of the IFMS has been reasonably successful. The turnkey contract was signed in August 2011 and by March 2012, the IFMS had been established and was functional in six local governments: Ntungamo, Mubende, Kumi, Iganga, Luwero and Nebbi Districts. By December 2012, it will be rolled out an additional twenty: (i) the districts of Adjumani, Apac, Busia, Bugiri, Bundibugyo, Kalangala, Kapchorwa, Kitgum, Nakasongola, Pader, Kyenjojo, Pallisa, Kisoro, Masindi, Rukungiri, and Sembabule and (ii) Hoima Municipal Council, Lugazi Town Council, Mukono Municipal Council and Jinja Municipal Council (Hoima and Jinja are Program LGs).

42. Under this PforR operation, it has been agreed with Government that the IFMS will be rolled out to the remaining 12 Program LGs by the end of second LG disbursement year of the Program (by end of FY 2014/15). This will entail the same activities that have been undertaken in the IFMS implementation to date i.e. procurement of software licenses, supply of the hardware, training of users on the software, implementation of the software solution, civil works at site, networking, setting up the database server in Kampala and connectivity from all the remote locations to the central server. The implementation arrangements that have been used to date will be retained i.e. overall authority and accountability will reside with the Accountant General with the implementation function being delegated to a project team within MoLG working under his overall direction. A turnkey provider to deliver the IFMS within the LGs will be procured under ToR acceptable to the Bank.

43. Disbursement under DLI 7 will be based on the following: For each municipal Program LG which has IFMS installed and effectively running, the Bank will disburse US$500,000 to GoU. As per the Results Framework (Annex 2) and the DLI Matrix (Annex 3), it is projected that five LGs will have IFMS up and running in the first LG disbursement year (FY 2013/14), and remaining seven LGs in the second LG disbursement year (FY 2014/15). It is expected that all 12 LGs under the Program which do not have IFMS will have the system up and running by the end of the second LG disbursement year. However, if GoU rolls out IFMS successfully before these projected dates, the Bank will transfer the pro-rated amounts ahead of the projected dates. Similarly, if there is a delay and GoU installs the system in Program LGs later than the projected dates, with the condition that this remains within the Program timeline, the Bank will transfer the pro-rated amounts to the GoU later than the projected dates.

Grant Cycle

44. The annual assessment under the Program will begin in July of every year with internal assessments by the municipal LGs themselves. This internal assessment should be completed no later than September of every year. The internal assessment is intended to allow each municipal LG to do internal evaluation and address any gaps in preparation for the assessments by an independent national assessment team (NAT). NAT will begin its assessment in October and complete it by December. This will also allow for the results of the financial and VFM audit (starting in 2014) results which will be produced by GAO to be incorporated into the assessment. Quality assurance and verification by PTC will be done during December and the final World Bank agreement will be provided by January. By the end of January/early February, MoFPED, through the national budget call circular, will issue a firm planning figure under the Program to all municipal LGs to inform their planning and budgeting process for the next fiscal year (July 1 – June 30). The assessments in the first year will be delayed due to the upstart of the Program, and a transitional arrangement will be put in place where a supplementary LG budget will be

issued. The full Program will kick in the second year of the Program, and will be in full sync with the central and local government cycle. The performance assessment results of the municipalities in the previous FY will impact Program allocations in the following FY. E.g. the assessment to be conducted in September 2013 - October 2013 of the performance of municipalities in FY 2012/13 will impact on the Program allocations for FY 2014/15, to ensure that results can be utilized in the municipal planning and budgeting process. The table below provides the summary of the timeline under a regular assessment process, whereby the results are fitting into the municipal annual planning and budgeting process[50]. However, in the first two years, there will be a phasing in of the PMs and the timing in the first year will be impacted by the startup of the Program.

Table 5: Annual Assessment Timeline

Activity	Timing	Responsibility
Review of experiences from past assessment and necessary changes	(Future year: January – February).	MoLHUD and MoLG
Internal assessments	Undertaken continuously but no later than one month before the NAT	Municipalities
Information to municipalities about the assessments	1 week before the NAT – i.e. September	MoLHUD/PST
NAT – Assessments	October- December	Contracted out by MoLHUD to private companies Reports send to MoLHUD and the World Bank in Mid-October for review
PTC decision after quality assurance and review	December	Inter-ministerial PTC and funding DPs as observers
Final endorsement of results (after review by the World Bank) and communication of results to MoFPED and the Municipalities	January	MoLHUD
Inclusion of the figures in the IPFs /MTEF	January	MoFPED
Dissemination of results to the public	January/February	MoLHUD and the municipalities

Disbursement Arrangements and Verification Protocols

45. Upon confirmation of the achievement of Program DLIs, the Bank will disburse the corresponding amount to the Government. Disbursements for DLIs 1, 2, 3 and 4 will be made twice-yearly and for DLIs 5, 6 and 7 annually, though for DLI 7 disbursement can be made at any time the result is achieved. Funds for DLIs 1, 2, 3 and 4 will be transferred by the Government to the eligible Program local governments within 30 days of Bank to GoU transfer. Funds for DLIs 5, 6 and 7 will remain at the central government level, as these aim to leverage central government actions. The Government will ensure that the funds released from the Bank upon satisfaction of DLI 5will be transferred to MoLHUD within 30 days of the Bank to GoU transfer and the funds released from the Bank upon satisfaction of DLI 7 will be transferred to the Accountant General (MoFPED) within 30 days of the Bank to GoU transfer. A detailed explanation of the steps needed for disbursement against each Program DLI is provided in Annex 1. A summary of these steps is provided below.

[50] The assessments of the MCs/PMs in the first year will start later due to the startup of the Program.

46. Verification protocol for DLIs 1, 2, 3 and 4 will comprise the following steps:

(i) An annual assessment will be commissioned by MoLHUD and will be undertaken by a reputable independent firm. MoLHUD will ensure that the terms of reference for this firm are satisfactory to the Bank. The annual performance assessment will measure the performance of each Program LG against the Program's minimum conditions, performance indicators (detailed in Annex 10) and the execution performance of the capacity building plan. Part of the performance indicators for DLI 3 will rely on the results of the VFM audit which will be conducted by OAG. On the basis of the assessment findings, the firm will assign a score to each LG and calculate the allocation to each LG as per 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.

(ii) The Program Technical Committee (PTC), consisting of MoLHUD, MoLG, USMID/PST, MoFPED, LGFC, OAG, IGG and DPs will verify that the assessment results are accurate and the disbursement from the central government to LGs of Program funds in the last 6-month period has been done on time (starting with the second disbursement of Program duration). PTC will review the assessment results for clear and indisputable errors (e.g. whether a given LG received a clean audit report).

(iii) As part of implementation support, the Bank will review the assessment results, the allocation amount and will ensure the timely disbursement of Program funds in the previous period. Bank's final review will prevail in the case of any disputes.

47. Verification protocol for DLI 5 will comprise the following steps:

(i) MoLHUD will put in place an annual plan to build capacity of LGs and to support the Program objectives. Among other things, the plan will specify the activity, its objective, the resources assigned and the implementation timeline. The template for the plan will be included in the operations manual.

(ii) In FY 2012/13, when the credit becomes effective, MoLHUD will have the option to receive an initial advance of US$2 million under DLI 5. If drawn, the advance will provide the ministry the necessary resources to implement a number of activities, including capacity building activities, which are critical to the achievement of DLI 5, and the procurement of the independent annual performance assessment, which is key for DLIs 1, 2, 3, 4 and 6.

(iii) In other Program years, within 60 days of the beginning of the forthcoming fiscal year, MoLHUD will submit the plan to the World Bank which will verify that the plan is in the agreed format and is satisfactory.

(iv) Within 30 days of the beginning of the fiscal year, MoLHUD will submit a report of the implementation of the annual capacity building plan for the previous year.

(v) The Bank will verify the extent to which the plan has been executed and determine the DLI amount to be disbursed.

48. Verification protocol for DLI 6 will comprise the following steps:

(i) 60 days prior to the beginning of the new fiscal year, MoLHUD will submit to the Bank a schedule listing the names of 14 town clerks.

(ii) The independent annual assessment will verify that these town clerks are in place.

(iii) The Bank will review consistency of the lists.

49. Verification protocol for DLI 7 will occur through public financial management (PFM) team missions to the Program LGs to ensure that IFMS has been properly installed and is being effectively used by the municipality. Similar to DLI 5, GoU will have the option of an advance under this DLI, of up to US$2 million. This advance will be available, when the credit becomes effective. If drawn, the advance will provide the Government the necessary resources to kick start the implementation of a set of activities needed to achieve the results expected under this DLI.

Funds Flow

50. ***Program funds flow***. For DLIs 1-4, the process for the disbursement of Bank funds to GoU will be as follows: Once the inter-ministerial PTC has verified the assessment results by an independent assessment team and the amounts to be disbursed for each of the DLIs determined, the World Bank will be notified. Once the Bank is satisfied, the total amount linked to each of the DLIs for the FY will be disbursed from the Bank to the GoU Treasury in the dollar account in the central Bank (Bank of Uganda - BoU) in two tranches. It should be noted that disbursements from the Bank to GoU can be made at any time upon government request, provided results are achieved. The disbursement of Program funds from GoU to Program LGs will be done on a bi-annual basis, on the advice of the MoLHUD, as under the current government program (LGMSD) using the current funds flow mechanism which are well established under the government inter-government fiscal transfer system. For DLIs 5 and 7, the Treasury will also release funds related to Program activities to MoLHUD and MoFPED once the Bank has verified that the DLIs have been met. The following summarizes the steps to be followed for disbursing funds under the Program:

i. Step 1 – assessment by an independent team and calculation of Program amounts for each DLIs, except for initial advance of up to US$2 million to MoLHUD to help provide funds for the government to achieve a first DLI value.

ii. Step 2 – verification by inter-ministerial PTC of the assessment results and the DLIs amounts.

iii. Step 3 – PS/MoLHUD, through MoFPED, request for disbursement of funds from WB based on the verified assessments results and DLIs amount by the PTC.

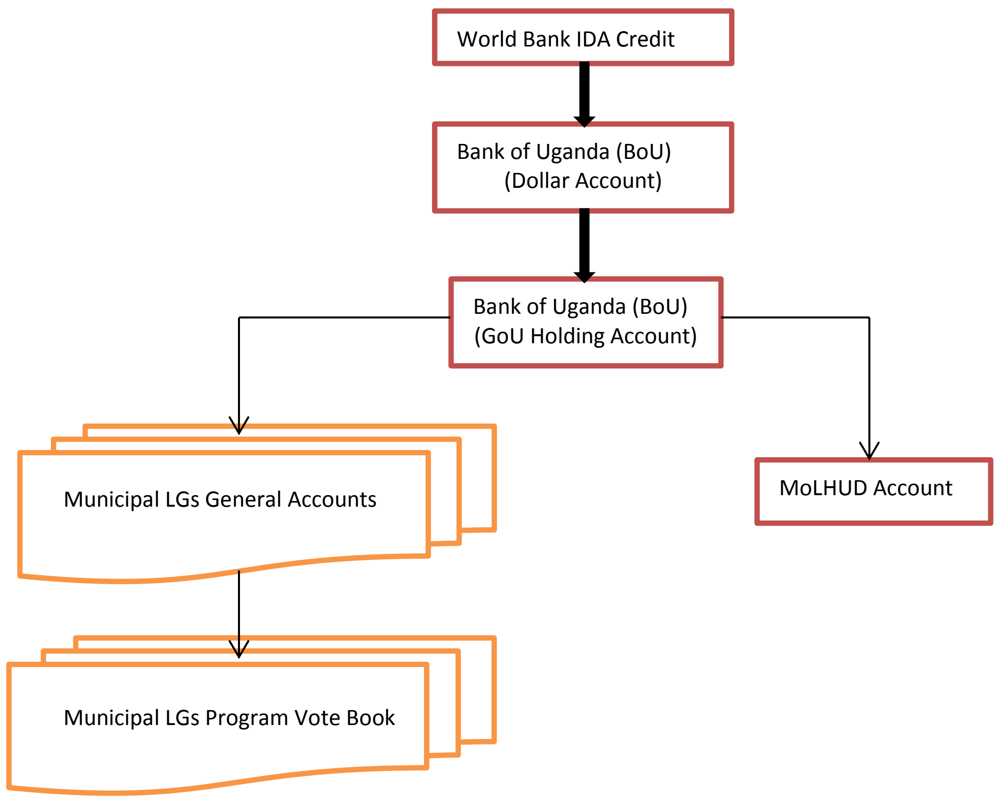
iv. Step 4 – the World Bank transfers funds to GoU Treasury dollar accounts in BoU and notifies the client through client connection.

v. PS/MoLHUD writes to the Accountant General, MoFPED (i) attaching a schedule requesting for transfers to each municipal LGs based on their respective scores in each of the DLIs 1,2,3, and 4, and (ii) requesting for transfers to the MoLHUD and MoFPED for DLIs 5 and 7.

vi. Step 5 – The Accountant General Office, MoFPED issues electronic telegraphic transfer (ETF) to BoU with a copy to MoLHUD directing the BoU to transfer money from the GoU consolidated UGX account to (i) each municipal LG general account in a commercial Bank, and (ii) MoLHUD and MoFPED expenditure accounts.

vii. Step 6 – each municipal LG transfers Program funds from its general account[51] to dedicated Program Vote Book as under the current government LGMSD program.

51. The funds flow chart below summarizes how Program funds will flow from IDA to GoU and then municipal LGs:



[51] It is a requirement under the LG Financial and Accounting Regulations that all "revenues" to LGs must first go into the LG General Account before it is credited to an expenditure account. This is done in order to allow for easy tracking of all resource inflows into a LG for audit purposes. The Program will therefore follow the existing system which is well established and functioning well.

Annex 2: Results Framework and Monitoring

Program Development Objective: ***Enhance institutional performance of selected municipal Local Governments to improve urban service delivery***												
PDO Level Results Indicators	**Core**	**DLI**	**Unit of Measure**	**Baseline**	**Target Values**					**Frequency**	**Data Source/Methodology**	**Responsibility for Data Collection**
					FY2013/14	**FY2014/15**	**Fy2015/16**	**Fy2016/17**	**Fy2017/18**			
1 Average annual performance score of participating LGs in the seven thematic areas as assessed by the independent annual performance assessment [52]	☐	2	%	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.
2. Local infrastructure targets as set out in the annual work plans delivered by municipal LGs utilizing the Program funds.	☐	3	%	0	N/A	N/A	70%	80%	90%	Annually	Annual PAs, bi-annual supervision missions	Participating municipal LGs; MoLHUD through independent private consulting/Audit firm
Intermediate Results Area 1 (MDG Element): ***Improve urban service delivery through enhanced urban local development grant***												
3. Municipal **r**oads[53] built or rehabilitated with related infrastructure using urban LDG	√	3	Km	0	Measured Annually	Measured Annually	Measured Annually	Measured Annually	Measured Annually	Annually	Annual PAs, bi-annual supervision missions, quarterly progress reports (OBT), VFM audit	Participating municipalities; MoLHUD
4. Garbage collected and disposed[54].	√	3	Tonnage (%)	668 (51%)	Measured Annually	Measured Annually	Measured Annually	Measured Annually	Measured Annually	Quarterly, Bi-annually, annually.	Quarterly progress reports, Annual PAs, bi-annual supervision missions, VFM audit	Participating municipalities; MoLHUD

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

[53] It is projected that each municipality will use the enhanced MDG to build roads over the life time of the Program. However the total numbers of kilometers will be determined at the end of every year.

[54] Current collection and disposal of garbage by the participating municipalities is 668 tons per annum representing 51% of total annual garbage generated. It is projected that with the enhanced MDG the municipalities will improve on the collection of garbage. The actual amount collected will be determined at the end of each fiscal year since it is not known a priory.

5. Municipal local economic infrastructure (bus parks, markets, parking lots etc)[55] built or rehabilitated using the urban LDG.	☐	3	Numbers	0	Measured Annually	Measured Annually	Measured Annually	Measured Annually	Measured Annually	Annually	Annual PAs, bi-annual supervision missions, quarterly progress reports (OBT), VFM audit	Participating municipalities; MoLHUD
Intermediate Results Area 2: (Municipal CBG Element): *Enhanced capacity of participating municipal LGs and MoLHUD in urban development and management*												
6. Municipal LGs with qualified core[56] staff	☐	1 & 6	Numbers	11	14	14	14	14	14	Annually	Annual PAs	Participating municipal LGs; MoLG, MoLHUD through independent private consulting/Audit firm
7. Municipal LGs with at least 10% annual increase in own source revenue (OSR)	☐	2	Numbers	0	5	8	11	14	14	Annually	Annual PAs	Participating municipal LGs; MoLG, MoLHUD through independent private consulting/Audit firm
8. Municipal LGs with clean audit[57] reports for previous year	☐	2	Numbers	5	7	9	11	13	14	Annually	Annual PAs	Participating municipal LGs; OAG, MoLG
9. Municipal LGs with actual expenditures on O&M more than 75% of the O&M budgeted amount	☐	3	Numbers	N/A	6	8	10	12	14	Annually	Annual PAs	Participating municipal LGs; MoLHUD through independent private consulting/ Audit firm
10. Technical support by MoLHUD and implementation of the Program action plan to ensure achievement of Program results.	☐	5	%	0	N/A	60%	70%	80%	90%	Annually	Quarterly progress reports (OBT), Bi-annual supervision missions, Annual PAs	MoLHUD
11. Direct Program beneficiaries (number), of which female (percentage)	√		Numbers	1066000	1119300	1175265	1234028	1295730	1360516	Annually	Annual PAs	Direct beneficiaries of actual investments financed by USMID
Intermediate Results Area 3: Strengthened municipal capacity achieved by central government												
12. Municipalities with functional IFMS system in place	☐	7	Numbe rs	2	7	14				Annually	Accountant General	Accountant General reports and WB PFM missions

[55] It is projected by end of Program period each municipality would have built or rehabilitated at least a municipal bus park, market or parking lots (local economic infrastructure where user fees can be charged).

[56] To ensure the achievement of Program results the following core staff should be in place in all the participating municipal LGs (i) Town Clerk, (ii) Municipal Engineer, (iii) Physical/Urban Planner, (iv) Municipal Treasurer (Finance officer), (v) Procurement Officer, (vi) Municipal Environment Officer, and (vii) Community Development Officer.

[57] The Integrated Fiduciary Assessment found that of the 14 municipal LGs to participate in the Program, for the FY2010/11, 5 had unqualified audit opinion, 7 had qualified opinion and 2 had disclaimer.

Annex 3: DLIs, Disbursement Arrangements and Verification Protocols

DLI Matrix

Disbursement Link Indicators (DLIs)	*Total Financing allocated to DLI*	*As % of Total Financing Amount*	*DLI Baseline*	*Indicative timeline for DLI achievement*					
				Year or period 1 FY2012/13	*Year or period 2 FY2013/14*	*Year or period 3 FY2014/15*	*Year or period 4 FY2015/16*	*Year or period 5 FY2016/17*	*Year or period 6 FY2017/18*
DLIs 1, 2, 3 and 4: Enhanced institutional and infrastructure delivery performance achieved by municipal LGs									
DLI 1 Municipal LGs have met Program minimum conditions in the annual assessment	30.00	18.75%	N/A	N/A	100%	100%	100%	100%	100%
Allocated amount				0	6	6	6	6	6
DLI 2 Municipal LGs have achieved institutional performance[58] as scored in the annual performance assessment	58.00	36.25%	N/A	N/A	50%	60%	70%	80%	90%
Allocated amount				0	11.60	11.60	11.60	11.60	11.60
DLI 3 Municipal LGs have delivered local infrastructure as per their annual action plans by utilizing Program funds	38.00	23.75%	N/A	N/A	N/A	N/A	70%	80%	90%
Allocated amount				0	0	0	12.67	12.67	12.66

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

Disbursement Link Indicators (DLIs)	*Total Financing allocated to DLI*	*As % of Total Financing Amount*	*DLI Baseline*	*Indicative timeline for DLI achievement*					
				Year or period 1 FY2012/13	*Year or period 2 FY2013/14*	*Year or period 3 FY2014/15*	*Year or period 4 FY2015/16*	*Year or period 5 FY2016/17*	*Year or period 6 FY2017/18*
DLI 4 Municipal LGs have built local capacity by utilizing Program funds	10	6.25%	N/A	N/A	Capacity building plan adopted	Capacity building plan adopted[59]	60%	70%	N/A
Allocated amount				0	2.5	2.5	2.5	2.5	0
DLIs 5, 6 and 7: Strengthened municipal capacity achieved by central government									
DLI 5 Annual MoLHUD capacity building activities for Program municipalities executed	12	7.50%	N/A	N/A	Capacity building plan for FY 2013/14 adopted	60%	70%	80%	90%
Allocated amount				0	4	2	2	2	2
DLI 6 LGs with town clerks in place[60]	6	3.75%		100%	100%	100%	100%	100%	100%
Allocated amount				1	1	1	1	1	1
DLI 7 Municipalities with functional IFMS system in place	6	3.75%	2	2	5	7			
			0	0	2.50	3.50			
Total financing Allocated	**160**	**100%**		**1**	**27.60**	**26.60**	**35.77**	**35.77**	**33.26**

[59]The reason for disbursing against the adoption of capacity building plan in FY2014/15 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 for FY2013/14), will be measured in the assessment in Sept-Nov 2014, and its findings will affect disbursements in FY2015/16.

[60] Central government is responsible for the appointment town clerks in LGs.

DLI Verification Protocol Table

#	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	Municipal LGs have met Program minimum conditions in the annual assessment	The indicator will be satisfied when:
		(i) The annual performance assessment, using only the minimum conditions, has been completed and the allocations to Program LGs have been determined on this basis;
		(ii) The Government has disbursed the previous urban local development grant (ULDG) tranche to all 14 LGs.
			Yes	For (i) Private firm will carry out the annual assessment
				
				For (ii) MoFPED
					Sub-committee of the Program Technical Committee (PTC), consisting of MoLHUD, MoLG, USMID/PST, MoFPED, LGFC and DPs.	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.
						
						The firm will calculate the 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.
						
						PTC sub-committee will verify that:
						(i) the assessment results are accurate
						(ii) The disbursement from the central government to LGs of Program funds in the last 6-month period has been done on time (starting with the second disbursement of MDG for Program duration)
						
						As part of implementation support, Bank will review the assessment results, the allocation amount and will ensure the timely disbursement of Program funds.

2	Municipal LGs have achieved institutional performance as scored in the annual performance assessment	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 firm will carry out the annual assessment	Sub-committee of the PTC	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. APA assigns a score to each LG. The private firm will calculate the 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. PTC sub-committee will verify that: (i) 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 disbursement from the central government to LGs of Program funds in the last 6-month period has been done on time (starting with the second disbursement of UPG for Program duration) As part of implementation support, Bank will review the assessment results, the allocation amount and will ensure the timely disbursement of Program funds.
3	Municipal LGs have delivered local infrastructure as per their annual action plans by utilizing Program funds	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 ULDG funds	Yes	Private firm will carry out the annual assessment	PTC sub-committee	Similar to DLIs 1 and 2 above, this DLI will also be measured through the annual assessment and therefore the same process will apply. As the results of the VFM audits which will be conducted by the OAG will constitute a part of the assessment for this DLI, the OAG will carry out the audits on time and without delay. In the event that a delay should occur and VFM audit results should come out late, the firm will adjust the preliminary results of assessment in line with the VFM audit results. APA assigns a score to each LG. The private firm will calculate the 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. PTC sub-committee will verify that: (i) the assessment results are accurate (ii) The disbursement from the central government to LGs of Program funds in the last 6-month period has been done on time (starting with the second disbursement of MDG for Program duration) As part of implementation support, Bank will review the assessment results, the allocation amount and will ensure the timely disbursement of Program funds.
4	Municipal LGs have built local capacity by utilizing	Achievement of the DLI will be determined on the basis of execution of activities specified in the	Yes	Private firm	PTC sub-committee	Similar to DLIs 1, 2 and 3 above, this DLI will also be measured through the annual assessment and therefore the same process will apply.

#	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
	Program funds	LG capacity building plan				LGs 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. The APA will review the execution performance of the LG against the planned target and an implementation rate.
5	Annual MoLHUD capacity building activities for Program municipalities executed	Achievement of the DLI will be determined on the basis of execution of activities specified in the MoLHUD capacity building plan and technical program support for LGs	Yes	MoLHUD	World Bank	MoLHUD will put in place an annual plan to build capacity of LGs and to support the Program objectives. Among other things, the plan will specify the activity, its objective, the resources assigned and the implementation timeline. The template for the plan will be included in the operations manual. No less than 60 days prior to the beginning of the forthcoming fiscal year, MoLHUD will submit the plan to the World Bank which will verify that the plan is in the agreed format and is satisfactory. Within 30 days of the beginning of the fiscal year, MoLHUD will submit a report of the implementation of the annual capacity building plan for the previous year. World Bank will verify the extent to which the plan has been executed and determine the DLI amount to be disbursed.
6	LGs with town clerks in place	Each Program LG has a town clerk in place (assessed every year of the Program).	No	Private firm/ MoLHUD	World Bank	Similar to DLIs 1, 2, 3 and 4 above, this DLI will also be measured through the annual assessment and therefore the same process will apply. No less than 60 days prior to the beginning of the new fiscal year, MoLHUD will submit to the Bank a schedule listing the names of 14 town clerks. APA will assess that these town clerks are in place. The Bank will review consistency of the lists.
7	Municipalities with functional IFMS system in place	Each Program LG has IFMS system in place and functioning properly.	Yes	OAG	World Bank	The verification of progress towards the achievement of this DLI will be done by World Bank Public Financial Management specialist missions, which will ensure that the IFMS system in each Program LG has been installed and fully functional.

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	Municipal LGs have met Program minimum conditions in the annual assessment	28	0	0	By Program completion	0	14	Disbursement from the Bank is calculated on the basis of compliance of LGs with minimum access conditions. Disbursement will be made provided that previous disbursements from GoU to LGs have all been made. Formula for disbursement from the Bank to GoU is: • Total funds available for each FY (US$6 million) are divided across LGs using the formula below. 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 to LGs. Formula for disbursement from GoU each LGs is: • [(ULG population/Total population for all ULGs) X 0.45+(ULG number of poor people/Total number of poor people in all ULGs) X 0.40 + (Size of land in ULG/Total size of land in all ULGs) X 0.15)] X Amount to be disbursed for this FY for compliant ULGs]
2	Municipal LGs have achieved institutional performance as scored in the	56	0	0	By Program completion	0	100	Disbursement from the Bank to GoU will be determined as: 1. Compliance of LGs with minimum access conditions; 2. Sum of scores of all LGs calculated (non-

#	DLI	Bank financing allocated to	Of which Financing available for		Deadline for DLI Achievement	Minimum DLI value to be achieved to	Maximum DLI value(s) expected to be achieved for Bank	Determination of Financing Amount to be disbursed against achieved and verified DLI value(s)
	annual performance assessment							minimum condition compliant LGs are assigned a score of zero) and divided by 14; 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. Disbursement will be made provided that previous disbursements from GoU to LGs have all been made. Formula for disbursement from the Bank to GoU is: • [total annual disbursement] = [{sum of individual scores of all LGs/14}/ {target score for the FY}] X [target disbursement amount i.e. $11.6m] Performance targets: FY 2013/14: 50% FY 2014/15: 60% FY 2015/16: 70% FY 2016/17: 80% FY 2017/18: 90 % Formula for disbursement from GoU to LGs is: • [(ULG population/Total population for all ULG) X 0.45 + (Size of land in ULG/Total size of land in all ULGs) X 0.15 + (number of poor people in ULG/total no. of poor people in all ULGs) X 0.40) X Score of ULG)/Sum of weighted scores of all ULGs)] X amount to be disbursed for the DLI2 for compliant ULGs

#	DLI	Bank financing allocated to	Of which Financing available for		Deadline for DLI Achievement	Minimum DLI value to be achieved to	Maximum DLI value(s) expected to be achieved for Bank	Determination of Financing Amount to be disbursed against achieved and verified DLI value(s)
3	Municipal LGs have delivered local infrastructure as per their annual action plans by utilizing Program funds	32	0	0	By Program completion	0	100	Provided that the Government has disbursed the Program tranche for the previous period to all qualifying LGs; Disbursement from Bank calculated as: 1. Compliance of LGs with minimum access conditions measured; 2. Sum of score of all LGs calculated (non-minimum condition compliant LGs are assigned a score of zero) and divided by 14 3. 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. Disbursement will be made provided that previous disbursements from GoU to LGs have all been made. Formula for disbursement from the Bank to GoU is: • [total annual disbursement] = [{sum of individual scores of all LGs/14}/ {target score for the FY}] X [target disbursement amount i.e. $12.67m] Performance targets: FY 2015/16: 70% FY 2016/17: 80% FY 2017/18: 90% Formula for disbursement from GoU to LGs is:

#	DLI	Bank financing allocated to	Of which Financing available for		Deadline for DLI Achievement	Minimum DLI value to be achieved to	Maximum DLI value(s) expected to be achieved for Bank	Determination of Financing Amount to be disbursed against achieved and verified DLI value(s)
								[(ULG population/Total population for all ULGs) X 0.45+(Size of land in ULG/Total size of land in all ULGs) X 0.15 + (number of poor people in ULG/total no. of poor people in all ULGs) X 0.40) X Score of ULG)/sum of weighted scores of all ULGs)] X amount to be disbursed for the DLI3 compliant ULGs
4	Municipal LGs have built local capacity by utilizing Program funds	10	0	0	Annually for four years, starting in FY 2013/14	0	14	Disbursements from the Bank to GoU in FY 2013/14 and FY 2014/15 will be: • (The amount for this FY (2.5 million) X by compliant LGs/all 14). E.g. if 8 comply the figure will be 1.43 million US$. Amounts to be disbursed to each LG will be: • Amount to be disbursed to all compliant LGs (as calculated above) /number of compliant LGs Provided that LGs have prepared the capacity building plan for the forthcoming year and that for 2015/16 (as assessed in September 2014 assessment) at least 60% of the 2013/14 activities have been executed, for 2016/17 (as assessed in September 2015 assessment) at least 70% of 2014/15 activities have been executed $2.5 million will be disbursed. Non-compliant LGs will count as zero in the scores. Disbursement to LGs calculated as: 1. Total funds available for FY divided by 14 (US$178,571) 2. A. If LG score equal to target for FY, full allocation, B. If LG score below target for FY, pro-rata reduction,

#	DLI	Bank financing allocated to	Of which Financing available for		Deadline for DLI Achievement	Minimum DLI value to be achieved to	Maximum DLI value(s) expected to be achieved for Bank	Determination of Financing Amount to be disbursed against achieved and verified DLI value(s)
								C. If score above target for FY, pro-rata increase. Disbursement to a LG will be: • [(1/14) X Score of ULG)/ Sum of weighted score of all ULGs)] X amount to be disbursed for the DLI4 compliant ULGs
5	Annual MoLHUD capacity building activities for Program municipalities executed	12	0	2	Annually, starting in FY 2012/13	MoLHUD capacity building plan formulated for the forthcoming year and minimum execution rates specified achieved for the preceding year.	N/A	FY 2013/14: Once MoLHUD submits plan in agreed format, $4 million will be disbursed. FY 2014/15 onwards: Provided that MoLHUD has prepared the capacity building plan for the forthcoming year and that: for 2014/15 at least 60% of the 2013/14 activities have been executed, for 2015/16 at least 70% of 2014/15 activities have been executed, for 2016/17 at least 80% of 2015/16 activities have been executed, for 2017/18 at least 90% of 2016 /17 activities have been executed, $2 million will be disbursed each FY.
6	LGs with town clerks in place	6	0	0	By Program completion	14	14	US$95,238 per municipal LG per year with required town clerk in place.
7	Municipalities with functional IFMS system in place	6	0	3	By Program completion	0	12	US$500,000 per municipal LG with required IFMS system in place.

Annex 4: Summary Technical Assessment

1. Strategic Relevance

1. ***Serious demographic and urban challenges.*** Uganda has a large population base of 30 million with 51% of the population under the age of 18 years, with high population growth rate (3.2% per year)[61] making it one of fastest growing countries in Africa. Although the current level of urbanization[62] in Uganda is still low at about 12%, it is projected that by 2035 Uganda's population will be 68 million and 30% (20 million people) will be in urban areas. 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. This is putting pressure on demand for urban services as well as the impacts on the environment.

2. ***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.

3. ***Municipal infrastructure financing system in Uganda is inadequate and highly dependent on project financing.*** Although the country has all the elements of traditional intergovernmental fiscal transfers (IGFT), i.e. conditional grants, unconditional grants, equalization transfers, the share of conditional grants as percentage of total IGFT has increased from 66% in FY 1995/2006 to about 95% now. LGs have therefore lost discretion and have less incentive to perform. In FY 2008/09 urban LGs received only 3.4% of the UGX1.2 trillion transferred to LGs. Under the current national Local Government Management and Service Delivery (LGMSD) program piloted by the World Bank and now fully being funded by Government, municipalities are receiving only US$1.57 per capita for capital investment. The current trend of IGFT architecture is therefore not consistent with the decentralization policy adopted by government.

4. ***Although 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***[63], LGs have become increasingly dependent on central government transfers. There is no capital market where LGs could go for long term borrowing to finance infrastructure development. Most municipal infrastructure developments are being financed through projects. Operation and maintenance of physical infrastructure such as urban

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

[62] 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).

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

roads are being financed from the recently introduced Road Fund. The recently discovered oil could become a potential source for municipal infrastructure financing and USMID will provide the learning experiences the same way the LGMSD did for the local development grant (LDG) which is now mainstreamed in the national budget and fully being funded by GoU.

5. ***Investments in urban infrastructure and services have not 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***. Of the total roads network of about 1,620kms in the fourteen municipalities, majority (79%) are either gravel or earth roads with bituminized roads forming a small percentage (21%) and mostly found in the Central Business District of the municipalities. Over 83% of the walkways are in a fair or poor state. Over 90% of road furniture is either lacking or poor. Only 33% of the drainage/bridges are in good status, with only 10% of traffic signs available in good state[64] as per the table below. It is estimated that slums and informal settlements provide accommodation to more than 60% of the urban dwellers in Uganda. 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. USMID intends to start addressing some of these challenges by providing an incremental enhanced municipal development grant (MDG) per capita from the current US$1.57 to an average of US$16.88 in year 1 and increasing to about US$29.39 by end of Program period in year 5 so as to address some of the core urban service delivery gaps in the 14 municipalities presented in the table below.

Table 1: Core urban service delivery gaps

No	Infrastructure	Total needed	Total available	Gap	Unit cost (UGX m)	% Gap
1	Bitumen roads (Km)	1611.43	344.28	1266.15	1,200.00	78.57
2	Solid Waste transport	55	31	24	130.00	43.64
3	Garbage skips	401	275	126	6.50	31.42
4	Municipal Garbage (tons)	1297	668.75	628.25	0.15	48.44
5	Street lights	230	32	198	0.7	86.09

Source: Municipal Asset Inventory and Condition Assessment report – November 2011.

6. ***In addition to the challenge of inadequate urban financing highlighted above resulting in poor urban services, 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 local governments lack physical planners for preparing physical development plans and guiding developers. Both the Ministry and municipalities lack the capacity to enforce compliance to plans, standards and regulations. Additionally, there is no national Urban Policy and implementation of the new Physical Planning Act, 2010 has just started. The capacity gaps across all 14 municipalities fall into three broad categories[65], namely: (i) gaps in numbers of key

[64] Municipal Asset Inventory and Condition Assessment Report, November 2011.

[65] Diagnostic of the supporting/oversight institutional framework, systems and capacity building needs for Municipalities Report 2012

positions filled, (ii) operation skills to backup academic qualifications, and (iii) inadequate tools and equipment and facilities. USMID will contribute to addressing some of these gaps through the minimum conditions for the municipalities to access the MDG and institutional strengthening. For the MoLHUD capacity gap will be addressed through technical assistance, training and tooling under the institutional strengthening element of the Program for the ministry.

7. ***In light of the above fore-mentioned challenges, the Program rationale is to address the current municipal infrastructure gaps and strengthen the institutions of both the central ministry and the municipalities for urban management and improved urban services.*** The funds allocation under the Program has an inbuilt poverty indicator so as to start addressing urban poverty through the provision of employment opportunities during civil works activities.

8. ***The proposed Program will contribute to the National Development Plan (NDP)***[66] ***2010/11 – 2014/15 which has broadened the country's development strategy from poverty reduction to structural transformation and has identified urban as one of the complementary sectors for growth.*** It will also assist in strengthening the capacity of the newly created MoLHUD with a Directorate of Physical Planning and Urban Development and the implementation of the newly passed Physical Planning Act, 2010.

9. ***The Program will specifically contribute to the achievement of CAS (FY 2011-2015) 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.

2. Program Technical Soundness

10. ***A number of diagnostic studies have been completed to inform the technical design of the Program. In addition, the data bases of the current municipal infrastructure status have been compiled to assess the infrastructure gaps***[67]. The Bank, in addition to the Technical Assessment, has also completed the Fiduciary Assessment and the Environmental and Social System Assessment of the Program. The risks identified through these assessments, which will have implications on Program objectives, will be addressed through the Program Action Plan (PAP).

11. ***The proposed design and the activities to be implemented under the proposed USMID Program will contribute to the realization of the Program results and development objective***. The types of activities to be financed under the enhanced municipal development grant (MDG) window and municipal capacity building grant (MCBG) window of the Program will results into improved quality of core urban service delivery and also strengthen the capacities of both the

[66] 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.
[67] Infrastructure baseline data

MoLHUD and the participating municipal LGs. The relevant sector ministries will play their roles in providing the municipal LGs with the necessary technical standards and guidance. Through the existing inter-ministerial program technical committee under the government program, relevant sector ministries will ensure that technical standards of the activities are acceptable. The role of the sectors will be to assist the municipal LGs with respect to technical standards and supervision during quarterly technical committee meetings, which will take place on rotational basis in the participating municipalities. Supervision by the center will provide the necessary assurance of the technical quality of the various activities to be implemented under the Program.

12. ***Principles for Program design*** - the following principles have been taken into consideration in designing the Program:

- *Use of government system* to strengthen capacity at both central and the participating municipalities for urban development and management.

- *Municipalities as the implementing agency* - The municipalities will be responsible for the implementation of the Program activities at their level. Where there are capacity gaps they will be assisted by consultants and capacity building activities to address such gaps.

- *Inbuilt incentives through performance and competition* – although each municipal LG will be allocated an indicative planning figure (IPF) for the duration of the Program period, access and utilization of the fund will be based on performance. By the end of the Program some municipalities may get less or more depending on the level of commitment and implementation track record. This will build on the current LG annual performance assessment under the government program – the LGMSD - which has inbuilt sanctions and incentives.

- *All participating municipalities to benefit from institutional strengthening* – to prepare them to receive the enhanced MDG during the next assessment and ensure improved capacity for all participating municipal LGs by end of Program period.

- *Limited investment scope for funding under the enhanced MDG window* – to achieve the intended investment impact creation.

13. ***To ensure sustainability of the investment to be created under the Program, including existing stock, each municipality will be supported to undertake a revenue enhancement plan***. This plan will include the update of revenue data base by source and revenue targets, billing, collection, enforcement, complain resolution, and information, communication and education (ICE) system.

14. ***The current LG assessment system will be improved to enhance municipal capacity in fiduciary, environmental and social management and project implementation and operations and maintenance.*** The municipal national assessment will be contracted out to an independent private firm[68] that is competent, credible and neutral; composed of people with expertise in:

[68] This is also recommended by the CB and Institutional Assessment, October 2011, see above.

(i) finance management, internal audit and procurement; (ii) engineering, project execution and implementation including environmental and social management and land acquisition; and (iii) administration, planning and communication. The advantages with the private company and the model of contracting are: a) neutrality, b) capacity, c) it will not drain the ministries core functions, d) it will provide the ministry with the normal quality assurance (QA) functions of consultancies, and e) it will increase the general credibility of the entire assessment. In addition the independent assessment results will give all stakeholders the necessary incentives to achieve the Program objective. The design and execution, since it is building and improving on an existing government program – the LGMSD, is adequate to contribute to the Program success.

15. ***The Program design is therefore technically sound to ensure achievement of the intended Program results***. The Program design has provided for incentives to contribute effectively for the Program success. The design has built on the experiences and current on-going LGMSD, which is a government performance grant system program in LGs. In addition, line ministries will provide the necessary standards and technical support to the municipalities, and the Bank team has relied on the knowledge and experiences of internal and external experts who conducted diagnostic studies to inform the technical design of the Program.

3. Program Expenditure Framework

16. ***Uganda has a well-developed budget classification to track government expenditures under the Program.*** Each sector has votes in the expenditure framework. At the centre – MoLHUD, the USMID Program budget for institutions strengthening and support for Program implementation to the MoLHUD will be incorporated in the budget framework paper and annual budget of the ministry Vote 012, vote function 0202 – Physical Planning and Urban Development which has provisions for both recurrent and development budgets. Under the national expenditure framework, LGs have one vote (501-850) sub divided into three sub-votes namely (i) unconditional grants, (ii) Local Development Grant (LDG) program, and (iii) Equalization grants. The unconditional grant is used by LGs to financed decentralized services and payment of wages and salaries, the equalization grant is a subvention to address service delivery gaps in lagging LGs, while the LDG is the discretionary performance base grant to LGs for provision of services based on local bottom up participatory planning process. The government program – the LGMSD - uses an allocation formula which is based on administrative land area of the municipality (15%); Municipal population projection based on population growth rate of the municipality as provided by UBoS (45%); and Municipal poverty head count (40%). This formula is simple, transparent, the data easily available from a reputable institution (UBoS), and nationally accepted. The USMID Program will also use this government formula to allocate the MDG window of the Program to the participating municipal LGs.

17. ***The USMID Program will supplement other development grants provided to the municipalities such as the current Local Government Management and Service Development (LGMSD) program, equalisation grants, sector development grants etc, but will focus on larger infrastructure investments in the municipalities***. At the municipal level, the USMID Program will therefore support the LGMSD which is a government program supporting two activities at the LGs level namely – service provision (investment financing) and a capacity building grant (institutional strengthening) to LGs. The total Program funds of US$150 million

will be used only for financing activities in line with the USMID Program objective so as to achieve the intended outcome.

18. Compared to total grants transfer to LGs of UGX1,490 billion in FY 2010/11, USMID average annual transfer of US$30 million (about UGX75 billion) would be equivalent to 5%. However, the significant of the design of the PforR intervention is to introduce USMID as a new element of the intergovernmental fiscal system by broadening the level of discretion to municipal LGs and providing them with adequate investment capital which would make them respond to the core investment needs of urban infrastructure. Table 1 below gives the trend over the last six years and comparison between central government and LGs expenditures with total public expenditure.

Table 2: Central and LGs expenditure (2005/06 – 2010/11; UGX Billion)

Central and LGs Expenditures	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Total Public Expenditure	3,713.6	4,106.3	4,734.4	5,858.7	7,044.5	7,376.5
Total Public Expenditure as % of GDP	NA	20%	20%	19%	20%	NA
Line Ministries (LMs) and LGs Expenditure[69]	3,195.1	3,640.0	4,229.6	5,193.2	6,282.5	6,407.4
LMs and LGs Expenditure as % of GDP	NA	17%	18%	17%	18%	NA
Line Ministries (LMs) Expenditure	2,326.0	2,756.4	3,129.4	3,963.3	4,859.6	4,808.1
LMs Expenditure as % of GDP	NA	13%	13%	13%	14%	NA
Total Grants transfers to LGs	869.08	982.18	1,060.92	1,239.45	1,338.92	1,490.01
Total Grants transfer to LGs as % of GDP	NA	5%	4%	4%	4%	NA
Total grants transfers to LGs as % of Public Exp.	NA	24%	22%	21%	19%	20%

Source: Draft Estimates of Revenue & Expenditure (recurrent & Development), FY 2011/12, MoFPED, Vol. 1 Central Government Vote.

19. ***Annual Municipal development grant (MDG) window allocations under the Program will be structured such that it increases over the Program period to cater for the population growth, inflation and improvement of Municipal capacities to absorb increasing large sums of investment funds.*** The capacity building grant window of the Program will be front loaded to allow for early institutional strengthening of both the participating municipal LGs and the MoLHUD for Program implementation and achievement of Program results.

20. ***Government expenditure framework projection*** - The government MTEF projection from 2012/13 for the next five years for the LGMSD - government program transfers to LGs is UGX 584.22 billion. At the current exchange rate of US$1 = UGX 2500, the above USMID Program projection presented in the table above over the next five years will account for about 39% of total LGMSD transfers to LGs (GoU projected transfer is UGX584.22 billion over the next five years while USMID is UGX375 billion over the same period). The table below gives the USMID Program expenditure frame work compared to GoU program projections.

[69] This excludes Statutory interest payments

Table 3: USMID Expenditure framework compared to GoU projections (UGX billion)

Central and LGs Expenditures	2012/13	2013/14	2014/15	2015/16	2016/17	Total
Total Public Expenditure	10,494.39	11,878.99	11,942.57	13,804.63	15957.02	64,077.60
Line Ministries (LMs) and LGs Expenditure	9,815.81	11,110.07	11,075.55	12,812.84	14822.64	59,636.91
Line Ministries (LMs) Expenditure	7,892.50	8,877.91	8,543.66	10,126.45	12002.47	47,442.99
Unconditional Grant (District)	195.96	223.69	239.12	262.70	288.61	1,210.08
LG Development program (LGDP)	74.96	92.35	106.85	136.27	173.79	584.22
District Equalization Grant	3.99	4.58	5.24	6.07	7.03	26.91
USMID Program	69.24	74.56	80.41	71.86	78.94	375.00

Source - Draft Estimates of Revenue & Expenditure (recurrent & Development), FY 2011/12, MoFPED, Vol. 1 Central Government Vote and USMID Program expenditure projection

21. ***Program Financing Sustainability***- the government program (LGMSD) has been fully funded by government over the last four years and is fully entrenched in the government MTEF with a specific vote. The funding of the government program have been predictable over the years since the transfers to LGs have been protected from budget cuts under the poverty action fund (PAF) arrangement[70]. It is therefore anticipated that the USMID Program will be sustainable even after the Bank financing and it will provide an incentive for the government program to grow with the demand and need to have the remaining eight municipalities to join the Program.

22. ***Program funding predictability*** **-** To ensure predictability, USMID IPFs will be issued to participating municipal LGs for all the Program duration, although actual annual disbursements will be based on performance assessment results linked to the DLIs. The Program fund will be protected from any budget cuts, as under the current government program where budget out-turn have been averaging 95%. Municipalities will be informed about their actual disbursement for the following FY in November/December every year immediately after the assessment exercise, so as to give the municipal LGs ample time for their planning and budgeting process. Under the current arrangement, the Program funding to the municipalities will be predictable.

23. ***Expenditure Performance*** **–** there are no major expenditure performance issues under the government program. Government, currently under its PFM reforms is considering making the third and fourth quarter releases to LGs during the third quarter so as to give LGs ample time to fully utilize the release. In addition, to mitigate some of the risk associated with late release to LGs, and given the lumpy nature of investments under the USMID Program, releases to the participating municipal LGs under the Program will only be done twice a year. Municipalities will use the Program money for investments in limited infrastructure which will have visible impact. To avoid delays in the implementation of the first batch of investments, the MoLHUD has secured US$1.4 million from Melinda and Bill Gate foundation to support the participating Municipal LGs with the engineering designs and the preparations of the bidding documents for the sub-projects. Part of the credit from the Program will be used for the design of the follow-on sub-projects. Possible delays in the design and procurement of the various sub-projects under the Program have therefore been mitigated.

[70] Under Poverty Action Fund (PAF) transfers to LGs are protected from budget cuts.

24. ***Fiscal constraint and need for advances under the Program*** - An initial US$2 million of the Program funds will be advanced to Government against DLI 5 immediately the credit becomes effective.

4. Program Results Framework and M&E

25. ***Definition of the Program's Results Framework*** – The Program PDO is to enhance institutional capacity of selected municipalities to improve urban service delivery. It will be measured by: (i) the percentage/number of municipalities with strengthened institutional performance in fiduciary, environmental and social management, technical (project implementation) and urban planning process, and (ii) percentage of total planned infrastructure completed by participating municipalities. The intermediate outcome will be measured at the two intermediate results areas of the Program: (i) enhanced institutional capacity of both the MoLHUD and the municipal LGs for urban development and management, and (ii) improved urban service delivery. The detailed M&E framework is presented in annex 2.

26. ***USMID Program will rely on an existing government M&E system building on internal and external processes and actors***. Externally, the most prominent and effective actors are the municipal internal audit for internal control and the office of the Auditor General (OAG) for external audits. The municipal internal audit plays a key monitoring role which goes beyond fiduciary aspects and will include adherence to the Program implementation arrangement. In addition the municipal internal auditors report directly to the council and their reports are usually acted upon by the LGs Public Accounts Committees (LGs PAC). The annual external audit reports by the OAG are tabled to the LGs PAC at the national Parliament. In addition to these M&E system, there are also the routine M&E functions which are performed by the elected municipal councilors. One of their functions is to monitor and ensure that the technical staff implements council plans and budgets as approved. These M&E arrangements will be complemented by those provided by the Program Technical Committee (PTC) and other non-state actors in the municipal LGs such as the NGOs, CBOs and the Municipal Urban Forum (MF) in addition to the overall oversight function being provided by the MoLHUD as the Program coordinator. These M&E functions will further be augmented by Program technical audits such as vale for money (VFM) audit, and annual municipal assessment reports which have been included as actions to be performed under the Program Action Plan.

27. ***Assessment of the Results Framework and the Program's M&E Capacity*** – Monitoring and evaluation of the USMID Program will be done through use of various tools, which are inter-linked and are presented below[71].

a) The Output Budgeting Tool (OBT) under MoFPED, that will provide the basic overview of inputs, activities, outputs under the various core sectors. The OBT is a new budgeting, work-plan and reporting tool, which was introduced in FY 2010/11 and the reporting started in the FY 2011/12. The system encompasses the input to the budget – the budget framework paper (BFP), the annual work-plans (with budgets), performance contract with the LGs (accounting officers), and annual and quarterly reporting against the work-plans, as well as the linkages

[71] The details of the monitoring process and the reports/forms to be submitted are provided under section 4.2 and 5 of this USMID OM.

between these tools. Under the OBT each sector has the outputs, the expenditures, itemized and the break down in funding from four sources, i) wage, ii) non-wage, iii) development GoU and iv) development Partner (DP) funded. Within each sector, there are annual budgets for each output and work-plans as well as the core funding source. However, the current shortcoming of the OBT is that specific source of funding does not appear in most reporting formats from the system and further break down of the utilization of government capacity building grant (CBG) program is not possible. The USMID Program will therefore be registered separately (like the government LGMSD classified grants) so that the activities can be tracked, also using source of funds. This will ensure that more specific and relevant USMID outputs in the core sectors such as roads, street lighting, water & sanitation; solid waste management, etc are captured and monitored. In addition, it will make it possible to consolidate the USMID Program output and get the total use of the grant. The table below summarizes what the OBT can currently do and the gaps with respect to USMID Program.

b) Given the gaps above, the OBT will be supplemented by a few additional reporting requirements on the impact of the investments and investment inventories. OBT will also be supplemented with reporting on institutional strengthening and other reports such as:

- The annual performance assessments which will provide information on the institutional performance, and core process and system areas, such as planning, fiduciary, environmental and social management, and Program implementation. It will establish compliance to the laws and regulations of Uganda governing municipal LGs, among which are: the Physical Planning Act, 2010; the Local Governments Act Cap 243; the LG Finance and Accounting Regulations 2007; the LGs Public Procurement and Disposal of Public Assets Regulations, 2006; and the National Environment Act Cap 153. Further, it will establish adherence to the Environment and Social Management and Resettlement Policy Framework being applied by LGs under the government program (LGMSD) and revised for USMID Program;

- A number of technical reviews reports such as value for money audit (VFM) and regular procurement audits, which will also inform the annual assessments.

- The Program mid-term review reports as well as final review of the progress and impact in intended areas to establish whether USMID is meeting its objectives and contributing to the goal in the national development plan (NDP).

28. ***The M&E under the Program will therefore build on existing M&E framework being used under LGMSD and Output Budgeting Tool (OBT)***[72]. However existing system will be improved to give the necessary focus on the municipal Physical Development Plan consistent with the provisions of the Physical Planning Act (PPA) 2010. The technical reviews (value for money audit) will be added focusing at the municipal level. The municipalities are already using the M&E framework under the government program and therefore have the necessary capacity.

[72] The OBT is a new budgeting, work-plan and reporting tool, which was introduced in FY2011/12, but which will really take off from the coming FY (2012/13). The system encompasses the input to the budget – the BFP, the annual work-plans (with budgets), performance contract with the LGs (accounting officer), and annual and quarterly reporting against the work-plans, as well as the linkages between these tools

The M&E capacity in the MoLHUD will be strengthened by recruiting an M&E Specialist under the Program who will assist the MoLHUD with the Program M&E.

29. ***USMID Program Progress Report –*** The municipal LGs will prepare quarterly progress report which will cover three elements (i) physical progress report (ii) work plan for the next six months, and (iii) procurement and financial report covering expenditures, commitments, bank balances and requirements/requisitions for the next six months. These reports will be presented to the Program Technical Committee (PTC) for review as the current practice under the government program. The MoLHUD will consolidate and submit to the Bank within three months of the beginning of every fiscal year the following reports:

i. Summary of the municipal LGs assessment results and the corresponding disbursed amounts;
ii. Summary of aggregate Program expenditures and infrastructure delivered by municipal LGs
iii. Progress report on activities executed under the MoLHUD capacity building plan;
iv. Summary of aggregate capacity building activities executed by the municipal LGs;
v. Summary report on aggregate environmental and social measures undertaken by each municipal LG, including grievances handled;
vi. Summary of aggregate information on procurement grievances;
vii. Summary of aggregate information on fraud and corruption issues as provided by PPDA and IGG (see section on Fraud and Corruption).

30. ***In terms of assessments, the annual performance assessments under USMID will be contracted out with the MoLHUD/MoLG retaining the mandatory oversight.*** The performance assessment will be key to demonstrate and verify the achievements of results linked to the DLI and also to generate lessons for learning and improvement of municipal LGs capacities and performances. In addition, all reports and studies conducted under the Program will feed into the formal mid-term and final evaluations. A mid-term review will be conducted within 36 months of Program implementation to evaluate progress of the Program.

31. ***Capacity Building for Monitoring and Evaluation –*** Under the Program, the M&E capacity at the municipal level will be enhanced through training of the staff in engineering, finance and procurement so that they are able to compile timely progress reports for monitoring the implementation progress of the various activities under the Program. The M&E Specialist to be recruited under the Program will provide hands on support and mentoring to the MoLHUD staff in Physical Planning and Urban Development in the Program M&E. (S)he will also provide back-up support to the municipalities including the review of M&E reports from the municipalities.

5. Program Economic Evaluation

32. ***Economic Evaluation of the LGMSD*** - A post-construction evaluation of the economic benefits of government program carried out under the first LGMSD using three approaches - value for money, cost-effectiveness and cost-benefit analysis demonstrated that overall the LGDP 1 resulted in the identification, prioritization, selection and investment in economically

viable subprojects. The poverty impact of LGDP 1 was positive and the investments were found to be positive both in terms of cost-effectiveness and through an ERR assessment. The economic analysis findings confirmed the design hypothesis that by empowering the client and its constituents and providing appropriate incentives to enhance ownership and management skills, the decentralized approach of the LGDP can achieve equal or better outcome than the old centralized approach. The summary of the LGDP I VFM, cost-effectiveness and cost-benefit evaluation results are presented here below:

- *Value for money (VFM)* - Using the Value for Money Audit assessment of 839 subprojects out of a total of 8,204 sub-projects implemented under LGDP 1, the analysis of the data generated shows that the ranking of the outcome ("effectiveness") of the sub-project is correlated to the ranking of the "economy" and "efficiency" of the local government. In particular, the "efficiency" is highly correlated to "effectiveness". That is, the outcome is highly dependent on the mastery of execution of the processes of planning and approval, procurement, implementation, financial management and commissioning/handover. Districts which utilize their resources frugally ("economy") tend also to have relatively high outcomes although not as high as those that have high "efficiency", i.e. those that mastered the skills necessary for executing the processes within a project cycle. Thus, the hypothesis that local governments with adequate capacity (institutional and skilled manpower) will select and implement subprojects that are economically viable is validated.
- ***Cost–effectiveness.*** Cost-effectiveness analysis for the roads and education sectors on the basis of data collected under the LGDP I M&E system show that unit costs are generally lower than non-LGDP projects (of approximately the same quality), further affirming the working hypothesis. In the education sector, the cost of a non-LGDP standard classroom is 25% higher than for a standard LGDP funded project. Also in the roads and drainage sector, the unit cost for footpaths and tertiary roads is UGX 967 per person and UGX 752 per person respectively, indicating that footpaths and tertiary roads were built in densely populated areas where they are used by large number of people as suggested by the reduced unit cost per person-trip.
- *Cost-benefit***.** Analysis in the water sector on prototype technology choices under LGDP I was also found to be positive. The weighted average rate of return for standard protected springs, shallow wells and boreholes was found to be 18%. Sensitivity analysis indicated that this return was robust. The net present value of the investment was found to be UGX.1.5 billion.

33. ***Post-construction evaluations of the economic benefits of LGDP II investments were also carried out using both qualitative and quantitative approaches: key performance indicators; beneficiary assessment; coverage and proximity; cost-effectiveness; and value for money***. Statistical evidence from the implementation of LGDP II indicated that the sub-projects were implemented in a more cost effective manner compared to those under LGDP I (See the table below). The average cost of the sub-projects financed under LGDP II was 88% of the average cost of sub-projects implemented under LGDP I, even without accounting for inflation due to the time difference in the implementation of the two projects. A similar comparison of the average cost for each of the sectors indicated similar results.

Table 4: Comparative Average Cost of Sub-projects during LGDP II and LGDP I

Sector	LGDP II		LGDP I		No. of Sub-projects (LGDP2 / LGDP1)	Avg. Cost of Sub-projects (LGDP2 / LGDP1)
	No. of Sub-projects Completed	Average Cost (UGX./Sub-project)	No. of Sub-projects Completed	Average Cost (UGX ./Sub- project)		
Administration	256	12,859,060	117	27,660,868	2.2	0.5
Education	3,445	6,449,738	2,525	5,827,796	1.4	1.1
Health	1,248	11,131,430	832	10,146,595	1.5	1.1
Production	1,593	3,882,787	809	3,894,377	2.0	1.0
Roads & Drainage	3,338	11,130,932	2,081	11,705,568	1.6	1.0
Solid waste	140	5,723,182	99	7,034,052	1.4	0.8
Water & Sanitation	2,770	4,331,300	1,741	4,919,837	1.6	0.9
Total	**12,790**	**7,470,099**	**8,204**	**7,699,307**	**1.6**	**1.0**

Source: Output / Impact Reports, LGDP I and LGDP II

34. ***The investments under USMID Program are not known aprior since they will be determined, like under the LGDP, through a participatory bottom-up planning process in the municipalities.*** However, basing on the experiences from LGDP I and II, there are several potential benefits, which will be quantifiable after conducting post-construction evaluation. At this stage of design, only baseline data and appropriate assumptions on the stream of benefits and costs over the life of the Program can be made to estimate quantifiable benefits for sample category of sub-projects which will be most likely chosen by the municipalities. These results will be validated after the post construction evaluations of the sub-projects are subjected to VFM, cost effectiveness and cost benefit analysis are done. However based on the baseline data ***The Program Economic Evaluation*** assessed (i) the counterfactual scenario where the Program is not introduced and (ii) the potential economic impact of the Program. The assessment showed a strong rationale for the proposed interventions. The counterfactual scenario where the government's LDG of approximately US$1.57 per capita moves forward without the proposed Bank supported Program means that the target municipalities continue not to receive the necessary investments in infrastructure and institutional capacity needed to keep up with the rapid urbanization and the increase in urban residents in the Program municipalities. This means the Program municipalities face a serious challenge in meeting their ever- increasing residents' expectations of delivering reliable urban services, as well as a possible deterioration, and in some cases, collapse of existing infrastructure. To give an idea of the quality of existing infrastructure in the Program municipalities, out of the total 1611 kilometers of roads network in the 14 municipal LGs only 344 kilometers are paved (21%); out of a total of 1297 tons of garbage generated annually only 668 tons (52%) are collected; and out of a total of 230 street lights only 32 (14%) are functional. Given these infrastructure and service gaps, the existing government program is not adequate to achieve the proposed Program's objective of enhancing the institutional capacity of the municipal LGs and expanding the urban infrastructure, due mostly to its low per capita allocation. While it is clear that capacity and performance challenges among the municipal LGs continue and urban infrastructure and services remains low; it is evident that without the proposed Bank supported Program, the government LDG would not be adequate for achieving the proposed objective of increased municipal LGs performance in expanding urban infrastructure.

35. The second dimension of the Program economic analysis is the potential economic impact of the investments. An analysis of similar investments in the Uganda indicate that the economic impact of urban infrastructure investments are positive, with a high average economic internal rate of return (average EIRR ranging from 27.5 to 33% for urban roads, 10.6% for drainage and 27% for street lights). Additionally, the Program will produce unquantifiable benefits by deepening decentralization reforms in the participating municipal LGs for enhanced implementation of key urban services. At the ministerial level, the Program will enhance institutional capacities, including physical planning, training and coordination among key stakeholders. At the municipalities' level, institutional capacities to plan, implement and better monitor infrastructure investments will be improved. Improvements in physical planning, financial management, environmental and social management, and procurement will likely contribute to improved efficiency in delivery of key urban services and better management of the municipalities. Municipalities are more likely to improve own source revenue generation when systems and processes are improved. As a result, their abilities to contribute to operations and maintenance of infrastructure and thus, sustainability of the Program will be enhanced.

36. ***In order to promote public, private partnerships (PPPs), the bulk of the Program activities will be contracted out to the private sector in line with Government policy of promoting private sector led economy***. The municipalities, as implementing agencies, will retain supervisory role and the MoLHUD as the executing Ministry will retain oversight and quality assurance role for Program implementation. These arrangements are considered adequate in terms of economy, efficiency and effectiveness in addressing the urban development issues at hand.

6. Technical Risks

37. ***The overall technical risk rating for the program is Substantial***. This rating is justified because of (i) the weak technical capacity at the MoLHUD to supervise the Program, (ii) inadequate capacities at municipalities to design and supervise major works, and (iv) weak revenue base for municipalities to finance operations and maintenance costs. The measures to be implemented under the Program to mitigate these risks will include, amongst other, (a) municipalities to have the necessary core technical staff as a minimum condition in place before they receive the MDG under the Program, (b) Institutional strengthening of both the MoLHUD and municipalities through training, tooling, technical assistance, and promotion of community of practices through peer-to-peer learning, mentoring, exchange visits, etc, (b) strengthen municipal own source revenue including financial management to achieve value for money; (c) supporting the establishment of user committees at municipal level to facilitate maintenance of the infrastructure and undertake early reporting of damages. The highlights of the risks are discussed below. A consolidated Program action plan to address Program risks are presented in annex 8.

38. ***The MoLHUD is a new Ministry with inadequate capacity to coordinate urban development and management***. The MoLHUD is mandated to oversee urban development in the country and will be the coordinating for the Program. The vacancy level in its establishment is very high; at about 46% of the 201 executive, technical and professional personnel. Table 8 below gives a summary of the current staffing of the Physical Planning and Urban Development of the MoLHUD which will be responsible for the implementation of USMID Program.

Table 5: Staffing level - Directorate Physical Planning and Urban Development (DPPUD), MoLHUD

USMID Key Department	Established posts	Numbers by category		Vacancy by category		% Vacancy by category	
		Executive (U4 – 1)	Support (U5 down)	Executive (U4 – 1)	Support (U5 down)	Executive (U4 – 1)	Support (U5 down)
DPPUD - Physical Planning	25	15	10	9	3	60%	30%
Department of Urban Dev.	14	9	5	2	5	22%	100%
Total	**39**	**24**	**15**	**11**	**8**	**46%**	**53%**

Source: USMID Institutional and Capacity Building Needs Assessment Report, November 2011

39. The capacity constrain in the MoLHUD therefore poses risk to its role to effectively oversee the implementation of the Program and provide the necessary technical back-up support and mentoring to the participating municipalities. This risk will be mitigated by providing Program Support Team (PST) with expertise in (i) Program Coordination, (ii) Procurement, (iii) Financial Management, (iv) Engineering, (iv) Physical Planning, and (vi) environmental and social management to support the MoLHUD for the Program implementation. The team will be mapped to the necessary departments within the MoLHUD and answerable to the respective heads of Departments. The services of these teams will be phased out once there is evidence that the MoLHUD is adequately staffed and has developed the necessary internal capacity to manage the Program.

40. ***Current LG capacity building activities under the government program is predominantly focused on training – and formal training in particular.*** All municipal capacity building plan reviewed did not include activities relating to addressing the other capacity areas such as facilities, equipment and tools. The weakness of the current capacity building activities in LG is that it is driven by individual rather than organizational needs. The table below presents a summary of municipal capacity gaps in terms of tools and equipment by department.

Table 6: Summary of Municipal Capacity Gaps - Tools and Equipment by Department

Department	Identified Capacity Gaps
Town Clerk and Administration	Vehicles, office equipment (e.g. photocopier machines, computers and printers, filing cabinets)
Health Services	Medical equipment, drugs and protective gear, and vehicles (including ambulances).
Works and Technical Services	Vehicles, operational equipment like GPS and digital cameras, office equipment, drawing boards and drawing rooms, and road unit
Audit Department	Office space, office equipment - computers and printers.
Environment, Production & Marketing	A motor vehicle and office equipment - computers and printers
Finance and Planning	Vehicles, motorcycles and office equipment- computers and printers, copiers, IFMS
Education and Sports	vehicles, motorcycles and office equipment- computers and printers, copiers,
Procurement Unit	Computers, office space, filing cabinets
Divisions	Computers and printers, copiers, motor vehicles and motor cycles

Source: USMID Institutional and Capacity Building Needs Assessment Report, November 2011

41. ***In addition to inadequate equipment and tools, the staffing level and technical capacity of the 14 municipalities vary.*** Nine municipalities have staff levels of 60% and above, of the approved positions. Only three municipalities have staffing levels below 50% of the approved establishment. Overall, the Internal Audit department is the highest staffed with 11 out of 14 municipalities having staffing levels of 75% and above. Overall, Works and Technical Services (Engineering) department has the lowest staffing levels at an average of 47% of the approved positions across the 14 Municipalities. Only 4 Municipalities have staffing levels of 60% or more of the approved positions. The table below gives a summary of the staffing level in the 14 municipalities.

Table 7: Summary of Staffing levels by department for the 14 Municipalities (%)

Municipality	Departments and percentage of approved positions that filled								
	T&Ad	Fin&P	P H	W&TS	EP&M	IA	Ed&S	CBS	Overall
Arua	45	61	71	59	50	50	33	50	57
Entebe	79	84	75	52	50	75	62	54	68
Gulu	87	87	69	87	100	100	90	86	81
Hoima	63	82	100	71	33	75	50	100	68
Jinja	79	83	79	56	65	100	86	58	72
Kabale	36	64	61	15	75	50	43	64	47
Lira	NA	NA	92	NA	60	100	NA	NA	NA
Masaka	68	67	97	52	50	83	50	67	73
Mbale	77	63	74	27	33	83	56	83	62
Mbarara	49	63	36	43	33	75	33	44	39
Moroto	37	53	24	23	25	33	30	13	32
Port Fortal	44	38	61	48	50	83	56	56	60
Soroti	67	48	10	60	50	75	56	50	63
Tororo	42	54	52	62	29	75	38	25	52
Average	55	61	64	47	50	76	49	54	55

Key: TC&Ad *= Town Clerk and Administration;* ***PH*** *= Public Health;* ***W&TS*** *= Works and Technical Services;* ***IA*** *= Internal Audit;* ***EP&M*** *= Environment, Production and Marketing;* ***Fin &P*** *= Finance and Planning;* ***Ed&S*** *= Education and Sports;* ***CBS*** *= Community Based Services.*

42. ***The capacity gaps identified across all 14 municipalities fall into three broad categories, namely: (i) gaps in numbers of key positions filled, (ii) operation skills to backup academic qualifications, and (iii) inadequate tools and equipment and facilities***. 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 municipalities can use part of the Program fund for investment servicing cost (engineering designs, preparation of bidding documents and supervision), there is need to build their institutional capacity as an organization (both technical and managerial) to handle the significant increase in investment grants from the current average of US$1.57 per capita to the proposed US$29.39 at the end of the Program period. To this end the Program will support capacity building activities in the fourteen municipal LGs to strengthen their capacity for urban management and investment and operations and maintenance (O&M) of urban infrastructure services. ***The widespread vacancies in key professional and technical cadres pose***

a significant risk to the successful implementation of the Program. It will therefore be mandatory for each of the participating municipalities to have a certain number of core critical staff before they can assess the LDG under the Program. This requirement is aimed at providing basic safeguards in ensuring that each participating municipality has in place a core team necessary for effective financial management, procurement and execution of infrastructure projects. In this regard, as a minimum requirement the following core administrative and technical positions should be substantively filled before a municipality can access the LDG under the Program: (i) Town Clerk, (ii) Treasurer, (iii) Procurement Officer, (iv) Engineer, (v) Physical/Urban Planner, (vi) Environmental Management Officer, and (vii) a Community Development Officer.

7. Plans to mitigate technical and sustainability risks

44. To ensure efficient Program implementation and achievement of the Program development objective, the plans to mitigate technical risks are intended to address gaps which have been identified by the technical assessment. These gaps fall in two areas – system improvements and technical gaps at both the MoLHUD and the participating municipalities.

45. ***Systems improvements -*** The implementation of USMID Program will use existing GoU system such as the LGs Assessment Manual/Operations Manual and Output-Base Budgeting Tool (OBT) used nationally by all LGs for reporting on their budget, work plans and progress reports. To address the gaps in the current system, the MoLHUD has already revised the relevant sections of both the Assessment Manual and the Operational Manual to capture the requirements under USMID Program. With respect to OBT, the MoFPED will update the OBT to capture the M&E requirements under the Program. However, in the interim as MoFPED finalizes the revision of the OBT, the municipalities will use an USMID Program M&E reporting framework. This framework will be dropped once the Bank is satisfied that the OBT has been sufficiently upgraded and do fully meet the reporting and M&E requirements of USMID Program.

46. ***Enhancement of the capacity of MoLHUD and Municipalities*** - The capacity gaps identified from the diagnostic studies both at the MoLHUD and the municipalities will be addressed through technical assistance, tailor made capacity building activities which will include, amongst other, tooling, training, on-job support and mentoring. To ensure that capacities are built in time for Program implementation, institutional strengthening activities will be front loaded and implemented in the first three years of the Program. The measures to address technical risks have been provided in the PAP in Annex 8. In addition, the WB will provide training and close monitoring of the implementation of the Program including the Program Action Plan by the MoLHUD and the municipalities.

47. ***Program sustainability risks***. There is a Program budget sustainability risk. GoU's overall fiscal position could decline, placing downward budgetary pressure on total transfers to LGs. In the context of Uganda's broad fiscal outlook, particularly following the discovery of oil, this appears unlikely. It is also possible that overall policy could shift unfavorably regarding support to urban investment, or that the "re-centralizing" trends which have emerged in recent years could magnify, which could lead to decreased funding to programs such as the USMID. This is mitigated by the fact that urbanization will almost inevitably persist – indeed, is likely to

intensify - for the foreseeable future. Moreover, in committing to the introduction of the USMID, which, from a general budgetary point of view, substantially expands the aggregate national fiscal resource directed at supporting local government discretionary expenditures, GoU has given a clear indication of an ongoing commitment to local expenditure autonomy. Clearly, however, the degree to which the Program will generate support, hence attract expanded Government and donor funding, will depend on the degree to which it succeeds. An additional form of sustainability risk relates to the sustainability of the assets that the Municipalities will create utilizing MDG funding. This risk will be mitigated in the Program by ensuring that municipal investments under the Program are limited to few activities, some of which – like roads – already have operations and maintenance funding through the roads funds. In addition, the Program will support municipal own source revenue (OSR) enhancement and provision of O&M in the municipal annual budgets, both of which are included in the municipal performance assessments.

Annex 5: Summary Fiduciary Systems Assessment

Background

1. ***USMID fiduciary arrangements will be implemented at the Municipal level by the 14 Municipal LGs and at Central Government level by MoLHUD***. They will be supported by the Ministry of Finance, the Auditor General and the Public Procurement and Disposal of Public Assets Authority (PPDA). The program will follow the existing fiduciary framework in the country. The Fiduciary Systems Assessment concluded that the Program's institutional framework, procedures, fiduciary capacity and overall performance, is appropriate for PforR financing and has identified the risk mitigating measures and capacity building which will need to be strengthened to provide reasonable assurance that financing proceeds will be used for intended purposes, with efficiency, economy, transparency and accountability.

2. ***Overall PFM Progress in Uganda over the last decade in Uganda has been mixed.*** It has had one of the most successful implementations of the Integrated Financial Management Systems (IFMS) in Africa at the Central Government level; it has also completed one of the most successful pilots of an easy to use IFMS system for Local Government in 2012. The quality of Annual Accounts has improved. A locally developed budget preparation and reporting tool – Output Budgeting Tool (OBT) – has been rolled out to all spending units, the National Audit Office has been provided with legislative and financial autonomy and is currently one of the strongest in Africa, internal audit and procurement is improving and the Oversight Committees of Parliament are active and effective.

3. ***Nonetheless challenges remain.*** Those with most relevance to the Program concern, at the Central Government level, are (i) the sharp deterioration in budget execution with frequent resort to Supplementary Budgets, in some cases with retrospective effect for the previous year; (ii) a lack of compliance with administrative rules as regards the Procurement and Public Finance Acts and (iii) irregular flows of both recurrent and development funds from the Treasury to spending units.[73] With respect to local governments, annual reports of the Auditor General indicate on-going financial irregularities. In the In FY 2009/10, the audit report states that there was failure to account for funds of UGX 11.6 bn (equivalent to around US$4.6m), UGX 34.2 bn (US$13.6m) expenditure was not fully compliant with procurement laws, UGX 988m (US$395,000) of funding was diverted and wasteful expenditure amounted to UGX 227m (US$90,800)[74].

Assessment

4. A fiduciary assessment was conducted covering the Program institutional framework, fiduciary management capacity and implementation performance. The assessment visited 4 MCs and administered questionnaires in all participating MCs in addition to reviewing existing reports. The Legal and Regulatory Framework for the Program's fiduciary systems was found to be comprehensive and in line with international principles and standards for public procurement

[73] In respect of Local Governments, the average delay in release of funds to local governments from the start of the quarter appears to be about five weeks.
[74] Total annual local government expenditure is roughly estimated at about USD$650m for FY 13/14.

and financial management. The main weaknesses in fiduciary performance of entities proposed for this Program is compliance with the system primarily due to weak enforcement and weak implementation capacity in the Municipal LGs and Ministry.

5. The overall fiduciary risk is assessed as High. The main risks to the achievement of results under the program, the mitigating actions and instruments are outlined in the risk table. The primary sources of fiduciary risk stem from (i) delayed financial accounting and reporting, errors/falsification of supporting accounting documentation, (ii) delays in cash releases to LGs; (iii) management overrides of internal controls; (iv) inadequately resourced internal audit functions; (v) absence of focus on value for money in external audits and ineffective follow up of audit findings, (vi) reliance on a manual financial management system, (vii)limited competitiveness of procurement arising from low bidder participation, inappropriate advertising of opportunities and departure from pre-disclosed evaluation criteria during bid evaluation which weakens cost effectiveness of procurement (viii) delays in procurement and contract performance leading to untimely service delivery; (ix) less than full adherence to applicable rules of procurement; and (x) weak contract management.

6. The mitigation measures which have been integrated in the annual assessment and DLI are designed to strengthen enforcement and implementation capacity in the MCs. With these measures, the Program's institutional framework, procedures, fiduciary capacity and overall performance, is appropriate for PforR financing and provides reasonable assurance that financing proceeds will be used for intended purposes, with efficiency, economy, transparency and accountability.

7. USMID fiduciary arrangements will be implemented primarily at the Municipal LG level by the 14 municipalities and at Central Government level by the Ministry of Lands, Housing and Urban Development. They will be supported by the Ministry of Finance, the Auditor General and the Public Procurement and Disposal of Public Assets Authority (PPDA). The Program will follow the existing fiduciary framework in the country at both local government and central government levels. The framework both in financial management and procurement is well established. Procurement and Financial management will be done by MLHUD and the respective Municipal LGs as they all have established structures and authority to conduct their own procurement and financial management. The procurable items include mainly civil works for rehabilitation of infrastructure such as roads, drainage, markets construction, street lighting, city beatification works, solid waste management, sanitation service etc. Each of the Municipal LGs will be allocated a municipal infrastructure grant ranging from US$0.38 million (minimum in first year) to US$6.8 million (maximum in fifth year) with a simple average grant amount across the 14 municipalities of US$1.86 million per year. The size of contracts per municipality will therefore be small and will range from US$100,000 to US$2 million and there will therefore be no OPRC threshold procurements. Each municipal LG is expected to implement a maximum of 4 projects per year in order to avoid fragmentation of investments. The Municipal LGs are already procuring similar infrastructure but the scale will increase fourfold given the substantial grant amounts to be provided.

8. Planning and budgeting is now well established both at the Ministry level and in the Municipalities. Planning and budgeting in Municipal LGs is done consultatively and in a timely manner. Budgets are comprehensive and follow the budgeting guidelines. Key weakness are;

(i) unrealistic budgeting due to lack of a reliable database of budgeting information on revenue and unit costs (ii) misleading reporting of budgetary information due to improper classification and coding of budget and (iv) unrealistic budgeting of expenditures financed from own source revenue.

9. Procurement is governed by the Procurement and Disposal of Public Assets Law, (PPDA Act 2003 amended 2010) and accompanying regulations at central and local government level. The procurement framework is based on clear and mandatory rules that are freely accessible to the public with (i) open competition as default method, (ii) required advertising of biding opportunities (iii) adequate biding documents defining relevant and non-discriminatory award criteria and qualifications, (iv)required disclosure of procurement process outcome and (v) bidder access to complaints. The framework if complied with is sound and appropriate for the achievement of competition, cost effectiveness, timelines in the delivery of services.

10. ***Effectiveness and Quality of Procurement Planning***. Both municipal LGs and MoLHUD prepare procurement plans annually as part of the budgeting cycle. The plans are linked to the available budget and generally based on valid end-user needs as reflected in the budgets. The plans comply with procurement rules and arrangements with respect to procurement methods, scheduling and bidding times. The main weaknesses in planning are (i) fragmentation of contracts and (ii) inadequate cost estimation resulting in variances between cost estimates and the actual prices with the latter usually higher.

11. ***Timeliness in the delivery of services to end-users***. The procurement and contract management process is delayed with approximately 6 months lost in a financial year in procurement and contract performance. The delays are attributed to delayed commencement of procurement and delays in contract performance. The procurement process is itself completed in a timely manner in municipal LGs, with an average procurement processing time of 90 days for NCB contracts from publishing of the notices to contract signature. This is considered efficient compared to the 132 days maximum indicative timeframe established by PPDA and the actual average of 266 days taken by central government entities. This therefore leaves only 4 to 6 months within which contracts can be implemented given the risk that any unutilized funds at the end of the financial year.

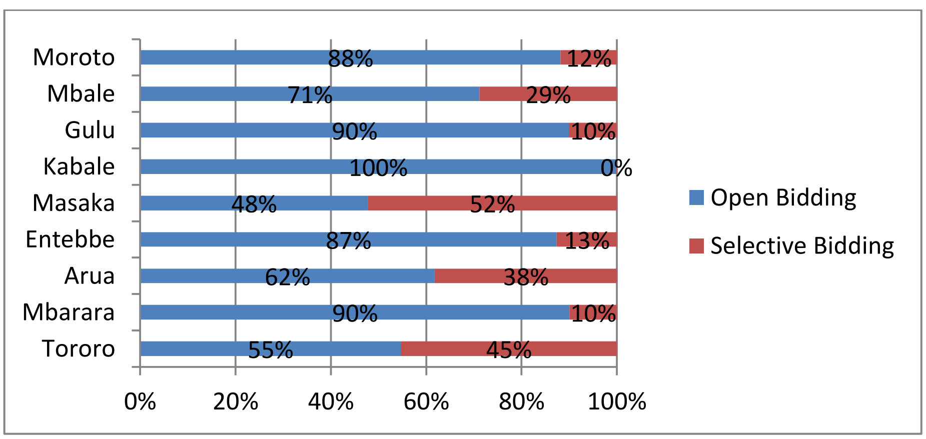
12. Weak contract management in most of the municipalities results in delayed contract performance. The Auditor General's annual audit reports reported several cases of delays in civil works contracts with an average delay of over 6 months beyond the contractual completion date. The assessment also found that an average variance between the contractual completion date and the actual completion date of 2.5 months. The weak contract management is attributable partly to the lack of adequate technical staff to supervise the works and manage contracts since most of the Engineering departments in Municipal LGs are inadequately staffed with only 47% staffing. This delays certification of works and payment of contractors.

13. ***Cost Effectiveness.*** Whereas the procurement system is designed to achieve cost effectiveness, non-compliance and corruption compromise the achievement of cost effectiveness. To begin with, the unit costs used for budgeting are not updated and can therefore not be relied on in challenging the prices that emerge from the competitive bidding. The inadequate advertising together with alteration of evaluation criteria and fragmentation of contracts

contribute to low bidder participation which limits competition and competitive pricing. In fact in many cases the bid prices will be very close to the budgets. Even where prices achieved are reasonable, cost effectiveness remains susceptible during contract management which is generally weak. Auditor General's reports highlight cases of contractors paid without completing works or even with substandard works. Selecting contractors without adequate attention to their qualifications exposes Municipal LGs to the risk of hiring unqualified contractors with inadequate capabilities to complete required works. Corruption also compromises cost effectiveness as it is estimated that 10 to 20% of the contract price is paid in bribes to win the contract and secure payment[75].

14. ***Competitiveness of Procurement Processes***. The majority of the procurement in the Municipal LGs is conducted through open competitive bidding with bidding opportunities advertised in newspapers of wide national circulation with 48% to 90% of contracts by value advertised across MCs as shown in the figure below. Most of MLHUD's procurement is through shopping given their low procurement volumes. However, the competitiveness of procurement in a municipal LG is constrained by (i) the inappropriate mode of advertising which is geared towards meeting the regulatory requirement rather than attracting bidder interest, (ii) the low bidder participation with 1 to 3 bids received for civil works contracts, (iii) the departure from applying the pre-disclosed evaluation criteria during the evaluation which limits bidder confidence and further worsens bidder participation and (iv) the limited effectiveness of the complaints system due to the perceived and real fear of retaliation through denied future opportunities. This limits the competitiveness of procurement and in turn compromises the cost effectiveness of procurement in ensuring value for money in service delivery.

Figure 1: Percent Usage of the different procurement methods by value in Municipal LGs FY 2010/11



15. ***Implementing Agencies' Compliance with applicable rules***. Whereas the procurement framework on paper is conducive for achievement of value for money in procurement, non-adherence to the framework at the different stages restricts its effectiveness in achieving this goal. PPDA's review of 1000 contracts across government in 2007 showed that only 30% of the contracts by number adhered fully to the law.

[75] PPDA Procurement Integrity Survey 2010

16. Preparation of documents and management of the bidding process. Both at municipal LGs and MoLHUD, bidding documents are prepared in the majority of procurements under competitive bidding. The documents are fairly adequate to ensure response by the bidders despite the quality disparities across the municipalities. The main deficiencies observed were (i) incomplete specifications and scope of work, (ii)incomplete conditions of contract (iii) absence of or inappropriate qualification requirements in the bidding documents which creates a risk that the contractors awarded contracts may not sufficiently qualified to perform the contracts. Overall, the above omissions notwithstanding, the bidding documents prepared are sufficient to elicit a satisfactory bidder response.

17. *Arrangements for receipt and opening of Bids* are generally adequate and bids are usually publicly opened immediately after the bid submission deadline.

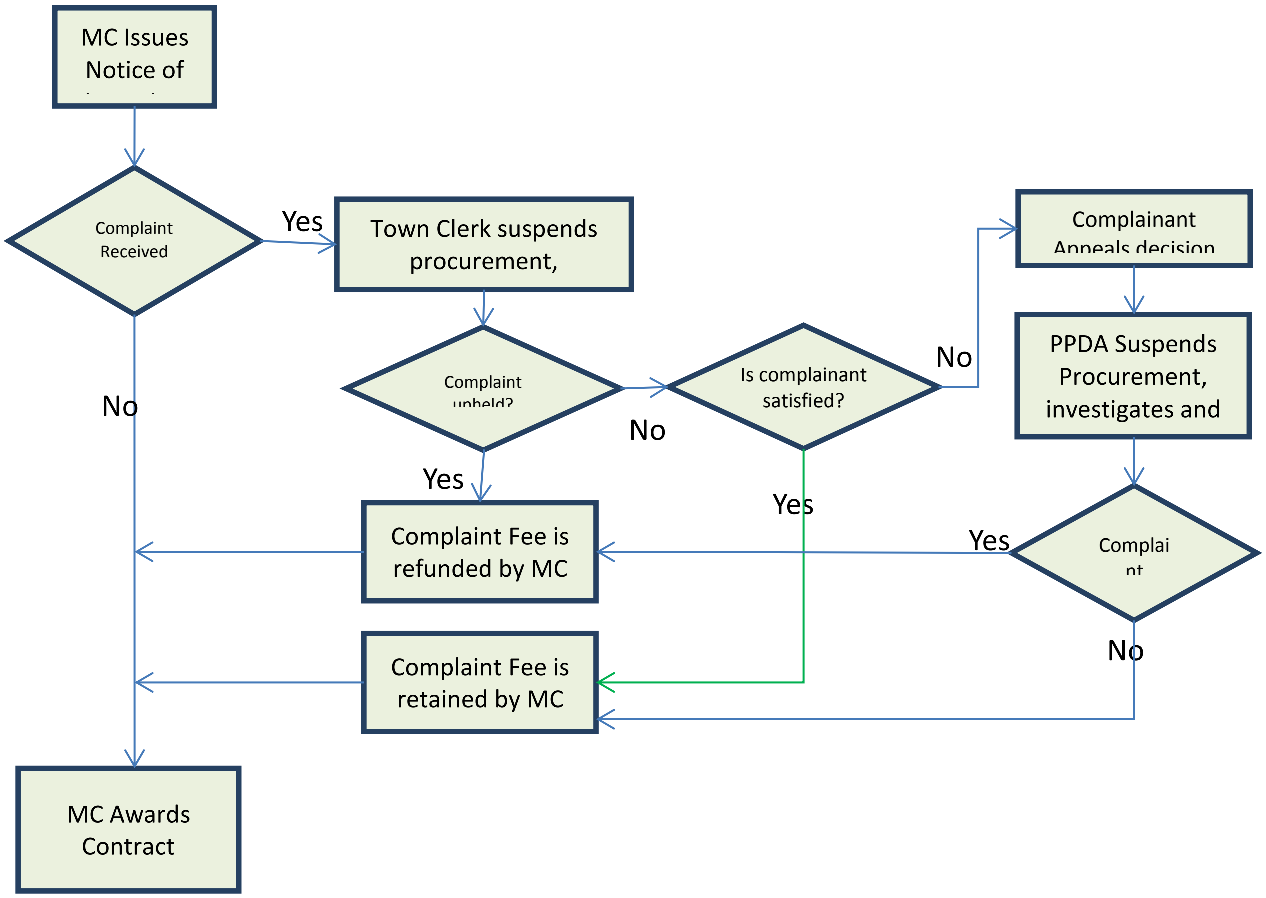
18. The bid evaluation in many municipalities does not fully adhere to the evaluation criteria outlined in the bidding document as observed from the assessment and the PPDA Audit reports. New criteria are introduced during the evaluation beyond what was included in the bidding document and some of the criteria in the bidding document is disregarded during evaluation. This results in unfair disqualification of some bidders or award to bidders who are not meeting the specified qualification requirements.. The non-adherence to pre-disclosed evaluation criteria poses a high risk to procurement under the project as it results in unfair disqualification of bidders with potentially more economic bids and creates opportunities for fraud and corruption. It discourages bidder participation as bidders do not trust that they will be treated fairly.

19. ***Record keeping*** Procurement files in the municipal LGs are generally incomplete with the number of contracts with complete records in the financial year 2010/11 ranging from 40% to 60% by value[76]. The most frequently missing document is the contract management plan which explains the weakness at contract management. At MoLHUD, the records are generally complete with the only weakness being that the documents are not filed in a chronological order which makes it difficult to locate specific documents within the file.

20. *Effectiveness of Handling of complaints.* Under the current law, the complaints submitted are addressed at 2 levels, i.e. the first level of review by the Ministry or Municipality itself specifically the Town Clerk and if a bidder is dissatisfied with the response, the next level of review is the PPDA. The current process is illustrated below. The amended law introduces a third level of appeal to an Appeals Tribunal in case the bidder is dissatisfied with the PPDA decision or feels that the PPDA could have a conflict and would not give them a fair hearing.

[76] Procurement Performance Measurement System 2010/11 report

Procurement Complaints Handling System



21. The complaints system is considered to be fair and there have been cases upheld or rejected at both levels of appeal. However the usage at municipal level is fairly limited especially at the 2nd level of appeal with a perceived and real fear among bidders that complaining about a procurement process will compromise their opportunities in future procurements. For example for FY 2009/10, PPDA received 33 complaints of which 7 (20%) were on LG contracts while in FY 2010/11, PPDA received 34 complaints of which 10 (30%) were from LGs. These complaints are generally handled within the 21 working days as required by the law. This is however not surprising given that at municipal level only a few bids are received so the scope for complaints is limited. No data was available on the complaints received and dealt with at the 1st level of appeal given the absence of complaints registers in municipal LGs.

FINANCIAL MANAGEMENT

22. Budget Execution follows the prescribed internal controls in the regulations but its Efficiency is weakened and exposed to risk by (i) inadequate proper budgetary controls due to inappropriate use of vote books in controlling expenditure, (ii) high unit costs of activities and goods and services due to lack of functional procedures to scrutinize unit costs of activities before contracting and payment and (iii) the risk of embezzlement and unaccounted for funds due to over reliance on payment through administrative advances.

23. On accounting and financial reporting, the accounting books are fairly well written as far as application of accounting principles us concerned. However the quality and timeliness of key financial reports, record management and reconciliation of accounts and the usage of financial reports for managerial decision making remain problems in the Municipal LGs. The proposed funds flow mechanism has been extensively tested in previous projects and is now well established. Disbursed funds will be deposited in a special Holding account at the Central Bank from which it will be transferred to the Consolidated Fund as instructed by the PS/MoLHUD and subsequently released to individual Municipality Grant Accounts through the MoFPED Treasury Department by Electronic Funds Transfer. Approval of releases by the MoLHUD will be based on verified achievement of agreed specific results, the satisfaction of certain criteria, documented under the agreed verification protocols for DLIs. The only risk is that of delayed funds release to the Municipal LGs.

24. Internal controls are adequate on paper to monitor, evaluate and validate program results with clear segregation of duties both in financial management and procurement. However, challenges remain in actually executing the laid out procedures and exercising control and stewardship over program funds. Audit reports show that internal controls are widely violated or ignored. There is little visible enforcement of regulations, especially at higher levels, which builds a culture of disrespect for the law and immunity. Internal audit is decentralized but its effectiveness ultimately depends on the accounting officer at municipal level taking action on reports which has been assessed as weak.

25. USMID Program Audit: Adequate independent audit and verification arrangements are in place, taking into account the country context and the nature and overall risk assessment of the Program and will be relied on for the program. The program will be audited under the OAG existing framework. The Auditor General shall conduct annual statutory audits of participating municipal LGs and the MoLHUD. There shall be annual statutory audits with expanded scope after 2 years to cover value for money aspects by the Auditor General in the 14 municipal LGs in light of the increase in expenditure on the infrastructure under the program as per agreed ToRs. The vfm audits will be carried out as per agreed ToRs and will provide the basis for a significant proportion of the performance score awarded to the Municipalities in the Infrastructure Delivery part of the annual assessment..

An analysis of the last three FYs shows that, while there has been a significant increase (from one to five) in the number of LGAs that received an unqualified audit opinion in between FY 2008/09 and FY 2010/11, there was a sharp deterioration in the performance of two MCs – Fort Portal and Mbarara with disclaimer opinions for the first time while seven MCs had qualified opinions.

26. Procurement Audit is conducted by PPDA and has been effective in driving performance improvements where it is done but audit coverage is low with Municipal LGs audited once in the last 5 years.

27. Staffing is generally adequate in procurement and financial management although there is a high staff turnover with Municipal LGs unable to retain staff. However staffing in the technical departments required to support budget execution is inadequate with less than 50% of the

positions in the engineering departments filled. This results in inadequate supervision of contract performance compromising both quality and timelines of performance.

28. ***Fraud and Corruption remains a major risk for the Program despite Uganda having a comprehensive institutional, legal and policy framework to improve governance and address corruption***. The main fraud and corruption risks include (i) collusion between bidders and with municipal LGs staff especially given the low bidder participation and non-adherence to pre-disclosed evaluation criteria, (ii) bribery in procurement with PPDA surveys showing that 69.8% of surveyed service providers acknowledging that corruption influences procurement, (iii) bidders forging bid documents especially performance and advance payment securities, (iv) embezzlement and diversion of funds, (v) lack of complaints handling and grievance redress mechanisms, and (vi) poor record keeping. In addition at the municipal level there is (i) weak civil society and citizen engagement, (ii) weakness in transparency and accountability, (iii) non-existing or ineffective complains handling and grievances redress mechanisms, (iv) capacity to ensure that entities debarred and suspended firms by Bank do not participate in contract awards during Program implementation, (v) poor records keeping, (vi) Inadequate Capacity for technical supervision of works leading to delays or poor contract management and opportunities for rent seeking.

29. The initial Local Government Good Governance and Anti-Corruption Strategy was not fully implemented by all municipalities, partly because of inadequate funding. Its implementation was limited to "informing" the citizenry of planned activities and projects including publicizing the annual budget, and establishing a Council's Stakeholder Forum. *A Framework for Promoting Good Governance and Anti-Corruption in Local Governments 2012-2015* has been put in place as a successor.

30. ***Fraud and corruption mitigation measures* -** Fraud and corruption in the Program will be mitigated through a three prong approach, namely: preventive actions, deterrent, and detection mechanisms, including measures to enhance transparency through enhanced information sharing, accountability and participation which will be implemented by the MCs. These measures will include: (i) stringent oversight arrangement by the MoLHUD of Program implementation activities especially in the areas of fiduciary, technical supervision and oversight including provision of modular engineering designs for some of the sub-projects where possible, (ii) ensuring that only those municipal LGs which have the core staff in post will qualify to access the investment grants and, (iii) expeditious reporting of cases of suspected fraud and corruption to the primary agency mandated to fight corruption and secondary agencies mandated to investigate and prosecute cases of corruption and crime, (iv) aligning Program implementation to the Anti-Corruption Guidelines (ACG) applicable to PforR Operations, and (v) and regular reporting by MCs to the Municipal Urban For a. More specifically:

- The Minimum Condition and Institutional Performance aspects of the annual assessment will include measures such as strengthened financial management and procurement systems, adoption of a customized local version of the *Framework For Promoting Good Governance and Anti-Corruption in Local Governments 2012-2015,* establishment of an operational and effective Complaints Handling System for handling grievances related to fraud and corruption, establishment of the MF in the remaining nine municipalities and holding at least two meetings annually, publicly advertising the bidding procedures, and disclosing contract awards to the public. The value for money audits to be undertaken starting in July 2014 will form half of the score for the Infrastructure Delivery assessment will provide a powerful institutional disincentive for corrupt practices in project procurement and implementation;

- The capacity building programs to be managed at MoLHUD and by municipal LGs using the MCBG will focus, among other things, on accountability and monitoring at the municipal LG level to mitigate fraud and corruption risk.

31. In addition, the responsibility for ensuring that any case of suspected fraud and corruption are expeditiously reported to the national primary and secondary agencies mandated to investigate and prosecute cases of corruption and crime, (IG, CIID or DPP) will be placed on the municipalities and MoLHUD, who will also be required to strictly enforce any necessary administrative sanction within their remits to raise the bar on corruption**.** The Municipalities and MoLHUD will provide at least annual reports of complaints and also on cases of suspected fraud and corruption reported to the IG, CIID or DPP and on administrative sanctions within their remits. The IG will publicize in its statutory bi-annual report to Parliament complaints and action taken or being taken on case of suspected fraud and corruption in the Program. The municipalities and MoLHUD will also establish and implement comprehensive complaints and grievance handling mechanisms and, through the MFs, will provide an avenue for the participation of non-state actors, professional groups, citizens and civil society coalitions to monitor all stages of the Program implementation at the local level. Municipal Council reporting to the MDFs will be monitored and assessed through the annual performance assessment. The various fraud and corruption mitigation measures have been included in the PAP in Annex 8.

32. ***Alignment with ACG for PforR Operation*** **-** To address the F&C associated with fiduciary risk, USMID implementation will be aligned to the Anti-Corruption Guidelines (ACG) applicable to PforR Operations. The measures that will be instituted under the Program to raise the bar on fraud and corruption will include the following:

- *Sharing of debarment list of firms and individuals.* MoLHUD will share with the municipal LGs and also the IG, CIID and DPP, on a regular basis, the list of firms and individuals which have been debarred or suspended by the World Bank and PPDA from participating in procurement. . The bidding documents for works, goods and services to be financed under the Program will have explicit clauses to the effect that firms and/or individuals which have been debarred or suspended by the Bank or PPDA would not be eligible to bid under the program. .

- *Sharing of information on F&C allegations* – in line with the PforR ACGs, the IIG will share with the Bank, through its statutory bi-annual reports of its activities to Parliament, complaints and action taken or being taken on complaints and grievances received from the general public on F&C in the Program. The CIID and DPP will also share with the Bank, through the Annual Report of Corruption Trends in Uganda using the Data Tracking Mechanism complaints and action taken or being taken on such cases reported to them. In addition, the IG, CIID and DPP shall share information with each other on complaints and action taken or being taken on complaints and grievances reported to them. The IG will be the central coordinating agency for reporting on such complaints and action taken or being taken in a format acceptable to the Bank. The IG, CIID and

DPP are mandated by their governing Statutes to receive complaints and reports from the public and other stakeholders, including participating Municipal LG staff. A complaint or grievance can be a notification in writing, verbal or electronic regarding any Program activity and/or conduct of staff, consultants, service providers, partners and/or sub-contractors of the implementing agencies, which the complainant perceives to be wrong. The complainant is not required to be personally aggrieved or impacted and therefore could act merely out of a sense of civic duty in bringing an occurrence to the attention of the authority. The IG and CIID receive such complaints and reports electronically through their respective websites, and alongside DPP, also in writing or verbally through dedicated hotlines which are then processed as outlined in the Flow Charts in Appendix 5. The IG has 16 IG Regional Offices established strategically throughout the country to deliver its services closer to the people and all the 14 Municipal LGs have IG Regional Offices. The CIID and DPP also have District Offices and Stations respectively in all the Districts in which the 14 Municipal LGs are located. At the participating Municipalities, each municipal LG will be required to establish grievance committees as one of the minimum conditions for fighting F&C under the Program.

- *Investigation of F&C allegations* – The IG and CIID as the primary and secondary agencies for investigation, and in the case of IG, prosecution, of cases of corruption and crime respectively, are granted powers by the Constitution (1995) and their governing Statutes to enable the agencies perform these functions. These include the power to: (i) conduct an investigation and prosecution, (ii) summon a public officer and/or witness, (iii) compel production of documents, (iv) arrest and detain suspects, (v) access and search premises and other property, and (vi) inspect any bank account. The IG is also granted independence in the performance of its functions and is not subject to the direction and control of any authority and is only responsible to Parliament. The IG governing Statute empowers the IG to work in consultation with other technical experts to enhance the performance of its functions. The IG entered into an MoU with the Integrity Vice Presidency (INT) of the World Bank in 2010 to cooperate with each other within the scope of their mandates, and specifically to closely cooperate and consult each other regularly on matters of mutual interest by, amongst others; (i) sharing information of relevance for detection, substantiation and prevention of F&C in connection with conduct which may constitute a serious crime under national legislation or a sanctionable offence under the World Bank Group rules and policies and (ii) undertake joint activities and collaborate when appropriate in each party's efforts to detect, substantiate and prevent F&C. While the MoU makes it possible for the INT to collaborate with the IG on any case of suspected fraud and corruption in the Program, the IG and CIID are also, in principle, willing to undertake joint investigations with INT on cases of suspected fraud and corruption referred to them. The initiation, scope and operating practices will be decided on a case-by-case basis.

33. In addition, the Program minimum condition and key performance measures have incorporated measures to mitigate F&C. Parallel to the Program is an on-going City Alliance Support program (CASP) supporting the development and operationalization of Municipal Development Forums (MDF) that bring together various stakeholders to play role of monitoring. Currently the CASP is looking at only 5 municipalities. The MoLHUD intends to roll out the MDF to all the 14 municipalities. The recruitment of key staff to cover the shortfall across

municipalities and the MHLUD will help meet Program objectives and act as a mitigation measure for fraud and corruption and other challenges identified under fiduciary assessment. In addition several of the performance measures target improvements in transparency, procurement, financial management quality of works and sound environmental management. The Program reward/sanction system provides incentives for Municipal LGs to implement measures to address F&C

34. **Risk Mitigation**. Fiduciary risk arises chiefly from the steeply increased amounts of funding that the target Municipalities will receive under the Program, where average overall revenues are estimated to rise by more than 70%, with average development revenues rising from about $351,698 to $1.6m (around nine times).

35. The annual assessment of Municipal LGs, which is an integral part of the Program and forms the basis for annual allocation of the infrastructure grants, presents a good opportunity to address the fiduciary risks and the measures to address the risks are anchored on this assessment at municipal LGs and program level. Fiduciary risk mitigation measures, and improvement in fiduciary performance, constitute significant elements of the annual assessment for DLIs 1 (Minimum Conditions) and 2 (Performance Indicators) which lie at the heart of the Program. These measures will be complemented by capacity building for the Municipal LGs in procurement and financial management to help strengthen their systems under the Urban CBG.

36. DLI 7 is a key risk mitigation measure. Of the 14 ULGAs that are the beneficiaries of this program, twelve do not have any automated systems in place and follow manual accounting procedures. Given the large increase in flow of development funds to these Local Governments, it has been agreed that the Tier 2 Integrated Financial Management Information System (Microsoft Dynamic) will be rolled out to these 12 local governments. Within the first two years of this program, this system will cover the beneficiary local governments under this program. The inbuilt controls and audit trails are expected to improve financial management and help reduce the fiduciary risk.

37. Below is a summary of the proposed risk mitigation measures.

Issue/risk description	Action/Completion	Time Frame	Responsible Party	Instrument
Inadequate procurement planning, splitting of contracts during planning, non-adherence to the procurement plan and inadequate monitoring of progress against the plan contributing to delayed service delivery and limiting cost effectiveness.	Adoption of the PPDA procurement planning format which will address current weaknesses Training of Municipal LGs in procurement planning and especially packaging of contracts to ensure proper consolidation of procurements.	Within 6 months of effectiveness; and throughout program period	Municipal LGs/ MoLHUD	DLI; Agreement
Low bidder participation	Use and promotion of the use of the PPDA/GoU Procurement Portal by Municipal LGs through supporting publishing in the newspapers of all notices (abridged versions) that are published in the PPDA tender portal fortnightly for an initial 3 months period under the program Conduct business outreach programs in partnership with PPDA, UNABSEC, UIA and Ministry of Lands	For the first 3 months Throughout Program period	MoLHUD, municipal LGs, PPDA and UNABCEC	Agreement
Inadequate advertising of bid opportunities in a manner that encourages bidder participation	Adhere to required standards for publication of procurement notices to promote increased bidder participation.	Throughout Program period	Municipal LGs	DLI
Limited hands-on experience in the preparation of bidding documents and evaluation of bids	Conduct training on the procurement cycle covering preparation of bidding documents and BERs. This will be through formal training workshops conducted by consultants hired by MoLHUD.	Throughout Program period	MoLHUD, municipal LGs	DLI
Non- adherence to pre-disclosed evaluation criteria during bid evaluation	Adhere to outlined criteria in the bidding documents.	Throughout Program period	Municipal LGs	DLI
Insufficient audit of procurement	Cause internal audit to cover audit of Program procurement transactions. Carry out annual procurement audits.	Throughout Program period	Municipal LGs PPDA	DLI Covenant
Forgery of Bid, performance and advance payment Securities where Bank guarantees are required	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	Throughout Program period	Municipal LGs	DLI
Weak financial management at the	Roll out of IFMS to all Program municipal LGs	By end of LG disbursement	Accountant General	DLI

LG level		year 2		
Accounting and financial reporting system risks through: Misleading reporting and budgetary information due to wrong classification Delayed reporting. False accounting and accountabilities	Training of municipal financial officers in the application of chart of account codes especially in respect to USMID, Capacity building in accounting procedures and the preparation and use of financial reports	Throughout Program period	Accountant General MoLHUD, MoLG, Town Clerk	DLI
Treasury management and funds flow through Potential diversion of funds by municipalities from Program purposes Delayed release of funds to Municipal LGs	Grant expenditure menu Separate account to be opened in Municipal LGs for program funds Funds release to be done 6 monthly to Municipal LGs in timely manner.	Throughout Program period	Municipal LGs MoFPED	DLI
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	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	Throughout Program period	Municipal LGs, MoLHUD, OAG	DLI
External audit and integrated audit Failure to submit accounts for audit in time, Poor following up to rectify issues raised in audit reports	Capacity building for finance staff, Segregation of key duties as per regulations, Implementation of audit findings Timely assessment of DLIs by MoLHUD	Throughout Program period	MoLHUD, Municipal LGs	Coven ant

IG Complaints Handling Procedure

Phase 1: **Receipt and Registration of Complaint**

- Complaint received at IG Headquarters or Regional Office
- Complaint may also be initiated by IG
- Referral to other agencies for further action
- Complaint is registered

⇩

Phase 2: **Sanctioning of Complaint**

- Complaint must be sanctioned by IGG or Deputy IGG
- Complaint forwarded to Directorate or Unit for allocation

⇩

Phase 3: **Allocation of Complaint**

- Director or Unit Head allocates complaint to Unit or Team

⇩

Phase 4: **Developing Investigation Work Plan**

- Directorate or Unit forms Investigation Team to investigate complaint
- Team develops Investigation Work Plan for discussion and approval
- Preliminary inquiries undertaken by Investigation Team

⇩

Phase 5: **Investigation and drafting of Investigation Report**

- Investigation commences on approval of Investigation Work Plan
- Relevant documents obtained; Searches/Inspections conducted
- Preparation and Issuance of Summons to Witnesses and Suspects
- Interviews conducted; Witness Statements obtained
- Drafting of Investigation Report Investigation Team

⇩

Phase 6: **Evaluation of findings and proposed recommendations**

- Directorate or Unit evaluate findings and proposed recommendations

⇩

Phase 7: **Review and Approval of Investigation Report**

- Directorate of Legal Affairs reviews Investigation Report
- IGG or Deputy IGG approves Investigation Report

⇩

Phase 8: **Implementation of Recommendations**

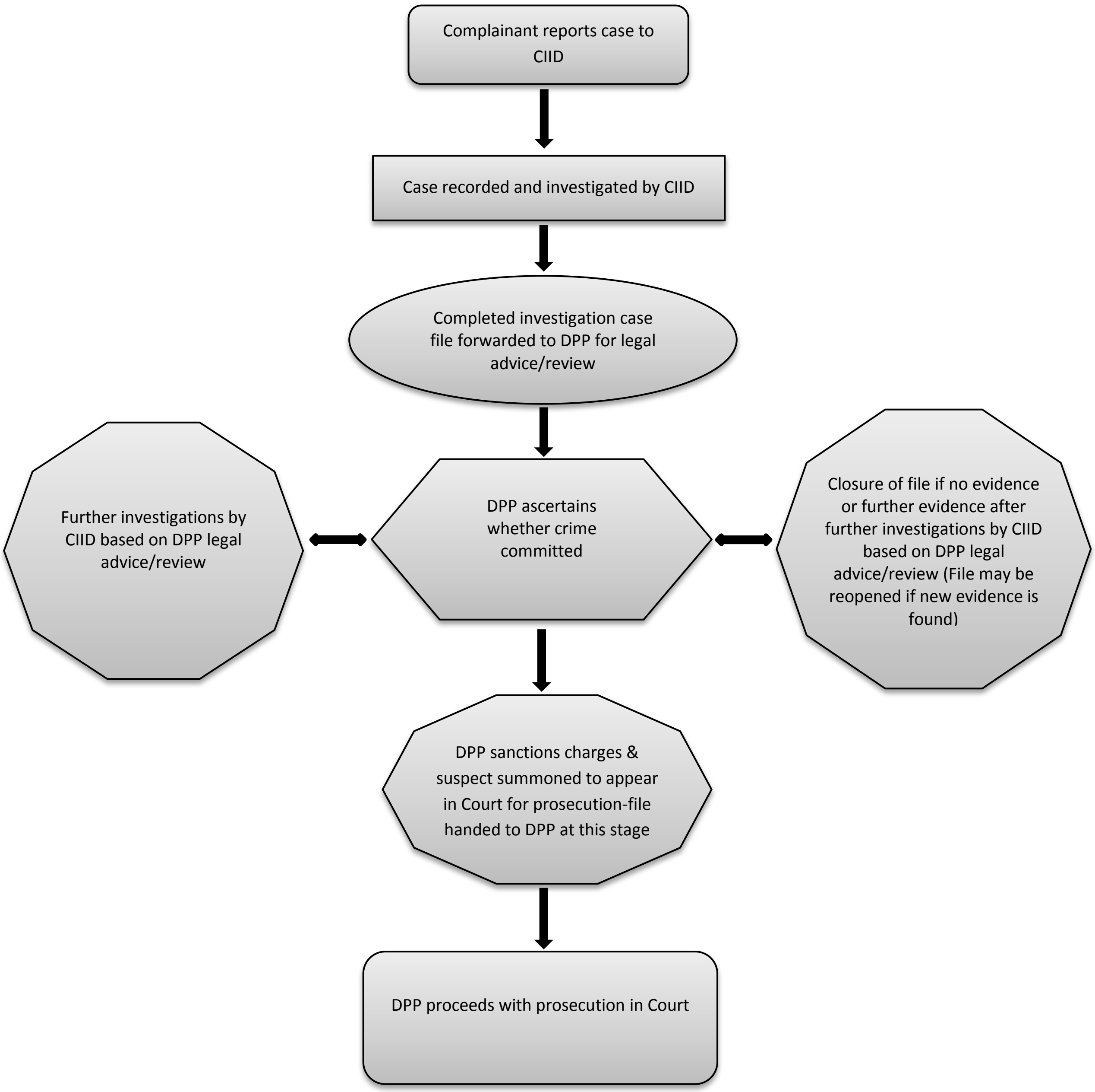
- Prosecution by IG
- Referral to appropriate authority for Administrative action
- Recovery and confiscation by IG
- Closure

⇩

Phase 9: **Follow up of Recommendations**

- Implementation of recommendations tracked and followed-up

CIID Criminal Complaints Handling Procedure



Annex 6: Summary Environmental and Social Systems Assessment

Introduction

1. The following annex summarizes the findings of the Environmental and Social Systems Assessment (ESSA) undertaken for the USMID. The following sections will (i) describe the ESSA process, (ii) describe institutions, roles, responsibilities, and coordination, (iii) outline the main environmental and social effects of the Program activities, (iv) discuss the assessment of the Program's legal and regulatory framework for environmental and social management vis-à-vis World Bank requirements for Program-for-Results financing, and assesses capacity and performance of Program institutions to meet those performance requirements; and (v) outlines actions to strengthen Program systems. Broadly, the ESSA concluded that the social and environmental arrangements under the Program are appropriate for PforR financing.

2. The ESSA examines the Program's systems for environmental and social management for consistency with the standards outlined in OP/BP 9.00 (*Program-for-Results Financing*), with an aim to manage Program risks and promote sustainable development. Paragraph 8 of OP 9.00 outlines what the ESSA should consider in terms of environmental and social management principles in its analysis. Those core principles are:

Environmental Management Systems:

- Promote environmental and social sustainability in the Program design; avoid, minimize, or mitigate adverse impacts, and promote informed decision-making relating to the Program's environmental and social impacts.

- Avoid, minimize, or mitigate adverse impacts on natural habitats and physical cultural resources resulting from the Program.

- Protect public and worker safety against the potential risks associated with: (i) construction and/or operations of facilities or other operational practices under the Program; (ii) exposure to toxic chemicals, hazardous wastes, and other dangerous materials under the Program; and (iii) reconstruction or rehabilitation of infrastructure located in areas prone to natural hazards

Social Management Systems:

- Manage land acquisition and loss of access to natural resources in a way that avoids or minimizes displacement, and assist the affected people in improving, or at the minimum restoring, their livelihoods and living standards
- Give due consideration to the cultural appropriateness of, and equitable access to, Program benefits, giving special attention to the rights and interests of the Indigenous Peoples and to the needs or concerns of vulnerable groups
- Avoid exacerbating social conflict, especially in fragile states, post-conflict areas, or areas subject to territorial disputes.

3. The ESSA considers the consistency of the Program systems with these principles in two ways: (i) as systems are defined in laws, regulation, procedures, etc (the “system as written”) and (ii) the capacity of Program institutions to effectively implement the Program environmental and social management systems (the “system as applied in practice”). This annex describes a gap analysis between the PforR principles and Ugandan systems on both of those levels.

ESSA Process

4. Preparing the ESSA and developing measures to strengthen the system for environmental and social management has benefitted from a broad range of inputs and an extensive consultation process. This has included:

Field visits: Visits to 14 MCs to establish the status and standard of environmental and social safeguard systems at the municipal level and interviews with technical staff in relevant institutions within the Government and Development Partners. The field survey results are contained in ESSA Annex 4 (USMID Field Survey for Municipalities) and ESSA Annex 5 (Consultation Summary for Municipalities);

***Desk review*:** The review covered current environmental and social legislations and regulations, relevant environmental and social reports (e.g. ESMF and RPF), and district reports on the implementation of the previous and current World Bank projects (LGDP I and II and LGMSDP);

***Initial consultation meetings*:** Meetings were held with environmental and social management counterparts in municipalities, MoLHUD and other ministries and government institutions, including MoLG, MGLSD, NEMA and National Water and Sewerage Corporation (NWSC) to develop understanding of procedures, standards, and approach. A list of personnel involved in this consultation is contained in ESSA Annex 6;

Validation workshop: A workshop was held on the 8th May 2012 with technical staff from the Government (both national and municipal levels), Development Partners and Civil Society Organizations. The ESSA draft report was provided in advance of this meeting. Feedback from the workshop has been incorporated into the ESSA and a full list of participants and summary of their feedback is attached in ESSA Annex 7;

Document dissemination: The ESSA report has been publically disclosed through the World Bank’s InfoShop and advertised in the national press, and public comments were solicited during a defined comment period.

Institutions, roles, responsibilities, and coordination

5. Under USMID, the main institutions involved with environmental and social management are as follows:

> ***MoLHUD:*** Ministry of Lands, Housing and Urban Development (MoLHUD) is responsible for overall implementation of the Program. Because MoLHUD is a new Ministry that requires additional capacity to coordinate urban development and

management, it will be supported by focused technical Program Support Team (PST) attached to the relevant departments of the Ministry to ensure that USMID is implemented as per IDA/GoU protocol agreement. MoLHUD is also responsible for land administration.

NEMA: The National Environment Management Authority (NEMA) is established under Section 4 of the National Environment Act as the principal agency in Uganda for the management of the environment to coordinate, monitor and supervise all activities in the field of the environment and many elements of natural resource protection. NEMA coordinates the process of Environmental Impact Assessment, reviews EIAs and issues certificate of approval, monitors and enforces compliance with environmental standards and with the conditions contained in certificates of approval for EIAs, and has promulgated general guidelines for EIA as well as EIA guidelines for specific economic sectors and is currently in the process of updating them.

Office of the Chief Government Valuer (CGV): CGV is responsible for compensation issues in terms of clearing resettlement packages for the project affected people based on the current policy, legal and regulatory framework for land acquisition.

Ministry of Local Government (MoLG): MoLG is mandated to carry out a number of responsibilities in the Local Government Act, including to inspect, monitor and offer technical advice, support supervision and training to all Local Governments, to coordinate and advise Local Governments for the purposes of harmonization and advocacy, to act as a liaison ministry with respect to other Central Government Ministries and other institutions and to research and develop national policies on all taxes, fees, etc, for LGs. The Ministry was the client for the LGDP/LGMSDP Projects and thus has experience of working with the World Bank. Environmental support staff for the LGMSD Project are still in place and could provide valuable advice to the MoLHUD as part of the Program Steering Committee.

Municipal Local Government: In addition to implementing the investments that USMID will support, the municipalities are responsible for development planning and, depending on the project, at times responsible for oversight of environmental impact management within their boundaries. The key person for environmental management is the Municipal Environmental Officer (MEO). The municipalities are also at the center of land acquisition for USMID activities.

Program environmental and social effects

6. While USMID grants are discretionary based on community priorities, there are criteria for what can be financed from a list of core municipal services including small- to medium-scale civil works such as road rehabilitation, solid waste management (e.g. dumpsite rehabilitation and composting plants), transportation infrastructure such as bus and truck stands, markets, drains, and city parks (PAD Annex 1).

7. The ESSA analyzed USMID activities for the level of potential impacts. This analysis concluded that while 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 should be positive, though adverse environmental and social impacts are possible. Based on the type, scope and scale of works allowable under USMID, adverse impacts are expected to be typical construction impacts that are site-specific and generally limited to the construction phase. Similarly, given the scope of activities under USMID it is highly unlikely that large-scale resettlement would occur, although land acquisition is possible for the construction of infrastructure works, for example in widening roads in the existing rights-of-way or acquiring land for new market areas. This has the potential to impact land, assets, property, crops, and shared community facilities such as water points, community roads, and roadside markets. 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.

8. While no large-scale or high-risk projects are expected, the screening process in the Program Operational Manual will have criteria to exclude certain categories of projects 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. Such types of investments are excluded from the Program (per OP/BP 9.00). In addition to screening for significant impacts, the following exclusionary criteria apply to works financed under USMID, which will be included in the POM's screening criteria:

- Wastewater treatment plants,
- New landfills,
- Activities that would significantly convert natural habitats or significantly alter potentially important biodiversity and/or cultural resource areas.

Assessment of Environmental Management Systems

9. Projects currently implemented by municipal local governments primarily employ Ugandan systems for environmental and social management, which were assessed through the ESSA. The ESSA conducted an analysis of existing systems for environmental and social management for consistency with the core principles of OP/BP 9.00, described above. The complete list of findings is outlined in detail in the ESSA, with the main gaps summarized below.

10. ***Current Environmental and Social Management Framework***: Previous World Bank projects (LGDP and LGMSDP) have led to the adoption of Bank systems and screening procedures by the MoLG and the municipalities, as no national system existed at that time for environmental and social screening and mitigation of projects outside of the EIA structure. The World Bank Operational Policy OP 4.01 is reported to have now been mainstreamed into common usage. The result is a seven-step process that leads to the preparation of an environmental and social management plan (ESMP), which MoLHUD has also proposed to be used for USMID. This process can be found in the ESSA, and the updated process in the Program Operational Manual is based on these steps.

11. The ESSA found that this system for environmental and social impact assessment is relatively comprehensive, reflecting international practice. As written, it is sufficient to ensure that potential significant impacts will be identified and managed.

12. Due diligence and oversight of the impact assessment process for projects with lower levels of environmental risk are typically handled by local governments, while projects requiring full Environmental Impact Assessments are handled by NEMA at the central level. Most projects under USMID would be classified for local government oversight, which is where the ESSA focused the assessment of current performance.

13. ***System strengths***: The ESSA found a number of positive developments in how the existing system has been working and able to deliver improvements to the system for environmental and social impact assessment. Support from the World Bank through the LGDP project, as well as other sectoral support initiatives, has enabled an improved planning environment to develop, particularly with regard to environmental effects. With oversight from relevant parent Ministries (primarily MoLG) and government institutions (such as NEMA), systems have been put in place to screen projects for environmental (and to some extent social) impacts, and to ensure that environmental assessments are carried out for projects and mitigation actions are identified for environmental issues. Social assessment theoretically forms part of this process, although this is not yet so well advanced in implementation. Regular reporting requirements allow the MoLG to ensure that existing systems are implemented, although two overarching issues can be identified that still lead to underperformance: i) resources constraints at all levels; and ii) the lack of mainstreaming of environmental and social issues into planning and implementation at both local and national levels.

14. The use by municipalities of the screening form and the assessment using the environmental and social checklist is based on World Bank Safeguards requirements and Ugandan Legislation for assessment of these projects which fall outside the scope of EIA is not yet well developed, although there are indications that government (led by NEMA and MoLG) are in the process of formalizing these systems and procedures. Under the LGDP2 a National Committee was set up to prepare standardized training materials and guiding notes for use in capacity building and training workshops ("Environmental Management in Local Governments").

15. The experience of applying the ESMF in the World Bank supported LGMSP, in place prior to USMID, has allowed the identification of some gaps in current practice by both MoLG and MoLHUD and they report that they are moving to address these gaps at the present time. This demonstrates that the process in place does have the ability to be responsive provided that issues are included in the initial screenings and assessments and as long as resources allow.

16. Initiatives on environmental and social planning have started to improve and strengthen systems. There is now a clear need to ensure that further support to the municipalities leads to the achievement of observable and measurable results by following through from the planning stage through project implementation to identify and minimize impacts, and maximize the environmental and social benefits arising from municipal infrastructure projects.

17. ***Gaps in the system as written***: The principles pertaining to environmental systems under OP/BP 9.00 are considered in terms of environmental and social management for urban municipal infrastructure projects that are implemented by municipalities. In general the assessment finds that the regulatory environment in Uganda is reasonably well developed and articulated with respect to environmental parameters. However, there are several gaps in the system, outlined below, which were identified in the ESSA:

> **Oversight:** For projects that are deemed to have low to moderate impacts, there is no oversight within the municipality for environmental and social due diligence. If the type of project does not require a full EIA by law, municipalities appear to decide if a project will require a full EIA (to be carried out with oversight by NEMA) though this process as written is not based on clear risk criteria.
>
> **Screening and Categorization**: While a screening form exists, the procedure is not tailored to adequately screen both the types of projects and risk levels that are ineligible for financing under USMID. Additionally, projects requiring a full EIA are based mostly on the type of project, rather than a systematic risk screening process. There is also a conflict of interest where the Municipal Environmental Officer would conduct the screening, approve the categorization, design and implement the ESMP. Theoretically the Technical Planning Committee should approve the screening, but the ESSA found that this was not done in practice.
>
> **Grievance handling system**: Most municipalities do not have a formal system for handling grievances. Feedback from the consultations and survey data confirmed the wide variation in the approach to handling grievances, and that the municipal councils have had no more than informal involvement to date, relying on the ability of Local Councils to sufficiently manage grievances and disputes. The lack of a standardized process in the documenting and resolution of grievances has led to complaints about the system itself, which is perceived not to resolve conflicts in a timely or adequate manner. Underreporting of grievances is also likely, as Elders and Local Councils – the de facto grievance redress system – have no system, incentive, or responsibility to report complaints to a higher authority.
>
> **Consultation and Disclosure**: Only projects requiring a full EIA require public consultation and disclosure of EIA documents. The legal framework for EIAs is adequate, but for those projects handled at the local level there is no process for consultation or disclosure required by law. The procedures for local governments do include consultation and disclosure, but the ESSA found that this does not necessarily happen in practice and there is no institutional oversight to ensure that it does.

18. ***Gaps in the system as applied in practice:*** In assessing the ESIA system as it is applied in practice, the ESSA found that while the system as written is fairly strong, municipalities are constrained to implement procedures:

> **Uneven implementation of procedures*:*** While a system is in place for environmental and social management, for those projects where the municipalities should carry out due

diligence the ESSA found that it is not thoroughly applied. A performance assessment specific to environmental and social management carried out in 2011 by MoLG found that 58% of municipalities screened projects, only half included mitigation measures in bidding documents, and only one third required that MEOs certify projects, thereby leaving insufficient environmental oversight for the majority of projects implemented by municipalities. The MoLG assessment concluded that about 40% of municipalities' projects met environmental standards. Additionally, because there are no requirements for LGs to conduct public consultations or disclose documents related to environmental and social due diligence, these are not done and performance in these areas is lacking at the central level as well, despite being required by law.

Social assessment: Social issues, including identifying and mitigating impacts on vulnerable groups in municipalities, are often missed or understated given a lack of clear guidance and/or staff that specialize in this area.

Monitoring: Regular monitoring of project implementation to ensure that ESMPs are carried out is particularly problematic, as environmental staff in the municipalities often do not have adequate (or any) budget, and required sign-offs to by the MEO to verify completion of ESMPs is rarely done or, in some cases, is done by other project staff.

Resource constraints: The parent institutions (MoLHUD, NEMA) do have the technical expertise necessary to run the program, but lack both human and financial resources. This leads to a lack of officers on the ground to undertake monitoring and evaluation tasks and an inability for them to travel outside of Kampala. The municipalities face even greater human and financial resource constraints, with a lack of trained officers, officers not having the required skill set to carry out environmental and social assessment, and no budget for assessment, consultation, monitoring and evaluation. For example, the ESSA found that 4 of the 14 municipalities did not have a Municipal Environmental Officer (MEO) in place though this position is required by law and is the focal point for handling due diligence.

Performance incentives: The annual assessment includes minimum conditions for core local government responsibilities, but environmental and social management are not included. Most of the current performance indicators are vague and difficult to assess in a meaningful way, so the assessment as a tool to drive not just technical staff but decision-makers within the municipal governments to demand compliance with laws and to allocate resources to these issues is weak.

Training: While the Ministry of Local Government has prepared a set of technical training and guidance tools for environmental management in local governments, this has been disseminated to MEOs but due to a lack of resources the actual training program has not been implemented. MEO positions, which entail diverse responsibilities beyond ESIA, and which may be affected by high turnover, have often not received training on the procedures they are required to follow. While consultants will prepare ESMPs and RAPs for the first two years of projects, MEOs will still be required to conduct an initial screening of project environmental and social impacts as part of the project prioritization done by the municipal Technical Planning Committee, requiring appropriate skills in impact identification. MEOs will also be required to monitor the implementation of projects. Similarly, MEOs and other technical staff may carry out the screening exercise, but due to a lack of awareness and/or an inability to screen projects in the field due to resource constraints, impacts on, for example, physical cultural resources and natural habitats such as forests and wetlands could be overlooked.

Land Acquisition and Resettlement

19. Projects currently implemented by municipal local governments should adhere to Uganda's land laws, with projects financed by the World Bank using Resettlement Policy Frameworks (RPFs) and Resettlement Action Plans (RAPs), both of which were assessed through the ESSA for consistency with the core principles of OP/BP 9.00 (described above). The ESSA found significant gaps between the Ugandan system and PforR requirements - the complete findings is outlined in detail in the ESSA, with the main gaps summarized below.

20. ***Current system for land acquisition and resettlement:*** Uganda's legal framework relating to land acquisition dates back to the 1960s, and other land laws are insufficiently operationalized. For example, The Constitution of Uganda requires that if a person's property is compulsorily acquired, that person must receive prompt payment "of fair and adequate compensation prior to taking possession" of the property. However there is no clarification in the 1965 Land Acquisition Act on the promptness, fairness and adequacy of the compensation – and the Act has not been updated to address these issues. Past local government development programs have prepared and applied RPFs and RAPs to address land acquisition related concerns in Uganda, though the application of these has been challenging. Additionally, project screening does include land acquisition and resettlement though as described above screening of projects is inconsistent and lacks strong oversight and follow-through into implementation.

21. The *Land Act, Cap 227* states that land tribunals must be established at district level. It empowers the District Land Tribunals Court (DLT) to determine disputes relating to amount of compensation to be paid for land acquired compulsorily. However, the DLT ceased to operate in 2008, and yet these same institutions are also responsible for the municipalities. The affected person may appeal to a higher ordinary court. Similarly the Land Acquisition Act allows for any person to appeal to the High Court within 60 days of the award being made. The Land Act also provides that traditional authorities, mediators, or other persons can mediate a dispute when requested to do so by the land Tribunal.

22. Consultations on a draft national land policy were completed when a National Conference was held in May 2010. The policy was submitted to the Cabinet and now awaits approval. Once approved, it will lead to further changes in the legal and policy framework including Uganda's National Constitution, 1995. The National Land Policy recommends among others, a National Resettlement Policy that will clarify procedures for the management of land taking and displacement due to development projects, disasters, etc., and including resettlement and other relevant measures like compensation, and their centers of responsibility. The draft National Land Policy proposes that District Land Tribunals will have original jurisdiction in cases involving registered land, and appellate jurisdiction from Local Council III Courts in cases involving customary tenure and unregistered land.

23. Municipal Local Governments are responsible for drawing the terms of reference for the preparation of the compensation plans including the valuations of the properties following the rates established by the DLTs within which the municipality is located. Similarly, implementation of Program activities will be undertaken at municipal level with the Town Clerks as the accounting officers. Land acquisition related issues are handled at the municipal level, with MoLHUD providing technical guidance and approval of compensation plans submitted to the CGV.

24. ***Gaps in the system as written***: The ESSA found significant gaps between the Ugandan system as written and PforR requirements - the complete findings is outlined in detail in the ESSA, with the main gaps summarized below:

Land allocation: At the inter-governmental level, the system allows for conflicting land allocation decisions between municipalities, the central government, and district Land Boards. For example, municipalities may allocate land for development or conservation and the district Land Boards may contravene that decision and allocate land for a different purpose. The authority to allocate public land in municipalities is vested with the District Land Boards; the municipalities act only in an advisory capacity as Area Land Committees.

Compensation: While the Constitution sets the standard for any form of compensation and provides for prompt payment of fair and adequate compensation, as mentioned above the definition of "fair and adequate" is not provided in any law and all too frequently compensation is not guaranteed. In terms of individual transaction, when land users and owners are allowed to negotiate for compensation, this is done with no community participation or oversight. While a number of willing buyer and willing seller transactions do proceed satisfactorily, there is a risk that such individual negotiations can lead to unequal compensation and this places vulnerable groups (such as the poor, or women-, child- or disabled-headed household) in a position where they might be unable to represent themselves fairly.

Valuation: The valuation methodologies used by the CGV may not necessarily reflect international best practices and thus are likely to put the project affected households and people at the risk of not restoring their livelihoods. Valuation for land takes account of local market prices, but also sale prices listed in local land registers – which may not reflect the actual sale price. The valuation for fruit trees is not based on the value of harvests lost. Structures are valued at depreciated cost. All these imply that with such valuation, a project affected household may not be able to restore or even improve their livelihoods. In fact complaints of inadequate and unfair compensation for both crops and structures lost are very common and were cited in the consultations undertaken in the municipalities for purposes of drafting this assessment.

Monitoring: In practice NEMA requires developers to include resettlement and compensation plans as part of ESIA's if these issues are picked up during scoping, and would then be responsible for forwarding these to the correct 'Lead Agency', but they have no remit to follow up or ensure that these are implemented.

25. ***Gaps in the system as applied in practice:*** Similarly, there are significant gaps in how the system for land acquisition is applied in practice, summarized below:

Unclear staff roles: The visits to all fourteen municipal local governments and the consultations for the ESSA also indicated that no municipality had staff designated to handle land acquisition, though all municipalities did have Community Development Officers (CDOs) whose roles include community mobilization and empowerment. The lack of a clear legal and institutional framework coupled with budget constraints and a lack of designated staff responsibilities result in practices such as individuals being requested to voluntarily contribute land for projects, and compensation payments when they are made are inconsistently applied. Generally, the municipalities have no experience in handling land acquisition or its attendant measures especially in relation to the project affected parties. According to the Municipal officials there is no officer appointed to handle land acquisition for projects.

Inconsistent procedures for land acquisition: Very often, the Physical Planner and the Municipal Engineer find ways to informally manage such issues, through convincing land owners and users to voluntarily contribute their land without any compensation, given the project's benefits. Where the individual or community is resistant, then the local authority may seek to purchase the land. Some municipalities purchase land from individual owners who negotiate on land price basing on the district established rates. In other instances, records of the transactions, details of the seller and other information may be difficult to find. Especially in the case of voluntary land contributions, there is little record keeping or transparency, which can lead to disputes.

Reports by most municipal officials indicate that detailed land acquisition procedures and processes have never been required and therefore find no need to use the resettlement manual that is provided to the municipalities by the Ministry of Local Government (MoLG). In other words the municipal staff did not see the relevancy of the procedures in cases of small sub projects land acquisition.

The co-ordination between CGV, District Land Boards, and municipalities is poor and causes delays in the compensation process. The role of the CGV should be advisory and to provide a technical back-stop where there is no professional valuer employed as district staff. While the Land Act does not require the CGV to approve district compensation rates, the majority of Land Boards forward the rates to the CGV for approval, which can take some time due to staffing constraints.

Grievance resolution: Regarding grievance procedures and disputes related to land allocation and acquisition, the Land Act creates Land Tribunals, which are intended to help resolve disputes related to land. Land Boards at the District level are not involved in resolving disputes but do assist in registering land. If the public has a dispute over land allocated by the Land Board or extension of leases, for example, they can also bring complaints before the Land Tribunals. If the matter cannot be settled there, it can advance to the High Court of Uganda where the decision would be final. While this system exists per the Land Law, the ESSA found that not all districts have functioning Land Boards and the DLTs have been suspended. Also of note is that the Land Board is at the district level, with all of the district's municipalities being represented by one member. Finally, the majority of compensation complaints are referred to the CGV whose capacity to handle is limited, as noted above.

Resource Constraints: Like the system for environmental and social impact assessment, implementing land acquisition and compensation processes face considerable constraints with regard to human and financial resources. At the national level, the Chief Government Valuer's Office has two Senior Valuers and few more junior Valuers who serve all projects in the entire country. They are expected to deal with a subproject from inception up to closure; an impossible task with sub-optimal levels of human resources. All 14 Municipalities under the USMID Program lack staff with skills and knowledge to handle all land acquisition related issues in projects. Information obtained during consultations with municipalities' shows that the physical planner and the engineer have been handling land acquisition for projects. In addition, although the Community Development Officers (CDO) are in place, their job descriptions do not require them to handle land acquisition and its relevant measures, and are required to only mobilize and sensitize communities on project activities and their related social issues.

Municipalities have no budgets for land acquisition and its related resettlement or rehabilitation measures. Central government transfers do not include funds to meet land acquisition needs, and responses from municipalities suggest that this is one of the reasons why land acquisition, resettlement, and compensation are inadequately handled at present. Delayed payment of compensation is commonplace, contravening the key constitutional principles. However, when subprojects are linked to a main project centrally then the relevant ministry seeks the required budget from Ministry of Finance – because USMID projects are decentralized to the municipalities, this would not be the case.

Indigenous Peoples and Vulnerable Groups and Social Conflict

26. OP/BP 9.00 requires that due consideration is given to cultural appropriateness of, and equitable access to, program benefits giving special attention to rights and interests of Indigenous Peoples and to the needs or concerns of vulnerable groups. It also seeks to avoid exacerbating conflict, especially in fragile states, post-conflict areas, or areas subject to territorial disputes.

27. For Indigenous Peoples, the ESSA undertook a screening of the Program area for recognized indigenous groups in Uganda: these are the Ike, located on a limited area on Mount Moroto, and the Batwa, found in South Western Uganda in the forests of the Muhavura mountain ranges and areas bordering the Republic of Congo. The ESSA confirmed that no USMID municipalities are located in these areas and therefore this social aspect is not applicable to the Program.

28. For marginalized and vulnerable groups, matters relating to groups such as orphans, the disabled and women are a responsibility of the Ministry of Gender, Labour and Social Development (MoGLSD). Further, the same ministry coordinates Health and Safety, including HIV/AIDS, in work places and therefore it is imperative that MoLHUD and MoGLSD talk to each other in resolving land acquisition related matters especially inclusive compensation, HIV/AIDs in construction related activities and provision of job opportunities and other

rehabilitation measures to the project affected persons. Currently no coordination exists between these government agencies.

29. While there is little risk the program will cause major social conflict, some cases of conflict and grievance may occur during project implementation (such as disputes over land tenure, resettlement, and/or induced impacts). Where grievances and disputes arise in projects, vulnerable groups are frequently unable to access the legal system due to the financial burden and therefore have no access to arbitration should appeals to the Local Council fail.

Measures to Strengthen Systems for Environmental and Social Management

30. While the environmental and social risks of the activities under USMID are low - to moderate-impact, the PforR modality offers an opportunity to strengthen both the gaps in procedures identified above in order to identify and mitigate impacts, but also to strengthen the overall system in three areas: (i) strengthening the foundation for environmental and social management, (ii) ensuring implementation of good environmental and social management, and (iii) providing oversight of environmental and social management. To address gaps identified by ESSA, USMID will support specific measures for strengthening the performance of Uganda's environmental and social management system. These measures are through several mechanisms that are built into the Program through the following mechanisms:

- ***Program Operational Manual:*** The **Program Operational Manual** prepared by MoLHUD, which will be used by municipal local governments in assessing and managing environmental and social impacts and land acquisition. This follows the existing procedures currently outlined by the Ministry of Local Government (MoLG) for environmental management, but also builds on this guidance to include updating procedures for environmental and social screening, requiring stronger oversight of the process, and including a Program Land Acquisition Framework is consistent with the core principles of OP/BP 9.00 and Ugandan land laws. ***Performance Incentives and Oversight:*** The **Annual Performance Assessment**, which includes Minimum Conditions municipalities must fulfill to be eligible for the performance grant, and performance indicators to monitor implementation. Disbursements to the MCs are then tied to performance in the annual assessment through the DLIs. The full set of indicators can be found in the Performance Assessment Tool in Annex 10 of the USMID Program Appraisal Document. The USMID Performance Assessment has significantly raised the profile of environmental, social, and land acquisition issues through including minimum conditions for core staff and ensuring that a functional system is in place and operational.

- ***Capacity Building:*** Measures for environmental and social management are integrated in the Program through the **Municipal Capacity Building Grant (MCBG)** that allows local governments to access formal training according to the priorities in annual capacity building plans. MoLHUD will provide guidance to Municipalities for the formulation and execution of their capacity building plans, as well as a limited amount of supply driven capacity building support to municipal LGs**.** One of the key areas that are eligible for capacity building support in the municipalities is to improve municipal LG's capacity in environmental and social management, supervision of projects – the types of activities include tooling, formal and informal training, mentoring, and on-the-job training.

Planning and completion of capacity building activities are also a Minimum Condition and Disbursement Linked Indicator.

31. Together, these form the ESSA Action Plan, which recommends measures that are embedded in the overall Program design through the mechanisms described above. Some actions are further strengthened by inclusion in the overall Program Action Plan which is agreed with the GOU, and/or legally covenanted in the Program Financing Agreement. Actions are grouped into three areas:

1. Actions to strengthen the **foundation** of an environmental and social management system
2. Actions to strengthen **implementation and oversight** of that system
3. Actions to **build capacity** in environmental and social management.

Area 1: Strengthen foundation				
No.	**Measures**	**Mechanism**	**Responsible**	**Timeframe**
1.1	Procedures for environmental and social management for LGs updated to address gaps found in ESSA and included in Program Operational Manual (POM).	POM	MoLHUD	Prior to Program effectiveness
1.2	Land acquisition and resettlement included in impact screening undertaken for all projects.	POM	MoLHUD	Prior to Program effectiveness
1.3	Land Acquisition Framework (LAF) developed that provides clear procedures for preparation of valuation, involuntary resettlement, and compensation plans, included in Program Operational Manual.	POM	MoLHUD	Prior to Program effectiveness
1.4	Update of MoLG handbook for Local Governments will include Land Acquisition Framework	POM	MoLHUD/ MoLG	Prior to Program effectiveness
1.5	All Municipal LG's required to have position of Environmental Management Officer and Community Development Officer substantively filled	APA (Minimum Condition)	Municipal LGs	Prior to Program effectiveness
1.6	Town Clerk in each municipality will designate a Focal Point for land acquisition and coordinating Land Acquisition Framework	APA (Minimum Condition)	Municipal LGs	Before Program Year 2
1.7	MoLHUD will recruit an environmental and social specialist for Program Implementation Team, to be funded under the Program and whose performance will be assessed on an annual basis.	Condition of effectiveness	MoLHUD	Prior to Program effectiveness
1.8	Screening updated to include guidance to identify high-risk activities, which are ineligible for Program support	POM	MoLHUD	Prior to Program effectiveness
1.9	All Municipal LGs establish a Complaints Handling Mechanism that will include procedures for environmental, social, and land acquisition, resettlement and compensation issues, as well as fiduciary issues	POM/APA (Minimum Condition)	Municipal LGs	Before Program Year 2
1.10	Program Operational Manual illustrates required consultation and disclosure of key documents for environmental and social due diligence, and screening form must indicate date and place of disclosure of the environmental and social documents.	POM	Municipal LGs	Throughout Program
1.11	All municipal LGs required to establish Municipal Development Forums, which promote stakeholder participation, transparency, and accountability.	APA (Performance Indicator)	Municipal LGs	Before Program Year 2
1.12	Set up monitoring system for LGs, that tracks, for example, land acquisition, risk, consultations, etc.	POM	MoLHUD	Before effectiveness

Area 2: Implementation and Oversight				
No.	**Measures**	**Mechanism**	**Responsible**	**Timeframe**
2.1	Municipal Technical Planning Committee considers environmental and social impacts in prioritizing development projects	POM	MoLHUD/ Municipal LGs	Throughout Program
2.2	All infrastructure projects required to have completed Environmental and Social Screening Form and receive NEMA endorsement	POM/APA (Minimum Condition)	Municipal LGs	Throughout Program
2.3	Environmental and Social Management Plans are made publicly available at the Municipal Council office and on-site by contractors	APA (Performance Indicator)	Municipal LGs	Throughout Program
2.4	Technical staff, including Municipal Environmental Officer, carry out monitoring and supervision of works at least once per quarter.	APA (Performance Indicator)	Municipal LGs	Throughout Program
2.5	From the Focal Point Officer, verify that Land Acquisition Framework applied and implemented for all projects where the Environmental and Social Screening Form indicates land acquisition will be necessary, including payment of any compensation prior to initiating works.	POM/APA (Performance Indicator)	Municipal LGs	Throughout Program
2.6	Reporting from municipal LGs to MoLHUD will include tracking grievances related to environmental and social management and land acquisition/valuation.	POM	MoLHUD/ Municipal LGs	Throughout Program
2.7	All mitigation measures for environmental, land (where necessary) and social issues for previous FY have been effectively executed.	APA (Performance Indicator)	Municipal LGs	Throughout Program
2.8	All projects requiring land acquisition have followed Land Acquisition Framework and prepared Compensation Plans, including payment of compensation prior to initiation of works.	APA (Minimum Condition)	Municipal LGs	Throughout Program
2.9	Reporting on environmental and social criteria included in Impact Monitoring Reports prepared by the municipal engineer or physical planner	POM	Municipal LGs	Throughout Program
2.10	Assess that mitigation measures are being followed when projects are implemented.	APA (Performance Indicator)	Municipal LGs	Throughout Program

Area 3: Capacity and Oversight				
No.	**Measures**	**Mechanism**	**Responsible**	**Timeframe**
3.1	Environmental and social management included as a key eligible area for capacity building support in Capacity Building Grants for L:ocal Governments	Capacity Building Plan	MoLHUD/ MoLG	Throughout Program
3.2	Program Capacity Building Grant includes resettlement as one of the seven thematic areas for institutional improvement, both at the municipal and national level.	Capacity Building Plan	MoLHUD	Throughout Program
3.3	Training program will build capacity of core environmental and social staff, but also provide sensitization on environmental and social issues for other technical staff in the municipal LG and Council leaders.	Capacity Building Plan	MoLHUD, MoLG	Throughout Program
3.4	Training program already includes session on budgeting for environmental mitigation measures. This will be expanded to include budgeting for land/asset/livelihood compensation.	POM	MoLHUD	After Year 1
3.5	Updated LG training program will include LAF. Training will include screening for land acquisition, impacts on assets and livelihoods as well as considerations for vulnerable groups.	POM	MoLHUD	Within first year
3.6	MoLG training program for environmental management in LGs will be reviewed and updated, including for Land Acquisition Framework	POM	MoLHUD/ MoLG	One year after effectiveness
3.7	Training program on environmental and social management for LGs will include greater instruction on consultation, transparency and handling grievances.	POM; Agreement	MoLHUD/ MoLG	One year after effectiveness

Annex 7: Integrated Risk Assessment

<table>
<tr><td colspan="5">1. PROGRAM RISKS</td></tr>
<tr><td>2.1 Technical Risk</td><td>Rating:</td><td colspan="3">Substantial</td></tr>
<tr><td rowspan="2">Description :
2.1.1 Sub-projects Technical design - Poor quality of technical design of sub-projects by municipal engineering department.
2.1.2 Capacity – Weak capacity in MoLHUD to progressively carry out its mandate for urban development and weak Municipalities capacities in city management.
2.1.3 Coordination – Challenge of coordination among MoLHUD, MoLG and the participating municipalities for project implementation including performance assessment process.
2.1.4 Governance – Weak institutional, policy and legal framework for urban development and management</td><td colspan="4">Risk Management:
2.1.1 Engineering designs for sub-projects to be funded under the Program will be contracted out and the executing ministry (MoLHUD) with support from consultants will provide the necessary quality assurance and technical back up support to the municipalities.
2.1.2 Provide a Program Support Team (technical assistance) to strengthen institutional capacity in the ministry while it gradually fills key vacant positions. A strong training program is envisaged as part of the Program Action Plan to strengthen the capacities of MoLHUD in urban development and management and of participating Municipal LGs also in urban management and O&M of urban infrastructure service for improved urban governance.
2.1.3 Strengthen inter-ministerial coordination through the Program Steering Committee (PSC) for policy coordination and Program Technical Committee (PTC) for technical project implementation issues including harmonization of the performance assessment process.
2.1.4 Support existing institutions for urban dialogue such as National Urban Forum (NUF) and the municipal urban forum (MF) where stakeholders would meet regularly and discuss urban governance issues.</td></tr>
<tr><td>Resp: MoLHUD</td><td>Stage:</td><td>Due Date :</td><td>Status:</td></tr>
<tr><td>3.1. Fiduciary Risk</td><td>Rating:</td><td colspan="3">High</td></tr>
<tr><td>Description :
3.1.1. Accounting and financial reporting system risks through:
• Misleading reporting and budgetary information due to wrong classification
• Delayed reporting.
• False accounting and accountabilities</td><td colspan="4">Risk Management :
1.1.1 Accounting and financial reporting system risks mitigation measures will include:
• Training of municipal financial officers in the application of chart of account codes especially in respect to USMID, and Accountant General to issue practice notes (Treasury instructions in respect to accounting for USMID.
• Capacity building in accounting procedures and the preparation and use of financial reports;
• Include a clause in the Participatory Agreement between MoLHUD and each participating municipal LG preventing funds diversion, and monthly reviews be done for enforcement;
• Separate account to be opened in Municipal LGs for program funds, and
• Funds release to be done 6 monthly and DLI requires release of funds to Municipal LGs in timely manner.</td></tr>
</table>

3.1.2. ***Internal controls including internal audit risks:*** • Management override of controls, • internal audit being compromised and not independent, • lack of resources by internal audit, and failure to implement internal audit findings	1.1.2 ***Internal controls including internal audit risks*** shall be mitigated through: • Implementing Internal Audit activities as per regulations is a minimum condition or 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
3.1.3. ***External audit and integrated audit risk***: • Failure to submit accounts for audit in time, • Poor following up to rectify issues raised in audit reports • MoLHUD does not provide the necessary cooperation for smooth and timely assessment of municipalities • Inadequate checks on performance of projects and high Unit costs	1.1.3 ***External audit and integrated audit risk*** shall be mitigated through: • Preparation and submission of draft accounts plus implementation of audit findings to be a minimum condition for accessing the grant; • MoLHUD ensuring timely assessment is a DLI, and • Auditor general to conduct value for money audits starting in July 2014 and annually thereafter
3.1.4. Inadequate staffing in 5 Municipal LGs, i.e., Hoima, Jinja, Kabale, Moroto and Tororo in Procurement, FM and Engineering units.	1.1.4 Inadequate staffing level at municipal LGs will be addressed through: • Fully functional PDU staffed with a qualified Senior Procurement officer and Procurement officer, • Technical staff, each municipality to have a qualified Physical Planner and Municipal Engineer; • Head of Accounts in place.
3.1.5. Inadequate procurement planning, i.e., inadequate planning tool, splitting of contracts during planning, non-adherence to the procurement plan and inadequate monitoring of progress against the plan contributing to delayed service delivery and limiting cost effectiveness.	1.1.5 Inadequate procurement planning risks will be mitigated through: • Adoption of the PPDA procurement planning format which to address current weaknesses; • Train of Municipal LGs in procurement planning and especially packaging of contracts to ensure proper consolidation of procurements, • Procurement plans prepared in accordance guidelines will be a minimum condition for accessing the Municipal grant; and • Adherence to the procurement plan during program implementation. This will be one of the performance indicators in the annual municipal performance assessment.
3.1.6. Weakened cost effectiveness due to fragmentation of contracts, inadequate advertising, weak contract management etc.	1.1.6 Weak contract management to be mitigated through: • Urban CBG to provide funds for supervision of works to improve contract management, • Timely certification of works is one of the performance indicators, • OAG to conduct VFM audits after 2 years then annually thereafter and % of projects with VFM to be assessed in annual assessment
3.1.7. Low bidder participation and inadequate advertising of bid opportunities in a manner that encourages	

bidder participation. 3.1.8. Limited hands-on experience in the preparation of bidding documents and evaluation of bids. 3.1.9. Non- adherence to pre-disclosed evaluation criteria during bid evaluation. 3.1.10. Forgery of Bid, performance and advance payment Securities where Bank guarantees are required. 3.1.11. Low compliance to rules of different methods in procurement.	1.1.7 Low bid participation to be mitigated through: • Cause the adverts to contain key information to attract prospective bidders. Assess this as part of compliance assessment, • Publish general procurement notice informing potential bidders about upcoming procurement opportunities under program, • Advertise opportunities in the national press and on the PPDA website. This will be one of the performance indicators. Adherence to the PPDA standard notice formats will be assessed as part of annual procurement audits, • Conduct business outreach programs in partnership with PPDA, UNABSEC, UIA and Ministry of Lands, • Use and promotion of the use of the PPDA / GoU Procurement Portal by Municipal LGs through supporting publishing in the newspapers of all notices (abridged versions) that are published in the PPDA tender portal fortnightly for an initial 3 months period under the program, and • Use of abridged versions of the notices with reference to PPDA website where more detailed notices are published. 1.1.8 Conduct training on the procurement cycle covering preparation of bidding documents and BERs. This will be through formal training workshops conducted by consultants hired by MoLHUD. 1.1.9 Adhere to outlined criteria in the bidding documents. This will be one of the performance indicators in the annual assessment of Municipal LGs. 1.1.10 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; and encouraging use of Bid securing Declarations in lieu of Bank Securities in the case of Bid Securities. 1.1.11 % of contracts fully adhering to applicable rules to be the main performance indicator for procurement (40%) in annual assessment. **Resp: MoLHUD** | **Stage:** | **Due Date :** | **Status:**

<table>
<tr><td>2.3 Environmental and Social Risk</td><td>Rating:</td><td colspan="3">Moderate</td></tr>
<tr><td rowspan="2">Description :
1.3.1 Lack of a clear framework and inadequate resources to manage land acquisition at the municipal level.
1.3.2 Weak capacity of municipalities to assess and manage social and environmental impacts
1.3.3 Lack of monitoring and oversight of mitigation measures</td><td colspan="4">Risk Management:
1.3.1 Design and implementation of environmental and social management procedures for inclusion in the Program Operational Manual, including and a Land Acquisition Framework (LAF).. The procedures in the POM are consistent with Ugandan environmental and land laws, and include measures to fill both framework and performance gaps with respect to the requirements on environmental and social management in OP 9.00.
1.3.2 To ensure the procedures in the POM are carried out, the Annual Performance Assessment will include performance measures related to the POM including staffing requirements, evidence that procedures are carried out, and regular monitoring of projects by environmental and social staff.
1.3.3 MoLHUD will hire an environmental and social specialist at the central level, which will be the focal point for technical assistance to municipalities and regular reporting.</td></tr>
<tr><td>Resp:</td><td>Stage:</td><td>Due Date :</td><td>Status:</td></tr>
<tr><td>2.4 Disbursement linked indicator risks</td><td>Rating:</td><td colspan="3">Moderate</td></tr>
<tr><td rowspan="2">Description :
2.4.1 Political pressure to disburse Program funds to municipal LGs even if they have not met the minimum access criteria for disbursement of the grant.</td><td colspan="4">Risk Management:
2.4.1 Program Participation Agreement be signed between the MoLHUD, MoFPED and the participating municipalities clearly spelling the role of each player and the rule of the game for the access and implementation of USMID LDG.</td></tr>
<tr><td>Resp:
IDA/MoLHUD</td><td>Stage:</td><td>Due Date :</td><td>Status:</td></tr>
<tr><td colspan="5">1. OVERALL RISK RATING - Substantial</td></tr>
</table>

Annex 8: Program Action Plan

Issue/risk description	Action/Completion	Time Frame	Responsible Party	Instrument
Cross Cutting/ General				
Inadequate core staffing in 5 Municipal LGs, i.e., Hoima, Jinja, Kabale, Moroto and Tororo	All 14 municipal LGs to have the seven core staffing positions substantively filled as a minimum requirement to be able to access funding under the Program. 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, and (vii) Community Development Officer	All staff in post before July 1, 2013 and staff in post throughout the Program period	MoLG for Town Clerks and Municipal LGs for rest of the staff	DLI
Sufficient capacity at MoLHUD for Program implementation and back-up support to 14 municipal LGs	MoLHUD to recruit Program Support Team comprising of (i) Program Coordination (ii) Financial Specialist, (iii) Procurement Specialist, (iii) Physical/Urban Planner, (iv) M&E Specialist, (vi) Environmental Specialist as described in the ministry institutional enhancement support plan	By Program effectiveness	MoLHUD	Covenant
Timely and effective execution of capacity building activities	MoLHUD to develop and implement capacity building activities consistent with its mandate under the Program and submits its capacity building plan to Program Technical Committee not later than March 31, every year.	Annual	MoLHUD	DLI
Consolidate overall Program progress report	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.	Annually	MoLHUD	Covenant
Limited bottom- up participation, accountability and transparency	All Program municipalities will establish municipal fora.	First year of the Program and the MF maintained throughout Program period	Municipal LGs	DLI
Fiduciary				
Inadequate procurement planning, splitting of contracts during planning, non-adherence to the procurement plan and inadequate monitoring of progress against the plan contributing to delayed service delivery and limiting cost effectiveness.	Adoption of the PPDA procurement planning format which will address current weaknesses Training of Municipal LGs in procurement planning and especially packaging of contracts to ensure proper consolidation of procurements.	Throughout Program period	Municipal LGs/ MoLHUD	DLI; Agreement
Low bidder participation	Use and promotion of the use of the PPDA/GoU Procurement Portal by Municipal LGs through supporting publishing in the newspapers of all notices (abridged versions) that are published in the PPDA tender portal fortnightly for an initial 3 months period under the program	For the first 3 months	MoLHUD, municipal LGs, PPDA and UNABCEC	Agreement

	Conduct business outreach programs in partnership with PPDA, UNABSEC, UIA and Ministry of Lands	Throughout Program period		
Inadequate advertising of bid opportunities in a manner that encourages bidder participation	Adhere to required standards for publication of procurement notices to promote increased bidder participation.	Throughout Program period	Municipal LGs	DLI
Limited hands-on experience in the preparation of bidding documents and evaluation of bids	Conduct training on the procurement cycle covering preparation of bidding documents and BERs. This will be through formal training workshops conducted by consultants hired by MoLHUD.	Throughout Program period	MoLHUD, municipal LGs	DLI
Non- adherence to pre-disclosed evaluation criteria during bid evaluation	Adhere to outlined criteria in the bidding documents.	Throughout Program period	Municipal LGs	DLI
Insufficient audit of procurement	Cause internal audit to cover audit of Program procurement transactions. Carry out annual procurement audits.	Throughout Program period	Municipal LGs PPDA	DLI Covenant
Forgery of Bid, performance and advance payment Securities where Bank guarantees are required	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	Throughout Program period	Municipal LGs	DLI
Weak financial management at the LG level	Roll out of IFMS to all Program municipal LGs	By end of LG disbursement year 2	Accountant General	DLI
Accounting and financial reporting system risks through: Misleading reporting and budgetary information due to wrong classification Delayed reporting. False accounting and accountabilities	Training of municipal financial officers in the application of chart of account codes especially in respect to USMID, Capacity building in accounting procedures and the preparation and use of financial reports	Throughout Program period	Accountant General MoLHUD, MoLG, Town Clerk	DLI
Treasury management and funds flow through Potential diversion of funds by municipalities from Program purposes Delayed release of funds to Municipal LGs	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.	Throughout Program period	Municipal LGs MoFPED	DLI
Internal controls including internal audit Management	Implementing Internal Audit activities as per regulations is a minimum condition of accessing grant	Throughout Program period	Municipal LGs, MoLHUD, OAG	DLI

override of controls, internal audit being compromised and not independent, lack of resources by internal audit, and failure to implement internal audit findings	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			
External audit and integrated audit Failure to submit accounts for audit in time, Poor following up to rectify issues raised in audit reports	Capacity building for finance staff, Segregation of key duties as per regulations, Implementation of audit findings Timely assessment of DLIs by MoLHUD	Throughout Program period	MoLHUD, Municipal LGs	DLI Coven ant
Technical				
Weak contract management	Program to provide funds for supervision of works to improve contract management Timely certification of works by municipal LGs.	Throughout Program period	MoLHUD and municipal LGs	DLI
Low efficiency, effectiveness and economy in infrastructure implementation	OAG to conduct value for money (VFM) audits of infrastructure projects implemented at municipal level	Starting on July 2014 and Throughout Program period	OAG	Coven ant
Poor quality works and higher costs	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	Throughout Program period	Municipal LGs, MoLHUD and OAG	DLI
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	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 OP/BP 9.00.	Manual before effectiveness, implementatio n through Program period	MoLHUD and Municipal LGs	DLI, Coven ant
	Staff in place at the national level Staff in place at Municipal LGs to handle environmental and social management.	Before effectiveness	MoLHUD, Municipal LGs	Coven ant DLI
	Capacity Building Plans include training for Municipal Environmental Officers and Community Development Officers on environmental and social management.	Throughout Program period	MoLHUD, Municipal LGs	DLI

Annex 9: Implementation Support Plan

1. The strategic approach for the implementation support (IS) has four objectives: (i) to monitor the implementation of the risk mitigation defined in the technical, fiduciary, and safeguard assessments, (ii) to provide the client the technical advice necessary to facilitate the achievement of the PDO; (iii) to monitor implementation progress on the program and to contribute to the quality of the capacity building of stakeholders by providing best practices and benchmarks, and (iv) to ensure compliance with the provisions of legal covenant. The Bank team will provide training/clinics and support during implementation support missions on the implementation of the Program as appropriate, including the implementation of the action plan. Bank technical implementation support will include, but not limited to, providing relevant sample ToRs, bid documents, and specifications for equipment to be procured under the Program. The current practice of monthly meetings between Bank team and coordinators of Bank funded projects/program will continue so as to be able to respond to issues on a timely basis as they emerge.

2. A majority of the Bank's implementation support team members (fiduciary, environmental and social management, and Governance and Anti-Corruption), including the Task Team Leader, are either based in the Uganda Country Office or in the Region. This will ensure timely, efficient and effective implementation support to MoLHUD and the participating municipalities. Formal implementation support missions and field visits will be carried out semi-annually. In addition, since they are based in the country, majority of the Bank's implementation support team will be available to provide assistance at any time over the life of the Program.

The main focus of the implementation support is summarized below:

Time	Focus	Skills Needed	Resource Estimate	Partner Role
First twelve months	Technical and Procurement support	Procurement Specialist Municipal Engineer	4 SWs 4 SWs	NA
	Procurement Training	Procurement Specialist	1 SW	
	FM training and supervision	FM Specialist	2 SWs	
	Project supervision coordination	Operations Specialist	6 SWs	
	Social systems management training	Social systems specialist	3 SWs	
	Environmental management training	Environmental specialist	3 SWs	
	Task Team Leadership	TTL	8 SWs	
12-60 months	Financial Management, disbursement and reporting	FM Specialist Local Government Specialist	2 SWs 8 SWs	NA
	Technical and Procurement monitoring of procurement and contract management performance	Procurement Specialist Municipal Engineer	12 SWs 8 SWs	
	Environment/Social monitoring	Environment Specialist Social Specialist	2 SWs 2 SWs	
	Task Team Leadership	TTL	8 SWs	

SW – Staff Week

3. Staff Skills Mix Required

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Task Team Leader	8 SWs annually	2-3	Country Office based
Procurement	5 SWs annually	Field trips required	Country Office based
Financial Management Specialist	2 SWs annually	Field trips required	Country Office based
Environment Specialist	2 SWs annually	Field trips required	Country Office based
Social Specialist	2 SWs annually	Field trips required	Country Office based
Municipal Engineer	4 SWs annually	Field trips required	Consultant

Annex 10: Municipal Minimum Condition and Performance Assessment Tool

A. Minimum Conditions (MCs) for MDG

Minimum Condition	No	Indicators of Minimum Conditions	Information Source and Assessment Procedures	Status
A) Functional Capacity for Municipal Physical, Development Planning and Budgeting	1.	Municipality has approved a Five Year Development Plan as per LGA Section 35 as amended.	A. From the NPA/MoLG Registry, obtain copy of the five year Municipal Development Plan of the current period and ascertain whether the Mayor and TC endorsed it; B. From the Committee Clerk review minutes of council to find out whether there is a Council resolution to approve the Development Plan, record the dates and minute.	Amended
	2.	Municipal Council has approved annual estimates of revenue and expenditure for the current financial year (budget).	From the Municipal Head of Finance, obtain and review estimates of revenue and expenditures for the current FY to find out whether: • The budget was **laid before** the municipal council by the stipulated date (currently 15th June) in accordance with the LG Act as amended; • The budget was approval as per law (currently by August 30 (although the communication in the BFP workshops was by June 30)	Amended
	3.	Municipality makes timely submission of the annual work plans and annual budgets that are linked.	• Check with MoFPED to ascertain whether the municipalities submitted the OBT on time (no later than one month late) and of the required quality with specification of outputs and activities.	New
	4.	Municipal Technical Planning Committee functioning as per LGA section 36.	From the Planning Unit obtain and review minutes of TPC meetings of the previous FY, to find out whether: • The TPC meets as required (at least monthly)[77]; • There is appropriate attendance of TPC meetings (two thirds of HODs and technical persons co-opted by TC), • Issues discussed are relevant (like M&E reports, assessment results, project implementation issues etc.)	Old
B) Municipality has in place the core staff responsible for designing and implementation of the infrastructure projects	5.	The Municipal Council has a Town Clerk designated by MoLG and appointed by MoFPED as Accounting Officer substantially filled[78].	• From MoLG obtain the staffing list of municipalities to establish the municipalities with designated Town Clerks; • From MoFPED establish whether the TCs designated by MoLG have been appointed as Accounting Officers and are posted • Check the position at the municipal level.	New
	6.	The Municipal Council has the position of the Municipal/Principal Engineer substantively filled.	• From the MoLG establish whether the Municipal Council has an Engineer appointed by DSC • From the Municipal Engineer establish whether s/he is registered or obtain proof that the Engineer is in later process of registration	New
	7.	The Municipal Council has a position of the	• From the MoLG establish whether the Municipal Council has a Substantive	New

[77] TPC meeting should be distinguished from routine /irregular meetings attended by heads of departments/ sections of a local government. These routine meetings, which may include technical tender evaluation committee meetings or meetings with visitors, etc are not the TPC meetings to be scored.
[78] Substantially filled means appointed and posted with the required skills and qualifications.

Minimum Condition	No	Indicators of Minimum Conditions	Information Source and Assessment Procedures	Status
		Municipal Physical Planner substantively filled.	Physical Planner • Check the position at the municipal level	
	8.	The Municipal Council has the position of the Senior Procurement Officer + one additional Procurement Officer substantively filled	• From the MoLG establish whether the Municipal Council has a Substantive Senior Procurement Officer + one additional Procurement Officer • Check the positions at the municipal level	New
	9.	The Municipal Council has the position of a Principal Treasurer substantively filled.	• From the MoLG establish whether the Municipal Council has a Substantive Principal Treasurer • Check the positions at the municipal level	New
	10.	The Municipal Council has the position of a Municipal Environmental Office (MEO) substantively filled.	• From the MoLG establish whether the Municipal Council has a Substantive MEO • Check the position at the municipal level	New
	11.	The Municipal Council has the position of a Community Development Officer substantively filled.	• From the MoLG establish whether the Municipal Council has a Substantive CDO • Check the position at the municipal level.	New
C) Functional Capacity in Finance Management, and Internal Audit	12.	The Municipal Council has produced and submitted annual financial statements (Draft Final Accounts) for the previous FY as per LGA section 86 (using IFMS once it has been fully installed).	• From the OAG, obtain and review a copy of the annual financial statements (Draft Final Accounts for the previous FY). • Establish whether the annual financial statements were submitted to OAG by 30th September and check record dates of submission.	Amended
	13.	The Municipal Council has no adverse audit/disclaimer opinion from OAG for previous financial year.	• From the OAG obtain the audit opinion for municipalities to establish that there is no adverse opinion.	New
	14.	The Municipal Internal Audit function is being executed in accordance with the LGA section 90 and LG Procurement Regulations.	• Municipality has produced at least three out of the four quarterly internal audit reports and submitted these reports to the council and the District Local Government Public Accounts Committee (LGPAC)	New
D) Procurement	15.	The Municipal Council has a developed a Procurement Plan as per Procurement Regulations and MoFED guidelines, approved by the municipal council and submitted this with linkage to the work-plans and budget.	• From the PPDA (legal and compliance office) establish whether the municipality submitted the procurement plan for the ongoing year, and check that major investments are included in this plan and are appropriately packaged.	New
	16.	The Municipal Council Contracts Committee is in place.	• From the Municipal Procurement and Disposal Unit establish whether the Municipal Contracts Committee is in place and has the required membership	New
E) Functional Capacity in Environmental and Social Management [Year 2 and on]	17.	Municipality establishes and maintains functional system for environmental and social impact assessment and land acquisition.	• From the MEO, verify Environmental and Social Screening Form completed and endorsed by NEMA for all projects and, where mitigation measures are required, that environmental and social management plans are included in contract bidding documents. • From Municipal TC, establish designation of Focal Point Officer to coordinate implementation of the Land Acquisition Framework. • From the Focal Point Officer, verify that Land Acquisition Framework applied and	New

Minimum Condition	**No**	**Indicators of Minimum Conditions**	**Information Source and Assessment Procedures**	**Status**
			implemented for all projects where the Environmental and Social Screening Form indicates land acquisition will be necessary, including payment of any compensation prior to initiating works • Verify all completed projects have Environmental and Social Mitigation Certification Form completed and signed by Municipal Environmental Officer.	
F)Transparency and Accountability	18.	The Municipal Council: • Developed and adopted a customized local version of the *Framework For Promoting Good Governance and Anti-Corruption in Local Governments 2012-2015;* • Established an operational Complaints Handling System which will include, among other things, a grievance committee to handle complaints pertaining to fiduciary, environmental and social systems; • Designated a Focal Point Officer to coordinate implementation of the *Framework.*	• From Municipal TC obtain and review the customized *Framework For Promoting Good Governance and Anti-Corruption in Local Governments 2012-2015* From Municipal TC obtain and review report on implementation of the Complaints Handling System • From Municipal TC establish the designation of Focal Point Officer to coordinate implementation of the *Framework*.	New *To be applied from Year 2 onwards*
G) Program Specific	19.	Signed Participatory Agreement/ MoU between MoLHUD and the municipality.	• From the MoLHUD obtain a copy of the MoU signed between the MoLHUD and the municipalities.	New
	20.	The Municipal Council adheres to the eligible expenditures (Investment menu) for the use of funds in previous year.	• From the MoLHUD obtain the output/outcome reports to establish how the municipality used the USMID funds for the previous financial year.	*New* *To be applied from Year 2 onwards*

B. Minimum Conditions (MCs) for MCBG

Minimum Condition	**Indicators of Minimum Conditions**	**Information Source and Assessment Procedures**	**Status**
A) CB Plan in place	Municipality has approved a three Year CB plan in place	• From the NPA/MoLG Registry, obtain copy of the five year Municipal Development Plan including the CB plan of the current period and ascertain whether the Mayor and TC endorsed it; • From the Committee Clerk review minutes of council to find out whether there is a Council resolution to approve the CB Plan, record the dates and minute; • Review evidence of the plan with the HR officer; • The CB plan should have CB activity targets, overview of the funding sources, and overview of how each activity is funded, including timing, method for implementation.	Existing, but new focus
B) Urban CBG spent according to the eligible expenditures	The Municipal Council adheres to the eligible expenditures (Investment menu) for the use of funds in previous year.	• From the MoLHUD obtain the output/outcome reports to establish how the municipality used the USMID funds for the previous financial year. • Check of expenditure against the eligible expenditures as defined in the Program Operational Manual.	Existing, but with focus on ULDG From the third assessment (September 2014)

C. Performance Indicators (PIs) for MDG

Performance Measures	No	Indicators of Performance	Scoring Guide[79]	Information Source and Assessment Procedure
(i) Municipal Physical Development Plan, Five year Development Plan and Budgeting **20 points max**	1.	Physical Planning Performance Total 8 points	1. a. Municipality has an updated Physical Development Plan approved by the Physical Planning Board – 2 points	From Physical Planning Board, establish whether the MC has an approved Physical Development Plan.
			1. b. Municipality has a detailed physical plan approved by the Municipal Council – 2 point	From the Municipal Physical Planner obtain the detailed physical plan and establish whether it was approved by the MC.
			1. c. Municipality has a work plan approved by the Municipal Council - 2 point	From the Municipal Physical Planner obtain an action area plan and establish whether it was approved by the MC.
			1. d. Municipality has in place a functional municipality physical development planning committee - 2 point	From the Municipal Physical Planner, receive a file of new investments in the municipality to establish whether they were approved by the municipality physical development planning committee.
	2.	A participatory development planning and budgeting process *Note: Council and TPC involvement are captured under Municipal LGs* Total 6 points	2. a. Municipality (i) presented the plan and discussed the priorities at the Municipal Urban Forum (MF) and (ii) discussed with the Divisions, before being approved for investment - 2 points	From the Planning Unit obtain and review minutes and priorities arising out of budget conferences and/or Municipal Development Forum to establish that: (i) consultations were held and (ii) the priorities were considered.
			2. b. Municipality has evidence that sector drafts plans were reviewed by the Standing Committees - 2 point	From the Committee Clerk obtain and review the minutes of the Standing Committees to establish whether they discussed the sector draft plans
			2. c. Municipality has evidence that the plan was discussed by the Municipal Executive Committee - 2 point	From Town Clerk obtain and review the minutes of the Municipal executive Committee to establish whether they discussed the plans
	3.	O&M planning and budgeting for all major infrastructure projects Total 6 points	3. a. Municipality has a Municipal O&M plan for the forthcoming FY – 2 points	From the Planning Unit obtain and review the O&M plan.
			3. b. Municipality has a Municipal O&M budget for the forthcoming FY – 2 points	From the Planning Unit obtain and review the O&M budget.
			3. c. Municipality has spent the budgeted O&M amounts in the former FY – 2 points	From the Head of Finance obtain and review the budget to establish whether funds have been allocated to O&M (through a sample of projects)
(ii) Revenue Mobilization	4.	Increase in collected revenue	Municipality has increased collected revenue in the previous FY, as compared to last FY but one:	From the OAG obtain Final Accounts for previous FY but one and Draft Final Accounts for the previous FY and calculate the percentage increase in local

[79] Only one set of points can be given for each sub-indicator.

Performance Measures	No	Indicators of Performance	Scoring Guide[79]	Information Source and Assessment Procedure
15 points max		in the previous FY as compared to last FY but one Total 4 points	• Increase of up to 10 %: 2 points • Increase of more than 10 %: 4 points	revenue collected.
	5.	Tax assessment - Existence of updated revenue registers Total 7 points	If the Municipality has the updated registers for the top sources of revenue (see next column) and carries out an annual census for taxi and buses for all parks – 1 point for each	From Head of Finance obtain and review the tax registers to establish whether they are in place and updated. • property valuation registers (1 point) • business license register (1 point) • LST register (1 point) • LHT register (1 point) • street parking registers/slots (1 point) • census for taxi and buses for all parks annually (1 point) • register of stalls, stands etc.. for all markets (1 point)
	6.	Percentage of revenue collected against planned for the previous FY – revenue collection ratio Total 2 points	Municipality collected revenue; • 80% or more of the planned revenue for the previous FY - 2 points • Less than 80% of the planned revenue for the previous FY - 0 point	From the OAG obtain the Draft Final Accounts for the previous FY and calculate the percentage of the planned local revenue collected
	7.	Local revenue administration Total 2 points	If the Municipality has not used more than 20% of OSR to council allowances as stipulated in the law – 2 points	From the OAG obtain the Draft Final Accounts for the previous FY and calculate the percentage of the local revenue spent on council allowances
(iii) Procurement **10 points max**	8.	Quality of Municipal procurement with regard to economy and efficiency. Total 10 points	Percentage of audited procurements by value that was assessed as procured in a satisfactory manner (scale= x 10/100, e.g an Municipality with 30% satisfactory contracts scores 3 points)	From the PPDA annual audits, obtain the % of audited procurements by value that was assessed as procured in a satisfactory manner and compliant with applicable rules and. The PPDA audit includes: i. Completeness of Records ii. Appropriateness of procurement method iii. Adequacy of Bidding Document adopted iv. Adequacy of publication of opportunity v. Adherence to pre-disclosed bid evaluation criteria and evaluation methodology vi. Award of contract to lowest evaluated responsive bidder vii. Adoption of contract consistent with that in the bidding document and awarded bidder viii. Contract Performance
(iv) Accounting	9.	Existence of	9. a. Municipality has the cash book for USMID/LDG (i)	From the Head of Finance, obtain the cash book for USMID/LDG to establish

Performance Measures	No	Indicators of Performance	Scoring Guide[79]	Information Source and Assessment Procedure
and core financial management **15 points max**		books of account that are posted up to-date, reconciled monthly and signed by a Principal Finance Officer Total 4 points	posted up to-date and (ii) is reconciled – 2 points 9. b. (i) The cash book for USMID/LDG is checked and signed by a Principal Finance Officer and (ii) the general ledger account is updated – 2 points	whether it is posted up to-date, reconciled, checked and signed by a Principal Finance Officer From the Head of Finance obtain the general ledger to establish whether it is updated
	10.	Commitment control Total 1 point	Municipality has an updated vote book – 1 point	From the Head of Finance obtain and review the Vote book to establish existence and whether it is updated
	11.	Cash flow management system in place Total 2 points	Municipality has no overdue bills (i.e. utility and procurement bills) of over 2 months - 2 points	From the OAG obtain and review the draft accounts for the previous FY to establish whether there are no accrued expenses
	12.	Systems for internal control – procedures and systems in place for effective internal control Total 5 points	12. a. Municipality has proof of separation of duties in finance management – 1 point	From the Head of Finance, establish whether there is separation of duties (cashier not posting the cash book)
			12. b. Key actions have been taken by the town clerk based on the recommendations of the internal audit reports – 4 points	Check the following internal audit report to see if the issue(s) highlighted in the previous report has/have been addressed.
	13.	Follow-up on audit queries: Total 3 points	Municipality has no audit queries, or all audit quarries have been followed up and rectified by the TC – 3 points	From the Head of Finance obtain and review Audit report responses to establish the extent to which they were followed up.
(v) Execution/ Implementation (budget allocation) **12 points max**	14.	Municipality carries out appropriate certification of works Total 4 points	All projects have been appropriately and timely (interim and final) certified – 4 points	From the Municipal Engineer obtain and review certificates for a sample of projects implemented to establish whether appropriate certification was done ("timely" means not later than one month after the contractor has informed and submitted the documents).
	15.	Projects completed within budget Total 4 points	Cost of projects implemented do not exceed 15% plus or minus of original budget – 4 points	Check a sample (3-4) of projects and ascertain the costs against the original budget. From OBT check the budget and final project costs to establish whether the project was implemented as per contract price
	16.	Evidence that the technical staff carries out	Municipality has evidence that the technical staff (planner, engineer and MEO) conduct technical supervision at least once a quarter – 4 points	From the Planning Unit obtain and review the monitoring reports by the technical staff to establish whether they monitored the projects.

Performance Measures	No	Indicators of Performance	Scoring Guide[79]	Information Source and Assessment Procedure
		effective quarterly monitoring and supervision of project investments in the municipality Total 4 points		
(vi) Monitoring, enhanced accountability and transparency and communication **13 points max**	17.	Timely submission of quarterly reports to MoFPED through OBT Total 3 points	Municipality has submitted the quarterly reports to MoFPED through OBT and project specific reports in the OM (e.g. on beneficiaries)to MoLHUD- 3 points	From the MoFPED establish whether the Municipalities made timely submission of the quarterly reports through OBT
	18.	Organization of Social Audits/Public hearing/discussion forum Total 3 points	Municipality presented to and discussed the IPFs, annual physical progress, fund flows and financial report at MF– 3 points	Interview a sample of people (members of the Municipal Development Forum) to establish whether the municipality presented the annual physical progress and financial report to the public Review minutes from the meetings and decisions taken
	19.	Enhanced Transparency and Accountability Total 7 points	19. a. If not already in place, Municipality established the MF and at least two meetings per annum have taken place – 4 points in year 1, 2 points in year 2 onwards	From Municipal TC obtain MF meeting documents
			19. b. Municipality prepared the biannual IGG report, which will include a list of cases of alleged fraud and corruption and their status including administrative or other action taken/being taken and the report has been presented and discussed at MF– 2 points	Municipality obtain and review the report and MF minutes
			19. c. Municipality has published the results of the performance assessment (score and allocation) at the Municipal council offices and the report has been presented to and discussed at MF – 2 points	Conduct on-site inspection of the announcement at Municipal offices and review MF minutes (***year 2 onwards***)
(vii) Environmental, and Social issues **Total 15 points**	20.	Transparency in environmental and social management Total 5 points	Environmental and Social Management Plans (ESMPs) made publicly available by Municipality and Contractor - 5 points	Verify that ESMPs available in hard copy at the Municipal council offices, and verify that ESMPs for projects are available at Contractor site office.
	21.	Evidence that	All mitigation measures for environmental, land (where	From relevant Municipal staff, check monitoring reports for inclusion of

Performance Measures	No	Indicators of Performance	Scoring Guide[79]	Information Source and Assessment Procedure
		prescribed environmental and social mitigation measures are carried out Total 10 points	necessary) and social issues for previous FY have been effectively executed.	environmental, social, and land issues and sample a few projects to verify mitigation measures carried out.

D: Assessment of Infrastructure Investment Performance[80]

	Performance indicators and scoring guide for the Annual Performance Assessment		
	Performance Indicator	**Scoring Guide**	**Description, Information Source and Assessment Procedure**
1.	Local infrastructure targets as set out in the annual work plans met by municipalities utilizing the Program Funds[81]. *(Max 50 points)*	Physical targets as included in the annual work plan implemented. The % of implementation will be reflected directly in the score multiplied by 50 % (weight of this indicator), i.e. 100 % = 50 points, 70 % = 35 points. The score on this indicator will be between 0-50.[82]	Achievement under this indicator will be measured on the basis of actual delivery of infrastructure against targets laid out in the work plan for the previous year using ULDG funds. The means for verification are: • Measurement of the utilization of the ULGD and ensure timely implementation of projects. Review all planned projects and the degree to which they have been implemented by the end of the FY. • Review annual and quarterly work plans and reports • Check sample projects from the field-work (on-the-spot of implementation rates) • Check the contract implementation progress and contract completions through the review of bills of quantities, see the description below. Implementation rate of each project will be assessed and there will a weighting of these to get a total score. The weight of each project will depend on the budgeted size of the projects. Assessed by the performance assessment teams.
2.	Value for the money in the infrastructure	% of projects implemented with a satisfactory level of value for the money, calibrated in the value for the money assessment tool.	The value for the money of each project (level of satisfactory value for the money) will be assessed and there will a weighting of these to get a total score. The weight of each project will

[80] Physical Progress on Urban LDG Funded Investments – Second Component in the Annual Performance Assessment (Assessment in September 2014 with impact on FY 2015/16)
[81] The verification of this will be through a comparison of the municipal annual work-plans for ULDG utilization with the actual execution rate of the (sub)-projects, funded by the ULDG.
[82] See means of verification below in the notes.

	Performance indicators and scoring guide for the Annual Performance Assessment		
	Performance Indicator	**Scoring Guide**	**Description, Information Source and Assessment Procedure**
	investments funded by the Program[83]	The % of projects with a satisfactory level of value for the money will be reflected in the score multiplied by 0.5 (which is the weight of this indicator), i.e. 80 % satisfactory projects= 40 points, 70 % = 35 points. The score on this indicator will be between 0-50 (max).	depend on the budgeted size of the projects. The input from this will be provided by the value for the money audits to the assessment teams to include in the calibration and in the final calculation of the size of the allocations.
		Total Maximum Score = sum of indicator 1 and 2 = 100 points.	

Note: The "execution rate" will be determined by a review of the bills of quantities, and verified by the **physical progress against planned targets**. Hence, for projects not yet fully completed, e.g. a road project, the team will review the progress on the major items in the *bills of quantities*, both in the regular reports from the engineer, as well as through field trip verification of the actual implementation rate. The % (rate), of completion measured by the bills of quantifies and physical progress against planned annual target will be determined for each project as the status was in the situation at the end of each Fiscal Year. The completion rate (%) of each project, when determined, will then be weighted with the relative contracted size of the projects to get an aggregate result, see the example below.

Weighting Completion Rates

Projects	Contract amount	Implementation rate against planned completion *	Weighted	Result
Project 1	100,000	70%	70,000	
Project 2	500,000	80%	400,000	
Project 3	50,000	90%	45,000	
Total Plan	650,000	100%	515,000	
Weighted implementation rate for this Municipality			**0.79**	**79%**

*Progress of projects monitored through bills of quantities and field verification.

[83] The value for money will be conducted starting in July 2014. In case they are not completed by the time needed to be incorporated in the regular assessment (i.e. September 2014), the firm which will carry out the assessment will revise the assessment results by taking the VFM audit results into account.