Uganda Support to Municipal Infrastructure Development (USMID) Program as a Program-for-Results (PforR) Operation

Technical Assessment Report

November, 2012

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Uganda Support to Municipal Infrastructure Development (USMID) Program – Program-for-Results Technical Assessment.

Executive Summary

The USMID Program is designed as a PforR Program building on the LG Management and Service Delivery (LGMSD) program – a performance base grant (PBG) program which was piloted by the Bank under the first Local Government Development Program (LGDP I) in selected Districts and later scaled nationally to cover the entire LGs system in Uganda with funding from the Bank and other development partners.[1]. Since 2008 Government has fully financed the LGMSD from its budget at the tune of UGX 64 billion (about US$25.6 million) annually. The systems which were piloted under the Bank financed program, namely the LGs performance assessment manual, the program operational manual, the ESMF and the RPF have now been taken over by Government and being used for the implementation of the LGMSD – the government funded program.

However in recent years three challenges have emerged: (i) the importance of the urban sector to the growth and structural transformation of the Ugandan economy, (ii) rapid growth of the Uganda's secondary cities (municipalities), the need to strengthen their institutional systems for local governance and their increasing level of infrastructure demand, which are "lumpy" in nature - most urban authorities identify a funding gap of around 30-100% (see table 3 for infrastructure gaps) of existing funding levels and most typical urban investments have unit costs in the range of UGX100 million - 1billion, compared to an average of about UGX10 million in rural areas[2], and (iii) the inadequate fiscal flows to urban local governments, only about 6%[3], of total LG grants, while accounting for almost 15% of the population with no specific or dedicated infrastructure development grant.

USMID Program intends to respond to these challenges. The scope will be limited to 14 municipal LGs of Uganda and the Program will have two major parts namely (i) Municipal Development Grant (MDG) which, like the government program, will be a performance base grant for financing urban infrastructure investments and (ii) capacity building grant (CBG) which will finance institutional support activities to both the participating 14 municipal LGs and the MoLHUD. The MoLHUD will be responsible for the oversight of Program implementation. In order to achieve the desired Program outcome and address the municipal infrastructure gaps, the Program will finance limited works, goods and services which will result into enhanced capacities at both the participating municipal LGs for urban management and the MoLHUD for urban development.

This Technical Assessment report first gives the country context and Program description. It then reviews the Program's strategic relevance, technical soundness and assesses the Program Expenditure Framework, Results Framework and the M&E system. It also reviews the Program economic rationale, expected impacts, associated Program technical risks and the Program action plan to mitigate those risks.

[1] DANIDA, Irish Aid, Netherlands Government, and Austria Government .

[2] Most urban authorities identify a funding gap of around 30-100% of existing funding levels and most typical urban investments have unit costs in the range of USH 100m-1bn, compared to an average of about USH 10m in rural areas, Steffenson and Ssewankambo, June 2011.

[3] Figs as % of public expenditure

A. INTRODUCTION

1. ***This technical assessment has been prepared for the proposed Uganda Support to Municipal Infrastructure Development (USMID) Program for financing under the Program-for-Results (PforR) operation***, in accordance with Operational Policy/ Bank Procedures (OP/BP 9.00), *Program-for-Results Financing*.

2. ***The technical assessment is carried out within the limited scope of the proposed USMID Program and provides a summary of the main issues which are relevant for the successful implementation of the Program.*** The assessment is based on the ICRs for the first and second Local Government Development Program (LGDP I & II), Bank and Government existing knowledge, as well as a number of diagnostics studies[4] conducted to inform the design of the Program. The Bank team is grateful to DfID for having financed these diagnostic studies and Cities Alliance for financing the review of current LGs performance assessment system – under the government program (the LGMSD)- through trust funds managed by the Bank.

B. TECHNICAL ASSESSMENT

3. ***Context*** – Uganda adopted a liberalization policy, strong macro-economic management and promoted pro-market reforms in the late eighties. Since 1986, the country has experienced high economic growth, poverty decreased from 57 percent (1992/93) to 31 percent (2005/06), and an average annual GDP growth of 8.1 percent over the six years 2003/04–2009/10. It has reduced donor assistance from 52 percent of the annual budget in the early 1990s, to the current level of 32 percent[5]. Donor support is expected to decline further with the recent discovery of oil which may come into commercial production in the next three to five years. Nonetheless, in the short to medium term, Uganda will continue to require external financing to maintain its fiscal policy for growth**.** Domestic revenue mobilization remains low at 13 percent of GDP in FY10/11 and is not expected to increase beyond 15 percent in the medium term. Further external financing will thus be required to sustain its fiscal position.

4. ***Uganda has also modernized its governance and service delivery institutions, one aspect of which has been an ongoing process of decentralization and institutional reform***. Government's decentralization policy - which was first announced in 1992, and subsequently embedded in the Constitution (1995), the 1997 LG Act, and a range of additional policy initiatives, such as the Fiscal Decentralization Strategy of 2002 – has incrementally devolved substantial powers, functions and resources to Local Governments (LGs)[6]. Today, LGs are run as fully fledged elected governments with legislative and executive powers, they have extensive service delivery responsibilities, receive and raise

[4] The following diagnostics have been undertaken to inform the design of the proposed USMID:

i. Diagnostic of the evolution of the IG fiscal and institutional system, with particular reference to urban (Municipal) requirements
ii. Diagnostic of Municipal Financial Management and Procurement Capacity,
iii. Diagnostic of the supporting/oversight institutional framework, systems and capacity building needs for Municipalities,
iv. Assessment of baseline of Municipal Asset Inventories and preparation of Asset Registers.
v. Infrastructure baseline data
vi. Economic analysis of potential sub-projects investments under the project
vii. Review and updating of existing ESMF and RPF(on-going by client),
viii. Review of the existing LGs Performance Assessment Manuals – DLI will be a sub-set of these, and,
ix. Review of existing Government Operations Manual for Uganda LGs Performance Base Grant System (PBGS) – covering fiduciary, safeguards, reporting, and M&E framework.

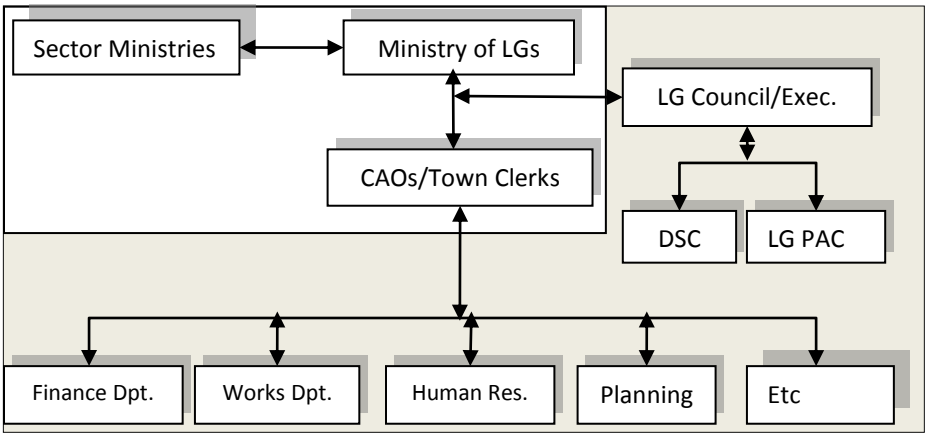
[5] About 21.5% in FY2011/12 if arrears and non - VAT taxes are excluded.

[6] Municipalities are urban Local Governments.

significant fiscal resources, hire and fire staff[7] and prepare and execute five year development plans and annual budgets.

5. ***As a consequent of the reforms, Uganda decentralization has had the following impacts on the LGs institutional structure which is characterized by three features*** – (i) elected councilors (the legislative arm – can make ordinances and bye-laws; approves LGs plans and appropriate annual budget), (ii) civil service (headed by the Chief Administrative Officer (CAO)/Town Clerks (TC)[8] – implementation of lawful council decision); (iii) Statutory bodies – (the District Service Commission (DSC) and the LG Public Accounts Committee (LGPAC) – responsible for LG human resource matters and follow-up on audit queries respectively). The Ministry of LG is responsible for coordinating all issues related to LGs while line ministries retained the roles for setting national policies and standards, inspecting, monitoring, technical advice, support supervision and training LGs. The Ministry of Lands, Housing and Urban Development (MoLHUD) is responsible for urban policy and the development of the urban sector. The Chart 1 below gives a schematic intergovernmental system and relationship.

Chart 1 – Uganda intergovernmental relations



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

6. ***As in most countries, decentralization implementation in Uganda has not been linear***: In 2005, the Constitution was amended to amongst other (i) shift the appointment powers for LG Chief Administrative Officers/Town Clerks and their Deputies from the LG Service Commissions to the Public Service Commission, and (ii) make Kampala, as the capital city of the country, an Authority under central government administration and not a LG. In 2010, in line with the Constitution provision, the Kampala Capital City Act was passed and the city ceased to be a LG by March 1, 2011 and became Kampala Capital City Authority. It is noteworthy, too, that given a combination of budgetary constraints and a proliferation of the number of LGs (which grew in number from 56 in 2000 to 111 by 2010), the funding of local government administrations remains, in aggregate, at only 55 percent of the desired total.

7. ***As part of overall fiscal decentralization policy, from 2000 – 2003, the World Bank supported GoU to pilot Performance Base Grant (PBG) program known as the Local Government Development program (LGDP)***. The core element of the program was the local development grant (LDG) and capacity building grant (CBG). The LGDP provided discretionary LDG/CBG to rural and urban LGs at per capita of US$1 and US$ 2 respectively. Being a PBG, LGs were required to meet certain minimum conditions consistent with the legal and statutory provisions governing their operations. Every year the performances

[7] 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.
[8] The CAO is for District (rural LG) while the TC is for Urban LG

of LGs were assessed and those which performed above average would be rewarded with an additional 20% in their grant allocation in the following year, while those which performed poorly would be sanctioned and lose 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 (see LGs chart 2). From 2008 to date the program became known as the LG Management and Services Delivery (LGMSD) program and is being fully funded by GoU from its budget. Over the four years GoU has been providing UGX64 billion annually through the LGMSD to LGs. The government program – the LGMSD - is currently accounting for about 5% of total government transfers to LGs (See table 1 below). The Constitution provides for three types of grants to be transferred from central government to LGs, namely unconditional, conditional and equalization grants. Unconditional grant is the minimum grant that is paid to LGs to run the decentralized services and is formula driven[9]. Most of the unconditional grant resources are used by LGs for meeting their recurrent costs such as wages and salaries and general operating cost of the LGs. Conditional grant consist of moneys that are given to LGs to finance programs agreed upon between the Government and LGs and is expended for the purposes it is made in accordance with the conditions agreed upon. Equalization grant is the money transferred to LGs as subsidies or special provisions for least developed LGs. It is to be based on the degree to which a LG is lagging behind the national average standard for the particular service.

Table 1 – Composition of grants (Discretionary, unconditional and conditional) – trends from central government to LGs (UGX '000).

Composition of grants – Trends	2005/06	2006/07	2007/08	2008/09	2009/10	.2010/11
Total Grants	869,081,603	982,181,185	1,060,917,166	1,239,451,137	1,338,918,174	1,490,009,157
Development Discretional (LDG)	64,309,600	64,309,600	64,309,600	64,309,600	63,309,600	64,309,600
LG Development program (LGDP) in % of total	**7**	**7**	**6**	**5**	**5**	**4**
Unconditional Grants	97,016,351	84,467,821	122,603,402	123,255,392	129,429,694	156,672,966
Unconditional in % of total grants (%)	11	9	12	10	10	11
Conditional grants	733,785,339	849,219,204	922,819,605	1,013,513,022	1,161,054,321	1,284,908,032
Condition in % of total grants (%)	84	86	87	82	87	86
Total grants to urban LGs	55,964,000	60,776,000	63,921,000	71,045,000	79,093,000	96,338,000
Urban grants in % of total grants to LGs	6	6	6	6	6	6

8. ***The focus of the government program – the LGMSD - was to leverage LG institutional performance through providing incentive-based development grants across all LGs***; the program had a fairly low per capita funding levels (broad and shallow – US$1 for rural LGs and US$ 2 for urban LGs (FY2003/4)). The main achievements to date of the program is that it has gone from 90% donor financed to 100% GoU financed (nominal and real numbers). Although its size and proportions relative to overall fiscal flows to LGs has remained modest, the importance of the grant is that it is being used to leverage LGs institutional performance improvements.

9. ***Issues/challenges surrounding the LGMSD*** - In recent years, in the context of ongoing process of incremental fiscal and institutional decentralization, three factors – or challenges – of particular importance have emerged namely: (i) the urban sector have become increasingly central to the growth and structural transformation of the Ugandan economy. While the total urbanization level in Uganda is only 12%, the urbanization rate is over 5% per annum. Urban centers account for 72% of manufacturing output and over 55% of GDP. Yet, urban areas remain chronically underserved and poorly managed, infrastructure backlogs are severe, and more than 60% of urban dwellers are accommodated in informal settlements; (ii) within this broad trend, Uganda's secondary cities (municipalities) have begun to grow

[9] $Y_1=Y_0 + bY_0 + X_1$ where Y_0, b, Y_1, and X_1 is minimum unconditional grant in preceding fiscal year, percentage change in general price level in the preceding fiscal year, minimum unconditional grant for the current fiscal year, and the net change in the budgeted cost of running added/subtracted services in the current year.

increasingly rapidly[10] and have developed distinctive needs in two key areas: (a) to strengthen the institutional systems of local governance and administration in order to properly plan and manage the increasingly complex human settlements which have emerged in these areas, and (b) development funding modalities to cater for increasing level of infrastructure demand, and its "lumpy" nature;[11], and (iii) while the overall level of fiscal flows to local governments has remained fairly robust,[12] urban local governments have not done well, attracting only about 6% of total LG grants while accounting for almost 15% of the population with no specific or dedicated infrastructure development grant.

I. Program Description

10. ***The government program*** **-** The current Government program – the LGMSD – has two elements: (i) the local development grant (LDG) which is for LGs investments and is performance base,; and (ii) the capacity building grant (CBG) for capacity building activities. The program covers the entire spectrum of the 1445 LGs in Uganda LGs (111 Districts LGs, 22 municipal LGs, 165 town council LGs, and 1147 sub-counties LGs). The horizontal allocation 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$.57 per capita (FY2009/10) and the municipal LGs retain 50% while the remaining 50% is shared between its divisions based on population (urban LG horizontal allocation). The Ministry of Local Government (MoLG) is responsible for the oversight of this program.

11. ***Under the government program, municipal LGs are eligible to fund all activities which they are mandated to provide under the law - Second Schedule of the LGs Act, (CAP243).*** However because of the small amount (US$0.84 per capita for rural LGs and US$1.57 per capita for urban LGs – FY2009/10), LGs have generally been spending the LDG for provision of services which have low unit costs. Table 2 below provides a summary of the nature and unit cots under the government program.

Table 2: Number of subprojects funded under government PBG program

	FY2008/09		FY2009/10	
Sector	**No of Projects**	**Av. Unit cost ($)**	**No of Projects**	**Av. Unit cost ($)**
Education	808.00	6,215.00	960.00	4,908.00
Health	1,303.00	3,958.00	1,098.00	4,390.00
Roads	802.00	6,536.00	843.00	7,893.00
Water	293.00	3,881.00	288.00	2,378.00
Production and Marketing	320.00	6,348.00	371.00	4,353.00
Other works	119.00	2,734.00	62.00	2,777.00
Natural Resources	56.00	744.00	32.00	1,631.00
Finance and Planning	14.00	1,471.00	10.00	2,042.00
Management/Support Services	202.00	2,097.00	298.00	2,680.00
Grand Total/Av. Unit cost	3,917.00	4,952.91	3,962.00	4,929.06

[10] Kampala City accounts for 35% of the urban population – Inclusive Growth Policy Note 4 – Planning for Uganda's Urbanization.

Urbanization rates in Uganda are higher than official estimates if one considers an alternate measure – the Agglomeration Index, which considers density, urban size and proximity to the urban center. The agglomeration index does not use statistical definitions of _urban areas' – it instead uses three indicators to estimate the level of urban concentration in a country or region – population density, the population size of large urban centers, and travel time to the nearest such urban center. It is the ratio of the population in the agglomeration area to the total population of the country or region of interest. **Using this index, Uganda's urbanization moves up from 13 percent to 25 percent using proximity to cities of 50,000 people The AI is highest in the central region (54 percent in 2010) and growing rapidly in the Eastern region (11.5 percent points).**

[11] Most urban authorities identify a funding gap of around 30-100% of existing funding levels and most typical urban investments have unit costs in the range of USH 100m-1bn, compared to an average of about USH 10m in rural areas, Steffenson and Ssewankambo, June 2011.

[12] Figs as % of public expenditure

Source: MTR report of LGMSD

12. ***The experiences from the Government program has been that performance base grants (PBGs)*** (i) are the best way of leveraging performance at the margin – disproportional benefit relative to total cost; and (ii) make the whole intergovernmental system more performance oriented where it matters i.e. where increasing proportion of population lives and GDP is produced. In addition, through the participatory bottom-up planning process, LGs investments choices have been consistent with the citizens' needs. This has been made possible partly because Uganda has a comprehensive institutional, legal and policy framework to improve the governance environment and address the problem of corruption in the country generally and at LGs specifically. The National Anti-Corruption Policy drives the implementation of good governance and anti-corruption policies with the Inter Agency Forum providing the coordination mechanism for accountability institutions (See annex 4 for details).

13. ***The current inadequate funding for urban LGs of only US$1.57 per capita for urban infrastructure development*** will be addressed under USMID Program by providing the 14 participating municipal LGs with an enhanced municipal development grant (MDG) to enhance their financial resources for provision of core municipal services which currently do not have conditional grants under the existing IGFT system. Simulations using the current national LDG allocation formula for districts with growth in annual grants at 10% to adjust for inflation and population growth show an average per capita allocation per year to each of the municipalities under USMID will increase from the current US$1.57 per capita to US$ 24. The detailed indicative planning figures (IPFs) for each of the municipalities under USMID Program are presented in annex 2.

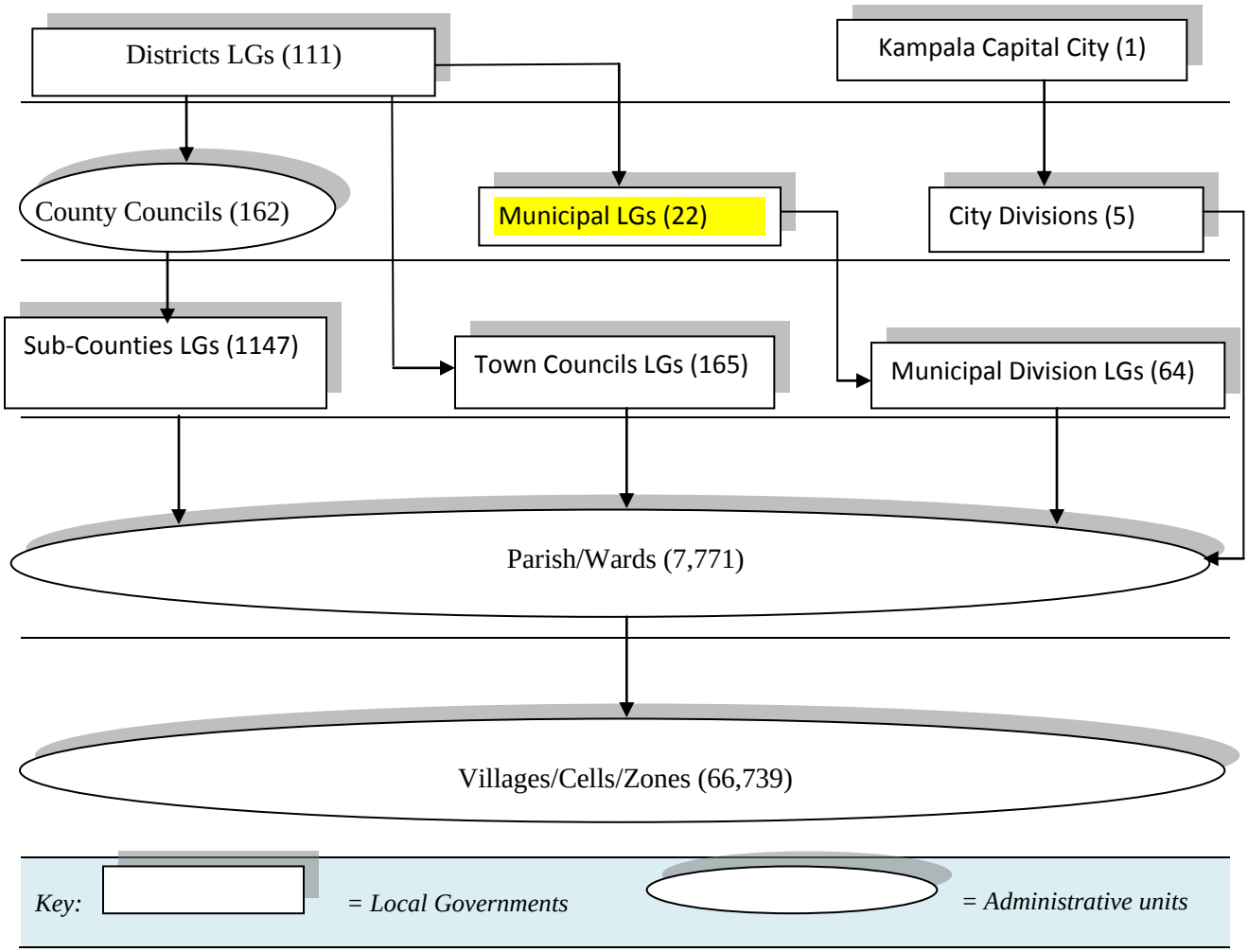
14. ***The boundary of USMID as a PforR Program*** **–** the Bank PforR Program responds to the municipal LGs challenges in the context of GoU's broader program – the LGMSD - which is currently covering all the 1445 LGs by addressing the need for investments and institutional strengthening of the participating municipal LGs by enhancing the government program. The Program coverage will be limited to 14 municipal LGs namely: Arua, Gulu, Lira (Northern Uganda); Soroti, Moroto, Mbale, Jinja (Eastern Uganda); Entebbe, Masaka (Central); Mbarara, Kabale, Fort Portal and Hoima (Western Uganda).

15. ***The Program will support and complement the Government program and will finance two cores areas*** namely (i) municipal core urban infrastructure through the enhanced municipal development grant (MDG) and (ii) capacity building activities to strengthen the institutional capacities of both the MoLHUD and the 14 municipal LGs in urban development and management. The MoLHUD will take over the oversight responsibility for the implementation of the Program since it is its legal mandate to oversee urban development in the country. The USMID Program will assist the municipal LGs to improve on their urban infrastructure and enhance their capacities in fiduciary (financial management and procurement), own source revenue (OSR) generation and Program implementation (project planning and supervision including safeguards issues).

16. ***Although there are currently 22 municipal LGs, USMID Program will initially begin with 14 municipalities.*** This is because 13 of the 14 municipalities have been in existence since 1994 and are relatively mature in terms of capacity to handle the increased investments under the Program. Hoima, which became a Municipality in July 2011, was included as the fourteen municipal LG because of its potential of becoming an oil city due to the recent discovery of oil deposit in the Western (Albertine Graben) region. In addition, the 14 municipalities represent regional balance: Arua, Gulu, Lira (Northern Uganda); Soroti, Moroto, Mbale, Jinja (Eastern Uganda); Entebbe, Masaka (Central); Mbarara, Kabale, Fort Portal and Hoima (Western Uganda); they are growing faster than Kampala City, which is the only capital city of the country, and the current Government program (at only US$1.57 per capita) does not provide them with adequate funds to meet their investment needs. The remaining 8 newly created

municipalities may join the Program when more funding becomes available and they meet the Program access requirement. Chart 2 below gives a schematic presentation of the classification of Uganda LGs and the coverage of the USMID Program within the context of the government program – the LGMSD.

Chart 2: Uganda Government program scope and USMID Program in terms of coverage.



17. ***The Program development objective of the proposed Uganda Support to Municipal Infrastructure Development (USMID) Program*** is to enhance the institutional capacity of selected municipal[13] LGs to improve urban service delivery.

18. ***Program's expected outcomes are*** (i) strengthened capacities of participating municipalities in fiduciary, safeguards, urban planning and own source revenue (OSR) generation, and (ii) increase in total planned infrastructure completed by participating municipal LGs using the Program funds. The results framework is presented in annex 1.

19. ***The output indicators*** – The program will have two key results areas: (i) municipal LGs with enhanced institutional performance and (ii) improved urban service delivery. The Program results will be

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

verified annually by an independent contracted team using the assessment tool in annex 3. The performance indicators, which are based on the LGMSD, have been refined and improved in consultation with the MoLHUD and the participating municipal LGs. The municipal LGs institutional improvement will be measured against the following seven thematic areas:

i. Linkage between Municipal Physical Plan, Five year Development Plan and the Annual Budget
ii. Own Source Revenue (OSR) mobilization
iii. Procurement
iv. Accounting and Financial Managements
v. Program execution/implementation (budget execution)
vi. Monitoring, Enhanced Accountability and Transparency and Communication
vii. Environmental and Social Sustainability

Similarly the delivery of the various infrastructures by the municipal LGs to be funded under the Program for improved urban service delivery will include:

i. Roads, street lights and drainage rehabilitated
ii. Garbage collected and disposed
iii. Bus parks, markets, parking lots etc established

20. ***The Program will be implemented over five (5) years (July 2013 – June 2018) at a cost of US$160 million of which US$150 million will be from IDA and US$10 million from GoU.*** The Program will enhance the institutional capacity of selected Municipal in the above seven thematic areas and will also provide enhanced MDG for provision of core urban services which are currently unfunded. In addition, the Program will provide institutional support to the MoLHUD for its oversight role of the Program and achievement of Program results.

21. ***Choice and justification of instrument - the Program will be financed through the Bank's PforR instrument***. PforR instrument is preferred to SIL because it (i) is building on the existing government program – the LGMSD - which is covering all the 1445 LGs in the country (ii) has been designed with an in-built incentive structure to allow for rewards of good performance and sanctions mediocre/poor performance, (iii) is focusing on institutional strengthening of the participating municipal LGs by providing incentives for institutional strengthening for sustainability, (iv) provides experiential learning to better inform policy dialogue for intergovernmental fiscal transfer (IGFT) architecture for Uganda urban LGs since current government program is inappropriate (only US$1.57 per capita compared with the Program US$24 per capita) given the lumpy nature of urban infrastructure, and (v) the current SIL disbursement requirements for SOEs by end users being not appropriate because of the many end users under the Program.

22. ***The enhanced Municipal Development Grant (MDG)*** **–** Under the Program the per capita allocation for each municipal LG for investment will increase from the current US$1.57 to US$16.51 in the first year and to US$28.39 by the fifth year of the Program. Municipal LGs will use this money for financing their core infrastructure investments. However, they will access this enhanced MDG under the Program based on them meeting the minimum access condition and will also be rewarded or sanctioned based on their performances as assessed by an independent firm every year using the assessment tool presented in annex 3. Since the Program is intended to leverage institutional strengthening of the municipal LGs for sustainable provision of urban services, the assessment tool is focusing on measuring municipal capacity improvements in fiduciary, safeguards, project implementation, and revenue generation. The current government assessment tool has been revised to take into consideration the

increase in the per capita allocation under the Program and the revised tool will be used as the single tool for both the government program as well as the Bank Program for the municipal development grant (MDG) window.

23. ***Activities to be financed under the enhanced MDG window -*** from table 2 above, it is clear that most of the sub-projects funded under the government program are micro in nature and the unit cost are not adequate to finance the types of urban infrastructure intended to be funded under the USMID Program - most typical urban investments have unit costs in the range of UGX100 million - 1billion, compared to an average of about UGX10 million in rural areas. In order to achieve the intended Program impact, the activities to be financed out of the enhanced MDG window will be limited to a few sub-sets of infrastructure works which are not currently benefiting from any form of transfers from central government, consistent with municipal service delivery mandate[14] as provided for under the LGs Act (CAP243) – Second Schedule. Provision of services such as education, health care, agriculture, recurrent expenditures and wages and salaries have been excluded from benefiting under the Program because they are currently being financed under sector conditional (tied) grants and they already account for over 85% of LGs funding. The table 3 below gives samples of the current gaps for some of the services which municipal LGs are mandated to provide under the law but are unable because of inadequate financing.

Table 3: Sample municipal infrastructure gaps (total) and average unit cost

No	Infrastructure	Total needed	Total available	Gap	Unit cost (UGX mn)	% Gap
1	Bitumen roads (Kms)	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.

24. ***The Municipalities will prepare the various sub-projects to be funded under the Program in a participatory manner, with involvement of the divisions as well as the Municipal Development Forum.*** Since municipalities have great funding gaps in core infrastructure areas; it is the intention that the enhanced MDG will be used by municipal LGs to finance a few larger tangible sub-projects per fiscal year, to ensure that funds are not fragmented in a 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, and approved by council. This means the sub-project has been demanded by the community/CSOs/MDF, 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 to be funded under the Program will be screened using the screening criterion which are presented in the box below with consultations and support from the relevant sector ministries with respect to design standards. Program execution will be contracted out through open competitive bidding to competent firms in line with government policy.

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

Box 1. ***S*****creening 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;[15]
- 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.

25. ***Risk associated with the use of the enhanced MDG -*** Although there are no major issues associated with the use of the LDG under the government program – because the investment sizes are small – there are design and supervision risks associated with the use of the enhanced MDG under the Program given the high per capita investment. The Program will significantly increase the workload of the 14 participating municipal LGs (per capita increase from US$1.57 to US$16.51 in first year to US$28.39 by fifth year) with respect to infrastructure investments and associated fraud and corruption risks during execution. Fraud and Corruption risks related to the execution stage have primarily to do with potential failure to respect technical design standards. To mitigate these risks, municipal LGs will be allowed to use part of the MDG under the Program to procure consultancy services for preparation of engineering designs, preparation of bidding documents, and supervision. Investment servicing cost will therefore be permitted under the MDG window of the Program so as to address the technical capacity constraints at municipal level. In addition relevant sector ministries will provide sector standards, including technical back-up support to be followed by municipal LGs.

26. The activities to be funded under the enhanced MDG of the Program are presented in Table 4 below. These activities are within the mandates of the municipal LGs under the LGs Act CAP243 – Second Schedule, linked to the Program intermediate results and were discussed and agreed upon with the 14 participating municipalities and MoLHUD.

[15] See NPA: National Guidelines for Development Planning in Local Governments, Draft March 2011.

Table 4: Works, goods and consultancy services eligible for funding under the MDG element of the Program – US$ 126 million:

Objective - enhance the financial resources of the participating municipalities for improving development of municipal infrastructure	
Urban Roads and associated infrastructure (rehabilitation and construction) *Tarmac roads* *Gravel roads* *Road side drains* *Culverts,* *Paving – for pedestrian walkway* *Street lights* *Street furniture (seating platforms at bus stops)* *Street signage* ***Urban solid and liquid waste management*** *Land fill rehabilitation* *Composting plant* *Liquid/solid waste equipment* *Public sanitation points* *Waste collection points*	***Water and sewerage extension***[16]***; to peri-urban areas*** ***Urban Local Economic Infrastructure*** *Markets* *Slaughter houses* ***Urban Transport*** *Bus parks/stops* *Taxi parks* *Lorry parks* *Public parks* ***Urban beatification*** *Public parks* *Play grounds* *Urban landscaping* *Planting of tree on roads verges* ***Investment servicing cost*** *Consultants design and preparation of bidding documents* *Consultants supervision of works*

27. ***The Program will finance capacity building activities at both the MoLHUD and the 14 municipal LGs.*** The capacity building activities to be funded under the Program will be aligned to the Capacity Building Grant (CBG) under the government program. The capacity building activities under the Program will respond to two capacity building needs – part one will respond to the demand side of the capacity building needs of the municipal LGs consistent with the capacity gaps as will be revealed by the annual assessments under the Program. The second part of the capacity building activities will respond to the needs of the MoLHUD to (i) perform its overarching mandate for urban development and (ii) allow it provide supply driven institutional support to the municipalities for activities which can be pooled together for economies of scale and cuts across all municipalities including those activities associated with overall Program implementation. The capacity building activities at the municipal LGs level will specifically support activities related to strengthening their capacities in: (i) urban planning; (ii) enhancement of municipal finances; (iii) improvement in the management of municipal services, and (iv) retooling. Since these activities are intended to strengthen the capacity of the participating municipal LGs in urban management and provision of basic urban services for the achievement of the Program results, they will be implemented within first three years of the Program. The grant will be shared equally amongst the participating municipalities since they have the same structure and similar capacity needs.

28. ***The overarching capacity building activities to the MoLHUD –*** the Program will support the MoLHUD in: (i) systems development for urban management and development; (ii) tooling; and (iii) training of the MoLHUD. Like the capacity building activities for the municipal LGs, the capacity building activities to be funded under the Program for the MoLHUD will also be implemented within the first three years of the Program. In addition to the general institutional support to the MoLHUD for its overarching mandate, the Program will also provide targeted support to the MoLHUD for Program implementation support to ensure the achievement of Program results. This is because the MoLHUD will take over the Program oversight as the ministry responsible for urban development. The activities to be

[16] 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.

financed under the Program implementation support under the MoLHUD will be those associated with the overall coordination, implementation, monitoring and evaluation of the Program. This will encompass supply capacity building support to municipalities, reporting, fiduciary and safeguards; outcome and impact evaluation (VFM audits to inform MTR, and ICR); program audits, qualitative enquiries to inform government policies, program implementation support team and the design of the subsequent phase of the Program for national scale-up. The capacity building activities to be funded under the Program are presented in table 5 below and are linked to the achievements of the Program results. They were also discussed and agreed upon by the participating municipalities and the MoLHUD during the Program design.

Table 5: Program CB activities at Municipalities (US$ 10 million) and MoLHUD (US$ 12 million)

Municipal CBG activities - Strengthen the capacity of participating fourteen municipal LGs for urban management and investment and operations and maintenance (O&M) of urban infrastructure services
1. ***Urban planning through development and linking of the Municipal Development Strategy, five year Municipal Development Plan, and Budget.*** 2. ***Enhancement of municipal OSR and financial management*** 3. ***Improvement of municipal LGs capacities in fiduciary (procurement and financial), technical (design, implementation, and supervisions of projects) and environmental and social safeguards.*** 4. ***Targeted municipal capacity building support relevant to achievement of Program results and tooling***
MoLHUD CBG activities - Strengthen the capacity of the MoLHUD to better execute its overarching mandate with regard to urban development and management and Program implementation support specifically
A. ***Systems development for urban development and management (development of laws, regulations and standards)*** B. ***Tooling of the MoLHUD[17]*** C. ***Program Implementation Support to ensure achievement of Program results***

29. ***Disbursement Link Indicators (DLIs) -*** Disbursements under the program will be based on the following disbursement link indicators:

i. Municipal LGs meeting Program minimum requirements to access funds
ii. Municipal institutional improvements (in the seven thematic areas)over the Program period
iii. Urban infrastructure delivery under Program by municipalities
iv. Successful implementation of capacity building activities under the Program by municipal LGs
v. Successful implementation of capacity building activities under the Program by MoLHUD
vi. Town Clerks substantive in post in all municipal LGs
vii. Municipalities with functional IFMIS system in place

Collectively, the first 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. The last three DLIs (DLI 5, 6 and 7) are intended to leverage the role to be played by the central government agencies in strengthening the public sector management capacity of municipal LGs for urban development generally, but specifically for the Program implementation.

[17] to improve the working environment of the ministry and to facilitate it to provide timely monitoring and technical back-up support to municipalities

These DLIs were chosen because for the Program to achieve the intended results first and foremost the municipal LGs must have a set of minimum requirement (such as core staff in place) to allow for capacity improvement over the Program period and delivery of the need infrastructure t. Capacity improvements of the participating municipal LGs will be supported under the Program. The incentive and sanction structure set in place by linking disbursement to improved capacities in the Program results areas will provide strong incentives to the participating municipalities to become more efficient, effective and transparent. Since performance improvements will be measured beginning the second year of the Program implementation, the first year disbursement will only be made to those participating municipal LGs which meet the minimum requirement to access funding under the Program. This minimum requirement will compel GoU to ensure that all participating municipal LGs do have at least: (i) functional capacity for Municipal Physical, Development Planning and Budgeting, (ii) having in place the core staff [18]responsible for designing and supervision of the implementation of municipal infrastructure projects, (iii) functional capacity in finance management, and internal audit, (iv) functional capacity in procurement, and (v) signed Participatory Agreement between MoLHUD and the participating municipal LGs.

The verification of Program results to trigger disbursement is core to the Program success. The MoLHUD will recruit an independent firm to verify the Program results on a timely manner to provide the basis for disbursements of funds under the Program to the participating municipal LGs. DLI 5 is intended to compel the MoLHUD to provide the necessary technical back-up support to the participating municipal LGs including the implementation of the Program action plan for achievement of Program results.

30. The details of the DLIs matrix, total disbursement amount for each DLI and the corresponding percentage to total disbursement (Program cost) are presented in the table 6 below.

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

Table 6 – Disbursement Link Indicators (DLIs) matrix for USMID (US$'000)

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[19] 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
DLI 4 Municipal LGs have	10	6.25%	N/A	N/A	Capacity building	Capacity building	60%	70%	N/A

[19] 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
built local capacity by utilizing Program funds					plan adopted	plan adopted[20]			
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	60%	70%	80%	90%	100%
Allocated amount				0	4	2	2	2	2
DLI 6 LGs with town clerks in place[21]	6	3.75%		100%	100%	100%	100%	100%	100%
Allocated amount				1	1	1	1	1	1
DLI 7 Municipalities with functional IFMIS system in place	6	3.75%	2	2	5	7			
			0	0	2.50	3.50			
Total financing Allocated	**160**	**100%**		**0**	**28.60**	**26.60**	**35.77**	**35.77**	**33.26**

31. ***Verification protocol*** – The above DLI will be verified by an independent firm which will be hired to conduct annual assessments of the performances of municipalities using the verification protocol

[20]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.

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

instrument (minimum conditions and performance assessment tool) presented in annex 3. In addition, the verification will be reinforced by other technical assessment reports such as value for money audit and regular WB supervision missions. The verification tool is presented in table 7 below.

Table 7: Summary Protocol for Verifying Achievement of DLIs

#	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	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)

#	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
		the score of all LGs has been determined;				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 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)

#	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
						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 Program funds	Achievement of the DLI will be determined on the basis of execution of activities specified in the LG capacity building plan	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. 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. 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. 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.

#	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
						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 IFMIS system in place	Each Program LG has IFMIS 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 IFMIS system in each Program LG has been installed and fully functional.

II. Description and Assessment of Program Strategic Relevance and Technical Soundness

a. *Strategic Relevance*

32. ***While the current level of urbanization[22] 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 is putting pressure on demand for urban services as well as the impacts on the environment. In addition, the urban sector is important for the structural transformation of the Ugandan economy. Urban areas are centers for major economic activities (industry, services, and commerce). Already it accounts for about 72% of manufacturing output and over 55% of the national GDP. It has high per capita consumption (average US$1,533 per annum with annual growth rate of about 4.9%) compared to national rural average (only US$344 per annum with annual growth of 3%). It is therefore important that it is managed efficiently and effectively to contribute to growth. A failure to address the needs and requirements of such locations will lead to the creation of critical negative externalities for the country's economy as a whole. Efficiency of Uganda's spatial transformation will determine the pace and nature of the overall structural transformation of the economy. The urban sector is therefore key for the structural transformation of Uganda into middle income country.

33. ***Uganda faces a serious demographic challenge.*** It has a large population base of 30 million with 51 percent of the population under the age of 18 years, with high population growth rate (3.2 percent per year)[23] making it one of fastest growing countries in Africa. This has serious implications in terms of demand for jobs, land, housing, water, health, education, jobs, and municipal services as well as expected impacts on the environment.

34. ***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, i.e. conditional grants, unconditional grants, equalization transfers, the share of conditional grants as percentage of total IGFT has increased from 66% in FY95/06 to about 95% now. LGs have therefore lost discretion and have less incentive to perform. In FY2008/09 urban LGs received only 3.4% of the UGX1.2 trillion transferred to LGs. Under the current national local development grant (LDG) system piloted by the World Bank and now fully being funded by Government, municipalities are receiving only US$2 per capita for capital investment. The current trend of IGFT architecture is therefore not consistent with the decentralization policy adopted by government.

35. ***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[24]***, 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 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 LGDP I and II did for the LDG which is now mainstreamed in the national budget and fully being funded by GoU.

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[22] 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).

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

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

36. ***Investments in urban infrastructure and services have not therefore kept pace with the growing demographic and economic importance of urban centers, resulting in the growth of unplanned settlements, urban poverty, inadequate basic urban services, and deteriorating urban environment***. 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[25] (see table 3 for the sampled infrastructure gaps). It is estimated that slums and informal settlements provide accommodation to more that 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 on average a municipal development grant (MDG) of US$16.88 per capita in year one rising to US$29.39 in year five of the Program.

37. ***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.*** *T*he 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 identified across all 14 municipalities falls into three broad categories[26], 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 will contribute to addressing some of these gaps through the minimum conditions for the municipalities to access funding under the Program both for investments and institutional strengthening. The Program will also finance capacity building activities for the MoLHUD to address its capacity gap and will technical assistance, training and tooling.

38. ***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 MoLHUD and the municipal LGs for urban management and improved urban services.*** The Program has an inbuilt poverty indicator so as to start addressing urban poverty through the provision of employment opportunities during civil works activities in the municipal LGs. In addition, there is no capital market where LGs could go for long term borrowing to finance infrastructure development.

39. ***The proposed Program will contribute to the National Development Plan (NDP)[27] 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.

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

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

[27] 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.

40. ***The Program will specifically contribute to the achievement of CAS (FY2011-2015) 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.

b. *Program Technical Soundness*

41. ***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 inform the economic analysis of the investments under the program[28]***. The Bank, in addition to this Technical Assessment Report, has also conducted the Integrated Fiduciary Assessment (IFA) and the Environmental and Social System Assessment (ESSA) of the Program.

42. ***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 implemented using the Program fund both at the municipal LGs and MoLHUD will results into improved quality of core municipal services and also strengthen the capacities of both the MoLHUD and the participating municipal LGs. The relevant sector ministries will play their roles in providing the municipalities with the necessary technical standards and guidance. Through the existing inter-ministerial program technical committee (PTC) 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 Program 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. A number of consultations have been conducted between the participating municipal LGs, central government ministries, departments and agencies (MDAs) to agree on eligible activities to be funded both under the Program both for municipal investments as well as capacity building.

43. ***Stakeholders incentives to contribute to Program success –*** the following design principles which have been embedded in the Program design provides the right incentives for the various stakeholders (MoLHUD, participating municipal LGs, and non-state actors) to contribute to the Program success. The Program design principles are:

- *Use of government system* to strengthen capacity at both the MoLHUD and the participating municipal LGs for urban development and management.
- *Municipal LGs as the Program implementing agency* - The municipal LGs will be responsible for the implementation of the Program activities at their level. The Program therefore provides an opportunity for the participating municipal LGs to improve their capacity – thus contributing to the achievement of the Program objective.
- *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

[28] Infrastructure baseline data

utilization of the fund will be based on them meeting and maintaining the minimum condition throughout the Program period and their relative performance outcomes which are linked to the Program results. The minimum condition and performance assessment system is the core of the Program design since it will be the main driver for municipal capacity building and is directly linked to the Program results and disbursements. The assessment tool which will be reviewed and upgraded during Program implementation – if necessary – is provided in annex 3. By the end of the Program some municipal LGs may get less or more than their IPFs depending on the level of commitment and implementation track record. The municipal annual performance assessment has therefore adequate inbuilt sanctions and incentives mechanisms.

- *All participating municipal LGs to benefit from municipal capacity building* – to prepare them to receive the enhanced MDG under the Program during the next assessment and ensure improved capacity for all municipal LGs by end of Program period.
- *Limited investment activities for funding at municipal LG level under the Program* – to achieve the intended investment impact creation and avoid proliferation of investment activities under the Program.

44. ***The ensure sustainability of the investment to be created under the Program, including existing stock, each municipal LG 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.

45. ***The current LG assessment system has been improved to enhance municipal capacity in fiduciary, safeguard and project implementation and operations and maintenance.*** The minimum condition, which must be achieved and maintained by participating municipal LGs throughout the Program period, is the requirement for municipal LGs to have in place core staff – Town Clerk, Municipal Engineer, Treasurer, Physical/Urban Planner, Procurement Officer, Environmental Officer, and Community Development Officer. In addition the municipal LG should appoint a dedicated staff who will be responsible for governance and anti-corruption. These core staff members are critical for the implementation of the Program and critical for the achievements of the Program objective. No municipal LGs will receive the enhanced MDG under the Program unless it has these core staff in place. In addition to the minimum condition, the performance requirements of the participant municipalities have been enhanced in the areas of fiduciary (procurement and financial management), safeguards (environmental and social), own source revenue (OSR) mobilization and technical (project design, implementation and supervisions). These are to ensure that the Program objectives are realized. The enhanced minimum condition and performance assessment tool is provided in annex 3 with the last column showing which indicators have been enhanced. In addition, the municipal national assessment will be contracted out to an independent private firm[29] that is competent, credible and neutral. 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 is adequate to contribute to the Program success.

46. ***The Technical Assessment has therefore evaluated the technical soundness of the Program and confirms that it will achieve 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

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

current on-going government program under the LGMSD. In addition, the design of the Program has relied on the knowledge and experiences of internal and external experts.

C. *Institutional Arrangements*

47. ***The institutional arrangement for program implementation will be as per the Government of Uganda structure and consistent with existing legal provisions***. At the central level, the Ministry of Lands Housing and Urban Development (MoLHUD), Ministry of Local Governments (MoLG), Ministry of Finance, Planning and Economic Development (MoFPED) and the Office of the Auditor General (OAG) shall ensure that program resources are budgeted for and disbursed within the national Medium Term Expenditure Framework (MTEF), and that program accounts are audited as per statutory requirements.

48. ***The MoLHUD will be the coordinating ministry and shall have the overall responsibility for implementation oversight and accounting for USMID funds to the National Parliament***. At the municipal level - the Town Clerks, as Municipal Accounting Officers, will be responsible for overall USMID Program implementation and management, with support from the municipal technical planning committee (heads of departments).

49. ***The MoLHUD is a new Ministry with inadequate capacity to coordinate urban development and management***. It will be supported by focused technical program support team (PST)[30] attached to the relevant departments of the Ministry to ensure that USMID is implemented as per IDA/GoU protocol agreement.

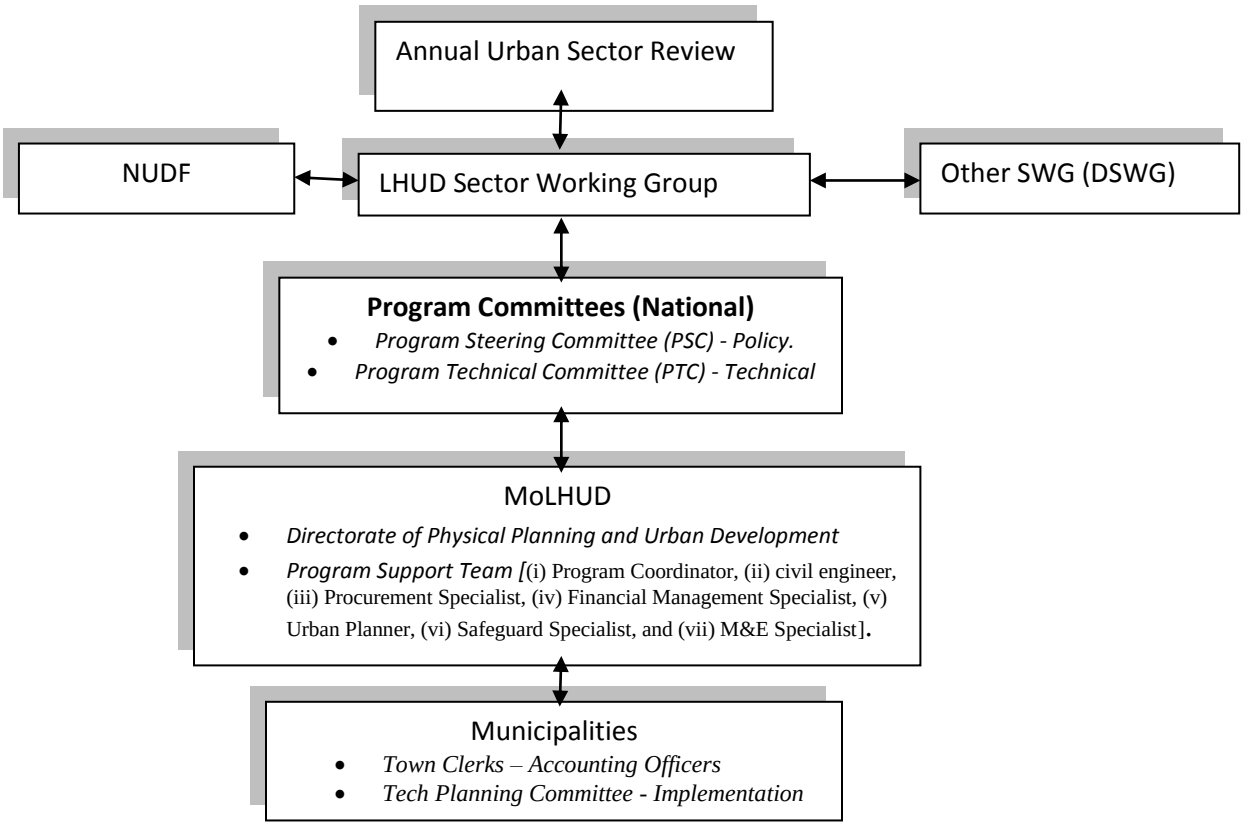
50. ***Policy issues arising during the implementation of USMID Program will be coordinated at the national level through the already existing institutional arrangements.*** These include the Annual Urban Sector Review; the Lands, Housing and Urban Development Sector Work Group (LHUD-SWG); the National Urban Development Forum (NUDF) and other relevant Sector Working Groups. There will be a Program Policy Steering Committee (PST) comprising Permanente Secretaries of the relevant sector ministries[31]. The PST will be responsible for making policy decisions regarding emerging policy issues which have impact on the program.

51. ***The Program Technical Committee (PTC) will comprise of key technical staff of relevant line ministries and will advise MoLHUD and the municipalities on technical issues relating to the Program***. It will therefore be responsible to review and monitor implementation of Program work plan, budgets and quarterly progress reports from participating municipalities. The PTC will carry out pperiodic evaluation of Program implementation against objectives and provide technical guidance. It will bring policy issues to the PSC and ensure that the Program is implemented in line with the Program Operational Manual. It will also ensure quarterly rotational meeting for Program monitoring in the field. Chart 3 below gives a schematic institutional arrangement for Program implementation.

[30] The institutional capacity assessment of the MoLHUD revealed that the following six expertise would be required to mitigate fiduciary and social risks which the project may be exposed to – (i)Program Coordinator, (ii) civil engineer, (iii) Procurement Specialist, (iv) Financial Management Specialist, (v) Urban Planner, (vi) Safeguard Specialist, and (vii) M&E Specialist. These experts will be mapped to the relevant staff in the MoLHUD whom they will be reporting to and providing mentoring support during project implementation.

[31] PS/ST- MoFPED; PS/Ministry of Water and Environment, PS/MoLHUD, PS/MoLG, and PS/Ministry of Works.

Chart 3: Institutional arrangement for Program implementation.



52. ***Assessment of the capacity of Ministry of Lands, Housing and Urban Development (MoLHUD)*** **-** The MoLHUD is mandated to oversee urban development in the country and will be the coordinating ministry for the Program. The ministry is a newly constituted ministry, inadequately staffed and has a week capacity. 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. The capacity constrain in the MoLHUD therefore poses risk to its role to effectively oversee the implementation for the Program and provide the necessary technical back-up support and mentoring to the participating municipal LGs in the implementation of the Program. This risk will be mitigated by providing Program Support Team (PST) with expertise in (i) Program Coordination, (ii) Procurement, (iii) Financial Management, (iv) Engineering, (iv) Physical Planning, and (vi) Safeguards to support the MoLHUD with 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.

Table 8 – 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%**

53. ***Assessment of current capacity building activities under the government program -*** current LG capacity building activities under the government program is predominantly focused on training – and formal training in particular. All municipal capacity building plans 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. Table 9 below presents a summary of municipal capacity gaps in terms of tools and equipment by department.

Table 9. 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's, 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, IFMIS
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

54. ***Assessment of municipal capacity to implement the Program –*** the staffing level and technical capacity of the 14 municipalities vary. Generally there exist technical capacity constraints at the municipalities. 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 (details are contained in the diagnostic institutional framework report). Table 10 below gives a summary of the staffing level in the 14 municipalities.

Table 10. 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.*

55. ***The capacity gaps identified across all the 14 municipal LGs falls into three broad categories, namely: (i) gaps in numbers of key positions filled, (ii) operation skills to backup academic qualifications, and (iii) inadequate tools 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 municipal LGs can use part of the Program fund for investment servicing cost (engineering design, preparation of bidding documents and supervision), there is need to build their technical and managerial capacity to handle the significant increase in development funds from the current average of US$2 per capita to the proposed US$ 24 per capita under the USMID Program. The Program will provide funding for supporting capacity building activities at the fourteen municipal LGs level so as to strengthen their capacity for urban management and investment and operations and maintenance (O&M) of urban infrastructure services.

56. ***Need for minimum staffing level before a municipal LG can access the MDG –*** USMID will address issues of capacity nature that if not attended would pose a serious threat to the successful implementation of the Program. The main focus would be capacity gaps relating to staff competencies, operational tools equipment and financial resources. The widespread vacancies in key professional and technical cadres pose a significant risk to the successful implementation of the Program. It is therefore necessary for some basic staffing requirements to be met by each of the participating municipal LGs before they access the enhanced MDG under the Program. These requirements are aimed at providing the basic safeguards in ensuring that each participating municipal LG has in place a core team necessary for effective 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 municipal LG can access the MDG under the Program: (i) Town Clerk, (ii) Treasurer, (iii)

Procurement Officer, (iv) Engineer, (v) Physical/Urban Planner, (vi) Environmental officer, and (Community Development Officer.

57. ***Fraud and corruption during Program implementation that may affect achievement of results will be addressed by strengthening the implementation of existing fraud and corruption policies and measures available at the LGs level.*** The detailed discussions of fraud and corruption within the country context, including the fiduciary dimensions are provided in annex 4 of the report. Although there exist Local Government Good Governance and Anti-Corruption Strategy (2008-2011) (LG GGAC), the strategy has not been fully implemented by all municipalities, partly because of inadequate funding. As a consequent, the implementation of the LG GGAC has been limited to "informing" the citizenry of the LGs planned activities and projects including publicizing the annual budget, and establishing a Council's Stakeholder Forum. A clear assessment of the quality of information, participation and/or use of the information by citizens will need to be carried out to confirm the usefulness of the LG GAC as a measure to combat fraud and corruption. In addition to the weak technical capacity there is (i) weak civil society engagement at the municipal levels, (ii) weakness in transparency and accountability at the municipal level, (iii) absence of (weak) complains handling and grievances redress mechanisms at municipal level, (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 leading to opportunities for rent seeking.

58. ***The mitigation of fraud and corruption in the Program would use a three prong approach, namely: preventive actions, deterrent, and detection mechanisms***. These measures will include stringent oversight arrangement by the MoLHUD and MoLG of Program implementation activities especially in the areas of technical supervision and oversight including provision of modular engineering designs for some of the sub-projects where possible. In addition the responsibility for ensuring that fraud and corruption cases are dealt with expeditiously will be placed on the municipalities and MoHLUD to enforce administrative sanctions within their remits and raise the bar on corruption. Action taken on cases of fraud and corruption will be publicized and individuals concerned barred from Program implementation to facilitate investigations. Some of the measures that will be instituted under the Program so as to raise the bar on fraud and corruption will include the following:

- *Enhanced Transparency Measures***:** The Program will put in place enhanced information flows encouraging MoLHUD and the Municipal Councils to publicly disclose information on:
    a. Disbursement link indicators; on Program objectives, funds flow, implementation procedures and expected results at Baraza's that reaches the wider public.
    b. From the Bank side, the Team will draw on the newly implemented access to information policy to share information on the program with the public and other stakeholders.
    c. Administrative and other action taken on cases of fraud and corruption and individuals concerned barred from Program implementation to facilitate investigations.
    d. List of debarred firms' on quarterly basis are made public.
    e. Municipal annual action plan on fraud and corruption and measures taken.
    f. Cases received through the complaints handling mechanism and redress actions taken.
    g. Procurement opportunities and update on ongoing procurement process and contracts won.
- *Accountability***:** The Program will build in Complaints Handling mechanisms at the Municipal and MHLUD levels and complement existing mechanisms for reporting fraud and corruption currently in place to perform such tasks as well as establishing a Grievance Redress Mechanism.

- *Participation Mechanisms/Stakeholder Risks***:** The Program will build in scope for Non-State Actors, professional groups, civil society coalitions to participate in monitoring both implementation process and value for money providing scope in the operation to involve beneficiaries at all stages of the Program to help improve chances of meeting Program outcomes. In addition the program will encourage the incorporation of the minimum condition and key performance measures under the performance assessment mechanisms into the municipal councils' client charters. This will include third party monitoring that seeks to ensure Value for Money is achieved. Parallel to the Program is an on-going City Alliance Support Program (CASP) supporting the development and operationalization of Municipal Development Forums that bring together various stakeholders to play role of monitoring for value for money. Currently the CASP is looking at only 5 municipalities, and the team has embarked on discussions to ensure that this process is rolled out to all the 14 municipalities.

- *Institutional Capacity Building:* As clearly elaborated above, recruitment of key staff to cover the 45% shortfall across municipalities and 54% in the MoHLUD will help meet Program objectives and act as a mitigation measure for fraud and corruption and other challenges identified under fiduciary assessment.

- *Reward and sanction system in determination of annual grants to municipal LGs provides a good opportunity for anchoring mitigation measures for F&C risks***.** Several of the performance measures *(to be worked out and % contribution to the total marks)* target improvements in transparency, procurement, financial management quality of works and sound environmental management. This reward/sanction system provides incentives for municipal LGs to implement measures to address F&C.

59. ***Stakeholders' commitment*** – The PforR Program has high levels of ownership within Government both at the MoFPED, the coordinating Ministry (MoLHUD), national Parliament and the municipalities. It is a Constitutional requirement that all credits have to be approved by Parliament and the Parliamentary committee on Lands Housing and Urban Development has had interactions with the MoLHUD regarding the Program, visited the municipalities to assessment the infrastructure needs and has presented their report to Parliament which has approved the Program and to authorize MoFPED to obtain the credit from IDA. Government has demonstrated its commitment to the LGMSD by currently financing fully the program which was piloted through IDA funding. Government is committed to improve LGs financing so as to achieve improvement in service delivery by LGs, and this commitment is underscored by the current on-going study to review the LGs financing which is being spearheaded by MoFPED. The participating municipal LGs on the other hands have already included the USMID Program funding, based on the indicative planning figure provided to them, in their five year development plan. The ministry of Works and Transport has also provided standard municipal roads design to the municipalities. Municipal NGOs, CBOs have shown their commitment from the start by participating in the local level municipal development forum which brings together the various stakeholders at municipal level to discuss service deliver issues at that level. Cities Alliance, DfID, Melinda and Bill Gates foundation have provided financial resources to support the design of the program and are assisting government generally in taking forward its urban agenda.

III. Description and Assessment of Program Expenditure Framework

60. ***The Program Expenditure Framework – 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 Government Management and Services Delivery (LGMSD) program, and (iii) Equalization grants. The Constitution provides for three types of grants to be transferred from central government to LGs, namely unconditional, conditional and equalization grants. Unconditional grant is the minimum grant that is paid to LGs to run the decentralized services and is formula driven[32]. Most of the unconditional grant resources are used by LGs for meeting their recurrent costs such as wages and salaries and general operating cost of the LGs. Conditional grant consist of moneys that are given to LGs to finance programs agreed upon between the Government and LGs and is expended for the purposes it is made in accordance with the conditions agreed upon. The votes are therefore managed by the respective sectors for which the grant has been created. Equalization grant is the money transferred to LGs as subsidies or special provisions for least developed LGs. It is to be based on the degree to which a LG is lagging behind the national average standard for the particular service. In addition to these transfers which are provided in the Constitution, government is also transferring the LGMSD. At the municipal level, the USMID Program framework will support the LGMSD grant which is the government program supporting two activities at the LGs level namely – service provision (investment financing through the local development grant) and a capacity building grant (institutional strengthening through the capacity building grant) to LGs.

61. ***The USMID Program will supplement the IGFTs highlighted above, but will focus on larger infrastructure investments in the municipal LGs consistent with their mandates***. The total Program funds of US$150 million will be used only for financing activities as described under section 1.b in line with the USMID Program objective so as to achieve the intended outcome.

62. ***The average annual USMID amount over the next five years of US$ 30 million (UGX 75 billion), will account for 1% of total public expenditure in the FY2010/11, which was UGX7,376.5 billion.*** Compared to total grants transfer of UGX1,490 billion to LGs in FY2010/11, USMID annual transfer would be equivalent to 5%. However, the significant of the design of the PforR intervention is to introduce USMID as 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 lumpy investment needs of urban infrastructure. Table 11 below gives the trend over the last six years and comparison between central government and LGs expenditures with total public expenditure.

Table 11. Central and LGs expenditures with total public expenditure and GDP

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[33]	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%

[32] $Y_1=Y_0 + bY_0 + X_1$ where Y_0, b, Y_1, and X_1 is minimum unconditional grant in preceding fiscal year, percentage change in general price level in the preceding fiscal year, minimum unconditional grant for the current fiscal year, and the net change in the budgeted cost of running added/subtracted services in the current year.

[33] This excludes Statutory interest payments

Source: Draft Estimates of Revenue & Expenditure (recurrent & Development), FY2011/12, MoFPED, Vol. 1 Central Government Vote.

17. ***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.

Table 12 – USMID Program budget structure (US$ '000)

Classification	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17	FY2017/18	Total
Municipal Development Grant (MDG) window	0.00	18.00	18.00	31.33	31.33	31.33	130.00
Municipal Capacity Building rant (MCBG) window	0.00	2.50	2.50	2.50	2.50	0.00	10.00
Central Government support to and capacity building for USMID	1.33	5.33	3.33	3.33	3.33	3.33	20.00
Total	**1.33**	**25.83**	**23.83**	**37.16**	**37.16**	**34.66**	**160**

63. ***Government expenditure framework projection*** **-** The government MTEF projection from 2012/13 for the next five years for government program – LGDP transfers to LGs is a total of UGX 584.22 billion. At the current exchange rate of US$ 1 = UGX 2500, the USMID Program projection presented in table 12 above over the next five years will account for about 39% of the government program – the LGMSD - transfers to LGs (GoU MTEF projected transfer is UGX584.22 billion). Table 13 below puts the USMID Program expenditure framework within the context of the GoU MTEF in the next five years.

Table 13 – USMID Expenditure framework compared to GoU MTEF 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
Local Development Grant (PBG) program	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), FY2011/12, MoFPED, Vol. 1 Central Government Vote and USMID Program expenditure projection

64. ***Program Financing Sustainability-*** the 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 LGMSD has been predictable over the years since the transfers to LGs have been protected under poverty action fund (PAF) arrangement[34]. 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 municipal LGs to join the Program.

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

65. ***Program funding predictability*** **-** To ensure predictability, USMID IPFs will be issued to municipalities for all the Program period, although actual annual disbursements will be based on performance assessment results. Like the LGMSD, the Program fund will be protected from any budget cuts. Municipalities will be informed about their actual disbursement for the following FY in October/November 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.

66. ***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 it is proposed that releases to the participating municipalities 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 Municipalities 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.

67. ***Allocation formulae*** **–** The government program 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, data easily available from a reputable institution (UBoS), and nationally accepted. The USMID Program will also use this government formula to allocate the funds from the Program to the participating municipalities.

68. ***Fiscal constraint and need for advances under the Program*** **-** An initial advance (amount to be agreed upon) will be made to GoU once the credit becomes effective. Disbursements from IDA to government will be in two tranches, while from government to the municipalities will be in two tranches based on the DLIs linked to the assessment results.

IV. Description and Assessment of Program Results Framework and M&E

69. ***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 performance in fiduciary, safeguards and urban planning process, and (ii) percentage of total planned infrastructure completed by participating municipalities. The intermediate outcome will be measured at two Program areas – Intermediate result area one – the municipal LDG to the participating municipalities – whose objective is to enhanced financial resources for municipal infrastructure provision, and the second intermediate result are (capacity building for both the MoLHUD and the municipalities) – intended to strengthen the capacity of participating municipalities in urban management and MoLHUD in urban development and Program management. The detailed M&E framework is presented in annex 1.

70. ***USMID Program will rely on an 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 framework as set in the operational manuals. 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). In addition 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 municipalities such as the NGOs, CBOs and the Municipal Development Forum (MDF) in addition to the overall oversight function being provided by the MoLHUD as the Program executioner. These M&E functions will further be augmented by Program technical audits such as VFM audit, and annual municipal assessment reports which have been included as actions to be performed under the Program Action Plan.

71. ***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[35].

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 FY2010/11, but which will really take off from the coming FY (2012/13) in terms of application for the budget module and the reporting from this FY (2011/12). 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. 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 CBG program is not possible. The USMID Program will therefore be registered separately as the government LDG 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. However the OBT system has some gaps with respect to M&E for USMID. The table below summarizes what the OBT can currently do and the gaps.

Table 14: Harmonizing OBT and USMID M&E Reporting requirement

No	Issue	Currently possible under OBT	Use OBT entirely from the onset	Program Specific reporting
1.	Showing the source of funding for all USMID investments	• Can capture: investments per sector; per source of funding; per LG, but need to include USMID as a grant like e.g. the LDG	Yes	Until when all municipal investments are captured in the OBT (see below)

[35] 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.

No	Issue	Currently possible under OBT	Use OBT entirely from the onset	Program Specific reporting
2.	Showing the source of funding for all capacity building/institutional support activities	• Expenditure per output, per LG in total – not disaggregated • Source of funding cannot be captured for CBG – only done for capital • Need to keep the system relatively simple	N/A	Yes
3.	Possibility to consolidate USMID expenditure across sectors for investment and capacity building	• Can be shown for capital investments not for capacity building	Yes for Capital No for Capacity Building	Yes for Capacity Building
4.	Includes outputs regarding roads (tarmac and gravel)?	• Yes	Yes	
5.	Includes outputs regarding street lighting	• Yes	Yes	
6.	Includes outputs regarding drainage	• No	Yes – if municipal investments are included in the OBT – need to be followed up by MoLHUD	
7.	Includes outputs regarding solid waste collection and disposal facilities	• No	-do-	
8.	Includes outputs regarding water and sewerage	• No	-do-	
9.	Includes outputs regarding local economic infrastructure (markets, bus stands, lorry parks)	• No	-do-	
10.	Includes outputs regarding urban beautification infrastructure (public parks, play grounds, urban landscaping and planting of trees on the verge of roads etc.)	• No	-do-	
11.	Can capture employment created (disaggregated by gender)	• No	No	Need separate system
12.	Can capture number of beneficiaries (direct and indirect – disaggregated by gender)	• No	No	-do-
13.	Can capture outcome/impact indicators – change brought about by the project e.g. number of commercial properties no longer flooding because of working on drainage)	• No	-do-	-do-

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, safeguards, and project implementation. It will establish compliance to the laws and regulations of Uganda governing municipalities among which are: the Physical Planning Act, 2010; the Local Governments Act Cap 243; the LG Finance and Accounting Regulations 2007; and 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 LDG;

- 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).

73. ***The M&E under the Program will therefore build on existing M&E framework being used under LGMSD and Output Budgeting Tool (OBT)***[36]. 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 audit, procurement audit and technical reviews (value for money audit) will be added focusing at the municipal level. The municipal LGs are already using the M&E framework under the government program and therefore have the necessary capacity. 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.

38. ***USMID Program Progress Report*** **–** The municipalities 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 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 as provided by PPDA and IGG (see section on Fraud and Corruption).

74. ***In terms of assessments, the annual performance assessments under USMID will be contracted out with the MoLHUD retaining the mandatory oversight.*** The performance assessment will be key to demonstrate and verify the achievements of results linked to the DLIs and also to generate lessons for learning and improvement of municipal 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.

75. ***Capacity Building for Monitoring and Evaluation*** **–** Under the Program M&E capacity at the municipal LG level will be enhanced through training of the staff in engineering, finance and procurement

[36] 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

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.

V. Program Economic Evaluation

76. ***Economic Evaluation of previous PBG programs*** - A post-construction evaluation of the economic benefits of government PBG program carried out under the first Local Government Development Program (LGDP 1) 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 confirm 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 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 analyisis 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/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.

77. ***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 15: 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

78. ***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.

79. 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 percent for urban roads, 10.6 percent for drainage and 27 percent 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, safeguards 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.

80. ***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.

VI. Inputs to Program Action Plan

81. ***Inputs to Program Action Plan to address technical risks -*** To ensure efficient Program implementation and achievement of the Program development objective, the Program action plan are intended to address technical gaps which have been identified at three areas (i) improvement of the current system under the government program, (ii) technical capacity improvement at the municipal level, and (iii) improvement of the technical capacity of the MoLHUD for Program implementation.

82. ***System improvements*** – The implementation of USMID Program will use and build on existing GoU system such as the LGDP assessment tool; and the Output-Base Budgeting Tool (OBT) used nationally by all LGs for reporting on their budget, work plans and progress reports. However, there are some gaps in both the LGDP assessment tool and the current OBT with respect to some of the reporting requirements under the USMID Program. To address these gaps, the assessment tool for municipal LGs have been enhanced (see annex 3) to meet the PforR requirements under the 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 municipal LGs will use an USMID Program M&E reporting framework which is based on the LGDP 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.

83. ***Enhancement of the capacity of MoLHUD and Municipalities*** - The capacity gaps identified from the diagnostic studies both at the MoLHUD and the municipal LGs will be addressed through the capacity building activities to be funded under the Program. The Program will provide funding to finance activities related to capacity enhancement for successful Program implementation. To ensure that capacities are built in time for Program implementation, institutional strengthening activities for both the municipal LGs and the MoLHUD will be front loaded and implemented in the first three years of the Program. The Program action plans (PAP) are structured around the two elements of the Program (institutional strengthening and infrastructure improvement) to achieve the Program intended objectives.

- ***Program Action Plan related to MDG element:***

i. *Contracting out of the municipal assessment by MoLHUD* - The municipal national assessment will be contracted out to an independent private firm that is competent, credible and neutral composed of people with expertise in: (i) finance management, internal audit and procurement; (ii) engineering, project execution and implementation including safeguards (environmental and social); and (iii) administration, planning and communication.

ii. *Technical designs and supervision of works at municipal level* - Fraud and Corruption risks related to the execution stage have primarily to do with potential failure to respect technical design standards. To mitigate these risks, municipalities will be allowed to use part of the Program fund to procure consultancy services for preparation of engineering designs, preparation of bidding documents, and supervision. Investment servicing cost will therefore be permitted under the Program so as to address the technical capacity constraints at municipal level.

- ***Program Action Plan related to institutional strengthening of municipal LGs and MoLHUD:***

i. *Core minimum staffing at the municipal LGs before accessing the LDG Program element* –To address municipal ***c***apacity gaps relating to staff competencies each participating municipality would be required to have in place, and maintain throughout the Program period, a core team of staff 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 funding under the Program: (i) Town Clerk, (ii) Treasurer, (iii) Procurement Officer, (iv) Engineer, (v) Physical/Urban Planner, (vi) Environmental officer, and (vii) Community Development Officer.

ii. *Municipal own source revenue (OSR) enhancement plan* - The ensure sustainability of the investment to be created under the Program, including existing investment stock at the municipality, each municipality will be required to prepare a costed revenue enhancement plan with annual revenue targets from each source. This plan will include the update of revenue data base by source, billing, collection, enforcement; complain resolution, information, communication and education (ICE) system.

iii. *Mitigation of fraud and corruption in the Program* **-** the responsibility for ensuring that fraud and corruption cases are dealt with expeditiously will be placed on the municipalities and MHLUD to enforce administrative sanctions. Action taken on cases of fraud and corruption will be publicized and individuals concerned barred from Program implementation to facilitate investigations. Some of the measures that will be instituted under the Program so as to raise the bar on fraud and corruption will include (i) *Enhanced Transparency Measures*- by encouraging MoLHUD and the Municipal Councils to publicly disclose information on Disbursement link indicators; Program objectives, funds flow, implementation procedures and expected results at Baraza's that reaches the wider public, making public list of debarred firms' on quarterly basis; publicizing municipal annual action plan on fraud and corruption and measures taken; and cases received through the complaints handling mechanism and redress actions taken.

iv. *Recruitment of Program support team* - To ensure successful implementation of the Program, given the fact that the MoLHUD will take over the Program oversight as the ministry responsible for urban development and the fact that it is currently understaffed, as a stop gap measure the MoLHUD will recruit Program Support Team (PST) with expertise in (i) Program Coordination, (ii) Procurement, (iii) Financial Management, (iv) Engineering, (iv) Physical Planning, and (vi) Safeguards.

84. In addition to the above Program Action Plan (PAP), the WB will provide training and close monitoring of the implementation of the Program including the Action Plan by the MoLHUD and the municipalities.

VII. Technical Risk rating

85. ***The overall technical risk rating for the program is Substantial before mitigation and reducing to Medium after the proposed measures detailed in the risks mitigation action plans***. 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 PBG 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, A consolidated Program action plan to address Program risks are presented in annex 4 – operational risk assessment frame work.

VIII. Bank Inputs to the Program Implementation Support Plan

88. ***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) 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.

89. ***A majority of the Bank's implementation support team members (fiduciary, safeguards, 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.

Annexes

Annex 1: Results Framework Matrix

Program Development Objective: ***Enhance institutional capacity of selected municipal LGs 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. Participating **m**unicipal LGs have strengthened institutional performance[37] in the seven thematic areas as scored in the annual performance assessment.	☐	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[38] built or rehabilitated with related infrastructure using urban LDG	√	3	Kms	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[39].	√	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
5. Municipal local economic	☐	3	Numbers	0	Measured	Measure	Measured	Measure	Measured	Annually	Annual PAs, bi-annual	Participating

[37] 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.

[38] 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.

[39] 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.

infrastructure (bus parks, markets, parking lots etc)[40] built or rehabilitated using the urban LDG.					Annually	d Annually	Annually	d Annually	Annually		supervision missions, quarterly progress reports (OBT), VFM audit	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[41] 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[42] 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	60%	70%	80%	90%	100%	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 IFMIS system in place	☐	7	Numbers	2	7	14				Annually	Accountant General	Accountant General reports and WB PFM missions

[40] 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).

[41] 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.

[42] 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 2 – USMID Municipal development grant (MDG) Indicative Planning Figure (IPFs)

LG	Population	Land Km2	Poverty headcount	LG share of coefficient	FY13/14	FY14/15	FY15/16	FY16/17	FY17/18	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

Annex 3 – Municipal Minimum condition and Performance indicators 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)[43]; • 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	5.	The Municipal Council has a Town Clerk designated by MoLG and appointed by MoFPED as Accounting Officer substantially filled[44].	• 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

[43] 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.
[44] 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
projects	7.	The Municipal Council has a position of the Municipal Physical Planner substantively filled.	• From the MoLG establish whether the Municipal Council has a Substantive Physical Planner • Check the position at the municipal level	New
	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.	• 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 opinon.	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	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.	New

Minimum Condition	No	Indicators of Minimum Conditions	Information Source and Assessment Procedures	Status
Management [Year 2 and on]			• 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 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	Existing, but new focus

Minimum Condition	Indicators of Minimum Conditions	Information Source and Assessment Procedures	Status
		of how each activity is funded, including timing, method for implementation.	
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[45]	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	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.

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

Performance Measures	No	Indicators of Performance	Scoring Guide[45]	Information Source and Assessment Procedure
		projects Total 6 points	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 **15 points max**	4.	Increase in collected revenue in the previous FY as compared to last FY but one Total 4 points	Municipality has increased collected revenue in the previous FY, as compared to last FY but one: • Increase of up to 10 %: 2 points • Increase of more than 10 %: 4 points	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 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

Performance Measures	No	Indicators of Performance	Scoring Guide[45]	Information Source and Assessment Procedure
(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 and core financial management **15 points max**	9.	Existence of books of account that are posted up to-date, reconciled monthly and signed by a Principal Finance Officer Total 4 points	9. a. Municipality has the cash book for USMID/LDG (i) 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	From the Head of Finance, obtain the cash book for USMID/LDG to establish 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.

Performance Measures	No	Indicators of Performance	Scoring Guide[45]	Information Source and Assessment Procedure
	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 effective quarterly monitoring and supervision of project investments in the municipality Total 4 points	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.
(vi) Monitoring, enhanced accountability and transparency and communication **12 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/discussio n 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

Performance Measures	No	Indicators of Performance	Scoring Guide[45]	Information Source and Assessment Procedure
	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 prescribed environmental and social mitigation measures are carried out Total 10 points	All mitigation measures for environmental, land (where necessary) and social issues for previous FY have been effectively executed.	From relevant Municipal staff, check monitoring reports for inclusion of environmental, social, and land issues and sample a few projects to verify mitigation measures carried out.

D: Assessment of Infrastructure Investment Performance[46]

	Performance indicators and scoring guide for the Annual Performance Assessment

[46] Physical Progress on Urban LDG Funded Investments – Second Component in the Annual Performance Assessment (Assessment in September 2014 with impact on FY 2015/16)

	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[47]. *(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.[48]	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 investments funded by the Program[49]	% of projects implemented with a satisfactory level of value for the money, calibrated in the value for the money assessment tool. 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).	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 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.

[47] 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.
[48] See means of verification below in the notes.
[49] 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.

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.

Annex 4: Fraud and Corruption Risks in USMID as a PforR Operation.

1. Overall Country Context/Risk:

Uganda has a comprehensive institutional, legal and policy framework to improve the governance environment and address the problem of corruption in the country. These include the Inspectorate of Government which has the lead mandate in promoting good governance and the overall fight against corruption and is complimented by the Directorate of Public Prosecutions, Criminal Investigations Department and Public Procurement and Disposal of Public Assets Authority and the Anti-Corruption Division of the High Court. The legal framework is governed by the Constitution of Uganda (1995) and key legislation such as Inspectorate of Government Act (2002), Leadership Code Act (2002), Public Finance and Accountability Act (2003), Public Procurement and Disposal of Public Assets Act (2003) (as amended), Access to Information Act (2005), Anti-Corruption Act (2009), and Whistleblowers Act (2010). The 5-year National Anti-Corruption Policy now in its third phase (2009-2013), designed by the Directorate of Ethics and Integrity is set within the national policy of "zero" tolerance for corruption. The National Anti-Corruption Policy drives the implementation of good governance and anti-corruption policies with the Inter Agency Forum providing the coordination mechanism for accountability institutions with the objective of furthering the Policy.

Despite the comprehensive framework, national and international assessments, reports and surveys based on national data show that governance and corruption trends in the country are deteriorating. The First and Second Annual Report on Corruption Trends in Uganda using the Data Tracking Mechanism (2010 and 2011) published by the Inspectorate of Government highlighted Uganda as having the largest implementation gap50 among the 65 countries assessed when it comes to enforcement of accountability and anti-corruption laws. Both Reports singled out lack of enforcement and implementation of anti-corruption laws as a great challenge in promoting anti-corruption. The African Peer Review Mechanism Report (2007) also concluded that corruption is now institutionalized in Uganda. The country's ranking on the TI Corruption Perception Index in the last decade have shown no significant improvement with a consistent score of less than 3.0 (out of a possible 10) over the period, meaning the country was still perceived as very corrupt in the world. The annual report of the supreme audit institution (Office of the Auditor-General) on financial audits carried on public accounts in Uganda including those of the Central and Local Governments for FY 2009/2010 have continued to reveal numerous cases involving waste of public funds. The 2nd Public Procurement Integrity Survey 2010 published by PPDA reported that the majority of providers have paid a bribe of 10 to 20% of contract value, an increase from 7-9% reported in the 2006 survey. There have also been several high-level alleged corruption cases of abuse of office and embezzlement of public resources occurring during the last four years, none of which has been fully resolved as yet. Furthermore, the growing erosion of competencies and reduced financing of accountability institutions that spearhead the fight against corruption could be seen as a sign of a structural lack of political commitment to addressing increasingly deep-seated governance issues. The Integrity Department of the World Bank (INT) has also in the past fielded reviews and investigations of allegations of fraud and corruption in Bank financed programs in Uganda in different sectors some of

[50] This is measured by looking at the difference between the score awarded to a country for the number of institutions, systems and legal framework the Country has established to fight corruption and improve governance (in this case Uganda was awarded 99% by the Global Integrity Report, 2009 and the score attached to the implementation record/or level of enforcement of the laws (in this case Uganda was awarded 45%).

which have resulted in the debarment of a number of local firms and individuals[51]. These have dented the credibility of the national policy of "zero" tolerance to corruption.

There are some positive stories recently in the fight against corruption that provide encouraging hope that the Government as well as the Parliament and other stakeholders are serious about grappling with the growing corruption problem in the country. For example: (i) the increased assertiveness by the 9th Parliament has enhanced demand for transparency and accountability from the Executive lead to the resignation of three ministers and stepping aside of two; (ii) the dismissal of some staff of State House;(iii) two successful prosecutions of public officials for corruption by the Anti-Corruption Court, (iv) the interdiction of over 10 MoLG staff on the bicycle scandal; and (v) the growing freedom of expression of the media on corruption matters. These are all positive aspects of the fight against corruption in the country.

1.1 Local Government Context:

The country's local government system is anchored in the Constitution of Uganda (1995) and the Local Government Act (1997) and is based on the district as the primary unit through which local governments and administrative units operate. National reports and surveys going back several years indicate that Local Governments have not been immune from the challenges of the overall governance environment. The 2nd National Integrity Survey (NIS) undertaken by the Inspectorate of Government in 2002 singled out District Tender Boards for the extent to which they abused their powers and rated the Boards (dissolved in 2005 as part of national reforms in the procurement system) as the second most corrupt institution. The 3rd NIS undertaken in 2008, rated both Municipal and Town Councils as the 8th most corrupt institutions with the forms of corruption including bribery, embezzlement and fraud. The Study on Non-Compliance in Public Financial Management in Uganda (2011) conducted by Budget Monitoring and Accountability Unit found the Local Government Public Procurement and Disposal of Public Assets Regulations (2006) and Local Government Financial and Accounting Regulations (2007) as among the most flouted laws[52] at all Government levels.

The Inspectorate of Government's Report to Parliament (Jan-June 2011) indicate that complaints[53] against Municipal and Town Councils accounted for 8.5% of the total complaints received in this period ranking these Local Governments as the third most complained against institutions after District Administration and Public Officials. Local Government was also viewed by majority of respondents (69.6%) as having most prevalent cases of corruption in public procurement as compared to 30.4% who mentioned Central Government according to the 2nd Public Procurement Integrity Survey (2010) published by the Public Procurement and Disposal of Public Assets Authority. Majority of respondents (81%) also indicated that they offered gratifications to public officials in Local Government compared to 19% to officials in Central Government revealing an apparently higher level of corruption in Local Government. The annual report of the Auditor General on financial audits carried on District Local Governments, including Municipal Councils for FY 2009/2010, similarly reveals instances of irregularities such as failure to account for funds (UGX 11.6 Billion), procurement anomalies (UGX 34.2 Billion was spent without following procurement laws), diversion of funds (UGX 988 Million) and wasteful expenditure (UGX 227 Million). The Ministry of Local Government formulated the Local Government Good Governance and Anti-Corruption (LG GGAC) Strategy for Local Government in 2008 in an effort to promote good governance and anti-corruption in Local Governments. Although the Strategy expired in 2011 before

[51] The details of the debarred firm (6) and individuals (7) are publicly available and may be accessed online from http://web.worldbank.org

[52] The other two most flouted laws were the Public Finance and Accountability Act (2003) and Public Procurement and Disposal of Public Assets Act (2003)

[53] The nature of complaints included mishandling of tenders/contracts, conflict of interest, abuse of office and embezzlement.

being fully implemented due to several challenges, MoLG has since designed the 5-year Uganda Good Governance (UGOGO) Program (2011-2016) which focuses on enhancing local service delivery and improving good governance in local governance in Uganda. The Program has been designed to support LG GGACS activities and therefore has the potential to enhance the fight against corruption in Local Governments.

2. Fraud and Corruption Risks to Program that may affect achievement of results:

- **Weak capacity at Municipal level, including the relevant municipalities under this program:** We already know that LG have weak capacities and the Local Government Good Governance and Anti-Corruption Strategy (2008-2011) (LG GGAC) has not been fully implemented by all municipalities. Even if it was, it seemed to have been limited to "informing" the citizenry of its planned activities and projects including publicizing the annual budget, and establishing a Council's Stakeholder Forum. The Technical report, however, does not provide an assessment of the quality of information, or quality of participation and/or if citizens were able to use that information.

- **Weak civil society at local levels:** We do not know how well organized civil society is at the Municipal level, and specifically the 14 Municipalities that would be beneficiaries of this program, and more importantly, the general environment for participation and freedom of expression in these Municipalities which may prevent the people having a voice in decision making as well as in expressing views on quality of outputs received.

- **Level of transparency and accountability at Municipal level a challenge:** The Team would need to take additional steps to address the challenge of transparency and accountability at LG level and strengthen it as much as possible, as investments in infrastructure will take place at this level. A number of studies have flagged the weaknesses of transparency and accountability at municipal levels which potentially poses risks to the program.

  High risk of fraud and corruption in FM and Procurement at municipal level: The Technical assessment acknowledges that there is a high risk for FM and procurement fraud and corruption at the LG level and oversight needs to be strengthened as much as possible. The Government has a number of strategies and plans to improve good governance, address fraud and corruption, as well as enhance service delivery at both national and local levels including, in the Municipalities. However, the issue of implementation gap poses severe risks to the program in terms of translating the plans and strategies to concrete action on the ground. We encourage the Team to include some mitigation measures on addressing fraud and corruption, particularly enhanced information flows in the program as credibility tests either as part of the Performance Assessments, Program Action Plans, DLIs, and/or in the Legal Covenant. This would provide scope to crowd in stakeholders and beneficiaries in airing their views and providing oversight on performance on various issues in the Program.

  Complaints handling and Grievance Redress Mechanisms not in place at Municipal levels: The Assessment hardly mentioned Complaints mechanisms as part of the program, including a grievance redress mechanism. The lack of such mechanism at the Municipal level poses severe risks to the Program because people would hardly know where to report potential cases of corruption and abuse in the Program. Additionally, the Program also needs to put a Grievance Redress Mechanisms in place to ensure that complaints are addressed at the Municipal level.

- **Bidder Participation resulting in collusion between bidders and with MC staff:** Bidder participation in the Municipalities is generally low with many civil works attracting little participation with an average of 1 to 2 bidders. A review of the procurement over 2 years in selected municipalities shows the same contractors bid for these contracts each year. The Procurement

assessment did not observe any deliberate actions by the Municipalities to attract more bidder participation or worse still, any concern among the Municipalities that this is an issue. This is attributed to the inadequate advertising of opportunities, and unfair treatment of bidders with evaluation criteria altered during evaluation, other barriers to entry with the private sector perceiving that the cost of doing business at MC level is high due to delayed works certification and delayed payments unless bribes are paid. Given the low bidders participation, there is a risk of collusion even though no specific cases were proved during the assessment. However, the assessment observed some patterns that suggest collusive practices.

- **Bribery**: While no specific data is available on bribery in the participating MCs, this presents a major risk to the program as bribery in procurement is reported to be more prevalent at local government level. Such bribery could result in unfair treatment of bidders especially which could lead to low bidder participation and collusion which limits competition and results in higher unit costs. This may also be manifested in contractors not fully performing their contracts and yet receiving full payment

- **Bidders Forging Documents:** This presents a significant fraud and corruption risk to the program especially in cases of forget securities, (performance securities and advance payment securities), and misrepresentation of qualifications. This result could result in loss of funds in unsecured advance payments. Misrepresentation of qualifications resulting contracting of unqualified contractors who fail to perform their contracts. While the assessment did not observe any specific cases, this issue remains a risk for the program.

- **Taking steps to ensure that entities debarred and suspended by the Bank do not participate in contract awards during implementation** of the operations throughout their periods of debarment or suspension. The challenge is usually with the suspended entities because that list is not made public and only the implementing agencies can access that information.

- **Poor Record keeping which** makes it impossible to determine whether processes for financial management were conducted in accordance with the procurement procedures and that adequate and authentic documentation exists to support execution of program transactions. This has previously been exploited by staff to hide ineligible or unjustified expenditure. In addition, ensuring value for money in the program at the municipal level is also a challenge.

- **Possibility of fund diversion for other activities** at municipal level owing to outstanding arrears from the past that cannot be cleared at once owing to low transfers to such municipalities. Significant build up of unpaid invoices and failure to pay in time due to over commitment. The budgets may not be adhered to and funds will not be used for intended purposes.

- **Program funds may be easily embezzled or unaccounted f**or through administrative advances. There have been a number of instances where the Auditor Generals annual reports have reported on fund embezzlement of municipal funds. Details of this are in the Integrated Fiduciary-FM section. For example, the February 2011 study on violations in PFM in Uganda show a high rate of violations of PFM and procurement regulations at local government level in the works and water departments.

- **Abuse of training, per diems, allowances**, honoraria, and stationery that may potentially eat into budgets made for infrastructure, consequently affecting the quantum of projects at the Municipal levels. The 2011 Bank in depth review revealed several instances of abuse of per diems, allowances and payment of amounts that were not eligible. These were evident in the LMGSP as well as UPSPEP and other programs being implemented at municipal level.

3. Structure of the Program:

The program as designed will be implemented at two levels, the central government level under Ministry of Housing, Lands and Urban Development (MHLUD) and at local Government level in 14 municipalities[54]. The proposed program is within the legal framework and national government program and will be implemented using national systems. Cognizant of capacity challenges at both the central and municipal level the program includes a component for institutional strengthening providing for capacity building in selected areas of urban management and operation and management of urban infrastructure. Given the country context both at central and local government levels identified in section one above, the program will need to institute measures to counter fraud and corruption (F&C) challenges as identified in section two above. Notwithstanding, the proposed program responses to institutional capacity challenges, the increased funds flow (Martin to provide accurate figure) to both the MHLUD and the municipalities will elevate the fiduciary risks. Therefore as part of the program design, it is imperative to take cognizance of the following:

- Institutional arrangements for program implementation have recognized the importance of various key players at central government level following of existing sector working group's structure and putting in place key steering committee. The institutional arrangements have to be revised to formally include and recognize the municipal councils' local political leadership and their role. These are part of the leadership committee responsible for i) discussing and agreeing to the municipal development plan, annual budgets, annual procurement plans; ii) the performance assessment report and iii) representing the voice of citizens.

- The program relies on existing national structures for recruitment of staff and this will need to be reinforced by selected incentives to ensure that these agencies – MHLUD, MoLG, MoPS, MoFPED and the District Service Commissions undertake the required recruitment procedures on time. This will ensure that municipal councils don't fall victim of the length and convoluted recruitment processes and fail to meet the stipulated minimum conditions through no deliberate fault of theirs. Further this could cause major delays in program implementation.

- Cognizant of the government's record regarding taking action on fraud and corruption cases the program has proposed putting in place mechanisms to support specific investigative arms of government to carry out investigations of reported cases of corruption and abuse of office. This however goes beyond the boundaries/structure of the program as it involves direct support to agencies like the police and directorate of public prosecutions. It is proposed therefore that the responsibility for ensuring that fraud and corruption cases are dealt with expeditiously be placed on the implementing municipalities and MHLUD to enforce administrative sanctions within their remits and raise the bar on corruption. Action taken on cases of fraud and corruption will then be publicized and individuals concerned barred from program implementation to facilitate investigations.

4. Mitigating Fraud and Corruption risks in the Program:

To ensure Fraud and Corruption risks are embedded in the program, we suggest the following as mitigation measures that could be included as Minimum Conditions in Program Action Plans, Performance Assessments, and/or as part of the Disbursement-Linked Indicators (DLIs):

[54] The fourteen municipal councils (MCs) are Arua, Gulu, Lira (Northern Uganda); Soroti, Moroto, Mbale, Jinja (Eastern Uganda); Entebbe, Masaka (Central); Mbarara, Kabale, Fort Portal and Hoima (Western Uganda).

- **Enhanced Transparency Measures:** The program will put in place enhanced information flows including (a) publicly disclosing information on disbursement-linked indicators; (b) encouraging government and the Municipal Councils to put out key information on program objectives, funds flow, implementation procedures and expected results at Baraza's that reaches the wider public; and (c) enhanced publication of procurement opportunities and update on ongoing procurement process and contracts won. From the Bank side, the Team will draw from the newly implemented access to information policy to share information on the program with the public and other stakeholders.

- **Complaints handling and Grievance Redress Mechanisms:** We encourage the Team to include the establishment of both mechanisms in all the Municipalities receiving resources under this program as part of the minimum conditions to receive funding. If these mechanisms are already in existence as part of the local Municipality, they should clearly articulate to the citizens what the existing mechanisms are for reporting fraud and corruption as well as the process for Grievance Redress. The process will also outline how the Ethics and Integrity as well as the IGG come into investigating corruption cases when reported.

- **Sensitization Workshops on Fraud and Corruption:** As part of the minimum conditions and/or performance assessments, the Municipalities should all have conducted sensitization workshops on fraud and corruption that targets heads of departments and staff of Municipalities. This workshop could also be used as the scope to share information about the Program, explain how the Complaints Handling and Grievance Redress Mechanisms work; results expected on the program, etc.

- **Publish List of Corruption Cases and Incidents of Corruption in the Program:** We recommend including in the Performance Assessment a requirement that (i) each Municipality publish every 6 months the list of corruption cases as well as incidents of corruption in the program; (ii) administrative and other action taken on cases of fraud and corruption; (iii) list of debarred firms updated on quarterly basis; and (iv) individuals/companies sanctioned under the program as part of ongoing and/or completed investigations. This will ensure complete transparency including the status of the cases and shared with the general public. This should be updated every six months to ensure they are current.

- **Anti-Corruption Action Plans**: We recommend as a minimum condition that each Municipality develop an anti-corruption Action Plan that is updated yearly. This includes anti-corruption action plans in all sectors working at municipal level and receiving funds from the Program, as well as including corruption risk assessment and reporting framework. There will also be need to strengthen maintenance of accounting records at each municipality which act as a key barrier to accountability at this level.

- **Participation Mechanisms/Stakeholder Risks:** The program will build in scope for Non-State Actors, professional groups, civil society coalitions to participate in monitoring both implementation process and value for money providing scope in the operation to involve beneficiaries at all stages of the program to help improve chances of meeting program outcomes. In addition the program will encourage the incorporation of the minimum condition and key performance measures under the performance assessment mechanisms into the municipal councils' client charters. This will include third party monitoring that seeks to ensure Value for Money is achieved. Parallel to the program is an on-going City Alliance Support Program (CASP) supporting the development and operationalization of Municipal Development Forums that bring together various stakeholders to play role of monitoring for value for money. Currently

the CASP is looking at only 5 municipalities, and the team has embarked on discussions to ensure that this process is rolled out to all the 14 municipalities.

- **Institutional Capacity Building:** As clearly elaborated above, recruitment of key staff to cover the 45% shortfall across municipalities and X% in the MHLUD will help meet program objectives and act as a mitigation measure for fraud and corruption and other challenges identified under fiduciary assessment.

- **Review of rules and tighten soft expenditure eligibility within the program.** Due to abuse in the rules that govern payments of per diems, allowances, honoraria, usage of fuel, stationery costs, training and other related soft expenditures, there will be need to tighten the rules to ensure that payments are being made for actual activities that have taken place and relevant to the program.

- **Reward and sanction system in determination of annual grants to MCs provides a good opportunity for anchoring mitigation measures for F&C risks.** Several of the performance measures *(work out which ones these are and specify what % they contribute of the total marks)* target improvements in transparency, procurement, financial management quality of works and sound environmental management. This reward / sanction system provides incentives for MCs to implement measures to address F&C

- **Audits of Procurement and value for money audits:** Annual audits of procurement shall especially target identified risks such as alteration of bid evaluation criteria, advertising of opportunities, etc and information from the audits shall feed into the performance measures for grant determination. This shall be complemented by value for money audits every two years to determine the reasonableness of prices and that the works are fully performed and to the required standard.