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Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 14-Mar-2024 | Report No: PIDA0039

BASIC INFORMATION

A. Basic Program Data

Project Beneficiary(ies)	Region	Operation ID	Operation Name
Ethiopia	EASTERN AND SOUTHERN AFRICA	P179713	Second Urban Institutional & Infrastructure Development Program
Financing Instrument	**Estimated Appraisal Date**	**Estimated Approval Date**	**Practice Area (Lead)**
Program-for-Results Financing (PforR)	14-Mar-2024	24-Apr-2024	Urban, Resilience and Land
Borrower(s)	**Implementing Agency**		
Ministry of Finance	Ministry of Urban and Infrastructure (MUI)		

Proposed Program Development Objective(s)

to improve the institutional capacity for sustainable urban management and to increase access to climate-smart urban infrastructure and services in Program ULGs, and refugee-hosting ULGs.

COST & FINANCING (US$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)? No

Is this project Private Capital Enabling (PCE)? No

SUMMARY

Government program Cost	**1,200.00**
Total Operation Cost	**750.00**
Total Program Cost	750.00
Total Financing	**750.00**
Financing Gap	**0.00**

FINANCING

Total World Bank Group Financing	**500.00**

World Bank Lending	500.00
Total Government Contribution	**250.00**

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

1. **Ethiopia is Sub-Saharan Africa's second most populous country with a population of over 123 million.** Population growth has slowed in recent years but still stands at a high 2.5percent per year. Most of the population lives in rural areas, and the share of the urban population (21 percent) is among the lowest in the world, well below the average for Sub-Saharan Africa (41 percent)[1]. Despite its predominantly rural character, Ethiopia is fast urbanizing, driving demographic and socio-economic change. By 2037, Ethiopia's urban population is projected to nearly double from 24.5 million to 42.3 million[2]. Notwithstanding the rapid urbanization, the gross domestic product (GDP) is concentrated in Addis Ababa, which represents 4 percent of the population against almost 20 percent of the GDP. The next nine cities combined have 3 percent of the population and only a 13 percent of the GDP[3].

2. **Ethiopia had a GDP of $126 billion in 2022, and the economy has experienced strong, broad-based growth averaging 9.4 percent a year from 2010/11 to 2019/20, and still the fastest growing economy in the region, with 5.3 percent growth in 2023**. Consistent high economic growth brought positive trends in poverty reduction. The population living below the national poverty line decreased from 30 percent in 2011 to 24 percent in 2016. Poverty reduction is more pronounced in urban areas. However, despite this decrease in poverty and rapid economic growth, it is still one of the poorest countries in the world, with a per capita income of $1,212. Ethiopia aims to reach lower-middle-income status by 2025. At the same time, Ethiopia faces significant challenges. The Coronavirus (COVID-19) pandemic and internal conflict has slowed growth to 5.3 percent in 2022. Chronic food insecurity[4], climate-related disasters (droughts and floods), and internal conflict[5] have undermined Ethiopia's gains in poverty reduction and economic growth, putting additional pressure on humanitarian needs. An estimated 2.2 million people[6] are displaced

[1] United Nations Population Division. World Urbanization Prospects: 2018.

[2] USAID. *https://urban-links.org/insight/ethiopias-rapid-urbanization-requires-innovative-municipal-finance/* Accessed: February 18, 2023.

[3] Africapolis.

[4] Ethiopia has been suffering from chronic food shortage. About 8.5 million people currently face high levels of food insecurity, driven by economic decline, COVID-19 measures, desert locust, as well as disaster and conflict-related displacement.

[5] Ethiopia's Tigray conflict has escalated and expanded beyond the original conflict area culminating in a six-month national state of emergency, declared on November 2, 2021. Although the conflict has meanwhile subsided, the state of emergency has been lifted (on February 15, 2022) and a ceasefire between the Ethiopian Government and the Tigray People's Liberation Front (TPLF) was signed November 2, 2022. The two-year conflict has led to a dramatic increase in humanitarian needs and exacerbated hunger and malnutrition, threatening to undermine the economic and social development outcomes achieved in Ethiopia. The conflict has also impacted supply chains, transport networks, and economic activities including foreign direct investments, and continues to pose a risk to the economic growth and development prospects of Ethiopia.

[6] IOM DTM.

and over 20 million in need of humanitarian assistance[7]. The total damages and losses due to the conflict are estimated at US$ 28.7 billion while the reconstruction costs are estimated at 19.7 billion[8].

3. **Ethiopia is highly vulnerable to climate change and cities play a critical role in the country's ongoing transition towards low-carbon and disaster resilient development.** It has a low adaptive capacity to manage climate change. It is at high risk of floods, droughts, and other climate-related hazards, in addition to rainfall variability and increasing temperature adversely impacting livelihoods.[9] Ethiopia's Ten Years Perspective Development Plan (2021 – 2030)[10] defines Sustainable Urban Development as one of six overarching priority areas and acknowledges the role of cities in achieving low-carbon and disaster-resilient development. Ethiopia's updated Nationally Determined Contribution (NDC)[11] defines 40 prioritized climate adaptation actions, of which five focus on urban areas. By 2030, Ethiopia is committed (i) to increase the land area with green infrastructure, (ii) enhance climate resilience, and (iii) undertake climate-adaptive urban planning, among others. While the overall share of urban areas to Ethiopia's GHG emissions remains low, considering the rapid urban and population growth especially of secondary cities, the GoE is committed to foster non-motorized transport with the aim to improve urban mobility, enhance access to opportunities, and facilitate inclusive urbanization.[12].

4. **Located in the Horn of Africa Region – one of the world's most complex human mobility environments – Ethiopia experiences high levels of forced displacement.** More than 3.4 million people are internally displaced due to conflict, drought and other factors, and Ethiopia is the third-largest refugee-hosting country in Africa, with nearly 1 million refugees.[13] Refugees are registered in 24 refugee camps and settlements established across five regional states, with Gambella hosting largest number of refugees (385,200), followed by Somali (310,400), Benishangul-Gumuz (79,800), Afar (59,300) and Amhara (25,100). About 77,300 refugees are registered as urban refugees in Addis Ababa.[14] Since 2011, the number of refugees in Ethiopia has increased more than six-fold, with new arrivals mainly from South Sudan and Somalia. Following the outbreak of armed conflict in Sudan in April 2023, Ethiopia has received more than 40,000 forcibly displaced populations, predominately in Amhara and Benishangul-Gumuz regions.[15] Overall Ethiopia's refugee situation is protracted, and refugees have been in Ethiopia for roughly 15 years, while women and children constitute some 80 percent of the refugee population.[16] The majority of refugee populations and host communities are located in fragile border areas across the country with limited services and economic potential. The World Bank, following consultation with the UNHCR, confirms that the protection framework for refugees continues to be adequate in Ethiopia. As per the latest UNHCR protection framework assessment, notable developments include signing of an MoU in September 2023 between RRS and the Ministry of Labor and Skills (MoLS), enabling the latter to issue work permit for refugees to engage in employment in sectors permitted for foreign nationals. Further, building on earlier commitments, the Ethiopian Government made six additional pledges during the 2023 Global Refugee Forum in the areas of climate action, transforming refugee camps into settlements, inclusion of refugees in the national system, enhancing private sector engagement, expanding access to land, and improving digital connectivity and access to documentation.

[7] Ethiopia CIARP Conflict Assessment.
[8] Ibid.
[9] World Bank, 2023. Ethiopia Country Climate Development Report.
[10] Government of Ethiopia, 2020. Ethiopia 2030: The Pathway to Prosperity. Ten Years Perspective Development Plan (2021 – 2030).
[11] FDRE, 2021. Updated Nationally Determined Contribution - July 2021.
[12] Ministry of Transport, 2020. Ethiopia Non-Motorised Transport Strategy 2020-2029.
[13] UNHCR, 2023. Ethiopia. Refugees and Internally Displaced Persons by Region, as of Dec 31, 2023.
[14] UNHCR, 2023. Ethiopia Urban Refugee Statistics, as of Dec, 2023.
[15] UNHCR, 2023. Ethiopia. New Population Movement from Sudan, as of Dec 5, 2023.
[16] World Bank, 2023. Socio-Economic Survey of Refugees in Ethiopia (SESRE).

Sectoral and Institutional Context

5. **Ethiopia has a federal, democratic government system, established in the early 1990s, with thirteen autonomous states ('Regions') and two chartered cities, including the capital of Addis Ababa**. Regional states have their own constitutions and are typically subdivided into administrative zones, which is a devolved territorial level. Local governments, as the third tier, are established by regions according to their own Constitutions and governance structures. City administrations/Urban Local Governments (ULGs) and woredas (or rural local governments) are semi-autonomous local government entities, with legal status as corporate bodies with their own political leadership (council) and their own budget. Currently there are 13 Regions, 2 cities, 200+ ULGs, and 670 Woredas. ULGs are responsible for an extensive list of public service delivery functions, including those which they are responsible for executing on behalf of their regions. ULGs provide municipal functions such as infrastructure (road, drainage, market shades etc), and services like water supply, solid and liquid waste management, building permits, and vital statistical services.

6. **The vision (2030) of the Government of Ethiopia (GoE) National Urban Development Policy (NUDP) is to have well-managed, competitive, sustainable, productive, and liveable cities that contribute to the realization of the broader national economic growth & structural transition**. As part of the policy implementation, the Ministry of Urban and Infrastructure (MUI) has developed the 10-year perspective development plan in October 2022. The plan has ten pillars[17] and focuses on the urban economy and jobs; urban planning, land development and management; urban infrastructure, urban governance, service provision; and institutional capacity for implementation and maintenance.

7. **The GoE has developed the Urban Institutional and Infrastructure Development National Program (UIIDNP) covering 195 ULGs with a total cost of US$1.2 billion over a five-year period.** The proposed Second Urban Institutional and Infrastructure Development Program (UIIDP 2) will be linked to and support the National Urban Development Policy (NUDP), the government program and the UIIDNP (p). It will build on and consolidate the experiences gained under ULGDP 1 (P101474; 2008 - 2013), ULGDP 2 (P133592; 2014 - 2017), and UIIDP 1 (P163452, 2017 - 2023). Aligned with the government program (UIIDNP), the UIIDP 2 will focus on achieving three results areas: (i) Enhancing institutional capacity for sustainable urban management that is able to meet the growing needs of urbanization and adapt to and mitigate economic, social, and environmental changes; (ii) Improving access to climate-smart infrastructure and services for ULG's liveability, sustainability, and competitiveness; and (iii) Integrated provision of infrastructure and services in refugee-hosting ULGs.

8. **Under the ongoing UIIDP 1 (closing July 2024), institutional strengthening and urban infrastructure and service delivery in the participating 117 ULGs have improved.** Institutional capacity in the participating cities has improved in planning and budgeting, financial management and revenue mobilization, procurement, project execution and asset management, and value-for-money (VfM). These improvements in institutional capacity for urban governance formed the bedrock in enabling improved infrastructure and services delivery in cities. Before UIIDP 1, participating ULGs had mainly dirt roads and few infrastructures and services. Under UIIDP 1, around 6.6 million people have benefited from the infrastructure and services delivered such as: 2,742 kilometers of roads; 1,563 kms of drainage system; more than 306 hectares of public parks and green spaces; over 6,296 hectares of land serviced for industry,

[17] (1) urban governance, finance, and services; (2) urban plan and urbanization; (3) urban land and cadaster; (4) housing and real prosperity; (5) urban food security and safety net; (6) urban infrastructure; (7) infrastructure and construction industry (8) construction management, (9) construction regulation, and (10) road infrastructure.

micro and small enterprises (MSEs) and housing; construction of landfills, flood protection walls, public toilets, street lightings. Furthermore, the annual temporary jobs directly created by the UIIDP 1 reached 749, 854 with a continued increase due to investments in labor intensive infrastructure.

9. **Recent comprehensive urban reviews[18] conclude that an urgent need exists to strengthen ULG capacity, finances, infrastructure development and ULG autonomy.** The current own source revenues in the 117 UIIDP ULGs are, however, inadequate to fund urban development apart from in Addis Ababa city. For UIIDP 1 ULGs, a gap of USD 600 million yearly exists unless practices and legislation are changed. Coverage of services are low (20-40% see summary of the Technical Assessment), thus more funding and institutional development are needed.

10. **Several challenges facing Ethiopia ULGs still exist.** Own source revenue (OSR) needs to be strengthened to improve financial sustainability. There is need to strengthen ULGs capacities for procurement and contract management to improve the quality of infrastructure services delivered. There is lack of capacity for climate related issues and investments such as risk sensitive capital investment planning and climate smart infrastructure. In addition, the proliferation of regions and ULGs following the referendum has resulted into associated institutional capacity challenges for implementation of Programs due to staff attrition.

11. **Ethiopia is impacted by urban forced displacement with refugee-hosting ULGs facing specific development challenges and opportunities.** Refugees are officially registered in camps, however, many reside and live among host communities or commute into nearby urban centers.[19] The type of interrelation between camps and urban areas, including the level of refugee flows and pressures on urban service provision, is complex and differs among the refugee-hosting urban areas, depending on the location of the camp, the supply of basic services in and outside the camp, or employment/livelihood opportunities in the urban areas, among others. Overall, the presence of refugees creates opportunities and challenges for refugee-hosting ULGs. While urban centers with widespread displacement impacts are strained in their capacities to provide adequate urban infrastructure and services, cities and towns also benefit from the labor, skills and trade provided by refugees, with some ULGs even experiencing a transformative impact in terms of urban growth and development. [20,21]

12. **Increasing climate risks and the GoE's commitment towards mitigating greenhouse gas emissions mandate a transition towards low carbon and disaster resilient urban development.** Ethiopia's cities currently contribute about 15 percent to the country's total greenhouse gas (GHG) emissions – driven by Ethiopia's rapid urban population and settlement growth. This share is expected to more than double to 35 percent in 2030[22]. Supporting the modal shift towards low-carbon transport and compact urban growth is thus key to facilitate Ethiopia's transition to sustainable and livable cities. Climate change and unplanned urban development are also driving urban disaster risk in Ethiopia. In line with general warming trends, climate projections indicate a higher likelihood of floods, landslides, and extreme

18 Ethiopian Urban Review, 2015, Financing Urban Development in Ethiopia, MODU/UIIDP/Proud'homme, May 2021, and McKensie Study under UIIDP 1.

19 World Bank geospatial analysis shows that all refugee sites in Ethiopia are located within a 50 km radius of an urban settlement, and seven sites are adjacent or within 5 km (walking) distance of urban centers.

20 Vemuru et al., 2021. Impact of Refugees on Hosting Communities in Ethiopia. A Social Analysis.

21 Carver et al., 2020. Somali regional report. 2018–2019 refugee and host community context analysis.

22 Cities Alliance. About CDS (Online). 2017. Available online: http://www.citiesalliance.org/about-cds.

heat[23,24]. Despite a growing consideration of climate change and urban resilience in higher level policies and plans, Ethiopia lacks the necessary instruments to adequately address the climate and disaster resilience challenges in urban areas[25]. There is therefore urgent need to strengthen Ethiopia's institutional capacities for urban climate and disaster resilience and low carbon urban development and to broaden investments in climate smart infrastructure.[26]

PforR Program Scope

13. **The UIIDP 2 is a hybrid (PforR and IPF) operation of US$500 million IDA funding and US$250 million co-funding**. The Program will provide direct support to 60 ULGs as well as 13 regions and federal government. The primary beneficiary of the Program is the 8.2million residents of the 60 ULGs.

14. **The Program is design to achieve three results areas (RAs)**. RA1 – Institutional strengthening for sustainable urban management and coordination both at national and sub-national level. RA 1 will be financed through DLIs 1 and 2 (at ULG level), DLI 5 - 6 (at regional level) and DLIs 7-8 (at federal/MUI level); and RA2 – improved access to infrastructure and services. RA 2 will be financed through DLIs 3 – 4 (at ULGs level) and RA 3 - access to integrated urban infrastructure and services in refugee-hosting ULGs. RA 3 will be financed under DLIs (9-10) at the refugee-hosting ULGs under the WHR.

15. **The proposed Program aims to facilitate the transition towards climate smart urban development, in alignment with the priority actions for urban areas defined in Ethiopia's NDC**[27]. Climate smart infrastructure are public investments in urban infrastructure that consider current and expected future changes in climate conditions with the aim to mitigate GHG emission (i.e. facilitate low carbon urban development) and/or reduce the impact of climate related hazards, such as floods or extreme heat.[28] Using the incentive structure of the PforR instrument, the UIIDP-II will leverage a combination of ”hard” (i.e. infrastructure) and ”soft” (i.e. planning) investments at scale across the UIIDP-II ULGs:

i. *Climate Smart Urban Infrastructure*: The Program will incentivize public investments in urban infrastructure that consider current and expected future changes in climate conditions. These will be selected by the ULGs from an investment menu, which includes investments that support climate mitigation and non-motorized mobility (e.g., bicycle lanes, walkways, and urban green spaces) as well as climate adaptation and disaster risk reduction (e.g., side drainage, retention walls, including nature-based and combined grey-green solutions).

ii. *Climate Smart Local Development Plans*: The Program will support ULGs in developing Local Development Plans and ensuring they are sensitive to disaster risks (by incorporating hazard/disaster risk information) and support low carbon

[23] World Bank/GFDRR. 2019. Ethiopia Disaster Risk Profile.
[24] World Bank/GFDRR, 2017. Safe and Resilient Cities in Ethiopia. Review of Building Regulatory Framework.
[25] At the national level, policy coordination remains weak notwithstanding an existing Guideline for Mainstreaming Disaster Risks into the Development Planning Process and Future Investment Decisions (2017). This fragmentation is also reflected at the local level, where ULGs have limited capacities to integrate the considerations of climate change and disaster risk into urban planning and land management.
[26] Climate smart infrastructure are public investments in urban infrastructure that consider current and expected future changes in climate conditions. (cf. World Bank, 2022. Reference Guide for Climate-Smart Public Investment).
[27] By 2030, Ethiopia is committed (i) to increase the land area with green infrastructure, (ii) enhance climate resilience, and (iii) undertake climate-adaptive urban planning, among others.
[28] cf. World Bank, 2022. Reference Guide for Climate-Smart Public Investment

and green urban development patterns, by defining denser and more compact and connected urban forms, designating urban green areas etc.

iii. *Climate Smart Capital Investment Planning:* The Program will support the roll-out of climate smart capital investment plans (CS-CIPs) which were piloted under UIIDP-I. Building on the 3-year rolling capital investments plans, the CS-CIPs will help ULGs incorporate climate and disaster risk considerations (both climate adaptation and mitigation) into forward-looking investment decisions at the city level to support compact urban development and prevent carbonlock-in, and mitigate disaster risk by e.g. ensuring that investments are located outside hazard areas.

16. **The IDA funding of US$500 million will have five windows**:

17. **Window 1** – ULGs **PforR window (US$ 370 million**): This window will finance the provision of urban services and institutional development and capacity building (ID&CB) for Program ULGs as per agreed investment menu.

18. **Window 2 – Regional Government PforR window (US$ 10 million):** this window will finance regional bureaus to conduct timely mandatory audits (financial, environmental, and social, Value for money (VfM), etc) and provide timely technical support to ULGs in their respective jurisdictions for Program implementation.

19. **Window 3 – MUI PforR window (US$ 10 million):** this window will incentivize the MUI to conduct timely annual performance assessment (APA) including the preparation of annual consolidated synthesis assessment reports to for performance trend analysis that provides a feedback loop to ID&CB and policy reforms to support sustainable climate smart urban development and services.

20. **Window 4 - IDA20 Window for Host Communities and Refugees (WHR) (US$100 million)**. This window will support sixteen refugee-hosting ULGs,[29] in total comprising over 1.5 million beneficiaries of which more than 736,000 urban residents and 822,000 refugees. Selected ULGs are located across the five main refugee-hosting regions: Somali (five ULGs), Afar (three ULGs), Gambella (three ULGs), Benishangul-Gumuz (two ULGs), and Amhara (three ULGs). The ULGs were identified in consultation with MUI, RRS and UNHCR using a novel geographic targeting approach which considers (i) proximity of urban areas to refugee sites, (ii) population thresholds for urban and refugee populations, (iii) existence of functional local governance structures, and (iv) longer-term government plans for refugee camps and settlements. Activities under the WHR aim to facilitate the planning for and the provision of integrated urban infrastructure and services in refugee-hosting ULGs with a joint benefit for refugees and host communities. Of the US$100 million WHR allocation, US$80 million will support the 16 refugee-hosting ULGs in planning and delivery of integrated urban infrastructure and services ;US$8m and US$5m will respectively support the five refugee-hosting regions and federal agencies (MUI and RRS) in establishing the necessary policy frameworks, procedures, and coordination mechanisms to advance the urban refugee agenda in secondary cities; US$ 7m is allocated under the IPF Window to provide technical assistance and capacity-building support for integrated planning for and delivery of urban infrastructure and services at the federal, regional and ULG level. Activities under WHR will be implemented by the affected ULGs with support from the relevant regional bureaus, and Federal Ministries Departments and Agencies (MDAs) that would be members of Program Technical Committee (PTC) (see Annex 8 for details).

[29] Four refugee-hosting ULGs are included under the UIIDP-II PforR Window.

21. The PforR resources will be disbursed under the four windows above based on Disbursement Link Indicators (DLIs) achieved.

22. **Window 5 - IPF window (US$17 million) to MUI.** The IPF window will support the achievements of the DLIs under the four PforR windows discussed above. The window will finance ***Technical Assistance, procurement of imported equipment, and Program Management.*** It will insulate the MUI from forex risk and allow it to import necessary institutional strengthening equipment as well as procure international consultants for advancing urban policy frontiers and addressing new areas of focus, such as climate and disaster resilience. It will also be used to support capacity building for non-participating ULGs under UIIDP 2 and prepare them to join the Program in the future. It will support and enhance operational capacity primarily at the federal level for Program management including Annual Performance Assessment (APA), Mid Term review (MTR), Program Audit, Program communication activities, etc. This sub-component will help bring together and coordinate the respective bureaus and ministries who will be engaged in the implementation of UIIDP 2 as members of the Program Steering Committee (PSC) and Program Technical Committee responsible for policy and technical issues respectively that may affect Program implementation.

23. **Geographical Coverage –** the Program will cover 60 ULGs selected from the 117 ULGs under the current ongoing UIIDP. The client had requested for UIIDP 2 to cover 200 ULGs (additional 83 ULGs to the current 117 ULGs under UIIDP). These additional numbers of ULGs cannot be included in UIIDP 2 because the resource envelope is small. IDA financing for UIIDP 2 is only US$400 million compared to US$600 million under UIIDP 1. Bringing in more ULGs would dilute the per capita allocation and undermine the incentives under the PforR instrument. In addition to the 60 ULGs covered under the UIIDP-II PforR Window, 16 ULGs are supported under IDA20 WHR, of which four are benefitting from UIIDP-II PforR – meaning the UIIDP-II will cover 72 ULGs in total (see overview map of geographic coverage in Annex 9).

24. The geographical boundary of the UIIDP 2 Program will cover the three tiers of governments but with the following limits: *national level* (MUI and the PTC)[30], *13 Regional governments; and 72 Program ULGs (UIIDP 2 - 60 ULGs and WHR - 16 ULGs, with 4 ULGs overlapping with the UIIDP 2)*. The Program will build on the experiences gained under the on-going UIIDP PforR Program and strengthen the DLIs to second generation focusing on a combination of processes, outputs, and outcomes.

25. **The Government program, the UIIDNP, (p) covers 195 ULGs**. The PforR Program is only limited to a sub-set of the government program and will finance activities that are within the ULG mandates and low risks and will cover only 60 ULGs (see investment menu).

26. **ULGs Selection criteria –** Under the on-going UIIDP, selection of the 117 ULGs were based on the criteria of (i) urban population above 20,000 (ii) status of city administration (municipal and state functions), and (iii) a mayor and city council. The selection of the 60 ULGs that will participate in the UIIDP 2 have been based on the following transparent criteria which takes into consideration the experiences gained under the on-going UIIDP and has inbuilt regional equity in terms of the respective region's share in the total urban population:

[30] The PTC membership comprises MUI, Ministry of Revenue (MoR), Ministry of Labor and Skills (MoLS), Ministry of Women and Social Affairs (MoWSA), Disaster Risk Management Commission (DRMC), Ministry of Water and Energy, Ministry of Transport and Logistics, Ministry of Planning and Development, Federal Public Procurement and Property Administration Agency (FPPPAA), Environment Protection Authority (EPA), Office of Auditor General (OFAG), Federal Ethics and Anti-Corruption Commission (FEAC) and Ethiopian Civil Service University (ECSU), . The committee can co-opt members as and when needed.

i. ***Eligibility –*** only ULGs from the on-going UIIDP that have experience with PBG system.
ii. ***Urban population*** - ULGs with population size of 50,000 and above as per the Ethiopian statistical service (ESS) projection as of July 2023. This will enable the Program to achieve economies of scale and benefit from the agglomeration effects.
iii. ***Regional balance*** - a quota to each region would be determined based on the ratio of urban population of a region to the total urban population of the nation. One of the regional benefiting ULG will be the regional capital, which is the political and administrative, and often economic center of the region.
iv. ***Regional economic centers –*** as identified in the Regional spatial analysis reports prepared by UN-Habitat together with the regional governments under UIIDP to inform the Regional Spatial Development Plans (RSDPs).
v. ***Cultural heritage sites –*** to enhance the touristic potential of Ethiopian cities, while also supporting efforts to preserve Ethiopia's rich cultural heritage and provide opportunities for jobs.
vi. ***Conflict affected ULGs –*** ULGs which have been impacted by the wider conflict, in terms of damage to urban infrastructure and services as identified by the Ethiopia Damage and Needs Assessment (2022).

Table 1 – List of UIIDP 2/WHR ULGs beneficiaries by regions.

Regions	**UIIDP ULGs**	**WHR ULGs**
Tigray	Mekele, Adigrat, Shire Enidasilase, Axum, Adwa	
Amhara	Gonder, Bahir Dar, Dessie, Debre Brehan, Debere Markos, Kombolcha, Debretabor, Woldiya, Mota, Finote Selam, Kobo, Sekota, Lalibela	Debark, Dabat, Gendawuha
Afar	Samera - Logiya	**Semera-Logiya**, Asayta, Barahle
Oromia	Adama, Bishoftu, Jimma, Shashemene, Nekemt, Asela, Batu, Ambo, Robe (Goba), Mojo, Gimbi, Chiro, Maya (Haromaya), Weliso, Negele, Arsi Negele, Dembi Dolo, Metu	
Central Ethiopia	Butajira, Hosaena, Welkite, Alaba Kulito, Durame,	
Sidama	Hawassa, Yirga- Alem, Aleta- Wondo	
South Ethiopia	Dila, Sodo, Arba- Minch, Sawula, Jinka	
Southwest Ethiopia	Mizan Aman, Bonga	
Benishangul	Assosa	**Assosa**, Bambasi
Somali	Jigjiga, Godey, Degehabur, Kebridehar	**Jigjiga**, Kebribeya, Aw-barre Dollo Ado, Bokolmayo
Gambela	Gambela	**Gambella**, Itang, Pugnido
Harari	Harar	
Dire Dawa	Dire Dawa	
Total	**60**	**16**[31]

27. **Program amount and duration –** the Program will be US$750 million (IDA – US$500m and GoE/ULGs – US$250m). It will be implemented over five years period (FY2025 – FY2029). Given the limited resources, and the need to maintain a per capita allocation not far away from the current US$16 under UIIDP, disbursement of the performance base grant (PBG) to the ULGs will be for 4 years. The fifth year will be for completion of any remaining subprojects.

[31] Highlighted refugee-hosting ULGs also benefit under the UIIDP-II PforR Window.

28. **Synergies with other Bank funded projects –** The program will leverage synergies with other World Bank financed operations in urban areas, notably the Urban Productive Safety Net and Job Project (UPSNJP); the One Wash; Urban Water Supply and Sanitation; Integrated Land Management project, and urban mobility ASA. The ULGs participating in the UIIDP 2 Program that have these ongoing projects in their areas will be required to prepare an integrated Climate Smart Capital Investment Plans (CsCIP) that will complement (not duplicate) ongoing project activities.

29. **Program Minimum Condition (MC) –** for the Program ULGs to receive funding, they must have the following minimum conditions covered under DLI 1: (i) CIP preparation; (ii) core staffing in place (FM, procurement, E&S etc), (iii) Minimum capacity in PFM –Timely financial audit report of ULG that is not disclaimer or adverse, 3. timely procurement audit report - which also includes opinion on completeness of procurement records and the quality of the KPI report; and maintain documentation for establishment of Proper Contract Management system – which clearly outlined duties and responsibilities of different units, clear contract management structure, manuals, and monitoring and supervision tools, (iv) Co-funding requirements by ULG; (v) Social & Environmental compliance – clean audit from REFA/RECC, and (vi) existence of strong Fraud and Corruption and compliant handling structure and proper case recording, reporting and follow up. These MCs have been upgraded from the current ones under the on-going UIIDP.

30. **Program Performance Measures (PM) -** Program performance measures will focus on achieving the two results areas[32]. The Program will therefore combine performance grants with strong incentives for ULGs to perform. There will be institutional support to the ULGs in functional areas such as Public Financial Management (PFM), asset management, revenue mobilization, gender inclusion, disaster resilience and climate change adaptation, urban planning, land management, local economic development (LED), and grievances redress mechanism (GRM). The Federal level will also be incentivized in policy development and urban reforms (own source revenue (OSR) improvements including property tax, future intergovernmental fiscal transfer systems and procedures, etc.) as well as climate smart urban development and infrastructure delivery. Compared to UIIDP 1, the GoE's contribution from the ULGs and regional matching financing will increase significantly, and the graduation towards increasing level of self-financing by ULGs will be strengthened. The performance measures have been detailed under DLIs 2 – 4 for Program ULGs, 5 – 6 for regional governments, and DLIs 7- 8 for federal government (MUI). The Program performance measures have therefore been strengthened compared to UIIDP 1 to promote climate smart urban development and enable a future sustainable financing strategy (see DLIs section). The summary of the performance measures (PMs) is summarized in the table below for each of the four PforR windows and the summary of the changes in the UIIDP 2 DLIs compared to those under UIIDP is presented in Annex 2.

31. **Graduation Strategy –** some ULGs have benefitted in all the three rounds of IDA financed projects (ULGDP1, ULGDP 2 and UIIDP) while several ULGs have not benefited. The UIIDP 2 will prepare ULGs that are mature to graduate and become self-financing after two years of benefiting from UIIDP 2 resources. ULGs that meet any of the two criteria below would be ready to graduate:

i. The ULGs that have benefited from urban projects since the first phase of ULGDP. However, ULGs that faced calamities from the impacts of war can be considered on a case-by-case basis.
ii. The ULGs with the level of own source revenues (OSR) above Birr 700 per capita, and
iii. ULGs with the average per capital expenditure above Birr 1,500 in the last four years (FY2016 – FY2021/EFY2009-2013) as the base year period.

[32] (i) RA 1 - institutional performance to improve capacities of urban staff to become good urban managers, and (ii) RA 2 - quality and timely delivery of climate smart urban services and infrastructure.

iv. The ULGs that have created the enabling environment for private sector to invest in its locality through PPP for core urban services such water provision/management, solid waste management, etc.
v. The ULGs that have a population of over 500,000 people because it qualifies to be a primary city and not a secondary city.

32. MUI will conduct periodic technical assessment to determine which ULGs are ready to graduate and provide support to new ULGs that will be candidates for subsequent operations.

C. Proposed Program Development Objective(s)

Program Development Objective(s)

33. to improve the institutional capacity for sustainable urban management and to increase access to climate-smart urban infrastructure and services in Program ULGs, and refugee-hosting ULGs.

D. Environmental and Social Effects

34. **Environmental and Social Systems Assessment (ESSA)** was conducted to review the systems and procedures followed by federal, regional and ULG levels of government to address environmental and social issues related to the UIIDP II. The ESSA provides an assessment and a summary of key environmental and social risks associated with the program and existing institutions and system of the GoE to manage and mitigate risks and ensure effective and successful implementation of the Program.

35. **Infrastructure works to be financed under the UIIDP II are similar in nature to those being financed under the UIIDP.** These include roads, streetlights, sanitation services, solid waste management, urban drainage, rehabilitation or construction of small-scale water supply schemes, schools, health facilities, and public parks and greenery. The infrastructure investments are likely to deliver significant social benefits, if they are planned in an inclusive manner, and are designed to ensure a distribution of benefits to vulnerable groups including the elderly, youth, women, and the poorest. However, in some cases there may be risks related to the physical or economic displacement of people, which will require careful planning and timely implementation of Resettlement Action Plans (RAPs). For most of infrastructure investments that will be financed through UIIDP II, the environmental and social risks anticipated during constructions phase are likely to be site-specific and limited in scale. These impacts include air pollution from dust and exhaust; nuisances such as noise, traffic interruptions, and blocking of access paths; water and soil pollution from the accidental spillage of fuels or other materials, point source pollutions from landfills and slaughterhouses solid and liquid wastes from construction sites, and occupational health and safety issues.

36. **Exclusions:** The UIIDP II will not finance any high-risk activity that may have adverse environmental and social risks; particularly risks associated with potential loss or conversion of natural habitats, potential pollution or other project externalities, and changes in land or resource use. The Program will also consider social effects such as nature/scale of involuntary resettlement or land acquisition required, and potential impacts on vulnerable communities. Examples of activities that will be excluded from this Program (which are not eligible for this Program financing) include any major infrastructure such as major transport infrastructure including highways, expressways,

urban metro systems, railways, and any large-scale water (surface and groundwater) resource infrastructure. Sub projects that require significant land acquisition will be excluded.

37. **Client Capacity and E&S Risk Management Arrangement**: The ESSA shows that Ethiopia has an adequate legal framework, including environment and social regulations, which are basically in line with PforR financing core principles. Under the UIIDP II environmental and social management system and resettlement system guidelines will be updated to ensure sound implementation of environmental and social management activities over the program period. Many of the ULGs participating in the UIIDP II have made significant improvements in integrating the environmental and social management system requirements into their development planning and creating the basic capacity to implement them, as shown by the screening exercise carried for all CIP sub-projects. These achievements represent the growing institutionalization and strengthening of the environmental and social management systems within the ULGs. However, there are still gaps in the E&S capacity, particularly at the ULG levels which is attributed to the recurrent turnover, overloading of staff, shorter time to conduct environmental and social assessment, limited level of expertise, and limited resources. Hence, all the program beneficiary city shall deploy E&S staff per the updated MAC requirements, and cities or towns which may not fulfill the minimum access condition for environmental and social risk management will not be eligible for the UIIDP II financing. The Program includes a DLI (DLI 2) that incentivizes E&S management activities. Besides, there is also a DLI related to annual independent E&S auditing which has been helpful to get insight on the E&S performance of the Program activities and to take corrective actions. The updated DLI will be made part of the UIIDP II POM and APA guideline.

38. **Key action areas have been identified to strengthen environmental and social management capacity and performance at all levels of government.** They are: (a) establishing and strengthening the environmental and social management system at ULG level; (b) providing technical guidance and capacity building; (c) addressing resource constraints; (d) increasing community and other stakeholders' awareness on social and environmental impacts of UIIDP II sub-projects; and (e) strengthening of the Annual E&S Performance Review and Audit. All investment activities under the UIIDP II will go through stringent screening process. Based on the output of the screening result, the corresponding instruments ESIA/Environment and Social Management Plan (ESMP)/RAP will be prepared and cleared by designated authority before the commencement of the construction activities.

39. ***Grievance Redress.*** Communities and individuals who believe that they are adversely affected because of a Bank supported PforR operation, as defined by the applicable policy and procedures, may submit complaints to the existing program grievance mechanism or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted at any time after concerns have been brought directly to the Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's Grievance Redress Service (GRS), visit *https://www.worldbank.org/GRS*. For information on how to submit complaints to the Bank's Accountability Mechanism, visit *https://accountability.worldbank.org*.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Area OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts of the IPF Component

40. E**&S risk rating of the IPF component is rated as Low**. The IPF Component of this Program is not expected to have negative effects on people and the environment. It will provide finance for Technical Assistance (TA) initiatives such as climate and disaster resilience. However, the TAs will undergo further screening once they are clearly defined and will be implemented in accordance with relevant environmental and social standards, if applicable. Environmental and Social Commitment Plan (ECSP) and Stakeholder Engagement Plan (SEP) has been prepared for this component.

E. Financing

Program Financing (Template)

Source	Amount (US$, Millions)	% of Total
International Development Association (IDA)	**500.00**	**66.67%**
IDA Credit	500.00	66.67%
Counterpart Funding	**250.00**	**33.33%**
Borrower/Recipient	250.00	33.33%
Total Program Financing	**750.00**	

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