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IDA/R2015-0294/1

November 25, 2015

**Closing Date: Wednesday, December 16, 2015
at 6 p.m.**

FROM: The Corporate Secretary

Ethiopia - Urban Productive Safety Net Project

Project Appraisal Document

Attached is the Project Appraisal Document regarding a proposed credit to Ethiopia for an Urban Productive Safety Net Project (IDA/R2015-0294), which is being processed on an absence-of-objection basis.

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Report No.: PAD1421

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 214.8 MILLION

(US\$300 MILLION EQUIVALENT)

TO THE

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

FOR AN

URBAN PRODUCTIVE SAFETY NET PROJECT (UPSNP)

November 20, 2015

Social Protection & Labor Global Practice
Africa Region

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CURRENCY EQUIVALENTS
(Exchange Rate Effective as of October 31, 2015)

Currency Unit	=	Ethiopian birr (ETB)
ETB20.9	=	US\$1
US\$1.39687	=	SDR 1

FISCAL YEAR
July 8 – July 7

ABBREVIATIONS AND ACRONYMS

BoFED	Bureau of Finance and Economic Development
BoLSA	Bureau of Labor and Social Affairs
BoMSED	Bureau of Micro and Small Enterprise Development
BoWC	Bureau of Women and Children
BUD	Bureau of Urban Development
CBT	Community-based Targeting
CE	Citizens' Engagement
CJC	Competitiveness and Job Creation
COPCU	Channel One Program Coordination Unit
CPAR	Country Procurement Assessment Review
CPS	Country Partnership Strategy
DP	Development Partner
EMCP	Expenditure Management and Control Subprogram
ESAP	Ethiopia Social Accountability Program
ESMF	Environmental and Social Management Framework
FeMSEDA	Federal Micro and Small Enterprise Development Agency
FM	Financial Management
FTA	Financial Transparency and Accountability
GAP	Gender Action Plan
GoE	Government of Ethiopia
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
GTP	Growth and Transformation Plan
HCES	Household Consumption Expenditure Survey
IBEX	Integrated Budget and Expenditure System
IC	Individual Consultant
ICB	International Competitive Bidding
IFR	Interim Financial Report
ISA	Integrated Standard of Auditing
JRIS	Joint Review and Implementation Support
LIPW	Labor Intensive Public Works
MCC	Management and Coordination Committee

MDG	Millennium Development Goal
M&E	Monitoring and Evaluation
MFI	Microfinance Institution
MIS	Management Information System
MoA	Ministry of Agriculture
MoFEC	Ministry of Finance and Economic Cooperation
MoLSA	Ministry of Labor and Social Affairs
MoU	Memorandum of Understanding
MoWC	Ministry of Women and Children
MoYS	Ministry of Youth and Sports
MUDHo	Ministry of Urban Development and Housing
NCB	National Competitive Bidding
NGO	Nongovernmental Organization
NSPP	National Social Protection Policy
OFAG	Office of the Federal Auditor General
OSCD	One Stop Center Directorate
PASS	Payroll and Attendance Sheet System
PBS	Promoting Basic Services
PCU	Project Coordination Unit
PDO	Project Development Objective
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PIM	Project Implementation Manual
PMT	Proxy Means Test
PPA	Project Preparation Advance
PSNP	Productive Safety Net Project
PW	Public Works
QCBS	Quality- and Cost-Based Selection
REMSEDA	Regional Micro and Small Enterprise Agency
RFP	Request for Proposal
RPF	Resettlement Policy Framework
SA	Social Accountability
SBD	Standard Bidding Document
SIA	Social Impact Assessment
SME	Small and Micro Enterprise
SP	Social Protection
SWDD	Social Welfare Development Directorate
TCC	Technical Coordination Committee
ToR	Terms of Reference
TVET	Technical and Vocational Education and Training
UFS&JCA	Urban Food Security and Job Creation Agency
UGGCBB	Urban Good Governance and Capacity Building Bureau
ULG	Urban Local Government
ULGDP	Urban Local Government Development Program
UPSBB	Urban Planning, Sanitation and Beautification Bureau
UPSNP	Urban Productive Safety Net Project

WEDP

Women Entrepreneurship Development Project

Regional Vice President:	Makhtar Diop
Country Director:	Carolyn Turk
Senior Global Practice Director:	Arup Banerji
Practice Manager:	Dena Ringold
Task Team Leaders:	Muderis Abdulahi Mohammed, Ruth Hill

ETHIOPIA
Urban Productive Safety Net Project

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PAD DATA SHEET*Ethiopia**Urban Productive Safety Net Project (P151712)***PROJECT APPRAISAL DOCUMENT***AFRICA*

Report No.: PAD1421

Basic Information			
Project ID P151712	EA Category B - Partial Assessment	Team Leader(s) Muderis Abdulahi Mohammed, Ruth Hill	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints []		
	Financial Intermediaries []		
	Series of Projects []		
Project Implementation Start Date 15-Dec-2015	Project Implementation End Date 31-Dec-2020		
Expected Effectiveness Date 01-Apr-2016	Expected Closing Date 07-Jul-2021		
Joint IFC No			
Practice Manager/Manager Dena Ringold	Senior Global Practice Director Arup Banerji	Country Director Carolyn Turk	Regional Vice President Makhtar Diop
Borrower: Federal Democratic Republic Of Ethiopia			
Responsible Agency: Ministry of Urban Development and Housing (MUDHo)			
Contact: Telephone No.:	Mekuria Haile 251-11-553-16-88	Title: Email:	Minister ztiumb@gmail.com
Project Financing Data(in US\$ millions)			
[] Loan	[] IDA Grant	[] Guarantee	
[X] Credit	[] Grant	[] Other	
Total Project Cost:	450.00	Total Bank Financing:	300.00

Financing Gap:	0.00						
Financing Source							Amount
BORROWER/RECIPIENT							150.00
International Development Association (IDA)							300.00
Total							450.00
Expected Disbursements (in US\$ millions)							
Fiscal Year	2016	2017	2018	2019	2020	2021	
Annual	10.15	69.70	94.95	85.10	40.10	0.00	
Cumulative	10.15	79.85	174.80	259.90	300.00	300.00	
Institutional Data							
Practice Area (Lead)							
Social Protection & Labor							
Contributing Practice Areas							
Poverty and Equity							
Cross Cutting Topics							
[] Climate Change							
[] Fragile, Conflict & Violence							
[X] Gender							
[X] Jobs							
[] Public Private Partnership							
Sectors / Climate Change							
Sector (Maximum 5 and total % must equal 100)							
Major Sector	Sector				%	Adaptation Co-benefits %	Mitigation Co-benefits %
Public Administration, Law, and Justice	Public administration-Other social services				10		
Health and other social services	Other social services				80		
Water, sanitation and flood protection	Solid waste management				10		
Total					100		
<input checked="" type="checkbox"/> I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.							
Themes							

Theme (Maximum 5 and total % must equal 100)		
Major theme	Theme	%
Social protection and risk management	Social Safety Nets/Social Assistance & Social Care Services	60
Social protection and risk management	Improving labor markets	30
Urban development	Other urban development	10
Total		100
Proposed Development Objective(s)		
The project development objective of the proposed project is to support the Government of Ethiopia to improve income of targeted poor households and establish urban safety net mechanisms.		
Components		
Component Name	Cost (US\$ millions)	
1. Safety Net Support	336.00	
2. Livelihood Services	79.00	
3. Institutional Strengthening and Project Management	35.00	
Systematic Operations Risk- Rating Tool (SORT)		
Risk Category	Rating	
1. Political and Governance	Moderate	
2. Macroeconomic	Moderate	
3. Sector Strategies and Policies	Moderate	
4. Technical Design of Project or Program	Moderate	
5. Institutional Capacity for Implementation and Sustainability	Substantial	
6. Fiduciary	Substantial	
7. Environment and Social	Substantial	
8. Stakeholders	Substantial	
9. Other		
OVERALL	Moderate	
Compliance		
Policy		
Does the project depart from the CAS in content or in other significant respects?	Yes []	No [X]
Does the project require any waivers of Bank policies?	Yes []	No [X]

Have these been approved by Bank management?	Yes []	No []	
Is approval for any policy waiver sought from the Board?	Yes []	No [X]	
Explanation:			
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No []	
Safeguard Policies Triggered by the Project			
	Yes	No	
Environmental Assessment OP/BP 4.01	X		
Natural Habitats OP/BP 4.04		X	
Forests OP/BP 4.36		X	
Pest Management OP 4.09		X	
Physical Cultural Resources OP/BP 4.11	X		
Indigenous Peoples OP/BP 4.10		X	
Involuntary Resettlement OP/BP 4.12	X		
Safety of Dams OP/BP 4.37		X	
Projects on International Waterways OP/BP 7.50		X	
Projects in Disputed Areas OP/BP 7.60		X	
Legal Covenants			
Name	Recurrent	Due Date	Frequency
Establishment of Committees		31-Jan-2016	
Description of Covenant			
Establish and thereafter maintain at all times during Project implementation, the National Steering Committee, the Project Management and Coordination Committee, and Project Technical Coordination Committees.			
Name	Recurrent	Due Date	Frequency
Establishment of the PCU		31-Jan-2016	
Description of Covenant			
Establish, and thereafter maintain at all times during Project implementation, the Project Coordination Unit, all with functions, composition, terms of reference and resources acceptable to the Association.			
Name	Recurrent	Due Date	Frequency
Adoption of the PIM		29-Feb-2016	
Description of Covenant			
The Project Implementation Manual, including the Project Procurement Manual and Financial Management Manual, to be adopted setting forth rules, methods, guidelines and procedures for the carrying out of the Project.			

Conditions				
Source Of Fund	Name			Type
IDA	Project Implementation Manual			Disbursement
Description of Condition				
No withdrawal shall be made under Category (2) for Conditional Cash Transfers, Unconditional Cash Transfers or Livelihood Grants unless the Project Implementation Manual in form and substance acceptable to the Association has been adopted by the Recipient.				
Source Of Fund	Name			Type
IDA	MoU between MUDHo and Financial Institution			Disbursement
Description of Condition				
No withdrawal shall be made under Category (2) for Conditional Cash Transfers, Unconditional Cash Transfers or Livelihood Grants unless the Memorandum of Understanding between the MUDHo and the Financial Institution has been duly executed under the terms and conditions acceptable to the Association for the purposes detailed in Parts 1(a), 1(b) and 2(b) of the Financing Agreement.				
Team Composition				
Bank Staff				
Name	Role	Title	Specialization	Unit
Muderis Abdulahi Mohammed	Team Leader (ADM Responsible)	Senior Social Protection Specialist	TTL	GSPDR
Ruth Hill	Team Leader	Senior Economist	Co-TTL	GPVDR
Shimelis Woldehawariat Badisso	Procurement Specialist	Senior Procurement Specialist	Procurement	GGODR
Meron Tadesse Techane	Financial Management Specialist	Senior Financial Management Specialist	Financial Management	GGODR
Alex Kamurase	Team Member	Senior Social Protection Specialist	Safety Nets, Livelihoods, Citizens engagement	GSPDR
Asferachew Abate Abebe	Safeguards Specialist	Senior Environmental Specialist	Safeguard	GENDR
Berhanu Legesse Ayane	Team Member	Senior Public Sector Specialist	Governance and Anticorruption	GGODR
Camilla Holmemo	Team Member	Senior Economist	Gender, system building, risks	GSPDR
Carolina Mejia-Mantilla	Team Member	Economist	Impact Evaluation	GPVDR

Chukwudi H. Okafor	Safeguards Specialist	Senior Social Development Specialist	Social Safeguard	GSURR
Colin Andrews	Team Member	Senior Social Protection Specialist	Public Works	GSPDR
Ian Leslie Campbell	Safeguards Specialist	Consultant	Safeguard	GSP01
Johanna van Tilburg	Team Member	Senior Social Development Specialist	Safeguard Advisor	OPSPF
Laura Campbell	Team Member	E T Consultant	Social Safeguard	GSPDR
Nikolai Soubbotin	Team Member	Lead Counsel	Lawyer	LEGAM
Samrawit Girma Beyene	Team Member	Program Assistant	Program Assistant	AFCE3
Ugo Gentilini	Team Member	Senior Social Protection Specialist	Targeting, institutional assessment	GSPDR
Wolter Soer	Team Member	Senior Social Protection Specialist	Public Works, Safety Net system, Finance	GSPDR

Extended Team

Name	Title	Office Phone	Location

Locations

Country	First Administrative Division	Location	Planned	Actual	Comments

Consultants (Will be disclosed in the Monthly Operational Summary)

Consultants Required? Consultants will be required

I. STRATEGIC CONTEXT

A. Country Context

1. **Ethiopia is a large and geographically diverse country, with a representation of 98 nationalities who speak 93 languages, a total population of about 90 million, and a population growth rate of 2.6 percent (2013).** At that rate, the United Nations estimates that the population will reach 130 million by 2025. Ethiopia is projected to be among the world's 10 largest countries by population in 2050. IDA commitments to Ethiopia in recent years have been over US\$1 billion per year. Making progress in Ethiopia on the two goals of the World Bank Group is therefore important both for global progress and for the country itself.

2. **Ethiopia remains one of the world's poorest countries but has achieved high levels of economic growth and made substantial progress on social and human development over the past decade.** The country's per capita income of US\$550 (Atlas gross national income, 2014) is substantially lower than the regional average of US\$1,257 and the eleventh lowest worldwide. Ethiopia is ranked 173 out of 187 countries on the Human Development Index (2014) of the United Nations Development Programme. However, economic growth has helped reduce poverty in both urban and rural areas. Since 2005, 2.5 million people have been lifted out of poverty and the share of population below the poverty line has fallen from 38.7 percent in 2004/05 to 29.6 percent in 2010/11 (using a poverty line close to US\$1.25/day). Ethiopia is among the countries that have made the fastest progress on the Millennium Development Goals (MDGs) and Human Development Index ranking over the past decade. In particular Ethiopia has made substantive gains in the areas of universal primary education, gender parity in education, child mortality, maternal mortality, HIV/AIDS, and malaria.

3. **Ethiopia's constitution ensures a federal, democratic system.** Ethiopia's current government system was established in the early 1990s by the Ethiopian People's Revolutionary Democratic Front, which took over the country in 1991 after militarily defeating the previous regime. Since 2003, the country has actively pursued decentralization of governance to the regional and *woreda* levels—a *woreda* is a district with an average population of 100,000. Ethiopia marked an important milestone in August 2012 with the first peaceful and constitutional transition of power in the country's modern history and the appointment of Hailemariam Desalegn as prime minister, following the death of Meles Zenawi, who had led Ethiopia since the Ethiopian People's Revolutionary Democratic Front took over.

4. **The Government of Ethiopia (GoE) has completed its Growth and Transformation Plan (GTP) (2010/11–2014/15), which set a long-term goal for Ethiopia to become a middle-income country by 2025, with a growth rate of at least 11.2 percent per year during the plan period.** A second phase of the GTP is currently being finalized. To achieve the GTP goals and objectives, the GoE has followed a 'developmental state' model, with a strong role for the government in certain aspects of the economy. It has prioritized key sectors such as industry and agriculture as drivers of sustained economic growth and job creation. The GTP also reaffirms the GoE's commitment to human development. The programs of development partners (DPs) are broadly aligned with the GTP priorities.

5. **The Bank Group’s Country Partnership Strategy (CPS) for FY13–FY16 sets out the principles for engagement within this framework, as recently reviewed in the 2014 CPS Progress Report.** The CPS supports the GoE in implementing the GTP. It includes two primary pillars and seven strategic objectives. Pillar One (Fostering Competitiveness and Employment) aims to support Ethiopia in achieving the following strategic objectives: (a) a stable macroeconomic environment; (b) increased competitiveness and productivity (a particular area of focus for the IFC); (c) increased and improved delivery of infrastructure; and (d) enhanced regional integration. Pillar Two (Enhancing Resilience and Reducing Vulnerabilities) aims to support Ethiopia through (e) improved delivery of social services and (f) comprehensive social protection (SP) and risk management. The CPS also has a foundation of (g) good governance and state building. In line with the GTP, gender and climate change have been included as cross-cutting issues in the CPS. The CPS Progress Report reconfirmed these strategic objectives while noting that the Bank Group will place renewed emphasis on a stable macroeconomic environment, increased competitiveness and productivity, regional integration, and the urbanization process.

B. Sectoral and Institutional Context

6. **Ethiopia has a strong record of reducing extreme poverty in recent years; however, the main drivers of this progress have been rural:** agricultural growth, provision of basic services, and safety nets. The structural transformation that has taken place in value addition (a shift from agriculture to services) has contributed very little to poverty reduction.

7. **Although Ethiopia remains predominantly rural, urbanization is taking place, and as Ethiopia urbanizes, poverty becomes more urban.** In 2000, 11 percent of Ethiopia’s poor lived in cities, but this rose to 14 percent in 2011. The urban population reached 11.9 million by the last census in 2007 and was estimated to reach 16.7 million in 2014, with an average population growth rate of 3.8 percent. Urban population growth is expected to increase, with a tripling of the urban population expected by 2034 and 30 percent of the population in urban areas by 2028 (Ethiopia Urbanization Review, World Bank 2015). As more of the urban poor live in large urban centers, expanding development programs to address key challenges to urban poverty reduction is imperative.

8. **An economically productive urban transformation is necessary for Ethiopia to reach middle-income status, end poverty, and improve shared prosperity.** Getting urban growth correct now is crucial to developing the type of cities that foster inclusive growth in the long run. If managed proactively, urban population growth presents an opportunity to shift the structure and location of economic activity from rural agriculture to the larger and more diversified urban industrial and service sectors. If not managed proactively, rapid urban population growth may pose a demographic challenge as cities struggle to provide citizens with jobs, infrastructure and services, and housing (Ethiopia Urbanization Review, World Bank 2015).

Urban Poverty and Labor Markets

9. **Urban poverty rates in Ethiopia are quite high, particularly in the large cities.** The urban-rural poverty rate differential is low in comparison to other countries. The total national poverty head count in 2011 was 29.6 percent (30.4 percent in rural Ethiopia and 25.7 percent in

urban areas). Poverty rates in Addis Ababa and Dire Dawa were as high as 28.1 percent and 28.3 percent, respectively. The poverty gap index is estimated to be 8 percent in rural Ethiopia and 6.9 percent in urban Ethiopia.

10. **In large cities, poverty has been falling, but not as fast as in rural areas and smaller urban centers.** From 2005 to 2011, consumption growth was negative for the poorest 15 percent of the urban population and for the majority of households in Addis Ababa as wages did not increase to compensate households for the rising food prices that they faced. One-fifth of Ethiopia's urban population lives in Addis Ababa and reducing poverty rates in this and other large urban centers is a key priority toward addressing poverty reduction in Ethiopia.

11. **Access to the labor market is a key determinant of poverty in urban areas.** The poorest are those with inadequate employment or those who cannot engage in labor markets because of age, disability, or ill-health. Distinct groups of urban poor can be identified each with diverse needs (annex 6).

12. **The most visible faces of urban poverty are the destitute.** These are the poor that live on the street and comprise street children, the homeless, and beggars, who need housing, healthcare, counseling, and often reunification with their families, in addition to financial support. This group is very poor but also relatively small in number (an estimated 3 percent of the poorest 15 percent of urban households).

13. **Another clearly identifiable group of the urban poor are the elderly and disabled living in households with no working-age members** (7 percent of poorest 15 percent). Financial and community support is weaker for this group in cities than in rural communities and as a result they are both poorer and more vulnerable than the elderly and disabled in rural areas. Households with an elderly head are 13 percentage points more likely to be poor in urban areas (in rural areas they are no poorer than the average rural household). Households with disabled members have poverty rates 19 percentage points above the urban average. This group needs long-term financial support in addition to home-based care services.

14. **However, the largest groups of urban poor are those with little work or those in low-quality employment.** Unemployment is strongly correlated with poverty. It is not just found among a more-educated middle class; households with unemployed or underemployed comprise 42 percent of the poorest 15 percent.¹ Almost half (48 percent) of the poorest 15 percent of urban households live in households where, at a given point in time, all adults are working, half in marginal self-employment (mostly in services) and half in low-wage employment in services, manufacturing, and construction. Very often individuals move in and out of unemployment, self-employment, and employment over time.

15. **High rates of unemployment are present in large cities, reflecting a number of imperfections in urban labor markets** (Urban Labor Market Study, World Bank 2015). The overall unemployment rate in urban areas is 17.1 percent, but this is higher in Addis Ababa (23.6 percent) and among the youth (27.9 percent and 18.3 percent for age groups 20–24 years and

¹ Underemployment refers to those in work, but that report looking for more hours of work. Almost a third (31 percent) of those working in Addis Ababa report being underemployed.

25–29 years, respectively).² A public sector premium in both wages and job satisfaction encourages queuing for public sector jobs among those with secondary and graduate education; as they queue they enter into temporary unskilled employment opportunities, crowding out unskilled workers better suited to permanent employment in these activities. Wages for unskilled jobs in Ethiopia are unable to fall any further to clear the market as they currently barely cover the cost of basic food and other requirements for workers to be able to engage in a full day of work. There is also evidence of high job search costs; with 84 percent in unemployment stating that they reduce their search efforts because search is costly (it involves travelling to job bulletin boards).

16. **Low wages reflect low rates of labor productivity** (World Bank Ethiopia Economic Update 2015). Increasing the productivity of work through training and perhaps also ancillary support to workers, such as transportation assistance, lunches, and support for children or elderly dependents, can increase productivity and the value of take-home pay. Lack of access to capital is cited as a constraint to entering and expanding self-employment activities. A recent impact evaluation suggests that provision of grants and some basic training on business planning can have a large impact on self-employment income (Blattman and Dercon 2015).³ Lack of space is a particularly binding constraint on self-employment in Addis Ababa as all businesses are required to register and have business premises.

17. **Women face specific challenges in participating in urban labor markets.** Female labor force participation rates are 13 percentage points lower than male participation rates and the most common reason for not participating is domestic responsibilities (Ethiopia Labor Market Study 2015, Franklin 2014). Affordable child-care that makes it possible for women to engage in the labor market is often not available. Women are much more likely to be in informal employment than men (Ethiopia Urbanization Review 2015) in part reflecting lower educational attainment (annex 6).

18. **The government is encouraging the creation of new jobs in large cities through favorable incentives to foreign direct investment and the development of large industrial zones in Addis Ababa and other cities, with some success.**⁴ However, new firms complain about the cost of hiring workers given the lack of soft skills and factory work experience among new hires and the high rates of turnover. The GoE sees Technical and Vocational Education and Training (TVET) as an important means by which to improve worker productivity. However, the quality of public TVET is low and firms report not hiring TVET graduates, using other training institutes, or conducting in-house training instead (World Bank 2014).

19. **The close relationship between employment and poverty in urban areas requires a tailored approach.** SP for the poorest in urban areas needs to combine income support with support to improve employability for those households with working-age adults.

² 2014 Urban Employment and Unemployment Survey.

³ Blattman, C. and S. Dercon (2015). More sweatshops for Africa? A randomized trial of industrial jobs and self-employment. Working paper.

⁴ In 2015, McKinsey & Company found Ethiopia to be ranked a top sourcing destination by apparel companies, the first time ever for an African country.

Characteristics of Social Safety Nets

20. **Recently, the GoE has shown a strong commitment to SP to sustain economic growth while protecting the social and economic rights of citizens and preventing social disintegration and instability that widening inequality may generate.** This is reflected in the National Social Protection Policy (NSPP) which was approved by the Council of Ministers in November 2014. The government has also strongly recognized the importance of SP both in GTP I and GTP II. The NSPP has identified social safety nets and livelihood and employment generation as important pillars. The Urban Productive Safety Net Project (UPSNP) is fully embedded in the NSPP and GTP II. In addition, other important national policies and strategies will also guide the design and implementation of UPSNP (see box 1).

21. **The GoE has considerable experience in delivering safety net and public works (PW) programs.** The Productive Safety Net Project (PSNP), supported by the World Bank, has been providing transfers to rural beneficiaries since 2005 and in its current phase will reach 10 million beneficiaries. Transfers are made in return for engagement in PW. The project has resulted in considerable experience being built within the GoE on how to target poor beneficiaries; deliver timely and predictable transfers; and design and implement PW on a large scale. The Urban Local Government Development Program (ULGDP) supported by the Bank provides block grants to municipal local governments that are largely used by municipalities for developing infrastructure, in part through labor-intensive PW. The ULGDP has been successfully implemented for several years in a number of Ethiopian cities and is now into its second phase. It has effectively delivered labor-intensive PW programs in urban areas, mainly cobblestone projects and brick making.

Box 1. Policy Framework of the UPSNP

NSPP: In November 2014, the Ethiopian Council of Ministers approved an NSPP prepared by the Ministry of Labor and Social Affairs (MoLSA). The Social Protection Policy has a broad objective of providing an overall SP system and creating an enabling environment in which Ethiopian citizens have equitable access to SP services that will enhance inclusive growth and development. Overall, the policy commits the government to move beyond the partial, and fragmented, provision of SP to establish a comprehensive SP system. The policy puts strong emphasis on the need to expand social safety nets and livelihood interventions in rural areas and for initiating the same in urban areas in a more effectively targeted and coordinated manner. The policy provides the framework for the coordination and provision of SP services in Ethiopia defining the roles and responsibilities of the GoE, at federal, regional, and local levels to manage a SP system to fulfil the constitutional rights of citizens.

Urban Food Security and Job Creation Strategy: Within the framework of the NSPP, the Ministry of Urban Development and Housing (MUDHo) has developed an Urban Food Security and Job Creation Strategy, which was approved by the government on May 8, 2015. The strategy aims to reduce poverty and vulnerability among the urban poor living below the poverty line over a period of 10 years. The proposed Urban Productive Safety Project is the first instrument of the government to implement this strategy.

The UPSNP will also contribute to the implementation of the following government policies and strategies:

- (a) The GTP for 2015/16–2019/20
- (b) Ethiopian Cities Prosperity Initiative: *Building Green, Resilient and Well Governed Cities*
- (c) The Urban Development Policy (2005)
- (d) The National Policy and Strategy on Disaster Risk Management
- (e) The Climate Resilient Green Economy Strategy
- (f) The National Nutrition Program
- (g) The National Financial Inclusion Strategy currently under preparation

22. **The PSNP is exclusively focused on rural areas and urban-focused SP support programs are inadequate, less systematic, and fragmented.** The GoE has implemented a number of poverty-focused measures to tackle the increasing level of vulnerability in urban areas. In addition, nongovernmental organizations (NGOs) are implementing small programs to address the specific needs of vulnerable groups such as people affected by HIV/AIDS, the elderly, orphans, street children, and people with disability. Traditional social support mechanisms, locally known as *Iddirs* and *Equbs*, have also been providing support for the poorest communities in specific localities. However, given the high number of poor and vulnerable in many urban areas, the coverage of the existing support is very limited and insufficient to bring about the required impact at scale.

23. **Currently, the GoE's support to urban households is largely provided in the form of subsidies for wheat, energy, and housing.** These programs absorb about 20 percent of SP spending, yet the value of these subsidies is much lower than the value of direct transfers made in the PSNP and there is also considerable leakage in these programs as they are not targeted to the most vulnerable groups (World Bank 2014). The government has adopted several programs to improve the quality of affordable urban housing by replacing slums with condominiums. However, few poor households have directly benefited from the program. In addition, city administrations are improving urban slum areas by building access roads, providing public toilets, and improving the public tap water supply. Furthermore, the government has set up different youth employment schemes for unemployed youth and has created employment opportunities through different programs, including the ULGDP. In most circumstances, youth are not hired directly but small groups of youth that have registered as small and micro enterprises (SMEs), as a result of a significant government program to promote SMEs, have been hired.

24. **The MUDHo is leading the design of a systematic productive urban safety net and livelihood support intervention** which will be implemented through a 10-year program framework. The long-term program framework has an objective of reaching 4.7 million poor in all urban areas by implementing productive and predictable urban safety nets and complimentary livelihood interventions. The first phase supported by the proposed project will run from 2016 to 2020 and will focus on putting in place basic safety net building blocks, including productive and predictable transfers through PW, livelihood interventions, and capacity building, in response to the GoE's request for immediate safety net support for the urban poor.

25. **In the long run, the proposed UPSNP and the rural PSNP will allow the GoE to gradually operate a safety net at the national level.** The UPSNP and the rural PSNP will be guided by a common policy framework and will also share a number of operational modalities and systems to ensure a coherent national safety net program.

26. **The UPSNP is grounded in the unique challenges that shape and perpetuate urban poverty.** In particular, the approach underpinning the UPSNP recognizes that urban poverty is highly complex, is dynamic, and has its own unique features. While ensuring technical and operational rigor, the project will put a significant premium on adaptation and learning, including establishing flexible arrangements that can be molded based on prevailing circumstances and are informed by systematic feedback loops as the program is gradually rolled out. The learning will draw from the UPSNP itself, as well as from relevant lessons from the rural PSNP, the Women

Entrepreneurship Development Project (WEDP), and the ULGDP. In addition the program will draw on international experience with social safety nets, from among others, in Argentina, El Salvador, India, and Pakistan.

27. **The rural PSNP is moving from delivery of a safety net service to supporting the development of a national system. The design of the urban safety net will make linkages with PSNP to benefit from its systems investments.** These will include such areas as the national unified registry and the management information system (MIS). Efforts will be made to establish strong coordination and a resource and knowledge-sharing mechanism between the implementers of the two programs. In addition to the lead ministries of the MUDHo and Ministry of Agriculture (MoA), the implementers of the proposed UPSNP and the rural PSNP respectively, the MoLSA and the Ministry of Finance and Economic Cooperation (MoFEC) will play important roles in this regard.

C. Higher Level Objectives to which the Project Contributes

28. The proposed project will directly contribute to the Bank's goals of ending extreme poverty and promoting shared prosperity by providing targeted safety net support and livelihood services to the most vulnerable in Ethiopia.

29. **The proposed project is expected to contribute to the realization of Ethiopia's GTP I and II ensuring that the urban poor and vulnerable receive a predictable safety net and the support they require to experience faster income growth.** GTP II (under preparation for 2016 to 2020) is expected to continue the approach of the existing GTP, with an additional emphasis on industrialization and urbanization. It is also expected that the SP sector will be one of the priority areas of GTP II. As such, an urban safety net project is well placed to support the objectives of GTP II.

30. **The government's Social Protection Policy and Strategy and the Urban Safety Net Strategy and long-term program framework provide an important foundational framework for the project.** The project will also coordinate and align with other urban development policies, strategies, and programs.

31. **The UPSNP is well aligned with the FY13–FY16 CPS for Ethiopia.** The CPS identifies four strategic pillars which are strongly aligned with the GTP. These include (a) Job Creation through Increased Productivity and Competitiveness; (b) Transformation to Modern and Productive Agriculture; (c) Strengthened Systems to Better Respond to Shocks and Increase Resilience and Developing a Comprehensive Approach to Social Protection and Risk Management; and (d) Increasing Government Effectiveness.

32. **The UPSNP will support Pillar 1 of the CPS by increasing wage and self-employment** through (a) investing in the skills of beneficiary households through PW and training; and (b) helping households secure the financing required to invest in self-employment opportunities and job search.

33. **The UPSNP will also directly support Pillar 3 of the CPS by increasing the resilience of vulnerable urban households through timely and predictable transfers and livelihoods interventions.** In addition, the system development and capacity building activities will also

contribute to improved social service delivery in urban areas. The capacity building and program coordination and management component of the project will promote social accountability (SA) and active involvement of urban citizens in the planning, targeting, and implementing of the safety net and livelihood interventions thereby contributing to ‘good governance and state building’ under Pillar 3 of the CPS.

34. **The CPS Progress Report in 2014 called for a renewed emphasis on integrating challenges and opportunities from urbanization into World Bank Group programs.** The ongoing Systematic Country Diagnostic emphasizes the importance of addressing urban poverty and improving the productivity of work in urban areas. The UPSNP is directly focused on addressing the challenges of urban poverty and supporting poor households to take advantage of the economic opportunities that urban development provides. To ensure synergy and complementarity with other ongoing projects in the urban environment, UPSNP will work closely with the ULGDP, the Competitiveness and Job Creation (CJC) project and the WEDP. In addition the UPSNP will also work jointly with the PSNP on the development of a beneficiary registry and MIS for SP programs.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

35. The project development objective (PDO) of the proposed project is to support the GoE to improve income of targeted poor households and establish urban safety net mechanisms.

36. This will be achieved through provision of cash transfers, financial and technical support to access livelihood opportunities, building the capacity of institutions to effectively deliver this support, and developing core systems for delivery of safety nets and complementary livelihood services.

B. Project Beneficiaries

37. **The GoE is developing a 10-year UPSNP, as an element of the Urban Food Security and Job Creation Strategy approved on May 8, 2015, to support over 4.7 million urban poor living in 972 cities and towns.** It is envisaged that this will be achieved over a long-term period through a gradual roll-out plan of different phases starting with big cities having a population of over 100,000 people. The proposed Bank support will provide assistance for the first five-year phase of the government program and is targeting 11 major cities, Addis Ababa and one city from each region (Adama, Assayita, Asosa, Dessie, Dire Dawa, Gambella, Hawassa, Harari, Jijiga, and Mekele). In the first phase, 604,000 beneficiaries (the poorest 12 percent and about 55 percent of people living below the poverty line in these 11 cities) will be targeted through a gradual roll-out plan during a five-year period. Given the large size of Addis Ababa and the relatively high poverty rates it records, about three-quarters of the beneficiaries will be from Addis Ababa. The project will use a combination of targeting mechanisms to identify beneficiaries (annex 5).

C. PDO Level Results Indicators

38. **The key results of the project will be measured using the following indicators:**

- Direct project beneficiaries (number), of which female (percentage) - core
- Beneficiaries reporting that project investments reflected their needs (percentage), of which female (number) and male (number) - core
- Project beneficiaries under the national poverty line (percentage)
- Project beneficiaries reporting increased household consumption as a result of the project (percentage)
- Livelihood services beneficiaries who secured a new job or set up/expanded a business and are still in the new job/operating the business 12 months later (percentage)
- Number of participating urban local governments (ULGs) reporting improved capacity to deliver safety nets and livelihood services as a result of program support

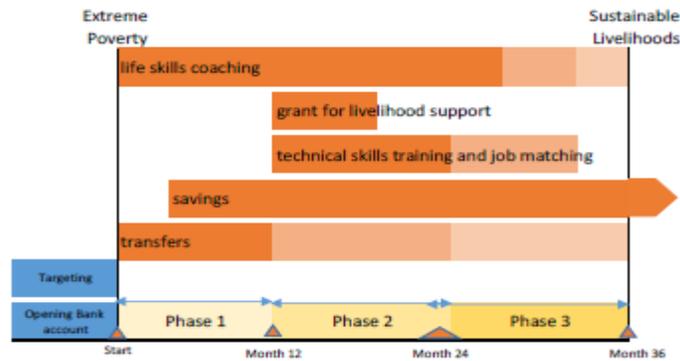
III. PROJECT DESCRIPTION

A. Project Components

39. **Interventions that meet the varied needs of urban beneficiaries.** Continuous income support will be provided to elderly and disabled living in households with no working-age members, street children, the homeless, and beggars. Additional services to meet the specific needs of street children, the homeless, and beggars (access to shelter, healthcare, counseling, and often reunification with their families) will also be provided. Income support and services to increase employability will be provided to those with too little work or in low-quality employment.

40. **Integrated model.** The UPSNP will adopt a three-phase integrated support pathway designed to provide income support and increase employability. In the first phase, beneficiaries will receive transfers (conditional on meeting their co-responsibilities) with life skills training and guidance on the employment pathway (self-employment and wage employment) to follow. In the second phase, conditional transfers will continue and beneficiaries will receive financial support, training and job-matching services to increase employability. In the third phase, beneficiaries will have the option to continue to receive a small amount of conditional transfers to supplement their employment income. Support will be provided for a maximum of three years but some beneficiaries may choose to graduate earlier. As this is a first project of this nature in urban areas, it is important to acknowledge that the proposed approach (including graduation from the program) particularly the livelihood services interventions will be piloted, evaluated, course-corrected, and expanded as needed.

Figure 1: Phases of the Integrated Development Pathway⁵



Source: World Bank staff depiction

41. **Based on the integrated model, the proposed project will have three major components:** (a) Safety Net Support; (b) Livelihood Services; and (c) Institutional Strengthening and Project Management.

Component 1: Safety Net Support (Total US\$336.00 million equivalent, of which IDA US\$224.00 million equivalent, GoE US\$112.00 million equivalent)

42. **This component will support the delivery of a predictable, timely, and productive safety net through conditional and unconditional safety net transfers.** The project will ensure that various safety net principles such as primacy, adequacy, and predictability of transfer are respected.

43. **Subcomponent 1.1: Conditional cash transfers.** The conditional transfers will target able-bodied persons in households eligible for project support. This group constitutes an estimated 84 percent of total project beneficiaries. Conditional transfers will require participation in PW which can range from small-scale infrastructure to urban greenery development and environmental and other services projects. PW that increase skills and productivity of beneficiaries will be encouraged. As the program develops, transfers may also be conditional on enrolment in tailored training programs aiming at connecting project clients with job or self-employment opportunities (Component 2).

44. **Labor intensive public works.** The project will support the financing and development of sustainable community assets and public services implemented using labor-intensive methods. A menu of PW appropriate for the urban areas and customized to the special environments in each of the participating cities will be provided as guidance to the communities in participating areas. These may include urban greenery development, watershed management activities, urban agriculture, environmental cleaning activities, and social facilities/services projects. In cities where there is no overlap with ULGDP, such as Addis Ababa, the PW may also include activities such as the construction of cobblestone roads and building of drainages. Specific guidelines and manuals will be developed to guide the design and implementation of various PW subprojects. In

⁵ Adapted from the graduation into sustainable livelihoods approach, Consultative Group to Assist the Poorest-Ford Foundation 2014.

this process, reference will be made to various implementation manuals developed by the MUDHo through ULGDP to ensure that overlaps will be overcome and that necessary synergies between the projects will be ensured.

45. Implementation of the PW will also build basic technical skills, such as specific skills for construction, catering, or home care activities, as well as soft skills, such as timeliness and discipline, amongst the project beneficiaries.

46. **Wage rate and transfer size.** In the case of conditional transfer beneficiaries, the daily transfer size (wage rate) is determined taking into account the market wage rate for similar or comparable unskilled labor, the availability of individuals to undertake their co-responsibilities, and market prices of basic food commodities. Accordingly, a daily transfer size of ETB 60 per person per day (US\$2.91 equivalent per person per day) will be used at the start of the program. This will be reviewed on an annual basis and adjustments will be made as necessary, depending on the specific food price situation of each city. The 2015 market wage rate for those with primary and some secondary education (education level of target beneficiary group) converges at around ETB 50 (2015 prices) per day⁶ (excluding the construction sector in which wages are 70 percent higher), but a higher rate of ETB 60 is chosen to take into account expected inflation between 2015 and the program start in 2016. Up to four members of each eligible urban household will be able to work and will be entitled to a transfer over 12 months by providing labor.

47. **Labor intensity.** Consistent with budgetary estimates for the labor versus capital components of the PW, the labor intensity is expected to be not less than 70 percent on average so as to maximize the element of transfer to the target households.

48. **Time schedule of the urban poor.** Participation in the PW is designed to ensure it does not result in unnecessarily high levels of foregone income opportunities. Specifically (a) individuals will self-select the number of days they spend on PW up to a cap that is 60 days per household member in the first year and tapering off in the second and third year to 40 and 20 days, respectively, for up to four persons per household; (b) the daily conditional transfer will be set lower than the average wage rate received for unskilled work encouraging beneficiaries to first pursue other work; and (c) in the first year savings will be encouraged to facilitate investments in livelihood activities, complemented with a livelihood grant in the second phase of support.

49. **Subcomponent 1.2: Unconditional cash transfers.** Unconditional transfers will target persons who for various reasons are unable to perform work (for example, the chronically ill, the elderly, people with disabilities, and the urban destitute). The urban destitute include the target group who do not have access to a sustainable livelihood and often resort to begging or illicit activities to make a living. Physical and mental health problems affect many in this group. Some in this group are very young—children who have run away from homes in rural areas. The unconditional transfer beneficiaries will reach up to 16 percent of the total project beneficiaries.

⁶ Urban Employment and Unemployment Survey 2014, Central Statistical Agency.

50. **Transfer size.** Unconditional transfer beneficiaries will receive ETB 170 per person a month (US\$8.25 equivalent) or ETB 2,040 per year (about US\$100 per year equivalent). This has the potential to lift about 48 percent of those in this group out of poverty (annex 2). This transfer level is insufficient for people who fall in the urban destitute category (about 2 percent of total project beneficiaries). The needs of this group are vast and complex. In addition to financial support that can be provided through transfers, they need housing, healthcare, and psycho-emotional counseling services. Therefore, the cost of support will need to be significantly higher than for the other categories of urban poor. The project will have a dedicated budget line to finance pilot projects of specialized service providers to inform an engagement strategy tailored to the specific needs of this group. In this regard, it is estimated that a support of ETB 600 per person per month (about US\$29 equivalent) for 12 months and an additional 30 percent overhead cost for the provision of this service will be required.

51. **Subcomponent 1.3: Safety net mechanisms and systems.** The project will also support the development of common safety net mechanisms and systems. This will include payment systems, targeting, wage rate setting, and market price monitoring.

52. **Payment mechanism.** The mode of transfer of the project will be cash. The project will develop a payment mechanism, in line with the ongoing efforts in modernizing the Ethiopian payment system that are led by the Bank Group, that will use formal financial institutions such as banks and microfinance institutions (MFIs) to deliver payments to all beneficiaries. The project will also explore options to use electronic payment mechanisms such as mobile money transfer. An assessment of how to increase financial inclusion for beneficiaries in a cost-effective way will be undertaken before implementation. The project will finance the sensitization and training activities that the financial inclusion assessment recommends to ensure all beneficiaries can be paid through financial institutions. This increase in financial inclusion will have many benefits for beneficiaries in addition to improving the effectiveness, transparency, and recording of transfers.

53. **Duration and timelines of transfers.** Seasonality in the availability of work is modest and poor urban households face shortfalls in meeting their basic needs throughout the year. To distribute additional income throughout the year and to ensure that beneficiaries are not replacing existing economic activities with engagement in their co-responsibilities, conditional and unconditional transfers to beneficiaries will be provided evenly throughout the year. Conditional transfer payments will be made on a monthly basis after completing the PW and will be transferred within a maximum period of 15 days after the end of each month. Unconditional transfers will be based on a fixed monthly payment schedule at the end of each month. The unconditional beneficiaries will remain in the program throughout the life of the project from when they start receiving transfer. The beneficiaries of conditional transfer will be in the program for three years.

54. **Market price monitoring.** The project will closely monitor food prices in urban areas using existing data from the Central Statistical Agency. This will inform not only adjustments to transfer sizes, but also provide surveillance on possible food price-induced crises, similar to those that hit the country in 2008 and 2011. In other words, the monitoring of food prices will not only inform design adjustments but also act as an early warning system for the project as a whole. In the case of large covariate shocks affecting urban areas, the project will closely

coordinate a required response with the Disaster Risk Management and Food Security Sector of the MoA, PSNP, and other programs.

55. **Targeting.** Project beneficiaries will be identified through a combination of geographic targeting, community-based targeting (CBT), proxy means tests (PMTs), and self-selection. Although in each city the program will scale to cover all areas of the city in the first year, it will target beneficiaries in the poorer parts of the city and expand to other parts of the city in the second and third year. Those who have been residing in their current place of residence for 6 months or more at the start of the targeting process will be considered for the program. Within each administrative unit, targeting committees will be established in each community and will rank households from poorest to richest; thereby identifying those that will be project beneficiaries. This list will be published publicly and verified by implementing a PMT. A final list of project beneficiaries will be decided by the community targeting committee after any inconsistencies have been discussed. Categorical targeting will be used to determine who is eligible for conditional and unconditional transfers. Self-selection will also be used in that individuals will determine whether they want to participate given the compensation received in return for PW and will decide how many days they will work. Once confirmed as eligible all project beneficiaries will receive a client card. The full targeting process is described in annex 5.

Component 2: Livelihood Services (Total US\$79.00 million equivalent, of which IDA US\$53.00 million equivalent, GoE US\$26.00 million equivalent)

56. **This component will support interventions that will facilitate graduation from the program and promote moving out of poverty.** The target groups for these interventions are individuals in households receiving conditional transfers who desire more and higher-paid work. One individual per household can receive this support which will result in a total of 98,000 individuals eligible for this component. The individual will be selected by the household. The support will be implemented by the One Stop Center Directorate (OSCD) in the Urban Food Security and Job Creation Agency (UFS&JCA) which established One Stop Centers in *woredas/kebeles*. Some of the functions will be performed in collaboration with MoLSA.

57. **Learning and adaptation.** Supports for self-employment and wage employment are both needed as both are equally important for the poor in urban areas. Evidence suggests that effective self-employment support requires both cash transfers and training/mentoring (Blattman and Dercon 2015 in Ethiopia, Blattman et al 2015 in Uganda) but there is less evidence on what support is effective in supporting wage employment.⁷ There is a need to learn which approaches work the best and adapt the design and roll out of this component accordingly. Learning and adaptation will be emphasized in years 1 and 2 and activities will gradually be scaled up to reach all eligible individuals.

58. **Subcomponent 2.1: Counseling and life-skills development.** The first phase of livelihoods support will focus on enhancing financial literacy and soft skills that will be useful

⁷ Blattman, C. and S. Dercon (2015). More sweatshops for Africa? A randomized trial of industrial jobs and self-employment. Working paper. Blattman, C., J. Annan, E. P. Green, C. Lehmann, and J. Jamison (2015). The returns to microenterprise development among the ultra-poor: A field experiment in post-war Uganda. American Economic Journal: Applied Economics forthcoming.

across a range of livelihood choices; assessing the technical skills of beneficiaries; and providing individuals with information on entrepreneurship and wage opportunities in their location.

59. **Financial literacy and soft skills development.** To improve employability, beneficiaries will receive short trainings on financial literacy and soft skills. The training will encompass how to open a bank account, planning, budgeting and saving, attitude and expectations at work, and business and workplace readiness. Financial literacy training will be provided to all conditional support beneficiaries early on, as part of their co-responsibility for safety net transfers. This is to ensure that they are able to save from the income they receive from PW during the first year. The project will finance the development of new materials or adaptation of the existing ones, to be used where existing materials cannot be used, an assessment of training providers, the training of trainers, and the provision of these trainings to beneficiaries. A financial inclusion assessment prepared before implementation will inform the design and delivery of the financial literacy training.

60. **Guidance and counseling.** The technical skills and interest of each individual will be assessed in the first phase through individual interviews and focus group discussions. Individuals will be provided with information on viable entrepreneurship opportunities and the availability of jobs. City-level Micro and Small-scale Enterprise Development Agency staff and Labor and Social Affairs employment officers will ensure the provision of these services to guide each individual on the opportunities that are available to pursue based on his/her skill level and the type of training support that will be required.

61. **Building capacity.** To provide these services, capacity will be built within MoLSA and the OSCD at the regional and city levels. The use of private providers and, thus, private employment officers, particularly in the provision of information, will be considered based on the needs on the ground and the actual capacity available to satisfy the needs. MoLSA employment officers are currently expected to provide the type of skills assessment, guidance, and counseling services envisaged in this phase, but their capacity to deliver these services is limited. Although the reach of the OSCD is larger, its clients are currently more educated than the average safety net beneficiary. A capacity assessment will be undertaken in the first year of implementation and used to develop a capacity-building plan. Given the need to build capacity, 10,000 beneficiaries will receive this service in the first year of the project with more receiving this support at the beginning of year 2. The project will also finance the development of new skills assessment tools and manuals for staff and invest in additional engagement with the private sector to access more information on job openings and to spread it quickly to a city-wide network of employment offices, in the early months of implementation. This will improve upon the existing system in which information is available only in selected locations. The project will also experiment with dissemination of job alerts to mobile phones.

62. **Subcomponent 2.2: Financial support and training for livelihood development.** In the second phase of livelihoods support, individuals who received guidance in the first phase will choose whether they would like to receive support to increase their income from self-employment (either by starting a business or increasing the profitability of an existing business) or wage employment (either by gaining access to wage employment or moving from low- to higher-wage employment). They will receive financial support to pursue this livelihood pathway upon completion of a plan accepted by the relevant OSCD and MoLSA staff. The plan will be

accepted if it is realistic in terms of viability of activities envisaged and reflects the skills the individual has. In addition to financial support, individuals will receive the information, mentoring, and training necessary to develop and implement a plan.

63. **Value of support.** Individuals will receive up to ETB 10,000 of support (approximately US\$500). The exact value of the support that they will receive will depend on the amount needed to fund the plan developed. In addition to the grant provided, it is expected that households will be able to support livelihood activities from savings from the first year of transfers. Existing data suggests that on average, beneficiaries will be able to save ETB 2,000 from the first year of transfers.

64. **Self-employment.** The beneficiaries under this track will receive training on entrepreneurship and business development to develop an accepted business plan for the livelihood grant. The provision of these trainings will be facilitated by the OSCD. It is anticipated that the majority of these training programs will be provided by public TVET but an assessment of training providers will be undertaken to determine whether private TVET and NGOs should also be considered. In addition, the OSCD will facilitate access to the workspace, market linkage services, and other licensing services that may be needed for the business plan to succeed, through its network of one-stop service centers. It is expected that self-employment pathway beneficiaries will largely start up with household enterprises of a very small scale and will need handholding to ensure they can cope with start-up challenges and continue. The OSCD will thus work with small business regulators to ensure that any advantages accruing to such small businesses will be accessed.

65. **Wage employment.** Under the wage employment track, livelihood grants can cover a stipend to attend training to build skills for a wage job (ETB 40 a day stipend, training fees will not be covered by the livelihood grant but will be paid separately by the project); an allowance to travel to job interviews until a job is secured; and/or an allowance to travel to work or cover the ancillary costs of employment such as child-care expenses. The rationale for providing the allowance during early work days is that individuals gain useful experience in the early days of a new job even though the net take-home pay may be late or low and persistence can be encouraged. Improving the functioning of the TVET system is beyond the scope of this project. However, the program will undertake an assessment of training providers in year 1 to determine what can be provided and will assess that training is indeed met with improved skills for beneficiaries. Private training centers within the industrial zones are due to be established as part of the CJC project. These centers may offer a better opportunity to program beneficiaries and linkages will be explored in program implementation.

66. **Technical support and monitoring.** Given the complexity of this component and the fact that it is the first large-scale program to increase the employability of poor households in urban areas, the project will support monitoring, evaluation, and technical support. The success of this component will depend on strong technical support packages and capacity building to ensure staff with the necessary skills are available to implement it. Evaluation of pilots in the early years of implementation is necessary to ensure that the package of support offered incorporates lessons from implementation in the early years before scaling up to a larger number of beneficiaries in the later years of the project (see Component 3).

Component 3: Institutional Strengthening and Project Management (Total US\$35 million equivalent, of which IDA US\$23 million equivalent, GoE US\$12 million equivalent)

67. **This component will support the development and strengthening of project systems for targeting, monitoring and evaluation (M&E) and MIS, payments, and citizens' engagement (CE).** It will also finance capacity building (human resource, training, administrative, and physical capacity) and strengthening program management (coordination, financial management (FM), procurement, and safeguards).

68. **Subcomponent 3.1: Operational system development.** A number of system development activities will be supported by the project. The main ones will include systems for (a) M&E, (b) FM, (c) human resources management, (d) targeting, and (e) MIS.

69. **Link with PSNP.** Ethiopia is moving toward the development of key building blocks, tools, and instruments for a SP system, in line with the recently approved Social Protection Policy and Strategy. Many of these tools will be financed by PSNP 4, including the development of a single registry and significant investments in information management. The UPSNP will use many of these tools but will also be an important financier of some of these building blocks.

70. **MIS.** The project will finance a program-specific MIS, which will provide credible information for decision making to program managers and implementers. Over time, this MIS will be harmonized with the MIS of the UFS&JCA and the PSNP. The MIS will include PW and livelihoods databases and, given the decentralized nature of Ethiopia and the program, will be developed to be functional at both the federal and city levels. Establishing the MIS will require training and investments in information and communication technology at all levels.

71. **Subcomponent 3.2: Capacity building.** The UPSNP is being led by an institution which has not been involved in safety nets design and implementation in the past. The project will thus require targeted continuous and fast-tracked capacity development and institutional strengthening as part of implementation. Capacity-building and skills-enhancement activities for the parent and other ministries that will be closely involved, as well as for other institutions at federal, regional, and city levels, are a priority. The capacity-development activities are expected to ensure that the primary managers, implementers, and stakeholders of the UPSNP have the required awareness levels for safety nets in general and urban safety nets in particular and impart them with skills to successfully deliver their roles.

72. **Project Preparation Advance (PPA).** A PPA was processed and approved in June 2015. The PPA is financing (a) preparatory implementation and capacity-building activities including staffing, logistics and equipment, sensitization, and awareness raising for the core institutions that are involved in coordinating the project (MUDHo, MoLSA, UFS&JCA); (b) development of manuals and guidelines including a project implementation manual (PIM), guidelines for different project components, and FM and procurement manuals; (c) development of important delivery mechanisms such as targeting, payment systems, and M&E; (d) preparation of social and environment safeguard instruments and social impact assessments (SIAs); and (e) establishment of project management and coordination arrangements.

73. **Program management support.** This component will also allocate resources for the regular program management and coordination activities. This includes regular M&E, technical assessments and studies, missions and project coordination meetings, and so on.

74. **Subcomponent 3.3: Citizens' engagement (CE).** The UPSNP design has made efforts to maximize opportunities for adopting CE during the design and this will be pursued further during the implementation stage. The objective is to ensure that the project's clients are receiving their entitlement promptly, in full, and with dignity and that citizens' participation in planning and providing feedback on project activities shall be facilitated to allow informed feedback and development of appropriate solutions. Consistent with the current government and Bank vision for strengthening CE as a platform for localized service-delivery-based governance, implementation of this initiative under the project will be closely coordinated with other Bank-financed operations with CE interventions. The CE initiative will include three interrelated interventions, namely (a) SA, (b) financial transparency and accountability (FTA), and (c) grievance redress mechanism (GRM) (annex 10). Implementation of CE will ensure taking forward lessons learned from existing interventions, in particular, the FTA, GRM and Ethiopia Social Accountability Program (ESAP) under the PBS. The project will facilitate functionality of project monitoring committees to respond to the CE requirements under the UPSNP. This will include strengthening of existing committees or creation of new ones where such committees do not exist. Where community level committees exist with a broader mandate, but are deemed appropriate for serving the desired mandates, the project will support efforts to mainstream CE roles within those committees.

75. **SA.** To facilitate a structured mechanism for citizens' participation in planning, evaluation, and feedback provision, citizens' report cards or community score cards will be implemented in participating cities at the start of the program on a randomly sampled group of beneficiaries, at midterm, and at the end of the program. The application of these report/score cards will help create awareness among the citizenry on their rights, roles, and responsibilities for the project activities. It will also promote monitoring of beneficiary and broader citizenry perceptions about the project and management of emerging issues as part of implementation improvements. Implementation of the report/score cards will go hand in hand with empowering citizens to monitor project implementation. The creation of awareness about the project will ensure appropriate and informed citizen participation.

76. **GRM.** As part of awareness creation, the existence of project GRM procedures for citizens will be effectively communicated. Where there are no existing appeal committees, project complaints and appeals committees will be established at the *ketena*, *kebele*, *woreda* and city levels as appropriate, with a mandate to receive and register complaints, convene meetings to resolve the complaints, and respond to the appeals resulting from committees' decisions.⁸ The effectiveness of resolution of complaints and appeals will be monitored during implementation. Information on the complaints and appeals will be collected at the *ketena*, *kebele*, and *woreda* levels, and if there are referrals to the regional or Project Implementation Unit level, the Project

⁸ *Woreda* is the lowest administrative unit within Addis Ababa and *kebele* is the lowest administrative unit in other cities. Within *woredas* and *kebeles*, smaller communities called *ketenas* exist even though they do not have a formal administrative structure.

Implementation Units will be required to report information on the cases' management as well. Information requirements will include registered cases, cases resolved in a timely manner, and cases referred to the next level of the complaints and appeals structure.

77. **FTA.** These activities will focus on promoting transparency and accountability on project budgetary planning and implementation. The main activities will include budget literacy training among implementers at all levels and citizens' representatives. Basic tools for communicating project budgets will be developed and disseminated at all levels. Feedback mechanisms will involve communication of the budget execution performance and variances as well as explanations as part of reporting by the implementers at local government levels. Feedback will be targeted to the citizenry in general and beneficiaries in particular as well as the implementers and service providers.

B. Project Financing

78. **The Bank will use an investment project financing instrument for this operation.** The proposed project will be implemented for a period of five years. The total project costs are estimated to be US\$450 million. The operation will be funded through a US\$300 million equivalent IDA Credit and a government cash contribution of US\$150 million in addition to in-kind contributions valued at US\$39 million⁹. The government has also confirmed that at the midterm review a careful analysis will be made to determine the actual need and the possibility to scale up the project. Based on the analysis, the government will explore different financing options at that stage and mobilize additional resource for the remaining period of the project.

Project Cost and Financing

Project Components	Project Cost	IDA Financing including taxes	% Financing
1. Safety Net Support	336,000,000	224,000,000	49.78%
2. Livelihood Services	79,000,000	53,000,000	11.78%
3. Institutional Strengthening and Project Management	35,000,000	23,000,000	5.11%
Total Costs	450,000,000	300,000,000	66.7%
4. Total Project Costs (including GoE operational expenditures financed through the regular budget)	489,000,000		
Total Financing Required	450,000,000		

⁹ Government operational expenditures are estimated to be approximately 8 % of the total program costs, these expenditures are expected to be covered through the regular government budgets and are considered as "in kind" contributions (consisting of salary of regular staff, office facilities, office equipment and existing transport facilities)

C. Lessons Learned and Reflected in the Project Design

79. **The program design reflects lessons from the implementation of the PSNP and ULGDP as well as safety net programs in other countries, particularly those targeted to the urban poor.** Annex 9 contains a full discussion of lessons learned. Lessons from the ULGDP show significant positive impact from the PW in urban areas. Experience from the PSNP and other global safety net programs has informed program design in that it has highlighted that (a) transfers are effective in supporting vulnerable households if they are timely and predictable; (b) electronic payments through financial service providers offer efficiencies and enhancements to the manual transfer mechanism; (c) investments in components of the national SP systems can lead to great efficiency gains and is an important step towards developing a more comprehensive system in Ethiopia; (d) targeted and institutionalized capacity development is important to overcome systemic constraints and facilitate effective management and coordination; and (e) investments in SA and gender are crucial for promoting improved program governance and empowerment of program clients.

80. **The unique nature of the UPSNP has required significant pragmatism during design and will require a strong element of learning-by-doing during implementation.** The UPSNP is the first of its kind in Ethiopia, and in Africa, with specific design aspects given the particular profile of the target clients and the dynamic nature of urbanization in Ethiopia. Although best practices on global urban safety nets are nascent, some lessons where available have been drawn on as part of project design. Experiences from other urban safety net programs show that (a) targeting poor beneficiaries requires adjustments to traditional approaches such as community-based targeting; (b) the transfer size needs to reflect the higher cost of living in cities; (c) urban programs have a more deliberate focus on livelihoods and complementary interventions; and (d) urban programs may be governed and coordinated by different levels of government than those that traditionally manage similar rural initiatives. This has been reflected in the targeting process, the transfer level, the focus of the project on livelihoods, and the implementation and institutional coordination arrangements.

81. **Efforts by the Bank and government technical teams to learn from counterparts have been an important part of the design process.** The lead ministry for the UPSNP has considerable experience in delivering labor-intensive PW but has not been exposed to typical safety net projects that are highly targeted in nature. The design process thus involved efforts by the Bank and government technical teams to learn from counterparts—through a series of Bank supported south-south learning events and materials—and intensive design consultative workshops, a process that is continuing into implementation.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

82. **Integration with existing government strategy and structures.** The institutional arrangement for the UPSNP will be framed within the overall arrangement set in the GoE's Urban Food Security and Job Creation Strategy under which Productive Safety Net is a major component. The implementation of the program will be fully streamlined into the existing government structure at the federal, regional, city, and local levels. Additional technical

assistance and coordination support will be provided through the project by supporting existing institutions and systems for planning and implementation. The project institutional arrangement builds on the experience of other Bank-funded projects.

Project management and implementation arrangement

83. **Overall coordination and management.** The overall coordination and management of the UPSNP will be the responsibility of the UFS&JCA under MUDHo. MUDHo will be the lead institution administratively responsible for the project management, implementation, M&E, reporting, fiduciary, and safeguards of the project. The MoLSA will closely work with the MUDHo to support the coordination and implementation of the unconditional support and transfers systems. The MoFEC and MoLSA will also have an important role in providing overall guidance, mobilizing, managing and allocating resources, and ensuring linkages with the NSPP and strategy. The decentralized structure of the same ministries will shoulder implementation responsibilities at the regional and local urban government levels.

84. **Project Coordination Unit (PCU).** The overall management and coordination of the project by the ministry will be supported by a PCU reporting to the UFS&JCA under the guidance of the minister of the MUDHo. The PCU will be staffed with appropriate technical and management staff. The MoLSA and MoFEC will assign staff to constitute the respective subunits that will closely support the coordination of project activities in both institutions.

85. **Technical oversight and coordination.** The technical oversight and coordination responsibility for each component is assigned to the relevant institutions. For Subcomponent 1.1, the Urban Good Governance and Capacity Building Bureau (UGGCBB), and the Urban Planning, Sanitation and Beautification Bureau (UPSBB) of the MUDHo will be responsible. For Component 2, UFS&JCA in close collaboration with the MoLSA will play the overall coordination role. For unconditional transfer support and the safety net system, Subcomponent 1.2 and 1.3, the MoLSA will take responsibility in consultation with the MUDHo. The PCU will coordinate institutional capacity-development activities and facilitate effective coordination and implementation of the project. FM, procurement, and safeguard issues will also be coordinated by the PCU. The MoFEC will be responsible for the FM of the project.

86. **Implementation.** At the regional and city levels, the regional Bureaus or offices of Urban Development Housing and Labor and Social Affairs; Women, Children and Youth Affairs; UFS&JCA and concerned city administrations will be responsible for the actual implementation of the project.

87. **Role of training providers.** The TVETs and other technical schools as well as NGOs and the private sector will play an important role in financial literacy training and skill-development and capacity-building activities.

Joint Coordination Arrangements

88. **National Steering Committee.** A National Steering Committee to be chaired by the minister of the MUDHo and co-chaired by the MoLSA will be established. Members will include the MUDHo, MoLSA, MoFEC, UFS&JCA, the Ministry of Women and Children (MoWC), and Ministry of Youth and Sport (MoYS), and regions. The steering committee will

meet once every quarter and its roles will include, but not be limited to, providing strategic guidance in project implementation, approving annual plans and budgets of the project, taking actions on issues that require high-level decisions. The PCU will serve as a secretariat. The steering committee will meet once every quarter initially and the detailed roles and responsibilities will be outlined in a terms of reference (ToR) that is to be developed.

89. **A Project Management and Coordination Committee (MCC)**, which will report to the National Steering Committee, will be established. The MCC will have a role to follow up on regular project management and coordination issues. It will also be responsible for coordinating the technical committees. The MCC will be chaired by the director general of the UFS&JCA under MUDHo and co-chaired by the director of the MoLSA and bureau head of the UGGCBB. The MCC will meet on a monthly basis. Members will include the MUDHo, MoLSA, UFS&JCA, MoWC, MoYS and MoFEC.

90. **Technical Coordination Committees (TCCs)**. To ensure regular technical support and guidance for project implementation, the TCCs will be established for each component. In this regard, the MoLSA and MUDHo will lead on the safety net transfer and PW technical committee, respectively. The MoFEC, MoWC and MoYS will be members of this joint technical committee. For Component 2, UFS&JCA will take the lead role and the MoLSA will co-lead. Other relevant institutions such as the MoYS, the TVET and other service providers will be members. The technical committees will meet once every month and will regularly report to the MCC. Similar structures will be established at the regional and city administration levels.

91. **Coordination with other programs**. The proposed UPSNP is a cross-sectoral project supporting financial inclusion, improvements in sanitation, urban infrastructure development, skill acquisition, and employment in addition to providing income support. The project will promote strong linkages and coordination with other urban-based development programs and projects through a coordinated planning process, sharing of approaches and intervention modalities, coordinated capacity-building activities, a joint coordination mechanism, and so on. Specific coordination mechanisms will be established between the proposed UPSNP and ULGDP in the implementation arrangements (annex 8). Both the PSNP and UPSNP support the implementation of the GoE's Social Protection Policy through the design and implementation of targeted safety nets and complementary livelihood services in both rural and urban areas. The unit to be established in the MoLSA will work on both projects and ensure the necessary synergies and collaboration. By design, the project is well-coordinated with the CJC project in providing support to potential employees of industrial zones. During implementation, coordination will be sought in the provision of information on employment opportunities and training. In addition, the project will build on the lessons learned and materials developed for training women entrepreneurs in the WEDP. Finally, the UPSNP can build on the experiences from the Promoting Basic Services (PBS) Program on CE activities.

B. Results Monitoring and Evaluation

92. **Monitoring**. Building on lessons from other programs, the semiannual federal and city Joint Review and Implementation Support (JRIS) missions will be implemented as the primary mechanism by which the government and the Bank assess program progress and challenges. The program will also seek to undertake special missions such as Rapid Response Teams to respond

to emerging issues and needs, technical reviews, and regular FM and procurement reviews. The project will develop a comprehensive and rigorous M&E system to effectively monitor the implementation of the project and measure the impact of its different components. The monitoring component of the M&E system will ensure the availability of accurate information on the functioning of the project such as enrolment of program beneficiaries; number of participants in the different project components; PW projects developed; and timeliness of cash transfer payments, among others. This entails the collection and compilation of monthly data at the *woreda/ketena* level that is processed for operational and institutional needs. In addition, different PW and livelihood services planning and implementation technical reviews, review of effectiveness of payment systems, and spot checks of targeting mechanism will be conducted.

93. **Evaluation.** The evaluation component will comprise (a) annual process evaluations, (b) biannual targeting evaluations, and (c) quantitative impact evaluations, largely concentrated within the first three years of the project.

- **Annual process evaluations** will document how the project is working, what is working well and what is not, bottlenecks to be addressed, and lessons learned. In addition to the annual process evaluations, a process evaluation undertaken after six months will help strengthen implementation during the rollout of the project.
- **Targeting evaluations** will be undertaken in year 1, 3, and 5 of the project to assess targeting quality.
- **Quantitative impact evaluations** will aim to measure what the project has achieved: the development effects of the different components of the project; in particular, the effects of the conditional and unconditional transfers on income and consumption and the effects of skill development and financial support in transitioning to self-employment or wage employment. Regression discontinuity design and the rollout pattern of the program across communities within a city will be used to identify the impact of the program by comparing project beneficiaries with a control group. Given the need to learn early on from what is working and what is not, impact evaluation surveys will be undertaken before the start of program activities (baseline), in year 1, 2, and 3. This will allow all phases of the integrated support to be evaluated. A final evaluation survey will be conducted in year 5. In addition, piloting exercises will test different aspects of design before they are scaled up. The targeting process will be piloted first, before effectiveness. A second pilot is planned to inform the design of the livelihoods guidance provided in year 1.

C. Sustainability

94. **The GoE has demonstrated strong ownership of the UPSNP and the overall SP reform agenda.** This is clearly reflected in the Social Protection Policy framework aimed at developing a long-term agenda for safety net programs as well as in the GoE's 10-year plan for the urban productive safety net program. The government has also made commitments to establish long-term institutions and systems for SP, a key element to ensuring sustainability of project investments.

95. **As shown in a recently completed Public Expenditure Review of SP in Ethiopia, recent years have also seen a growing level of financing for SP which, over 2009–2013, accounted for about 3 percent of gross domestic product.** About 54 percent of those resources were allocated to safety net programs, a level that can be considered fiscally sustainable as compared to international standards of about 1.6 percent of gross domestic product being allocated to social assistance. For the UPSNP, the commitment of the GoE to finance a third of the total project costs through domestic resources is an important signal of commitment.

96. **The UPSNP is a large project with significant financing needs.** As the program is envisaged to expand nationwide over time, financial needs will increase. The MUDHo has prepared a 10-year comprehensive budget as part of the Urban Food Security and Job Creation Strategy and submitted it to the Council of Ministers. The Bank team will continue to work with the GoE to ensure their long-term financial commitment to the program and progressively bring it within the budget, over time. Discussions will also be held with the GoE and DPs with a view to broadening the partnership to additional financiers.

97. **Building systems to introduce key operational and ‘nuts and bolts’ arrangements are likely to improve the delivery of safety nets to larger numbers of poor people for a longer period beyond the life of the project.** The regular assessments of program performance, the monitoring mechanisms that provide information on the financial flows, and the process assessments will provide timely information to help with management and policy decisions regarding the implementation of the safety net and livelihood arms of the project. In other country contexts, such M&E mechanisms have been useful not only in strengthening the implementation of programs but also in sustaining support for the programs through different political cycles. Finally, the introduction of an urban MIS, and the aim to eventually connect it to the PSNP MIS, will lead to more efficient use of public resources in the long run. This may include laying the basis for an integrated system for SA that, in the long term, will span rural and urban areas and ensure efficacy gains from institutional coordination and avoidance of program overlaps.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

98. **Overall risk is rated as Moderate.** While the GoE has significant experience in implementing a rural safety net program, this is the government’s first comprehensive SP program covering urban needs. This leads to risks related to implementation capacity as well as coordination between a number of partners involved in the project. The success of the UPSNP will depend on its ability to prepare for and mitigate risks associated with capacity constraints, coordination, program governance, safeguards, and fiscal sustainability.

Systematic Operations Risk-Rating Tool (SORT)

Risk Category	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Moderate

Risk Category	Rating
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Substantial
8. Stakeholders	Substantial
9. Other	–
OVERALL	Moderate

99. **Capacity constraints.** This being the first urban safety net program in Ethiopia and implemented by an agency with limited experience in such a program, there are significant risks related to capacity. In particular, capacity gaps are expected with regard to coordination, planning, management, and delivering on an SP agenda that is new to this particular agency. Given the experience of MUDHo from other large projects such as the ULGDP, as well as the fact that this phase of the project will focus only on larger cities, the general capacity constraints are expected to be manageable. These cities have experience in implementing other Bank-supported urban operations and those projects have invested significantly in capacity building of the implementers in the design, implementation, and management of project interventions. Component 3 of the UPSNP will support the implementation of specific actions required to assess and build the capacity of the implementers relevant to the urban safety nets and SP agenda.

100. **Intergovernmental coordination.** The project will need to ensure that planning, implementation, and monitoring is adequately coordinated across key stakeholders at the federal level, regions, and cities. As the project will involve close partnerships between a number of stakeholders, including the MUDHo, MoFEC, and MoLSA, there is a risk that lack of effective coordination can constrain implementation and reduce the likeliness of achieving the desired objectives. The project will address this through establishment of project committees and management structures at all levels and by providing extensive and institutionalized capacity-building support. The project technical team established at the UFS&JCA in MUDHo will also include representatives from the MoFEC and MoLSA. The roles and responsibilities of each implementing agency will be clearly described in the project operations manual. Furthermore, linking with the ambitious systems agenda in the Social Protection Policy and PSNP 4, where implementation and coordination mechanisms are already established and implemented, will help mitigate these risks.

101. **Fiduciary:** As detailed in annex 4, systemic challenges regarding FM and procurement exist in Ethiopia. These are likely to also affect the UPSNP. In addition to the capacity-building activities described above, the project will make investments in a number of accountability and management tools to progressively remedy fiduciary-related risks, including financial transparency awareness, GRMs, roving and interim audits, SA, and rapid response teams. Annex 11 details governance and corruption risks and mitigating measures.

102. **Social.** Rural to urban migration is a common phenomenon in Ethiopia. The project may attract new immigrants to the cities and towns where it is implemented. This risk can be

mitigated as part of the design, especially during the beneficiary identification/registration and re-targeting processes. Specifically, only those who have been resident in project areas for 6 months before the start of the project (namely, the implementation of targeting of program beneficiaries in that area) will be eligible for the project.

103. **Stakeholders.** The demand for safety nets in urban areas is high and larger than what the program can accommodate due to budget constraints. There is therefore a risk that exclusion of potential clients can lead to social tensions or undermine social relationships. The program will seek to address this by using a participatory targeting strategy, which includes community participation and verification and a significant communications program that will ensure that information is distributed widely in communities, among both clients and non-clients. The program's GRM will also give citizens an opportunity to appeal any targeting decisions.

104. **Support to livelihoods.** Component 2 comprises a number of subcomponents and activities and will rely on several implementing partners to achieve its intended impacts. Given the limited experience and capacity constraints of key implementing partners and the relative complexity of the interventions, the risks to this component are considered significant. A number of mitigating measures will be implemented, including the completion of stakeholder and capacity assessments, and significant resources will be allotted to support capacity building of the implementing partners. The component will also be rolled out gradually over time and apply a learning approach to ensure that methods are tested and evaluated before being rolled out at scale.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

105. The proposed approach represents the most cost-effective approach to achieving the project development objective in a sustainable manner. Alternative options were considered: (a) supporting the current system of support to urban households through subsidies, (b) the provision of unconditional cash transfers, (c) the provision of transfers conditioned on PW but without livelihood services, and (d) limited investment in systems building. The proposed project represents the least cost approach compared to these alternative mechanisms for the following reasons:

- (a) **Targeted transfers carry a larger impact on poverty reduction than existing subsidies.** Simulations were conducted to assess the direct poverty impact of transfers for the Addis Ababa population using a PMT model as the basis of targeting. A program targeted to the bottom 12 percent using PMT targeting alone would result in a beneficiary sample in which 82.5 percent are poor and 17.5 percent live above the poverty line. Although this may be an upper bound estimate on actual rates of leakage, taking this into account, a program targeted to the bottom 12 percent with a generous transfer package, comparable to that being proposed in the UPSNP, would reduce the headcount poverty rate in Addis Ababa by 29 percent and the severity of

poverty by 20 percent (Olinto and Sherpa 2014).¹⁰ Current spending on subsidies, designed to alleviate the cost of living for the urban poor are not well targeted, suggesting that the provision of targeted direct transfers would be more efficient (World Bank Poverty Assessment 2015). For example, the poor receive only 10–13 percent of the spending on subsidies (depending on the subsidy) in Ethiopia versus the estimated 76 percent in the UPSNP.

- (b) **Unconditional cash transfers would be cheaper to provide but would not be politically and socially sustainable and would not improve skills and community assets.** The use of PW to condition cash transfers allows a socially and politically sustainable urban safety net mechanism to be established. Cash for PW is perceived to represent a fair quid pro quo. In addition, beneficiaries acquire technical and soft skills in executing the PW that they would not acquire in unconditional cash transfers. These skills are expected to prove useful in increasing private employment income. Even if PW, on their own, have a limited impact on labor productivity, they improve the physical environment and living condition of the city. The poor quality of infrastructure in some neighborhoods of the selected cities provide a number of opportunities for PW to improve the local environment. This, in turn, can have its own productive benefits, for example, by facilitating commercial access and increasing the proportion of households with access to clean water and improved sanitation. Urban water and sanitation investment projects have been estimated to have a rate of return of 15–20 percent in Ethiopia (study undertaken by ‘Sanitation and Water for All’). Investment projects which pave short roads have been estimated to have a return of up to 60 percent (ULGDP II Project Appraisal Document). There are also some specific PW which directly facilitate the emergence of livelihood activities such as shelters and workshops for youth groups engaged in productive activities, market centers, and irrigation systems for peri-urban agricultures.
- (c) **On its own, transfers from PW are not enough to result in sustained improvements of income when the transfers end, and livelihoods support is also needed to ensure increased income can be sustained once PW end.** Although PW will be designed to increase skills and the productivity of urban work to the extent possible, they offer only short-term, temporary, and often unskilled employment. The direct impact of traditional PW on employability is low to insignificant with some examples of success—such as in Care’s Rural Maintenance Program in Bangladesh, where 79 percent of participants who were unemployed at the start of a PW scheme were still self-employed in micro enterprises three years after termination of the program—and some examples of limited success (World Development Report 2013). Bangladesh’s experience suggests that when a well-designed program is implemented in combination with training, mandatory savings, and group support, it can encourage and sustain entrepreneurship once the transfers end. There is also evidence from the PSNP that a combination of transfers and livelihood services significantly increases the months of food security: households with livelihoods support in addition to

¹⁰ Olinto, Pedro and Maya Sherpa. 2014. “Targeting Assessment and Ex-Ante Impact Simulations of Addis Ababa Safety Net”. Background Paper prepared for the Ethiopia Poverty Assessment, World Bank.

transfers had yields that were 297 kg higher than those that just received transfers (Hoddinott et al. 2011).¹¹ Component II of the program is designed to increase employment and livelihood opportunities of beneficiaries. Financial support for job search activities for beneficiaries who chose to be wage employed can help them find better work opportunities. A randomized control trial conducted in Addis Ababa found that providing active job seekers, who live in noncentral locations, with cash to look for jobs (conditioned on increasing search activities) increased their probability of finding a job by 7 percentage points, from 19 percent to 26 percent, over a four-month period (Franklin 2014).¹² Some who engage in self-employment do so because they cannot finance their job search. Providing transfers may allow them to search and upgrade from self-employment to employment and become more productive (Poschke 2014).¹³ Also, increasing evidence shows that when combined with training, financial support in the form of cash transfers can have a positive effect on labor income for individuals engaged in self-employment activities (Blattman et al. 2011, 2015).¹⁴

- (d) **Direct investments in systems are needed to establish urban safety net delivery mechanisms that will serve Ethiopia’s cities in the long run.** Establishing urban safety net mechanisms requires not just a politically sustainable contract with beneficiaries but also direct investments in safety net systems. This is addressed in Component 3 of the proposed project.

106. **Fiscal sustainability.** The GoE is committed to establishing an urban safety net as signified by its contribution to a third of the overall project costs and its commitment to a well-established urban safety net in GTP II. The long-term plan of the GoE is to phase out the less efficient subsidies that are currently their primary source of consumption support received by urban households. In 2013, the GoE spent approximately US\$679 million per year on general subsidies comprising wheat (US\$270 million), kerosene (US\$271 million), and electrical power consumption (US\$74 million) subsidies. The UPSNP could be entirely financed by a 15 percent reduction in subsidy expenditure, making it fiscally sustainable. A long term fiscal strategy will require further analysis and dialogue.

107. **Overall program efficiency.** In the current PSNP, the closest reference to the UPSNP, 7.8 percent of program resources are absorbed in administrative costs, which is below the international benchmark of 10 percent for a well-run safety net program. The PSNP also compares favorably with international efficiency benchmarks for safety net and PW programs in

¹¹ Hoddinott et al. 2011. The impact of Ethiopia’s Productive Safety Nets and Household Asset Building Programme: 2006-2010. Impact Evaluation Report, December 30, 2011

¹² Franklin S. 2014. “Work, Unemployment and Job Search among the Youth in Urban Ethiopia” Background Paper prepared for the Ethiopia Poverty Assessment, World Bank.

¹³ Poschke, Markus. 2014. “A model of Entrepreneurship and Employment in Ethiopia: Simulating the impact of an urban safety-net”. Background Paper prepared for the Ethiopia Poverty Assessment, World Bank.

¹⁴ Blattman, C., J. Annan, E. P. Green, C. Lehmann, and J. Jamison. 2015. The returns to microenterprise development among the ultra-poor: A field experiment in post-war Uganda. *American Economic Journal: Applied Economics* forthcoming. Blattman, Christopher, Nathan Fiala, and Sebastian Martinez. 2011. “Employment Generation in Rural Africa, Mid-Term Results from an Experimental Evaluation of the Youth Opportunities Program in Northern Uganda.” New Haven, CT: Yale University, Innovations for Poverty Action.

terms of labor intensity and targeting. In the case of the UPSNP, some of the administrative costs will likely be lower in an urban setting. The cost of providing cash payments to beneficiaries will be lower on account of their higher geographical concentration and as a result of all payments being in cash (the PSNP currently uses food and cash and food is more costly to distribute). However, some of the administrative costs will also be higher on account of the higher expected share of capital required in some of the PW programs. The UPSNP will benefit from the lessons learned in terms of efficiency of the PSNP.

108. **Fiscal and macroeconomic implications.** To date, cash transfers through the PSNP appear to have little, if any, inflationary effect, but the impact of cash transfers in urban settings will need to be assessed.

109. **Rationale for use of public funds.** The proposed project will contribute to improve equity and productivity in Ethiopia's cities, justifying the use of public funds. Consumption growth of the bottom 15 percent of the urban population was negative from 2005 to 2011, and the inability of the poorest households to benefit from growth in manufacturing and services is a concern for the long-term equity of the country. Targeted support to these households helps address this concern. In addition, the project's emphasis on improving the skills and financial capital of beneficiaries increases their labor productivity and helps them achieve higher rates of consumption growth in the future. Higher labor productivity contributes to economic growth, improves export competitiveness, and addresses a major cause of high unemployment in cities. Finally, the emphasis on facilitating matching in the labor market in Component 2 reduces search frictions, causing firm productivity to increase (as hiring costs fall), higher wages, and lower unemployment (Poschke 2014).¹⁵

110. **The value-added of the Bank's involvement.** The Bank has considerable experience in providing safety net support in Ethiopia through the rural PSNP and also in supporting PW, entrepreneurship grants, and wage employment in urban areas through the ULGDP, WEDP, and CJC, respectively. In addition, the Bank brings global experience on the provision of targeted safety nets and livelihoods support in urban areas (for example, in El Salvador, the Philippines, and Cote d'Ivoire), which allows the Bank to facilitate a number of South-South learning events to build knowledge and capacity on urban safety net delivery in Ethiopia. This has been done throughout the design phase and will continue in project implementation.

B. Technical

111. **Framing within the national policy and strategy.** The UPSNP design is based on a strong national policy and sectoral strategic framework. The project is a direct response to the GoE's decision to expand safety nets and targeted livelihood services to urban areas to sustainably address increasing vulnerability in urban areas. The UPSNP is specifically designed based on the government's Urban Food Security and Job Creation Strategy and 10-year program framework which reflect the need to support the urban poor living below the poverty line in major cities.

¹⁵ Poschke, Markus. 2014. "A model of Entrepreneurship and Employment in Ethiopia: Simulating the impact of an urban safety-net". Background Paper prepared for the Ethiopia Poverty Assessment, World Bank.

112. **Analytical underpinning.** The design of the project is founded on a strong national consultative process conducted at the national and local levels as part of the Urban Safety Net Strategy development. The project is also initiated and designed based on a series of analytical works and consultations which defined urban poverty, urban labor market dynamics, appropriate targeting options, and feasible interventions. Relevant experiences from other projects have been taken into account and coordination options for better synergy have been explored.

113. **Safety net transfer integrated with livelihoods.** Experiences from the PSNP and other urban programs, as well as experiences from other countries have informed the design requirements of an effective safety net with conditional transfers for families with able-bodied members and unconditional transfers for the households with no labor. Subcomponent 1.1 will invest in introducing effective and sustainable PW and other services which can generate temporary employment for the urban poor while also creating access to useful productive assets and services for the community at large. Considering that there is no/little seasonality in employment opportunities in an urban setting, the PW program will continue throughout the year. The PW and services will be strongly linked with Component 2 of the project. First of all, the project will explore options to link some life-skill-related training as a condition for PW. Second, some of the PW such as the construction of market sheds and workshops and provision of child care services will support the livelihood activities of the beneficiary households. Skills in cobblestone chiseling and paving as well as dry waste collection can create income-generation opportunities in the future. The project will also investigate the possibility of linking the provision of services to more permanent forms of income generation and job creation for the involved project beneficiaries, for example, solid waste collection.

114. **Livelihood services and the labor market.** The UPSNP builds on the experiences in Ethiopia and from other countries which suggest that complementing regular safety net transfers with support to promote livelihoods will have a greater impact in helping beneficiaries move out of poverty. Considering the diversity in the nature of vulnerability and beneficiary characteristics in an urban setting and the large wage labor market, tailored livelihood services options will be implemented for different groups of beneficiaries. The rollout of livelihood activities will be carefully designed based on the capacities and need of different categories of eligible households.

115. **System development.** As the urban safety net is a new experience in the Ethiopian context, the focus will be on putting in place basic and project-specific systems and capacities. However, given the efforts and investments already planned under the rural PSNP, the project will maximize coordination with the PSNP and will benefit from the broader systems to be put in place at the national level through the PSNP. The UPSNP will also contribute to the broader agenda of building the national system by investing in establishing key systems such as targeting, MIS/information and communication technology, M&E, GRM, and an improved payments system to ensure effective implementation and an accountability mechanism for the project (for details see description of component 3).

116. **Strong capacity building and institutional arrangement.** The lead institutions responsible for project management have limited experience in the design and implementation of safety nets targeted to the urban poor. The project will lay strong emphasis on capacity building and ensuring effective coordination at all levels. The technical design of the project has taken

into account the existing experiences, opportunities, and capacities created through relevant projects such as the ULGDP, which have a lot of similarity in terms of some interventions and institutional set up. The project will promote a joint annual planning process and coordination mechanism, including harmonization of some of the core approaches.

117. **Gender mainstreaming.** The technical design and specific implementation plans and manuals of the project will take into account specific consideration for gender mainstreaming and other social issues. The project results framework and M&E system to be developed will include and monitor specific indicators. A detailed Gender Action Plan (GAP) has been developed and included in the Project Appraisal Document (annex 7).

C. Financial Management

118. An FM assessment was conducted in accordance with the Financial Management Practices Manual for Bank-financed investment operations—issued by the Financial Management Sector Board on March 1, 2010, and reissued on February 4, 2015—and the supporting guidelines. In conducting the assessment, the Bank team has reviewed the experiences of other projects implemented by the implementing agencies such as ULGDP I, ULGDP II, and the PSNP. The cities which are covered under the UPSNP have experience in implementing Bank-funded projects. Various capacity assessments, fiduciary assessments, supervisions, and audits have been carried out. The outcomes of these reports have been used in the design of the UPSNP. The assessment has taken into account the latest Public Expenditure and Financial Accountability (PEFA) studies, the annual performance assessment, and the supervision reports conducted for ULGDP II and various phases of the PSNP. Furthermore, a sample of the implementing entities have been reviewed to assess their FM capacity.

119. The program will build on the strengths of the country's public finance management (PFM) system such as the budget process, classification system, and compliance with financial regulations. Significant ongoing work is directed at improving the country's PFM systems through the government's Expenditure Management and Control Subprogram (EMCP). The government's existing arrangements are already being used in a number of projects, including the PBS, which are under implementation. The program also benefits from the country's internal control system, which provides sufficiently for the separation of responsibilities, powers, and duties. It benefits from the effort being made to improve the internal audit function. Additional strength for the program is the extensive experience of the MoFEC, MUDHo, and cities in handling Bank-financed projects. The involvement of the city and regional councils is an advantage to the project in enhancing its internal control.

120. The FM arrangements for the program (see annex 3 for details) follow the government's channel 1 fund flow mechanism, where funds from donors flow directly to the MoFEC and from there to the Bureaus of Finance and Economic Development (BoFEDs) and federal level implementers. In turn, regional BoFEDs send resources to regional level implementers. Staffing arrangements have been outlined at all levels to supplement the existing system. The program will use report-based disbursement, with submission of interim financial reports (IFRs) with two quarters' expenditure forecast to the Bank and replenishment of project accounts accordingly. Payment to beneficiaries will be made through MFIs or commercial banks based on lessons learned from the PSNP as well as the additional studies to be conducted using the PPA of this

project. The program will have an independent auditor's report every year, to be submitted to the Bank within six months of the year end.

121. The conclusion of the FM assessment is that the FM arrangements meet the IDA requirements according to OP/BP 10.00. An Action Plan has been developed to mitigate the risks identified in the project.

D. Procurement

122. Procurement under the UPSNP will be carried out in accordance with the World Bank's 'Guidelines for Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers' dated January 2011 and revised July 2014; 'Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers' dated January 2011 and revised July 2014; 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, (Anti-Corruption Guidelines)' dated October 15, 2006, and revised in January 2011; and the provisions stipulated in the Legal Agreement.

123. Procurement of strategic goods will be carried out centrally by the UPSNP's federal PCU in the UFS&JCA of MUDHo. Procurement will also be carried out by federal implementing agencies, including the MoLSA. In the Addis Ababa city administration, capital goods and equipment and capacity-building equipment will be procured centrally by the Regional PCU to be established in the Addis Ababa Micro and Small Enterprises Development Bureau. Sub-cities and *woredas* will carry out limited procurement of goods and supplies through shopping procedures. In the Dire Dawa city administration, the Finance, Procurement, and Property Administration Office under the Bureau of Finance and Economic Development shall be responsible for processing of the procurement activities of the project. In the remaining nine city administrations, capital as well as capacity-building goods and equipment will be procured by the Finance and Economic Development Offices of the respective city administrations. The REMSEDAs under the respective Regional Bureaus of Urban Development and Housing shall be responsible for the overall planning and coordination of procurement activities in the cities.

124. A capacity assessment of the implementing agencies was carried out using Procurement Risk Assessment Management System (P-RAMS) questionnaires. The procurement capacity assessment, which was carried out in the Federal Micro and Small Enterprise Development Agency (FeMSEDA) (which shall be transformed to UFS&JCA), MoLSA, Addis Ababa, Dire Dawa, and some regional city administrations, has shown that there are no procurement proficient staff in these agencies and city administrations. There is a high level of staff turnover and, most importantly, the staff are not familiar with the Bank's procurement procedures. Procurement proficient staff shall be hired and shall be provided with the necessary procurement training in the Bank's procurement procedures to address this gap. The assessment has also revealed that there are weaknesses and limited capacities in the areas of procurement planning, procurement documentation, bid document/Request for Proposal (RFP) preparation, bid/proposal evaluation, contract document preparation, and contract management. Most of the units in these agencies are engaged in procurement of goods and services at the level of shopping. Based on the findings of the assessment, mitigation measures have been proposed to address these challenges, as detailed in annex 3.

125. The different procurement methods or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and time frames are agreed between the borrower and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required.

E. Social (Including Safeguards)

126. **Understanding urban social development dynamics.** Implementing an urban safety net intervention in Ethiopia is daunting and presents difficult social development challenges, requiring the understanding of complex and varied urban social dynamics, mutually reinforced by both social inequality and deprivation. The project design incorporates a robust approach for understanding these urban social development dynamics and has proposed development opportunities or measures that will address the existing weak urban safety net policy and institutions, which negatively affect the socioeconomic well-being of the urban poor, including strengthening the durability of urban safety net activities and social capital needed by communities to organize demand response solutions to their problems.

127. **Citizens' engagement.** One of the fundamental lessons learned from the rural PSNP is that citizen participation is key to success and this project will strengthen and facilitate participating *woreda* and regional-level institutions (on the supply side) to provide the enabling environment for poor people to participate in urban-related economic activities. The project will also facilitate citizen empowerment by conducting social M&E surveys before the midterm review (that is, after the first year's activities are carried out) and post implementation (after all subprojects are carried out) to evaluate the impact on the ground.

128. **GRM.** The project has set up a GRM for people to report concerns or complaints if they feel unfairly treated or are affected by any of the subprojects. Citizens can register complaints about the management of PW, timeliness and completeness of transfers, resettlement, and any other perceived abuses of the UPSNP. The grievance committee at the various levels will address such complaints, including logging, tracking, and resolving grievances promptly.

129. **Gender, HIV/AIDs, and environment.** The project will make specific plans to ensure that important cross-cutting issues such as gender, HIV/AIDS, and environment are properly mainstreamed during the design, planning, and implementation of the project interventions. Specific studies will be undertaken to understand the dynamics of such social and environmental issues in urban settings and provisions will be included in the PIMs and specific components guidelines. Given the higher level of vulnerability among women in urban areas, the project will ensure that special consideration is given to women during targeting and appropriate support is provided in various project components. Aside from targeting the poor, the design process included an explicit gender focus and women participated in identifying gender roles as they affect implementation of PW and livelihood services activities in this operation. The social M&E survey will use gender-disaggregated data to measure and verify end users' perceptions of the subproject activities and will provide an insight into the level of public awareness of the PDOs. The findings will serve as a tool to define gender or social issues and recommendations for further improvements in the sector. A detailed GAP has been developed (annex 7).

130. **Scope of impacts.** Potential direct negative social impacts of PW subprojects and livelihood services are covered by the Environmental and Social Management Framework (ESMF),¹⁶ which identifies such impacts during the screening process and identifies appropriate mitigating measures. Other social issues are addressed by specialized instruments (Resettlement Policy Framework [RPF] and SIA) as described below.

131. **Involuntary resettlement.** OP 4.12 - Involuntary Resettlement is triggered. While PW subprojects involving physical relocation of households are ineligible, subprojects involving involuntary loss of assets or access to assets will be eligible. The project has prepared and consulted upon an RPF and all cases of loss of assets or access to assets will follow the procedures set out in the RPF. The RPF will ensure that before implementation of any PW subproject that is likely to result in such impacts, project-affected people are consulted and appropriate preventive and mitigating measures are exhaustively considered and implemented. Potential land acquisition and/or restriction of access to communal land under the project will result in the implementation of a Resettlement Action Plan. Consultations on the RPF took place across 11 cities. There was a high acceptance of the UPSNP and the RPF and an eagerness among communities to engage.

132. **Compensation and community engagement.** There was also a strong desire among communities to see procedures properly implemented (especially related to compensation). Communities also expressed the need to receive clear information so that they can engage in the procedures regarding entitlements in relation to compensation and consultation. Regarding GRM, there is considerable interest to see this strengthened at the community level. Some participants also expressed the opinion that elders should be more engaged in the process and that the overall mechanism be more tailored to cultural needs. Regarding capacity among implementers, more sensitization and orientation will be required and focal persons should be assigned.

133. **SIA.** In designing this project, an independent SIA was undertaken to explore the impact of the different processes involved in delivering the UPSNP on social processes (and if there are any negative social consequences). The SIA identified no major likely unintended negative social impacts. However, a number of possible impacts that might have moderate effects which could occur in some cities were identified. These impacts can either occur if the project is implemented perfectly or if the project is not implemented perfectly (that is, as designed). For example, social tension and conflict in relation to targeting, rural to urban migration, gender-related impacts, and stigma could occur if the project is implemented perfectly but be exacerbated if activities (that is, targeting) are not implemented properly. More minor potential impacts identified included issues related to interaction with informal SP systems, impacts related to community health and safety, and household use of the transfer. Mitigating measures, which focus on ensuring good practice and satisfactory standards through capacity building, training, awareness creation, and M&E, were recommended. The project design has already incorporated annual skills training, the introduction of strong systems for communications, grievance redress, and SA in addition to the implementation of a GAP. Because fieldwork served to illustrate that impacts *may* happen, monitoring will be important to ensure that any impacts are

¹⁶ The ESMF contains two parts: one part for PW and one part for Livelihoods Services activities.

identified early enough to be able to mitigate them. Therefore, to a large extent, the UPSNP will have to ‘learn by doing’ to avoid any negative impacts.

F. Environment (including Safeguards)

134. The Safeguard Category assigned to the project is Category B and has triggered three out of the ten safeguard polices.

Table 1. Safeguard Policies

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

135. Activities to be financed by the UPSNP, which have environmental concerns, include urban greenery development, solid waste or garbage collection services, construction of cobblestone roads, building of drainages and community infrastructure, and construction of shelters and sheds for income-generating SME activities.

136. The overall environmental impact of the project is positive, especially given that some of the subprojects may play a pivotal role in establishing greenery areas and cleaning the urban environment. However, some limited environmental risks may arise as a result of some of the infrastructure subprojects such as construction of cobblestone roads, drainages, and market sheds.

137. The MUDHo has prepared an ESMF that describes in broad terms how potential project-related environmental risks and impacts associated with all the triggered Bank safeguard policies will be mitigated and addressed before and during implementation of project activities. In addition, it describes the institutional responsibilities, capacities, financial resources, and monitoring needs essential to implement the potential mitigation measures.

138. The MUDHo has sufficient capacity and experience to implement the ESMF. The ministry has environmental and social safeguard specialists to follow up on the proper and day-to-day implementation of the ESMF. Further, as described in the ESMF, the UPSNP will provide training and capacity building to support implementation of all the safeguards instruments prepared for the project. The effective implementation of the ESMF will be regularly reviewed as part of the M&E system for the UPSNP.

139. **Climate change and disaster risks.** The climate change and disaster risk screening tool was used to assess the potential impacts of climate change and disaster risks that might affect the project. Based on a preliminary assessment, the potential risks may include floods and landslides, earthquakes in some urban cities, and drought which affect food production in rural areas and

reduces food supply to urban areas. To minimize such risks, the project will include specific remedial measures in its design. This may include awareness raising and capacity building for the communities and implementing agencies, establishing linkages and ensuring coordination with the Disaster Risk Management and Food Security Sector of the MoA for coordinated early warning and response in the event of disaster occurrence. In some cases it may be possible to include climate change resilience-building PW subprojects, such as flood diversions, where the disaster risk profiles indicate that such structures are needed.

G. World Bank Grievance Redress Mechanism

140. To ensure CE, transparency, and accountability, the project will support development of capacity and systems for introduction of SA principles and practices and FTA interventions. Drawing on lessons from implementation of the PBS-Ethiopia Social Accountability Program (ESAP2), project beneficiaries will receive awareness and sensitization on their rights and obligations, guidance on how to engage with service providers in a constructive manner, and mechanisms for registration of grievances and resolving them through constructive dialogue. In addition, financial transparency will be promoted within the project, whereby the citizenry and beneficiaries will be provided with access to project information in terms of annual plans, budgets, and expenditure information. The citizens will be put at the center of overall project planning and implementation to ensure that the above objectives are achieved.

141. Communities and individuals who believe that they are adversely affected as a result of a Bank-supported operation, as defined by the applicable policy and procedures, may submit complaints to the existing program GRM or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address pertinent concerns. Affected communities and individuals may submit their complaint to the Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures. 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 corporate GRS, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

Annex 1: Results Framework and Monitoring

Results Framework

Project Development Objectives

PDO Statement

The PDO of the proposed project is to support the GoE to improve income of targeted poor households and establish urban safety net mechanisms.

These results are at | Project Level

PDO Indicators

PDO Indicator Name	Description (indicator definition)	Base -line	Cumulative Target Values						Frequency	Data Source/ Methodology	Responsibility for Data Collection
			YR1	YR2	YR3	YR4	YR5	End Target			
Direct project beneficiaries (Number)	Core	0	152,000	304,000	465,600	465,600	465,600	465,600	Quarterly	Regular monitoring/MIS	MUDHo / UFS&JCA/PC U/ULG
Female (Percentage)		0	49	50	51	51	51	51			
Beneficiaries reporting that project investments reflected their needs (percentage)	Core	0	50	55	60	60	70	70	Annually	Impact evaluation	MUDHo / UFS&JCA/PC U/ULG (through external evaluators)
Female (Number)		0	37,240	83,600	142,474	142,474	166,219	166,219	Annually		
Male (Number)		0	38,760	83,600	136,886	136,886	159,701	159,701	Annually		
Project beneficiaries below the national poverty line (Percentage)	The proportion of beneficiaries with consumption per adult lower than ETB 3,781 according to December 2010 prices (national poverty line). It reflects the fact that there will be some	0	65	70	75	75	75	75	Annually	Impact evaluation	MUDHo / UFS&JCA/PC U/ULG (through external evaluators)

	inclusion error in targeting beneficiaries but that the program will put in place mechanisms to keep this low and reduce it over time.										
Project beneficiaries reporting increased household consumption as a result of the project (Percentage)	Increase in consumption of beneficiaries, as measured by a consumption expenditure module, due to the contribution of their participation in the project. Consumption is chosen to proxy income given it is more possible to measure for households engaged in informal activities.	0	40	50	60	60	80	80	Annually	Impact evaluation	MUDHo / UFS&JCA/PC U/ULG (through external evaluators)
Livelihood services beneficiaries who secured a new job or set up/expanded a business and are still in the new job/operating the business 12 months later (Percentage)	Proportion of beneficiaries who either: (a) established or expanded a business with a livelihood grant and is still operational 12 months later; or (b) were able to secure a new job and are still in it six months later.	0	0	0	20	20	25	25	Annually	Impact evaluation	MUDHo / UFS&JCA/PC U/ULG (through external evaluators)
Participating ULGs reporting improved capacity to deliver safety nets and livelihood services as a result of program support	Self-reported assessment of the local government's capacity to deliver safety net and livelihood services.	0	4	6	8	10	11	11	Annually	Process evaluation	MUDHo / UFS&JCA/PC U/ULG (through external evaluators)

(Number)											
Intermediate Results Indicators											
Indicator Name	Description (indicator definition)	Base line	Cumulative Target Values						Frequency	Data Source/ Methodology	Responsibility for Data Collection
			YR1	YR2	YR3	YR4	YR5	End Target			
Component 1											
Beneficiaries of safety net programs (Number)	Core	0	152,000	304,000	465,600	465,600	465,600	465,600	Quarterly	Regular monitoring/MIS	MUDHo / UFS&JCA/PCU/ULG
Female (Number)		0	74,480	152,000	237,456	237,456	237,456	237,456			
Cash-for-work, food-for-work, and PW (Number)		0	127,680	255,360	391,104	391,104	391,104	391,104			
Unconditional transfers (Number)		0	24,320	48,640	74,496	74,496	74,496	74,496			
Payments delivered to beneficiaries within 15 days of the due date (Percentage)	Measure the timeliness with which the payments system is working. Payments are expected to occur once every month.	0	40	60	70	80	90	90	Monthly	Regular monitoring/MIS	MUDHo / UFS&JCA/PCU/ULG
Number of person days of employment created (Thousands)	Measures the numbers of days of employment created in PW projects	0	9,576	25,536	45,293	55,272	58,666	58,666	Annually	Regular monitoring/MIS	MUDHo / UFS&JCA/PCU/ULG
PW subprojects identified through community participation (Percentage)	This indicator is to assess the extent to which PW subprojects are identified through community participation	0	70	80	90	90	90	90	Annually	PW reviews/regular monitoring report/MIS	MUDHo/UFS &JCA/PCU
Beneficiaries who are satisfied that the PW projects meet/serve their needs (Percentage)	Self-reported indicators by those beneficiaries directly involved in PW regarding the convenience of the	0	50	60	70	70	80	80	Annually	Impact evaluation	MUDHo / UFS&JCA/PCU/ULG (through external evaluators)

	timing/intensity and payment of the PW projects										
PW days allocated to training (Percentage)	Measures the number of days PW beneficiaries receive training (such as financial literacy training) as part of their PW commitment	0	2	4	6	8	10	10	Annually	PW reviews/regular monitoring report/MIS	MUDHo/UFS &JCA/PCU
Infrastructure subprojects with clear maintenance plan and sustainability measures (Percentage)	This measures the proportion of projects undertaken in the PW that have a clear maintenance and sustainability plan at the local level (if the project requires it)	0	40	50	60	70	70	70	Annually	Regular monitoring/MIS	MUDHo / UFS&JCA/PCU/ULG
Component 2											
Beneficiaries receiving guidance/information on employment opportunities (Number)	Measures the number of beneficiaries who received guidance (which could include training on soft skills required for employment) or information on local labor markets as part of the first year of the livelihood services program	0	6,500	25,000	50,000	80,000	80,000	80,000	Annually	Regular monitoring/MIS	MUDHo / UFS&JCA/PCU/ULG
Beneficiaries reporting receiving satisfactory information on entrepreneurship opportunities, availability of wage jobs, and training available to meet	Measures the percentage of beneficiaries who have received the information they need to be able to understand the	0	30	40	60	60	70	70	Annually	Impact evaluation	MUDHo / UFS&JCA/PCU/ULG(through external evaluators)

identified skill needs (Percentage)	entrepreneurship, wage job, and training opportunities available to them to be available to improve their livelihoods										
Beneficiaries receiving appropriate training that received a livelihood grant (Percentage)	The proportion of individuals who received guidance on employment and business plan development that received a grant from the project to cover the costs of expanding or starting a self-employment activity (after completion of a business plan), the costs of undertaking skills training or the costs of search, and initial costs of engagement in wage employment	0	0	65	70	70	80	80	Annually	Regular monitoring/MIS	MUDHo /UFS&JCA/PCU/ULG
Training recipients reporting improved skills as a result of the training provided by the project (Percentage)	The proportion of beneficiaries who self-report an improvement in skills as a result of the training provided by the project	0	50	60	70	70	70	70	Annually	Impact evaluation	MUDHo / UFS&JCA/PCU/ULG(through external evaluators)
Businesses with approved business plans that are set up within six months of receiving livelihood grant support (Percentage)	Proportion of businesses that were established or expanded with the livelihood grant within six months of	0	0	0	60	60	80	80	Annually	Impact evaluation	MUDHo / UFS&JCA/PCU/ULG(through external evaluators)
Businesses that are		0	0	0	40	40	50	50			

still operating six months after livelihood grant support (Percentage)	the grant being provided. The number of businesses that were established or expanded and are still operational six months after the livelihood grant has been provided											
New wage jobs held for more than eight weeks by program beneficiaries (Percentage)	The proportion of individuals who were able to secure a new job and stay in it for eight weeks or more, after receiving support from the program.	0	0	0	40	40	50	50	Annually	Impact evaluation	MUDHo / UFS&JCA/PCU/ULG(through external evaluators)	
Component 3												
Federal institutions and cities where the project management and coordination arrangements are established and functional (Percentage)	This indicator tracks whether project implementers at all levels have established agreed coordination mechanisms and made them operational. This includes regularity of meetings according to the agreed timeline, documentation of minutes, and participation of all concerned institutions.	0	20	50	80	90	90	90	Annually	Progress report/MIS	MUDHo/UFS &JCA/MoLSA /PCU	
Establishment of functional M&E/MIS system at the federal and city levels (Yes/No)	Whether an M&E/MIS is established and functional	No	No	Yes	Yes	Yes	Yes	Yes	Annually	Progress report/MIS	MUDHo/UFS &JCA/MoLSA /PCU	

<i>Ketenas</i> in which CBT is verified if it is of acceptable levels in the PMT verification process (Percentage)	Measures the extent to which the CBT is confirmed by the PMT measure and the number of communities in which retargeting had to be redone. It will help identify whether changes in the CBT are needed.	0	60	70	80	90	90	90	Annually	Assessment of targeting effectiveness	Independent reviewers
Complaints to <i>Woreda/Kebele</i> Targeting Appeals Committee satisfactorily addressed within three months of initial complaint being recorded (Percentage)	This will give an indication on the extent to which the project targeting mechanism is effective. It considers whether a complaint that has been received on the targeting undertaken by the <i>Ketena</i> Targeting Committee (by either the <i>woreda</i> in Addis Ababa or the <i>kebele</i> in other cities) is resolved within three months of the initial complaint being recorded	0	0	70	80	90	90	90	Annually/ev ery two years	Reviewers assessment of targeting effectiveness	Independent interviewers
Project implementation staff trained on various aspects of the project at all levels (Number)	Number of staff trained, to assess how capacity has increased	00	100	150	200	200	200	850	Annually	Progress report/MIS	MUDHo/UFS &JCA/MoLSA /PCU

Annex 2: Detailed Project Description

1. Until recently, Ethiopia’s development strategy has been focused on rural areas. This strategy has been successful in ensuring that agricultural growth and rural safety nets have made significant contributions to reducing extreme poverty. However, for Ethiopia to eliminate extreme poverty in the future, this strategy needs to be complemented with specific programs designed to address urban poverty. Interventions targeted at addressing urban poverty are also important to mitigate unintended impacts of high food prices which are beneficial for rural poverty alleviation but are costly for the urban poor and vulnerable.

2. The GoE has implemented a number of poverty-focused measures to tackle the increasing levels of vulnerability in urban areas. In addition, the NGOs are implementing small programs to address specific needs of vulnerable groups such as people affected by HIV/AIDS, the elderly, orphans, street children, and people with disability. Furthermore, traditional social insurance and saving groups, locally known as *Iddirs* and *Equbs*, have also been providing support for the poorest communities in specific localities. However, given the high number of poor and vulnerable in many urban areas, the coverage of the existing support is limited and insufficient to bring about the desired poverty reduction impact at scale.

3. There is broad consensus within the government that this situation calls for the introduction of systematic and targeted interventions aimed at alleviating poverty among the urban poor. In line with the government’s vision and commitment, this project will support targeted safety net programs in urban areas that are complementary to other urban development programs and which seek to help government efforts to gradually establish a national safety net system with not only rural but also urban coverage.

4. The project aims to provide access to effective safety nets and livelihood services for the poorest 12 percent of the population in selected urban areas. While the government’s UPSNP ultimately seeks to support over 4.7 million urban poor in around 972 cities and towns, this project will provide support to 604,000 beneficiaries in 11 major cities (Addis Ababa, Adama, Assayita, Asosa, Dessie, Dire Dawa, Gambella, Hawassa, Harari, Jijiga, and Mekele) as detailed in Table 2.1.

Table 2.1. Population, Poverty Rates, and Estimated Number of Beneficiaries, by City

City	Population Estimates (GoE, 2015)	Poverty Rate (HCES, 2010/11)	Adjusted Poverty Rates based on GTP Reporting (2012/13)	Estimated Number of People Below the Poverty Line	Estimated Number of Beneficiaries
Addis Ababa	3,195,000	0.28	0.24	766,800	415,923
Mekele	306,972	0.1	0.09	27,627	14,986
Assayita	25,144	0.13	0.11	2,766	1,500
Dessie	177,688	0.20	0.17	30,207	18,804
Adama	308,466	0.19	0.16	49,355	26,771
Jijiga	154,364	0.15	0.13	20,067	10,885
Asosa	43,204	0.19	0.16	6,913	3,750

City	Population Estimates (GoE, 2015)	Poverty Rate (HCES, 2010/11)	Adjusted Poverty Rates based on GTP Reporting (2012/13)	Estimated Number of People Below the Poverty Line	Estimated Number of Beneficiaries
Hawassa	284,426	0.25	0.22	62,574	33,941
Gambella	62,093	0.17	0.15	9,314	5,052
Harari	125,000	0.12	0.1	12,500	6,780
Dire Dawa	268,000	0.35	0.3	80,400	43,610
Total	5,039,336	–	–	1,072,982	582,000
Urban destitute not captured in population statistics				22,000	22,000
Total including destitute				1,094,982	604,000

Note: Urban poverty declined from 25.7 percent in 2010/11 to 22 percent in 2012/13; this represents a 14 percent reduction in the poverty rate across all cities.

HCES = Household Consumption Expenditure Survey.

Sources: Ministry of Urban Development and Housing 2015; HCES 2010/11; and Progress report on the GTP 2012/13, Government of Ethiopia. 2014

5. The urban poor are a diverse group with different needs. The urban destitute—street children, the homeless, and beggars—are the most visible face of urban poverty and need housing, healthcare, counseling, and often reunification with their families, in addition to financial support. The elderly and disabled living in households with no working-age members need long-term financial support. However, the largest groups of urban poor are those in households in which working-age members have little work or are in low-quality employment. This beneficiary group moves between unemployment, marginal self-employment, and low-wage employment. While some households do not have enough work, 48 percent of the target group live in households where at a given point in time all working-age members are working (almost equally split between self-employment and low-wage employment). Table 2.2 provides more details on the size of these five groups.

Table 2.2. Categories of Urban Poor

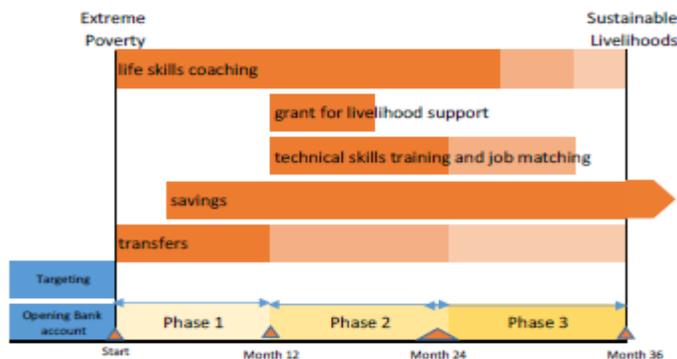
Group	Percent of Beneficiary Population
1. Urban destitute	2.7
2. Disabled and elderly with limited family support	6.6
3. Individuals living in households who need more work	41.7
4. Individuals living in households, in marginal self-employment	23.8
5. Individuals living in households, in low-wage employment	24.6

Source: HCES and Welfare Monitoring Survey 2010/11.

6. To achieve its objectives, the UPSNP will adopt a three-phase integrated support pathway (Figure 2.1) designed to help beneficiaries move out of poverty and graduate from the program. In the first phase, beneficiaries will receive transfers (conditioned on PW or training as described in each component) and guidance on the employment pathway (both self-employment and wage

employment) to follow. In the second phase, conditional transfers will continue and beneficiaries will receive training and further financial support to increase their employability. In the third phase, beneficiaries will have the option to continue to engage in PW to supplement their employment income. Support will be provided for a maximum of three years but some beneficiaries may choose to graduate earlier. As this is the first project of this nature in urban areas, it is important to acknowledge that the proposed approach (including graduation from the program), particularly the livelihood services interventions, would be piloted, evaluated, course-corrected, and expanded as needed.

Figure 2.1. Phases of the Integrated Development Pathway¹⁷



Source: World Bank staff depiction

7. Based on the integrated model, the proposed project will have three major components: (a) Safety Net Support; (b) Livelihood Services; and (c) Institutional Strengthening and Program management.

Component 1: Safety Net Support (Total US\$336.00 million equivalent, of which IDA US\$224.00 million equivalent, GoE US\$112.00 million equivalent)

8. This component will support the delivery of a predictable, timely, and productive safety net through conditional and unconditional safety net transfers. The project will ensure that various safety net principles such as primacy of transfer and adequacy and predictability of transfer are respected.

9. **Subcomponent 1.1: Conditional cash transfers.** The conditional transfers will target able-bodied persons in households eligible for project support. This group constitutes 84 percent of total project beneficiaries. Conditional transfers will require participation in PW which could range from small-scale infrastructure to provision of beneficial services to communities in urban areas including child care, home care for the elderly and people affected by HIV/AIDS and other chronic illnesses, and preparation of food for workers that are absent in urban areas. PW that increase the productivity of urban work—such as building market sheds for self-employment retailers, provision of child care or prepared food—will be encouraged. As the program

¹⁷ Adapted from the graduation into sustainable livelihoods approach, Consultative Group to Assist the Poorest-Ford Foundation 2014.

develops, transfers may also be conditioned on enrolment in tailored training programs aimed at connecting project clients with job or self-employment opportunities (Component 2).

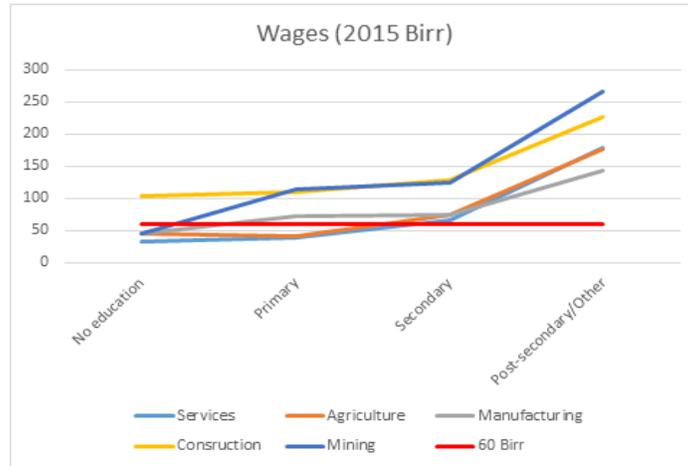
10. The project will support the financing and development of sustainable community assets and public services implemented using labor-intensive methods. A menu of PW appropriate for the urban areas and customized to the special environments in each of the participating cities will be provided as guidance to the communities in participating areas. These may include urban greenery development, solid waste management, construction of cobblestone roads, building drainages and community infrastructure, and development of shelters and workshops for income generation (SME activities). In cities where there is an overlap with the ULGDP, the PW will be limited to urban greenery, environmental cleaning, solid waste management, and social facilities/services projects. Specific guidelines and manuals will be developed to guide the design and implementation of various PW subprojects. In this process, reference will be made to various implementation manuals developed by the MUDHo through the ULGDP to ensure that overlaps will be overcome and that necessary synergies between the projects will be ensured.

11. Implementation of the PW will also build basic technical skills, such as specific skills for construction, catering, or home care activities, as well as soft skills, like timeliness and discipline, among the project beneficiaries.

12. **Wage rate and transfer size.** In the case of beneficiaries receiving conditional transfers, the daily transfer size (wage rate) is determined taking into account the market wage rate for unskilled labor, the availability of individuals to undertake their co-responsibilities, and market prices of basic food commodities. Accordingly, a daily transfer size of ETB 60 (US\$2.91 equivalent based on the current exchange rate) per person per day will be used at the start of the program. This will be reviewed on an annual basis and adjustments will be made as necessary depending on the specific food price situation of each city. The 2015 market wage rate for those with primary and some secondary education (education level of target beneficiary group) converges at around ETB 50 (2015 prices) per day¹⁸ (excluding the construction sector in which wages are 70 percent higher), but a higher rate of ETB 60 is chosen to take into account expected inflation between 2015 and the program's start in 2016. Each eligible urban household will be able to work for up to four members of the household and will be entitled to a transfer over 12 months by providing labor to access PW.

¹⁸ Urban Employment and Unemployment Survey 2014, Central Statistical Agency.

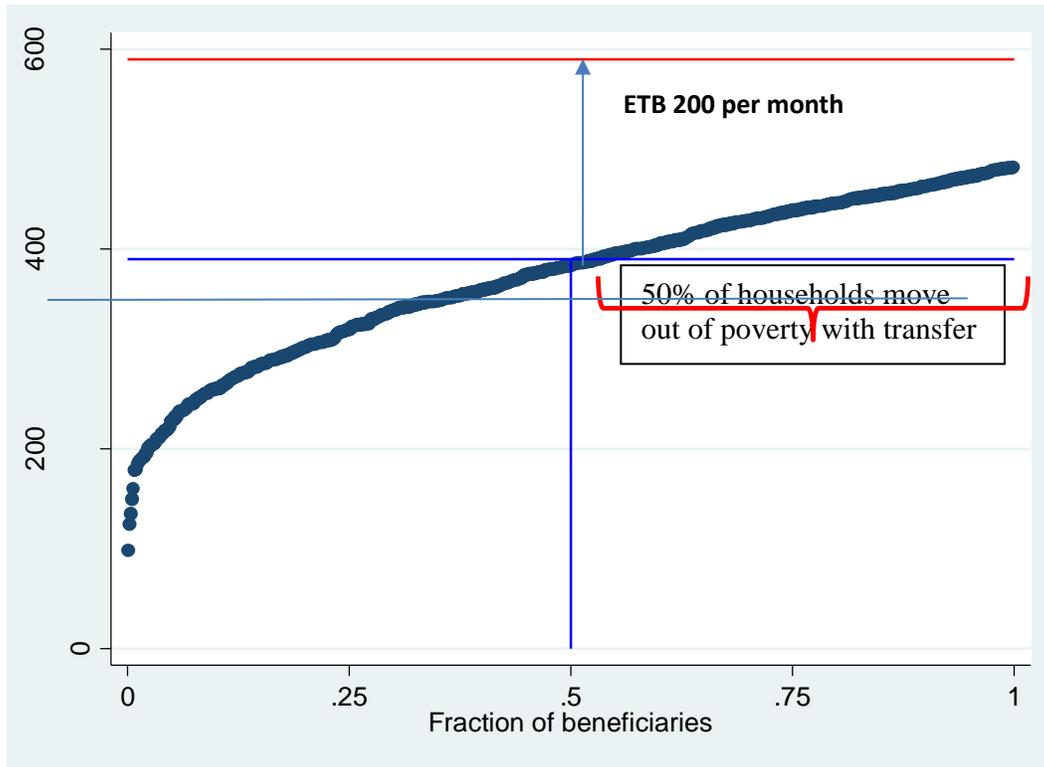
Figure 2.2. Wage Rates in Addis Ababa by Sector and Level of Education (ETB, 2015 Prices)



Source: Urban Employment and Unemployment Survey 2014.

13. In the case of the conditional transfers linked to co-responsibilities, each eligible average urban household will be in the program for three years and will be entitled to transfers for over 12 months by providing labor for PW per average family of four members for up to (a) 240 days in the first year, (b) 160 days in the second year, and (c) 80 days in the third year. This model builds on the government’s interest to provide more intensive income support to beneficiaries by providing access to more days of PW during the first year and then gradually letting them have more time for livelihood services interventions. Based on this, an average family will be entitled to ETB 28,800 (about US\$1,400 equivalent) over three years (on average ETB 200 per person per month [US\$10 equivalent]). If this level of transfer were perfectly targeted, 49 percent of households will be moved out of poverty (Figure 2.3). Transfers are unlikely to be perfectly targeted. With the level of leakage projected by Olinto and Sherpa (2014) for a program targeting the bottom 12 percent, the estimated reduction in poverty is 29 percent and the reduction in the severity of poverty among the poor is 20 percent.

Figure 2.3. Impact of Transfer for PW Beneficiaries



Source: World Bank staff calculations using the Household Consumption Expenditure Survey 2010/11

14. Consistent with budgetary estimates for the labor versus capital components of the PW, the labor intensity is expected to be not less than 70 percent on average so as to maximize the element of transfer to the target households.

15. Participation in the PW is designed to ensure it does not result in unnecessarily high levels of foregone income opportunities. Specifically, (a) individuals will self-select the number of days they spend on PW up to a cap that is 60 days per household member in the first year and tapering off in the second and third years to 40 and 20 days, respectively, for up to four persons per household; (b) the daily conditional transfer will be set lower than the average wage rate received for unskilled work, encouraging beneficiaries to pursue other work first; and (iii) the livelihoods grant provided through the livelihoods component will match any amount saved from PW transfers, encouraging individuals to use the PW to increase, not replace, income. Analysis suggests that, on average, ETB 2,000 from the first year's transfers can be saved after all consumption needs have been met, if the full entitlement of days is worked.

16. **Community-based planning processes.** Planning for the PW projects will be community-based with technical assistance provided by the city, *woreda*, and *ketena* administrations. The responsibilities of the community will be varied and will include identification and prequalification of projects and beneficiaries, mobilization of community members to identify their needs, and provision of data about community stakeholders. Community members may also play a role in contributing to subproject monitoring and in facilitating community feedback through SA structures.

17. **M&E and oversight requirements.** Ensuring transparency and accountability is a particular concern for PW programs, given their typical requirements for strong checks and balances against possible error, fraud, and corruption. In this context, a credible M&E system will be designed before program launch to allow for strong supervision and to respond to sudden changes inhibiting effective implementation. A number of principles will be followed to promote transparency and accountability, including clarity in selecting participating *woredas*, clear ground rules for beneficiary selection, adherence to Procurement Guidelines in the process of buying materials, clear wage-setting processes, and availability of a complaint handling system.

18. **Work site management.** Management of work sites and worker supervision are a key part of the implementation of a PW program. The structure of work site management will depend on the scale and complexity of the project and how labor will be organized. The tasks entailed in work site management include the selection and organization of labor, attendance, payment of workers, provision of materials and technical assistance, physical execution of works, and resolution of the myriad issues that may arise in day-to-day operations. *Woreda/Kebele* site supervisors and foremen will be responsible for work site management activities.

19. **Subcomponent 1.2: Unconditional cash transfers.** Unconditional transfers will target persons who for various reasons are unable to perform work (for example, the chronically ill, the elderly, people with disabilities, and urban destitute). The urban destitute include the target group who do not have access to a sustainable livelihood, and often resort to begging or illicit activities to make a living. Physical and mental health problems affect many in this group. Some in this group are very young—children who have run away from homes in rural areas. The unconditional transfer beneficiaries will make up 16 percent of total project beneficiaries.

20. Unconditional transfer beneficiaries will receive ETB 170 per person a month (US\$8.25 equivalent) or ETB 2,040 per year (about US\$100 equivalent) which will lift about 48 percent of those in this group out of poverty. It is recognized, however, that this transfer level is insufficient for people that fall in the category of urban destitute (about 3 percent of total project beneficiaries). These are the poor without homes that live on the street or in temporary shelters. The needs of this group are vast and complex. In addition to financial support that can be provided through transfers, they need housing, healthcare, and psycho-emotional counseling services. Therefore, the cost of support will need to be significantly higher than for the other categories of urban poor. The project will have a dedicated budget line to finance pilot projects of specialized service providers to inform an engagement strategy tailored to the specific needs of this group. In this regard, it is estimated that a support of ETB 600 per person per month (about US\$29 equivalent) for 12 months and an additional 30 percent overhead cost for the provision of this services will be required.

21. **Subcomponent 1.3: Safety net mechanisms and systems.** The project will also support the development of common safety net mechanisms and systems. This will include payment systems, targeting, wage rate setting, and market price monitoring.

22. **Payment mechanism.** The mode of transfer for the project will be cash. The project will develop a payment mechanism, in line with the ongoing efforts in modernizing the Ethiopian payment system that are led by the Bank Group, that will use formal financial institutions such as banks and MFIs to deliver payments to all beneficiaries. The project will also explore options to

use electronic payment mechanisms such as mobile money transfer. An assessment of how to increase financial inclusion for beneficiaries in a cost-effective way will be undertaken before implementation. The project will finance the sensitization and training activities that the financial inclusion assessment recommends to ensure all beneficiaries can be paid through financial institutions. This increase in financial inclusion will have many benefits for beneficiaries, in addition to improving the effectiveness, transparency, and recording of transfers.

23. **Duration and timelines of transfers.** Seasonality in the availability of work is modest, and poor urban households face shortfalls in meeting their basic needs throughout the year. To distribute additional income throughout the year and to ensure that beneficiaries are not replacing existing economic activities with engagement in their co-responsibilities, conditional and unconditional transfers to beneficiaries will be provided evenly throughout the year. Conditional transfer payments will be made on a monthly basis after completing PW and will be transferred within a maximum period of 15 days after the end of each month. Unconditional transfer beneficiaries will be based on a fixed monthly payment schedule at the end of each month. The beneficiaries of conditional transfers will be in the program for three years. The unconditional transfer beneficiaries will remain in the program throughout the life of the project depending on when they start receiving the transfer.

24. **Market price monitoring.** The project will closely monitor food prices in urban areas using existing data from the Central Statistical Agency. This will not only inform adjustments to transfer sizes, but also provide surveillance on possible food price-induced crises as those that hit the country in 2008 and 2011. In other words, the monitoring of food prices will both inform design adjustments and also act as an early warning system for the project as a whole. In case of large covariate shocks affecting urban areas, the project will closely coordinate a required response with the Disaster Risk Management and Food Security Sector of the MoA, the PSNP, and other programs.

Component 2: Livelihood Services (Total US\$79.00 million equivalent, of which IDA US\$53.00 million equivalent, GoE US\$26.00 million equivalent)

25. This component will support interventions that will facilitate graduation from the program and promote moving out of poverty. The targets of these interventions are selected individuals in poor households receiving conditional transfers who desire increased access to quality work. This beneficiary group moves between unemployment, marginal self-employment, and low-wage employment. At any point in time, it is estimated that half of these beneficiaries are unemployed or underemployed wage workers; a quarter are in marginal self-employment; and a quarter are in full-time low-wage employment. One individual per household can receive this support which will result in a total of 188,000 individuals eligible under this component. The individual will be selected by the household. Sectors where employment is likely to be encouraged are agroprocessing, garment manufacturing, retail trade, repair, construction, and urban agriculture.

26. **Learning and adaptation.** Support for self-employment and wage employment are needed as both are equally important for the poor in urban areas. Evidence suggests that effective self-employment support requires both cash transfers and training/mentoring (for example, Blattman and Dercon 2015 in Ethiopia, Blattman et al. 2014 in Uganda), but there is less

evidence on what support is effective in supporting wage employment. Early insights from other projects and evaluations suggest that the constraints to wage employment are varied: lack of finance to cover costly job search and travel to new jobs, lack of child care, and limited skills (particularly soft skills). There is a need to learn which approaches work the best, and adapt the design and roll out this component accordingly. Learning and adaptation will be emphasized in years 1 and 2. Successful activities will gradually be scaled up to all eligible individuals.

27. Implementation of the component will be under the responsibility of the OSCD within the UFS&JCA at the federal, regional, and *woreda/kebele* levels. The OSCD structure cascades to the regional and *woreda/kebele* levels which will facilitate implementation. Some of the functions will be performed in collaboration with the MoLSA at the federal, regional, and *woreda/kebele* levels. At each level, a gap analysis will determine the level and type of expertise required to complement existing structures and capacity to ensure that implementation of livelihood services is done adequately. The urban poor represents a new set of prospective participants for livelihood interventions, including with regard to skills, aptitude, financial capability, and social capital compared to mainstream profiles currently served by implementing agencies. As such, there is a need to build capacity within existing systems to undertake the roles being proposed in this component.

28. Currently, there are over 1,300 OSCs countrywide, each of which is staffed with 5–8 officers. As part of ensuring implementation readiness for the UPSNP, the number of additional officers required at each level will be decided based on the gap analysis. It is estimated that around 2–4 officers, 1–3 officers, and 1 officer will be required at the federal, regional, and *woreda/kebele* levels, respectively, to cater to the UPSNP needs. Tentative planning indicates that at the federal level, there will be a need for officers with expertise in the areas of livelihood capacity building and skills development; grants management; awareness, coaching, and mentoring; and employment promotion. As part of elaborating the PIM, these proposed numbers will be confirmed, the areas of expertise will be clarified, and the ToR will be developed. Some of these functions will be performed in collaboration with the MoLSA and the Bureaus of Labor and Social Affairs (BoLSAs) and therefore, the finalization of areas for additional staffing will be done in consultation with the MoLSA.

29. **Subcomponent 2.1: Counseling and life-skills development.** The first phase of livelihoods support will focus on enhancing general skills (financial literacy and soft skills) that will be useful across a range of livelihood choices; assessing the skills of beneficiaries; and providing individuals with information on entrepreneurship and wage opportunities that they will be supported to pursue in the second phase of support (Subcomponent 2.2).

30. **Targeting.** Livelihoods support is targeted to households engaged in PW (that is, not beneficiaries receiving unconditional transfers). These households will select one member to receive livelihoods support. They will be encouraged to choose a member that they think will benefit most from support to improve their livelihood. Households with an unemployed or underemployed member who is able to increase the hours spent in employment will be encouraged to select this member. Households in which members are engaged in marginal self-employment may opt for this member to receive support to increase the productivity of their self-employment. Households with a member in low-wage employment may choose this member to receive support to transition to a new wage opportunity.

31. **Financial literacy and life-skills development (or ‘soft skills’ training).** Beneficiaries will receive short trainings on financial literacy and life skills that are expected to help them manage the money they receive from PW and approach PW in a professional manner. The training will encompass training on saving, how to open a bank account, planning and budgeting, attitude and expectations of work (self-employment and wage employment), and business and workplace readiness (basic workplace values and organizational ethics). These are skills that are important across a range of livelihood activities. The material developed by the UFS&JCA that is used in current outreach activities will be adapted to meet the needs of the beneficiary group. The inputs from the NGOs that are already engaged in business and work readiness training for unskilled workers in urban areas will be sought in adapting the material and perhaps also in delivering the training. Lessons will also be taken from the Better Work Program in the development of training material on how to communicate and negotiate with employers in large factories.¹⁹ Some of the training on life skills may be better delivered once the beneficiaries are employed and as the program is implemented, the appropriate timings of these trainings will be assessed. Given that the time commitment to PW in the first year is substantial, and that many urban poor have limited time availability, there is also a need to limit the amount of time that needs to be spent in training that does not qualify as a co-responsibility.

32. **Financial literacy training.** As part of their co-responsibility for safety net transfers, training on budgeting and saving will be provided to beneficiaries early on. This is to ensure that they are able to take full advantage of the income they receive from PW during the first year to the fullest extent. Beneficiaries will be encouraged to save in the first year so that they can use savings for livelihood activities, to complement a livelihood grant that will be provided in the second phase of support. The OSCD will also be responsible for the implementation of this training, but the nature of the training and providers used will be informed by a financial inclusion assessment undertaken before project effectiveness.

33. **Guidance and counseling.** In addition to enhancing general skills, this subcomponent will support guidance and counseling to help beneficiaries identify the type of more specific support they would like to receive in the second phase of support (and described under subcomponent 2.2). The range of education levels of beneficiaries are expected to be quite varied (see annex 5). The beneficiaries are also likely to vary in age and, therefore, work experience. The level of skills and the interest of individuals in entrepreneurship versus wage employment will be assessed for each individual in the first phase through individual interviews with the MoLSA employment officers. In addition to assessing skills and interest, individuals will be provided with information on entrepreneurship opportunities by the OSCD staff and information on the availability of jobs in different sectors from the MoLSA employment officers. Each individual will receive guidance on what opportunities are available to him/her based on his/her skill level and the type of training support that would be required. On the basis of this guidance, individuals will choose the type of support they would like to receive in the second phase: support in entrepreneurship development or support in accessing wage employment opportunities.

¹⁹ Better Work Program is a partnership program between the International Labour Organization and the International Finance Corporation launched in 2007 after the success of the International Labour Organization Better Factories Cambodia Project. It has programs in Cambodia, Haiti, Jordan, Lesotho, Indonesia, Vietnam, Nicaragua, and Bangladesh.

34. **Building capacity and developing materials for the delivery of guidance and counseling.** Currently, the MoLSA employment officers are expected to provide the type of skills assessment, guidance, and counseling services envisaged in this phase, but they are not operating effectively in many of the cities in which the program will function. Private employment services have come into existence in a number of cities to fill this gap and the MoLSA has provided training and monitoring to these private employment services in some instances. Still, many unemployed report not having access to employment services and information on employment opportunities (particularly those in more peripheral parts of the city). The OSCs are actively engaged in recruiting unemployed individuals for training on entrepreneurship and formation of the SMEs, but their typical client is more educated than the average safety net beneficiary. There is a need to build capacity within the MoLSA and the OSCD to provide the services envisioned. For this reason, only 10,000 beneficiaries will receive this service in the first year of the project (less than a fifth of those eligible) with more receiving this support at the beginning of year 2. The role of private employment officers will also be explored.

35. There is also a need to develop new skills assessment tools and manuals for staff to provide appropriate guidance to the type of beneficiary in the program. The program will pilot skill assessments and guidance material in the first months of implementation. Additionally, current assessments of the information on jobs provided by the MoLSA and private employment services have indicated that it is not comprehensive. Additional engagement with the private sector to access more information on job openings and to spread it quickly to a citywide network of employment offices will be instituted in the early months of implementation.

36. **Subcomponent 2.2: Financial support and training for livelihood development.** In the second phase of livelihoods support, individuals who received guidance in the first phase will choose whether they would like to receive support to increase their income from self-employment (either by starting a business or increasing the profitability of an existing business) or wage employment (either by gaining access to wage employment or moving from low to higher wage employment). In the second phase, they will receive financial support to pursue this livelihood pathway upon completion of an accepted plan. The plan will be accepted if it is realistic and reflects the individual's skills. In addition to financial support, individuals will receive the information, mentoring, and training necessary to develop and implement a plan.

37. **Value of support.** Individuals will receive up to ETB 10,000 in support (about US\$500). The exact value of the support that they will receive will depend on the amount needed to fund the plan developed. Beneficiaries will also be encouraged to use savings from their first year of enrolment in the program. It is expected that, on average, household savings from the first year of PW will be ETB 2,000.

38. The amount disbursed will depend on an individual developing a plan that is feasible given what is known about the current market and that is appropriate given the level of skills that the individual has. The value of support available does not depend on whether or not an individual is pursuing self-employment or wage employment. Further details on the functionality of the packages in the wage- and self-employment pathways are provided below.

39. **Self-employment.** The beneficiaries under this track will receive training on entrepreneurship and business development to develop an accepted business plan for the livelihood grant. The provision of these trainings will be facilitated by the OSCD. It is anticipated that the majority of these training programs will be provided by public TVET, but an assessment of training providers will be conducted in year 1 of implementation to assess whether other institutions should also be used. Private TVET and NGOs will be considered if they have a competitive advantage in dealing with program clients. The skill level of the beneficiaries in this program and the type of entrepreneurship activities they engage in are different, and existing material will need to be adapted for the needs of the program beneficiaries. Lessons from the WEDP will be used in this regard. In addition, the OSCD, through its network of OSCs, will facilitate access to workspace, market linkage services, and other licensing services that may be needed for the business plan to succeed. These are already services that the OSCs provide to the SMEs. The business plan could include the beneficiaries attending a short training course offered by a private or public TVET to improve their technical skills for the benefit of their enterprise. The business plan could fund a stipend of up to ETB 40 a day for attending training. Training enrolment fees will be funded by the project outside of the livelihood grant.

40. **Wage employment.** The beneficiaries under this track will continue to receive information on available job opportunities from the MoLSA employment officers and private employment agencies, and will also receive assistance in securing interviews. With the help of the employment officer, the beneficiary will put together a plan for accessing wage employment in the sector of choice. The plan can cover a stipend to attend training to build skills for a wage job; an allowance to travel to job interviews until a job is secured; and/or an allowance to travel to work or cover the ancillary costs of employment such as child care expenses. The rationale for the allowance to be provided during early work days is that individuals gain useful experience in the early days of a new job. Initial wages may be low or paid late and the distance to the workplace may be far, but the persistence in attending work in the early days will have long-term benefits given the skills acquired. On-the-job training can be as effective (if not more effective) in building skills than training courses, particularly when the capacity to deliver quality training is limited.

41. As in other countries, the public TVET system in Ethiopia does not have a good record of equipping graduates with the skills they need to improve their employability. Firms complain that the TVET institutions do not offer the training they need; graduates are ill-informed and lack the necessary soft skills such as punctuality (Fasih and Akhlaque 2014).²⁰ The NGOs engaged in support to youth employment in Ethiopia complain that the TVET institutes are poorly staffed, that classes do not take place on time, and that their beneficiaries emerge with little improvement in their technical skills. Improving the functioning of the TVET system is beyond the scope of this project. However, there is a strong preference within the government to use the public TVET system. The program will undertake an assessment of training providers in year 1 to determine which courses will be eligible for funding under the program. In addition, the program will assess that training is indeed met with improved skills for beneficiaries. Private training centers

²⁰ Fasih, T. and Akhlaque, A. (2014), *Skills for Competitiveness and Growth in the Manufacturing Sector in Ethiopia*. Mimeo. World Bank.

within the industrial zones are being established as part of the government support to the development of the industrial zones. These may offer a better opportunity to program beneficiaries. A stipend (ETB 40 per day) to attend training will be provided on confirmation of a place in a private or public TVET college or in the training centers being set up in the industrial zones under the CJC project. Any enrolment fees will be paid by the project, separate from the livelihood grant.

42. **Technical support and monitoring.** Given the complexity of this component and the fact that it is the first large-scale program to increase the employability of poor households in urban areas, the project will support monitoring, evaluation, and technical support. The success of this component will depend on strong technical support packages and building capacity to ensure staff with the necessary skills are available to implement it. Evaluation of the pilots in the early years of implementation is necessary to ensure that the package of support offered incorporates lessons from implementation in the early years before scaling up to a larger number of beneficiaries in later years of the project.

43. **Evaluation.** There are few examples of urban programs that have successfully implemented employment support to beneficiaries at scale; and none that have operated in an environment in which the labor market is dominated by wage rather than informal self-employment, restrictions on informal self-employment are present (all enterprises must be registered and have a physical site of operation), and new manufacturing industries are increasingly hiring low-wage workers. In addition, capacity to deliver the interventions in this component will need to be developed. For this reason, as noted, the component will thus not cover all beneficiaries immediately, with 10,000 beneficiaries in year 1 and an additional 40,000 in year 2. In addition, the effectiveness of different aspects of the planned interventions will be assessed to learn what works in increasing the productivity of work in this environment. Evaluations will test the effectiveness of these interventions so they can be modified as appropriate in the early days of implementation to ensure beneficiaries are able to graduate from the program as planned. Lessons are being drawn from the early stages of implementation of the CJC project on how best to increase employability and access to wage employment in urban Ethiopia and from the WEDP on improving self-employment outcomes in urban areas.

Component 3: Institutional Strengthening and Project Management (Total US\$35.00 million equivalent, of which IDA US\$23.00 million equivalent, GoE US\$12.00 million equivalent)

44. This component will support the development and strengthening of project systems for targeting, M&E and MIS, payments, and CE including SA and GRM. It will also finance capacity building (human resource, training, administrative, and physical capacity) and strengthening of program management (coordination, FM, procurement, and safeguards).

45. **Subcomponent 3.1: Operational system development.** A number of system development activities will be supported by the project. The main activities will include systems for (a) M&E, (b) FM, (c) human resources management, (d) targeting, and (e) MIS.

46. Ethiopia is moving toward the development of key building blocks, tools, and instruments for an SP system, in line with the recently approved Social Protection Policy and

strategy. Many of these tools will be financed by PSNP 4, including the development of a single registry and significant investments in information management. The UPSNP will be a user of many of these tools but will also be an important financier of some and key in taking this important systems agenda forward.

47. The project will finance a program-specific MIS which will provide credible information for decision making to program managers and implementers. Over time, this MIS will be harmonized with the MIS of the PSNP to contribute to the development of a comprehensive SP MIS. The MIS will include comprehensive PW and livelihoods databases and, given the decentralized nature of Ethiopia and the program, will be developed to be functional at both federal and city levels. Establishing the MIS will require targeted capacity-building efforts at all levels, including both training and investments in information and communication technology.

48. **Subcomponent 3.2: Capacity building.** The UPSNP is a new intervention in Ethiopia and is being led by an institution which has not been involved in safety nets design and implementation in the past. The project will thus require targeted, continuous, and fast-tracked capacity development and institutional strengthening as part of implementation. Capacity-building and skills-enhancement activities for the parent and other ministries that will be closely involved, as well as other institutions at the federal and regional levels, will be a priority at the start of the project. The capacity-development and skills-enhancement programs will be customized to the needs of an urban safety net design and implementation. Capacity-development activities are expected to ensure that the primary managers, implementers, and stakeholders of the UPSNP have the required awareness levels for safety nets in general and urban safety nets in particular and impart skills to successfully deliver their roles. A comprehensive capacity assessment at the federal, regional, and city levels will be conducted during the start of the project to inform the project’s capacity-building strategy and action plan.

49. **PPA.** A PPA was processed and approved in June 2015. The PPA is financing: (a) preparatory implementation and capacity-building activities including staffing, logistics and equipment, and sensitization and awareness raising for the core institutions that are involved in coordinating the project (MUDHo, MoLSA, UFS&JCA); (b) the development of manuals and guidelines including a PIM, guidelines for different project components, and FM and procurement manuals; (c) the development of important delivery mechanisms such as targeting, payment systems, and M&E; (d) the preparation of social and environment safeguard instruments and SIAs; and (e) the establishment of project management and coordination arrangements.

50. **Program management support.** This component will also allocate resources for the regular program management and coordination activities. This includes regular M&E, technical assessments and studies, and missions and project coordination meetings. In addition to the existing government staff responsible for project management and implementation, a PCU with key management and technical staff will be established at the federal level. Project Coordination Focal Units will also be established at the regional and city levels.

Table 2.3. Core Staff of Federal PCU

S.No.	Core staff
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S.No.	Core staff
1.	PCU coordinator
2.	PW specialist
3.	Livelihood specialist
4.	SP specialist
4.	M&E specialist
5.	Capacity building/training specialist
6.	Safeguards specialists (2)
7.	FM specialists (2)
8.	Procurement specialists (2)

51. **Subcomponent 3.3: Citizens’ engagement.** The UPSNP design has made efforts to maximize opportunities for adopting CE during the design and this will be pursued further during the implementation stage. The objective will be to ensure that the project clients are receiving their entitlement on a timely basis, in full and with dignity, and that citizen’s participation in planning and providing feedback on project activities shall be facilitated to allow informed feedback and development of appropriate solutions. Consistent with the current government and Bank vision for strengthening CE as a platform for localized service-delivery-based governance, implementation of this initiative under the UPSNP will be closely coordinated with other Bank-financed operations with CE interventions to avoid duplication and fragmentation of approaches, tools, and mechanisms for monitoring progress. The CE initiative will include three interrelated interventions, namely: (a) SA, (b) FTA, and (c) GRM (annex 11).

52. **SA.** To facilitate a structured mechanism for the citizens’ participation in planning, evaluation, and feedback provision, citizens’ report cards or community score cards will be implemented in participating cities at the start of the program on a randomly sampled group of beneficiaries, at midterm and at the end of the program. The application of these report/score cards will help to create awareness among the citizenry on their rights, roles, and responsibilities about the project activities. It will also promote monitoring of beneficiary and the broader citizenry perceptions about the project and management of emerging issues as part of implementation improvements. Implementation of the report/score cards will go hand in hand with empowering citizens to monitor project implementation. The creation of awareness about the project will ensure appropriate and informed citizen participation. The project will facilitate the creation of project monitoring committees as an upgraded mandate for existing committees, or as a new mandate for newly formed project committees where such committees do not exist.

53. **GRM.** As part of awareness creation about the project, the existence of GRM procedures for citizens will be effectively communicated. Project complaints and appeals committees will be established at the *ketena*, *kebele*, and *woreda* levels—with a mandate to receive and register complaints, convene meetings to resolve the complaints, and respond to the appeals resulting from committees’ decisions. The effectiveness of resolution of complaints and appeals will be monitored during implementation. Information on the complaints and appeals will be collected at the *ketena*, *kebele*, and *woreda* levels, and if there will be referrals to the regional or project implementation unit levels, which is less expected, the project implementation units will be required to report information on the cases management as well. Information requirements will include registered cases, cases resolved in a timely manner, and cases referred to the next level in the complaints and appeals structure.

54. **FTA.** These activities will focus on promoting transparency and accountability in the project budgetary planning and implementation. The main activities will include budget literacy training among implementers at all levels and citizens' representatives. Basic tools for communicating project budgets will be developed and disseminated at all levels. Feedback mechanisms will involve communication of the budget execution performance and variances as well as explanations as part of reporting by the implementers at the local government level. Feedback will be targeted to the citizenry in general and beneficiaries in particular as well as the implementers and service providers.

Annex 3: Institutional and Implementation Arrangements

1. The institutional arrangement for the UPSNP will be framed within the overall arrangement set in the government's Urban Food Security and Job Creation Strategy. The implementation of the program will be fully streamlined into the existing government structure at the federal, regional, city, and local levels. Additional technical assistance and coordination support will be mobilized through the project to strengthen the implementation of the project. The project institutional arrangement builds on the experiences of other Bank-funded projects.

Federal Government Level

Project Management and Implementation Arrangement

2. At the federal level, the MUDHo, in close partnership with the MoLSA, will be the responsible government body for the overall management and coordination of the program. Under the ministry, the overall coordination will be vested in the UFS&JCA. The UFS&JCA will closely work with the UGGCBB, the UPSBB of MUDHo, the Social Welfare Development Directorate (SWDD) of MoLSA and MoFEC.

3. The overall day-to-day management and coordination of the project will be supported by a PCU within the UFS&JCA under the overall management guidance of the director general of the UFS&JCA. The PCU will be staffed with appropriate technical and management staff. The PCU will facilitate and coordinate institutional capacity and system development activities, M&E, regular reporting, FM, procurement, and safeguard issues. The MoLSA and the MoFEC will assign staff to constitute the respective subunits that will closely support the coordination of project activities in both institutions. The MUDHo/UFS&JCA, through the PCU, will prepare the resource transfer plan to different institutions at the federal level and to the regions and cities based on the approved annual plan and send it to MoFEC.

4. The MoFEC will be responsible for overall FM, including reporting and disbursement of the resources at all levels based on the approved plan to be submitted by the MUDHo. Channel One Program Coordination Unit (COPCU) under the MoFEC will assign appropriate staff and will be responsible for the coordination of the FM aspects of the project.

5. The technical oversight and coordination responsibility for each component is assigned to the relevant institutions. The UGGCBB and UPSBB will coordinate PW activities. For Component 2, the UFS&JCA, in close collaboration with the MoLSA, will play an overall coordination role. The MoLSA will be responsible for DS and linking the safety net system with Social Protection Policy and Strategy, in consultation with the MUDHo.

6. The MFIs and saving and credit cooperatives will have a role in providing financial services, including saving, credit, and training on financial literacy. The TVETs and other technical schools as well as the NGOs and the private sector will play an important role in the skill development and capacity-building activities.

Figure 3.1. UPSNP Implementation and Management Structure

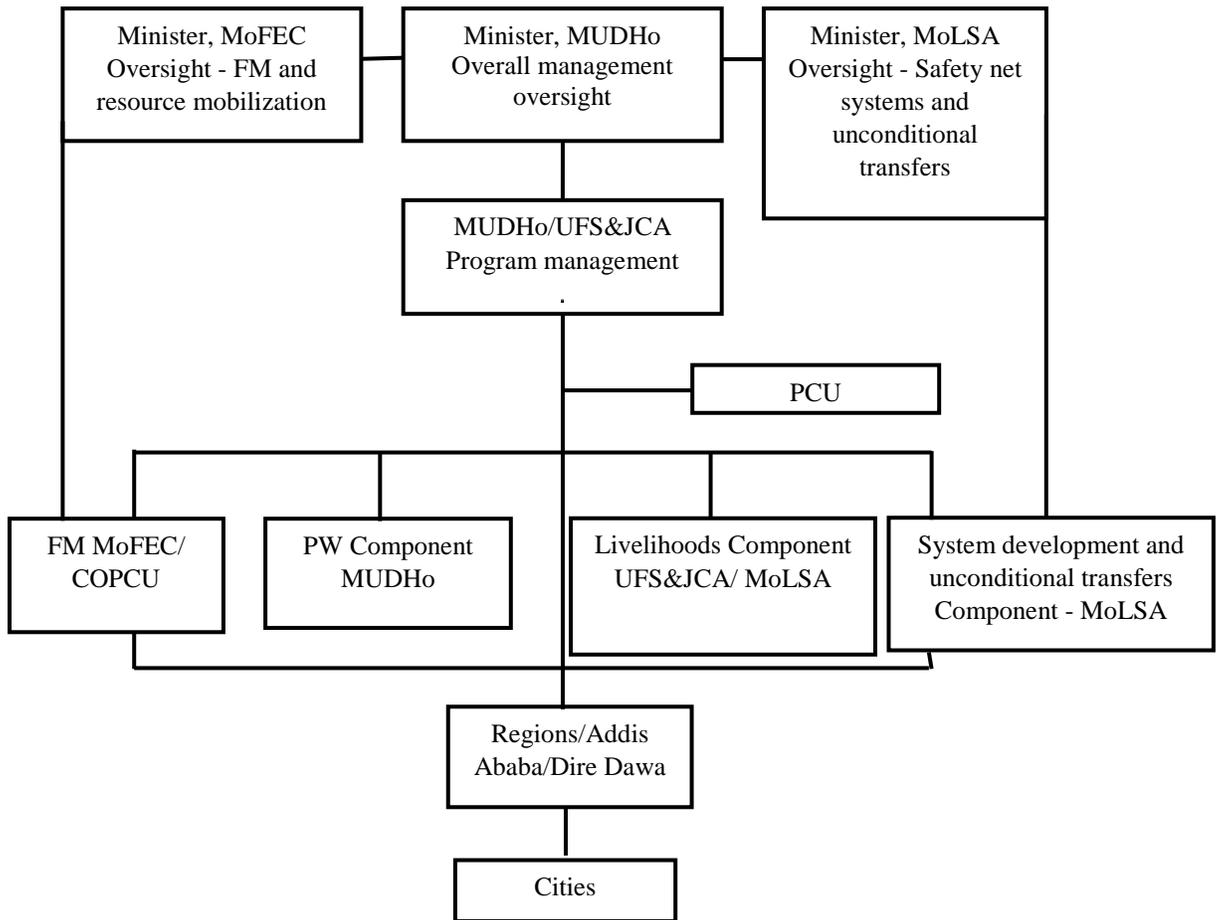
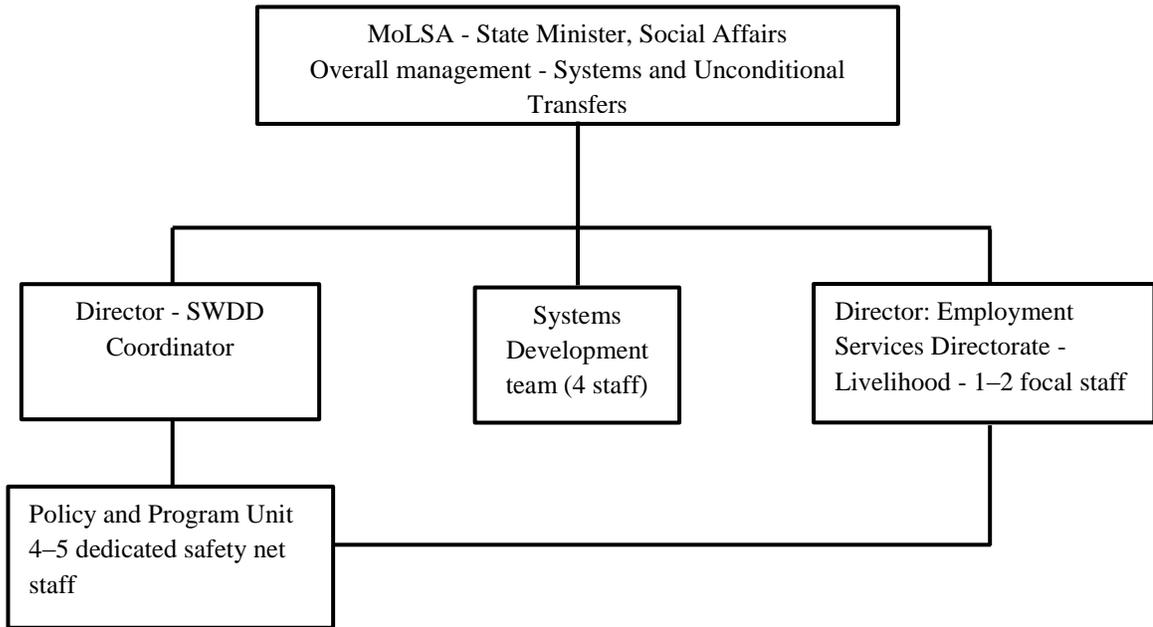


Figure 3.2. UPSNP Management Structure in MoLSA



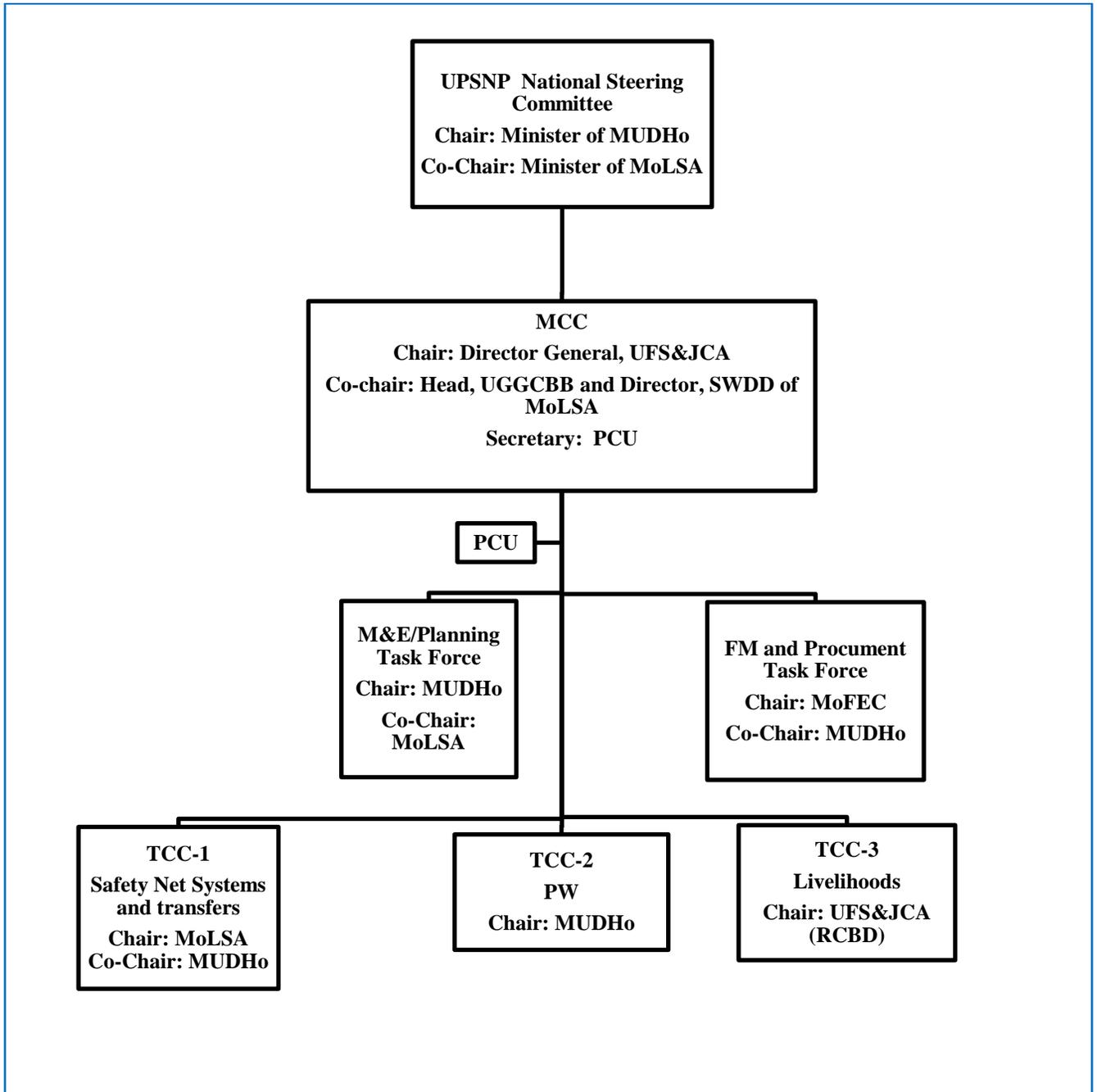
Coordination Arrangements

7. **National Steering Committee.** A National Steering Committee to be chaired by the minister (MUDHo) and co-chaired by the minister or the state minister of the MoLSA will be established. Members will include the state ministers of the MUDHo, the MoLSA, the MoFEC, the MoWC, the MoYS, director general of the UFS&JCA, members of the Joint MCC, and representatives of the regional government bodies. The steering committee will meet once every quarter and its roles will include, but will not be limited to, providing strategic guidance in project implementation, approving the annual plan and budget of the project, and taking action on issues that require high-level decisions. The UFS&JCA/PCU will serve as a secretariat. The detailed roles and responsibilities of the steering committee and other coordination arrangements will be outlined in a ToR that will be developed.

8. **MCC.** To ensure regular coordination and management of the program, a Project MCC will be established. The MCC will be responsible for the coordination of technical committees and implementing agencies and also for follow-up on regular project management and coordination issues, including capacity building, M&E, planning, system development, FM, and procurement management. The MCC will meet on a monthly basis and will be chaired by the director general of the UFS&JCA under the MUDHo and co-chaired by the director of the SWDD of MoLSA and the bureau head of the UGGCBB. Membership of the committee will include all directors (or their delegates) of relevant directorates from the ministries and agencies involved in the program (MUDHo, MoLSA, UFS&JCA, MoWC, MoYS, and MoFEC) and UPSNP representatives of the Bank (the donor). The PCU will serve as a secretariat.

9. **TCC.** To ensure regular technical support and guidance for project implementation, a TCC for each component will be established. In this regard, the MoLSA and the MUDHo will lead on the safety net systems and PW technical committee, respectively. The MoFEC will also be a member of this technical committee. For the livelihood technical committee, the UFS&JCA will take the lead role and the MoLSA will co-chair. Relevant institutions such as the TVET and other service providers will be members. The technical committees will meet once a month and will regularly report to the MCC. Similar structures will be established at the regional and city administration levels.

Figure 3.3. UPSNP Coordination Arrangements



Note: RCBD = Regional Capacity Building Directorate.

Regional Governments Level

10. Similar to the arrangements at the federal level, the UPSNP coordination will involve the same institutions at the regional level and will support the cities involved in the implementation of the project. The regional cabinet will approve the UPSNP's overall plans and budgets. The head of the regional Bureau of Urban Development (BUD) will oversee the implementation of the program in coordination with the BoLSA. The head of the regional UFS&JCA will be responsible for the management of the UPSNP and chairs the regional urban safety net MCC, to which three technical committees report (Safety Net Transfer and Systems, PW, and Livelihoods). Similar to the federal level, members of the regional technical committee and regional coordination committee) will be the heads (or their delegates) of relevant core processes from bureaus and agencies involved in the program (BUD, Labor and Social Affairs, regional UFS&JCA, Bureau of Women, and Children [BoWC], and BoFED).

11. The Urban Infrastructure and Good Governance/Public Participation Core Process will be responsible for the management of the PW component. The Regional Labor and Social Affairs Bureau/Agency will be responsible for the unconditional transfers sub-component, targeting, and system development aspects of the project in collaboration with the BUD and the BoWCYA. The regional UFS&JCA) and the regional BoLSA will coordinate the livelihood services component of the project and will coordinate different service providers such as the TVETs, NGOs, and the private sector. The BoFED will be responsible for overall FM at the regional level and will transfer funds to the ULGs.

12. All these key partners at the regional level will appoint UPSNP focal points to oversee and provide technical support to the ULGs together with the respective federal government bodies. As the current plan is to start the project in one ULG per region, there is no need to establish a PCU at the regional level. The current ULGDP-II Project Implementation Support Unit can provide support in the big regions and the other regions can be supported by the federal PCU that will be established.

ULGs Level (Cities)

Addis Ababa

13. As Addis Ababa is the largest urban city government and directly reports to the federal government, its institutional arrangements have to be seen at the (a) city government level, (b) subcity level, and (c) *woreda* level.

14. **At city level.** At the city government level, the city council will approve the UPSNP annual plans. The council will also decide on the number of UPSNP beneficiaries under different subcities by project components, and the city-level project MCC will coordinate the implementation of the project.

15. The mayor of Addis Ababa or his deputy will oversee the implementation of the project. The Bureau of Micro and Small Enterprise Development (BoMSED), in coordination with the BoLSA, will be responsible for the overall management of the UPSNP. The bureau head of the BoMSED will chair the city-level UPSNP MCC and the co-chair will be the head of the BoLSA. The members of the MCC will include the heads of relevant bureaus/offices involved in the

project (BoFED, BoLSA, BoMSED, BoWCYA, and Office of the City Manager, and others, as appropriate). Under the MCC, different technical committees will be established to lead on the implementation of different components. A focal unit will be established under the BoMSED to coordinate the implementation of the project. The staff of the unit will be regular government staff and will be supported by contractual staff who will be hired by the project. The Federal PCU will provide the necessary technical and managerial support to the city-level project focal unit.

16. **At the subcity level.** A similar structure will be followed at the subcity level. The subcity standing committee will approve the UPSNP annual plans and budget which will be prepared by the project focal unit and endorsed by the subcity UPSNP MCC. The head of the Subcity Office of Micro and Small Enterprise Development will be responsible for the overall management of UPSNP in conjunction with Office of Labor and Social Affairs. The head of the Micro and Small Enterprise Development Agency will chair the city-level UPSNP MCC, to which three technical committees report (Safety Net Systems and Transfers, PW, and Livelihoods). The project focal unit at the subcity level will constitute staff from the existing structure and will be supported through additional contractual staff, as necessary.

17. **At the *woreda* level.** At the *woreda* level, the chief executive will oversee the implementation of the program. The head of the *Woreda* Office of Micro and Small Enterprise Development will be responsible for the overall management of the UPSNP and will be the chair of *Woreda* project MCC. The *woreda*-level project focal unit will be responsible for day-to-day coordination of the project implementation and will support the implementing offices. The project focal unit will prepare the project annual plan and budget which will be endorsed by the *Woreda* project MCC and be approved by the *Woreda* Council/Cabinet.

18. The members of the *Woreda* MCC will be the heads (or their delegates) of relevant offices involved in the program (Woreda Office of Labor and Social Affairs, Woreda Office of Micro and Small Enterprise Development, Woreda Office of Women and Children, Woreda Office of Finance and Economic Cooperation, *woreda* manager, *Woreda* Office of Public Mobilization & Participation), as well as representatives of the *Woreda* Development Committee, the *Woreda* Women's Forum, the *Woreda* Youth Forum, the *Woreda* Residents' Forum, the *Woreda* *Iddirs* Council, and others as appropriate. The *Woreda* Coordination Committee will oversee all planning and the implementation process of the UPSNP, including targeting and appeal mechanisms, transfers, PW, and livelihood activities.

Other Cities

19. **City level.** In the other 10 ULGs, the mayor of the ULG or the delegate will oversee the implementation of the project and will chair the city-level project MCC. The project focal unit under the Micro and Small Enterprise Development Office will coordinate and provide technical support to *kebeles* in the implementation of the program. The city council/cabinet will approve the project annual plan and budget. Similar technical committees will also be operational at the city level (Safety Net Systems and Transfers, PW, Livelihoods). The three technical committees should report to the Project MCC.

20. **At the *kebele* level.** The *Kebele* Cabinet will present and the *Kebele* Council will approve the list of beneficiaries of the UPSNP and related plans for the program. The *kebele* chair will oversee the implementation of the project. A task force, which will include representatives from the community and development committees, will be established to facilitate planning, community participation, and the targeting process. Technical focal staff will be assigned to provide technical support in the implementation of different components of the project. The *Ketena*-level Targeting Committee will be established.

Financial Management, Disbursements, and Procurement

Financial Management

21. An FM assessment was conducted in accordance with the Financial Management Practices Manual for Bank-financed investment operations issued by the Financial Management Sector Board on March 1, 2010 and reissued on February 4, 2015, and supporting guidelines. In conducting the assessment, the Bank team has reviewed the experiences of other projects implemented by the implementing agencies such as ULGDP I, ULGDP II, and the PSNP. The cities that are covered under the UPSNP have been implementing the two phases of the ULGDP. Various capacity assessments, fiduciary assessment, supervisions, and audits have been carried out. The outcomes of these reports have been used in the design of the UPSNP. The assessment has taken into account the latest PEFA studies and the Annual Performance Assessment supervision report conducted for ULGDP II and various phases of the PSNP. Furthermore, a sample of the implementing entities²¹ have been reviewed to assess the FM capacity.

22. The FM assessment considers the degree to which (a) the budgeted expenditures are realistic, prepared with due regard to relevant policies, and executed in an orderly and predictable manner; (b) reasonable records are maintained and financial reports are produced and disseminated for decision making, management, and reporting; (c) adequate funds are available to finance the project; (d) reasonable controls over project funds are in place; and (e) independent and competent audit arrangements are in place. The assessment also included the identification of key perceived FM risks that may affect program implementation and proceeded to develop mitigation measures against such risks.

Country Context

23. The GoE has been implementing a comprehensive PFM reform with support from the DPs, including the Bank, for the last 12 years through the EMCP of the government's own civil service reform program. This has been supported by the closed IDA-financed Public Sector Capacity-building Support Program, the ongoing PBS Program, and other donor financing, as well as the government's own financing. These programs have focused on strengthening the basics of PFM systems: budget preparation, revenue administration, budget execution, internal controls, cash management, accounting, reporting, and auditing.

²¹ At the federal level, assessment was conducted for the MoFEC COPCU, MUDHo, FeMSEDA/UFS&JCA, and MoLSA. At the regional and city levels, the BoU, the Regional Micro and Small Enterprise Agency (REMSEDA), BoLSA, BoFED/COPCU, city BoFEDs and subcities for the Addis Ababa city administration, Oromia, SNNP, Benishangul Gumuz, and Afar regions.

24. The 2014 PEFA assessment for the federal government notes the major improvements that have been made. Ethiopia has significantly improved its performance over the last three years. Expenditure deviation was less than 5 percent per year over EFY2003–2005, compared to 11.6 percent over EFY1999–2001, and actual revenue collection ranged between 94 percent and 112 percent of the budget during the last three years. Bills are cleared on time and arrears are not a major issue. The internal control system is comprehensive, widely understood, and effective at the federal government level. Audit coverage at the federal level has increased in recent years from 56 percent to 100 percent of budgetary institutions, and audit reports are produced on time. The main areas where the federal government needs to improve its performance relates to legislative scrutiny of audit reports, oversight of fiscal risk from public sector entities, public access to key fiscal information effectiveness in collection of tax payments, predictability of funds for commitment of funds, and quality of in-year budget execution reports.

25. During the 2014 PEFA assessment, five regions and one city administration were assessed, including Tigray, Amhara, Southern Nation Nationalities Peoples Region, Oromia, Somali, and Addis Ababa. All regions show major improvements from the previous assessment conducted in 2010. Their ratings, on average, are lower than the federal government. The areas where the regions need to focus on is improving the extent of unreported government operations, effectiveness in collection of tax payments, comprehensiveness of information included in budget documents, weaknesses in multiyear planning, composition of expenditure outturn compared to the original budget, and availability of information received by service delivery units.

26. The FM Assessment closely looked into the PFM performance of the Addis Ababa administration to identify key risk areas for the project and propose mitigating measures. It is noted that similar to the other regional performances, the city administration does not have a realistic budget and has high expenditure variances, limitations in public transparency of key documents, low external audit coverage, and so on. The GoE has a public financial reform program that is addressing these weaknesses in a systematic manner. Taking into account these challenges and risks, the FM Assessment for the project proposes risk mitigating measures.

Project Financial Management Arrangements

Budgeting

27. **Budget preparation.** The program will follow the government’s budget system, recorded in the government’s budget manual.²² The budget for the UPSNP will be determined each year based on the procedures detailed in the Project Implementation Manual (PIM). The planning process also includes the budget (specific purpose grant) estimation for implementing the planned physical activities. At the city level, the project budget for the city will form part of the City Investment Plan that will be approved by the city council. For these purposes, the

²² The Ethiopian budget system is complex, reflecting the fiscal decentralization structure. Budget is processed at the federal, regional, zonal (in some regions), *woreda*, and municipality levels. The budget preparation procedure and steps are recorded in the government’s budget manual. The budgets are reviewed at first by the MoFEC, then by the council of ministers. The final recommended draft budget is sent to parliament around early June and is expected to be cleared at the latest by the end of the fiscal year.

UFS&JCAs at the city, regional, and federal levels will consolidate the annual work plan and project budget at their levels. The federal-level UFS&JCA will consolidate the federal- and regional-level work plans and budgets and submit it to the MUDHo for approval. It will also seek the ‘no objection’ of the Bank. The MUDHo will have the work plan and budget endorsed by the National Steering Committee and submit it to the MoFEC for final endorsement and proclamation. The project budget preparation should be prudent, realistic, and made with professional estimates to avoid unrealistic budgets, which could lead to wrong conclusions about the project performance. Therefore, all level of approvals must take into account the situation on the ground and their professional abilities before approving budgets for the project.

28. **Budget proclamation.** The budget for the UPSNP will be proclaimed at the federal level under the MUDHo but with detailed breakdown by implementing agencies both at federal and regional levels. The MoFEC has recently signed a memorandum of understanding (MoU) with all regional governments implementing the PSNP, highlighting the fiduciary and other responsibilities that should be complied with. The MoU has been signed with the office of the regional presidents, thereby automatically creating the accountability structure within the region. The compliance to the MoU will be monitored regularly by the MoFEC and DPs. It will be open for further refinement and adjustment as needed. Accordingly, future discussions will be held with the MoFEC to include such programs as the UPSNP in the MoUs. Although the budget is proclaimed at the federal level, the regional and city cabinets and councils will oversee the planning and the execution of the project throughout the year.

29. **Budget control.** Budgets should be regularly monitored at all levels and for this the coordination of the MoFEC with the MUDHo as well as with regional and city level implementers is critical. The project coordination unit needs to prepare a cash flow forecast quarterly which will be the basis for releasing resources to implementers as well as monitoring performance against actual expenditures. The variances will be adequately explained and justified through the quarterly IFRs.

Accounting

30. The government’s accounting policies and procedures²³ will be largely used for the accounting of the project. The program will have a detailed FM manual which will reflect the FM arrangements, internal control procedures, fund flows, and reporting aspects of the program. The PPA availed for the project will be used for the preparation of the manual. The manual will mainly focus on the areas of budgeting, accounting, chart of account, internal control, accounting modality for e-payments, fund flows, reporting, auditing, and transaction coding and reporting aspects.

31. **Accounting system.** All the cities in this project are using the Integrated Budget and Expenditure System (IBEX) system for government financing. Therefore, the UPSNP will use IBEX on a stand-alone basis, as is the case in the PSNP and ULGDP II.

²³ The Ethiopian government follows a double-entry bookkeeping system and modified cash basis of accounting. This is documented in the government’s Accounting Manual. This has been implemented at the federal level and in many regions. The government’s Accounting Manual provides detailed information on the major accounting procedures.

32. **Chart of account.** The chart of account for the program will be developed using the government's chart of account and using a similar approach to the ULGDP II chart of account, to avoid confusion at the city level. The chart of account will enable the budget codes to be identified, IBEX to be used easily, and a shift to the Integrated Financial Management Information System, if need be, in the long run. The developed chart of accounts shall form part of the FM.

33. **Payment to beneficiaries.** The program will develop and use a payroll system through the fund availed through the PPA. It can consider using the Payroll and Attendance Sheet System (PASS), which is being used by the PSNP. This system is being supported through IT helpdesks at the regional level to strengthen internal control over the payroll of beneficiaries. Currently, all the PSNP regions and *woredas* are implementing the PASS and it is a mandatory prerequisite in the program. Lessons can be taken from this implementation and adopted in the UPSNP. Data on attendance will be entered into the PASS by the ULGs. The attendance sheet will be transferred to the City Finance Office in electronic form as required by the PASS or any other payroll system to be adopted. The payroll is generated by the system and payment is effected to beneficiaries. The program will develop an MIS and as the system and the single registry are developed, they will complement the PASS. Through the studies to be conducted by the PPA, the issues of identifying beneficiaries, attendance sheet verifications, the payroll system, and the approval mechanisms thereon, as well as e-payment modalities will be further refined and included in the PIM.

34. **E-payment systems for the UPSNP cash transfers.** The UPSNP will use e-payments either through the MFIs or commercial banks for the program. Alternatives of e-payment modalities have been piloted in the PSNP since 2012 in the rural context of the project. The UPSNP works in urban areas, thereby making use of e-payments much easier and accessible. Using the fund of the PPA, an assessment will be conducted to see which of the existing alternatives will best suit the needs of the UPSNP and it will be adopted immediately. The project will start using these modalities and manual payments will not be made to beneficiaries even from the start of the project. Therefore, the adoption of e-payment is a condition of disbursement for the components requiring transfer of resources to beneficiaries.

35. **Accounting for the MFIs or banks under e-payments.** Upon the implementation of e-payments, based on the alternative to be adopted, an MoU will be signed with the MFIs or banks participating in the program. The MoU will clearly lay out the necessary FM arrangements, including the payment modalities, the documents to be obtained from the MFIs/banks, the required audit engagements, and so on.

36. **Staffing.** The COPCU has adequate experience in implementing donor-financed projects. At present, the COPCU is implementing financial reporting and follow-up of the PBS, PSNP, General Education Quality Improvement Project, ULGDP, and Water Sanitation and Health projects. The COPCU has financial team presence across regions. To identify the level of staffing requirement for the project, the team has taken into account the nature of the project, the budget involved, and the nature of the activities. Based on the assessments conducted and the lessons learned from other projects, the following staffing arrangement is proposed.

- *Federal level - overall 6 new senior accountants.* Two additional senior accountants at the MoFEC/COPCU; two senior accountants at the UFS&JCA; one accountant each for the MoLSA and MUDHo.
- *Regional level - overall 2 new senior accountants.* (a) At the regional BoFEDs, for the regions where the PSNP is being implemented right now (Amhara, Tigray, Oromia, Southern Nation Nationalities Peoples Region, Afar, Somali, Dire Dawa, and Harari), the existing PSNP staff can handle the FM of the UPSNP since there will only be one city implementing the project. The total expected fund to be managed by these regions is 26 percent of the program budget. At the Benishangul Gumuz and Gambella regions, one accountant each will be recruited at the BoFED/COPCU to support the UPSNP. (b) The BUDs, regional UFS&JCA, and BoLSAs will use their own finance staff to manage the project resources. Additional staff may be employed as required.
- *ULG level (excluding Addis Ababa) - overall 11 accountants.* At the city level, one accountant for each City Office of Finance and Economic Cooperation will be recruited to look after the project accounts.
- *At the Addis Ababa city administration - overall a maximum of 24 new senior accountants.* As a majority of the resources will be directed to the Addis Ababa city administration and as a result of the assessment conducted at the city, it is important to strengthen the capacity of the project at the city and hence, the recruitment of 24 accountants is justified.
 - (a) At the Addis Ababa BoFED/COPCU, two finance officers will be required to oversee the performance of the 10 subcities and 116 *woredas* in the city administration.
 - (b) Two accountants are recommended at each subcity level. Once the defining of the beneficiaries is finalized, if a subcity has a small number of beneficiaries, one accountant will suffice.
 - (c) The BoMSED has poor capacity at the city level; hence, the agency needs to recruit two additional accountants and the existing vacant positions should be filled by the government.

37. **Supervision and monitoring capacity at the COPCU.** There is a great need to establish a team within the COPCU at all levels. The main responsibility of the team is to supervise and monitor the overall performance of FM. The team shall include the internal auditors and shall be established at the federal and regional levels. Once the level of staffing for these units is identified by the MoFEC, during its current restructuring endeavors, the UPSNP will cover an agreed level of the staffing requirements.

38. **Accounting centers.** Accounting centers for program funds include (a) MoFEC; (b) MUDHo; (c) MoLSA; (d) federal UFS&JCA; (e) BoFEDs; (f) BoLSAs; (g) regional UFS&JCA; (h) BUDs; (i) ULGs; and (j) sub-cities in the case of Addis Ababa City. All these

institutions will maintain accounting books and records and prepare financial reports in line with the system outlined in the FM Manual. Each implementing agency is responsible for maintaining the project's records and documents of the project transactions which will be made available to the Bank's regular supervision missions and to the external auditors. Arrangements for consolidation of the program financial information are discussed under the Financial Reporting section below.

39. **Capacity building/training.** Focused and continued FM training is essential for the success of the project given that it operates in a decentralized environment involving cash transfer to clients. The project has allocated adequate budget for the capacity-building requirement of the project at all levels. Regarding FM, the MoFEC will include a detailed plan on the annual work plan and budget of the project every year for a systematic training and capacity development approach.

Internal Control and Internal Auditing

40. Internal control comprises the whole system of control, financial or otherwise, established by the management to (a) carry out the project activities in an orderly and efficient manner; (b) ensure adherence to policies and procedures; (c) ensure maintenance of complete and accurate accounting records; and (d) safeguard the assets of the project. Regular government systems and procedures will be followed, including those relating to authorization, recording, and custody controls. The project's internal controls, including processes for recording and safeguarding of assets, will also be documented in the FM Manual to be developed for the project.

41. **Internal control over payment to clients.** One of the internal control risks of the project will be the risk regarding payments to beneficiaries. To reduce the risk associated with this, the internal control environment over payment to clients will be strengthened by the usage of a computerized system of maintaining attendance sheets electronically through the payroll system and client cards. The client cards will have a picture of both the husband and wife and enable the clients, local decision makers, and federal level officials to better track receipt of payments over time. Attached to the client cards there will be a charter of rights and responsibilities that clearly describes the rights and responsibilities of the clients. Such cards enable the program to control that payments are being made to entitled clients only. In addition to this, the audit ToR of the program will include that the external auditor should track payments to clients on a sample basis. The e-payment modalities to be used in this program will further reduce the risk.

42. **Internal control over fixed assets.** To strengthen property management within the program, the government's fixed asset management manual will be used by the program and various trainings will be provided on property management. Furthermore, the cities' Assets Management Plan will include the public assets obtained through this program and monitor and safeguard accordingly.

43. **Internal audit.** During the implementation of the various Bank projects, it has been noted that the internal audit function at all levels has not been providing the expected internal audit reviews on the program funds. This is mainly due to limitation of staff, capacity gaps, and an assumption that internal audit review is not required for this special purpose grant. At the city

level, due to the engagement of the ULGDP, cities are strengthening their internal audit capacities. In most of the cities, it has been noted that the internal audit units perform quarterly internal audit reviews and report their findings to the city manager or the mayor. In most of the cities of the big regions, follow-up of the audit findings has shown some progress although this area still requires further follow-up in other cities. Although these capacity limitations still exist, effort should be exerted for internal audit (post audit reviews) to be carried out by the Internal Audit Departments of the respective entities.

44. **Internal audit at the COPCU.** The MoFEC has deployed three internal auditors for the COPCU. Their main responsibilities are to assess the external audit reports of programs, prepare valid action plans to rectify irregularities, verify that the actions taken by the regions and *woredas* are appropriate, and communicate to the COPCU head and DPs on the actions taken. The capacity of the internal auditors will be strengthened through the resources of the program. The staffing level of internal auditors will be assessed during each review mission and will be increased as required. In addition to the federal level auditors at the COPCU, each regional COPCU should at least have at least one internal auditor assigned/recruited to perform the functions mentioned above.

Financial reporting

45. **Reporting requirements.** The project will prepare quarterly consolidated IFRs. These will be submitted to the Bank (DPs) within 60 days of the end of the quarter. The format and the content, consistent with the Bank's standards, will be agreed with the MoFEC and MUDHo. A single, common IFR will be used for all the finances of the program by all DPs (if there are any) and the government. The MoFEC, in the quarterly IFR, will ensure that advances received as well as documentation of expenditure for each financier are separately identified and reflected. At a minimum, the report will include a statement of sources, uses of funds, and opening and closing balances for the quarter and cumulative; a statement of uses of funds that shows actual expenditures, appropriately classified by main project activities (categories, components, and subcomponents); actual versus budget comparisons for the quarter and cumulative; a statement on movements (inflows and outflows) of the project designated account, including opening and closing balances; expenditure forecast for the next two quarters together with the cash requirement and notes and explanations; and other supporting schedules and documents.

46. **Reporting timetables and quality.** The MoFEC has submitted the IFRs for the projects implemented under it on time and with good quality quarter after quarter. Progress is still required in the areas of budget variance analysis, reporting contributions in kind, and taking appropriate action on long-overdue advances and payables, which will be monitored through the quarterly reviews and semiannual missions.

47. In compliance with the government's financial rules and regulations as well as IDA requirements, the MoFEC will produce annual financial statements similar to the contents of the quarterly IFRs. The annual financial statement will be similar to the IFRs, with some modifications as indicated in the audit ToR. These financial statements will be submitted for audit at the end of each year.

External Auditing

48. Annual audited financial statements and audit reports (including Management Letter) will be submitted to IDA within six months from the end of the fiscal year. The annual financial statements will be prepared in accordance with the standards indicated in the audit ToR. The audit will be carried out by the Office of the Federal Auditor General (OFAG) or a qualified auditor nominated by the OFAG and acceptable to IDA.

49. The audit will be carried out in accordance with the International Standards of Auditing issued by the International Federation of Accountants. The auditor will prepare a work plan to ensure adequate coverage of the various institutions that receive project funds and cover all the major risk areas.

50. Based on lessons learned from the similar projects, the following mechanisms are proposed to systematically monitor the timing of audit reports and the timely action on audit findings: (a) in addition to the internal control system of the project, further look into actual payments to clients and the fairness of the financial statements; (b) the MoFEC's COPCU has the responsibility to prepare audit action plans through its internal auditors within one month of the receipt of the annual audit report; the prepared action plan will be disseminated to the regional COPCU, who will be responsible for sending out the detail action plan to the ULGs; and (c) within one month of the receipt of the action plan (two months after the receipt of the audit report), each region must consolidate the actions taken by the *woredas*, verified by the internal auditors at the regional level and submit the status report to the MoFEC. Three months after the receipt of the audit report, the MoFEC will submit the consolidated status report. The status report must address all the findings in detail and must have been reviewed by the internal auditors recruited for the COPCU at all levels.

51. In accordance with its policies, the Bank requires that the borrower disclose the audited financial statements in a manner acceptable to the Bank. Following the Bank's formal receipt of these statements from the borrower, the Bank makes them available to the public in accordance with the World Bank Policy on Access to Information.

FM-related Costs

52. **The program work plans and budget include the costs of** (a) accountants, as noted above; (b) audit costs; (c) related logistics and supervision costs (for example, transportation, per diem, and accommodation while travelling); (d) FM-related trainings; (e) rolling out of IBEX; and (f) bank charges including charges related to e-payment modalities through banks and/or MFIs, etc.

FM Risk Assessment, Strengths, Weaknesses, Lessons Learned, Action Plan

53. **Risk assessment.** The FM risk of the project is Substantial. The mitigating measures proposed in the action plan will help reduce the risk of the project once implemented and applied during project implementation.

54. **Strength and weaknesses.** The program will inherit the various strengths of the country's PFM system. As discussed earlier, several aspects of the PFM system function well,

such as the budget process, classification system, and compliance with financial regulations. Significant ongoing work is directed at improving country PFM systems through the government's EMCP. The government's existing arrangements are already being used in a number of projects, including PBS, which are under implementation. The program also benefits from the country's internal control system, which provides sufficiently for the separation of responsibilities, powers, and duties. It benefits from the effort being made to improve the internal audit function. Additional strength for the program is the extensive experience of the MoFEC, MUDHo, and some cities in handling Bank-financed projects. The involvement of the city and regional councils is an advantage to the project in enhancing its internal control.

55. The main drawbacks in FM arrangements continue to be high staff turnover and a shortage of qualified accountants and auditors (mainly at the lower level), delays in taking appropriate action on audit report findings, persistent internal control weaknesses across the program, the limited focus of internal audit, and delayed budget approvals. Furthermore, entities such as the MoLSA, BoLSA, and UFS&JCA and the regional agencies have very limited experience in Bank-financed operations, which could be a challenge for the project.

FM Action Plan

56. Factoring in the above strengths and weaknesses, the inherent and control risk of the project is rated as substantial. The following actions are agreed to be performed to mitigate the identified risks in the project.

Table 3.1. FM Action Plan

Sl. No.	Action	Due by	Responsibility
1.	Prepare FM Manual.	February 2016 (using the PPA resource)	MoFEC and MUDHo
2.	Follow up on implementation of e-payment modalities. <ul style="list-style-type: none"> • Identify appropriate payment mechanism and get approval for implementation. • Sign MoU with appropriate FM procedures with the service providers. 	Using the PPA resource before the first round of payments to beneficiary starts. This will be a disbursement condition.	MoFEC/MUDHo
3.	Recruit/place required finance professionals. <ol style="list-style-type: none"> a. Federal level - overall 6 new senior accountants' recruitment. b. Regional level - overall 2 new senior accountants' recruitments for Gambella and Benishangul-Gumuz BoFEDs. For the remaining BoFEDs, existing PSNP accountants will take on this project as well. At the regional BoUs, the regional UFS&JCA and BoLSAs will use their own finance staff to manage the project resources. c. At the ULG level (excluding Addis Ababa) - overall 11 new accountants' recruitments at the city level (one accountant for each 	(a) To be recruited immediately by January 2016 (b), (c), and (d). One month after effectiveness	MoFEC/MUDHo/ MoLSA, UFS&JCA/ BoFEDs/cities

Sl. No.	Action	Due by	Responsibility
	<p>City Office of Finance and Economic Developments).</p> <p>d. At the Addis Ababa city administration - overall a maximum of 24 new senior accountants' recruitments for the BoFED (2), BoMSED (2), and sub-cities (20).</p>		
4.	<p>Internal audit</p> <ul style="list-style-type: none"> Recruit/place internal auditors at the federal and regional COPCUs. Increase engagement of internal audits at all levels to identify control weaknesses early. In this respect, workshops or capacity-building activities/training will be conducted for auditors at the federal, regional, and city levels. 	<p>Three months after effectiveness.</p> <p>Ongoing/training will be given annually together with the PSNP accountants.</p>	<p>Federal COPCU/regional COPCU MoFEC</p>
5.	<p>External audit for the PSNP</p> <ol style="list-style-type: none"> Recruit external auditors at early stages of the project. Close annual financial statement. Ensure that the external auditor has complied with the audit ToR provided to the PSNP. Submit the interim semiannual audit report. Submit the annual financial audit report. Prepare audit action plan for all findings reported by the auditor. Prepare status report on action taken on audit report findings. Disclose the audit report according to the World Bank Access to Information policy. 	<ol style="list-style-type: none"> Within 6 months of effectiveness 3 months after the end of the Ethiopian fiscal year Ongoing on yearly basis April 7 of every year January 7 of every year 1 month after receipt of the audit report 4 months after the receipt of the audit report Annually 	<p>MoFEC</p>
6	<p>Capacity building</p> <ul style="list-style-type: none"> Ongoing FM training will be conducted (budget analysis, basics of PSNP FM, IFR preparation, IBEX, and other themes). 	<p>Annual training for implementing entities by region. During such time, review of each region's FM performance will be discussed and tailored training will be given to each region.</p>	<p>MoFEC</p>
7.	<p>Budget:</p> <ul style="list-style-type: none"> Annual budget for the project should be proclaimed at MUDHo with regional breakdown. Follow the budget calendar to prepare budgets. Prepare detailed budget variance analysis to identify bottlenecks and challenges. 	<p>Every year following the government budget calendar</p>	<p>MoFEC/MUDHo</p>
8.	<p>Federal and regional COPCUs should conduct regular field visits to support and monitor the performance of cities.</p>	<p>Semi-annually</p>	<p>Federal and regional COPCUs</p>

FM Covenants and other Agreements

57. FM-related covenants include:

- (a) maintenance of a satisfactory FM system for the program;
- (b) submission of IFRs for the program for each fiscal quarter within 60 days of the end of the quarter by the MoFEC; and
- (c) submission of annual audited financial statements and audit report within six months of the end of each fiscal year.

Supervision Plan

58. The FM risk for the program is rated Substantial. Project supervision missions will be conducted twice every year. After each supervision, risks will be measured and recalibrated accordingly. Supervision will be carried out in coordination with other DPs and will include onsite visits, review of IFRs, audit reports, and follow-up on actions during the FM Trust Fund meetings.

Funds Flow and Disbursement Arrangements

Designated Account and Disbursement Method

59. Funds flow into the project and within the project among various institutions is depicted in Figure 3.3. IDA funds will be deposited into a separate designated account to be opened at the National Bank of Ethiopia (NBE). The authorized ceiling of the designated account would be two quarters forecasted expenditure based on the approved annual work plan and budget. Funds from the various separate accounts will be further transferred to a pooled birr account to be held by the MoFEC. From the pooled local currency account, the MoFEC will transfer funds to separate local currency accounts to be opened by the regions, BoFED, MUDHo, and MoLSA. One cash forecast will be used for the program, which will be consolidated at the UFS&JCA and endorsed by the MUDHo after getting relevant inputs from the various implementers.

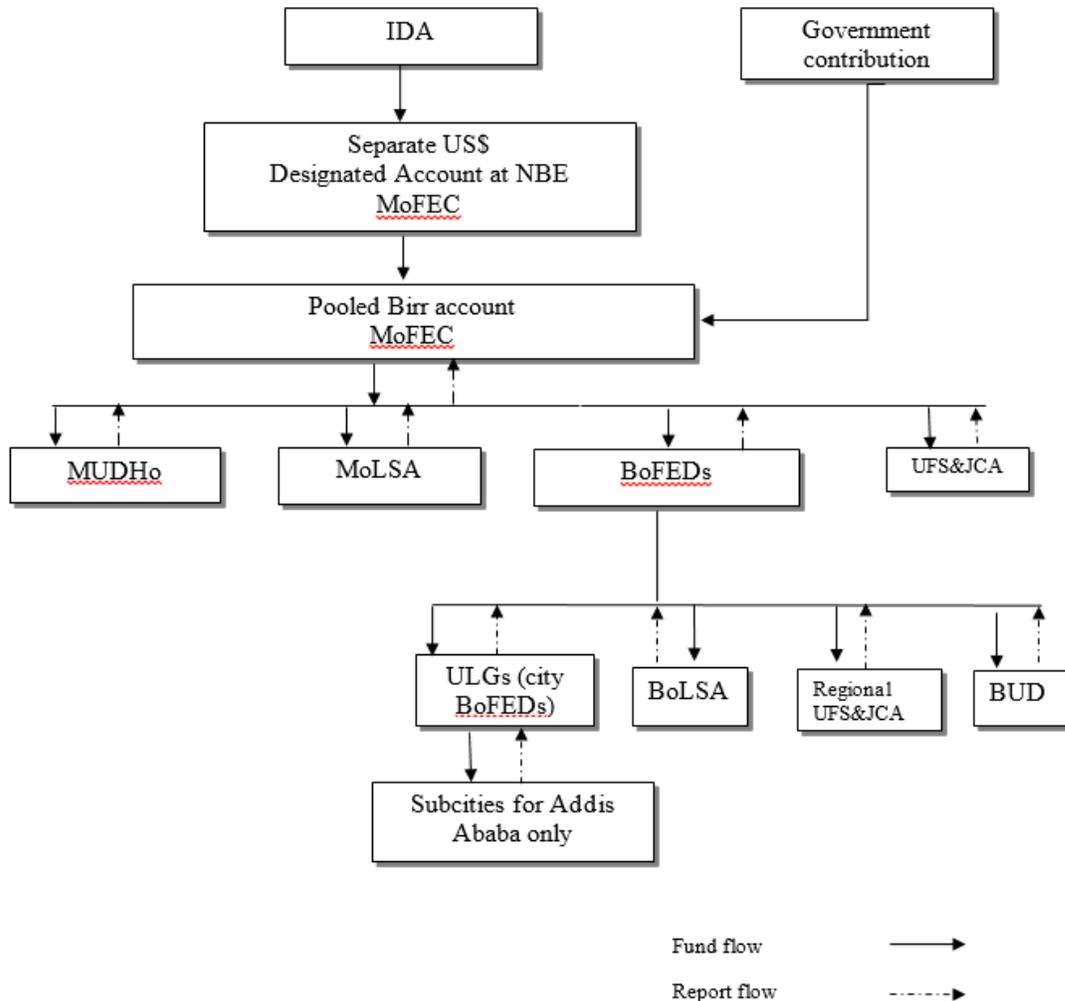
60. Each of the UFS&JCAs, BoFEDs, regional implementers, and ULG finance offices will open separate bank accounts for the program to ensure that program expenditures are reported in the appropriate period. The BoFEDs will transfer funds to the ULGs and regional implementers. The fund flow arrangement to the Addis Ababa city administration will be different from the other regions. Based on the experiences of the PBS and General Education Quality Improvement Project, funds will flow from the city BoFED to the subcities. *Woredas* will not be required to open bank accounts for the project but will receive advances from the subcities and settle their expenditures accordingly.

61. The fund flow to each implementing entity will be made according to its respective annual work plan and budget. Any implementing entity that does not report on time how the advance is expended will not receive additional funds until the initial advance is reasonably settled. The FM Manual will indicate in detail the fund flow to each tier of the implementing entity.

62. Before transferring any money to the lower level, the MoFEC and BoFEDs will ensure that separate bank accounts have been opened for the project and there are adequate FM systems and FM staff capable of producing the required financial deliverables.

63. The fund flow arrangement for the project is summarized in Figure 3.3.

Figure 3.3. Fund Flow Arrangement



64. **Disbursement mechanism and methods.** The project may follow one or a combination of the following disbursement methods: Designated Account, Direct Payment, Reimbursement, and Special Commitment. The program will continue to use a report-based disbursement method with two quarters forecast.

65. **Counterpart contribution.** The counterpart contribution of the government has been agreed as US\$150 million.

Procurement

66. **General procurement environment.** For federal budgetary bodies, public procurement is regulated by the Public Procurement and Property Administration Proclamation No. 649/2009. The proclamation establishes the Federal Public Procurement and Property Administration Agency, which is responsible for regulation and monitoring of federal public procurement activities. The nine regional states and two city administrations do have their own procurement proclamations and directives which are drafted using the federal procurement proclamation as a prototype.

67. The Ethiopia 2010 Country Procurement Assessment Review (CPAR) identified weaknesses in the country's procurement system and recommended actions to address these areas. The government has implemented many of the CPAR recommendations, but challenges remain in the areas of coordination of procurement reforms, shortage of qualified procurement staff, high level of procurement staff turnover, lack of proper institutional structures for procurement management, weak institutional capacity, inordinate process delays, absence of systematic procurement performance M&E, and lack of organized effort in capacity building in the area of procurement. Many of the weaknesses identified in the 2010 CPAR are prevalent in the federal implementing agencies as well as in the regional city administrations which implement the UPSNP.

68. **Applicable Procurement Guidelines.** Procurement for the UPSNP under the IDA Credit shall be carried out in accordance with the World Bank's 'Guidelines for Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers', dated January 2011 and revised in July 2014 (the 'Procurement Guidelines'); 'Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers', dated January 2011 and revised in July 2014; 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, (the Anti-Corruption Guidelines)', dated October 15, 2006 and revised in January 2011; and the provisions stipulated in the Legal Agreement.

69. The general descriptions of items under different expenditure categories are described below. For each contract to be financed by the Credit, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame are agreed between the borrower and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

70. The Bank's Standard Bidding Documents (SBDs) will be used for procurement of works and goods under International Competitive Bidding (ICB), and the Standard RFPs will be used for consultants' contracts. In addition, the implementing agency will use the Standard Bid Evaluation Form for procurement of goods and works for ICB contracts and the Sample Form of Evaluation Report for Selection of Consultants. National SBDs acceptable to the Bank may be used for procurement of goods, works, and non-consulting services under National Competitive Bidding (NCB) procedures, subject to the exceptions indicated below. Alternatively, the Bank's SBDs would be used for the NCBs, with appropriate modifications.

71. The Bank has reviewed the SBDs issued by the Federal Public Procurement and Property Administration Agency and has found them acceptable with some modifications. The NCB shall follow the Open and Competitive Bidding procedure set forth in the Public Procurement and Property Administration Proclamation No. 649/2009 and Federal Public Procurement Directive issued by the Ministry of Finance and Economic Development dated June 10, 2010, provided that such procedure shall be subject to the provisions of section I and paragraphs 3.3 and 3.4 of the Procurement Guidelines and the following additional provisions:

- (a) The recipient's SBDs for procurement of goods and works acceptable to the Association shall be used. At the request of the recipient, the introduction of requirements for bidders to sign an anti-bribery pledge and/or statement of undertaking to observe the Ethiopian law against fraud and corruption and other forms that ought to be completed and signed by him/her may be included in bidding documents if the arrangements governing such undertakings are acceptable to the Association.
- (b) If prequalification is used, the Association's standard prequalification document shall be used.
- (c) No margin of preference shall be granted in the bid evaluation on the basis of the bidder's nationality, origin of goods or services, and/or preferential programs such as, but not limited to, small and medium enterprises.
- (d) Mandatory registration in a supplier list shall not be used to assess bidders' qualifications. A foreign bidder shall not be required to register as a condition for submitting the bid. If recommended for contract award, the foreign bidder shall be given reasonable opportunity to register before contract signing, with the reasonable cooperation of the recipient. Invitations to bids shall be advertised in at least one newspaper of national circulation or the official gazette or on a widely used website or electronic portal with free national and international access.
- (e) Bidders shall be given a minimum of thirty (30) days to submit bids from the date of availability of the bidding documents.
- (f) All bidding for goods shall be carried out through a one-envelope procedure.
- (g) Evaluation of bids shall be made in strict adherence to the evaluation criteria specified in the bidding documents. Evaluation criteria other than price shall be quantified in monetary terms. Merit points shall not be used, and no minimum point or percentage value shall be assigned to the significance of price in bid evaluation.
- (h) The results of evaluation and award of contract shall be made public. All bids shall not be rejected and the procurement process shall not be cancelled, a failure of bidding declared, or new bids solicited, without the Bank's prior written concurrence. No bids shall be rejected on the basis of comparison with the cost estimates without the Bank's prior written concurrence.

- (i) In accordance with paragraph 1.16(e) of the Procurement Guidelines, each bidding document and contract financed out of the proceeds of the Financing shall provide that the bidders, suppliers, contractors and subcontractors, agents, personnel, consultants, service providers, or suppliers shall permit the Association, at its request, to inspect all accounts, records, and documents relating to the bid submission and performance of the contract and have them audited by auditors appointed by the Association. Acts intended to materially impede the exercise of the Association's audit and inspection rights constitutes an obstructive practice as defined in paragraph 1.16(a)(v) of the Procurement Guidelines.

Applicable Procurement Methods

72. **Scope of procurement.** The implementation of the UPSNP entails procurement of goods, works, and services of various types. It is assumed that close to 20 percent of the resources to be allocated for the project shall be used for the procurement of goods and services. The items to be procured under the project are expected to include vehicles, IT equipment, capital goods including hand tools and equipment for urban greenery and other PW expected to be carried out through support under the project, and capacity-building items such as office equipment and office furniture for implementing agencies. Consultancy services in terms of technical assistance, studies, impact assessments, preparation of guidelines and manuals, surveys, employment of project consultants, and financial and procurement audits are expected to be included under the procurable services.

73. **Institutional arrangement for procurement.** As the focal organization for the implementation of the project, the federal PCU at the UFS&JCA shall be responsible for the overall coordination of procurement activities of the project. It shall be responsible for the overall coordination of planning, procurement processing, and contract management of goods and services to be procured at the federal level. The federal PCU shall be responsible for the procurement of strategic goods and services. It shall be responsible for the coordination of procurement plans for federal agencies and city administrations. It shall also serve as a focal point for correspondence with the Bank on procurement issues.

74. In the Addis Ababa city administration, procurement planning, processing, and contract management for goods and services shall be carried out by the regional PCU to be established at the Addis Ababa Micro and Small Enterprises Development Bureau. At the subcity and *woreda* levels in Addis Ababa, only procurement of supplies and capacity-building items shall be carried out through Shopping procedures. In the Dire Dawa city administration, the Finance, Procurement, and Property Administration Office under the Bureau of Finance and Economic Development shall be responsible for processing of the procurement activities of the project. In the remaining nine city administrations the offices of Finance and Economic Development of the respective cities shall be responsible for the overall execution of procurement activities. The FeMSEDAs under the respective regional Bureaus of Urban Development and Housing will be responsible for the overall planning and coordination of procurement activities in the cities.

75. **Procurement of goods and works.** The procurement of works and goods shall be carried out using the Bank's SBDs for all ICB contracts and national SBD agreed with or satisfactory to the Bank for NCB contracts. Contract packages for works estimated to cost US\$7 million

equivalent per contract and above and contract packages for goods estimated to cost US\$1 million equivalent per contract and above will be procured through ICB procedures. Works contracts estimated to cost less than US\$7 million equivalent per contract and goods contracts estimated to cost less than US\$1 million equivalent per contract would be procured through NCB procedures. Small works contracts estimated to cost less than US\$200,000 equivalent per contract and goods contracts estimated to cost less than US\$100,000 equivalent per contract may be procured through Shopping procedures by comparing quotations received from at least three reliable contractors or suppliers. In such cases, request for quotations shall be made in writing and shall indicate the description, scope of the works, the time required for completion of the works, and the payment terms. All quotations received shall be opened at the same time. As a general rule, a qualified supplier who offers goods or materials that meet the specifications at the lowest price shall be recommended for award of the contract. Limited International Bidding for goods may be used as an exception when there are only a limited number of known suppliers worldwide.

76. Direct contracting and single source selection can be used when it is considered beneficial to the borrower. Under the UPSNP there might be circumstances which justify direct contracting by implementing agencies, where there is only a single supplier, labor contractor, or service provider for the provision of small value goods, works, and services. For contracts which fall below an estimated cost of US\$2000.00, the implementing agencies can undertake direct contracting but have to provide detailed justifications underlying the selection of such a procurement method and obtain approval from the head of the implementing agencies according to the procedures provided in the Procurement Directives of the federal government and the respective regions. Documentation of the justifications provided and the approval by the head of agencies shall be maintained for review by Bank staff or consultants during post procurement reviews and independent procurement audits. Direct contracting below US\$2,000 will require internal government review; between US\$2,000 and US\$100,000 will require task team leader review; and above US\$100,000 will require full Bank review.

77. **Procurement of mass media broadcasting services.** Implementing agencies may require radio broadcasts and television programs to disseminate information on the objectives and achievements of the project, use of new technologies, and so on. In Ethiopia, radio and television programs with a wider coverage are limited to the Ethiopian Broadcasting Corporation and some regional radio and television stations which are state-owned enterprises. A study of the media outlet in the country clearly indicates that there are no private sector alternatives in the provision of airtime services with wider coverage to reach the clientele of the project. In view of this, project implementing agencies may procure airtime for broadcasting services from the Ethiopian Broadcasting Corporation and Oromiya Television on a direct contracting basis according to the procedures outlined in paragraph 3.7 of the Procurement Guidelines.

78. **Procurement of non-consulting services.** Depending on the nature of the services, procurement of non-consulting services, such as transport services, will follow procurement procedures similar to those stipulated for the procurement of goods. NCB procedures acceptable to the Bank would be used for contracts above an estimated monetary amount of US\$100,000. Contracts valued at less than US\$100,000 equivalent shall use Shopping procedures in accordance with the provisions of paragraph 3.5 of the Bank's Procurement Guidelines. The

procurement of non-consulting services shall follow the Bank's existing SBD for ICB or national SBDs for NCB, with appropriate modifications.

79. **Selection of consultants.** The project will make use of consultant services for technical assistance, capacity-building activities, studies, and annual financial, and procurement audits of project activities. Contracts above US\$200,000 will be awarded through the use of the Quality- and Cost-Based Selection (QCBS) method described under section 2 of the Consultant Guidelines. Consulting services for audit and other contracts of a standard or routine nature may be procured under the Least-Cost Selection (LCS) method described under section 3.6 of the Consultant Guidelines. Consulting services of small assignments may be procured through the Selection Based on the Consultants' Qualifications (CQS) method. Short lists of consultants for services estimated to cost less than US\$200,000 equivalent per contract may be composed entirely of national consultants.

80. **Individual Consultants (ICs).** ICs will be selected on the basis of their qualifications by comparison of CVs of at least three candidates from those expressing interest in the assignment or those approached directly by the implementing agency in accordance with the provision of section V of the Consultant Guidelines.

81. **Training and workshops.** The project will fund training activities including capacity building. The training plan of the project shall be approved by the Bank. The training plans would include details on (a) type of training to be provided; (b) number of beneficiaries to be trained, duration of training, and estimated cost; (c) institutions selected based on their expertise; and (iv) expected learning outcomes. Workshops shall be prior reviewed as part of the annual work plans of the project.

82. **Operating costs.** Incremental operating costs include expenditures for maintaining equipment and vehicles; fuel; office supplies; utilities; consumables; workshop venues and materials; and per diems, travel costs, and accommodation for staff when travelling on duty during implementation of this project but excluding salaries of civil/public servants. These will be procured using the borrower's administrative procedures, acceptable to the Bank. Operating expenditures are neither subject to the Procurement and Consultant Guidelines nor prior or post reviews. Operating expenditures are verified by the task team leaders and FM specialists.

83. **Record keeping.** The PCU of the UPSNP at the UFS&JCA as well as all the project implementing agencies at the federal level and the city administrations shall be responsible for record keeping and filing of procurement records for easy retrieval of procurement information. Each contract shall have its own file and should contain all documents on the procurement process in accordance with the requirements of the Bank and as described in the national and regional Procurement Proclamations.

84. **Margin of preference for goods and works.** In accordance with paragraphs 2.55 and 2.56 of the Procurement Guidelines, the borrower may grant a margin of preference of 15 percent in the evaluation of bids under ICB procedures to bids offering certain goods produced in the country of the borrower, when compared to bids offering such goods produced elsewhere. Similarly, the borrower may grant a margin of preference of 7.5 percent in the evaluation of bids under ICB procedures to local contractors when compared to foreign contractors.

85. **Coordination of procurement activities.** The federal PCU at the UFS&JCA of the MUDHo, which is the focal organization for the implementation of the UPSNP, shall coordinate all procurement activities of the project at the central level and shall be responsible for communicating with the Bank on requests for prior reviews. Responsibilities of the federal PCU will also include procurement of strategic goods and equipment, consolidation of procurement plans for all contracts, placement of adverts for ICB contracts on United Nations Development Business (UNDB) online, supervision of other implementing agencies at subnational level, coordination of procurement audits, and follow-up on findings. City administrations will be responsible for the procurement of goods and works which are procured through NCB and Shopping procedures. City administrations shall also carry out ICB contracts as well as selection of consultants, as deemed necessary.

Assessment of the Agencies' Capacity to Implement Procurement

86. A procurement capacity assessment of most of the cities to be included under the proposed UPSNP was carried out in relation to ULGDP II, which is financed by the Bank. Most of the findings of the procurement capacity assessment of these cities are still considered valid although it is assumed that the government has taken some risk mitigation measures since the procurement capacity assessment for ULGDP II. However, there were some federal agencies and city administrations which were not included during the procurement capacity assessment. These include the MUDHo; MoLSA; FeMSEDA (which shall be transformed to the UFS&JCA); REMSEDA at the Addis Ababa city administration; and the Offices of Finance and Economic Development in the Asosa, Gambella, Dire Dawa, Harari, and Jijiga city administrations.

87. A capacity assessment of these implementing agencies was carried out using the Procurement Risk Assessment Management System (P-RAMS) questionnaires. The findings of the assessment have indicated that although there are legal frameworks, including proclamations and directives, both at the federal and regional levels, these provisions are not strictly adhered to in practice in the assessed implementing agencies. The procurement capacity assessment has shown that, except in MUDHo, there is an enormous capacity limitation in terms of procurement proficient staff in all the federal agencies and regional city administrations. Moreover, the capacity limitation in terms of qualified procurement staff is further aggravated by a high level of staff turnover. Most importantly, most of the staff in the assessed implementing agencies are not familiar with the Bank's procurement procedures and are not provided with basic procurement trainings in management of goods and equipment, works, and selection of consultants. In most implementing agencies which were assessed, actual procurement planning is not taking place despite the fact that the federal and regional PPAs require government agencies to prepare and submit procurement plans annually. Procurement documentation is another area of weakness in the implementing agencies. Important procurement documents are not readily available for post procurement reviews and audits. Procurement files are not kept in safe and secure places. The assessment has also revealed that there are limited capacities in the areas of document preparation for bids/RFPs, bid/proposal evaluation, contract document preparation, and contract management. In most assessed implementing agencies, there is significant capacity limitation in contract document preparation and contract administration. In most cases, proper contract agreements were not in place for review. Introducing new criteria in the evaluation process is common. Invitation for bids do not provide adequate information to bidders and the time provided for the preparation and submission of bids is limited. Most importantly, internal and

external control on the procurement process is limited. Although the regulatory bodies at the federal level and in some regions are entrusted with the responsibility of such controls, these bodies lack the capacity to execute these responsibilities. Internal control is mostly focused on financial transactions. Procurement oversight is particularly a shortcoming in the regions where procurement audit and complaints handling and redress mechanisms are not properly institutionalized.

88. Based on the findings of the assessment, mitigation measures have been proposed and are provided in the Table 3.2.

Action Plan to Mitigate Procurement Risks

Table 3.2. Summary of Findings and Actions (Risk Mitigation Matrix)

No.	Major Findings/Issues	Actions Proposed	Responsibility	Targeted Date
1.	There are no procurement proficient staff for the implementation of the procurement activities of the project in the federal PCU and city administrations in the regions.	<ul style="list-style-type: none"> • Employ two qualified and procurement proficient staff at the federal PCU in the UFS&JCA of MUDHo. • Employ two qualified and procurement proficient staff at the regional PCU in the Addis Ababa REMSEDA. • Employ one qualified and procurement proficient staff for each city administration to be placed in the Office of Finance and Economic Development of the city administrations 	<ul style="list-style-type: none"> • UFS&JCA • UPSNP Coordination Unit; • Addis Ababa, Dire Dawa, and other regional city administrations 	Before project effectiveness
2.	Staff not familiar with Bank's procurement procedures, including procurement planning, bid/RFP preparation, bid/proposal evaluation, procurement documentation, and contract administration	<ul style="list-style-type: none"> • Provide basic procurement training in management of procurement of goods and works and selection of consultants at Ethiopian Management Institute to all procurement staff employed under the project. • Provide procurement clinics to procurement-related staff such as bid committees, project accountants, and staff related with procurement decision making in the cities. 	<ul style="list-style-type: none"> • UFS&JCA, MUDHo, UPSNP Coordination Unit; • Addis Ababa REMSEDA • Regional city administrations (regional PCUs) 	Before project effectiveness

3.	<ul style="list-style-type: none"> Internal control is very weak in implementing agencies. Procurement oversight and complaints handling very weak, particularly in city administrations 	<ul style="list-style-type: none"> Government shall appoint independent procurement auditor annually to carry out procurement audit in implementing agencies of the UPSNP. Government shall submit the independent audits to IDA annually for its review and consideration. Government shall take appropriate remedial measures according to the findings of the annual procurement audits. 	Federal PCU of UFS&JCA MUDHo, UPSNP Coordination Unit	Annually before January 6 of the next fiscal year
4.	The need for written procedural manuals/systems in place including code of ethics	<ul style="list-style-type: none"> Prepare procurement manual for the UPSNP which provides detailed step-by-step procedures for the implementation of the procurement activities of the project. Include code of ethics in the procurement manual. Carry out sensitization and training on the procurement manual and disseminate the procurement manual to all implementing agencies concerned with the implementation of the procurement activities of the project. 	MUDHo, UPSNP Coordination Unit	Before project effectiveness
5.	Procurement documentation is weak in most implementing agencies	<ul style="list-style-type: none"> Establish satisfactory data management system in all implementing agencies. Provide adequate space and facilities for procurement documentation and safekeeping of records. 	<ul style="list-style-type: none"> Federal PCU of the UFS&JCA Addis Ababa city REMSEDA City administrations 	- throughout the project life time

Procurement Oversight and Supervision Plan

89. The Bank will provide oversight over procurement activities through ‘prior’ and ‘post reviews’. Prior reviews will be based on the risk level assessed by the Bank during appraisal and updated annually. Post reviews will be carried out by independent auditors in the federal PCU and all federal implementing agencies as well as regional city administrations. Based on the initial risk rating, which is High, the borrower shall seek Bank prior review for equivalent value of contracts as detailed in Table 3.3.

Table 3.3: Procurement Methods and Prior Review Thresholds

Category	Prior Review Threshold (US\$)	ICB Threshold (US\$)	National Short List Maximum Value (US\$)
Works	≥ 5,000,000	≥ 7,000,000	n.a.
Goods	≥ 500,000	≥ 1,000,000	n.a.
Consultants (Firms) Consultants (Engineering and	≥ 200,000	n.a.	< 200,000

Category	Prior Review Threshold (US\$)	ICB Threshold (US\$)	National Short List Maximum Value (US\$)
works supervision)	≥ 300,000	n.a.	< 300,000
Consultants (Individuals)	≥ 100,000	n.a.	n.a.

Readiness for Implementation and Procurement Plan

Procurement Plan

90. The borrower has prepared a Procurement Plan for the first 18 months of the project life which provides the basis for the procurement methods. This plan is agreed between the borrower and the project team and will be available at the project implementation unit at federal PCU in the UFS&JCA of the MUDHo. It will also be available in the project's database and on the Bank's external website. The Procurement Plan will be updated annually in agreement with the project team or as required to reflect the actual project implementation needs and improvements in institutional capacity. Details of the Procurement Arrangements are provided below.

Goods, Works, and Non-consulting Services

Table 3.4. List of Goods Contract Packages

No.	Contract Description	Estimated Cost in US\$, thousands	Procurement Method	Prior or Post Review	Bid Closing/Opening	Contract Signing
1	Vehicles	1,200.00	ICB	Prior	02/28/16	04/30/16
2	Office Equipment	200.00	NCB	Post	02/28/16	03/28/16

Consulting Services

Table 3.5. Consulting Assignments Contract Packages

Ref. No.	Description of Assignment	Estimated Cost (US\$, thousands)	Selection Method	Review by Bank (Prior/Post)	Expected Expression of Interest Submission Date	Contract Signing Date
1	SIA follow-up work	85.00	IC	Post	02/28/16	04/15/16
2	ESMF dissemination and implementation	20.00	IC	Post	05/03/16	06/30/16
3	RPF dissemination and implementation	20.00	IC	Post	04/30/16	06/05/16
4	PIM finalization	100.00	IC	Prior	06/26/16	08/20/16
5	Capacity assessment	50.00	IC	Post	05/30/16	07/25/16
6	PW planning guidelines	60.00	IC	Post	06/01/16	07/30/16
7	Livelihood mapping and guidelines	150.00	IC	Prior	08/01/16	10/30/16
8	Targeting guideline	100.00	QCBS	Prior	09/26/16	10/20/16

Ref. No.	Description of Assignment	Estimated Cost (US\$, thousands)	Selection Method	Review by Bank (Prior/ Post)	Expected Expression of Interest Submission Date	Contract Signing Date
9	Baseline survey	250.00	QCBS	Prior	08/30/16	10/20/16
10	Payment system	50.00	IC	Post	05/30/16	06/25/16
11	FM Manuals	30.00	IC	Post	04/30/16	05/25/16
12	Procurement manual	30.00	IC	Prior	02/28/16	04/30/16
	Core Consultants for PCU					
13	PCU Coordinator	30.00	IC	Post	02/28/16	04/30/16
14	PW Advisor	24.00	IC	Post	02/28/16	04/30/16
15	Livelihood Advisor	24.00	IC	Post	02/28/16	04/30/16
16	SP Advisor	24.00	IC	Post	02/28/16	04/30/16
17	M&E Advisor	24.00	IC	Post	02/28/16	04/30/16
18	Capacity building/training Advisor	24.00	IC	Post	02/28/16	04/30/16
19	Safeguard Advisor	24.00	IC	Post	02/28/16	04/30/16
20	FM Advisor	24.00	IC	Post	02/28/16	04/30/16
21	Procurement Advisor	24.00	IC	Post	02/28/16	04/30/16

91. **Short lists composed entirely of national consultants.** Short lists of consultants for services estimated to cost less than US\$200,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

92. All consultancy services for the selection and employment of procurement and legal consultants, regardless of the contract amount, shall be subject to the Bank's prior review.

93. ToR for all consultancy services shall be cleared by the Bank.

94. The selection of ICs will normally be subject to post review. Prior review will be done in exceptional cases only, for example, when hiring consultants for long-term technical assistance or advisory services for the duration of the project and prior review of these contracts will be identified in the procurement plan.

Dated Covenants

95. The government shall select and appoint a procurement auditor, acceptable to IDA, to carry out annual independent procurement audits of the UPSNP and shall submit the report annually to IDA for its consideration, six months after the end of each fiscal year.

96. A procurement manual of the project shall be prepared and submitted to the Bank for approval at least within one month after project effectiveness.

Monitoring & Evaluation

97. **Monitoring.** The project will develop a comprehensive and rigorous M&E system to effectively monitor the implementation of the project and measure the impact of its different components. The monitoring component of the M&E system will ensure the availability of accurate information on the functioning of the project such as enrolment of program beneficiaries; number of participants in the different components (Transfers, Livelihood, and so on); PW projects developed; and timeliness of conditional and unconditional payments, among others. This entails the collection and compilation of monthly data at the *woreda/ketena* level (accordingly) that is processed for operational and institutional needs.

98. **Evaluation.** The evaluation component will comprise (a) annual process evaluations, (b) biannual targeting evaluations, and (c) quantitative impact evaluations, largely concentrated within the first three years of the project. Annual process evaluations will document what is working well and what is not, bottlenecks to be addressed, and lessons learned. In addition to the annual process evaluations, a process evaluation will be undertaken after 6 months to help strengthen implementation in the early rollout stage. Targeting evaluations will be undertaken in years 1, 3, and 5 of the project to assess targeting quality.

99. A quantitative impact evaluation will aim to measure the development effects of the different components of the project, in particular, the effects of the unconditional and IPW transfers on income and consumption and the effects of skill development and financial support in transitioning to self-employment or wage employment. Regression discontinuity design and the rollout pattern of the program across communities within a city will be used to identify the impact of the program by comparing project beneficiaries with a control group. A randomization strategy to assess the impact of different aspects of program design (wage versus self-employment support) will be explored, but this will need to be weighed with allowing beneficiaries to choose the packages of support they receive.

100. **Learning early from impact evaluations.** Given the need to learn early on from what is working and what is not, impact evaluations surveys will be undertaken before implementation, in year 1, year 2, and year 3. A final evaluation survey will be conducted in year 5. This will allow all phases of the integrated support to be evaluated early on in the program rollout. This will also allow the evaluation to take advantage of the fact that in years 1 and 2 some communities will be included in the program; a comparison with the control group allows for the evaluation of the full impact of the program. The sample size will need to be adequate enough to allow an evaluation of the impact of different aspects of the program design. Urban households are often reluctant to answer surveys and have less time to answer a long survey instrument. A short survey instrument is proposed in all rounds. In addition, a key feature of the urban environment is that urban households move in and out of employment and to capture these dynamics, a 5–10 minute bimonthly phone survey is planned.

101. **Piloting exercises.** In addition, piloting exercises will test different aspects of design before they are scaled up. The targeting process will be piloted first, before effectiveness. During the first year of implementation the livelihood guidance to be provided to beneficiaries will be tested.

Annex 4: Implementation Support Plan

Strategy and Approach for Implementation Support

1. The unique nature of the UPSNP required significant pragmatism during design and will require a strong element of learning-by-doing during implementation. The UPSNP is the first of its kind in Ethiopia and in Africa, with unique design aspects given the unique profile of the target clients and the dynamic nature of urbanization in Addis Ababa and the rest of the targeted Ethiopian regional cities during this phase of the project. The best practices on the urban safety nets globally are also not well developed to offer firm lessons for the Ethiopian context, though lessons from available literature have been documented as part of project design. Yet, the lead ministry for the UPSNP and certain implementing partners in the government have not been exposed to typical safety net projects that are highly targeted and means-tested in nature. The design process thus involved efforts by the Bank and government technical teams to learn from counterparts, through a series of Bank-supported South-South learning events and materials, and intensive design consultative workshops—a process that is ongoing through Board approval and will certainly continue into implementation. These efforts have paid off and culminated in the significant design evolution of the design process toward Board presentation readiness.

2. The target of covering a total of 11 cities and reaching about 604,000 beneficiaries in five years is ambitious, and will need significant dialogue and capacity- and systems-development investments. For the first phase of a project of this kind, the envisaged US\$450 million is a relatively big investment with regard to size and scope and thus, the requirements for implementation support are extensive. Implementation will involve intensive country-level dialogue, ongoing technical assistance, and early and sustained capacity- and systems-development investments to nurture a generation of credible lessons by the midterm review and inform the latter part of implementation. There will be extensive dialogues conducted with the MUDHo, MoFEC, and MoLSA and their affiliated agencies like the UFS&JCA and the respective regional bureaus. Continuous engagement and implementation support to the regions and cities by joint Bank and government teams will be key to generating lessons and inform the planned gradual program scale-up. The Bank and also the GoE will thus need to mobilize a multi-skilled team to ensure that the federal- and city-level TCCs and implementation support task forces are functional.

3. Lessons from the implementation of such huge investment operations demonstrate that a strong Bank field presence is critical and that mobilization of international-level expertise is an important complement. Thus, it follows that to achieve effective implementation support for the UPSNP, there will be need for a strong field presence on the ground. It will be imperative to have field-based program leadership, backstopped by a mixture of country- and headquarter-based teams of senior specialists in the areas of transfers, livelihood services, systems development, FM, procurement, social and environmental safeguards, and CE. Additional headquarter-based senior social projection specialists will be providing support in the areas of policy and strategy within the framework of the broader Social Protection Policy through part-time supervision and implementation support missions. Reflecting the program's close links to other sectors, design has involved collaboration from the Poverty Global Practice. Implementation support will equally involve cross-support from several World Bank Global Practices such as Poverty, Governance, and Social, Urban, Rural & Resilience.

4. Program supervision and implementation support will be guided by a set of principles. These include, but are not limited to, the following:

- (a) **Use of existing systems.** The supervision for the program will be aligned with existing government planning and budgeting systems, timelines, and procedures.
- (b) **Collaborative approach with the DPs.** Although there are no other donors directly contributing to the UPSNP, efforts will be made to ensure proactive collaboration and information sharing with other donors. For example, those involved in the rural PSNP and those supporting urban and local governance in general will need to ensure concerted alignment and promote an evolution toward coordinated and harmonized support to the government.
- (c) **Ongoing learning and adaptive implementation approach.** A great effort will be directed at learning from implementation to positively influence necessary refinements. Rather than carry over design aspects that may prove unfeasible early in project implementation, implementation will seek adaptive solutions for emerging challenges and make appropriate design changes in time.
- (d) **Implementation support and project reviews will ensure timely responsiveness, be proactive, and flexible.** Implementation support and reviews will be structured as a flexible process that is able to identify and respond quickly to implementation challenges while also supporting mechanisms for intergovernmental close collaboration and dialogue. While six-monthly reviews will be implemented, the Bank will aim to position itself to be able to proactively mobilize just-in-time implementation support between missions as well as provide ongoing support at the field level.
- (e) **Building a trusted and transparent collaboration.** The success of the program will depend on the ability of stakeholders to collaborate effectively and requires government and the DPs to share information openly and regularly. It will also require strong effective coordination within the government to collate the required multiple skills and harness mandates of different institutions.
- (f) **Ensure technical rigor.** To respond effectively to the unique demands of the UPSNP implementation, JRISs will comprise team members with appropriate technical skills and experience proportionate to program requirements.
- (g) **Mutual accountability.** The government is primarily responsible for the successful implementation of the UPSNP. Nonetheless, the government and the Bank are jointly accountable to ensure regular dialogue on how to further strengthen program performance and mobilize requisite technical support.

5. Federal- and city-level JRISs will be diligently undertaken. Building on lessons from other programs, the semiannual federal and city JRIS missions will be implemented as the primary mechanism through which the government and the Bank assess program progress and challenges. Lessons from the other programs show that by providing a single platform for dialogue and review, the JRIS missions have been important to the program's overall compliance

with aid effectiveness principles by ensuring harmonization and coordination. The program will also seek to undertake special missions such as rapid response teams to respond to emerging issues and needs, technical reviews, and regular FM and procurement reviews. In addition, an envisaged MIS as well as an analytical agenda constituting a number of analytical and advisory activities, including impact evaluation, will inform program management and decision-making.

Implementation Support Plan

Table 4.1. A Forecast of the Main Focus for Implementation Support during the Economic Life of the Project

Time	Focus	Skills Needed	Resource Estimate
First 12 months	Overall program management and technical support; ongoing country-level policy and technical dialogue; supporting functionality of coordination mechanisms; linking with Social Protection Policy and urban development agendas; developing systems agenda; enhancing work on cross-cutting themes and social and environmental safeguards	<ul style="list-style-type: none"> • Senior SP specialist with focus on coordination, team leadership, and policy dialogue management • Senior SP specialists with focus on systems development, safety nets, and CE • Senior economist/specialist with focus on livelihoods services, targeting effectiveness, M&E, and impact evaluations • Senior social and environmental safeguards specialists to guide and monitor implementation and compliance with safeguards policies 	Bank Budget - US\$250,000
12–48 months	Overall program management and technical support; country ongoing policy and technical dialogue; supporting functionality of coordination mechanisms; linking with Social Protection Policy and urban development agendas; developing systems agenda; enhancing work on cross-cutting themes and social and environmental safeguards	<ul style="list-style-type: none"> • Senior SP specialist with focus on coordination, team leadership, and policy dialogue management • Senior SP specialists with focus on systems development, safety nets, and CE • Senior economist/specialist with focus on livelihoods services, targeting effectiveness, M&E, and impact evaluations • Senior social and environmental safeguards specialists to guide and monitor implementation and compliance with safeguards policies 	Bank Budget - US\$250,000
48–60 months	Same as above	Same as above	Same as above

Table 4.2. Skills Mix Required

Skills Needed	Number of Staff Weeks Annually	Number of Trips Annually	Comments
Task Team Leadership and Project Management	40	Country /HQ based	Senior Specialist/ Economist - Project Management
Senior SP specialist	15	3	Safety net transfers
Senior SP specialist	11	2	Systems development
Senior SP specialist	6	2	PW expertise
Senior Social Development specialist	3	Country office based	Technical support and monitoring of safeguards
Senior environmental specialist	3	Country office based	Technical support and monitoring of safeguards
Social Development specialist	5	Country office based	Technical support to social safeguards, social development, and SA
Senior Public Sector Management Specialist	3	Country office based	GAC follow-up and implementation support
Senior SP specialist	8	Country office based	Technical support to livelihoods strengthening component
FM specialist	8	Locally recruited staff	Technical support to FM and fiduciary reviews
Procurement specialist	5	Locally recruited staff	Technical support to procurement and fiduciary reviews
Total Staff Weeks Annually	134		

Annex 5: Targeting Mechanism

1. The UPSNP is inherently a geographically targeted program in that it will operate only in 11 cities in Ethiopia. The cities included in the program are cities with the highest rates of poverty, namely Addis Ababa and Dire Dawa. However, the selection of the cities is motivated by concerns for regional equity and as a result, one large city from each region with a significant number of poor are included. This results in some cities with extremely low poverty rates, such as Mekele, being targeted (see Table 2.1 in annex 2).
2. This Annex sets out in detail the targeting mechanism proposed for the UPSNP in these 11 cities. It proposes a system that takes into account the key features of the urban environment in Ethiopia: (a) well-identified residency requirements but substantial in-migration; (b) administrative units that are too large to effectively undertake targeting of members; and (c) strong community structures within these units with relatively good information on members but relatively less stable than similar community structures in rural areas. The proposed mechanism combines geographic targeting, community targeting, and PMTs to identify beneficiary households. Categorical targeting is proposed to determine eligibility for different program elements. Finally, self-selection will be used in that individuals will determine whether they want to participate given the compensation received in return for the PW and will decide how many days each beneficiary will work.
3. In summary, the steps of the targeting process are as follows.
 - (a) City poverty maps are verified by city officials for boundary changes, large movements of people, or changes in the socioeconomic nature of the *woreda* since 2011. Adjustments to boundaries and poverty estimates are made accordingly.
 - (b) The poorest *woredas*²⁴ (*kebeles* in cities outside of Addis Ababa) are selected for the first year of implementation using 2011 within-city poverty maps. The current population of each *woreda* and the 2011 poverty rate is used to determine the number of target beneficiaries in each *woreda*.
 - (c) In each selected *woreda*, *woreda* officers identify *ketenas* and work with *ketena* and local community leaders from *Ketena* Development Committees, *Iddirs*, women, and youth committees to identify *ketena* boundaries, establish membership of *Ketena* Targeting Committees, and confirm the number of households to be selected from each *ketena*.
 - (d) Lists of registered households and members are updated to take into account any recent changes, and an additional list of unregistered members or households is developed containing those that have been residing in the *woreda* for at least six months.

²⁴ *Woreda* is the lowest administrative unit within Addis Ababa and *kebele* is the lowest administrative unit in other cities. Within *woredas* and *kebeles*, smaller communities called *ketenas* exist even though they do not have a formal administrative structure. Further details on the nature of these units are provided in the following sections.

- (e) *Woreda* officers and UPSNP staff inform *Ketena* Targeting Committees and the intended beneficiaries (namely, any household resident for at least six months within the *woreda* that is among the poorest in the *ketena*) about the program.
- (f) *Ketena* Targeting Committees rank and select proposed beneficiaries. Data on households is also collected by the committees and provided to the *woreda* office. The list is made public.
- (g) The *woreda* office provides information to an independent data collection agency contracted by the project who works with UPSNP staff to sample households for data collection.
- (h) All non-sampled households that are on the beneficiary list are included in the program. Data is collected and the PMT calculated for sampled households, confirming or querying their assignment to be a beneficiary.
- (i) Households for whom the assignment to beneficiary or non-beneficiary is queried are discussed by *woreda* officials, program staff, and the *Ketena* Targeting Committee and a final decision is made. The final list of proposed beneficiaries is made public.
- (j) Selected beneficiaries are informed about the program and asked whether they want to participate.
- (k) Those eligible for unconditional transfers who would like to receive these transfers register and provide verification of age (being above 65 years) or of their disability or chronic illness that prevents them from being able to perform a co-responsibility for the transfer.
- (l) Those who are not eligible for the unconditional transfers decide whether they want to participate, given the compensation paid in return for PW, and they register.
- (m) A *Woreda* Appeals Committee allows targeting decisions to be appealed.

Selection of *Woredas*

4. Geographic targeting within cities would be used to direct program rollout to communities within cities, but not to determine eligibility once the program is operating at full scale. The ultimate objective of the program is to reach all poor households within the 11 cities where it is working, regardless of the poverty of the neighborhood in which they live. This is consistent with the overall government strategy of developing a national SP system in both rural and urban areas.

Unit of Geographical Targeting Within Cities

5. *Woredas* in Addis Ababa (*kebeles* in other cities) are well-defined communities in that they have clear boundaries, clear membership of those living within those boundaries, and a leadership structure that is somewhat constant across communities. However, it is too big to provide information on members. There are smaller communities within these administrative

units—*ketenas*—and these communities have good information on members. Community surveys conducted in Addis Ababa indicate that although *ketenas* have representatives on the *Woreda* Executive Committee and administrative boundaries that are well-known to those who are heavily engaged in official *woreda* activities, they do not have boundaries that are broadly known by community members or a functioning administrative office. As such, it is proposed that the *woreda* be used as a unit for geographical targeting and that *ketenas* be used for CBT within selected *woredas*. There are 96 *woredas* in Addis Ababa with about 7,000 households (28,000 individuals) recorded in each *woreda* in 2010/11. The number of *ketenas* varies from *woreda* to *woreda* but on average there are 7 *ketenas* per *woreda*, suggesting about 650 *ketenas* in the city.

Data Available for Geographical Targeting

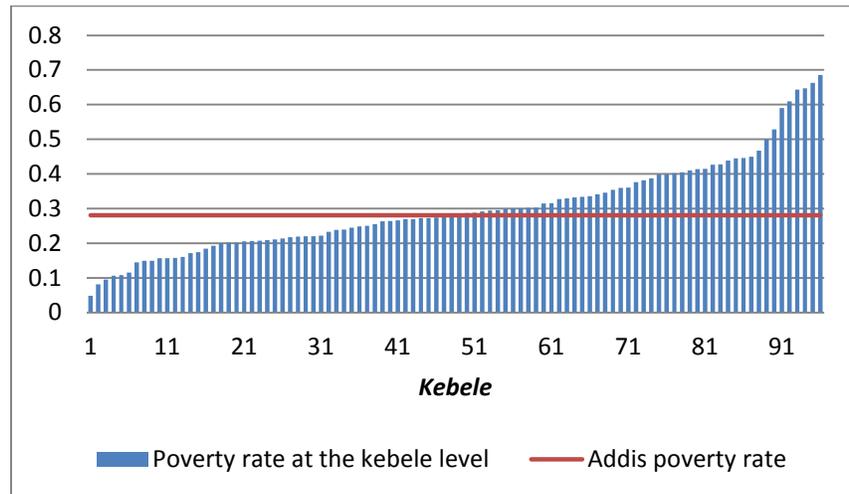
6. The database available for geographic targeting is relatively limited. The last population and housing census was conducted in 2007 and this provides the core of many geographically disaggregated welfare measures within urban Ethiopia. Surveys collected since then provide data that is representative at the city level (and at the subcity level within Addis Ababa) but cannot be disaggregated below that. A poverty map and nutrition map have been developed using poverty and nutrition data collected in 2010/11 but these maps still rely on the data from the 2007 census to generate small area estimates. This would be true of additional maps (such as of employment) that could be created with more recent surveys. Cities have been changing quite rapidly since then and the 2007 census does not provide a good understanding of which areas are poorer and richer, and the results would need to be verified through local consultation. Water and sanitation facilities were last mapped in 2011. A census of manufacturing firms with more than 10 employees (these employ about half of those engaged in manufacturing), land use surveys, and night-time lights data are the only sources of disaggregated data available since then.

Rationale for Proposed Role of Geographical Targeting Within the UPSNP

7. The data available shows that geographical targeting would entail substantial leakages (in that some of the poorest households would not be reached and some non-poor households would be included) in reaching the poorest 12 percent of households, motivating its use in program rollout but not in determining eligibility of the program once it is operating at full scale.

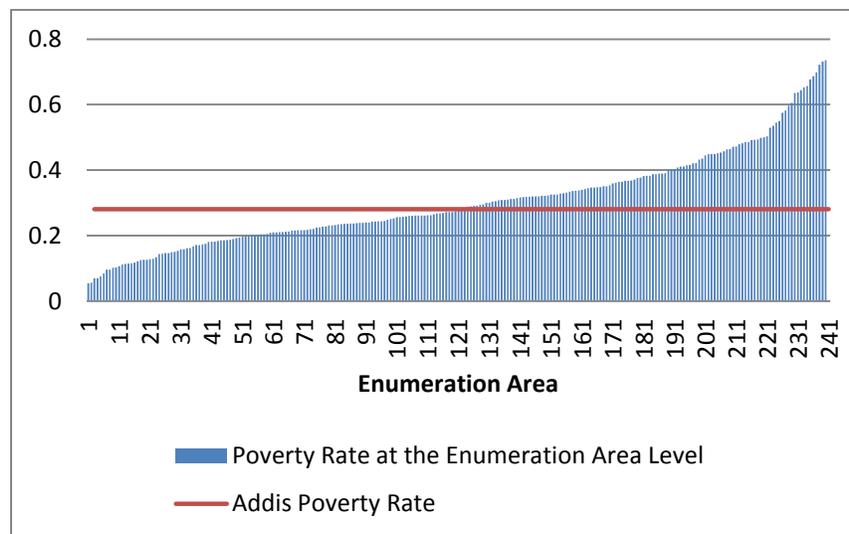
8. Addis Ababa is Ethiopia's most unequal city and small area poverty estimates show that poverty is quite evenly distributed across *woredas* (Figure 5.1). Even when disaggregating to census enumeration areas of about 2,000 households each, comparable to a cluster of two *ketenas*, poverty remains relatively evenly distributed (Figure 5.2). Only in 8.75 percent of the enumeration areas were more than half of the households poor. However, only in 3.32 percent of the enumeration areas were less than 10 percent of the households poor. This corresponds to qualitative assessments of poverty in Addis Ababa. While there are poorer and richer areas, there is considerable income inequality within areas as poor people live in communities with better-off households. Simulations undertaken by Olinto and Sherpa (2014) for this project show that geographical targeting would lead to substantially higher levels of leakage than a PMT using data that *woreda* officials say they can easily provide (without a survey) for households living in their *woreda* (as per a recent community survey). See Figure 5.3 for results.

Figure 5.1. Poverty Rates at the Lowest Administrative Unit (*Woreda*, about 7,000 Households), Addis Ababa 2010/11



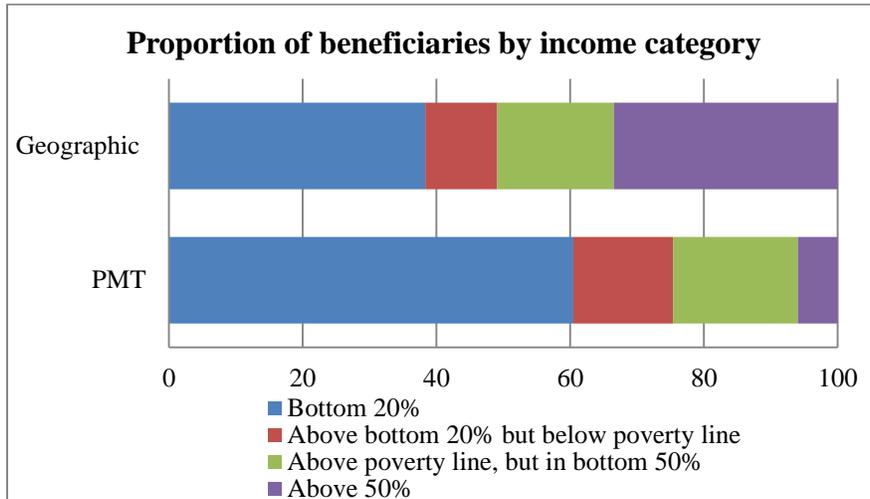
Source: World Bank staff calculations using the HCES 2010/11 and the Population Housing Census, 2007.

Figure 5.2. Poverty Rates in Census Enumeration Areas (About 2,000 Households), Addis Ababa 2010/11



Source: World Bank staff calculations using the HCES 2010/11 and the Population Housing Census, 2007.

Figure 5.3. Targeting Results



Source: Olinto and Sherpa (2014).

9. Based on the current design, the program will be rolled out over three years. Although the current GoE proposal is to roll out equally across years, the Bank team is suggesting an option of starting very small in the first year with more rapid scale-up once initial lessons have been learned. The project will start in all cities, but select *woredas* (*kebeles*) within cities will start the program given the political infeasibility in starting in only some of the 11 cities and the logistical challenge that would be posed by starting in all communities simultaneously and determining how to select a subset of beneficiaries within a *woreda*. There are risks to this approach that are recognized and will be mitigated. The term *woreda* is used for the rest of this section, but in cities outside of Addis this refers to *kebele*.

Process for Geographical Targeting

10. There are a number of criteria based on which it may be desirable to select *woredas*.²⁵

- **Poverty status.** As discussed above, selection of poor *woredas* is not a good way to target poor households in urban Ethiopia; however, it will be possible to reach 400,000 households with the smallest number of *woredas* if the *woredas* with the highest poverty rates are targeted.²⁶ In the first year of implementation this may be desirable. *Quantitative indicator: woreda poverty rate based on poverty map. Date: 2010/11 poverty data and 2007 census data.*
- **Need for infrastructure PW.** One of the outcomes of the program will be to improve the physical environment in which households live. This could make it desirable to

²⁵ The quality of local *woreda* institutions will affect the quality of implementation and it may also be desirable to target based on this, working with stronger *woredas*. However, there is no objective indicator of institutional strength that can be used for this purpose.

²⁶ *Woredas* are equally sized, so *woredas* with the highest poverty rates are also, de facto, the *woredas* with the highest number of poor people.

start in the areas where there are clear needs. *Quantitative indicator: water sanitation and health survey of facilities. Date: 2011.*²⁷

- **Availability of employment opportunities.** A key component of the project is creating new employment opportunities. This could make it desirable to start in areas where there are more opportunities available. *Quantitative indicator: number of jobs in large-scale manufacturing firms within 5 km. Date: 2014.*

11. The program may have the largest impact in the poorest *woredas*, those with largest infrastructure needs, or those with the most jobs available. However, many aspects of project design will be tested in the first year of implementation. To maximize learning, it could also be desirable to stratify the selection of *woredas* so as to learn how to operate in very poor and moderately poor *woredas*, in *woredas* with different types of public work needs, or different types of livelihood environments. This would imply grouping *woredas* by type and selecting some *woredas* from each type. Given the limited data available on infrastructure needs, it is proposed to group the *woredas* into the six categories indicated in Table 5.1 and to select the *woredas* in categories A, B, D, and E in the first year of operation to learn how the program would work in different targeting and livelihood environments.²⁸ In year 2, the remaining *woredas* in categories A, B, D, and E would be selected. In year 3, categories C and F would be included. Indicative numbers of *woredas* in each category are given. However, these numbers would need to be verified for Addis Ababa and calculated for other cities in the first stage of the targeting process described above.

Table 5.1. Categories of Woredas

	High Poverty Rates (Higher than 40%)	Moderate Poverty Rates (Between 20% and 40%)	Low Poverty Rates (Lower than 20%)
Near wage employment hubs	A (Addis Ababa: 10 <i>woredas</i>)	B (Addis Ababa: 26 <i>woredas</i>)	C (Addis Ababa: 9 <i>woredas</i>)
Far from wage employment hubs	D (Addis Ababa: 10 <i>woredas</i>)	E (Addis Ababa: 26 <i>woredas</i>)	F (Addis Ababa: 9 <i>woredas</i>)

Risks of Geographical Targeting and their Mitigation

12. Selecting specific *woredas* and working in only those will allow closer follow-up of program activities, particularly in the beginning. However, there are some risks associated with geographical targeting in program rollout.

²⁷ There are plans to update this as part of the PBS but still this will not fully capture the infrastructure needs in a *kebele* that could be met by PW.

²⁸ An alternative way of ranking the poverty status of *kebeles* in cities outside of Addis Ababa may need to be explored, otherwise *woreda* poverty rates will still be used and *woreda* leaders will rank *kebeles* based on the degree to which they are considered poor.

- **The quality of data on which to base the decision is limited.** Only one indicator uses data collected within the last four years. This will limit the quality of the categorization proposed above. This risk will be mitigated by verifying the poverty map with city officials before using it to determine the number of program beneficiaries.
- **The strategy puts considerable pressure on *woredas* to deliver the services within the program immediately at scale (PW, career guidance, and so on) and then to scale back once the treatment formula ends.** The strategy limits the number of *woredas* that will implement the program but it results in a large number of beneficiaries in each *woreda* who have to be targeted for three years (the expected duration of the program) that then drops off. However, activities will be initiated in only a few *woredas* each year, allowing program staff and city officials to support the *woredas* in which the work is starting.
- **Exclusion of certain regions within a city creates perverse incentives on within-city mobility that may not be optimal.** Individuals may try to move across *woreda* boundaries or to choose not to move even if a job or housing opportunity were to emerge. Given that mobility within a city is much less costly than mobility between cities or between rural areas, this is potentially concerning. Operation in all *woredas* when the program is at scale is crucial to mitigating this risk. Maintaining a six-month residency requirement in a given *woreda* may prove helpful during program rollout. However, more work needs to be done to determine whether benefits can be made portable when a beneficiary moves.

Selection of Beneficiaries within *Woredas*

Identification and Formation of Ketena Targeting Committees

13. It is proposed that *woreda* officials in the selected *woredas* organize and supervise targeting, but it will be the smaller communities within a *woreda-ketena*, *Iddir*, women, and youth committees that will rank and select households through *Ketena* Targeting Committees.

14. Designated *woreda* officers will first work with community groups within the *woreda* to publicize the *ketena* boundaries within which each targeting committee will operate and assign informal group leaders to *ketenas* in cases where they spread across *ketena* boundaries. *Ketena* Development Committees, *Iddir* leaders, and leaders of women and youth committees will be drawn on for membership of the *Ketena* Targeting Committee. The verified poverty map will be used to provide *woredas* with the number of beneficiary households they should select. The *woreda* will be asked to divide the number of beneficiary households across *ketenas* within the *woreda*, in proportion to the population of each *ketena*. They can request that the division be done differently—if there are *ketenas* that are poorer than others—but this request has to be made to a city targeting body, and the validity of that decision is verified once the PMT verification data is collected.

Ranking and Selection of Beneficiaries within Ketenas

15. *Ketena* committees will first be asked to update the list of registered households²⁹ in the *kebele*, updating the household dossiers that detail the names, ages, and gender of household members. In addition, *ketena* committees will be asked to list all unregistered households (and unregistered members of registered households) that have been present in the *woreda* for at least six months. After six months, new households are usually able to register if they have documentation from their old *woreda* releasing them; however, some households choose not to register. This list will not include street dwellers who will be targeted separately by skilled professionals that are experienced in tracking and identifying these individuals.

16. *Ketena* committees will be informed about the purposes of the program and the intended beneficiaries of the program, namely all households that have been residing in the *woreda* for at least six months and who live below the national poverty line. The profiles of urban poor, as given in Annex 2, will be used to inform communities about the intended beneficiaries of this program. In addition, communities will be informed about the characteristics used to define poverty in the PMT. However, the definition of poor households will still inevitably vary across communities, even with efforts to describe clearly who the program is trying to target.

17. *Ketena* committees will be asked to rank all members and select the targeted number of households for their *kebele* plus 10 percent. This list will be made available to all in the community for discussion. The committee will be asked to provide names and data on selected characteristics of the households that are required for the PMT. Details of the PMT model that has already been developed for Addis Ababa and the data required are provided in Table 5.2. Olinto and Sherpa (2014) include a full discussion on the development of the model and how it performs in targeting poor households in urban areas. Sohnesen and Stender (2015) further validate the model using a statistical learning approach. PMT models for other cities will need to be developed.³⁰

Table 5.2. PMT Model

Variables	Icon	Variables	Icon
Household head age	-0.004*** (0.001)	Total number of children aged 13–18 years	-0.035*** (0.012)
Maximum years of schooling within household	0.011*** (0.003)	Floors made of hard/solid material	0.071*** (0.020)
Household head is educated to grade 7–8	0.032 (0.029)	Household has access to an improved water source (during dry or wet season)	0.062*** (0.021)
Household head is educated to grade 9–11	0.088*** (0.031)	Access to improved sanitation facility	0.076*** (0.020)

²⁹ The official definition of a household will be used, which is a group of individuals sharing consumption of goods and services daily, regardless of the size or relationships of members.

³⁰ There are enough observations in the national consumption survey to calculate models for each city. The possibility of pooling models across cities will also be tested.

Variables	Icon	Variables	Icon
Household head is educated to grade 12	0.044 (0.030)	Cooking Energy==kerosene/butane gas	0.101*** (0.027)
Household head has a degree/diploma	0.170*** (0.039)	Cooking Energy==electricity/biogas	0.066** (0.030)
Household size: 2	-0.530*** (0.031)	Household owns a refrigerator	0.121*** (0.024)
Household size: 3	-0.807*** (0.031)	Household owns a mobile/wireless phone	0.155*** (0.025)
Household size: 4	-0.987*** (0.038)	Household owns a television	0.073*** (0.025)
Household size: 5	-1.115*** (0.038)	Household owns a satellite dish	0.126*** (0.025)
Household size: 6	-1.221*** (0.043)	Household owns the home	0.084* (0.043)
Household size: 7	-1.312*** (0.045)	Household is rented from employer/relative/non-relative	0.142*** (0.039)
Household size: 8	-1.485*** (0.055)	Household is rented from <i>kebele</i>	-0.192*** (0.042)
Household size: 9 or more	-1.426*** (0.065)	Household owns a bicycle	0.156*** (0.055)
Total number of children under 5 years of age	0.071*** (0.018)	Constant	9.160*** (0.049)
		Observations	3,423
		R-squared	0.498

Source: Olinto and Sherpa (2014).

Note: Standard errors are in brackets.

*** p < 0.01; ** p < 0.05; * p < 0.1.

Use of a PMT to Verify Beneficiaries

18. Although organizations at the *ketena* level are well informed about the living conditions and livelihoods of their members, the community structures in urban areas are not as strong as those in rural areas where CBT has worked well. Hence, verification of the CBT is considered particularly important. In addition to verifying eligibility it will provide an important source of information on how well the CBT approach works in urban Ethiopia.

19. Survey enumerators will collect data on a random sample of community-selected beneficiaries to verify the households—focusing specifically on households ranked just below and above the number of households to be selected—in order to verify the community targeting process. It will be important for the sampling rate to be high enough and communicated to community targeting committees so that it provides the necessary incentive for accurate targeting by the community.

20. All non-sampled households will be included in the program. Independent data will be used to calculate an official PMT score for every sampled household. If the household is predicted to be in the poorest 12 percent of households, they will be included in the program. A

verification meeting will be held to discuss households selected as poor by the targeting committee, but predicted to have above median consumption by the PMT to determine whether they should indeed be included in the program. The final list of selected households will be made public.

21. All selected households will be informed and invited to participate in the program.

Woreda Supervision and Appeals Committee

22. The *woreda* will supervise the targeting processing, ensuring that *ketena* committees conduct the targeting meetings as instructed, and collected the data from households as required.

23. A *Woreda* Targeting Appeals Committee will be established at the *woreda* level and will comprise officials not included in the selection committees but that represent local groups: community leaders, *Iddir* leaders, and representatives of women's groups and other groups representing marginalized individuals in the *woreda*.

Benefits, Risks, and Other Models Considered

24. The advantages of this model are that it gives communities ownership of the process and allows independent verification of selection without requiring a costly census of beneficiaries and a potentially high-quality targeting. The approach is similar to that used in rural areas with greater weighting given to the PMT which is appropriate given expected differences in the quality of community selection.

25. Other targeting models were considered.

(a) A model in which the primary mode of selection of beneficiaries is a PMT model was considered. However, given the familiarity of Ethiopian communities with CBT in both rural and urban areas in government programs, NGO activities, and transitional community groups (*Iddir*), it was deemed appropriate to have the prime mode of selection to be community based, with PMT playing a verification role.

(b) A model in which households applied to be a part of the program and provide data was also considered. However, experiences from targeting of other welfare support in urban areas showed that the most vulnerable households were unlikely to register through such a process.

26. Main risks:

(a) Community leaders are still in control of who is selected into the program. Information flows and community ties may be weaker in urban Ethiopia than in rural Ethiopia and as a result, the magnitude of the risk of elite capture is difficult to quantify. Although it is presumed to be low, this needs to be verified. The implementation of PMT alongside community targeting is essential to mitigate this risk but also to monitor the quality of targeting in the program. If there is a poor overlap between community targeting and the PMT, the reliance on the community-based approach will need to be reconsidered.

- (b) Substantial resources will need to be spent in visiting households and collecting data, particularly at the beginning of the project. The cost of this is mitigated by sampling only some potential beneficiaries for PMT surveying, but the number sampled needs to be high enough for this to provide an effective verification of the community process.

27. Beneficiaries will be allocated to program components according to the characteristics of the household. Households with no able-bodied member will be eligible for unconditional transfers. Documentation to verify eligibility will need to be presented during the visit of case worker to the household. The *woreda* dossier for the household can also be used to provide the necessary documentation. It is not yet clear how individuals will be selected for the provision of livelihood services. At most, one member per household will be nominated, but within this group not all eligible members will receive services. Those that are selected will choose the package of livelihood interventions best suited to them.

28. A number of operational questions are still to be addressed, such as the type of information campaign needed to inform all members in the *woreda* about the program and to inform selected beneficiaries once the selection process has been completed. The registration process and the nature of the registration documentation provided to a household also needs to be worked out.

Annex 6: Profile of the Urban Poor

1. The overall objective of the government's long-term UPSNP framework is to reduce urban poverty and vulnerability among the poorest 15 percent of the households. During the first five years of the UPSNP, the program will cover 11 major cities and will target the poorest 12 percent. This beneficiary group comprises many different groups, each with different needs. This Annex characterizes five groups of urban poor summarized in Table 6.1.

Table 6.1. Five Groups of Urban Poor

Sl. No.	Group	Individuals (%)
1.	Urban destitute	2.7
2.	Disabled and elderly with limited family support	6.6
3.	Families who need more work	41.7
4.	Families in marginal self-employment	23.8
5.	Families in low-wage employment	24.6

Sources: HCES and Welfare Monitoring Survey 2010/11.

Note: Individuals are likely to move in and out of the last three categories over time.

2. **The urban destitute.** This group is the most visible face of urban poverty in Ethiopia. They are often without homes and live on the street or in temporary shelters. They do not have access to a sustainable livelihood and often resort to begging or illicit activities to make a living. Physical and mental health problems affect many in this group. Some in this group are very young, children who have run away from homes in rural areas. Although this is the most visible group of urban poverty, it is quite small (2.7 percent of those in the poorest 15 percent).

3. The needs of this group are vast and complex. In addition to financial support that can be provided through transfers, they need housing, healthcare, and psycho-emotional counseling services. These needs have to be met before livelihood services are effective in graduating them out of the program. For some children, returning to homes in rural areas offers the best solution to their needs. The project will have a dedicated budget line to finance pilot projects of specialized service providers to inform an engagement strategy tailored to the specific needs of this group. These specialized service providers will be identified through a call for proposals. It is anticipated that to meet the basic needs of the urban destitute, the transfer amount will need to be significantly higher than for the other categories of urban poor.

4. **The disabled and elderly with limited family support.** Individuals in this group have a home and have often lived in this home for many years. However, there is no working member in the household and they rely on support from others to get by. This support covers some of their basic needs but is not enough. Adult members of the household are too old to work or have a disability that makes it impossible for them to work. Some of these households also have children. Without access to work, these households are poor and also highly vulnerable to sudden increases in food prices or other shocks. This group comprises around 7 percent of the poorest 15 percent.

5. Individuals in this group need sustained financial support through direct transfers. They will not be able to work for this support. They will need transfers to be given to them on an unconditional basis. They do have some income which has helped them survive in the absence of the program, so they may require a substantial amount of their needs to be met by the program, but not all their needs.

6. **Families who need more work.** Individuals in this group are poor because people in their household do not have enough work. This is the largest group of urban poor; around 42 percent of the poorest 15 percent fall into this category. There are able-bodied adults in the household who are partially or fully unemployed either because they feel too discouraged to look for work, they cannot afford to continue looking for work, or they looked for work and were unsuccessful. In 20 percent of these households, all adults work but they do not work enough hours. In 80 percent of these households, there is a member who is unemployed. Those who are unemployed may engage in temporary employment (self-employment or wage employment) from time to time, but they are not able to sustain a job. In three-fourths of these households with an unemployed member, there are other members of the household who have full-time employment. In a quarter of those households with one unemployed member, there are no other members of the household who are working.

7. Individuals in this group need financial support and can work for this support in PW. They have some income within the household but not enough to cover all the household's needs. To graduate out of poverty, individuals in this group need access to long-term, good-quality jobs. Support in finding wage employment or establishing self-employment businesses will help them graduate.

8. **Families in marginal self-employment.** Individuals in this group are from households where all adults work, but they are engaged in self-employment activities that do not make much money—'marginal' self-employment. A quarter of the poorest 15 percent fall into this category. These activities may not take all of their time or may take all of their working time, but the resulting profit is too low to cover all of their needs and the needs of the dependent members of the household. The activities include petty trade.

9. Individuals in this group need financial support but have limited time to work for this support in PW. They have some income from self-employment but not enough to meet their basic needs. In addition to financial support, they need help to expand their business and improve its profitability. Many businesses report cash constraints as a concern. Entrepreneurial skill development may also be required.

10. **Families in low-wage employment.** Individuals in this group are from households where all adults have wage jobs and are fully employed but they do not earn enough to cover the needs of their household. A quarter of the poorest 15 percent are in this category. This could be because the wage they earn is extremely low or because the working members of the household have to support many dependents. Employment is in services, manufacturing, and construction (in order of importance).

11. Individuals in this group need financial support but have limited time to work for this support in PW. They have some income from wage employment but not enough to meet their

basic needs. They need help to reduce the cost of working (travel costs, child-care costs, and cost of lunches) and support to find better paid employment.

12. Table 6.2 shows the gender and education profile of those in groups 3 to 5 (these are the groups that would benefit from unconditional transfers).

Table 6.2. Gender and Education Profile

	Poor Unemployed (%)	Poor Self-employed (%)	Poor Wage Employed (%)
Female	49	33	39
None or primary	21	18	11
Secondary	22	10	16
Graduate	6	5	12
Male	52	67	61
None or primary	17	35	24
Secondary	29	25	24
Graduate	6	7	13

Annex 7: Gender Analysis and Action Plan

Gender Analysis

1. Experiences of poverty and vulnerability in Ethiopia are highly gender specific. Female-headed households are more vulnerable to shocks and face multiple challenges that hinder their productivity, including differences in the levels of productive factors used and the returns that these factors generate.³¹ Gender differences also exist with regard to human capital and access to resources, and more women than men are likely to be working in informal jobs (48 percent against 28 percent) (Ethiopia Urbanization Review).

2. The UPSNP will have a strong focus on gender. The program interventions are based on an analysis of some of the gender-specific vulnerabilities that women face due to family composition, sociocultural gender roles, and life-cycle factors. Participation of women will be given consideration both with regard to client selection (for example, provisions for inclusion of female-headed households) and in program decision-making structures. PW subproject selection is also approached through a gender lens, with provisions for activities to be designed to reduce the regular work burden and poverty of girls and women.

3. The UPSNP incorporates findings from gender reviews of the rural PSNP, which reveal positive impacts on gender. The (2008) contextual gender analysis of the PSNP found that women's participation in the PWs earned them greater respect in their communities. In male-headed households with female PW workers, men had begun to take on some domestic tasks and appreciate the extent of the traditional workload of their wives. This shows that safety nets can have a positive effect on the gender division of labor and power within the household, leading to strengthened social cohesion in decision making at the household level.³² At the community level, it was found that some men had revised their attitudes toward women's work capabilities as a result of regular joint work on PW sites. Focus groups revealed that some women were learning to express their views more as a result of participating in PW activities and community meetings. This emphasis on women's participation has also resulted in a more active role for the Women's Association in some communities, and to the provision of more information on family planning services.³³ Male- and female-headed households reported similar perceptions of benefits of PW activities, but both women and men reported that women experience significant difficulties in balancing the required participation in the PW with other household responsibilities.

4. Preparation for UPSNP 4 revealed and examined a number of key gender themes such as targeting, transfers, subproject selection, working conditions, awareness, program governance, and incorporated international best practice. The review and analysis identified opportunities, which are incorporated in the GAP for the project, for improving UPSNP design and

³¹ The World Bank. 2014. ONE Campaign, *Levelling the Field: Improving Opportunities for Women Farmers in Africa*. Washington, DC: World Bank.

³² Evers, B. J. Garsonnin, A. Wondiu, and A. Aberra. 2008. *Contextual Gender Analytical Study of the Ethiopia Productive Safety Nets Program. PSNP Gender Study*. Final Draft. London: Helm Corporation.

³³ Holmes R., and N. Jones. 2010. "PW Programmes in Developing Countries: Reducing Gendered Disparities in Economic Opportunities." Presented at the International Conference on Social Cohesion and Development, Paris, France, January 20–21, 2011.

implementation to increase the impact on women. The GAP outlines actions to address bottlenecks to gender mainstreaming and implementation of gender provisions and to ensure equitable participation of men and women in the program and provides direction to better mainstream gender in planning, M&E, reporting, and management.

Implementation Arrangements

5. The implementation of the GAP will be overseen by the national PCU. A national gender and social development expert will be hired to work in the PCU and a gender and social development focal person will be appointed in each of the implementing agencies and City Project Coordination Committees. The national gender and social development expert will advise and assist the project manager on GAP implementation. He/she will also advise and support gender focal points on GAP implementation, training, and coaching. The GAP actions are all integrated into the overall program and will be monitored as part of the program M&E system.

Table 7.1. UPSNP GAP

Program Component	Action	Responsible Body	Timeline
Component 1: Safety Net Support	Ensure gender analysis forms part of the annual PW planning process.	MUDHo/UFS&JCA, <i>Woreda</i> Coordination Committee	Annually
	Ensure at least 30% women’s participation in annual PW planning process.	MUDHo/UFS&JCA, <i>Woreda</i> Coordination Committee	Annually
	Implement women’s engagement in ‘light works’, where possible, and subprojects that reduce women’s time burden and ensure that the plans reflect these provisions.	MUDHo/UFS&JCA, <i>Woreda</i> Coordination Committee	Annually
	Ensure 50% women’s participation is the PW technical and soft skills training.	MUDHo/UFS&JCA, <i>Woreda</i> Coordination Committee	Annually
	Ensure PIM provisions provide temporary unconditional transfers for pregnant and lactating women from as early as the first antenatal check to 12 months post delivery.	MUDHo/UFS&JCA	By July 2016
	Ensure at least one woman in leadership position at each PW site.	MUDHo/UFS&JCA, <i>Woreda</i> Coordination Committee	By July 2016
	Ensure that information and awareness campaigns targeted toward women’s health and nutrition concerns are provided, including information on where they can access relevant services.	MUDHo/UFS&JCA, MoLSA, <i>Woreda</i> Coordination Committee	Annually
	Ensure that transfers are delivered to women where applicable.	MUDHo/UFS&JCA, MoFEC	Annually
Component 2: Livelihood Services	Design and implement gender-sensitive and demand-driven economic opportunities for women and facilitate linkages with markets and business opportunities.	MUDHo/UFS&JCA, <i>Woreda</i> Coordination Committee	By July 2016
	Design and implement appropriate technical support (including coaching and mentoring) for female clients in business skills (women from both male-headed and	MUDHo/UFS&JCA, <i>Woreda</i> Coordination	By July 2016

Program Component	Action	Responsible Body	Timeline
	female-headed households).	Committee	
	Develop and implement appropriate training and communication materials.	MUDHo/UFS&JCA, MoLSA	By July 2016
	Ensure that at least 30% of the training participants for the wage employment package are women.	MUDHo/UFS&JCA, Woreda Coordination Committee	Continuous
	Include employment activities that attract women and facilitate relevant knowledge and skills transfer.	MUDHo/UFS&JCA, Woreda Coordination Committee	Continuous
	Ensure that at least 30% of the self-employment package and livelihood transfers are provided to women.	MUDHo/UFS&JCA, Woreda Coordination Committee	Annually
Component 3: Institutional Strengthening and Project Management	Targeting: 1) Ensure at least 30% women participation in each <i>Ketena</i> Targeting Committee. 2) Disseminate information on the objective and the dates of the PMT survey through a range of appropriate local media and channels accessed by women (including posting information in areas frequented by women such as markets; mobile microphones; interpersonal communication through social welfare, health, education, and NGO officials). 3) Ensure that survey schedules take into consideration women's work schedules.	MUDHo/UFS&JCA, MoLSA, <i>Woreda</i> Coordination Committee	Before targeting starts
	Develop language-specific and culture- and gender-sensitive training materials for trainers and handouts for participants.	MUDHo/UFS&JCA, MoLSA, <i>Woreda</i> Coordination Committee	Continuous
	Ensure that annual planning and reporting templates capture gender issues and PIM provisions.	MUDHo/UFS&JCA, MoLSA	Annually
	Hire gender and social development specialists for the PCU.	MUDHo/UFS&JCA, MoLSA	By March 2016

Program Component	Action	Responsible Body	Timeline
	Ensure close engagement with the MoWC, including their representation on the National Steering Committee, the Joint Project MCC, and all relevant technical committees.	MUDHo/UFS&JCA	Continuous
	Earmark budget resources to strengthen knowledge and capacity on gender.	MUDHo/UFS&JCA	Annually
	Integrate gender equality outputs and outcome indicators into the M&E system.	MUDHo/UFS&JCA, MoLSA	By July 2016
	Ensure balanced representation by males and females in capacity development activities (for example, training).	MUDHo/UFS&JCA, MoLSA, <i>Woreda</i> Coordination Committee	Continuous
	Ensure at least 30% women participants in capacity-development activities.	MUDHo/UFS&JCA, MoLSA, <i>Woreda</i> Coordination Committee	Continuous
	Provide skills-development opportunities for women to improve their capacity to effectively participate in various stages of project implementation.	MUDHo/UFS&JCA, MoLSA	Continuous
	Ensure that at least 30% of project staff at all levels and in all implementing agencies are women.	MUDHo/UFS&JCA, MoLSA, cities, <i>woredas</i>	Continuous
	Ensure that at least 30% of members of all committees at all levels are women.	MUDHo/UFS&JCA, MoLSA, cities, <i>woredas</i>	Continuous
	Review all training programs to ensure that they are gender sensitive before delivery.	MUDHo/UFS&JCA, MoLSA	Continuous
	Provide gender equality briefing and/or training for all project staff to improve their understanding of gender perspectives and to develop their capacity to implement this GAP sufficiently.	MUDHo/UFS&JCA	By May 2016
	Ensure that the sex-disaggregated data that are collected are properly analyzed and the analysis is included in the project progress reports.	MUDHo/UFS&JCA, MoLSA	Annually
	Ensure at least 30% representation of women in <i>ketena</i> Appeals Committees.	<i>Woreda</i> Coordination Committee	Continuous
	Ensure that gender analysis is included in the knowledge management strategy.	MUDHo/UFS&JCA	By July 2016

Program Component	Action	Responsible Body	Timeline
	Ensure that the communications strategy includes approaches to effectively reach out to women, such as scheduling meetings at appropriate times and proactively inviting women to participate in project-related activities.	MUDHo/UFS&JCA	By July 2016

Annex 8: Linkages to Other World Bank Urban Interventions

Urban Local Governments Development Program

1. Reviews show that a number of small-scale, poverty-related interventions are being implemented in urban Ethiopia. These include activities by the MoLSA as well as a range of programs run by civil society organizations. Yet, the single most prominent, institutionalized intervention in urban areas is the Bank-supported ULGDPs. The ULGDP operates in all cities that would be reached by the UPSNP, with the exception of Addis Ababa.

2. The ULGDP has been successfully implemented for several years in a number of Ethiopian cities. It is now into its second phase, ULGDP II, which further bolsters a range of ULG accountability and institutional capacity-building mechanisms. The project is performance based and envisions, conditioned on meeting verifiable criteria, the provision of resources for the PW to city governments. The nature of those works tends to be capital intensive, although a sizable share is also labor intensive (about one-third of the portfolio). In both cases, targeting and implementation are conducted through competitive bids.

3. Given the possible convergence of some financing, institutional, and design issues, it is important to ensure that the UPSNPs and ULGDPs are implemented in a coordinated and complementary fashion. This includes programmatic coherence on three core issues, namely incentives compatibility, absorptive capacity, and implementation coordination. These are hereafter discussed.

4. **Activity selection.** It is important to avoid overlap in the type of works implemented under the different projects. This could be addressed through the joint (ULGDP and UPSNP) preparation of an annual capital investment plan at the city level. This will include developing a list of subprojects eligible under the UPSNP that are subsequently excluded from the eligible list under the ULGDP. For example, it has been agreed to exclude cobblestone activities from the UPSNP in cities where both the UPSNP and ULGDP are operating. The implementation of cobblestone by the UPSNP (for example, in Addis Ababa) will build on the experiences of the ULGDP in other cities.

5. **Level of resources.** One of the main elements of the UPSNP is the provision of safety net transfers to households conditioned on the participation of the households in the construction of the PWs. Around 80 to 85 percent of all UPSNP beneficiaries are expected to be PW beneficiaries and therefore will receive conditional transfers. The remaining 15 to 20 percent will receive unconditional transfers. The envisaged works are small-scale, community-based activities using community implementation modalities and will not involve competitive bidding processes. In addition, the below market wage rate paid in UPSNP is likely to only attract those poor people who will not have alternative employment and income opportunities. Most of the workers on ULGDP projects will therefore not be targeted under UPSNP. The level of resources provided to any given city under UPSNP would therefore be closely linked to the poverty level in that city, as the objective of the UPSNP is to reach all people living below the poverty line over time. Given this objective of the UPSNP, it will be difficult to put a specific ceiling to the amount of UPSNP resources for a given city. However, due to the nature of PW under UPSNP, the level of resources allocated for Capital Investment Projects (for example, construction of new

infrastructures which require relatively high capital investment) which are similar to those implemented by ULGDP will be low. Most of the UPSNP PW budgets will be allocated for activities which require minimal capital investments (for example, community road maintenance and extension, environmental cleaning, urban greenery work and solid waste collection and other community services). The details of PW activities to be supported through UPSNP will be defined in the PIM and PWs Operation Manual. Efforts will be made to ensure that the proportion of the UPSNP budget required for capital investments will not crowd out ULGDP investments. The effects of UPSNP capital investments on ULGDP implementation will be closely monitored and will initially not exceed one-third of the ULGDP capital investment budget in any given city.

6. **Minimum conditions.** While the UPSNP operation will not condition its disbursements on the fulfillment of the ULGDP minimum conditions, all standard Bank fiduciary and safeguard requirements will apply to the project. In cities where the ULGDP conditions are not met, the UPSNP will provide complementary capacity building in the areas where the minimum conditions are not met and weaknesses in the city administration have been observed. Based on the current implementation experience of the ULGDP, almost all of the cities (except one) did not face any difficulty in meeting the minimum condition. In the event that a given city does not meet the ULGDP criteria, the UPSNP will also consider adjusting its work program in that city based on the agreed protocol with the ULGDP (for example, no further implementation of capital investment projects which are usually implemented under ULGDP).

Competitiveness and Job Creation Project

7. A second important Bank intervention in urban Ethiopia is the CJC project. This project contributes to job creation by attracting investments and improving competitiveness of enterprises in targeted industrial parks and their linked domestic enterprises. The focus of the project is Addis Ababa, which is where the majority of UPSNP beneficiaries will reside.

8. There are two broad areas of linkage between the UPSNP and CJC. First, the CJC helps ensure that there is an increasing demand for the type of low-skilled labor that beneficiaries can provide. This is an important feature of the environment in which this project is designed, and means that there are jobs available that UPSNP beneficiaries can be supported to get. Secondly, the CJC project will invest in the development of a training center in the industrial zones in Addis Ababa. The training center will provide training required by the employers, but not provided by the existing TVET system. The UPSNP can potentially support beneficiaries to acquire training provided by this center.

Women's Entrepreneurship Development Project

9. The Bank's WEDP is a US\$50 million IDA investment lending operation designed to address the key constraints for growth-oriented women entrepreneurs in Ethiopia. The Department of Foreign Affairs, Trade and Development Canada and the U.K. Department for International Development are key DPs funding part of the project's activities with an additional US\$13 million. The project became effective in October 2012.

10. The WEDP's objective is to increase earnings and employment for women-owned enterprises in Ethiopia. In addition to a line of credit which provides loans to women entrepreneurs through the Development Bank of Ethiopia and participating MFIs, the project also works with the UFS&JCA and the National TVET Agency to train women entrepreneurs in business skills and entrepreneurship. The WEDP's target clientele are urban women with growth-oriented enterprises, who have the desire and potential to grow their businesses, and can contribute to broader job creation. The WEDP enterprises are registered businesses owned by women, with annual profits averaging ETB 60,000 (US\$3,000). Beneficiaries are not as disadvantaged as prospective UPSNP beneficiaries as they usually already run a registered small business.

11. The implementation of the WEDP has involved the development of training materials and courses on entrepreneurship that cater to female entrepreneurs by offering more flexible schedules and more relevant curriculum. The WEDP is piloting several approaches to entrepreneurship training in tandem, including innovative approaches which draw lessons from modern cognitive psychology and equip participants with the ability to 'think like an entrepreneur'. Rigorous impact evaluations are under way to determine the comparative effectiveness of different approaches of supporting and training women entrepreneurs. As of August 2015, over 4,500 women entrepreneurs have participated in the WEDP training. Levels of satisfaction with the WEDP training are high, with 80 percent of the participants rating the training as excellent, 19 percent as good, and 1 percent as average.

Annex 9: Lessons Learned from National and Global Experiences

1. This Annex takes stock of lessons learned from both national experiences in safety net implementation as well as more recent global experiences in the delivery of urban safety nets. At the outset, it is important to clarify that an ‘urban area’ encompasses a broad array of contexts that require specific SP approaches. These may include mega cities, large cities, secondary cities, small towns, and slums that are often lumped together under the term ‘urban area’. While presenting commonalities, those contexts enshrine a range of specificities entailing different implications for program design and implementation. Countries are experimenting with different approaches to urban SP in those differing urban contexts as part of their pathway of structural transformation.

Urban Context

2. **The features that define and shape urban poverty can generate new sources of vulnerability and poverty profiles.** Indeed, the urban poor may often include categories such as temporary migrants, homeless, street children, at-risk youth, full-day and low-pay working mothers, poor single people, and the unemployed. These have not been the traditional target groups of SP programs and are likely to be among the core poverty profiles around which urban programs and systems would be designed in those contexts.

3. Mobility and dynamism are among the key distinctive features of urban livelihoods. The wider availability of short-term employment entails that poor urban laborers tend to seize opportunities scattered over multiple activities, locations, and within short time frames. Populations, therefore, tend to be highly mobile and dynamic. As a result, opportunity and transaction costs to participate in safety net programs tend to be significant, including with regard to time, forgone income, and transportation costs.

4. **Urban poor and food insecure households heavily depend on markets to access food.** Poor urban and rural households generally devote a similar share of income on food (for example, 60–75 percent of household budget). However, the urban poor access food almost entirely through market-based transactions, a feature also referred to as ‘commoditization’. This presents opportunities but also, in an era of high and volatile food prices, a number of challenges. Moreover, the nutrition transition toward higher calories, fats, and pre-prepared foods introduces new forms of health and nutrition risks.

5. Institutional coordination in cities is often complex and fragmented. As a result, municipalities tend to vary significantly in accounting practices and their capacity to deliver services. An outcome of such diversity is the uneven capacity to coordinate interventions as well as to assign and enforce clear responsibilities among government levels in highly-populated areas. A major challenge with the provision of urban social services includes their low quality, saturation, and households’ inability to afford them. High mobility of the urban poor implies that they access services—including schools and health facilities—in multiple locations, depending on where they live and work at a given moment. The competition for those services is high. As it was observed in a recent study, “...having access to a latrine is not the same in a rural setting where it is used by one family and can be sited to avoid contaminating water sources, and urban settings where 50 households share it.”

6. **Cities tend to generate different and more limited community arrangements, social networks, and support mechanisms.** Especially in new settlements and slums, barriers such as different languages, lack of family connections, and the dynamic in-and-out flow of temporary migrants, for example, can create substantial pockets of social exclusion and marginalization. Also, in some cases, the issue of neighborhood stigma can negatively affect access to opportunities and increases other types of discrimination.

7. **Insecurity and crime are generally more prevalent in urban contexts.** Gender-based domestic violence, child abuse, and intergenerational conflict are also significant, although often less visible and underreported. Relatedly, living in informal settlements is reported as a key source of insecurity and anxiety of the poor. Fear of violence, policing, and destruction of informal settlements is among the key risks that the urban poor face on a daily basis. In turn, this raises a number of questions on how to reach, identify, and assist the poor in those contexts.

Design Principles

8. **The identification of the poor may require adjustments to traditional approaches.** Again, since people are mobile and tend to spend more time outside the home, their identification requires adjustments in protocols for assessments. Also, the poor may tend to live in informal settlements that are often in a fluid state of expansion and contraction over time.

9. **Most traditional targeting methods can be used in urban contexts but may need to be adapted to fit urban specificities.** For example, in some countries, the mapping of high rates of violence or criminal activity was included as a layer of geographical targeting for the PW. In others, geographical targeting proved challenging as marginalized urban areas were either not included in formal maps (for example, slums) or, in the case of illegal construction on government lands (for example, alongside railroad tracks), not envisioned in the program guidelines. In some other national programs, the formula for the PMT was disaggregated to include urban- and rural-specific scores; in some cases, the PMT formula was not able to capture some groups (for example, homeless) for which variables (for example, shelter type) were not envisaged. Moreover, traditional CBT mechanisms have been revisited to include practices to mobilize households living in selected neighborhoods and select representatives.

10. **Investments for raising awareness on the program and ensuring effective enrolment are key for program uptake.** The urban poor are more scattered and mobile and, hence, more difficult to reach through communication and messaging. In most international programs, the first wave of urban safety nets often registered extremely low uptake rates. Key reasons include lack of information regarding program existence and unclear understanding of program entitlements and benefits. Also, experience shows that a large share of eligible beneficiaries may not eventually enroll due to the perceived cumbersome administrative process (in some cases, taking up to an entire day).

11. **Transfer size needs to be adequate to cities' cost of living.** What might be considered an adequate transfer level in rural areas might prove insufficient in urban contexts. For example, food-price-induced shocks have exposed the vulnerability of the urban poor, including because of heavy reliance on cash economy, no agricultural production to fall back on, high transaction costs, and high housing costs and rents. Therefore, it is important that the design of transfer size

considers, for example, the higher volatility and level of prices and wages that shape the predominant market-oriented nature of urban livelihoods.

12. **Urban programs often have a more deliberate focus on livelihoods and complementary interventions.** Urban safety net programs might place a stronger emphasis on complementary interventions such as multisectoral service delivery or skills generation and graduation-related objectives in the PW. These approaches may require a higher degree of integration and coordination among institutions and government levels. Country experiences underscore the importance of forging closer public-private partnerships, particularly for social assistance job transition; skills-job matching; and the selection, design, and delivery of tailored skills curriculums to the profiles of beneficiaries.

13. **The urban program may be governed and coordinated by different levels of governments than those that traditionally manage similar rural initiatives.** Therefore, as programs move from rural to urban areas they often need to enhance coordination with preexisting municipal initiatives. Institutions in urban contexts may have more advanced plans, standards, and regulations that need to be taken into account in program design and implementation.

14. **Ensuring the portability of benefits is an important feature of urban-adapted programs.** The benefits stemming from safety net programs, whether in the form of transfers, complementary trainings, or others, should be flexible and tailored to the livelihoods of the poor. One key feature of such flexibility includes the portability of transfers, or the ability of a program ‘to follow’ the person. In a number of countries, for conditional transfers this implied flexible arrangements to keep program participation while changing the place of residency, choose the location of services, and the access of transfers from multiple locations. These required, among other measures, the establishment of institutional arrangements that coordinate different service providers (for example, public, and private health services) and the setting of standards with regard to technology used across different areas and regions.

15. **In general, the provision of safety nets seems to not be a key factor shaping migration decisions, although not always.** There are multiple reasons that motivate individuals and households to migrate from rural to urban areas or between urban areas. Overwhelmingly, these include wage differentials and job opportunities that contribute to the positive externalities of spatial agglomeration. Yet they may also include—although to a lesser extent—possible access to better services, often because of the poor state of services in home rural areas. Cross-country reviews showed that the latter factor is a key driver among 10–15 percent of the migrants. Therefore, while not substantial, programs need to be designed in ways that accommodate the needs of the poor while not distorting migration patterns.

16. Monitoring in urban areas might be more challenging due to, for example, the difficulties in reaching out to the poor, identifying them, high mobility, and multiple services. This would also have implications for collecting baseline data and conducting regular follow-up surveys. Recent performance of MIS in urban areas is also proving to be challenging as experienced by a number of middle-income countries.

Operational Features

17. **Timely and predictable transfers are effective in supporting vulnerable households.** Lessons from the PSNP show that regular and predictable transfers have had significant impacts and smoothed the consumption of the PSNP households. The PSNP transfers result in reduced food gaps and improved quality of consumption, with impacts greater for larger transfer sizes. This shows that the PSNP has provided an effective safety net and enhanced resilience for client households.

18. **Lessons from the ULGDP show significant positive impact from the LIPWs.** In the ULGDP, the construction of cobblestone roads resulted in the creation of a large number of new jobs for city residents. A substantial proportion of these jobs have been taken up by women, youth, the disabled, and previously unemployed people, greatly improving their lives. The urban infrastructure assets generally use local materials, creating backward linkages to the local economy and reducing costs. Urban infrastructure and services also improve the quality of urban dwellers' lives by facilitating mobility and trade and reducing flooding and damage to residential and business structures. It also creates positive health and productivity externalities through increased access to services such as drainage, water supply, sanitation, and transport.

19. **To enable effective support to employment and livelihood services for safety net participants; program activities and support need to be manageable and focused on them.** A combination of safety nets and livelihood development activities can create sustainable pathways out of extreme poverty and food insecurity. In 10 pilots in eight countries around the world (including Ethiopia), the Consultative Group to Assist the Poor-Ford Foundation Graduation Program is one example where the provision of support for immediate needs (that is, safety net transfers), combined with longer-term investments in skills training, savings services, and asset transfers, enabled 75—98 percent of the households participating in the pilots to successfully graduate from the program in a period of 18 to 36 months. The UPSNP will look into lessons from these pilots for the urban setting in which it will operate.

20. **Electronic payments through financial service providers may offer efficiencies and enhancements to the manual transfer mechanism.** Two ongoing pilots in the PSNP are looking at how electronic payments can be used for safety net transfers in Ethiopia. International experience shows that electronic payments can (a) increase the security and transparency of payments (by improving how the identity of those collecting payments is verified); (b) improve timeliness through more streamlined procedures; and (c) promote financial inclusion by linking clients to the financial system, enabling beneficiaries to save a portion of their transfer and bringing them into frequent contact with financial service providers. The UPSNP will continue to build on the lessons from two ongoing pilots for electronic payments.

21. **Investments in components of national SP systems can lead to great efficiency gains and is an important step toward developing a more comprehensive system in Ethiopia.** The PSNP has undertaken significant analysis into how the program can support Ethiopia's draft Social Protection Policy and will contribute financing and technical support to develop a national registry, improved targeting, and a comprehensive MIS. The UPSNP will align closely with these efforts.

22. **Investments in SA and gender are crucial for promoting improved program governance and empowerment of program clients.** The PSNP and the PBS have increasingly invested in SA and gender activities. Evaluations and assessments show that these investments have had significant impacts in promoting improved transparency, governance, and empowerment.

23. **Targeted and institutionalized capacity development is important to overcome systemic constraints and facilitate effective management and coordination.** The UPSNP will incorporate lessons from the PSNP on the importance of investing in targeted and institutionalized capacity development of stakeholders at all levels. It will be important to go beyond program-specific training programs and develop broader capacity-development plans that are integrated into the overall institutional frameworks of the program implementers.

24. **A clearly defined evaluation and knowledge management agenda is important for improved management.** The UPSNP will ensure that a comprehensive knowledge management agenda, including impact evaluations, are developed during the design. This will be designed to ensure that feedback loops are clearly defined and developed and that knowledge products and M&E are used as important management information tools.

Annex 10: Citizens Engagement

1. As part of the UPSNP design, the joint government-Bank design teams undertook several initiatives that promoted broader stakeholder consultations and participation, including consultations with the federal and regional government officials, members of civil society organizations and the academia. In addition, the feasibility studies that were conducted on viable interventions, targeting approaches, and institutional capacity involved in-depth consultations in selected areas and covered stakeholders beyond government and nongovernmental officials, to also include citizens through focus group discussions. The ongoing safeguards assessments and an Economic Sector Work on mainstreaming CE are also a positive development in informing credible efforts for enhancing CE on the ground. Implementation of the CE within the UPSNP will be aimed at creating an environment that will facilitate effective delivery of program benefits through promotion of transparency and accountability, citizens' participation, and a system for registration and resolution of complaints and appeals (grievances).
2. This initiative is based on the premise that establishing a systematic mechanism for engaging citizens in the Ethiopian context can foster a better reflection of citizens' needs in project interventions, assure beneficiary participation and ownership of Bank-supported operations, contribute to building an effective system for CE, and lead to improved results on the ground. Implementation of CE under the proposed project is thus both consistent with the commitments for promotion of good governance by the GoE as well as an instrument for taking forward recommendations from the Bank-wide corporate 'Strategic Framework for Mainstreaming Citizens Engagement in World Bank Group Operations' of December 2014.
3. Consistent with the current government and the Bank vision for strengthening CE as a platform for localized service-delivery-based governance, implementation of this initiative under the UPSNP will be closely coordinated with the ongoing implementation of PBS3. Dialogue on the successor program to ESAP2 is well under way and the broad Bank team will promote harmonization and coordinated lesson learning across the board. In as much as possible, there will be joint planning and implementation across the projects to avoid duplication and fragmentation of approaches, tools and mechanisms for monitoring progress. The CE initiative will include three interrelated interventions, namely (a) SA, (b) FTA, and (c) GRM. The paragraphs which follow explain the main activities that will be implemented under each of the interventions and the implementation mechanisms that are envisaged.
4. Implementation of CE will ensure taking forward of lessons learned from existing interventions, in particular, the FTA, GRM and ESAP under the PBS. The project will facilitate functionality of project monitoring committees to respond to the CE requirements under the UPSNP. This will include strengthening of existing committees or creation of new ones where such committees do not exist. Where community level committees shall be existing with a broader mandate, but deemed appropriate for serving the desire mandates, the project will support efforts to mainstream CE roles within those committees.

SA

5. Lessons from ESAP2, a component under the PBS3 have demonstrated that SA can provide citizens with the opportunity to undertake basic services needs assessment; perform prioritizations exercises; and with facilitation from civil society organizations, develop action plans for making desirable improvements in basic service delivery. In so doing, the targeted beneficiaries communicate their views to service providers on the quality of service provisions and on any areas of improvements needed. The beneficiaries and citizenry at large are also able to express opinions on priority setting and thus influence service delivery prioritization processes as well as hold service providers accountable. Reports generated by this process are communicated to regional and federal level decision makers and provide them with an overview of the issues which have emerged during the course of implementation.

6. The relevance of SA to the UPSNP has also been tested as part of the rural PSNP collaboration with ESAP2 for learning purposes. The pilot has revealed that the application of SA tools on the PSNP is positive in leading to grassroots solutions to improve service delivery under the project. A wide variety of PSNP issues were addressed, including awareness and access to information, transfers, graduation, PW, and gender sensitivity. The pilot brought in significant learning on how programs can cooperate with and benefit from ESAP2 to promote an integrated and harmonized approach. The pilot further confirmed that the choice of SA tools matters. The citizenry and service providers generally preferred use of the citizens' reports cards and community score cards over the rest of the tools that were tried under ESAP2.

7. Consistent with the above lessons, the following SA initiatives will be implemented under the UPSNP:

- (a) **Implementation of SA tools.** At least one SA tool, either the citizens' reports cards or community score cards will be implemented in participating cities at the start of the program, at midterm, and at the end of the program. The application of the SA tool will help create awareness among the citizenry on their rights, roles, and responsibilities regarding the project activities. It will also ensure that the beneficiary and the broader citizenry perceptions about the project will be monitored and managed.
- (b) **Empowering of the citizenry to monitor project implementation.** The creation of awareness about the project will ensure appropriate citizens' participation from an informed point of view. This will facilitate creation of project monitoring committees as an upgraded mandate for existing committees or a new mandate for established project committees. This will help ensure that grievances are minimized and that filing of the same is done from an informed point of view rather than a wasteful undertaking by the beneficiaries and citizenry.
- (c) **Linkages with ESAP2 to adopt best practices.** Implementation of the SA aspects of the UPSNP will ensure learning from ESAP2, but the learning will be possible based on whether the ESAP will continue beyond the current phase. The learning will build on current lessons to ascertain the best and cost-effective implementation

arrangements, the most feasible and value-adding qualitative assessments, and the most relevant and credible data that could help yield information on attributable results on aspects of SA.

Grievances Redress Mechanism

8. Management of appeals and complaints by project beneficiaries and non-beneficiaries is an important tool for improving effectiveness of targeting. Implementation of the GRM through effective management of appeals and complaints by project beneficiaries and non-beneficiaries has proven to be an important tool for reducing exclusion and inclusion errors and improving the often direly needed effectiveness of targeting project clients. In Ethiopia, this approach has worked very well under the PBS and PSNP and there are several similar good practices in other countries in the region, for example, Tanzania, Rwanda, and Uganda. Under the UPSNP, registration, management, and resolution of appeals and complaints will form an important part of promoting transparency and accountability.

9. *Ketena, Kebele, and Woreda/city-level* Complaints and Appeals Committees will be established to receive and manage grievances from the citizenry. The committees will then handle reviews and resolutions while referring unresolved grievances to the next level of authority. It thus follows that referrals of unresolved grievances will move from *ketena* to *kebele* to *woreda*. The grievances from the citizenry may include all forms of unfair treatment, ranging from entry or failure to enter into the program, timeliness, or other issues related to payments; fairness of targeting processes; and any forms of misuse of project funds, to name a few. The committees will perform the roles of logging, tracking, and resolving grievances promptly.

10. **Awareness creation on the GRM process.** The project will support specific awareness on the GRM. Specific modules with precise information about the functioning and freedom to use the systems by the citizenry will be developed as part of the Operations Manual. Awareness on the appeals processes will also be created.

11. **Measuring the performance of the GRM is critical.** Specific indicators to track this process will be included in the results framework. The indicators will allow implementers to identify whether there is awareness among the people to register their grievances, the proper handling of the grievances, and the timeliness of doing so.

FTA

12. The purpose of the FTA will be to assure access to project financial information by the citizenry from participating areas, in general, and the beneficiaries, in particular. The FTA will, in particular, help deepen provision of information on project budgets, expenditures, and service delivery information. The implementation of the FTA will be linked to the SA and GRM aspects and an integrated planning for the CE work will be ensured. Its implementation will thus be done at the *woreda, kebele, and ketena* levels.

13. The FTA will also support generation of quality information that will be easy for public and local citizens to consume. Given that the FTA under the PBS is currently being implemented in all the *woredas* in Ethiopia, linkages with current implementers, namely the BoFEDs will be ensured so there is no duplication of efforts at the implementation level.

14. An important aspect of the FTA will be implementation of the Budget Literacy Training among all the implementers and the beneficiary representatives. Customized Budget Literacy Training programs for the UPSNP will be planned and relevant manuals and guidelines produced. Innovative tools like billboards, calendars, and T-shirts that have been found to be effective under the PBS-CE will be used to disseminate information about the program budgets, expenditures, and service delivery at all levels of project implementation.

Annex 11: Governance and Corruption Risks and Mitigating Measures

Corruption Risk	Mitigating Action	Means of Verification	Responsible Body
General Management			
<p>Management, Implementation, and Coordination Capacity</p> <ul style="list-style-type: none"> • Risk of leakages of resources due to problems of management and coordination • Lack of ownership or resistance among some stakeholders • Capacity gaps and lack of participation, transparency, and accountability • The fact that UPSNP implementation is a new area for the selected cities and as a result they lack knowledge on its implementation 	<ul style="list-style-type: none"> - The UPSNP will invest in the capacity of both federal and local government personnel and will provide systematic and regular training and capacity-building activities to all stakeholders. - Dedicated capacity development support will also be provided by the MoLSA, including both human and physical capacity. - Capacity-development support will be guided by a dedicated program capacity development strategy. - Ensure effective coordination any synergy among other flagship national programs (that is, planning, targeting, and M&E). - Build strategic linkages with the rural safety net to ensure the two programs use complementary tools and a consistent approach under the same system. - Ensure coordination between safety net and livelihood activities. 	Progress reports	MUDHo, MoLSA, MoFEC
<p>Staffing</p> <ul style="list-style-type: none"> • Adequacy of personnel in implementing offices at all levels resulting in inefficient management and implementation of the UPSNP • Staffing to ensure effective fiduciary oversight of complex project transactions 	<ul style="list-style-type: none"> - Recruit and assign personnel in critical areas. - Provide annual refresher trainings for the MoFEC/COPCU, which will ensure that qualified FM staff are in place for the UPSNP. 	Progress reports/ performance reviews	MUDHo, MoLSA, MoFEC
<p>Accountability of Management and Executing Staff</p> <ul style="list-style-type: none"> • Inefficiency in implementation of Program activities due to gaps in accountability and poor performance (including absenteeism, and so on.). 	<ul style="list-style-type: none"> • Implement administrative and performance evaluations, as well as other checks and balances. 	Progress reports/ performance reviews	MUDHo, MoLSA, MoFEC

Corruption Risk	Mitigating Action	Means of Verification	Responsible Body
Community Participation in Subproject Selection <ul style="list-style-type: none"> Capture of subprojects by elite groups due to non-transparent selection of subprojects and lack of inclusiveness 	<ul style="list-style-type: none"> Ensure inclusiveness and community participation in the identification and planning of PW subprojects through close adherence design principles and guidelines. 	Progress reports/performance reviews	MUDHo
Transparency and Accountability <ul style="list-style-type: none"> Maladministration and inefficiency in the delivery of the UPSNP Limited accountability and responsiveness 	<ul style="list-style-type: none"> Ensure disclosure of information (financial and physical) at different levels. Ensure functioning of the Appeals Committee. Implement performance reviews and evaluations. Implement SA tools. 		MUDHo, MoFEC, MoLSA
Limited Dissemination of Information <ul style="list-style-type: none"> Information kept limited to certain circulation or group of people only such that decisions will not be inclusive and fair 	<ul style="list-style-type: none"> Make communities aware of the program goals and rules and regulations and enable them to hold others accountable for their actions through a communications strategy and other awareness creation activities. 	Progress reports	MUDHo
Physical Asset Management <ul style="list-style-type: none"> Failure to regularly monitor the existence and quality of assets presents a risk of fraudulent delivery, misuse, and theft. 	<ul style="list-style-type: none"> The government's Manual of Fixed Asset Management will be used in the program due to the emphasis given on physical asset management. Physical inventory of fixed assets will be taken annually. 	Annual physical inventories Financial audit reports	All implementers
Targeting			
Fraudulent Eligibility/ Favoritism <ul style="list-style-type: none"> Fraudulent eligibility in the UPSNP (that is, benefits may be captured by ineligible households) so that transfers could be made to beneficiaries who are not entitled for program resources Allocation of resources in a way that benefits specific interest groups or communities and influence of specific interest groups or communities over allocation of resources 	<ul style="list-style-type: none"> Complement community targeting mechanism with PMT to mitigate the risk of inclusion of ineligible clients and strengthen allocation of resources to intended clients. Use of client cards (including charter of rights and responsibilities) with picture of both the household heads, thereby enabling better tracking of payments over time and ensuring payment made to entitled clients. Implement a communications campaign to raise awareness among beneficiaries and non- 	Progress reports/MIS Progress reports/MIS	MoLSA/MUD Ho MoLSA/MUD Ho

Corruption Risk	Mitigating Action	Means of Verification	Responsible Body
	beneficiaries, with a special emphasis on women and beneficiaries receiving unconditional transfers. <ul style="list-style-type: none"> • Agree on pre agreed criteria of selection and thoroughly follow its implementation 		
Financial Management			
Misuse of Resources <ul style="list-style-type: none"> • Budget resources (including cash transfers) are reallocated or diverted for improper use, misused by the community and/or <i>woreda</i> or higher levels (isolated cases of resource abuse for private use or unintended use of project resources and undetected misuse of funds) • Lack of control over soft expenditures such as stationery, fuel, and training materials 	<ul style="list-style-type: none"> • Program budget will be proclaimed with detailed breakdown per region and subcomponent. • Program transactions will be recorded using IBEX, which will monitor budgets against expenditures. • Strengthen internal control, checks, and balance mechanisms; complaint handling; and GRM. • Detect misuse of funds through timely and accurate reporting, IBEX arrangement, and auditing. 	Annual budget proclamations approved by council of ministers Semiannual implementation support and supervision missions	MoFEC Regional Governments
Financial Reporting <ul style="list-style-type: none"> • Financial reports that are not prepared on time, in agreement with underlying records and supporting evidence, may be fraudulent. This risk will be more likely at lower levels. • Lack of timely and accurate reporting allows misuse of funds to remain undetected. 	<ul style="list-style-type: none"> • The usage of IBEX across program <i>woredas</i> ensures quality and timely reporting. The use of a unified accounting system helps detect irregularities and monitor the quality of reporting from lower levels. • The Financial Management Manual for the program will define the timetable of reporting for each implementing entity and include internal control procedures with regard to soft expenditures (from initiation of transactions to approval of expenditures) and safeguarding of assets, including annual physical inspection. • Conduct an external audit to verify consistency with underlying transactions and records. Auditors will verify whether expenditures reported in the IFR are eligible or not. 	Quarterly financial reports Implementation support and supervision reports Annual audit reports	MoFEC/ BoFED/ Woreda Office of Finance and Economic Cooperation

Corruption Risk	Mitigating Action	Means of Verification	Responsible Body
Audit <ul style="list-style-type: none"> Lack of effective Internal Audit department at all levels. External auditors fail to identify material risks or report control failures. Scope of the financial audit is insufficient to address identified high-risk areas. Failure to address audit findings promptly represents a significant deficiency in accountability and control. 	<ul style="list-style-type: none"> Internal auditors will be recruited and placed at federal and regional COPCUs. External auditors assigned for the program, if apart from the OFAG, must be acceptable to the Bank. Quality of audit report to be assessed each year. Extend scope of external audit to cover identified risks for funds transferred to communities and line ministries. Audit will be done annually, covering all regions and a sample of <i>woredas</i> and line ministries. Substantive testing, verification of existence, and end use will also be included in the audit ToR. 	<ul style="list-style-type: none"> Reports from unit Bank external auditors assessment Annual and six-monthly audit report Reports of internal audit units 	<ul style="list-style-type: none"> MoFEC/ BoFED World Bank/ OFAG MoFEC/ External auditor for the program
Limited Dissemination of Financial Information <ul style="list-style-type: none"> Lack of accessibility to financial information undermines accountability to beneficiaries for delivery of resources and services. 	<ul style="list-style-type: none"> Based on the Bank's Access to Information Policy, the audit report will be disclosed to the public. Disclosure of budget. 	<ul style="list-style-type: none"> Annual audit report Supervision reports 	<ul style="list-style-type: none"> MoFEC BoFED Woreda Office of Finance and Economic Cooperation
Procurement			
Capacity of the Tender Evaluation Committees <ul style="list-style-type: none"> Nonindependent judgment of the goods/consultant evaluation process Decisions biased toward bidders/consultants as 'instructed' by higher-level officials or other parties 	<ul style="list-style-type: none"> Include independent professionals as part of the bid/proposal evaluation team for any major procurement. Ensure capacity building for all actors involved in procurement. The PIM will outline the procedures, sanctions, and complaint handling mechanisms. 	<ul style="list-style-type: none"> Independent procurement audit reports/ Post-procurement reviews/ Implementation support and supervision mission aide memoires 	<ul style="list-style-type: none"> MUDHo, MoLSA, MoFEC
Bid/Proposal Evaluation <ul style="list-style-type: none"> Delay in evaluation process to the benefit of exclusive suppliers or consultants Proposals rejected due to reasons unrelated to capacity of consultants in 	<ul style="list-style-type: none"> The Procurement Plan, with detailed time line, will be binding in the Legal Agreement and will guide procurement actions. The Bank should impose appropriate sanctions for any unjustified extension of validity of 	<ul style="list-style-type: none"> Independent procurement audit reports/ Post-procurement reviews/ Implementation support 	<ul style="list-style-type: none"> MUDHo, MoLSA, MoFEC

Corruption Risk	Mitigating Action	Means of Verification	Responsible Body
<p>carrying out contracts/services</p> <ul style="list-style-type: none"> Significantly high technical scores allocated to the ‘preferred’ consultants such that no other consultants can effectively beat their proposals regardless of the prices, which could result in significantly high prices False data provided by consultants 	<p>bids/proposals.</p> <ul style="list-style-type: none"> Estimated budget for each contract package will be based on actual experience determined during previous phases. Any evidence of collusion or fraud will result in rejection of bids/proposals and disqualification of the bidders. At community-level, bid/proposal evaluation should be conducted publicly. 	<p>and supervision mission aide memoires</p>	
<p>Award of Contract (including subprojects)</p> <ul style="list-style-type: none"> Negotiation with prospective winner on contract amount outside of regular procedures Project management does not execute award as described by the Tender Evaluation Committee Collusion and nepotism in awarding the contract 	<ul style="list-style-type: none"> The ToR shall be prepared such that negotiation shall not be allowed unless specified in the ToR. Prices will be carefully reviewed based on experience during previous phases. Bank post-procurement reviews and independent procurement audits will be conducted on an annual basis. Mandatory disclosure of contract awards. 	<p>Independent procurement audit reports</p> <p>Post-procurement reviews/implementation support and supervision mission aide memoires</p>	<p>MUDHo, MoLSA, MoFEC</p>
<p>Procurement Planning (including woredas)</p> <ul style="list-style-type: none"> Risk of kickback and budget markup 	<ul style="list-style-type: none"> Mandatory review by the Bank of annual project procurement planning and disclosure of procurement plan in public domain (disclosure of contract amount on UPSNP website) Woreda procurement staff to prepare woreda procurement plans Regular assessment and analysis of unit prices by the Regional Procurement Coordinators 	<p>Independent procurement audit reports/ post-procurement reviews/implementation support and supervision mission aide memoires</p>	<p>MUDHo, MoLSA, MoFEC</p>
<p>Overall Procurement</p> <ul style="list-style-type: none"> Risk of kickback, collusive practices to ‘award’ the contract to ‘preferred’ bidders/consultants, and lower quality of services 	<ul style="list-style-type: none"> Enhanced control system (internal and external), including internal audit and physical inspection during procurement audits Regular checks on a random sampling of project invoices Carry out annual procurement audit by independent procurement auditors appointed by government Inclusion of clear procurement arrangements in the 	<p>Independent procurement audit reports/ post-procurement reviews/ implementation support and supervision mission aide memoires</p>	<p>MUDHo, MoLSA, MoFEC</p>

Corruption Risk	Mitigating Action	Means of Verification	Responsible Body
	PIM		
Quality and Cost of Delivered Services <ul style="list-style-type: none"> The delivered goods/works/services are of lower quality than those specified in the ToR, with ‘savings’ possibly used as kickbacks to local officials Significant changes of key staff of consultants at the early stage of the assignment Intentionally low quality of supervision of contracts and kickback from the consultants 	<ul style="list-style-type: none"> Involve stakeholders/user departments and qualified technical personnel in the goods/works/services in monitoring quality of the goods/works/consultant deliverables at all levels. Establish stronger presence and accountability role of procurement staff. Use MIS to track budgeted vs. actual expenditures for each subproject. Establish complaint handling mechanism. Sanctions will be specified in the PIM. All project financial information is made public at the <i>woreda</i> office. For purchases above US\$5,000 each, the program requires Local Competitive Bidding (LCB), whereby quotations must be read out in public. For smaller purchases, local shopping must be carried out by two persons or more seeking quotations from local suppliers. 	<p>Independent procurement audit reports</p> <p>Post-procurement reviews/implementation support and supervision mission aide memoires</p>	MUDHo, MoLSA, MoFEC
Construction			
Fraud Related to Materials Construction (Community Level) <ul style="list-style-type: none"> Fraud and corruption linked to low quality and cost of materials and delivered services, workmanship by contractors, and construction of PW Cover-up and silence payments linked to poor construction Collusion and bribery of inspection staff Fraudulent invoicing Materials diverted to officials or non-beneficiary use 	<ul style="list-style-type: none"> Strengthening community-level, project management, procurement, and accountability and monitoring committees Clear accountability for <i>woreda</i> procurement staff Enhanced oversight from regional audit personnel Enhanced monitoring from regional procurement coordinators External audit frequency increased Strengthen compliant handling mechanism 	<p>Independent procurement audit reports</p> <p>Post-procurement reviews/implementation support and supervision mission aide memoires</p>	MUDHo, MoLSA, MoFEC
Quality/standard of Services and PW Construction <ul style="list-style-type: none"> Risks related to sustainability and 	<ul style="list-style-type: none"> Establish quality control mechanism. 	Project reviews	MUDHo

Corruption Risk	Mitigating Action	Means of Verification	Responsible Body
environmental impact due to lack of minimum technical standards of PW			

Annex 12: UPSNP Projected Resource Requirements 2016-2021

Program clients	Year 1	year 2	year 3	year 4	year 5	
Public Works Clients	159,600	319,200	488,880	329,280	169,680	
Direct Support Clients	30,400	60,800	93,120	93,120	93,120	
Program Clients	190,000	380,000	582,000	422,400	262,800	
Budget Heading	Year 1	year 2	year 3	year 4	year 5	Total
Component 1: Safety Nets						
Public Works Transfers	27,894,105.71	46,490,176.18	57,549,944.41	29,068,594.37	9,885,279.57	170,888,100.24
Direct Support Transfers	3,009,600.00	6,019,200.00	9,218,880.00	9,218,880.00	9,218,880.00	36,685,440.00
Capital Budget for PW	13,837,500.00	23,511,700.00	29,896,500.00	17,143,700.00	8,554,100.00	92,943,500.00
Sub-contracts for clients with special needs	1,817,760.00	3,635,520.00	9,997,680.00	9,997,680.00	9,997,680.00	35,446,320.00
Total Component 1						335,963,360.24
Component 2: Livelihoods						
Livelihood skills training, mentoring and coaching	3,990,000.00	3,990,000.00	8,232,000.00	3,990,000.00	4,242,000.00	24,444,000.00
Livelihoods Transfer		17,955,000.00	17,955,000.00	19,089,000.00		54,999,000.00
Total Component 2						79,443,000.00
Component 3: Program management and institutional strengthening						
Project preparation facility	3,367,000.00					3,367,000.00
Targeting & MIS development	1,529,000.00	213,750.00	227,250.00			1,970,000.00
Evaluation and audit	650,000.00	650,000.00	650,000.00	250,000.00	650,000.00	2,850,000.00
Citizens engagement and social accountability	570,000.00	1,140,000.00	1,746,000.00	1,267,200.00	788,400.00	5,511,600.00
Capacity Building, safeguard monitoring and implementation	1,619,600.00	944,600.00	944,600.00	944,600.00	944,600.00	5,398,000.00
City Admin Budget	1,384,000.00	2,351,000.00	2,990,000.00	1,714,000.00	855,000.00	9,294,000.00
Regional and Federal Management Budgets	922,500.00	1,567,400.00	1,993,100.00	1,142,900.00	570,300.00	6,196,200.00
Total Component 3						34,586,800.00
Grand total	60,591,065.71	108,468,346.18	141,400,954.41	93,826,554.37	45,706,239.57	449,993,160.24
Core program budget	46,124,900.00	78,372,200.00	99,655,000.00	57,145,500.00	28,513,700.00	309,811,300.00
GoE operational expenditures (in kind)	5,000,000.00	9,000,000.00	12,000,000.00	8,000,000.00	4,000,000.00	38,000,000.00
Total Program Costs (rounded)	66,000,000.00	117,000,000.00	153,000,000.00	102,000,000.00	50,000,000.00	488,000,000.00
IDA Contribution to UPSNP (rounded)	40,600,000	78,500,000	111,400,000	58,800,000	10,700,000	300,000,000
Government Contribution to UPSNP						
Government Contribution in cash to pooled UPSNP program account in USD (rounded)	20,000,000	30,000,000	30,000,000	35,000,000	35,000,000	150,000,000
GoE revenue projections in USD	6,349,452,092	6,869,472,219	7,432,081,993	8,040,769,509	8,699,308,531	37,391,084,344
GoE cash contribution as % of projected revenue	0.31%	0.44%	0.40%	0.44%	0.40%	0.40%
Roll-out scenario						
Clients enroll groups	year 1	year 2	year 3	year 4	year 5	
Group 1 (190,000 clients)	190,000	190,000	190,000	30400	30400	
Group 2 (190,000 clients)		190,000	190,000	190,000	30400	
Group 3 (202,000 clients)			202,000	202,000	202,000	
Total number of clients PW +DS	190,000	380,000	582,000	422,400	262,800	
Clients with special needs	4,000	8,000	22,000	22,000	22,000	
Total number of clients	194,000	388,000	604,000	444,400	284,800	
General assumptions:						
Household size capped at 4 members						
Daily wage rate applied = USD 2.91	60birr @ exchange rate 20.5979=	\$2.91		Exchange rate from 11 July 2015		
Treatment formula for PW: 60 days per person in year 1, 40 days per person in year 2, 20 days per person in year 3						
Treatment formula for DS : 5 years * 170 birr * 12 months (i.e. USD 8.25 per month per person in the household)						
Treatment formula for groups with special needs: 5 years*600*12*1.3 (i.e. 37.87 USD per person per month)						
Management and operational expenditures for groups with special needs 30% of transfer value						
Base program costs = transfer budget + PW capital costs+ 3% admin costs						
Capital budget for PW : 20 % of base program costs						
Regional and federal level management costs = 2 % of base program costs						
Admin costs city administrations = 3% of base program costs						
Livelihood grants: 500 USD per PW household, a budget allocation is made for 90% of PW households						
Livelihood training, mentoring and coaching budget: 200 USD per PW household (50% before and 50% after transfer livelihood grant)						
Citizens engagement USD 3 per beneficiary						
Capacity building and safeguard monitoring: 1% of base program costs plus 2.3 mln for safeguards monitoring and implementation as per safeguard study						
Project preparation facility lumpsum USD 3,500,000 (for details see PPF proposal)						
MIS development and implementation estimate USD 1,970,000						
Evaluation on baseline information @ USD 400,000 per evaluation (final amount to be determined on the basis of a competitive tender)						
Annual audit @ USD 250,000 (final amount to be determined on the basis of a competitive tender)						
Government operational expenditures are estimated to be approximately 8 % of the total program costs, these expenditures are expected to be covered through the regular government budgets and are considered as "in kind" contributions (consisting of salary of regular staff, office facilities, office equipment and existing transport facilities)						