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THE WORLD BANK GROUP

Tanzania
Urban Local Government Strengthening Program

Technical Analysis

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Technical Assessment

I. Program Description

1. ***The proposed Urban Local Government Strengthening Program (ULGSP) introduces an urban window into the Government of Tanzania's Local Government Development Grant (LGDG) program.*** LGDG was introduced in 2004[1], as part of the Government's fiscal decentralization efforts, to provide Tanzania's 133 local governments authorities (LGAs) a formula-based, transparent and predictable fiscal flow mechanism to disburse funds on the basis of the institutional performance achieved by each LGA.

2. ***LGDG is one of the tools to implement the larger Government decentralization reform, known as Decentralization by Devolution (D by D).*** Promulgated in 1998, D by D is the Government's overarching decentralization policy and it aims to reduce poverty through improved service delivery at the local level. D by D is a core part of the Government's National Strategy for Growth and Reduction of Poverty (Mkakati wa Kukuza Uchumi na Kupunguza Umaskini, MKUKUTA[2]), and it makes decentralized service delivery a core pillar of GoT policy.

3. ***One of the core pillars of MKUKUTA is the larger decentralization reform, known as Decentralization by Devolution (D by D)***. Promulgated in 1998, D by D is the Government's overarching decentralization policy and it aims to reduce the persistent poverty through improved service delivery at the local level. D by D makes decentralized service delivery a core pillar of GoT policy.

4. ***At the heart of D by D is the performance-based fiscal flow program, the Local Government Development Grant (LGDG)***. GoT introduced the Local Government Development Grant (LGDG) – i.e. the Government program - as a grant flow to local governments. Prior to the introduction of the LGDG, direct development grants to LGAs were minimal and not performance based. LGAs received certain additional development resources from sectoral development programs and from area-based development programs. These resources were contained within the respective line ministry's budget or within PMO-RALG's ministerial budget (Vote 56), and the use of these resources was often earmarked or controlled in a top-down manner. In 2004, a new Government program, called the Local Government Capital Development Grant (LGCDG) program financed by the Bank and bilateral donors, was introduced. This program was formula based and limited to capital investment. Importantly, it introduced minimum qualification standards, aimed at building fiscal decentralization and ensuring proper accountability in the use of public funds. Subsequently, the LGCDG program was renamed, and LGDG became the mainstream performance based fiscal transfer. By introducing LGDG, the Government created a formula-based, transparent and predictable fiscal flow mechanism to disburse funds to all 133 LGAs in the country, on the basis of the institutional performance achieved by each LGA. Initially, LGDG was set up with two windows: (a) the Council Development Grant (CDG), which provided general purpose funding for development purposes selected at the discretion of recipient LGAs using their local planning and budgeting systems; and (b) Capacity Building Grants (CBG) which provided funding to support capacity building at the local level. These two windows are collectively known as the "LGDG core". Overtime, new sector windows have been added as the government has rationalized and decentralized funding for

[1] Then known as the Local Government Capital Development Grant (LGCDG)
[2] Which is now in its' second phase (MUKUKUTA II)

development needs in particular sectors where LGAs have core responsibilities. Today the LGDG system consists of the following sub-programs or windows:

i. ***LGDG Core,*** established in 2004, as described above;
ii. ***Agriculture Sector Development Grant (ASDG)*** established in 2009 for agricultural extension and development;
iii. ***Water Sector Development Grant (WSDG)*** established in 2007 for water and sanitation infrastructure and services;
iv. ***Health Sector Development Grant (HSDG)*** established in 2009 for primary healthcare services.

Government program - Local Government Development Grant (LGDG) System
Timeframe: Introduced in 2004, permanent element of Government fiscal architecture ***Aim***: To improve the institutional performance of LGAs while providing discretionary and sector-specific funding. ***Scope***: All 133 LGAs in mainland Tanzania ***Allocation***: Based on formula, varies in windows (see below) ***Disbursement***: Based on LGA performance, assessed each year ***Assessment:*** Looks at (i) minimum conditions and (ii) performance criteria
Currently comprises following windows
1. LGDG Core
1.1 Council Development Grant (CDG) – Disbursed US$64.8 million FY2010/11
Purpose: Discretionary funds to enable construction and rehabilitation of small infrastructure based on locally-defined priorities guided by a broad investment menu, to empower communities, improve service delivery and reduce poverty. In general, LGAs use these funds to construct primary and secondary classrooms, small health centers, office rooms in villages and blocks, and do small works. ***Allocation Formula:*** 70% in proportion to population, 10% in proportion to the (capped) land area, and 20% in proportion to the estimated number of poor residents. ***Disbursement:*** LGAs not meeting minimum conditions in the annual assessment receive 25% of their CDG entitlements but under strict supervision of PMO-RALG. All LGAs are classified on an aggregate performance score with minimum passing scores in each functional area. Each LGA receives a minimum amount of CDG ranging from 25% to 100% of their entitlements depending on the annual assessment performance. An older Education Sector Grant was folded into the CDG in 2008/09.
1.2. Capacity Building Grant (CBG) – Disbursed US$ 3.5 million FY2010/11
Purpose: To assist LGAs improve capacity and performance. LGAs expected to procure their own training interventions and other capacity building activities such as technical assistance study of other LGAs best practices or retooling. In general, LGAs use CBG to mainly fund short courses in prioritized areas for staff, procure office equipment and orientation for new elected Councilors. ***Conditions:*** To access CBG, all LGAs have to: (i) prepare and approve their own capacity building plans; and (ii) account for CBG funds issued to them in the previous years. Minimum of 40% of the CBG has to be utilized at Ward, Village and Mtaa levels to capture locally determined priorities. LGAs that do not meet the LGDG Minimum Conditions receive 100% CBG but with close supervision by PMO-RALG.
2. Agriculture Sector Development Grant (ASDG) – Disbursed US $27.3 million FY2010/11
2.1. District Agricultural Development Grant (DADG)
Purpose: To fund local agricultural development expenditures. Supports implementation of community priorities identified in the District Agricultural Development Plans on a cost-sharing basis

Government program - Local Government Development Grant (LGDG) System
with beneficiaries contributing labor and materials. All activities and investments are identified through local participatory planning and budgeting processes and in line with the LGDG system. Eligible investments include: environmental investments; rural roads; small-scale irrigation schemes; group or community investments of a small scale productive nature; group or community investments in risk bearing (locally) innovative equipment, agricultural inputs (seeds, fertilizers and agro-chemicals) that would ordinarily not be eligible for cost-sharing, unless they are part of participatory technology development activities. ***Allocation Formula:*** 80% Number of villages, 10% rural population, 10% rainfall index. ***Disbursement:*** Depending on LGDG performance assessment. Very good performers receive 100%, good performers receive 80%, poor performers receive 50% of allocation.
2.2. Agricultural Extension Block Grant (A-EBG)
Purpose: For public extension services and non-state actors. ***Allocation Formula:*** Same as DADG above ***Disbursement:*** Same as DADG above
2.3. Agricultural Capacity Building Grant (A-CBG)
Purpose: Capacity building for agricultural development. In general, funds are used to improve functional areas to meet the minimum conditions and to improve performance criteria in subsequent years to access higher resource transfers. Focus on improving district agricultural planning, agricultural investment appraisal and review, agricultural services reform, and enhancing stakeholder engagement. LGAs expected to develop a capacity building plan to systematically identify the capacity building priorities. ***Disbursement:*** LGAs which do not meet the minimum conditions receive 100% of their allocation, but under close supervision by PMO-RALG, in collaboration with the Ministry of Agriculture and Food Security and Cooperatives.
3. Water Sector Development Grant (WSDG)
3.1.Water Sector Development Grant (WSDG-CDG)
Purpose: Drilling boreholes, construction of small dams, installation of pumps, construction of piped systems, and demonstration latrines. ***Allocation formula***: 70% underserved population, and 30% technological options. ***Disbursement:*** Depending on LGDG performance assessment. Very good performers receive 100%, good performers receive 80%, poor performers receive 50% of allocation.
3.2. Water Capacity Building Grant (WSDG-CBG)
Purpose: To create and strengthen District Water Sanitation Teams (DWSTs) within LGAs, enabling them to prepare the necessary National Water Supply and Sanitation Program (NWSS) plans and appraise NWSS projects proposed by communities, rehabilitate and construct small offices, logistical support (vehicles, motorcycles, computers, photocopiers and fax machines), ICT operations, monitor NWSS services delivery, build community capacity to properly maintain and operate their facilities and promote hygiene, sanitation, and HIV and AIDS mitigation and prevention. ***Allocation and disbursement:*** Allocated on an equal lump-sum basis. All LGAs are allocated 100% of NWSSP-CBG. However, those councils not meeting the minimum conditions are subject to strict supervision.
4. Health Sector Development Grant (HSDG) – Disbursed US$10.8 million FY2010/11
Purpose: Earmarked to implement the Primary Health Services Development Program. ***Allocation formula:*** 70% population, 10% number of poor residents, 10% council medical vehicle route, 10% under-five mortality. ***Disbursement:*** Depending on LGDG performance assessment. Very good performers receive 100%, good performers receive 80%, poor performers receive 50% of allocation.

5. ***The main thrust of the LGDG system is to incentivize the improved institutional performance of LGAs while providing discretionary and sector-specific funding for development purposes***. The LGDG system's chief goal is to improve the overall, long-term functioning of the local government system in Tanzania, rather than merely to provide short-term funding for capital investment. More specifically, it's objectives are to:

- Enhance the delivery and management capabilities, productive efficiencies and financial sustainability of local governments;
- Improve access of communities especially the poor, to local services through expanding the physical stock of new and rehabilitated infrastructure;
- Improve the sustainability of local development infrastructure through ensuring proper planning and adequate operations and maintenance (O&M);
- Provide a national system for the delivery of development grants to LGAs.

6. ***LGDG system is jointly funded by GoT from its own sources, seven bilateral partners[3] and the World Bank[4].*** All funds to LGAs flow through the Ministry of Finance and Economic Affairs (MoFEA). Bank support to the LGDG has been provided through the Local Government Support Project (LGSP) which became effective in 2004[5]. Since its foundation, LGDG disbursement has increased steadily. Actual disbursement of LGDG core funds, for example, has increased from US$ 22.4 million in FY2005/06 to US$ 68.4 million in FY2010/11. The Government's own source contribution has also increased consistently. For instance, while the Government's share of the LGDG core disbursement in FY2005/06 was 7% (US$ 1.5 million out of US$ 22.4 million disbursed), the ratio has increased progressively to reach 22% in FY2010/11 (US$ 15 million out of US$ 68.4 million disbursed) and is projected to grow to in the region of 40% for FY11/12.[6] This trend, situated in the context of GoT's tight overall budgetary position reflects the Government's stated commitment to fiscal decentralization in general and the LGDG system in particular.

7. ***The LGDG system has established a transparent and predictable system of fiscal flows from central government to LGAs and produced concrete results***. By introducing LGDG, GoT rationalized myriad ad hoc area-based programs, and showed its commitment to allocating resources for development to LGAs through a performance-based system. Prior to the introduction of LGDG, development transfers from the central government to local governments were not a function of LGA performance and were not based on an equitable formula. The LGDG system set up a transparent fiscal transfer mechanism in which allocations were driven by performance; additionally, the LGDG system makes LGA disbursements public through mass media that is accessible by ordinary citizens.

8. ***In addition to bringing transparency, accountability and predictability to the flow of funds, LGDG also made significant resources available to LGAs***. Financing made available to LGAs though LGDG grew significantly. The LGDG core funds disbursed to LGAs, for instance, grew US$ 22.4 million in FY2005/06 to US$ 68.4 million FY2010/11. Through LGDG, a robust development grant system emerged. In addition to the marked increase in LGDG and other development grants, the amount of recurrent grants also grew significantly (more than a three-fold increase over the same period), while subventions (recurrent sectoral allocations outside the recurrent grant system) doubled over the same period (see detailed breakdown of LGDG increase and increase in other type of funding in Annex 1). Thus, the local government sector witnessed a considerable and steady increase in the total amount of financial resources available to it under LGDG. Indeed, the aggregate resources available to it increased almost tenfold over ten years under the overall LGRP mechanism. A similar trend is seen in the local

[3] Belgium, Finland, Germany, Ireland, Japan, the Netherlands, and Sweden.
[4] World Bank contributions through LGSP to the LGDG core ended in September 2010.
[5] The Local Government Support Project (LGSP) closes on June 30, 2012.
[6] See par 21 and footnote 10 for further information and qualifiers.

government own source revenue stream. Local revenues have grown robustly since 2005, more than tripling between FY2005/06 and FY2010/11. Yet despite this recent growth, at the aggregate level, local government own source revenues have remained minor, contributing only six or seven percent of local government resources.

9. ***The LGDG system and the larger local government reform process have achieved a number of significant improvements***. LGDG requirement to include communities in LGA budgeting and planning has improved participatory planning and budgeting, as well as accountability at the LGA level[7]. The increased volume of funding channeled to LGAs led to an increased amount of investments in LGA infrastructure and services[8]. The performance assessment element of the LGDG system has contributed to improving LGA systems[9]. These improvements are consistent with public opinion. When asked in 2003 in a independently conducted citizen survey if local government reforms are improving service delivery, 60.5% of those who were surveyed responded "yes". The same rate went up to 70.24% when the survey was repeated in 2009. The same survey received 76.6% positive response in 2003 to the question on whether local government reforms would led to more participation from ordinary people in the planning process of the respondents. The rate was 81.43% in 2009[10].

10. ***Nonetheless, Tanzanian LGAs continue to face significant challenges.*** These include LGA financial management performance which, after an improvement from FY2005/06 through FY2008/09 has appears to have stagnated. While the rate of unqualified audits among 133 LGAs increased from 54% in FY2007/08 to 58% in FY2008/09, it deteriorated to 49% in FY2009/10, with an increase back to 54% in FY2010/11 (though the fluctuation is partly attributable to the fact that in FY2009/10 the audit scope and rules were made more stringent). LGA overall ability to raise and collect own source revenues is another significant challenge. As mentioned above LGAs mainly rely on transfers from the central government to meet their expenditures and although the amount of LGA own source revenues collected has increased since early 2000s, the ratio of own source revenues in the overall LGA budget remains low, particularly in the area of property taxation, which is an LGA mandate. Another important area of improvement for LGAs is public participation, accountability and oversight mechanisms. Although as mentioned above the LGDG system has contributed to improvements of these mechanisms at the LGA level, more needs to be done, as evidenced by public perception. The same citizen survey as the one quoted above shows that while the rate of positive response to the question on whether individuals can influence the local government planning system has increased from 44.6% in 2003 to 58.65% in 2009, it still shows that more than 40% of respondents do not believe they can influence planning at the LGA level. Similar levels of responses are seen in questions on the citizens' ability to access the LGAs' financial statements and other LGA level information.

11. ***Additionally, despite contributing to performance improvements, the LGDG system itself faces a number of challenges***. Three are particularly important.

12. ***First, while the system leveraged aggregate LGA performance in its early years, something of a "performance plateau" has been reached***. Under the current system, 110 LGAs (out of 133) meet the program's minimum conditions and are expected to receive 'very good' performance scoring, while only 16 LGAs are expected to be scored 'average' performance rating. Given this "success" of most LGAs in attaining very good performance, the performance assessment system as it exists no longer appears to be providing much of an incentive for LGA institutional systems enhancement.

[7] Tidemand, Msami, Impact of Local Government Reforms in Tanzania, 2010
[8] MDF Consulting, Local Government Development Grant System Mid Term Review, 2011
[9] Liviga, Roell, Mhina, Effectiveness of D by D: Financial Resources versus Absorption Capacity, 2010
[10] Kirama, Katera, Ngalewa (REPOA), Formative Research on the Local Government Research Program in Tanzania, Summary of Results of Third Citizen Survey Report, 2010

13. ***Second, while performance assessments under LGDG are generally completed on time, there are delays in quarterly disbursements of funds from the central government to LGAs***. This delay makes it difficult to plan and execute projects at the LGA level. It also contributes to the reported poor budget execution at the local level, where undisbursed balances in LGA accounts are carried forward from year to year.

14. ***The third and final challenge is that from an urban perspective the existing LGDG system does not meet the unique institutional and infrastructure needs of ULGAs.*** As mentioned above, due to Tanzania's high population growth and urbanization rate, the country's urban areas have significant institutional and infrastructure needs. Yet because the existing LGDG system does not differentiate between urban and non-urban LGAs, the only discretionary funds within LGDG provided to ULGAs to address their infrastructure needs – which are significantly larger than those of rural LGAs - and to incentivize the performance of these institutions which require significantly more capacity than in rural areas, is through the LGDG Core (i.e. the Council Development Grant and Capacity Building Grant windows), which amounts to approximately $2/capita/annum.

15. ***In sum, while the Government program has made significant strides in decentralization, in its current form it is facing challenges in providing a truly performance based local government management system.*** The lack of proper local government management has significant real life implications for ordinary citizens, particularly in a fast urbanizing country, whose population is also rapidly increasing. While one of the poorest countries in Africa, Tanzania has taken drastic measures to open the economy, stabilize inflation and open the nation to unprecedented flows of foreign direct aid and private investment since 1995. As a result, there has been an economic growth of about six percent per annum during 2001 and 2006, which puts Tanzania within the top range of non-oil exporting economies in Africa. In addition to this rapid economic growth, the country's population has also increased significantly. According to census data, the urban population in mainland Tanzania increased from 5.7 percent (685,092 people) in 1967 to 22.6 percent (7.6 million people) in 2002. The level of urbanization is even higher if one considers "urban" from a population density perspective, with more than 33 percent of the mainland population (approximately 11 million people) living in high density, "urban" areas in 2002 (World Bank 2009, 14-15). Urbanization in Tanzania is projected to continue at a rapid rate. According to United Nations population projections, the percentage of people living in urban areas is likely to grow from 24 percent in 2005 to 38 percent in 2030 and the urban population is expected to grow at more than twice the rate of the population as a whole so that by 2030, it is estimated that more than 25 million Tanzanians will be living in urban areas. Government's LGDG program and other fiscal flows into LGs have attempted to meet the infrastructure needs of local governments. Yet the financing provided by these flows for infrastructure has remained drastically short of the real and projected population growth in urban areas. In short, investments in systems management of urban areas and urban infrastructure have not kept pace with urban population growth, resulting in poor or declining service delivery.

16. ***In this context, GoT intends to introduce a new window within the LGDG focused specifically on meeting the investment needs and leveraging the improved institutional performance of Tanzania's rapidly growing secondary cities.*** This window, to be known as the Urban Performance Grant (UPG), will add a new fiscal transfer to the intergovernmental fiscal system in Tanzania. This system is already fairly complex and there are potential disadvantages in complicating it further. Broadly speaking, simplicity in intergovernmental fiscal design is conducive to administrative efficiency, eases the local budgeting process, and reduces the reporting and compliance burdens of recipient local governments. On the other hand, the above-referenced needs of ULGAs have become both pressing and distinctive, and international experience also shows that attempting to crowd too many objectives into any single fiscal transfer instrument tends to dilute focus, thereby weakening incentives and undermining efficacy. This is

particularly so for performance grants which gain their traction from a clear and consistent link between the institutional performance that is targeted and the fiscal (grant) incentive.

17. ***This new window, to be known as the Urban Performance Grant (UPG) will begin by limiting itself to 18 target ULGAs***, mainly because of a number of existing (non-LGDG) initiatives provide additional project-based funding support to the other ULGAs in Tanzania and the absorptive capacity of these entities has been temporarily reached. Over time, however, the UPG will extend to all existing ULGAs in Tanzania. It is also expected that a number of smaller but rapidly growing Town Councils will graduate to ULGA status and will become eligible for the UPG. GoT has requested the Bank to provide the initial funding for the new UPG sub-program, to be delivered through a PforR Program, to be known as ULGSP which will cover the costs of the UPG transfers to the targeted ULGAs and the associated implementation, administrative, and M&E activities.

18. The Government program (LGDG) with its current windows as of 2010/11(solid lines), and with the proposed new (sub)Program as of 2013/14 (dotted lines) can be summarized as follows:

Government program – Local Government Development Grant system- summary Actual disbursed amounts in US$/million for FY2010/11					
	LGDG Core (CDG+CBG)	**Agriculture Sector Development Grant (ASDG)**	**Water Sector Development Grant (WSDG)**	**Health Sector Development Grant (HSDG)**	**Proposed Urban Performance Grant (UPG)**
Year started	FY2004/05	FY2007/08	FY2009/10	FY2009/10	FY2013/14
Function area	Discretionary for all investments within LGA mandate (CDG), capacity building (CBG)	Agricultural extension and development	Water and sanitation infrastructure and services	Primary healthcare services	Discretionary for infrastructure investments in UPG menu
Disbursement	$ 68.3	$ 27.3	[11]	$ 10.9	$35.5 million[12]
Total actual funds disbursed under LGDG system - $106.5 million					

19. ***The Government's wish to introduce the new window to the LGDG program to strengthen the system of second-tier urban local governments stems from its recognition of the importance of urban areas towards the country's growth agenda, their distinct institutional requirements and infrastructure investment needs and the existing program's challenge in providing these fully***. As such, the Government has requested support from the Bank to help with its urban transformation. Namely, GoT has asked for Bank support to four distinct set of interventions, each addressing a different tier of urban local government needs. First is the largest city, Dar-es Salaam, which is also the country's economically most significant urban area, with an estimated population of five million. The proposed Dar es Salaam Metropolitan Development Project (DMDP) will aim to address the institutional and infrastructure needs of the four local governments which make up the city. Proposed DMDP is currently under preparation and is expected to be presented to the Bank's Board for approval in FY2013. Second is the group of first-tier cities, which is supported under the Bank financed Tanzania Strategic Cities Project (TSCP).

[11] It has generally been reported that no funds were disbursed under WSDG in FY2010/11. However, there is conflicting information on this.

[12] The UPG allocation for the first full cycle (FY2014/15) is expected to reach US$35.5million.

Approved by the Bank Board in 2010, TSCP aims to address the institutional and lumpy investment requirements of the country's seven largest cities[13]. Third is the country's 18 second-tier cities[14] which face significant institutional and infrastructure-related challenges in the face of rapid urbanization, population growth and urban expansion. According to the 2011 population estimates, these 18 cities have a combined population of 2.6 million people, which is roughly 6% of the country's total population (42 million people) and 25% of the country's urban population (11 million people). The Government wishes to address the needs of these cities through the proposed Urban Local Government Strengthening Program (ULGSP), which will create a new urban window within the LGDG. ULGSP, the subject of this assessment document, is estimated to start in the second half of 2012 and the Government has requested specific Bank support to this end. Fourth and final area where the Bank is supporting Tanzania's urban transformation is on the Zanzibar islands. The urban needs of these islands are being addressed through the Bank supported Zanzibar Urban Services Project (ZUSP). ZUSP is providing infrastructure investments and institutional strengthening to the four urban areas on the two Zanzibar islands. Together, the four programs will comprehensively help address core issues that constrain the development potential, efficiency, equity, and competitiveness of Tanzania's urban areas.

20. ***Thus, the proposed ULGSP will focus on 18 secondary ULGAs. Fully in line with the Government's priority to build solid urban local government institutions, the aim of the program will not be to simply provide financing for the infrastructure needs of these cities.*** Rather, the goal will be to strengthen local government systems. The financing that will be made available through the Program will be a tool to attaining the goal of enhanced local government structures. Hence, the Program's development objective will be to improve institutional performance for service delivery in the participating ULGAs. This is based on the GoT policy of building local government management systems. It is also consistent with the PforR objective of achieving lasting results by strengthening institutions, building capacity, and increasing client accountability. In short, ULGSP is the Bank's response to the request from GoT to continue supporting its D by D reform broadly, and its LGDG program specifically. It builds on the lessons learned from the seven plus years of LGDG implementation, as well as the long standing engagement between the GoT, Bank and other development partners. The Program will be a new urban focused window in LGDG.

21. ***The Program's boundaries will be defined as follows:***

i. ***Program duration***: 2012 through December 2018;
ii. ***Program envelope***: US$ 255 million;
iii. ***Concentration on areas where ULGAs face challenges***: 1. Urban planning systems; 2. Own source revenues from property taxes; 3. Efficiency in fiduciary systems (financial management and procurement) management; 4. Infrastructure implementation and operations & maintenance (O&M) systems; and 5. Accountability and oversight mechanisms.
iv. ***Initial geographic scope***: 18 ULGAs: Morogoro, Tabora, Moshi, Sumbawanga, Shinyanga, Songea, Singida, Musoma, Iringa, Njombe, Bukoba, Kibaha, Babati, Geita, Korogwe, Mpanda, Lindi, Bariadi;
v. ***Activities to be supported***: Urban infrastructure investments and central government activities for supporting fiscal decentralization such as capacity enhancement, technical assistance and grant management.

[13] TSCP includes Arusha, Tanga, Mwanza, Kigoma, Dodoma, Mbeya and Mtwara.
[14] Morogoro, Tabora, Moshi, Sumbawanga, Shinyanga, Songea, Singida, Musoma, Iringa, Njombe, Bukoba, Kibaha, Babati, Geita, Korogwe, Mpanda, Lindi, Bariadi. The list excludes the ULGAs covered under the current Tanzania Strategic Cities Project and the 4 LGAs in Dar es Salaam as they will be covered under the proposed Dar es Salaam Metropolitan Development Project (DMDP), expected to be presented to Bank Board for approval in FY13.

22. ***Program investments are expected to produce the following overall long term outcomes***:

a. 18 ULGAs, with approximately 25% of the county's urban population, with enhanced institutional structures and better local governance defined in terms of improved urban planning systems, increased own source generation and collection (with a particular focus on property taxation), enhanced fiduciary systems management, improved service delivery systems and enhanced accountability and oversight mechanisms;
b. A set of urban municipal infrastructure investments which will be financed by the Program's incentive element; and
c. Enhanced central government mechanisms that can support decentralization including on-time disbursement from the central government to ULGAs.

23. ***ULGSP's key aim will be to enhance ULGA performance in the areas where they face challenges.*** In line with the need to leverage enhanced institutional performance in urban local governments - which have more demanding institutional needs as well as higher investment requirements for municipal infrastructure – the annual performance assessment for the target ULGAs will be enhanced relative to the existing one used for other LGDG funding allocation purposes. The key areas on which it will focus are as follows:

i. ***Urban planning systems***. Rapid urbanization in Tanzanian ULGAs have made urban planning systems even more crucial than they are under average urbanization rates. The proposed UPG will ensure that the urban planning systems developed in ULGAs will be in full compliance with the Tanzanian national urban planning framework. Specifically, the new grant window will do this by rewarding ULGAs performance towards developing a General Planning Scheme (GPS) as per guidelines of the Tanzanian Ministry of Lands, Housing and Human Settlements Development (MLHHSD);

ii. ***Own source revenues.*** The current heavy reliance of ULGAs on transfers from the central government, among other implications, limits the investment choices these local governments can make in the long run. Building on this, UPG will focus primarily on enhancing ULGAs' property tax systems. The reason for focusing on property tax systems is that this is an LGA mandate and analysis shows that the actual LGA revenue from property taxation is lower than the potential. UPG will enhance property taxation systems through financially rewarding the establishment and management of updated LG property tax systems or overall increase in taxable properties valued and billing collection ratio of property taxes, among others.

iii. ***Fiduciary systems.*** UPG will enhance ULGA fiduciary systems to ensure that the ULGA funds are managed in line with national financial management and procurement laws, regulations and rules, as well as with internationally accepted norms. It will do this firstly through a set of fiduciary minimum access conditions. Should a ULGA fail to meet these conditions, it will not be able to access UPG funds for that year. Secondly, UPG will financially reward ULGA fiduciary systems enhancement via the annual performance assessment which will measure progress towards indicators such as rectification of all issues from previous audit report, timely reconciliation of accounts, or procurement performance according to the Public Procurement Regulatory Authority (PPRA).

iv. ***Infrastructure implementation and operations & maintenance (O&M) systems***. It is crucial to have systems to properly sustain projects undertaken at the ULGA level by UPG funding, as well as other funds. To this end, UPG incentive mechanism will finally reward ULGA performance towards O&M planning and budgeting and physical progress toward UPG funds utilization, among other criteria in this area.

v. ***Accountability and oversight systems***. Drawing on the overall LGA level shortcomings in this area, UPG will adopt the two tier approach under fiduciary systems enhancement to enhance the accountability and oversight systems. Namely, UPG funds will be available only if ULGAs meet the minimum access condition in this area and will be rewarded for further enhancements,

such as making public the own source revenue utilization, or using the consultative process for UPG funds utilization.

24. ***Disbursement of UPG fund allocation will be made on the basis of ULGA performance***. ULGAs will enhance their capacity to meet the minimum conditions and make progress towards performance indicators in the areas of urban planning, own source revenue enhancement, fiduciary management, infrastructure implementation and O&M and accountability and oversight mechanisms, summarized above. Each year, the PMO-RALG will commission an independent assessment which will measure each ULGA's performance against these criteria. The score each ULGA receives from the annual assessment will determine the disbursement of the UPG. Disbursement from the central government to local governments, whose amount will be determined by the annual assessment, will be made twice a year (bi-annually).

25. ***The annual allocation for each full grant cycle will range between US$35.5 million for the Program start year (FY2014/15) and US$52.2 million for the following four years***. The performance indicators in FY2013/14 will not apply and the US$9 million will be allocated to ULGAs subject to a minimum conditions assessment (spelled out in Annex 3), which will comprise most of the current LGDG minimum access criteria along with a number of additional conditions pertaining to environmental and social management, financial management and procurement[15]. ULGAs which fulfill these minimum conditions will receive a grant, part of which they can use to build their capacity to respond to the full performance assessment which will take place for the grant cycle in FY2014/15. From FY2014/15 onwards, a full performance assessment of both minimum access conditions and performance indicators will be conducted each year. Only those ULGAs which fully meet the minimum access conditions will be eligible to receive UPG funds. Those ULGAs which do not meet all of the minimum access conditions will not be able to access funds, but will receive capacity building support from PMO-RALG to support accessing the funds in the subsequent years.

26. ***The Program will also include a set of activities to ensure that the UPG functions properly***. These will include the independent annual assessment of the performance of ULGAs, as well as activities which will help the UPG function effectively and achieve its intended results. In line with good international practice, these capacity building activities will be a combination of formal classroom based instruction and other more direct, in-depth and issue-specific mentoring, as well as just-in-time training support, to build durable capacity at the ULGAs. As such, the ULGSP capacity building approach will have two interrelated tracks; (i) ULGAs will access formal, classroom-style training from local institutions in line with their local needs using UPG resources and (ii) PMO-RALG will provide an intensive and ongoing program of capacity-building support to ULGAs managed and coordinated from the center. Activities under (i) will be procured by ULGAs on the basis of annual capacity-building plans which are formulated on the same timing cycle as their physical plans. Capacity building advisors attached to PMO-RALG will provide assistance in the formulation of these plans (but will not have formal approval authority over them). The existence and execution of the annual capacity building plans will verified through the annual performance assessment. Training of type (ii) will be provided through a number of centrally procured and managed mentoring and issue-specific response teams which will be deployed in the field to visit and spend time with the ULGA technical staff. Given that the capacity-building needs of ULGAs vary, and that this will shift over time as initial needs are satisfied and new needs emerge, this resource will be provided, within a number of broad thematic areas, on a highly flexible basis. The main focus of this support will be on the key areas of weakness identified through the assessments undertaken for the Program preparation, such as financial management, procurement, social and environmental management, urban planning, contract management and execution, monitoring and

[15] Annual assessment in FY2013/14 will also conduct a baseline survey of performance indicators. These values will be used only for informational purposes and will not affect disbursement, which will be based solely on minimum access conditions.

reporting. The formulation of capacity building plans at the ULGA level, as well as the overall PMO-RALG support to be provided will be overseen by a small capacity building team at PMO-RALG.

27. ***The Program incorporates in its design lessons learned from the challenges faced by the ongoing Government program, the LGDG system.*** The ongoing Government program is facing a number of challenges. Namely, how to adequately resource ULGAs whose service delivery requirements are more complex and expensive than those of rural LGAs. The only source of discretionary funds for ULGAs within the current LGDG framework is through the existing CDG, which is on average US$ 2 per capita/per annum. Given that the financing needs of urban local governments tend to be greater than the needs of non-urban local governments, the US$2 per capita/per annum discretionary fund allocation currently provided by LGDG falls far short of providing sufficient financial incentives for systems reform among ULGAs. The Program aims to address this shortfall by addressing the needs of ULGAs by providing them a larger amount of discretionary funding (within their absorptive capacity). The Program design also incorporates lessons learned from the delayed LGDG disbursements from the central government to LGAs. To reduce the risk of delays in UPG fund disbursement, the Program (i) simplifies the disbursement process by reducing the number of disbursements within a year from four (quarterly) to two (bi-annually) and (ii) incorporates timely releases of funds from GoT to ULGAs as part of DLI verification. To prevent the performance plateau faced by LGDG Core, the Program's performance assessment system "raises the bar" for achievement in each Program year and contains a correction mechanism to kick in during Program midterm review to make necessary adjustments to the performance system. Additionally, the comprehensive capacity building program (explained in detail below) allows the ULGAs to respond to the incentives. Finally, a specific DLI (DLI 6) allows for these enhancements of the ULGSP to be brought into the LGDG.

28. ***There are three primary reasons that a PforR instrument is appropriate for ULGSP.*** First, the UPG will form part of the existing intergovernmental fiscal architecture which operates on a programmatic basis – i.e. the LGDG. As with the other LGDG windows, it will continue on a permanent basis after the conclusion of the ULGSP, as an ongoing fiscal program leveraging both government and development partner resources. Second, the basic goal of the UPG is to leverage the institutional performance of the LGAs it will target, and to do so in an enhanced manner while ensuring that expanded local urban infrastructure is developed. Because of the direct relationship between the ULGA institutional results achieved, and the Banks disbursements to central – and thence local – government, the PforR instrument allows for a much cleaner and directly incentivizing approach, hence enhanced ability to achieve the PDO, than, for example, a SIL. It also ensures – through the use of DLIs which are targets specifically at national government actions required to optimize the administration and execution of the UPG - that the incentives of both the central and local levels of government are effectively aligned around the goals of the Program much more effectively than is possible with the SIL instrument. Finally, it is cardinal to the objective of the UPG – as it is to all the windows which constitute the LGDG – that relevant government systems at the local level, as well as the central level, (e.g. the mechanics or "plumbing" of the intergovernmental fiscal transfers system) are used, improved and integrated. Again, the PforR instrument is particularly appropriate for achieving this. In the case of the ULGSP, the integration of the operation's performance and disbursement modalities with the budgeting, planning and funds flow mechanisms of both the central and local governments is of specific importance.

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

a. Strategic Relevance

29. ***The proposed Program is relevant to Tanzania's economic development priorities***. Population growth in Tanzania, around three percent annually, is among the highest in the world and this rapid population growth undermines the impact of economic growth on poverty reduction. This is especially true for the urban areas where population growth happens at a much faster rate than the rest of the country. The rapid growth increases the stress on institutions already struggling to cope with delivery of basic services such as roads, drainage, sewerage, street lighting, solid waste management, clean water, schools, and basic health care. While urban areas of the country have been growing at twice the rate of growth in rural areas, investments in urban infrastructure have not kept pace with the population growth, resulting in poor or declining access to urban infrastructure and services in several sectors. Preliminary estimates suggest that USD880 million or more are needed to be invested each year in Tanzania's cities just to service new residents. The current LG fiscal framework does not accommodate the needs to cover either the backlog of urban infrastructure investments or the constantly increasing demand for such financing. While most domestic revenues of the country are collected in urban areas (more than 80 percent in Dar es Salaam alone) more than 80 percent of transfers go to rural areas. Moreover, in per capita terms, transfers to rural LGAs are 21 percent higher than transfers to urban LGAs. As mentioned above, the Tanzania Strategic Cities Project (TSCP) supported by the Bank, which became effective in September 2010, is designed as an investment operation to provide finance for critical infrastructure in seven key large urban LGAs, but outside this project, there is no mechanism to address the quantitative funding needs or the specific characteristics of urban infrastructure investment.

30. ***Against this context, with productivity of labor in urban areas at 2.3 times higher than in rural areas, Tanzania has embarked on a path of urbanization that will lead to a widening gap in productivity***. Similar growth rates in population and urban productivity has powered the economies of most emerging economies but only when significant investments are made in urban institutional structures and infrastructure. Thus, as the proposed Program introduces a funding mechanism which simultaneously strengthens systems of urban management and governance, it will help urban areas in Tanzania that are currently not supported by the Bank in fulfilling their vital roles in driving economic growth and delivery services to a rapidly increasing number of its citizens.

29. ***The proposed ULGSP is intended to address these challenges in the context of the overall evolution of the government's Program and intergovernmental fiscal system in Tanzania***. It is fully in line with government's National Strategy for Growth and Poverty Reduction (MKUKUTA II) as well as two of the four key fundamentals of the Government's Vision 2025, namely: (a) strengthening and establishing well functioning institutions and markets; and (b) provision of infrastructure. The Program is consistent with the Government's January 2010 Letter of Sector Policy on Urban Development which recognizes the need to strengthen urban local governments and address the challenges of financing urban infrastructure. The Program also confirms with the World Bank's Country Assistance Strategy (CAS) 2012-15 and directly serves two of the four CAS strategic objectives: (a) promote accountability and governance; and (b) build infrastructure and develop services. The project will directly contribute to CAS outcome 2.4: improved management and delivery of urban services as well as the cross cutting CAS Outcome 4.1: improved accountability and efficiency of public financial management. Additionally, the proposed ULGSP will respond to World Bank's Africa Strategy's Pillar I: Competitiveness and employment which recognizes the need for competitive cities because productive and sustainable urban development will be a key driver of wealth and jobs across Africa. Also, the Program's focus on institutional systems strengthening will contribute to the Africa Strategy's governance and public sector capacity foundation.

30. ***The proposed Program should be seen in the context of Bank support to the urban and local government sectors historically and contemporaneously*** – PMORALG is currently implementing the Bank supported Tanzania Strategic Cities Project (TSCP) which has begun to meet the backlog of lumpy

investment requirements of the country's seven largest cities; a proposed Dar es Salaam Metropolitan Development Project (under preparation) will address the special requirements of the country's most important urban area; the Zanzibar Urban Services Project (ZUSP) is providing infrastructure investments and institutional strengthening to the four urban areas on the two Zanzibar islands. The proposed ULGSP aims to introduce a system of funding urban infrastructure across the rest of the country's system of cities. When the four operations are in place, the Bank's Tanzanian portfolio will contain a set of coherent and interlocking interventions designed to meet the key financing and institutional needs of urban areas across the country.

b. Technical Soundness

31. ***The program development objective is to improve institutional performance for service delivery in the participating urban LGAs.*** The proposed design and resulting activities are created to reach this objective. Simultaneously, the design is expected to address the challenges of the ongoing Government program. These challenges in general are delays in disbursing the funds to LGAs, lack of sufficient incentives to local governments to affect systems improvement and inability to meet urban municipal infrastructure investment needs. Namely, two distinct design features of the proposed program will be crucial in fulfilling the program objective and strengthening the Government's program:

i. Leveraging financing to increase local government capacity. This methodology is accepted as international good practice in improving institutional performance and it is supported by the Bank in Africa and other regions. The Program will implement this methodology through the proposed performance linked UPG.

ii. UPG will be added as a new urban-focused window within the existing Government program, LGDG. Thus, it will be fully embedded into the larger Tanzanian national fiscal transfer system, rather than being implemented as a stand-alone project, running parallel to the government systems. Institutional capacity enhancement and physical infrastructure investments of urban local governments in Tanzania have so far been largely met through stand alone, donor funded projects. In contrast to this trend, the proposed program will introduce a predictable funding mechanism system which will flow through the government channels.

32. ***In addition to these two key design elements, following four program features are designed to reach the program objective***:

a. *Selection of local governments which will participate in the UPG*. Only urban LGAs will be eligible for the grant. The selection of Urban LGAs as the target group of local governments is based on the following three factors: First, by limiting access to urban LGAs, the grant will not be fragmented. Secondly, urban LGAs have been assessed as having relatively higher capacity levels among all LGs in Tanzania. Therefore, this is the group which is most likely to respond best to the incentive structure. Third, limiting accessibility to urban LGAs will allow enhanced PMO-RALG supervision and management of the grant structure.

b. ***Vertical allocation of resources***. International good practice indicates that in order for any transfer that leverages financing for institutional capacity enhancement to work well, the size of the transfer pool needs to be adequate to address the need for infrastructure in the selected local authorities. This is to ensure the financing is attractive enough to bring about institutional change. Additionally, in Tanzania where there are large urban infrastructure gaps, the grant pool needs to be adequate enough to fund urban investments. On the other hand, the grant pool needs to be within the absorptive

capacity of eligible ULGAs, and sustainable in terms of operation and maintenance. Finally, resource availability will also dictate the size of the UPG transfer pool. The technical analysis of these parameters produce the vertical allocation of the proposed program: (i) capital investments in ULGA in Tanzania; and (ii) a significant contribution to funding investment needs related to population growth and marginally catching up with infrastructure backlog would require a median of USD 18/capita/year on average.

c. *Horizontal allocation of resources*. In order to participate in the program, each ULGA will have to meet an enhanced version of the existing LGDG minimum conditions. The enhancement to the minimum access conditions of the current Government program is on social and environmental systems management. Namely, ULGAs will agree to carry out the processes and procedures of the Environmental, Social and Resettlement Manual (ESRM) of the Program. As discussed in detail in the Program's environmental and social systems assessment, Program's manual is consistent with Tanzanian systems and bridges the gaps between those systems and OP 9.00[16]. Once eligible to participate in the program, each ULGA will have an annual allocation envelope. This amount will be determined by basic population figures. Poverty and settlement patterns are also relevant criteria, as urban infrastructure needs are correlated with poverty rates and urban density, but reliable data at the LGA level is not available for these variables. Thus, UPG allocation to each ULGA will be formula-based. The actual annual disbursement, on the other hand, will be performance-driven and will be a function of the ULGA's annual performance against criteria set in four main areas: 1. Improved urban planning; 2. Increased own source revenues from property tax; 3.Efficient fiduciary management; 4. Improved infrastructure, implementation and O&M; and 5. Strengthened accountability and oversight systems. Performance of ULGAs will be assessed annually by a Program-financed outside entity as detailed in the verification protocol section of this document.

d. *Permitted investments under the UPG*. The proposed grant is intended for specified urban infrastructure projects. Social sector projects are expected to be funded from LGDG and other sector resources. Depending on each ULGA's allocation, councils are not expected to start more than three or four projects per year. These projects will be selected from a menu of investments permitted under the proposed program. Investment in water and sewerage services, land purchases, and social sector services are excluded from the menu.

33. ***The proposed program is within and acceptable to the current local government environment***, as it serves the long standing overarching D by D reform, which fully endorses decentralization and empowerment of local governments. There are two broad groups of main stakeholders of the program:

i. 18 ULGAs which will access UPG and their citizens;
ii. PMO-RALG which is the central government entity charged with implementing the government's overall LGDG system.

34. The two stakeholder groups have been consulted and will continue to be consulted throughout preparation. The 18 ULGAs and their citizens are the largest group of stakeholders and are strongly supportive of the program. While the seven largest cities are currently being supported and Dar-es Salaam will be supported through other Bank-financed projects, the institutional and infrastructure needs of these 18 ULGAs remain significant. They all have ranked infrastructure as their top priority and look to the funding they expect to receive from UPG as the key resource to implement this priority. PMO-RALG, which has a core mandate of implementing the government's policy of D by D, and the overall local government development agenda. PMO-RALG has a long standing and positive working relationship with the Bank and other development partners, exemplified by the first phase of this proposed program.

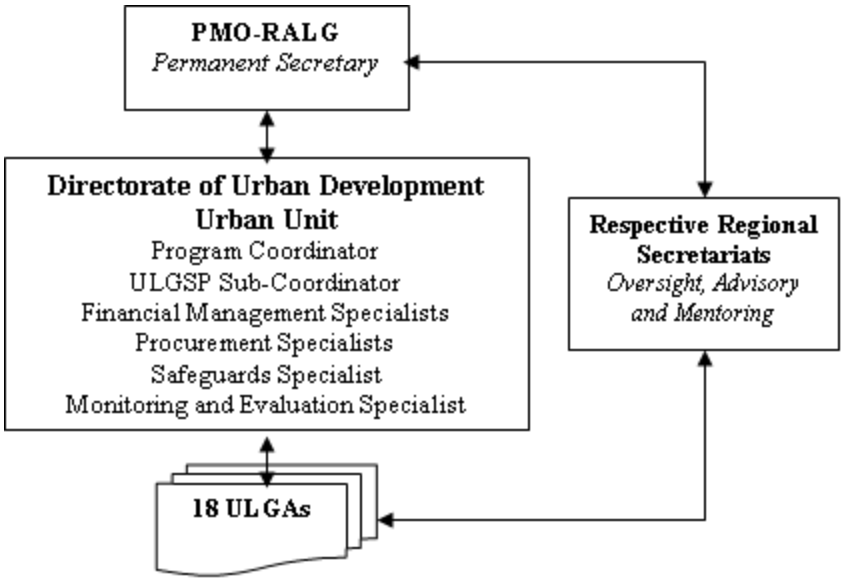
[16] OP 9.00 is the part of World Bank's Operation Manual which discusses the PforR instrument.

The incentives of PMO-RALG are fully aligned with raising the capacity at ULGAs. Also, the proposed UPG's design feature of being fully embedded within the existing government systems reinforces PMO-RALG's role of monitoring and implementation support.

c. Institutional Arrangements

35. ***The Program will be implemented through the same institutional architecture used under the LGDG system. Under the Program's implementation arrangements, as under the LGDG system, the responsibilities will be as follows***:

- Reflecting the decentralized nature of the Program, participating ***ULGAs will take primary responsibility for implementing their own subprojects including all fiduciary, environmental and social systems, and reporting requirements***. Namely, ULGAs will be responsible for (i) using nationally guided participatory budgeting arrangements to plan for the way in which they will use grant funds, both for infrastructure investments and capacity building activities (*planning and budgeting*); (ii) using the funds they receive according to the participatory budgeting priorities and national laws and regulations (*fiduciary systems, anti-fraud & corruption mechanisms and oversight mechanisms*), and (iii) monitoring and reporting on the use of the funds and the associated outputs and outcomes (*reporting*). As such, ULGAs will have primary responsibility for the institutional strengthening activities and implementation of infrastructure subprojects. Program implementation will be done using the existing ULGA structures with the respective Municipal/Council Director as the ULGA level accounting officer. The relevant council officials will be responsible for the implementation, supervision and oversight of their respective subprojects and institutional strengthening activities. Management of the completed investments, including O&M, will be the responsibility of ULGAs.
- ***PMO-RALG will be responsible for the overall management of Program activities, providing overall coordination and technical support to ULGAs***. Specifically, it will be responsible for (a) providing the necessary staffing for each ULGA according to nationally set norms; (b) providing the hard and soft infrastructure (i.e. IT), technical assistance and capacity building to ULGAs; (c) commissioning and executing the oversight of the independent annual performance assessment; (d) communicating the results of the annual performance assessment to the Bank and obtaining the Bank's verification of it; (e) making public the results of the annual performance assessment and the corresponding grant funds to be disbursed to ULGAs mass media; (f) requesting the National Treasury and the Central Bank to disburse the funds to ULGAs on time; (g) collecting and aggregating data collected at ULGA level to track the use of grant funds; and (h) overall management of the Program, including preparing the Program report.



36. ***PMO-RALG will manage and coordinate the Program, with the Permanent Secretary of PMO-RALG as the overall accounting authority for Program funds***. The specific team which will manage the Program's operation is an established unit dedicated urban issues. This unit consists of its own personnel within the Directorate of Urban Development and works in collaboration with other departments. The team is led by a Program Coordinator, supported by Sub-Coordinators for each of the Government's urban programs and staffed by two full time financial management specialists, procurement specialists, an environmental and social systems coordinator, a monitoring and evaluation specialist and support staff. All staff members of the unit have participated in multiple training programs in their areas of work. The unit is housed in a dedicated fully equipped office space. PMO-RALG has demonstrated its capacity to manage externally supported Government programs and projects such as the World Bank supported Urban Sector Rehabilitation Project (USRP, 1997 to 2003/4), LGSP (since 2004/5) and TSCP (since 2010).

37. PMO-RALG will produce and submit to the World Bank within three months of the beginning of each new fiscal year an annual Program report which will provide information on the following:

- Summary of the assessment results, including the performance of Program ULGAs and the disbursed amounts;
- Summary of aggregate Program expenditures and Program infrastructure delivered by ULGAs;
- Execution of the PMO-RALG capacity building plan;
- Summary of aggregate capacity building activities undertaken by ULGAs;
- Summary of aggregate environmental and social performance reports from each ULGA, including information on grievances;
- Summary of aggregate information on procurement grievances;
- Summary of aggregate information on fraud and corruption issues as provided by PCCB (see section on anti-corruption guidelines).

38. ***Assessment of recipient ULGA capacity indicates that most ULGAs have a basic level of planning, fiduciary and environmental and social management capacity***. For example, according to Public Procurement Regulatory Authority (PPRA) compliance inspections, ULGA procurement and contracting capacities have been increasing consistently. Albeit still at a low level, this capacity exists as these are minimum requirement areas under the current LGDG system. However, the analysis also shows

that few ULGAs have significant practical experiences with design, procurement and supervision of the scale of infrastructure projects which this Program intends to fund. This information should be understood with the clear fact that capacity to deal with large investments does not currently exist in ULGAs due to the fact that ULGAs do not receive large enough financing to undertake urban-specific investments. Thus, it is clear that the existing capacity needs to be enhanced and new capacity needs to be built in areas where none exists or is weak, such as in civil engineering, environmental and social assessment and ICT. The enhancement of existing levels of capacity and building capacity in new areas is not simply a means to an end under the proposed ULGSP. Rather, as expressed clearly in the PDO, this is the central objective and focus of the Program. As such, the Program will incentivize ULGAs to enhance their capacity thorough UPG and provide the necessary financial resources –available from within the grant itself, as well as from PMO-RALG- for capacity building.

39. ***The Program design incorporates the fraud and corruption risk***. The October 2011 Report on Value for Money Audits of 136 Constructions Projects by the Public Procurement Regulatory Authority has flagged fraud and corruption in local governments as a major area of concern. This VFM audit covered 17 LGAs including one of the 18 Program ULGAs, six public authorities, and 7 TANROADS regional offices. It flagged fraud and corruption in local governments as a major area of concern. The audit covered aspects related to (i) planning (15%), (ii) procurement (15%), (iii) contract administration (15%), and (iv) quality of works (55%). The study audited 91 projects of LGAs for a value of Tsh19bn. The main findings of the study with regards to quality of works were that 62 projects (68%) of the LGA audited projects with a total value of Tshs10,056,982,629 (53% by value) were assessed to be of unsatisfactory quality and that serious malpractices were noted in most LGAs. A key finding of the report was that engineers and technicians especially in LGAs conspired with contractors to certify and pay work items which did not exist or with lower specifications than what was provided in the contract documents.

40. In this context, and given the fiduciary weaknesses discussed above, fraud and corruption are considerable risks under the Program. These risks will be mitigated as follows:

41. The main factor that leads to F&C is a weak fiduciary environment. Improving this environment in the target ULGAs is a specific goal of the Program, and will be addressed directly through the various main modalities outlined elsewhere in this document. More specifically:

- The UPG and annual assessment. The annual assessment will include, as minimum access conditions and performance indicators, measures such strengthened financial management and procurement systems and mechanism for handling grievances related to fraud and corruption, publicly advertising the bidding procedures, disclosing contract awards to the public and having a consultative process for the UPG;
- Capacity building program to be managed at PMO-RALG and ULGA levels. Elements of this program will specifically focus on accountability and monitoring at the ULGA level to minimize the fraud and corruption risk;
- DLI leveraged steps that central government will take to ensure, for example, that core fiduciary staff are in place at the ULGA level for each year of the Program;
- Additional agreed measures e.g. in ULGA disbursement years one and two (FY2013/14 and FY2014/15), PPRA will conduct several value for money audits in at least two or three of the Program ULGAs, respectively, to determine performance in particular regards to management of contracts and quality of works. As Program ULGAs establish a record of execution of projects using Program funding from FY2015/16 onwards, PMO-RALG will commission PPRA to conduct value for money audits for all Program funds in all 18 Program ULGAs and the results will be incorporated into the annual assessment relating to DLI 3, constituting 50% of the weighting of the DLI.

42. Second, the Government of Tanzania has agreed to implement the Program in accordance with the Anti-Corruption Guidelines (ACG) applicable to PforR operations as follows:

a. *Debarment list of firms and individuals*. Companies and individuals debarred by the Bank and the PPRA will be posted and updated every six months on the PMO-RALG website. This will include the list of temporary suspended firms and individuals, which the PMO-RALG will obtain from the Bank. In general, the risk of having a debarred firm or individual in the Program is low, since most of the tenders will be small and carried out through National Competitive Bidding (NCB) process. Nevertheless, PMO-RALG will share this information with all Program ULGAs, instructing them to comply by appending the debarment list to the annual Grant Award announcement which will be made public - and go to all Program ULGAs. This list will also be used by procurement advisors working as part of the PMO-RALG capacity building program to monitor ULGA compliance. ULGA compliance with the debarment list will also be monitored through the Program annual assessment.

b. *Sharing information on fraud and corruption allegations and investigations with the Bank.* In line with the ACGs, GoT will share with the Bank relevant information on fraud and corruption allegations, investigations and actions taken as needed. At the local level, each ULGA has an Integrity Committee (IC) to which fraud and corruption complaints are reported. Fraud and corruption complaints related specifically to procurement may also be made to the ULGA Accounting Officer. The Bank has been informed that under Tanzania's legal system, the primary agency for investigating corruption is the Prevention and Combating of Corruption Bureau (PCCB). Where PCCB investigations reveal that a given case is primarily one of fraud rather than corruption, the PCCB refers it to the police for further investigation and prosecution. The PCCB has 98 district offices including all the 18 Program ULGAs. The PCCB has a national workforce of about 1700 staff of which approximately half are involved in investigation. In this context, fraud and corruption allegations made in respect of Program funds to the LGAs via either the ICs or the Accounting Officer will be referred by these entities to the district offices of the PCCB. The PCCB will keep a record of such allegations, or allegations from any other source regarding Program funding, and the actions taken on them. Once annually, it will provide a national compilation of all such allegations, investigations and prosecutions throughout the Program to PMO-RALG. PMO-RALG will include this in the annual Program Report that will be submitted to the Bank.

c. *Investigation of fraud and corruption allegations*. GoT has advised that (i) as indicated above, the PCCB is the primary Government agency for the investigation of F&C, which would include investigations under the Program; (ii) the Prevention and Combating of Corruption Act permits the PCCB to cooperate and collaborate with the Bank in the fight against corruption, and permits the PCCB and the Bank to undertake joint investigations of sanction-able practices if and when the parties so agree; (iii) the Bank may also undertake its own investigations of F&C allegations under the Program. In this context, the investigation of F&C allegations under the Program will be handled through three possible modalities, depending on circumstances.

- The PCCB will undertake its own independent investigations arising from allegations reported to it as per sub-paragraph b. above.

- The PCCB and INT will undertake joint investigations. The initiation, scope and operational procedures will be decided on a case-by-case basis by PCCB and INT.

- INT will undertake its own investigations. In this case, the Program Participation Agreements to be entered into between PMO-RALG will ensure that PMO-RALG and the INT are able to acquire all records and documentation that they may reasonably request from Program ULGAs regarding the use of Program funding.

43. Third, and more broadly. PMO-RALG has developed a Local Government Anti-Corruption Strategy and Action Plan Phase III 2010 – 2015 which it will implement on an LGA-wide basis throughout the country. The plan builds on two phases corresponding to National Anti-Corruption Strategy and Action Plan (NASCAP) phases I and II and seeks to strengthen: i) registry management of information; ii) procurement procedures; iii) capacity building of human resources; iv) sensitization of public rights and duties; v) storage and safeguarding of data; vi) public service complaints handling.

44. It should also be noted here that the implementing entity PMO-RALG has been implementing the ongoing LGSP since 2005. For the past seven years of implementing Bank projects, there have been no governance and anticorruption issues at the PMO-RALG level and the most recent Tanzania financial management regional in-depth supervision review commissioned by the World Bank has found no incidence of fraud.

III. Description and Assessment of Program Expenditure Framework

45. ***The expenditure framework of the Program will be a total of US$ 255 million.*** US$ 195 million will constitute the UPG and will go directly to Program ULGAs for investments specified under the investment menu (Annex 1). US$ 45 million will support and leverage PMO-RALG activities and results directly linked to the execution of the UPG. US$15 million will support the overall Government program strengthening, based on UPG experience.

Program expenditure framework (US$, million)

	FY2012/13	**FY2013/14**	**FY2014/15**	**FY2015/16**	**FY2016/17**	**FY2017/18**	**Total @ Program end**
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	
Grant Flows to ULGAs via UPG window	0	19.5	23	44	51	58.3	195.8[17]
Funds for PMO-RALG results to execute the UPG		8.8	8.8	23.8	8.8	8.8	59
Funds for improvements to the Government program based on UPG experience				15			
Total ULGSP	**0**	**28.3**	**32.1**	**67.5**	**59.7**	**56.8**	**255**

[17]The amount disbursed annually against this expenditure item will be determined by the scores achieved by ULGAs on the annual assessment. The maximum possible disbursement against this item (i.e. of all ULGAs achieve 100 points in the annual assessment) is US$ 195 million. It is necessary to allow for this total within the Program budget envelope amount to avoid underfunding risk. However, 100% performance by all ULGAs is highly unlikely and the estimated aggregate annual performance is expected to be around US$156 million, as per DLI matrix. The difference between actual performance (hence actual disbursement against this budget line item) and the maximum allowable disbursement will be assessed and accommodated within the Program as implementation progresses.

budget							
Total IDA financing	0	28.3	32.1	67.5	59.7	56.8	255

46. UPG funds will flow from the central to the local governments and will be disbursed on a bi-annual basis. The Government's program (LGDG) currently uses flow mechanisms to disburse funds to the local governments, and the Program funds will be channeled through these existing mechanisms that are well established within the Tanzanian budget system.

47. ***A line item in the national budget for FY2012/13 has been entered for the Program[18].*** Beyond FY2012/13, the Program's envelope will be entered into subsequent regular national budgets and the details of the Program's funds use will be captured in the national budget frameworks. Tanzania has a well developed budget classification where local governments classify expenditures in terms of capital expenditure, operating costs, goods and services. The current financial management reporting system as explained in the LGDG and Medium Term Expenditure Framework (MTEF) manuals currently used will be used for the UPG funds will be to finance capital costs.

48. ***Once the Program becomes effective, expected to be sometime in the second half of 2012, it will be entered into the Government supplementary annual budget for FY2012/13 as a distinct line item.*** Beyond FY2012/13, the Program's envelope will be entered into subsequent regular national budgets and the details of the Program's funds use will be captured in the national budget frameworks. Tanzania has a well developed budget classification where local governments classify expenditures in terms of capital expenditure, operating costs, goods and services. The current financial management reporting system as explained in the LGDG and Medium Term Expenditure Framework (MTEF) manuals currently used will be used for the UPG funds will be to finance capital costs.

49. ***For the UPG at ULGA level, the annual grant allocation will be announced in synchronization with the annual budget process***, in time for ULGAs to include these amounts in their annual budgeting and planning cycles.

50. ***Funding predictability will be integral to the Program as sustainability and scale of investments envisioned under the UPG will only be achieved by ensuring that ULGAs have adequate, predictable and stable sources***. This technical principle has been at the center of UPG design and manifests itself in the creation of the horizontal and vertical formula. Participating ULGAs will know the precise amount of allocation they can receive each year, for the duration of the Program, if they fulfill the agreed upon performance criteria. The possible impact of exogenous shocks to the Program will be minimized as the funds for the Program will be ring-fenced and will be source-specific as determined under the DLI.

51. ***Expenditures at the ULGA level will be captured using the national standardized monitoring and reporting system which tracks transfers, own source revenues and expenditures by sector and activity.*** The system is composed of two main elements; first is the quarterly Council Financial Report (CFR) which was introduced in FY2006/07. The CFR tracks budget plan and execution, use of own source revenues, use of transfers from the central government (disaggregated by recurrent funds, block grants and development funds) and expenditures (disaggregated by recurrent expenditures and development expenditures). The second element of monitoring and reporting system at the LGA level is the quarterly Council Development Reports (CDR). The CDR was introduced in FY2008/09 and captures council development expenditures on all projects undertaken by the council. The UPG will become a distinct line item which the ULGAs will report against in the CFR. Also, each investment financed by the

[18] As PMO-RALG has informed the team prior to appraisal.

UPG will be capture in the CDR as a distinct development project and source of funding. These reports will be aggregated by PMO-RALG and captured in the Program report.

52. ***With respect to the activities undertaken by PMO-RALG incurred at the national level to support the UPG***, expenditures will be incurred chiefly for capacity building, annual assessment and impact evaluation. Sufficient funding for these expenditures will be made available through the GoT budget system. This will form a covenant under the Program.

53. ***Disbursements for the Program will be made under a performance based modality.*** The exact annual UPG allocation to each ULGA will be a function of the performance of each local government. The maximum possible allocation is reflected below. For FY2013/14, if the participating ULGAs meet the Program's enhanced minimum access criteria, an initial US$ 9 million of UPG funds will be disbursed to ULGAs. Program disbursements from IDA to Government as well as from Government to ULGAs will be determined on the basis of progress made against Program's disbursement linked indicators and will be done bi-annually.

54. ***The Program preparation and design strives to ensure three kinds of sustainability; (i) sustainability of assets built with Program funds; (ii) fiscal sustainability of the Program in the medium to long term and (iii) institutional sustainability:***

- ***Sustainability of assets*** is addressed by the requirement of ULGAs to provide a viable O&M plan for the investments they will undertake with Program funds. This requirement is a performance indicator and the annual execution of O&M will be measured by the independent assessment. Additionally, the Program's focus on the enhancement of ULGAs' own source revenue will help provide the funds needed to provide O&M of assets.
- ***Fiscal sustainability*** of the Program is ensured through the fund allocation calculation. This calculus has considered what is affordable over the long term. Namely, as explained above, the median US$ 15 per annum/per capita UPG amount represents a balance between what is needed to address the needs of ULGAs in Tanzania, what these ULGAs can absorb and what is affordable in the long term. Importantly, in line with historical precedent, it is expected that in the medium to long term, other DPs might contribute towards the Program and as financing becomes available, the Government would provide financing.
- ***Institutional sustainability*** is maximized through the incentive mechanism where enhanced local government management will be financially rewarded. The ULGAs will be well-positioned to become the first wave of high-performing local government authorities in Tanzania. As urban authorities, they tend to have a larger economic base and a more vibrant private sector, typically have more progressive and more capable political leadership and are in a better position to attract and retain more capable administrative staff. In addition, due to the higher population density of urban agglomerations, the shorter distances involved within the urban core and higher penetration of ICT based systems (data enabled cell phones, internet etc.), urban LGAs are in a better position to interact with the majority of their constituents, including individual residents, but also civil society organizations as well as the private sector.

55. ***As discussed in detail in Annex 3, the amount and structure of the largest expenditure item of the Program budget, the UPG, has been identified as the most realistic and efficient option upon consideration of various vertical and horizontal structure scenarios***. In determining the vertical structure of the grant, it has been assessed that in the Tanzanian context, any meaningful capital investments in an ULGA requires an investment of USD 0.5 – 1 million per LGA. Additionally, the analysis indicates that a meaningful contribution to funding the investment needs borne by population growth and marginally catching up with infrastructure backlog would require approximately USD

18/capita/year median over five years. Detailed in Annex 3, a number of options have been analyzed in determining the structure of the grant.

56. ***Program's expenditure framework adheres fully to the government priorities.*** The Program framework will principally include two types of expenditures; investments for enhancing institutional capacity of ULGAs and physical infrastructure investments. Both types of investments have been stipulated as being priority areas for LGAs in the government's LGRP II program vision document.

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

57. ***The Program will be monitored, and evaluated through the use of number of M&E tools throughout implementation including regularly reports from ULGAs to PMO-RALG, the Annual Performance Assessments, Value- for-the Money Audits, Midterm Review and Impact Assessments.***

58. ***The Program data, including physical investments to be financed by the UPG, will be captured using an amended version of the existing monitoring and evaluation system at the ULGA level.*** The existing system is as follows: All LGAs in Tanzania use a standardized monitoring and reporting system which tracks transfers, own source revenues and expenditures by sector and activity. The system is composed of two main elements; first is the quarterly Council Financial Report (CFR) which was introduced in FY2006/07. The CFR tracks budget plan and execution, use of own source revenues, use of transfers from the central government (disaggregated by recurrent funds, block grants and development funds) and expenditures (disaggregated by recurrent expenditures and development expenditures). The second element of monitoring and reporting system at the LGA level is the quarterly Council Development Reports (CDR). The CDR was introduced in FY2008/09 and captures council development expenditures on all projects undertaken by the council. The UPG will become a distinct line item which the ULGAs will report against in the CFR. Also, each investment financed by the UPG will be capture in the CDR as a distinct development project..

59. ***The two reports provide a standardized monitoring and reporting system for presenting financial and council project information on a quarterly basis to the council, local community, regions and central government***. The financial report is required to be presented quarterly to the LGA council committee responsible for finance along with the regular income and expenditure statement. The financial reports are then transmitted to the respective region which then shares them with PMO-RALG and the Ministry of Finance and Economic Affairs (MOFEA). Reports are also made public as part of PMO-RALG's LGA Consolidated Quarterly Financial Report and on the internet (**beta.pmoralg.go.tz/lginformation**) .The monitoring and reporting system described above is often weakly implemented within the LGAs. The ULGSP will support the proper functioning of the system in two ways. First, implementation of the CFR and CDR will form one of the criteria in the annual performance assessment. Second, part of the capacity building to be procured by PMO-RALG will focus directly on monitoring and reporting.

60. The Program will ensure that the ULGAs submit timely quarterly environmental and social performance reports to PMO-RALG using the guidance provided by PMO-RALG in the Environmental and Social Management Manual for ULGSP. The submission of these reports is an important performance measure in the annual performance assessments of the ULGAs.

61. ***The national ULGA M&E system managed by PMO-RALG will combine and verify data collection and data quality at the ULGA level***. PMO-RALG is responsible for planning and supervising the implementation of the annual performance assessment, which is the major M&E tool to verify the performance of the ULGAs. The annual assessment will be carried out by an independent firm to ensure

the objectivity of the process. The assessment will be carried out in line with the Performance Assessment Manual, which will be developed by PMO-RALG, with its content and quality acceptable to the Bank. The Manual will provide clear definitions for each indicator as well as comprehensive guidance on the scoring. Adjustments which might be needed to the performance indicators and scoring will be done throughout implementation and particularly at the mid-term review to address any possible shortcomings or changes on the ground. The internal PMO-RALG M&E system will capture key data that will allow an assessment of the decentralization support structure, e.g. capacity of PMORALG to ensure timely and agreed transfers of funds to the LGAs and the institutions' ability to provide needed capacity development and technical assistance to the LGAs.

62. ***PMO-RALG will ensure that a Program Impact Assessment is conducted.*** The process will be launched early on in the Program to ensure that a proper baseline can be established from which performance can be tracked. During FY2012/13 and FY2013/14, the methodologies of the impact evaluation will be established, the consultants contracted, and the baseline data gathered. Thereafter, the study will continue over the life of the Program. Specific methodologies which may be utilized include (i) using high frequency data from financial management, taxes and procurement to understand how the introduction of performance based grants affect the management of the Program ULGAs; (ii) using the triggers and the intensity of grant treatment to study the link between the intervention and developmental outcomes; and (iii) introducing variation in treatment through pairwise randomization of the 18 ULGAs to test either alternative capacity building modalities or the introduction of non-monetary incentives to public servants to improve on the performance targets which include own resources (taxation), urban planning, fiduciary, accountability and infrastructure O&M. The first annual performance assessment will be applied as a baseline for the institutional performance. Furthermore the results framework contains a number of baselines, e.g. on the number of core staff in place, which will be used to track performance on an annual basis during the regular reviews and the annual performance assessments.

63. ***Finally, the annual audits conducted by the CAG and the Value-for-the Money Audits under PPRA*** of which results will be included in the annual performance assessments from FY 2015/16 will be important tools in tracking the institutional and infrastructure performance improvements.

64. ***M&E capacity and systems.*** The ULGSP is being set up in a way that will improve the M&E capacity of participating ULGAs as well as the capacity of PMO-RALG. The ULGAs will receive training and assistance as part of the capacity building support that PMO-RALG will put in place. The performance and capacity building on M&E is embedded in the Program action plan, the DLIs as well as in the Results Framework. The main focus of the M&E training activities will be: i) data collection and management, ii) active use of M&E data to inform policy decision and planning at local and central level, iii) linking of M&E system with transparency and accountability initiatives/ activities.

65. ***Setting targets for performance indicators.*** The established M&E system is the basis to guide the LGA performance based grant mechanism and its disbursements. But there have been challenges establishing increasing performance targets that would keep incentivizing improvements of LGAs performance over the years. This fact has led to the current situation where almost all the LGAs meet all the performance criteria and the minimum conditions. The system failed to institute a mechanism to establish annual adjustments to the performance targets in line with the improved performance of LGAs.

66. ***ULGSP Program M&E system***. The Program will use the existing M&E system of LGDG and build on it through; i) lessons learnt from LGDG implementation, ii) already available M&E capacity at PMORALG and at LGA level, and iii) reporting and monitoring systems that have been put in place and are functioning.

67. ***Program development objective (PDO)***. In the context of the overall LGDG objective of ensuring effective and empowered LGAs as the primary and accountable lead actors of socio-economic development, public service delivery and poverty reduction in their areas of jurisdiction to implement D by D, the Program Development Objective has been defined as to improve institutional performance for urban service delivery in participating urban local government authorities.

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

a. *Indicator 1: Annual performance score of participating ULGAs as assessed by the independent annual performance assessment*. This indicator will convert the result of the annual performance assessment to the progress towards PDO.
b. *Indicator 2: Disaggregated list of financed investments by type and/or sector built or rehabilitated, including, city roads and related infrastructure, slaughterhouse/abattoir, commercial market infrastructure, dumpsite rehabilitation, community waste collection points.* The physical infrastructure projects to be financed by the UPG will be determined by ULGAs on a demand-driven basis. Therefore, the indicator will measure the investments delivered, rather than progress against set targets.

69. ***The score in the annual performance assessment in the first PDO indicator is the key element to establish the success of ULGSP.*** Complimentary to the first PDO indicator, the second PDO indicator will show that the LGAs are actually able to make use of the enhanced systems and capacities to deliver improved infrastructure. In addition to the PDO indicators which focus mostly on the improved performance of the LGAs, the Results Framework will also provide a set of indicators at the intermediate level to capture the improved infrastructure that will be financed through the UPG and which will result in improvement of the service delivery at the local level.

70. ***Due to the fact that institutional capacity building is an incremental process and will take time, it is expected that not all ULGAs will achieve the targets, at least in the initial years of the Program***. This fact will keep the incentive to improve performance every year and therefore avoid the problem with the current LGDG performance assessment. In addition, the indicator targets will be reviewed throughout implementation, and more specifically at mid-term review to undertake possible refinement or adjustments needed in line with the improvement in ULGAs' performance.

71. ***The score in the annual performance assessment is the key element to establish the success of ULGSP.*** It is based on a set of performance indicators which build on the ones used by LGDG but which have been refined and improved to better capture improved performance of the LGAs in key areas. In addition to the PDO indicators which focus mostly on the improved performance of the LGAs the Results Framework will also provide a set of indicators at the intermediate level to capture the improved infrastructure that will be financed through the UPGs and which will result in improvement of service delivery at the local level.

72. ***Performance Indicators.*** The annual performance assessment for the participating ULGAs will be based on the revised set of performance indicators as set out below. The indicators are organized by areas and have been clearly defined including guidance on the scoring for each indicator.

Performance indicators for the Annual Performance Assessment

Improved Urban Planning System
• General Planning Scheme (GPS) for Council adopted
Increased Revenues from Property Tax
• Updated Local Government property tax system in place
• Increase in the number of properties in the property register
• Increase in taxable properties valued
• Billing collection ratio of property taxes
• Increase in property tax collected
Efficient Fiduciary Systems
• Average score on the PPRA for targeted ULGAs
• Efficient FM system in place
Improved Infrastructure, Implementation and Operation & Maintenance (O&M)
• Performance Grant Utilization Plan in place and updated annually
• Physical targets for utilization of performance grant achieved
• Increase in amount of Own Source Revenues (OSRs) transferred to the development account
• Annual disbursement of performance grant
• O & M plan in place and executed
Strengthened Accountability and Oversight Systems
• Consultative process for Performance Grant Utilization in place.
• Annual progress reporting and disseminating systems in place.
• Information on use of OSR publicly disclosed
• ULGA Service standards in place
• Records kept on environmental and social management
• System in place for handling grievances
• Environmental and social management included in participatory processes
• Resettlement Action Plans implemented prior to initiating civil works

73. Targets will maintain the incentive to improve performance every year and therefore avoid the challenge with the current LGDG performance assessment. In addition the indicator targets will be revised at mid-term review to undertake any needed refinements or adjustments in line with the development of ULGAs performance.

74. ***Disbursement Linked Indicators (DLIs). The UPG amount that each ULGA will receive will be determined by its institutional performance over the previous year, as measured by the annual performance assessment***. The annual performance assessment measures this performance against 20 indicators as explained in detail in Annex 2.

75. The ULGSP has three categories of DLI:

- ***DLIs 1, 2, and 3: Strengthened institutional and delivery performance by ULGAs (US$201million)*** The fundamental objective of these DLIs is to leverage improved performance and results in the target ULGAs to ensure (i) that the basic fiduciary, project planning and execution, and environmental and social management conditions are in place such that the ULGAs can absorb the increased funding provided under the UPG; (ii) enhanced institutional strengthening of the ULGAs to ensure sustainable, long-term improvements in urban infrastructure and management utilizing the UPG and other resources; (iii) effective ULGA

infrastructure delivery utilizing the UPG over the life of the Program. Collectively, these three DLIs address the core of the PDO. Performance against these three DLIs determines the overall quantum of funding disbursed by the Bank for the UPG;

- ***DLIs 4 and 5: Strengthened ULGA public sector management capacity (US$44 million)*** These leverage and disburse according to results achieved by PMO-RALG in strengthening the public sector management capacity of ULGAs;
- ***DLI 6: Overall strengthening of LGDG program (US$10 million)*** This DLI leverages and disburses according to results achieved by PMO-RALG in strengthening the overall LGDG system on the basis of lessons learned from the Program.

76. Each annual allocation for DLIs 1, 2 and 3 will be transferred from the Bank to GoT, and from GoT to the ULGAs in two equal six month installments. In order to mitigate the risk of excessive delays in the GoT-to-ULGA transfers, verification of the GoT-to-ULGA transfer for the previous period will constitute part of the overall verification protocol for these DLIs (see Annex 3). Any given tranche will only be disbursed from the Bank to GoT once all previous disbursements from GoT to ULGAs have been appropriately made.

77. ***Disbursements of the amounts under other DLIs will be triggered by actions that the central government needs to take in order to ensure the success of the UPG.*** With this background, the Program DLIs are presented below:

	Total Financing Allocated to DLI	***As % of Total Financing Amount***	***DLI Baseline***	***Indicative timeline for DLI achievement***					
				FY12/13	***FY13/14***	***FY14/15***	***FY15/16***	***FY16/17***	***FY17/18***
DLIs 1, 2 and 3: Strengthened institutional performance and infrastructure delivery by ULGAs									
DLI 1 ULGAs have strengthened institutional performance and achieve Program minimum conditions in the annual assessment			N/A	N/A	18 ULGAs	18 ULGAs	18 ULGAs	18 ULGAs	18 ULGAs
Allocated amount:	45	18%		0	9	9	9	9	9
DLI 2 ULGAs have strengthened institutional performance[19] as scored in the annual performance assessment			N/A	N/A	N/A	60	70	80	90

[19] In the areas of urban planning, revenue enhancement, fiduciary systems, implementation of infrastructure, operations and maintenance and oversight systems including environmental and social systems management.

				FY12/13	*FY13/14*	*FY14/15*	*FY15/16*	*FY16/17*	*FY17/18*
Allocated amount:	106	42%		0	0	26.5[20]	26.5	26.5	26.5
DLI 3 Local infrastructure targets as set out in the annual action plans are met by ULGAs utilizing the Program funds			N/A	N/A	N/A	N/A	70%	80%	90%
Allocated amount:	50	20%		0	0	0	16.7[21]	16.7	16.7
DLIs 4 and 5: Strengthened ULGA public sector management and capacity									
DLI 4 Number of ULGAs with all core staff in place[22]			0	N/A	100%	100%	100%	100%	100%
Allocated amount:	14	4.5%		0	2.8	2.8	2.8	2.8	2.8
DLI 5 Completion of annual PMO-RALG capacity building activities for Program ULGAs			N/A	N/A	Capacity building activity plan adopted	50%	60%	70%	80%
Allocated amount:	30	12%		0	6	6	6	6	6
DLI 6: Overall LGDG Strengthening									
DLI 6 PMO-RALG has adopted an enhanced LGDG assessment system derived from lessons learned from the annual Program assessments			N/A	N/A	N/A	N/A	100%	N/A	N/A
Allocated amount:	10	3.5%		0	0	0	10	0	0
Total Financing Allocated:	255	100%		0	17.7	44.3	71	61	61

78. ***Verification protocol for DLIs 1, 2 and 3*** is as follows:

[20] Rising targets against constant allocation amounts are deliberately established to leverage increasing performance for each Program year.
[21] Same as in DLI 2, rising targets against constant allocation amounts are deliberately established to leverage increasing performance for each Program year.
[22] PMORALG is responsible for providing core staffing. Core staffing composition is explained in detail in the Verification Protocol and Bank Disbursement tables.

- PMO-RALG will commission an annual performance assessment to be undertaken independently;
- The independent assessment will measure the performance of each ULGA against the Program's minimum access conditions and performance indicators (see paragraphs immediately below on this for DLIs 3 and 4). On the basis of this, it will assign a score to each ULGA;
- The score attained by each Program ULGA (provided that is compliant with the minimum conditions) in the annual performance assessment will converted to the corresponding financing amount. Upon the announcement of CAG's audit results for ULGAs, the clean audit compliance minimum condition will be verified. The sum of these individual amounts will comprise the disbursement to be made for that year;
- As part of due diligence and implementation support, the Bank will review (i) the assessment results, (ii) allocation amount to each ULGA and (iii) that the disbursement from the central government to ULGAs of the funds in the last period has been done on time;
- The allocated amount will be disbursed in two tranches and transfers will be aligned with the budget cycle of the ULGAs (see UPG Grant cycle, Annex 1).
- As part of its due diligence, the Bank will undertake a regular quality assurance exercise of the annual performance assessment to ensure continued robustness.

79. ***The verification protocol for DLI 3*** for FY2015/16 will compare the ULGA annual action plans for UPG utilization with the actual execution rate of the (sub)-projects, funded under the UPG. In addition to this, in FY2016/17 and FY2017/18, the outcomes of the value for money audits will also be factored in. The "execution rate" will be determined by a review of the bills of quantities, and verified by the physical progress against planned targets. Hence, for projects not yet fully completed, e.g. a road project, progress on the major items in the bills of quantities[23] will be reviewed, both in the regular reports from the engineer, as well as through field trip verification of the actual implementation rate. The rate of completion measured by the bills of quantifies against planned annual target will be determined for each project as per its status at the end of each fiscal year[24]. The completion rate (%) of each project, when determined, will then be weighted with the relative contracted size of the projects to get an aggregate result, see the example below:

DLI 3 verification example

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

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

80. ***The verification protocol for DLI 4*** will comprise of the review of implementation ratio of the PMO-RALG's capacity building plan in an agreed format. Each activity will be assessed and the ratio for implementation against planned targets will be determined, taking into account the budget size of each activity.

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

[24] Assessments will be conducted on September of each year, hence the verification of this DLI will review end of FY reports, minutes and actual progress at the time for the assessment.

81. ***The verification protocol for DLIs related to central government*** performance will be done based on administrative reports as well as information from the annual performance assessment and confirmed by the Bank during the regular bi-annual implementation support missions.

82. ***M&E capacity and systems.*** The ULGSP is being set up in a way that will allow improving the M&E capacity of participating ULGAs as well as the capacity of PMORALG. The ULGAs will be receiving training and assistance as part of the capacity enhancement and technical assistance support that PMORALG is going to put in place (see DLI 3). The main focus of the capacity enhancement on M&E will be: i) data collection and management, ii) active use of M&E data to inform policy decision and planning at local and central level, iii) linking of M&E system with transparency and accountability initiatives/ activities.

V. Program Economic Evaluation

a. Rationale for public provision and financing

69. Under the proposed Program, financing will be provided to increase the institutional capacity and performance of ULGAs to deliver urban services. This will be achieved, to a large extent, through UPG which will be used by recipient ULGAs to meet their essential urban infrastructure needs. Due to this specific nature of the Program, where the objective of increasing urban local governance capacity and performance is expected to be reached by means of a grant, the rationale for public financing is evaluated at two levels; first at the level of the objective proposed by the Program and the second at the level of the means it will use to achieve the objective.

70. At the objective level, there is strong rationale for public provision of local government capacity. Good local governance is a combination of creating proper legal, political and institutional framework as well as of actively building local authority capacity. The framework of local governance systems cannot be established through private mechanisms and it must be done through public provision. Similarly, capacity can also be built through public provision. At the level of the UPG, which is the proposed means to achieve Program objective, financing will be used for critical urban infrastructure investments (see Box 1, UPG Investment Menu under Annex I). These investments are public goods and will provide both quantifiable and non-quantifiable financial and socio-economic benefits, thus making a public subsidy appropriate. If these investments were to be provided without a public subsidy, their use would be highly cost prohibitive and lead to the persistence of large scale problems, including public health. The benefits and externalities mentioned above include the following:

a. Strengthened capacity of participating ULGAs to provide services and fulfill service delivery mandates;
b. Improved quality of life in the targeted areas, as a result of better living conditions and enhanced environmental management;
c. Enhanced interaction between economic actors leading to increased agglomeration benefits;
d. Lower vehicle operating costs, reduced transportation costs, fewer road accidents and reduced traffic congestion as a result of improved road conditions and improved access to public transport services;
e. Reduced risk of flooding and soil erosion as a consequence of drainage improvements, resulting in avoided flood damage to economic property as well as lower road maintenance costs; and
f. Improved health outcomes and household incomes, owing to the reduction in water-borne diseases and reduced health costs.

71. Additionally, the Program will be structured to allow for the UPG to ensure full rationale for public financing at the level of each individual investments it supports. Namely, an ex-ante economic analysis including the consideration of cost recovery (including O&M and depreciation costs) will be required for each investment to be financed by the UPG, as part of selection criteria.

b. Program's economic impact

72. ***The Program will provide various benefits as a result of the physical infrastructure projects that will be financed by the UPG***. A comprehensive economic analysis undertaken in 2010 for the World Bank supported Tanzanian Strategic Cities Project (TSCP), has analyzed the same sets of bulky investments outlined in the investment menu of UPG. While the seven urban centers[25] of the focus of that analysis are not the same 18 ULGAs selected for the Program, the infrastructure needs in ULGAs selected for ULGSP are similar to those under TSCP. Therefore, the findings from the analysis can be applied. The economic impact for these investments was measured as positive, with a high average economic internal rate of return (EIRR) of 22.1 percent. The average EIRR was calculated as 24.5 percent for urban roads, 13.8 percent for solid waste management investments and 18.4 percent for bus and truck stands. Given these returns and the large infrastructure gap in the 18 ULGAs, the investments supported by this Program will also produce a positive economic impact.

73. ***The Program will also produce benefits in deepening the decentralization by devolution reform and strengthening the institutional systems of central, regional local government entities.*** At the central government level, the proposed Program will enhance institutional capacities of PMO-RALG. At the ULGA level, the performance based UPG system will enhance the institutional capacities for revenue collection, fiduciary and environmental and social systems management, as well as service provision. These improvements will likely contribute to improved efficiency in delivery of key urban services and better management of ULGAs, including the management of GAC risks. As well, their ability to contribute to operations and maintenance of infrastructure and thus, sustainability of the project will also be enhanced.

74. ***An additional factor in determining the economic impact of ULGSP is considering the counterfactual scenario where the government's LGDG moves forward without the proposed Bank supported Program***. Under this scenario, the existing grants of approximately US$ 2 per capita would continue to flow to the 18 ULGAs, without the proposed UPG. However the current LGDG system is not adequate to achieve the proposed Program's objective of building ULGA capacity and performance. This is evidenced by the fact that as of 2012, vast majority of LGAs meet the minimum access conditions laid out in the Government's LGDG program and all councils are expected to receive a 'very good' performance evaluation, the obvious capacity and performance challenges among ULGAs continue and urban service delivery remains weak. In sum, the current government program without the proposed Bank supported Program is deemed not adequate in achieving the proposed objective of increased ULGA performance in service delivery. Moreover, in the absence of the proposed UPG, the discretionary capital development fund of up to US$2 per capita/per annum given to LGAs for local infrastructure under the current government program's discretionary window does not provide the level of funding needed for the urban infrastructure which ULGAs are in dire need of.

c. World Bank added value

75. The proposed Program is in response to a direct request from the Government of Tanzania to improve the fiscal and management capacity of LGAs for urban service delivery while at the same time

[25] Mwanza, Arusha, Mbeya, Mtwara, Kigoma, Tanga and Dodoma.

financing critical infrastructure in select ULGAs, particularly in view of the strategic importance of urban areas and the magnitude and urgency of their investment requirements.

76. ***More importantly than providing financing, the Government's request for Bank's involvement in the creation of the proposed Program is due to the leverage that Bank can bring to improve the existing Government program***. As discussed in detail above, the ongoing Government program (LGDG) has a number of weaknesses which collectively lead to the program's failure to incentivize good practice local government management. By enhancing the Government's program through an urban focused performance based grant system that is large enough to address urban infrastructure investments, the Program will be able to bring about the desired improved systems enhancement at participating local governments. Additionally, the Government sees the PforR modality and specifically its disbursement-linked indicator mechanism as a significant potential added value in enhancing its overall system.

77. ***World Bank's technical and institutional know-how in enhancing local government systems and designing and managing performance based grant systems are seen as significant potential areas where the Bank can add value.*** The strategic and long standing value added by the World Bank in local government space in Tanzania. The Bank previously financed essential rehabilitation and expansion of urban infrastructure in ten project towns under the Urban Sector Rehabilitation Project (USRP), which closed in December 2004. USRP was followed by the Local Government Support Project (LGSP), which is currently under implementation (closing on June 30, 2012). The TSCP was introduced in 2010 to begin to meet the backlog of lumpy investment requirements of the country's seven largest cities while a proposed Dar es Salaam Metropolitan Development Project (under preparation) will address the special requirements of the country's most important metropolitan region and the Zanzibar Urban Services Project (ZUSP) will provide infrastructure investments and institutional strengthening to the four urban areas on the two Zanzibar islands. Government's request for Bank's involvement through ULGSP should be seen in this context, and with the aim to establish a system of funding for urban infrastructure across the rest of the country's system of cities. When all Bank supported operations will be in place, the Bank's Tanzanian portfolio will contain a set of coherent and interlocking interventions designed to meet the key financing and institutional needs of local governments and urban areas across the country. Importantly, similar to TSCP, the proposed Program reflects a shift in the Bank's approach in two significant ways. First, these two interventions recognize the strategic importance of Tanzania's urban centers as the nodes for the country's structural transformation, economic growth and nationwide improvements in welfare. Second, ULGSP, like TSCP, will decentralize implementation responsibilities to the participating cities including procurement and contract management. In this way, the projects seek to build capacity through "learning-by-doing" for urban infrastructure development.

VI. Inputs to Program action plan

78. Table below summarizes technical assessment input to Program action plan

Summary of the Program Action Plan

Cross Cutting/ General				
Issue/risk description	**Action/Completion**	**Time Frame**	**Responsible Party**	**Instrument**
Adequate staffing at ULGAs	LGAs with core staffing levels[26], including in procurement, financial management and social and environmental systems appointed and in place according to national LGA staffing norms	Appointment of staff before effectiveness Staff in place throughout Program	PMO-RALG	DLI4
Sufficient capacity in PMO-RALG Program Unit to manage UPG	PMO-RALG maintains Program unit as described in implementation arrangement	Throughout Program	PMO-RALG	Covenant
Effective execution of capacity building activities	PMO-RALG develops annual capacity building plan (including all fiduciary, environmental and social management requirements) and submits to Bank at the latest on April 30 of each year	Annual	PMO-RALG	Covenant
Overall Program progress	PMO-RALG will produce an annual Program Report and convene an annual Program stakeholder review meeting, which will be attended by PMORALG, ULGAs, World Bank and other development partners.	Annual	PMORALG	Covenant
Fiduciary				
Audit	Quarterly Internal audit of funds conducted by ULGA internal auditors	Quarterly	ULGA	DLI1
Record keeping	Establish Records Keeping Management System	During project implementation	PMO-RALG and ULGAs	DLI 2 and 3
PMO-RALG has sufficient budgetary resources to undertake Program activities	Sufficient budgetary provision is made for all PMO-RALG Program activities related to annual assessment, capacity building, impact evaluation and value for money audits; and budgeted amounts are released on a timely basis to PMO-RALG throughout the year.	Annual	PMO-RALG and Ministry of Finance	Covenant

[26] ULGA core staffing comprises council director, council treasurer, council internal auditor, council engineer, council community development officer (in charge of environmental and social systems management), council supplies officer, council assistant supplies officer (in charge of procurement), council town planning officer, council planner and council human resources officer. Qualifications of core staff are specified in GoT Scheme of Service.

	Open bidding procedures to be publicly advertised (procurement)	Annual	ULGAs	DLI 2 and 3
	Contract awards disclosed to the public (procurement)	Annual	ULGAs	DLI 2 and 3
	Consultative process for Performance Grant Utilization in place.	Annual	ULGAs	DLI 2 and 3
	Annual financial and physical progress report presented to and discussed by the Council	Annual	ULGAs	DLI 2 and 3
Transparency	Annual financial and physical progress report disseminated to the general public via suitable (newspapers, local radio stations, web pages etc.) commonly available media.	Annual	ULGAs	DLI 2 and 3
	Information on use of own source revenue publicly disclosed	Annual	ULGAs	DLI 2 and 3
	Quarterly Financial progress reports prepared timely and available and Progress reports presented and discussed in CMT & Full Council	Annual	ULGAs	DLI 2 and 3
Technical				
Issue/risk description	**Action**	**Time Frame**	**Responsible Party**	**Instrument**
Quality of infrastructure which will be built by ULGAs using UPG funds	Annual value for money audits will be phased in to all Program ULGAs, and incorporated into the annual assessment.	Starting in Program year 3. By FY2015/16, all ULGAs will be covered annually and the VFM audit will be incorporated into the annual assessment.	PMO-RALG will commission PPRA to carry out the audits.	Covenant
Independent annual assessment undertaken on a timely basis.	The annual assessment is procured.	(i) For FY2013/14: By January 30, 2013 (ii) For following years by July 31 each year	PMO-RALG	Covenant
Program entered into national budget	Program will be entered into the Government budget as a distinct line item	March of every year	PMO-RALG and Ministry of Finance	Covenant
Impact evaluation	Evaluation of impact of Program will be undertaken	Starts FY13/14 and ends in the final Program year	PMO-RALG	Covenant
Environmental, Social and Resettlement				
Environmental,	A technical manual for	Before	PMO-RALG	Covenant

Social and Resettlement technical guidance	Environmental and Social Management developed consistent with Tanzanian systems and bridges gaps between those systems and OP/BP 9.00.	effectiveness		

79. ***Actions to enhance the capacity and performance of the agencies involved as agreed with the Government form the backbone of the Program action plan***. Capacity gaps identified from the preliminary diagnostic studies both at the PMO-RALG and ULGAs include fiduciary, social and environmental management and fraud and corruption management areas. These will be addressed through technical assistance element, through tailor made capacity enhancement and technical assistance activities. To ensure that capacities are built in time for the program implementation, institutional strengthening activities will be front loaded and implemented in the first years of the Program.

80. ***Risk-mitigating measures to increase the potential for the Program to achieve its results and to address fiduciary, social, and environmental concern***. As such, a fiduciary risk-mitigation action plan is being prepared. Fiduciary assessment highlighted coordination among large number of entities involved as a Program-wide risk. To mitigate this risk: (i) sector technical and Program steering committees will provide oversight to ensure smooth program coordination at all levels; and (ii) PMO-RALG has established a program coordination unit that will be responsible to provide overall supervision role including financial management. Various risks have been identified by the fiduciary assessment. These include; procurement capacity, weak records management systems, delays in completion of procurement processes, weak controls and risk of fraud and corruption, lack of clear procedures, guidelines and internal control, late approval of budgets and slow release of adequate program funds, preparation of annual financial reports and quarterly financial reports manually, outside EPICOR accounting system, operational challenges of IFMS, weak capacity in internal audit functions and weak internal controls. The risk mitigation action plan is being discussed with the Government. Preliminary fiduciary plan is presented below:

81. ***Environmental and social risk-mitigating action plan.*** The key institutions involved with environmental and social management at the national level are PMO-RALG, the National Environmental Management Council (NEMC – which enforces environmental laws and issues licenses and permits), and the Ministry of Lands and Human Settlements (which handles land valuation and compensation). ULGAs are responsible for due diligence at the project level and mainstreaming environmental and social issues into planning and project development. While impacts from the types of projects typically implemented by the ULGAs included in ULGSP are modest, the capacity of ULGAs varies widely and some do not include technical staff qualified to handle environmental and social management nor provide necessary technical inputs during planning processes. At the national level, there is a need to provide technical support for ULGAs to mainstream environmental and social management as capital works programs expand, the scale of works increases, and urban plans are prepared. At the same time, PMO-RALG and NEMC have an important role in monitoring the performance of ULGAs to ensure mitigation of negative impacts. In order to build capacity necessary to mainstream environmental and social management into ULGA urban and project planning and mitigate negative impacts of civil works, ULGSP includes measures to ensure all ULGAs in the Program have qualified Environmental Officers, required under Tanzania law, and that these officers have received training prior to initiation of any civil works financed by the UPG. In order to maintain a dialogue with ULGAs as plans and projects are prepared, PMO-RALG and NEMC will develop a coordination mechanism for technical assistance to ULGAs as well as a plan for monitoring project implementation. Additionally, the ULGSP will provide additional funds for training.

VII. Technical Risk Rating

82. Based on the findings of assessments undertaken for the preparation of the Program, the overall technical risk rating is substantial. The overarching measures to mitigate these risks will be firstly the series of institutional enhancement activities which will be financed by the two elements of the Program, and secondly the incentive mechanism under the UPG mechanism. (Further provided on Annex 6**).**

VIII. Inputs to the Program Implementation Support Plan

83. Implementation support will focus on implementation of the program action plan, providing the necessary World Bank value added discussed above and monitoring progress towards the achievement of the PDO. The Bank will be primarily responsible for;

- Monitoring and Evaluation: Review APA, verification protocol and provide technical input;
- Environmental and social: Provide the necessary training and support during implementation on the implementation of the manual which currently being produced by the Government for the Program.
- Fraud and corruption: Supervise the implementation of the agreed fraud and anti-corruption measures under the program and provide guidance in resolving any issues identified;
- Procurement: (i) review of procurement performance from annual performance assessments; and (ii) provide training and guidance on Procurement to PMO-RALG and ULGAs; and
- Financial Management: Review the UIFRs and the assessment results reports as the basis for disbursements, audit reports, and agreement on measures to address any audit observation and monitoring their implementation;

84. Most of Bank's implementation support team member (fiduciary, environmental and social systems, and fraud and anti-corruption), including the Task Team Leader, are either based in the Tanzania Country Office or in the Region. This will ensure timely, efficient and effective implementation support to PMO-RALG and the ULGAs. Formal implementation support missions and field visits will be carried out semi-annually, or as deemed necessary.

85. Tentative implementation support is summarized as follows:

Area	Skills Needed	Estimate Staff Time Needed
Procurement support	Procurement Specialist	5 SWs
Procurement Training	Procurement Specialist	1 SW
FM training and supervision	FM Specialist	4 SWs
Task Team Leadership	TTL	10 SWs
Financial Management, disbursement and reporting	FM Specialist	2 SWs
	Local Government Specialist	8 SWs
Technical and Procurement review of the bidding documents	Procurement Specialist	4 SWs
	Municipal Engineer	4 SWs
Environment/Social monitoring	Environment Specialist	2 SWs

	Social Specialist	2 SWs
Fiscal flows/ fiscal decentralization/ LG performance measurement	Economist	5 SWs

86. Skillmix needed:

Skill	Number of Staff Weeks (annual)	Travel Frequency (annual)	Location
Task Team Leader	10	3 field trips	Country Office based
Procurement	10	2 and field trips as required	Country Office based
Financial Management Specialist	6	2 and field trips as required	Country Office based
Environment Specialist	4	2 and field trips as required	Country Office based
Social Specialist	4	2 and field trips as required	Country Office based
Urban Economist	5	2 and field trips as required	HQ based

Annexes

1. Fiscal Decentralization and Bank Support

1. ***The proposed Urban Local Government Strengthening Program (ULGSP) introduces an urban window into the Government of Tanzania's Local Government Development Grant (LGDG) program.*** LGDG was introduced in 2004, as part of the Government's fiscal decentralization efforts, to provide Tanzania's 133 local governments authorities (LGAs) formula-based grants.

2. ***LGDG is one of the tools to implement the larger Government decentralization reform, known as Decentralization by Devolution (D by D).*** Promulgated in the 1998, D by D is the Government's overarching decentralization policy and it aims to reduce poverty through improved service delivery at the local level. D by D is a core part of the Government's National Strategy for Growth and Reduction of Poverty (Mkakati wa Kukuza Uchumi na Kupunguza Umaskini, MKUKUTA[27]), and it makes decentralized service delivery a core pillar of GoT policy.

3. ***LGDG is a part of the Government's fiscal decentralization framework. This framework is composed of three main fiscal flows (including LGDG) directed towards all 133 local (rural and urban) governments***:

i. Development grants which are transferred for discretionary capital investments which includes **LGDG** and sectoral grants in education, health, agriculture, roads, water and others;
ii. Recurrent sectoral block grants intended to cover recurrent expenditure at the local government (LG) level for education, health, agriculture, roads, water and general purposes;
iii. Ministerial subventions in education, health, roads, HIV/AIDS and a number of other subventions.

4. ***LGDG core averages to approximately about US$2 per capita per annum and are distributed through two windows; 1. Council Development Grants (CDG) window***, which provides financing for capital expenditures (97% of the overall LGDG amount) ***and 2. Capacity Building Grants (CBG) window***, which provides financing for capacity building at the LGA level (3% of the overall LGDG amount). The council development grant is non-sectoral and is discretionary for all investments within the LGAs' mandate. LGAs mostly use these funds for capital investments in new small scale works (e.g. classrooms, community health centers, water pumps, etc.) and rehabilitation/repair of the existing stock. The program funds have been disbursing consistently to all 133 LGAs in the country, since inception in 2004 with increasing amounts: Actual disbursement of LGDG core funds, for example, has increased from US$ 22.4 million in FY2005/06 to US$ 68.4 million in FY2010/11. This reflects the overall trend of making more funds available to LGAs in Tanzania, shown by the fact that the LGA share of total public expenditure has expanded from 18.7% in 2001/02 to around 25% in 2010/11. Fiscal transfers account for a very large proportion of total LGA revenue, having risen from 81% in 2002/03 to over 90% by 2006/07.

5. ***The Bank supported LGDG core[28] through the Local Government Support Project (LGSP), which is currently in its final stages of implementation and is expected to close by end-FY12.*** GoT has expressed a clear and strong request for the Bank to continue supporting D by D policy and its implementation arm, the proposed ULGRP, and develop a specific focus on a set of secondary ULGAs.

6. ***When introduced initially in 2004, the LGDG replaced the various area-based donor programs, and signaled a strong commitment by the government to support formula-based development grants to***

[27] Which is now in its' second phase (MUKUKUTA II)
[28] Contribution to the LGDG from the Bank-supported LGSP ended in 2010.

LGAs. At its creation, average annual allocation was determined as USD1.50 per capita. This amount was primarily based on the availability of funds. The funding pool was later increased to 2 percent of the national budget (minus CFS), corresponding to about USD2.00 per capita per annum. At the onset, LGDG was primarily financed by development partners and overtime the GoT's contribution consistently increased, indicating increased ownership of the system.

7. ***Under the LGDG mechanism, LGAs have to meet a set of minimum performance requirements to access the discretionary Council Development Grant (CDG)***. This is to ensure that funds transferred to LGAs are properly used and in compliance with the overall statutory and administrative requirements. The capital grant is a non-sectoral discretionary transfer for capital investments in new infrastructure and rehabilitation of the existing stock. It can cater to a broad range of investments in small infrastructure and service provision within the mandates of the LGAs. In addition to council development grants, LGs also receive a capacity building grant (CBG) as part of LGDG. LGAs can use these resources according to their own priorities for the improvement of their performance and enhancement of their capacity. Once they fulfill the access conditions, the maximum amount each LGA can receive from the grant is based on a transparent allocation formula that takes into account (i) population (70%), (ii) poverty indicator (20%) and (iii) land area (10%). In order to prevent duplication and promote harmonization, the discretionary LGDG window has become the core of a comprehensive system of local development grants. Numerous 'sectoral windows' were created alongside the main LGDG window in agriculture, health and education sectors. These windows allow sectoral ministries (along with their development partners) to provide development grants to the local government for specific sectoral services, based on their performance.

8. ***LGDG started the provision of on-budget funding flow to the local government level for development purposes and it gave local governments discretion over these resources, rather than earmarking these funds centrally***. Additionally, it required local governments to engage their communities in prioritizing how to spend these resources, incentivized the performance of LGAs in terms of certain administrative, fiscal and governance practices and harmonized a plethora of donor funding flows (including area-based programs and disparate sector funding modalities) into a single, government-led development grant system. As seen below in Table 6, the LGDG has spearheaded and anchored considerable growth of the local development grant system in Tanzania over the past five years. Importantly, LGDG was not intended, by design, for urban infrastructure investments. Rather, the LGDG was intended to provide small-scale infrastructure funding for priorities identified at the LGA level.

Budgeted Local Government Development Grants (LGDG) to LGAs, FY 2005/06 – 2010/11
Per Capita Allocations, by Type of LGA

	Mainland	**Urban**	**Urban excl. Dar es Salaam**	**Rural**	**Dar es Salaam**
2005-06	787	595	775	830	335
2006-07	1,464	1,065	1,174	1,553	906
2007-08	1,805	1,617	1,496	1,847	1,791
2008-09	2,142	1,925	1,770	2,190	2,150
2010-11	4,280	3,248	3,590	4,509	2,751

Source: PMO-RALG data (www.logintanzania.net)

2. Detailed Project Description and Funds Flow

9. ***Development objective of ULGSP (proposed Program) is to improve institutional performance for urban service delivery in participating urban local government authorities***. The proposed new urban focused window, to be called the Urban Performance Grant (UPG) will be added to the current LGDG

windows, with the goal to improve institutional performance of Tanzania's rapidly growing secondary cities.

10. ***UPG will fully utilize and enhance the key elements of the LGDG system***. Namely, similar to current windows, it will determine LGA allocation by a population based formula and it will disburse its funds as a result of LGA performance assessment. In doing so, UPG will leverage institutional strengthening and support local capacity building. UPG funds will be primarily used by ULGAs to meet their infrastructure needs. The UPG window will have an associated set of activities implementation activities which will include capacity building needed for ULGAs to be able to respond to the performance incentive mechanism, as well as the independent annual performance assessment which will determine the disbursements for each ULGA in a year. These implementation activities will be carried out by PMO-RALG, which is responsible for decentralization and local government affairs in mainland Tanzania. UPG the associated implementation activities form the proposed Program, the Urban Local Government Strengthening Program (ULGSP). The Program is expected to run from 2012 until December, 2018.

11. ***Support to 18 ULGs will be provided through UPG, whose main purpose will be to enhance the governance systems of urban local governments***. UPG will achieve this by leveraging the municipal infrastructure financing it offers. Namely, ULGAs will receive financing from the proposed grant mechanism based on their performance against performance indicators. Depending on the score each ULGA receives as a result of an annual performance assessment which will measure their performance against the performance indicators, they will receive UPG financing. This financing will be used only for: (i) municipal infrastructure investments (investment menu provided in table below); and (ii) capacity enhancement and technical assistance activities needed to respond to the incentives of UPG.

12. ***UPG funding will comprise a progressively increasing per capita amount, designed to go up in line with the increasing capacity at ULGAs.*** UPG will start at US$ 3 per capita in FY2013/14, with disbursement against meeting the Program minimum access conditions (DLI 1), will go up to US$ 12 in FY2014/15 with disbursement against meeting the Program minimum access conditions (DLI 1) and performance against the institutional performance indicators (DLI 2), and reach US$ 18 in FY2015/16 and onwards, with disbursement against meeting the Program minimum access conditions (DLI 1) and performance against the institutional (DLI 2) and infrastructure (DLI 3) related performance indicators. Allocation envelope for each ULGA will be a function of the population of each council and the score attained at the annual performance assessment. Based on this, table below provides an overview of likely annual and cumulative UPG for each ULGA, assuming the targets for DLIs 1, 2 and 3 are met exactly as set in the DLI matrix. The exact annual disbursement per ULGA will be determined according to actual ULGA performance against DLI targets.

Projected UPG allocations to 18 Urban Local Governments

13. ***The grant ULGAs will receive as a result of this assessment is intended to be used for capital investments*** from the menu detailed in the box below, at levels that can be absorbed and utilized effectively by each participating ULG.

Projected UPG allocations to 18 Urban Local Governments

ULGA		Population		UPG	
		2002 Census	**2012 Estimate**	**Approximate disbursement @ US$ 18 per capita, FY2015/16 (per year/ USD Million) Assuming actual performance against DLIs 1, 2, 3 meets target for FY2015/16**	**Maximum possible disbursement over Program Period (USD Million) Assuming actual performance against DLIs 1, 2, 3 meets target throughout Program**
1	Tabora MC	188,005	420,000	7.5	28.9
2	Morogoro MC	227,921	327,000	5.8	22.5
3	Shinyanga MC	134,523	222,000	4	15.3
4	Sumbawanga MC	146,842	222,000	4	15.3
5	Moshi MC	143,799	217,000	3.9	14.9
6	Musoma MC	107,855	205,000	3.7	14.1
7	Songea MC	130,860	189,000	3.4	13
8	Singida MC	114,853	184,000	3.3	12.6
9	Iringa MC	106,371	165,000	2.9	11.3
10	Bukoba MC	80,868	164,000	2.9	11.3
11	Kibaha TC	77,831	112,000	2	7.7
12	Geita TC	72,482	105,000	1.8	7.2
13	Babati TC	64,652	93,000	1.7	6.4
14	Korogwe TC	53,986	78,000	1.4	5.4
15	Mpanda TC	47,272	68,000	1.2	4.7
16	Lindi MC	41,075	72,000	1.3	4.9
17	Njombe TC	34,630	49,000	0.8	3.3
18	Bariadi TC	15,462	22,000	0.4	1.6
Total		***1,789,287***	***2,914,000***	***52.5***	***201***

Urban Performance Grant Investment Menu

Sector	Eligible Expenditures
Council roads and related infrastructure	• Road rehabilitation/upgrading: Grading, graveling, brick paving, tarmac, upgrading or rehabilitation for which the ULGA is responsible (maximum 15 km per year) • Road side open storm water drains/ stand-alone storm water drains for flood alleviation or erosion control • Street lights • Culverts • Small Bridges: 6m span or less • Minibus stands and bus stops (e.g. minibus parking areas for approximately 25 vehicles) • Taxi stands • Truck stands • Public car parking • Other road-related infrastructure (street furniture, vending platforms, signage)

Markets and Trade	• Slaughterhouse/abattoir (maximum capacity of 100 head of cattle per day) • Commercial market infrastructure
Public Space	• Public green space • Sports fields and facilities
Solid waste management	• Dumpsite rehabilitation • Community waste collection points • Equipment
Project preparation and supervision	• Expenditures related to preparation of infrastructure projects (design, supervision etc)
Equipment	• Equipment related to enhancement of relevant capacities for urban planning and OSR management, etc.
Capacity building[29] (up to a maximum of 5% of the annual UPG disbursement for each ULGA)	• Urban planning • Revenue mobilization • Financial management • Procurement • Accountability/oversight • Infrastructure implementation • Areas of weaknesses identified during the annual UPG assessments • Human resources management
The following exclusionary criteria apply to works financed with the UPG, which will be included in the manual's screening criteria and has been agreed with PMO-RALG – these parameters will be communicated to participating ULGAs: • Road works outside of existing rights-of-way; • Works involving relocation of more than 20 households; • New landfills; • Activities that would significantly convert natural habitats or significantly alter potentially important biodiversity and/or cultural resource areas.	

14. ***The UPG funds will complement the larger LGDG financing pool***, which disbursed US$ 106.5 million in FY2010/11 and is expected to continue the historical trend of growth explained above. While the existing LGDG flows serve all 133 local governments in the country, the UPG will be introduced to initially to serve the selected 18 ULGAs. It is expected that the grant will be mainstreamed into the larger fiscal decentralization architecture over time. This would be consistent with the established precedent in Tanzania where a series of development grants funded by development partners were initially introduced to serve a select group of local governments and over time were rolled out nationwide and receive an increasing proportion of their financing from the Government.

15. ***The proposed Program (ULGSP) will provide improvements to the ongoing Government program (LGDG).*** As discussed above, the ongoing Government program is facing challenges in adequately incentivizing improvements to local government management systems as it falls short in (i) providing sufficient incentives to local governments to affect systems improvement; (ii) disbursing the program funds in a timely fashion; and (iii) providing sufficient financing to meet urban local government infrastructure needs. The proposed Program will incentivize enhanced local government systems by addressing these major shortcomings through: (i) tying disbursements to ULGAs directly to local government performance, which will be assessed independently on an annual basis; (ii) tying disbursements to the central government entity, PMO-RALG, to the provision of independent LG assessment and disbursement to ULGAs in a timely fashion; and (iii) making the financing available

[29]Investments under capacity building element of the UPG menu are bound by the same limitations as the LGDG Core Capacity Building Grant with restrictions including foreign study tours or long-term education.

significant enough to help ULGAs meet part of their infrastructure needs. All these incentives will be provided once the results are shown. It is expected that these incentives it collectively will bring about enhanced local government management.

16. ***Once effective, the Program will be entered into the Government budget as a distinct line item, and the details of the Program's funds use will be captured in the national budget framework***. Tanzania has a well developed budget classification where local governments classify expenditures in terms of capital expenditure, operating costs, goods and services. The current financial management reporting system as explained in the LGDG and Medium Term Expenditure Framework (MTEF) manuals currently used will be used for the e UPG funds will be to finance recurrent costs such as good, services and training. Tanzania has a well developed budget classification where local governments classify expenditures in terms of capital expenditure, operating costs, goods and services. The current financial management reporting system as explained in the Medium Term Expenditure Framework (MTEF) and the Local Government Development Grant (LGDG) manual currently used will be used for the Program.

Program funds flow – Grant Flows to ULGAs via UPG window

Disbursement of these funds to ULGAs are determined by progress towards disbursement linked indicator (DLI) for the performance grant.	
Action	**Frequency**
1. PS PMO-RALG requests, through PS Treasury, the disbursement of funds from the WB based on the APA score/results	Bi-annually
2. WB transfers funds to MoF on the basis of the APA score/results (funds will be available on BoT, managed by MoF)	Bi-annually
3. On the basis of the APA recommendation, PS PMO-RALG submits TFN 358 to PS Treasury requesting transfer of funds to LGAs, under the Government Exchequer system. Internal MoF process: a. PS MoF submits TFN 358 to MoF, Budget Department b. Budget dept (MoF) confirms the availability of funds with Accountant General's Office (ACGEN) c. Budget dept issues a Treasury Release Warrant (TRW) d. ACGEN instructs BoT (copying PS, PMO-RALG) to transfer the funds to the revenue development account (A/c No. 9921139901)	Bi-annually
4. ACGEN instructs: a. BoT to transfer the funds to NMB where LGAs maintain their accounts as a lump sum; b. NMB to do the specific allocations to individual LGA accounts.	Bi-annually
5. ACGEN enters the allocation amount into EPICOR which produces the Exchequer Issue Notification (EIN). LGAs receive the EIN from the regional secretariats and see their funds. In the future, when EPICOR's most updated version becomes available, all ULGAs will be able to see amounts simultaneously from the system, without having to go through regional secretariats.	Bi-annually

Program funds flow – UPG implementation and supervision by central government

Disbursement of these funds are determined by progress towards disbursement linked indicators (DLIs) for PMO-RALG.	
Action	**Frequency**
1. PS PMO-RALG requests, through PS Treasury, the disbursement of funds from the WB	Bi-annually
2. WB transfers funds to MoF	Bi-annually
PS PMO-RALG submits TFN 358 to PS Treasury requesting transfer of funds to	Bi-annually

PMO-RALG VOTE (ministry account) 56 Internal MoF process a. PS MoF submits TFN 358 to MoF, Budget Dept. b. Budget dept (MoF) confirms the availability of funds with Accountant General's Office (ACGEN) c. Budget dept issues a Treasury Release Warrant (TRW) d. ACGEN instructs BoT (copying PS, PMO-RALG) to transfer the funds to the revenue development account (A/c No. 9921139901)	
3. ACGEN instructs BoT to transfer the funds to sub-treasury where VOTE 56 account is hosted.	Bi-annually
4. ACGEN enters the allocation amount into EPICOR which produces the Exchequer Issue Notification (EIN). PMO-RALG also sees the allocation simultaneously.	Bi-annually

3. Details of Urban Performance Grant Design and Grant Cycle

Details of Urban Performance Grant Design

1. ***The Program budget structure's biggest item will be the UPG***. Given the two core design features of (i) using population figures[30] and (ii) a progressively increasing vertical allocation amount which starts at US$ 3 per capita in FY2013/14, with disbursement against meeting the Program minimum access conditions (DLI 1), then goes up to US$ 12 in FY2014/15 with disbursement against meeting the Program minimum access conditions (DLI 1) and performance against the institutional performance indicators (DLI 2), and reaches US$ 18 in FY2015/16 and onwards, with disbursement against meeting the Program minimum access conditions (DLI 1) and performance against the institutional (DLI 2) and infrastructure (DLI 3) related performance indicators.

2. ***The amount and structure of the largest expenditure item, the UPG, has been identified as the most realistic and efficient option upon consideration of various vertical and horizontal structure scenarios***. In determining the vertical structure of the grant the analysis indicates that a meaningful contribution to funding the investment needs borne by population growth and marginally catching up with infrastructure backlog would require the vertical allocation as mentioned immediately above. A number of options have been analyzed in determining the horizontal structure of the grant.

Cost range for typical urban public infrastructure projects

Kilometer of tarmac road (single surface)	$ 0.2- 0.5 million
Kilometer of tarmac road (complete)	$ 1 – 1.5 million
Bridge	$125,000 - $220,000 (up to $450,000)
Water project	$ 60,000 - $ 180,000

Estimates based on budgeted amounts and informal estimates by local engineers.

3. ***The first option is to construct a basic allocation formula based on urban infrastructure needs***. However it was determined that such a formula would not be accepted by all stakeholders as objective. Establishing the need for infrastructure would require a central entity making decisions on nationally acceptable urban infrastructure service standards which are applicable across all types of Tanzania's climatic and ecological zones. Such standards do not exist and are not deemed to be useable in the local context. Additionally, this option would require a fairly complex formula, thus possibly making it less transparent. Thus, this option is deemed not optimal.

4. ***The second option is to base the allocation exclusively on the size of the population of ULGAs.*** This would result in each urban LGA receiving the same per-capita allocation. The exact size of the per-capita allocation would then depend on the size of the annual grant pool and the total population of all urban LGAs that are eligible for the UPG. A simulation was prepared for this basic scenario. For instance, every urban council might receive an allocation of the median vertical allocation value of US$

[30] Total population of 18 ULGAs is estimated at 2,437,537.

18 per resident (at the earliest in FY2015/16). This will translate into the following approximate allocations per ULGA in the proposed UPG universe:

Simulated approximate size of UPG per LGA if allocated according to population	
Size of annual UPG grant	**Number of Urban LGAs**
< $ 1.0 million	2
$ 1.0 -2.0 million	5
$ 2.0 – 3.0 million	3
> $ 3.0 million	8
Total	**18**

5. ***A third option is to base the allocation formula on the number of urban residents in each ULGA***. To the extent that part of the population of the urban local authority lives outside the core urbanized area, it may be decided to give priority to the core urban areas. In this case, the allocation formula could either use data on the number of residents that live in neighborhoods that exceed a certain settlement density or census data on urban residents. While basing the formula on more detailed data on settlement patterns (such as population density) would be preferable, this data is not available. This means that currently, the simplest and commonly acceptable available option would be to prepare an allocation formula based on the number of urban residents. As noted below, to the extent that informal settlements and urban growth often take place outside the urban core, it would be appropriate to base the formula on the total population of the ULGA.

6. ***A fourth possible option is for the UPG to follow the existing LGDG allocation formula***. The advantage of this approach is that the LGDG formula is transparent and well-understood by all stakeholders in Tanzania. However, analysis showed two shortcomings of applying this formula for the UPG. First, the LGDG formula was developed to provide funding for cross-sectoral local infrastructure needs, including social infrastructure (and therefore allocates greater resources to LGAs with higher poverty rates and greater land area). In contrast, the objective of the UPG allocation formula is to fund urban infrastructure needs. As such, in line with the principle that "finance should follow function", it would be inappropriate to simply apply the LGDG allocation formula. In particular, including land area (so that geographically larger LGAs would receive greater allocations) would be counter-intuitive in the case of the UPG, which aims to provide greater funding to places with greater urban density. Likewise, the rationale for including poverty was very different for the LGDG. Second, there are significant data limitations in estimating the total and urban populations of eligible ULGA jurisdictions. The last population census was conducted in 2002, and therefore the preparations and initial allocations for the UPG will have to be made based on data that are 10 years old. The current LGDG allocations (as well as certain block grant allocations) are based on a population estimate that assumes that population growth is equal to 2.9% per year for every (urban and district) local government authority. Because in reality LGAs grow at a wide range of speeds, it is likely that the existing population estimates considerably under-estimate the population of some urban LGAs, while over-estimating (in relative terms) the population of other LGAs.

7. ***Thus, the analysis honed in on three possible scenarios***: (i) distribute the UPG grant pool in proportion to each urban LGA's total population; (ii) distribute the UPG grant pool in proportion to each eligible LGA's urban population; and (iii) allocate the UPG grant pool in accordance with the LGDG formula (70% population; 20% poor residents; 10% capped land area). A simulation analyzing these

scenarios is presented below: Each simulation allocates $35.5 million (expected UPG disbursement in FY2014/15) among the 18 ULGAs assuming the total UPG pool and a four year disbursement schedule:[31]

Descriptive Statistics for Simulated Per Capita Allocations (in US$)

	Simulation 1 (Total Pop)	Simulation 2 (Urban Pop)	Simulation 3 (LGDG Formula)
Average (all)	14.65	13.29	16.17
Average, MCs	14.65	16.25	13.86
Average, TCs	14.65	8.45	20.00
Std Deviation	0.00	5.21	5.19
CoV	--	0.39	0.32
Minimum	14.65	3.74	12.37
Maximum	14.65	21.25	33.95

8. Simulation 1 shows every eligible LGA receiving exactly the same grant amount per person. Based on population estimates, this amount will be approximately US$14.65. Since every council receives the same per capita amount, there is no variation in per capita allocations. In contrast, Simulation 2 shows considerable variations in per capita allocations. Per capita allocations under this scenario range from USD 3.74 per person (Mpanda TC) to USD 21.25 Moshi MC. As expected, the simulation based on urban population produces results that favor the larger, more urban municipal councils. On average, Simulation 2 suggests that MCs receive USD 16.25 per capita, whereas TCs on average only receive USD 8.45 per capita. While this might reflect the smaller need for urban infrastructure in smaller towns/TCs, the allocation pattern might also result in TCs receiving allocations that are impractically small in order to fund urban infrastructure investments. Simulation 3 was prepared as a comparator, as we do not recommend applying the LGDG formula to the UI grant. Indeed, the simulation provides support for this position: Simulation 3 suggests that TCs would receive a considerably larger per capital grant on average (US$20.00) then MCs (US$13.86). This is inconsistent with the notion that urban authorities that are more urban in nature (in terms of urban concentration or settlement density) should receive a greater allocation per person.

9. In summary, in accordance with the Program intension that the UPG will fund urban infrastructure needs and for sake of simplicity and transparency, the analysis indicates that the use of basic total ULGA population figure as the main allocation criteria for the UPG allocation formula would be the most optimal solution. Poverty and settlement patterns are also relevant criteria (as urban infrastructure needs tend to increases with poverty rates and urban density), but reliable data is not available for these variables.

UPG Cycle[32]

10. The performance grant will be aligned with the local planning and budgeting process and be managed in **three** phases:

[31] Simulations reflect assumptions which had to be made about the demographic composition of the newly formed Geita TC and Bariadi TC.

[32] The full assessment and disbursement cycle is made to ensure full alignment with the national and local government budget cycles from the second year of disbursements. This first assessment of the minimum conditions will also make a baseline assessment of the ULGAs' performance against the performance indicators (not to be used for allocation purposes), and this will be applied to track the performance development from the onset of the Program as well as in the final calibration of the scoring in the assessment manual to be applied in the first assessment of the minimum conditions and performance indicators, see details on second phase.

a. ***First Phase[33]: The phase-in period (Minimum Conditions)*** will be the establishment of the grant on the basis of compliance with minimum access conditions, and will decide the allocations in FY 2013/14, with expected performance assessments in March/April 2013. During this period, the grant system will be established in the following way: A minimum requirement assessment will be conducted to measure the ULGAs' compliance with the enhanced minimum access criteria for the Program. These criteria build on the minimum conditions of the ongoing Government program and the enhancement is on social and environmental systems management. Namely, ULGAs will agree to carry out the processes and procedures of a technical manual for Environmental and Social Management tailored to the Program activities. Discussed in detail in the Program's Environmental and Social Systems Assessment (ESSA), the manual is consistent with Tanzanian systems and bridges the gaps between those systems and OP 9.00. Performance Measures will also be assessed at this annual assessment, but will only be applied to establish a baseline. Based on the results of this basic MC assessment, ULGAs will receive their allocations for the first FY 2013/14, which will be disbursed bi-annually. The timeline for the grant establishment phase is expected to be as follows:

   FY 2013/14: Allocations

   - December 2012: Indicative planning figures (IFPs) based on expected full ULGA compliance with the MCs;
   - January 2013: Local government budgeting process starts using the IPFs;
   - Minimum requirement assessment (upon completion of contracts with company, expected in March - April 2013);
   - April 2013: Initial assessment completed, final disbursement amounts announced;
   - July 2013: ULGAs receive 50% of the first FY´s disbursement (first half of FY 2013/14)
   - January 2014: ULGAs receive 50% of the first FY´s disbursement (second half of FY 2013/14)

b. ***Second Phase: The MC/PM assessment, scaled down with performance measures, which are not yet relevant for this first PM assessment[34]***: Based on compliance with all minimum access conditions and the performance indicators in the assessment, the disbursements will be determined by assessment results. The second period is expected to process as follows:

   FY 2014/15: Allocations

   - September 2013: First minimum conditions/performance measure assessment started
   - December 2013: Assessment complete and allocations announced[35]
   - January 2014: Local government budgeting process starts, using the results from the assessments
   - July 2014: 50% of annual allocation disbursed[36]
   - January 2015: 50% of annual allocation disbursed[37]

c. ***Third Phase: The full MC/PM assessment period with the full number of performance measures***, based on compliance with all minimum access conditions and performance indicators in the assessment, will begin with the assessment of MCs and PMs and the subsequent disbursements, which will be determined by full assessment results. The third period is expected to be as follows:

   FY 2015/16 Allocations:

   - September 2014: First full assessment started

[33] The assessments in this year will be made later than in the subsequent years due to Program start up.
[34] Some of the performance measures, e.g. disbursements and infrastructure achievements will only be applicable a year after the first disbursement of the UPG.
[35] Will apply to FY 2014/15 allocations in alignment with local and national government budget cycles.
[36] As determined by the Sept-Dec 2013 assessment
[37] As determined by the Sept-Dec 2013 assessment

- December 2014: Assessment complete
- January 2015: Local government budget process starts using the results
- July 2015: 50 % of the allocations disbursed[38]
- January 2016: 50% of annual allocation disbursed[39]

FY 2016/17

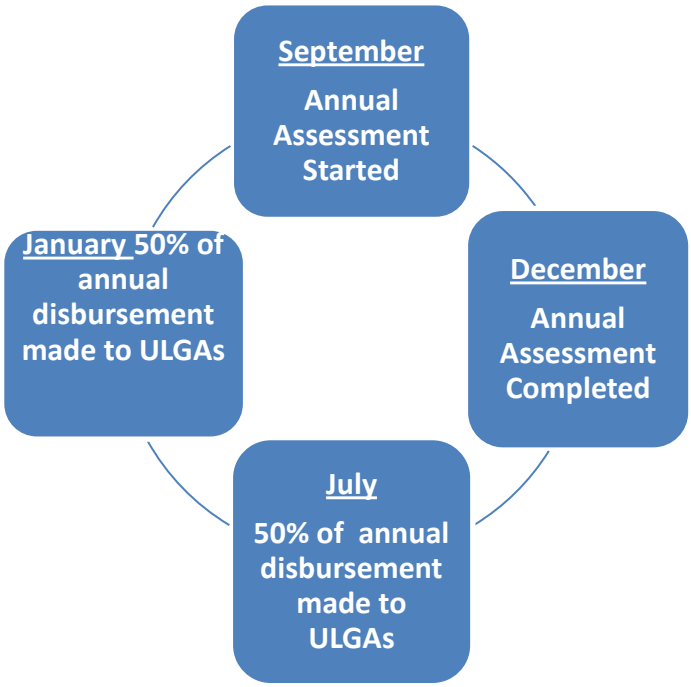
- September 2015: Second full assessment started
- December 2015: Assessment complete
- January 2016: Local government budget process starts using the results
- July 2016: 50% of annual allocation disbursed
- January 2017: 50 % of the annual allocation disbursed

FY 2017/18

- September 2016: Third full assessment started
- December 2016: Assessment complete
- January 2017: Local government budget process starts using the results
- July 2017: 50% of annual allocation disbursed
- January 2018: 50% of annual allocation disbursed
- December 2018: End of Program

The figure below shows a regular assessment process, whereby the results are fitting into the ULGA annual planning and budgeting process[40].

Regular Assessment Cycle – September 2013 to December 2018



[38] As determined by the September - December 2014 assessment
[39] As determined by the Sept/December 2014 assessments.
[40] As mentioned above, the assessments of the MCs in the first year will start later due to the start up of the Program. In the case the audit reports, are not ready at point of time for the assessments, the results of these will be incorporated in the final assessment reports (after verification) and informed to the ULGAs.

4. Financial Sustainability of UPG - Financed Investments

1. ***In depth analysis has been undertaken for the financial sustainability of the investments which will be undertaken by ULGAs as part of the Program***. To the extent that UPG funding is used for economic investments that would generate revenue in a cost-recovering manner, analysis considered whether part or all of the investment should be operated and maintained from user fees or charges, or quasi-user fees. For instance, the operation and maintenance costs (and perhaps depreciation) of bus stands, taxi stands, parking areas, abattoirs, markets, and other investments in economic infrastructure should technically be covered from new fees and other own source revenues. Even if operations and maintenance costs are recouped from user fees, it is important to note that it is not commonplace in Tanzania for local governments to recover the depreciation costs of public investments in this manner. If the UPG would continue this trend, it would most likely lead the local authorities to once again look towards the center for the replacement of infrastructure investments. Analysis found that in some cases such as abattoir, bus stands, or market infrastructure development, fee-based cost recovery (including O&M and depreciation costs) can be applied.

2. ***However, even in these seemingly 'pure' cases of fee-based economic infrastructure, a public subsidy is appropriate if there are externalities or other social implications***. As an example, if the fee for the use of the abattoir is so high as to discourage its use, it might be worthwhile for the municipality to subsidize its operation (or depreciation) from general resources in order to avoid the public health costs and externalities of slaughtering outside the abattoir. The analysis showed, thus, that it would be excessive either to assume or to require that ULGAs engage in full cost recovery (including O&M and depreciation costs). In other cases fee-based cost recovery may not be appropriate or possible because of the non-excludable nature of the good that is being provided (for instance, in case of a public park, solid waste collection from communal collection points, or in order to capture the benefits from new street lights). In these cases, the property tax might be considered as a 'quasi- user fee'. The slack in local own source revenues –particularly in the area of property tax collections- suggests that increases in property taxation is possible in many local governments in order to use this fiscal space to cover the recurrent implications of investments for non-roads urban infrastructure expenditures.

3. ***Analysis of ULGAs' financial ability to operate and maintain urban infrastructure showed that on average, these authorities currently collect approximately 4 USD per capita per year as own source revenue***. At the moment a very significant part of this is provided for administrative uses in the LGAs and less than 10% for maintenance issues (0.4 USD/c/year). If this is increased to 1 USD /year without increasing the existing levels of own source revenue and assuming that maintenance costs from UPG financed investments will amount to about 5% of capital investments, then it will be possible for ULGAs to sustain a total capital investment of up to $20 per capita. Thus, analysis shows that there is fiscal space available within the existing own source revenues to cover the recurrent implications of UPG (non-road) investments. This technical conclusion presumes that ULGAs are able to clearly understand and analyze the recurrent implications of its infrastructure decisions, and they are willing and able to collect the necessary fees and charges to cover the O&M costs of new urban infrastructure. These are not assumptions that can be made in the arena of local governance in Tanzania, where local officials rarely make a strong link between local revenue collections and the cost of public service delivery, or between infrastructure investments and their recurrent implications. As such, these are will be proactively addressed in the detailed design of the UPG grant modality.

4. ***To this end, the Program will require that municipalities submit formal estimates of the long-term recurrent cost implications for any infrastructure to be funded by the UPG, as well as that they prepare detailed revenue generation estimates***. Specifically, councils will be required to discuss these

estimates in a full council session prior to adoption of the annual budget plan (including UPG investments) as a requirement to receive the UPG grant.

5. Minimum Access Conditions (MACs) & Performance Indicators (PIs) for UPG Annual Performance Assessment

ULGSP MACs				
#	LGDG	ULGSP	Indicators of Minimum Access	Information Source and Assessment Procedures
Grievance handing				
1.		X	System in place for handling grievances[41]	Systemic record kept of all grievances related to Program social and environmental management and fiduciary issues. As part of APA, records will be obtained from designated staff for handling grievances on number of grievances filed, nature of grievances, status, and resolution and the status of grievances included in overall Program reporting to PMO-RALG will be verified. Establishment of operational grievance & dispute resolution desk at Mtaa & Ward Offices. Establishment of a functioning and participatory Resettlement Action Plan Committee. [Year 2 and on]
Environmental & Social Management				
2.		X	LGA Environmental and Social Management System in place and operational.	Council ratifies use of the Environmental and Social Management Manual (ESM) to guide infrastructure investments. [Year 1] From LGAs, obtain list of staff with designated responsibilities for Environmental & Social Management and Resettlement Action Plans (including compensation). [Year 1 and on].

[41] As the establishment of grievance systems in all 18 ULGAs will take time, this indicator will be effective in the second assessment round of the Program.

ULGSP MACs				
#	**LGDG**	**ULGSP**	**Indicators of Minimum Access**	**Information Source and Assessment Procedures**
				As part of the APA, verify all UPG projects have completed an environmental and social screening checklist per the ESMM procedures prior to start of the projects. Verify all projects requiring Environmental and Social Management Plans have included them in contracts for civil works and securing of Environmental and Social Impact Assessment Certificates from VPO and their associated specifications and conditions from NEMC. Where required, verify Resettlement Action Plan completed and implemented for all projects involving resettlement. [Year 2 and on] Resettlement Action Plans implemented prior to initiating civil works: All Project Affected People eligible for compensation are paid prior to relocation and/or initiation of civil works; and/or eligible Project Affected People relocated to alternative surveyed plots. The team will obtain records from the Council on the number of Project Affected People compensated and/or resettled; approval of compensation by Full Council, and evidence from the accounts department and RAP Committee that compensation has been paid, and reconcile with date of initiation of civil works. (Year 2 and on)
Implementation of UPG				
3.		X	Use of the UPG in accordance with the investment menu (yes/no)	As part of the performance assessment the appropriate use of previous year grant resources will be assessed to avoid misuse of funds for other purposes than intended. (Year 2 and on)
Financial Management				
4.	X	X	Final Accounts for the previous FY produced as per section 45 (4) of the LGA 1982 and submitted to National Audit Office (NAO) within three months after the end of the FY (by September 30).	From the NAO get the names of all LGAs that submitted the final accounts of the previous FY on time noting dates of submission.
5.	X	X	Internal audit in place and functional as provided under section 45(1) of the LG Act 1982 and the LAFM 1997 orders 12-16. (At least 4 Internal Audit Reports prepared during the previous 12 months and presented to Finance and Planning Committee).	• From the Internal Auditor, obtain and review the quarterly internal audit reports to verify that Internal Audit Reports are produced. • From the Council Director obtain and review the minutes of the Finance and Planning committee for the past 12 months to verify that Internal Audit reports are presented to the Finance and Planning Committee.

Planning and Budgeting				
6.	X	X	LGA having annual budget for the current FY prepared as per guidelines and approved by Council two months before the start of the financial year (by April 30th)	From CT, obtain and review the budget for the current FY to establish whether: • The budget was approved by the council two months before start of the FY; • The budget was prepared as per the guidelines and LAFM regarding estimation of revenue and allocation expenditure; • The budget is presented in the stipulated format.
Procurement				
7.		X	**Tender Boards and** Procurement Management Units and Engineering Departments properly established and adequately staffed as per regulations	Review the existence of the tender board and its composition. From PMO-RALG get the set up of the Procurement Management Units and Engineering Departments **PMU.**
Council's Functional Processes				
8.	X	X	Regular meetings of the council - at least one meeting held every 3 months (quarterly).	From the Council Director obtain the minutes of the full council meetings and verify whether the council met quarterly during the previous FY.
Audited Accounts - CAG Reports to be compiled by PMO-RALG.				
9.	X	X	No adverse Audit Report for Audited Accounts of Council in previous FY.	From the National Audit office, get the names of all LGAs with adverse Audit Reports for Audited Accounts of Council with the CAG report for **Previous FY**.
Capacity Building Planning, Reporting and Accountability				
10.	X	X	LGA having a Comprehensive Capacity Building Plan for the current FY incorporating all crosscutting/generic capacity building needs of all sectors approved by Council on time (by April 30).	From the CHRO obtain and review the Capacity Building Plan for the current FY to establish, whether it was approved by Council and incorporates crosscutting sector capacity building needs.
11.	X	X	LGA has prepared quarterly reports on the utilization of development grants and CBG for the previous FY indicating activities implemented and funds spent and submitted to PMO-RALG on quarterly basic (**CFR and CPR reports).**	From the RS obtain names of LGAs that submitted quarterly reports on utilization of development grants and CBG (CFR and CPR) reports for all the quarters for the previous FY. At the point of time of the assessment, all quarterly reports from previous FY should have been submitted to PMO-RALG. The team will check the submission by the ULGA during the field visits and also review the issue at the RS level.
Additional MC on incremental performance (minimum sustainability in results achieved)				
12.		X	The performance of a ULGA should not decrease by more than maximum 20 points from one assessment to another	Review the assessment results from previous FY and compare with the current results of the performance assessments. If the score has decreased by more than 20 points, e.g. from 90 to 67 points, the ULGA has not passed this MC.

Program Performance Indicators

Performance Indicators related with Institutional Improvements (scoring is between 0-100) for DLI 2.

Performance Indicators in the table below will be assessed during the annual assessments. As mentioned, in the first assessment only the minimum access conditions will have impact on the UPG allocations. In the second assessment, which will encompass both minimum access conditions and performance indicators, few (2) of the performance indicators will not be applied. The two performance indicators which will only be applied from the third assessment, which will start from September 2014, are mentioned in the column with the Description, Information Source and Assessment Procedure.

Performance indicators and scoring guide for the Annual Performance Assessment			
#	**Performance Indicators**	**Scoring Guide**	**Description, Information Source and Assessment Procedure**
I. Urban Planning System Improved (maximum 10 points)			
1.	General Planning Scheme (GPS) for Council adopted (*Max 10 points*)	GPS for Council adopted by Council Management Team: Points are allocated per step of completion in the MLHHDS guidelines: Step 1: Preparation Process: 1 point Step 2: Initiation and Mobilization: 1 point Step 3: Data collection and processing, including maps and socio-economic data: 1 point Step 4: Data analysis: 1 point Step 5: Plan conceptualization: 1 point Step 6: Plan Preparation: 1 point Step 7: Plan adoption: 3 points Step 8: Plan approval: 1 point	• The GPS plan needs to be completed as per MLHHSD guidelines and discussed at Council Consultative meetings. • The Process is handled by the Council GPS Technical Committee • The team will review whether there is compliance with each step in the guidelines and award points per step.
II. Increased Revenues from Property Tax (maximum 25 points)			
2.	Updated Local Government property tax system in place (*Max 5 points*)	Computerized Property Register in place and updated. Yes: score 1 point; No: score 0 point	• Since the project is targeting Urban LGA the priority is to get computerized systems, which will help them to handle larger data bases.
		Computerized billing and invoice delivery system in place. Yes: score 2 point; No: score 0 point	• Sound databases must be followed up by effective billing and invoice delivery systems to ensure full coverage and inclusion of the entire tax base. • Review of the billing system and the level of computerization.
		Multiple channels for property tax payment (collection) system in place. Yes: score 2 point; No: score 0 point	• Multiple channels refer to different option for tax payer to make payment such as regular bank, mobile payment system, etc. • Strengthened collection systems will lead to higher revenues.

Performance indicators and scoring guide for the Annual Performance Assessment			
#	**Performance Indicators**	**Scoring Guide**	**Description, Information Source and Assessment Procedure**
3.	Increase in the number of properties in the property register (*Max 5 points*)	Increase in the number of properties in the property register, measured in percentage By more than 30 %: score 5 points By 21% - 30 %: score 4 points By 11% - 20% score 3 points By 6% - 10 %: score 2 point By 1% - 5% score 1 Note: if the coverage is 100 %, then maximum points is given.	• Widening of the property tax base and maintaining pace with the physical growth of the ULGA is important for sustained growth of revenues from property tax. The team will review the property registered for the last two years.
4.	Increase in taxable properties valued (*Max 5 points*)	Percentage of taxable properties valued as compared to the total taxable properties in the property register: Between 10 to 30%: score 1 point Between 31 to 50%: score 2 points Between 51 to 60%: score 3 points Between 60% to 70:score 4 points More than 70%: score 5 points	• Property taxation is based on valuation as prescribed in relevant Acts and government guidelines. • Review of the share of the taxable properties valued in the register.
5.	Billing collection ratio of property taxes (*Max 5 points*)	Billing collection ratio of property taxes (%) Between 20 to 39%: score 1 point Between 40 to 59:score 2 points Between 60 to 70%:score 3 points Between 71 to 80%:score 4 points More than 80%: score 5 points	• Measurement of collection ratio (actual collection / total of all invoices distributed)
6.	Increase in property tax collected (*Max 5 points*)	If the ULGA has increased collected revenue from property tax in the previous FY as compared to the previous year but one: By more than 10 %: score 5 points By 7% - 10 %: score 3 points By 4% - 6% score 2 points By 1% - 3 %: score 1 point Less than 1% score 0	• Measurement of real collection growth from the previous year but one to the previous FY.
III. Efficient Fiduciary System (maximum 25 points)			

Performance indicators and scoring guide for the Annual Performance Assessment			
#	**Performance Indicators**	**Scoring Guide**	**Description, Information Source and Assessment Procedure**
7.	Average score on the PPRA for targeted ULGAs (*Max 10 points*)	Application of the PPRA scoring system with the following implications on the points: PPRA: Score 95-100: 10 points Score 90-94: 9 points Score 85-89: 8 points Score 80-84: 7 points Score 75-79: 6 points Score 70-74: 5 points Score 65-69: 4 points Score 60-64: 3 points Below benchmark: 60: 0 points.	The Public Procurement Regulatory Authority (PPRA) uses a standardized assessment tool. The assessment manual contains the exact definition of each element and scoring guidelines. PPRA determines an annual target score and which is used to benchmark MDAs and LGAs. PPRA indicators include: 1. Existence of a Tender Board in accordance with the requirements of the Act and Regulations 2. Existence of a PMU in accordance with the requirement of the Act and Regulations 3. Percentage of tenders in which there was no interference between individual functions 4. Prepared annual Procurement Plan 5. Percentages of tenders/ contracts which received compulsory approvals in various processes 6. Percentage of open bidding procedures publicly advertised 7. Percentage of contract awards disclosed to the public 8. Percentage of tenders complying with the stipulated time in the Act and Regulations 9. Percentage of tenders using authorized methods of procurement in accordance with their limits of application 10. Percentage of tender using standard/approved tender documents 11. Percentage of tenders with complete Records 12. Formation and Function of inspection committees (goods) and project managers 13. Percentage of contracts which have been implemented as per the terms of contract
8.	Efficient FM system in place (*Max 15 points*)	Audit committee in place and operational Yes: score 2 point; No: score 0 point	• Review composition of the audit committee and ensure that it has had regular meetings (quarterly) with minutes for the proceedings.
		Timely reconciled accounts in place and Communication to Implementing Departments of funds received documented Yes: score 2 point; No: score 0 point	• Review the accounts and letters to the departments, meet with departments and check the communication to ascertain that they have been informed about funds received.
		Unspent balances from previous FY are included in the budget (as supplementary) for the on-going FY Yes: score 3 point; No: score 0 point	• Review budgets and actual accounts from previous year as well as budget from this year, and minutes from decision-making on budget allocations to see if the carried forward funds have been properly budgeted for.
		Cash flow and procurement plans for following FY in place with clear prediction of revenue and expenditures Yes: score 2 point; No: score 0 point	• Review cash-flow and procurement plans.

Performance indicators and scoring guide for the Annual Performance Assessment			
#	**Performance Indicators**	**Scoring Guide**	**Description, Information Source and Assessment Procedure**
		Clean audit report from previous audit. If yes: Score 6 All Issues from previous audit report rectified (yes/no). If Yes: score 4 point; No: score 0 point (note that if there was a clean audit report the points are provided above and not under this sub-indicator)	• Review audit report from previous FY. • Review audit report and ascertain that all queries have been addressed, review minutes from meetings, etc.
I.V Improved Infrastructure, Implementation and Operations & Maintenance (Maximum 20 points)			
9.	Up-dated annual plan including investments from UPG is in place *(Max 5 points)*	Annual Plan for Development Budget, including investments financed by the Performance Grant developed, and up-to-date with Annual Action Plan for all UPG funded activities with clearly identifiable project targets. Yes: point 5 No: point 0	• This is a measure for the planning process and for the utilization of the UPG. The annual plan preparation process has to be consultative and must involve the relevant departments as well as the CMT included elected members of the Council. • Review of the annual action plan and ascertain that all UPG projects are included, with full budget, and clearly identifiable targets for achievements.
10.	Increase in amount of OSR transferred to the development account (*Max 5 points*)	Increase in amount of OSR transferred to the development account More than 10% over last year amount = score 5 More than 7 %: score 4 point More than 5 %: score 3 points More than 3 %: score 2 points 3 % and below: score 0 points.	• Review the level of transfers from OSR to development account (account number 2 ULGA level) for the last two FY. Note that only score can be obtained, e.g. 4 points (not 2 +4 points).
11.	Annual utilisation of UPG *(Max 5 points)*	Use of the annual UPG compared to plan: More than 85 %: Score 5 More than 75 %: Score 4 More than 65 %: Score 3 More than 55 %: Score 2 55 and below: Score 0 (Note if there are no options to ascertain the planning and use of the grants, the score is also rated as 0.)	• Review the development plan including the planned investments from UPG, and compared with the actual spending by the end of the FY. **This will only be applied from the third annual assessment, starting September 2014, as only then will there be a FY with UPG spending to review.**

Performance indicators and scoring guide for the Annual Performance Assessment			
#	**Performance Indicators**	**Scoring Guide**	**Description, Information Source and Assessment Procedure**
12.	O & M plan in place and executed (*Max 5 points*)	ULGA has Operations and Maintenance Plan including budgeting in place and the budget is minimum 5 % of the total development budget. Yes: score 2 points No: score 0 point	• Review the plan and budgets and compare the total development budget with the budget for O&M.
		ULGA actual expenditure on O&M higher than 90% compared with annual O&M budget. Higher that 90 %: score 3 Higher than 80 %: Score 2 Higher than 70 %: Score 1 70 % or below: score 0 point	• Review the actual use of funds on O&M for projects planned and budgeted for against the budget. (note only one score, e.g. 2 points (not 3 +2 points) can be obtained for this indicator)
V. Accountability and Oversight Systems Strengthened (Maximum 20 points)			
13.	Consultative process for the development plan in place. (*Max 2 points*)	The development plan is developed and discussed by (a) Full Council; (b) respective Ward Development Committees; and (c) the respective Regional Secretariat and with public consultations. Yes in compliance will all: score 2 points No: score 0 point	• Review minutes from meetings in council, committees and from the meetings with the public. Cross-check information with various sources.
14.	Annual progress reporting and disseminating systems in place. (*Max 3 points*)	Annual and quarterly financial and physical progress report presented to and discussed by the Council. Yes: score 2 points; No: score 0 point	• Review minutes from the council and discuss the issues with administration and councillors.
		Annual financial and physical progress report disseminated to the general public via suitable (newspapers, local radio stations, web pages etc.) commonly available media. Yes: score 1 point; No: score 0 point	• This refers to the Councils overall financial and physical progress. Not only restricted to performance grant utilization.
15.	Information on use of OSR publicly disclosed (*Max 3 points*)	Information on use of OSR publicly disclosed (e.g. newspaper, notice boards, radio etc.). Yes: score 3 point; No: score 0 points	• Information disclosed on use of OSR could be part of annual budget report or other implementation reports. Review the documentation for disclosure of information.
16.	ULGA Service Charters with standards in place	Service Charter including service delivery improvement plan and targets adopted by the Council and disseminated to and made available to general public.	• Review Service Charter and ascertain that it complies with the scoring guide.

Performance indicators and scoring guide for the Annual Performance Assessment			
#	**Performance Indicators**	**Scoring Guide**	**Description, Information Source and Assessment Procedure**
	(*Max 2 points*)	Yes: score 2 points; No: score 0 point	
17.	Systematic records maintained on all environment and social activities implemented by ULGAs *(max. 5 points)*	Environmental and Social Performance Reports sent to PMO-RALG quarterly. Yes: score 5 points; No: score 0 point	• As part of overall Program reporting from LGAs to PMO-RALG, staff with designated responsibilities for environmental & social management and Resettlement Action Plans (including Compensation) report on a quarterly basis according to guidelines and manuals provided by PMO-RALG. **This will only be applied from the third annual assessment, starting September 2014, as only then will there be a FY with UPG spending to review.**
18.	All participatory consultative processes on ULGA program activities address relevant environmental and social considerations (*Max 5 points*)	Procedures for public participation in the preparation and implementation of Environmental and Social Impact Assessment and Resettlement Action Plans followed. Yes: score 5 points; No: score 0 point	• Verify in meeting minutes that at least one public meeting for infrastructure projects included environmental and social issues. • Verify from LGA that projects requiring environmental and social impact assessment has made document publicly available, including dates for local disclosure and comment period, media outlets and location of documents. • For projects requiring resettlement and compensation, verify that public sensitization meeting was held and that affected people have been involved in the consultations and interested and affected stakeholders had an opportunity to comment and provide feedback. • (*This indicator should be applied already from the September 2013 assessment as the plans and budgets for FY 2013/14, should apply this new system).*
		TOTAL Maximum Points: 100	

Physical Progress on Local UPG Funded Investments – Second Component in the Annual Performance Assessment for DLI 3 (Assessment in September 2014 with impact on FY 2015/16)[42]

Performance indicators and scoring guide for the Annual Performance Assessment			
#	**Performance Indicators**	**Scoring Guide**	**Description, Information Source and Assessment Procedure**
1.	Local infrastructure targets as set out in the annual action plans met by ULGAs utilizing the Program Funds. *(Max 100 points)*	Physical targets as included in the annual action plan implemented. The % of implementation will be reflected directly in the score, i.e. 80 % = 80 points. The score on this indicator will be between 0-100.	Achievement under this indicator will be measured on the basis of actual delivery of infrastructure against targets laid out in the action plan for the previous year using UPG funds. The means for verification are: • Measurement of the utilization of the UPG and ensure timely implementation of projects. Review all planned projects and the degree to which they have been implemented by the end of the FY. • Review annual and quarterly action plans and reports • Check sample projects from the field-work (on-the-spot of implementation rates) • Check the contract implementation progress and contract completions through the review of bills of quantities, see the description below. Implementation rate of each project will be assessed and there will a weighting of these to get a total score. The weight of each project will depend on the budgeted size of the projects. This will only be applied from the third annual assessment, starting September 2014 (impact on the FY 2015/16 allocations), as only then will there be a full previous FY with UPG spending to assess.
	Total Score	**Maximum Score is 100 points**	

[42] The indicators in the assessment will be different for the assessment in 2014 with impact on FY 2015/16 and the following years, as assessment of value for the money will start in the assessments from 2015 with impact on FY 2016/17.

Physical Progress on Local UPG Funded Investments – Second Component in the Annual Performance Assessment for DLI 3 (Assessment in September 2015 and following years)

This will only be applied from the fourth annual assessment, starting September 2015 (impact on the FY 2016/17 allocations).

Performance indicators and scoring guide for the Annual Performance Assessment			
#	**Performance Indicators**	**Scoring Guide**	**Description, Information Source and Assessment Procedure**
1.	Local infrastructure targets as set out in the annual action plans met by ULGAs utilizing the Program Funds. *(Max 50 points)*	Physical targets as included in the annual action plan implemented. The % of implementation will be reflected directly in the score multiplied by 50 % (weight of this indicator), i.e. 100 % = 50 points, 70 % = 35 points. The score on this indicator will be between 0-50.	Achievement under this indicator will be measured on the basis of actual delivery of infrastructure against targets laid out in the action plan for the previous year using UPG funds. The means for verification are: • Measurement of the utilization of the UPG and ensure timely implementation of projects. Review all planned projects and the degree to which they have been implemented by the end of the FY. • Review annual and quarterly action plans and reports • Check sample projects from the field-work (on-the-spot of implementation rates) • Check the contract implementation progress and contract completions through the review of bills of quantities, see the description below. Implementation rate of each project will be assessed and there will a weighting of these to get a total score. The weight of each project will depend on the budgeted size of the projects. Assessed by the performance assessment teams.
2.	Value for the money in the infrastructure investments funded by the Program	% of projects implemented with a satisfactory level of value for the money, calibrated in the value for the money assessment tool. The % of projects with a satisfactory level of value for the money will be reflected in the score multiplied by 0.5 (which is the weight of this indicator), i.e. 80 % satisfactory projects= 40 points, 70 % = 35 points.	The value for the money of each project (level of satisfactory value for the money) will be assessed and there will a weighting of these to get a total score. The weight of each project will depend on the budgeted size of the projects. The input from this will be provided by the PPRA (value for the money audits) to the assessment teams to include in the calibration and in the final calculation of the size of the allocations.

Performance indicators and scoring guide for the Annual Performance Assessment			
#	**Performance Indicators**	**Scoring Guide**	**Description, Information Source and Assessment Procedure**
		The score on this indicator will be between 0-50 (max).	
		Total Maximum Score = sum of indicator 1 and 2 = 100 points.	

6. Program Disbursement-Linked Indicators, Verification Protocol and Results Framework

Disbursement-Linked Indicator Matrix

	Total Financing Allocated to DLI	*As % of Total Financing Amount*	*DLI Baseline*	*Indicative timeline for DLI achievement*					
				FY12/13	*FY13/14*	*FY14/15*	*FY15/16*	*FY16/17*	*FY17/18*
DLIs 1, 2 and 3: Strengthened institutional performance and infrastructure delivery by ULGAs									
DLI 1 ULGAs have strengthened institutional performance and achieve Program minimum conditions in the annual assessment			N/A	N/A	18 ULGAs	18 ULGAs	18 ULGAs	18 ULGAs	18 ULGAs
Allocated amount:	45	17.65%		0	9	9	9	9	9
DLI 2 ULGAs have strengthened institutional performance[43] as scored in the annual performance assessment			N/A	N/A	N/A	60	70	80	90
Allocated amount:	106	41.57%		0	0	26.5[44]	26.5	26.5	26.5
DLI 3 Local infrastructure targets as set out in the annual action plans are			N/A	N/A	N/A	N/A	70	80	90

[43] In the areas of urban planning, revenue enhancement, fiduciary systems, implementation of infrastructure, operations and maintenance and oversight systems including environmental and social systems management.

[44] Rising targets against constant allocation amounts are deliberately established to leverage increasing performance for each Program year.

	Total Financing Allocated to DLI	*As % of Total Financing Amount*	*DLI Baseline*	*Indicative timeline for DLI achievement*					
				FY12/13	*FY13/14*	*FY14/15*	*FY15/16*	*FY16/17*	*FY17/18*
met by ULGAs utilizing the Program funds									
Allocated amount:	50	19.61%		0	0	0	16.7[45]	16.7	16.7
DLIs 4 and 5: Strengthened ULGA public sector management and capacity									
DLI 4 Number of ULGAs with all core staff in place[46]			0	N/A	100%	100%	100%	100%	100%
Allocated amount:	14	5.49%		0	2.8	2.8	2.8	2.8	2.8
DLI 5 Completion of annual PMO-RALG capacity building activities for Program ULGAs			N/A	N/A	Capacity building activity plan adopted	50%	60%	70%	80%
Allocated amount:	30	11.76%		0	6	6	6	6	6
DLI 6: Overall LGDG Strengthening									
DLI 6 PMO-RALG has adopted an enhanced LGDG assessment system derived from lessons learned from the annual Program assessments			N/A	N/A	N/A	N/A	100%	N/A	N/A

[45] Same as in DLI 2, rising targets against constant allocation amounts are deliberately established to leverage increasing performance for each Program year.
[46] PMORALG is responsible for providing core staffing. Core staffing composition is explained in detail in the Verification Protocol and Bank Disbursement tables.

	Total Financing Allocated to DLI	*As % of Total Financing Amount*	*DLI Baseline*	*Indicative timeline for DLI achievement*					
				FY12/13	*FY13/14*	*FY14/15*	*FY15/16*	*FY16/17*	*FY17/18*
Allocated amount:	10	3.92%		0	0	0	10	0	0
Total Financing Allocated:	255	100%		0	17.7	44.3	71	61	61

Protocol for Verifying Achievement of DLIs

#	DLI	Definition/ Description of achievement	Scalability of Disbursements (Yes/No)	Protocol to evaluate achievement of the DLI and data/result verification		
				Data source/agency	Verification Entity	Procedure
1	ULGAs have strengthened institutional performance and achieve Program minimum conditions in the annual assessment	The indicator will be satisfied when: (i) The annual performance assessment, using only the minimum conditions, has been completed and the allocations to Program ULGAs have been determined on this basis; (ii) The Government has disbursed the previous UPG tranche to all 18 ULGAs.	Yes	Private firm will carry out the annual assessment	PMORALG	PMORALG hires a reputable private sector consulting/audit firm to carry out the independent annual performance assessment (APA) to measure the performance of each ULGA against the Program's minimum conditions.APA determines whether all MCs have been met, including the MC condition that the performance of a ULGA should not decrease by more than maximum 20 points compared to the previous year's assessment. The firm will calculate the allocation to each ULGA as per the formula in the Bank Disbursement Table, and provide the aggregate disbursement amount. PMORALG will verify that: (i) The assessment results are accurate (for the Program duration); (ii) The disbursement from the central government to ULGAs of UPG funds in the last 6-month period has been done on time, based on verifying the date on the Exchequer Issue Notification (EIN) which is the final transfer step from the MoF to ULGAs as explained in detail in Annex 1 (starting with the second disbursement of UPG for Program duration) As part of implementation support, Bank will: (i) review the assessment results and the allocation amounts; (ii) check the EIN to ensure the timely disbursement of UPG funds from GOT to ULGAs.

2	ULGAs have strengthened institutional performance[47] as scored in the annual performance	The indicator will be satisfied when the annual performance assessment has been completed (based on the minimum conditions and performance indicators) and the allocation based on the score of all ULGAs	Yes	For (i) Private firm will carry out the annual assessment
				
				For (ii) MoF
					PMORALG	As in DLI 1, PMORALG hires a reputable private sector consulting/audit firm to carry out the independent annual performance assessment (APA) to measure the performance of each ULGA against the Program's performance indicators.
						
						APA assigns a score to each ULGA. The private firm will calculate the allocation to each ULGA as per the formula in

[47] In the areas of urban planning, revenue enhancement, fiduciary systems, implementation of infrastructure, operations and maintenance and oversight systems including environmental and social systems management.

#	DLI	Definition/ Description of achievement	Scalability of Disbursements (Yes/No)	Protocol to evaluate achievement of the DLI and data/result verification		
				Data source/agency	Verification Entity	Procedure
	assessment	has been determined.				the Bank Disbursement Table, and provide the aggregate disbursement amount. PMORALG will verify that: (i) The assessment results are accurate (for the Program duration); (ii) The disbursement from the central government to ULGAs of UPG funds in the last 6-month period has been done on time, based on verifying the date on the Exchequer Issue Notification (EIN) which is the final transfer step from the MoF to ULGAs as explained in detail in Annex 1 (starting with the second disbursement of UPG for Program duration) As part of implementation support, Bank will: (i) review the assessment results and the allocation amounts; (ii) check the EIN to ensure the timely disbursement of UPG funds from GOT to ULGAs.
3	Local infrastructure targets as set out in the annual action plans are met by ULGAs utilizing the Program funds	Achievement under this indicator for FY2015/16 will be measured on the basis of actual delivery of infrastructure against targets laid out in the plan for the former year using UPG funds. For FY2016/17 and FY2017/18, in addition to the actual delivery of infrastructure against targets, the achievement of the DLI will also include the outcome of the value for money audits.	Yes	Private firm will carry out the annual assessment and PPRA will carry out the value for money audits. Private firm will include the PPRA's findings on the value for money audits to the overall data.	PMORALG	Similar to DLIs 1 and 2 above, this DLI will also be measured through the annual assessment and therefore the same process will apply. APA assigns a score to each ULGA (which starting in FY2016/17 will include the value for money audit outcomes). The private firm will calculate the allocation to each ULGA as per the formula in the Bank Disbursement Table below, and provide the aggregate disbursement amount. PMORALG will verify that: (i) The assessment results are accurate (for the Program duration); (ii) The disbursement from the central government to ULGAs of UPG funds in the last 6-month period has been done on time, based on verifying the date on the Exchequer Issue Notification (EIN) which is the final transfer step from the MoF to ULGAs as explained in detail in Annex 1 (starting with the second disbursement of UPG for Program duration)

#	DLI	Definition/ Description of achievement	Scalability of Disbursements (Yes/No)	Protocol to evaluate achievement of the DLI and data/result verification		
				Data source/agency	Verification Entity	Procedure
						As part of implementation support, Bank will: (i) review the assessment results and the allocation amounts; (ii) check the EIN to ensure the timely disbursement of UPG funds from GOT to ULGAs.
4	Number of ULGAs with all core staff in place	Each ULGA has the requisite core staffing in place (assessed every year of the Program). Core staffing is defined in the PMO-RALG scheme of service and comprises council director, council treasurer, council internal auditor, council engineer, council community development officer (in charge of environmental and social systems management), council supplies officer, council assistant supplies officer (in charge of procurement), council town planning officer, council planner and council human resources officer.	Yes	PMORALG	World Bank	No less than 60 days prior to the beginning of the new fiscal year, PMORALG will submit to the Bank a schedule listing the names and positions of all core staff for all 18 ULGAs. Also, prior to 60 days of the beginning of the new fiscal year, each ULGA will submit to the Bank a list of the names and positions of core staff. The Bank will review consistency of the lists.
5	Completion of annual PMO-RALG capacity building activities for Program ULGAs	Achievement of the DLI will be determined on the basis of execution of activities specified in the PMO-RALG capacity building plan for ULGAs.	Yes	PMORALG	World Bank	PMORALG will put in place an annual plan to build capacity of ULGAs. Among other things, the plan will specify the activity, its objective, the resources assigned and the implementation timeline. The template for the plan will be included in the operations manual. Within 60 days of the beginning of the forthcoming fiscal year, PMORALG will submit the plan to the World Bank which will verify that the plan is in the agreed format and is satisfactory. Within 30 days of the beginning of the fiscal year, PMORALG will submit a report of the implementation of the annual capacity building plan for the previous year to the World Bank.

#	DLI	Definition/ Description of achievement	Scalability of Disbursements (Yes/No)	Protocol to evaluate achievement of the DLI and data/result verification		
				Data source/agency	Verification Entity	Procedure
						World Bank will verify the extent to which the plan has been executed and determine the DLI amount to be disbursed.
6	PMO-RALG has adopted an enhanced LGDG assessment system derived from lessons learned from the annual Program assessments	Following the Program midterm review, PMO-RALG, in consultation with the World Bank, will develop an enhanced performance assessment system for the LGDG Core and introduces it for the following fiscal year.	No	PMORALG	World Bank	When the enhanced system is introduced, PMORALG will share with the World Bank task team (i) the circular to all local governments indicating the changes to the assessment and (ii) the performance assessment manual for the LGDG assessment which will include the enhanced performance indicators and process.

Bank Disbursement Table

#	DLI	Bank financing allocated to the DLI	Of which Financing available for		Deadline for DLI Achievement	Minimum DLI value to be achieved to trigger disbursements of Bank Financing	Maximum DLI value(s) expected to be achieved for Bank disbursements purposes	Determination of Financing Amount to be disbursed against achieved and verified DLI value(s)
			Prior results	Advances				
1	ULGAs have strengthened institutional performance and achieve Program minimum conditions in the annual assessment	45	0	0	By Program completion	0	18	1. Disbursement from the Bank is calculated on the basis of compliance of ULGAs with minimum access conditions (including the MC that the performance of a ULGA should not decrease by more than maximum 20 points compared to the previous year). 2. Disbursement will be made provided that previous disbursements from GoT to ULGAs have all been made. 3. 4. Formula for disbursement from the Bank to GoT is: • [total annual disbursement] = [total population in all minimum condition compliant ULGAs] X [3.1USD] 5. 6. Formula for disbursement from GoT to ULGAs is: • [disbursement to each ULGA] = [total population in that ULGA] X [3.1USD], provided that the ULGA has complied with the minimum conditions
2	ULGAs have strengthened institutional performance [48] as scored in the annual performance assessment	106	0	0	By Program completion	0	100	7. Disbursement from the Bank to GoT will be determined as: 1. Compliance of ULGAs with minimum access conditions measured (as above); 2. Sum of scores of all ULGAs calculated (non-MC compliant ULGAs are assigned a score of zero) and divided by 18; 3. A. If score equal to target for FY, full allocation, B. If score below target for FY, pro-rata reduction, C. If score above target for FY, pro-rata increase. Disbursement will be made provided that previous disbursements from GoT to ULGAs have all been made.

[48] In the areas of urban planning, revenue enhancement, fiduciary systems, implementation of infrastructure, operations and maintenance and oversight systems including environmental and social systems management.

#	DLI	Bank financing	Of which Financing available for		Deadline for DLI Achieve	Minimum DLI value to be achieved	Maximum DLI value(s) expected to	Determination of Financing Amount to be disbursed against achieved and verified DLI value(s)
								Disbursement from the GoT to ULGAs will be determined as: Total disbursement amount (as calculated above) divided across compliant ULGAs in accordance with population and score. Formula for disbursement from the Bank to GoT is: • [total annual disbursement] = [{sum of individual scores of all ULGAs/18}/ {target score for the FY}] X [target disbursement amount i.e. $26.5m] Performance targets for this DLI are: FY14/15: 60 FY15/16: 70 FY16/17: 80 FY17/18: 90 Formula for disbursement from GoT to ULGAs is: • [disbursement to any ULGA] = [population of ULGA X performance score of ULGA] / [∑ (population of ULGA 1-..18 X performance score of ULGA 1-..18)] X [total disbursement amount for the FY], providing that the ULGA has complied with the minimum conditions
3	Local infrastructure targets as set out in the annual action plans are met by ULGAs utilizing the Program funds	50	0	0	By Program completion	0	100	Disbursement from the Bank to GoT will be determined as: 1. Compliance of ULGAs with minimum access conditions measured (as above); 2. Sum of score of all ULGAs calculated (non-MC compliant ULGAs are assigned a score of zero) and divided by 18 3. A. If score equal to target for FY, full allocation, B. If score below target for FY, pro-rata reduction, C. If score above target for FY, pro-rata increase. Disbursement will be made provided that previous disbursements from GoT to ULGAs have all been made. Disbursement from the GoT to ULGAs will be determined as: Total disbursement amount (as calculated above) divided across compliant ULGAs in accordance with population and score. Formula for disbursement from the Bank is: • [total annual disbursement] = [{sum of individual scores of all ULGAs/18}/{target score for the FY}] X [target disbursement amount i.e. $16.66m]

#	DLI	Bank financing	Of which Financing available for		Deadline for DLI Achieve	Minimum DLI value to be achieved	Maximum DLI value(s) expected to	Determination of Financing Amount to be disbursed against achieved and verified DLI value(s)
								Formula for disbursement from GoT to ULGAs is • [disbursement to any ULGA] = [population of ULGA X performance score of ULGA] / [∑(population of ULGA 1-..18 X performance score of ULGA 1-..18)] X [total disbursement amount for the FY], providing that the ULGA has complied with the minimum conditions Performance targets for this DLI are: FY15/16: 70 FY16/17: 80 FY17/18: 90
4	Number of ULGAs with all core staff in place	14	0	0	Annually, starting in Program year 2 (FY13/14)	9 ULGAs	18 ULGAs	Core staffing is: Council director, council treasurer, council internal auditor, council engineer, council community development officer (in charge of environmental and social systems management), council supplies officer, council assistant supplies officer (in charge of procurement), council town planning officer, council economist, council human resources officer. Qualifications of core staff are specified in GoT Scheme of Service. $155,500 per ULGA with required staffing per year, if less than 9 ULGAs have the full staffing, no disbursement will be made.
5	Completion of annual PMO-RALG capacity building activities for Program ULGAs	30	0	0	Annually, starting in Program year 2 (FY13/14)	PMORALG capacity building plan formulated for the forthcoming year and minimum execution rates specified achieved for the preceding year.	N/A	FY13/14: PMO-RALG submits plan in agreed format. Provided that PMORALG has prepared the capacity building plan for the forthcoming year and that for 2014/15 at least 50% of the 2013/14 activities have been executed, for 2015/16 at least 60% of 2014/15 activities have been executed, for 2016/17 at least 70% of 2015/16 activities have been executed, for 2017/18 and 2018 at least 80% of 2016 and 2017 activities have been executed, $6 million will be disbursed.
6	PMO-RALG has adopted an	10	0	0	By Program completi	N/A	N/A	Upon DLI achievement, $10 million will be disbursed.

#	DLI	Bank financing	Of which Financing available for		Deadline for DLI Achieve	Minimum DLI value to be achieved	Maximum DLI value(s) expected to	Determination of Financing Amount to be disbursed against achieved and verified DLI value(s)
	enhanced LGDG assessment system derived from lessons learned from the annual Program assessments				on			

Results Framework

Program Development Objective: To improve institutional performance for urban service delivery in participating urban local government authorities													
Indicator	**DLI**	**UOM**	**Baseline**	**Target Values**						**Frequency**	**Data Source/ Methodology**	**Responsibility for Data Collection**	**Definitions/ Comments**
				FY2012/13	**FY2013/14**	**FY2014/15**	**FY2015/16**	**FY2016/17**	**FY2017/18**				
PDO Level Results Indicators													
1. Annual performance score of participating ULGAs as assessed by the independent annual performance assessment	**#1**	2013:0 2014: Number of ULGAs 2015-2018: Percent	n/a	0	18 (ULGAs which meet the Program Minimum Access Conditions)	60	10 (Percent increase over the year 3 value)	20 (Percent increase over the year 3 value)	30 (Percent increase over the year 3 value)	Annual	Annual Performance Assessment	PMORALG	The year 3 target value of 60 is an estimate. The actual score in the following years of the Program will be based on the actual average score attained by ULGAs in this year.
2. Infrastructure built or rehabilitated using UPG funds, including[49]: • City roads and related infrastructure • Slaughterhouse/abattoir • Commercial market infrastructure • Dumpsite rehabilitation • Community waste collection points		%	n/a	0	0	Measured annually	Measured annually	Measured annually	Measured annually	Annual	ULGAs Council Dvlp. Plan report	PMORALG	The nature of the investments to be made by ULGAs are demand driven and will be determined through the annual planning process. As such, they are inherently unpredictable. It is thus not

[49] Nature and quantity of infrastructure to be delivered will be determined through the annual ULGA local participatory planning process. It is thus not possible to predict likely targets for infrastructure delivery. This indicator will thus be measured annually based on actual delivery.

													possible to include baseline or target values for this indicator.
Intermediate Results Indicators													
3. Qualified core staff are in place in Program ULGAs	**# 3**	#	**0**	n/a	18	18	18	18	18	Annual	Annual Performance Assessment	PMORALG	
4. Annual PMO-RALG capacity building activities for Program ULGAs executed	**# 4**	%	n/a	0	Capacity building activity plan adopted	60%	70%	80%	90%	Annual	Annual Performance Assessment	PMORALG	For year 2: The target will be for the plan to be formulated for year 3. For years after year 2: Percentage of implemented activities compared to planned activities
5. Increase in property tax collected	☐	%	Tbd						15%[50]	Annual	Annual Performance Assessment	PMORALG	Average across ULGAs. The increase is cumulative and refers to the baseline value of each ULGA.
6. ULGAs with computerized billing and invoice delivery system in place	☐	#	0	0	0	6	12	15	18	Annual	Annual Performance Assessment	PMORALG	
7. ULGAs with an actual expenditure on O&M higher than 70% compared with annual O&M budget		#	N/A	0	0	10	13	16	18	Annual	Annual Performance Assessment	PMORALG	
8. ULGAs with no adverse/disclaimed audit		#	18	18	18	18	18	18	18	Annual	Annual Performance	PMORALG	

[50] This will be real (not nominal) increase.

report for audited accounts											Assessment		
9. ULGAs with clean audit report for audited accounts		#	12	15	16	17	18	18	18	Annual	Annual Performance Assessment	PMORALG	
10. Average score of ULGAs on the PPRA assessment for targeted ULGAs		%	64	67	70	74	78	82	86	Annual	Annual Performance Assessment	PMORALG	Score is based on the PPRA standardized assessment tool
11. Direct Program beneficiaries (number), of which female (percentage) [51]	☐	# %	0	0	0	2,626,485	2,913,648	3,219,581	3,545,327	Annual	ULGAs Council Dvlp. Plan report	PMORALG	Direct beneficiaries of actual investments financed by the UPG

[51] Nature and quantity of infrastructure to be delivered will be determined through the annual ULGA local participatory planning process. It is thus not possible to predict likely targets for infrastructure delivery. This indicator will thus be measured annually based on actual delivery.

7. Program Integrated Risk Framework

A. Operating environment risks

Country risk (1.1)
Rating: Medium
Description: The Government has agreed with IMF to o keep the fiscal deficit at 6.6%, down from 8 % initially projected, based on combination of a cut in recurrent spending and higher revenue mobilization. However, fiscal expenditures will continue to increase, at around 20 % in real terms, driven by an ambitious infrastructure agenda. The electricity supply shortage in the first half of 2011 has added pressure on infrastructure investments. Given the declining level of foreign aid and diminishing rate of growth in domestic revenues, the Government is increasingly trying to seek external non-concessional and domestic borrowings as sources of funding. Higher reliance on non-concessional borrowing has led to a significant increase in the level of public debt from 29 percent of GDP in 2008/09 to over 40 percent of GDP at end 2010/11. While Tanzania's debt distress remains low, there are growing risks to the fiscal sustainability of the Government.
Risk Management: The Bank, through its PER dialogue and its close coordination with the IMF as well as PRSC program, will continue to provide support to strengthen macroeconomic and fiscal management. In particular, the Bank is taking a leadership role among donors t to re-establish effective PER process with the Government which will better linked to the annual budget preparation process. The new series of PRSC supports such effort to re-establish PER process as well as strengthening national institution for public investment management and enhancing domestic revenue mobilization.

Stakeholder risk (1.2)
Rating: Low
Description: The national government, LGAs, general public and development partners are all committed to ULGSP. Further, these stakeholders, particularly the development partners have been closely consulted throughout and they will continue to be included in the Program preparation.
Risk Management: Jointly with the Government, the Bank team will continue to keep the development partners involved in the program. Citizens of ULGAs will continuously be kept informed of the Program, the investments, as well as the performance of the ULGAs each year. This element is built into the performance indicators and requirements for ULGAs where all Program related information has to be made public via mass media.

A. Program risks
Technical Risk (2.1)
Rating: Substantial
Description: (i) UPG incentive structure might be found to be too difficult to attain by ULGAs. If the ULGAs perceive of the UPG performance indicators as being too tough and difficult to attain, they will not be incentivized to enhance performance, (ii) UPG financed investments can be captured by the local elite to their benefit and (iii) Government continues to disburse funds late.
Risk management: To mitigate risk (i) team has carried out extensive consultations with and assessments of ULGAs and has determined that the proposed performance indicators are of an ideal equilibrium. Government and Bank team will continuously monitor progress and refine the performance indicators according to annual performance assessment outcomes. (ii) Program design takes this risk seriously and requires that well established participatory selection processes at the local level be used to select the activities to be financed by UPG. Namely, the Program requires, through its performance indicators, that all activities to be financed by UPG be presented to and discussed by (a) District Consultative Committee; (b) relevant Ward Committees; and (c) the respective Regional Secretariat. Further, the activities then need to be presented to and be endorsed by municipal council upfront and each year following the initial year. The Program also requires that the annual financial and physical progress report of the activities to be financed by UPG be presented to and discussed by the Council annually. (iii) Program design mitigates this in two ways; first by reducing the quarterly disbursement frequency under LGDG to bi-annual for

UPG funds. This will reduce the instance of the probability of delay taking place. Secondly, the Program has a DLI built in to ensure timely disbursements to the ULGAs. If delays take place, then the central government entities will not receive their disbursement under element two of the Program.

Fiduciary Risk (2.2)

Rating: High (procurement risk of the participating ULGAs is rated high. ***Financial management risk of the participating ULGAs is substantial).***

Description: While mitigation measures are proposed for each of the identified fiduciary elements, it is also worth recalling that the overall LGSP2 operation is focused particularly on the institutional performance strengthening for this reason of weak fiduciary capacities in the LGAs charged with service delivery, and that the choice of PforR instrument is a core design feature that seeks to align incentive structures for local government performance with very clear and transparent performance metrics including fiduciary performance.

Environmental and social risk (2.3)

Rating: Medium

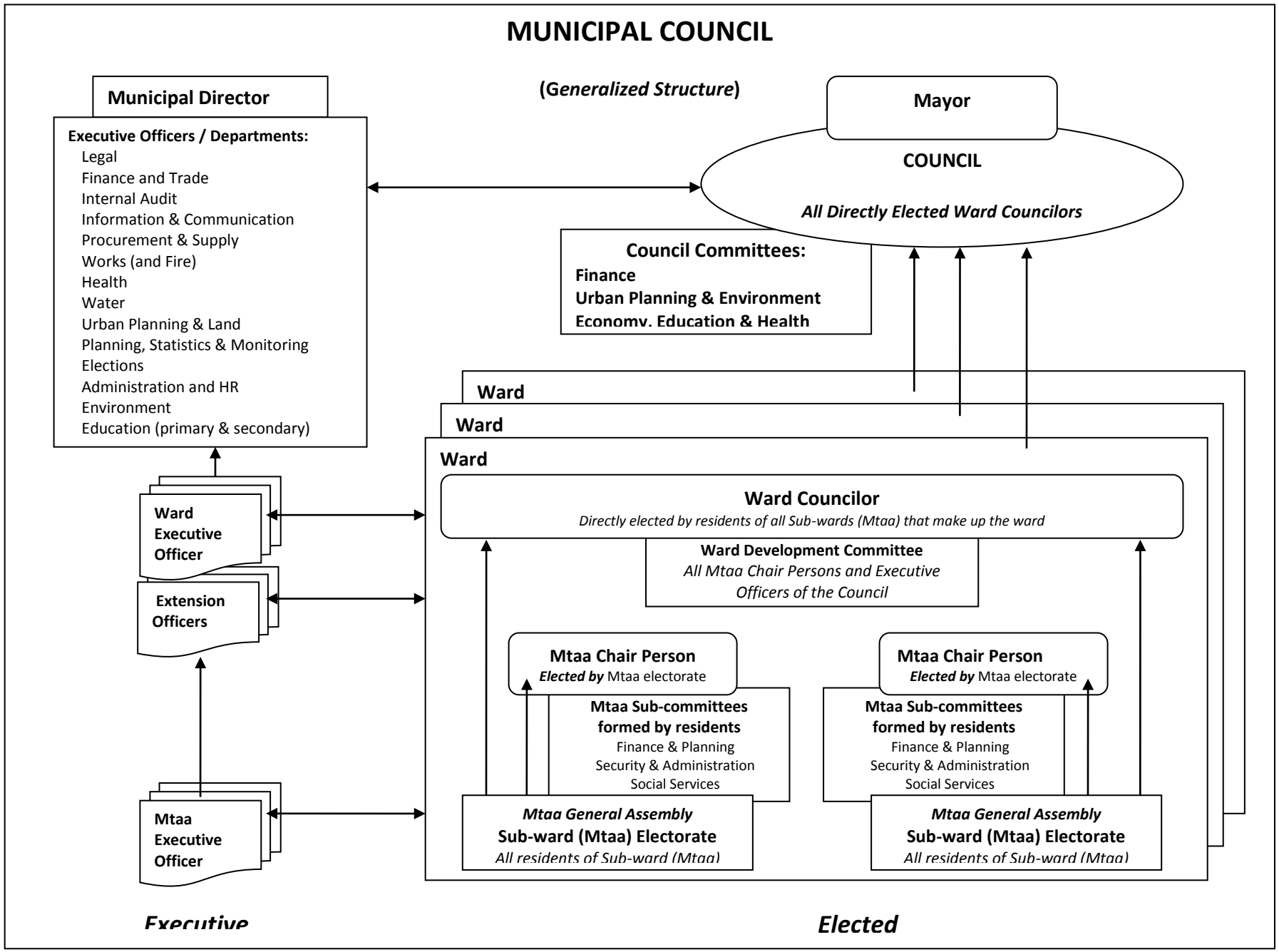
Description: Unmitigated environmental and social impacts will negatively impact the environment and/or communities. ULGAs have inadequate staff and/or budget for impact assessment, mitigation and monitoring of impacts. Environmental, social and resettlement issues not mainstreamed into planning processes.

Risk Management: Environmental, Social and Resettlement Manual prepared that meets Tanzanian Systems and PforR Core Principles. All LGAs will have sufficient trained, qualified staff in place before implementing civil works.

DLI risk (2.4)

***Rating*:** Substantial

***Description*:** (i) Timely availability and quality of the Annual Performance Assessment (APA) not as expected. If the APA is done late or if the quality of the assessment is not good enough the whole disbursement logic and schedule could be affected; (ii) Disbursements to ULGAs could be delayed by issues beyond of the control of PMORALG (i.e. by Treasury) which would affect the amount received by PMORALG as defined in DLI 3 but also influence the performance of ULGAs.

Risk Management: Early discussions with Treasury have taken place to involve them in the disbursement process. Also, continuous coordination will take place during implementation to ensure timely disbursements.

8. Structure of Municipal Councils in Tanzania