

**PROGRAM-FOR-RESULTS INFORMATION DOCUMENT (PID)  
CONCEPT STAGE**

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<b>Program Name</b>	<i>Kenya Secondary Cities Services Improvement Program for Results</i>
<b>Region</b>	<i>Africa</i>
<b>Country</b>	<i>Kenya</i>
<b>Sector</b>	<i>GSURR</i>
<b>Lending Instrument</b>	<i>Program for Results</i>
<b>Program ID</b>	<i>P156777</i>
<i>{If Add. Fin.}</i> <b>Parent Program ID</b>	<i>Not Applicable</i>
<b>Borrower(s)</b>	<i>National Treasury, Government of Kenya</i>
<b>Implementing Agency</b>	<i>Ministry of Land, Housing and Urban Development (MLHUD)</i>
<b>Date PID Prepared</b>	<i>April 17, 2016</i>
<b>Estimated Date of Appraisal Completion</b>	<i>March 23, 2017</i>
<b>Estimated Date of Board Approval</b>	<i>September 25, 2017</i>
<b>Concept Review Decision</b>	Following the review of the concept, the decision was taken to proceed with the preparation of the operation.

**I. Introduction and Context**

**A. Country Context**

1. **Since 2000, Kenya has experienced economic growth, but has yet to undergo a structural transformation.** Growth has averaged 4.5 percent over the period 2003–13; in-year growth rates, however, have been volatile, reflecting the national economy’s vulnerability to external shocks. Services have been the main source of growth, accounting for 72 percent of Gross Domestic Product (GDP) increase between 2006 and 2013. Agriculture remains the largest sector in terms of employment, but has declined in importance. In 2006, agriculture’s share in GDP was 26.5 percent; by 2014, its share in GDP had fallen to 22.0 percent. The share of manufacturing in the economy has averaged 11.8 over the same period, but has declined from 13 percent in 2006 to about 10 percent in 2014.
2. **Vision 2030, the country’s development blueprint, aims to transform Kenya into a newly industrializing middle-income country (MIC), providing a high quality of life to all its citizens by the year 2030.** Vision 2030 has been developed to guide this goal with the desired outcomes of economic productivity, social inclusion and environmental sustainability. The recent rebasing of the country’s national accounts classified Kenya as a lower middle-income country with a Gross National Income (GNI) per capita of US\$ 1,288. This falls short of the GNI per capita of MICs, ranging between US\$ 4,126 and US\$ 12,736 in 2015. Although there has been economic growth, ensuring prosperity for all remains a

major challenge: Kenya remains one of the poorest 25% of all countries, with about 40 percent of the population being poor.

3. **A radical and ambitious process of devolution is currently underway and is fundamentally reshaping Kenya's national institutional framework.** As provided for in the new 2010 Constitution, 47 county governments have been established at the sub-national level, supplanting local authorities and municipalities. Central government's role is now largely focused on ensuring nation-wide functions (such as monetary/fiscal policy, foreign affairs and defense) and on policy and regulations with respect to other public services and functions. This is a new and evolving political and institutional context, in which economic development and management are faced with particular challenges, as well as opportunities.
4. **The Government has recognized the need to manage urbanization as part of its overall development strategy.** Kenya Vision 2030 highlights rapid urbanization as one of four key challenges facing the country. Within the over-arching framework of Vision 2030, the urbanization component of the second Medium Term Plan (MTP) 2013-18 aims to facilitate a sustainable urbanization process through an Integrated Urban and Regional Planning Management Framework of Kenyan towns. Aligned to that goal, the MTP identifies a series of investment programs to enhance infrastructure, connectivity and accessibility, safety and security. The National Urban Development Policy (NUDP), formally endorsed in 2016, envisions secure, well governed, competitive and sustainable urban areas and cities, and aims to facilitate sustainable urbanization through good governance and the delivery of accessible quality and efficient infrastructure and services.

#### ***B. Sectoral (or Multi-sectoral) and Institutional Context of the Program***

5. **Demographic and geographic shifts of the country's population clearly indicate that the country is urbanizing at a relatively rapid pace.** Around 27 percent of Kenyans currently live in urban areas, and Kenya is urbanizing at about 4.3 percent a year. By 2050 about 40 million Kenyans (or half of the population) will be living in cities. Kenya continues to be characterized by urban primacy, with Nairobi three times larger than Mombasa, the next-largest urban center. However, most urban Kenyans live in urban settlements of less than one million people.
6. **There is a substantial (and sometimes growing) infrastructure and service delivery deficit in all Kenyan towns and cities, especially in secondary cities and in informal areas.** The proportion of the urban population with access to improved water sources declined from 92 percent in 1990 to 82 percent in 2012. Only about 18 percent of the urban population is covered by a sewer system, while 70 percent rely on septic tanks and pit latrines, with the rest having no access to sanitation services. With respect to solid waste, no urban area has a properly engineered sanitary landfill, and most solid waste is dumped in open dump sites or other undesignated areas, or burned. Within the urban settlement hierarchy, access to basic services (such as water, sanitation and electricity) is generally better in larger urban centers—those with populations over 500,000—than in smaller urban settlements. In 2009, nearly 40 percent of residents of the primary cities – Nairobi and Mombasa – had access to a sewer connection, compared to only one percent of residents in smaller urban centers. Urban areas with populations between 100,000 and 250,000 (Level 1

or secondary towns) were the worst in terms of access to services. Within cities, there are marked differences between formal and informal settlements; in Nairobi, for example, only 36 percent of households in informal settlements have access to piped water in the house or compound, while 84 percent of households in formal areas do. With few exceptions, this disparity holds for access to in-house electricity, access to solid waste collection services, and quality of internal access roads.

7. **Devolution in Kenya has fundamentally changed the nature of sub-national governance in the country since 2013 and poses particular challenges for urban governance.** The provisions of the 2010 Constitution ensure that Kenya's 47 counties have authority and autonomy that is similar to the level enjoyed by sub-national governments in federal systems. The specific form taken by devolution – in which counties are the sole form of elected sub-national government – presents a major challenge to urban development in Kenya. By abolishing one of the oldest continuous systems of local municipal government on the African continent – without providing a satisfactory replacement – devolution to the county-level has engendered an urban governance deficit. In the absence of constitutionally-mandated municipalities or city governments, county governments are now largely and directly responsible for urban development.
8. **The Urban Areas and Cities (UAC) Act (2011) partly addresses this urban governance deficit, by providing for the appointment – by county governments – of urban boards to manage chartered cities and municipalities in larger urban settlements.**<sup>1</sup> Such urban boards would have delegated responsibilities for the management of cities and municipalities, but would nonetheless remain accountable to their respective county governments. However, counties have few political or fiscal incentives to establish urban boards to which to delegate the management of towns and cities: on the one hand, urban boards might become competitors for power and authority at the sub-national level; on the other, the establishment of urban boards does not lead to the allocation of greater fiscal transfers from the national funding pool. To date, no county has set up any urban boards to manage individual cities or municipalities on a delegated basis.<sup>2</sup> There is the real risk that the *de facto* absence of urban governance institutions in Kenya's current devolution arrangements will marginalize urban development in Kenya.
9. **Providing public goods and services in urban areas and meeting the challenge of greater urbanization require adequate levels of financing.** Whether or not Counties establish urban boards, and how far such boards will be effective as conduits for urban development and services, will ultimately depend on County revenues. County governments are financed by three sources of revenue: a large unconditional equitable share transfer, a number of very small conditional grants, and own-source revenues collected locally. The

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<sup>1</sup> The UAC Act provides detailed procedures that are to be followed in chartering cities and municipalities and in establishing urban boards to manage them. During the course of preparation for this P-for-R, the Bank will closely examine the extent to which such procedures are (or are not) transaction costly or institutionally appropriate. Any findings in this respect will be discussed with the Government and reflected in Program design,

<sup>2</sup> Town committees, on the other hand, have been established in some counties (such as Kitui), reflecting some degree of county government interest in urban governance at the sub-county level. In the UAC Act, the requirements for establishing towns and town committees are considerably less stringent than are requirements for municipalities/cities and urban boards.

most important single source of financing for county governments is the unconditional equitable share: in 2014-15, an estimated 87 percent of county revenues came from national transfers and 13 percent from own-source revenues.

10. The equitable share formula is highly redistributive, and thus leads to relatively high per capita allocations to those historically poor and more peripheral counties and lower per capita allocations to the more developed and more urbanized counties. This leaves the more urbanized counties with insufficient funding to maintain inherited expenditure levels or to finance costly urban investments. Connective infrastructure such as roads, public transport, sewerage, and water become far more expensive in areas of higher population density. Kenya's urban areas also have to meet the demands of providing services and infrastructure to informal settlements. Although the Commission on Revenue Allocation (CRA) has proposed amendments to the formula, these are unlikely to address the impact of redistribution on urban area. In short, more urbanized counties face a major challenge in financing urban services and investments – a challenge that is compounded by their reluctance and/or inability to adjust spending levels so as to deal with the shock triggered by the consequences of devolution and very redistributive fiscal policies.
11. **The Government's overall response to Kenya's urban development challenge is articulated in the National Urban Development Policy (NUDP)**, intended to provide a framework within which urban areas and cities contribute to realizing the broad goals of Vision 2030.

### ***C. Relationship to CAS/CPS***

12. **The proposed project will directly support the attainment of objectives in two of the three priority areas of engagement included in the Bank's Country Partnership Strategy (CPS) for FYs 2014-18.** The CPS highlights efficiency and inclusivity as goals for Kenyan cities. The proposed project will directly contribute to the CPS in two domains. First, it will contribute to the first Domain of Engagement: Competitiveness and Sustainability— Growth to Eradicate Poverty, by strengthening planning and management of urban growth. Urbanization needs to be well managed so as to do a better job of creating jobs and employment and, thus, reducing poverty. Under the third Domain of Engagement (Consistency and Equity– Delivering the Devolution Dividend), the proposed project will contribute to outcome 9: Adequate Systems to Monitor Performance of Services Delivered by Counties. There is also potential for the project to contribute to the goals of the CPS towards climate change and disaster risk management, and towards the CPS goals related to sustainability.

### **II. Program Development Objective(s)**

13. **The Program Development Objective (PDO) will be to:** support the establishment and strengthening of urban institutions and systems to deliver improved infrastructure and services in participating secondary cities in counties in Kenya.<sup>3</sup>

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<sup>3</sup> Secondary cities are defined here as those urban settlements/areas that are eligible for the granting of a city or municipal charter (as provided for in the UAC Act and its amendment proposed in 2015). This includes all urban areas with a population greater than 50,000 or any urban area (irrespective of its population) that is considered to be a county capital; but does not include Nairobi and Mombasa, both of which are "city" counties.

## *Key program results*

### **14. Key program results will include inter alia the following:**

- % [to be determined] of counties with formally defined cities and/or municipalities;
- % [to be determined] of eligible urban areas [population > 50,000] with formally defined and operational urban boards in place;
- % [to be determined] of chartered cities and municipalities with (updated) Integrated Urban Development Plans (IDePs);
- Number [to be determined] of urban investment projects funded; [indicates a range of institutional achievements because investment projects are only funded after compliance with Minimum Access Conditions (MACs)].

## **III. Program Description**

### **A. P-for-R Program Boundary**

- 15. The proposed P-for-R operation will assist the Government in operationalizing its National Urban Development Policy (NUDP) and achieving medium term planning goals in the urban sector, and will provide support for implementation of the Kenya Urban Program (KenUP).** The NUDP, formally launched in early 2016, is intended to contribute towards the realisation of the broader development goals articulated in Vision 2030 by addressing the key challenge of urban development. The overall and stated primary objective of the NUDP is to provide a framework for sustainable urban development in Kenya; the policy includes nine specific objectives.<sup>4</sup>
- 16. The Kenya Urban Program (KenUP) aims to operationalize National Urban Development Policy (NUDP) by putting in place the institutional framework for urban governance, development and services as contained in the Constitution, legislation and policy framework.** The institutional framework for urban governance and management is provided for in Article 184 of the Constitution. This constitutional provision is operationalized by the Urban Areas and Cities Act (UAC), 2011 (as amended). NUDP provides a coherent policy framework for the pursuit of urban governance, management development. The Kenya Urban Program (KenUP), which is currently at a fairly advanced stage of formulation by the Ministry of Land, Housing & Urban Development (MLHUD), is aimed at the operationalization and implementation of significant aspects of the NUDP, with a clear focus on Kenya's secondary cities. In particular, KenUP will support the implementation of the urban governance, urban planning and urban management provisions

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<sup>4</sup> NUDP's specific objectives are to: (i) create mechanisms for vibrant economic growth and development in urban areas and cities; (ii) build efficient financial management systems in urban areas and cities; (iii) develop effective governance structures for sustainable urbanization in the country; (iv) reform urban planning to drive sustainable urban development in the country; (v) ensure access to land of the right quality for urban development; (vi) promote city – wide environmental planning and management as well as climate change adaptation in urban areas and cities; (vii) promote the development of requisite infrastructure and services in urban areas and cities; (viii) support the development of affordable housing of acceptable quality in urban areas and cities; and, (ix) mainstream urban safety and disaster risk management in urban planning and development.

of the UAC Act. In doing so, KenUP primarily addresses five of the nine specific objectives of the NUDP, namely:

- (i) Create mechanisms for vibrant economic growth and development in urban areas and cities;
- (ii) Build efficient financial management systems in urban areas and cities;
- (iii) Develop effective governance structures for sustainable urbanization in the Country;
- (iv) Reform urban planning to drive sustainable urban development in the Country;
- (v) Promote the development of requisite infrastructure and services in urban areas and cities.

17. **KenUP is ambitious, wide-ranging in scope, and intended to operate in four key areas: planning, implementation, performance and evidence-based policy.** In each of these areas, KenUP is expected to undertake a wide range of activities. Under planning, activities include (among many other): providing support for integrated urban development planning and ensuring citizen participation in urban management. Implementation includes: strengthening development control, improving facilitating PPP arrangements, and directly providing funding for urban public investments. Performance oriented activities include: capacity building for urban management, establishing robust monitoring & evaluation processes, and assessing urban performance. Finally, research includes: undertaking evidence-based policy analysis and monitoring urban development in general. The program sets an ambitious agenda and will most probably evolve during the final stages of KenUP formulation. Not all elements of KenUP are of equal relevance when it comes to prioritizing support through a P-for-R. During preparation of the proposed P-for-R operation, an in-depth analysis and assessment of KenUP will be undertaken by the Bank in order to both assist in the finalization of KenUP design and to identify the sub-set of activities that will be supported by the P-for-R..

18. **In line with NUDP's Implementation Framework, the proposed P-for-R operation will – on a provisional basis – support KenUP implementation by providing three sets of inputs (or disbursement windows).**

- *Window 1: Support to national government level for policy formulation and implementation, institutional development (capacity building) and county-level performance assessments (monitoring for coordination)*
- *Window 2: Support to county government level for the development of county-level urban development policies, the establishment of City / Municipal Boards (legislation and regulations), and the implementation and enforcement of county policies and legislation (capacity building and urban development)*
- *Window 3: Support to urban boards—through the counties—for the development of urban plans, systems and the implementation of urban infrastructure and services.*

19. **The first area of support (window 1) concerns policy and institutional development at the national level, as well as the assessment of county-level performance.** Through this

window, the P-for-R operation will finance investments in policy formulation, policy implementation and institutional development (capacity building) at the national level, broadly aimed at strengthening over-arching frameworks and capacities for urban management and development. This will take place through: the development of relevant urban policies, procedures and systems; the provision of training (including mentoring), technical assistance; and the provision of technical capacity building and backstopping support to county governments. At the national level, actions aimed at institutional development could include the development of “model laws” for counties to operationalize city and municipal governance and management arrangements in accordance with the Urban Areas & Cities Act and its expected amendments. In particular, support will be provided for national level assistance in: (i) the process of granting charters for the legal creation of cities and municipalities; (ii) the actual establishment of urban boards as corporate bodies with duly appointed boards; and (iii) developing standardized capacity building materials, enabling counties to develop urban development policies and implement city-level management, planning and financial frameworks through which urban infrastructure and services can be effectively delivered. In addition, and very importantly, window 1 of the P-for-R operation will provide support for the assessment of: (i) county performance in terms of urban governance and development; and (ii) county compliance with UDG Minimum Access Conditions (MACs – see below), which will be coordinated at the national level and undertaken by an independent annual performance review.<sup>5</sup>

**20. The second P-for-R window will provide support for the formulation and implementation of county-level urban development policies as well as capacity building on urban development at the county government level.** Through this window, the P-for-R operation will finance the allocation of Urban Institutional Grants (UIGs) to county governments, earmarked for use on activities directly related to urban development and management and made available to those counties that commit to chartering cities and/or municipalities. UIGs will be made available to all counties that formally commit themselves to the program and which develop urban governance and urban development capacity-building plans. County governments will be able to use their UIGs to finance a wide range of capacity-building activities, aimed at providing county and city/municipal stakeholders with training and other technical assistance to fulfill their constitutional and statutory mandates with respect to urban areas and to deliver public goods and services in Kenya’s secondary cities. Much of this training and technical support will be focused on planning, financial and investment management, and facilitating citizen engagement.

**21. Provisionally, the total annual UIG funding pool would be calculated on the basis of an**

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<sup>5</sup> Currently, Counties are subject to an annual performance assessment process under KDSP. It should be noted that the performance assessments to be conducted under the proposed P-for-R will **not** cover the same areas as are to be included in the KDSP PAs. KDSP performance assessments focus on generic county-level management issues, such as overall public financial management, county-wide planning and budgeting, the transparency of county governance, etc. The PAs for this P-for-R operation, on the other hand, will focus entirely on county performance with respect to urban development, city/municipal institutional arrangements, and the provision of urban public goods and services. That said, there are potentially ways in which the two analytically distinct performance assessments (KDSP and the PA for this operation) can be operationally combined through the use of the same field teams; this possibility will be explored and assessed during the course of preparing this P-for-R operation.

**equal shares allocation (of \$0.5 million) for each county government that formally commits itself (or re-commits, annually) to engaging with urban governance and capacity building for urban development.** The maximum annual UIG funding pool would amount to \$22.5.0 million, assuming a universe of 45 eligible counties (47 counties, excluding Nairobi and Mombasa City-Counties in line with the PDO).<sup>6</sup> UIGs funds would be used by county governments to finance the following types of expenditure: county-level formulation of an urban development policy, capacity building activities related to urban governance or development, urban planning, urban development control, feasibility studies for urban development, etc.

22. **The third P-for-R window would provide support for the delivery and management of infrastructure and services by urban boards.** Through this window, formula-based Urban Development Grants (UDGs) will be provided for urban infrastructure investments and the provision of urban services in secondary cities in Kenya. The allocation of Urban Development Grants (UDGs)<sup>7</sup> to urban boards (through their respective county governments) is earmarked for spending on strategic infrastructure projects and services within their respective jurisdictions and subject to their authority. UDG allocations would be made subject to achieving specific institutional and performance benchmarks. UDGs would be passed on by county governments to urban boards that have been given delegated responsibilities for cities and/or municipalities. UDGs will provide urban boards with tangible incentives to operationalize city-level governance arrangements, engage in sound urban planning, and provide urban infrastructure and services. UDGs will be made available for urban investments in counties where appropriate governance and management arrangements for secondary cities are established and then calibrated as a function of urban board performance. In other words, UDGs will be earmarked (or conditional) and performance-based transfers.
23. **The total annual UDG funding pool is calculated on the basis of an annual per capita financing level of approximately \$15 per person.** The maximum annual funding pool available would be around US\$112.5 million, although the actual grant pool each year would depend on the size of the universe of eligible urban areas. Each qualifying urban board would receive roughly \$US 1.0-1.5 million per year for each qualifying urban board within their jurisdictions. UDG allocations to urban boards would be calculated on the basis of a transparent population-based formula (applied to the qualifying cities/municipalities), with a “floor” to ensure that counties received a minimum allocation for each qualifying city/municipality. The following table provides a summary of the basic parameters for the UDGs to be funded under the proposed project.

Table 1: Basic proposed parameters of the Urban Development Grant (UDG)

Basic parameters				UDG annual allocation
Max. total annual UDG funding pool	No. of eligible counties	No. of eligible urban areas	(Approx.) total population of	

<sup>6</sup> As projected below, the actual annual (and total) UIG grant pool would depend on the number of counties that committed to P-for-R’s program objectives through an MOU with the Ministry of Urban Development.

<sup>7</sup> Annex 3 provides further details of the key features of the proposed project’s UDG funding system.



			eligible urban areas	per capita
\$112.5 million	45	77	7.5 million	\$15
Annual UDG (population-based) allocations to eligible urban areas				
Max. annual UDG allocation (rounded up)	Min. (floor) UDG allocation (rounded up)	Median UDG allocation (rounded up)	Average UDG allocation (rounded up)	
\$6.2 million	\$0.50 million	\$1.16 million	\$1.47 million	

24. **Counties, cities and municipalities would have to qualify for UDG allocations by meeting certain MACs and would receive larger or smaller UDGs as a function of their performance.** County governments would need to meet specific MACs in order to access UDGs. In order for urban board to be eligible for the UDG, Counties would have to “opt in” to the program, agree to the program’s rules and regulations, commit to passing on UDGs to qualifying cities/municipalities, and meet specific reporting requirements. In addition, counties would need to ensure that their individual urban boards met city/municipal-level MACs in order to access their full UDG allocations. In subsequent years of the operation, the allocations to be received by each county would vary based on the performance of the county government and each urban board, measured against a set of agreed and specific performance indicators. **MACs and performance-based allocations will provide incentives for urban boards (under county government supervision) to improve the management of secondary cities** (measured in terms of key performance areas, such as planning, financial management, governance, service delivery, etc.). Indirectly, these MACs will also provide an incentive for counties to establish and sustain basic institutional, governance and financing arrangements for urban development.
25. **UDGs would be used to finance a range of infrastructure projects, defined by an eligible investment menu.** Investment projects would need to be of a minimum size (indicatively \$0.5 million), so as to maximize strategic or transformative impact and avoid fragmentation. Eligible investments would be limited to a sub-set of infrastructure items, which either underpin key urban service functions or improve connectivity and economic facilities. Eligible investments will not include Category A investments or those that require displacement of over 200 persons.
26. **The proposed project is expected to run over a five-year period, from 2017 to 2022. Over time, an increasing number of counties (and their constituent cities/municipalities) will qualify for UIGs and UDGs** (as shown in table 2 below).<sup>8</sup> Not all counties (and urban areas in their jurisdictions) are expected to qualify each year for the UDG; even by Year 5 of the program, it is unlikely that all counties (and their respective urban areas and cities) will have been enrolled in to the UDG scheme. Table 2 below shows that no county is expected to qualify for its UDG allocation during Year 1. Thereafter, however, the number of counties that are expected to qualify for UDGs is projected to gradually increase, with UDGs being allocated on the assumption that the total number of qualifying cities/municipalities increases from 10 in Year 2 to 45 (60%) in Year 5. The uptake of UIGs, on the other hand, is expected to be somewhat faster, on the assumption that

<sup>8</sup> The projected UIG and UDG uptake rates presented here are indicative. They will need to be assessed and verified/adjusted in an iterative process of engagement with national and county officials during the course of preparing this P-for-R operation.

county governments will be able to commit themselves to urban capacity building and to an urban governance agenda (without necessarily being able to take the additional step of establishing and sustaining chartered cities/municipalities and urban boards).

Table 2: Projected uptake of UIGs and UDGs

Type of grant	Year					
	Y1	Y2	Y3	Y4	Y5	Total
<b>UIGs:</b>						
• No. of qualifying counties	10	15	20	25	30	n/a
• Urban Institutional Grants (US\$ million) – total	5	7.5	10	12.5	15	50
<b>UDGs:</b>						
• No. of qualifying cities or municipalities	0	10	15	30	45	n/a
<i>As percent</i>		<i>13</i>	<i>20</i>	<i>40</i>	<i>60</i>	<i>n/a</i>
• Maximum UDG grant pool (US\$ million)		112.5	112.5	112.5	112.5	
• Urban Development Grants (US\$ million) – total	-	15	22.5	45	67.5	150

27. **Funding from the proposed project will be released in accordance with a number of Disbursement Linked Indicators (DLIs), aligned to the three main funding windows, in the following manner:**

***Window 1: Support for policy and institutional development – national government level (IDA = approx. US\$20 million):*** Disbursements for these activities will be triggered through several DLIs, very tentatively covering the following broad areas:

- **DLI 1:** Enrolment of county governments into the program through the signature and annual renewal of MoUs. and organization, verification, validation and dissemination of annual county and urban development performance assessments.
- **DLI 2:** Provision of technical and institutional support for purposes of urban development to county governments.
- **DLI 3:** National-level urban development capacity building plan (and its implementation), and urban policy development activities.

***Window 2: Support for capacity building and urban development - county government level (IDA = approx. US\$50 million):*** the largest proportion of program-related expenditures will be the allocation to and use of UIGs by counties. Disbursements against this type of expenditure will be triggered through the use of a county-level DLI:

- **DLI 4:** county government enrolment into and engagement with the program (triggering UIG disbursements), including county-level support for sub-national capacity building and technical support for urban development.

**Window 3: Support for urban infrastructure and service delivery – urban board level (IDA = approx. US\$ 130 million, plus US\$ 20 million counterpart funding):**<sup>9</sup> The largest proportion of program-related expenditures will be the allocation to and use of UDGs by cities and municipalities (through their respective countries). Disbursement would be triggered through the following tentative DLI:

- **DLI 5:** county institutional and infrastructure/service delivery performance, as assessed on an annual basis (triggering UDG allocations and disbursements).

Subject to further discussions and confirmation with key stakeholders, including Treasury, MLH&UD and the Council of Governors, **implementation of the proposed project will be the responsibility of both the national and participating county governments, in accordance with their respective constitutional mandates.** As per the constitution, the responsibility for KenUP implementation will be shared by the national government and counties. At the national level, MLH&UD will, through its Urban & Metropolitan Development Department, be responsible for overall program coordination. It will be responsible for monitoring and evaluation, reporting and program management. MLH&UD will also be responsible for coordinating independent performance assessments, the outcome of which will trigger the disbursement of investment funds, and will provide technical support and backstopping to Counties in the implementation of the program. A program coordination unit housed in the Department will be responsible for day-to-day management. At sub-national level, county governments will be responsible for the implementation of the program including planning, capacity building, investment, program prioritization and preparation and management (including FM and procurement), in conjunction with urban boards within their jurisdictions.

#### ***B. Role of Development Partners (if applicable)***

**28. A number of Kenya’s development partners are currently engaged (or intend to engage) in urban development interventions.** The proposed program will be closely coordinated with all the ongoing initiatives undertaken by other development partners. There are synergies to be explored in supporting enhancement of the urban institutional framework under the proposed program.

- **AFD** has committed USD 45 million to KISIP related activities in informal settlements focusing on investing in infrastructure and enhancing tenure security through activities such as preparing settlement-level development plans, surveys, registry index maps, and letters of allotment/titles. AFD also provides bilateral funding for urban development in western Kenya.
- **DFID** aims to support inclusive, climate resilient and market-driven economic development in intermediate towns and cities in Kenya. The proposed program spans over approximately 6-10 years covering 2015/16- 2021. The program is currently at inception phase with year one involving in-depth stakeholder consultation, town and value chain selection. The tentative budget for the program is 60-80 million pounds over

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<sup>9</sup> This amount is allocated for financing UDGs. It is assumed that the national governments will provide approximately \$20 million in counterpart funding for the UDGs. Preparations for this P-for-R operation will include an assessment of national and sub-national government co-funding requirements and limitations; assessment findings will determine the final estimate of co-funding levels.

six years.

- **UN-Habitat** has engaged in a number Bank-financed projects including KMP. UN-Habitat is also supporting KISIP and NaMSIP. Within KMP, UN-Habitat has supported the urban development process especially with regards to capacity and institution building within nine involved counties. UN-Habitat has also led an international student competition on urban planning and design, which is executed under the KMP framework. UN-Habitat provided technical advice during the preparation of the Integrated Strategic Urban Development Plans to be adopted by the County Assemblies—with some already taken up in Kisumu and Nairobi. UN-Habitat has supported activities for the commuter rail under NAMSIP. UN-Habitat, working together with the UNHCR, is also engaged in the Kalobeyei settlement project in Turkana, where it seeks to provide support to enhancing the living conditions of refugees and current communities.
- **SIDA** is pioneering the Symbio cities project designed to build the capacity of urban development stakeholders to guide Kenyan urban development in a more sustainable direction. It is a participatory approach to sustainable urban development.
- **JICA** is involved in Mombasa and Nairobi, In Mombasa, JICA is supporting the preparation of a master plan for transport; that is, a transportation plan for Mombasa transport corridor. JICA is also supporting preparation of special economic zones linked to the port expansion through the northern corridor improvement. In Nairobi, JICA has supported preparation of an integrated master plan and land use plans.

#### **IV. Initial Environmental and Social Screening**

29. **The investments that will be financed by cities and municipalities through their UDGs will include a range of infrastructure items, which are not likely to have significant environmental and social impact.** There will not be category A projects or those that involve resettlement of more than 200 persons. A recent Environmental and Social Systems Assessment (ESSA), carried out for the preparation of KDSP, concluded that the existing environmental and social management procedures of county governments and of local offices of the National Environment Management Authority (NEMA) are adequate for use by the project. Nevertheless, the KDSP ESSA found that the county-level capacities to manage social and environmental risks are nascent and variable. In addition, it concluded that while staff at the county level tend to possess adequate or basic qualifications, both NEMA and county governments are currently under-staffed and under-funded to handle the current volume of projects. These issues will need to be further examined and, if necessary, will be addressed in the design of the proposed P-for-R operation.
30. **An ESSA will be carried out for the proposed P-for-R operation and will review systems for managing environmental and social risks, with a particular focus on county capacity and systems to manage risks associated with the UDG investment menu.** Key measures identified by the assessment will be incorporated into the overall Program Action Plan, and may also be reflected in DLIs or UDG conditions/measures.
31. **At this stage, a number of no-cost mitigation measures have already been identified.** Firstly, certain types of infrastructure will be put on a “negative” (or proscribed) investment menu – these will include infrastructure items that are very likely to have a significant

negative social or environmental impact. Secondly, risk mitigation will be factored into the project through the UDG assessment process itself, which will include some degree of *ex ante* scrutiny of proposed infrastructure investments

## V. Tentative financing

Source:	(\$m.)	
Borrower/Recipient	0.00	
IBRD	300.00	
IDA		
Others (specify)		
	Total	300.00

## VI. Contact point

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