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Report No: 117002-KE

PROGRAM APPRAISAL DOCUMENT

ON A
PROPOSED CREDIT

IN THE AMOUNT OF
US$300 MILLION

TO THE

REPUBLIC OF KENYA

FOR THE

KENYA URBAN SUPPORT PROGRAM

July 5, 2017

Social, Urban, Rural, and Resilience Global Practice
AFRICA

CURRENCY EQUIVALENTS

(Exchange Rate Effective May 31, 2017)

Currency Unit	=	Kenya Shillings
KSH 103.40	=	US$1
US$1.38	=	SDR 1

FISCAL YEAR
July 1 – June 30

ABBREVIATIONS AND ACRONYMS

APA	Annual Performance Assessment
CARA	County Allocation of Revenue Act
CEC	County Executive Committee
CIDP	County Integrated Development Plan
CoB	Controller of Budget
CoG	Council of Governors
CPCT	County Program Coordination Team
CPS	Country Partnership Strategy
CRA	Commission on Revenue Allocation
CUIDS	County Urban Institutional Development Strategy
DLI	Disbursement Linked Indicator
DORA	Division of Revenue Act
EACC	Ethics and Anti-Corruption Commission
EIRR	Economic Internal Rate of Return
ESIA	Environmental and Social Impact Assessment
ESSA	Environment and Social Systems Assessment
FM	Financial Management
GDP	Gross Domestic Product
GRS	Grievance Redress Service
IDeP	Integrated Development Plan
IFMIS	Integrated Financial Management Information System
IFR	Interim Financial Report
IGFR	Intergovernmental Fiscal Relations
IPF	Investment Project Finance
IPSAS	International Public Sector Accounting Standards
KDSP	Kenya Devolution Support Program
KenUP	Kenya Urban Program
KMP	Kenya Municipal Program
KSG	Kenya School of Government
Ksh	Kenyan Shilling
KUSP	Kenya Urban Support Program
MC	Minimum Condition
MoDP	Ministry of Devolution and Planning

MoPSYGA	Ministry of Public Service, Youth and Gender Affairs
MTEF	Medium-Term Expenditure Framework
MTIHUD	Ministry of Transport, Infrastructure, Housing, and Urban Development
MTP2	Second Medium Term Plan
NEMA	National Environmental Management Authority
NLC	National Land Commission
NMT	Non-Motorized Transport
NPCT	National Program Coordination Team
NT	National Treasury
NUDP	National Urban Development Policy
OAG	Office of the Auditor General
PAP	Program Action Plan
PDO	Program Development Objective
PFM	Public Financial Management
PforR	Program for Results
POM	Program Operations Manual
PS	Performance Standard
PSC	Program Steering Committee
PTC	Program Technical Committee
SDHUD	State Department of Housing and Urban Development
SDG	Sustainable Development Goal
SORT	Systematic Operating Risk Rating Tool
ToRs	Terms of Reference
UAC	Urban Areas and Cities
UACA	Urban Areas and Cities Act
UDD	Urban Development Department
UDG	Urban Development Grant
UIG	Urban Institutional Grant

Regional Vice President:	Makhtar Diop
Country Director:	Diariétou Gaye
Global Practice Senior Director:	Ede Jorge Ijjasz-Vasquez
Practice Manager:	Bernice Van Bronkhorst
Task Team Leader:	Abdu Muwonge
Co-Task Team Leader:	Narae Choi

REPUBLIC OF KENYA

Kenya Urban Support Program

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PAD DATA SHEET

Kenya Urban Support Program

PROGRAM APPRAISAL DOCUMENT

AFRICA

Social, Urban, Rural, Resilience Global Practice

Report No: 117002-KE

Basic Information			
Date:	July 5, 2017	Sectors:	Sub-national government administration (100%)
Country Director:	Diariétou Gaye	Themes:	Decentralization, Urban, Governance
Practice Manager	Bernice Van Bronkhorst		
Global Practice Vice President:	Laura Tuck		
Program ID:	P156777		
Team Leader(s):	Abdu Muwonge Narae Choi		

Program Implementation Period:	Start Date:	July 26, 2017	End Date:	July 26, 2023

Expected Financing Effectiveness Date:
November 23, 2017

Expected Financing Closing Date:
January 31, 2024

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Program Financing Data		
[ ] Loan	[ ] Grant	[ ] Other
[X] Credit		

For Loans/Credits/Others (US$M):

Total Program Cost:	320	Total Bank Financing:	US$300
Total Cofinancing:	0	Financing Gap:	0

.

Financing Source	Amount (US$M)
BORROWER/RECIPIENT	20
IBRD/IDA	300
Total	320

Borrower: Republic of Kenya			
Responsible Agency: Ministry of Transport, Infrastructure, Housing, and Urban Development			
Contact:	Aidah Munano	Title:	Principal Secretary
Telephone No.:	+254 (20) 2713833	Email:	amunano@gmail.com
Responsible Agency: The National Treasury			
Contact:	Dr. Kamau Thugge	Title:	Principal Secretary
Telephone No.:	+254 (20) 2252299	Email:	ps@treasury.go.ke

Expected Disbursements (in USD Million)

Fiscal Year	2018	2019	2020	2021	2022	2023
Annual	9.0	28.6	41.2	62.1	71.3	87.8
Cumulative	9.0	37.6	78.8	140.9	212.2	300.0

Program Development Objective: to establish and strengthen urban institutions to deliver improved infrastructure and services in participating counties in Kenya.

Compliance	
Policy	
Does the program depart from the CAS in content or in other significant respects?	Yes [ ] No [X]
Does the program require any waivers of Bank policies applicable to Program-for-Results operations?	Yes [ ] No [X]
Have these been approved by Bank management?	Yes [ ] No [ ]
Is approval for any policy waiver sought from the Board?	Yes [ ] No [X]
Does the program meet the Regional criteria for readiness for implementation?	Yes [X] No [ ]

Overall Risk Rating: Substantial

Conditions			
Name	**Recurrent**	**Due Date**	**Frequency**
The Recipient has prepared and adopted the Program Operations Manual		Effectiveness	
The Recipient has established the Program steering committee, Program technical committee and national Program coordination team		Effectiveness	

Legal Covenants			
Name	**Recurrent**	**Due Date**	**Frequency**
The Recipient shall cause each respective Participating County to establish, prior to such County's participation in the Program, and thereafter maintain throughout the implementation period of the Operation, a County Program Coordination Team ("CPCT") within the respective participating county government.			Ongoing
The Recipient shall enter into a Program Participation Agreement, as approved by the Association, with a respective Participating County, and shall not disburse funds to a respective Participating County that has not signed such an agreement.			Ongoing
The Recipient shall establish an operational complaints handling and management system for the Program, such system to include, a complaints /grievance committee to handle complaints, designated focal complaints officer to coordinate the system, an established feedback mechanism and a service charter prescribing how complaints related to the Program will be handled.		Six months after Effective Date	

Team Composition			
Bank Staff			
Name	**Title**	**Specialization**	**Unit**
Abdu Muwonge	Sr. Urban Specialist	Task Team Leader (TTL)	GSURR
Narae Choi	Urban Specialist	Institutional development	GSURR
Meskerem Brhane	Practice Manager	Overall Program design	GSURR
Roland White	Lead Urban Specialist	Overall Program design	GSURR
Dean Cira	Lead Urban Specialist	Overall Program design	GSURR
Marjorie Mpundu	Sr. Counsel	Legal advice	LEGAM
Joel Buku Munyori	Sr. Procurement Specialist	Procurement	GGO01
Henry Amena Amaguni	Sr. Financial Management Specialist	Fiduciary assessment	GGO31
Sheila W. Kamunyori	Urban Specialist	Urban Planning and Institutional development	GSURR
Timothy Stephen Williamson	Sr. Public Sector Specialist	Fiscal decentralization	GGO19
Edward Felix Dwumfour	Sr. Environmental Specialist	Environmental and social assessment	GEN01
Martin Onyach-Olaa	Sr. Urban Specialist	Institutional development and Guidance on PforR	GSURR
Lilian Wambui Kahindo	Social Development Specialist	Environmental and social assessment	GSURR
John Stephen Ajalu	Urban Specialist	Engineering	GSURR
Christine Anyango Owour	Public Sector Specialist	Governance assessment	GGO19
Margarita Puerto Gomez	Social Development Specialist	Crime and violence prevention	GSURR
Maina Githinji	Consultant	Environmental and social assessment	GEN01
Wendy Schreiber Ayres	Consultant	Overall Program design and M&E	GSURR
James N. Karuiru	Consultant	Engineering and procurement	GSURR
Kithinji Kiragu	Consultant	Institutional development and political economy issues	GSURR
Michael Winter	Consultant	Overall Program design	GSURR
Jamie Boex	Consultant	Overall Program design	GSURR

Peter Mwangi	Consultant	Legal analysis of urban areas	GSURR
Dahir Elmi Warsame	Consultant	Procurement	GGO01
Solomon Alemu	Consultant	Engineering	GSURR
Jean Owino	Finance Analyst	Disbursements	WFALA
Elizabeth Wairimu Karuoya	Team Assistant	Team support	AFCE2
Roderick M. Babijes	Program Assistant	Team support	GSURR
Droma Bank Dominic Kat	Urban Specialist	Urban Governance	GSURR
Monicah Nyawira Karangi	Consultant	Urban Planning	GSURR
Miriam Omolo	Consultant	Economic Analysis	GSURR
Sumila Gulyani	Program Leader	Peer Reviewer	SACIN
Rumana Huque	Sr. Operations Officer	Peer Reviewer	OPSRR
Madhu Raghunath	Program Leader	Peer Reviewer	EACVF

Non-Bank Staff

Name	**Title**	**City**

I. STRATEGIC CONTEXT

A. Country Context

1. **Although Kenya has experienced strong economic growth in recent years, it has yet to undergo a structural transformation.** Growth of gross domestic product (GDP) averaged 5.3 percent during 2004–14 and has exceeded 5.6 percent since then, driven primarily by public investment in infrastructure, higher private-sector investment, and strong consumer demand. Agriculture remains an important sector of the economy, contributing 30 percent of GDP in 2015, up from 26 percent in 2011.[1] Manufacturing accounts for about 10 percent of GDP in 2015, down from 12 percent in 2011. Services, which account for about 50 percent of GDP, have been the main driver of Kenya's economic growth. However, despite the overall strong performance in the past decade and a half, the Kenyan economy has not reached its full potential and the provision of infrastructure and services has not kept up with the pace of economic growth.[2]

2. **Economic growth has been accompanied by rapid urbanization. Nonetheless Kenya remains under-urbanized. This means Kenya can still leverage the benefits of urbanization for improving economic opportunities and living conditions**. In 2014, about 25 percent of the Kenyan population lived in urban areas and the total urban population was estimated to be about 15.2 million people.[3] Based on a correlation of GDP per capita and urbanization for several countries, about 40 percent of Kenyans (given their current GDP of US$1,200) should be living in urban areas, against the actual 27 percent.[4] On the other hand, Kenya is urbanizing faster than countries like Vietnam and India, which have a similar population share in urban areas but higher per capita incomes. By 2050 about half of the population will be living in urban areas. Fortunately, Kenya is at an early stage of urbanization, which offers the potential to drive economic growth. This will depend on the efficiency of public investments in cities to create the economies of agglomeration and amplify the productivity of workers.[5] As a result, investment in cities, combined with moderate levels of rural to urban migration may be the most effective way to raise welfare and reduce total poverty in the medium to long run.[6]

3. **However, Kenyan urban centers are not currently able to meet the rapidly growing demands for infrastructure and services due to poor management and limited investment.** Rapid urbanization has left Kenyan cities with huge unmet demand for critical infrastructure and basic services, which has constrained the productivity of businesses and negatively impacted the quality of life of residents. For example, the proportion of the urban population with access to improved water sources declined from 92 percent in 1990 to 82 percent in 2012. 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

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1 Kenya National Bureau of Statistics, 2016. "Economic Survey 2016."
2 World Bank, 2016. "Kenya Urbanization Review." Washington, DC.
3 United Nations Department of Economic and Social Affairs, Population Division, 2014. *World Urbanization Prospects: The 2014 Revision, Highlights*. ST/ESA/SER.A/352. New York.
4 World Bank, 2016. "Kenya Urbanization Review." Washington, DC.
5 World Bank, 2010. "Africa's Infrastructure: A Time for Transformation." Africa Development Forum Series.
6 World Bank, 2009. *World Development Report 2009: Reshaping Economic Geography*, Washington, DC.

larger urban centers—those with populations over 500,000—than in smaller urban settlements. A highly visible result of poorly-managed urbanization is the massive expansion of overcrowded and impoverished informal settlements, where about 60 percent of residents in major cities live.

4. **The Government of Kenya 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 (MTP2) 2013–17 aims to facilitate a sustainable urbanization process through an integrated urban and regional planning management framework of Kenyan urban centers and towns.[7] Aligned to that goal, the MTP identifies a series of investment programs to enhance infrastructure, connectivity and accessibility, safety and security. Developing the basic institutions required for effective urban management is critical to deliver these investments and for urbanization to contribute to sustainable growth in Kenya.

B. Sector and Institutional Context

5. **Kenya's urbanization is taking place within the context of a major shift toward political, fiscal, and administrative devolution**. The 2010 constitution provides for two autonomous but interdependent levels of government: the national government and 47 county governments. Under the constitution, county governments have been assigned the responsibility for the delivery of many basic services. The institutional arrangements in the context of devolution are still evolving, including structures and mechanisms for intergovernmental cooperation and transfer of resources to deliver on policy priorities.

6. **The framework for management of urban areas is very weak in the initial arrangement under devolution**. Under the 2010 constitution, counties took over the revenues and the responsibilities previously assigned to urban local governments, but did not explicitly specify how urban areas would be governed and managed, leaving that to subsequent national legislation. By abolishing one of the oldest continuous systems of local municipal government on the African continent, devolution to the county-level has engendered an urban governance deficit.

7. **The Urban Areas and Cities Act (UACA) (2011, amended in 2016) partially addresses this urban governance deficit, by providing procedures for chartering cities and municipalities and establishing urban boards**. Such urban boards, appointed by county governments, would have delegated responsibilities for the management of cities and municipalities and would remain accountable to their respective county governments. However, to date, no counties have established urban boards to manage individual cities or municipalities on a delegated basis. The lack of clarity in the UACA regarding the urban hierarchy and the absence of regulations to operationalize the Act have discouraged most county governments from issuing charters and establishing urban boards. Some counties (such as Kitui), nonetheless, have established town administrations with a town manager and dedicated budget, reflecting county government interest in managing their urban areas effectively. With the recent

[7] The draft Third Medium-Term Plan is currently pending cabinet approval.

amendment of the UACA, county governments can be incentivized further to create formal urban governance institutions that will be the backbone of urban development in Kenya.

8. **In addition to the formal urban governance institutions, providing urban infrastructure and services will require adequate levels of financing, which is currently short of meeting the demands.** This in turn will depend on counties' effectiveness in mobilizing revenues and their willingness to allocate resources for urban infrastructure and services. County governments have three sources of revenue: a large unconditional grant from national government, known as the "equitable share", conditional grants mainly financed by development partners, and own-source revenues. In FY 2015/2016, the unconditional grant accounted for about 85 percent of county revenues, while about 11 percent came from own-source revenues and 4 percent from conditional grants. The formula of the equitable share, which accounts for the majority of the county government revenues, is highly redistributive, by transferring 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 infrastructure and services or to finance new investments required to address the infrastructure gap**.**

9. **The proposed Operation complements the World Bank's existing urban operations in Kenya by addressing urban institutional and financial challenges.** Currently, the World Bank is financing three urban projects in Kenya: the Kenya Municipal Program (KMP) (started in 2010), the Kenya Informal Settlements Improvement Project (started in 2011), and the Nairobi Metropolitan Services Improvement Project (started in 2012). All three projects are being implemented by the Ministry of Transport, Infrastructure, Housing, and Urban Development (MTIHUD), which will also be the main implementing agency for the overall Operation, and are helping to improve urban management, urban infrastructure, and urban service delivery. The proposed Operation has emerged in the new context of devolution and will complement the achievements of the ongoing projects by addressing the urban institutional and financial challenges.

C. Relationship to the CPS and Rationale for Use of Instrument

10. **The proposed Operation will support the objectives in two of the three priority areas of the World Bank's Country Partnership Strategy (CPS) (2014–18, and its update).** The CPS for Kenya (87024-KE) has three strategic results areas: (a) competitiveness and sustainability—growth to eradicate poverty, (b) protection and potential—delivering shared prosperity, and (c) consistency and equity—delivering a devolution dividend. The proposed operation supports the first and the third strategic results areas. It helps to enhance the sustainability of Kenya's urban areas by strengthening systems of urban governance, supporting participatory strategic and spatial planning, and financing urban infrastructure and services. Improving the livability of Kenya's urban areas also helps to strengthen rural-urban linkages, by increasing off-farm employment opportunities for rural populations, thus contributing to poverty reduction. With respect to the third strategic results area, the proposed operation will help to deliver a devolution dividend by strengthening county administrations and urban management systems to enable them to deliver on their mandates. During implementation, appropriate synergies will be established with other Global Practices (especially water, environment, energy,

transport and governance) to maximize the Operation's contribution to the CPS. The proposed operation will also contribute to the CPS goals related to climate change, disaster risk management, and sustainability.

11. **The proposed Operation will be financed through a hybrid of the Investment Project Financing (IPF) and Program for Results (PforR) instruments**. The hybrid operation as a whole will be referred to as the "Operation" unless specified otherwise. Where necessary, the IPF element will be referred to as the "Project" and the PforR element will be referred to as the "Program". IPF will be used to fund a wide range of institutional and capacity development interventions at the national government level. The rationale for using IPF as a financing instrument for these types of intervention arises from the lessons learned from other PforR operations in the country, which suggest the need to provide a high level of budget predictability for undertaking national government actions that are critical for the success of the Operation as a whole, in particular, county-level Annual Performance Assessments (APAs). IPF implementation modalities also appear to be an effective way of procuring for technical assistance and institutional support activities (as opposed to goods and civil works) in a timely and economic manner. In addition, the proposed Operation involves relatively high level of unforeseeable activities that may be required to implement reforms at, or provide support to, the sub-national level over the life of the operation. A close working relationship between the national government and the World Bank through the IPF modality can facilitate better support and is also preferred by the client.

12. **The largest part of the Operation is financed through a PforR instrument, an effective mechanism for managing conditional grants to sub-national governments and strengthening their institutions and systems for the sustainable delivery of front-line infrastructure and services.** Given the proposed Program's focus on institutional development and policy implementation at the sub-national level, a PforR modality provides a clear set of incentives to county governments by linking Program disbursements to the delivery of institutional benchmarks such as the establishment of city and municipal management systems. The PforR modalities will also provide incentives for the delivery of county-led capacity-building activities, as well as with discretion and flexibility in meeting the specific developmental needs of different urban areas and localities. Once established, the urban-level institutions will be encouraged further through a PforR framework to improve their performance as city managers and to deliver well-designed and transformative infrastructure, the exact nature of which is not fully predictable, given the fairly discretionary use that will be made of Program funding.

13. **The proposed Operation builds on the lessons learned from the ongoing Kenya Devolution Support Program (KDSP) for Results but adds significant value by focusing on institutions and functions specific to urban development.** Both KDSP and the proposed Kenya Urban Support Program (KUSP) provide grants to county governments, access to which is conditional on the performance of counties, measured through APAs. However, the conditional grants of the two operations are channeled to very different areas. KDSP aims to improve county government performance across the full range of county administrative and financial management functions. The proposed Program, on the other hand, aims to incentivize counties to address the specific challenges of urban governance and urban development. The

two operations also differ in the expenditure focus of their grants: the grants under this Program will be earmarked for financing investments in urban areas, while KDSP grants are more unconditional and can thus be used to finance a much broader range of county-wide investments. Nonetheless, both Programs operate on similar principles and with the same long term aims of strengthening sub-national capacities and service delivery and fostering sound inter-governmental relations. Both Programs cover more or less the same counties,[8] thus enabling the proposed Operation to systematically leverage and benefit from the capacity building support provided through KDSP. The design of the current Operation has been informed by some of the early lessons learned during KDSP implementation, particularly with regard to the need for robust inter-governmental cooperation, for full integration of conditional grants into budgetary frameworks at both the national and sub-national levels, and for prudent ring-fencing of Operation-critical activities, from which the proposal of a hybrid option arose. During implementation, more synergies will be created between KUSP, KDSP and other relevant programs in the Kenya portfolio.[9]

II. PROGRAM DESCRIPTION

A. Government Program

14. **The government's overall response to Kenya's urban development challenge is articulated in the National Urban Development Policy (NUDP)**. The NUDP, approved by the Cabinet in 2016, intends to contribute towards the realization of the broader development goals articulated in Vision 2030 by addressing the key challenge of urban development. It envisages 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. The overall objective of the NUDP is to provide a framework for sustainable urban development in Kenya by pursuing nine specific objectives.[10]

15. **The State Department of Housing and Urban Development (SDHUD) has designed the Kenya Urban Program (KenUP), as a vehicle to implement the NUDP**. KenUP has also been formulated in the context of the existing legislation on urban development, including the County Government Act (2012) and the UACA. Acknowledging that there are limited incentives for counties to address urban development challenges and no dedicated institutions for urban management, KenUP aims to establish effective and empowered urban planning and management systems that deliver infrastructure and supporting services, economically,

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8 KDSP provides financial support to all 47 counties, whilst KUSP will provide financial support to 45 counties, Nairobi and Mombasa being the only counties not covered by the Urban Institutional Grant (UIG) and Urban Development Grant (UDG) grants under KUSP, although both will benefit from window 1 support described below.

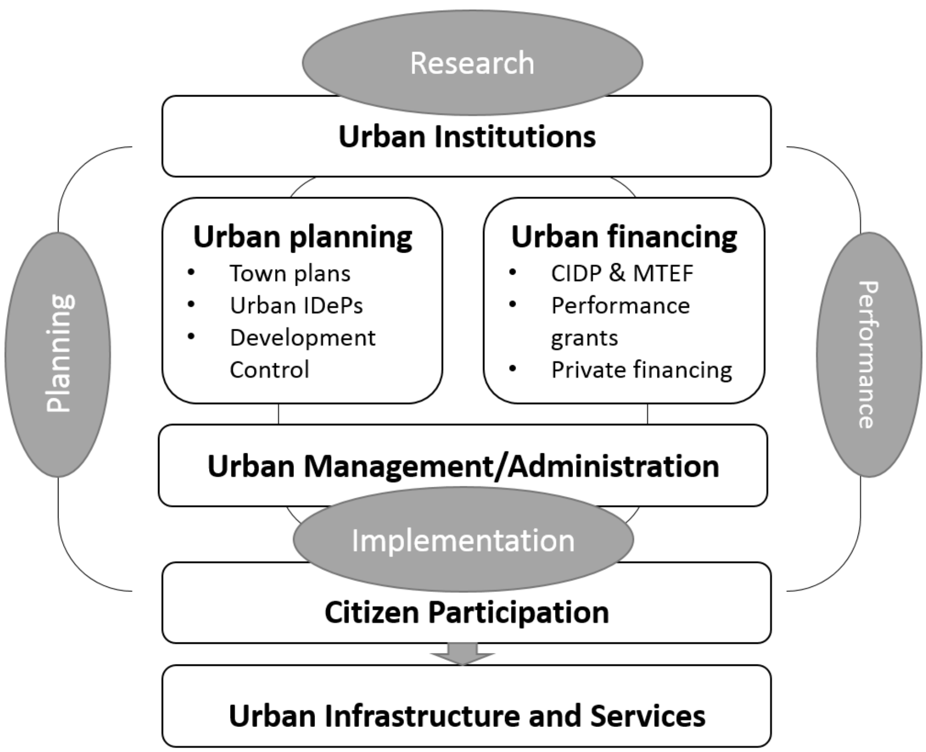
9 Further information on the complementary and distinctive features of KDSP and KUSP are included in annex 4.

10 NUDP's specific objectives are to: (a) create mechanisms for vibrant economic growth and development in urban areas and cities, (b) build efficient financial management systems in urban areas and cities, (c) develop effective governance structures for sustainable urbanization in the country, (d) reform urban planning to drive sustainable urban development in the country, (e) ensure access to land of the right quality for urban development, (f) promote city-wide environmental planning and management as well as climate change adaptation in urban areas and cities, (g) promote the development of requisite infrastructure and services in urban areas and cities, (h) support the development of affordable housing of acceptable quality in urban areas and cities, and, (i) mainstream urban safety and disaster risk management in urban planning and development.

efficiently and effectively based on locally determined urban integrated development plans (IDePs) and town plans.

16. **To achieve this objective, KenUP proposes a four-fold strategy (planning, implementation, performance, and research) to address urban development challenges.** In response to the lack of coordination between urban spatial and budgetary plans, KenUP aims to strengthen the links between urban spatial plans (for 10–20 years), urban IDePs (for five years), which include both spatial and budgetary elements of planning, and other strategic and budgetary plans such as the county integrated development plan (CIDP, for 5–10 years) and Medium Term Expenditure Framework (MTEF, for 3 years on a rolling basis). By integrating urban spatial planning and financing, infrastructure investment and service delivery in urban areas can be made more economic, efficient and effective. Implementation will be done through the management of performance grants on the public financing side as well as the mobilization of private financing that is guided by rigorous development control. Establishment of dedicated urban institutions, including efficient and capacitated urban boards and administration, is a prerequisite, while citizen participation is the basis for governance and service delivery. Urban research will guide the process of policy formulation and implementation by providing refined understanding of urban challenges and solutions and by promoting the importance of urbanization for Kenya's development.

Figure 1: Key objectives and strategies of the Kenya Urban Program



17. **Through these strategies, KenUP contributes to achieving four of the nine specific objectives contained in the NUDP, which the proposed Operation ultimately aims to support.**

(a) Developing effective governance structures for sustainable urbanization in the country (NUDP chapter 2: Urban Governance), in particular:
   i. Developing urban governance institutions;
   ii. Strengthening citizen participation and engagement; and
   iii. Strengthening urban management and administration.

(b) Building efficient financial management systems in urban areas and cities (NUDP chapter 3: Urban Finance).

(c) Reforming urban planning to drive sustainable urban development in the country (NUDP chapter 5: Urban Planning).

(d) Promoting the development of requisite infrastructure and services in urban areas and cities (NUDP chapter 7: Urban Infrastructure).

B. Program Development Objective (PDO) and Key Results

18. **The Program Development Objective (PDO) is to establish and strengthen urban institutions to deliver improved infrastructure and services in participating counties in Kenya**. The Operation will provide capacity building and institutional support to 47 counties; however, direct financial support will be provided to 45 counties other than the city counties of Nairobi and Mombasa,[11] and to 59 potentially eligible urban areas within those counties. The primary beneficiaries of the Operation are the 5.6 million residents of the 59 urban centers, half of whom are female. By achieving this PDO, the Operation is expected to contribute to the World Bank's over-arching goals of ending extreme poverty and promoting shared prosperity by delivering improved urban infrastructure on an inclusive basis and in ways that enhance economic growth and development in participating counties. Achievement of this PDO will also make a significant contribution to attaining Sustainable Development Goal (SDG) 11 (sustainable cities and communities).

19. **The proposed key Program results indicators are**:

- Number of urban areas with approved charters, established boards, appointed urban managers and a budget vote.
- Number of urban areas that utilize at least 50 percent of the budget intended for their urban investments in their budget vote.

[11] Nairobi City County and Mombasa City County are excluded from eligibility for KUSP conditional grants, but will benefit from the capacity support under window 1. Both Nairobi and Mombasa are currently beneficiaries of other ongoing Bank supported projects; these include the Kenya Informal Settlement Improvement Project, the Nairobi Metropolitan Services Improvement Project, the National Urban Transport Improvement Project, and the Water Sanitation and Supply Improvement Project. Altogether, these projects provide over a US$1 billion for urban infrastructure and services. Moreover, given their large population size and development needs, both Nairobi and Mombasa require significantly more financial support than the proposed Program can provide in order to have a visible impact.

- Score in the APA for achievement of urban planning, infrastructure, and service delivery targets by counties/urban areas, averaged across all urban areas that qualify for the UDG.

20. The complete table on the results framework and monitoring is provided in annex 2.

C. Program Scope

21. **The proposed Operation will finance key parts of the KenUP across its six thematic areas, including urban institutions, governance, management, finance, planning, and infrastructure and service delivery**. It does so through three separate, but inter-related, windows. Annex 1 provides a detailed description of the Operation as a whole.

Table 1: Objectives of KenUP and KUSP

KUSP Objectives	KenUP Objectives					
	Urban Institutions	**Urban Citizen Participation**	**Urban Management/ Admin**	**Urban Finance**	**Urban Planning [Development Control]**	**Urban infrastr. and service delivery**
National level interventions (window 1)						
1: Support for the establishment, operationalization and strengthening of the institutional framework for urban management						
1.1 Support the establishment, operations and strengthening of urban boards and administrations	●	●	●			
1.2 Support strengthening Urban Development Department (UDD): Policy, legislative review, and research	●					
1.3 KUSP Program management	●					
2: Strengthening coordination of urban finances (including conditional grants)						
2.1 - Management of APAs or all eligible county governments				●		
2.2 - Budgeting and administration of conditional grants to county governments (UIG, UDG)				●		
2.3 – Support strengthening of urban financial management				●		
3: Provision of support for planning, urban infrastructure, and service delivery						
3.1 Planning and development controls					●	
3.2 Infrastructure delivery						●
3.3 Basic service delivery						●
County level interventions (window 2)						
4: County governments address urban development and management issues	●	●	●	●	●	●
Urban-level interventions (window 3)						
5: Urban institutions are established and operational (UDG minimum conditions are achieved)	●	●	●	●	●	●
6: Urban institutions are performing effectively in delivering urban infrastructure and services (UDG performance standards are achieved)	●	●	●	●	●	●

22. **Window 1 will support national government in fulfilling its urban development functions**. Through three sub-components, the national government will undertake activities aimed at: (a) establishing and strengthening the institutional and policy framework for urban management; (b) supporting the coordination of urban finances (including the management of APAs and conditional grants); and (c) providing backstopping for urban planning, urban infrastructure delivery and for the provision of basic urban services. All of these window 1 activities will be led or coordinated by the Urban Development Department (UDD) within the MTIHUD.

23. **National government support aimed at strengthening the institutional and policy framework for urban development will focus on three areas**. Firstly, UDD will ensure that counties are provided with guidance and capacity building to enable them to establish and operate urban management institutions for their urban areas. This will include the provision of templates for municipal charters, training for urban boards, and procedural guidelines on municipal management. Secondly, UDD will conduct reviews of policy and legislation, as well as coordinate policy on a variety of urban development issues; this will include exploration of the next generation of urban development support programs. Thirdly, UDD will ensure sound operational management.

24. **UDD will also take on the coordination of conditional grants earmarked for urban development and oversee the Annual Performance Assessment (APA) process that underlies the allocation of Urban Institutional Grants (UIGs) and Urban Development Grants (UDGs) to eligible counties and urban areas**. APAs will assess the extent to which counties and their urban institutions have met with minimum conditions and performance standards and will therefore be of critical importance in determining the allocation of UIGs and UDGs to eligible counties and urban areas. In addition, UDD will ensure that such grants are fully and properly integrated into national-level budget processes and into the annual national budget calendar. UDD will also be responsible for authorizing the timely release of UIGs and UDGs to county governments by the National Treasury (NT). Finally, UDD will provide counties and urban institutions with guidance and capacity development support for managing urban finances.

25. **UDD will assist urban institutions by providing guidelines and capacity building support in planning, infrastructure delivery and service provision**. Capacity building and institutional strengthening activities are based on experience gained and lessons learned from the KMP, under which counties have often requested operational guidelines, on-the-job training, and assistance with quality control. UDD's capacity building support will include: (a) developing (with other government agencies, such as the Kenya Urban Roads Authority) and disseminating technical standards for infrastructure; (b) providing training on and technical assistance for urban planning; and (c) developing a series of guidelines to aid the process of implementing sub-projects, including simplified procurement, contract management, participatory planning and prioritization of investments, and environmental and social screening and management of sub-projects.

26. **Window 2 will provide support to county governments for the formulation of urban development plans, for the establishment and operation of urban institutional arrangements (charters, boards, administrations), and for the initial preparation of urban infrastructure investments**. Program support for window 2 will take the form of UIGs to county governments, which will be accessed by counties provided that they meet basic minimum conditions (MCs). The most important MC to be met by counties will be the preparation of a county urban institutional development strategy (CUIDS), to inform the CIDP. The CUIDS will specify how the county intends to address urban management issues and will include an annual action plan and budget outlining the proposed use of the UIG. Through the provision of UIGs to counties, window 2 will enable county governments to promote urban development within their jurisdictions, by establishing and strengthening urban institutions (for example, municipal boards, municipal administrations) and by integrating urban development challenges and opportunities into county-wide development strategies and plans. In addition, UIGs will thus provide counties (and their urban institutions) with some of the financial resources needed to meet the MCs and performance standards (PSs) for accessing UDGs and to thus obtain funding for urban infrastructure and service delivery.

27. **Counties will be able to use their UIGs to finance a range of eligible expenditures, including costs related to capacity building, some incremental operating costs, hiring consultants, and the purchase of office equipment.** Provided that MCs are met, UIGs will be allocated to all eligible and qualified counties on an equal shares basis of US$500,000 per county over the life of the Program, disbursed in three tranches of US$200,000, US$200,000 and US$100,000. IDA funds for window 2 will be disbursed through PforR financing modalities and will be an integral part of county government budgets.

28. **Window 3 will provide support to urban boards and administrations through their respective county governments for financing infrastructure investments in urban areas**. This support will take the form of UDGs, conditional grants budgeted for by the national government and transferred to the sub-national level and earmarked for financing investments in specific urban areas. Annual UDGs will be made available to eligible urban areas provided that they meet MCs and as a function of their performance. MCs for UDGs will be focused on compliance with: (a) institutional benchmarks, such as the granting of a municipal charter to the urban area in question, the appointment of a municipal board/administration and the inclusion of a separate urban area vote in the county budget; and (b) program-specific benchmarks and requirements such as performance in procurement, compliance with investment menu and environment and social safeguards requirements. PSs will be focused on urban area governance such as citizen participation and public disclosure of urban finances; and urban area planning, infrastructure, and service delivery benchmarks such as implementation performance, plan formulation, and actual provision of basic urban services. UDG funds will be used by qualifying urban institutions to finance a broad range of infrastructure investments. Eligible investments will include waste management, drainage, connectivity infrastructure, urban economic infrastructure, and fire and disaster management. The prioritization and selection of urban investments will take into account: (a) citizen participation; (b) social inclusion requirements, including gender and disability considerations; (c) climate change and disaster adaptation; and

(d) economic viability.[12] Ineligible investments include any World Bank environment and social impact assessment Category A projects, as well as a range of sector-specific projects.[13]

29. **The size of the indicative (maximum) UDG annual grant pool is US$114.65 million, based on an allocation of US$20 per urban resident and a minimum allocation of US$500,000 (per urban area) to ensure that all urban areas are able to make significant investments**. On average (and assuming that MCs and PSs are fully met) annual UDGs will amount to about US$2.5 million per county or about US$1.95 million per urban area, with the most urbanized counties and the most populous urban areas being eligible for the largest UDG allocations. The actual level of total UDG allocations each year will depend on the achievement of MCs and PSs, and may therefore vary between zero (in the event that no urban areas qualify) to US$114.65 million (in the event that all urban areas qualify for their maximum UDG allocations). When counties and their urban areas comply with all MCs, they will qualify for 50 percent of their indicative UDG allocations; meeting PSs will result in qualification for between 0–50 percent of the remaining indicative UDG allocations. IDA funds for window 3 will be financed through the PforR instrument.

30. **Overall, the KUSP represents a significant slice of the KenUP.** The total KenUP budget is estimated at US$1 billion. Of this, KUSP will provide US$300 million dollars or 30 percent of the total KenUP funding budget. The Operation will be implemented over a period of six years. IDA funds will be allocated to the three windows, as shown in table 2 below. The majority of the Operation's funds will be used to finance sub-national activities (windows 2 and 3). The Government's contribution will consist of approximately US$20 million, in the form of SDHUD current expenditure (e.g. payroll, operating costs, office space) for urban development.

31. **A number of Kenya's development partners are currently engaged (or intend to engage) in urban development interventions in Kenya**. Development partners currently active in the area of urban development include, among others, the United Kingdom's Department for International Development, the French Development Agency, the Swedish International Development Cooperation Agency, the Japan International Cooperation Agency, and UN-Habitat. Although no development partners have formally committed to providing specific support to KenUP, the government intends to integrate any such support into its wider program or ensure that it is fully aligned with program objectives and implementation modalities.

[12] Details of and procedures for the use of investment project prioritization and selection criteria will be included in the Program Operations Manual (POM).

[13] The eligible and non-eligible investment menu for UDGs is based on prior experience in other World Bank urban programs in Kenya, especially KMP.

Table 2: IDA allocations

Window/level	Expenditure Areas	Amount (US$ millions)	Amount (%)
Window 1: National government[14]	• Policy development and urban management. • Capacity development for urban institutions. • Program coordination of UIGs and UDGs.	30.3	10.0
Window 2: County governments	• Sub-national urban development and planning. • Institutional and capacity development. • Technical and institutional support for urban infrastructure and service delivery.	22.2	7.5
Window 3: Urban boards (county government agencies)	• Infrastructure and service delivery.	247.5	82.5
	Total	300.0	100.0

Disbursement Linked Indicators (DLIs) and Verification Protocols

32. **Program funds for sub-national activities will be disbursed on the basis of three DLIs.**[15] The first DLI provides funds to counties that choose to opt in to the Program and which qualify with UIG MCs. The second DLI aims to encourage counties to establish and make operational urban institutional frameworks. The third DLI focuses on strengthening urban planning, infrastructure, and service delivery. Together, the three DLIs provide strong incentives for improved management of urban areas. Table 3 below provides a summary of the content and funding for the DLIs. Annex 3 contains the detailed DLI matrix.

Table 3: Program DLIs

Window	**Results area**	**DLIs**	**Approximate disbursement amount (US$ million)**	**% of total IDA (PforR) amount**
Window 2: County governments	County governments commit to address urban development and management issues	**DLI 1**: County governments have met UIG MCs.	22.2	8.2
Window 3: Urban boards and counties	Institutional framework established and operational	**DLI 2**: County governments have met UDG MCs	171.4	63.6
	Urban planning, infrastructure and service delivery	**DLI 3**: County governments and urban area institutions have met UDG PSs	76.1	28.2
		Total IDA PforR finance	**269.7**	**100.0**

[14] Includes US$0.3 Million for operational support to KUSP by CoG. Modalities for activities to be undertaken by CoG using these resources will be discussed and agreed at Program Technical Committee (PTC) level.

[15] Program activities at the national level are financed through the IPF instrument and therefore do not rely on DLIs.

33. **DLI 1 for window 2 triggers the UIG when county governments commit to address urban development and management issues and is intended to provide incentives for county governments to address urban challenges.** The UIGs made available through meeting this DLI will also provide county governments with the resources needed to establish urban boards to manage urban areas within their jurisdictions. Counties qualify for an UIG by complying with the UIG MCs, which are: (a) signing a Participation Agreement specifying the county's intention to participate in the Program, (b) drafting (year 1) and then implementing (years 2–6) county-level urban institutional development strategies. Compliance of all 45 eligible counties with these MCs will be assessed on an annual basis through the APA process.

34. **DLI2 is designed to provide county governments with incentives to establish appropriate institutional arrangements for those urban areas within their jurisdictions that are eligible to be classified as municipalities or cities (on the basis of population thresholds defined in the UACA).** DLI2 triggers Program disbursements that will finance UDGs. Each county can access 50 percent of the indicative UDG allocation for each of its urban areas by meeting UDG MCs. UDG MCs (for eligible urban areas) are related to: (a) granting municipal charters (b) establishing urban boards and administrations; (c) ensuring adequate public financial management (budget votes, reporting); (d) demonstrating readiness to implement urban investment projects; (e) adhering to environmental and social requirements and (f) adhering to Program-related fiduciary and procedural requirements. All such MCs (for a given urban area) must be met in order to unlock 50 percent of the UDG for the eligible urban area. Compliance of each of the 59 eligible urban areas (and their 45 counties) with these MCs will be assessed on an annual basis through the APA process.

35. **DLI3 is designed to provide urban institutions with incentives to: (a) manage their urban areas in an accountable, participatory and transparent manner; (b) adhere to the environment and social requirements and (c) undertake effectively planning, infrastructure delivery and basic service provision.** The extent to which urban institutions do so will be measured by the degree to which they achieve the ten UDG PSs. PSs are assessed only if the urban area in question has met UDG MCs. Achievement of each performance standard will trigger an additional 5 percent of the total indicative UDG allocation for the urban area. Achieving all ten PSs will trigger 50 percent of the indicative allocation for the urban area, in addition to the 50 percent that is triggered for meeting the UDG MCs. The extent to which each of the 59 eligible urban areas meets PSs will be assessed each year through the APA process.

36. **All Program DLIs are based on the results of APAs, undertaken through window 1 and managed by UDD**. APAs will be carried out by an independent consulting firm, contracted by UDD. The APA process will include field assessments, sensitization and final verification of compliance with MCs and achievement of PSs. APA results will determine UIG and UDG allocations for all eligible counties and urban areas and will be made available on a timely basis.

37. **Given that these DLIs directly measure the future and thus somewhat unpredictable performance of county governments and urban boards, the level of disbursement can be higher or lower than expected in a given year**. Thus, if counties and urban boards are assessed as performing better than expected, annual disbursements will be increased. Conversely, if

performance is not as good as expected, then annual disbursements will be reduced. In the event that counties and urban boards perform consistently better than expected, additional financing will be required.

38. **The achievement of all three DLIs will be verified on an annual basis by the Program Technical Committee (PTC) and endorsed by the Program Steering Committee (PSC)**. Once the results of the APAs are verified by the PTC, the PSC will review and endorse the verification results by June 15 every year. The PSC-endorsed results will be submitted by the Urban Development Department (UDD) to the World Bank for its clearance by the Practice Manager and the Country Director by July 31 of a given year. The task team sends the cleared results to the disbursement team at the World Bank to release the funds of the amount determined by the assessment to the National Treasury.

39. **The World Bank will retain the right to make the final decision on whether a DLI has been achieved or not**. In addition, the World Bank may undertake regular independent quality assurance checks of the APAs to ensure continued robustness of the system. The World Bank will hire a quality assurance review consultant to provide a third party review of the accuracy of the findings presented in the APAs. The quality assurance review consultant should be on board by the time of the draft APA reports to allow the consultant time to sample and validate the results.

D. Capacity Building and Institutional Strengthening

40. **Capacity building and institutional strengthening activities will be undertaken at both national and sub-national levels**. Such activities will include: (a) policy and regulatory reviews and guidance; (b) developing and disseminating manuals, templates and standards; and (c) providing capacity building support through orientation, training, peer learning events and on-the-job training.

41. **National level capacity building and institutional strengthening will be delivered through window 1.** UDD will be responsible for managing and coordinating these activities. Where necessary and appropriate, UDD will out-source activities to consultants or other national level agencies. In the case of policy development and regulatory activities, UDD will work closely with other national government agencies, such as the National Environmental Management Authority (NEMA) for environmental safeguards issues, the Kenya Urban Roads Authority for urban roads standards, and the Commission on Revenue Allocation (CRA) for conditional grants. All such activities will be discussed during the annual program review, included in the window 1 annual work plan, and covered by the annual procurement plan.

42. **At the sub-national level, capacity building and institutional strengthening will be undertaken by counties, which will be able to use UIGs to finance some such activities.** On an annual basis, county governments will draw up urban institutional development strategies and plans, identifying appropriate activities aimed at either meeting UDG MCs or at incorporating urban development issues into county-wide plans and programs.

III. PROGRAM IMPLEMENTATION

A. Institutional and Implementation Arrangements

43. **The Operation will be implemented through institutional arrangements at the national level, county level, and urban board level.** The division of responsibilities between the three levels is laid out in the 2010 constitution and in the UACA. The 2010 constitution stipulates that the national and county governments should conduct their affairs in consultation and with coordination. It confers the higher authority to formulate national policies on the national government, in which context the national government spearheaded the development of the NUDP, while the implementation of the policy as well as of core urban planning and development functions are devolved to the sub-national level. The UACA stipulates the relationships between county governments and urban boards, including the level of authority to be conferred and types of functions to be delegated by county governments.

44. **The SDHUD has the overall responsibility for the Operation and the UDD will provide technical leadership and support.** The SDHUD will be in charge of planning, budgeting, and disbursement of funds to the eligible county governments and municipal boards. Further, the SDHUD will regularly consolidate accounts, financial reports, and progress reports. Through an efficient coordination of conditional grants, the SDHUD will provide incentives to county governments to implement the NUDP and the UACA. The UDD plays a core role in technical coordination, capacity building and backstopping. In particular, UDD will liaise closely with the Council of Governors (CoG) in order to ensure effective coordination and communications with county governments. For the day-to-day management of KUSP, the UDD will establish a National Program Coordination Team (NPCT), consisting of *inter alia*: a Program coordinator, planners, an engineer, a financial management specialist, a procurement specialist, a public finance advisor, a social safeguards specialist, and an environment safeguards specialist. The UDD will seek to fill these positions from within the ministry. If it cannot, it is expected to fill the positions with consultants. Annex 9 provides further details.

45. **At the sub-national level, county governments will play a pivotal role in implementation of the Program.** Their responsibilities include: (a) establishing urban institutions for effective urban management; (b) capacity building and technical backstopping of municipal boards/administrations; (c) supporting and guiding municipal boards/administrations in preparing budgets and forwarding them to the Country Executive Committee (CEC) Urban and CEC Finance for consolidation before being presented to the CEC for adoption and then submission to the county assembly for approval; (d) managing the flow of Program funds at this level, and consolidating the fiscal reporting from municipal boards for onward submission to the National Treasury; (e) and generally exercising oversight on the performance of the municipal boards. To facilitate within-county coordination and coordination with the national government, a County Program Coordination Team (CPCT) will be formed in the county government, under the overall responsibility of the county executive committee (CEC) member responsible for urban development. Members of the CPCT include *inter alia*, the director responsible for urban development, a municipal manager, an engineer, an accountant, county environment and social safeguards officers, municipal administrator(s) (once appointed), an engineer, an accountant and/or budget officer, an economic planning officer (responsible for monitoring & evaluation),

and county environment/social officers. A county program steering committee will also be appointed by the county governor, and will play an advisory role and facilitate inter-departmental coordination. Further details are included in the Program Operations Manual (POM).

46. **Municipal boards and municipal administrations are new entities to be established by county governments and will implement the Program's window 3 activities**. Municipal boards and administrations will be responsible for investment planning, budgeting and implementation, and for day-to-day implementation of activities funded under the Program. They will also be responsible for compliance of operations with all financial management, procurement, and environmental and social safeguards and regulations.

47. **To ensure high level inter-sector and inter-governmental oversight, a Program Steering Committee will provide policy guidance, strategic leadership, and broad oversight of the Operation**. One of the PSC's major functions will be to endorse APA results.[16] The Principal Secretary of the SDHUD and the chair of the urban development committee of the Council of Governors will jointly chair the steering committee. Other members of the committee will include representatives of the National Treasury, State Department of Housing and Urban Development, Ministry of Devolution and Planning (MoDP), Controller of Budget (CoB), Commission on Revenue Allocation (CRA), the chief executive of the CoG, the chair of the CECs responsible for urban development, and any other appropriate representatives identified and appointed by the committee. The committee will meet twice a year. UDD and the secretariat of the CoG will provide joint secretariat services to the committee.

48. **In addition, a Program Technical Committee will be established.** The technical committee will be responsible for reviewing and verifying APA reports[17], addressing any cross-cutting technical issues and challenges in implementation of the Operation, reviewing progress reports, accounting and financial management, providing technical guidance on implementation, and escalating to the steering committee any evolving policy issues.[18] The secretary responsible for urban development in SDHUD and the head of the land planning and urban development committee of the Council of Governors will co-chair the technical committee. Its members will include at least three CEC members representing the county governments participating in the Program (to be identified by the CoG), representatives of UDD, representatives of the NPCT at the UDD, and representatives from the NT and the MoDP, and others as appointed by the technical committee. UDD and the Secretariat of the CoG will provide joint secretariat services to the committee.

[16] Endorsement of APA results will be a crucial operational function of the PSC and will be a major incentive for the PSC to meet at least once per year. As such, the KUSP PSC will be somewhat different from steering committees for other programs or projects, in which they tend to play a non-operational role.

[17] The PTC will be responsible for ensuring that the APA is consistent with the APA Terms of References (ToRs), checking that it is comprehensive (covering all eligible counties and urban areas and all MCs/PSs), and that APA results are internally consistent. Terms of Reference for both the PTC and PSC will be included in the POM.

[18] The need for a PTC is grounded in the experience of the World Bank-financed Uganda Support to Municipal Infrastructure Program, in which the PTC has played a useful and important role in ensuring cross-sectoral and inter-departmental policy coordination and harmonization.

B. Results Monitoring and Evaluation

49. **Given the Operation's focus on policy and institutional strengthening, it is critical to generate timely and relevant feedback on implementation progress and outcomes.** This will enable the stakeholder to address issues as quickly as possible once they arise and to revise the Operation's parameters to adjust to the evolving conditions. To facilitate this process, the Operation will finance regular training of monitoring and evaluation (M&E) specialists, technical assistance, and other capacity support required to establish and operate an effective M&E system.

50. **Monitoring and reporting will take place at both national and county levels of government.** Those responsible for M&E within participating county governments will be part of the county-level CPCT. They will be responsible for collecting from the relevant county/urban board departments to report on Program implementation, and to capture data on urban governance, urban infrastructure, and services delivered by using Program funds. They will facilitate access to key data required for the APA, the findings of which will be the key source of information to track the indicators presented in the results framework. They will also prepare progress reports twice a year (a midyear report and an annual report) containing agreed data and transmit them to the SDHUD. M&E specialists at the SDHUD will consolidate such input into a single progress report for presentation to the PSC, PTC, and the World Bank for review and comments. The M&E specialists in SDHUD will also provide training and back-stopping support to staff at the county/urban levels to ensure that the reports are timely, comprehensive, and accurate.

51. **The data to track many of the key performance indicators will come primarily from the government's own systems, as tracked by the SDHUD and the county governments, urban boards and administrations**. The table below summarizes the various inter-linked tools which will be used to monitor and report on the Program.

Table 4: Data generation and collection

Type of information	Means	Frequency
Implementation performance, governance performance, physical progress and outputs, technical aspects of the Program, and achievement of the key performance indicators.	Counties/urban boards and administrations, and SDHUD, each with responsibilities as described above.	Two reports a year, with the content specified in the POM.
	APA	Annually
Achievements of targets for urban infrastructure and services.	APA	Annually
Financial reporting (use of funds, expenditure composition).	Annual financial statements, semiannual financial reports, internal audit reports, annual external audit reports	Twice a year
Review of implementation experience, achievement of the key performance indicators, and progress towards the PDO.	Annual progress report and APA	Annually
Detailed review of implementation experience, achievement of the key performance indicators, and progress towards the PDO.	Midterm review	Once in the Program's lifetime (2020)

52. **The midyear report on the Operation will cover the following issues**:

- Summary of aggregate Program and Project expenditures and Program infrastructure delivered by counties/urban boards and administrations.
- Execution of SDHUD capacity building plan.
- Summary of aggregate capacity building activities undertaken by counties/urban boards and administrations.
- Summary of aggregate environmental and social performance reports from each counties/urban boards and administrations, including information on grievances and redressal.
- Summary of progress against performance indicators.

53. **The annual Operation report will include all the above, plus:**

- Summary of the assessment results, including the performance of Program counties/urban boards and administrations and the disbursed amounts.
- Summary of aggregate information on procurement grievances.
- Summary of aggregate information on fraud and corruption issues.

C. Disbursement Arrangements

54. **For the Project (window 1), disbursement arrangements will be based on procedures that are consistent with IPF modalities**. The initial IDA disbursement for window 1 will be made after receiving a withdrawal application with a six-month cash flow forecast. This withdrawal application should be prepared within one month after Operation effectiveness. Thereafter, IDA disbursements will be made into the respective Designated Account based on quarterly Interim Financial Reports (IFRs), which would provide actual expenditure for the preceding quarter (three months) and cash flow projections for the next two quarters (six months). The World Bank's financial management specialist will review the IFR together with the withdrawal application. The task team leader will confirm that the disbursement conditions have been met to trigger action for processing the disbursement by the World Bank's Loan Department.

55. **Disbursements under the Program (windows 2 and 3) are subject to PforR procedures.** Windows 2 and 3 disbursements from the World Bank are scalable, will be based on the achievement of annual DLI targets, and will be made in a single tranche every year. DLIs 1, 2 and 3 are all scalable and amounts to be disbursed are determined on the basis of APA results and the subsequent estimate of annual UIG and UDG allocations for counties and their urban institutions. DLIs will be verified by technical committee at the end of June each year. The steering committee and the World Bank will endorse the results by July 31 of each year. Disbursements for DLIs 1, 2 and 3 will be made before August 15 of each year and will need to have been fully taken into account in national government budget framework, in the annual County Allocation of Revenue Act (CARA), Division of Revenue Act (DORA) and in county government budgets.

IV. ASSESSMENT SUMMARY

A. Technical (including program economic evaluation)

56. **Strategic relevance**. Given the importance of well-managed urbanization for Kenya's economic development, the need for adequate urban institutions, and the shortage of financial resources for delivery of urban infrastructure and services, the Operation is assessed to be strategically relevant. The proposed Operation will contribute towards achieving Kenya's Vision 2030, which places considerable emphasis on the need for making investments in urban development and promoting sound urban planning. The Operation will also assist the government in implementing the NUDP, particularly with regard to urban governance and management, and to urban infrastructure and services, in ways that are fully consistent with devolution and with the different functions of national and county governments. Importantly, the proposed operation will assist in the implementation of the UACA, through the incentives and support that it provides for the establishment of the urban institutional framework provided for in the legislation. Finally, through its conditional grants for urban development, the Program will go some way towards filling the urban funding deficit at the sub-national level.

57. **Technical soundness.** The design of the Operation is assessed to be technically sound. First, its basic objectives and approach clearly address the key challenge of establishing and operationalizing an institutional framework for urban management. The Operation is fully consistent with the letter and spirit of the UAC Act, while at the same time promoting institutional arrangements for urban areas that are acceptable to county governments. The conditional grant system built into the Program provides counties with substantial financial incentives to set up urban institutions. If fully accessed, KUSP grants will – on average – amount to about 15 percent of total annual county government development spending; in the most urbanized counties and for the largest urban areas, UDGs will provide even greater fiscal incentives to counties. In addition, activities at the national level are explicitly intended to provide counties and their urban boards and administrations with clear guidance and support in putting in place the institutional framework for urban development and management, and to provide an actively enabling policy environment in which to establish urban institutions.

58. Moreover, the proposed public financial management (PFM) arrangements for urban areas are explicitly intended to dovetail with existing county government financial management (FM) and treasury systems, thus keeping transaction costs at acceptable levels. Second, key elements of the proposed operation are assessed as being technically sound. At the national level, through window 1, UDD will play an important and appropriate role in terms of fulfilling its policy, regulatory, financing and support mandates. Window 1 activities will ensure that counties and urban institutions benefit from guidance and capacity building and that grants earmarked for urban development are properly coordinated and administered. Importantly, the APA process—which is of fundamental importance to the coordination of conditional grants—is an explicit element of window 1. At the county level, UIGs will enable counties to establish and support municipalities and urban boards and administrations, as well as incorporate urban challenges into country-wide strategies and plans. At the level of urban areas, UDGs will provide incentives provide funds to finance urban infrastructure and services, providing an important incentive for urban boards and administrations to perform. The APA process provides

counties and urban institutions with clear and achievable performance targets and feedback on performance.

59. **Institutional arrangements**. Institutional arrangements for the proposed operation are assessed as being appropriate and adequate. Responsibilities for implementation are divided across national and sub-national levels in ways that are fully consistent with the 2010 constitution. National government, with SDHUD taking a lead role, will be responsible for policy, regulation, finance, support and oversight. County governments and their urban institutions will take primary responsibility for planning, and constructing and operating urban infrastructure and delivering services. Arrangements for overall operational oversight, through the PTC and PSC, will ensure that: (a) APA results are reviewed and endorsed at a high level; (b) there are inter-sector coordination mechanisms in place; and (c) counties are properly represented at a high operational level through the CoG.

60. **Expenditure framework.** The PforR-financed components of the Operation will be appropriately embedded in the budget and expenditure management processes of both the national and county governments. IDA funds will be deposited in the Consolidated Fund and be managed using National Treasury systems. Program allocations for windows 2 and 3 will fall under the budget of the SDHUD as appropriated by the National Assembly. The bulk of IDA resources will be allocated to counties in the form of conditional grants (UIGs and UDGs). Conditional grants form part of the national share of government resources and will therefore appear under the budget of the SDHUD. These conditional grants will be reflected in the CARA and DORA and will be transferred by the National Treasury directly from the Consolidated Fund to the counties. UIGs and UDGs will be reflected in the annual budgets of counties that qualify for these allocations from the Program. SDHUD and the National Treasury will thus ensure that counties are informed of their UIG and UDG allocations on a timely basis. This process will be jointly coordinated with the PSC.

61. **Economic evaluation.** By design, the proposed Program provides sub-national decision-makers with considerable discretion in deciding on the types of infrastructure investments that will be financed out of UDGs. It is therefore not possible to determine a priori which infrastructure services will be implemented in eligible urban areas. Nonetheless, the available evidence suggests that investments such as roads and non-motorized transport in urban areas provide quantifiable benefits in excess of costs. In the case of investments in roads, the economic internal rate of return (EIRR) is estimated to be between 17 and 65 percent. The non-quantifiable benefits accruing to urban infrastructure investments are also evaluated as being considerable. The chosen investments will be consistent with the CIDP priorities.

B. Fiduciary

62. **The integrated fiduciary assessment has determined that the overall fiduciary framework for the Operation is adequate to support its effective management and achieve the desired results.** For the IPF part, an FM assessment was carried out in accordance with the World Bank Directive: Financial Management Manual for World Bank Investment Project Financing Operations issued February 4, 2015 and effective from March 1, 2015 and the World Bank Guidance: Financial Management in World Bank Investment Project Financing Operations

Issued and Effective February 24, 2015. The assessment covered the six key FM elements of budgeting, accounting, and internal control including internal auditing, in addition to funds flow, financial reporting and external auditing arrangements. The objective of the assessment was to determine whether: (a) there are adequate financial management arrangements in the implementing agency to ensure that funds channeled into the project will be used for the purposes intended in an efficient and economical manner; (b) the project's financial reports will be prepared in an accurate, reliable and in a timely manner; and (c) the Operation's assets will be safeguarded.

63. **Financial management.** The country-level fiduciary systems for the Operation at national and county levels have both strengths and challenges. The government has undertaken important FM reform activities, including the enactment and implementation of the 2012 PFM law, roll-out of the integrated financial management information system (IFMIS), adoption of the Treasury Single Account, adoption of International Public Sector Accounting Standards (IPSAS), and capacity strengthening of the Office of the Auditor General (OAG). Nonetheless, the assessment noted that significant fiduciary risks exist with respect to financial management, particularly at the county or sub-national level. For counties, OAG audit reports have been subject to considerable delays. OAG audit reports have revealed major fiduciary weaknesses in most counties; most audit report opinions for counties have either been adverse or disclaimed. Among the weaknesses noted by county audit reports are: (a) inaccurate or unreliable financial statements, inadequate asset management, (b) insufficient supporting documentation for revenues and expenditures, (c) un-reconciled bank statements, (d) weak internal control mechanisms, and (e) deficiencies in revenue management. These challenges are mainly due to counties being new entities, and are being addressed by individual counties with capacity building support from the national government and various donor partners.

64. On the basis of previous engagement between the World Bank, the National Treasury and the counties (especially in health and agriculture devolved sectors), adequate country FM arrangements have been developed to manage government and donor funds to counties which are treated as conditional grants from national to county governments. These measures are assessed as sufficient to address the identified FM risks. These measures include capturing the conditional grants in the DORA and CARA so as to ensure adequate budget allocation, having separate budget codes in IFMIS for each conditional grant for tracking by the National Treasury and the counties, opening of segregated special purpose bank account by each county for the conditional grant to ensure timely disbursement of the grants and avoid the grants being used to finance other unrelated county expenditures, designation of Program-specific government accountants and finance offices to handle accounting and budget aspects of specific conditional grants, and getting conditional grants subjected to annual audit by the OAG.

65. **In terms of fiduciary risk mitigation with respect to FM arrangements, several actions will be required in line with the country level requirements for conditional grants**. To ensure that conditional grants flow correctly and on a timely basis, UIGs and UDGs will need to be captured as conditional grants in both the national and county budget and be properly reflected in the DORA and CARA. Based on lessons learned from KDSP and other PforR operations in Kenya, KUSP will need to ensure that Program funds are captured in the DORA and CARA in order to avoid any budgetary bottlenecks. SDHUD and each participating county

will designate a budget/finance officer to follow up on budget related issues. At county level, budget votes for specific urban areas will be established in county budgets, and corresponding Special Purpose Accounts opened in county treasury systems. Program-specific budget codes will also be configured in IFMIS for both SDHUD and the participating counties. The SDHUD and the counties will designate qualified accountants responsible for overseeing Program-related accounts.

66. **Procurement**. The proposed Operation is a hybrid of IPF and PforR which will be implemented under three windows. The team that is implementing the KMP at the SDHUD will procure and implement activities under window 1 of the Operation in accordance with the World Bank's Procurement Guidelines. Some 45 counties will procure and implement activities under windows 2 and 3 of the Operation in accordance with the national public procurement procedures laid out in the Public Procurement & Asset Disposal Act, 2015. Assessments were conducted on the capacity of SDHUD and two-thirds of the beneficiary counties of the Operation to implement procurement requirements under their respective components. The procurement capacity assessments indicate that the procurement risk at SDHUD-level is "Substantial" and is "High" at the county-level. The overall procurement risk of the Operation is assessed as "Substantial." At the SDHUD level, risks include inadequate staffing, delays in procurement processes, and contract management deficiencies and delays. At the level of counties, weaknesses include: (a) poor record keeping and filing systems, (b) incomplete implementation of e-procurement, (c) lack of information and disclosure of procurement activities, (d) insufficient sensitization of stakeholders on negative impacts of corruption in public procurement, and (e) lack of regular procurement audits.

67. Measures to mitigate procurement-related risks at SDHUD and county levels are included in the Program Action Plan (PAP, see below and annex 8) and in annex 9. Measures include appropriate staffing requirements, the delivery of training activities, the provision of standard templates and guidance, and the use of performance-based incentives.

68. **Governance and accountability**. Kenya's 2010 constitution and legal framework have strong provisions on combatting fraud, corruption, and handling complaints on maladministration and service delivery. This legal framework gives significant and independent powers to the Office of the Director of Public Prosecutions, Ethics and Anti-Corruption Commission (EACC), and Ombudsman to exercise their relevant mandates at both national and county government levels. The EACC has a well-functioning, well known, and accessible complaints management system, linking key investigative, and transparency agencies. While the EACC and Ombudsman have a robust complaint handling mechanism that works well with the SDHUD, the situation needs strengthening in counties where there are no fully established complaints handling mechanisms. As part of the Program, establishment of a fully operational complaints management system is included as a dated covenant to be fulfilled within six months after effectiveness of the Program. This requirement will be reinforced further by the KDSP which has the establishment of a citizen's complaints system as a minimum performance condition.

69. **Fraud and corruption mitigation measures to be implemented at national level under the Operation are**:

- Full operationalization of SDHUD's complaints management system. This will entail a functioning grievance committee to handle complaints, designation of a focal point officer to receive, sort, forward, and monitor complaints, the design and use of a standard complaints form to be made publicly available, the establishment of multiple channels for receiving complaints, and keeping up-to-date complaints records.
- Establishing and maintaining a program risk register, the format for which is included in the POM.

70. **At the county level, fraud and corruption mitigation measures will be promoted through KDSP**. Access to KDSP grants is conditioned upon counties putting in place complaint management systems. Given this, KUSP will utilize systems established under KDSP to mitigate fraud and corruption at the county government level.

C. Environmental and Social

71. **The system for environmental and social management under the Program will be largely based on the existing legal, regulatory and institutional system in Kenya, which the Environment and Social Systems Assessment (ESSA) finds adequate overall**. However, considering the significant geographic dispersion of the participating counties, different scale of proposed investments, and the potential cumulative environmental and social impacts associated with the program, the overall environmental and social risk of the Program is rated as ***substantial***.

72. **The ESSA recognizes that there remain gaps in the existing institutional systems for environmental and social management that need further strengthening, particularly at the county level.** The environmental and social management units at both national and county levels are not adequately supported through budgetary allocations and provision of necessary facilities, equipment and supplies, adequate and skilled human resources. The counties do not have documented procedures and processes in place for the management of the environmental and social management risks. In addition, counties have not sufficiently mainstreamed land acquisition procedures as provided by the National Land Commission (NLC) Act into their planning and development processes.

73. **To address these gaps, the Kenya Devolution Support Program (KDSP) a PforR under the Ministry of Devolution, supports the strengthening of the county social and environmental risk management systems in all the 47 counties.** KDSP is financing the appointment of both social and environmental safeguards focal points in each county, and provide support to NEMA in carrying out an environment and social curriculum review and rolling out a training program for these officers by the Kenya School of Government (KSG). KUSP will build upon the efforts under KDSP to enhance environmental and social management measures at the county levels.

74. **KUSP incorporates measures to address environmental and social risks in the Program design.** Investments financed by UDGs will exclude high risks projects Category A projects (projects that have significant negative environmental and social impacts that are sensitive, diverse, or unprecedented). To screen out for these exclusions, the Program will rely on the country existing environmental and social management systems and legislations, and the guidelines in the POM. The appraisal will include a rigorous sub-project screening of environmental and social risks to be done by the NPCT, NEMA, and the CPCT. Post screening assessment will be undertaken by an independent party to ensure that all MCs have been met. The APA will also assess compliance with environmental and social requirements as stipulated in the POM and ESSA. The performance of managing the environmental and social risks of the program as contained in the ESSA and POM is also one of the PSs that will determine accessibility to additional resources. A social and environment mid-term audit will be undertaken and funded under window 1.

75. **Willing buyer-willing seller will be the preferred means of land acquisition in all cases.** The government's right to acquire land compulsorily will only be used where it is unavoidable. Where compulsory acquisition is to be employed, evidence must be obtained (as detailed in the POM) that attempts were made to acquire land via the marketplace. Moreover, a compelling reason why alternative land, available in the market, could not be found must be documented. Instances where compulsory acquisition may be unavoidable include, but are not limited to, road rehabilitation, and construction of new roads, water and sewerage systems. Where compulsory acquisition is employed, no more than 10 households in total, both titled and untitled (informal settlers/squatters), may be physically displaced on any one sub-project. Where households are physically displaced, the municipality will provide options to the PAPs guidance provided in the POM. Economic displacement can and will involve the physical relocation of informal vendors. On any given sub-project, no more than 200 informal vendors will be physically relocated. Where informal vendors are physically relocated, they will receive compensation as outlined in the POM. Small parcels of private residential land that do not excessively affect land use may still be subject to compulsory acquisition as they are considered economic displacement.

76. **KUSP will strengthen UDD and county level systems for environmental and social management, implementation, monitoring and capacity.** To fill the gaps identified in the ESSA, the UDD will support specific measures to enhance the country's and counties' environmental and social management system and performance. These measures will be implemented through two main areas, namely; (a) the preparation of the POM and (b) capacity building. These measures have been consolidated into the ESSA action plan that guides the overall formulation of the Program. Implementation by the UDD and the applicable County Government ministries in charge of environmental and social procedures contained in the POM will be one of the performance criteria in the Program's evaluation system that will be implemented for KUSP.

D. World Bank Grievance Redress

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

E. Risk Assessment

78. **The Systematic Operations Risk-Rating Tool (SORT) table below summarizes Operation risk ratings**. The overall risk rating for the Operation is Substantial. Governance and country-wide political risks are substantial, due to the upcoming national and county elections; newly elected county Governors and assembly members, in particular, will need time to familiarize themselves with county systems and the Operation. Fiduciary risk is rated as High, largely due to weaknesses at the sub-national level and the uncertainties associated with as yet untested urban boards and administrations. Environmental and social risks are assessed as Substantial. Although the investments that will be funded by the Program are unlikely to have adverse impacts, existing environment and social management systems at county level are weak. Technical risk is also rated as Substantial, because there are uncertainties associated with the institutional framework for urban development. The Program design and the measures in the PAP mitigate many of these risks. Operation financing has also been structured so as to ensure that critical national-level activities (such as the APA and institutional support) are integrated in the national budgeting processes, allowing the UDD to start its support for counties and urban boards and administrations as soon as the Operation is effective.

Table 5: Summary SORT

Systematic Operations Risk-Rating Tool (SORT)	
Risk Category	**Rating (H, S, M, L)**
1. Political and Governance	S
2. Macroeconomic	L
3. Sector Strategies and Policies	S
4. Technical Design of Project or Program	S
5. Institutional Capacity for Implementation and Sustainability	S
6. Fiduciary	H
7. Environment and Social	S
8. Stakeholders	M
9. Other	
OVERALL	**S**

Rating: H=High; S=Substantial; M=Moderate; L=Low.

F. Program Action Plan (Summary)

79. The following table summarizes key aspects of the program action plan to be implemented. A more detailed action plan is included in annex 8.

Table 6: Summary Program Action Plan

Action Description	Due Date	Responsible Party	Completion Measurement
Technical			
Align program implementation structure and staffing	Continuous	SDHUD	Inclusion of appropriate program implementation structure and staffing arrangements in POM
Environmental and social			
Strengthen environmental and social management system	Continuous	SDHUD	Inclusion of environmental and social management systems and procedures in POM.
Improve implementation of environmental and social management system	Continuous	SDHUD	Inclusion of incentives for implementation of E&S management systems in MCs and PSs
Build capacity for environmental and social management (1)	Continuous	SDHUD	Inclusion of appropriate staffing arrangements in POM
Build capacity for environmental and social management (2)	Continuous	SDHUD County governments	Training of staff in environmental and social management system

Fiduciary			
Strengthen national and sub-national budgeting and fund flow systems	Two months after effectiveness Continuous	NT County Treasuries	Program budget codes defined in IFMIS Program grants captured in CARA, DORA and Ministry/county budgets Program funds disbursed on a timely basis and as per budget
Build capacity for program financial management	Continuous	SDHUD County governments	Completion of FM manual as part of POM Program accountants and finance officers designated Training provided on use of IFMIS
Procurement			
Strengthen procurement capacities	Continuous	SDHUD County governments	Procurement officers appointed and trained Clarification of procurement roles, responsibilities and procedures (POM) Compliance with procurement procedures and regulations (as part of APA) Timely procurement and contract management (as part of APA)
Fraud and corruption			
Strengthen complaints management	Within 6 months of effectiveness	SDHUD	Fully operational complaints management system at SDHUD level
Improve risk management	Continuous	SDHUD	Establishment and upkeep of program risk register (POM)
Through KDSP, establish county level complaints management systems	Continuous	MoDP	Fully operational complaints management system at county level

Annex 1: Detailed Program Description

1. **The proposed Kenya Urban Support Program will finance key parts of KenUP, with a specific focus on providing support for the development of municipalities and cities, as defined in the UACA**. Municipalities are defined by the UACA as those urban areas that are eligible for the granting of a municipal charter. Under the 2016 amended UACA, this means a municipality must have a population greater than 70,000 residents.[19] In addition, any urban area that is designated as a county capital, irrespective of its population, is granted municipal status. By specifically focusing on urban areas that are eligible for municipal status under the UACA, the overall Operation will support the larger urban areas where it has the greatest potential to strengthen urban institutions and urban development. The proposed Operation will be financed through a hybrid of the IPF and PforR instruments. The hybrid operation as a whole will be referred to as the "Operation" unless specified otherwise. Where necessary, the IPF element will be referred to as the "Project" and the PforR element will be referred to as the "Program".

2. **The Program Development Objective is to establish and strengthen urban institutions to deliver improved infrastructure and services in participating counties in Kenya**. Inherent in the PDO is a focus on providing incentives and support to counties to establish urban institutions (municipal boards), and ensuring that urban institutions establish basic urban governance and service delivery structures and practices in line with the UACA.

3. **To achieve the PDO, the proposed Operation will work across three institutional levels, namely, national government, county government, and urban boards to support implementation of the KenUP.** A main element of the Operation is the introduction of performance-based UDGs which provide incentives to government officials at national and county levels to work towards the establishment of municipal boards, and once established, for all three levels to assure their effective operation. The Operation is structured into three windows of support.

Window 1: National level support

4. **Through window 1, the Project will provide support for the national government to undertake a number of key urban development functions.** Window 1 will be financed through the IPF instrument. Window 1 is intended to provide support for urban development activities that will be directly undertaken by counties and urban institutions. Under the new constitutional arrangements, the role of national government line ministries—including the Program implementing agency, the MTIHUD—has changed considerably. Whereas they were previously implementers of urban projects, under the new dispensation, national line ministries have a new role in policy development, legislative review, and capacity building. In support of its new role, the Project will provide funding to support the ministry for:

[19] The Statute Law (Miscellaneous Amendments) Act No. 7 (2016) defines municipalities as those urban areas with a population of more than 70,000 and less than 249,000. An urban area can be granted the status of a city if it has a population greater than 249,000 residents, although it can also be granted the status of a municipality. An urban area with less than 70,000 residents is classified as a town.

(a) Developing policies and assisting all county governments in establishing and operationalizing the institutional framework for urban development as defined by the UACA and monitoring and assessing the implementation of that institutional framework;

(b) Supporting the coordination and administration of urban financing, including the management of APAs, budgeting and funding of UIGs and UDGs, and

(c) Providing county governments and urban boards with institutional and capacity building support in urban planning, urban infrastructure, and service delivery.

5. **The APAs of county governments and urban boards determine UIG and UDG allocation and therefore are of key importance to the Operation as a whole**. For UIGs and UDGs, APAs will identify which counties and/or urban institutions have complied MCs and which have met PSs. Compliance with MCs will determine whether counties and/or urban institutions qualify for UIGs/UDGs; the achievement of PSs will determine the size of UDG allocations. It will therefore be important for APAs to be done by an entity that not only has the necessary technical capacity, but that can also carry out assessments in an objective manner, free from political pressure or influence. In order to achieve the quality, transparency, independence and integrity of the exercise, the APAs will therefore be undertaken by an independent consulting firm, contracted by UDD through a transparent procurement process. The APA process will begin in August of each year and end in May of the following year, when final assessment results will be made available. The results of APAs will be reviewed by the Program Technical Committee and endorsed by the Program Steering Committee (PSC).

6. **Primary responsibility for the implementation of window 1 will lie with the department responsible for urban development (currently, UDD) in the State Department of Housing and Urban Development of the MTIHUD**. Where necessary and appropriate, UDD will undertake many window 1 activities in collaboration with other agencies and organizations, such as the CoG, the National Treasury, and sector departments.[20] CoG will work closely with UDD to support operational activities of KUSP. A budget of about US$50,000 per annum has been earmarked to support CoG operational support to the program.

Window 2: County level support (UIGs)

7. **Through window 2, the proposed Program will provide eligible and qualifying county governments with UIGs to strengthen counties' abilities to promote urban development and establish urban management institutions.** County governments have yet to establish urban boards or articulate a county-level urban institutional development strategy. The KUSP will provide annual UIGs through the PforR instrument to support eligible counties in: (a) setting up and sustaining urban boards; (b) strengthening counties' institutional capacity to engage in urban investment planning and management; and (c) integrating urban institutional issues, challenges and opportunities into county-wide development planning and programs. All 45 counties, other than the City Counties of Nairobi and Mombasa, are eligible for the Program's UIG allocations.

[20] The detailed implementation matrix for window 1, is attached to the Technical Assessment, indicates non-UDD stakeholders for activities.

8. **To access their UIGs, county governments will need to comply with two UIG MCs**. Counties that satisfy both MCs as summarized in the table 1.1 below will access their UIG allocations for each year. Failure to satisfy any MC will disqualify any county from accessing its UIG. UIG allocations to counties are not subject to meeting any PSs. The annual assessment of compliance with UIG MCs of all eligible counties will be conducted as an integral part of the overall APA. UIG allocations to qualified counties will amount to US$500,000 each, disbursed over three years: US$200,000 in each of the first two years and US$100,000 in the third year). Counties that qualify for their first annual UIG but are then unable to qualify for the following year's UIG will be able to re-enter the UIG system in subsequent years provided that they meet MCs. Counties that qualify for UIGs will be able to use them to finance a range of eligible expenditures, for example planning activities, training, peer learning, and office equipment. UIGs will exclude certain types of expenditure such as purchase of vehicles, international travel, and long term training. Table 1.2 provides a summary of the UIG eligible expenditure menu. UIGs will be released in a single tranche in August of each year.

Table 1.1: MCs that apply to UIGs

Minimum Conditions	Indicator
UIG MC1: County government has committed itself to participation in KUSP*	• The County Governor has signed Participation Agreement with the Ministry of Transport, Infrastructure, Housing and Urban Development (MTIHUD), stating that the county government will participate in KUSP and adhere to its POM.
UIG MC2: County government has drawn up (and is implementing) its County Urban Institutional Development Strategy (CUIDS)	• County government has prepared a (10–15 page) CUIDS (that is reflected in the (5-year) CIDP** • County government has prepared an annual County Urban Institutional Development Plan & Budget for FY that includes a proposal for use of the UIG in compliance with the UIG expenditure menu and other provisions of the POM. In subsequent years, this MC will also include: use of previous year's UIG was consistent with UIG eligible expenditure menu—to be validated through annual report on UIG budget implementation.

* Participation Agreement is required once at the beginning of the KUSP and will remain effective throughout the Program.

** It may not be possible for a county government to explicitly include the CUIDS in its CIDP by the 1st year of KUSP. This indicator may therefore be adjusted for year 1.

Table 1.2: UIG expenditure menu

Eligible expenditure items	Ineligible expenditure items
• Urban planning activities/exercises (including spatial or town planning) • Training costs (e.g. for Municipal Board members or other relevant county staff) • Workshops and learning events • Meeting costs, including local travel allowances, refreshments (e.g. related to the development of Municipal Charter and other urban planning activities) • Experience sharing and peer-learning activities with other counties • Incremental office operating costs (e.g. stationery) • Office equipment and furniture (for urban boards and urban administrations)	• Means of transport (vehicles, motor cycles) • International travel and associated costs • Long term training costs (e.g. university degree programs) • Recurrent costs (e.g. salaries, utilities).
General: Expenditures on moveable assets (e.g. office equipment, office furniture) may not exceed 30 percent of annual spending from UIG allocations	

Window 3: Urban board level support (UDGs)

9. **Through window 3, KUSP will provide county governments and their urban boards with UDGs to finance investments in urban infrastructure.** IDA funds for window 3 will be financed through the PforR instrument. UDGs represent the vast majority of IDA resources to be provided for the Program. The UDG is structured so as to provide incentives for counties and urban boards to strengthen their institutional, governance, and service delivery performance.

10. **Eligible universe.** All urban areas that potentially qualify as municipalities or cities under the UACA will be eligible for UDGs, with the exception of the city counties of Nairobi and Mombasa. This universe includes 59 urban areas, which are home to a total population of 5.6 million residents.

11. **UDG funding pool.** The size of the indicative UDG grant pool is based on an allocation of Ksh 2,000 (US$20) per urban resident and the eligible universe (noted above). The maximum grant pool is Ksh 11.46 billion (US$114.65 million) each year of the Program, provided that all urban areas qualify and perform to their maximum.[21] The actual level of total UDG allocations each year will depend on the achievement of MCs and PSs, and may vary between zero (in the event that no urban areas qualify) to Ksh 11.46 billion (in the event that all urban areas qualify for their maximum UDG allocations).

[21] This figure is calculated on the following assumptions: (a) that the urban population in eligible urban areas totals about 5.576 million people; (b) that eligible urban areas with a population of less than 25,000 will have their UDGs rounded up to the minimum indicative allocation of US$500,000 (so as to ensure that investment projects funded by the UDG are of a minimum scale).

12. **UDG allocation formula.** The indicative UDG allocation for each urban area is determined entirely on the basis of urban population.[22] That is, each urban area is allocated Ksh 2,000 per urban resident (see table 1.3 below) per year. This is the simplest, most objective, and most transparent formula possible, and ensures that resources are distributed in accordance with the best available measure of urban development needs. The lack of more detailed data precludes the use of a more complex formula at the current time. There is a minimum indicative total UDG allocation per urban area of Ksh 50 million (US$500,000), intended to ensure that investment projects funded by the UDG are of a minimum scale.[23]

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[22] The Program will rely on population data based on the 2009 census figures. These urban population estimates will be used by the Program until any potential restructuring or additional financing is needed, following the publication of updated 2019 census figures. The use of Kenya National Bureau of Statistics (KNBS) 2009 census data is consistent with the provisions of the UACA, section 9 (3a) of which specifies that population figures are to be based on the final gazetted results of the last population census. In this case, the population data used is drawn from the KNBS "Analytical Report on Urbanization" (volume III, 2009 Kenya Housing and Population Census).

[23] Those municipalities which receive this minimum total and indicative UDG allocation will therefore receive Ksh 25 million (US$250,000) in Year 2 (financial year 2018/19) of the Program. This represents the 50 percent of the UDG that can be allocated on the bas compliance with UDG MCs. PSs (which can only be measured during Year 2 or financial year 2018/19 of the Program) do not apply in Year 1.

Table 1.3: Indicative UDG allocations for eligible urban areas

	County	Urban area	Urban population	Indicative UDG (Kshs)
1	Baringo	Kabarnet	25,954	52,360,500
2	Bomet	Bomet	83,440	168,334,800
3	Bungoma	Kimilili	94,719	191,089,400
4	Bungoma	Bungoma	54,469	109,887,700
5	Busia	Busia	50,099	101,071,500
6	Elgeyo Maraket	Iten/Tambach	44,513	89,802,100
7	Embu	Embu	59,428	119,892,100
8	Garissa	Garissa	115,744	233,506,000
9	Homa Bay	Homa Bay	59,165	119,361,500
10	Isiolo	Isiolo	46,578	93,968,100
11	Kajiado	Ngong	107,042	215,950,300
12	Kajiado	Kajiado	14,434	50,000,000
13	Kakamega	Mumias	102,208	206,198,000
14	Kakamega	Kakamega	90,670	182,920,800
15	Kericho	Kericho	127,042	256,299,000
16	Kiambu	Kikuyu	264,714	534,043,300
17	Kiambu	Ruiru	240,226	484,640,300
18	Kiambu	Thika	151,225	305,086,600
19	Kiambu	Karuri	115,731	233,479,800
20	Kiambu	Kiambu	83,265	167,981,700
21	Kiambu	Limuru	79,686	160,761,300
22	Kilifi	Malindi	115,882	233,784,400
23	Kilifi	Kilifi	47,957	96,750,100
24	Kirinyaga	Kerugoya/Kutus	35,343	71,302,200
25	Kisii	Kisii	81,318	164,053,800
26	Kisumu	Kisumu	383,444	773,573,300
27	Kitui	Kitui	115,183	232,374,200
28	Kwale	Kwale	21,378	50,000,000
29	Laikipia	Rumuruti	10,064	50,000,000
30	Lamu	Lamu	18,328	50,000,000
31	Machakos	Kangundo-Tala	218,722	441,257,400
32	Machakos	Machakos	150,467	303,557,400
33	Machakos	Mavoko	135,571	273,505,700
34	Makueni	Wote	67,542	136,261,600
35	Mandera	Mandera	87,150	175,819,500
36	Marsabit	Marsabit	14,474	50,000,000
37	Meru	Meru	57,940	116,890,200
38	Migori	Awendo	108,742	219,379,900
39	Migori	Rongo	81,968	165,365,100
40	Migori	Migori	66,234	133,622,800
41	Muranga	Muranga	30,949	62,437,600
42	Nakuru	Nakuru	367,183	740,767,800
43	Nakuru	Naivasha	170,551	344,075,500
44	Nandi	Kapsabet	87,850	177,231,700
45	Narok	Narok	37,129	74,905,300
46	Nyamira	Nyamira	56,857	114,705,300
47	Nyandarua	Ol Kalou	67,186	135,543,400
48	Nyeri	Nyeri	117,297	236,639,100
49	Samburu	Maralal	15,213	50,000,000
50	Siaya	Siaya	23,825	50,000,000
51	Taita Taveta	Wundanyi	6,576	50,000,000
52	Tana River	Hola	17,124	50,000,000
53	Tharaka Nithi	Kathwana (non ur	0	50,000,000
54	Trans Nzoia	Kitale	148,261	299,106,900
55	Turkana	Lodwar	47,101	95,023,200
56	Uasin Gishu	Eldoret	312,351	630,147,800
57	Vihiga	Vihiga	124,391	250,950,700
58	Wajir	Wajir	82,106	165,643,500
59	West Pokot	Kapenguria	36,379	73,392,300

13. **UDG investment/expenditure menu, ineligible expenditures and procurement requirements.** An urban board will be able to use its UDG to finance investments in five key areas of urban infrastructure and service delivery, based on the board's prioritization of urban needs. These are: (a) waste management (liquid and solid), (b) storm water drainage, (c) roads, non-motorized transport facilities, and street lights), (d) urban social and economic infrastructure, and (e) fire and disaster management. All of these eligible expenditures are commonly understood as typically municipal and are consistent with the provisions of the UACA.[24] There are a number of investments and expenditures that *cannot* be financed out of UDGs. Table 1.4 below provides a summary of the UDG eligible and non-eligible investment/-expenditure menu. Counties and urban areas will be expected to adhere strictly to the UDG eligible and ineligible investment/expenditure menu.[25] Failure to adhere to these investment menus will result in non-compliance with UDG MCs, preventing an urban area from accessing UDG in the following year. In addition, the prioritization and selection of urban investments will take into account: (i) citizen participation; (ii) social inclusion requirements, (including gender and disability considerations); (iii) climate change and disaster adaptation; and (iv) economic viability.

Table 1.4: UDG eligible and ineligible investment/expenditure menu

UDGs: ELIGIBLE INVESTMENTS & EXPENDITURES	
Urban functional area	**Indicative investments**
1. Waste management (liquid and solid)	Solid waste: collection equipment, collection bins, transfer stations, collection points (construction of sanitary landfill is excluded) Liquid waste: sludge ponds, community septic tanks, vacuum trucks, vacuum handcarts, and others
2. Storm water drainage	Urban drainage systems; flood control systems
3. Connectivity	Urban roads, pedestrian walkways and bicycle paths, street and security lights and road signs
4. Urban social and economic infrastructure	Urban greenery and public spaces.
5. Fire and disaster management	Fire control stations and disaster management equipment (firefighting trucks, rehabilitation and/or construction of new firefighting station and facilities)
General	
(a) Proposed investments must be included in the annual Urban Area Investment Plan (b) Investments can include both rehabilitation and construction of new infrastructure and capital investments (c) To avoid the fragmentation of urban investments (and limit procurement efforts), investment projects are subject to a minimum investment of Ksh 50 million (US$500,000) This requirement is subject to the following two exceptions: a. Municipalities shall be permitted to combine a number of related urban infrastructure items in the same geographic area into a single procurement in order to reach the relevant minimum investment/procurement size for a single area-based development initiative. b. If the UDG allocation is less than Ksh 50 million (US$500,000), their minimum investment/ procurement amount will be correspondingly lowered to the UDG allocation amount. (d) At least 80 percent of the UDG shall be spent on non-moveable infrastructure assets.	

[24] Investments in water supply infrastructure are not included in the eligible investment menu because water and sanitation companies are responsible for these activities.

[25] On the basis of experience from KMP, most of the urban investments that will be financed out of UDGs are likely to be in urban drainage, roads and non-motorized transport infrastructure.

(e)	In order to finance investment preparation costs, municipalities shall be permitted to spend part of their UDG allocations on the design, costing and supervision of investment projects.
UDGs: NON-ELIGIBLE INVESTMENTS & EXPENDITURES	
a)	Any investment projects that trigger World Bank Safeguards Category A.
b)	The following types of investment: a. Power plants b. Dams c. Highways d. Urban metro systems e. Railways and ports f. Engineered landfills g. Office buildings.
c)	Land acquisition
d)	Investment projects not included in the urban IDeP or urban spatial plan.

14. **UDGs: MCs and PSs.** UDG MCs and PSs are scored on a 100-point scale, with 50 points awarded for achieving all the MCs, and the remaining 50 points awarded based on the achievement of PSs. The annual assessment of compliance with UDG MCs and achievement of UDG PSs will be conducted as an integral part of the overall APA.

15. **UDGs are allocated to specific and eligible urban areas within counties, provided that *all* relevant MCs are met**. Where *all* UDG MCs are met, the urban area in question will achieve a score of 50 (out of 100) and thus qualify for 50 percent of its indicative (maximum) UDG allocation. Once MCs have been met, the urban area in question can then qualify for additional percentages of its indicative (maximum) UDG allocation depending on the extent to which it meets the PSs.

16. **UDG MCs.** To access 50 percent of their maximum UDG allocation, county governments (as principals) and their urban management institutions (as agents of the county government) will need to comply with *all* UDG MCs. These are summarized in the table below.

Table 1.5: MCs that apply to UDGs

Minimum Conditions	Indicator
Urban institutional MCs	
UDG MC1: Municipal status*	County Governor, upon resolution of the county assembly, has granted municipal charter to eligible urban area*
UDG MC2: Municipal Board*	Urban board has been appointed by County Governor upon approval by county assembly*
UDG MC3: Municipal administration*	A municipal manager has been appointed and is, together with his/her staff, paid out of municipal budget vote*
UDG MC4: Municipal budget vote	Municipal budget vote included in county budget, in which UDG is budgeted
UDG MC5: Municipal finance reporting*	County government reports on municipal budget vote to Controller of Budget for previous FY (as part of county overall financial report)
Program-related and fiduciary MCs	
UDG MC6: County government has committed itself to participation in KUSP	The County Governor has signed the Participation Agreement with the Ministry of Transport, Infrastructure, Housing & Urban Development (MTIHUD) stating that the county government will participate in KUSP and adhere to its Operations Manual
UDG MC7: Urban area annual investment plan available with investment projects ready for implementation	The annual urban area investment plan for next FY is available and provides the budget for UDG-financed investments, with feasibility (or pre-feasibility) studies for the proposed investments completed and attached to the document
UDG MC8: Use of previous annual UDG*	UDG for the previous FY has been used in accordance with the eligible [positive] investment menus (as described in POM) *
UDG MC9: Municipal absorptive capacity*	≥ 50 percent of previous FY's UDG allocation has been spent*[26]
UDG MC10: Municipal procurement and contract management*	Procurement methods used and contracts issued for UDG funded investment project(s) were consistent with prescribed budget thresholds and contracting procedures*

***** For the <u>first</u> APA (to be conducted in FY2017–18 and determining UDG allocations to counties for UDG disbursements in FY 2018–19) this UDG MC will be slightly modified to take into account program start-up.

17. **Compliance with *all* of these UDG MCs will trigger the allocation and disbursement of 50 percent of the maximum UDG allocation for respective municipalities/cities, in accordance with the UDG allocation formula and disbursement schedule**. Failure to comply with *any* one or more of the ten MCs will result in a municipality's (or city's) disqualification from its UDG. For the first year of the UDG grant system (FY 2018/19), the maximum UDG allocation is 50 percent of the indicative UDG grant allocation, as the UDG performance standards cannot fully be assessed until urban boards are fully established and operational.

18. **UDG minimum conditions do not include any overall county or urban board financial management performance**. This aspect of sub-national performance is being dealt with through KDSP, which provides explicit incentives for counties to improve their overall financial management by linking its grant allocations to OAG annual audit opinions of county annual financial statements. However, the proposed KUSP recognizes that the National

[26] CoB reports for financial year 2015/16 indicate that, on average, actual development expenditure by county governments amounted to just over 65 percent of budgeted development expenditure. It is assumed that new urban institutions will be unlikely to match this rate of expenditure but should be expected to spend at least 50% of their budgets.

Treasury, in its fiduciary oversight capacity, may decide to suspend some or all disbursements to county governments in the event of serious financial malfeasance.

19. **UDG PSs.** The APA process is intended to provide incentives for counties and urban boards to strengthen their administrative, governance, planning, infrastructure and service delivery performance. Starting with the preparation of the APA for the second year of the UDG grant (that is, the APA which triggers the UDGs for FY 2019/20), the APA process will assess urban PSs. Table 1.6 below presents a summary of the UDG PSs.

Table 1.6: Performance Standards that apply to UDGs

URBAN ADMINISTRATION and GOVERNANCE PERFORMANCE STANDARDS (maximum 25% of UDG)		
Performance Area	**Performance Standard and Indicator**	**Score**
1. Municipal administration	PS1: There is a publicly available job description for the position of municipal manager.	5
2. Municipal board functionality and citizen engagement	PS2: Urban board meetings have been held at least once every three months	5
	PS3: Citizen fora (public consultations between urban board and residents, including plan and budget consultations) have been held at least once a year.	5
3. Public disclosure and transparency	PS4: Urban board has made key documents publicly available: municipal charter, contact information for board and key officials, urban IDeP (and other plans, as relevant), budget vote proposal (including appropriate annexes), and final budget statement. *All* specific disclosure requirements must be met to trigger disbursement of UDG 5 percent.	5
	PS5: Urban board publishes its annual calendar of citizens' fora with urban area residents, including plan and budget consultations (announced in local media and on county government website)	5
PLANNING, INFRASTRUCTURE AND SERVICE DELIVERY PERFORMANCE STANDARDS (25 percent of UDG)		
Performance Standard	**Performance Standard and Indicator**	**Score**
4. Municipal budgeting	PS6: Urban board has adopted urban area budget based on the budget ceiling provided by the county as per UAC Act	5
5. Municipal planning	PS7: Urban IDeP submitted by the municipal administrator, and reviewed and approved by the municipal board	5
	PS8: Urban spatial plan completed and approved	5
6. Municipal services	PS9: • An operational waste collection and disposal plan has been drawn up and adopted/endorsed by the municipal board	5
7. Municipal infrastructure delivery*	PS10: Over last 12 months, all UDG-financed projects that were completed were delivered: • in ways that were compliant with environmental & social safeguards • on time (within 3 months of plan); • according to design and fit for purpose; • within +/- 5% of the budget. All criteria to be met to gain the 5 points; Zero points if no project was completed in the period.	5

* For the first APA that deals with PSs this UDG MC will be slightly modified to take into account program start-up.

20. **Urban areas that achieve scores for UDG performance standards are allocated a corresponding percentage of their indicative UDG**. For instance, an urban area that achieves a score of 35 would receive 35 percent of its indicative UDG, in addition to the 50 percent triggered by compliance with UDG Minimum Conditions.

21. **UDGs** will be released by the National Treasury to counties in a single tranche in August. This will ensure that counties and urban areas have the necessary liquidity to implement urban investments on a timely and effective basis.

22. **Relationship between APAs in KUSP and KDSP**. Counties are subject to an APA process under both KUSP and KDSP. However, the performance assessments to be conducted under KUSP will not cover the same areas as are to be included in the KDSP APAs. KDSP APAs focus on a wide range of county-level management issues, such as overall public financial management, county-wide planning and budgeting, and the transparency of county governance. The APAs for the current Operation, on the other hand, will focus entirely on county performance with respect to urban development, urban institutional arrangements, and the provision of urban planning, infrastructure, and services.

Annex 2: Results Framework and Monitoring

Program Development Objective: to establish and strengthen urban institutions to deliver improved infrastructure and services in participating counties in Kenya.

PDO Level Results Indicators	Core	DLI	Unit of Measure	Base-line FY17	Target Values						Frequency	Data Source/ Methodology	Responsibility for Data Collection
					FY18[27]	FY19	FY20	FY21	FY22	FY23			
1. Urban areas with approved charters, established boards, appointed urban managers, and a budget vote (measures establishment of urban institutions).[28]		2	Number	0	0	10	15	20	30	35	Annually	APA	This is specified in the indicators below which measure the establishment and strengthening of urban institutions. APA collects the data and Technical Committee and the World Bank reviews and confirms.
2. Urban areas that utilize at least 50 percent of the budget intended for their urban investments in their budget vote (measures strengthening of urban	√	3	Number	0	0	0	5	10	15	17	Annually	CoB	Counties report on their budget execution to CoB.

[27] Fiscal 2018 is taken as year zero.
[28] This corresponds to the corporate results indicators for urban, which include cities with improved livability, sustainability and management.

PDO Level Results Indicators	Core	DLI	Unit of Measure	Base-line FY17	Target Values						Frequency	Data Source/ Methodology	Responsibility for Data Collection
					FY18[27]	FY19	FY20	FY21	FY22	FY23			
institutions).													
3. Score in the APA for achievement of urban planning, infrastructure, and service delivery targets by counties/urban areas, averaged across all urban areas that qualify for the UDG (maximum of 25).	x	3	Number	0	0	5	7	10	12	15	Annually	APA	APA collects the data and Technical Committee and the World Bank reviews and confirms.

Intermediate Results Indicators	Core	DLI	Unit of Measure	Base-line FY17	Target Values						Frequency	Data Source/ Methodology	Responsibility for Data Collection
					FY 18[29]	FY19	FY20	FY21	FY22	FY23			
National level results													
1. Guidelines on planning, infrastructure, and basic service delivery prepared and made public on MTIHUD website, including for example: (a) technical standards for urban infrastructure designs (roads, pavements, drainage, fire and safety regulations, integration of crime/violence…), (b) guidelines on infrastructure operations and maintenance issues			Number	0	0	2	4	6	6	6	Semi-annually	Progress reports	UDD

[29] Fiscal 2018 is taken as year zero.

Intermediate Results Indicators	Core	DLI	Unit of Measure	Base-line FY17	Target Values						Frequency	Data Source/ Methodology	Responsibility for Data Collection
					FY 18[29]	FY19	FY20	FY21	FY22	FY23			
(including cost recovery and user charges), and (c) demarcation of urban areas.													
2. APAs results (UIG and UDG allocations) made on time (before end of FY and prior to start of next FY)			Y/N	N/A	Y	Y	Y	Y	Y	Y	Annually	Progress reports	UDD
County and urban area results: Urban management systems in place													
1. Counties that qualify for UIGs.		2	Number	0	15	30	45	45	45	45	Semi-annually	APA	APA
2. Urban areas for which citizen fora (public consultations between urban board and residents, including plan and budget consultations) have been held at least once a year.		2	Number	0	0	10	15	20	30	35	Annually	APA	APA
County and urban area results: Urban planning, infrastructure, and services													
1. People provided with improved urban living conditions	√	Na	Number	0		1 million	1.5 million	2 million	3 million	3.5 million	Annually	Census and APA	APA
1.a. Of which female	√		Percent	0	50%	50%	50%	50%	50%	50%	Annually	Census and APA	Same as above
2. UDGs for the previous FY spent in accordance with the eligible investment menu.		2	Percent	0	0	90%	90%	90%	90%	90%	Annually	APA	APA
3. Drainage systems built or rehabilitated under the Program.		3	Kilo-meters	0	0	0	Measured annually	Measured annually	Measured annually	Measured annually	Annually	APA	Same as above
4. Nonmotorized transport facilities constructed or		3	Kilo-meters	0	0	0	Measured annually	Measured annually	Measured annually	Measured annually	Annually	APA	Same as above.

Intermediate Results Indicators	Core	DLI	Unit of Measure	Base-line FY17	Target Values						Frequency	Data Source/ Methodology	Responsibility for Data Collection
					FY 18 [29]	FY19	FY20	FY21	FY22	FY23			
rehabilitated under the Program (break down into bridges, pavements, bicycle lanes).													
5. Street or high-mast security lights constructed under the Program		3	Number	0	0	0	Measured annually	Measured annually	Measured annually	Measured annually	Annually	APA	Same as above.
6. Markets constructed under the Program		3	Number	0	0	0	Measured annually	Measured annually	Measured annually	Measured annually	Annually	APA	Same as above.
7. Public parks and green urban spaces under the Program		3	Hectares	0	0	0	Measured annually	Measured annually	Measured annually	Measured annually	Annually	APA	Same as above.
8. Municipal solid waste policies and plans prepared under the Program adopted		3	Number	0	0	2	4	6	8	10	Annually	APA	Same as above.
9. Urban spatial plans completed under the Program adopted		3	Number		0	0	2	4	6	8	Annually	APA	Same as above.
10. Urban IDePs completed under the Program		3	Number		0	10	15	20	30	35	Annually	APA	Same as above.

Annex 3: Disbursement Linked Indicators, Disbursement Arrangements and Verification Protocols

Disbursement-Linked Indicator Matrix

	Total Financing Allocated to DLI	*As % of Total PforR Financing Amount*	*DLI Baseline*	*Indicative timeline for DLI achievement*					
				Year 1 (FY17/18)	*Year 2 (FY18/19)*	*Year 3 (FY19/20)*	*Year 4 (FY20/21)*	*Year 5 (FY21/22)*	*Year 6 (FY22/23)*
DLI 1 County governments have met UIG MCs			0	20	45	45	22	-	-
Allocated amount:	$22,200,000	8.3%		$4,000,000	$9,000,000	$7,000,000	$2,200,000	-	-
DLI 2 County governments have met UDG MCs for eligible urban areas			0	0	15	25	40	40	40
Allocated amount	$171,400,000	63.5%		0	$14,600,000	$24,400,000	$39,000,000	$44,800,000	$48,600,000
DLI 3 County governments and urban area institutions have met UDG PSs			0	0	0	15	25	40	46
Allocated amount	$76,100,000	28.2%		0	0	$4,800,000	$15,600,000	$21,500,000	$34,200,000
Total Financing Allocated:	$269,700,000	100.00%		$4,000,000	$23,600,000	$36,200,000	$56,800,000	$66,300,000	$82,800,000

DLI Verification Protocol Table

#	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 (annually)
1	County governments have met UIG MCs	This indicator will be satisfied when counties are able to comply with the MCs required in order to access their annual UIG allocations	Yes	APA reports UIG allocation announcements and notifications (made by UDD to counties and publicly disclosed)	Independent APA team (assesses county performance) PTC (reviews and verifies APA results) PSC (endorses APA results)	• Independent team contracted by UDD to carry out APA • APA team submits report (findings, results) to UDD • UDD presents APA report to PTC for verification • PTC forwards verified APA report and results to PSC) • PSC endorses APA results • World Bank endorses PSC approval
2	County governments have met UDG MCs for eligible urban areas	This indicator will be satisfied when counties are able to comply with the MCs required in order to access their annual UDG allocations	Yes	APA reports UDG allocation announcements and notifications (made by UDD to counties and publicly disclosed)	Independent APA team (assesses county performance) PTC (reviews and verifies APA results) PSC (endorses APA results	• Independent team contracted by UDD to carry out APA • APA team submits report (findings, results) to UDD • UDD presents APA report to PTC for verification • PTC forwards verified APA report and results to PSC) • PSC endorses APA results • World Bank endorses PSC approval
3	County governments and urban area institutions have met UDG PSs	This indicator will be satisfied when counties and urban area institutions are able to meet UDG PSs in order to access increments in their annual UDG allocations (subject to full compliance with UDG MCs)	Yes	APA reports UDG allocation announcements and notifications (made by UDD to counties and publicly disclosed)	Independent APA team (assesses county performance) PTC (reviews and verifies APA results) PSC (endorses APA results	• Independent team contracted by UDD to carry out APA • APA team submits report (findings, results) to UDD • UDD presents APA report to PTC for verification • PTC forwards verified APA report and results to PSC) • PSC endorses APA results • World Bank endorses PSC approval

Bank Disbursement Table

General: disbursement procedure for client (once DLIs have been met):

- The National Treasury sends letter to the World Bank stating that the DLI has been met and attaching the report from the independent verifier/APA (there is usually communication between the World Bank's task team leader and the implementing ministry prior to National Treasury sending the letter).
- The World Bank reviews the Borrower letter and report of the independent verifier/APA and the World Bank's task team leader prepares notification letter to government signed by the CD providing concurrence and asking government to proceed to request for disbursement of funds under the DLI.
- On the basis of the notification letter, the implementing ministry prepares application for withdrawal of funds in the normal way and send to the World Bank for disbursement of the funds related to the DLI.

#	*DLI*	*Bank financing allocated to the DLI*	*Of which Financing available for Prior results*	*Deadline for DLI Achievement*[1]	*Minimum DLI value to be achieved to trigger disbursements of Bank Financing* [2]	*Maximum DLI value(s) expected to be achieved for Bank disbursements purposes* [3]	*Determination of Financing Amount to be disbursed against achieved and verified DLI value(s)* [4]
1	County governments have met UIG MCs	US$22,200,000	0	APA to be completed by May Verification, review and endorsement of APA results to be completed by June 15 World Bank validation to be completed by June 15 UIG announcements to be made by June 17 Disbursement to be made to National Treasury by July 15	1	45	Year 1 (FY2017-18): • No. of counties complying with UIG MCs x (multiplied by) US$200,000 Years 2: • No. of counties complying with UIG MCs (in Year 1) that also comply with UIG MCs x US$200,000 • No. of new counties complying with UIG MCs x US$200,000 Year 3: • No. of counties complying with UIG MCs (in Year 1) that also comply with UIG MCs x US$100,000 • No. of counties complying with

							UIG MCs (in Year 2) that also comply with UIG MCs x US$200,000 Year 4: • No. of counties complying with UIG MCs (in Year 2) that also comply with UIG MCs x US$100,000
2	County governments have met UDG MCs for eligible urban areas	US$171,400,000	0	APA to be completed by May Verification, review and endorsement of APA results to be completed by June 15 World Bank validation to be completed by June 15 UIG announcements to be made by June 17 Disbursement to be made to National Treasury by July 15	1	59	Year 1: Not applicable Year 2-6: • No. of counties complying with UDG MCs x (indicative UDG allocation for each qualifying county) x 0.5
3	County governments and urban area institutions have met UDG PSs	US$76,100,000	0	APA to be completed by May Verification, review and endorsement of APA results to be completed by June 15 World Bank validation to be completed by June 15 UIG announcements to be made by June 17 Disbursement to be made to National Treasury by July 15	1	59	Years 1–2: Not applicable Year 3–6: No. of counties meeting UDG PSs x (indicative UDG allocation for each qualifying county) x (0.05 x number of PSs that are met)

[1] If the DLI is to be achieved by a certain date before the World Bank Financing closing date, please insert such date. Otherwise, please insert the World Bank Financing closing date.

[2] If the DLI has to remain at or above a minimum level to trigger Bank disbursements (e.g. DLI baseline), please indicate such level.

[3] Please insert the DLI value(s) above which no additional Bank financing will be disbursed.

[4] Specify the formula determining the level of Bank financing to be disbursed on the basis of level of progress in achieving the DLI, once the level of DLI achievement has been verified by the World Bank. Such formula may be of various types, including pass/fail, linear, or other types as may be agreed between the World Bank and the borrower.

Annex 4: Technical Assessment Summary

A. Strategic relevance

1. **Given the importance of well-managed urbanization for Kenya's economic development, the need for adequate urban institutions, and the shortage of financial resources for delivery of urban infrastructure and services, the Operation is assessed to be strategically relevant**.

2. **The proposed operation will contribute to the goals of the government's Vision 2030 and MTP2.** Specifically, it will assist the government to create livable cities that contribute to the nation's economic growth. The government's MTP2, which presents the second five-year program to implement the Vision 2030, specifies initiatives to promote urban development. These include implementing the UACA, preparing integrated development plans for urban areas as defined in the Act, and providing technical assistance and support to county governments in planning, urbanization, and infrastructure development. The proposed Operation will contribute to achievement of the goals by directly supporting the implementation of the UACA, in the area of creating capacity of counties for urban planning and delivery of urban services and infrastructure. The longer-term outcome is expected to be a higher quality of life and a more attractive investment climate in Kenya's rapidly growing secondary urban areas, enhancing their contribution to the country's economic growth and development.

3. **The government has designed the Kenya Urban Program (KenUP), as a vehicle to implement the NUDP**. Insofar as KUSP will be a part of KenUP, the proposed operation will also be instrumental in NUDP implementation. KenUP is aimed at achieving four of the nine[30] specific objectives contained in the NUDP:

(a) Developing effective governance structures for sustainable urbanization in the country (NUDP chapter 2: Urban Governance), in particular:
   i. Developing urban governance institutions;
   ii. Strengthening citizen participation and engagement; and
   iii. Strengthening urban management and administration.

(b) Building efficient financial management systems in urban areas and cities (NUDP chapter 3: Urban Finance).

(c) Reforming urban planning to drive sustainable urban development in the country (NUDP chapter 5: Urban Planning).

(d) Promoting the development of requisite infrastructure and services in urban areas and cities (NUDP chapter 7: Urban Infrastructure).

[30] NUDP's specific objectives are to: (a) create mechanisms for vibrant economic growth and development in urban areas and cities, (b) build efficient financial management systems in urban areas and cities, (c) develop effective governance structures for sustainable urbanization in the country, (d) reform urban planning to drive sustainable urban development in the country, (e) ensure access to land of the right quality for urban development, (f) promote city-wide environmental planning and management as well as climate change adaptation in urban areas and cities, (g) promote the development of requisite infrastructure and services in urban areas and cities, (h) support the development of affordable housing of acceptable quality in urban areas and cities, and, (i) mainstream urban safety and disaster risk management in urban planning and development.

4. **The design of the proposed operation is appropriate for promoting urban development in Kenya given the current context of devolution in Kenya**. Delivery of urban infrastructure and the provision of services are now county mandates and counties are expected to meet their responsibilities by establishing urban management systems, headed by urban boards. The national government plays a role of providing policy advice, guidelines, and capacity building support to county administrations and urban boards. The proposed operation supports both levels of government, in line with Kenya's 2010 constitution and its laws to implement the constitution. In particular, the Program aims to address a financial challenge posed by the 2010 Constitution that redistributes resources from more urbanized to largely rural counties. By allocating resources on a per capita basis, it will help to make up for resources that were previously available to urban local authorities and meet urban services and infrastructure needs.

B. Technical soundness

5. **Several key institutional issues and considerations have been taken into account in the operation's overall design**. These are:

- The need to align activities and incentives with the constitutional assignment of functions and responsibilities to the national government and to county governments. This has required that design tread carefully around the often-contested issue of how and to whom functions and responsibilities should be assigned and how far the different spheres of government (national and county) are exclusive (but also inter-dependent).
- The urban institutional vacuum that has been created since 2013, a direct result of the 2010 constitution, in which no third (or local) tier of government is provided for. Constitutionally, "what lies beneath" the county governments are a blank politico-administrative space, whether urban or rural.
- The above-mentioned vacuum has been partly filled by the UACA, which provides for some kind of sub-county municipal administration in the form of municipalities/cities and urban boards. The UACA posits a "principal-agent" relationship between county governments and urban institutions, although with some degree of decision-making autonomy.

Overall approach and rationale

6. **KUSP's PDO is to establish and strengthen urban institutions and systems to deliver improved infrastructure and services in participating counties in Kenya. This over-arching focus on the institutional aspects of urban development is assessed as technically sound, fully consistent with Kenya's policy and legal framework, and fully aligned with the conclusions and immediate term policy recommendations of the World Bank's Kenya Urbanization Review (2016).** The Kenyan Constitution and subsequent legislation (including the County Government Act 2012 and the Urban Areas and Cities Act 2011) put in place a framework for the establishment of urban institutions under the new constitutional disposition. Although the municipal and city boards prescribed by the legislative framework are clearly agents of their respective county governments (rather than elected urban local governments), the legislative framework nonetheless presents a clear vision for the decentralization of urban

functions, with urban boards and administrations being seen as key platforms for the provision of urban infrastructure and services in a responsive and accountable manner.[31]

7. **In practice, Kenya's institutional framework for urban management and development has yet to be put into place.** Municipal or city status has yet to be formally granted to any urban area, urban boards have not been formally established in any county, and only a handful of counties have established de-concentrated urban administrations that are charged with delivering urban services. In their absence, county responsibilities for urban infrastructure and services are currently diffused and fragmented across different county-level departments or agencies (World Bank, 2016: 56). In the absence of urban institutions—whether in the form of devolved urban boards or de-concentrated urban administrations—most urban areas lack a clear platform for managing and coordinating urban infrastructure and services.[32]

8. **Specifically, KUSP will opt to establish and strengthen urban institutional arrangements that enable sound urban management, that are politically realistic and acceptable to counties (as principals), and that are consistent with the constitutional assignment of powers/functions and with the UAC Act.** If they are to be effective, urban institutions (at the very least) need to have clearly delegated functions, access to resources that enable those functions to be carried out, and an ability to coordinate and lead development interventions and service delivery within their urban jurisdictions. At the same time, and given the powers and responsibilities assigned to counties by the 2010 constitution, any such urban institutional arrangements cannot be fully autonomous and will need to be of a nature that ensures "subordination" to county government authority.

9. **KUSP will incentivize and support an institutional modality for urban management that is consistent with the letter and the spirit of the UAC Act and – at the same time – congruent with political economy considerations.** The modality combines a non-executive municipal board with a de-concentrated municipal administration which has responsibility for the delivery of urban infrastructure and services (although in practice, other county departments are likely to retain some responsibility for urban functions within the municipality). The municipal administration is structured like a proper county department—organized like a county department, funded like a county department, and staffed like a county department—with an effective functional mandate for urban services, led by the municipal manager. Even though the municipal manager is competitively recruited and appointed by the County (through the County Public Service Board), and his or her budget is part of the county budget, the municipal manager is being answerable to the board and is tasked by law to implement the decisions and functions of the board. As such, even though the board is not an executive organ, it has a potentially meaningful role in prioritizing the budget of the municipal administration and in monitoring its performance. This institutional framework reflects an organizational structure that balances a degree of autonomy as well as upward voice and participation with and downward accountability and administrative integration into county structures.

[31] For instance, section 48 of the County Government Act (2012) states that "[t]he functions and provision of services of each county government shall be decentralized to ... the urban areas and cities within the county established in accordance with the Urban Areas and Cities Act, 2011.

[32] A handful of County Governments have established (often nascent) Town Administrations. These examples are the exception rather than the rule.

10. **KUSP and KDSP**: KUSP is fundamentally concerned with building urban institutions within counties, working closely with county governments. In doing so, KUSP is different to KDSP, which focuses on the general institutional and capacity development challenges faced by county governments. Nonetheless, KUSP seeks to build upon the county-wide support activities of KDSP. The following table provides a summary of complementarities and distinctive features of the two Operations.

Table 4.1: KDSP and KUSP compared

	KDSP	KUSP
PDO	To strengthen capacity of core national and county institutions to improve delivery of devolved services at the county level	To establish and strengthen urban institutions to deliver improved infrastructure and services in participating counties in Kenya
Government program and key results areas to be supported	National Capacity Building Framework (NCBF) with five key results areas: • Public Financial Management • Planning, monitoring and evaluation • Human resources and performance management • Devolution and inter-governmental relations • Civic education and public participation	National urban Development Policy (NUDP) – four out of nine objectives • Developing effective governance structures for sustainable urbanization in county • Building efficient financial management systems in urban areas and cities • Reforming urban planning • Promoting the development of requisite infrastructure and services in urban areas and cities
Institutional arrangements	• National: MoDP, MoPSYGA, NT, KSG and other institutions • Sub-national: participating counties	• National: MTIHUD, NT, CoG • Sub-national: participating counties and urban boards (once established)
Conditional grants	Capacity and Performance Grant to participating counties	• Urban Institutional Grants (UIGs) - counties • Urban Development Grants (UDGs) – urban boards
Scope (eligibility)	47 counties	• All 47 counties with respect to window 1 • 45 counties (excluding Nairobi and Mombasa) with respect to windows 2 and 3 • 59 urban areas (45 county capitals and 14 urban areas with the population more than 70,000)
Minimum conditions	**Minimum Access Conditions (Level 1)** 1. Signed participation agreement 2. Capacity building plan developed 3. Compliance with investment menu 4. Min. 80 % plan implementation **Minimum Access Conditions (Level 2)** 1. Compliance with minimum access conditions 2. Financial statements on time 3. Audit opinion is neither adverse nor disclaimed 4. Annual planning documents published (county integrated development plan, annual development plan, and Budget) 5. Adherence with the investment menu 6. Consolidated Procurement plans	**UIGs (Counties)** 1. County government has committed itself to participation in KUSP 2. County government has drawn up (and is implementing) its County Urban Institutional Development Strategy (CUIDS) **UDGs (Urban Boards)** ***Institutional minimum conditions (MCs)*** 1. Municipal status 2. Municipal Board 3. Municipal administration 4. Municipal budget vote 5. Municipal financing vote ***Program-related and fiduciary MCs*** 6. County government has committed itself

	7. County Core staff in place 8. Functional social and environmental management system as described in the Grants manual 9. Citizens' complaint system in place	to participation in KUSP 7. Urban area annual investment plan available with investment projects ready for implementation 8. Use of previous annual UDG 9. Municipal absorptive capacity 10. Municipal procurement and contract management
Performance standards	**Performance measures (Level 2)** 1. Public Financial Management (15 measures) 2. Planning and M&E (8 measures) 3. Human resource management (2 measures) 4. Civic education and public participation (7 measures) 5. Investment implementation and social and environmental performance (5 measures)	**UDGs (Urban Boards)** ***Urban administration and governance performance standards*** 1. Municipal administration 2. Municipal Board functionality and citizen engagement 3. Public disclosure and transparency ***Planning, infrastructure and service delivery performance standards*** 4. Municipal budgeting 5. Municipal planning 6. Municipal services 7. Municipal infrastructure delivery

Incentives and support for counties to establish appropriate urban institutions

11. **To date, no counties have issued charters establishing municipalities/cities and none have established fully constituted urban boards**. A number of factors explain this:

- First, the implementation of the 2010 constitution is only in its fourth year, beginning with the elections of March 2013. Since then, county governments have been "learning by doing" while putting in place their cabinets, building their county organizations from scratch, and starting to deliver services.[33] This context has limited the attention that county officials have been able to pay to the less pressing issue of establishing municipal institutions.

- Second, political economy considerations have made County Governors cautious with respect to the introduction of urban institutions. In the dynamic post-constitutional environment, and in the absence of a clear procedural framework, County Governors have been understandably reluctant to establish and delegate some of their powers to urban institutions.

- Third, there has been some uncertainty surrounding the nature of urban institutional arrangements. This has discouraged counties from establishing systems of urban management.

- Finally, the introduction of urban institutions has been hampered by the absence of a number of regulations, instructions and/or implementation guidelines.

[33] Many national ministries, departments and agencies are similarly preoccupied by the process of defining their new roles in the new constitutional arrangement.

12. **The Operation's design explicitly includes a range of incentives and actions that are intended to overcome some of the obstacles that have so far inhibited the establishment of urban institutions at the county leve**l. These incentives and measures include the following:

- **First, the Program's conditional grants will provide tangible fiscal incentives for counties as principals to establish urban institutions as agents within their jurisdictions.** The fiscal incentives take the form of two types of conditional grant: the UIGs and the UDGs.

    - UIGs will be allocated to counties to finance a range of urban development expenditures, including the costs associated with the establishment and operation of urban boards, and the costs of integrating urban issues into county-wide planning and programs. Provided that they meet UIG minimum conditions, each county will receive a UIG each year of between Ksh 10–20 million (US$100,000–US$200,000 over a three-year period). These will be provided to counties as conditional grants, although it is up to the county to decide on the activities to be financed with the grant. Currently, average county spending on urban development (as signified by the budgeted recurrent spending by county departments in charge of land, physical planning, housing and urban development) is Ksh 9.6 million (US$96,000) for financial year 2015/16. UIGs will significantly increase resources for non-payroll recurrent urban development spending in each county. This will represent a major incentive for (and a major increase in the capacity of) the county government department for urban development to engage with the Program.

    - UDGs will be allocated to counties that meet minimum conditions and achieve performance standards. UDGs amount to Ksh 2,000 per urban resident, or nearly Ksh 200 million (US$2 million), on average, per urban area per year. On average, urban areas will therefore have access to a little under US$10 million in UDGs for urban infrastructure and services over five years of Program implementation. On average, a UDG will be approximately US$2.5 million per county (US$114.65 million divided by 45 counties). This compares to an average annual development budget of US$32.8 million per county and actual average capital expenditures of US$21 million per county for financial year 2015/16. As such, the UDG will amount to about 12 percent of development expenditures at the county level. This is a significant fiscal incentive for counties to try to meet UDG minimum conditions and performance standards; counties that are able to meet the Program's minimum conditions will access 50 percent of their UDG allocations.

    - The importance of the fiscal incentive provided by the UDG for a county to opt into the Program depends on the relative size of the county's urban population (relative to its existing development budget). UDGs provide a major incentive to the most urbanized counties to opt into the Program. The top ten counties stand to gain US$72 million (out of US$114.65 million) per year. For seven of these 10 counties, the UDG would reflect at least a 15 percent increase in their capital budget. In counties that are less urbanized, the UDG would represent a smaller share of county expenditures. The 10 least urbanized counties would receive, in aggregate, a UDG allocation of only US$5 million per year from their UDGs. However, each of these counties only has a single urban area that would qualify as a municipality, all of which are the county headquarters, and nine with populations of less than 25,000 residents. To the extent that these counties are relatively less populous and less densely populated, they already receive a disproportionate large share of the equitable share.

- **Second, while UIGs and UDGs amount to significant fiscal incentives to counties, access to them is not excessively onerous.** Counties will need to comply with two basic minimum conditions in order to access their UIG allocations. For UDGs (which are considerably larger grants than UIGs), access conditions are more stringent, but nonetheless clear and relatively straightforward; UDG performance standards are equally clear and attaining them should not be beyond the reach of municipalities.[34] Nor does the Program require any up-front or specific counterpart financial contribution from counties.

- **Third, UDGs are likely to act as non-fiscal incentives.** Competition among counties for the UDGs is likely to encourage many to participate, as they compete for citizens' approval. Such competition may provide substantial pressure for some Governors to establish municipalities, even in counties for which the UDGs are a less important source of funding relative to others.

- **Fourth, the operation aims to remove some of the other obstacles to establishing urban institutions by:**

    - Reassuring county governments that the provisions of the amended UACA will provide them with adequate legal cover and a sound legal basis for establishing urban boards.

    - Providing counties with guidance and clarification on some key provisions of the UACA, so as to facilitate the establishment of urban boards and urban institutions. Specific examples include the drafting of a template for a municipal charter (establishing "the prescribed form" and in line with the UACA) and a guidance note on the steps to be taken in appointing members of urban boards "in the prescribed manner."[35]

    - Providing counties with clarification on the extent to which they (as principals) have full latitude to define the precise range of functions, powers and responsibilities that are to be delegated to urban boards and institutions (as agents). This should reassure county governments and allay concerns that they may have with respect to the potential for any principal-agent conflicts.

    - Fifth, the financial management arrangements required by the Program are deliberately designed to dovetail with existing county government FM procedures. For example,

[34] UDD consultations with (over 30) counties indicate that the vast majority see UDG minimum conditions as being both acceptable and as realistic benchmarks.

[35] In the course of preparing this Operation, the World Bank has provided UDD with technical assistance in order to: (a) draw up a municipal charter template; (b) draft guidance (or "how to") notes on establishing municipalities and municipal boards; and (c) draft a Program participation agreement for counties and SDHUD to co-sign.

the Program does not require that municipalities operate separate bank accounts or need special financial audits. Instead, the Program assumes that municipal finances will be managed as part and parcel of regular county finances and reported on through existing mechanisms.

13. **Overall, the Operation is assessed as technically sound**. It includes: (a) sufficient incentives for county governments to engage more intensively with urban development issues and to establish urban institutions; and (b) activities that reduce practical constraints to doing so. Moreover, the Program is designed to keep to a minimum the transaction costs associated with establishing urban institutions and managing urban finance.

Elements of operation design: technical soundness

14. **The proposed operation will provide support to UDD, within the SDHUD, to undertake a range of national government functions with respect to urban development and consistent with the 2010 constitution and the principles underlying devolution**. These constitutionally mandated national functions are largely related to policy, regulation, sector financing, institutional and capacity development, and oversight. Thus, UDD will use KUSP resources to: (a) establish and support appropriate policy, regulatory, and institutional frameworks for urban development; (b) manage and administer urban finances; and (c) provide counties and urban areas with technical and capacity building support in the areas of planning, infrastructure delivery and service provision.

15. **UIGs will be disbursed to county governments to finance urban institutional development and urban planning activities**. Counties will be able to use their UIGs to ensure that they can establish urban boards and administrations for eligible urban areas, and thus qualify for larger UDGs.

16. **The universe of eligible counties is defined as all counties other than Nairobi and Mombasa**. For eligible counties to qualify for UIG allocations, they will need to comply with two minimum conditions ensuring that counties are interested in participating in the Program, and that they have created an institutional development strategy and plan that will enable them to improve the management of their urban areas and to benefit from the larger Urban Development Grants for investment.

17. **UDGs are a critically important element of the proposed Program and have been designed taking into account a number of considerations**.

18. **The universe of eligible urban areas is defined as being all cities and municipalities, as defined by the UACA, other than Nairobi and Mombasa**. The universe includes all urban areas that are classified as county headquarters and all urban areas with populations greater than 70,000. There are a total of 59 urban areas that are eligible for UDGs. This universe is fully consistent with the Program's focus on *institutional* development. Only municipalities and cities (which require urban boards), both of which are legally provided for in the UACA, are eligible for UDGs; municipal/city status must be officially granted and urban boards must be established in the prescribed form to ensure that urban areas are *de jure*. In addition, the Program also focuses on what are likely to be all the most economically and administratively important urban

centers in the country (larger towns, municipalities, county capitals). Moreover, the definition includes at least one urban area in each of the 45 counties that are covered by the Program. The advantages of using this "wide" definition of the universe of eligible urban areas outweigh the virtues of a more selective and circumscribed universe. Nairobi City County and Mombasa City County are excluded from eligibility, as these jurisdictions have separate institutional and governance arrangements. These city counties also have dedicated financial support arrangements through other Bank programs and projects. Moreover, given their large population size and development needs, both Nairobi and Mombasa require significantly more financial support than the proposed Program can provide in order to have a visible impact. The urban development of Nairobi and Mombasa requires separate and special consideration.

19. **The maximum total annual UDG funding pool has been estimated on the basis of a per urban capita amount of Ksh 2,000 (or US$20) and a minimum total allocation of Ksh 50 million (or US$500,000) per urban area**.[36] Assuming that the urban population of eligible urban areas is around 5.6 million, the annual UDG funding pool will be US$114.65 million. This is the maximum size of the annual UDG funding pool, and will only be fully disbursed if all eligible urban areas qualify (in all areas) for their individual UDG allocations. The proposed size of the UDG funding pool is:

- Affordable and sustainable at the national level given resource availability and resource constraints for the Government of Kenya and its partners.
- Commensurate with the need for urban investment funding. The size of the grant funding pool results in grants that are large enough to support urban investments of adequate size to be visible and support meaningful urban transformation.
- Unlikely to create an excessive long-run recurrent burden for urban boards or counties or create problems with absorptive capacity at the county or urban levels.
- Large enough to provide an incentive to counties to establish urban institutions, strengthen urban governance, and improve urban infrastructure and services.
- Within the resource envelope of the IDA credit (US$300 million for six years) made available for the Operation.

20. **The allocation of UDGs to eligible urban areas will be based on a simple but transparent formula.** Eligible urban areas will be provided with a maximum annual allocation based on the size of their urban populations, a well-recognized and widely-used proxy for service delivery needs. No other criteria (such as relative poverty or existing infrastructure endowments) will be included in the formula, due to the paucity of data.[37] However, UDGs for urban areas

[36] The minimum UDG allocation per urban area is intended to ensure that all urban areas have sufficient resources to finance significant infrastructure projects.

[37] It should be noted that data at the level of urban areas—even for something straightforward as an urban area's population—is limited as the boundaries of urban areas have not been defined. The most objective urban population figures derive from the 2009 Census.

with very small populations will receive a minimum indicative allocation of US$500,000 to ensure that decent-sized infrastructure investments can be financed.

21. **An important advantage of an indicative annual grant pool of US$114.65 million per year over the initial Program period is that it presents counties and urban areas with a highly stable and predictable resource stream**, subject only to their own performance as assessed in the APAs. This stability should greatly assist counties and urban boards in the preparation of their plans and budgets.

22. **Eligible urban areas will access their UDGs as a function of their respective counties meeting basic minimum conditions and achieving performance standards in the areas of (a) urban administration and governance, and (b) planning, infrastructure, and service delivery**. As such, UDGs operate like performance-based grants, a widely used modality for inter-governmental fiscal transfers in many countries and in many World Bank-supported operations. By complying with the Program's minimum conditions, counties demonstrate that: (a) they are committed to the Program's objectives and procedures, (b) their public finances are managed adequately, and (c) they have established urban areas as legally provided for in the UACA and that urban boards are functional and operational. By meeting additional performance standards, urban boards demonstrate that they are acting in accountable and transparent ways, and effectively delivering infrastructure and basic services. Overall, the UDGs provide considerable incentives to counties and their urban boards to meet performance benchmarks.

23. **The proposed UDG design is considerably simpler than many other performance-based grants.** UDG minimum conditions are limited in number, and performance standards do not seek to set performance benchmarks across an exhaustive range of dimensions. Counties and urban boards can access their UDGs in a modular fashion, with specific portions being linked to specific types (institutional, governance, service delivery) of performance benchmarks. The Program's APA process for verifying compliance with minimum conditions and measuring how far counties and their urban boards have met performance standards will be considerably less comprehensive and less time-consuming than the APAs used in other Programs. This has been intentional, for three main reasons:

- First, the Program will be operating in the same counties as are included in the KDSP. KDSP includes the carrying out of a comprehensive and wide-ranging annual capacity and performance assessment of all counties, which determines the allocation and size of annual capacity and performance grants to counties. KDSP therefore provides all county governments with incentives to improve and sustain their performance across a broad range of functions. The Program will build on the work of KDSP and not duplicate it.

- Second, the Program is sharply focused on a limited set of urban development issues, reflected in the relatively small number of minimum conditions and performance standards used to determine eligibility for UDGs.

- Third, the modular structure of UDGs allows the Program to signal to the county governments and urban boards as to what is being prioritized and how their response will be rewarded.

24. **Counties will use UDGs to finance a range of infrastructure investments**. Investment projects must be a minimum of US$500,000.[38] This is intended to: (a) prevent politically-driven fragmentation of investments within the urban area, (b) encourage more strategic urban investments, (c) reduce the administrative burden on local procurement systems, and (d) enhance program oversight, as there will be a smaller number of urban investment projects to monitor.

25. **The proposed UDG investment menu is fully consistent with the municipal services delivery mandate as specified under the UACA and corresponds to what would typically be seen as municipal functions.** Municipal investments funded by the UDG will need to be in line with the functional responsibilities assigned to municipalities under their respective municipal charters. Types of investment that carry a high risk of substantially negative social or environmental impact (such as landfill) will be excluded from UDG financing.

C. Institutional arrangements

26. **The institutional arrangements will reflect the division of responsibilities between the national level, county level, and urban board level as laid out in the 2010 constitution and in the UACA.** Details of the roles and responsibilities of each of the implementing agencies are presented below.

27. **At the national level, the SDHUD in the MTIHUD will be responsible for the overall coordination and implementation of KUSP**. This entails: (a) providing technical leadership and coordination in the planning and implementation of activities; (b) mobilizing and availing technical backstopping and other capacity building support to county governments and the urban boards to facilitate implementation; (c) conducting the APAs as envisaged in the Operation's design; (d) mobilizing technical and financial resources for implementation of KenUP; (e) ensuring that program funds are channeled to the county governments and urban boards on a timely basis; (f) monitoring and evaluation; and (g) preparing progress reports on the implementation activities and results in accordance with the outline and timing agreed with the World Bank.

28. **Within the SDHUD, the UDD will be responsible for performing most of the roles and functions presented above as Kenya's focal agency for urban development**. The 2010 constitution has transferred the mandate and functions of urban planning, infrastructure development, and urban service delivery from the national government to the county governments. The UDD as the national government is mandated to carry out the functions of coordinating policy making (as in the development of the NUDP), setting standards, regulation, and capacity building support to county governments. This constitutional delineation of UDD's mandate and functions has been respected in defining institutional and implementation arrangements.

29. **On the whole, UDD has the technical capacity to discharge its roles and functions, as evidenced by its performance in the implementation of the KMP, and the range and**

[38] Except when smaller urban areas (which receive a minimum UDG allocation of US$0.5 million) only access a part of their total indicative UDG allocation, in which case the minimum size of procurement packages is US$0.25 million.

numbers of skilled personnel in its establishment. Firstly, UDD is currently having challenges recruiting and retaining as many and as highly skilled and experienced technical experts as planned. Second, the current UDD establishment does not include positions for some professional and technical experts who will be needed to implement KUSP including experts in (a) grant coordination and accounting, (b) budgeting and financial management, (c) procurement, (d) monitoring and evaluation, and for social/environmental safeguards. Third, it is likely that the new urban boards will require considerable technical backstopping in their implementation of activities, including with urban planning and infrastructure design and implementation. For some urban boards, county administrations can assist. However, some county administrations will ask UDD to assist. Fourth, given the range of programs and projects that require the attention of the director and other senior executives of the UDD, there is a significant risk that the coordination of KUSP activities may not receive adequate attention. Therefore, the executive leadership of the SDHUD should prioritize: (a) filling the gaps in key expert posts in the approved establishment; and (b) enhancing the capacity of the UDD to ensure that it has the full complement of expertise it needs for timely, efficient, and effective execution of its KUSP activities.

30. **A NPCT will be established within the directorate.** It will include both UDD staff and experts with consulting contracts. Staff of the NPCT will (a) procure and manage the consultants undertaking the APAs; (b) facilitate grant disbursements, (c) budget and account for the KUSP funds; (d) manage the social/environmental safeguard issues; (e) monitor and report on implementation progress and results; (f) coordinate activities; (g) backstop county governments and the urban boards in urban planning, design and implementation of infrastructure projects, procurement and contracts management; and (h) generally support design and implementation of change management and capacity building interventions. In the latter context, it is recommended that the NPCT is staffed with a core team of experts comprising: (a) a senior technical coordinator, (b) a public financial management specialist, (c) an engineer, with procurement and contracts management skills and experience, and (d) social/environmental safeguards specialists. As far as practical, these experts as well as the support staff will be recruited from within the public service. Still, it will be important that the unit's experts have comparatively superior knowledge and experiences of good practices in the areas of their specialization.

31. **The National Treasury** will be responsible for: (a) the overall financial management for the Operation, including providing sufficient budgetary resources to counties to achieve disbursement indicators, (b) timely disbursement of Program funds to all counties, and (c) providing integrated financial management information system reports on use of funds under the various windows. The National Treasury is currently managing fund flows for PforR operations in Kenya and, in consultation with CoG, has recently developed a framework for the management of conditional grants.

32. **On the whole, the national level agencies involved in the Operation have in the past (although to varying degrees of efficiency and effectiveness) demonstrated capacity to carry out their implementation responsibilities**. Furthermore, in the course of the preparation of this operation, these agencies have availed evidence of satisfactory capacity to execute the activities expected of them under the Operation. Moreover, in their collaborative effort of developing the NUDP, the agencies have demonstrated their commitment to work together to further country's

urban development policy goals. In the NPCT, a pool of experts, once mobilized, will be readily and flexibly available to close any implementation capacity gaps at the three levels of national government, county governments and urban boards.

33. **The county governments have a pivotal role in the implementation of the Program**. Their responsibilities include: (a) establishing the urban boards; (b) capacity building and technical backstopping of the urban boards in urban planning, in design and implementation of infrastructure projects, and in delivery of services funded by the Program; (c) supporting and guiding the urban boards in preparing budgets and forwarding them for approval by the county assembly; (d) managing flow of Program funds at this level, and consolidating the fiscal reporting from the urban boards for onward submission to the National Treasury; (e) and generally exercising oversight on the performance of the urban boards. County treasuries will also be responsible for the timely submission of budgets, financial statements, quarterly budget implementation reports, and procurement reports to the CoB, the NT, the National Audit Office and the Public Procurement Oversight Authority, as required.

34. **Through their participation in the implementation of the World Bank-funded KDSP, county governments are already familiar with the PforR modalities for disbursement of Program funds, and of accountability for both funds and results.** Building on the arrangement set up for the KDSP, the Program funds will be disbursed to the county revenue fund. County treasuries will apply to the CoB for release of funds from the county revenue fund to county operating accounts. Counties will spend funds according to national laws and regulations, including those relating to environmental and social safeguards and complaints handling. All expenditures will be recorded in the integrated financial management information system. County treasuries will also submit quarterly budget implementation reports—which will identify use of Program grants—to the CoB. County governments that receive funding under the Program will have demonstrated through satisfactory performance in the APAs their ability to plan and execute activities to satisfactory levels.

35. **The urban boards and urban administrations are new entities which will be established by county governments**. Together they will be partly responsible for investment planning and budgeting, and for the selection of projects to be funded under the Program. The municipal manager, under the governance oversight of the urban board, will be responsible for day-to-day implementation of activities funded under the Program. The municipal manager will also be responsible for compliance of operations with all financial management, procurement, and environmental and social safeguards and regulations.

Coordination and Governance Oversight Institutional Arrangements

36. **In addition to SDHUD's day-to-day management of the Operation, formal coordinating mechanisms will facilitate regular and formal interaction for addressing implementation issues, and sharing of experiences and results.** To this end, two institutional coordinating mechanisms will be established:

- **Program Steering Committee.** This committee will provide policy guidance, strategic leadership, and broad oversight of the operation. In particular, the committee will ensure strong coordination of issues on planning, allocations, flow of funds, and compilation of data and approval of the results from the APAs. The Principal Secretary of the SDHUD and the chair of the urban development committee of the Council of Governors will jointly chair the steering committee. Other members of the committee will include representatives of the National Treasury, State Department of Housing and Urban Development, Ministry of Devolution and Planning (MoDP), Controller of Budget (CoB), Commission on Revenue Allocation (CRA), the chief executive of the CoG, the chair of the CECs responsible for urban development, and any other appropriate representatives identified and appointed by the committee. The committee will meet at least twice a year. The UDD and the secretariat of the CoG will provide joint secretariat services to the committee.

- **Program Technical Committee.** This committee will exercise technical oversight of implementation, with particular focus on the performance of the UDD, the county governments, and the urban boards. Among the specific roles and functions of the PTC will be to: (a) commission the APAs, receive and review the APA results for quality assurance as well as addressing any issues and complaints; (b) address any cross-cutting technical issues and challenges in KUSP implementation; (c) escalate to the steering committee any evolving policy issues; (d) review progress reports, and accounting and financial management of implementation; and (e) generally provide technical guidance on implementation. The secretary responsible for urban development in SDHUD and the chief executive officer of the CoG will co-chair the technical committee. Its members will include at least three CEC members representing the county governments participating in the Program (to be identified by the CoG), representatives of UDD, representatives of the NPCT at the UDD, and representatives from the NT and the MoDP, and others as appointed by the technical committee. The committee will meet at least once every quarter. The UDD and the Secretariat of the CoG will provide joint secretariat services to the committee.

Reporting arrangements

37. **The SDHUD is responsible for consolidating all reports on KUSP implementation progress, including reports of the APAs, progress reports, and accounting and financial reports**. The UDD will prepare quarterly implementation progress reports and present them at the meetings of the PSC and PTC.

D. Program expenditure and budgetary framework

38. **The proposed Operation is a combination of IPF and PforR**. National level interventions implemented by UDD under window 1 will be funded through IPF and thus will use the World Bank Policies and Procedures. County level interventions under windows 2 and 3 will be funded through Program for Results and thus will use government systems. IDA funds using a PforR modality would be deposited in the Consolidated Fund and be managed using National Treasury systems.

39. **Allocations for the IPF and PforR windows will all fall under the budget of the SDHUD as appropriated by the National Assembly**. The Government of Kenya runs a program based budget and the KenUP budget is made up of relevant items in the Sub-Program "SP.5.4 Urban Development and Planning Services" under the SDHUD budget which falls under the responsibility of the Urban Development Department. Table 4.2 gives an indicative proposed expenditure framework based on (and extrapolated from) the 2017/18–2019/2020 sector working group report for the infrastructure sector.[39] The total program expenditure is constituted of (a) the current expenditure items of the original planned medium-term expenditure for the sub-program for Urban Development and Planning for 2017/18–2019/20 MTEF; plus (b) additional expenditures of US$300 million to be provided through IDA.

Table 4.2: Proposed Expenditure Framework for the Program (2017–2023)

USD	2016-17	2017-18	2018-19	2019-20	*2020-21*	*2021-22*	*2022-23*	Total
Window 1: National Urban Development Functions	**2.8**	**10.6**	**7.4**	**7.4**	***7.4***	***7.4***	***7.3***	**47.5**
Current Expenditures to Urban and Metropolitan Development (P0105000)	2.8	2.6	2.9	2.9	***2.9***	***2.9***	***3.0***	**17.2**
Project support to National Urban Development Functions (IPF)	-	8.0	4.5	4.5	*4.5*	*4.5*	*4.3*	**30.3**
Windows 2 & 3: Transfers to Counties	**-**	**4.5**	**23.6**	**37.9**	***54.6***	***66.3***	***82.8***	**269.7**
Institutional Development Grants (Window 2)	-	4.5	9.0	8.7	-	-	-	**22.2**
Urban Development Grants (Window 3)	-	-	14.6	29.2	*54.6*	*66.3*	*82.8*	**247.5**
Grand Total - P5 Urban and Metropolitan Development (P0105000)	**2.8**	**15.1**	**31.0**	**45.3**	***62.0***	***73.7***	***90.1***	**317.2**
o/w GoK	*2.8*	*2.6*	*2.9*	*2.9*	*2.9*	*2.9*	*3.0*	***17.2***
o/w IDA IPF	*2.0*	*8.0*	*4.5*	*4.5*	*4.5*	*4.5*	*4.3*	***30.3***
o/w IDA PforR	-	*4.5*	*23.6*	*37.9*	*54.6*	*66.3*	*82.8*	***269.7***

40. **The IDA resources will fund additional allocations in the SDHUD budget to the urban development and planning sub-program, as follows**:

- The IPF funding for window 1 will appear as a separate project in the development budget, in support of UDD activities under KenUP. These resources will be used to finance window 1 (that is, national government) expenditures, such as APAs, and UDD institutional and capacity development support. The majority of projects currently in the development budget fund urban infrastructure and not institutional development.

- PforR resources will be allocated to a new UIG from 2017/18, classified as a current grant enabling the achievement of results under window 2.

- PforR resources will also be allocated to the new UDG from 2018/19 classified as a capital grant enabling the achievement of results under window 3.

[39] http://www.treasury.go.ke/sector-reports-2018/send/127-2017/233-energy-infrastructure-and-information-communications-technology-sector.html.

41. **All PforR resources will be allocated to counties in the form of conditional grants (UIGs and UDGs).** Conditional grants form part of the national share of government resources and will therefore appear under the budget of the SDHUD. Actual expenditures under window 2 and window 3 financed by PforR resources will depend on (a) the number of counties which qualify for allocations and (b) the results of the APA. The conditional grants would need to appear in the CARA and the DORA and be transferred by the National Treasury directly from the Consolidated Fund to the counties on the notification of the APA results by the SDHUD.

42. **For IDA resources to actually result in annual budget allocations for the programs appropriated by the National Assembly, the SDHUD and the National Treasury need to work closely**. In particular, UDD and the policy and planning unit in SDHUD will need to ensure that all three windows of the program are provided for in its budget proposals at each stage of the budget process. The Budget Supplies Departments in the National Treasury must ensure that SDHUD budget ceilings reflect program allocations; and the External Resources, Macro Fiscal, Intergovernmental Fiscal Relations (IGFR) of the National Treasury will need to ensure that grant allocations are captured in the CARA and the DORA. This joint effort and close coordination is geared towards ensuring that:

- All program resources are reflected in the budget ceilings and annual budget estimates for SDHUD from 2017/18 onwards.
- The maximum county UIG and UDG allocations are reflected in the CARA and DORA from 2017/18 onwards.

43. **The APA and grant allocations will not be finalized until the end of the budget process**. To ensure inclusion in the CARA, the SDHUD will need to communicate maximum indicative UIG/UDG allocations by November 30. If the initial APA is delayed, then the initial allocations proposed in the CARA and DORA should include maximum allocations. The final grant allocations will be less than or equal to Annual Appropriations and the CARA and DORA allocations – which will allow full disbursement during the FY. Table 4.3 sets out the key deadlines:

Table 4.3: National Budget process deadlines

Step	Deadline	Responsible
National Budget Process Deadlines		
Include UIG/UDG and window 1 allocations in SDHUD MTEF proposals and Sector Reports in advance of budget hearings	01 October in FY N-1	SDHUD
Maximum UIG & UDG allocations determined based on initial APA. UIG/UDG allocations for FY N to National Treasury & Commission on Revenue Allocation for inclusion in the CARB/DORB	30th November FY N-1	SDHUD
Maximum UIG & UDG allocations for FYN included in CARB & DORB	15th December FY N-1	National Treasury
UDD / SDHUD budget proposals prepared and submitted to National Treasury including window 1, UIG and UDG	15th March FY N-1	SDHUD
Draft Budget estimates for UDD / SDHUD submitted to Parliament including window 1, UIG and UDG	30th April FY N-1	National Treasury

44. **In addition, UIGs and UDGs will need to be reflected in the annual budgets of counties that qualify for these allocations from the Program**. The SDHUD will thus ensure that counties are informed of their UIG/UDG allocations on a timely basis. To ensure that Program resources are fully reflected in the national and county budget frameworks, the following table provides deadlines for meeting key steps in the county budget process.

Table 4.4: County budget process deadlines

Step	Deadline	Responsible
County Budget Process Deadlines		
UDD Communicates indicative UIG and UDG allocations to Counties (contingent upon APA)	July 31, FY N-1	SDHUD
County annual development plan submitted to CEC, incorporating UIG/UDG allocations	September 1, FY N-1	County Treasury
Budget Review and Outlook Paper submitted to CEC, incorporating UIG/UDG allocations	October 30 FY N-1	County Treasury
UDD communicate maximum UIG/UDG based on initial APA to Counties.	November 30 FY N-1	SDHUD
County Treasury submits County Fiscal Strategy Paper to the CEC for approval	February 28, FY N-1	County Treasury
CEC submits to the County Assembly budget estimates and other budget documents incorporating expected UIG/UDG allocations	April 30 FY N-1	County Treasury/CEC
UDD communicates final UIG and UDG allocations to Counties	June 17, FY N-1	SDHUD
County assembly approves county appropriations bill incorporating final UIG and UDG allocations.	June 30, FY N-1	County Assembly

E. Economic evaluation

45. **Quantifiable benefits of infrastructure and services investment menu.** The primary objective of the UDG is to improve urban infrastructure and services. The menu of eligible investments includes among others: (a) stormwater drainage, (b) connectivity (roads, non-motorized transport facility and street lighting), (c) urban economic and social infrastructure, and (d) fire and disaster management. County governments will select investments from this menu through a participatory process that will take place only after the Program is effective. Therefore, this economic evaluation is based on investments that have been made in the past in Kenya[40] and in other countries in similar types of investments.

46. **Potential benefits of investments in urban roads.** The benefits associated with improved road networks are reduced vehicle maintenance and operating costs associated with normal traffic, and savings in travel time. The construction works include among others, expansion in number of lanes, reconstruction or strengthening of existing pavement, grade separation of roads, and construction of bypass. Table 4.5 provides a summary of the net present value (NPV) and associated economic internal rate of return (EIRR) for different urban road segments within several urban centers in Kenya. This evaluation shows that investments in urban roads and associated infrastructure generally generate returns well above their costs.

[40] For the most part, data used in this economic analysis derive from ongoing World Bank-supported projects in urban Kenya.

`Table 4.5: Costs and benefits of road networks (US$ millions)

Road Section	NPV	EIRR (%)
JKIA junction to southern bypass and associated roads (17.7 kilometers)	469.97	65.4
Southern bypass to James Gichuru road junction (11.5 kilometers)	190.5	36.6
James Gichuru road junction to Rironi (25.2 kilometers)	148.6	33.9
Kisumu northern bypass (9.0 kilometers)	53.3	23
Meru bypasses (21 kilometers)	11.6	17.2

Source: Kenya Urban Transport Improvement Project estimates.

47. **Sensitivity analysis.** Under bad economic environment situations where either costs go up or benefits reduce or both costs go up and benefits reduce by 20% as presented in table 4.6, the road construction project remain viable.

Table 4.6: Sensitivity analysis of construction of road networks

Road Section	Benefits (US$ M)	NPV	EIRR (%)
JKIA junction to	Base Case	469.97	65.4
Southern Bypass	Costs up by 20%	454.7	57.7
	Benefits down by 20%	390.57	58.7
	Costs up by 20% and Benefits down by 20%	375.3	51.6
Southern Bypass to	Base Case	190.5	36.6
James Gichuru Road	Costs up by 20%	170.1	30.7
Junction	Benefits down by 20%	132	29.5
	Costs up by 20% and Benefits down by 20%	111.6	24.7
James Gichuru road junction to Rironi	Base case	148.6	33.9
	Costs up by 20%	132.1	28.8
	Benefits down by 20%	102.3	27.7
	Costs up by 20% and benefits down by 20%	85.8	23.3
Kisumu northern bypass	Base case	53.3	23
	Costs up by 20%	44.4	20.2
	Benefits down by 20%	33.7	19.6
	Costs up by 20% and benefits down by 20%	24.9	16.9
Meru bypasses	Base case	11.6	17.2
	Costs up by 20 percent	7.1	14.8
	Benefits down by 20 percent	5.6	12.4

Source: Kenya Urban Transport Improvement Project estimates.

48. **Potential benefits of non-motorized transport facilities**. Non-motorized transport (NMT) facilities evaluated include traffic calming measures (for example, speed bumps, zebra crossings), footpaths, cycle tracks, and foot bridges. The analysis presented was based on the overall economic analysis of benefits of non-motorized transport facilities constructed in Mombasa city under the World Bank-financed KMP. The benefits associated with the NMT facilities include (a) reduction in fatal or serious injuries due to vehicle-pedestrian and cycle accidents; and (b) time savings for pedestrians and cyclists, who can now walk on smooth pathways without interference from trucks, buses, vans, and cars. The analysis assumed a

discount rate of 12 percent. The construction was expected to be completed in one year and the benefits would start accruing from the second year onwards. The analysis found that provision of traffic calming measures generated the highest benefit cost ratio of 17.56, followed by footpaths (17.22), cycle paths (0.74) and foot over bridge (0.51). Overall, the investment in the NMT facilities was economically viable, as the benefit cost ratio was 8.41 in the first five years of operation (table 4.7).

Table 4.7: Costs and benefits of NMT facilities (US$ million)

	Economic Costs			**Benefits**			
	Capital Costs	**O& M Costs**	**Total Costs**	**Saving in productivity loss-fatal**	**Saving in Productivity Loss - Seriously Injured**	**Time Saving**	**Total Benefits**
2014	4.253	-	4.253	-	-	-	-
2015	-	-	-	0.627	0.777	0.685	8.250
2016	-	0.085	0.085	0.627	0.777	7.425	8.828
2017	-	0.085	0.085	0.627	0.777	8.028	9.431
2018	-	0.085	0.085	0.627	0.777	8.693	10.097
2019	-	0.085	0.085	0.627	0.777	9.414	10.818
			-				-
NPV @ 12 percent in 2014			4.003				33.671
BCR in 2014-19							8.41
Benefit cost ratio 2014–2015							1.84

Source: Mohapatra (2014).[41] Figures Converted to million US$ (1US$ = Ksh 100)

49. Using the same scenarios as in table 4.6 above, the NMT projects still remain viable even with changes in costs and benefits (table 4.8). The projects are largely affected by reduction in benefits as compared to cost reductions.

Table 4.8: Sensitivity analysis for NMT

	Base	Scenario 1 (cost up by 20%)	Scenario 2 (benefits down by 20%)	Scenario 3 (costs up by 20% and benefits down by 20%)
Benefit cost ratio in 2014–19	8.41	8.33	6.73	6.66
Benefit cost ratio 2014–2015	1.84	1.82	1.47	1.46

50. **Non-quantifiable institutional benefits.** The establishment of urban boards provides the foundation for effective management of urban areas and opportunities for planning and managing urban areas. Proper planning and establishment and enforcement of development

41 https://www.academia.edu/27191578/An_Economic_Evaluation_of_Non_Motorized_Transport_Facilities_in_Mombasa_Town_of_Kenya.pdf

controls will enhance the attractiveness of urban, which in turn attract investments. Proper management of urban areas will result in enhanced efficiency gains for the urban boards/town committees. The establishment of urban boards will provide the opportunity for ensuring that infrastructure and services systems put in place are adequate for implementing, monitoring and evaluating activities. The establishment of an effective urban management system could attract public-private partnerships in areas that were previously left to the public sector, such as in energy efficiency systems and infrastructure, waste management, and wastewater treatment. Lastly institutional strengthening of urban boards will result in a well-informed citizenry and inclusive decision-making, due to transparency and accountability in governance arrangements in the municipalities.

51. **Non-quantifiable benefits from investments in delivery of basic services.** The provision of basic infrastructure and services have the following unquantified benefits: (a) reduced health infections during rainy seasons with the improvement or development of solid waste management systems and facilities, (b) reduction in destruction of property with proper stormwater drainage systems, and (c) improved property values. Improvement in infrastructure and services can create economic multipliers that increase employment and entrepreneurial activities for communities.

52. **County absorption capacity of total expenditure is increasing but remains an area of concern for the successful implementation of UDG.** [42] The total expenditure by county governments in financial year 2014/15 was Ksh. 258 billion, which translated to an absorption capacity of 79 percent of aggregated annual county budget. There was a 14-percentage point increase in absorption capacity as compared to the financial year 2013, when total expenditure was Ksh. 169.4 billion representing 65 percent absorption capacity. Recurrent expenditure in financial year 2014/15 was Ksh.167.56 billion representing 92 percent absorption of annual recurrent budget as compared to financial year 2013/14 when recurrent expenditure absorption was 83 percent (Ksh. 132.8 billion), representing 9 percentage points increase. In financial year 2014/15, county governments spent a total of Ksh. 90.44 billion on development expenditure activities, which amounted to 62 percent of their annual development budget. Compared to financial year 2013/14, development expenditure was Ksh. 36.6 billion, representing an absorption rate of 22 percent of the total annual development budget. The county governments should be able to absorb the UDG given the increasing trends in expenditure absorption. However, counties will need to take active measures to ensure efficiency in delivery of services for this to be achieved.

[42] http://cob.go.ke/publications/consolidated-county-budget-implementation-review-reports/

Annex 5: Fiduciary Systems Assessment Summary

1. **The World Bank and the Government of Kenya are preparing the KUSP using a hybrid of IPF and PforR financing instruments.** An integrated fiduciary assessment was conducted in September 2016. For financial management the assessment covered the Ministry and 18 counties. This assessment was conducted on the basis of the DRAFT Guidance Notes on Program-for-Results Operations prepared by the Operations Policy and Country Services (OPCS) department of the World Bank. For the MTIHUD IPF, an FM assessment was carried out in accordance with the World Bank Directive: Financial Management Manual For World Bank Investment Project Financing Operations issued February 4, 2015 and effective from March 1, 2015; and the World Bank Guidance: Financial Management in World Bank Investment Project Financing Operations Issued and Effective February 24, 2015.The assessment covered the six key FM elements of budgeting, accounting, and internal control including internal auditing, in addition to funds flow, financial reporting and external auditing arrangements. The objective of the assessment was to determine whether: (a) There are adequate financial management arrangements in the implementing agency to ensure that funds channeled into the project will be used for the purposes intended in an efficient and economical manner; (b) The project's financial reports will be prepared in an accurate, reliable and in a timely manner; and (c) The Project's assets will be safeguarded.

2. **The assessments reviewed the fiduciary aspects of the Ministry and government's devolved structures both at the national and county levels in a manner consistent with the World Bank Policy and Bank Directive Program-for-Results Financing.** The county assessment is based on a joint FM/Procurement Kenya County Fiduciary Assessment (KCFA) undertaken in April/May 2014, covering 13 counties, to assess the readiness of counties to implement Bank projects, and identify areas of weakness that would require capacity building support. A follow-up review was carried out in August 2015. The KCFA findings have been updated on the basis of FM assessment carried out in September 2016 in 6 counties (one of which was covered in the initial KCFA) from the Arid and Semi-arid counties. This brings the total number of counties covered to 18 out of 47. The FM assessment was also based on the reports by PricewaterhouseCoopers (PwC) who were hired by the National Treasury under the World Bank-executed Devolution MDTF for provision of TA to all the 47 counties for the preparation of individual and consolidated annual financial statements for FY14/15.

3. **On the basis of the IFAR, various risk mitigation measures against identified risks are proposed that are aligned with DLIs.** In line with the PforR approach, windows 2 and 3 will be implemented using existing country fiduciary systems with appropriate capacity strengthening measures. The activities to be undertaken under the Operation fall under the following results areas: (a) Support to national government level for policy formulation and implementation, institutional development (capacity building) and county-level performance assessments (monitoring for coordination) - window 1; (b) support to county government level for the development of county-level urban development policies, the establishment of Municipal Boards (legislation and regulations), and the implementation and enforcement of county policies and legislation (capacity building and urban development) - window 2; and (c) support to urban institutions for the development of urban plans, systems and the implementation of urban infrastructure and services, window 3.

4. **The Operation does not envisage any community driven development-type or special/non-routine activities.** The Operation's activities will therefore not entail any additional risks and will be subject to the normal country level institutional fiduciary risk already identified for the State Department of Housing and Urban Development and the counties.

5. **The country-level fiduciary systems for the Operation at national and county levels have both strengths and challenges.** The government has been implementing reforms to strengthen FM and procurement institutions. The overall PFM systems have been strengthened by the enactment of the new PFM Law of 2012 and its regulations are in place and used at both levels. The government has also carried out the following activities: institutional arrangement and internal approval system are in place and working at both levels; roll-out of the IFMIS to all counties and implementation of the PFM reforms including use of the standard chart of accounts (SCOA); adoption of the Treasury Single Account and moving of government bank accounts from commercial banks to the Central Bank of Kenya so as to improve cash management and oversight, use of electronic funds transfer direct payments through G-pay/T24 system to improve efficiency in payments; setting up of the Public Sector Accounting Standards Board and adoption of IPSAS cash basis of accounting for the national and county annual financial reporting; the strengthening of the capacity of the OAG. There have been challenges of inadequate scope by the OAG in the audit of decentralized programs including community driven development -type and devolved operations. This is being addressed in part through funds under Bank programs to finance OAG audit and to allow the OAG on their discretion to out-source audits to private audit firms.

6. **On fiduciary risks, the OAG have flagged significant audit qualification issues in the Ministry and related departments/projects for FY14/15.** These included inaccuracies in the financial statements, missing supporting documents for payments, under-banking of revenue collections and unreconciled differences between cashbook and revenue statements. For the counties, the OAG finalized the FY14/15 audit reports in October 2016, ten months after the statutory deadline. The county audits for the FY13/14 audit had a delay of seven months. The audit reports, which were due by December 31, 2014, were finalized in July 2015. The audit reports revealed major fiduciary weaknesses in most counties and the audit report opinion issued by the Auditor General consist mainly of adverse and disclaimer opinions. Some of the areas of weaknesses include: inaccurate/unreliable financial statements; poor assets controls including lack of assets registers even in some places for the current (new assets); lack of supporting documentation for expenditures and revenues; (un-accounted expenditures); poor controls over staff allowances, advances and imprest; lack of supporting documents for training; issues related with payments to county assembly members; poor records management including anomalies in the general ledgers, lack of up-dated cashbooks, bank reconciliations not done or not reconciling; material procurement irregularities; poor payroll controls and discrepancies in staff payments; and challenges with revenue management including risk of misappropriation.

7. **Procurement**: overall, procurement-related risks are identified as high, largely (but not entirely) due to weaknesses and capacity constraints at the county government level. The proposed Operation is a hybrid of IPF and PforR which will be implemented under three windows. The team that is implementing the KMP at the SDHUD will procure and implement activities under window 1 of the Operation in accordance with the World Bank's Procurement

Guidelines dated January 2011 (revised July 2014)[43]. Some 45 counties will procure and implement activities under windows 2 and 3 of the Operation in accordance with the national public procurement procedures laid out in the Public Procurement & Asset Disposal Act, 2015. Assessments were conducted on the capacity of SDHUD and two-thirds of the beneficiary counties of the Operation to implement procurement requirements under their respective components. The procurement capacity assessments indicate that the procurement risk at SDHUD-level is "Substantial" and is "High" at the county-level. The overall procurement risk of the Operation is assessed as "Substantial." At the SDHUD level, risks include inadequate staffing, delays in procurement processes, and contract management deficiencies and delays. At the level of counties, weaknesses include: (a) poor record keeping and filing systems, (b) incomplete implementation of e-procurement, (c) lack of information and disclosure of procurement activities, (d) insufficient sensitization of stakeholders on negative impacts of corruption in public procurement, and (e) lack of regular procurement audits.

8. **In order to mitigate procurement-related weaknesses and risks, the Program will include a range of mitigation measures in its PAP.** These mitigation measures include the use of incentives and sanctions (through minimum conditions and performance standards), staffing requirements, training activities, the inclusion of guidance on infrastructure design and costing, and the inclusion of templates for key TORs for services.

9. **These challenges are mainly teething problems which are being addressed by individual counties with capacity building support from the National Government and various donor partners.** The World Bank-supported Devolution PforR Program will provide support in further strengthening of the PFM systems for OAG, National Treasury and the Counties in order to address these weaknesses. The PforR Program includes measures to strengthen the timeliness and quality of the OAG audits of counties, and to enhance the OAG and county capacity to address audit reporting challenges (including delays in finalization of the county annual audits). Through a Bank Executed Trust Fund- Devolution Multi-Donor Trust Fund (MDTF), the World Bank working with the National Treasury has provided various forms of capacity building to counties including TA to the counties for improvement of the quality of annual financial statements preparation and audit, information systems audit and implementation of the new procurement law.

10. **At Program level, the identified FM risks will be addressed through country-level interventions for conditional grants.** On the basis of previous dialogue between the World Bank, the National Treasury and the counties (especially in health and agriculture devolved sectors), adequate country FM arrangements have been developed to manage government and donor funds to counties which are treated as conditional grants from national to county governments. These measures are assessed as sufficient to address the identified FM risks. These measures include capturing the conditional grants in the DORA and CARA so as to ensure adequate budget allocation, having separate budget codes in IFMIS for each conditional grant for tracking by the National Treasury and the counties, opening of segregated special purpose bank account by each county for the conditional grant (to ensure timely disbursement of the grants and avoid the grants being used to finance other unrelated county expenditures), designation of

[43] The concept note for KUSP was approved in May 2016 (i.e. before July 2016) and thus, the operation is based on the World Bank's Procurement Guidelines dated January 2011 (revised July 2014).

Program-specific government accountants and finance offices to handle accounting and budget aspects of specific conditional grants, and getting conditional grants subjected to annual audit by the OAG. In compliance with these arrangements, SDHUD and each participating county will designate a budget/finance officer to follow up on budget related issues. At county level, budget votes for specific urban areas will be established in county budgets, and corresponding Special Purpose Accounts opened in county treasury systems. Program-specific budget codes will also be configured in IFMIS for both SDHUD and the participating counties. The SDHUD and the counties will designate qualified accountants responsible for overseeing Program-related accounts. SDHUD will prepare annual Program financial statements which will be subjected to audit by the OAG on the basis of audit TORs agreed with the World Bank.

11. **The constitution and legal framework have strong provisions on combatting fraud, corruption, and handling complaints on maladministration and service delivery.** This legal framework gives significant and independent powers to the Office of the Director of Public Prosecutions (ODPP), EACC, and Ombudsman to exercise their relevant mandates at both national and county government levels. The EACC has a well-functioning, well known and accessible complaints management system, linking key investigative, and transparency agencies. While the EACC and Ombudsman have a robust complaint handling mechanism that works well with the SDHUD, the situation needs strengthening in counties where there are no fully established complaints handling mechanisms. As part of the program, establishment of a fully operational complaints management system in SDHUD is included.

12. **At the national level in SDHUD, fraud and corruption mitigation measures to be implemented under the KUSP include**:

- Full operationalization of SDHUD's complaints management system. In terms of complaints reporting arrangements, SDHUD will be required to have a fully operational complaints management system including a complaints register/data base, complaints grievance/handling committee to handle complaints (pertaining to fiduciary, environmental and social systems) and a designated focal point officer to coordinate handling of complaints.
- Establishing and maintaining a program risk register, the format for which is included in the POM.

13. **At the county level, fraud and corruption mitigation measures are already being supported through KDSP**. Access to KDSP grants is conditioned upon counties putting in place complaint management systems. KDSP is generally supportive of fraud and corruption mitigation actions at the county level. Given this, KUSP does not include specific fraud and corruption mitigation measures at the county government level; instead, the proposed Operation will rely on KDSP's ongoing mitigation measures.

14. **These measures will be augmented by World Bank support to ongoing anti-corruption reform initiatives under the Kenya Governance Improvement Program (P157209)**[44]. These initiatives include supporting the EACC to undertake county corruption risk

[44] The overall objective of the Kenya Governance Improvement Program is to support Kenyan authorities and non-governmental stakeholders at national and sub-national levels to better achieve their development objectives by

assessments and monitoring their implementation, supporting the NACCSC in training of Civilian Anti-Corruption Oversight Committees and County Project Management Communities on effective project oversight (social audits) and the Commission on Administrative Justice (Ombudsman) on strengthening national and county complaints reporting and grievance redress mechanisms (GRMs). For Operation-specific fiduciary arrangements, the SDHUD will be responsible for the fiduciary activities of the Operation at the national level (through the NPCT) while the relevant counties will be responsible for fiduciary activities under the county/urban institutions level results area through the CPCT under the relevant CEC urban planning.

15. **The Program budgets will be done in line with government budgeting requirements. Program-specific budget codes will be configured in IFMIS for both the SDHUD and the participating counties.** This will form the basis for defining the Program activities and ensuring that sufficient funds are allocated to achieve the agreed results. For the counties, the Program funds will be captured as conditional grants and will be reflected in the DORA and CARA. As a MC, counties will be required to create a vote for municipal (MB) boards once set up as part of the county annual budget presented to the county assembly.

16. **For the Program funds flow, government will provide funds for financing of activities for achievement of the DLIs**. The World Bank will disburse funds to the consolidated fund on achievement of the agreed DLIs. Nevertheless, the World Bank may provide government with advance against achievement of DLIs or disburse against achievement of prior results. For national level activities (under window 1 which is IPF), the funds from IDA will flow to a segregated US$ denominated Designated Account (DA) in National Treasury and from there to a ring-fenced Project Account (PA) in SDHUD from which eligible Project expenditures would be made. As part of the POM, SDHUD has prepared a FM Procedures manual for the operation. Window 2 and 3 are PforR funds and will be managed by counties on the basis of existing country PFM systems. The funds will flow directly from the exchequer in the National Treasury to the County Revenue Fund, to the county operating account and eventually to the special purpose account opened by each county for these conditional grants. There is risk of in-country delays in moving funds from National Treasury to the SDHUD development and to counties; and in moving funds by counties from the County Revenue Fund to the special purpose account. In order to address this, the SDHUD and participating counties will commit to service standards clearly specifying the time-lines within which funds have to be transferred. This will be monitored as part of the PAP.

17. **On accounting arrangements, the SDHUD will designate a qualified accountant and budget finance officers to the NPCT to support the Operation.** The respective counties will also designate qualified accountant and budget finance officer to the CPCTs that support program activities. In line with the practice adopted for other devolved functions in health, agriculture and devolution sectors, the SDHUD and participating counties will put in place program for annual capacity building training of staff at national and county level as well as the internal and external auditors supporting the Program. The training program will be financed out of Program and Project funds.

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improving resource management through a programmatic series of activities. The program will seek to strengthen both country systems and World Bank portfolio performance.

18. **On internal controls, the SDHUD will also develop PFM procedures and guidelines for the Operation especially for window 1 which is IPF.** The Operation will also provide capacity building support to the national and county internal audit departments IAD so that they can perform internal audit reviews at national and county level respectively.

19. **On auditing, the NPCT will prepare and submit to the World Bank annual audited program-specific financial statement and management letter within six months after the end of the financial year to which they relate.** The Operation's audited financial statements will be publicly disclosed in line with the World Bank's Access to Information Policy and the government Public Audit Act. The audit will be conducted by the OAG on the basis of audit terms of reference cleared by the World Bank. Separate audited financial statements will be prepared for window 1 being an IPF. The format of the financial statements will be on the basis of the IPSAS format issued by the PSASB for donor projects. The Project will include budget for audit under window 1 to support the annual audit by OAG if required.

20. **The KUSP will also leverage on the technical assistance and other capacity building support being provided under the Kenya Accountable Devolution Program (KADP) multi-donor trust fund and the pipeline Kenya Governance PforR**, which targets results in key PFM areas including E-GP and contract management. In view of the nature of the challenges, the combined overall fiduciary risk for the Operation has been assessed as HIGH. The PAP contains risk mitigation measures to increase capacity and improve systems and procedures. The conclusion of the assessment is that the PFM system complemented by the program-specific mitigation measures is adequate to support the operation.

21. **During negotiations, mitigation policies were discussed, agreed, and form part of the Financing Agreement.** The World Bank's fiduciary team will work closely with Government counterparts as part the PFM dialogue and program implementation support. Measures to further strengthen the fiduciary systems of the program are contained in the PAP.

Table 5.1: Fiduciary Conditions

Type of Fiduciary Conditions	**Due date**
Dated Covenants	
The SDHUD to develop FM procedures Manual for the Project.	On-going
The SDHUD and participating counties to designate qualified accountants and finance officers to enhance the FM capacity of the Program	By program effectiveness
Fully operational complaints handling and management system including: a complaints /grievance committee to handle complaints, designated focal complaints officer to coordinate the framework, established feedback mechanisms and a service charter prescribing how complaints will be handled.	Six months after effectiveness
Minimum Conditions	
Municipal board budgets to be included in the county annual budget as a separate vote, approved by the county assembly and funded appropriately	Annually
Counties to designate qualified accountant and finance officer to support the Program.	Annually
Counties to ensure that funds meant for municipal boards are promptly transferred to the special purpose account.	Annually
Establishment of risk registers in each implementing agency	Annually

Annex 6: Environmental and Social Systems Assessment Summary

Program Description

1. **The proposed Program for Results (PforR) Support to the Kenya Urban Support Program (KUSP) will assist the Government of Kenya in operationalizing its National Urban Development Policy (NUDP) and achieving medium term planning goals in the urban sector.** The KUSP will provide three sets of inputs (or disbursement windows).

- Window 1: Support to the national government for establishing and strengthening the institutional and policy framework for urban management, supporting the management and administration of urban finances, and providing backstopping for urban planning, urban infrastructure delivery and for the provision of basic urban services
- Window 2: Support to county governments level for the formulation of urban development plans, for the establishment and operation of urban institutional arrangements (charters, boards, administrations, budget votes), and for the initial preparation of urban infrastructure investments
- Window 3: Support to urban boards and administrations **(**through their respective county governments) for financing infrastructure investments in urban areas. The Urban Development Grants (UDGs) would be used to finance a range of infrastructure projects, defined by an eligible investment menu as per the Project Documents (Project Appraisal Document, Project Integrated Document). Investment projects would be of a minimum size (indicatively US$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.
- The proposed menu of investments includes but is not limited to the following: water and sewerage reticulation, waste management (liquid and solid), storm water drainage, connectivity (roads, non-motorized traffic and street lights), urban social and economic infrastructure, and fire and disaster management projects. Investments financed by UDGs will exclude high risk Category A projects (projects that have significant negative environmental and social impacts that are sensitive, diverse, or unprecedented).

The ESSA Scope and Methodology

2. **Purpose of ESSA:** An Environmental and Social Systems Assessment (ESSA) was undertaken by the World Bank team for the Kenya Urban Support Program, which will be financed through a hybrid of the Investment Project Financing (IPF) (for window 1) and Program for Results (PforR) instruments (for windows 2 & 3). The aim of the ESSA was to review the capacity of existing government systems to plan and implement effective measures for environmental and social impact management and to determine if any measures would be required to strengthen them as per the requirement of the PforR Financing Policy. The assessments were carried out through a comprehensive review of relevant government policies, legislation, institutional roles and capacities, program procedures, and assessment of the

available capacity in all 47 Counties of the Republic of Kenya to implement the existing systems consistent with Bank PforR Financing Policy.

3. **Scope:** The ESSA is undertaken to ensure consistency with the six "core principles" outlined in paragraph 8 of the World Bank's PforR Financing Policy in order to effectively manage Program risks and promote sustainable development.

4. The six principles are:

i. *Core Principle 1: General Principle of Environmental and Social Management:* Promote environmental and social sustainability in the Program design; avoid, minimize, or mitigate adverse impacts, and promote informed decision-making relating to the Program's environmental and social effects

ii. *Core Principle 2: Natural Habitats and Physical Cultural Resources:* Avoid, minimize, or mitigate adverse impacts on natural habitats and physical cultural resources resulting from the Program

iii. *Core Principle 3: Public and Worker Safety:* Protect public and worker safety against the potential risks associated with: (i) construction and/or operations of facilities or other operational practices under the Program; (ii) exposure to toxic chemicals, hazardous wastes, and other dangerous materials under the Program; and (iii) reconstruction or rehabilitation of infrastructure located in areas prone to natural hazards

iv. *Safety Core Principle 4: Land Acquisition:* Manage land acquisition and loss of access to natural resources in a way that avoids or minimizes displacement, and assist the affected people in improving, or at the minimum restoring, their livelihoods and living standards

v. *Core Principle 5: Indigenous Peoples and Vulnerable Groups:* Give due consideration to the cultural appropriateness of, and equitable access to, Program benefits, giving special attention to the rights and interests of the Indigenous Peoples and to the needs or concerns of vulnerable groups

vi. *Core Principle 6: Social Conflict:* Avoid exacerbating social conflict, especially in fragile states, post-conflict areas, or areas subject to territorial disputes.

5. In analyzing programs for consistency with the sustainability principles in Program for Results Financing Policy, the ESSA is intended to ensure that Programs supported by PforR operations are designed and implemented in a manner that maximizes potential environmental and social benefits, while avoiding, minimizing, or otherwise mitigating environmental and social harm.

6. **ESSA Methodology:** In order to assess the existing systems as well as analyze how these systems are applied in practice, the process of preparing the ESSA has drawn on a wide range of data. Inputs analyzed for this ESSA include the following:

i. **Desk review of Kenya's policies, legal framework and program documents**: The review examined the set of national policy and legal requirements related to environment and social management. The review also examined technical and implementation support documents from previous and on-going World Bank PforR programs in Kenya.

ii. **Institutional analysis**: An institutional analysis was carried out to identify the roles, responsibilities and structure of the relevant institutions responsible for implementing the program, including coordination between different entities at the national and County levels. Sources included existing assessments of key institutions focusing on environmental and social assessment and management processes. The Urban Development Department (UDD), (a department in the Ministry of Transport, Infrastructure, Housing and Urban Development – MTIHUD) the main entity that will be responsible for overseeing the program at the National Level was assessed. The National Environmental Management Authority (NEMA) is the administrative body that is responsible for the coordination of the various environmental management activities in Kenya. NEMA is also responsible for granting Environmental and Social Impact Assessment (ESIA) approvals and for monitoring and assessing project activities in order to ensure that the environment is not degraded by such activities.

iii. **Field visits:** Field visits were conducted to the sampled Counties to assess the Counties' systems and capacities in implementing the program. A total of 20 out of 47 Counties were assessed during the ESSA process. Consultative meetings with County Executives Committees (CEC) Members in-charge of Land, Urban Development, Housing, Transport, Infrastructure, and other County representatives for the National Land Commission (NLC) and NEMA. The County governor of Taita Taveta was also met during the visit in Taita Taveta County.

iv. **Stakeholder consultation process:** Consultations were also conducted with the key stakeholders that will be involved in the program: Ministry of Transport, Infrastructure, Housing and Urban Development (MTIHUD), Ministry of Lands – National Land Commission (NLC), Non-Governmental Organizations (NGOs), other Development Partners in Kenya, and National Environmental Management Authority (NEMA) Headquarters.

Program Environmental and Social Risks

7. Considering the significant geographic dispersion of the participating counties, different scale of proposed investments, and the potential cumulative environmental and social impacts associated with the program, the overall environmental and social risk of the Program is rated as ***substantial***. However, the program will exclude high risks projects Category A projects (projects that have significant negative environmental and social impacts that are sensitive, diverse, or unprecedented).

Main environmental risks

8. **The investments menu under KUSP is likely to have moderate to significant environmental impacts.** The impacts will vary depending on the context and investment choices of each County, based on the type, scope and scale of works. The positive benefits are likely to include but not limited to; better and improved waste collection systems, improved air and health through reduction of dust and waterborne diseases, better sanitary conditions through improved waste management systems,, lower vehicle operating costs, reduced transportation costs, fewer road accidents and reduced traffic congestion as a result of improved road conditions, improved access to public transport services; and reduced environmental degradation through mitigations against flooding and soil erosion as a result of drainage improvements.

9. The adverse impacts are expected to be typical construction impacts that are site-specific and generally limited to construction phase that include air pollution from dust and vehicles exhaust; nuisances such as noise, traffic interruptions, and blocking access paths; water and soil pollution from the accidental spillage of fuels or other materials associated with construction works, as well as solid and liquid wastes from construction sites and worker campsites; traffic interruptions and accidents; occupational health and safety incidents through injuries or accidents to the workers; and disruption and/or damage to public utilities such as internet cables, electricity, wastewater, and water facilities. The long term impacts during the operation phase include the solid waste and wastewater projects that can exacerbate contamination of soil and groundwater from poorly planned and managed/maintained systems, improved roads may increase road accidents given the potential for increased traffic speed in absence of adequate road safety measures, boreholes could deplete surface or groundwater sources over time particularly as climate change is expected to reduce water resources, among others.

10. Majority of adverse potential impacts can be prevented, are reversible and can be mitigated with standard operational procedures and good construction management practices. These procedures will be included in the technical manual, and be a standard part of environmental management plans included in bidding documents for contractors.

Environment mitigation measures

11. While no high-risk projects are expected under the program, the screening process will include criteria to exclude certain categories of projects as well as projects that would include high risks and significant negative impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people. Such types of investments will be excluded from the Program. The screening procedure will be done during the sub-project appraisal and will be guided by the NEMA's Environment and Coordination Act (EMCA) and its amendment which will be outlined in the Project Operations Manual (POM). This exercise will be carried out by the counties in coordination with Urban Development Department (UDD) and NEMA.

12. Other than requiring that all project investments under the KUSP be subjected to screening and further environmental analysis after screening, the program has developed a set of principles that will act as measures to minimize project risks at the concept level. Further, the World Bank will undertake post screening audits to ensure that all the selected project meet outlined criteria. The principles that will apply to all investments as a mechanism for mitigating adverse environmental impacts shall include exclusion of projects that are likely to:

- Generate irreversible environmental impacts on affected parties and third parties;
- Impact on natural habitat;
- Impact on physical and cultural resources; and
- Cause serious occupational or health risks.

Main social risks

13. Activities to be supported by the Program are expected to generate socio-economic gains and have an overall positive effect. Some positive social benefits will include but not limited to: creation of employment, improved security, reduction in crime, increased revenues for the County governments through taxes and levies, improved living conditions for the citizens, and improved delivery of social services within the Counties.

14. Given the significant geographic dispersion of the participating counties, different scale of proposed investments, concentration of focus on urban areas, and the cumulative potential physical and economic displacement of persons by the program, the adverse social impacts are likely to be significant. Investments financed by UDGs will exclude high risks Category A projects (projects that have significant negative environmental and social impacts that are sensitive, diverse, or unprecedented).

15. **Willing buyer-willing seller will be the preferred means of land acquisition in all cases. The government's right to acquire land compulsorily will only be used where it is unavoidable.** Where compulsory acquisition is to be employed, evidence must be obtained (as detailed in the POM) that attempts were made to acquire land via the marketplace. Moreover, a compelling reason why alternative land, available in the market, could not be found must be documented. Instances where compulsory acquisition may be unavoidable include, but are not limited to, road rehabilitation, and construction of new roads, water and sewerage systems. Where compulsory acquisition is employed, no more than 10 households in total, both titled and untitled (informal settlers/squatters), may be physically displaced on any one sub-project. Where households are physically displaced, the municipality will provide options to the PAPs guidance provided in the POM. Economic displacement can and will involve the physical relocation of informal vendors. On any given sub-project, no more than 200 informal vendors will be physically relocated. Where informal vendors are physically relocated, they will receive compensation as outlined in the POM. Small parcels of private residential land that do not excessively affect land use may still be subject to compulsory acquisition as they are considered economic displacement.

16. **Land acquisition has the potential to impact land, assets, property, crops, and disrupt shared community facilities such as water points, community roads, and roadside markets.** Land acquisition will be guided by the National Land Commission (NLC) procedures which have been determined through this ESSA to be adequate that meet the requirement of core principle 4 on Land Acquisition. However, ESSA has identified that the implementation of the laid-out procedures for land acquisition are weak at County Urban Departments. Recommendations to bridge these gaps have been proposed in this ESSA.

17. **The ESSA identified fourteen (14) counties defined as 'marginalized areas' (underserved) in Kenya.** These counties collectively represent seventy-two percent (72%) of the country's total land area, and twenty percent (20%) of the country's population. Population densities are low and the lifestyle is predominantly pastoral and low level sedentary farming on the arid and semi-arid lands. These counties are deficient in terms of access to good roads, electricity, potable water and social services due to their remoteness from national infrastructural networks. These counties are in the North Eastern, Rift Valley, and Coast regions of Kenya and/or include specific groups of vulnerable persons that might be impacted or affected by the Program.

18. However, the nature of the proposed activities under KUSP does not suggest that specific vulnerable, marginalized/indigenous groups could be harmed by the Program, given its focus on urban areas. The Program aims to foster integration of vulnerable, indigenous /marginalized groups into the Program design, including consultation during project selection and monitoring, and the development of the appropriate social accountability systems as part of the urban institutions to be established with the support of the Program.

19. **The ESSA has concluded that there is little risk on the Program itself that would be the source of social conflict.** However, some cases of social conflict (such as dispute on the location/selection of the projects, project benefit sharing, labor influx, pre-existing or historical social issues in host communities), may occur during project implementation within communities or Counties. The design of the Program includes measures to minimize social conflict such as the development and/or strengthening of consultation of the vulnerable and marginalized groups and grievance redress mechanisms with the communities and Counties. The POM will include measures to be used by the National Program Coordination Team (NPCT) and the Counties to screen sub-projects on potential conflicts between the communities and counties. The program would not undertake any investments where social conflict is anticipated between or within communities or Counties.

Social mitigation measures

20. **Temporary or permanent land take, and adverse impacts on livelihoods, including those that may occur through restriction of access to natural or physical resources will be excluded from the Program.** To screen out for these exclusions, the Program will rely on existing country legislation and systems and the guidelines in the Program Operation Manual (POM), which will include a rigorous sub-project screening process to be done by the NPCT and the Counties Urban Departments. Post screening assessment will be undertaken by an independent party to ensure that all minimum standards have been met. The principles that will apply to all investments as mechanisms for mitigating adverse social impacts shall be ***exclusion*** of projects that:

- Where compulsory acquisition is employed, more than 10 households in total, both titled and untitled (informal settlers/squatters), physically displaced on any one sub-project.
- On any given sub-project, more than 200 informal vendors physically relocated

- Likely to adversely create or exacerbate conflict within communities or neighboring counties; and
- Have significant impacts on vulnerable and/or marginalized/indigenous groups.

Key Findings

Environmental Issues

21. **The key findings of ESSA on environmental systems are:**

    i. The national government has well developed and robust legislations and systems to manage environmental risks. However, there is weak implementation capacity and the monitoring and enforcement at the County level needs to be strengthened to address potential environmental challenges of the KUSP.

    ii. The County governments are using the national systems, because they have not developed systems or frameworks for the management of environmental risks. The KUSP will utilize the gains from the Kenya Devolution Support Program (KDSP) under World Bank PforR financing which is in the process of developing systems required at the county level to manage environmental and social impacts.

    iii. The Program's existing institutional systems need further strengthening for environmental management along with a framework for environmental monitoring at the UDD level.

    iv. The capacity (human and financial resources) within the Counties and supporting institutions (e.g. NEMA, NCA, DOSHSS) responsible for managing environmental risks needs strengthening and training.

    v. The Counties have no documented procedures and processes in place for the management of the Occupational Health and Safety (OHS). In addition, there is no specific department that is charged with the role of supervision and ensuring compliance within the Counties.

Social Issues

22. **The key findings of ESSA on social systems are:**

    i. The Constitution of Kenya, 2010, has legislations under the Land Act (2012), to manage social risks related to land acquisition. However, the County governments have not sufficiently mainstreamed the land acquisition procedures into the planning and development process. To address the potential of land acquisition challenges under the KUSP, there is need to strengthen Counties and the NLC representatives at the Counties responsible for land acquisition process.

    ii. The Counties have acquired land for their projects, but the system and processes used has been on a willing- buyer willing-seller method. The Counties rely on national systems, because they have not set up systems or frameworks for the management of land acquisition at the county level. The ESSA reveals that the counties are not very conversant with the Government compulsory land acquisition process that involves the National Land Commission; therefore, capacity building on the NLC process will be undertaken under this Program.

iii. The Program's existing institutional systems need further strengthening to manage potential social risks along with a framework for social monitoring at the ministry and NPCT level.

iv. The capacity within the Counties and institutions (County departments) to be responsible for managing social risks at the County levels needs strengthening and training. Existing officers at the county level, such as Gender Officers, will be involved in the management of social risks of the Program.

v. On public consultation and participation, the devolution process under the Kenya Constitution has put in place robust requirements for citizen participation in project and budget development process. Gaps were however established because of the absences of formal and documented citizen feedback and grievance redress mechanisms that allow for transparent, timely and efficient redress process.

vi. The CoK, 2010, Article 56 on the 'Minorities and Marginalized Groups' provides a platform to identify the vulnerable and marginalized groups of people and communities in Kenya, however, most counties' interpretation of this is viewed in the context of poverty and social welfare of these groups; for example, reserving business and employment opportunities to Persons with Disabilities (PWD), the Youth and Women. There is lack of appreciation in ensuring that marginalized and vulnerable groups who lack political representation and economic power are able to participate effectively or access social and economic benefits from the projects carried out by the National and County governments.

vii. There are no formal and documented systems in the management of social conflicts at the national and County systems during implementation of projects, especially to manage conflicts between Counties and labor influx issues. The systems to be used for conflict management under KUSP need to be developed and capacity built for proper implementation.

viii. Management of HIV/AIDs during project implementation stages which include creating awareness, prevention and management are clear at the County levels. The National system requires that HIV/AIDs awareness and prevention components are included in every contract.

Elements to Incorporate into the Program Action and Implementation Plan

23. The environmental and social impacts of activities under the KUSP range from low to significant. The Program provides an opportunity not only to strengthen the weaknesses in the procedures mentioned above to identify and mitigate these effects, but also to strengthen the national UDD system and counties' urban departments systems in three areas: (i) strengthening of environmental and social management systems, (ii) ensuring implementation of good environmental and social management; and (iii) monitoring of environmental and social management.

24. To fill the gaps identified in the ESSA, the PCT will support specific measures to enhance the Urban Development Departments at the national and county levels environmental and social risks management system performance. These measures will be implemented through two main areas, namely the preparation of Operation Manual and capacity building. These measures have been consolidated into the ESSA Action Plan that guides the overall formulation of the Program. Proper implementation of environmental and social procedures as contained in the Program Operation Manual forms an important part of the Program design as it will be one of the performance standards that will be measured through the APA and determine accessibility to future additional Program resources.

25. The implementation of some of these measures will be enhanced by their integration into the overall Program Action Plan and legally incorporated into the financing agreement of the Program. These action plans for the Program are grouped into three areas:

i. actions to strengthen the environmental and social management systems;

ii. actions to strengthen the implementation and monitoring of the environmental and social management systems; and

iii. actions to build capacity to enhance environmental and social management performance.

Strengthening of environmental and social management systems

26. The recommended actions under this theme are:

i. Develop Program Operation Manual (POM) incorporating environmental and social management procedures before launching of the Program.

ii. Develop guidelines to manage social conflicts related to labor influx to be incorporated into the POM;

iii. Assistance to develop policy and guidelines of management systems for managing E&S risks in the urban context for the Counties – including Solid Waste Management;

iv. Establish coordination mechanisms with other institutions/entities/departments;

v. Establishment of a Grievance Redress Mechanism;

vi. Coordination of efforts of the actions under the KUSP with the Kenya Devolution Support Program (KDSP) project's ESMS action plan and strategies

Strengthening of implementation and monitoring of the environmental and social management system

27. The recommended actions under this theme are:

i. Incorporation of environmental and social management implementation and monitoring procedures documented in the Program Operation Manual by implementing units/agencies

- Reporting

- GRM monitoring
- Contractors performance against E&S issues

ii. Develop procedures for assessing performance measures of the program on environment and social management.

Strengthening of environmental and social management capacities

28. The recommended actions under this theme are:

i. Staff assigned to environmental and social management at UDD and at Urban departments at the County levels;

ii. Training in environmental and social management in the areas of: sub-project screening and identification and management of environmental and social impacts, including criteria for involuntary resettlement and land acquisition, and matters related to livelihoods and vulnerable and marginalized groups; monitoring (including audit) for technical staff at the NPCT and County officials

Conclusion

29. The system for environmental and social management under KUSP will be largely based on the existing legal, regulatory and institutional system for environmental and social assessment and management in Kenya, drawing on experience with implementation of safeguards instruments in other infrastructure projects.

30. Overall, the ESSA shows that the country's Environmental and Social systems are adequate for the Program, provided that the identified actions to address the gaps and enhance performance are conducted prior to and throughout the implementation of the Program. In particular, the County systems need to be strengthened to ensure proper management of environmental and social risks of the program.

31. However, although this is not part of the Program focus, and cannot be covered under the KUSP, the ESSA notes the Environmental and Social Management units at National and County levels are ***not*** adequately supported through budgetary allocations and provision of necessary facilities, equipment and supplies, and adequate and skilled human resources.

Annex 7: Systematic Operations Risk Rating (SORT)

Systematic Operations Risk-Rating Tool (SORT)	
Risk Category	**Rating (H, S, M, L)**
1. Political and Governance	S
2. Macroeconomic	L
3. Sector Strategies and Policies	S
4. Technical Design of Project or Program	S
5. Institutional Capacity for Implementation and Sustainability	S
6. Fiduciary	H
7. Environment and Social	S
8. Stakeholders	M
9. Other	
OVERALL	**S**

Rating: H=High; S=Substantial; M=Moderate; L=Low

Annex 8: Program Action Plan

Issue/Risk Description	Action/Completion	Timeframe	Responsible Party	Instrument
Technical				
Untested and unfamiliar institutional framework for urban management	Close monitoring of Program implementation	Continuous	SDHUD County governments	
	Orientation of national and county government leadership and senior staff Training of county staff	Year 1+ and continuous	SDHUD	
	Review of UAC Act implementation and identification of bottlenecks, insufficiencies.	Year 3	SDHUD	
Changes in political leadership (resulting from elections)	Orientation of national and county government leadership and senior staff	Year 1+	SDHUD	
UDD staffing profiles and capacities are not fully aligned with UDD/KUSP functions	Recruit/contract FM and urban finance specialists	Year 1+ and continuous	SDHUD	POM
	Support for basic urban services (e.g. solid waste management): recruit/contract specialists	Year 1+ and continuous	SDHUD	POM
	Training of UDD and program staff		SDHUD	
Weak national/county coordination and communications mechanisms	Designate county government focal points in UDD	Year 1+ and continuous	SDHUD	POM
	Establish a county implementation team and clarify the roles and responsibilities for coordination/communication	Year 1+ and continuous	County governments	POM
	Develop and implement UDD/KenUP communications and disclosure strategy	Year 1+ and continuous	SDHUD	POM
	Establish and operate UDD (KenUP) website	Year 1+ and continuous	SDHUD	
	Organize Annual Program Reviews (APRs)	Year 1+ and continuous	SDHUD	POM
Environmental & social				
Weak and poorly coordinated environmental and social management systems (especially at sub-national levels)	KUSP POM to include: • full description of environmental and social management processes and procedures for urban investment projects (screening, appraisal, assessments, mitigation measures) • guidelines for management of social conflicts related to labor influxes	On-going	SDHUD	POM (dated covenant)
	UDD guidance notes, guidelines and technical standards on urban infrastructure and urban services to include environmental and social management issues	Continuous	SDHUD	Window 1 actions
	Within-county coordination mechanisms for environmental and social management (6-monthly meetings led by CEC Environment and CEC Urban)	Continuous	County governments	
Inadequate implementation of	Include in UDG MC/PS system	Continuous	SDHUD	MCs/PSs and APA

Issue/Risk Description	Action/Completion	Timeframe	Responsible Party	Instrument
environmental and social management system	• Incentives for inclusion of ESSM processes/procedures in investment project preparations (UDG MC7 on investment project preparation) • Incentives for application of ESSM processes/procedures in implementation of urban investments (UDG PS7 on completed investment projects)			process DLIs 2 and 3
	County and municipal reporting requirements to include reporting on ESSM issues	On-going	SDHUD	POM
Insufficient staffing, knowledge and skills for managing environmental and social issues	Staff assigned to coordinate environmental and social management in UDD	On-going (POM) By effectiveness (recruitment or second-ment)	SDHUD	POM (program management and ESSM sections and ToRs)
	Staff assigned to environmental and social management in Counties • Role and responsibilities of safeguards specialists defined • Environmental and social safeguards specialist assigned to CEC Urban	On-going (POM) By effectiveness (recruitment or second-ment)	SDHUD (for POM) County governments	POM (ESSM section and ToRs) Covenant
	Training in environmental and social management issues for technical staff at the national, county and municipal levels	Continuous	SDHUD KSG and NEMA	Window 1 activities
Lack of grievance redress mechanisms	Establishment of a Grievance Redress Mechanism <u>Needs to be part of **overall** GRM</u> (including anti-corruption, fraud, procurement)	Continuous	SDHUD	POM
Lack of Program coordination	Coordination of efforts of the actions under the KUSP program with the Kenya Devolution Support Program (KDSP) project's ESMS action plan and strategies	Continuous	SDHUD and World Bank	
Fiduciary				
Weaknesses in planning and budgeting	Define budget codes in IFMIS and capture grants in CARA, DORA and Ministry/county budgets Detailed breakdown of budget codes and IFMIS codes to be identified	2 months after effectiveness	National Treasury	Dated covenant
	Create votes in county budgets for municipalities (urban areas)		National Treasury and County	UDG MCs

Issue/Risk Description	Action/Completion	Timeframe	Responsible Party	Instrument
			treasuries	
Weak FM, accounting and internal audit capacity at national and county levels	Designate program accountants and finance officers Training on use of IFMIS Capacity building training	Continuously	National Treasury and county treasuries SDHUD	Dated covenant
Poor quality financial statements and risk of noncompliance with IPSAS	Preparation of Program-specific audited financial statements. Capacity building on financial statements preparation	Continuously	National Treasury and county treasuries SDHUD	Financial covenant
Delays in releasing/ insufficient government funds	Prompt transfer of funds to county governments as per approved budget. County governments to promptly transfer the money to the special purpose bank account. Commitment to commit adequate funds/service standards	Annually	National Treasury and county treasuries SDHUD	Dated covenant
Procurement				
Weak procurement capacity at national and county levels	Ensure adequate staffing levels at national level Procurement training activities Develop templates for infrastructure and for key ToRs Limit number of UDG procurement packages	By effectiveness (recruitment or second-ment) Continuous Continuous Ongoing	SDHUD SDHUD and County Governments SDHUD SDHUD	 POM
Low level of compliance with procurement procedures and regulations, delays in procurement	Clarification of procurement-related roles, responsibilities and processes	Ongoing	SDHUD	POM
	Provide incentives (MCs and PSs) for counties to comply with procurement and contract management procedures and to meet deadlines	Ongoing	SDHUD	MCs/PSs and APA process DLIs 2 and 3
Fraud, corruption and complaints reporting				
KDSP includes a series of measures aimed to strengthen F&C systems at the county level. These are considered to be comprehensive and of direct relevance to KUSP. KUSP				

Issue/Risk Description	Action/Completion	Timeframe	Responsible Party	Instrument
F&C actions will therefore be limited to sector-specific areas at the national-level.				
High incidence of F&C and delays in responding to complaints	Establishment of a fully operational complaints handling system at national level	Within 6 months of effectiveness	SDHUD	Covenant
Weak internal risk assessment of factors leading to F&C	Updating of risk registers	Continuously	SDHUD	POM
	Reporting on recommendations made to mitigate against risks identified in the risk registers	Annually	SDHUD	POM

Annex 9: Window 1 – Project Appraisal

Institutional and Implementation Arrangements

1. **The SDHUD in the MTIHUD will be responsible for overall coordination and implementation of the operation**. This entails: (a) providing technical leadership and coordination in the planning and implementation of activities; (b) mobilizing and availing technical backstopping and other capacity building support to county governments and the urban boards to facilitate implementation; (c) conducting the APAs as agreed; (d) mobilizing technical and financial resources for implementation of KenUP; (e) ensuring that Program funds are channelled to the county governments and urban boards on a timely basis; (f) monitoring and evaluation; and (g) preparing progress reports on KUSP implementation activities and results in accordance with the outline and timing agreed with the World Bank.

2. **Within the SDHUD, the UDD will be more directly responsible for performing the roles and functions presented above**. The UDD has been Kenya's focal agency for urban planning and management for many years. It has been the implementing agency for Bank and other development partners' funded urban development projects through decades. On the whole, UDD has the technical capacity to discharge its roles and functions, as evidenced by its performance in the implementation of the KMP, and the range and numbers of skilled personnel in its establishment.

3. **A National Program Coordination Team will be established within UDD**. It will include both UDD staff and experts with consulting contracts. Staff of the NPCT will (a) procure and manage the consultants undertaking the APAs; (b) facilitate grant disbursements, (c) budget and account for KUSP funds; (d) manage social/environmental safeguard issues; (e) monitor and report on implementation progress and results; (f) coordinate activities; (g) backstop county governments and the urban boards in urban planning, design and implementation of infrastructure projects, procurement and contracts management; and (h) generally support design and implementation of change management and capacity building interventions. The NPCT will consist of: (a) a Program coordinator, two planners, an engineer, an institutional capacity building specialist, a monitoring and evaluation specialist, a financial management specialist, a procurement specialist, a public finance advisor, a social safeguards specialist, and social and environment safeguards specialists. The UDD will seek to fill these positions from within the ministry. If it cannot, it is expected to fill the positions with consultants. As far as practical, these experts as well as the support staff will be recruited from within the public service. Still, it will be important that the unit's experts have comparatively superior knowledge and experiences of good practices in the areas of their specialization.

4. **In addition, the Project may also provide modest support to the CoG**. This would enhance the NPCT's flexibility in the coordination and implementation of the Operation and would ensure adequate liaison between the national government and the county levels on matters of urban development. The precise form of such Project support for the CoG will be decided upon by the PSC in consultation with the PTC. The amount allocated for this from the Project will not exceed one percent of the total window 1 budget.

Financial Management

5. **Disbursements and fund flow**. Window 1 activities (being IPF) will be financed by IDA funds. The funds will be deposited onto project-specific dollar-denominated Designated Account (DA) opened by the National Treasury in the CBK and thereafter transferred to local currency project account (PA) in SDHUD from which all eligible project expenditures will be made. Being an IPF, IDA funds will be directly tracked to the inputs. The MTIHUD will adopt statement of expenditures (SOE) method of disbursement. In line with the World Bank disbursement Guidelines, the implementing agency may use any of the following methods: (1) advances; (2) special commitments; (3) reimbursement; and (4) direct payments method. Unlike the PforR, funds under this component, that are deemed to have been used on activities not eligible for financing under the project would be declared ineligible and the Borrower would be required to refund these funds to the World Bank.

6. **Accounting and reporting arrangements**. The SDHUD will designate a qualified accountant to support the Program. For window 1, the NPCT in MTIHUD which is currently managing the KMP project has a qualified accountant and adequate FM capacity, and will be responsible for undertaking the accounting activities of the IPF. The current FM procedures manual for the KMP is deemed to be sufficient for the IPF, but will be updated to take into account specific KUSP requirements. The NPCT will prepare and submit to the World Bank quarterly unaudited IFR within 45 days after the end of the quarter in form and content satisfactory to the World Bank.

7. **Internal control:** On internal controls, the SDHUD will develop PFM procedures and guidelines for window 1 which is IPF. These will be included in the FM procedures manual.

8. **Audit:** On auditing, the NPCT will prepare and submit to the World Bank annual audited program-specific financial statement and management letter within six months after the end of the financial year to which they relate. The Operation's audited financial statements will be publicly disclosed in line with the World Bank's Access to Information Policy and the government Public Audit Act. The audit will be conducted by the OAG on the basis of audit terms of reference cleared by the World Bank. Separate audited financial statements will be prepared for window 1 being an IPF. The format of the financial statements will be on the basis of the IPSAS format issued by the PSASB for donor projects. The Project will include a budget for audit under window 1 to support the annual audit by OAG if required.

Procurement

9. **Applicable Procurement Procedures:** Procurement under window 1 of the proposed program will be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits by World Bank Borrowers" dated January 2011, revised July 2014, and "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits by World Bank Borrowers" dated January 2011, revised July 2014 and the provisions stipulated in the Financing Agreement. The initial procurement plan outlined below specifies the procurement of goods and non-consulting services, and selection methods and procedures, estimated costs and prior review requirements. It will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional

capacity. The Plan will be incorporated into the World Bank's procurement implementation tracking system (STEP) for monitoring purposes.

10. **Procurement of goods and non-consulting services**. Contractors, suppliers and service providers will be selected through International Competitive Bidding, Limited International Bidding, National Competitive Bidding, Shopping Framework Agreements and Direct contracting procedures. The thresholds for these procurement methods will be agreed during preparation of the annual Procurement Plan and will be incorporated in the agreed Procurement Plan.

11. **For the procurement of goods and non-consulting services** through the National Competitive Bidding procedure, the following exceptions will be taken into account:

- Tender submission date shall be set so as to allow a period of at least 30 days from the later of (A) the date of advertisement, and (B) the date of availability of the tender documents.
- Government-owned enterprises shall be allowed to participate in the tendering only if they can establish that they are legally and financially autonomous, operate under commercial law, and are an independent agency of the Recipient's government.
- Bidding documents and tender documents shall contain, inter alia, draft contracts and conditions of contracts, including provisions on fraud and corruption, audit and publication of award and shall be in form and substance satisfactory to the Association.
- Tender evaluation shall be based on quantifiable criteria expressed in monetary terms as defined in the tender documents. It shall not be based on merit points system.
- No domestic preference shall be used in the evaluation of tenders. Instead, contracts shall be awarded to qualified tenderers who have submitted the lowest evaluated substantially responsive tender.
- Notification of contract award shall constitute formation of the contract. No negotiations shall be carried out prior to contract award.

12. **Selection of consulting services**. Consulting firms will be selected through Quality and Cost-Based Selection (QCBS), Quality Based Selection (QBS), Selection Based on Consultants Qualification (CQS), Least-Cost Selection (LCS), Fixed Budget Selection (FBS), Single-Source Selection and Individual Consultants (IC). Short lists of consultants for services estimated to cost less than an amount to be agreed and incorporated in the annual Procurement Plan may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Guidelines. All contracts estimated to cost more an amount to be specified in the annual Procurement Plan will be subject to prior review by the World Bank. The World Bank's Standard Request for Proposal and Evaluation Reports will be used for all consulting contracts. Procurement thresholds for works, goods, non-consulting services and consultancy services are as follows:

Goods, Consultant, and Non-Consulting Services

a) **Prior Review Threshold**: Procurement Decisions subject to Prior Review by the World Bank as stated in Appendix 1 to the Guidelines for Procurement*:*

	Type of Procurement	Prior Review Threshold US$ Millions
1.	(Goods; Information Technology and Non-Consulting Services)	2.0
2.	Consultant Services (Firms)	1.0
3.	Consultant Services (Individual Consultants)	0.3

b) Prequalification. NA

c) Proposed Procedures for CDD Components (as per paragraph. 3.17 of the Guidelines: NA

d) Reference to (if any) Project Operational/Procurement Manual: Available in Project files

e) Any other special procurement arrangements: NA

f) Short list comprising entirely of national consultants: Short list of consultants for services, estimated to cost less than US$300,000 equivalent per contract, may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

g) All terms of reference for the procurement of consultants services irrespective of the estimated cost of the assignment shall be reviewed and cleared by the TTL

h) Operating expenditures are neither subject to the Procurement and Consultant Guidelines nor prior or post reviews. Operating expenditures are normally verified by TTLs and FM specialists and obtained using the Borrower's national procurement and administrative procedures.

i) Renewal or extension of individual consultant's contracts hired for technical assistance and which are intended for a long-term period but signed for an initial period shorter than the duration of the project, and that have been prior reviewed, do not require procurement clearance if there is no substantial change in the terms and conditions of the contract.

13. **Procurement plan (PP).** An initial Procurement Plan, dated June 21, 2017 for window 1, acceptable to the World Bank, has been prepared by the NPCT, and is summarized below in Table 9.1. The Procurement Plans will be updated annually (or as needed) by the NPCT to: (a) reflect project implementation; (b) accommodate changes that needs to be made; and (c) add new packages necessary for the project. Each update will be subject to Bank prior review. Procurement Plans will be published in the World Bank website.

Table 9.1: Procurement plan for first 18 months

Con-tract No.	Description	Estimated cost (US$)	Procure-ment method	Review by Bank	Date of expected proposal submission
1	In the light of the PPF09 consultancy (initial work on identifying municipal boundaries, concerning demarcation principles), a consultancy to carry those principles into a program of engagement with counties, to support them to lead their internal work to arrive at locally agreed municipal boundaries.	4,800,000	QCBS	Prior	30-Oct-17
2	Review and disseminate urban planning legislation and regulations	450,000	QCBS	Post	30-Oct-17
3	Review and disseminate development control policy and legislation	450,000	QCBS	Post	30-Oct-17
4	CTAT	750,000	QCBS	Prior	30-Oct-17
5	Define urban engineering standards, prepare supporting guidelines and disseminate: for roads, storm water drainage and street lights	2,100,000	QCBS	Prior	30-Oct-17
6	Create a policy framework and action plan for urban resilience	350,000	QCBS	Post	30-Oct-17
7	Create a policy framework and action plan for soft-side solid waste management (SWM)	350,000	QCBS	Post	30-Oct-17
8	Provide guidance on procurement (e.g. tender documents, procedures) and contract management tailored to urban infrastructure	120,000	ICS	Post	31-Jul-17
9	Provide guidance on urban infrastructure operations and maintenance issues (including cost recovery and user charges)	120,000	ICS	Post	31-Jul-17
10	Provide guidance on environmental and social management tailored to urban infrastructure	120,000	ICS	Post	31-Jul-17
11	Prepare guidelines and templates for municipal budgets and budget votes	120,000	ICS	Post	31-Jul-17
12	Prepare guidelines for municipal accounting and financial reporting	120,000	ICS	Post	31-Jul-17
13	Develop UDD communications and disclosure (for example, website, dialogue with counties, publication and dissemination of KUSP guidelines and manuals…)	120,000	ICS	Post	31-Jul-17
	Total	**9,970,000**			

Environment and Social

14. **Window 1 does not entail any infrastructure investments.** The activites under this window entail supporting activities related to improving and strenthgening the capacity of implementing agencies (at the county and national levels) to ensure compliance with national environmental and social requirements and to ensure that social and environmental guidance in the POM are followed.

Annex 10: Implementation Support Plan

1. The Implementation Support Plan is based on the implementation support guidelines for Program for Results operations, adapted to the design and risk profile of the KUSP. The Government of Kenya is responsible for the Program's overall implementation, including its technical aspects. The World Bank will commit significant resources to support program implementation to enable: (a) regular review of implementation progress, including that of the PAP, achievement of DLIs and Program results for institutional development and capacity building; (b) provide support on resolving emerging Program implementation issues and on building institutional capacity; (c) monitor the adequacy of systems, performance and compliance with legal agreements; and (d) support the government in monitoring and managing program risks.

2. The SORT shows that the overall risk rating for the program is substantial. The Program design and the measures in the PAP will help minimize the challenges and risks during implementation. However, successful implementation of KUSP will require close collaboration and coordination between UDD, other line agencies and the beneficiary County Governments. The role of the NPCT to regularly liaise with the secretariat of the CoG and other line agencies will be extremely critical to ensure program success by providing timely backstopping to county governments. For the program to work urban boards will have to be established and strengthened and this all process will be gradual with setbacks, especially in the initial years of the operation. Intensive training and capacity support from UDD will be important to nurture these nascent urban institutions, whose roles will vary from county to county. During preparation, UDD has utilized a program preparation advance to develop and rollout key training on overall operation through workshops, development of a user friendly program operation manual, dissemination of relevant guiding manuals, and responding to specific county demands for technical support.

3. The World Bank will complement the efforts by UDD with regular implementation support missions, technical assistance activities at the national and county level, facilitating close synergies during implementation with the KDSP program and coordination with other development partners on Kenya's overall urban program. The World Bank team will also closely work with other task teams in the World Bank on areas to improve integration and synergies in implementation of projects and programs. The World Bank team will also closely work with the ministry leadership to ensure that the NPCT is staffed with full-time staff covering the key areas of the operation. Corrective measures will be implemented at midterm to address emerging issues that the operation may have not addressed during preparation.

4. A key activity that will require UDD's total commitment and collaboration with the counties is the overall management of the APA process. The procurement of the APA firm needs utmost attention, since the overall program design and incentive structure rests on the integrity of managing the process. The World Bank will deploy a consultant who will review the quality of the APA results, including the achievement of program results and the verification process.

5. **Strategy and approach to implementation support.** KUSP includes a number of measures aimed at ensuring implementation proceeds as expected:

- First, the World Bank will maintain a sizeable KUSP core team in the country office in order to facilitate overall implementation and timely communication with the client, and various stakeholders involved in the implementation phase;
- Second, the World Bank will conduct routine implementation supervision missions and additional technical assistance. The missions will be carried out jointly with development partners and will include the World Bank's financial management, safeguards specialists, procurement staff and other specialists as required. A number of technical and fiduciary specialists are based in the region/country office and this will allow timely follow-up on specific issues and/or areas of concern if needed;
- Third, the World Bank will focus on strengthening the Program's systems and institutional activities necessary to achieve the DLIs. The first implementation support mission will take place after the Operation becomes effectiveness to provide direct and timely feedback on quality of implementation to UDD, CoG and counties.
- The task team will work closely with the National Treasury and UDD on inclusion of the UIG and UDGs in the National Budget and in the CARA and DORA. Ensuring that the program resources reach the urban areas will require that counties capture the UIG and UDGs in their county budgets. The task team will also work closely with the CoG, County Governments and county assembles to ensure the grants are used for the intended purposes. As part of regular program reporting arrangements, UDD will put in place a monitoring mechanism that allows for timely feedback on program implementation.

Table 10.1: Main focus of implementation support

Time	*Focus*	*Skills Needed*	*Resource Estimate*	*Partner Role*
First twelve months	Implementing the PAP; strengthening the NPCT. Communication and coordination with other line agencies, counties and CoG. Work with counties to establish and strengthen the urban boards. Establishing arrangements for independent verification of compliance with the DLIs; Enhancing he county and national planning and budgetary processes	Urban specialists, planners, engineers, legal, financial management, procurement, social, environment, institutional/capacity building, M&E, implementation support/change agents.	Two implementation support missions 2x10 people 2 weeks =40 weeks Total 40 weeks over 12 months	Joint missions with UDD, CoG and other development partners.
12-48 months	Reviewing implementation progress, Monitoring compliance with legal covenants; Monitoring operational performance	Urban Specialists, Planners, engineers, legal, financial Management, procurement, social, Environment, institutional/capacity building, M&E, implementation support/change agents.	2 implementation support missions per year including midterm review 2x3years 10 people x2 weeks=120 weeks. Total 12-weeks over 36 months	Joint missions with UDD, CoG and other development partners
Other				

Table 10.2: Task team skills mix requirements for implementation support

Skills Needed	*Number of Staff Weeks*	*Number of Trips*	*Comments*
Urban planning	18	9 and field trips as required	A mix of county office and DC based staff as well as consultants.
Engineering	10	9 and field trips as required	
Procurement	10	9 and field trips as required	
Financial management	10	9 and field trips as required	
Social systems	10	9 and field trips as required	
Environmental Systems	10	9 and field trips as required	
Legal	10	4 and field trips as required	
Capacity Building	10	9 and field trips as required	
Local finance and institutions	10	9 and field trips as required	
Implementation support	18	9 and field trips as required	

Role of Partners in Program Implementation

6. Development partners currently active in the area of urban development include, among others, the United Kingdom’s Department for International Development, the French Development Agency, the Swedish International Development Cooperation Agency, the Japan International Cooperation Agency, and UN-Habitat. Although no development partners have formally committed to providing specific support to KenUP, the government intends to integrate any such support into its wider program or ensure that it is fully aligned with program objectives and implementation modalities.