



Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 28-May-2019 | Report No: PIDC26643



BASIC INFORMATION

A. Basic Project Data

Country Rwanda	Project ID P165017	Parent Project ID (if any)	Project Name Rwanda Urban Development Project II (P165017)
Region AFRICA	Estimated Appraisal Date Nov 04, 2019	Estimated Board Date Feb 27, 2020	Practice Area (Lead) Social, Urban, Rural and Resilience Global Practice
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance and Economic Planning (MINECOFIN)	Implementing Agency Ministry of Infrastructure (MININFRA), Local Administrative Entities Development Agency (LODA), Rwanda Environmental Management Authority (REMA)	GEF Focal Area Multi-focal area

Proposed Development Objective(s)

To strengthen urban management and improve access to sustainable infrastructure and services in the City of Kigali and the six secondary cities of Rwanda

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	106.40
Total Financing	106.40
of which IBRD/IDA	90.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	90.00
IDA Credit	90.00



Non-World Bank Group Financing

Trust Funds	9.60
Global Environment Facility (GEF)	9.00
Least Developed Countries TF for Climate Change Activities	0.60
Other Sources	6.80
Nordic Development Fund (NDF)	6.80

Environmental and Social Risk Classification
Substantial

Concept Review Decision
Track I-The review did authorize the preparation to continue

A. Introduction and Context

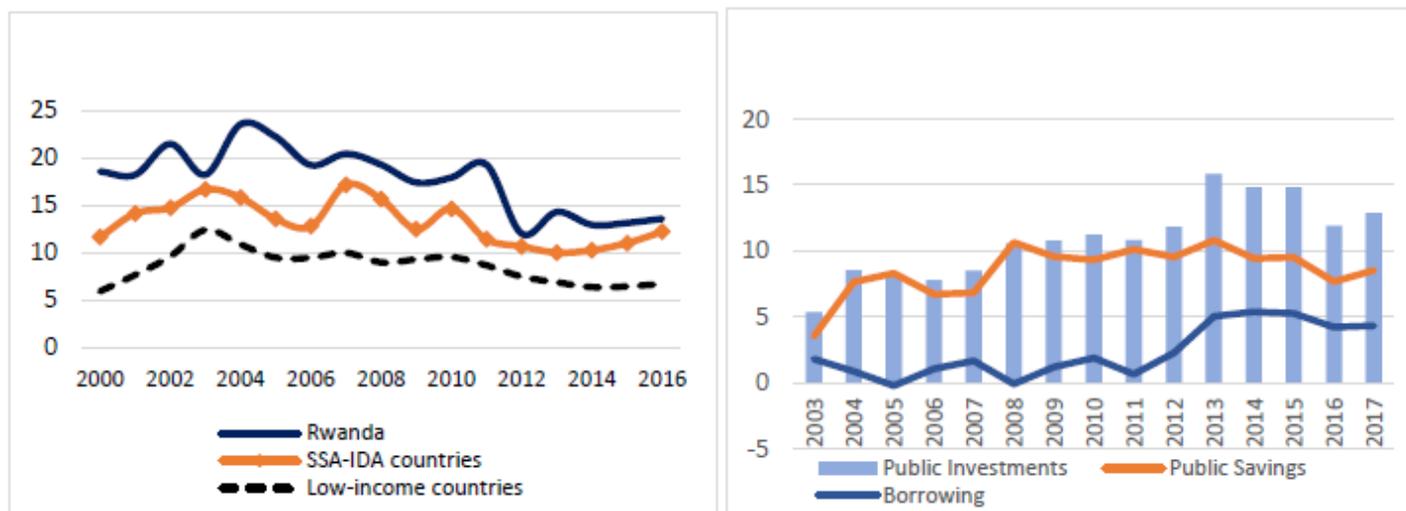
Country Context

1. **Rwanda has risen from the tragedy of the 1994 Genocide through visionary leadership and a focus on institution and nation building in the 1990s and 2000s.** Since 1994, the Government has prioritized modernizing the country’s infrastructure, delivering critical social services to its population and building up its human capital. Combined with a zero-tolerance approach to corruption, this has helped create an environment conducive to the mobilization of external assistance, with ODA inflows averaging 1.2 percent of GDP annually (Figure 1 (a)). These efforts have yielded positive results with per capita income in the country rising three-and-a-half fold since the Genocide, averaging 5 percent per year since 2006. Rwanda is now ahead of 20 countries in Sub Saharan Africa in terms of its per capita GDP.¹

2. **Sustained economic growth in Rwanda can be attributed to robust performance across a number of key sectors as well as consistent increases in public investments since the 2000s.** Major economic sectors such as industry (propelled by construction and mining) and services (driven by ICT, and trade and transport) have grown at an annual rate of 9-10 percent since 2006, and agriculture at a respectable 5.4 percent. Public investments increased from 5 percent of GDP in early 2000s to an average of 15 percent in recent years, driving the increase in overall investment to GDP ratio from 12 to 25 percent (Figure 1 (b)).

Figure 1. (a) ODA inflows relative to GDP; (b) Public investments and sources of financing, 2003-17, percent of GDP

¹ Rwanda Systematic Country Diagnostic (SCD), Draft Concept Note, March 21, 2019.



Source: Rwanda SCD

3. **Urbanization has been one of the country’s key development strategies and has contributed significantly to economic growth and structural change in Rwanda through the reallocation of labor to off farm employment.** The Government has identified urbanization and off-farm job creation as critical for achieving its vision of becoming a middle-income country by 2020. Indeed, in the 2000s, structural transformation or the movement of labor out of low-productivity agriculture to industry and services, and from farms to cities, has accompanied Rwanda’s growth. Urbanization has accounted for 37 percent of national structural change (GDP growth through labor reallocation across sectors), and urban areas have accounted for 48 percent of national labor productivity growth over the past 15 years in Rwanda.² An analysis using a broad estimate of the urban-rural productivity gap (calculated from wage comparison for similarly educated workers in rural and urban areas)³ also shows that urban workers in Rwanda earn, on average, twice the rural wage for similar work in similar sectors of employment.

4. **Strong growth has driven significant poverty reduction, although poverty levels have remained unchanged since 2014.** Poverty declined from 77.2 to 55.5 percent of the population between 2001 and 2017 (based on the international poverty line of USD 1.9 per day) with an improvement in social indicators. Poverty has also become less severe over the past two decades with the distance between poor households’ consumption from the poverty line declining. Since 2014, however, the rate of poverty reduction has decreased due to the impacts of the 2016 drought, coupled with a slow down in structural transition. Unusually high food prices following the drought resulted in households significantly reducing their food consumption.⁴ The combination of low farm productivity and a high concentration of the population in rural areas has also contributed to the low elasticity of poverty reduction in recent years.⁵

² Diao, Randriamamonjy, and Thurlow, 2017.

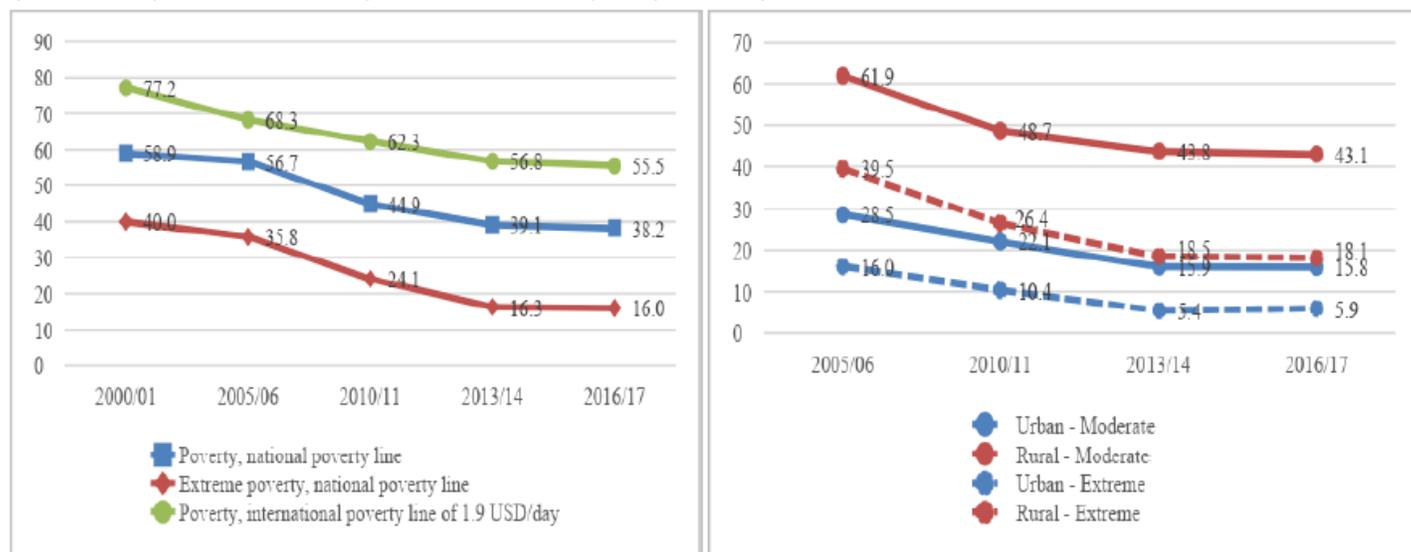
³ The contribution of urbanization to growth depends on the productivity gap between similar sectors in rural and urban areas, which occurs because (a) urban workers are generally better educated and higher skilled and (b) capital-labor ratios tend to be higher in urban sectors where capital investments are more likely to be concentrated.

⁴ World Bank and National Institute of Statistics Rwanda (NISR) household surveys. The impact of the heavy rainfalls in early 2018 is yet to be seen as it is not included in the latest household survey released in late 2018.

⁵ Rwanda Systematic Country Diagnostic (SCD), Draft Concept Note, March 21, 2019.



Figure 2. Poverty trends in Rwanda (left) and Rural vs. Urban poverty trends (right)



Source: NISR (2015, 2018)

5. **As evidenced by the 2016 drought, Rwanda is vulnerable to the impacts of climate change and efforts to improve adaptive capacity against climate risks and hazards are needed in order to sustain its growth trajectory.** Since 1970, Rwanda’s average temperature has increased by 1.4°C and under some scenarios is projected to increase by 2°C by the 2030s.⁶ Analysis of rainfall trends shows an increasing occurrence of extreme weather events over time with rainy seasons becoming shorter and more intense. This greatly increases both flood hazards and erosion risks in mountainous parts of the country. Seasonal droughts are recurring and expected to be prolonged going forward. Droughts result in sharp reductions in food consumption and can lead to famine, loss of animals, depletion of water resources and disease outbreaks. Rwanda’s exposure to weather risks not only undermines its growth prospects but also slows down poverty reduction as a result of inflation and reduced food consumption among the poor.

6. **Going forward, Rwanda faces the challenge of sustaining historically high growth rates and ensuring it is coupled with poverty reduction and increases in shared prosperity.** While Rwanda’s medium term macroeconomic outlook is favorable, with GDP growth projected at the rate of 7 to 8 percent per annum, sustained by improved agriculture; strong exports, both traditional and nontraditional; and large infrastructure projects, such as the current construction of the new airport.⁷ There are, however, several constraints to achieving these twin goals which include slow rural to urban transition and agglomeration, uncertainty in the global economy, minimal involvement of the private sector, a need to strengthen State efficiency and accountability to its citizens and climate change risks.

Sectoral and Institutional Context

7. **Rwanda’s urban population has been growing since 2002 with 18.4 percent of the population now living in urban areas in 2018 (EICV5).** The urban population almost doubled from 1.49 million to 3.46 million between 2002 and 2015.⁸ Kigali is the largest urban agglomeration (860,000 people in 2012) and is home to a major share of Rwanda’s urban

⁶ Rwanda Strategic Program for Climate Resilience. 2017. <http://www.fonerwa.org/sites/default/files/SPCR.pdg>

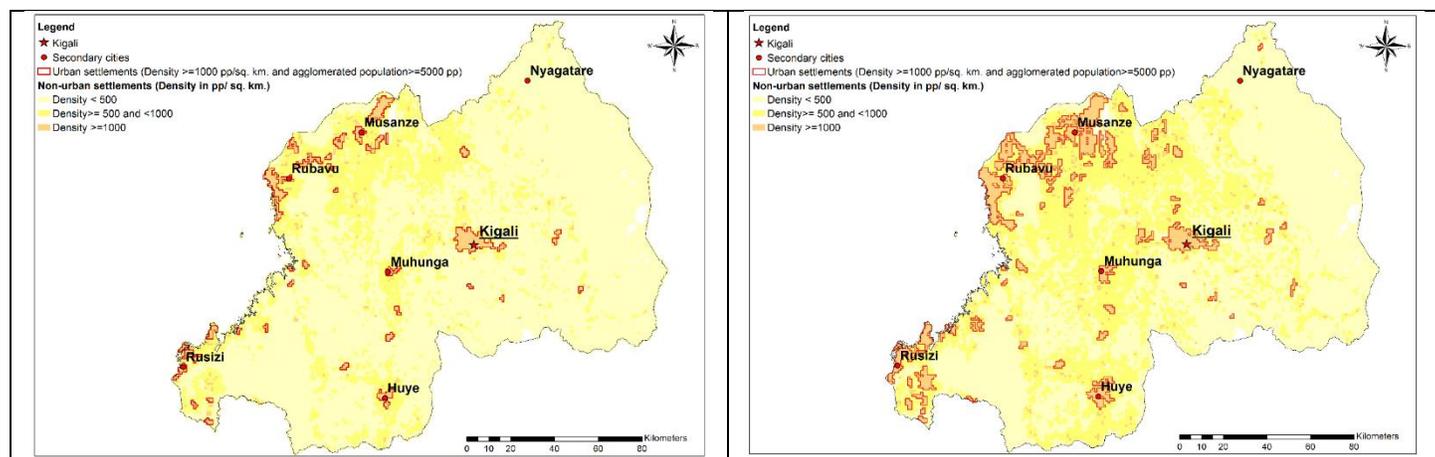
⁷ Rwanda Economic Update 13th Edition, Draft, November 2018.

⁸ This is calculated by applying a simple definition of an urban area –a minimum population of 5,000 and a population density of greater than 1,000– to a population map gridded by 1km² cells to identify urban settlements (World Bank 2017). Between the 2002 and 2012 censuses, the definition of urban areas changed, making it difficult to compare the two census figures directly and evaluate urban population trends.



population. With population growth of 6.4 percent per year from 2002 to 2012, Kigali is one of the fastest-growing cities in Africa and the most favored destination for rural migrants.⁹ Half of the urban population outside Kigali is found along two urban corridors: the Musanze-Nyabihu-Rubavu corridor (one-third) and the Muhanga-Huye corridor including Nyanza and Ruhango districts (18 percent). Much of Rwanda’s remaining urban population is spread between the roads connecting Kigali to Bugesera, Kayonza, the Burundian border, and the more isolated settlements of Nyagatare and Rusizi.¹⁰ The evolution of urban settlements and emerging urban corridors are evidenced in Figure 3.

Figure 3. Evolution of urban settlements between 2002 (left) and 2015 (right), using WorldPop datasets¹¹



Source: Reshaping urbanization in Rwanda, Synthesis Note, World Bank, 2017.

8. **Rwanda’s urban system has been shaped within the context of an emerging policy framework that has developed since the early 2000s.** In 2000, Rwanda Vision 2020 acknowledged the need to develop urban infrastructure in view of a targeted increase in urban population from 12 percent in the year 2000 to 30 percent by 2020. This was subsequently revised up to 35 percent in the 2012 version of Vision 2020. The Economic Development and Poverty Reduction Strategy (EDPRS) 2 set out development strategy from 2013-2018, treating urbanization as a ‘standalone sector’ and one of the five priorities for economic transformation. EDPRS 2 specifies that “Six Secondary Cities will be developed as poles of growth and centers of non-agricultural economic activities. This will require investment in specific hard and soft infrastructure and strategic economic projects that will trigger growth of these cities and enhance linkages to other towns

⁹ In 2014, 57 percent of Kigali’s population had migrated to Kigali at some point in their lives, and 14 percent had migrated from rural areas in the past three years (World Bank 2017).

¹⁰ Diao, Randriamamonjy, and Thurlow, 2017.

¹¹ The 2015 WorldPop datasets for Rwanda was used as the population map.

<http://www.worldpop.org.uk/data/summary/?doi=10.5258/SOTON/WP00223>



and rural areas.” (EDPRS2 p. xi). The six selected cities are Huye, Muhanga, Musanze, Nyagatare, Rubavu and Rusizi. The National Strategy for Transformation (NST) 1, which succeeds EDPRS 2 as the 7-year Government Program (2017-2014) continues to support sustainable urbanization as one of the priorities (Priority 2 under the Economic Transformation Pillar) and proposes development of flagship projects and implementation of masterplans in secondary cities and promotion/development of local construction materials, among others.

9. **Kigali is the largest urban agglomeration, demographically and economically.** Kigali’s output exceeds that of the six secondary cities plus Gicumbi, Bugesera, and Rwamagana-Kayanza combined and is seven times higher than that of the next largest urban area. Firms registered in Kigali accounted for 92 percent of all turnover declared to the Rwanda Revenue Authority in 2015, and more than half of all formal firms and half of formal employment are located in Kigali. Per capita consumption in Kigali is five times that in rural areas, and, although regional GDP is not calculated, nightlights-based estimations suggest that Kigali accounted for 40 percent of GDP in 2012. Kigali is also the most urbanized economy, with 80 percent of nonagricultural employment even in 2002, compared with just 30 percent in other urban areas.¹²

Table 1. Key Data on Project Cities

City	Population	Population Growth Rate % (Medium Projection)	Urban Population Current Growth Rate %	Population Density (population per km ²)	Urban Poverty Rate %	Urban Area (km ²)	% Living in Unplanned Areas
Huye	52,768	4	1.9	1,454	21.5	36.3	14.7
Muhanga	50,608	3	2.6	1,333	19.8	38	13.4
Musanze	102,082	4	3.1	1,321	28.6	77.3	36.6
Nyagatare	47,480	7	9	386	37.1	123	n.a.
Rubavu	149,209	6	5.4	1,906	35.5	78.3	8.7
Rusizi	63,258	5	2.4	3,402	20.1	19	4.3
Nyarugenge	284,860	20	20	2,127	10.1	134	60

Source: Feasibility Study Report (January 2016) for the Rwanda Urban Development Project (RUDP).

10. **While Kigali has always been and will remain Rwanda’s principal city and a key national asset, economic activity is gradually deconcentrating away from Kigali.** The largest concentration of economic activity is in the Rubavu-Nyabihu-Musanze corridor. Of the 106,073 formal private-sector jobs accounted for by firms in the 2014 Establishment Census, 57,260 (54 percent) are located in Kigali, with the three districts of Rubavu, Nyabihu, and Musanze accounting for 7,388 (7 percent). When jobs in the informal sector are also considered, the share rises to 11 percent. This corridor has been successful in job creation, mainly driven by proximity to Goma and its large markets, just across the border with the Democratic Republic of Congo (DRC). Rubavu and Musanze have also benefited from densely populated fertile agricultural land and the presence and investment from relatively large formal firms, as well as tourism. The importance of cross-

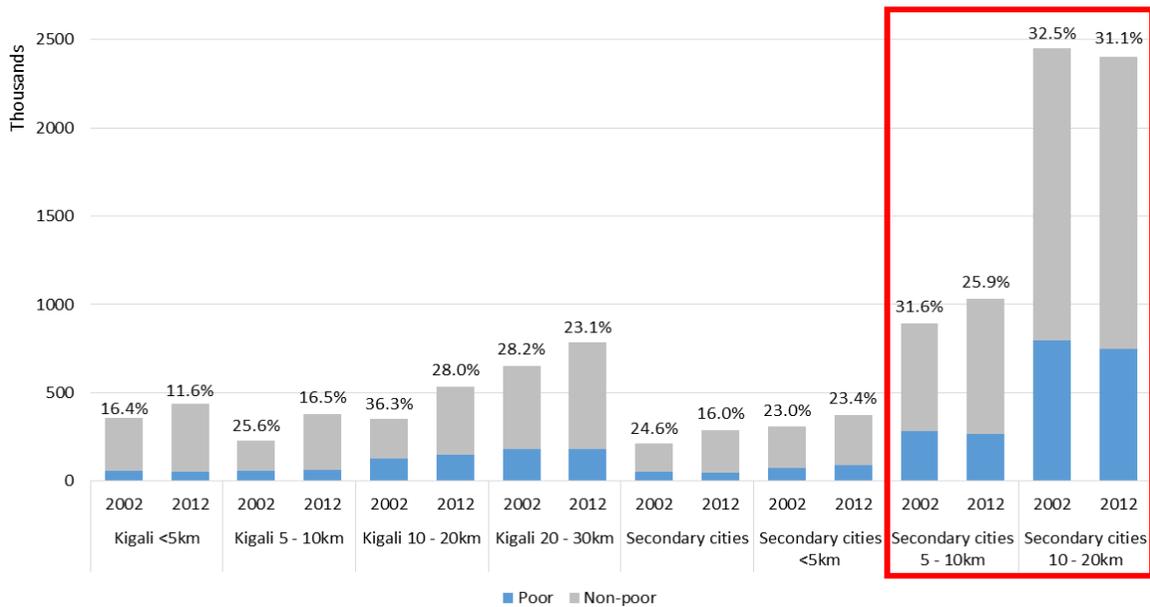
¹² Reshaping Urbanization in Rwanda, Note 1: Urbanization and the Evolution of Rwanda’s Urban Landscape, World Bank, 2017.



border trade is also evidenced by Rusizi, which shares the border with Bukavu and where 44 percent of the workforce is employed in wholesale and retail trade—the highest share of any city.

11. **Kigali and secondary cities also offer greater opportunities for poverty reduction if its linkages with peri-urban and rural areas can be strengthened.** Looking at the changes in population and poverty in Rwanda’s 416 geographic sectors between 2002 and 2012, a 10 percent increase in population density was associated with a 1.2 percent lower multidimensional poverty index (MPI).¹³ Densification is all the more important given that the association between urbanization, poverty reduction, and job creation observed in city centers declines sharply in the areas 5–10 km away from secondary cities, as compared to that of city cores. Currently, 30 percent of Rwanda’s non-monetary poor live within 20 km of one of the six secondary cities (Figure 4). Rapid expansion of peripheral Kigali would also create negative externalities without proper land use management and extended services and infrastructure. Opportunities for leveraging the benefit of urbanization are found in these peri-urban areas, which in turn should be better connected to the city cores both physically and economically.

Figure 4. Number and share of non-monetary poor (in thousands) in Greater Kigali and six secondary cities, 2002 and 2012



Source: World Bank (2017)

12. **Current levels of infrastructure and service provision in secondary cities are generally adequate compared to the size of the cities, except for areas such as sanitation and wastewater and solid waste management which requires continuous investments.** Given the relatively small size and moderate population growth rates and tendency for new residents to settle on the periphery of the urban area, there is not a significant service/infrastructure delivery gap.

¹³ World Bank (2017)



Secondary cities generally have few paved urban roads (about 25 percent on average), many households (about 25 percent) still rely on water from public stand posts, and a significant number of households (about 15 percent) lack access to electricity. If urban growth is to be accompanied by a progressive rise in levels of urban services, investment of a magnitude which is significantly above current levels will be required. Failure to dramatically increase expenditure on infrastructure and services will result in: (i) disincentives to economic investment in these cities (given the additional costs for provision of dedicated infrastructure and services); and (ii) declining livability and quality of urban life. Furthermore, the current urban growth pattern, which involves sprawl rather than densification, has the potential to significantly add to the cost of services provision.

Table 2. Status of Urban Infrastructure and Services Delivery

City	Percentage of Urban Households with:			Urban Road Density Index	Solid Waste Management Arrangements
	Electric Power Connection	Water Connection	Water Sealed Latrine/Pit with Slab		
Secondary Cities¹⁴					
Huye	90%	65%	66%	2.3	Partial collection by district; no sanitary landfill
Nyagatare	75%	70%	66%	4.1	67% collection by district; sanitary landfill ¹⁵
Muhanga	90%	78%	58%	2.5	Dual community and district collection; no sanitary landfill
Rusizi	80%	86%	66%	3.8	21% collection by cooperative, no sanitary landfill
Rubavu	95%	81%	92%	0.5	67% collection by cooperative; no sanitary landfill
Musanze	90%	89%	68%	1.3	50% dual collection by district and cooperative; no sanitary landfill

13. City governance in Rwanda needs further strengthening, with the CoK and districts currently enjoying relatively limited authority over urban management functions. Although decentralization is provided for in the Constitution, national government ministries and agencies continue to play a predominant role in planning, infrastructure and service

¹⁴ The estimates for services provision in the secondary cities are based on surveys carried out under the feasibility studies for the WB-supported Urban Development Project.

¹⁵ Landfill construction supported by donor-funded waste management project.



delivery, alongside and in parallel to sub-national governments. Local governments remain highly dependent on transfers from central government; a high proportion of such transfers are earmarked or conditional in nature, leaving sub-national governments with limited discretion in decision-making over resource allocation. The assignment of functional responsibilities (as spelled out by the local government law¹⁶) is relatively open-ended, meaning that the national and sub-national levels tend to share functional responsibilities (on a concurrent basis). As a result, local government responsibilities are unclear and vaguely delineated, and coordination between levels of government is a major challenge. There is a room for and potential benefit in incrementally strengthening and clarifying national and sub-national responsibilities with respect to urban management, by support local governments to enhance accountability, facilitate location-specific coordination and use an integrated approach to urban development. Moreover, greater and clearer delegation of responsibilities to sub-national levels for planning, implementation and coordination would facilitate “de-congestion” of national government institutions, which are already over-burdened.

14. **Rapid and well-managed urbanization is essential for Rwanda to achieve its aspirations for growth.** With faster urbanization, Rwanda’s economy could be 20 percent larger by 2050. To achieve the rapid economic growth targeted by 2050, Rwanda will need to harness agglomeration economies through well-managed cities.¹⁷ Kigali is undoubtedly the prime economic hub of Rwanda and has the potential to provide most of the gains from faster urbanization through scale and specialization, integrating Rwanda’s growth engine with the regional and global economy. It will become home to a much larger population, who will need well-planned neighborhoods, affordable housing, services, physical mobility, and digital connectivity. The project aims to support the City of Kigali to improve its neighborhood planning and unlock housing potentials to accommodate a larger population, which continues to be an important priority of the CoK.

15. **A differentiated approach to development and growth will be required for Rwanda’s secondary cities, informed by their respective functions, opportunities and challenges.** There are stark differences between the CoK and the six secondary cities as well as differences among the secondary cities themselves. As reflected in the table above, cities vary in terms of population size and growth rate and land area and also differs in terms of economic and growth potential which is often linked to their geographic location and proximity to international borders. The project aims to support the secondary cities to develop unique investment pipelines that will meet their urban needs and catalyze their development potential. Overall, these cities will benefit from strong and adaptive investments in human resources and institutions which will in turn deepen the decentralization agenda by enabling local leaders to mobilize local knowledge and resources and act as effective change-managers in an environment in considerable flux. The project will support activities to strengthen these cities’ urban management capabilities that are critical for efficient delivery and sustainable management of infrastructure and services.

Relationship to CPF

16. The project is well aligned with the Bank’s Country Partnership Strategy (CPS) 2014-2018 as well as the Systematic Country Diagnostic (SCD) which is now under preparation. Under the first theme in the CPS of promoting private-sector-driven and job-creating economic growth, urban development and the reduction of urban poverty have been identified as priority areas for leveraging the World Bank’ Group’s assistance. The draft SCD concept note also recognizes the importance of managing urbanization for achieving Rwanda’s aspirations for growth and identifies urban resilience and strengthening decentralization processes as key priorities going forward. The project also contributes to the Bank Group’s twin goals of ending extreme poverty and promoting shared prosperity by improving access to basic infrastructure, especially in unplanned settlements where the urban poor reside.

¹⁶ Law N° 87/2013 (determining the organisation and functioning of decentralized administrative entities).

¹⁷ Future Drivers of Growth in Rwanda, 2018.



C. Proposed Development Objective(s)

To strengthen urban management and deliver improved basic infrastructure and services in participating urban areas of Rwanda

Key Results (From PCN)

17. Key expected results in the project include:

- Improved infrastructure and services in secondary cities and Kigali
- Improved capacity in urban management (e.g. preparation of localized physical plans, improved budgeting processes, etc.) in secondary cities
- Increase in own source revenues in secondary cities.

D. Concept Description

18. The RUDP II will support urban development by strengthening urban management and improving access to basic infrastructure and services in the City of Kigali and secondary cities. The theory of change underlying RUDP II is that increased levels of infrastructure and service provision will enhance the livability and productivity of strategically important cities. Infrastructure finance is clearly important here but for efficiency and sustainability of capital investment in infrastructure, there is urgent need to strengthen land markets and urban planning.¹⁸ These bedrock reforms will require stronger city management with adequate capabilities for property valuation, locally-responsive planning city planning, more efficient implementation and intergovernmental coordination. This, in turn, hinges upon urban management functions being more clearly assigned among/between local and national government levels, with local governments taking on increasing responsibilities for the coordination of planning, implementing plans, and ensuring good operations and maintenance; and with the national government providing policy and regulatory frameworks, supervision and overall monitoring, as well as increased finance. The project will implement basic infrastructure and services through districts and the City of Kigali and improve the capacities of these local government institutions to plan, implement and maintain infrastructure and services in the longer term.

Component 1 – Strengthening Urban Management

19. Compared to its predecessor, RUDP II will place a greater emphasis on strengthening urban institutions and their management capacity for sustainable delivery of urban infrastructure and services. Under RUDP, implementation of the technical assistance (TA) component for urban management was slow and achieved minimal outcomes due to: (a) being under-prioritized as compared to infrastructure investments and “crowded out” by the transaction costs of implementing and supervising works contracts; and (b) implementation bottlenecks such as limited understanding and ownership of intended TA objectives by implementing entities and difficulties in attracting qualified experts.

20. In order to address the above constraints, RUDP II will identify key urban management areas that should be strengthened to ensure the efficiency and sustainability of urban infrastructure and service delivery and make it a critical building block and pre-requisite for infrastructure component. Development Linked Indicators (DLIs) would be introduced, linking the release of financing for infrastructure and service delivery to the achievement of an agreed set of urban

¹⁸ Future Drivers of Growth 2018



management benchmarks, thereby incentivizing improvements in urban management. The Government has responded positively to the initial discussion on the possibility of making part of the funds allocated for infrastructure and service delivery contingent upon the achievement of DLIs. These DLIs could relate to priority urban management functions and should be achievable, practical and easily measurable.

21. To this end, a review was conducted jointly with the Government of the comprehensive set of urban management functions as well as the respective roles and responsibilities of the national government and districts (see Annex 1). Areas to be supported under the Urban Management Component of the project will require further discussion with the Government but can revolve around core urban functions, namely, urban planning and financing.

- **Urban planning.** Competent urban planning teams are required to ensure that managed urbanization supports growth, investment, and community aspirations. Yet, urban planning capacity is inadequate in most cities. There is no urban planner in the structure of district governments; and the City of Kigali has the only urban planning team, which is over-stretched and lacks enough staff to implement local planning. The ongoing masterplan revision in the CoK and secondary cities offers prime opportunities to make the planning process more transparent and participatory and for the government to begin to build institutions with highly-skilled and credible planning teams.
- **Urban financing.** Rwandan cities have made huge investments in public infrastructure, which have, in turn, dramatically raised the productivity of urban land, crowding in private investments and raising land values many folds. Although a range of tools exist to capture land value increments accompanying investment,¹⁹ Rwandan cities have not captured many gains from their public investments. Given Rwanda's unusually strong basis for efficient and transparent valuation, with centralized and digitized landownership and transaction records, a professional valuation body, and credible institutions for oversight, additional investments in human and institutional resources for valuation, especially at the district level, can be considered under the project towards the broader goal of strengthening urban financing, which can be utilized for greater capital investment and proper operation and maintenance.

22. DLIs can be formulated to incentivize implementation of these priority urban management functions, for example: (i) masterplan implementation which can take the form of preparation of physical local plans or an area-based upgrading plan preparation which incorporate community priority investments; (ii) preparation of a service delivery strategy (e.g. for solid waste management); and (iii) allocation of annual operation and maintenance (O&M) budgets. DLIs would be different, depending on whether they apply to the City of Kigali or to the secondary cities.

23. Component 1 (Strengthening Urban Management) of the proposed project would consist of a set of institutional strengthening and capacity development activities that would assist the national Government and districts in meeting urban management benchmarks or DLIs. Component 1 would be financed through regular Investment Project Financing (IPF) modalities (rather than through DLI-triggered disbursements). Activities would include the provision of technical assistance, training, mentoring and the provision of guidelines. Learning from RUDP, TA contracts would be linked to milestones to the extent possible to allow for better contract management by the PIU/government and to ensure greater knowledge transfer to both national and local government institutions.

Component 2 – Improving Access to Urban Infrastructure and Basic Services

¹⁹ Such tools include land value and property taxes, betterment fees for landowners or developers, special assessment districts, land purchases by infrastructure agencies and direct commissioning and financing of infrastructure by property developers.



- a. City of Kigali: scale-up of urban upgrading
- b. Secondary Cities: Expanded investment menu

24. This component would be divided into two subcomponents for: (a) the City of Kigali (CoK); and (b) the six secondary cities. For CoK, the urban upgrading pilot under RUDP will be replicated in other priority unplanned settlements across the three districts (Gasabo, Kicukiro and Nyarugenge) that make up the City of Kigali. While the main focus will continue to be on improving connectivity in these settlements through the provision of access streets, footpaths, side drains and street lighting, efforts will be made to provide more holistic upgrading support in the City of Kigali to include sanitation support and options for in situ upgrading as well as sites and services and/or the provision of affordable housing on new sites. Annex 3 provides a list of possible investments that can be considered for Kigali amounting to US\$ 33 million.

25. For secondary cities, implementation can be phased so that ‘quick win’ projects or investments for which feasibility studies/designs are being prepared under the ongoing RUDP (but are not being financed under the ongoing project due to budget limitations) can start upon project effectiveness (Phase 1). These possible investments amounting to over US\$ 41 million include primarily roads and drainage and are outlined in Annex 2. In parallel, participating cities will prepare for the next phase of investments (Phase 2), choosing from an expanded investment menu including urban upgrading (roads, drainage, footpaths, on-site sanitation); affordable housing (sites and services, greenfield development) and sanitation services (e.g. solid waste management, fecal sludge collection, transfer and disposal). Fund allocation for Phase 2 would be contingent upon achieving agreed results in the area of urban management functions, for which the use of DLIs will be considered as a formal mechanism for disbursement. The investment menu with its associated prerequisite actions is illustrated below.

Figure 5. Investment menu for secondary cities across key areas and with associated urban management functions

Relevant urban management functions/actions	Area for intervention	Investments
Operation and Maintenance*	Transport	Urban roads
Urban planning (area-based or neighborhood planning)	Settlement	Upgrading of informal settlements Sites and services**
Sanitation strategy or (liquid/solid) waste management strategy***	Sanitation****	Sanitary landfill Waste water/ Fecal sludge treatment plants
Drainage masterplan/strategy	Resilience	Drainage

*This might include establishing asset inventories (as the basis for operations & maintenance), developing maintenance plans, examining options for allocation O&M budgets, etc.

**Sites and services may include servicing the identified affordable housing sites

*** This might include undertaking initial surveys of waste collection and disposal, establishing regular monitoring of urban waste, developing regulatory frameworks for waste management, etc.

****Sanitation investments may or may not be financed by the project, especially waste water and fecal sludge treatment plants which other financing is available or planned. Nonetheless, the project can consider complementing these investments by providing technical assistance to improve sanitation “services”.

Component 3 – Project Management

26. This component would support project management costs of the implementing agencies, notably the Project Coordination Unit and Project implementation Units (PIUs), for staffing, monitoring and evaluation including an end-project evaluation, safeguards, financial management, procurement and training. This component will also cover any costs related to the set-up of a Grievance Redress Mechanism.



Component 4 – Contingent Emergency Response Component (CERC)

27. This component would be included under the project in accordance with the World Bank Policy on Investment Project Financing dated November 10, 2017, Paragraph 12 and 13 for situations of urgent need of assistance, as a project-specific CERC. This component will allow for the rapid reallocation of project funds in the event of a natural or man-made crisis during implementation of the project to address eligible emergency needs under the conditions established in an operations manual (to be prepared during project preparation). This component can either have no funding allocation initially and draw resources from other expenditure categories at the time of its activation or a set amount of funding allocated up front. This can be discussed and agreed with Government during project preparation.

2. Overall Risk and Explanation

28. **The overall risk rating for the project is Substantial.** While the project benefits from the institutional arrangements and implementation experience of RUDP, several challenges were identified during the RUDP mid-term review in September 2018, notably in relation to: implementation capacities, particularly procurement and contract management; overall project management in terms of effective coordination; and stringent planning and infrastructure design standards resulting in a high incidence of involuntary resettlement, particularly in urban upgrading. Addressing them will require concerted efforts. New features are also being considered for the proposed project and may generate additional risks, including those related to: use of DLIs, scaling up of upgrading in CoK, and an expanded menu of investments. The key risks and proposed mitigation measures area outlined below.

29. **Sector Strategies and Policies (Substantial).** Since urbanization became part of the national development strategy and was made a stand-alone sector under EDPRS II, GoR has put in place relevant policies and strategies in a relatively short time. These policies and strategies have yet to yield solid on-the-ground outcomes, however, as coherent programming of various initiatives with adequate budgeting, implementation plans, and effective monitoring has been weak. The ongoing RUDP has suffered particularly from the lack of appropriate implementation guidelines for urban upgrading. Whereas the principle of a flexible and incremental approach to urban upgrading is alluded to in various policy and strategy documents, the absence of infrastructure standards suitable for unplanned settlements has meant that higher and unnecessarily more stringent standards are applied²⁰ (e.g.), significantly increasing the socio-economic costs of upgrading. Without GoR's concrete resolution on the use of flexible standards, accompanied by practical guidelines, scaling up urban upgrading will be too costly to implement. The Bank is engaging GoR in this dialogue by supporting a knowledge exchange program to Vietnam on inclusive urban upgrading (including innovations in the use of standards) and providing relevant just-in-time technical assistance.

30. **Technical Design of Project or Program (Substantial).** The proposed project is considering the use of DLIs to incentivize improvements in urban management but there is very limited experience of using DLIs in IPF operations (as compared to Program-for-Results operations) in Rwanda and thus a substantial risk of confusion and misunderstanding. Considering this, project preparations will need to ensure that DLIs are fully discussed and understood, as clear/simple as possible, and defined so as to incentivize specific outcomes.

31. **Institutional Capacity for Implementation and Sustainability (Substantial).** Under RUDP, the Local Administrative Entities Development Agency (LODA) channels funds to districts and is supposed to support districts' implementation. Their capacity needs to be improved to ensure more effective or timely guidance to local governments in solving problems

²⁰ For example, the insistence on the use of Class Two Road standards (6m carriage way, as per the 2011 Road Act) for upgrading neighborhood access streets.



regarding procurement and contract management; and stronger communication and information exchange with both Ministry of Infrastructure (MININFRA) and the Bank. In RUDP II, LODA’s role in project implementation will need to be carefully defined and stronger communications and coordination mechanisms will need to be established to ensure effective and efficient project management at the level of the national government. Further, there is room for improvement in project management by minimizing overlap between the various implementation agencies in MININFRA and LODA and establishing clear (and discrete) management responsibilities assigned to each national-level stakeholder. Further, a technical Project Management Committee (PMC) will be set up under RUDP II to provide a platform for regular coordination and decision making among the national agencies.

32. **Fiduciary Risks (Substantial).** The complex institutional arrangements in the project also increase the financial management and procurement risks in the project. Procurement will be undertaken across multiple agencies at the national level – LODA, MININFRA as well as through agencies at the subnational level – districts and CoK. Procurement capacities across these various institutions varies. Similarly, financial management is made complex by the various institutions responsible for financial monitoring. These risks will be mitigated in RUDP II by recruiting dedicated Procurement and FM Specialists in both LODA and MININFRA with clearly distinguished roles and responsibilities between the two agencies. In addition, hands on procurement and FM support will be provided to the districts/CoK through Technical Assistance in LODA.

33. **Stakeholders (Substantial).** Urbanization is inherently multisectoral and thus calls for strong coordination, both horizontally and vertically. At the national level, a high-level coordination entity equipped with strong analytical and strategic functions should be considered for multisectoral coordination for well-managed urbanization.²¹ In the absence of such a platform for coordination, it has been challenging for MININFRA to provide strategic guidance to the various programs/projects in the urban sector. There is much room for removing overlaps/inefficiencies, facilitating more cross-learning and information sharing and creating bigger synergies or impacts. RUDP II will therefore establish a steering committee composed of line ministries that deal with issues related to urbanization.

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

Summary of Screening of Environmental and Social Risks and Impacts

The project proposes to deliver improved basic infrastructure in the city of Kigali and the 6 secondary cities. The expected activities include road construction and rehabilitation to include bus stops in one of the secondary cities; drainage construction; and construction of a multipurpose land fill in selected urban areas. It is anticipated that these activities will be executed in populated areas, largely involving existing basic infrastructure. The proposed implementation sites are in the vicinity of residential housing areas and commercial centers, that are likely to be affected by project works. The overall project environmental and social risk rating is substantial at this stage mainly due to the potential adverse social impacts; and the associated mitigation measures, may give rise to a limited degree of social impacts, harm or risk to human security. The project will upgrade informal settlement the 3 City of Kigali districts (Gasabo, Kicukiro, Nyarugenge). In the secondary cities, informal settlement upgrade is planned for 5 secondary cities out of 6 (Huye, Muhanga, Musanze, Rubavu and Rusizi). The experience of the borrower and the implementing agencies

²¹ Future Drivers of Growth in Rwanda 2018



in dealing with complex projects such as informal settlement upgrade is limited in some respects and the experience regarding mainstreaming environment and social issues in implementation of RUDP-1, suggests capacity concerns that can be readily addressed through implementation support.

The potential environmental and social risks and impacts from the works are expected to be typical to road and drainage construction. They may include acquisition of land for road expansion; temporary removal of access to properties (residences, shops, schools, markets etc); cracking of houses due to vibrations from operating heavy equipment; traffic disruption; noise and dust; accidents and injuries; and rainwater accumulation affecting neighbouring properties.

The main institutions involved in the project preparation include; Ministry of Infrastructure (MININFRA) with its overall mandate that include policy functions related to infrastructure, and urban management. The specific MININFRA responsibilities in the urban sector are assigned to its urbanization, human settlement & Housing Development Division within the Ministry. In terms of environment and social standards capacity, MININFRA has two environment and social specialist based in the division of urbanization, human settlement, housing development. MININFRA has handled bank financed projects including RUDP-1 implemented following the Bank safeguards policies.

Local Administrative Entities Development Agency (LODA): LODA is responsible for financing the development activities of local administrative entities (Districts), acting as the intermediary between local government and donors, and strengthening local government capacities. As such, LODA has a largely institutional and fiscal mandate with respect to local governments. LODA has existing safeguards capacity in-terms of staffing. There are two Environment and social specialist that were recruited under RUDP-1 who will continue to support RUDP-2. LODA has experience working with the Bank and is currently implementing four Bank funded operations following the safeguards policies. At the sub-national level, the districts and the City of Kigali (CoK) are legally mandated to deliver this project. Districts have environmental specialists, however there is no position of social specialist at the District level. CoK has an assigned Social specialist for the project and is yet to recruit fulltime social and environmental specialist. At address potential risks identified under this project, the project will prepare the following instruments prior to appraisal ESIA, SEP, LMP, RAPs and the ESCP.

Note To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document.

CONTACT POINT

World Bank

Narae Choi, Pablo Cesar Benitez Ponce, Zishan Faiza Karim
Senior Urban Development Specialist

Borrower/Client/Recipient

Ministry of Finance and Economic Planning (MINECOFIN)

Implementing Agencies



Ministry of Infrastructure (MININFRA)
Edward Kyazze
Division Manager for Urbanization, Human Settlement and Hous
edward.kyazze@mininfra.gov.rw

Local Administrative Entities Development Agency (LODA)
Saidi Sibomana
Division Manager, Local Development Planning and Monitoring
saidi.sibomana@loda.gov.rw

Rwanda Environmental Management Authority (REMA)
Coletha Ruhamya
Director General
cruhamya@rema.gov.rw

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Narae Choi, Pablo Cesar Benitez Ponce, Zishan Faiza Karim
----------------------	---

Approved By

Practice Manager/Manager:		
Country Director:		