

**PROJECT INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

Report No.: PIDA52046

<b>Project Name</b>	RW-Urban Development Project (P150844)
<b>Region</b>	AFRICA
<b>Country</b>	Rwanda
<b>Sector(s)</b>	Sub-national government administration (50%), Urban Transport (20%), Sanitation (5%), Solid waste management (5%), General water, sanitation and flood protection sector (20%)
<b>Theme(s)</b>	City-wide Infrastructure and Service Delivery (30%), Urban planning and housing policy (15%), Urban services and housing for the poor (40%), Municipal governance and institution building (15%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P150844
<b>Borrower(s)</b>	MINECOFIN
<b>Implementing Agency</b>	Ministry of Infrastructure
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared/Updated</b>	05-Jan-2016
<b>Date PID Approved/Disclosed</b>	21-Jan-2016
<b>Estimated Date of Appraisal Completion</b>	21-Jan-2016
<b>Estimated Date of Board Approval</b>	29-Mar-2016
<b>Appraisal Review Decision (from Decision Note)</b>	

**I. Project Context**

**Country Context**

Rwanda has made impressive progress in economic, environmental, human and social development after the 1994 genocide. In the late 1990s, the country was characterized by deep and widespread poverty, abysmal health indicators and pervasive food insecurity. Remarkably, between 1995 and 2013 the economy had quadrupled, thanks to effective use of foreign aid and prudent macroeconomic policy. Government policy has also focused on building institutional capacity, good governance and a business friendly environment, resulting in an annual GDP growth rate of 8 percent between 2000 and 2013 – a 170 percent increase in real GDP – making the country among the ten fastest-growing economies in the world. This growth has been pro-poor: poverty rates declined from 59 percent in 2000 to 45 percent in 2010. During this time, the country also made impressive gains in health and education outcomes. Homegrown initiatives, most notably Umuganda (community work) and Imihigo (performance contracts), have contributed to this

development progress.

According to the Bank's recent Poverty Assessment, growth during the first half of the decade was concentrated in Kigali and while it was pro-poor, it only benefited a fraction of the country's poor (in 2001 Kigali accounted for only 3.9 percent of the national poor and 4 percent of the total population). During the second half of the decade, however, growth was mostly concentrated in rural areas and led to a 12 percentage point reduction in poverty and inequality. Despite this progress, half of the rural population continues to live below the poverty line, compared to 22 percent of the urban population. Poor households in Rwanda's urban areas were also 14 percentage points more likely to exit poverty than their rural equivalents and the rate of chronic poverty was three times lower for urban than rural households. Rwanda's high population density, scattered settlements, hilly topography and low urbanization rates create a strong pressure on arable land and constrains the transition from subsistence to more productive large-scale commercial agriculture.

Hence, the government views urbanization as a key driver to achieve the 7 percent annual economic growth needed to reduce poverty and move the country to middle income status by 2020 as articulated in the country's Vision 2020. To turn this vision into reality, the country's Economic Development and Poverty Reduction Strategy 2013-2018 (EDPRS II) sets as one of its key objectives the transformation of Rwanda's economic geography by facilitating urbanization and promoting secondary cities as poles of growth. This would require transitioning 50 percent of the population from farm to off-farm jobs. Indeed, as the Bank's recently completed Rwanda Employment and Jobs Study confirms, there has been a marked move towards such nonfarm employment. Jobs in establishments, especially in the service sector are also concentrated in urban agglomerations. Agricultural workers are increasingly taking up non-agricultural secondary jobs next to their main occupation on the land. Therefore, the Bank's Jobs Study also recommends that creating better conditions for secondary towns to grow, as expressed in the EDPRSII is likely to be associated with increased economic activity.

The urbanization objectives as expressed in the EDPRSII supports the emergence of a hierarchy of cities with complementary functions. As such, the government intends to continue investment in Kigali to enable it to emerge as a competent primate city that will make it an East African Hub and a national growth engine. Second, it will focus on developing a strong network of 6 secondary cities (Muhanga, Rubavu, Rusizi, Nyagatare, Huye, and Musanze) which will serve as a national urban backbone and regional growth poles that provide off farm employment. The third level of agglomeration is district centers which will remain connected to Kigali and secondary cities and serve as local service providers to rural areas. Given the historic level of public underinvestment in secondary cities and their infrastructure deficit, the EDPRS2 stresses the importance of supporting secondary cities so that they become livable and continue to grow economically. The proposed project marks the Bank's reengagement in Rwanda's urban sector following the closure of the Urban Infrastructure and City Management Project in 2009 which the Implementation Completion Report rated as highly satisfactory for achieving its development objectives.

### **Sectoral and institutional Context**

Rwanda is one of the most densely inhabited countries in Africa and one of its least urbanized, with just 17 percent of its 11 million people living in urban areas. Nevertheless, the urban population has steadily been growing over the past several decades – from just 2 percent in 1960 to 4.6 percent in 1978 and 16 percent in 2012. With an annual urbanization rate of around 4.1 percent, it is expected

that the total urban population would reach close to 30 percent by 2030. Kigali with a population of 1.1 million is significantly larger than all 6 secondary cities combined, which range in size from Rubavu's 149,209 to Muhanga's 50,608. Much of the urban growth thus far has been concentrated in Kigali which has been growing at an annual rate of 9 percent. In contrast, most of the secondary cities have been growing at a slower rate, ranging from 5.4 percent in Rubavu to 1.9 percent in Huye.

Despite recent progress, access to basic infrastructure continues to be a challenge in urban areas. This is in part caused by the high cost of infrastructure due to the country's landlocked nature and its hilly topography, exacerbated by inadequate urban planning tools and skilled staff at the local level. Roughly 60 percent of all urban households in Rwanda live in informal settlements where access to road and transport infrastructure, adequate tap water, electricity and sanitation is limited. The Poverty Assessment found that in urban areas, those living in neighborhoods that lack infrastructure are typically among the poorest. While as noted earlier poverty is mostly rural, rates in secondary cities vary from 37 percent in Nyagatare to 19.8 percent in Muhanga; it is lowest in Kigali (16.8 percent). All cities have significant populations living in informal settlements that lack basic infrastructure and are often situated in precarious areas that are prone to floods due to the country's hilly topography. The informal settlements vary in size from 37 percent in Musanze to 14.7 percent in Huye. The City of Kigali (COK) has adopted a city wide policy to eradicate informality through in situ upgrading programs that it intends to pilot. The government's approach is to promote inclusive urbanization by upgrading informal settlements now before they expand any further and it becomes prohibitively costly to do so. To support this effort, it undertook a national informal settlement inventory that is serving as a strategic guide for action. Nationally, the COK is leading the way, making upgrading of informal areas its priority for the next 5 years. It is beginning this effort through a pilot upgrading program to develop a methodology and approach that will be effective and can subsequently be rolled out across the city.

To respond to these challenges, the government has formulated a number of strategies (e.g., EPDRS2) and policies (National Urban Policy awaiting Cabinet approval and National Housing Policy 2015) that are guiding the urbanization process. The Government of Rwanda (GOR) views the relatively low rates of urbanization as an opportunity to create a more efficient urban system. The National Housing Policy identifies informal settlement upgrading as a key strategy objective. The National Urban Policy emphasizes the need for spatial planning at national, district and city levels and development control to enforce planning standards. It suggests the need for adopting a nodal development approach to form dense and well-serviced, decentralized poles of growth by promoting the 6 secondary cities. These cities were selected on the basis of their strategic location (see Fig 1) and unique economic positioning. For instance, Rubavu borders Goma in the Democratic Republic of Congo (DRC) and enjoys an active cross border trade which could be further strengthened with infrastructure improvements. Musanze is a major tourist attraction, known to be the only home of the silver-backed mountain gorilla. Nyagatare is the country's dairy region and breadbasket. All require significant investment in basic infrastructure to serve their current population and promote local economic development (LED). In all secondary cities connectivity is poor, constraining local economic development and making it difficult for residents to access residential areas, places of work and social services. For instance, although there has been an improvement in the quality and coverage of urban roads, in cities such as Rubavu and Rusizi only about 30 percent of the roads are all weather. Moreover, in most neighborhoods, pedestrian movement is high but the hilly terrains and high rain fall rates make mobility a real challenge. Therefore, there is a clear need to expand the road network and connect isolated areas. The

country's hilly topography also means that as the built environment expands with urbanization, some natural drainage channels are constrained increasing the risk of urban floods.

Rwanda's decentralization process has advanced significantly in the last decade and it has successfully managed to create viable local governments with progressively improving capacities. However, district governments, the highest form of local government must also cater to the differing needs of urban and rural areas under their jurisdiction. In other words, the 6 secondary cities are administered by district governments which are responsible for a much wider territory with differing needs. This is challenging given limited capacity in regards to management, planning, budgeting, financial management and revenue collection and constrains their ability to deliver effectively on their mandate. Furthermore, current intergovernmental fiscal transfers do not take into consideration the specific financing needs of urban areas. Own source revenues are limited. As a result, financing available for capital investments is insufficient to provide the level of service required and the built-in rural bias of the intergovernmental fiscal framework. The annual capital budget for entire districts ranges between roughly US\$4.5 million (Huye, Muhanga, Nyagatare and Rubavu) and US\$ 2.7 million (Musanze), which is well below the general level of investments required for transformative infrastructure investments. Districts are largely unable to generate own source revenues (OSRs) (only about 10% of their total budget is derived from OSR) and remain dependent on the central government. In contrast, estimates indicate that secondary cities would need to invest between US\$490 and \$610 million over the next 10 years to improve levels of public service and cater to the targeted flow of new migrants from rural areas. These investments represent close to 4 percent of Gross Domestic Product (GDP) and far exceed the financial resources currently available.

In this context, key priorities for supporting Rwanda's urban transition are as follows: (i) basic infrastructure provision through strategic identification, selection and implementation of investments; (ii) promoting inclusive cities through effective approaches to informal settlement upgrading; (iii) developing the technical capacity of district governments to adequately manage, operate and maintain basic infrastructure; and (iv) supporting districts to create the enabling environment for local economic development.

## **II. Proposed Development Objectives**

The project development objective is to enhance urban management and provide access to basic infrastructure in selected urban centers.

## **III. Project Description**

### **Component Name**

Component 1: Basic infrastructure provision in secondary cities

### **Comments (optional)**

This component will support provision of basic infrastructure in the 6 secondary cities to enhance living conditions for residents and support local economic development. Eligible investments are those that are directly under the mandate of district governments such as roads, drainage, solid waste management and sanitation. This component will be implemented in two phases.

### **Component Name**

Component 2: Informal settlement upgrading in Nyarugenge District of Kigali

### **Comments (optional)**

This component will support the upgrading of an 86 hectare unplanned settlement in Nyarugenge

District, comprising of 4 cells (Rwampara, Kiyovu, Biryogo and Agatare), located in Kigali's oldest neighborhood close to the Central Business District.

#### **Component Name**

Component 3: Technical assistance for sustainable urban management

#### **Comments (optional)**

This component provides technical assistance to the 6 districts to strengthen their capacity for urban management by focusing on 4 key priorities for achieving sustainable urban development: (i) building competitive cities by creating the enabling environment for local economic development; (ii) support for managing urban infrastructure; (iii) using geographic information systems (GIS) for coordinated planning, and strategic decision making; and (iv) capacity building for scaling up urban upgrading.

#### **Component Name**

Component 4: Project management support

#### **Comments (optional)**

This component will support overall project coordination by MININFRA and project management of secondary cities by LOA. The activities supported include PIU staffing costs, training related to project implementation, safeguards monitoring, beneficiary surveys, design review and supervision.

### **IV. Financing (in USD Million)**

Total Project Cost:	100.00	Total Bank Financing:	95.00
Financing Gap:	0.00		
<b>For Loans/Credits/Others</b>			<b>Amount</b>
BORROWER/RECIPIENT			5.00
International Development Association (IDA)			95.00
Total			100.00

### **V. Implementation**

Overall project coordination will be the responsibility of MININFRA given its institutional mandate for policy and coordination on urbanization, and thereby ensure that project activities conform to national policies on urbanization. As the signatory of the legal agreement with the Bank, it will also serve as the direct interlocutor with the Bank and submit the semi-annual progress reports. A dedicated Project Coordinator is to be appointed at MININFRA and will liaise closely with LODA and with the six districts and Kigali, as relevant.

LODA through its Single Project Implementation Unit (SPIU) will be responsible for overall project management for Components 1 and 2, and under Component 3 for activities pertaining to the secondary cities. LODA will manage the Designated Account and will transfer funds to the project accounts of the six districts and the COK. It will play a supervisory role, offering guidance to districts as they implement the project, focusing on technical, procurement, social and environmental safeguards, LED and financial management aspects. Existing SPIU staff will be supplemented with dedicated staff to be hired under the project (e.g. project manager, procurement, financial management and safeguards specialists). Furthermore, the SPIU will hire and supervise a Mobile Implementation and Capacity Support Team (MICST), responsible for the delivery of the Technical Assistance (TA) described under subcomponent 3.2, which will coach and hand-hold

districts in all aspects of project execution and on district wide expenditure and revenue management. LODA will also be responsible for hiring various consultancy services (e.g., Construction Supervision Consultant, detailed design for phase two etc.) to assist districts in the implementation of the works.

Each of the six districts and COK will be fully responsible for the implementation of their respective sub-projects (e.g., procuring works, managing and reporting on project expenditures, managing their respective project accounts, ensuring works are compliant with agreed safeguards policies etc). The Executive Secretary of each District is to be the focal person for the RUDP at the district level and will play a general coordinating role. Day to day implementation will be undertaken by a technical team appointed by the District, comprising of an infrastructure engineer, procurement, financial management and environment and social safeguards specialists. The COK has established a Kigali Urban Upgrading Team (KUUT) comprising of 9 staff to implement Component 2 of the project. The KUUT will be financed by the COK with the exception of one international staff who will be financed with support from the project.

## VI. Safeguard Policies (including public consultation)

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

**Comments (optional)**

## VII. Contact point

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