

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC624

Project Name	Kenya Urban Water and Sanitation OBA Fund for Low Income Areas (P132979)
Region	AFRICA
Country	Kenya
Sector(s)	Water supply (70%), Wastewater Collection and Transportation (30%)
Theme(s)	Other urban development (60%), Municipal finance (40%)
Lending Instrument	Investment Project Financing
Project ID	P132979
Borrower(s)	
Implementing Agency	Water Services Trust Fund
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	05-Oct-2012
Date PID Approved/ Disclosed	10-Feb-2014
Estimated Date of Appraisal Completion	
Estimated Date of Board Approval	30-Jun-2014
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Poverty and vulnerability remain key development challenges in Kenya, which has a population of about 41 million. Although better macro-economic conditions in the last decade have improved the welfare of Kenyans, levels of poverty remain high – in urban areas, about 39% of the population live below the income poverty line. Too, Kenya’s population is estimated to increase by one million a year. Today, 28% of the population live in urban areas, in 2050, the World Bank estimates that about half will live in cities. Access to basic services is therefore, key to improving welfare.

Sectoral and Institutional Context

Kenya’s national development plan, the Kenya Vision 2030, aims to ensure that improved water and sanitation is available and accessible to all by the year 2030. Although access to water and sanitation services remains modest – based on 2010 reports to theregulator by 62 water service

providers (WSPs), only 40% of the 20.5 million people within their service areas are being covered - the rate of progress over the last five years have been quite commendable - growing by 5% in the last 5 years.

This is a result of sector reforms started in 2002 with the a separation of responsibility for policy-making, regulation, asset ownership and development, and operations of water systems. Under the 2002 Water Act, the Ministry of Water is responsible for setting strategic goals for the sector, while the Water Services Regulatory Board and Water Appeals Board provide oversight. Eight Water Services Boards, each responsible for services in different regions, own the water supply assets and is responsible for their development and rehabilitation and contract with water services providers, that are responsible for delivering services on a commercial basis.

Kenya's 2010 Constitution provides for the creation of an entirely new tier of 47 county governments. Many essential services are devolved to county level – including water and sanitation – while urban services are also re-centralized to county level. This simultaneous devolution and recentralization of services to county level poses a number of challenges for delivery of county and urban services.

Relationship to CAS

The CPS for Kenya, discussed by the World Bank's Board of Directors on April 20,2010, has three strategic objectives: (a) unleashing Kenya's growth potential, (b) reducing inequality and social exclusion, and (c) managing resource constraints and environmental challenges. The CPS also has a special focus on governance. This operation directly supports the first two objectives and the governance agenda. The operation seeks to leverage commercial financing for investments in water supply and sewerage, therefore improving the stock of core infrastructure to support city and county economies and provides output based subsidies to connect the poor whose access to basic services might otherwise be constrained.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The development objective of the project is to increase the number of people in low income areas with access to improved water supply and sanitation services in Kenyan towns and cities. This objective will be realized by incentivizing urban Water Services Providers to invest in water supply and sanitation improvement subprojects to benefit households in low income areas by applying one-off OBA subsidies to make water and sanitation access affordable.

Key Results (From PCN)

The following key results are targeted: 19,000 water connections serving 95,000 consumers; 140 water kiosks serving 40,000 consumers; 1,000 sewer connections serving 5,000 consumers; 30 public toilets serving 10,000 consumers.

III. Preliminary Description

Concept Description

The project will apply one-off output-based aid (OBA) subsidies to promote sub-project investments being made in low income areas by county-owned water and sewerage companies (WASCOs). Sub-projects will be co-financed by the IFC through its 'Kenya Water Utility Financing Facility (Kenya WUFF)' and participating local commercial banks.

A grant of US\$ 11.8 million will be provided to the Water Services Trust Fund (WSTF), a state-owned corporation with the mandate to assist in the financing of water services to areas of Kenya, which are without adequate water services to support an OBA fund for low income urban areas. Water and sewerage companies (WASCOs) that successfully rehabilitate, expand and develop water supply, sanitation and sewerage infrastructure will be eligible for grants for water connections, kiosk points, sewerage and associated service delivery serving households in low-income areas through the OBA fund. Expected sub-projects include:

- Measures to reduce unaccounted-for-water
- Water source augmentation and treatment facilities
- Sewerage treatment facilities
- Network extension
- Measures to improve energy efficiency

The grant fund has two components: a technical assistance and a subsidy component:

Component 1: Technical Assistance

The objective of this component is to fund a proportion of the costs of the following Technical Assistance (TA) activities under the project:

- Support for WASCOs in sub-project preparation, including technical feasibility and financial viability analyses, for review by the WSTF for OBA grant eligibility and by the lenders for loan finance
- Support for sub-project implementation supervision
- Support development of and monitor compliance with environmental, health, safety and social safeguard plans
- Technical, financial and management audits and diagnostics
- An Independent Verification Agent (IVA) to establish baseline coverage indicators for utilities applying for OBA grants, independently verify outputs, and recommend release of subsidy funds to WASCOs.

Component 2: OBA Subsidies

The subsidy component aims to incentivize WASCOs to invest in sub-projects that will increase the access of residents in low income areas to improved water and sanitation services.

The approach for the proposed OBA subsidy is as follows:

- IFC will appraise WASCOs and pre-finance financially viable and technically feasible sub-projects jointly with local commercial banks
- WSTF appraises applications for pro-poor subsidies by WASCOs
- On achievement of pre-agreed output targets, a subsidy will be paid by WSTF to qualifying WASCOs. The proposed output targets are independently verified working water and sewer connections that service low income households.
- WASCOs will apply a part or all of subsidy funds towards loan repayment and continue to service the balance of loans.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
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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	

V. Financing (in USD Million)

Total Project Cost:	18.00	Total Bank Financing:	0.00
Financing Gap:	0.00		
Financing Source			Amount
Borrower			6.30
Global Partnership on Output-based Aid			11.70
Total			18.00

VI. Contact point

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Borrower/Client/Recipient

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