

**INTEGRATED SAFEGUARDS DATA SHEET
APPRAISAL STAGE**

Report No.: ISDSA2744

Date ISDS Prepared/Updated: 20-Sep-2013

Date ISDS Approved/Disclosed: 13-Nov-2013

I. BASIC INFORMATION

1. Basic Project Data

| | | | |
|--|--|------------------------------|------------------------------|
| Country: | Kenya | Project ID: | P132979 |
| Project Name: | Kenya Urban Water and Sanitation OBA Fund for Low Income Areas (P132979) | | |
| Task Team Leader: | Patrick Nduati Mwangi | | |
| Estimated Appraisal Date: | | Estimated Board Date: | 28-May-2013 |
| Managing Unit: | GPOBA | Lending Instrument: | Investment Project Financing |
| Sector(s): | Water supply (70%), Wastewater Collection and Transportation (30%) | | |
| Theme(s): | Other urban development (60%), Municipal finance (40%) | | |
| Is this project processed under OP 8.50 (Emergency Recovery) or OP 8.00 (Rapid Response to Crises and Emergencies)? | | | No |
| 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 |
| Environmental Category: | B - Partial Assessment | | |
| Is this a Repeater project? | No | | |

2. Project Development Objective(s)

The project development objective 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 Output-Based Aid subsidies to make water and sanitation access affordable.

3. Project Description

The project comprises two components. These are: (1) Implementation Support to the Project Implementing Unit – the Water Services Trust Fund (WSTF), a state corporation under the Ministry of Water and Irrigation supporting pro-poor investments in water and sanitation. This component will support the WSTF with project management, supervision and independent verification of outputs, and the WSPs to develop and supervise the construction of subprojects, (2) OBA subsidies to provide low income households with access to water and sanitation services. The proposed activities under each component are presented below.

Component 1 (Total amount \$2,200,000) – Implementation Support for project management, subproject preparation and supervision, and to contract an independent verification agent (GPOBA US\$2.20 million). This component will fund a proportion of the costs of the activities listed in Table 1 below. The funds will be administered by the WSTF, and consultants will be procured in accordance with the World Bank Guidelines for the "Selection and Employment of Consultants January 2011"

Activities under Component 1 - Implementation Support Activities

1. Project manager based at WSTF (fees and travel costs). The function will: support subproject identification, preparation and implementation, including overseeing the procurement of consultant and goods and works contracts; review subproject implementation support and subsidy applications and assist in establishing and verifying output targets; support monitoring and evaluation of subprojects; track development indicators, objectives and outcomes; perform the fiduciary responsibilities of WSTF under the grant; and, monitor the compliance of WSPs with the project operating guidelines. (Estimated Amount \$300,000)
2. Capacity building support for WSP subprojectsa. Project preparation surveys; development of financial and technical analyses and business plans; environmental, health and safety, and social safeguards analyses; subproject implementation and completion supervision; system operating and financial diagnostics and performance improvement related activities. (Estimated Amount \$1,350,000)
3. Independent Verification Agent (IVA). Role of the IVA: to establish baseline coverage indicators at WSPs applying for OBA grants; assist in the setting of output targets; carry out verification of outputs; verify subproject costs eligible for subsidies; recommend to WSTF to release subsidy payments to WSPs on achievement of outputs; analyze socio-economic indicators before and after subproject investments. (Estimated Amount \$400,000)
4. Publicity and workshops administered by WSTF (Estimated Amount \$50,000)
5. WSTF administrative overheads including project audits (Estimated Amount \$100,000)

Component 2: OBA subsidies for water and sanitation subprojects (GPOBA US\$9.50 million). This component will provide one-off OBA subsidies for sub-project investments made by WSPs to increase access to water and sanitation services in low income areas. The subsidy funds will be administered by the WSTF, and WSPs will follow the World Bank Guidelines on "Procurement of Goods, Works, and Non - Consulting Services January 2011" when implementing the subprojects.

Principles for selection of WSP subprojects. Selection of subprojects by WSPs for subsidy support will be guided by the following principles:

- WSPs will implement subprojects that allow residents of low-income areas to access water and sanitation services
- The subprojects will be pre-financed with commercial loans from licensed commercial banks

in Kenya on market terms, potentially with co-financing from the IFC for selected subprojects.

- Subprojects may also be pre-financed by lending facilities that are capitalized with bonds or other debt instruments. Subprojects financed through such facilities / instruments will only be eligible for subsidies up to 60 percent of the amount pre-financed by domestic debt at market rates
- The subsidies will be paid to the WSPs against achievement of service delivery related outputs as agreed between the WSTF and eligible WSPs prior to commencement of the development of subprojects
- The subsidies payable to WSPs on achievement of outputs will be calculated as follows:
 - 60 percent of the subproject investment cost pre-financed by local commercial lenders
 - Subsidy cap: Each subproject is subject to a subsidy cap of \$115 per beneficiary i.e. where 60 percent of subproject cost is greater than \$115 per beneficiary, a maximum of \$115 per beneficiary is payable to a WSP as subsidy. Where different investments are financed under one subproject, such as water kiosks, public toilets and household connections, the cap will apply to the number of beneficiaries served by the subproject as a whole.
 - Failure to reach output target: Where the agreed outputs have not been achieved, the WSP will be paid a subsidy based on the proportion of outputs achieved
- The portion of the project cost not covered by the subsidy will be repaid to the lenders by the WSPs through revenues generated from the provision of water and sewerage services. The WSPs may finance a portion of the subprojects using internal funds such as working capital or equity, or external funds such as grants or soft loans , but project costs financed using these sources of funding will not be eligible for subsidies. For example, Ruiru-Juja WSP is a beneficiary of upstream infrastructure investments made under the World Bank's Water and Sanitation Services Improvement Project. Hence only additional investments financed using market debt would be eligible for subsidies under this project.
- The WSPs will develop financial and technical analyses of the subprojects for appraisal by domestic lenders and the WSTF
- WSPs will charge connection fees and consumers tariffs approved by the Water Services Regulatory Board (WASREB). The WSP business plans will discuss tariff affordability in the targeted areas in order to assess consumer willingness to pay water and sewerage tariffs on an on-going basis. Where consumers are willing to pay consumption tariffs but cannot afford connection fees, utilities will be encouraged to offer household loans to consumers to recover the connection fees over a period of time. The loan applications and financial models developed for the subprojects will propose such repayment options to ensure access is not hindered by the inability of consumers to pay connection fees. A similar initiative has been successfully piloted by Nairobi Water Company and the method will be replicated.
- WSPs will be in compliance with WASREB and Water Resources Management Authority regulations and any other statutory requirements governing the operation of WSPs
- WSPs will demonstrate that the economic impacts of the subprojects are positive when preparing subproject feasibility studies

Outputs under the project. For each subproject, a baseline survey will be carried out by the IVA prior to implementation and output targets will be established as per the business plan. WSPs will be eligible for 10 percent of the projected subsidy amount on establishing output targets in agreement with the WSTF and signing a loan agreement with a commercial lender. The balance subsidy payments will be paid in two tranches on achievement of the following outputs:

- Household water connections
- Household sewer connections
- Public water kiosks
- Public toilets, where the WSP has a mandate to build and service such facilities

Table 2: Key results targeted under the project:

| Output indicator | Output Target | Number of people targeted |
|--|---------------|-----------------------------------|
| Number of water connections made under the project | 19,000 | Number of people targeted: 95,000 |
| Number of water kiosks constructed under the project | 140 | Number of people targeted: 40,000 |
| Number of sewer connections made under the project | 1,000 | Number of people targeted: 5,000 |
| Number of public toilets constructed under the project | 30 | Number of people targeted: 10,000 |

The project will also support at least 7 WSPs to access US\$15.8 million in investment from the private financial sector supported by US\$9.5 million in subsidies.

4. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

Sub-projects are expected to be implemented in urban and peri-urban areas country-wide, with the exclusion of the capital City of Nairobi. These may include but are not limited to: Ruiru-Juja, Muranga, Meru, Embu, Malindi, Mathira, and Nyahururu. All WSPs licensed by the WASREB will be eligible for subsidies under the project. There are currently approximately 132 licensed WSPs operating in Kenya but the project will target only creditworthy utilities. WSPs will implement subprojects that involve the rehabilitation, expansion and development of water supply, sanitation and sewerage infrastructure. Activities may include:

- Network extensions to connect new customers to water and sewerage services, including water points and kiosks
- Water source augmentation, treatment and distribution works to the extent required to support achievement of the outputs listed in Table 2
- Sewerage treatment and distribution works to the extent required to support achievement of the outputs listed in Table 2
- Public toilets, where the WSP has the mandate to build and service such facilities

The provision of water and/or sewerage services to low income households and the construction of public water kiosks and toilets in low income areas will trigger the release of subsidies from WSTF to WSPs. Upstream investments to obtain these results, such as source augmentation and treatment, will be eligible for subsidies subject to the principles for selection of subprojects listed under “Project Description” above. The investments will however be subject to a subsidy cap of US\$115 per beneficiary receiving services from any of the outputs listed in Table 2. As a result of the cap, the extent of upstream works is limited to interventions such as elevated water tanks, installation of tertiary distribution lines, improvements to water supply intakes, and rehabilitation and extension of small scale treatment facilities needed to accommodate new connections. The provision for allocating some funding to support upstream works provides flexibility to ensure that each connection or public toilet is properly serviced, thereby enhancing the sustainability of the project. The project is not designed to support major infrastructure investments such as bulk water extraction and transmission.

5. Environmental and Social Safeguards Specialists

Nyambura Githagui (AFTCS)

Svetlana Khvostova (AFTSG)

| 6. Safeguard Policies | Triggered? | Explanation (Optional) |
|---|------------|---|
| Environmental Assessment OP/ BP 4.01 | Yes | <p>The project was categorized as B and triggers OP 4.01 due to the rehabilitation, expansion and development of water supply, sanitation and sewerage infrastructure. However, it has been determined that these activities will have site-specific risks, none of which are irreversible and can be avoided or mitigated. For WSPs to benefit from the OBA subsidies, they will need to have their subprojects positively appraised by commercial lenders for loan finance and by WSTF for eligibility for subsidies. Commercial banks will pre-finance the subprojects and part of the costs will be eligible for subsidy on achievement of the outputs. As a result, the eligible WSPs will only be identified during implementation. As the project locations are not known at the time of project preparation, an ESMF developed for WaSSIP project was updated and will be publicly disclosed in country and in InfoShop prior to project approval. The WSPs implementing the sub-projects are required to comply with Government of Kenya environmental legislation, which requires development of project-level Environmental Impact Assessments and their review by the National Environment Management Authority. The subprojects specific EIAs will be prepared, consulted upon and disclosed prior to beginning of works on each subproject.</p> |
| Natural Habitats OP/BP 4.04 | No | <p>The Project targets already developed urban areas with high population density, and is therefore unlikely to cause significant conversion or degradation of natural habitats.</p> |
| Forests OP/BP 4.36 | No | <p>The Project targets already developed urban areas with high population density, and is therefore unlikely to cause significant conversion or degradation of forests.</p> |
| Pest Management OP 4.09 | No | <p>The Project does not involve the use of pesticides or have any impact on pest management practices.</p> |
| Physical Cultural Resources OP/ BP 4.11 | No | <p>The Project targets already developed urban areas with high population density, and is therefore unlikely to affect any physical cultural resources. The policy is not triggered. However,</p> |

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| | | ESMF for the project includes a screening mechanism for handling “chance finds”. |
| Indigenous Peoples OP/BP 4.10 | No | The Project targets already developed urban areas with high population density, which are highly unlikely to house indigenous communities. The policy is not triggered. |
| Involuntary Resettlement OP/BP 4.12 | Yes | The Project involves the construction of water towers and treatment facilities. As discussed in the Section 4 above, the extent of upstream works is limited to interventions such as elevated water tanks, installation of tertiary distribution lines, improvements to water supply intakes, and rehabilitation and extension of small scale treatment facilities needed to accommodate new connections. In general, these will be located on land that has been acquired on a willing buyer/seller basis or in public lands owned by the country. Installation of underground water and sewer pipes will pass through inhabited areas and in such cases the project will need to manage compensation for households and businesses that are temporarily affected. No permanent resettlement is anticipated under the sub-projects. The project updated the Resettlement Policy Framework, based on the RPF for Kenya WaSSIP project. The RPF will be publicly disclosed in Kenya and in the Bank InfoShop prior to project approval. Based on the results of the screening for each sub-project, Resettlement Action Plans (RAPs) will be prepared, consulted upon and publicly disclosed prior to beginning of works on the subprojects. |
| Safety of Dams OP/BP 4.37 | No | The project will not finance construction or rehabilitation of dams. |
| Projects on International Waterways OP/BP 7.50 | No | The project activities will not be located near or negatively affect any international body of water. |
| Projects in Disputed Areas OP/BP 7.60 | No | The subprojects will not be located in disputed areas. |

II. Key Safeguard Policy Issues and Their Management

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

The implementation of the project is not expected to lead to adverse environmental impacts and social concerns; these, if any, are expected to be minor, localized and readily managed. The main benefits of the project will be improved urban water supply, sanitation, hygiene and decrease in

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| <p>waterborne diseases incidents.</p> <p>Adverse environmental impacts will include construction-related impacts, such as temporary negative effects on public health and safety, soil erosion related to excavation and transportation of equipment, solid waste management. Water waste management is another aspect the WSPs operating close to wetlands need to address during and after project implementation to help counter to maintain water quality levels and prevent pollution of water bodies within the project area of intervention. There is also a potential for increase of STD & HIV/AIDS due to influx of construction workers. Adverse social issues may include restrictions to land use during installation and management of right-of-way encroachments in accordance with OP 4.12.</p> |
| <p>2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:</p> |
| <p>The project's indirect and long term impacts are anticipated to be positive and include a possible increase in the social economic status of the people living within the selected project areas - arising from increased access to safe water and better hygiene and sanitation.</p> |
| <p>3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.</p> |
| <p>N/A</p> |
| <p>4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.</p> |
| <p>The project will be implemented by the Water Services Trust Fund (WSTF), a state corporation under the Ministry of Water and Irrigation that invests in pro-poor water and sanitation infrastructure projects. At utility level, subprojects will be implemented by urban water services providers (WSPs). WSTF is a state owned corporation, which manages grants from international development partners. However, WSTF has limited experience in implementing safeguards policy requirements for the World Bank projects. Capacity of the implementing agency will be enhanced through the technical assistance under Component 1 of the project, which will include environmental and social expertise building for WSTF, WSPs and the participating commercial banks.</p> |
| <p>5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.</p> |
| <p>The primary project beneficiaries are residents of low income areas. An estimated 30,000 households (150,000 people) in low-income urban areas in Kenya will gain access to water and sanitation services through a combination of individual household connections and public water and sanitation facilities.</p> <p>The other key stakeholders for the project will include the Ministry of Water and Irrigation, in particular WSTF responsible for overall implementation of the project. Municipal / county owned water services providers (WSPs), loan financing facilities, such as commercial banks.</p> <p>ESMF and RPF for the project will be finalized and publicly disclosed prior to approval of the fund.</p> |

B. Disclosure Requirements

| Environmental Assessment/Audit/Management Plan/Other | |
|---|-------------|
| Date of receipt by the Bank | 20-Jun-2013 |
| Date of submission to InfoShop | 23-Sep-2013 |

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|---|-------------|
| For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors | |
| "In country" Disclosure | |
| Kenya | 23-Sep-2013 |
| <i>Comments:</i> | |
| Resettlement Action Plan/Framework/Policy Process | |
| Date of receipt by the Bank | 20-Jun-2013 |
| Date of submission to InfoShop | 23-Sep-2013 |
| "In country" Disclosure | |
| Kenya | 23-Sep-2013 |
| <i>Comments:</i> | |
| If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP. | |
| If in-country disclosure of any of the above documents is not expected, please explain why: | |
| | |

C. Compliance Monitoring Indicators at the Corporate Level

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|--|---|
| OP/BP/GP 4.01 - Environment Assessment | |
| Does the project require a stand-alone EA (including EMP) report? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |
| If yes, then did the Regional Environment Unit or Sector Manager (SM) review and approve the EA report? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |
| Are the cost and the accountabilities for the EMP incorporated in the credit/loan? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |
| OP/BP 4.12 - Involuntary Resettlement | |
| Has a resettlement plan/abbreviated plan/policy framework/process framework (as appropriate) been prepared? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |
| If yes, then did the Regional unit responsible for safeguards or Sector Manager review the plan? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |
| The World Bank Policy on Disclosure of Information | |
| Have relevant safeguard policies documents been sent to the World Bank's Infoshop? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |
| Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |
| All Safeguard Policies | |
| Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |
| Have costs related to safeguard policy measures been included in the project cost? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |

| | |
|--|---|
| Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |
| Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents? | Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>] |

III. APPROVALS

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|------------------------------|------------------------------------|-------------------|
| Task Team Leader: | Name: Patrick Nduati Mwangi | |
| <i>Approved By</i> | | |
| Regional Safeguards Advisor: | Name: Alexandra C. Bezeredi (RSA) | Date: 06-Nov-2013 |
| Sector Manager: | Name: Rosemary Mukami Kariuki (SM) | Date: 13-Nov-2013 |