1. Key development issues and rationale for Bank involvement

The urban transition is well under way in Kenya and urbanization is projected to continue at a rapid pace. During the 1999 census, 35 percent of the Kenyan population was residing in urban areas and the total urban population was about ten million people (Central Bureau of Statistics 2002). Kenya’s five largest cities (Nairobi, Mombasa, Kisumu, Nakuru, and Eldoret) accounted for approximately a third of the urban population. Since then urban areas have been growing at a steady pace—it is estimated that by 2015 urban areas will account for 45 percent of the population or 16.5 million people by 2015, and for 54 percent of the population or 23.6 million people by 2030 (GoK 2008). Although there is divergence between government and UN estimates of the current and hence future level of urbanization, the trend towards urbanization and its importance are both irrefutable.

Global experience underscores that urbanization is central to economic growth. Both experience and research show that the efficiency of public investments is typically higher in urban areas than in rural areas (World Bank-AICD, 2008). This is because economies of agglomeration reduce the cost of infrastructure rollout and amplify the resulting economic benefits due to the higher productivity of workers in the urban setting. As a result, investment in cities, combined with moderate levels of rural-urban migration may be the most effective way to raise welfare and reduce total poverty in the medium-to long-run.

In Kenya, urban areas account for a large share of GDP but are now suffering from infrastructure deficits, weak finances and poor management. Although urban centers are not yet home to majority of the population, much of the country’s financial, intellectual and technological capital is concentrated in urban centers. It is estimated that about 70 percent of GDP is generated in urban areas and that Nairobi alone accounts for more than 50 percent of the GDP. Many argue, however, that Kenyan cities and towns are not operating at their potential because they are suffering from major infrastructure bottlenecks, weak finances and poor management. By investing in such improvements, GoK can substantially enhance the economic contribution by and competitiveness of their major cities and urban areas.

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In addition, urban Kenya is unequal and the expanding urban population is being absorbed in informal or slum settlements with squalid living conditions, poor infrastructure and high poverty rates. Rapid urbanization, poor management and absence of planning has left Kenya’s urban areas with huge backlogs in critical infrastructure and basic services, and the emergence of sprawling, overcrowded and impoverished informal settlements. This means that the benefits of public investments in urban infrastructure and services are accruing to only a fraction of the residents and businesses in most urban areas, and the full potential of productive and inclusive cities is not being realized. In addition, the glaring inequality causes it own problems and tensions—one manifestation is increasing urban violence and insecurity.

Nairobi’s slums demonstrate the magnitude of the challenge and a future that other Kenyan cities should strive to avoid. The Central Bureau of Statistics conservatively estimates that, within Nairobi’s administrative boundary, at least 30 percent of the population lives in slums. Recent research (World Bank 2006) shows that the incidence of economic poverty is very high (73 percent are poor), unemployment is also high (26 percent), and living conditions are appalling (only 3 percent live in a house with permanent walls, water and electricity). Encouragingly, slum residents are educated—78 percent have completed primary school. And they are entrepreneurial—30 percent of households operate a small enterprise and these businesses are helping in the fight against poverty.

A comparison between Nairobi with the seemingly similar African city of Dakar reveals a major surprise. It shows that slum living conditions—especially, quality of housing and access to infrastructure—are far superior in Dakar compared to Nairobi, even though access to education and employment are significantly higher in Nairobi (World Bank 2008; also see Appendix). A key reason driving the divergence is the difference in tenure. About 74 percent of Dakar’s slum residents say they own their home, and have lived in it for an average of 19 years. By comparison, only 8 percent of Nairobi’s slum residents own their home and they move every five years on average. In Nairobi, these two factors—the extraordinarily high proportion (92 percent) of renters and the fact that they move frequently—combined with the insecurity of land tenure that characterizes slums, have combined to create disincentives for investment and seriously confound efforts to improve living conditions for the poor. This means that infrastructure upgrading efforts in Nairobi’s slums are unlikely to either benefit the poor or be sustainable, unless land tenure issue are tackled either prior to or simultaneously with such investments.

2. Proposed objective(s)

The overall program development objective is to improve living conditions in slums in selected cities in Kenya, by improving security of tenure and investing in infrastructure based on plans developed in consultation with the community.

The program will also create and test a national framework for systematic improvement and continuing investments in slums, one that can reach all slums over the medium- to long-term.

In addition to supporting improvements in the existing stock of slum housing, the program will support the Ministry of Housing and local authorities in dealing with future inflow—that is, anticipated

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2 This estimate is based on a stringent definition of slums devised by Central Bureau of Statistics (1999) and it excludes slums on the periphery of Nairobi’s administrative boundary.
population growth and the associated need for additional housing—by helping them develop and selectively implement sustainable mechanisms for increasing delivery of serviced land for housing.

**Preliminary program description**

The program will combine a demand orientation with supply-side rules of access, and will reward good performance on implementation.

Program design principles:

(i) a national multi-donor-supported government-led program, where participation by cities/municipalities is voluntary and requires them to meet pre-agreed conditions for participation;

(ii) within cities, designed as a city-wide upgrading program open to all slum settlements, with transparent settlement selection and phasing rules;

(iii) participation by slum communities within a given municipality is voluntary and requires them to meet pre-agreed conditions for participation;

(iv) program rewards performance, including by reallocating funds from cities and settlements where implementation/progress is slow to better performers;

(v) program offers improved security of tenure and infrastructure investments—investments are selected from an agreed menu, within an established per capita or per hectare budget envelope;

(vi) communities participate in many way, including:

   a. with assistance from NGOs, communities play a key role in mapping their settlement, registering residents, identifying priorities and selecting a package of investments tailored to their settlement;

   b. as a proxy for demand, communities contribute a small proportion of project costs upfront (e.g. 5 percent of capital costs, in cash or kind);

   c. communities contribute to project planning, monitoring and evaluation;

(vii) local authorities are the key implementing agencies at the local level and subsequently will be responsible for operations and maintenance of municipal infrastructure assets; and

(viii) water and electric utilities will be involved in extending connections, and subsequently in operating and maintaining services.

The project has the following components (estimated cost US$ 140 million):

**Component 1: Institutional Development (US$ 6 million; IDA US$ 5 million).** This component will assist in strengthening the capacity of:

(i) Ministry of Housing to (a) create a national enabling framework and policies for slum upgrading; (b) develop financing mechanisms and raise financing for implementation of slum upgrading by local authorities; (c) more broadly, playing the role of an enabler and facilitator of production of new housing (especially, low and middle income housing); and (d) lead development of new/revised policies for housing and delivery of serviced land.

(ii) Ministry of Lands to strengthen mechanisms and systems for implementation of the National Land Policy with a focus on improving access to tenure and land for the urban poor.

(iii) Local Authorities to: (a) implement slum upgrading (including the facilitation of increased interaction between the Community Development Offices with communities and NGOs); (b) plan for growth and emerging housing demand in their cities; and (c) start to develop mechanisms for sharing the cost of upgrading with the national government.
Component 2: Community mobilization and community-driven preparation of settlement upgrading plans (US$ 9 million; IDA US$ 8 million). This component will provide support for: (a) development of city-wide slum maps (detailed); (b) community mobilization and participation in the program; and (c) support mobilized communities to conduct household/beneficiary identification and registration, as well as contribute to preparation of upgrading plans. The component may also be able to support activities that help link mobilized communities to broader opportunities and resources—for example, facilitating effective linkages to micro-finance entities that can provide small loans for house construction and/or for micro-enterprises. It is envisaged that NGOs will play a key role in this work.

Component 3: Investment in settlement restructuring, improved tenure security and infrastructure (US$ 95 million; IDA US$ 63 million). This component will support implementation of settlement upgrading plans developed at the community level. It will entail significant investment in infrastructure. This component will also strengthen tenure security through use of locally-relevant tenure instruments/options for participating communities and individual households. These infrastructure investments are likely to create a significant number of jobs and infrastructure contractors will explicitly be encouraged to hire workers from the communities in which they are working.

Component 4: Planning for pro-poor growth: Supporting delivery of serviced land for housing (US$ 25 million; IDA US$ 20 million). This component will provide support to local authorities to develop and selectively implement sustainable mechanisms for increasing delivery of serviced land for housing.

Component 5: Project Management, Monitoring and Evaluation (US$ 5 million; IDA US$ 4 million). This component would encompass the management activities associated with program implementation, establishment and implementation of a comprehensive monitoring and evaluation (M&E) system, and future program formulation.

3. Safeguard policies that might apply

The table below summarizes the Safeguard policies triggered by the operation and suggestions for handling these.

<table>
<thead>
<tr>
<th>World Bank Safeguard Policies</th>
<th>Triggered</th>
<th>Handling</th>
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<tbody>
<tr>
<td>Environmental Assessment (OP/BP 4.01)</td>
<td>Yes</td>
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<td>Natural Habitats (OP/BP 4.04)</td>
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<td>Pest Management (OP 4.09)</td>
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<td>Involuntary Resettlement (OP/BP 4.12)</td>
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<td>Safety of Dams (OP/BP 4.37)</td>
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<td>Projects on International Waterways (OP/BP 7.50)</td>
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<td>Projects in Disputed Areas (OP/BP 7.60)</td>
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</tbody>
</table>

4. Tentative financing

Source: ($m.)
BORROWER/RECIPIENT 10
International Development Association (IDA) 100
SIDA and AFD 30

Total 140
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