16 July, 2015

Mr. Henry Rotich
Cabinet Secretary of the National Treasury
The National Treasury
P.O. Box 30007 Treasury Building
Harambee Avenue
Nairobi, Kenya

Dear Mr. Rotich:

Re: Grant No. TF016395-KE (Urban Water and Sanitation OBA Fund for Low Income Areas Project) First revised Disbursement Letter Dated September 5, 2014

Additional Instructions: Disbursement

I refer to the Letter Agreement ("Agreement") between the International Development Association ("World Bank"), acting as administrator of the Global Partnership on Output-based Aid ("GPOBA"), and the Republic of Kenya (the "Recipient") for the above-referenced project, dated September 5, 2014. The Agreement provides that the World Bank may issue additional instructions regarding the withdrawal of the proceeds of Grant TF16395-KE ("Grant").

This letter ("Disbursement Letter"), as revised from time to time, constitutes the additional instructions and is the first revised version which is allowing for the payment of category 2 expenditures from the Designated Account and as such the operation of two project accounts for the two categories stated in the Agreement. Sections II (vi), III (i) and IV are therefore hereby amended which amongst others includes the raising of the Designated Account ceiling as well.

The attached World Bank Disbursement Guidelines for Projects, dated May 1, 2006, ("Disbursement Guidelines") (Attachment 1), are an integral part of the Disbursement Letter. The manner in which the provisions in the Disbursement Guidelines apply to the Grant is specified below. Sections and subsections in parentheses below refer to the relevant sections and subsections in the Disbursement Guidelines and, unless otherwise defined in this letter, the capitalized terms used have the meanings ascribed to them in the Disbursement Guidelines.

I. Disbursement Arrangements

(i) Disbursement Methods (section 2). The following Disbursement Methods may be used under the Grant:

- Reimbursement
- Advance
• Direct Payment

(ii) Disbursement Deadline Date (subsection 3.7). The Disbursement Deadline Date is 4 months after the Closing Date specified in the Grant Agreement. Any changes to this date will be notified by the World Bank.

(iii) Disbursement Conditions (subsection 3.8). Please refer to the Disbursement Conditions in the Grant Agreement under Section IV, B. of Schedule 2, whereby payments under Category (2) are subject to the fulfillment of stipulated conditions.

II. Withdrawal of Grant Proceeds

(i) Authorized Signatures (subsection 3.1). A letter in the Form attached (Attachment 2) should be furnished to the World Bank at the address indicated below providing the name(s) and specimen signature(s) of the official(s) authorized to sign Applications:

The World Bank
Delta Center,
Upper Hill, Menengai Road,
Nairobi, Kenya
Attention: Country Director, Diarietou Gaye

(ii) Applications (subsections 3.2 - 3.3). Please provide completed applications for withdrawal, together with supporting documents through the World Bank’s ClientConnection, web-based portal, following the instructions for electronic delivery. In the case the recipient does not have internet access, the World Bank may permit the delivery of applications for withdrawal, together with the supporting documents, in accordance with subsection 3.3, to the following address:

The World Bank, Loan Department,
Delta Center, 13th Floor,
Upper Hill, Menengai Road,
Nairobi, Kenya.
Tel: 254 20 2936 000
Attention: Loan Department

(iii) Electronic Delivery (subsection 3.4) The World Bank may permit the Recipient to electronically deliver to the World Bank Applications (with supporting documents) through the World Bank’s Client Connection, web-based portal. The option to deliver Applications to the World Bank by electronic means may be effected if: (a) the Recipient has designated in writing, pursuant to the terms of subparagraph (i) of this Section, its officials who are authorized to sign and deliver Applications and to receive secure identification credentials (“SIDC”) from the World Bank for the purpose of delivering such Applications by electronic means; and (b) all such officials designated by the Recipient have registered as users of Client Connection. If the World Bank agrees, the World Bank will provide the Recipient with SIDC for the designated officials. Following which, the designated officials may deliver Applications electronically by completing Form 2380, which is accessible through Client Connection (https://clientconnection.worldbank.org). The Recipient may continue to exercise the option of
preparing and delivering Applications in paper form. The World Bank reserves the right and may, in its sole discretion, temporarily or permanently disallow the electronic delivery of Applications by the Recipient.

(iv) Terms and Conditions of Use of SIDC to Process Applications. By designating officials to use SDIC and by choosing to deliver the Applications electronically, the Recipient confirms through the authorized signatory letter its agreement to: (a) abide by the Terms and Conditions of Use of Secure Identification Credentials in connection with Use of Electronic Means to Process Applications and Supporting Documentation (“Terms and Conditions of Use of SIDC”) provided in Attachment 3; and (b) to cause such official to abide by those terms and conditions.

(v) Minimum Value of Applications (subsection 3.5). The Minimum Value of Applications is USD 100,000 for Direct Payments and Reimbursements.

(vi) Advances (sections 5 and 6).

- **Type of Designated Account (subsection 5.3):** Segregated for disbursement under categories 1 and 2 of the Grant Agreement.

- **Currency of Designated Account (subsection 5.4):** USD

- **Financial Institution at which the Designated Account Will Be Opened (subsection 5.5):** Central Bank of Kenya

- **Ceiling (subsection 6.1):** USD 1,000,000

III. Reporting on Use of Grant Proceeds

(i) Supporting Documentation (section 4). Supporting documentation should be provided with each application for withdrawal as set out below:

- **For requests for Reimbursement:**
  
  - Records evidencing eligible expenditures, (e.g., copies of receipts, supplier invoices) for payments against consultant contracts, under Category 1, valued at USD 50,000 or more;
  
  - Statement of Expenditure in the form attached (Attachment 4) for all other payments made under Category 1;
  
  - Customized Statement of Expenditure in the form attached (Attachment 7) for all payments made under Category 2 plus the additional documentation detailed in Section III, (iii) of this letter; and
  
  - List of payments against contracts that are subject to the World Bank’s prior review, in the form attached (Attachment 5).
• For reporting eligible expenditures paid from the Designated Account:
  o Records evidencing eligible expenditures, (e.g., copies of receipts, supplier invoices) for payments against consultant contracts, under Category 1, valued at USD 50,000 or more;
  o Statement of Expenditure in the form attached (Attachment 4) for all other payments made under Category 1;
  o Supporting documentation as set out under point (iii) below for payments made under category 2;
  o A reconciliation of the Designated Account in the form attached (Attachment 6), with copies of the bank statement
  o List of payments against contracts that are subject to the World Bank’s prior review, in the form attached (Attachment 5).

• For requests for Direct Payment: records evidencing eligible expenditures, e.g., copies of receipts, supplier invoices, or contracts for payments under Category 1, or for direct payments under Category 2, the customized Statement of Expenditure in the form attached (Attachment 7) plus the additional documentation detailed in Section III, (iii) of this letter.

(ii) Frequency of Reporting Eligible Expenditures Paid from the Designated Account (subsection 6.3): Quarterly or more often is required

(iii) Other Supporting Documentation Instructions
Advance payments to the Service Providers of each subproject financed under Category 2 will be no more than 10% of the relevant OBA total award. Subsequent payments will be made based on verified outputs by the Independent Verification Agent (IVA). In the event a Service Provider does not meet its outputs, no payments will be made. Therefore the customized SOE statement submitted for Category 2 must also be accompanied by the following:

• For the initial advance of 10%, the SOE must include a copy of the signed Service Provider Agreement (SPA) between the OBA Facility and the Service Provider as well as a No Objection of World Bank.
• For the 2nd payment of 65%, the SOE must include a copy of the Output Verification Report (OVR) as per the operations manual prepared by the WSTF and the No Objection of World Bank.
• For the 3rd and final payment of 25%, the SOE must include a copy of the Output Verification Report (OVR) as per the operations manual prepared by the WSTF and the No Objection of World Bank.

IV. Other Disbursement Instructions
Funds may be transferred on a regular basis from the Designated Account to two project bank accounts to be maintained in Kenya Shillings with the Water Services Trust Fund ("WSTF"). One project account will be used to make payments under category 1 and the other to make payments under category 2 of the project. Actual balances in these project bank accounts should be reported in the Designated Account Reconciliation Statement (Attachment 6) and actual expenses arising from these accounts should be included in the Statement of Expenditures (Attachments 4, 5 and 7). Funds remaining unspent in these project bank accounts at the closing date of the project should be refunded to the Designated Account before the disbursement deadline date.

V. Other Important Information


From the Client Connection website, you will be able to download Applications, monitor the near real-time status of the Grant, and retrieve related policy, financial, and procurement information.

If you have not already done so, the World Bank recommends that you register as a user of the Client Connection website (https://clientconnection.worldbank.org). From this website you will be able to download Applications, monitor the near real-time status of the Grant, and retrieve related policy, financial, and procurement information. All Recipient officials authorized to sign and deliver Applications by electronic means are required to register with Client Connection before electronic delivery can be effected. For more information about the website and registration arrangements, please contact the World Bank by email at <clientconnection@worldbank.org>.

If you have any queries in relation to the above, please contact Christiaan Nieuwoudt, Finance Officer at Loa-afr@worldbank.org using the above reference.

Yours sincerely,

Christiaan Nieuwoudt
Finance Officer
Africa Region
Attachments

THE ATTACHMENTS REMAIN TO BE THE SAME AS THOSE WHICH HAD ALREADY BEEN PROVIDED WITH THE ORIGINAL LETTER OF DISBURSEMENT AND IS THEREFORE NOT REATTACHED TO THIS REVISION

1. World Bank Disbursement Guidelines for Projects, dated May 1, 2006
2. Form for Authorized Signatures
4. Form of or “Statement of Expenditure”
5. Form of Payments Against Contracts Subject to the World Bank’s Prior Review
6. Form of Designated Account Reconciliation Statement
7. Customized Statement of Expenditure

Cleared with: Rajesh Advani
Kevin Bender

Cc with copies: Water Services Trust Fund
National Treasury