I. Country Context

1. **Although Kenya has experienced strong economic growth in recent years, it has yet to undergo a structural transformation.** Growth of gross domestic product (GDP) averaged 5.3 percent during 2004–14 and has exceeded 5.6 percent since then, driven primarily by public investment in infrastructure, higher private-sector investment, and strong consumer demand. Despite the overall strong performance in the past decade and a half, the Kenyan economy has not reached its full potential and the provision of infrastructure and services has not kept up with the pace of economic growth.

2. **Economic growth has been accompanied by rapid urbanization.** Nonetheless **Kenya remains under-urbanized.** In 2014, about 25 percent of the Kenyan population lived in urban areas and the total urban population was estimated to be about 15.2 million people. By 2050 about half of the population will be living in urban areas. Fortunately, Kenya is at an early stage of urbanization, which offers the potential to drive economic growth. This will depend on the efficiency of public investments in cities to create the economies of agglomeration and amplify the productivity of workers. As a result, investment in cities, combined with moderate levels of rural to urban migration may be the most effective way to raise welfare and reduce total poverty in the medium to long run.

3. **However, Kenyan urban centers are not currently able to meet the rapidly growing demands for infrastructure and services due to poor management and limited investment.** Rapid urbanization has left Kenyan cities with huge unmet...
demand for critical infrastructure and basic services, which has constrained the productivity of businesses and negatively impacted the quality of life of residents.

4. **The Government of Kenya has recognized the need to manage urbanization as part of its overall development strategy.** Kenya Vision 2030 highlights rapid urbanization as one of four key challenges facing the country. Within the over-arching framework of Vision 2030, the urbanization component of the Second Medium Term Plan (MTP2) 2013–17 aims to facilitate a sustainable urbanization process through an integrated urban and regional planning management framework of Kenyan urban centers and towns. Aligned to that goal, the MTP identifies a series of investment programs to enhance infrastructure, connectivity and accessibility, safety and security. Developing the basic institutions required for effective urban management is critical to deliver these investments and for urbanization to contribute to sustainable growth in Kenya.

II. **Sectoral (or multi-sectoral) and Institutional Context**

5. **Kenya’s urbanization is taking place within the context of a major shift toward political, fiscal, and administrative devolution.** The 2010 constitution provides for two autonomous but interdependent levels of government: the national government and 47 county governments. Under the constitution, county governments have been assigned the responsibility for the delivery of many basic services. The institutional arrangements in the context of devolution are still evolving, including structures and mechanisms for intergovernmental cooperation and transfer of resources to deliver on policy priorities.

6. **The framework for management of urban areas is very weak in the initial arrangement under devolution.** Under the 2010 constitution, counties took over the revenues and the responsibilities previously assigned to urban local governments, but did not explicitly specify how urban areas would be governed and managed, leaving that to subsequent national legislation. By abolishing one of the oldest continuous systems of local municipal government on the African continent, devolution to the county-level has engendered an urban governance deficit.

7. **The Urban Areas and Cities Act (UACA) (2011, amended in 2016) partially addresses this urban governance deficit, by providing procedures for chartering cities and municipalities and establishing urban boards.** Such urban boards, appointed by county governments, would have delegated responsibilities for the management of cities and municipalities and would remain accountable to their respective county governments. However, to date, no counties have established urban boards to manage individual cities or municipalities on a delegated basis. The lack of clarity in the UACA regarding the urban hierarchy and the absence of regulations to operationalize the Act have discouraged most county governments from issuing charters and establishing urban boards.

8. **In addition to the formal urban governance institutions, providing urban infrastructure and services will require adequate levels of financing, which is currently short of meeting the demands.** County governments have three sources of
revenue: a large unconditional grant from national government, known as the “equitable share”, conditional grants mainly financed by development partners, and own-source revenues. In FY 2015/2016, the unconditional grant accounted for about 85 percent of county revenues, while about 11 percent came from own-source revenues and 4 percent from conditional grants. The formula of the equitable share, which accounts for the majority of the county government revenues, is highly redistributive, by transferring relatively high per capita allocations to those historically poor and more peripheral counties and lower per capita allocations to the more developed and more urbanized counties. This leaves the more urbanized counties with insufficient funding to maintain inherited infrastructure and services or to finance new investments required to address the infrastructure gap.

III. Program Scope

9. The government’s overall response to Kenya’s urban development challenge is articulated in the National Urban Development Policy (NUDP). The NUDP, approved by the Cabinet in 2016, envisages secure, well-governed, competitive, and sustainable urban areas and cities, and aims to facilitate sustainable urbanization through good governance and the delivery of accessible, quality and efficient infrastructure and services.

10. The State Department of Housing and Urban Development (SDHUD) has designed the Kenya Urban Program (KenUP), as a vehicle to implement the NUDP. KenUP has also been formulated in the context of the existing legislation on urban development, including the County Government Act (2012) and the UACA. KenUP aims to establish effective and empowered urban planning and management systems that deliver infrastructure and supporting services, economically, efficiently and effectively based on locally determined urban integrated development plans (IDePs) and town plans.

11. The proposed Program will finance key parts of the KenUP across its six thematic areas, including urban institutions, governance, management, finance, planning, and infrastructure and service delivery. It does so through three separate, but inter-related, windows.

12. Window 1 will support national government in fulfilling its urban development functions. Through three sub-components, the national government will undertake activities aimed at: (a) establishing and strengthening the institutional and policy framework for urban management; (b) supporting the management and administration of urban finances (including the management of APAs and conditional grants); and (c) providing backstopping for urban planning, urban infrastructure delivery and for the provision of basic urban services. All of these window 1 activities will be led or coordinated by the Urban Development Department (UDD) of the SDHUD within the MTIHUD. Window 1 will be funded through the IPF financing instrument.

13. National government support aimed at strengthening the institutional and policy framework for urban development will focus on three areas. Firstly, UDD will
ensure that counties are provided with guidance and capacity building to enable them to establish and operate urban management institutions for their urban areas. This will include the provision of templates for municipal charters, training for urban boards, procedural guidelines on municipal management, and the like. Secondly, UDD will conduct reviews of policy and legislation, as well as coordinate policy on a variety of urban development issues. Thirdly, UDD will ensure sound Program management.

14. **UDD will also take on the management of conditional grants earmarked for urban development and oversee the Annual Performance Assessment (APA) process that underlies the allocation of Urban Institutional Grants (UIGs) and Urban Development Grants (UDGs) to eligible counties and urban areas.** APAs will assess the extent to which counties and their urban institutions have met with Minimum Conditions and Performance Standards and will therefore be of critical importance in determining the allocation of UIGs and UDGs to eligible counties and urban areas. In addition, UDD will ensure that such grants are fully and properly integrated into national-level budget processes and into the annual national budget calendar. UDD will also be responsible for authorizing the timely release of UIGs and UDGs to county governments by the National Treasury. Finally, UDD will provide counties and urban institutions with guidance and capacity development support for managing urban finances.

15. **Window 2 will provide support to county governments for the formulation of urban development plans, for the establishment and operation of urban institutional arrangements (charters, boards, administrations, and the like), and for the initial preparation of urban infrastructure investments.** Program support for window 2 will take the form of urban institutional grants (UIGs) to county governments, which will be accessed by counties provided that they meet basic minimum conditions (MCs). The most important MC to be met by counties will be the preparation of a county urban institutional development strategy (CUIDS), to be annexed to the county integrated development plan (CIDP). The CUIDS will specify how the county intends to address urban management issues and will include an annual action plan and budget outlining the proposed use of the UIG. Through the provision of UIGs to counties, window 2 will enable county governments to promote urban development within their jurisdictions, by establishing and strengthening urban institutions (for example, municipal boards, municipal administrations) and by integrating urban development challenges and opportunities into county-wide development strategies and plans. In addition, UIGs will thus provide counties (and their urban institutions) with some of the financial resources needed to meet the MCs and performance standards (PSs) for accessing UDGs and to thus obtain funding for urban infrastructure and service delivery.

16. **Counties will be able to use their UIGs to finance a range of eligible expenditures, including costs related to capacity building, some incremental operating costs, hiring consultants, and the purchase of office equipment.** Provided that MCs are met, UIGs will be allocated to all eligible and qualified counties on an equal shares basis of US$500,000 per county over the life of the program, disbursed in three tranches.
of USD 200,000 USD 200,000 and USD 100,000 per year. IDA funds for window 2 will be disbursed through PforR financing modalities and will be an integral part of county government budgets.

17. **Window 3 will provide support to urban boards and administrations (through their respective county governments) for financing infrastructure investments in urban areas.** This support will take the form of UDGs, conditional grants budgeted for by the national government and transferred to the sub-national level and earmarked for financing investments in specific urban areas. Annual UDGs will be made available to eligible urban areas provided that they meet MCs and as a function of their performance. MCs for UDGs will be focused on compliance with: (a) institutional benchmarks, such as the granting of a municipal charter to the urban area in question, the appointment of a municipal board/administration and the inclusion of a separate urban area vote in the county budget; and (b) program-specific benchmarks and requirements (such as performance in procurement, compliance with investment menu, and the like). PSs will be focused on urban area governance (such as citizen participation and public disclosure of urban finances); and urban area planning, infrastructure, and service delivery benchmarks (such as implementation performance, plan formulation, and actual provision of basic urban services). UDG funds will be used by qualifying urban institutions to finance a broad range of infrastructure investments. Eligible investments will include waste management, drainage, connectivity infrastructure, urban economic infrastructure, and fire and disaster management. Ineligible investments include any World Bank environment and social impact assessment Category A projects, as well as a range of sector-specific projects.

18. **The size of the indicative (maximum) UDG annual grant pool is US$114.65 million, based on an allocation of US$20 per urban resident and a minimum allocation of US$500,000 (per urban area) to ensure that all urban areas are able to make significant investments.** On average (and assuming that MCs and PSs are fully met) annual UDGs will amount to about US$2.5 million per county or about US$1.95 million per urban area, with the most urbanized counties and the most populous urban areas being eligible for the largest UDG allocations. The actual level of total UDG allocations each year will depend on the achievement of MCs and PSs, and may therefore vary between zero (in the event that no urban areas qualify) to $114.65 million (in the event that all urban areas qualify for their maximum UDG allocations). When counties and their urban areas comply with all MCs, they will qualify for 50 percent of their indicative UDG allocations; meeting PSs will result in qualification for between 0–50 percent of the remaining indicative UDG allocations. IDA funds for Window 3 will be financed through the PforR instrument.

IV. **Program Development Objective(s)**

19. **The Program Development Objective (PDO) is to establish and strengthen urban institutions to deliver improved infrastructure and services in participating counties in Kenya.** The Program will provide direct support to all counties other than the city counties of Nairobi and Mombasa, and to 59 potentially eligible urban areas
within those counties. The primary beneficiaries of the Program are the 5.6 million residents of the 59 urban centers, half of whom are female.

III. Environmental and Social Effects

20. Because of the significant geographic dispersion of the participating counties, small scale of proposed investments, and the exclusion of World Bank category A projects, the Environment and Social Systems Assessment (ESSA) has determined that cumulative environmental and social effects and impacts of the Program as a whole are unlikely. The system for environmental and social management under the Program will be largely based on the existing legal, regulatory and institutional system for environmental and social assessment and management in Kenya, drawing on experience with implementation of safeguards instruments in other safeguards infrastructure projects. Overall, the ESSA shows that the country’s Environmental and Social systems are adequate for the Program, with implementation of the identified actions to address the gaps and enhance performance during implementation of the projects. However, county systems need to be strengthened to ensure proper management of environmental and social risks of the program. In addition, the environmental and social management units at both national and county levels are not adequately supported through budgetary allocations and provision of necessary facilities, equipment and supplies, adequate and skilled human resources, and therefore there is need for critical support for the same.

21. The Program's existing institutional systems need further strengthening for environmental and social management along with a framework for environmental and social monitoring at the SDHUD and UDD. The capacity (human and financial resources) within the counties and institutions responsible for managing environmental and social risks needs strengthening and training. In particular, counties have no documented procedures and processes in place for the management of the occupational health and safety risks and have not sufficiently mainstreamed the land acquisition procedures into their planning and development processes.

22. To address these institutional and systemic weaknesses, the Program will to strengthen national and county level systems in three areas. These are (a) environmental and social management, (b) implementation and monitoring of the environmental and social management system, and (c) capacities for environmental and social management. To fill the gaps identified in the ESSA, UDD will support specific measures to enhance the performance of national and county level environmental and social risk management systems. These measures will be implemented through measures specified in the Program Action Plan and the Program Operations Manual (POM) and through capacity building. These measures have been consolidated into the ESSA Action Plan. Implementation of environmental and social procedures contained in the POM will be one of the performance criteria in the Program’s evaluation system. These measures will complement other interventions provided under other government programs, such as the Kenya Devolution Support Program (KDSP).
IV. Financing

23. Overall, the Kenya Urban Support Program (KUSP) represents a significant slice of the KenUP. The total KenUP budget is estimated at US$1 billion. Of this, KUSP will provide US$300 million dollars or 30 percent of the total KenUP funding budget. The Program will be implemented over a period of six years. IDA funds will be allocated to the three windows, as shown in table 2 below. The majority of the Program’s funds will be used to finance sub-national activities (windows 2 and 3).

Table 1: Program’s IDA allocations

<table>
<thead>
<tr>
<th>Window/level</th>
<th>Expenditure Areas</th>
<th>Amount (US$ millions)</th>
<th>Amount (%)</th>
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| Window 1: National government | • Policy development, Program management and monitoring.  
• Management of conditional grants for urban development.  
• Institutional and capacity development. | 24.6                   | 8.2        |
| Window 2: County governments | • Sub-national urban development and planning.  
• Institutional and capacity development.  
• Technical and institutional support for urban infrastructure and service delivery. | 22.5                   | 7.5        |
| Window 3: Urban boards (county government agencies) | • Infrastructure and service delivery. | 252.9                  | 84.3       |
|                    | Total                                                                              | 300.0                  | 100.0      |

IV. Program Institutional and Implementation Arrangements

24. The Program will be implemented through institutional arrangements at the national level, county level, and urban board level. The division of responsibilities between the three levels is laid out in the 2010 constitution and in the UACA. The 2010 constitution stipulates that the national and county governments should conduct their affairs in consultation and with coordination. It confers the higher authority to formulate national policies on the national government, in which context the national government spearheaded the development of the NUDP, while the implementation of the policy as well as of core urban planning and development functions are devolved to the sub-national level. The UACA stipulates the relationships between county governments and urban boards, including the level of authority to be conferred and types of functions to be delegated by county governments.

25. The SDHUD has the overall responsibility for the Program and the UDD will provide technical leadership and support. For operationalizing the Program, the SDHUD will be in charge of planning, budgeting, and disbursement of funds to the eligible county governments and municipal boards. Further, the SDHUD will regularly
consolidate accounts, financial reports, and progress reports. Through an efficient management of conditional grants, the SDHUD will provide incentive to county governments to implement the NUDP and the UACA. In particular, the UDD plays a core role in technical coordination, capacity building and backstopping. For the day-to-day management of KUSP, the UDD will establish a Program Implementation Support Unit (PISU), consisting of: (a) a Program coordinator, two planners, an engineer, an institutional capacity building specialist, a monitoring and evaluation specialist, a financial management specialist, a procurement specialist, a public finance advisor, and a social safeguards specialist. The UDD will seek to fill these positions from within the ministry or seek to deploy officers from other ministries. If it cannot, it is expected to fill the positions with consultants.

26. **At the sub-national level, county governments will play a pivotal role in implementation of the Program.** Their responsibilities include: (a) establishing urban institutions for effective urban management; (b) capacity building and technical backstopping of municipal boards/administrations; (c) supporting and guiding municipal boards/administrations in preparing budgets and forwarding them for approval by the county assembly; (d) managing the flow of Program funds at this level, and consolidating the fiscal reporting from municipal boards for onward submission to the National Treasury; (e) and generally exercising oversight on the performance of the municipal boards. To facilitate within-county coordination and coordination with the national government, a Program Implementation Team (PIT) will be formed in the county government, under the overall responsibility of the county executive committee (CEC) member responsible for urban development, with the Director of Urban Development (or equivalent) as a coordinator and a chief officer providing an oversight. Other members of the PIT include: a municipal administrator (once appointed), an engineer, an accountant, county environment and social officers, and an economist for monitoring and evaluation.

27. **Municipal boards and municipal administrations are new entities to be established by county governments and will implement the Program’s window 3 activities.** Municipal boards and administrations will be responsible for investment planning, budgeting and implementation, and for day-to-day implementation of activities funded under the Program. They will also be responsible for compliance of operations with all financial management, procurement, and environmental and social safeguards and regulations.

28. **To ensure high level inter-sector and inter-governmental oversight, a Program Steering Committee (PSC) will provide policy guidance, strategic leadership, and broad oversight of the Program.** One of the PSC’s major functions will be to endorse APA results. The Principal Secretary of the SDHUD and the chair the urban development committee of the Council of Governors will jointly chair the steering committee. Other members of the committee will include representatives (at the chief executive/Principal Secretary level) of the National Treasury, Commission for Revenue Allocation (CRA), Ministry of Devolution and Planning, Controller of Budget, and the chief executive of the Council of Governors, the chair of the CECs responsible for
urban development, and any other appropriate representatives identified and appointed by the committee. The committee will meet twice a year. UDD and the secretariat of the Council of Governors will provide joint secretariat services to the committee.

29. **In addition, a Program Technical Committee (PTC) will be established.** The technical committee will be responsible for reviewing and commenting on the APA reports, addressing any cross-cutting technical issues and challenges in Program implementation, reviewing Program progress reports, accounting and financial management, providing technical guidance on Program implementation, and escalating to the steering committee any evolving policy issues. The director of the UDD and the secretary to the urban committee of the Council of Governors will co-chair the technical committee. Its members will include three CEC members representing the county governments participating in the Program (to be identified by the Council of Governors), all deputy directors in UDD, the head of the PISU at the UDD, and representatives from the National Treasury and the Ministry of Devolution and Planning (at the director level or above), and others as appointed by the technical committee. UDD and the Secretariat of the Council of Governors will provide joint secretariat services to the committee.

V. **Contact point**

**World Bank**
Contact: Abdu Muwonge  
Title: Senior Urban Specialist  
Tel: +254 20 293 6335  
Email: amuwonge@worldbank.org

**Borrower/Client/Recipient**
Contact: Dr. Thomas Thugge  
Title: Principal Secretary, National Treasury  
Tel: +254 20 224 0051  
Email: ps@treasury.go.ke

**Implementing Agencies**
Contact: Ms. Aidah Munano  
Title: Principal Secretary, State of Housing and Urban Development  
Tel: +254 20 271 3833  
Email: pshousing@ardhi.go.ke

VI. **For more information, contact:**
The InfoShop  
The World Bank  
1818 H Street, NW  
Washington, D.C. 20433  
Telephone: (202) 458-4500  
Fax: (202) 522-1500  
Web: http://www.worldbank.org/infoshop