1. **Country and Sector Background** The current Country Assistance Strategy (CAS) for Kenya (dated May 14, 2004) is based on the GOK Investment Program for the Economic Recovery Strategy (IP-ERS). Pillar two of the IP-ERS emphasizes equity and poverty reduction, with a focus on targeted programs aimed at reducing poverty of particularly disadvantaged communities. A particularly noteworthy feature of the IP-ERS is the prominence it gives to addressing the needs of pastoralists, a previously neglected and particularly vulnerable and poverty-stricken group. As mentioned earlier, the National Policy for the Sustainable Development of the Arid and Semi Arid Lands Strategy of Kenya (ASAL Policy) combines investment in infrastructure with human resource development and security enhancement, funding small-scale infrastructure and social safety nets, education for pastoralist children, and improved food security. The Arid Lands project is the main World Bank vehicle in the CAS for implementing this objective of the government strategy.

2. The proposed additional credit geographically expands and deepens in already covered districts the successful approaches introduced by the Arid Lands project to address the long term causes of risk and vulnerability in arid and semiarid districts which were affected by the recent
drought. The credit will also reimburse eligible audited expenditures made by the Government of Kenya to mitigate the effects of the current drought

3. **Objectives** The original *objective* of the project was “to enhance food security and reduce livelihood vulnerability in drought prone and marginalized communities in 22 arid and semi-arid districts”. A minor modification to the objectives is proposed, to take into account actual activities, especially the increased provision of basic services, and the positive impact of the program thus far, as well as the geographical scale up proposed and increased focus on livelihood opportunities under this additional financing. The newly worded objective would be “reduced livelihood vulnerability, enhanced food security, and improved access to basic services in 28 drought prone arid and semi-arid districts in Kenya”

4. **Rationale for Bank Involvement** The proposed additional loan would help finance the costs associated with: (a) scaling up both geographically and substantively the successful drought management and long term livelihood activities of the Arid Lands project in existing project districts; (b) the reimbursement of eligible and audited non-food expenditures associated with the severe drought which has affected the arid and semi-arid districts of Kenya over the last year; and (c) the scale up of the drought contingency fund which is operating under the current credit and has been depleted due to the extended nature of the drought.

5. **Description** The project’s current design is as follows

   **Natural Resource and Drought Management** The activities of this component mitigate the risk posed by drought and other factors by strengthening and institutionalizing natural resources and drought management systems. Activities include district and community based natural resource management, conflict management, drought early warning system drought preparedness and contingency planning, and drought contingency fund.

   **Community Driven Development**. This component finances the implementation of community-prioritized investment projects, community capacity building, and capacity building for backstopping services in arid districts.

   **Support to Local Development** This component aims to improve the delivery of essential services in arid districts and promotes the interests of arid lands at the national level.

6. The original *project components* would be unchanged. Incremental activities to be financed through additional funds are as follows:

   - **Long Term Livelihood Interventions** There is a need to scale up activities aimed at improving livelihoods in the drought prone districts. These would include additional funding for: (a) drought preparedness and natural resource management activities, including new and improved water supplies, natural resource management activities (range and fodder improvement, ecotourism, honey, aloe, gum and resin collection, hay production, livestock product value addition), other livelihood related infrastructure investments such as irrigation, and other income diversification strategies such as investing in women groups; (b) expansion of drought management and the early warning system to five additional drought prone districts in coast
province (Taita Taveta, Lamu, Kilifi, Malindi and Kwale) which were excluded from phase two due to resource constraints, and to Meru North, which is drought prone and is surrounded by areas covered by Arid Lands; (c) scaling up community driven development and support to local development in the eleven arid districts where demand and capacity to implement exceed existing credit availability; and (d) the cost of extending the project by one year, to allow time for incremental investments to take place has also been factored into the three project components.

- **Replenishing the Drought Contingency Fund.** This component also supports risk prevention and livelihood improvement, but is released on a contingent basis at critical points in the drought cycle. It finances drought mitigation, response and recovery activities based on district drought contingency plans developed and endorsed by all stakeholders at district level. This category has been exhausted due to the persistent drought situation in many districts since 2003 when this phase of the project started. Following the Bank and Ministry of Finance endorsement to allow the project to reallocate Kshs. 89 million this fiscal year for the current drought, emergency funding for drought expenditures has continued. This funding has allowed the project to fill gaps in the nutrition-related response to the high levels of child malnutrition in many districts (where NGO/UNICEF support is lacking), livestock interventions (to keep remaining animals alive and begin restocking), maintain emergency water supply, and fill other immediate and urgent needs and gaps in the current levels of emergency support, which are continuously identified and met by the district-based multi-sectoral teams. During the budget speech of June 15, 2006, government has further reinforced its support for the drought contingency funding mechanism by announcing an additional GOK contribution of Kshs. 500 million for next fiscal year. The intention is to institutionalize a mechanism to which other donors and GOK can contribute, which will fund district drought contingency plans, triggered by a clear signals given by the existing and quite robust drought early warning system functioning in the 27 most vulnerable districts. The additional financing will fund expenditures such as purchase of livestock during early stages of the drought, investments in strategic drought preparedness water supplies for humans and animals, repair of critical access roads, and strategic human and animal health interventions.

- **Reimbursement of Incremental (pro-poor) Drought Related Expenditures incurred by GOK** This financing is necessary to ameliorate the negative impact of an additional US$ 85 million the GOK must borrow from the domestic market to cover its drought-related expenditures. The additional financing would cover reimbursement for up to US$ 20 million of drought-related non-food expenditures incurred after January 1, 2006. Treasury has carried out a preliminary assessment through their internal auditors of these expenditures made by the ministries of Water, Livestock, Agriculture, Health, and Education. The non-food activities proposed to be financed under this additional financing proposal fall squarely within the existing project objectives and description. Activities identified to date include water tankering, support to rapid response teams to respond to water supply breakdowns, emergency livestock offtake, animal disease control, purchase and distribution of seed for food crops, incremental costs due to waiver of school fees for secondary schools in drought
affected areas, human disease management, and therapeutic and supplemental feeding for the sick and malnourished. The team has pre-screened the list of expenditures, and the internal auditors have carried out a physical verification to confirm their eligibility.

7. **Financing**

<table>
<thead>
<tr>
<th>Source:</th>
<th>($m.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BORROWER/RECIPIENT</td>
<td>7</td>
</tr>
<tr>
<td>INTERNATIONAL DEVELOPMENT ASSOCIATION</td>
<td>60</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>67</strong></td>
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8. **Implementation.** The institutional and implementation arrangements would be largely the same under the additional financing as for the ongoing project, as they are working effectively. Overall project coordination will remain with Special Programs in the Office of the President (OP), reporting to the Permanent Secretary. At the district level, the project will continue to be coordinated through the District Coordination Unit (DCU), headed by a Drought Management Officer (DMO), who also acts as the district project coordinator and secretary of the District Steering Group (DSG). Due to: (a) the multi-sectoral and innovative nature of the project; (b) the fact that drought and natural resource management are complex issues which did not fit neatly into any existing Government structure; and (c) the lack of effective devolved government structures in Kenya to manage the project at district level, the project has operated through a project coordination unit. Through the influence of the program, the Disaster Management Policy of the Government now includes these structures. Formalization of the drought and disaster management functions at national and district level through this policy are proposed to be completed by the end of 2006. A major outcome of the project has been to build the capacity of district teams through the DSG to plan and manage untied resources, and in addition creating demand for transparent resource allocation at community level has established an enabling environment for decentralization.

9. **Sustainability** The Arid Lands program continues to be a successful instrument both to support the drought management structures of government and to invest in the long term development of the project area. The project is delivering its intended benefits to support communities and is leveraging substantial additional funding from other sources. Response to drought, in terms of speed (three months sooner than the 2000 drought) and targeting (unified community based food aid targeting is able to reach women, therefore the family directly) has improved. Vulnerability of arid lands populations has reduced due to an effectively functioning drought management system, and due to improved access to social services such as water, education and health care. To date, the project has built or repaired over 600 water supplies, constructed and supported 400 schools, 60 health facilities and 55 small irrigation schemes, restocked 18,000 beneficiaries, purchased 37,000 animals through emergency livestock offtake, supported livestock marketing and livestock health investments, income generating activities and social safety nets. On average the distance between people and water, schools and health facilities has halved. Despite these gains, the populations of these districts remain vulnerable to weather shocks, and require additional investments as indicated in the ASAL strategy, to strengthen their livelihoods and ensure that the loss of assets is minimized during the drought cycle.
10. **Lessons Learned from Past Operations in the Country/Sector** The Independent Evaluation Group (IEG) in its project performance assessment report (Report Number 34052, October 2005) rated the overall outcome of the first phase of the project as satisfactory “as the project has established a drought early warning and response system recognized by all stakeholders as successful in the eleven districts most adversely affected by drought; helped organize response programs to the 1999-2001 drought through aid agencies and NGOs that saved livestock to the value of at least US$10 million per annum; introduced a range of measures that assisted pastoralists to better manage their livestock and the range and water resources and to increase herd offtake to the value of about $20 million per year; and supported community based interventions that improved infrastructure (improving access to health and education services) and helped the poorest to recover from the effects of drought and generated incomes of about $2 million per year. Institutional development impact is rated as high because, beyond developing the District Steering Groups (DSGs) as focal points in organizing the response to drought, the project has empowered both government staff at the district level and the local communities, and has increased their capacity to tackle emergencies and development problems.” The drought management system in Kenya has been cited as best practice and is being emulated in other countries, including Ethiopia.

11. **Safeguard Policies (including public consultation)** The environmental classification of the ongoing project is Category B. The additional financing would fund activities similar in scale and scope to those implemented under the original project. The Environmental Management Framework (EMF), which was considered best practice at appraisal, is being used effectively by headquarters and districts to assess and mitigate negative environmental impacts of project investments. Annual environmental audits are carried out by third parties to review and fine tune the EMF process mechanism. In addition, the participatory rural appraisal mechanisms used to implement CDD component were improved during the design of the second phase to enhance the participation of women and other marginalized community groups. Additional training will be carried out in the six new project districts to ensure the EMF process and principles are well understood.

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