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IDA/R2017-0233/1

June 15, 2017

Closing Date: Wednesday, July 5, 2017 at 6 p.m.

FROM: Vice President and Corporate Secretary

Kenya - Infrastructure Finance and Public Private Partnership Project

Additional Financing and Restructuring

Project Paper

Attached is the Project Paper regarding a proposed additional credit and restructuring to Kenya for an Infrastructure Finance and Public Private Partnership Project (IDA/R2017-0233), which is being processed on an absence-of-objection basis.

Distribution:

Executive Directors and Alternates
President
Bank Group Senior Management
Vice Presidents, Bank, IFC and MIGA
Directors and Department Heads, Bank, IFC and MIGA

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Report No: PAD2210

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT PAPER

ON A

PROPOSED ADDITIONAL CREDIT

IN THE AMOUNT OF EUR 46.9 MILLION
(EQUIVALENT US$50 MILLION)

TO THE

REPUBLIC OF KENYA

AND

PROJECT RESTRUCTURING

FOR A

INFRASTRUCTURE FINANCE AND PUBLIC PRIVATE PARTNERSHIPS PROJECT

JUNE 13, 2017

Finance & Markets
AFRICA

CURRENCY EQUIVALENTS

Exchange Rate Effective April 26th, 2017

Currency Unit	=	Kenyan Shilling (Ksh)
Ksh0.0097	=	US$1
US$1	=	Ksh103.3811

FISCAL YEAR

July 1 – June 30

ABBREVIATIONS AND ACRONYMS

AF	Additional Financing
AfDB	African Development Bank
APL	Adaptable Lending Program
CA	Contracting Authority
CBK	Central Bank of Kenya
CBOK	Consolidated Bank of Kenya
CDB	China Development Bank
CMA	Capital Markets Authority
CMP	Contract Management Plan
CPS	Country Partnership Strategy
CS	Cabinet Secretary
DA	Designated Account
DBK	Development Bank of Kenya
DBSA	Development Bank of South Africa
DFI	Development Finance Institution
DFID	Department for International Development
DLI	Disbursement-Linked Indicators
DMD	Debt Management Department
DTMs	Deposit Taking Microfinance Institutions
DUC	Dam under Construction
EFT	Electronic Funds Transfer
ESMF	Environmental and Social Management Framework
F&M	Financial & Markets
FA	Framework Agreement

FCCL	Fiscal Commitment and Contingent Liability
FDI	Foreign Direct Investment
FM	Financial Management
FS	Feasibility Study
FSS	Funds Secretariat
FSSP	Financial Sector Support Project
GDP	Gross Domestic Product
GoK	Government of Kenya
GP	Global Practice
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
ICT	Information and Communication Technology
IDF	Institutional Development Fund
IFC	International Finance Corporation
IFMIS	Integrated Financial Management Information System
IFPPP	Infrastructure Finance and Public Private Partnership
IFR	Interim Financial Reports
IP	Indigenous People
IP	Implementation Progress
IPR	Independent Procurement Review
IPSAS	International Public Sector Accounting Standards
IPMP	Integrated Pest Management Plan
ISR	Implementation Status Report
JICA	Japan International Cooperation Agency
KPI	Key Performance Indicator
M&E	Monitoring & Evaluation
MDG	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
MoF	Ministry of Finance
MTP2	Kenya’s Second Medium-Term Plan
NBK	National Bank of Kenya
NPF	New Procurement Framework
NPV	Net Present Value
NSE	Nairobi Stocks Exchange
NT	National Treasury
O&M	Operations & Maintenance

OAF	Officer Administering the Fund
OAG	Office of the Auditor General
PA	Project Account
PAPs	People Affected by Projects
PCN	Project Concept Note
PDMO	Public Debt Management Office
PDO	Project Development Objective
PFF	Project Facilitation Fund
PFM	Public Financial Management
PIM	Project Implementation Manual
PIU	Project Implementation Unit
PP	Project Paper
PPADA	Public Procurement & Asset Disposal Act
PPIAF	Public-Private Infrastructure Advisory Facility
PPPC	PPP Committee
PPPU	Public Private Partnerships Unit
PPRA	Public Procurement Regulatory Authority
PPSD	Project Procurement Strategy for Development
PRG	Partial Risk Guarantee
PS	Principal Secretary
PSASB	Public Sector Accounting Standards Board
PSC	Project Steering Committee
RAP	Resettlement Action Plan
RFP	Requests for Proposals
RFQ	Requests for Qualifications
RPF	Resettlement Policy Framework
SAI	Supreme Audit Institution
SGR	Standard Gauge Railway
SOE	Statement of Expenditure
SORT	Systematic Operational Risk Tool
SPDs	Standard Procurement Documents
SSA	Sub-Saharan Africa
STEP	Systematic Tracking of Exchanges in Procurement
TA	Transaction Advisor
TA	Technical Assistance
TOR	Terms of Reference

TTL	Task Team Leader
UNDB	United Union Development Business
VGF	Viability Gap Fund
VMGF	Vulnerable and Marginalized Group Framework
VMGP	Vulnerable and Marginalized Group Plan
WB	World Bank
WMP	Waste Management Plan

Regional Vice President:	Makhtar Diop
Country Director:	Diarietou Gaye
Senior Global Practice Director:	Ceyla Pazarbasioglu
Practice Manager:	James Seward
Task Team Leader:	Mehnaz Safavian

KENYA
INFRASTRUCTURE FINANCE & PUBLIC PRIVATE PARTNERSHIP
ADDITIONAL FINANCING PROJECT

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AFRICA

GFM01

Basic Information – Parent			
Parent Project ID:	P121019	Original EA Category:	A (Full Assessment)
Current Closing Date:	31-Dec-2017		

Basic Information – Additional Financing (AF)			
Project ID:	P162182	Additional Financing Type (from AUS):	Restructuring, Scale Up
Regional Vice President:	Makhtar Diop	Proposed EA Category:	A (Full Assessment)
Country Director:	Diarietou Gaye	Expected Effectiveness Date:	2-Oct-2017
Senior Global Practice Director:	Ceyla Pazarbasioglu	Expected Closing Date:	31-Oct-2022
Practice Manager/Manager:	James Seward	Report No:	PAD2210
Team Leader(s):	Mehnaz S. Safavian		

Borrower				
Organization Name	Contact	Title	Telephone	Email
National Treasury	Dr. Kamau Thugge	Principal Secretary	254202252299	ps@treasury.go.ke

Project Financing Data - Parent (Kenya Infrastructure Finance/PPP project-P121019) (in US$ Million)							
Key Dates							
Project	Ln/Cr/TF	Status	Approval Date	Signing Date	Effectiveness Date	Original Closing Date	Revised Closing Date
P121019	IDA-51570	Effective	15-Nov-2012	05-Dec-2012	11-Feb-2013	31-Dec-2016	31-Dec-2017

Disbursements									
Project	Ln/Cr/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed
P121019	IDA-51570	Effective	XDR	26.40	26.40	0.00	14.28	12.12	54.09

Project Financing Data - Additional Financing Kenya Infrastructure Finance Public Private Partnership Additional Financing Project (P162182)(in US$ Million)

[ ]	Loan	[ ]	Grant	[ ]	IDA Grant
[X]	Credit	[ ]	Guarantee	[ ]	Other

Total Project Cost:	50.00	Total Bank Financing:	50.00
Financing Gap:	0.00		

Financing Source – Additional Financing (AF)	Amount
International Development Association (IDA)	50.00
Total	50.00

Policy Waivers

Does the project depart from the CAS in content or in other significant respects?	No
Explanation	
Does the project require any policy waiver(s)?	No
Explanation	

Team Composition

Bank Staff

Name	Role	Title	Specialization	Unit
Mehnaz S. Safavian	Team Leader (ADM Responsible)	Lead Financial Sector Specialist	Core Team	GFM01
Joel Buku Munyori	Procurement Specialist (ADM Responsible)	Senior Procurement Specialist	Procurement	GGO01
Henry Amena Amuguni	Financial Management	Sr Financial Management	Financial Management	GGO31

	Specialist	Specialist		
Aijaz Ahmad	Team Member	Senior Public Private Partnerships Specialist	Core Team	GCPPP
Andrea Vasquez-Sanchez	Team Member	Senior Program Assistant	Team Assistant	GFM01
Caroline Nelima Wambugu	Team Member	Program Assistant	Core Team	AFCE2
Christiaan Johannes Nieuwoudt	Window Manager	Finance Officer	Financial Officer	WFALA
Edward Felix Dwumfour	Safeguards Specialist	Senior Environmental Specialist	Environmental Safeguards	GEN01
Gibwa A. Kajubi	Safeguards Specialist	Senior Social Development Specialist	Social Safeguards	GSU07
Irina L. Kichigina	Counsel	Chief Counsel	Chief Counsel	LEGAM
Jean O Owino	Window Manager	Finance Analyst	Finance Officer	WFALA
Lilian Wambui Kahindo	Safeguards Specialist	Social Development Specialist	Social Safeguards	GSU07
Margaret Auma Ombai	Safeguards Specialist	Consultant	Social Safeguards	GSU07
Marjorie Mpundu	Counsel	Senior Counsel	Legal	LEGAM
Nathalie S. Munzberg	Safeguards Advisor	Regional Safeguards Adviser	Regional Safeguards Advisor	OPSPF
Shyamala Shukla	Team Member	Senior Public Private Partnerships Specialist	Core Team	GCPPP
Wenye Dong	Team Member	Financial Analyst	Core Team	GFM01

Extended Team

Name	Title	Location

Locations

Country	First Administrative Division	Location	Planned	Actual	Comments
Kenya		Nairobi			

Institutional Data

Parent (Kenya Infrastructure Finance/PPP project-P121019)
Practice Area (Lead)
Finance & Markets
Contributing Practice Areas
Additional Financing Kenya Infrastructure Finance Public Private Partnership Additional Financing Project (P162182)
Practice Area (Lead)
Finance & Markets
Contributing Practice Areas
Consultants (Will be disclosed in the Monthly Operational Summary)
Consultants Required? Consultants will be required

II. PROJECT PAPER

I. Introduction

1. This Project Paper seeks the approval of the Executive Directors (ED) for a Level I Restructuring and to provide Additional Financing (AF) consisting of an International Development Association (IDA) Credit in an amount of EUR 46.9 million (US$50 million equivalent) to the Republic of Kenya for the Kenya Infrastructure Finance and Public Private Partnerships (IFPPP) (P121019) - Credit no. 51570 KE.

2. The proposed additional Credit would help finance the costs associated with scaled-up activities to enhance the impact of a well-performing project. The overall development objective of this project is to increase private investment in the Kenya infrastructure market across sectors and to sustain this participation over an extended period of time.

3. The proposed AF will consist of three components: 1) Support to Institutional Strengthening; 2) Support to Project Preparation and Procurement; and 3) Project Management.

4. The proposed AF is anticipated to result in (a) at least 3 PPP projects that reach financial close, and (b) US$1.25 billion of private sector investments mobilized in PPP projects by the year of 2022.

5. The proposed AF is in line with Kenya's Vision 2030, Kenya's Second Medium-Term Plan (MTP2), as well as the World Bank (WB) Country Partnership Strategy (CPS) 2014-2018 Report No. 87024-KE), that calls for large investments in infrastructure by leveraging private sector resources through the innovative PPP.

6. The project paper also seeks approval for Level I Restructuring of IFPPP to:
   - Revise the Project Development Objectives (PDOs), and
   - Trigger new safeguards policies

7. Other changes from the parent project include:
   - Revise PDO indicators
   - Revise the Results Framework and monitoring indicators
   - Introduce Disbursement-Linked indicators (DLIs) to Component 1 and 2
   - Change financing arrangements and disbursement estimates
   - Change components and costs
   - Change the implementation schedule; and

- Change the project closing date

II. Background and Rationale for Additional Financing in the amount of US$50 million

Parent Project Background

8. The IFPPP Project is financed by a US$40 million IDA credit that became effective in February 2013 and is currently scheduled to close on December 31, 2017 (see also Table 1). The Project was conceived as the first stage of a two-phase Adaptable Lending Program (APL), a lending instrument that no longer exists. The Project Development Objective (PDO) was "To increase private investment in the Kenya infrastructure market across sectors and to sustain this participation over an extended period of time. This involves three key areas of development: i) enabling environment; ii) pipeline; iii) financing. The specific development objective of the first phase of the Project is to improve the enabling environment to generate a pipeline of bankable PPP projects."

9. The components of the Project are: *Component 1:* Institutional Development and Regulatory Reform. *Component 2:* Preparation of a pipeline of PPP transactions. *Component 3:* Improvement of Fiscal Commitment and Contingent Liability (FCCL) framework associated with PPP projects (especially infrastructure); and *Component 4:* Program Implementation Support.

Table 1 - Key Project Data	
Project	IFPPP (P121019)
Loan No.	51570 KE
Loan Effectiveness Date	13-02-2013
Loan Closing Date	31-12-2017
Disbursement *(as of May.2017)*	57.9%
Commitment *(as of Oct. 2016)*	100%

Rationale for the Additional Financing and Level I Restructuring:

10. As indicated in the previous section, the IFPPP Project was initially designed as a two-phase APL project. The overall APL was expected to be a US$130 million program, comprising US$40 million for APL1 and US$90 million for APL2. Given that the APL instrument no longer exists, the PDO needs to be adjusted to eliminate the last sentence associated with the APL1 phase. The proposed AF of US$50 million is intended to scale up the existing PPP program in Kenya. It will benefit from the sound legal and regulatory framework and well-established institutional capacity

that is accomplished under its parent project, help foster private sector investment in a more efficient and sustainable manner, and bridge the country's infrastructure gap in the long run.

Parent Project Implementation Record

11. At the time the Kenya IFPPP became effective, the PPP Unit (PPPU) at National Treasury (NT) had one staff, the Director, no PPP law, no PPP capacity within contracting authorities (CAs), and no record of PPPs other than independent power producers (IPPs). Five years into implementation, there is now a fully enacted PPP law (February 2013), a fully staffed PPPU, including an experienced and well-qualified safeguard specialist, functioning at very high capacity, PPP regulations in place, a national PPP pipeline of over 70 projects, a functioning PPP committee (PPPC), a framework to measure fiscal risks and contingent liabilities in place, PPP nodes in the CAs, and a robust capacity building program that has trained over 200 stakeholders. At the current date, the project has not only achieved its objective of improving the enabling environment and generating a pipeline of bankable PPP projects, but is also moving towards the actual implementation of these projects. Over 10 large-scale transactions at national level, in the transport, energy, education, and health sectors, with an estimated compound capex of US$4-5 billion are currently under implementation with IFPPP financing. Importantly, safeguard oversight, compliance and due diligence has been taken seriously by the PPPU which has subjected preliminary safeguard instruments at the feasibility stage to rigorous review and ensured that they were in line with domestic safeguard guidelines and international best practices and standards. These have been submitted to the WB for review and clearance under the parent project. Notwithstanding these achievements to date, the PPPU would need to be further strengthened through training and skills upgrading in safeguard implementation, monitoring and reporting. Awareness raising and education of the NT and potential investors would be important as well. Approximately 50 percent of the project financing has been directed to contracting transaction advisors (TAs) for the implementation of PPP, and 4 transactions are expected to go to market this calendar year.

Objectives of the Additional Financing

12. The AF aims to build on the well-performing parent project and aims to bring at least 3 PPP projects to financial close and mobilize at least US$1.25 billion private capital by the project closing date.

Parent Project Implementation Performance

13. The current supervision ratings for the parent project are Moderately Satisfactory (MS) for both Development Objectives and Implementation Progress (see also Table 2). On the performance for the PDO indicators (see also Table 3), the project is likely to obtain the Express of Interests (EOIs) for the three PPP transactions once the feasibility studies (FS) are approved by the PPP Committee and CAs receive requests for qualifications (RFQ). With the exception of 2nd Nyali

Bridge, the FS for the other first-mover road PPP projects have been completed and approved by the PPP Committee. Given that the RFQ for Nairobi – Nakuru – Mau Summit (bundled together with the Operation and Maintenance of Southern Bypass) was released on 8th November 2016, and the one for Operation & Maintenance (O&M) of Nairobi – Thika is set for 2017, the team is very close in reaching this objective. On the PPP Regulation PDO, the PPP Act 2013, as well as the PPP Regulations 2014, have been adopted and started effective implementation. County regulations have been drafted, and are pending the finalization of the amendments to the PPP Act. The progress on the FCCL management framework is also on track, with the FCCL Guidelines and Technical Manual drafted and scheduled for approval, and the training on the FCCL management staff under preparation. The progress towards the issuance of government benchmark bonds has been slower than expected. The work to achieve this PDO is being given additional support under the Financial Sector Support Project (FSSP) and Bank-executed Technical Assistance.

14. Overall, given that the project is likely to meet its PDOs and has reached a stage of maturity in creating enabling environment, made reasonable progress towards actual transactions, as well as embarked on the next stage of PPPs at subnational level, the key project rating for Progress towards achievement of PDO was upgraded to Satisfactory in the Implementation Support Results Report (ISR) of January 2017.

Table 2 - Project Performance: IFPPP			
ISR Period	**Oct-15**	**Mar-16**	**Apr-17**
Progress towards achievement of PDO	MS	MS	S
Overall Implementation Progress (IP) rating	MS	MS	S
Financial management (FM)	MS	S	S
Project management	MS	S	S
Counterpart funding	NA	NA	NA
Procurement	MS	MS	MS

From operations portal

S: Satisfactory; MS: Moderately Satisfactory; NA: not rated

Table 3: Project Performance on PDOs			
PDO Indicators	**Baseline**	**End Target**	**Actual**

1. Expression of Interests (EOIs) issued to prospective sponsors for three targeted PPP transactions (Number, Custom)	0	3	1
2. PPP Regulations associated with the new Law agreed to with Ministry of Finance (MoF) (Yes/No, Custom)	N	Y	Y
3. PPP Fiscal Commitment and Contingent Liability Framework operationalized as measured by: upstream DMO due diligence on prospective (feasibility stage) transactions completed in line with Law (Yes/No, Custom)	N	Y	Y
4. Regular issuance of Government benchmark bonds in medium and long term maturities up to 7/10 year tenures (Number, custom) (Number, Custom)	NA	Y	Y

Country context

15. Kenya's economic growth remains robust and resilient in recent years amid weakness in the global economy. The country's GDP was estimated at US$63.4 billion as of Oct 2016 (up from US$61.4 billion in 2014), with GDP per capita standing at US$1,377 (up from US$1,368 in 2014). The growth is projected at 5.9 percent in 2016 from 5.6 in 2015 and strengthening to 6.1 percent by 2018. This is against the backdrop of the significant improvement in external and internal balances, such as falling oil prices; and public investment, mainly in infrastructure (energy and the standard gauge railway).[1]

16. Despite the positive growth outlook, poverty levels remain high and income distribution is uneven. The World Bank Country Partnership Strategy 2014-18 ((Report No. 87024-KE) for Kenya recognizes that 4 out of 10 Kenyans live in poverty, and the richest 10 percent of the population receive 40 percent of the nation's income. Poverty in Kenya continues to be closely associated with poor infrastructure.

17. Infrastructure and logistics are the backbone of Kenya's long term growth. The Government's second Medium-Term Plan calls for huge investments in infrastructure. In an effort to close the infrastructure deficit, Kenya has quadrupled spending in the infrastructure sector. About half of its capital budget is allocated for infrastructure. This budget increased from about 4.5 percent of GDP to 7 percent of GDP in 2014/2015. However, the gap still remains and more effort is needed to further close the gap.

[1] The World Bank Group, Kenya Economic Update: Beyond Resilience – *Increasing Productivity of Public Investments* 2016, Edition No. 14

18. Private domestic investment remains constrained by high cost of credit (notwithstanding the decline in interest rates) and a challenging business regulatory environment (Kenya ranks 92 in the World Bank's Doing Business rankings). Nonetheless, there has been an increasing investor confidence of prospects in the Kenyan economy, which is reflected in a surged foreign direct investment (FDI) in the recent years (the FDI increased by 52 percent in 2015).

19. The Kenya CPS 2014-2018 identifies a key opportunity to address this by leveraging private sector resources through innovative PPPs, which is currently being implemented through the World Bank Kenya Infrastructure Finance and Public Private Partnerships Project (IFPPP), in partnership with the PPPU Unit of the National Treasury.

20. Based on a positive creditworthiness assessment conducted by the Bank, Kenya will officially enter IDA/IBRD blend status at the start of FY18. Accordingly, World Bank management is informing the Bank's Board of Executive Directors of Kenya's creditworthiness for IBRD borrowing, and consequent move to blend status starting with this operation.

Sectoral and Institutional Context

21. The IFPPP Additional Financing Project supports Kenya's Vision 2030 and Second Medium Term Plan 2010-2017 (MTP2). Vision 2030 aims to transform Kenya into a newly industrializing, middle-income country whilst making the country globally competitive.[2] The vision aspires to "strengthen the framework for infrastructure development and enhance private sector participation in the provision of infrastructure facilities and services strategically complemented by government interventions." The MTP2 also addresses the challenges of an inclusive growth model with high cost of infrastructure and calls for infrastructure investments and leveraging of private sector resources.

22. Unlocking infrastructure gap is the key to increase international competitiveness of Kenya's national economy, facilitate domestic and international trade, and enhancing the country's integration into the global economy. One of the top constraints identified by Kenyan businesses are infrastructure services, especially in affordable and reliable power supply, as well as dilapidated transportation infrastructure. Close to 80 percent of firms in Kenya experience losses because of power interruptions. As a consequence, almost 70 percent of firms have generators, which are costly to obtain and to operate. Similarly, Kenyan companies lose 2.6 percent of their sales because of spoilage and theft during transportation[3].

[2] Kenya Vision 2030 Progress Report
[3] Investment Climate Assessments (ICA 2008)

23. The country's current infrastructure funding gap stands at about US$4 billion per annum[4]. Addressing the funding gap in the infrastructure is one of the key enablers to help eliminate inefficiencies and allow the sector to adopt the appropriate financing strategies and technologies. Kenya's infrastructure budget allocation amounted to Ksh244 billion (or US$2.4 billion) in 2013/14, equivalent to 4.9 percent of GDP[5]. Since public resource alone is not sufficient to cover the infrastructure funding gap, the ability to bring in private sector investment would be crucial to close the gap.

24. The Kenyan financial sector is the third largest in sub-Saharan Africa (SSA) and has been relatively stable through recent slowdowns and shocks, both domestic and global. It is comprised of (i) a large banking sector that has leveraged its gains in resilience and growth to establish a notable sub-regional presence; (ii) a relatively large securities market (third in terms of capitalization in SSA and degree of sophistication), and; (iii) a relatively large pensions and growing insurance sector.

25. The financial system continues to be dominated by a growing banking sector. Total assets of the banking sector amounts to KSH 3.4 trillion (US$35 billion) in 2015, which accounts for 53 percent of GDP. Credit extended to the private sector amounted to almost 34.8 percent of GDP in 2015. The banking sector is comprised 42 commercial banks, one mortgage finance company, nine deposit taking microfinance institutions (DTMs), seven representative offices of foreign banks, 105 foreign exchange bureaus, and two credit reference bureaus.

26. The recent changes on the regulatory side, including the Banking Amendment Bill (2015) and Finance Bill 2016 will also have a strong impact in the sector. The Banking Amendment Bill caps the maximum interest rate charged for a credit facility in Kenya by the banks at no more than 4 percent above the base rate set by the Central Bank of Kenya (CBK) (currently set at 10 percent). Although the objective is to address the high interest rate spread in the banking sector (11.4 percent on average, way above the world average of 6.6 percent), it might lead to other challenges such as locking out SMEs and "high risk" borrowers, channeling bank lending to national government, emergence of shadow banking and informal financial systems. The Finance Bill 2016 amended the Banking Act to increase the minimum core capital requirement from Ksh1 to 5 billion by December 31, 2019 and will further promote the consolidation within the sector.

27. The Kenyan capital market is the largest in East Africa and third in terms of capitalization in Sub-Saharan Africa after South Africa and Nigeria. Capital markets are dominated by equities and government bonds, with an incipient, yet fast growing, non-government bond market. A total of 64 companies are listed on the Nairobi Stocks Exchange (NSE) with a total market capitalization of over Ksh 2.3 trillion in the fourth quarter of 2014. The ten largest listed companies, the

[4] Bloomberg, 2014
[5] Kenya Public Expenditure Review Report 2014, Volume 1, the World Bank

majority of which are commercial banks, account for over 70 percent of market capitalization and almost 80 percent of traded values. A total of 97 institutions are licensed to operate by the Capital Markets Authority (CMA), including the NSE, a central depository, 12 investment banks, and 10 stockbrokers.

28. The government bond market is relatively developed by SSA standards. The outstanding government bond market represents about 26 percent of GDP, although volumes remain shallow at around 53 percent of outstanding debt in 2014. There has been considerable improvement in its debt structure, including ongoing efforts to develop an incipient benchmark strategy and a greater and longer-term variety of instruments. Between 2000 and 2014, the debt structure shifted from 78 percent in T-bills and 22 percent in T-bonds to the reverse, 77 percent in T-bonds and 23 percent in T-bills. Significant work is still required to build benchmark bond programs, strengthen associated liability management processes, and develop the secondary markets in order to establish more credible yield curves that can be used as a pricing reference for non-government issues. The secondary bond market liquidity is low, partly as a result of an inefficient market structure, infrastructure and fragmentation in the primary market.

29. The non-government bond market in Kenya is still in the early stage of development. Outstanding public offers of non-government bonds stood at Ksh.64 billion in 2014, representing only 1 percent of GDP. There are only a handful of issuers and non-government bonds represent an insignificant holding in institutional investor portfolios, which, in large part is understandably due to the small supply of corporate paper. There is a relatively large variety of issuers represented amongst the issuers but with a general bias towards financial institutions. The longest tenor is 10 years, but most have tenors of between 5 and 7 years. There are gaps in systemically important infrastructure particularly the post-trade infrastructure, which is misaligned with current market needs (processes and institutional arrangements), as well as not being fully in line with international best practice. This makes the trading and settlement processes a stumbling block for further development of the capital markets, in addition to being less attractive to international investors.

30. In order to support GoK to address the infrastructure financing gap and develop a robust market for private sector financing, the WB launched the IFPPP project, a US$40 million IDA credit that became effective in February 2013 and is currently scheduled to close on December 31, 2017. The PDO was to increase private investment in the Kenya infrastructure market across sectors and to sustain this participation over an extended period of time. This involves three key areas of development: i) enabling environment; ii) pipeline; iii) financing. The specific development objective of the first phase of the Project is to improve the enabling environment to generate a pipeline of bankable PPP projects." The components of the Project are: *Component 1:* Institutional Development and Regulatory Reform. *Component 2:* Preparation of a pipeline of PPP transactions. *Component 3:* Improvement of Fiscal Commitment and Contingent Liability

(FCCL) framework associated with PPP projects (especially infrastructure); and *Component 4:* Program Implementation Support.

31. The IFPPP project has successfully improved the enabling environment and generated a pipeline of bankable PPP projects. Following the enactment of the PPP law in 2013, the project has established well-functioning PPP institutions including a PPP unit and 57 PPP nodes. The project has also built capacity and awareness among key stakeholders, as well as developed 66 PPP pipeline projects. In addition, over 10 large-scale transactions at national level, in the transport, energy, education and health sectors, with an estimated compound capex of US$4-5 billion are currently under implementation with IFPPP financing.

32. The implementation for IFPPP is largely on track. The project has now reached a stage of maturity in creating enabling environment, made reasonable progress towards actual transactions, as well as embarked on the next stage of PPPs at subnational level.

33. As mentioned previously, the IFPPP was initially designed as a two-phase APL project. The overall APL was expected to be a US$130 million program, comprising US$40 million for APL1 and US$90 million for APL2. Given that the APL instrument no longer exists, the proposed additional financing of US$50 million is intended to scale up the existing PPP program in Kenya. It will benefit from the sound legal and regulatory framework and well-established institutional capacity that was developed under its parent project, help foster private sector investment in a more efficient and sustainable manner, and bridge the country’s infrastructure gap in the long run.

34. **The additional financing is anticipated to be used for the following activities:**

- Upstream support for PPP Institutions and Capacity Building
- Support for PPP Project Preparation and Procurement
- Project Management

Key Risks

Table 4. Systematic Operations Risk-rating Tool (SORT)	
Risk Category	**Risk Level**
Political and Governance	Moderate
Macroeconomic	Moderate
Sector Strategies and Policies	Moderate
Technical Design of Project or Program	Low
Institutional Capacity for Implementation and Sustainability	Moderate
Fiduciary	Moderate

Environmental and Social	High
Stakeholders	Moderate
Other	Moderate
Overall	Moderate
Risk Level: H=High; M=Moderate; L=Low	

35. The overall project risk is Moderate. The AF will share the same risk category of its parent project. However, Environmental and Social risks remain high, given the downstream risks during implementation of infrastructure projects. A detailed analysis of risks can be found in the "Appraisal Summary – Risk" section.

Project Design

36. The key differences between the parent project and the Additional Financing are listed below:

- *Project Facilitation Fund (PFF):* The parent project supports transaction advisory services on a transaction-by-transaction basis. The PPP Unit is now mature and high capacity, and there is a framework set in place to set up a Project Facilitation Fund. Therefore, the AF will now support the PFF directly. Because the PFF has four windows, including i) support CAs in the preparation, appraisal and tendering phase of their PPP projects; ii) support the activities of the PPP Unit in the delivery of its mandate; iii) extend viability gap finance to PPP projects; and iv) provide a source of liquidity to meet any contingent liabilities arising from a PPP project; the operationalization of the fund will allow the PPPU to crowd in additional resources from the Budget of the National Treasury, other Development Partners (DPs), success fees from successful bidders, tariffs and levies, etc. This will put the PPPU on a path of sustainability that will last long past the expiration of the World Bank credit.

- *Disbursement-Linked Indicators (DLI):* The parent project follows a traditional input-based procurement process, where funds are disbursed based on the submission of clients' invoices. The AF is introducing a hybrid DLI model, where disbursements are now based on the achievement of outcomes, although the standard procurement guidelines still apply to procurable expenditures, such as goods, works, and services, including the preparation of the procurement plan. The results-based financing ensures that all pre-conditions and policy actions are met for the project to be successfully implemented. These pre-conditions and policy actions are based on the discussions and agreement obtained with the PPPU of the National Treasury. Component 3 will use the traditional procurement plan, where disbursement will be based on the expenses from the Project Implementation Unit (PIU). Detailed DLIs are listed in

Annex II. The use of DLI shows the commitment from the client to achieve key project milestones to ensure a successful project implementation.

- *County PPPs:* The parent project started by identifying a list of bankable national PPP Pipelines. Given that the national PPP agenda is well developed and robust, and there is a growing demand from counties seeking to harness PPPs to deliver important infrastructure and social services that fall under the purview of the county, the AF is allocating at least one third of the resources to develop county PPP pipelines, fund at least seven project proposals approved by PPP Committee, and complete three County PPP Feasibility Study (FS) reports by the end of FY17.

- *Triggering of new Safeguards Policies:* Although the IFPPP project will only finance the upstream activities up to the feasibility studies, both the WB team and the PPPU have treated safeguards aspects seriously, since these upstream activities supported by the project can potentially lead to downstream civil works during the project implementation period. Therefore, during the appraisal, safeguards oversight, compliance and due diligence were conducted by the PPPU under the WB supervision. In addition to the existing safeguard policy triggered under the parent project (OP/BP 4.01 Environmental Assessment and OP/BP 4.12 Involuntary Resettlements), the AF has also triggered OP/BP 4.09 (Pest Management), OP/BP 4.10 (Indigenous People), OP/BP 4.11 (Physical Cultural Resources), and OP/BP 4.37 (Safety of Dams). OP/BP 4.10 (Indigenous People) was triggered because the AF is expected to finance FS on subprojects that might impact indigenous people. Therefore, a Vulnerable and Marginalized Group Framework (VMGF) were prepared by the PPP Unit. In addition, the AF is also expected to finance FS on bulk water supply to multiple counties, which may involve new activities that may rely on the performance (storage and operation) of a Dam under Construction (DUC). Therefore, OP/BP 4.37 (Safety of Dams) was also triggered. The Resettlement Policy Framework (RPF) and the ESMF (Environmental and Social Management Framework) that were prepared in 2012 have also been updated.

Project Components

37. The additional financing will consist of three components: 1) Support to Institutional Strengthening; 2) Support to Project Preparation and Procurement; and 3) Project Management.

Component I: Support to Institutional Strengthening

38. The budget for this component is US$10 million. This allocation was established based on lessons learned from prior technical assistance (TA) projects including the IFPPP project and Public-

Private Infrastructure Advisory Facility (PPIAF) supported activities. This component is therefore based on an assessment of the remaining institutional strengthening activities (particularly at the county government level) following the activities undertaken under the IFPPP and the need for institutional strengthening based on future expected project activities. Current known parallel coordinated support from other donors such as PPIAF and Department for International Development (DFID) has been taken into account while establishing the allocation. These donors are likely to continue supporting parallel activities through the life of the project.

Sub-Component I.A: Upstream Support to PPP Institutions

39. This sub-component will provide support for the sustainable functioning of the PFF, the PPPU, the Petition Committee, the CAs at both the national and sub-national level. It will specifically support activities focusing on:

- Further policy dialogue and design of strategies and policies relating to specific sectors. This will also include the preparation of standard procurement documentation for sectors where there is a strong potential pipeline such as in the energy, transport, education and health sectors.

- Enhancing the ability of these entities to support project preparation, procurement and implementation, including policy, planning and analysis through embedded advisory (including through resident advisors) and consultancy services. Staffing of the PPPU is still inadequate and needs to be supplemented by embedded advisory services given the increasing number of projects in the pipeline. The PFF in its newly established state would need hand-holding, at least in the initial years, in order to become a sustainable funding source for project preparation, contingent liability payments and viability gap funding. The competence of the current county team is limited to finance and legal. Creation of the complete spectrum of PPP expertise at county level would require additional support from individuals with technical, sectoral and social & environmental background.

- Review of current national law, regulations and frameworks to support drafting of practice notes and guidelines on application and process at county level. This will include review of policies and related applicable law and regulations vis-à-vis counties to ensure suitability of current frameworks and tools to county PPPs which face unique challenges in their implementation – for example, county PPPs are smaller in scale, have high transaction costs proportionate to total project cost, and face financing constraints due to the risk profile of projects, lower creditworthiness of the entities sponsoring these projects, and overall limited capacity and experience of local investors. Some of the areas that would require review/reform for a customized county-level solution include:

    - Draft County PPP Regulations
    - Draft FCCL Management Framework

- Draft PPP PFF Regulations
- Draft PPP Manual

Sub-Component I.B: Support to Capacity Building Activities

40. This sub-component will provide support for

    - Specific hands-on skill-based and specific project-based training to teams within national ministries and county governments to enhance the ability of project teams to support project related activities, including preparation, procurement and implementation. Sector ministries with projects in the pipeline or where there is potential for PPPs and a majority of the 47 counties will be involved in the program which will consist of a structured learning program geared towards creating a moderate level of awareness and understanding of principles, concepts and processes of PPPs. This will also include benchmarking visits to successful projects.

    - Preparation of a PPP curriculum and study material for national and county governments.

    - Activities relating to PPP certification of government officials at national and county levels

    - Public awareness campaigns, workshops and investment conferences to inform external stakeholders on evolving and new policy as well as pipeline status and projects being brought to market. This will also include bidders' conferences for projects already brought to market.

Component II: Support to Project Preparation and Procurement

41. The budget for this component is US$37 million. This component will assist the Government of Kenya (GoK), at national as well as county level, to prepare well-structured and bankable PPP projects with optimal risk allocation building on the experience in the development of the first mover PPPs under IFPPP. While transport, education, health and energy will continue to be sectors of focus for the national government, sectors of interest at county level appear to be housing, solid and medical waste management, health services, bulk water supply and distribution, county roads, agriculture, county markets, etc. Funds under this component will be used for engaging consultants for undertaking feasibility assessments, preparation of bid documents and hand-holding during bid-negotiations and other processes leading to commercial and financial close. This will include the financing of safeguards assessments. The demand for funds under this component has been gauged based on the following: experience of the project preparation component under IFPPP, an examination of the current and potential pipelines at county and national levels in various sectors, and detailed discussions with government counterparts and coordination within the WB Group Global Practices (GPs), including with International Finance Company (IFC) and Multilateral Investment Guarantee Agency (MIGA).

Component III: Support for Program Management

42. The budget for this component is US$3 million. This component will be used to support the PIU that is currently functioning under IFPPP. The PIU will continue to provide the fiduciary, safeguards, and Monitoring and Evaluation (M&E) expertise required for the implementation of the project in accordance with Bank policies and requirements. This component may include equipment, operating costs, organization and systems development, training, capacity building, technical assistance and refurbishment.

Project Cost and Financing

43. The additional financing will be financed through an IDA credit in the amount of US$50 million for a period of 5 years.

Table 5. Project Cost and Financing

Project Components	**Project Cost**	**IBRD or IDA Financing**	**% of Financing**
Component I: Support to Institutional Strengthening	US$10 million	IDA	100%
Sub-Component I.A: Upstream Support to PPP Institutions	*US$7 million*	*IDA*	*100%*
Sub-Component I.B.: Support to Capacity Building activities	*US$3 million*	*IDA*	*100%*
Component II: Support to Project Preparation and Procurement	US$37 million	IDA	100%
Component III: Project Management	US$3 million	IDA	100%
Total Project Costs	**US$50 million**	**IDA**	**100%**
Front-end Fees			
Total Financing Required	US$50 million		

Lessons Learned and Reflected in the Project Design

44. The IFPPP Project has helped improve the enabling environment for PPPs in Kenya, and generate a pipeline of potential PPP projects. Kenya now has a PPP program that when benchmarked regionally has done substantially better than its peers. As with all PPP programs, there is always room for improvement; and lessons learnt can be used to make additional financing more effective and results based.

45. *Identification* of potential projects has worked well in Kenya; however high level upfront assessment of projects as being appropriate to be undertaken as PPPs, and *prioritization* of these projects for in-depth feasibility analysis, could be made more robust at the Project Concept Note (PCN) stage. Project prioritization should take into account the level of commitment and ‘ownership’ demonstrated by the concerned CAs; including assurance that they would assign full-time dedicated staff to their Nodal Units who would be available for customized training and capacity development programs organized by the PPPU.

46. The role of Sector Advisors assigned to the CAs needs to be re-assessed, as the effectiveness of the eleven sector advisors hired under the Parent Project was uneven. The focus for Sector Advisors going forward is envisioned to provide for more internal support capacity to the PPPU, with a focus on creating sustainable learning and knowledge transfers that will last beyond the life of the Project. Sector Advisors should only be used strategically where necessary (such as with CAs with a sizable pipeline of projects that cannot proceed without some sector reform)[6].

47. Unlike the practice in the past, a robust PCN stage would assure that Transaction Advisors would only be recruited for projects that offer ease of implementation[7] and better chances of providing ‘value-for-money’. It would also allow focused and precise drafting of Transaction Advisory Terms of References (TORs) and evaluation criteria, and more realistic timelines and budgets. Payment schedules in current Transaction Advisory agreement have not worked well in practice. The payment schedules need to be designed in a manner that balances the need for cost recovery with appropriate incentives to ensure successful project closures (commercial and financial). Furthermore, extensions in contract durations, for any reason, should compensate for longer availability of Transaction Advisor’s team members and associated costs.

48. In preparation for undertaking small scale and less complex PPP projects (including most projects at the County level), small to medium sized Advisory firms with lower overheads and more local presence would need to be promoted, and encouraged to bid for Advisory mandates.

49. Land acquisition and resettlement of affected parties, if any, for PPP projects needs to be done in a more structured and clearly prescribed and predictable manner; and this function should be provided timely resources and relevant support from all concerned agencies. The PPP Committee would need to play a more proactive role in all this.

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[6] The CA assigned staff to the Nodal Units should stay assigned to their projects till project closure, and should ideally be part of the PPP Contract Management team.

[7] Meaning that the project has an identifiable market and that it does not require substantial amount of sector, policy, legislative or regulatory reform or change to be implemented.

50. IFPPP's procurement timelines, and project procurement rating, have improved as the quality of TORs and evaluation reports has improved. In the additional financing phase, focus will remain on improving the ratings even further so that the threshold for Bank's prior approval/ no-objection is further raised and the project timelines are shortened.

Complementary Work in Addressing Current First Mover Projects Coming to Market: Crowding in local currency financing of PPPs

51. Attracting local currency financing for these large upcoming infrastructure projects is critical for the fiscal sustainability of the PPP program. Kenya presents the pre-conditions to use capital markets instruments to crowd-in institutional investors into infrastructure finance, with its capital markets representing 18 percent of its GDP. There is also an opportunity to mobilize local currency investments from domestic banks into PPPs as long as certain constraints are addressed. Institutional investors (pensions, insurance) play an important role in Kenya with assets under management at 18 percent of GDP. This would also present an ideal opportunity to create a new long-term asset class for institutional investors in which they can invest. The regulatory environment is favorable with financial regulators committed to enabling infrastructure finance. Some US pension funds, as well as development finance institutions (DFIs) are also interested in supporting the financing of the PPP program through capital markets instruments.

52. There are however a number of financing challenges that need to be addressed as projects are tendered to market. These include: the crowding out of Government debt given its high interest rates and the interest rate cap on bank loans; the lack of confidence in the Government's ability to meet its commitments; and expertise and regulatory constraints for institutional investors.

53. The WB Finance & Markets (F&M) and Capital Markets team are, therefore, working in parallel to address the infrastructure finance challenges in Kenya. The parallel work to fully implement sovereign debt market reforms, such as systematic issuance policy, electronic auction for primary issuance, and greater transparency to lower market volatility and cost will be necessary to bring down the costs for Government. Additionally, ensuring that Government's financial commitments are taken into account and are credible will be important to increase the confidence of potential investors. Ring-fencing of availability payments, implementation of a Toll Fund, payment guarantees from development partners are examples of signals the Government could provide to potential downstream investors.

    - Additionally, the Government's FCCL arising from the projects will need to be more clearly quantified to increase transparency and confidence, and these assessments should be communicated to the market. Simultaneously, an assessment of needed policy, tax, and regulatory measures should be undertaken in order to better understand what will be required to mobilize institutional investors into the financing of infrastructure.

- The WB F&M GP will be providing technical assistance to mobilize institutional investors for infrastructure financing. In addition to supporting the GoK to achieve the objectives highlighted above, the F&M GP will be i) preparing local banks and institutional investors to invest in the upcoming infrastructure projects, through training, capacity building, and structuring of appropriate capital market vehicles; ii) establishing a standardized investment with experienced partners (e.g. infrastructure debt fund); and iii) assessing the need for credit enhancement tools, to provide a greater degree of comfort to institutional investors.

Institutional and Implementation Arrangements

54. The PPP Act 2013, under section 68, establishes a PPP PFF at the National Treasury (NT). The NT will thus be the overall implementation agency for the IFPPP project.

55. Established as a multi-purpose fund, the PFF is designed to provide financial support for the implementation of PPP projects under the Act, which may be in the form of grants, loans, equity, guarantees and other financial instruments approved by the Cabinet Secretary (CS) from time to time. As prescribed in the Regulations, the PFF will have four windows: i) support CAs in the preparation, appraisal and tendering phase of their PPP projects; ii) support the activities of the PPP Unit in the delivery of its mandate; iii) extend viability gap finance to PPP projects; and iv) provide a source of liquidity to meet any contingent liabilities arising from a PPP project. The PFF will be operationalized upon gazettement of the regulations, which is expected in the coming months (expected October, 2017).

56. In section 7(f) of the PPP Act, the PPP Committee is mandated to authorize allocations from the established PFF. In this regard, the PPP Committee act as the oversight body in matters relating to the Fund, and in said capacity shall also be the IFPPP Project Steering Committee (PSC).

57. In light of the PPP Unit's regulatory functions i.e. (i) review and assess requests for Government support in relation to a project and advise the Committee on the support that should be accorded in relation to the project; put in place measures to eliminate constraints limiting the realization of benefits expected from a PPP; and, (iii) monitor contingent liabilities and accounting and budgetary issues related to PPPs with the relevant offices within the State department responsible for finance, the PPP Unit Director is designated as the Officer Administering the Fund (OAF) and shall manage the day-to-day activities for the IFPPP additional financing project, implemented through the PFF.

58. The OAF shall be supported by a Secretariat who shall provide technical and administrative support to the Fund Administrator. The PPP Unit and PIU supporting the IFPPP Project will be the Secretariat to the Fund/OAF. The PPP Unit and PIU combined currently have 27 staffs, the majority of which are support and non-technical staff. The unit is planning to recruit additional

staffs to have a total staffing number of close to 50, including 29 technical officers. The additional staffing plan aims to enhance the technical capacity in core areas of PPP project development and implementation, such as finance, legal, technical, and procurement; and accelerate program implementation and disbursement. Figure 1 illustrates the governance structure of the PFF.

Figure 1: Governance Structure of PFF

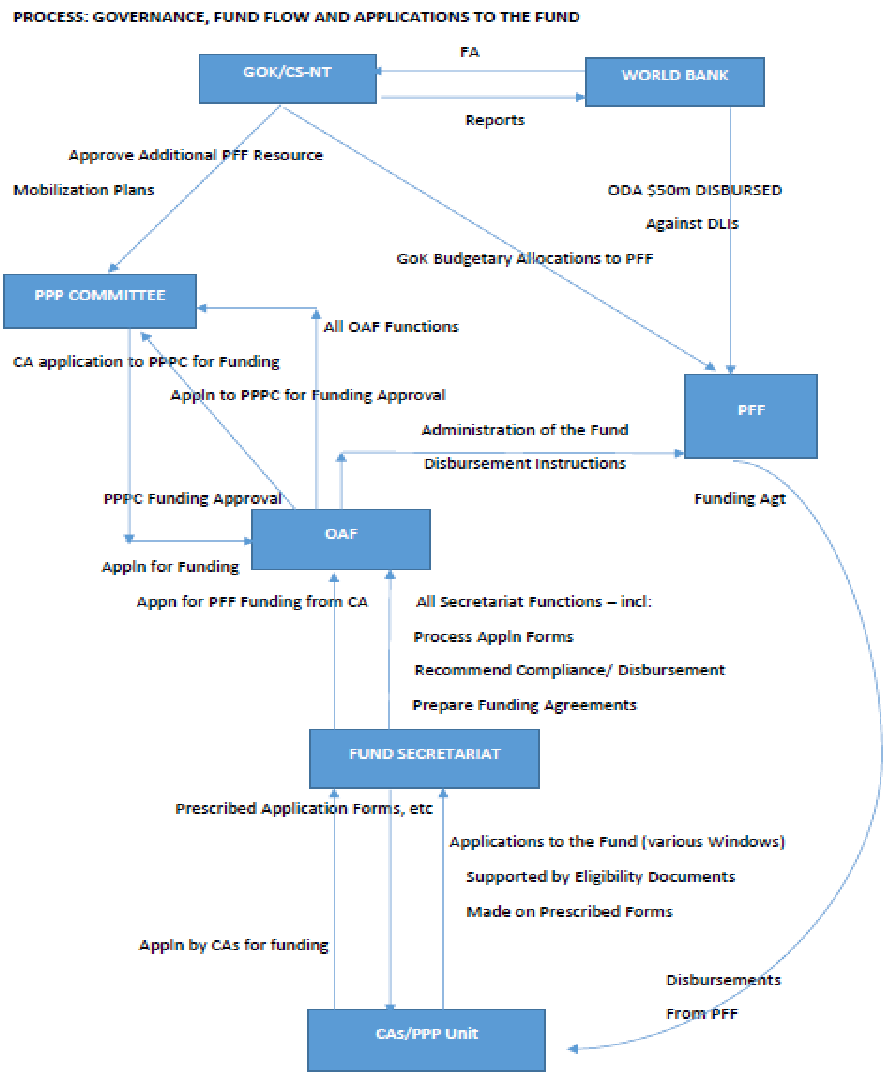
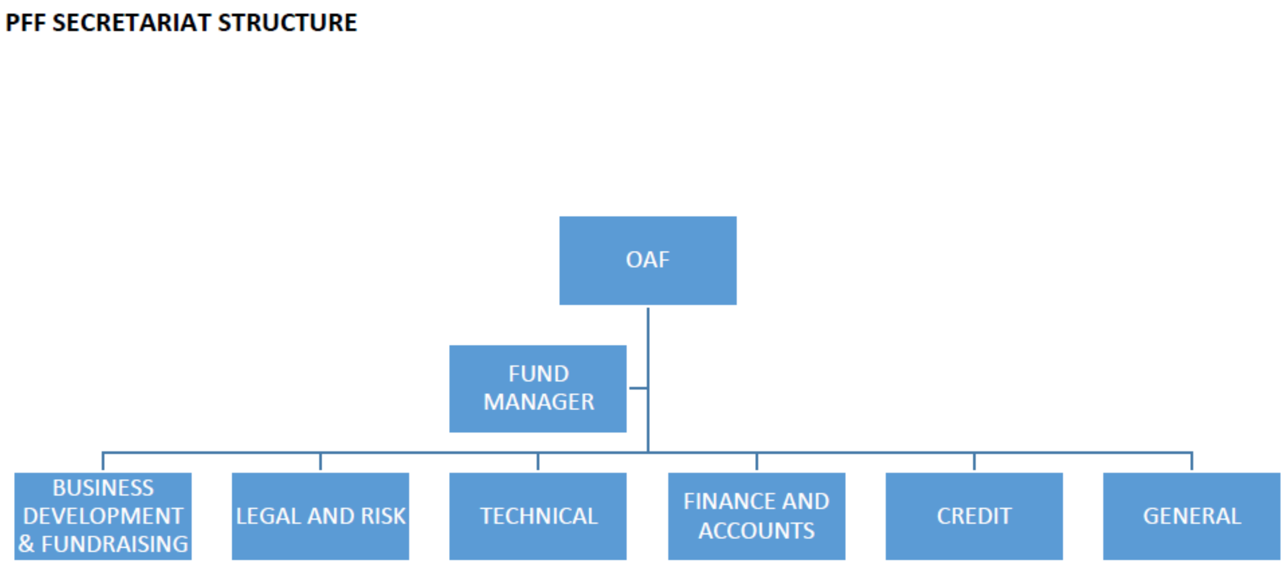


Figure 2: Structure of Funds Secretariat



III. PROPOSED CHANGES

Summary of Proposed Changes

The additional financing aims to 1) provide upstream support to PPP institutions and capacity building; 2) provide support for project preparation and procurement; and 3) project management. The results will be measured by the number of PPP projects that reach financial closure, as well as the dollar amount of private investments that will mobilize through this project.

The AF includes a level 1 restructuring due to 1) the change of PDO, and 2) the extension of project closing date from Dec 31 2017 to Oct 31 2022.

Change in Implementing Agency	Yes [ ] No [X]
Change in Project's Development Objectives	Yes [X] No [ ]
Change in Results Framework	Yes [X] No [ ]
Change in Safeguard Policies Triggered	Yes [X] No [ ]
Change of EA category	Yes [ ] No [X]
Other Changes to Safeguards	Yes [ ] No [X]
Change in Legal Covenants	Yes [ ] No [X]
Change in Loan Closing Date(s)	Yes [X] No [ ]
Cancellations Proposed	Yes [ ] No [X]
Change in Disbursement Arrangements	Yes [X] No [ ]
Reallocation between Disbursement Categories	Yes [X] No [ ]
Change in Disbursement Estimates	Yes [X] No [ ]
Change to Components and Cost	Yes [X] No [ ]
Change in Institutional Arrangements	Yes [X] No [ ]
Change in Financial Management	Yes [X] No [ ]
Change in Procurement	Yes [X] No [ ]
Change in Implementation Schedule	Yes [X] No [ ]
Other Change(s)	Yes [ ] No [X]

Development Objective/Results
Project's Development Objectives
Original PDO
The overall objective of this two-phased Adaptable Lending Program (APL) Program is to increase private investment in the Kenya infrastructure market across sectors and to sustain this participation over an extended period of time. This involves three key areas of development: (i) enabling environment; (ii) pipeline; (iii) financing. The specific objective of the APL 1 project is to improve the enabling environment to generate a pipeline of bankable Public-Private Partnership (PPP) projects.
Change in Project's Development Objectives
Explanation:
The APL instrument no longer exists.
Proposed New PDO - Additional Financing (AF)
The overall objective of this project is "To increase private investment in the Kenya infrastructure market across sectors and to sustain this participation over an extended period of time."
Change in Results Framework
Explanation:
The PPP agenda in Kenya has moved from the initial creating enabling environment to the financial transactions. The ultimate goal of the project is to bring PPP projects into financial closure and mobilize private sector investments in the Kenya infrastructure market.

Compliance
Change in Safeguard Policies Triggered
Explanation:
Under the parent project, OP 4.10 was not triggered because the sub-projects were not anticipated to be implemented in areas where people meeting the definition of IPs under OP 4.10 would be present. The selection of sub-projects followed this anticipated planned pipeline until recently. The addition of Olkaria VII geothermal as a selected sub-project has necessitated a review into the need of triggering OP 4.10 since all proposed sub-projects may not be in urban or peri-urban areas. In addition to Olkaria VII, the other sub-projects with likely impacts on IPs are the Mombasa-Nairobi Road and the Nairobi-Nakuru Road. Since these three sub-projects are highly likely to have impacts on IPs, there is need to include screening for the presence of IPs in the sub-projects areas within the feasibility study of the Transaction Advisors, and if they are found to be present, to prepare the necessary safeguard instruments. For this reason, OP 4.10 is now triggered for the parent project and the AF project. The specific sites or locations of individual IFPPP projects/transactions financed under the second component are not fully determined by project appraisal, but the likelihood of land acquisition and relocation remains a possibility to be confirmed as the project pipeline is fully identified. A

Resettlement Policy Framework (RPF) was prepared to specify the process for preparing, reviewing, approving and implementing subsequent Resettlement Action Plans (RAPs) under AF for sub-projects before the relevant civil works are initiated. RPF was publicly disclosed in Bank InfoShop and in Kenya. RPF preparation included consultations with potential People Affected by Projects (PAPs).

For the AF, the RPF has been strengthened and enhanced to include procedures for voluntary land donations, in accordance with the 2016 Community Land Act (No 27). It also includes provision for entitlements and eligibility criteria for compensation. The updated reports have been meaningfully consulted and disclosed both in the country and in the World Bank's InfoShop on February 21, 2017. A project level grievance mechanism acceptable to all stakeholders will be put in place.

Safety of Dams OP/BP 4.37 is triggered. The AF is expected to finance feasibility studies on any dams within the PPP pipeline within the project area. These may involve new dam construction or the rehabilitation and expansion of an existing dam or the water treatment facility and water distribution network may rely on the performance (storage and operation) of a Dam under Construction (DUC). These feasibility studies will need to comply with OP 4.37 requirements.

Natural Habitats OP/BP 4.04 has been triggered under the AF, although the AF will not support any project that is anticipated to have any adverse impacts on critical natural habitats (forests, wetlands, mangroves, etc.) or environmentally sensitive areas. However, in case of impacts on natural habitats, if there are no feasible alternatives for the project and its siting, and comprehensive analysis demonstrates that overall benefits from the project substantially outweigh the environmental costs, the project will include mitigation measures acceptable to the Bank. Such mitigation measures will meet conditions under OP/BP 4.04 (Natural habitats) para 5-8.

OP/BP 4.09 (Pest Management) has been triggered under the AF. Although there is currently no agriculture proposals at county level, it is a potential area for county level PPPs as agriculture is one of the functions that county governments mandate to engage under the Constitution. In the case of any future FS on agriculture project, the EA will have to evaluate the country and the proponent's capacity to manage the procurement, handling, application, and disposal of pest control products, to monitor the precision of pest control and the impact of pesticide use, and to develop and implement ecologically based pest management programs or integrated pest management plans (IPMP).

The AF triggers OP/BP 4.11 (Physical Cultural Resources), based on the assumption that implementation of any of the projects proposed in Annex VIII could impact on physical cultural resources since projects will involve significant excavations, demolition, movement of earth, flooding or other environmental changes. The Environmental Assessment that will be prepared for such projects will include a physical cultural resources management plan that includes (a) measures to avoid or mitigate adverse impacts on physical cultural resources; (b) provisions for managing chance finds; (c) any necessary measures for strengthening institutional capacity for the management of Public Communications Policy; and (d) a monitoring system to track progress of these activities.

Current and Proposed Safeguard Policies Triggered:	**Current (from Current Parent ISDS)**	**Proposed (from Additional Financing ISDS)**
Environmental Assessment (OP) (BP 4.01)	Yes	Yes
Natural Habitats (OP) (BP 4.04)	No	Yes
Forests (OP) (BP 4.36)	No	No
Pest Management (OP 4.09)	No	Yes
Physical Cultural Resources (OP) (BP 4.11)	No	Yes
Indigenous Peoples (OP) (BP 4.10)	No	Yes
Involuntary Resettlement (OP) (BP 4.12)	Yes	Yes
Safety of Dams (OP) (BP 4.37)	No	Yes
Projects on International Waterways (OP) (BP 7.50)	No	No
Projects in Disputed Areas (OP) (BP 7.60)	No	No

Covenants - Additional Financing (Kenya Infrastructure Finance Public Private Partnership Additional Financing Project - P162182)

Source of Funds	**Finance Agreement Reference**	**Description of Covenants**	**Date Due**	**Recurrent**	**Frequency**	**Action**
IDA	Credit Number IDA-6121	The Recipient shall, not later than three (3) months the Effective Date, appoint, and thereafter maintain throughout the Project implementation period, an independent verification agent, with terms of reference and qualifications satisfactory to the Association, for the purpose of	Within three (3) months of the project Effective Date	☐	Once and maintain throughout the project implementation period	Appoint an independent verification agent

		carrying out independent verifications of the status of achievement of DLI Targets in accordance with the verification protocol and procedures set out in the Project Implementation Manual.				

Conditions

The Additional Condition of Effectiveness consists of the following, namely that the Recipient has updated the Project Implementation Manual in accordance with the provisions of Section I.B.1 of Schedule 2 to the Financing Agreement.

Source Of Fund	Name	Type
IDA		
Description of Condition		

Risk

Risk Category	Rating (H, S, M, L)
1. Political and Governance	Moderate
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Low
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Moderate
7. Environment and Social	High
8. Stakeholders	Moderate
9. Other	Moderate
OVERALL	Moderate

Finance					
Loan Closing Date - Additional Financing (Kenya Infrastructure Finance Public Private Partnership Additional Financing Project - P162182)					
Source of Funds			**Proposed Additional Financing Loan Closing Date**		
IDA - Institutional Dev. Fund (IDF)			31-Oct-2022		
Loan Closing Date(s) - Parent (Kenya Infrastructure Finance/PPP project - P121019)					
Explanation: The additional financing will close on Oct 31st, 2022					
Ln/Cr/TF	**Status**	**Original Closing Date**	**Current Closing Date**	**Proposed Closing Date**	**Previous Closing Date(s)**
IDA-51570	Effective	31-Dec-2016	31-Dec-2017	31-Oct-2022	31-Dec-2017
Change in Disbursement Arrangements					
Explanation: DLI indicator applied in the AF					
Change in Disbursement Estimates (including all sources of Financing)					
Explanation: DLI indicator applied in the AF					

Expected Disbursements (in US$ Million) (including all Sources of Financing)

Fiscal Year	2018	2019	2020	2021	2022					
Annual	8.00	13.00	12.00	11.50	5.50					
Cumulative	8.00	21.00	33.00	44.5	50.00					

Allocations - Additional Financing (Kenya Infrastructure Finance Public Private Partnership Additional Financing Project - P162182)

Source of Fund	Currency	Category of Expenditure	Allocation	Disbursement %(Type Total)
			Proposed	Proposed
IDA	US$		50,000,000.00	0.00
		Total:	50,000,000.00	

Components

Change to Components and Cost

Explanation:

The IFPPP Additional Financing will consist of three components:
1. Support to Institutional Strengthening
2. Support for Project preparation and procurement
3. Project management.

Current Component Name	Proposed Component Name	Current Cost (US$M)	Proposed Cost (US$M)	Action
Technical Support to PPP Institutions for PPP Legal, Regulatory and PPP Financing Environment	Support to Institutional Strengthening	11.50	26.50	- 10M from AF, - 5M merged from component 3 of the parent project (FCCL)
Support for Preparation of Individual PPPs	Support to Project Preparation and Procurement	20.00	57.00	- 37M from AF
Improvements to Fiscal Risk Management Framework		5.00	0.00	To be merged into Component 1: Support to Institutional Strengthening
Support for Program Management	Project Management	3.50	6.50	- 3M from AF
B	**Total:**	40.00	90.00	

Other Change(s)

Implementing Agency Name	Type	Action

Change in Institutional Arrangements

Explanation:

The National Treasury (NT) will be the overall implementation agency for the IFPPP project. The PPP Unit Director is the Officer Administering the Fund (OAF) for the Project Facilitation Fund (PFF), established under section 68 of the PPP Act, 2013. The OAF will manage day-to-day activities for the IFPPP additional financing project, implemented through the PFF. The PFF is a multi-purpose fund designed to provide financial support for the implementation of PPP projects under the Act, which may be provided in the form of grants, loans, equity, guarantees and other financial instruments approved by the CS from time to time. As prescribed in the Regulations, the PFF will have four windows: i) CAs in the preparation, appraisal and tendering phase of their PPP projects; ii) the activities of the PPP Unit in its delivery of its mandate; iii) extend viability gap finance to PPP projects; and iv) provide a source of liquidity to meet any contingent liabilities arising from a PPP project. PFF will be operationalized upon Gazettement of the PFF regulations, which is expected in the coming months (expected August, 2017).

PPP committee is mandated to authorize allocations from the established PFF, as well as act as the oversight body in matters relating to the Fund.

OAF will manage the day-to-day activities for the IFPPP additional financing implemented through the PFF. PPPU director is appointed as the OAF.

OAF is supported by a Fund Secretariat (that consists of PPPU and PIU) to provide technical and administrative support.

Change in Financial Management

Explanation:

A. Background

The additional financing (AF) will initially be implemented by the existing PIU for the IFPPP project under the National Treasury (NT) which is assessed as having adequate capacity and experience to effectively implement the AF. The fiduciary functions of the AF will be handled by the PIU under NT until the Funds Secretariat (FSS) established for the Project Facilitation Fund (PFF) and the fiduciary functions are transferred to FSS. The budgeting, internal controls, and audit arrangements are deemed adequate. The FM unit is under the overall charge of the NT Head of Accounting Unit and the project has a qualified accountant assigned to the PIU. However, delays have been noted in the funds flow process with transfer of funds from the Designated Account (DA) in NT to the Project Account (PA) in the same entity taking over 2 months. The quarterly IFR and annual audited financial statements are submitted to the Bank on timely basis. The project has received clean/unqualified audit reports including for FY16. There are no outstanding audit issues. There have also been challenges on the accounting and financial reporting arrangements that the cashbook reconciliations are not being done properly. This has resulted in errors in the quarterly Interim Financial Reporting (IFRs). As a result, the Financial Management risk rating for the AF is assessed as Substantial (S).

B. Disbursement and Audit

The Project has a hybrid design for components: one for inputs (Project management component) and one for DLI (all other components). For the inputs component the Project will adopt the Statement of Expense (SOE) method of disbursement. A Designated Account (DA)

denominated in US$ will be opened by the National Treasury at the Central Bank of Kenya (CBK). The funds will be transferred from the DA to segregated Project Account (PA) opened by NT in a financial institution acceptable to the World Bank or in the CBK. All eligible in-country Project expenses will be made from this PA-1. Direct method of payment will be available for large payments. The Project may also use the other disbursement methods such as reimbursement and direct method. For the disbursements related to the DLI, the NT will open US$ denominated account at the CBK into which the funds will be deposited. These funds will be transferred to a segregated PA-2. These funds would be utilized on agreed upon activities as per the approved work-plan and procurement plan.
The PIU/FSS will prepare annual financial statements using the standard International Public Sector Accounting Standards (IPSAS) cash basis of accounting format issues by the Public Sector Accounting Standards Board (PSASB) of the NT. The financial statements will include all payments/project costs made under both PA-1 and PA-2. The financial statements will be audited by the Office of the Auditor General (OAG). The audited financial statements and the management letter of internal control weaknesses will be submitted to the Bank within 6 months after the end of the financial year to which these relate. The FSS/PIU will submit quarterly unaudited interim financial reports (IFR) for the same format as IFPPP.

C. Conclusion of the assessment

The conclusion of the assessment is that the financial management arrangements have an overall residual risk rating of Substantial, which satisfies the Bank's minimum requirements under OP/BP10.00, and therefore is adequate to provide, with reasonable assurance, accurate and timely information on the status of the project required by IDA.

Change in Procurement

Explanation:

Although the Borrower had applied for and obtained a waiver to follow the Bank's Procurement Guidelines dated January 2011 prior to the decision meeting, following further discussions during appraisal, the Borrower decided to adopt the New Procurement Framework (NPF) that would provide additional flexibilities in the implementation of the AF. The AF will therefore be implemented in accordance with the provisions of the Procurement Regulations for IPF Borrowers dated July 2016.

Component 1 and 2 will be disbursed against DLI indicators. Nevertheless, the GoK has agreed that procurements under these components will still follow Procurement Regulations. Component 3 will continue with the traditional input-based procurement and will follow Procurement Regulations.

A Project Procurement Strategy for Development (PPSD) has been prepared providing the basis and justification for procurement planning, the approach to market and selection methods. The PPSD will inform the preparation of Procurement Plan and the Contract Management Plan. The Procurement Plan will be updated at least once annually or as and when required.

Change in Implementation Schedule

Explanation:

Please see DLI indicator in the annex II of the Project Paper

Appraisal Summary

Economic and Financial Analysis

Explanation:

Given the nature of this project and the character of the operation, a comprehensive economic and financial analysis would not be the appropriate tool to assess the full significance of the projects. The ultimate economic benefits of the additional financing project will contribute to the broader Kenyan economy, which will be derived from the private sector financing that the project manages to mobilize, as well as the infrastructure projects that are developed utilizing the finance and technical assistance from the facility. The economic and financial analysis will place more emphasis on the four first-mover projects under IFPPP1 that have completed and approved FS.

Project Development Impact:
Addressing Kenya's infrastructure deficit will require sustained expenditures of approximately US$4 billion per year (20 percent of GDP) over the next decade. Kenya needed an additional US$2.1 billion per year (11percent of GDP) to meet that funding goal. Due to existing budget and credit rating pressures, the government is unable to meet this objective on its own. To bridge the infrastructure funding gap, the government adopted PPPs as the main means of infrastructure development in Kenya, and is thus seeking to engage the private sector to bring in their financing. In exchange for providing their private sector finance, the private party would be compensated by government, user fees or a combination of both. The first-mover road PPP projects developed through IFPPP are expected to raise debt financing of between US$2- 2.5 billion from the result in private sector.

Whether public sector provision or financing is an appropriate vehicle:
In preparing the FS, the Transaction Advisors endeavour to answer the following three (3) main questions:
a) Is the project viable from a technical, social environmental, legal and economic perspective;
b) Which procurement methodology is suitable for implementing the project; and
c) If the project is viable as a PPP, which type of PPP is suitable for the project.

These are important questions to address, as PPP is not a panacea for all infrastructure developments. All the projects that are receiving transaction advisory support under the IFPPP project are following these parameters, in accordance with the law. Thus any decision on proceeding with a project as a PPP, as granted by the PPP Committee, is a well-informed decision, which is supported by well-researched facts and figures.

World Bank Added value

The WB Group has rich experience supporting countries creating an enabling environment for PPPs along with structuring advice and finance. While the WB has made significant contribution to legal, regulatory and institutional frameworks, as well as credit enhancement and capacity building for PPPs; IFC Advisory Services have achieved important impacts advising on PPP structuring and during due diligence and implementation of PPP investments. The MIGA has also increased investor's confidence and effectively implemented PPPs in those countries that are about to develop their PPP frameworks. PPPs supported by the WB Group are largely successful in achieving their development outcomes.

Technical Analysis

Explanation:

The technical design of the project has benefited from a series of technical assessments covering: Upstream support to PPP institutions and capacity building; Support for project preparation and procurement through PFF; as well as project management. Further technical work will be undertaken over the coming months including the approval and gazettement of the draft PFF, establishment and operationalization of the PFF, as well signing of PFF agreements for funding the preparation of projects.

Social Analysis

Explanation:

Under the parent project, OP 4.10 was not triggered because the sub-projects were not anticipated to be implemented in areas where people meeting the definition of Indigenous People (IPs) under OP 4.10 would be present. The selection of sub-projects followed this anticipated planned pipeline until recently. The addition of Olkaria VII geothermal as a selected sub-project has necessitated a review into the need of triggering OP 4.10 since all proposed sub-projects may not be in urban or peri-urban areas. In addition to Olkaria VII, the other sub-projects with likely impacts on IPs are the Mombasa-Nairobi Road and the Nairobi-Nakuru Road. Since these three sub-projects are highly likely to have impacts on IPs, there is need to include screening for the presence of IPs in the sub-projects areas within the feasibility study of the Transaction Advisors, and if they are found to be present, to prepare the necessary safeguard instruments. For this reason, OP 4.10 is now triggered for the parent project and the AF project.

Environmental Analysis

Explanation:

Like the parent project (P121019), the Environmental Category assigned the AF is Category A, based on the assumption that the AF will support upstream project studies including preliminary feasibility studies, institutional capacity strengthening and setting up of PIU offices, which eventually would lead to PPP investments that may result in potential significant adverse environmental and social impacts. It is also assumed that some project related impacts may be cumulative, irreversible and unprecedented. Based on Annex VIII (Proposed National Projects to be Supported under the IFPPP Additional Financing) of the Project Paper, World Bank Operational Policies on Safeguard that are likely to be triggered under the AF are: OP/BP 4.01

(Environmental Assessment), OP/BP 4.09 (Pest Management), OP/BP 4.04 (Natural Habitats), OP/BP 4.11 (Physical Cultural Resources), OP/BP 4.10 (Indigenous Peoples), OP/BP 4.12 (Involuntary Resettlement), and OP/BP 4.37 (Safety of Dams). Given that no specific sites, and the nature and scope of investments have not yet been clearly identified, the safeguard team recommends at this stage that the framework approach be adopted in responding to Bank's environmental and social requirement and applicable laws and regulations of the Government of Kenya. The key instruments for the environmental and social management are the Environmental and Social Management Framework (ESMF), the Vulnerable and Marginalized Group's Framework (VMGF) and the Resettlement Policy Framework (RPF). The National Treasury updated the ESMF and RPF that were prepared for the parent project, and a VMGF has been prepared. The draft updated instruments and the newly prepared VMGF were reviewed by the Bank team and feedback provided. They have been strengthened by the Client to include processes and instruments for assessing entitlements under the project and eligibility criteria for such entitlements. The strengthened ESMF and RPF, and the newly prepared VMGF have been disclosed both in the country and in the infoshop. The RPF and VMGF have proposed detailed procedures and process for the preparation of a Grievance Redress Mechanism (GRM) which has taken into consideration both the requirements of OP 4.12, OP 4.10, and the Kenyan laws for grievance redress all of which will guide the preparation of GRM during sub-projects implementation. The Sub project specific Environmental and Social Management Plan (ESMPs), Integrated Pest Management Plans (IPMPs), Waste Management Plans (WMPs), Resettlement Action Plans (RAPs) and Vulnerable and Marginalized Groups Plans (VMGPs) will be prepared as per the ESMF, the RPF and the VMGF respectively, as part of the detailed project preparation processes. In addition, the RPF has proposed the procedure to be followed for the preparation of project monitoring and evaluation plans.

Risk

Explanation:

The overall project risk is Moderate. The Additional Financing will share the same risk category of its parent project. However, one category will exhibit higher risk rating, namely the Environmental and Social aspects. Different risk aspects are further elaborated in the paragraphs below:

Political Risk: Moderate. Continued commitment in government support is essential in developing the PPP agenda in Kenya. With the forthcoming elections this year, there is risk that the political agenda may affect PPP projects in some aspects, i.e. proper project selections, etc. However, the team anticipates that such risk will be moderate, given that by the time of the election, the implementation of the project will still be at a nascent stage. The team will also develop proper project screening tool to ensure proper project selections.

Sector Strategies & Policies Risk: Moderate. The risks associated in this category may arise from PPP priorities shifting from one sector to another. To mitigate this risk, PPPU has developed a diversified PPP pipeline across different sectors to ensure that needs in all relevant sectors are addressed. The PPPU will also engage closely with each sectors to push forward the agenda.

Environmental & Social Risk: High. Risks can also rise from the environmental and safeguards perspective that will impact multiple stakeholders. Large-scale infrastructure projects may involve destruction of natural habitat, increase pollution, involuntary resettlements, and impacts on vulnerable populations that might lose their livelihoods, etc. All these potential risks need to be identified, consulted at the earliest stage, with risk mitigation measures put in place to minimize the adverse impacts. The team will work closely with the WB safeguards specialist, PPPU and relevant contracting agencies to promote compliance with the WB safeguards requirements during the project preparation and implementation phase. Capacity building and technical assistance will also be provided to the GoK to ensure compliance.

Fiscal Risk: High. From the fiscal perspective, it is important to manage fiscal risks and contingent liabilities arising from the existing and new PPPs. Therefore, it is crucial to have adequate institutional capacity in place to manage these risks. Although the Government of Kenya (GoK) has already developed a sound approach for assessing the fiscal risks and affordability of PPPs under the parent project that is currently being managed by the Public Debt Management Office (PDMO) of the National Treasury, the FCCL Unit at PDMO and the PPP Unit are currently severely understaffed and may not be adequate to take the increasing workload associated with expanding PPP agenda.

Risk on County PPP: Moderate. The extension of the PPP program to the county level. Such risks may rise from the fact that there is not enough county PPP pipeline projects, or from the fact that counties do not embrace the PPP agenda. These risks can be mitigated by enhancing county capacity, as well as enhance PPPU capacity to provide support to county governments. These include the ability to provide advice on the institutional and organizational framework, as well as deliver necessary capacity building programs to ensure timely knowledge transfer. Given extended project scope, the institutional capacity associated with the PPPU staffing remains a challenge due to the ongoing government restructuring process. The risks associated with implementing highly complex large-scale transactions through understaffed PPP institutions, compounded by foregone opportunities need to be addressed as soon as possible. Implementing the staffing plan for the PPPU will be an important signal to the development partners of the importance the government places on the Unit.

Risks with changes of Financial Regulations: Low. The recent changes in the financial sector regulations could impact the financial closure for PPP projects. The Kenya Banking (Amendment) Act 2016 that introduces interest rate caps and floors, as well as the Finance Bill 2016 that increases bank’s minimum core capital requirement from the current 1 billion Kenyan Shillings to five billion Kenyan Shillings by the end of 2019, will adversely affect local commercial bank’s liquidity position and risk appetite, and might limit their financing to high-risk PPP projects. This risk is low to affect national PPP projects, since these projects will mainly be financed by international commercial banks. However, this might have an impact on county PPP projects. The team will need to take this into account when looking at project bankability, as well as when structuring the projects.

Reputational Risks: Moderate. Infrastructure projects have a history of problems often associated with cost overruns, delays, failed procurement, or unavailability of private financing, etc. Although some of these failed projects are not structured as PPP, the general public may not be able to distinguish due to the lack of understanding on PPP concepts, and therefore they might place a negative view on PPP projects due to the failure of other infrastructure projects. The mitigation of such risk will rely on the awareness creation at a high level, which will allow the general public to understand different types of infrastructure projects, and hence place a proper view on PPP projects.

Post-Implementation Risks: Moderate. This risk arises when the CAs fail to continue to monitor PPP contracts adequately once the implementation support from the PPPU is completed. Capacity building and training events need to be held on regular basis to ensure a smooth transition for the CAs to deliver all aspects of post implementation activities.

V. World Bank Grievance Redress

59. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

ANNEX I. RESULTS FRAMEWORK

Project Name:	Kenya Infrastructure Finance Public Private Partnership Additional Financing Project (P162182)			Project Stage:	Additional Financing	Status:	Pipeline
Team Leader(s):	Mehnaz S. Safavian	Requesting Unit:	AFCE2	Created by:	Wenye Dong on 03-Nov-2016		
Product Line:	IBRD/IDA	Responsible Unit:	GFM01	Modified by:	Wenye Dong on 18-Jan-2017		
Country:	Kenya	Approval FY:	2017				
Region:	AFRICA	Lending Instrument:	Investment Project Financing				
Parent Project ID:	P121019	Parent Project Name:	Kenya Infrastructure Finance/PPP project (P121019)				

Project Development Objectives

Original Project Development Objective - Parent:

The overall objective of this two-phased Adaptable Lending Program (APL) Program is to increase private investment in the Kenya infrastructure market across sectors and to sustain this participation over an extended period of time. This involves three key areas of development: (i) enabling environment; (ii) pipeline; (iii) financing.

The specific objective of the APL 1 project is to improve the enabling environment to generate a pipeline of bankable Public-Private Partnership (PPP) projects.

Revised Project Development Objective – AF:

The revised PDO is "To increase private investment in the Kenya infrastructure market across sectors and to sustain this participation over an extended period of time."

Results	
Core sector indicators are considered: Yes	Results reporting level: Project Level

Project Development Objective Indicators

Status	Indicator Name	Core	Unit of Measure		Baseline	Actual(Current)	End Target
No Change	Expression of Interests (EOIs) issued to prospective sponsors for three targeted PPP transactions	☐	Number	Value	0.00	1.00	3.00
				Date	31-Dec-2012	12-Dec-2016	31-Dec-2017
				Comment			
No Change	PPP Regulations associated with the new Law agreed to with MoF	☐	Yes/No	Value	No	Yes	Yes
				Date	31-Dec-2012	12-Dec-2016	31-Dec-2017
				Comment			
New	Private Capital Mobilized	☒	Amount(US$)	Value	0.00	0.00	1250000000000.00
				Date	18-Jan-2017	18-Jan-2017	31-Oct-2022
				Comment			1.25 billion US$
No Change	PPP Fiscal Commitment and Contingent Liability Framework operationalized as measured by: upstream DMO due diligence on	☐	Yes/No	Value	No	No	Yes
				Date	31-Dec-2012	12-Dec-2016	31-Dec-2017
				Comment			

	prospective (feasibility stage) transactions completed in line with Law						
New	No. of PPP Projects that reached financial close	☐	Number	Value	0.00	0.00	3.00
				Date	18-Jan-2017	18-Jan-2017	31-Oct-2022
				Comment			
No Change	Regular issuance of Government benchmark bonds in medium and long term maturities up to 7/10 year tenures (Number, custom)	☐	Yes/No	Value	No	Yes	Yes
				Date	31-Dec-2012	12-Dec-2016	31-Dec-2017
				Comment			

Intermediate Results Indicators

Status	Indicator Name	Core	Unit of Measure		Baseline	Actual(Current)	End Target
No Change	Five feasibility studies completed and submission by contracting authorities to the PPP Committee acceptable to the Association, including Safeguards; ready for market entry	☐	Number	Value	0.00	10.00	5.00
				Date	31-Dec-2012	12-Dec-2016	31-Dec-2017
				Comment			
No Change	Line Ministries and Agencies & Nodes for First Mover Transactions established and operational	☐	Number	Value	0.00	57.00	2.00
				Date	31-Dec-2012	12-Dec-2016	31-Dec-2017
				Comment			

New	PPP Training Curriculum Developed and Implemented	☐	Text	Value	No Curriculum	No Curriculum	Curriculum developed and approved, implementation of curriculum commenced
				Date	18-Jan-2017	18-Jan-2017	31-Oct-2022
				Comment			
No Change	PPP FCCL approved by National Treasury Cabinet Secretary	☐	Text	Value	No	In progress	Yes
				Date	31-Dec-2012	12-Dec-2016	31-Dec-2017
				Comment			
New	No. of Government officials with PPP certification from recognized institutions*	☐	Number	Value	10.00	10.00	50.00
				Date	18-Jan-2017	18-Jan-2017	31-Oct-2022
				Comment	base line is "less than 10"	actual is "less than 10"	
No Change	Capital Markets Authority Bill 2011 approved by Cabinet for submission to Parliament	☐	Yes/No	Value	No	Yes	Yes
				Date	31-Dec-2012	12-Dec-2016	31-Dec-2017
				Comment			
New	No. of Feasibility Studies approved by the PPP Committee	☐	Number	Value	10.00	10.00	25.00
				Date	18-Jan-2017	18-Jan-2017	31-Oct-2022
				Comment			
No Change	Securities and Investments	☐	Yes/No	Value	No	Yes	Yes

	Bill 2011 approved by Cabinet for submission to Parliament			Date	31-Dec-2012	12-Dec-2016	31-Dec-2017
				Comment			
New	No. of EOIs/RFQ/Request for Proposal (RFP) issued to prospective PPP private partners	☐	Number	Value	8.00	8.00	20.00
				Date	18-Jan-2017	18-Jan-2017	31-Oct-2022
				Comment			
New	Report drafted on project stakeholder engagement survey	☐	Yes/No	Value	No	No	Yes
				Date	18-Jan-2017	18-Jan-2017	31-Oct-2022
				Comment			Surveys will be done at sub-project level, one year after achieving the first financial closure.

** PPPU will define (under WB supervision) the type of recognized PPP certification and institution that meet the requirement.*

ANNEX II. DISBURSEMENT-LINKED INDICATORS

Disbursement for components 1 (Support to Institutional Strengthening) and component 2 (Support for project preparation and procurement) will be effected against Disbursement-Linked Indicators (DLIs). The results-based financing ensures that all pre-conditions and policy actions are met before disbursements are made to the Government. This would ensure the project to be successfully implemented. These pre-conditions and policy actions are based on the discussions and agreement obtained with the PPPU of the National Treasury. Component 3 will use the traditional disbursement for inputs, where disbursement will be based on the expenses from the PIU. Detailed DLIs are listed below:

DLI Result Areas	FY18	FY19	FY20	FY21	FY22
	DLI Target 1: PFF Regulations gazetted **Supporting Document**: Copy of gazette publication of PFF regulations	**DLI Target 1:** Baseline circular to county government on PFF issued **Supporting Document**: Copy of circular of PFF	**DLI Target 1:** Model templates for procurement for at least 3 sectors drafted **Supporting Document**: Copies of draft model template (RFQ, RFP, Project Agreement)	**DLI Target 1:** Applications processed for the VGF window of the PFF **Supporting Document**: Technical report of processed applications	**DLI Target 1:** Liquidity reserve created **Supporting Document**: Account statement for the liquidity reserve
	DLI Value: US$1 million	**DLI Value:** US$1.5 million	**DLI Value:** US$2 million	**DLI Value:** US$1 million	**DLI Value:** US$0.5 million
I. Strengthen PPP Institutions and	**DLI Target 2:** PFF Governance and Operational Manual	**DLI Target 2:** Baseline circular to county government		**DLI Target 2:** All success fees for financially	

Capacity Building	approved and implemented **Supporting Document**: Copy of PFF manual + minutes of the PPP committee approving the manual	on FCCL Framework issued **Supporting Document**: Copy of circular of FCCL Framework		closed projects deposited in the PFF **Supporting Document**: Account statement of PFF with deposit of success fee	
	DLI Value: US$1 million	**DLI Value:** US$1.5 million		**DLI Value:** US$0.5 million	
	DLI Target 3: PFF Seed money provided **Supporting Document**: Account statement of PFF with deposit of seed money				
	DLI Value: US$1 million				
	DLI Target 4: At least 3 PFF funding agreements** signed **Supporting Document**: Copies of signed PFF funding agreements	**DLI Target 3:** At least additional 3 PFF funding agreements signed **Supporting Document**: Copies of signed	**DLI Target 2:** At least 2 additional PFF funding agreements signed for national PPP pipeline	**DLI Target 3:** At least 2 additional PFF funding agreements signed for national PPP pipeline	**DLI Target 2:** At least 2 additional PFF funding agreements signed for national PPP pipeline

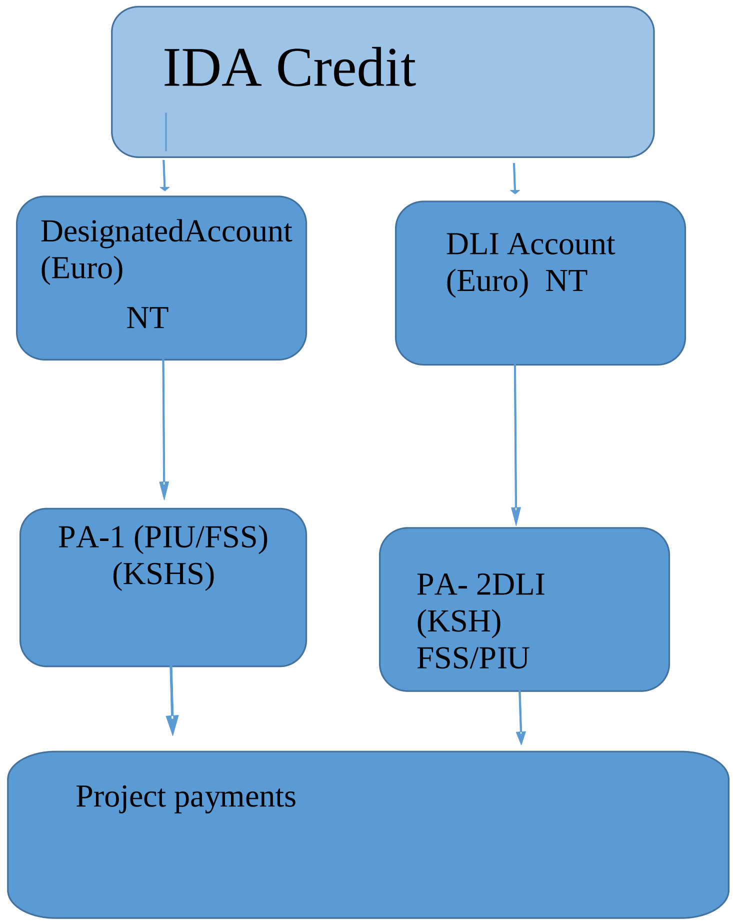
		PFF funding agreements	**Supporting Document**: Copies of signed PFF funding agreements	**Supporting Document**: Copies of signed PFF funding agreements	**Supporting Document**: Copies of signed PFF funding agreements
	DLI Value: US$5 million	**DLI Value:** US$10 million	**DLI Value:** US$5 million	**DLI Value:** US$5 million	**DLI Value:** US$1.5 million
II. Achieve PPP project preparation and procurement targets			**DLI Target 3:** At least 1 PFF funding agreement signed for county PPP pipeline DLI **Supporting Document**: Copies of signed PFF funding agreements	**DLI Target 4:** At least 1 additional PFF funding agreement signed for county PPP pipeline **Supporting Document**: Copies of signed PFF funding agreements	**DLI Target 3:** At least 1 additional PFF funding agreement signed for county PPP pipeline **Supporting Document**: Copies of signed PFF funding agreements
			DLI Value: US$2 million	**DLI Value:** US$2 million	**DLI Value:** US$1.5 million
III. Reach PPP Project Financial Closure			**DLI Target 4:** At least 1 PPP project achieved financial close **Supporting**	**DLI Target 5:** At least 1 additional PPP project achieved financial close	**DLI Target 4:** At least 2 additional PPP project achieved financial close

			Document: Copies of signed project financing agreements	**Supporting Document**: Copies of signed project financing agreements	**Supporting Document**: Copies of signed project financing agreements
			DLI Value: US$2 million	**DLI Value:** US$2 million	**DLI Value:** US$1 million

*** PFF Funding Agreements can be signed outside of the IFPPP project.*

ANNEX III. ADDITIONAL FINANCIAL MANAGEMENT AND DISBURSEMENT ARRANGEMENTS

Figure 5: Funds Flow Arrangements



Risk Assessment and Mitigating Table

The analysis of the assessment is as follows:

Type of Risk	FM Risk Rating	Brief Explanation	Risk Mitigation Measures incorporated in Project Design	FM Condition (Y/N)?	Residual Risk Rating[1]	
		INHERENT RISK				
Country Level	S	This is based on the Country Public Financial Management environment and considers overall history of the country governance environment and corruption concerns.	A more robust Public Financial Management (PFM) Act 2012 is in now place, on-going PFM reforms including the roll-out of Integrated Financial Management Information System (IFMIS), introduction of Electronic Funds Transfer (EFT) payments via G-Pay. Supreme Audit Institution (SAI) and Office of Auditor General (OAG) has been strengthened while Office of Controller of Budget has been established.	No	S	
Entity Level	M	PIU/NT have adequate capacity and experience.		No	M	
Project Level	S	Weaknesses in accounting and financial reporting	Capacity building training for the FM team	No	S	
OVERALL INHERENT RISK	**S**				**S**	

Type of Risk	Initial FM Risk Rating	Brief Explanation	Risk Mitigation Measures	FM Conditions (Y/N)?	Residual Risk Rating***
			CONTROL RISK		
Budgeting	L	No major risks		No	L
Accounting	S	Errors and anomalies in accounting records	Capacity building training for the FM team and separation of project and GOK accounting functions	No	S
Internal controls	S	Accounting weaknesses create risk of override of internal controls	Capacity building training for the FM team	No	S
Funds Flow	S	Delays in in-country funds flow process	Being addressed as Portfolio issue	No	S
Financial Reporting	S	Errors and anomalies in financial reports	Capacity building training for the FM team	No	S
Auditing	L	Adequate audit capacity under OAG.	Project funds will be ring-fenced from other regular GoK funds.	No	M
OVERALL CONTROL RISK	**S**				
OVERALL	**Moderate (S)**				

******H = High; S = Substantial; M = Moderate; L = Low***

ANNEX IV: PROCUREMENT ARRANGEMENTS

1. **Procurement Regulations:** Procurement for the AF will be carried out in accordance with the "The World Bank Procurement Regulations for IPF Borrowers, dated July 2016, hereafter referred to as the "Procurement Regulations". The AF will also be subject to the World Bank's Anti-Corruption Guidelines, dated July 1, 2016, and the provisions stipulated in the Financing Agreement.

2. The institutional and implementation arrangements described in the original project documents would apply to both the Original and the Additional Financing. All new procurement activities under the additional financing including remaining procurement activities under the original project as of date of approval of AF will be carried out in accordance with the Bank's Procurement Regulations. Component 1 and 2 will be disbursed against DLI indicators. Nevertheless, the GoK has agreed that procurements under these components will still follow Procurement Regulations. Component 3 will continue with the traditional input-based procurement and will follow Procurement Regulations.

3. **Profile of Procurement activities:** Although the profile of the procurement under the AF remains the same as that of the original project, the volume of transactions under the AF is expected to increase in terms of size, scale, scope, and the number of sectors. The additional financing will be used to support (a) PPP feasibility studies; (b) further development of regulations; (c) standardization of documents; (d) implementation of FCCL and project facilitation frameworks; (e) preparation and implementation of PPP accounting standards; and (f) capacity building and institutional support. Procurement activities envisaged include the procurement of transaction advisory services, technical assistance, monitoring and evaluation, Information and Communication Technology (ICT) goods and equipment, among others. The transaction advisor is expected to carry out a detailed technical and economic analysis of each of the identified PPP initiatives, and recommend if these initiatives are feasible to be processed under PPP. The previous procurement process carried out under the original project, received limited number of fully responsive proposals from potentials consultants in spite of providing an option for association between firms. In addition, from the list of activities obtained from the PPPU it was observed that a single firm may not have the specialization necessary to render the full range of services, which may include but not limited to Technical, Financial, Procurement, Legal, Environmental and Social Sectoral expertise. These areas need to be coherently interlinked by TA to accomplish the envisaged outputs, i.e., bankable PPP projects. The project has considered and agreed to the use of Framework Agreement for transaction advisory services.

4. **Project Procurement Strategy for Development (PPSD):** As per the requirement of the Regulations, a Project Procurement Strategy Document (PPSD) has been developed, the basis of which the Procurement Plan and the Contract Management Plan have been prepared. The Project Paper sets out the selection methods to be followed by the borrower during project implementation in the procurement of goods, works, non-consulting and consulting services

financed by the Bank. The PP reflects the Procurement Method and Prior Review Thresholds applicable to the AF including remaining procurement activities under the original project as of the date of approval of AF. The choice of procurement methods and arrangements in the Procurement Plan has been informed by the market situation, operational context, previous experience and associated risks in determining the optimum procurement approach that will deliver the right procurement result. The procurement plan will be updated at least annually to reflect the latest circumstances and or as when required. The PPSD and the Procurement Plan are part of the project documents and are contained in the project files.

5. **Summary of the PPSD**

The proposed Additional Financing (AF) of US$50 million is intended to scale-up the existing PPP program in Kenya. The AF is expected to result in (a) at least 3 PPP projects reaching financial closure by 2022 and (b) US$1.25 billion of private sector investment injected into PPP projects by the year 2022.

The key component of the AF is the support to project preparation and procurement of Transaction Advisors. The PPPU has enlisted 11 PPP initiatives through National Government and 5 PPP initiatives through County Government following careful review of various PPP initiatives submitted by various agencies.

The selection of different types of complex, high-value, high-risk transaction advisory services forms the critical path for procurement activities under the project. Though the profile of procurement for AF remains the same as that of the original project, the volume of transactions under the AF is expected to increase not only in scale, but also in the scope and complexity, and will be spread across a number of sectors.

The project procurement will be carried out using the New Procurement Framework (NPF) and therefore will aim at taking full advantage of the available flexibilities contained in the NPF.

The PPPU/PIU has past experience in the implementation of Bank financed operations and is set to achieve financial / commercial closure of some of the PPP initiatives under the original project. However, it has been noted that there has been considerable amount of delays in the award of Transaction Advisory (TA) contracts during implementation of the original project. The delays will however be mitigated through choice of appropriate selection approaches and use of other flexibilities that are available under the new framework.

Contract Management Plans will also be developed for complex, high-value and high risk contracts and continuously monitored throughout the life of the project. Whereas some of the CAs at National level are familiar with the PPP framework and have achieved financial closure of a few PPP initiatives, the Counties may not possess the required level of expertise for managing PPP transactions and therefore training and capacity building will be necessary.

Based on the market assessment carried out, it is concluded that there are sufficient potential service providers in the region for providing services that are required for the AF. Many of the reputed TA firms have presence in Kenya and cover traditional markets as well as PPP. The PPPU has benefited from the first mover projects and are familiar with the management of the TAs. TAs are likely to associate in the form of consortia/ associations/JV with different skills required to carry out the assignment from feasibility studies to financial closure. Feedback received from market sounding indicates a strong interest in the project from international advisers and noted that domestic advisers may also be looking for lead partners to partner with in seeking contracting opportunities under the project.

The potential risks identified are; varied procurement capacity at both the National and County level CAs; Terms of Reference differ from one Sector/CA to another; multiplicity of stakeholders may result in varied stakeholder expectations; lack of coordination by the PIU across sectors/CA may impede decisions making related to procurement; and lack of continuous monitoring and tracking of implementation progress. The PPSD proposes measures for mitigation along with those responsible for managing the risks identified.

Achieving financial closure of the identified PPP initiatives and the management of multiple stakeholders across different sectors will continue to be a major challenge in the implementation of the AF. Given the complexity of some of the consultant services envisaged under the project, CAs will be expected to diligently implement their PPP initiatives including effectively managing stakeholders' expectations if they were to achieve value for money and conclude the contracts within the project timelines.

Based on the project procurement requirements, technical solutions and market base, a procurement strategy has been developed providing for separate packages using Open international competitive procedures. The Framework Agreement (FA) contracting arrangements will be used for recurring selection of consultant services and also to be used for consolidated requirements where different CAs procure the same type of consulting services across sectors. Similar arrangements have been used successfully by the Asian Development Bank in the selection of TAs in Philippines and has been widely used in Europe. Other contracting arrangements will however be used where the FA option is not the most appropriate. The details of the preferred procurement arrangements for the contracts in the project, are provided in the Procurement Plan.

6. **Systematic Tracking of Exchanges in Procurement (STEP)**. The project will use STEP in the implementation of the project, a World Bank planning and tracking system, which will provide data on procurement activities, establish benchmarks, monitor delays and measure procurement performance. The original project has been re-directed to STEP and the PPPU team trained. The lessons learnt from selection of TAs, choice of contracting forms, and the feedback received from market sounding have been appropriately incorporated in the Project Procurement Strategy for Development (PPSD).

7. **Risks and Mitigation Measures:** The Bank has assessed the capacity of the existing PIU supporting the PPPU Unit and is satisfied that it has the requisite capacity and experience to undertake both the original project and AF. However, to further strengthen the PIU, additional TAs may be hired to support and strengthen the PIU on need basis.

8. The overall risk for procurement is assessed as "Substantial". The proposed mitigation measures are summarized here below. After the measures have been effected, the residual risk rating will be "Moderate".

   - Provide handholding support to the PPPU during the transition period to New Procurement Framework (NPF) in the first year of the AF implementation;
   - Strengthen the procurement capacity of the PPPU as needed, with due consideration of scope, size, spread and multiplicity of sectors involved;
   - Use STEP as effective monitoring tool and reduce the procurement lead time for the selection of PIU staff;
   - Prepare Contract Management Plans (CMPs) for each high value and high risk contract with clear staff roles and responsibilities; and
   - Improve in procurement filing and records management.

8. **Use of National Procurement Procedures:** All contracts following national market approach shall follow the procedures set out in the Public Procurement and Asset Disposal Act of 2015 (PPADA). The PPADA governs purchase of works, goods and services using public resources by the national and county government entities, local authorities, state corporations, education institutions, and other state owned institutions. Under the PPADA, the Public Procurement Regulatory Authority (PPRA) has been established, in addition to the Public Procurement Directorate in the National Treasury. The PPADA sets out the rules and procedures of public procurement and provides a mechanism for enforcement of the law. The new Constitution has devolved some of the key functions of the national government to the counties. In this respect, the government is expected to issue the Public Procurement and Asset Disposal Regulations, 2017 which will cover national, county government and SOEs. Procurement function is decentralized to individual procuring entities. The PPRA has oversight and regulatory function including undertaking procurement reviews and audits. There is a Public Procurement Administrative Review Board under the secretariat of PPRA that deals with complaints received from bidders or consulting firms. The provisions of PPADA is consistent with the World Bank Procurement Regulations Section V – Para 5.4 National Procurement Procedures.

9. **Procurement Templates:** The Bank's Standard Procurement Documents (SPDs) shall be used for procurement of goods, works, and non-consulting services under Open International Competitive Procedures. National Bidding may be used under Open National Competitive procedures subject to the provisions of universal eligibility and Bank's Anti-Corruption Guidelines. Similarly, consultant firms shall use the Bank's SPDs, in line with procedures described in the Procurement Regulations.

10**. Procurement of Works*:*** Works contracts envisaged under the project include small low-value low-risk contracts for the rehabilitation and refurbishment of PIU offices.

11. **Procurement of Goods:** Goods to be procured under this Project will include, office and IT equipment, IT Software & Information Systems, and office furniture.

While approaching international market procurement will be done using the Bank's Standard Procurement Documents (SPDs). Procurements while approaching national market will be done using the National Standard Bidding Documents with appropriate modifications and additional annexes to address Bank's Anti-Corruption Guidelines and universal eligibility.

12. **Procurement of Consultancy Services:** Consulting services to be procured under the Project include but not limited to the development of; (a)PPP regulations and standardized documents; (b) PPP accounting standards; (c) PPP Curriculum and certification; (d) training needs assessments; and the hiring of (e)transaction advisory services; (f) technical Assistance; and (g) PPPU support staff. Individual consultants and/or support personnel may also be hired to augment existing capacity within the PPPU in accordance with the provisions of Para 7.32 of Procurement Regulations.

13. **Operating Costs:** These items will be procured using the Borrower national procurement and administrative procedures acceptable to the Bank including selection of project implementation support personnel. The Borrower will also pay for costs associated with travel, accommodation, per-diems, office consumables and maintenance, implementation support personnel, etc.

14. **Record keeping:** All records pertaining to award of tenders, including bid notification, register pertaining to sale and receipt of bids, bid opening minutes, bid evaluation reports and all correspondence pertaining to bid evaluation, communication sent to/with the Bank in the process, bid securities, and approval of invitation/evaluation of bids would be retained by respective Agencies and also uploaded in the STEP.

15. **Disclosure of procurement information**. The following documents shall be disclosed on the agencies websites: (a) Procurement Plan and updates; (b) invitation for bids for goods and works for all contracts; (c) request for expressions of interest for selection/hiring of consulting services; (d) contract awards for goods, works, non-consulting and consulting services; (e) monthly financial and physical progress report of all contracts; and (f) an action taken report on any complaints received on a quarterly basis.

The following details shall also be published in the United Nations Development Business (UNDB) and Bank's external website: (a) an invitation for bids for procurement of goods and works following open international market approaches; (b) Request for Expression of Interest for selection of consulting services following open international market approaches; and (c) contract award details of all procurement of goods and works and selection of consultants using open international market approaches.

16. **Fiduciary oversight by the Bank**: The Bank shall prior review contracts as per prior review thresholds set in the PPSD/PP.

All contracts not covered under prior review by the Bank shall be subject to post review during implementation support missions and/or special post review missions, including missions by consultants hired by the Bank. However, the Bank may conduct at any time, Independent Procurement Reviews (IPRs) of all the contracts financed under the credit and/or grant.

17. **Contract management.** The high-risk and high-value procurements such as transaction advisory services will be monitored for increased contract management support as indicated in the procurement plan. The PPPU will develop key performance indicators (KPI) for such contracts and the KPIs would be monitored during actual execution of contracts. Bank team will provide additional due diligence and independent review of the contract performance of such identified procurements. A fully staffed PIU of the respective implementing agencies will be responsible for overall project/contract management.

18. **Frequency of procurement supervision**: Two half-yearly missions are envisaged for procurement support and supervision of the proposed project.

ANNEX V. IMPLEMENTATION ARRANGEMENTS

Role of PPP Institutions in the PPP Process

1. Implementation of PPPs based on the National Policy on PPP: The PPP Policy outlines the roles of the various Ministries and Agencies for the successful processing and implementation of a PPP program. In general, the various institutions will be supporting the following broad functions: (a) PPP awareness building and communication campaign; (b) Individual project sponsorship, design, preparation and execution; (c) Financial management of funded and contingent obligations; (d) Gate-keeping and approval functions, and (e) PPP project advice, support and promotion. Below are the specific roles of the various institutions.

2. *National Treasury (NT)* is spearheading the development of PPP and is responsible for developing the legal, institutional, and regulatory framework for the PPP program. NT is also responsible for the issuing of Standardized PPP provisions and PPP Manual/Guidelines for effective management of PPP Projects.

3. *The PPP Committee (PPPC):* This Inter-Ministerial Committee is responsible, inter alia, for PPP policy guideline formulation, project approvals and monitoring and evaluation oversight. It is chaired by the National Treasury's Principal Secretary and includes, as members, the Principal Secretaries responsible for Infrastructure, Transport, Energy, Planning & Statistics, Lands, Devolution, and a representative from the Attorney General's office as well as four representatives from outside of Government as appointed by the Cabinet Secretary.

4. *The PPP Unit (PPPU):* Currently the PPPU is staffed with a Director and support staff. The proposed organization structure, including an initial scoping of job descriptions and candidates' profiles (taking into account the potential for overlap in the various fundamental roles to be played by the PPPU) has been drafted for consideration by the GoK and is included in Figure 3 below. The key role of the PPPU will be coordination of Policy implementation across the participating Ministries and Departments of Government. The PPPU will also manage donor relations in respect of the Policy, serve as the Secretariat to the PPPC and provide a range of advisory and oversight functions that will be detailed more comprehensively in the detailed organogram currently being prepared by the PPPU (see summary below). In light of the start-up status of the Policy, it is to be expected that these roles and responsibilities will be subject to some fluidity and evolve over time in response to operational effectiveness and efficiency considerations and other lessons learned.

5. *PPP Nodes/Contracting Authority:* The PPP Nodes present in CAs with a pipeline of projects which will be functionally reporting to the PPPS and administratively reporting to the CAs. Their function is to support the development and ensure procurement and contract management of PPPs

within the national policy guidelines and implementation of the draft PPP bill, soon to be approved.

6. *NT- Public Debt Management Office (PDMO):* The Debt Management Division (DMD) will ensure fiscal sustainability for PPP projects, considering both direct and contingent liabilities on government's finances including guarantees, arising from each PPP project. Specifically, the DMD will be responsible for: (a) Fiscal impact: assessing and managing the long-term fiscal risks and impact of the PPP project (direct or contingent, explicit or implicit) and determining whether it is acceptable, given other priority national needs; and (b) Government support: confirming the appropriateness of the project for sovereign guarantees (debt or specific-event) or other kinds of government support.

7. *NT- Budget Division*: The Budget Division shall establish processes to incorporate PPP project development into the annual budgeting exercise, and fund direct as well as contingent (unanticipated) calls on the budget. The Division shall therefore ensure that any payments to be made by Ministries and Agencies under the PPP contract are consistent with the national budget.

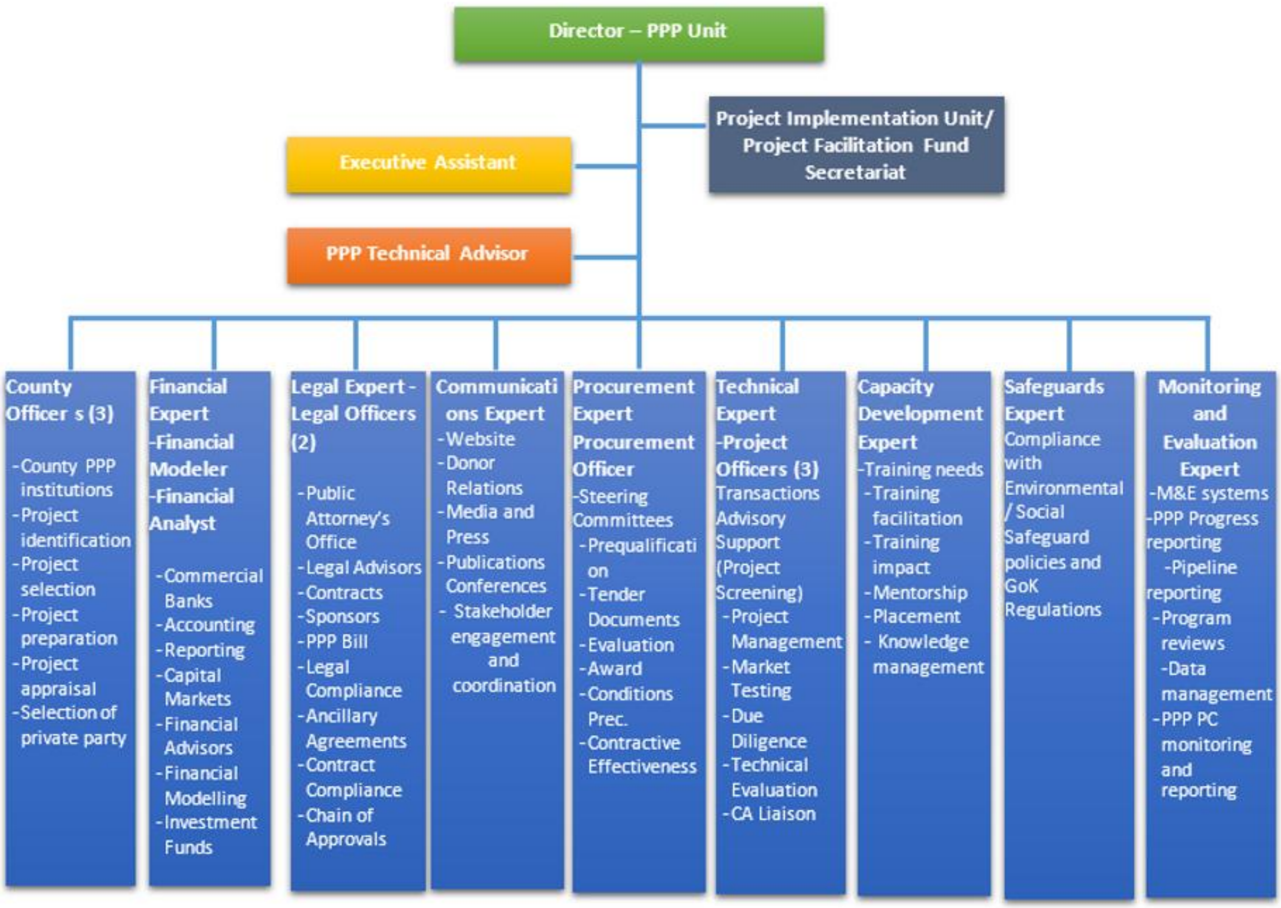
8. Cabinet shall be the approving authority for PPPs subject to the provisions of the Approval Schedule to this Policy and detailed regulations to be promulgated.

9. *Parliament* shall be the final approving authority for PPP projects where PPP Projects require the approval of Parliament subject to the provisions of the Schedule to this Policy and detailed regulations to be promulgated. This is to ensure the protection of public interest.

10. *Attorney-General's Department* with the assistance and advice of PPPS Legal Expert shall ensure the conformity of all project agreements with Kenyan law.

11. Regulatory Authorities shall ensure that the PPP contract, insofar as it will have an impact on customer tariffs is consistent with and furthers good regulatory principles.

Figure 3: PPPU Organization Chart



ANNEX VI. IMPLEMENTATION SUPPORT PLAN

1. The strategy for project implementation support has been adapted to the client government's characteristics and implementation capacities. Taking into account the political economy context and the risks and challenges mentioned in the Systematic Operations Risk-rating Tool (SORT), the following aspects have been considered:

   - Weak institutional and fiduciary capacity for project implementation might delay the implementation process.
   - Participation of several Government Ministries and Agencies might cause bottlenecks and hold back smooth implementation.
   - Change in administration during project time might slow down implementation.

2. The World Bank team providing Implementation Support to this project will be multi-sectoral, reflecting the range of key budget, legal and institutional and multiple sector issues that will need to be addressed during the course of project implementation. In addition, the World Bank will support the project on areas related to capacity building while coordinating closely with PPIAF. The project will also entail close collaboration with other key World Bank agencies – namely the IFC and the MIGA - to facilitate their advisory and investment service engagement in the GoK PPP Program.

3. More specifically, the implementation will be supported by the Bank team through the following activities:

   - Fiduciary staff of project implementation and project execution units have received additional financial management and procurement training during the preparation of the project
   - The project will be reviewed twice a year as reflected in our implementation support reviews (ISRs) through implementation support missions and on-going dialogue between the task team and the client.
   - Based on the recommendations of the procurement assessment, the official implementation supervision mission will be carried out twice each year, when post review of procurement actions will be done. The procurement post-reviews would cover a representative sample of 20 percent of contracts subject to post-review. Post review will consist of reviewing technical, financial and procurement transactions carried out by MoF/PIU and/or consultants selected and hired under the PPP Project according to procedures acceptable to the Bank.
   - Based on the recommendations of the FM assessment, it is expected that in the first year of implementation there will be two onsite visits to ascertain adequacy of systems and how effective the country systems are being used to support implementation. The FM supervision mission's objectives will include ensuring that strong financial management systems are maintained throughout project tenure. In adopting a risk-based approach to FM supervision,

the key areas of focus will include assessing the accuracy and reasonableness of budgets, their predictability and budget execution, compliance with payment and fund disbursement arrangements, and the ability of the systems to generate reliable financial reports.

- The fiduciary team based in the country office will give day-to-day fiduciary assistance and will coordinate upcoming issues with the Task Team Leader (TTL)
- At least one official financial management and procurement review per year
- A mid-term review about 30 months after project effectiveness will be carried out to assess the progress of the project against the PDO.
- Review of the interim financial reports (IFRs) that are to be submitted quarterly.

Table 6: World Bank Team Skills Mix Required

Skills Needed	Number of Staff Weeks/year	Number of Trips	Comments
Task Team leader	10	Nairobi-based	Supervision and overall task team management
Financial Sector Specialist	4	2	Support supervision and task-team management, ISR, MTR, and other ad-hoc tasks
2 PPP Specialists	6 x 2	2 x 2	Technical Input
Social Safeguards Specialist	2	Nairobi-based	Social safeguards
Environmental Safeguards Specialist	2	Nairobi-based	Environmental safeguards
Procurement Specialist	2	Nairobi-based	Procurement
Financial Management Specialist	2	Nairobi-based	Financial Management

Table 7: Other WB Partners

Skills Needed	Number of Staff Weeks/year	Number of Trips	Comments
International Finance Corporation (IFC) –	As required	As required	Support to specific transactions

Advisory and Investment			
Multilateral Investment Guarantee Agency (MIGA)	As required	As required	Potential guarantee support to specific transactions

Table 8: International Partners

Name	Institution/County	Role
DFID	UK	Potential funding support to be managed by WB

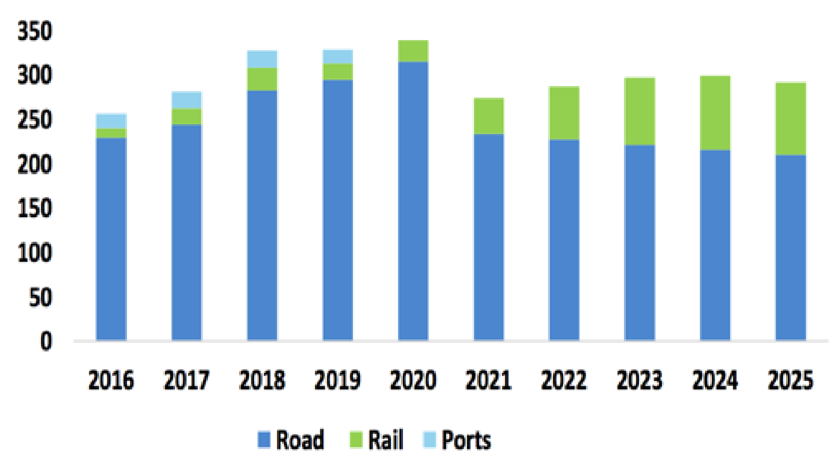
ANNEX VII. ECONOMIC ANALYSIS

1. Given the nature of this project and the character of the operation[8], a comprehensive economic and financial analysis would not be the appropriate tool to assess the full significance of the projects. The ultimate economic benefits of the additional financing project will contribute to the broader Kenyan economy, which will be derived from the private sector financing that the project manages to mobilize, as well as the infrastructure projects that are developed utilizing the finance and technical assistance from the facility. The economic and financial analysis will place more emphasis on the four first-mover projects under IFPPP1 that have completed and approved feasibility studies (FS).

<u>Introduction</u>

2. Addressing Kenya's infrastructure deficit will require sustained expenditures of approximately US$4 billion per year (20 percent of GDP) over the next decade. Kenya needed an additional US$2.1 billion[9] per year (11percent of GDP) to meet that funding goal. The gap could be halved through the use of more efficient technologies to meet infrastructure targets in the transport and WSS sectors. In the transport sector, the projected government expenditure for the period of 2016- 2025 is as outlined in Figure 4 below:

Figure 4: Projected transport sector Government expenditure, 2016-25 (2015 Ksh bn*)*



Source: Transport Funding Policy Study by Trademark East Africa, 2016

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[8] Under IFPPP1, only the four first mover road PPP projects have completed feasibility study (FS), which have been approved by the PPP Committee.

[9] Cecilia M. Briceño-Garmendia Maria Shkaratan, 2011

3. The roads sub-sector and the Standard Gauge Railway (SGR) account for the great majority of the planned infrastructure expenditure over the period 2016-2025. This is annualized expenditure, as shown in Figure 4 above, was arrived at after accounting for projected financing costs. It includes all expenditure on the road sub-sector, with all capital expenditure assumed to be financed either through PPPs or Government debt.
4. Currently, in the roads sector, the Government relies on fuel levy and other taxes as the main source of funding to meet its planned expenditure in the sector. The Transport Funding Policy Study by Trademark East Africa, 2016, estimates that approximately Kshs140 billion (US$1.37 billion) is collected per year, from these sources. By contrast, the future annual roads sub-sector expenditure to be funded could exceed Kshs300 billion, (US$2.95 billion) in real terms, in 2020, depending on the timing of investment projects.

Table 9: Revenue from Road User Taxes (KShs. Bn)

	2011	2012	2013	2014
Taxes on fuel				
Fuel levy	23.5	24.2	24.8	27.9
Other taxes	36.0	37.5	41.1	43.9
Sub-total: Fuel	**59.4**	**61.8**	**65.9**	**71.8**
Taxes on purchases of vehicles and parts				
VAT	9.9	12.0	16.4	23.2
Import duties	10.1	12.2	15.2	17.8
Excise duties	5.8	7.5	9.8	11.1
Import Declaration Fees (IDF)	2.1	1.9	1.3	1.3
Sub-total: Vehicles and parts	**27.9**	**33.7**	**42.7**	**53.5**
NTSA-administered charges and fees (indicative)				
Net receipts	*12.0*	*12.0*	*12.0*	*12.0*
Sub-total: NTSA	***12.0***	***12.0***	***12.0***	***12.0***
TOTAL	**99.4**	**107.4**	**120.6**	**137.4**

Source: Transport Funding Policy Study by Trademark East Africa, 2016

5. From the above, it is therefore clear that these revenue sources are not adequate to meet the needs of the sector, resulting in an infrastructure-funding gap of approximately KShs150 billion (US$1.47 billion).

6. To bridge this gap in the transport sector, as well as in other sectors, the Government adopted PPPs as the main means of infrastructure development in Kenya, and is thus seeking to engage the private sector to bring in their financing. In exchange for providing their private sector finance, the private party would be compensated by government, user fees or a combination of both. The first-mover road PPP projects developed through IFPPP are expected to raise debt financing of between US$2- 2.5 billion from the private sector.

7. Given the nature of this project and the character of the operation - that is, under IFPPP1, only the first mover road PPP projects have completed FS, which have been approved by the PPP Committee - a comprehensive qualitative economic and financial analysis would not be possible, or the appropriate tool, to assess the full significance of the projects, beyond the road sector macroeconomic analyses provided below. The ultimate economic benefits of this credit will be derived from the contribution to the broader Kenyan economy, which will be derived from the infrastructure projects that are developed utilizing the finance and technical assistance from the facility. The economic and financial analysis of this project will therefore place more emphasis on the projects, which have been funded by IFPPP1 that have completed and approved FS.

8. Table 10 below outlines the projects that are currently being supported under the IFPPP project, showing the project status, the amount paid out and the investment/project cost.

Table 10: Projects supported under IFPPP1 - estimated costs and level of private sector investment expected (Project costs)

Project	Status	Estimated Contract Value US$	Project Capex (US$M)
Toll road PPP projects[10]	FS Completed and approved by the PPP Committee for 4 out of the 5 projects. Projects are now at tender	Transaction advisory costs: 21.7M	3800M

[10] The project cost per project is as follows:
Nairobi – Nakuru – Mau Summit – US$1,200M
Nairobi – Mombasa US$2,300M
Nairobi – Thika – US$40M
2nd Nyali bridge – US$200M

	stage		
Tolling Operator for PPP roads in Kenya	The ToR for the TA has been prepared and the TA is expected to be on board by December 2017	Transaction Advisory – 750,000	
1st Umbrella student hostels[11]	FS has been prepared and comments on the same received from the TA and PPP Unit	Transaction Advisory Costs: 1.9M VGF ranges from between 30-50 percent of the project cost for all projects.	350M
140 MW Olkaria VII	Transaction Advisor on board – preparing the PPP FS.	Transaction Advisory Costs – 2.9M	-
Kisumu Port	FS completed – FS revealed that project is not viable as a PPP	Transaction Advisory costs – 1.7 M	Project not viable as drafted. Required a high percentage of up front Government support. There was also uncertainty due to the development of a new SGR port.
300 Bed Kenyatta Hospital Private Wing Accommodation	ToR for recruiting TA currently under development	Expected Transaction Advisory costs – 1.1M	-

[11] The project cost per project is as follows:
KTTC Hostels – US$55.7M
Moi Uni Hostels– US$140.2M
Egerton Uni Hostels– US$61.5M
SEKU Hostels– US$54.6M
Embu Uni Hostels – US$37.9M

<u>Project Development Impact</u>

9. As outlined above, the infrastructure-funding gap in Kenya is US$2.1 billion per year (as per data in 2010. In recent years the gap has increased to US$4 billion per year). If Kenya was unable to increase infrastructure spending, it could nevertheless meet infrastructure targets in eighteen (18) years by eliminating existing inefficiencies in infrastructure sectors. As this is not desirable, from a development perspective, the need for private sector participation and their leveraging private sector finance is therefore a very live issue for Kenya presently. From Table 10 above, the road PPP projects are expected to result in private sector investment to the tune of US$3.8 billion.

Transport (Roads Sub sector)

10. During the five years from 2003 to 2007, Kenya's economy grew at an average annual rate of 5.3 percent, much better than the 2.3 percent recorded in the previous decade. Notwithstanding this improvement, current growth levels still fall short of the sustained 7 percent per annum needed to meet the Millennium Development Goals (MDG). Less than half of 1 percent of East Africa's improved per capita growth performance during the 2000s can be credited to improved structural and stabilization policies. By contrast, almost 1 percent is related to improvements in the country's infrastructure platform. Most of the boost was due to Kenya's ICT revolution, while poor roads proved to be a drag on growth. Simulations suggest that if Kenya's infrastructure could be improved to the level of the African leader—Mauritius—annual per capita growth rates would be 3.3 percent higher than they are at present.

11. The roads sub-sector is one of the sectors that has received the bulk of funds under the IFPPP (51 percent of allocated funds) program. The current road-related funding sources are not adequate to meet the expenditure needs in this critical economic sector. Without action to identify new funding sources – such as leveraging private sector financing - the sector's expenditure plans will entrench an unsustainable annual funding gap of approx. Ksh150 billion (US$1.47 billion) from 2020.

12. Based on the present infrastructure-funding deficit, the growing competing needs and demand for the limited available resources within government, it is unlikely that the Government of Kenya would have been able to undertake these first mover road projects without the support of the IFPPP project.

13. Through this project, the Government has hired transaction advisors for the following roads: Nairobi – Nakuru – Mau Summit, Nairobi – Mombasa, Nairobi – Thika, Nairobi Southern ByPass and 2nd Nyali Bridge. The first two roads form the main transport link on the northern corridor, connecting the port of Mombasa to Nairobi and onwards to Mau Summit and is the main transport and communication link for approximately 6 million people. The 2nd Nyali Bridge is meant to decongest Mombasa town, which presently only has one link –the original Nyali Bridge – connecting the mainland to the Island.

14. The planned improvement of these roads (expansion of the lane highway) is estimated to reduce the travel time on the respective roads by half, thus resulting in time and money savings for the country. It is also said to improve the safety conditions on the roads. The Nairobi – Nakuru-Mau Summit road is listed among the most dangerous in the world, with police statistics showing that between 2012 and 2014, 575 people were killed on this highway. The main reasons for the fatalities are lack of barriers, poor condition of the road in some sections, poor driving techniques and inclement weather.

15. These projects are currently in the tender stage and financial closure is expected on the Nairobi – Nakuru – Mau Summit project (which includes the Nairobi Southern ByPass project) within the first quarter of 2018. The rest of the projects are expected to achieve financial closure between 2018-2019. Without the support of the IFPPP project, this progress would not be attainable.

Table 11. Road Projects NPV and Fiscal Impact[12]

Project	Cumulative Fiscal impact, $m	NPV of Fiscal impact, $m
Nairobi - Mombasa	898	(156)
Nairobi – Nakuru – Mau Summit	1920	164
Nairobi – Thika	467	219
Nairobi Southern ByPass	257	125
2nd Nyali Bridge	900	-*
Total	**4442**	

***The proposed toll levels on 2nd Nyali Bridge are currently being updated and are expected to project a positive NPV.**
***All projections assume a 5 percent revenue loss and 12 percent interest rate.*

16. All the above projects show a positive fiscal impact over the concession periods and in aggregate are projected to contribute very positively to the fiscus of the Country. However, the fiscal position on some projects – especially the DBFO projects - only turns positive after some time, thus not all projects are positive on an Net Present Value (NPV) basis, although when viewed in aggregate, they are. It is important to mention at this stage that the Government is rolling out these projects as a program and the revenues collected from the projects will be stored in a collective Toll fund and be used to pay the concessionaries who come on board for these projects.

[12] This data was obtained from the PPP FS studies that were undertaken on the projects

Whether public sector provision or financing is an appropriate vehicle

17. In accordance with section 33 of the PPP Act, a PPP FS looks into four (4) main areas of the project:
    a) The technical requirements of the project;
    b) The legal requirements to be met by the parties to the transaction/project
    c) The social, economic and environmental impact of the project; and
    d) The financial aspects, that is, the affordability, value for money, and public sector comparator for the project. (In this context, public sector comparator means an estimate of the total costs to Government of achieving the targeted outputs if the project is completed in the normal – traditional procurement - way).

18. In preparing the FS, the Transaction Advisors endeavour to answer the following three (3) main questions:
    a) Is the project viable from a technical, social environmental, legal and economic perspective;
    b) Which procurement methodology is suitable for implementing the project; and
    c) If the project is viable as a PPP, which type of PPP is suitable for the project.

19. These are important questions to address, as PPP is not a panacea for all infrastructure developments. All the projects that are receiving transaction advisory support under the IFPPP project are following these parameters, in accordance with the law. Thus any decision on proceeding with a project as a PPP is a well-informed decision, which is supported by well-researched facts and figures.

PPP Committee Approval

20. All the FS studies that go before the PPP Committee for approval would therefore be required to answer these questions in a satisfactory manner. Failure to do so would result in the project being denied approval. Further, the PPP Unit is not likely to recommend the approval of the PPP FS if it does not meet the requirements outlined above.

21. Over and above the PPP FS, the PPP Committee also reviews a recommendation by the Public Debt Management Office at the National Treasury, whose role is to look at the projects from a fiscal and contingent liability perspective, to evaluate if they (the project(s)) can comfortably fit within the Country's fiscal space, without exceeding the limits. Before approving a PPP FS, the PPP Committee, looks at the recommendation by the PDMO office on the affordability of the projects to Government. (In making their analysis, the PDMO relies on the FCCL framework).

Impact on borrowers' fiscal situation

22. According to the budget speech of 2016, there has been a significant slowdown in proposed expenditure growth in Kenya in 2016/17 compared to the current and previous years and relative

to proposed revenue growth. This is leading to a decline in the deficit compared to the double-digit increase in recent years. As a share of GDP, the deficit (excluding grants) is declining from 9.2 percent to 7.7 percent. Even as the government expects economic growth to pick up to 6.1 percent in 2016/17, there is a modest attempt to reduce the rate of growth of public spending. Table 12 below illustrates these figures.

Table 12: Growth in total budget 2013/14 - 2016/17

Year	Expenditure Growth	Revenue Growth	Deficit Growth
2013/14	15%	12%	23%
2014/15	26%	14%	63%
2015/16	16%	19%	11%
2016/17	8%	14%	-6%

23. Using PPPs to develop infrastructure projects is therefore a timely decision by the Government, based on the above. In reviewing PPP projects and assessing their potential fiscal and contingent liability impact, the officials in the PDMO office, check the potential impact of the projects on the country's fiscal space. The overall idea is to ensure that all projects comply with the fiscal policies in the country and that the country's debt ceiling is not exceeded. This will go a long way towards not only ensuring a stable macroeconomic environment for Kenya but also increasing investor confidence in Kenya thus improving the amount of private sector investments.

Fiscal Responsibility

24. The Government of Kenya understands that any PPP project comprises roles and responsibilities for both the public and private sector. In particular, based on specific project needs, the public sector's contributions to the "partnership" of PPPs would typically include the use of multiple instruments of support and credit enhancement measures such as project development funding, availability payments, upfront capital grants, operational grants, revenue guarantees, Partial Risk Guarantees (PRG), etc.

25. In accordance with section 7(1) of the PPP Act, the PPP Committee has adopted a Fiscal Commitment and Contingent Liability (FCCL) Management Framework (which was developed with the support of the World Bank – IFPPP program) to ensure approval of, and fiscal accountability in the management of, financial and any other form of Government support granted in the implementation of the country's PPP program. To oversee the institutionalization and operationalization of this Management Framework, the Government in collaboration with the World Bank and the PPP Unit, has established an FCCL Unit within the Directorate of Public Debt Management Office of the National Treasury.

26. All guarantees and other security instruments provided under the PPP agenda, together with all other contingent liabilities, will be integrated into the debt management process. The FCCL Unit

now routinely assesses and establishes systems for monitoring these projects with a view to ensuring continuous risk management and the scheduled disclosure and reporting of all fiscal risks associated with PPPs.

27. To entrench better outcomes in contingent liability management, the PPP Unit is also placing a lot of emphasis in project financial models, with the view to ensuring that project debt repayment is front-loaded, while equity pay-out is back-loaded. This way, overall contingent liability exposure is potentially lowered.

28. Overall, the foregoing disclosures establish the case that Kenya's PPP program remains affordable, sustainable and generally responsive to the demands of public finance: transparency, fairness, equality of opportunity and fiscal responsibility.

Results showing that the project would be self-sustaining

29. PPPs rely exclusively on project cash flows to meet their loan repayments and achieve their profit targets. The Government's contribution will be limited to credit enhancement measures and availability payments. The measures put in place to mitigate and reduce the potentiality of a contingent liability arising, and managing it if it does, also go a long way towards ensuring that the projects are self-sustaining and affordable to government in the long term.

30. Furthermore, PPPs specify the minimum outputs that the private sector must meet in delivering the asset. All payments to the private sector are linked to achievement of these output specifications and realization of agreed milestones and standards of service. Moreover, no payments will be made to the Private Party during the construction period and payments will only start once the asset has been delivered to the required standard.

31. In terms of the risk allocation structure, the underlying principle as regards risks in PPPs is that risks should be allocated to the party that is best suited to handle it. This therefore contributes towards ensuring the self-sustainability of the projects, as only those risks that the private party or the government can reasonably be expected to handle will be allocated to them.

World Bank Added value

32. The WB Group has rich experience supporting countries creating an enabling environment for PPPs along with structuring advice and finance. While the WB has made significant contribution to legal, regulatory and institutional frameworks, as well as credit enhancement and capacity building for PPPs; IFC Advisory Services have achieved important impacts advising on PPP structuring and during due diligence and implementation of PPP investments. The MIGA has also increased investor's confidence and effectively implemented PPPs in those countries that are about to develop their PPP frameworks. PPPs supported by the WB Group are largely successful in achieving their development outcomes.

ANNEX VIII. PROPOSED NATIONAL PROJECTS TO BE SUPPORTED UNDER THE IFPPP ADDITIONAL FINANCING

S/NO	Project	Project preparation phase to be supported	Estimated Cost
			(US$‘000)
	National Government		
1	Energy Auction projects	FS + Procurement	3,500
2	300 Bed Private Hospital	Procurement	1,500
3	Nairobi Commuter Rail	FS + Procurement	2,500
4	JKIA Greenfield Terminal	FS + Procurement	3,000
5	Tourism Information Center	FS + Procurement	2,100
	TA for 2nd Wave Tollroads:	FS + Procurement	7,500@1,500ea
6	Thika -Nanyuki – Lewa		
7	Mau Summit - Eldoret – Malaba		
8	Mau Summit – Kisumu		
9	Mombasa – Malindi		
10	Ring Roads -Nairobi		
11	2nd Umbrella Student Hostels Program		4,000
	Sub-total		24,100
	County Government		
1	Nairobi Bulk Water Supply	Procurement	1,500
2	Murangá Water Supply	Procurement	1,500
3	Nakuru Solid Waste Management	Procurement	2,000
4	Potential Affordable Housing projects within the counties- Other counties to be considered other than Nakuru	FS + Procurement	2,400
5	SWM, Health Services, Water Supply, County Roads, Agriculture, County markets	FS + Procurement	3,000
	Sub-total		10,400
	Contingency		4,500
	Total		**39,000**