

I. CONCEPT NOTE

1. Summary of the action

It is the objective of the action “Improving Access to Water Supply and Basic Sanitation for the Urban Poor” to significantly contribute towards reaching the MDGs for water and sanitation in Kenya by providing safe, affordable and sustainable access to water and basic sanitation to the underserved urban poor. This will significantly improve the living conditions of the urban poor in the low income urban and peri-urban settlements through a significant reduction of health risks from water born diseases and therefore have a direct impact on the reduction of poverty. The action supports the efforts of the Kenyan Government to implement the water sector reform leading so far to a new and sound sector policy, water act and a new institutional framework, all based on modern principles of good water governance. Progress of the sector reform clearly demonstrates the political commitment and the Governments determination to move to concrete action for large scale and sustainable improvement in the water sector especially for the poor. For the achievements of the MDGs, these fast growing and multiplying settlements with increasing population density need to receive much more attention than in the past. This is clearly the prime sector challenge today and for the future.

The action contains

- Investments in water supply infrastructure for the urban poor in small, medium and large towns in selected regional Water Service Boards such as Lake Victoria North (LVN), Nairobi etc. In the region of LVN the action will be readily implemented in cooperation with the German Financial Cooperation (KfW). Performance enhancement support will be used as incentive measures to generate efficiency gains of service provision for the benefit of the poor (Component 1)
- Investment in basic sanitation for the urban poor in underserved areas (Component 2)
- Institutional strengthening of the Water Services Trust Fund (WSTF) and the commercialised Water Service Providers / WSP (Component 3).

The total costs of the project amounts to EUR 20.75 million. The WSTF (Kenyan Government) as applicant will contribute EUR 150,000 while EUR 10.225 million will be provided by the German Government through KfW and German Technical Cooperation (GTZ). The remaining EUR 10.375 million are applied for from the ACP-EU Water Facility. The action shall be implemented over a period of four (4) years and shall offer affordable access to safe water and improved basic sanitation to additional 800,000 and 111,290 people respectively. The objectives will be achieved by:

- Improving Water Supply and Sanitation (WSS) infrastructure for the urban poor (upgrading and extension)
- Supporting the commercialised utilities known as Water Service Providers (WSPs) to become more efficient by reducing the costs of production enhancing their management and operation and improving on revenues
- Strengthening the pro-poor focus and the capacity of the WSPs to establish and manage WSS systems sustainably in the peri-urban / low income settlements
- Building capacity at the WSTF (pro-poor financing basket) to successfully implement projects to the benefit of the urban poor by ensuring transparency, accountability, efficiency and appropriateness as well as applying rules of sound financial management.
- Using actors from the private sector for operation (kiosk) and services (construction, rehabilitation and emptying basic sanitation installation)

The sanitation component will concentrate on integrated and environmentally friendly on-site sanitation whereby the commercialised WSPs will play a facilitating role and the small scale local private sector will be integrated. These activities are closely linked to the measures for improving water supply to the peri-urban areas and informal settlements in order to contribute to the achievement of the MDGs for water and sanitation.

The lead / ownership for the proposed action is ensured by the WSTF under the (MWI) and implemented in close cooperation with the WSPs to which service provision has been contracted out by following the reforms in the water sector. Co-financing is provided by the German Government through KfW and GTZ, both partners in this proposal.

2. Relevance:

The peri-urban and informal settlements in large and small towns are the fastest growing areas in the country where approximately 50% of the urban population live. There are no other areas in the country where living conditions are so deplorable and continue to deteriorate with growing density for the approximately 60% underserved. Therefore, the action targets specifically these urban poor by following the guiding principles of the EU call for proposals. Concentrating on these settlements of the urban poor by using low cost technologies generates a maximum leverage effect. The Kenyan Government has committed its self through the Economic Recovery Strategy (ERS) to put in place a poverty reduction policy and increase access to water and sanitation to the poor in peri-urban areas at reasonable distance at costs.

Access to adequate and sustainable water supply and sanitation is now recognised as a right of people as the Minister for Water and Irrigation (MWI) clearly announced in his opening speech of the East Africa Regional Conference on “Accelerating Water Supply and Sanitation for the Urban Poor” in Nairobi in May 2006. The situation on the ground unfortunately looks very different. The service provision offered by small scale informal providers (SSIP) in these settlements does not fulfil the criteria of the MDG. The poor pay up to 25 times more for water than the connected consumer for a generally doubtful water quality. Under these circumstances women and children suffer disproportionately. The SSIP being often members of cartels creating artificial shortages of supply and practicing price fixing to the disadvantage of the poor, need to be brought into a regulatory framework by linking up with the WSPs and the community. Participating WSPs, individuals from the private sector (e.g. masons for construction of on-site sanitation) and community representatives will be able to multiply their contributions by extending their services to other low income settlements after capacity is built through the implementation of the action.

3. Methodology and Sustainability:

For the implementation of the proposed action, the relevant new sector institutions are: the WSTF, the Water Services Regulatory Board (WSRB), the Water Services Boards (WSB – asset holders) and the WSPs. These are the target groups which since their establishment (2003/2004) are building an enabling environment and cooperate together to improve the service provision in the urban setting and particularly to the urban poor - the final beneficiaries of the proposed action. The enabling environment is not only based on the establishment of decentralised and autonomous institutions on national and local, level but also on the creation of economies of scale (clustering of WSS systems) for service provision within the framework of commercialisation of operation. These activities combined with the political commitment to extend service provision to the poor will gradually integrate the poor into a system shared by the entire urban population. Thereby, service provision for all is ensured by professionals guaranteeing efficiency of operation and improved service levels for all making services much more affordable for the poor through economies of scale and cross-subsidisation. The institutional stability and professionalism of the WSPs assure long term sustainability.

Using these recently established structures as target groups guarantees ownership of the action by national structures and promoting these institutions as driving forces for sector development. It also ensures a much higher long term impact and sustainability than any externally driven process through donors or NGOs. Nevertheless, the national structures on

the different levels will, with the proposed action, make use of the experience of donors and NGOs by associating with them in the planning and implementation processes of the action.

The supply concept, being promoted for peri-urban water supply, contains water kiosks connected to the main network of the WSPs so that the poor can also benefit from economies of scale and the enhanced integration of the small scale local private sector for water and basic sanitation. Experience from a number of pilot projects carried out in Kenya and in neighbour countries by similar institutions (e.g. Zambia) demonstrate that well designed and operated kiosk systems represent the most appropriate, sustainable and acceptable WS solution from a social, technical, commercial and economical point of view, particularly in unplanned peri-urban areas. Water from the kiosks is considered to be affordable and the link to the professionals of the WSPs as well as its embedment in the regulatory regime by the WSRB guarantees a long term sustainability of the kiosk systems. The WSRB will within the reporting requirements oblige the WSPs and WSBs to regularly document progress of service provision to the poor and will make such information available to the stakeholders.

It should be emphasised, however, that promoting kiosks does not exclude the introduction of mixed systems, especially in low-cost, but also in peri-urban areas where there is a substantial market for individual house connections and the situation on the ground allows for this.

In its efforts to balance social and economic interest, the WSRB ensures that affordable tariffs based on an ability to pay-assessment are applied at the kiosks. At the same time, the tariff will cover operation and maintenance costs of kiosks in order to make the systems sustainable. The possibilities of cross subsidisation for capital costs largely depend on the customer base of the WSP. Since these two objectives aiming at opposite directions put some strain on the margin income of the vendors, the vendors are encouraged to sell also other goods at the water kiosks to supplement their incomes.

Although many WSPs show interest in serving the poor, it will be emphasised during the capacity building for the peri-urban units that the provider need to put the right tools in place. They will only be able to exploit the full benefits of the schemes when tight monitoring and supervision as well as adequate support are kept up.

The WSTF is an innovative (pro-poor basket) funding instrument with a very lean structure. It operates with a minimum of personnel in order to keep the operational and administrative costs of running the fund low. Nevertheless, the WSTF shall ensure that adequate control mechanisms are in place and that the appropriate use of the funds can be demonstrated at any time. Therefore, the WSTF will outsource certain monitoring and supervision activities to qualified individuals, firms or organisations. For the project implementation, the WSB and the respective WSP will form an implementation task team comprising of the major local stakeholders. It is the responsibility of the WSP to procure the necessary works, supplies and services. For certain contracts, however, the no objection from the WSTF will be required. By starting the proposed action in partnership with KfW in the LVN region in the framework of the Water Sector Development Program (12 towns, targeting the peri-urban areas) the WSTF has the opportunity to build capacity for project conception and implementation in the urban and peri-urban setting before moving to larger towns.

The project funding through the WSTF will be limited to WSPs, which have already commercialized operation. This will on one hand strengthen the Private Sector Approach of the Water Sector Reform and on the other hand signify a higher guarantee for a successful and sustainable implementation of the project. The WSPs will apply for funding from the WSTF. Thereafter, the WSTF will select projects to be funded based on a range of criteria reflecting

national priorities (poverty, population growth, current WSS situation etc.) and ensures that the areas most in need are served first in a sufficient way.

A WSP which has successfully implemented a WSS project for the urban poor, is then eligible for funding from a sub-fund, the Performance Enhancement Measures (PEM), aiming to provide incentives for further increasing the financial viability of the urban poor projects. These are measures that either increase revenues or reduce costs.

There are advantages of using the WSTF instead of channelling funds directly to WSBs or even to the WSPs: Funds will be allocated according to the areas most in need and to national priorities rather than according to political interests. Another advantage is the adherence to certain national standards which makes actions better work and more sustainable contrary to many investment measures in the past.

Based on the availability of funds, the WSTF issues calls for proposals, estimated at one or two per year. Six calls for proposals are planned during the implementation period of the action. In order to create a maximum impact with the WSTF funds, one important criterion will be cost the per final beneficiary. The WSTF management submits the assessment report containing recommendations for funding to the WSTF Board which takes the final decision. This governance arrangement ensures a well balanced decision making process and protects the WSTF against individual interest and political interference. The WSPs are notified on the funding decisions and the WSTF concludes a contract with each of the successful WSPs. The project implementation is carried out according to the procedures in the WSTF guidelines.

Twice a year, the WSTF will undergo an external audit to be carried out by a reputable audit firm. The evidence of the correct use of funds will be submitted to the funding agencies. In line with the requirements from the EUWF, the WSTF plans to carry out a mid-term review at the end of the second year of implementation. At the stage of the final evaluation the facilities have been in operation for at least 12 months and an assessment of the project can be made based on the criteria of effectiveness, efficiency and significance.

4. Operational capacity and expertise:

The WSTF shall manage the task to enlarge its operations from the rural areas to large scale implementation of projects in the peri-urban areas. The WSTF will be supported in the transformation by a technical advisor from GTZ (50%) with similar experience obtained in other countries. He/She shall assist the WSTF to become an accountable and transparent fund management organisation for peri-urban areas, giving confidence to the investors on one side and offering optimal support to the WSPs in serving the urban poor on the other side. In addition, there is a local KfW office in Nairobi which will offer support in overseeing the action. Provision is made for short-term assignments to complement both support in specialised areas to ensure state-of-the-art solutions.

The current WSTF mechanism for rural areas is a sound basis and can be adopted and enlarged to fulfil the requirements of an urban poor scheme. Consequently, WSTF will build on sufficient experience obtained with the implementation of over 100 WSS projects for the rural areas with the financial support from the Kenyan Government, Danida and Sida totalling EUR 8 million serving about 400,000 of the rural poor with clean drinking water and basic sanitation facilities.

On the other hand, GTZ and KfW provide ample experience gained in LVN and the Tana region as well as in neighbouring countries through support offered for WSS investment management and implementation, commercialization, management of basket institutions and low cost technology.