



**PROJECT: LAKE VICTORIA WATER SUPPLY AND
SANITATION PROGRAM PHASE II**

COUNTRY: LAKE VICTORIA BASIN – EAST AFRICAN COMMUNITY

PROGRAM APPRAISAL REPORT 0

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Currency Equivalents

July 2010

UA 1.00 = USD 1.4789

Fiscal Year

1 July – 30 June

Weights and Measures

| | | |
|-------------------|---|-------------------|
| 1 metric tonne | = | 2204 pounds (lbs) |
| 1 kilogramme (kg) | = | 2.200 lbs |
| 1 metre (m) | = | 3.28 feet (ft) |
| 1 millimetre (mm) | = | 0.03937 inch (“) |
| 1 kilometre (km) | = | 0.62 mile |
| 1 hectare (ha) | = | 2.471 acres |

Acronyms and Abbreviations

| | | | |
|----------|--|----------------|---|
| ADF | African Development Fund | NA | Not Applicable |
| AFD | Agence Française de Développement | NAPA | National Adaptation Program of Action |
| AfDB | African Development Bank | NGO | Non-governmental Organisation |
| AWF | Africa Water Facility | Partner States | The 5 member states of the East African Community, namely Burundi, Kenya, Rwanda, Tanzania & Uganda |
| CBO | Community Based Organisation | O&M | Operation & Maintenance |
| CSP | Country Strategy Paper | REGIDESO | Régie de Production et de Distribution de l'Eau et de l'Electricité |
| DWD | Directorate of Water Development | RPG | Regional Public Good |
| EAC | East Africa Community | RPSC | Regional Policy Steering Committee |
| EACAC | East African Community Audit Commission | RSF | Rapid Sand Filter |
| EACCCP | East African Community Climate Change Policy | STI | Short Term Interventions |
| EIRR | Economic Internal Rate of Return | TOR | Terms of Reference |
| EIB | European Investment Bank | UFW | Unaccounted for Water |
| ESMP | Environmental and Social Management Plan | UA | Unit of Account |
| FOs | Field Offices | UNEP | United Nations Environment Program |
| IA | Implementing Agency | UNFCCC | UN Framework Convention on Climate Change |
| GOB | Government of Burundi | UN-HABITAT | United Nations Human Settlements Programme |
| GEF | Global Environment Facility | USAID | The United States Agency for International Development |
| GOK | Government of Kenya | USD | United States Dollar |
| GOR | Government of Rwanda | WHO | World Health Organisation |
| GOT | Government of Tanzania | WB | World Bank |
| GOU | Government of Uganda | WSB | Water Service Boards |
| GTZ | German Technical Cooperation | WSP | Water and Sanitation Program |
| JICA | Japan International Cooperation Agency | WSSSCU | Water Supply & Sanitation Sector Coordination Unit |
| KfW | German Government Development Bank | | |
| KPIs | Key Performance Indicators | | |
| Lcd | Litres per capita per day | | |
| LVB | Lake Victoria Basin | | |
| LVBC | Lake Victoria Basin Commission | | |
| LVEMP | Lake Victoria Environmental Management Programme | | |
| LVSWSB | Lake Victoria South Water Services Board | | |
| LVWATSAN | Lake Victoria Water and Sanitation Initiative | | |
| M&E | Monitoring and Evaluation | | |
| MDGs | Millennium Development Goals | | |
| MIG | Medium Income Group | | |
| MoU | Memorandum of Understanding | | |
| MSF | Multi Stakeholder Forum | | |
| MWAUWASA | Mwanza Urban Water and Sewerage Authority | | |
| MOWE | Ministry of Water and Environmental Management | | |

Grant Information

| | |
|----------------------|--|
| GRANT RECIPIENT: | East African Community (EAC) |
| EAC PARTNER STATES: | Kenya, Uganda, Burundi, Rwanda & Tanzania |
| PARTICIPATING TOWNS: | Kericho, Keroka & Isebania (Kenya); Geita, Sengerema & Nansio (Tanzania); Mayuge, Buwama/Kayabwe, Bukakata & Ntungamo (Uganda); Nyagatare, Kayonza & Nyanza (Rwanda); Muyinga, Kayanza & Ngozi (Burundi) |
| EXECUTING AGENCY: | LVBC (Lake Victoria Basin Commission on behalf of East African Community) with five Implementing Agencies (IAs);LVSWSB (Kenya), MWAUWASA (Tanzania), DWD (Uganda), WSSSUI (Rwanda), REGIDESO (Burundi) |

Financing plan

| Source | Amount million (UA) | Instrument |
|-------------------|------------------------|--------------|
| ADF | 75.43 | Grant |
| Governments | 8.96 | Contribution |
| TOTAL COST | 84.39 | |

ADF's key financing information

| | |
|--------------------|------------------------|
| ADF Grant Currency | UA |
| EIRR (base case) | 17.71%, USD 40 million |

Timeframe - Main Milestones (expected)

| | |
|-----------------------|------------------|
| Concept Note approval | June 2010 |
| Program approval | 15 December 2010 |
| Effectiveness | March 2011 |
| Last Disbursement | December 2015 |
| Completion | December 2014 |

Program Summary

Urbanisation is placing an enormous burden on the secondary towns around Lake Victoria and its associated catchments. This is becoming a critical issue as all countries strive to achieve the Millennium Development Goals (MDGs) for water and sanitation. The formation of the East Africa Community (EAC)'s Lake Victoria Basin Commission (LVBC) gives a unique opportunity for these five countries to cooperate and share experiences as positive steps are taken towards extending access to safe water supplies, improved sanitation and hence improving the lake's ecosystem.

Lake Victoria, the second largest lake in the world and one of the sources of the Nile River, is one of the most important trans-boundary natural resource in Africa. With ten countries in the Nile Basin, several of these depending on the lake for economic survival, the need to adopt a regional approach to the management of the lake, and the activities which impinge on its environmental sustainability has emerged as one of the main developmental challenges. In this regard, the Lake Victoria Water and Sanitation program (LVWATSAN) is one of a number of important programmes which are targeted at the promotion of regional cooperation, partnership-building, institutional and capacity enhancement, and a sense of joint ownership of the resources of the lake basin, all of which are central to the over-arching goal of managing the lake basin as a regional public good. Accordingly, the LVBC has transformed the vision and strategy framework of the stakeholders in the Lake Victoria Basin (LVB), as articulated by the LVBC, into a number of programs as part of a broader agenda to strengthen the shared interest in the lake and regional cooperation. Among these programs is the LVWATSAN, which has the overall objective of supporting secondary urban centres in the Lake Victoria region to help them meet the water and sanitation related MDGs.

Phase I of the LVWATSAN program was supported by UN-HABITAT and focused on 10 towns within the original EAC partner states of Uganda, Kenya and Tanzania. With the joining of the EAC by Rwanda and Burundi, this second phase has been expanded to cover 15 towns, three from each of the five partner states. The investment plan preparation for the 15 secondary towns was supported by the African Water Facility (AWF). It is expected that the program will be expanded to other towns in the basin with subsequent phases.

The program is estimated to cost about UA 84.39 million. The Fund will be contributing UA 75.43 million and the partner states will be contributing UA 8.96 million. The program will be focussing on the following components; (i) development of sustainable water supply systems, (ii) provision of hygiene and sanitation facilities including solid waste management systems and social marketing (iii) drainage improvements and (iv) capacity building to town councils and service providers. When the project is fully implemented, it will achieve 85% coverage in water supply and 80% coverage in sanitation. It will also significantly reduce the waste entering into Lake Victoria and hence will improve the ecosystem of the lake.

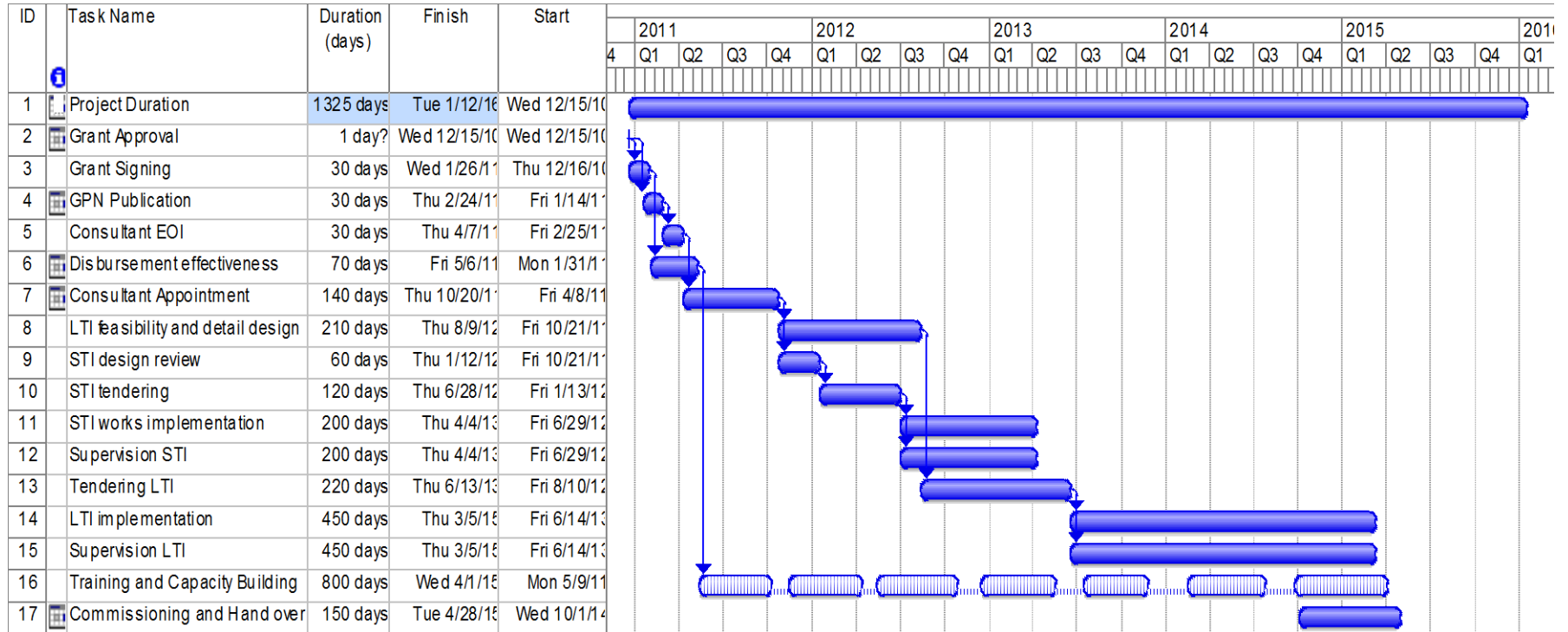
The program will bring immense benefits to the population of the lake basin and the 15 beneficiary towns, with a resident population of approximately 670,000 by 2015 and an additional transit population of about 170,000, where existing access to water and sanitation facilities is severely inadequate. The scale of the required investment reflects that most of the towns have limited or no existing water and sanitation infrastructure.

Lake Victoria Basin Water and Sanitation Program - Logical Framework

| HIERARCHY OF OBJECTIVES | OF | EXPECTED RESULTS | REACH | PERFORMANCE INDICATORS | INDICATIVE TARGET AND TIME FRAME | ASSUMPTIONS AND RISKS |
|---------------------------|----|---|---|--|--|--|
| Sector Goal | | Impact Improved health and livelihood of the population Improved quality of water in Lake Victoria Improved regional cooperation | Beneficiaries 35 million Population of LVB | Impact Indicators Water and sanitation coverage under 5 mortality rates Water borne diseases Pollution load to lake Victoria | Impact Targets Universal coverage of reliable water and sanitation services by 2025 Under 5 mortality rates reduced by 30% by 2025 Water borne disease reduced by 30% by 2025 Decreasing trend of cumulative pollutants to the Lake Victoria. LVBC Monitoring report; | Continued governments commitment Stable Political and security situation in the region. Continued support from Partners for the other complementary activities and the development of the region |
| Program Objectives | | Medium Term Outcomes Clean water supply demand satisfied in the participating towns Reliable Water supply systems and services Increased sanitation coverage increased Hygiene and sanitation awareness and practice | Beneficiaries 670,000 residents of the 15 beneficiary towns Additional population of 170,000 using the towns as nodal transit Water and sanitation service providers Town councils EAC and LVBC | Outcome Indicators Potable water supply coverage %revenue to O&M cost sanitation coverage % of managed solid waste Coverage of public places with sanitary facilities | Outcome Targets Urban water supply improved for 670,000 people by 2015. 85% of households accessing water supply within 250m by 2015 Revenue covers at least 100% of O&M cost by 2015 Increase of population practicing good hygiene by 30% by 2015 Managed solid waste increased 60% in 2015. 50% of public places (market, schools, health centres) have sanitary facilities for men, women and disabled. | Continued support of the governments and development partners to the program Sector reforms deepened and political and administrative support for creation of viable water service providers and partnership with the private sector The IAs will have the requisite capacity to successfully implement the program. |
| Activities/Inputs | | Outputs 1.1 Detailed designs of schemes and facilities prepared; 1.2 New Boreholes drilled and raw water intakes improved 1.3 Water treatment, transmission and distribution facilities constructed 2.1 sludge treatment works constructed | Beneficiaries Populations of the EAC countries that depend on the Lake The residents of the 15 beneficiary towns Water and sanitation service providers | Output Indicators 1.1 No. of boreholes drilled and raw water intakes improved 1.2 No. of treatment facilities constructed 1.3 Km of transmission and distribution lines constructed 1.4 No. of reservoirs built 1.5 No. of water kiosks built (50% to be managed by women) | Output Targets by 2015 1.1 31 No. Boreholes drilled and 12 intakes improved 1.2 14 No. water treatment works (51500m ³ /day) constructed 1.3 Over 500km of new water pipes 1.4 35 No. reservoirs (32,000m ³) 1.5 367 public water fountains | The risk of payment delays and consequential damages will be mitigated through the Governments providing counterpart funding timely and this will be monitored closely and is an undertaking of the grant agreement Local governments and communities support to the Program The risk to program implementation |

| HIERARCHY OF OBJECTIVES | EXPECTED RESULTS | REACH | PERFORMANCE INDICATORS | INDICATIVE TARGET AND TIME FRAME | ASSUMPTIONS AND RISKS | | | | | | |
|--|------------------|--------------|------------------------|----------------------------------|-----------------------|--------------|---|--|--|---|---|
| <p>in selected hot spots Provide support to strengthen new/existing institutions managing the water and sanitation services at local level, national and regional level.</p> <p>Financial Structure UA (million)</p> <table border="1"> <tr> <td>ADF:</td> <td>75.43</td> </tr> <tr> <td>GOVs:</td> <td>8.96</td> </tr> <tr> <td>Total:</td> <td>84.39</td> </tr> </table> | ADF: | 75.43 | GOVs: | 8.96 | Total: | 84.39 | <p>2.2 Public toilet constructed 2.3 Solid waste management infrastructure in place 2.4 H&S sensitisation conducted, peers and facilitators trained</p> <p>3.1 drains constructed</p> <p>4.1 institutional capacity of water and sanitation service providers enhanced and new ones established; 4.2 LVBC capacity improved to monitor LV environment and implement the regional water resource management plan</p> | <p>Town councils Lake Victoria Basin Commission Lake Victoria Eco-System</p> | <p>2.1. No. of sludge treatment 2.2 No. of Public Toilets 2.3 No. operational Solid waste management systems 2.4 No. of peers and facilitators trained in H&S promotion (gender disaggregated)</p> <p>3.1 Km of drainage channels</p> <p>4.1.1 No. service providers capacitated through training 4.1.2 No. of solid waste management units established 4.1.3 No. of people trained (gender disaggregated) 4.1.4 No. of Multi-Stakeholder Forums (MSF) established and operational</p> <p>4.2 functional Environment information monitoring system</p> | <p>constructed</p> <p>2.1 15 No. Sludge treatment Plants (267m3/day) 2.2 Over 190 No. Public Toilets 2.3 15 operational solid waste management systems 2.4 3000 peers and facilitators trained in H&S (about 50% women)</p> <p>3.1 50km new drainage channels</p> <p>4.1.1 15 town water and sanitation services strengthened and established 4.1.2 15 Solid waste management units established 4.1.3 600 people from service providers and town councils trained (at least 50% women) 4.1.4 15 MSF established and members trained and provide community leadership (50% women in decision making) 4.2 Environment monitoring information system developed and established</p> <p>Source: Quarterly reports, field mission reports, monitoring survey reports, Annual Technical Audit; LVBC and EAC annual reports</p> | <p>due to weak or absence of institutions at the town level, competent IAs with capacity for the program have been identified.</p> <p>To mitigate the risk of weak financial position and sustainability, the countries' sector regulatory authorities will support the program through setting of tariffs and ensuring an environment that ensures sustainability.</p> <p>To mitigate capital cost overruns, program schemes will be reviewed and designed to match available budgets.</p> |
| ADF: | 75.43 | | | | | | | | | | |
| GOVs: | 8.96 | | | | | | | | | | |
| Total: | 84.39 | | | | | | | | | | |

Program Timeframe



REPORT AND RECOMMENDATION OF THE MANAGEMENT OF THE ADB GROUP TO THE BOARD OF DIRECTORS ON A PROPOSED GRANT TO THE EAST AFRICAN COMMUNITY FOR THE LAKE VICTORIA WATER & SANITATION PROGRAM

Management submits the following Report and Recommendation on a proposed grant for UA 75.43 million to finance the second phase of the Lake Victoria Water and Sanitation Program (LVWATSAN) in the East African Community.

I. STRATEGIC THRUST & RATIONALE

1.1 Program linkages with country strategy and objectives

1.1.1 The program provides an opportunity for the partner states of the EAC to contribute towards the improvement of the livelihoods of the population living in the Lake Victoria Basin (LVB) through the improvement of the environment and ecosystem of the basin. The lake is a major trans-boundary natural resource that is heavily utilized by its riparian countries for fisheries, transportation, tourism, water supply and waste disposal. The Nile Basin outflow of the lake is an extremely important freshwater resource for Uganda, Sudan and Egypt. The LVB supports an estimated population of 35 million people with large concentrations along the lake shores and within the Kagera River Basin, which is shared by Burundi, Rwanda, Tanzania and Uganda. Although there are a few large cities such as Kampala, Kisumu and Mwanza, most of the population lives in rural villages and small towns.

1.1.2 In recognition of the importance of cooperation among the partner states in tackling the challenges of the deteriorating lake environment, the EAC signed a Protocol on Sustainable Development of the Lake Victoria Basin in November 2003 which was ratified in November 2004. The protocol sets out an agreement on cooperation in a number of key areas that include improvement in public health, living conditions and quality of life. Water supply and sanitation is one of the key areas for cooperation in this respect. The EAC's development strategy articulates the need for sustainable development of the LVB ecosystem and focuses on the following two pillars; (i) political and socio-economic development (ii) deepening and accelerating regional integration. The LVBC has developed its operational strategy (2007-10) on the basis of the EAC development strategy. The top five prioritised trans-boundary issues are: (i) land, wetland, and forest degradation; (ii) weak governance, policy, and institutional framework; (iii) declining fish stocks, and loss of habitats and biodiversity; (iv) increasing pollution and eutrophication; and (v) unsustainable water resources management, declining water levels, and climate change. The program is in line with identified priorities and it mainly anchors on the issues (iv) and (v) above which are also contained in the priority actions under the operational strategy for LVBC. In addition the program's capacity building component will contribute to the enhancing of the governance and institutional capacity component of the operational strategy referred to above.

1.1.3 In addition, the program interventions are in line with the priority sectors in each partner state's CSP as well as their national development strategies. The program falls under the following pillars; (i) supporting infrastructure development for enhanced growth for Kenya which has a strong water supply and sanitation focus as demonstrated through the CSP result matrix, (ii) growth and reduction of poverty and improvement of the quality of life and social development for Tanzania, for which improvement in water and sanitation are key priorities as reflected in the CSP

result matrix, (iii) enhancing production and human development for Uganda for which provision of potable water supply and sanitation are key components, (iv) economic infrastructure for Rwanda, for which emphasis is provided to provision of water supply and sanitation services and contained in the CSP result matrix and (v) integration with the EAC for Burundi for which this regional program further anchors Burundi's integration within EAC and is a clear signal for broader cooperation.

1.1.4 The national development plans of these countries clearly outline the focus for achieving the MDGs and this program supports the achievement of goal 7 of the MDGs. In so doing, it will also contribute to the regional goal of improving the quality of life in the basin and reducing the pollution to Lake Victoria. This program will be complemented by other national as well as regional programs and projects being implemented in the basin. The Bank funded Kampala sanitation and small towns in Kenya, and the Lake Victoria Environment Management Project (LVEMP II) supported by the World Bank are some of the examples which complement this program.

1.2 Rationale for Bank's involvement

1.2.1 In line with its policy on promoting regional integration and consistent with the Regional Integration Strategy (2009-2012) and its two key pillars of regional infrastructure and institutional capacity building, the Bank has a unique opportunity to play a leading role in forging a regional approach to a regional problem and be catalytic in bringing the much needed development to the region, preserving the fragile lake ecosystem and promote regional cooperation and integration. With the lake being the major source of domestic and industrial water supply and yet receives discharges of treated and untreated wastewater, promoting cooperation and tackling the problem collectively is mandatory to ensure the reversal of the deteriorating lake water environment.

1.2.2 At the country level, the program is consistent with the CSPs of all the countries. In line with its CSPs, the Bank has ongoing operations (appendix III) in the water and sanitation sector in all of the EAC countries. The Bank has also undertaken a number of regional projects in other sectors, but the experience in the water and sanitation sector is limited. Undertaking this program will help in building capacity and the knowledge base in the Bank for future similar interventions.

1.3 Donors coordination

1.3.1 In each of the partner states, there are active donor coordination mechanisms at the water and sanitation thematic level, with the exception of Burundi where donor interventions are coordinated through Burundi's Poverty Reduction Paper. The Bank is well represented and actively participates in the coordination efforts through its field offices. At regional level, the LVBC is the institution for cooperation and coordination to lead the sustainable development of the LVB and it has coordinated several interventions in the basin. Phase 1 of LVWATSAN, implemented with support from UN-HABITAT in 10 towns, and the phase 1 and 2 of the Environmental Management Project (LVEMP) supported by WB, GEF, and SIDA are some of the interventions that have taken place in the LVB. LVBC is also coordinating efforts for bigger scale interventions in the big towns around Lake Victoria. In addition to formal donor coordination fora that exist within partner states, the Bank missions also engaged with the various donors to further

enhance the information sharing and improve on the interventions. This program will complement activities that are supported by other development partners.

1.3.2 The LVBC organised a donors’ conference on 25 June 2010 to disseminate information and coordinate efforts for this second phase of LVWATSAN program. The donors’ conference was successful as a number of partners and stakeholders participated. The conference attracted interest of donors and few of them indicated that they will engage the EAC and the countries to support their efforts. KfW is considering supporting additional interventions in Kericho through a bi-lateral program with the Government of Kenya. EIB, who are planning to intervene in the bigger towns of Kisumu, Mwanza and Kampala, have indicated that they are willing to support additional small towns by twinning them with the bigger towns.

II. PROGRAM DESCRIPTION

2.1 Program components

2.1.1 The development objective of the program is to contribute to the improvement of the livelihoods and health of communities in the basin and the reduction of the pollution of the lake through improvements in sustainable water supply and sanitation infrastructure.

Table 2.1 Program components and description

| Nr. | Component name | Est. cost (UA millions) | Component description |
|-----|--------------------------------------|-------------------------|---|
| 1 | Water Supply | 56.21 | Rehabilitation and expansion of water supply systems Development of new sources for production from the Ground Water Sources, Surface Water and from Lake Victoria Construction of water treatment and storage facilities, transmission and distribution systems including metering; Construction of public stand pipes Design and construction supervision services |
| 2 | Hygiene and Environmental Sanitation | 17.80 | Hygiene and Sanitation Promotion Rehabilitation and expansion of sewerage system Construction of public/institutional latrines construction of sludge treatment facilities Development of solid waste land fills Provision of Skips, Sludge exhausters, tractors and trailers. Development of appropriate and tailored management models for solid waste management and operating public latrines Design and construction supervision services |
| 3 | Urban Drainage Improvement | 1.76 | Rehabilitation and construction of about 50kms of storm water drains Design and construction supervision services |

| Nr. | Component name | Est. cost (UA millions) | Component description |
|-----|--------------------|-------------------------|---|
| 4 | Capacity Building | 4.55 | <p>Technical assistance for the establishment and strengthening the viability of service providers in operation and maintenance, financial management, billing, customer handling and business management and governance areas.</p> <p>Support to urban catchment management and urban planning</p> <p>Development of pro-poor strategies to address the needs for water and sanitation services by the poor.</p> <p>Support to gender mainstreaming of the water and sanitation sector of the EAC and LVBC micro-finance for water and sanitation assessment study, which will also identify alternative financing mechanisms based on private and community investments.</p> <p>Support to Multi Stakeholders Forum (MSF) to be established at town level with about 50% women in decision making position.</p> <p>Support to LVBC and EAC for the monitoring mechanisms for water abstraction and release, IWRM and development of environmental monitoring system</p> |
| 5 | Program Management | 4.07 | <p>Support to program management and operating costs monitoring and evaluation,</p> <p>Logistical support</p> <p>Program auditing</p> |
| | Total | 84.39 | |

2.1.2 The program will be implemented in the following towns; Mayuge, Ntungamo and the cluster of Bukakata, Buwama and Kayabwe in Uganda, Nyanza, Nyagatare and Kayonza in Rwanda, Muyinga, Ngozi and Kayanza in Burundi, Kericho, Keroka and, Isebania in Kenya, and Geita, Sengerema and Nansio in Tanzania. The program will not intervene in the long term water supply component for Kericho due to the planned intervention by KfW but the program will undertake short term and capacity building interventions.

2.2 Technical solution retained and other alternatives explored

2.2.1 The program has retained technical solutions/alternatives that meet the needs of the program beneficiary towns on the basis of technical assessments (availability of water resources, technology, operation and maintenance), financial and economic, environmental, social and institutional aspects.

2.2.2 The water component will intervene in two stages. The first stage will address the need for immediate service improvements through intervening in short term critical aspects such as maintaining or replacing old pipe networks and fittings to reduce technical UFW, increasing network efficiency, ensuring water security, equitable water distribution. This aspect of the interventions will bring immediate benefit to the beneficiaries. The short term interventions will be followed by long term interventions which will look at demand beyond the 2015 period. Based on cost, environmental, sustainability and availability considerations, the sources are largely from surface water while in few cases ground water and springs will be utilised. The raw water from the surface sources will be treated using rapid sand filter treatment method which is widely used in the region and simple to operate and therefore likely to be sustainable in the long term. The distribution system will take into account the equitable distribution of water through provision of public stand pipes for the poor while the program will encourage metered individual connections for those who can afford these.

2.2.3 The sanitation component will largely depend on on-site sanitation systems but with provision of adequate sludge transportation and disposal facilities coupled with hygiene and sanitation promotion. Owing to technical and sustainability factors, new conventional sewerage

systems were rejected as an alternative. With respect to solid waste management, the program will provide simple collection and transportation systems using tractors and trailers that has been tested and is widely used in small towns.

2.2.4 On the capacity building aspect, a holistic and staggered capacity development is favoured as opposed to one time technical assistance at the end of the program implementation. The component will start with fast track capacity building to ensure quick operational gains and support the start up of the program implementation. This will be followed by comprehensive capacity development that will include project management, institutional strengthening of service providers, urban planning to ensure integration of infrastructure, hygiene and sanitation, and urban catchment management.

2.2.5 In terms of program development and implementation, a regional approach has been favoured over a national approach. The national approach has been rejected as it will impose limitations on cooperation on Lake Victoria as Trans-boundary water resources and hinders a regional approach to the management of fragile eco-system of the region. In addition this program is a continuation of the previous program implemented in ten towns with support from UN-HABITAT.

2.3 *Program type*

2.3.1 The program is a regional intervention that includes the five partner states and it is in line with the strategic priorities of the LVBC and the national sector programs of each partner state. Due to the nature of the program and the regional approach for the conception, time framework and implementation, the Bank's intervention will be through a program mode. The program implementation will use LVBC and national institutions for the implementation.

2.3.2 The Program meets the Bank's regional project eligibility criteria and is considered as a regional public good (RPG). It responds to the need for the improvement of the deteriorating Lake Victoria shared water resources environment, whose improvement satisfies the non rivalry and non excludability requirements of RPG interventions. Reduction of pollution and cooperation and harmonisation in management and regulation of the water resources will benefit all countries. The program has strong ownership by LVBC and all partner states and is in line with the Bank's IWRM policy, Regional Integration Strategy and its commitment to support countries meet the MDGs targets. The Bank's intervention in the program will enhance and complement the impact of other upstream activities under implementation in particular those in the areas of harmonisation, regulations, policies and monitoring mechanisms. It will further cement the regional integration agenda by enabling the countries to work together to lift the state of infrastructure with a particular focus on the LVB.

2.4 *Program cost and financing arrangements*

2.4.1 The program is estimated at about UA 84.39 million based on recent estimates for similar projects. Physical and price contingencies have been provided at 7.5% and 3% per annum respectively. The cost will be funded by an ADF grant of UA 75.43 million, representing about 89.38% of the program estimate. The partner states have agreed to make available resources to the tune of UA 8.96 million (10.62%) as counterpart contributions. Considering Burundi's special circumstances as a fragile country, no counterpart contribution will be required, apart from contribution for environment and land acquisition.

2.4.2 Although the program is implemented in three loan only eligible countries (Kenya, Uganda and Tanzania) and two grant countries (Burundi and Rwanda¹), it is proposed to extend an ADF grant with a limited cost sharing by four of the countries from their own internal resources.

Table 2.1 Program cost estimates by component [million UA]

| Components | For. currency costs | Loc. currency costs | Total Costs | % foreign |
|--------------------------------------|---------------------|---------------------|--------------|------------|
| Water Supply | 33.52 | 14.33 | 47.85 | 70% |
| Hygiene and Environmental Sanitation | 5.30 | 9.84 | 15.14 | 35% |
| Urban Drainage Improvement | 0.15 | 1.35 | 1.50 | 10% |
| Capacity Building | 4.14 | | 4.14 | 100% |
| Program Management | 1.40 | 2.02 | 3.42 | 41% |
| Land Acquisition cost | - | 0.26 | 0.26 | 0% |
| Total Base Cost | 44.49 | 27.82 | 72.31 | 62% |
| Physical contingency | 2.92 | 1.93 | 4.85 | 60% |
| Price Contingency | 4.45 | 2.78 | 7.23 | 62% |
| Total program cost | 51.88 | 32.51 | 84.39 | 62% |

Table 2.2 Sources of financing [amounts in millions UA]

| Sources of financing | Total Costs (Million UA) | Percentage (%) |
|----------------------|--------------------------|----------------|
| ADB | 75.43 | 89.38 |
| GoVs | 8.96 | 10.62 |
| | | |
| Total program cost | 84.39 | 100% |

Table 2.3 ADF and Governments Contributions by Countries (millions UA)

| Implementation by | Government | % | ADF | % | Total |
|----------------------|-------------|---------------|--------------|---------------|--------------|
| Uganda | 1.78 | 13.59% | 11.35 | 86.41% | 13.13 |
| Rwanda | 2.57 | 14.29% | 15.40 | 85.71% | 17.97 |
| Burundi | 0.07 | 0.49% | 14.40 | 99.51% | 14.47 |
| Kenya | 1.45 | 12.02% | 10.59 | 87.98% | 12.04 |
| Tanzania | 3.09 | 14.77% | 17.82 | 85.23% | 20.91 |
| EAC | - | 0.00% | 5.87 | 100.00% | 5.87 |
| Total | 8.96 | 13.21% | 75.43 | 86.79% | 84.39 |
| Total Summary | 8.96 | 12.55% | 75.43 | 89.38% | 84.39 |

Table 2.4 ADF and Government Expenditure schedule by component [million UA]

| Components | 2011 | 2012 | 2013 | 2014 | 2015 | Total |
|--------------------------------------|------|-------|-------|-------|-------|-------|
| Water | 3.93 | 6.74 | 14.05 | 22.48 | 9.01 | 56.21 |
| Hygiene and Environmental Sanitation | 1.25 | 2.13 | 4.45 | 7.12 | 2.85 | 17.80 |
| Urban Drainage Improvement | 0.53 | 0.88 | 0.35 | | | 1.76 |
| Capacity Building | 0.31 | 0.55 | 1.14 | 1.82 | 0.73 | 4.55 |
| Program Management | 0.61 | 0.92 | 0.92 | 0.92 | 0.40 | 3.77 |
| Land Acquisition | | 0.30 | | | | 0.30 |
| Total | 6.63 | 11.52 | 20.91 | 32.34 | 12.99 | 84.39 |

¹ Rwanda is eligible to both loans and grants

2.5 Program's target area and population

2.5.1 The program beneficiaries are the five partner states, primarily the populations that depend directly or indirectly on the vast resources of the lake. At a localised level the program will immediately benefit the population of the fifteen towns in LVB. It aims to provide services to more than 670,000 residents of the small towns by 2015, including an estimated 170,000 transit population using the towns as nodes and people living in the immediate vicinity of the towns who will also benefit from the interventions. Although the interventions will benefit all the towns' residents, the primary beneficiaries will be the poor and vulnerable groups, who will have access to water and sanitation facilities, where they, hitherto, have had none. The program will result in increased coverage and reliable water and sanitation services in the beneficiary towns, and improved performance of the service providers.

2.5.2 The following were the criteria used for selection of the 15 towns; (i) each of the five partner states should put forward three towns; (ii) the towns would each have a human population of between 10,000 and 100,000 people; (iii) the towns would be located within the catchment area of the lake; (iv) would have a clearly demonstrated need for water supply and sanitation provision; (v) the towns would not be in any planned or on-going water supply and sanitation programme; and importantly (vi) that the proposed initiative would have a significant impact in reducing pollution into Lake Victoria.

2.6 Participatory process for program identification, design and implementation

2.6.1 The program was jointly prepared by LVBC and the participating countries since November 2007 through the support of the Africa Water Facility (AWF). The investment study was completed by April 2010. The preparation study and outcome is informed by community surveys undertaken at the grass root level. The study has also involved numerous consultation workshops at local, national and regional level. At the regional level, the study was under the oversight of the Regional Policy Steering Committee (RPSC) composed of the sector ministers from each partner state, LVBC and UN-HABITAT.

2.6.2 The program appraisal was a joint effort by LVBC, participating countries and the Bank. Several development partners such as WSP, EIB, KfW, AFD, UNEP, JICA, and GTZ were consulted during preparation and appraisal and at the program donors' conference, convened in Nairobi. During preparation and appraisal, field visits were made to all program participating towns. Numerous meetings, discussions, and consultations were conducted with key stakeholders and communities, focusing on the program objectives, the expected impact and benefits.

2.6.3 The program design has included a participatory process for implementation mainly at the grassroots level. Details of the public consultations with an emphasis on specific needs within the four program components is provided in annex B8&9. The needs assessment has been used to identify which of the sub-components are best able to address the stated requirements of the targeted beneficiaries. The program will support the establishment of the MSFs at town level with representation from women groups, youth groups, orphan-headed households and other vulnerable groups, local government, private sector, NGOs and CBOs. The objective of the MSF is to help the IAs in the participatory planning and budgeting, preparation of citizen reports cards, strengthening consumer voice in utilities and preparation and implementation of town development strategies. Once the members of the MSFs are selected, training workshops will be held and operations

manuals prepared to define the organizational structures as well as roles and responsibilities and to provide guidance to facilitate the day to day operations of these bodies. Exchanges with Phase 1 towns will be organized as a means of creating a clear understanding of roles and responsibilities.

2.7 Bank Group experience, lessons reflected in program design

2.7.1 The program has fully taken on board the lessons learnt from the implementation of phase 1 LVWATSAN program and other similar small towns' projects in the EAC countries. The main lessons include; (i) upfront integration of capacity building with physical infrastructure investment has high positive impact on sustainability (ii) focus on pro-poor approach for service provision will help to reach the most vulnerable groups and has high impact on improving coverage (iii) community involvement during implementation through the Multi-Stakeholder Forum and increasing the role of women and other vulnerable group will ensure participatory process and contributes to the success of the program and sustainability (iv) the integration of water supply and sanitation including solid waste management raises the profile of sanitation, which lags behind water in attracting resources (v) the need to identify immediate service improvement activities will help to engage stakeholders at the early stage of program implementation (vii) undertaking aggressive hygiene and sanitation (H&S) promotion will complement the physical intervention and contributes to behavioural change and (viii) the need for clear delineation of responsibility between regional and national structures and clearly defined accountabilities.

2.7.2 All these lessons and experiences from past projects were fully reflected in the design of the program. The program has integrated capacity building to start early in the program implementation coupled with immediate service improvement interventions. A pro-poor strategy will be developed and streamlined to guide the implementation of the program through organisation of MSFs to enhance participation of communities. The program has integrated hygiene and sanitation promotion with the implementation of the physical infrastructure including public and institutional toilets as well as solid waste management. For overall effective implementation of the program, national structures will be used to implement the program while an effective regional level coordination mechanism will be put in place. The roles and responsibilities of all the actors in the program will be elaborated in the program implementation manual. The IAs will also sign MoUs with the beneficiary towns to ensure accountability.

2.7.3 In January 2010, the Bank undertook a review of its experience with Regional Operations (RO) which acknowledged that ROs require complex and tedious negotiations with multiple RMCs, leading to higher transaction costs.² This program leverages on the coordination capacity of the REC (EAC), while ensuring that the implementation is undertaken at country level to engender ownership. With regards to the delayed implementation, the identification and undertaking of short term interventions will help in building momentum towards implementation of long term interventions. The review further recommended that ROs should be underpinned by strategic assessments of the integration efforts that they are designed to support. The LVBC brings together the regional integration focus of the partner states through strategies to address the environmental challenges of the lake. By participating in this initiative, the Fund will further cement the efforts of the REC and the partner states in building a cohesive approach to regional challenges.

2.8 Key performance indicators

² Learning Review of Regional Operations, March 2010, AfDB

2.8.1 The program will include the following key performance indicators which are in line with the Bank's CSIs; (i) access to safe drinking water (ii) technical and institutional performance (UFW, reliability, production capacity, quality of water, metered connections, collection efficiency) (iii) average distance to nearest water fountain (iv) access to improved sanitation (v) % of sanitation coverage of public/institutional places (vi) people educated through hygiene program (vii) safe faecal sludge treatment (viii) cleanliness of towns (ix) reliability of collection services (solid waste and de-sludging) (x) satisfaction rate with service.

III. PROGRAM FEASIBILITY

3.1 *Economic and financial performance*

Key economic and financial figures

EIRR (base case) 17.71%, USD 40million

NB: detailed calculations are available in Technical Annex B7

3.1.1 The underlying key assumptions for the calculation of the EIRR of the program are provided in Annex B7. The economic analysis assesses the beneficial impact of the proposed interventions based on the results of the willingness to pay for new and improved water supply, sanitation and solid waste services in each of the secondary towns in the five partner states. It also highlights the broader strategic socio-economic and environmental impacts associated with the program interventions in terms of employment generation, public health and the incidence of waterborne and water-related diseases, reductions in mortality rates, environmental degradation and increasing pollution and fulfilment of local, regional and national development plans. Poverty reduction is a major objective for all five governments in addressing the MDGs and the long-term development of key secondary towns in the Lake Victoria region.

3.1.2 The assumptions utilise the findings of the WHO Evaluation of Costs and Benefits of Water and Sanitation improvements assessment at the Global Level. These findings indicate the benefits arising from reduced costs of health interventions arising from improved water and sanitation improvements. For the treatment of diarrhoea, health service unit costs are taken from WHO regional unit cost databases. The following broad parameters constitute the variables for the assessment; (i) time savings related to water collection or accessing sanitary facilities; (ii) patient health treatment and travel costs saved; and (iii) value of less adults, infants and students falling sick with diarrhoea. The detailed assumptions are contained in Annex B7.

3.2 *Environmental and Climate Change*

Environment

3.2.1 The program has been classified as environmental category 2 in accordance with the Bank's safeguard policies, procedures and guidelines. The categorization is in alignment and in compliance with the national environmental laws of the five partner states. However the implementation of specific components and activities of the program at town level require due environmental considerations at detail design stage. In order to accomplish this, environmental and social impact assessment requirements will be undertaken along with the detail designs of the sub-program schemes. The program study undertook a strategic program level Environmental and Social Study on the basis of which the program ESMP is prepared.

3.2.2 Determination of the program impacts was based on the assumption that for all the proposed interventions, the basic environmental triggers will not be invoked. This means that no program intervention will cause involuntary resettlement of people or adversely impact on protected areas, threatened species, indigenous people and cultural heritage attributes of the program area. In effect these are the environmental pre-conditions for the formulation of all the interventions of the sub-projects. Indeed for some sub-project intervention, alternative technical proposals were discounted on account of these environmental considerations.

3.2.3 Although land acquisition is likely to be the most significant adverse impact during the initial program implementation stage, it will not require involuntary resettlement of people. Land acquisition and subsequent compensation will be carried out in accordance with guidelines contained in the Bank's involuntary resettlement policy and the relevant legislation of the partner states of the EAC. The costs of providing compensation for permanent acquisition for infrastructure are estimated to be USD 449,790 for land requirement of 30 ha. It is also likely that there will be a need for compensation for temporary access to land and securing right of way for pipe lines. The detail ESIA for sub-project interventions will be prepared together with the details designs of schemes. These will be subjected to national disclosure requirements and each IA shall seek the approval of the sub-project schemes from the national environmental authorities.

3.2.4 Other potential negative impacts of the program at implementation and operational stage include; (i) visual intrusion from the erection of service reservoir tanks on hills and also abstraction points, (ii) ponding and subsequent increase in habitats of water-borne and water related disease vectors. (iii) construction activities including clearing and trampling of vegetation, excavation of soils, levelling of landscapes causing soil erosion and siltation, loss of plant biomass, disturbance to faunal communities, pollution, increase in noise levels, increase in dust levels, increase in air emissions and vibrations (iv) during the construction stage, some negative social impacts will be triggered mainly by the increased population in the program area following the commencement of the program activities. Such impacts include increased incidences of diseases especially the Human Immuno-deficiency Virus / Acquired Immuno-deficiency Syndrome (HIV/AIDS). (v) Finally, odour and seepage from solid waste landfill, sludge treatment and sludge treatment plants will be major issues. The specific designs of the schemes will take these into consideration.

Climate Change

3.2.5 In response to the emerging climatic change challenges faced by the region, the EAC has now developed the East African Community Climatic Change Policy (EACCCP). Effective implementation of the Policy will go a long way towards minimizing the overall impacts of Climatic Change and consequently lead to regional social and sustainable economic development. Towards this objective, four EAC partner states namely, Burundi, Rwanda, Uganda and Tanzania have now developed National Adaptation Programmes of Action (NAPAs) which are in various stages of implementation. The NAPAs have identified immediate, urgent, and priority program activities that are necessary to enhance adaptation capacities to climatic change. Kenya, on the other hand, has already prepared a Climatic Change Response Strategy which spells out the priority areas for both adaptation and mitigation activities in the country. This LVWATSAN program will help to further boost regional cooperation on impact of climate change and the sustainable use of Lake Victoria resources. It will introduce a common regional capacity building for best practices in conserving freshwater resources, catchment protection, energy efficiency and reduction of water losses. The designs of program facilities including water supply intakes, water

treatment facilities, water pipeline reticulation, etc will take into account the effects of the climate change variability. Improvement in the management of water and treatment of human waste and safe disposal will reduce the amount of methane that contributes to greenhouse gas emissions. Implementation of the integrated catchment management activities including afforestation, wetland management, appropriate agricultural practices, greening of towns etc. will reduce the impacts of flooding, promote water conservation and mitigate climate change impacts by enhancing carbon sinks necessary for the sequestration of greenhouse gases. Finally the hygiene and sanitation awareness campaign will help reduce the spread and incidences of climate induced diseases including vector borne diseases (such as malaria, dengue and bilharzia), tick borne diseases and water borne diseases.

3.3 Gender & Social Impacts

Gender

3.3.1 Lake Victoria Commission Protocol article 23 enforces that: “The Partner States shall promote community involvement and mainstreaming of gender concerns at all levels of socio-economic development, especially with regard to decision-making, policy formulation and implementation of projects and programmes.” Within this framework, the program will adopt a practical solution to gender mainstreaming and take into account women’s interest in the program design and choice of technology. Furthermore, the program will strengthen the existing of EAC, LVBC and IAs efforts of gender mainstreaming through capacity building. This will enforce the gender M&E mechanisms of the IAs.

3.3.2 Effective participation of women and other vulnerable groups in the MSFs will help to address problems related to service affordability, appropriateness of technology, security and safety of the infrastructure, health and hygiene, high social, economic and opportunity costs (time spent collecting water – walking distance to the nearest source and the waiting time to get actual service, time spent and attending to the sick, money spent on treating, WASH diseases), and reliability of services.

3.3.3 The program will prepare baseline and impact study from a gender perspective and pro-poor strategy. The Baseline will inform the arrangement of accessing sufficient clean water supplies within 250m of collection distances, shorter periods of queuing and therefore afford women and girls additional time to improve them. The survey will facilitate an assessment of the roles and contributions of men and women in the sector, and examine the implication for the program focus and service delivery system.

Social

3.3.4 The proposed program offers a vastly increased and equitable provision of water and sanitation services to the population of the 15 towns. Access to public toilets and stand pipes will bring about significant changes and improve the quality of people’s lives in the program area and help tackle poverty, gender and health issues.

3.3.5 The incidences of typhoid are high throughout the region as well as malaria. The incidences of diarrhoea affecting children under 5 are also high according to hospital records. Proper hygiene practices and issues of quality of drinking water, sources of contamination and the cause of water borne diseases are unknown to most community members. The hygiene education

programs will contribute to improved health conditions among the population by increasing awareness of water related diseases. Improved health will translate into lower healthcare costs for families.

3.3.6 Community capacity building and willingness to pay for safe water and hygiene will be boosted through creation of the MSF. MSF will work closely with Local Councils and Water Authorities. These will be the medium for engendering community participation in the implementation and management of the infrastructure and they represent the different strata of the community. It is envisaged that about 50% of decision making positions in the MSFs will be taken up by women. Carefully managed and monitored implementation and ongoing operation of the schemes included in the program will improve the environment in the immediate vicinity of the users. Investment in training, maintenance and operation of the sludge disposal systems, faecal sludge treatment plants, solid waste collection and the careful selection of disposal sites will contribute to the overall health of the population and in the immediate area to those program towns adjacent to it.

3.3.7 The implementation of the program has the potential to create employment in the area while the improved services will attract more investment, hence create more jobs and boost the local economy.

Involuntary resettlement

3.3.8 There is no involuntary resettlement foreseen. The rehabilitation/extension of the water supply and sanitation schemes could entail disturbing of agricultural production and other activities for which a procedure and compensation package has been established by the Governments.

IV. IMPLEMENTATION

4.1 Implementation arrangements

4.1.1 The recipient of the Grant will be the EAC and LVBC will be the Executing Agency. Each partner state shall be responsible for implementation of sub-projects under the program within their respective towns. The implementing agencies will be; The Directorate for Water Development (DWD), a department within the Ministry of Water and Environment for Uganda, Régie de Production et de Distribution de l'Eau et de l'Electricité (REGIDESO) for Burundi, Water Supply & Sanitation Sector Coordination Unit (WSSSCU) under the Ministry of Infrastructure for Rwanda, Lake Victoria South Water Services Board for Kenya (LVS WB), and Mwanza Urban Water and Sewerage Authority (MWAUWASA) for Tanzania.

4.1.2 In addition to the five IAs listed above, the LVBC, an institution of the EAC will be responsible for overall program oversight at regional level. Regional level capacity building and reporting will be implemented and coordinated at LVBC level. The UN-HABITAT will execute the capacity building component of the program targeting the towns, IAs and service providers. Within the framework of UN-HABITAT's existing general cooperation Memorandum of Understanding (MOU) for collaboration with the EAC, a specific program MOU to execute the capacity building component of the program will be entered into between LVBC and UN-HABITAT.

4.1.3 The IAs will report technical and financial progress through their respective sector/line ministries to LVBC. The IAs shall establish project teams which will consist of, but not limited to the following skills; project coordinator, procurement, accounting, environmental and social experts whose qualifications will be acceptable to the Fund. Stakeholder involvement in implementation and management of the program will be paramount as it will contribute to local buy-in and sustainability of the interventions. As such town level project teams involving all stakeholders will be set up, which will ensure the involvement of all stakeholders. In line with lessons learnt from the LVWATSAN phase one, MSFs will be set up in each town, and will have about 50% women representation in decision making positions to encourage increased participation by women groups.

4.1.4 Each beneficiary town will sign a sub-project implementation MOU with the program IAs. The MOUs are meant to ensure coordination between the IAs and local councils and to ensure sustainability, while the towns build capacity to adequately manage and maintain the infrastructure. The IAs should ensure that local town level involvement is engendered throughout the implementation of the program.

4.1.5 The regional level coordination will be further strengthened through the existing RPSC composed of the sector ministers of the five partner states and the various technical organs of the EAC. The RPSC will provide the overall operational and high level policy guidance to ensure that program components and activities implemented nationally blend as intended to fulfil the regional objectives of the program.

4.2 *Financial Management*

4.2.1 The existing financial management systems for each of the IAs and LVBC will be used to manage the resources of the Program. All the IAs and LVBC have adequate financial management capacity to account, record, and report the financial transactions of the Program. Most of them use computerized accounting systems to capture and report their financial activities. The program accounts for the ADF component for each of the IAs and the LVBC will be audited by an independent auditor acceptable to the Fund and appointed by the East African Community Audit Commission (EACAC), a regional body composed of the Auditor Generals of the partner states. The audited program accounts, along with the management letter, for each of the IAs and LVBC will be submitted to the Bank within six months after the end of each fiscal year.

4.3 *Disbursements Arrangements*

4.3.1 The Program will use the four disbursement methods and procedures prescribed in the Disbursement Handbook for the ADF grant. The Bank's Disbursement Handbook can be accessed from the Bank's website. In addition, the Bank will issue a Disbursement Letter, whose content will be discussed and agreed during negotiations. Each IA, including LVBC will open a Special Account in foreign currency and a local currency account with a bank acceptable to the Fund. The local currency account will be used to transfer money from the special account to cover eligible Program expenditures. Replenishment of the special accounts will be in accordance with the Disbursement Handbook, and replenishments to each IA will not be linked to other IAs' progress.

4.4 Procurement Management

4.4.1 All procurement of goods, works and services financed by the Bank will be in accordance with the Bank's Rules and Procedures for the Procurement of Goods and Works or, as appropriate, Rules and Procedures for the use of Consultants, using the relevant Bank Standard Bidding Documents. Regional firms with respect to East African Community economic grouping participating in tenders under International Competitive Bidding will receive a maximum of 10% and 7.5% margin of preference on procurement of goods and works respectively in accordance with the African Development Bank Rules and Procedures for Procurement of Goods and Works. The IAs, that is DWD for Uganda, the WSSCU for Rwanda, REGIDESO for Burundi, LVSWSB for Kenya, and MWAUWASA for Tanzania will be responsible for the procurement of goods, works, services, and miscellaneous items in each country; while the LVBC will be responsible for procurement of goods, services and miscellaneous for activities under its responsibility and ensures the overall coordination of the program. The procurement arrangements are detailed in the technical Annex B8 and are derived from the following thresholds based on the assessment undertaken for each IA.

Table 4.1 Thresholds (Amounts in UA)

| | ICB | NCB | Shopping |
|-------|------------------|----------------------------|------------------|
| Works | Amount > 600,000 | 50,000 < Amount <= 600,000 | Amount <= 50,000 |
| Goods | Amount > 200,000 | 20,000 < Amount <= 200,000 | Amount <= 20,000 |

4.5 Monitoring

4.5.1 The program will establish monitoring and evaluation (M&E) framework to track progress in program implementation and also the achievements of the program objectives. The M&E system will serve as a tool for sector stakeholders, to enable them to assess program implementation and undertake modifications on a timely basis so that the program development objective and intermediate results can be achieved. The M&E framework will include the following stages which include post program monitoring and evaluation of their impacts:

1. Confirmation of sectoral targets and key performance indicators (KPIs) by the stakeholders
2. Establishment of a detailed M&E plan identifying roles & responsibilities, a clear action plan and implementation schedule.
3. A pre-implementation gender sensitive baseline survey, establishing baseline conditions in each town;
4. A post implementation end line survey, shortly after completion to evaluate the immediate impact of the program;

4.5.2 The program milestones are summarised as below:

| <u>Timeframe</u> | <u>Milestone</u> | <u>monitoring process / feedback loop</u> |
|------------------|-----------------------------|---|
| 12/2010 | Grant Approval | ADF Board |
| 03/2011 | 1st disbursement conditions | Launching Mission – Follow-up |
| 04/2011 | First Disbursement | ADF – FOs to monitor closely |
| 03/2013 | Mid Term Review | Stakeholders Involved – Follow-up |
| 12/2014 | Completion | ADF/FOs to monitor closely |

4.6 Governance

4.6.1 The program participating countries have given emphasis to governance reforms and the recent trend is positive. Kenya, Uganda, Tanzania and Rwanda have undergone rapid sector reforms since late 90s, and these reforms are still ongoing. Decentralization is a key component of the policy thrust of the governments, giving opportunity and empowerment for local level governance and management of the water and sanitation sector. The delegated management framework with a good mix of public and private sector participation in Uganda and Rwanda is a good example. The separation of regulatory and service provision has been effective in Kenya. Further reforms are ongoing to consolidate the gains and improve services at the local level through clustering of small towns under water authorities. In the case of Burundi, reforms in the sector are about to begin. A national water policy is being drafted and a number of other institutional reforms are being planned. The country has also made improvements in consolidating peace and stability.

4.7 Sustainability

4.7.1 One of the major sustainability challenges for the program interventions stems from the weak or absence of institutions in the program participating towns. The towns in Uganda don't have service providers and some of them don't have town administrations to work with. In Tanzania, the service providers were gazetted, though in practice they still operate under the town councils. In order to address this challenge, the program has an institutional building component to transform existing institutions into technically and financially viable institutions. A needs assessment will be undertaken, to inform the capacity building initiatives, which will follow the policy framework in each country. The interventions will consider each beneficiary town's needs and tailor make the interventions to address those needs. It will provide support at the program initial phase, during implementation and at exit stage.

4.7.2 In order to improve financial sustainability, the program will undertake tariff studies for each town and introduce incremental block tariff, with initial target of full O&M cost recovery. The program will also target to increase metering and intervene in activities that will help reduce the unaccounted for water (UFW). Selection of a reasonable technical solution, and close monitoring of the system and strengthening of the O&M will be given emphasis. However in line with the policy direction, tariff should be adjusted to gradually transit to full cost recovery, and target at attaining modest levels of profitability by 2020. In addition the study on micro-finance will identify alternative financing mechanisms and opportunities for enhancing sustainability in terms of expansion of services.

4.8 Risk management

4.8.1 The local institutions in the beneficiary towns are very weak and pose challenges to program implementation and sustainability. This risk is mitigated by involving well capacitated and experienced institutions to support the program implementation while at the same time a series of comprehensive capacity building is introduced during program implementation. The capacity building intervention will be tailored to the needs and capacity requirement of each town.

4.8.2 The possibility of capital cost over-runs is always a risk, especially when the program involves five different countries and differing cost profiles. In this context, accurate and verifiable

cost estimates will be used for the final design stage. Matching the cost of interventions with budget and tight cost control will be mainstreamed in the terms of reference for the detail design. The program cost estimate has already included price and physical contingencies to match the degree of certainty in terms of scope and time for implementation.

4.8.3 Timely availability and disbursement of government counterpart contributions are essential. If this funding is not forthcoming, there is a risk that program implementation may be affected and may trigger additional claims from contractors. Partner states will be encouraged to ensure that counterpart funds are made available timely and this will closely be monitored through the quarterly financial reports.

4.8.4 The risk of lack of financial sustainability will be mitigated through the application of tariff structures and metering, that will allow the program to cover O&M costs initially, with gradual transition to full cost recovery. This risk will further be mitigated through engaging the communities in the program from the beginning and raising their awareness through the MSF.

4.8.5 Following the program implementation, there will be possibility of increasing the risk of spreading malaria due to the provision of safe potable water with subsequent increase in suitable water habitats for mosquitoes. The drainage improvement component will eliminate the spots with stagnating water. In addition, residents will be sensitized as part of the overall hygiene and sanitation promotion campaign.

4.9 Knowledge building

4.9.1 The objective of the institutional capacity building component of the program is to improve service quality and efficiency through peer learning, adoption of best practice and sharing of knowledge. The common regional level training, review and experience sharing will add value to the process. The program will produce studies, procedures and manuals documenting best practices and lessons for continued use and application.

4.9.2 The program's M&E will allow learning and generation of knowledge. The lessons and knowledge will be shared during program reviews. The program will include comprehensive reporting, comprising quarterly progress reports, audit reports, mid-term review report and completion report.

V. LEGAL INSTRUMENTS AND AUTHORITY

5.1 Legal instrument

An ADF Grant Protocol will be executed between the Fund and EAC.

5.2 Conditions associated with Fund's intervention

A. Conditions Precedent to Effectiveness

Effectiveness of the Grant Agreement shall be subject to its signature by the ADF and EAC

B. Conditions Precedent to First Disbursement:

- (i) Evidence of having opened special accounts in banks acceptable to the Fund as follows: (i) foreign currency accounts for each IA and LVBC for the deposit of the proceeds of the Grant and (ii) local currency accounts for each IA into which fund from the aforementioned foreign currency account shall be transferred to cover eligible expenditure in local currency;
- (ii) Evidence of having signed subsidiary grant transfer agreement between EAC and Partner States to enable the direct transfer of the grant resources from the Fund to the beneficiary countries; and
- (iii) Designation of a program coordinator and an accountant for LVBC, and program coordinator, environmental health expert, accountant, and procurement expert for each IA whose qualifications and experience are acceptable to the Fund.

C. Other Undertakings

In addition to the above-mentioned conditions, the EAC shall undertake to:

- (i) Provide the Fund at program start-up with evidence of the signing of the MOU between the beneficiary towns and IAs for the implementation of the program;
- (ii) Ensure that the allocation of budget and counterpart funds by Partner States is done in accordance with the program expenditure schedule; and
- (iii) Ensure compliance by LVBC and all IAs with all applicable Bank environmental and social policies.

5.3 Compliance with Bank Policies

This program complies with all applicable Bank policies.

VI. RECOMMENDATION

6.1 In view of the program meeting the RPG criteria and demonstrated leadership and ownership by East African Community and partner states, Management requests, in line with the Regional Operations Strategic Framework, the Board of Directors to approve the following:

- (i) Exempting this eligible RPG program from the cost sharing requirements normally applicable to Regional Operations; and
- (ii) Extending the financing in the form of grants, including loan only eligible countries.

6.2 Finally Management recommends that the Board of Directors approve the proposed Grant not exceeding UA 75.43 million to the East African Community for the purposes and subject to the conditions stipulated in this report.

Appendix II – Country’s Comparative Socio-Economic Indicators

| Basic Indicators | Year | Tanzania | Uganda | Kenya | Rwanda | Burundi |
|---|-----------|-------------|--------|-------|--------|---------|
| Area (000Km2) | | 945 | 241 | 593 | 26.3 | 27.8 |
| Total Population (millions) | 2008 | 40.7 | 29.6 | 38.3 | 9.8 | 8.2 |
| Urban Population | 2009 | 25.6 | 13.1 | 21.9 | 18.6 | 10.7 |
| Population Density (Km2) | 2009 | 48.28 | 135.71 | 68.58 | 379.6 | 293.3 |
| GNI per Capita (US\$) | 2008 | 440 | 420 | 770 | 410 | 140 |
| Labour Force Participation - Total (%) | 2003 | 51 | 48 | 52 | 53 | 53 |
| Labour Force Participation - Female (%) | 2007 | 50 | 48 | 48 | 53 | 51 |
| Gender Related Development Index Value | 2009 | 0.527 | 0.509 | 0.538 | 0.459 | 0.39 |
| Human development Index (Ranking among 182 countries) | 2009 | 151 | 157 | 147 | 167 | 174 |
| Population living below \$1 (% of population) | 2008 | 33.64 (MDG) | | 45.9 | | |
| Demographic Indicators | | | | | | |
| Population Growth Rate - Total (%) | 2008 | 2.9 | 3.2 | 3 | 2.8 | 2.7 |
| Dependency Ration (%) | 2007 | 89.8 | 106.4 | 82.9 | 82.9 | 88.5 |
| Sex Ratio (%) | 2009 | 98 | 100 | 100 | 99 | 99 |
| Life Expectancy at Birth - Total (year) | 2009 | 56.3 | 55.7 | 54.9 | 50.7 | 50.9 |
| Life Expectancy at Birth - Female (year) | 2007 | 54 | 52 | 55 | 48 | 51 |
| Infant Mortality Rate (per 1000) | 2009 | 61.6 | 71.7 | 61.8 | 97.4 | 96 |
| Child Mortality Rate (per 1000) | 2008 | 115.5 | 206.8 | 101.8 | 185.3 | 166.1 |
| Maternal Mortality Rate (per 1000) | 2008 | 578 | 435 | 560 | 750 | 480 |
| Total Fertility Rate (per women) | 2008 | 5.5 | 6.7 | 4.6 | 5.5 | 6.3 |
| Health & Nutrition Indicators | | | | | | |
| Access to safe water (% of population) | 2008 | 69 | 64 | 57 | 74 | 47 |
| Access to sanitation (% of population) | 2006 | 33 | 33 | 42 | 23 | 2 |
| Incidence of Tuberculosis (per 100,000) | 2007 | 297 | 330 | 353 | 397 | 367 |
| HIV/AIDS Prevalence Rate | 2009 | 6 | 6 | 7 | 3 | NA |
| Public Expenditure on Health (as % of GDB) | 2008 | 1.6 | 0.6 | 1.7 | 1 | 1.4 |
| Education Indicators | | | | | | |
| Gross Enrolment Ratio (%) | | | | | | |
| Primary School – Total | 2008 | 112 | 108 | 110 | 128 | 121 |
| Ratio of Female to Male Enrolment | 2007 | 98.4 | 100.8 | 98.5 | 101.6 | 92.2 |
| Secondary School – Total | 2008 | 26 | 21 | 29 | 15 | 18 |
| Ratio of Female to Male Enrolment | 2007 | NA | 82.7 | 87.5 | 89.3 | 72 |
| Literacy Rate (%) | 2008 | 70 | 69 | 62 | 78 | 47 |
| Environmental Indicators | | | | | | |
| Land Use (Arable Land as % of Total Land and Area) | 2009 | 4.23 | 21.57 | 8.01 | 45.56 | 35.57 |
| Annual Rate of Deforestation (%) | 2000-2005 | 1.1 | 2.13 | 0.34 | | 4.65 |
| Annual Rate of Reforestation (%) | 2000-2005 | | | | 7.91 | |
| Per Capita CO2 Emissions (metric tons) | 2005 | 0.12 | 0.08 | 0.312 | 0.067 | 0.0303 |
| Sources: AfDB Statistical Department based on various national and international sources. | | | | | | |
| East African Community Facts and Figures 2009 | | | | | | |

Appendix III. Table of ADB's Sector portfolio

Sector: Water Supply/Sanitation

Uganda

| Name | Type ¹ | Rating | Amount (UA) (million) | Date approved |
|---|-------------------|--------|--------------------------|---------------|
| Kampala Water Sanitation Project | L | S | 35.00 | 16/12/2008 |
| NELSAP 1 | L | | 7.59 | 17/12/08 |
| Creation of Sustainable Tsetse and Trypanosomiasis Free Areas | L/G | | 6.79 | 08/12/04 |

Tanzania

| Name | Type ¹ | Rating | Amount (UA) (million) | Date approved |
|-----------------------|-------------------|--------|--------------------------|----------------|
| Dar es Salaam WSS Pr. | L/G | U | 38.12 | December 2001 |
| RWSS Program I | L/G | S | 55.00 | September 2006 |
| Zanzibar WS Project | L/G | S | 25.00 | November 2008 |

Kenya

| | | | | |
|--|--------------|---|-------|----------------------|
| Rift Valley Water & Sanitation Project | L & G | S | 18.06 | July 2004 |
| Water Services Board Support Project | L & G | S | 45.26 | December 2007 |
| Kisumu District Primary Schools Water & Sanitation Project | AWF Grant | s | 0.198 | December 2006 |
| Integrated Land & Water management | AWF Grant | s | 1.94 | February 2009 |
| Small Towns and Rural Water Supply and Sanitation Project | L | S | 70.00 | November 2009 |

Rwanda

| | | | | |
|---------------------------------------|---|---|--------------|------------------|
| Rural Water and Sanitation Program | G | S | 16.11 | July 2009 |
|---------------------------------------|---|---|--------------|------------------|

Burundi

| | | | | |
|---|---|---|--------------|----------------------|
| Rural water supply Rehabilitation and Extension Project | G | U | 12.00 | December 2005 |
|---|---|---|--------------|----------------------|

Appendix IV. Key Related Projects Financed by the Bank and Other Development Partners

| Donor | Sector | Project |
|---------------------------|--------------------------|---|
| Uganda | | |
| | | |
| AfDB, Kfw, EU | Urban Sanitation | Kampala Sanitation Program |
| EU | Urban WSS | South Western Towns Water and Sanitation Phase 3 |
| EU | Study | Mapping of groundwater resources in Uganda |
| KfW | Urbank WSS | Kampala WSS Programme 1a (Gaba III Intake Waterworks) |
| Danida, Australia, Sweden | Rural WSS | Joint Water and Sanitation Sector Programme Support (JWSSPS) |
| | Policy and Capacity | Support to Climate Change Unit |
| Japan | Policy and Strategy IWRM | Comprehensive Water Resources Development and Management Plan for the Lake Kyoga Basin |
| | District WSS | The Project for Improving Access to Safe Water in Mbale District |
| Sweden | Budget Support | Rural Water Supply and Sanitation Program |
| Tanzania | | |
| AFD | Small Towns WSS | Small Towns WSS Project |
| ADB | Urban WSS | Dar es Salaam WSS Project |
| | Budget Support | WSDP/RWSS Program |
| | Urban/Rural WSS | Zanzibar Water Supply and Sanitation Project |
| BADEA | Urban WSS | UWSA and Study |
| DFID | General WSS | Core Support to Water Aid |
| EU | Small Towns WSS | Water Supply Programme Regional Centres |
| GTZ | Policy WSS | Development Ass. Policy & planning |
| IDA | Urban WSS | Dar es Salaam WSS Project |
| | Budget Support | Water Sector Development Program |
| Japan | Rural WSS | Study WS improvement Coastal Region, RWS in Lindi & Mtwara, Study RWS Mwanza & Mwara, Expert in groundwater dev RWS |
| | Urban WS Project | Zanzibar WS Development Project |
| KfW | Urban WSS | Urban Investment Program, UWSS Regional Centers |
| | Sanitation | Sanitation & Solid Waste Zanzibar |
| | RWSS | RWS East Kilimanjaro, Rural WS Moshi Rural District |
| MCC | Urban WSS | Dar es Salaam WSS Project |
| NORAD | Urban WSS | Dar es Salaam future source; DDA |
| Switzerland | Urban WSS | PPP Programme Dodoma & Tabora |

| Donor | Sector | Project |
|-----------------------|---|--|
| Kenya | | |
| ADF | Urban and Rural WSS | Rift Valley water supply and sanitation project, water services boards support project, small towns and rural water supply and sanitation project |
| World Bank | Urban wss | Water and Sanitation Service improvement project |
| AFD | Urban WSS | Kisumu Water and Sanitation Project, |
| | Urban Sanitation | Solid Waste Nakuru/Mombasa |
| | Urban WSS | Nairobi Water and Swerage |
| EU | Policy and capacity | Good Water Governance in Lake Victoria South Region |
| | Capacity building | Capacity Building for water service providers |
| | Urban wss | Nairobi Informal Settlements water and sanitation |
| KfW/GTZ | Urban WSS | Water Sector Development program, Malindi water supply, Nyeri water supply, water supply and sanitation for the urban poor , Water Sector Reform Program |
| Regional | | |
| World Bank, GEF, SIDA | Water and Environment | Lake Victoria Environment Management project I and II |
| UNHABITAT | Urban WSS | Lake Victoria Water and Sanitation Project Phase 1 |
| Rwanda | | |
| ADF | RWSS | Rural Water Supply and Sanitation |
| WB | RWSS | Rural Water Supply and Sanitation |
| EU | RWSS | Bugesera Region Water and Sanitation project and Community Development Fund |
| DFID | General Budget Support | With emphasis to water and sanitation |
| Belgium | WSS | Basic Water Supply and Sanitation Project |
| Netherland and UNICEF | WASH | Rural Water, Hygiene and Sanitation |
| Burundi | | |
| ADB | Urban WSS | Urban Water Supply and Sanitation rehabilitation and expansion |
| EU | Rural and Urban WSS and capacity building | Rural and Peri-urban water and sanitation development and capacity building |
| Germany | IWRM and Urban WSS | Water Resources Management and Urban WSS infrastructure rehabilitation |
| Austria | Policy and planning | Water Resources management and planning |
| UNICEF | WASH | Rural WASH infrastructure and Capacity building |
| World Bank | Electricity and Urban Water | Multi-Sectoral Water and Electricity Infrastructure Project |

Appendix V: Check List of Criteria for Financing RPGs

The AFDB has been asked to play a deeper role in financing regional operations (ROs). Regional integration (RI) has emerged as one of the key pillars of the Bank's strategic orientations. In this connection, the Bank has also been increasingly called upon to support regional public goods (RPGs). The Board and ADF-11 Deputies have discussed the regional operations and RPG issues extensively and requested management to elaborate a coherent framework for ROs and provide specific classification and selection criteria for RPGs.

Please rate eligible RPGs according to this set of criteria developed by the Task team.

| | |
|---|---|
| Project Name | Lake Victoria Water and Sanitation Program |
| Department | OWAS |
| Task Manager | Eskendir Alemseged |
| Countries Involved | Kenya, Uganda, Tanzania, Rwanda and Burundi |
| Regions Involved | East African Community |
| For each criterion below, please provide bullet-points to evaluate the program. | |
| CRITERION | SHORT EVALUATION (BULLET-POINTS) |
| STAGE 1 | |
| <i>Non-rivalry:</i> Public goods are those whose benefits can be enjoyed by one party without (or hardly) reducing the availability of these benefits to others. The project will demonstrate that the object of assistance within the project is something whose benefits will be consumed by more than one party and that a provider cannot keep non-contributors from consuming the benefit of that good. Some examples can be terms of trade, cross-boundary diseases (animal and human), shared water resources, cross-border roads. | <p>The lake is a shared water resources whose improvement will benefit all partner countries</p> <p>Access to improved sanitation and clean water will contribute to reduced incidence of water borne diseases in the lake basin;</p> <p>The regional countries also benefit from fishing from the lake, making sustainability of the lake a priority;</p> <p>The increasing awareness about the lake environment and the need to protect the catchment will support the overall sustainable development effort in the region.</p> <p>The improved services in the secondary towns in each country don't affect or reduce the benefit in the other.</p> |
| <i>Non-excludability:</i> It is difficult or prohibitively expensive to exclude others (countries/ communities/ regions) from enjoying/ consuming the generated benefits. The project will demonstrate that there is no way that non-participating countries/ communities can be stopped from enjoying the generated benefits because of the nature of the object of the project's assistance. | <p>While the interventions have immediate local impact enjoyed by the local residents, the consequent impact in improving the lake environment is desirable and will be enjoyed by all countries.</p> <p>The improved water quality will sustain fish production and livelihood of 197,000 fisher men and many thousands others in the value chain will benefit</p> <p>With free movement of people in the region and EAC integration process, improvement in services in any of the towns will be beneficial.</p> <p>The improved environment will attract investment for tourism</p> |
| <i>Of Public Interest:</i> The good is of broad public interest and benefit. Typically, a public/ governmental entity in each participating country is typically responsible for the regulatory/policy context for the good to be produced and takes part in its production. The project will demonstrate that there is either an inter-governmental coordinating body in place or an existing REC to regulate and oversee the function and coordination of the object of support in a proposed project. As such, the project will demonstrate to what extent the intergovernmental body and/or REC has taken steps to ensure the maintenance of the object of support and to what level of success. | <p>The EAC member states have collectively identified the sector of water and sanitation as a key area of cooperation within the framework for the Protocol on Sustainable Development of the Lake Victoria Basin.</p> <p>Since its establishment the LVBC in 2005 have taken responsibility of spearheading the cooperation within the Basin. It has demonstrated through the implementation of various projects including the environmental management project in the region supported by IDA, GEF and SIDA.</p> <p>The Ministers' of water of the EAC countries collectively committed to work together with LVBC to improve the lake environment through their declarations in 2008 and 2009.</p> <p>In addition to the LVBC, the RMCs have their environmental watchdogs closely following the developments in the lake, mainly driven by the desire to minimise the pollution</p> |

| | |
|--|--|
| <p>STAGE 2</p> | |
| <p>Multi-country involvement: The public good involves two or more countries and can only be effectively produced if every country involved participates and supports its production. The project will demonstrate that there are at least two countries involved with regards to the object of support (5%) and that the object of support in the Bank’s investment is something that is either of a global and/or regional development importance and this should be demonstrated through a regionally/globally validated document</p> | <p>Five countries are involved in the project; The project objective is enshrined in the “Operational Strategy of LVBC”. The Ministers’ of water of the EAC countries collectively committed to work together with LVBC to improve the lake environment through their declarations in 2008 and 2009.</p> |
| <p>Strategic Alignment: The RPG is strongly aligned with the Bank’s strategic orientations and also to continental and regional objectives (i.e. RPGs identified as priority operations under NEPAD or REC regional integration plans). Harmonization and partnership will be encouraged by giving preference to co-financing arrangements that promote donor coordination and leverage the Bank’s own resources by mobilizing additional funds, from sister institutions or the private sector. The project will demonstrate that the RPG is closely aligned with the continental and regional development agenda as well as the Bank Group’s own strategy, especially with regard to selectivity and sector focus, and harmonization and partnership.</p> | <p>Program is in line with the Bank’s IWRM policy It is in line with the Bank’s commitment to supporting the achievement MDGs targets The program is consistent with the Bank’s regional Integration strategy and its key pillars of regional infrastructure and capacity building Bank’s involvement will complement other ongoing similar projects such as the WB supported Environmental Management Project and leverages additional resources for more interventions in the lake region.</p> |
| <p>Catalytic and Upstream Role: Bank financing targets the <i>initial stages</i> of the processes for generating the public good and the Bank’s support should aim at <i>correcting disincentives</i> that prevent the RPG from emerging or progressing toward the stage of production, such as <i>lack of coordination, aversion to risk, free-rider problem</i>. The project will demonstrate that the Bank is supporting an initial investment to an object and that by doing so opens the way for further investments by partners/ RMCs in the regional or national context for specific development impact (to be specifically demonstrated). Under this criterion, the project will also demonstrate that without the Bank’s intervention, there is a risk of certain beneficiaries free-riding and not being held accountable. The project will demonstrate that the Bank’s intervention will add value to strengthen coordination in the region generally and/or through the intergovernmental body or REC involved (if any).</p> | <p>The program will cement the ongoing cooperation and strengthens the regional coordination through LVBC. With the common market targeted for the third quarter of 2010, it’s imperative that shared resources like the lake become the focal point of the integration thrust. The project encourages countries to cooperate, exchange information and develop joint project for the improvement of their shared lake environment The cooperation platform will attract investment for joint projects as demonstrated through ongoing projects It will help achieve the objectives of the economic and political integration of the East African Community.</p> |
| <p>Higher Developmental Impact in Cooperating: The development impact to be achieved through countries’ cooperation is demonstrably superior to what each country could have achieved individually. The project will go on to demonstrate that the development impact (to be specified by the team e.g. poverty reduction, gender equity, human development, etc.) will be increased only if the object of support is addressed within a regional context with the participation of at least two countries (as opposed to national projects).</p> | <p>While the countries may achieve localised improvements in service provision, the positive impact on Lake Victoria can only be compounded if the countries collaborate and coordinate their approaches. The improvement of the lake ecosystem is the result of the combined action of all countries. The action of one town will positively or negatively affect another one whose sustenance is dependent on the lake</p> |
| <p>Grant resources outside the PBA allocation (i.e. exclusively from the RO envelope) will be considered for those projects which demonstrate superior developmental impact- with respect to economic and social advancement through amongst others, the following: employment generation, trade promotion, security improvement, gender equality and climate change and adaptation. The list of such projects will be determined by the ranking stemming from the rating assessed during the previous stage and endorsement by the Operations Committee.</p> | <p>This program will: Improve the livelihoods of women and children who spend most of their time fetching water; Reduce the incidence of water borne diseases; Improve community participation through MSFs, which are going to be driven primarily by women; Contribute to employment creation during the implementation and operational phases.</p> |