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Report No: RES00643

RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING

OF

COASTAL REGION WATER SECURITY AND CLIMATE RESILIENCE PROJECT

APPROVED ON 16-Dec-2014

TO

THE REPUBLIC OF KENYA

Water
Eastern and Southern Africa Region

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ABBREVIATIONS AND ACRONYMS

BP	Bank Procedure
DO	Project Development Objective
DDO	Deferred Drawdown Option
GoK	Government of Kenya
GRM	Grievance Redress Mechanism
Ha	Hectare
IBRD	International Bank of Reconstructive Development
IDA	International Development Association
IPF	Investment Project Financing
ISDS	Integrated Safeguards Data Sheet
KSh	Kenya Shillings
KWSCRP-2	Kenya Water Security and Climate Resilience Project 2 (Coastal Region Water Security and Climate Resilience Project)
MFD	Maximizing Finance for Development
MFD-EP	MFD-Enabling Project
MOWSI	Ministry of Water, Sanitation and Irrigation
NLC	National Lands Commission
NT	National Treasury
OP	Operational Policy
PAD	Project Appraisal Document
PAHs	Project Affected Households
PAPs	Project-Affected Persons
PCE	Private Capital Enabling
PMU	Project Management Unit
RAP	Resettlement Action Plan
RVP	Regional Vice President
SOE	Statement of Expenditure
US$	United States Dollar

BASIC DATA

Product Information

Operation ID	Operation Name
P145559	Coastal Region Water Security and Climate Resilience Project
Product/Financing Instrument	**Geographical Identifier**
Investment Project Financing (IPF)	Kenya
Approval Date	**Current Closing Date**
16-Dec-2014	31-Jan-2027

Original EA Category

Full Assessment (A) (PAD Approval Package-16 Dec 2014)

Organizations

Borrower	Responsible Agency
National Treasury	Ministry of Water, Sanitation and Irrigation, Water Resources Authority

OPERATION STATUS

Project Development Objective (DO)

Current Development Objective

The development objective of this project (KWSCRP-2) is to increase bulk water supply to Mombasa County and Kwale County, and increase access to water in Kwale County.

Disbursement Summary (in USD million)

Source of Funds	Net Commitment	Disbursed	Undisbursed	% Disbursed
IBRD	--	--	--	0

IDA	229.97	98.77	139.77	41.41
Grants	--	--	--	0

Policy Waivers

Does this restructuring trigger the need for any policy waiver(s)?	No

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I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

1. **The World Bank, on November 7, 2024, received a restructuring request from the Government of Kenya (GoK). The request sought the Bank's approval to restructure the Coastal Region Water Security and Climate Resilience Project** (CWSRCRP) to utilize IDA Credit proceeds for outstanding cash compensation for land acquisition under Resettlement Action Plan 1 (RAP 1) of the Project. The approximate total cost for RAP 1 is KSh 4.6 billion (US$ 35.6 million equivalent), of which the estimated outstanding amount is approximately KSh 2.1 billion (US$17 million equivalent). The request cited inadequate and delayed counterpart funding availability and the need to ensure that there are no disruptions in project implementation due to unpaid Project Affected Persons (PAPs).

2. **The original IDA financing for the Project, (Credit No. 5543-KE), was approved on December 16, 2014, with financing of XDR 131.8 million.** It became effective on May 11, 2015. An amount of XDR 57.6 million was cancelled on March 18, 2019. Additional financing (Credit No. 7004-KE) was approved on December 7, 2021, with financing of EUR 128.8 million. The Additional Financing became effective on April 21, 2022. Both credits are scheduled to close on January 31, 2027.

3. **According to the Financing Agreement (FA), the Recipient is required to ensure adequate counterpart funding for the Project which includes the costs of land acquisition and cash compensation (Section IV.5, Schedule 2, Additional Financing Agreement; and Section I.D13 of Schedule 2 of the Additional Financing Agreement).** The Recipient is currently not meeting this requirement. The Project has three RAPs. RAP 1 addresses land compensation for the main dam, lower check dam, reservoir, silt pile and ancillary work areas; RAP 2 for the upper check dam and reservoir area, and RAP 3 for the community roads associated with the project. The GoK has recently committed an additional KSh 600 million (US$4.6 million equivalent) from counterpart financing towards meeting RAP 1 requirements. This funding will be availed during the Supplementary Budget II. Additionally, the Government has requested IDA financing for remaining cash compensation under all the Project RAPs. However, valuation is only completed for RAP 1, and therefore this restructuring only considers partial cash compensation for the remaining resettlement under RAP 1 (KSh 1.5 billion, approximately US$11.6 million equivalent). The Recipient remains committed, as per the legal agreement, to provide counterpart funding for the remaining costs of resettlement under RAP 1 (abovementioned KSh 600 million) as well as the costs of resettlement under RAPs 2 and 3. The prior valuation cost of RAP 2 and RAP 3 is currently estimated at KSh 800 million (US$ 6.2 million equivalent).

A. Current Status:

4. **The development objective of the project is to increase bulk water supply to Mombasa County and Kwale County and increase access to water in Kwale County.** The project has 3 components (C1-Mwache Dam and related infrastructure; C2-Kwale County Development Support; and C3-Project Management). Over its lifetime the project has faced several setbacks but with construction well underway, implementation progress is set to accelerate. Overall physical progress as of January 2025 stands at 24.5 percent, with most progress recorded on Main Dam, Lower Check Dam, roads, administration block, while construction of other buildings including schools are now also restarting, the latter with involvement of community committees. The contractor

has incurred a cumulative delay of over thirteen months against the original works schedule. As of February 2025, disbursement is at US$ 98.8 million (41 percent).

5. **The overall rating on implementation progress is rated Unsatisfactory on account of the continued delays in land acquisition budget provision and the uncertainties surrounding its resolution**. The safeguards compliance rating for Environment Assessment (OP/BP 4.01) and the overall safeguards rating were downgraded to moderately unsatisfactory. Unrelated, the Financial Management and Procurement ratings are also moderately unsatisfactory. Overall implementation progress ratings, as well as safeguards ratings, are directly affected by the lack of progress on resettlement. This is due to concerns over inadequate community consultations, labor issues and the unresolved issue of counterpart financing for resettlement. There is an effective Grievance Redress Mechanism (GRM) in place with the formation of Grievances committees at various levels, effective tracking of grievances and its resolution mechanisms, with close follow up from the Project Management Unit (PMU) on timely resolution of cases.

6. **RAP 1 implementation is well underway.** The RAP was split in priority areas. Priority areas 1 and 2 (dam footprint and construction area respectively) have been fully compensated, while priority area 3 (the reservoir and silt pile area) is only partially compensated. Based on Master Valuation and Payment Schedules presented to the Ministry of Water, Sanitation and Irrigation (MoWSI) by the National Lands Commission (NLC) for RAP 1 priority area 3, the MoWSI plans to utilize the KSh 600 million (US$ 4.6 million equivalent) to advance priority compensation payments, leaving a budget shortfall of approximately KSh 1.5 billion (US$ 11.6 million equivalent) to complete compensation payments for RAP1 areas (see table below).

B. Rationale for Restructuring:

7. **Underfinancing and delay in compensation payments for land acquisition underpins community frustrations, grievances; and generally, undermines the construction schedule of the project.** The implementation of RAP 1, covering the main dam and lower check dam construction area, the dam reservoir area and the silt pile area, is critical to the current construction schedule.

8. **The proposed restructuring will facilitate the use of IDA funds to address this budget shortfall under RAP 1, provide funds for payment of outstanding compensation to Project Affected Households (PAHs), and fast-track access to land for contractors.** As illustrated in the table below, IDA funds will be exclusively allocated for land acquisition and compensation for priority area 3 under RAP 1, including cash compensation and/ or other assistance paid for involuntary resettlement. These funds will complement the funds already with NLC (KSh 900 million; USS$ 7.0 million equivalent), and the funds committed by the GoK. The committed GoK funds of KSh 600 million will include KSh 400 million for compensation, as well as KSh 200 million (US$ 1.6 million equivalent) cash compensation for shrines and graves. IDA funds will exclude these compensations which follow different procedure under the Cultural Heritage Management Plan, and will continue to be financed from the additional counterpart funding.

Mwache Dam Land Acquisition Summary							
Project Component	**Area (Ha)**	**No. of Parcels**	**No. of PAHs**	**Amount (M KSh)**	**Amount (M US$ equiv.)**	**Included in IDA request**	**Remarks**
RAP 1: Priority Areas 1 & 2	966	715	1,577	1,645.9	12.7	N	Compensation fully paid
RAP 1: Priority Area 3	1,206	968	2,383	2,800 Already with NLC: *909* *outstanding: 1,891* *of which IDA: 1,491* *of which GoK: 400*	21.6 *7.0* *14.6* *11.6* *3.0*	 N Y N	Approx. KSh 909m being processed and disbursed by NLC.
				200	1.6	N	To implement Cultural Heritage Management Plan
RAP 2: Upper Check Dam	248	167	167	600	4.6	N	Prior estimate
RAP 3: Roads	55	239	267	200	1.6	N	Prior estimate
TOTAL	**2,475**	**2,089**	**4,394**	**5,445.9**	42.1		

9. **Two types of Risks are identified with this Restructuring: i) those associated with the Bank not financing compensation; and ii) Risks of Bank financing compensation.** The risks associated with the Bank not financing compensation relate to a continued delay in resettlement which will continue to generate uncertainty in the community, which in turn will exacerbate reputational risks on the GoK and the World Bank. While there is no direct risk that works will proceed on land not yet compensated violating Bank policy, further delays in compensation might necessitate works suspension due to lack of community support stemming from uncertainty on compensation. Risks associated with Bank financing compensation under RAP 1 will create a financing gap in the Project that will need to be addressed in Financial Year 25/26 for project completion. The provisions of the Financing Agreement, detailing the recipient's obligation and commitment to pay compensation for project-induced displacements will remain in force. Other residual risks include the misappropriation of compensation funds, and procedural delays in disbursing the payments for the awarded compensation. The fact that resettlement compensation has already been successfully carried out earlier in the Project using counterpart funds, however, provides some comfort that these risks can be mitigated.

II. DESCRIPTION OF PROPOSED CHANGES

10. **The restructuring enables IDA funds to be used for land acquisition and cash compensation under RAP 1.** This includes (i) the introduction of a new category of expenditures for Resettlement Costs (Category 8 under Credit No. 7004-KE); (ii) a reallocation of EUR 11 million (US$11.6 million equivalent) from category 5 to this new category to enable full funding for RAP 1 implementation; (iii) revision of the implementation arrangements to reflect the constitutionally mandate role of the NLC in land payments ; (iv) a revision of the covenant committing the Recipient to provide counterpart funding, only to exempt it from the specified financing for RAP

1 provided under this restructuring; (v) a disbursement condition for Category 8 requiring an update of the Project Implementation Manual, in form and substance satisfactory to the Association; and (vi) an update to disbursement arrangements and projections. The utilization of IDA financing for cash compensation for land acquisition requires Regional Vice President's (RVP) approval in line with the IPF procedures for the Additional Financing for Investment Project Financing applying the World Bank Safeguard Policies (OPS5.03-PROC.258 dated August 19, 2024). This RVP memo requesting approval to finance land expenditure was approved on January 23, 2025. Simultaneous to this requested restructuring, the restructuring also reflects a correction to the category numbering and definitions under Credit No. 5543-KE that were introduced in the March 2, 2022 amendment. This includes the introduction of new categories (7,8 and 9) with corrected definitions and numbering and a reallocation of funds from category 3 to category 6 to reflect a minor overdraw.

11. **The Project's objectives, scope, and implementation arrangements will remain unchanged, and the World Bank's safeguards policies will continue to apply.** Payments for the RAP will be processed as per the funds flow arrangements that have been established for the Project and satisfactorily used during earlier compensation payments albeit with delays given cash flows challenges. All payments will be processed by the NLC through a dedicated project account to each PAH to ensure traceability and transparency. Following approval, the National Treasury (NT) shall open a separate Designated Account for land compensation funds managed by the MoWSI, the implementing ministry. The NLC, which is mandated under the Kenyan constitution to manage the payment of land compensation, will open a project dedicated account for the handling of IDA funds related to cash compensation under the Project. The MoWSI will direct the NLC to make payments to PAHs in accordance with agreed payment schedules, and following the procedure to be detailed in the Project Financial Management Manual, as included in the Project Implementation Manual. NLC is not an implementing agency for the Project but its role as a coordinating agency for payments will be set out in the amendment to the Additional Financing Agreement. The NLC shall submit Statement of Expenditure (SOE), including the bank statements and the payment schedules to PMU at the end of every month to ensure transparency and accountability in the use of funds. The PMU will include the NLC SOE in the IFR submitted every quarter to the Bank. The NLC internal audit should include the project activities in their annual work plan and submit the report to the PMU. PMU will include NLC implemented activities in the project external audits to ensure proper funds flow, use, and management of Project funds.

III. PROPOSED CHANGES

Operation Information	Proposed Changes	Operation Information	Proposed Changes
Conditions	Yes	Reallocations	Yes
Disbursements Estimates	Yes	Financial Management	Yes
Development Objective	No	Loan Closing Date Extension	No
Safeguard Policies Triggered	No	Loan Cancellations	No
ISDS	No	Procurement	No
MFD/PCE	No	Institutional Arrangement	No

Results	No	Implementation Schedule	No
Risks	No		
Legal Covenants	No		
Implementation Modalities	No		
Disbursements Arrangements	No		
DDO	No		
Clients	No		
Appraisal Summary	No		
Components	No		

IV. DETAILED CHANGE(S)

COSTS & FINANCING

Private Capital Facilitation

Is this an MFD-Enabling Project (MFD-EP)?

Is this project Private Capital Enabling (PCE)?

LOANS

Reallocations

IDA-55430-001 | Currency: XDR | Cancellations (if any): 0.00 | New Allocation: 0.00

Category No.	Expenditure Category	Current Allocation	Actuals + Committed	Proposed Allocation	Financing % (Type Total)	
					Current	Proposed
1	Gd,Wk,Ncs,Cs,Trn,Sub-grnts,Opc,PrtA;	3,030,000.00	3,028,690.66	3,030,000.00	100.00	100.00
2	Gd,Wk,Ncs,Cs,Trn,Sub-grnts,Opc,PrtB;	1,790,000.00	1,733,451.74	1,790,000.00	100.00	100.00
3	Gd, Cs,Trn,Opc Prt C;	4,000,000.00	3,942,061.42	3,997,350.21	100.00	100.00

4	Gds & Wks Pt A1;	60,000,000.00	56,506,530.72	56,506,530.72	100.00	100.00
5	Gd,Wk,Cs,Ncs,Tr,OC Pt B excl subgrants Part B.3;	4,300,000.00	4,174,431.57	4,174,431.57	100.00	100.00
6	Sub-grants under Part A.2, A.3 and Part B.3 of the Project;	1,080,000.00	1,082,649.79	1,082,649.79	100.00	100.00
7	G,W Prt A1;	0.00	0.00	3,252,587.28	0.00	100.00
8	G/W/CS/NCS/Tr/OC Part A ex Part A1;	0.00	0.00	240,882.00	0.00	100.00
9	G/W/CS/NCS/Tr/OC Part B;	0.00	0.00	125,568.43	0.00	100.00
	Total	**74,200,000.00**		**74,200,000.00**		

IDA-70040-001	Currency: EUR	Cancellations (if any): 0.00	New Allocation: 0.00

Category No.	Expenditure Category	Current Allocation	Actuals + Committed	Proposed Allocation	Financing % (Type Total)	
					Current	Proposed
1	Gd,Wk,Ncs,Cs,Trn,Sub-grnts,Opc,PrtA;	0.00	0.00	0.00	100.00	100.00
2	Gd,Wk,Ncs,Cs,Trn,Sub-grnts,Opc,PrtB;	0.00	0.00	0.00	100.00	100.00
3	Gd, Cs,Trn,Opc Prt C;	11,042,450.00	0.00	11,042,450.00	100.00	100.00
4	Gds & Wks Pt A.1;	87,704,220.00	0.00	87,704,220.00	100.00	100.00
5	G,W,C/Ncs,Tr,OC Pt A ex G&W Pt A.1;	27,477,340.00	0.00	16,477,340.00	100.00	100.00
6	Gd,Wk,Cs,Ncs,Tr,OC Pt B;	0.00	0.00	0.00	100.00	100.00
7	Sub-grants under Parts A.2,A.3&B3;	2,575,990.00	0.00	2,575,990.00	100.00	100.00
8	Land Acquisition and compensation RAP1 under Part A3;	0.00	0.00	11,000,000.00	0.00	100.00
	Total	**128,800,000.00**		**128,800,000.00**		

DISBURSEMENTS

Operation Dates & Projection Details

Reasons to change the full Disbursement date and/or the projection	
Implementation Start Date 16-Dec-2014	Operation Closing Date 31-Jan-2027
Projected Date for Full Disbursement 29-Jan-2027	

Expected Disbursements (in US $) (Absolute)

Year	Original Estimation at Preparation (Approval Package – 16 Dec 2014)	Revised Estimation	Actual
FY2015	3,113,333.34	0.00	0.00
FY2016	7,000,000.00	3,415,455.00	3,415,455.00
FY2017	6,000,000.00	0.00	0.00
FY2018	35,000,000.00	2,984,838.00	2,984,838.64
FY2019	35,000,000.00	3,483,150.00	3,483,150.49
FY2020	55,000,000.00	23,931,611.00	23,931,611.68
FY2021	48,000,000.00	6,004,734.00	6,004,734.47
FY2022	10,000,000.00	4,008,321.00	4,008,320.64
FY2023	0.00	11,604,607.00	11,604,607.28
FY2024	0.00	18,753,474.00	18,753,474.40
FY2025	0.00	40,000,000.00	24,582,832.66
FY2026	0.00	50,000,000.00	0.00
FY2027	0.00	35,813,810.00	0.00

Conditions

Type	Description of Conditions	Action
Disbursement	No Disbursement shall be made under Category 8, unless and until the Project Implementation Manual has been updated, in form and substance satisfactory to the Association	New