The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
1818 H Street N.W.
Washington, D.C. 20433
U.S.A.
(202) 477-1234
Cable Address: INTBAFRAO
Cable Address: INDEVAS

December 21, 2011

Honorable Uhuru Kenyatta
Deputy Prime Minister and Minister of Finance
Ministry of Finance
Treasury Building
Nairobi, Kenya

Dear Hon. Kenyatta


In response to the request for financial assistance made on behalf of the Republic of Kenya ("Recipient"), I am pleased to inform you that the International Development Association ("World Bank") proposes to extend to the Recipient an advance out of the World Bank’s Project Preparation Facility in an amount not to exceed two million nine hundred and sixty five thousand Dollars ($2,965,000) ("Advance") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in financing the activities described in the Annex ("Activities"). The objective of the Activities is to facilitate the preparation of a proposed project designed to support climate-resilient water resources development and management ("Project"), for the carrying out of which the Recipient has requested the World Bank’s financial assistance.

The Recipient represents, by confirming its agreement below, that: (a) it understands that the provision of the Advance does not constitute or imply any commitment on the part of IBRD or IDA to assist in financing the Project; and (b) it is authorized to enter into this Agreement and to carry out the Activities, repay the Advance and perform its other obligations under this Agreement, all in accordance with the provisions of this Agreement.
Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature.

Very truly yours,

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Johannes Zutt
Country Director for Kenya

AGREED:
REPUBLIC OF KENYA

By

Authorized Representative

Name: HON. UHURU KENYATTA
Title: MINISTER FOR FINANCE
Date: 31st Jan 2012

Enclosures:

✓(1) “Standard Conditions for Advances Made by the World Bank under its Project Preparation Facility”, dated July 31, 2010; and

✓(2) Disbursement Letter for the Advance of the same date as this Agreement, together with “World Bank Disbursement Guidelines for Projects”, dated May 1, 2006.
Article I
Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Advances Made by the World Bank under its Project Preparation Facility dated July 31, 2010 ("Standard Conditions"), constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement including the Appendix to this Agreement.

Article II
Execution of the Activities

2.01. **Description of the Activities.** The Activities for which the Advance is provided consist of the following:

   (a) Preparing core technical documents including: (i) a project implementation manual and; (ii) an environmental, social and resettlement framework.

   (b) Providing technical assistance for: (i) analyzing the water sector’s legal, institutional and operational framework; (ii) reviewing water sector knowledge base and analytical tools; (iii) preparing economic and financial assessment framework, (iv) reviewing and enhancing the technical and environmental and social safeguard related documents, and (v) supporting the management and implementation of the project including procurement and financial management functions.

   (c) Carrying out preparatory studies for potential sub-projects.

   (d) Strengthening the capacity of the project coordination office through provision of goods required for that purpose including office equipment, supplies and vehicles; and financing of its operating costs.

   (e) Carrying out of training, workshop and conducting of study tours.

2.02. **Execution of the Activities Generally.** The Recipient declares its commitment to the objectives of the Activities. To this end, the Recipient shall carry out Activities in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) this Article II; [and] (c) the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011.

2.03. **Institutional and Other Arrangement.**

The Recipient declares its commitment to the objectives of the Activities. To this end, the Recipient shall carry out the Activities through the Ministry of Water and Irrigation. The Ministry of Water and Irrigation will appoint a Director in charge of overall management and coordination
of the Project, assisted by a program manager/coordinator. The Project Coordination Unit for the ongoing World Bank financed Natural Resources Management Project (Credit No. Cr. 4227-KE) shall be responsible for the procurement and financial management.

2.04. **Monitoring, Reporting and Evaluation of the Activities.** The Recipient shall monitor and evaluate the progress of the Activities in accordance with the provisions of Section 2.08 of the Standard Conditions.

2.05. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.09 of the Standard Conditions.

(b) The Recipient shall ensure that interim un-audited financial reports for the Activities are prepared and furnished to the World Bank not later than 45 days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Sections 2.09 (b) of the Standard Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient, commencing with the fiscal year in which the first withdrawal under the Advance was made. The audited Financial Statements for such period shall be furnished to the World Bank not later than six months after the end of such period.

2.06. **Procurement**

(a) **General.** All goods and consultants’ services required for the Activities and to be financed out of the proceeds of the Advance shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I of the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Procurement Guidelines”), in the case of goods and non-consulting services;

(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Consultant Guidelines”) in the case of consultants’ services; and

(iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Activities in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines (“Procurement Plan”).

(b) **Definitions.** The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.
(c) **Particular Methods of Procurement of Goods and Non-consulting Services**

(i) Except as otherwise provided in sub-paragraph (ii) below, goods, and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.

(ii) The following methods, other than International Competitive Bidding, may be used for procurement of goods and non-consulting services for those contracts specified in the Procurement Plan: (A) National Competitive Bidding; and (B) Shopping.

(a) the tender submission date shall be set so as to allow a period of at least thirty (30) days from the later of (A) the date of advertisement, and (B) the date of availability of the tender documents;

(b) Recipient-owned enterprises shall be allowed to participate in the tendering only if they can establish that they are legally and financially autonomous, operate under commercial law and are independent agencies of the Recipient's government;

(c) the Recipient shall use, or cause to be used, bidding documents and tender documents containing, *inter alia*, draft contracts and conditions of contracts, including provisions on fraud and corruption, audit and publication of award in form and substance satisfactory to the Association;

(d) extension of tender validity shall be allowed once only, and for not more than thirty (30) days, unless otherwise previously agreed in writing by the Association;

(e) evaluation tender shall be based on quantifiable criteria expressed in monetary terms as defined in the tender documents, and not on a merit points system;

(f) no domestic preference shall be used in the evaluation of tenders. Accordingly, contracts shall be awarded to qualified tenderers having submitted the lowest evaluated substantially responsive tender;

(g) notification of contract award shall constitute formation of the contract. No negotiation shall be carried out prior to contract award; and

(h) the two envelope bid opening procedure shall not apply.

(d) **Particular Methods of Procurement of Consultants' Services**

(i) Except as otherwise provided in item (ii) below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods may be used for the procurement of consultants' services for those assignments which are specified in the Procurement Plan: (A) Quality-based Selection; (B) Selection based on Consultants' Qualifications; (C) Single-source Selection of consulting
firms; (D) Selection of Individual Consultants; and (E) Single-source procedures for the Selection of Individual Consultants.

(e) **Review by the World Bank of Procurement Decisions.** The Procurement Plan shall set forth those contracts which shall be subject to the World Bank's Prior Review. All other contracts shall be subject to Post Review by the World Bank.

**Article III**

Withdrawal of the Advance

3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Advance in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance 100% of Eligible Expenditures consisting of, goods, services and/or other expenditures inclusive of Taxes.

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Advance Allocated (expressed in Dollars)</th>
<th>Percentage of Expenditures to be Financed (Inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, non-consulting services and consultants’ services under Parts (a), (b), (c) and (d) of the Activities</td>
<td>US$2,745,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Training under Part (e) of the Activities</td>
<td>US$120,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Operating Costs under Part (d) of the Activities</td>
<td>US$100,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>US$2,965,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

For the purposes of this Schedule, the term “Training, Seminars and Workshops” means expenditures incurred by the Recipient in connection with training, seminars, workshops, conferences and study tours to be carried out under the Project, including travel costs and per-diem allowances for the trainees, and other training-related expenditures as agreed with the World Bank.

3.02. **Refinancing Date.** The Refinancing Date is May 1, 2013.
Article IV
Terms of the Advance

4.01. Service Charge. The Recipient shall pay a service charge on the Withdrawn Advance Balance at the rate of three-fourths of one percent (3/4 of 1%) per annum. The service charge shall accrue from the respective dates on which amounts of the Advance are withdrawn and shall be paid in arrears in accordance with the provisions of Section 4.02 of this Agreement. Service charges shall be computed on the basis of a 360-day year of twelve 30-day months.

4.02. Repayment. The Withdrawn Advance Balance shall be repaid by the Recipient to the World Bank (together with any service charges accrued thereon) in accordance with the provisions of Article IV of the Standard Conditions and the following provisions:

(a) Refinancing under the Refinancing Agreement: If, on or before the Refinancing Date, a Refinancing Agreement has been executed by all of its parties, then the full amount of the Withdrawn Advance Balance shall be repaid to the World Bank (together with any service charges accrued on the Advance to the date of repayment) as soon as the Refinancing Agreement becomes effective, by means of a withdrawal by the World Bank of an amount of the Refinancing Proceeds equivalent to the Withdrawn Advance Balance plus such service charges, in accordance with the provisions of the Refinancing Agreement.

(b) Repayment in the absence of a Refinancing Agreement: If, on or before the Refinancing Date, no Refinancing Agreement has been executed by all of its parties, or if, by such date or at any time thereafter, it has been so executed but terminates without becoming effective, then:

(i) if the amount of the Withdrawn Advance Balance does not exceed $50,000, it shall be repaid by the Recipient to the World Bank (together with service charges accrued on the Withdrawn Advance Balance to the date of repayment) on such date as the World Bank shall specify in a notice to the Recipient, which shall in no event be earlier than 60 days following the date of dispatch of such notice; and

(ii) if the amount of the Withdrawn Advance Balance exceeds $50,000, it (together with service charges accrued on the Withdrawn Advance Balance to the Notice Date) (the "Aggregate Balance") shall be paid by the Recipient to the World Bank in ten approximately equal semiannual installments, in the amounts and on the dates ("Payment Dates") which the World Bank shall specify in a notice to the Recipient. In no event shall the first Payment Date be set earlier than 60 days following the date ("Notice Date") of dispatch of such notice. The Recipient shall pay a service charge on the Aggregate Balance at the rate of three-fourths of one percent (3/4 of 1%) per annum, payable in arrears on each Payment Date. The service charge shall be computed on the basis of a 360-day year of twelve 30-day months.
Article V
Recipient's Representative; Addresses

5.01. **Recipient's Representative.** The Recipient’s Representative referred to in Section 9.02 of the Standard Conditions is the Minister for Finance.

5.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 9.01 of the Standard Conditions is:

    Ministry of Finance
    P.O. Box 30007 - 00100
    Nairobi, Kenya

    Cable: Financenairobi  Telex: 22921 minfin-ke  Facsimile: 254 20 330426

5.03. **World Bank’s Address.** The World Bank’s Address referred to in Section 9.01 of the Standard Conditions is:

    International Development Association
    1818 H Street, N.W.
    Washington, D.C. 20433
    United States of America

    Cable: INDEVAS  Telex: 248423 (MCI) or 1-202-477-6391  Facsimile: 64145 (MCI)

    INDEVAS
    INTBAFRAD
    Washington, D.C.