Dear Hon. Yatani,

Re: Republic of Kenya - Credit No. 6029-KE and 6030-KE
Water and Sanitation Development Project
Amendment to the Financing Agreement (Credit No. 6029-KE and 6030-KE)

We refer to the Financing Agreement Credit No. 6029-KE dated June 21, 2017 (the “IDA Financing Agreement”) and the Financing Agreement, Credit No. 6030-KE dated June 21, 2017 (the “IDA SUF Financing Agreement”) both between the Republic of Kenya (the “Recipient”) and the International Development Association (the “Association”) for the Water and Sanitation Development Project (the “Project”). We also refer to the letter dated May 20, 2019 from the Principal Secretary National Treasury requesting the Association to restructure certain aspects of the Project.

We are pleased to inform you that the Association agrees to the request to restructure the Project. To this end, by countersigning this Letter, the Recipient agrees to the Association hereby amending the IDA Financing Agreement and the IDA SUF Financing Agreement as follows:

1. Article 3.01 of the IDA Financing Agreement and the IDA SUF Financing Agreement is amended by inserting a new Article 3.01 to read as follows:

“The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out Part 4 of the Project through its Ministry of Water, Sanitation and Irrigation (MoWSI), and shall cause, (a) Parts 1(a), 2(a) and 3(a) of the Project to be carried out by the Participating County Governments and WSPs; (b) Part 1(b) of the Project to be carried out by the Project Implementing Entity; (c) Part 2(b) of the Project to be carried out by NWWDA; and (d) Part 3(b) of the Project to be carried out by WASREB in accordance with the provisions of Article IV of the General Conditions, the Participation Agreements and the Project Agreements.”

2. Part 2 of Schedule 1 to the IDA SUF Financing Agreement is amended by inserting a new Part 2 to read as follows:

“Part 2: Expansion of water supply and sanitation services in under-served North eastern Counties
(a) **Support for County Water Supply and Sanitation Activities**

Carrying out a program of activities designed to improve water supply and sanitation services in the under-served North eastern Counties such as Wajir town and Dadaab refugee camp host communities in Garissa County, such program to include: (i) construction and rehabilitation of water supply, sanitation and storm water infrastructure investments including construction or rehabilitation of WSP offices, (ii) capacity building and institutional strengthening activities for the Participating Counties and the WSPs, including non-revenue water reduction, billing and revenue collection systems, and developing and implementing a utility business plan, and (iii) operation and maintenance of the water supply and sanitation services.

(b) **Support for Large Water Supply and Sanitation Investments**

Carrying out a program of activities to support preparation and implementation of cross-county and countywide water and sanitation investments in select North eastern counties. Such support to include: (i) preparation of feasibility studies, detailed designs and bidding documents for water and sanitation works, (ii) implementation of selected water and sanitation works, and (iii) provision of on-demand technical support to the North eastern counties.

3. Part 3 of Schedule 1 to the IDA SUF Financing Agreement is amended by inserting a new Part 3 to read as follows:

**"Part 3: National Performance-based Financing"**

(a) **Support for Water and Sanitation Infrastructure Investments and Services**

Carrying out a program of activities designed to support the preparation and implementation of the National Performance-based Financing for Participating Counties, WWDAs and WSPs, including, (i) construction of new and rehabilitation of existing water and sanitation infrastructure, (ii) construction supervision, (iii) support towards the preparation of applications, final designs and bidding documents, and (iv) technical assistance for improving water and sanitation services, reduction of non-revenue water and monitoring and evaluation.

(b) **Technical Assistance for National Performance-based Financing**

Carrying out a program of activities designed to strengthen the capacity of WASREB for management, implementation and coordination, monitoring and evaluation of the National Performance-based Financing, including, (i) evaluation of proposals to identify high-return investments and activities, (ii) establishment and implementation of a comprehensive monitoring and evaluation system, (iii) provision of training to the PCGs, WWDAs and WSPs involved in implementation of Part 3(a) on issues such as implementation of safeguards,
procurement and financial management, and (iv) technical assistance to WSPs for reducing non-revenue water and for the preparation of follow-on investments.

4. Part 4 of Schedule 1 to the IDA SUF Financing Agreement is amended by inserting a new Part 4 to read as follows:

"Part 4: Project Management"

Carrying out a program of activities designed to strengthen the capacity of the Recipient for Project management, implementation and coordination, monitoring and evaluation, including, (a) establishment and implementation of a comprehensive monitoring and evaluation system, (b) training of the implementing agencies and PCGs on implementation of safeguards, procurement and financial management, (c) support in the preparation of detailed designs and supervision of the works contracts to be implemented by the WSPs selected under Part 3(a), and (d) financing studies identified during implementation and preparation of follow-on projects as needed."

5. Section I.A, paragraph (1) of Schedule 2 to the IDA SUF Financing Agreement is amended by inserting a new paragraph (1) to read as follows:

i. “National Project Steering Committee ("NPSC")

The Recipient shall establish, by not later than six (6) months after the Effective Date, and thereafter maintain throughout the Project implementation period, a National Project Steering Committee, which shall be chaired by the Principal Secretary of MoWSI. The NPSC shall maintain a composition satisfactory to the Association as further detailed in the Project Implementation Manual. The NPSC shall be responsible for overall oversight and policy guidance to the Project, approving the Project’s Annual Work Plans and such other activities as may be further detailed in the Project Implementation Manual."

6. Section I.A, paragraph (2) of Schedule 2 to the IDA SUF Financing Agreement is amended by inserting a new paragraph (2) to read as follows:

“Technical Committee"

The Recipient shall establish, by not later than six (6) months after the Effective Date, and thereafter maintain throughout the Project implementation period, a Technical Committee chaired by the Water Secretary of MoWSI or such other senior official of MoWSI as may be acceptable to the Association. The Technical Committee shall be further staffed with such personnel and key staff, with qualifications and under terms of reference acceptable to the Association as further detailed in the Project Implementation Manual. The Technical Committee shall be responsible for providing technical support to the Project and carrying out such other functions as may be further detailed in the Project Implementation Manual."

7. Section I of Schedule 2 to the IDA SUF Financing Agreement is amended by inserting a new paragraph B2 immediately after paragraph B of Section I to read as follows:
“B2. NWWDA Subsidiary Agreement

In order to facilitate the carrying out of NWWDA’s Respective Part of the Project, the Recipient shall make the proceeds of the Financing allocated to Category 8 (“NWWDA Subsidiary Financing”) available to NWWDA under a subsidiary agreement (“the NWWDA Subsidiary Agreement”) to be entered into between the Recipient and NWWDA within 3 (three) months from the effective date of the first amendment to the IDA SUF Financing Agreement, under terms and conditions approved by the Association, which shall include the following:

a. financial terms and conditions of the NWWDA Subsidiary Financing;

b. the obligation of the NWWDA to carry out its Respective Part of the Project with due diligence and efficiency, in conformity with appropriate administrative, economic, managerial, financial, environmental, social and technical standards and practices, and provide promptly as needed, the facilities, services and other resources required;

c. the obligation of the NWWDA to: (i) exchange views with the Recipient, and the Association with regard to the progress of its Respective Part of the Project, and the performance of its obligations under the NWWDA Subsidiary Agreement; and (ii) assist the Recipient in complying with its obligations referred to in Section II of this Schedule, as applicable to NWWDA’s Respective Part of the Project;

d. the obligation of the NWWDA to ensure that its Respective Part of the Project is carried out in accordance with the Safeguard Instruments and the PIM;

e. the obligation of NWWDA to carry out its Respective Part of the Project in compliance with the Anti-Corruption Guidelines and the Procurement Guideline;

f. the obligation of NWWDA to: (i) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to NWWDA’s Respective Part of the Project; and (ii) at the Association’s or the Recipient’s request, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Recipient and the Association; and

g. the right of the Recipient to take remedial actions against NWWDA, in case NWWDA shall have failed to comply with any of its obligations under the NWWDA Subsidiary Agreement, which actions may include, inter alia, the
partial or total suspension and/or cancellation or refund of all or any part of
the proceeds of the NWWDA Subsidiary Financing transferred to
NWWDA pursuant to the NWWDA Subsidiary Agreement (as the case may
be).

ii. The Recipient shall exercise its rights under the NWWDA Subsidiary Agreement
in such manner as to protect the interests of the Recipient and the Association and
to accomplish the purposes of the Financing. Except as the Association shall
otherwise agree, the Recipient shall not assign, amend, abrogate or waive the
NWWDA Subsidiary Agreement or any of its provisions.

8. The table in Section IV.A. Schedule 2 of the IDA SUF Financing Agreement is replaced
with the following table:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (expressed in EUR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, works, non-consulting services, consultants’ services, Training and Operating Costs for Part 1(a) of the Project</td>
<td>112,800,000</td>
<td>100</td>
</tr>
<tr>
<td>(2) Goods, works, non-consulting services, consultants’ services, Operating Costs and Training for Part 1(b) of the Project</td>
<td>37,800,000</td>
<td>100</td>
</tr>
<tr>
<td>(3) Goods, works, non-consulting services, consultants’ services, Training, Operating Costs and Recurrent Costs for Part 2 of the Project</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>(4) Goods, works, non-consulting services, consultants’ services, Operating Costs and Training for Part 3(a) of the Project</td>
<td>28,485,259</td>
<td>100</td>
</tr>
<tr>
<td>(5) Goods, non-consulting services, consultants’ services, Training and Operating Costs for Parts 3(b) and 4 of the Project</td>
<td>9,190,491</td>
<td>100</td>
</tr>
<tr>
<td>(6) Front-end Fee</td>
<td>620,250</td>
<td>Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 3.01 (a) of the General Conditions</td>
</tr>
</tbody>
</table>
9. Section IV, paragraph B.1 of Schedule 2 to the IDA SUF Financing Agreement is amended by deleting paragraph B.1 and inserting a new paragraph

**B.1 to read as follows:**

"Notwithstanding the provisions of Part A above, no withdrawal shall be made:

(a) for payments made prior to the date of this Agreement; or

(b) under Category 8 unless the Recipient and NWWDA have executed and delivered to the Association a copy of the NWWDA Subsidiary Agreement."

10. The IDA SUF Financing Agreement and the IDA Financing Agreement are amended by replacing all references to “MWI” in both agreements with “MoWSI.”

11. The IDA SUF Financing Agreement and the IDA Financing Agreement are amended by replacing all references to “WSBs” in both agreements with “WWDAs”

12. Section I of the Appendix to the IDA SUF Financing Agreement is amended as follows:

a. Definitions “6” and “7” are deleted and the rest of Section I is re-numbered accordingly.

b. Definition 21 “MWI”, is amended and replaced to read as follows;

   "MoWSI" or “Ministry of Water, Sanitation and Irrigation” means the Recipient’s ministry responsible for water or any successor thereto.

c. Definition 31 “Project Implementing Entity”, is amended and replaced to read as follows;

   “Project Implementing Entity” means the Coast Water Works Development Agency or any successor thereto established and operating pursuant to the Project Implementing Entity’s Legislation.
d. Definition 32 “Project Implementing Entity’s Legislation”, is amended and replaced to read as follows;

“Project Implementing Entity’s Legislation” means the Recipient’s Water Act including any amendments thereto or such other law as may be enacted by the Recipient’s legislature for the regulation, management and development of water resources, water and sewerage services.

e. Definition 44 “WASREB”, is amended and replaced to read as follows;
f. “WASREB” means the Water Services Regulatory Board or any successor thereto established and operating pursuant to the Project Implementing Entity’s Legislation.

g. Definition 45 “WSBs” is replaced as follows;

“WWDAs” means Water Works Development Agencies established pursuant to the Project Implementing Entity’s Legislation or any successor agencies or organizations.

h. A new definition 49 is added to read as follows;

“NWWDA Respective Part of the Project” means Part 2(b) of the Project.

In addition to the above amendments, please be notified that, (a) the Results Framework under the Project has been revised and the revised Results Framework is set out in the updated Project Implementation Manual, and (b) the disbursement estimates under the Project have also been revised.

A copy of the Restructuring Paper for disclosure is enclosed for your attention.

All the terms and conditions of the IDA SUF Financing Agreement and the IDA Financing Agreement that have not been amended hereby shall remain unchanged and in full force and effect.
Please indicate your agreement with the foregoing amendments on behalf of the Recipient by countersigning and dating two (2) original copies of this Amendment Letter and returning one countersigned original to us. Upon receipt by the Association of the countersigned copy, the amendments shall become effective as of the date of your countersignature to this Amendment letter.

Sincerely,
INTERNATIONAL DEVELOPMENT ASSOCIATION

Carlos Felipe Jaramillo
Country Director for, Kenya, Africa Region

AGREED:

THE REPUBLIC OF KENYA

By: [Signature]
Authorized Representative

Name: UKUR YATANI
Title: Cabinet Secretary
Date: 8th May 2020

Encl. Disclosable Restructuring Paper