Section 3

Terms of Reference
for a Consortium comprising a Managing Agent (prime contractor) and Urban Economic Planning Firm

Sustainable Urban Economic Development Programme 2016-22
DFID Kenya

Thinking Beyond Nairobi:
Developing Kenya's Emerging Towns into Strategic Green Growth Hubs

17 AUGUST 2017

1. Introduction

The UK Department for International Development (DFID)'s mission is to help eradicate poverty in the world's poorest countries. In Kenya, DFID is working to strengthen peace and security, build resilience, promote prosperity and tackle extreme poverty. As part of its expanding Sustainable Economic Development portfolio, DFID Kenya has designed a new Sustainable Urban Economic Development (SUED) Programme that aims to support emerging urban centres in Kenya to put in place sustainable urban economic plans; improve the investment climate and draw in investment for key climate-resilient infrastructure and value chain projects.

2. Background

Kenya is the largest economy in East Africa and has managed to achieve 5.3% annual growth over the last decade. However, Kenya suffers from high levels of poverty and the World Bank estimates that to reduce the poverty headcount from 43% (in 2005) to 15% by 2030, Kenya's growth rate must rise to at least 6%. Towns and cities are important for economic growth as higher population density allows for greater specialization and deeper markets, and makes infrastructure and business support services more cost effective. Kenya is currently rapidly urbanizing with an urban population that is expected to rise by over 50% by 2030. However, poorly planned urbanisation can result in an array of poor informal settlements and population centres that are more vulnerable to environmental shocks.

Accordingly, DFID is supporting emerging urban centres in Kenya to put in place sustainable urban economic plans; improve the investment climate and draw in investment for key climate-resilient infrastructure and value chain projects. This will include integrating digital technologies to build 'smart' towns/cities that improve the quality and performance of urban services and enable a better quality of life. Although the 3 major cities of Nairobi, Mombasa and Kisumu along the Northern Corridor in Kenya contain 50% of the country's urban population, towns situated on secondary economic growth corridors linked to these centres are seeing the fastest population growth, with the urban population outside of Nairobi growing at 7.3% a year. Supporting these smaller, faster growing, population centres also presents an excellent opportunity for achieving more balanced growth by focusing on areas which have historically been more marginalized, such as towns in North/Northern Eastern Kenya and Arid and Semi-Arid Lands (ASALs) more generally.

3. Programme Overview and Purpose

The total programme size is £60m over 2018-22; with a potential of expanding to up to £70m for a further 3 years. The programme will be implemented by a:

(1) Managing Agent (prime contractor) providing programme management, technical oversight and coordination functions[1] for a group of firms/specialists (subcontractors) comprising a:
   a. urban economic planning firm,
   b. investment climate firm,
   c. investment firm, and
   d. other capacity building specialists; and

(2) Complementary strategic partner, such as the World Bank, to carry out connected business environment work at the national level.

The purpose of this ToR is to hire a consortium of 2 firms comprising the Managing Agent and an Urban Economic Planning firm.

The investment climate firm, investment firm and other capacity building specialists will be sub-contracted by the Managing Agent through calls for proposals issued during the programme.

The complementary strategic partner will be contracted separately by DFID. See illustration of to-be-contracted partners in Annex 1.

4. Programme Objectives and Outputs

SUED is an entirely new programme and the 6 outcome level objectives[2] will be evidence of:

(1) Substantial investment raised for key commercially bankable climate-resilient infrastructure and value chain projects, through which the components of the urban economic plans are realized,

(2) Policy and legislative changes completed, and those changes shown to have enabled greater private sector led growth,

(3) Well developed and tested capacity at the town level that will maintain key activities after the programme ends,

(4) Climate-resilient jobs being created,

(5) Rural areas being linked with larger markets that were previously difficult to reach, and

(6) The towns being poised for climate-resilient and sustainable growth.

The 4 programme outputs will be evidence of:

(1) Facilitation of increased public-private financing for commercially bankable climate-resilient infrastructure and value chain projects,

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[1] Including designing and advertising (and evaluating responses to) calls for proposals for selecting the investment climate firm, investment firm and capacity building specialists.

[2] The programme logframe will be updated at inception phase to cover these 5 outcome areas, along with the intended overall impact level poverty reduction objective.

(2) Town/county level business environment reforms,
(3) Improved town/county level capacity to design and deliver market-driven urban economic plans, and
(4) Generation, and substantive uptake, of knowledge and research on approaches to sustainable urban economic development.

5. Programme Scope

The programme will start with a maximum of 3 towns and only expand this effort once results have been proven. In total, 6-10 towns are expected to be supported by the end of the programme.

6. Programme Offering

The programme will provide the following support for the selected towns:

(1) World class, experienced **urban economic planners** to help towns develop plans to revolutionize themselves into Kenya's green growth hubs of the future;
(2) **Investment climate advisers** to help these towns remove policy and regulatory constraints to private sector led urban growth;
(3) **Investment experts** to help the towns develop and implement investment promotion strategies and draw in investment (including PPPs) to fund commercially bankable climate-resilient infrastructure and value chain projects identified in their urban economic plans. This will include using a fund (either one in existence or establishing a new fund) to provide seed financing to projects as necessary; and
(4) **Other capacity building specialists** to support priorities identified in the urban economic plans to enable towns to enhance their capacity and revenue generation in order to continue managing the increased activity levels even after the project ends.

7. Programme Timeframe

The programme is expected to mobilise on 24th September 2018. As the programme is intended to run until June 2022 (which is beyond the UK Government's current spending review period), the programme will require further approval from Her Majesty's Treasury (HMT) once the inception phase is finished and before the implementation phase begins.

Programme Recipients / Beneficiaries

The primary recipients of the programme are town and county level authorities, and the primary beneficiaries of the programme are the poor whose lives will be improved as a result of the projects developed, inward investment and improved business environment. DFID and wider stakeholders will be secondary recipients of, and beneficiaries from, the programme through the knowledge and research generated from the programme.

8. Programme Phases and Activities

It is envisaged that the Inception Phase (which is further broken down into phases 1 to 3 on the next pages) will take up to 12 months, and that some of the activities will run concurrently.

Phase 1 – Selecting Towns (approximately 4 months)

To have towns compete for support from the programme, this phase will consist of the Managing Agent designing and advertising a call for proposals to the following list of strategically identified towns that fall along secondary growth corridors in Kenya:

Central and Western	North/North-Eastern and coastal (LAPSSET)
Narok (39,000) Bungoma (56,000) Kitale (106,000) Kisii (82,000) Machakos (150,000) Muranga (29,000) Nakuru (308,000) Nyeri (119,000) Migori (53,000)	Malindi (210,000) Lamu (18,000) Garissa (116,000) Isiolo (46,000) Lodwar (48,000) Kwale (20,000)

The call for proposals will take account of potentially low capacity in towns and therefore the template must be relatively easy to follow/complete and the Managing Agent[3] will visit towns to explain the process/timeframes in person. As this phase will take place not long after the 2017 election cycle in Kenya the Managing Agent will engage in an extremely politically sensitive and savvy way. Throughout the programme the Managing Agent will be expected to integrate political economy analysis into programme delivery.

The Managing Agent will ensure that the call for proposals is highly publicised and will evaluate proposals received based on the following core criteria:

(1) Demonstration of existing efforts to improve their town's economic viability and sensitivity to the environment;

(2) The town's willingness to put some of their own funds into this project;

(3) An assessment of the capability and capacity of the key champions that are decision makers in the town (and county) that will be leading the effort;

(4) An openness and willingness to make drastic changes and take outside advice from economic planners that have world class experience;

(5) A demonstration of integrity and zero tolerance for corruption; and

(6) Synergies with DFID/other development partner initiatives[4], including the potential to impact historically marginalized areas such as the ASALs.

In addition to the above, DFID may request the Managing Agent to include other urban centres, such as Kalobey, on an on-demand basis and in consultation with DFID. In the first year, a maximum of 3 towns will be selected and a highly publicized celebration ceremony will kick off implementation of the programme with those towns.

[3] Accompanied by the Urban Economic Planning Firm as appropriate.
[4] Including priorities set out in the DFID Kenya Business Plan which is due out in mid-2017.

Phase 2 – Developing Urban Economic Plans and Awareness/Communications Plans (approximately 4 months)

For each of the selected towns:

(1) The Urban Economic Planning Firm will – in close consultation with the local authorities – create a well-crafted urban economic plan for revolutionizing each town into a future green growth hub, and it will include all of the key climate-resilient infrastructure, value chain and town capacity building projects that the town needs to implement. The plan will have regard to county planning and budget process and integrate and/or improve upon existing County Integrated Development Plans (CIDPs). The plan will also integrate digital technologies and have a strong focus on *financial sustainability*[5] recognizing that the town will need to have the capacity and revenue generation to continue making improvements, moving forward and managing its increased activity level even after the project ends, and

(2) The MA will create an extensive awareness and communications plan for each town that will generate significant media interest, attract investors and other donors, build on local momentum required for change and market results achieved by the programme for the benefit of Kenya as well as the UK/globally. This will include enhancing local accountability and supporting local platforms as required.

Phase 3 – Selecting the Investment Firm, Investment Climate Firm and Capacity Building Specialists (approximately 4 months)

Pursuant to the areas identified in the urban economic plans, this phase will consist of the Managing Agent designing and advertising a call for proposals[6] for:

(1) A world class investment firm that has experience in designing business cases for such key investment projects, commercial models, PPP investor promotion strategies, investor engagement and design and management of financing facilities,

(2) A firm that has deep experience in town/county level investment climate (IC) reform and have proven results in terms of actual policy and regulatory changes being implemented, and

(3) Individual specialists[7] in areas identified by the urban economic planners as needed to support the town build capacity and generate revenue to continue managing its increased activity level even after the project ends.

It is expected that the Managing Agent will receive at least 5 proposals for each of the 3 above, which the Managing Agent will evaluate and provide a shortlist and recommendation to DFID of 2 firms/specialists for each of the above for DFID to reject[8] or confirm.

Phase 4 – Implementation (approximately 4 years)

This will consist of the urban economic plans and awareness/communications plans being put into practice. The Urban Economic Planning firm will be available as needed during

[5] Hence to include preliminary financial analysis and consideration of potential funding sources.
[6] For which DFID will agree selection criteria in advance.
[7] It is envisaged that unlike with Urban Economic Planning, Investment Climate, and Investment (where firms are expected to be contracted); individual specialists can be hired to support the town capacity building needs.
[8] If rejected, a further call for proposal (with revised selection criteria) will likely be required by DFID.

implementation and as agreed with the Managing Agent and Steering Committee. The Managing Agent will have a consistent role in implementing the awareness/communications plan throughout the implementation period.

4(A): Investment

The Managing Agent will oversee the investment firm to ensure that they consult potential beneficiaries and work with key decision makers at the town and county level to deliver the following:

(1) Write business cases for the key investment projects;

(2) Model out the commercial bankability;

(3) Develop key investment terms;

(4) Hold investor roundtables;

(5) Develop and implement investment promotion strategies for the town;

(6) Advise DFID on whether seed financing is necessary and, if so, advise on its design bearing in mind existing third-party financing mechanisms available; and

(7) Oversee the seed financing if necessary (see below).

The investment firm will work closely with the Private Infrastructure Development Group (PIDG), Public Private Infrastructure Advisory Facility (PPIAF), World Bank, CDC, social/impact investors and DFID centrally managed programmes such as Infrastructure and Cities for Economic Development (ICED), Cities and Infrastructure for Growth (CIG) and Future Cities Africa. The design of any seed financing facility will depend upon the need set out in the urban economic plans created and existing partners/mechanisms available, and will necessarily be explored further at that stage.

4(B): Investment climate

The Managing Agent will oversee the IC firm to ensure that they consult potential beneficiaries and work with key decision makers at the town and county level to bring about the key policy and legislative changes to support the projects identified in the urban economic plans. This will include a politically astute approach to identify and address key IC barriers. It will take place in close coordination with any complementary strategic partner, such as the World Bank, working on connected issues at the national and county level.

4(C): Town capacity building

The Managing Agent will oversee the capacity building specialists to ensure that they consult potential beneficiaries and work with key decision makers at the town and county level to design and facilitate capacity building interventions to help the town manage its increased activity and continue to make progress once the programme ends.

After a period of time of measuring outputs and outcomes in the implementation phase, DFID may decide to replicate efforts in 3-7 additional towns.

9. Programme Deliverables

The Managing Agent will deliver to DFID:

(1) An inception report
(2) Quarterly reports

(3) End of Inception Phase report
(4) Input into DFID Annual Reviews
(5) Mid-Term Review
(6) Input into Project Completion Report

Reports (inception, quarterly, mid-term review) should be no longer than 30 pages excluding annexes. Specific formats for reports will be agreed with DFID Kenya, though likely will include progress updates, key findings and a politically informed action plan for the next phase. The specific timings for the deliverables above will be agreed with DFID Kenya at the start of the inception phase.

10. Programme Delivery Plan and Independent Monitoring & Evaluation (M&E)

Having regard to the programme's intended outcomes and outputs, an independent M&E firm will develop the programme logframe to include baselines, milestones and targets for achieving them. The Managing Agent and DFID will agree an output based delivery plan for delivering the logframe[9]. The independent M&E framework will measure progress against the delivery plan as well as the intended programme outcomes above. The Managing Agent will make all programme related information[10] available to the independent M&E firm upon request. All parties will be expected to actively contribute to learning, avoid duplication[11] and foster an open relationship.

11. Programme Management Unit

The Management Agent will establish a Programme Management Unit (PMU) to include a combination of programme managers in charge of coordinating the programme and technical experts in charge of overseeing the work of the subcontractors and ensuring that a politically astute approach to the programme is being undertaken. The PMU will act as the main interlocutor for the programme with stakeholders and make recommendations to DFID and the Steering Committee.

12. Steering Committee

The PMU will help establish and provide a secretariat function to a Steering Committee that will provide a forum for dialogue on strategic direction, high level lesson learning, political economy insight, transparency & accountability. The Steering Committee will comprise representatives from DFID, the implementers, the M&E firm, towns/counties and any significant other parties – such as the strategic partner, civil society or private sector. Women will comprise at least 40% of the Steering Committee and it is expected to convene twice a year.

13. Contracting

The Managing Agent (and the independent M&E firm under separate terms of reference) will be directly contracted by DFID. The Managing Agent will be responsible for sub-contracting

[9] With the exception of the logframe output on knowledge/research which will be delivered by the M&E firm itself (and any complementary results that DFID and the Strategic Partner agree to be delivered through the third party window).
[10] It is expected that the Managing Agent will be collecting and sharing data from the programme regularly.
[11] Where the Managing Agent or any of the subcontractors provide data which replaces the need for the independent M&E firm to collect the data itself, the M&E firm may instead verify such data.

the urban economic planning firm, investment firm, IC firm and capacity building specialists. The Managing Agent will undertake due diligence[12] on each sub-contractor and ensure that all sub-contracts take account of, and comply with, DFID policies.

There will be 2 break points in the contract:

(1) End of inception (Phase 3 of the programme) – which will require the Management Agent having demonstrated strong performance to DFID's satisfaction to proceed from phase 3 to phase 4 (implementation) as well as Her Majesty's Treasury agreeing for the programme to continue until 2022 (which is the intention, but which is currently beyond the spending review period for the UK Government). Such approval will be sought in good time to enable the Management Agent to move into the implementation phase smoothly.

(2) Middle of Phase 4 of the programme – which will require the Management Agent having demonstrated strong performance to DFID during the mid-term review.

14. Budget

The total programme size is £60m over 2018-22, with a potential of expanding to up to £70m for a further 3 years. The budget for this ToR is a maximum of £50 million, up to 2022; also with the potential opportunity for expanding in both budget and timeline. The remaining £10m will be spent by DFID on supporting the complementary strategic partner, M&E and any other related work identified during the course of the programme.

The management cost should be no more than 10%. Any margins, expenses or fees charged by the Management Agent to any sub-contractors must be disclosed to DFID and should be no more than 10%.

The total budget under this ToR is for 6-10 towns to be supported (starting with 3 towns and expanding once results are proven) and so the Management Agent should manage the budget accordingly in consultation with DFID.

15. Payment

Payment to the Managing Agent (for itself or for onward payment to sub-contractors) will be based as follows:

(1) For phases 1 – 3, payment on quality outputs relating to:

   a. Selection of the Towns; and
   b. Development of urban economic plans and awareness/communication plans
   c. Selection of the Investment Firm, IC Firm and Capacity Building Specialists

(2) For phase 4, payment against a combination of quality outputs and performance in achieving the programme objectives (with an increasing weighting over time towards the latter). Performance will be assessed by DFID taking into account the findings from the independent M&E firm and reviewed with the Managing Agent at intervals, particularly at Annual Reviews and the Mid-Term Review.

16. Duty of Care & Compliance

[12] This will include reporting on and managing administrative costs in accordance with VfM.

The Managing Agent is responsible for the safety and well-being of their Personnel (and Third Parties, including subcontractors, affected by their activities under this contract), including undertaking appropriate security arrangements. They will also be responsible for the provision of suitable security arrangements for their domestic and business property. DFID will share available information with the Managing Agent on security status and developments in-country where appropriate. The Managing Agent is responsible for ensuring appropriate safety and security briefings for all of their Personnel working under this contract and ensuring that their Personnel register and receive briefing as outlined above. Travel advice is also available on the FCO website https://www.gov.uk/foreign-travel-advice/ and the Managing Agent must ensure they (and their Personnel) are up to date with the latest position. Tenderers must develop their Tender on the basis of being fully responsible for Duty of Care in line with the details provided above and the initial risk assessment matrix prepared by DFID. They must confirm in their Tender Response that:

(1) They fully accept responsibility for Security and Duty of Care.

(2) They understand the potential risks and have the knowledge and experience to develop an effective risk plan.

(3) They have the capability to manage their Duty of Care responsibilities throughout the life of the contract.

If you are unwilling or unable to accept responsibility for Security and Duty of Care as detailed above, your Tender will be viewed as non-compliant and excluded from further evaluation. Acceptance of responsibility must be supported with evidence of Duty of Care capability and DFID reserves the right to clarify any aspect of this evidence. The current Kenya risk assessment matrix is attached in Annex 2.

17. Reporting

The Managing Agent will submit reports – that comply with the International Climate Fund's (ICF) reporting requirements – to the DFID Kenya Senior Responsible Owner (SRO) for the programme. Quarterly reports will, inter alia, demonstrate value for money and how cross-cutting issues such as gender, youth and conflict sensitivity have been taken into account in the programme.

The Managing Agent will be DFID Kenya's main focal point for the programme, although to maintain flexibility DFID Kenya may also have direct lines of communication with the sub-contractors.

18. Transparency

DFID requires suppliers receiving and managing funds, to release open data on how this money is spent, in a common, standard, re-usable format and to require this level of information from immediate sub-contractors. It is a contractual requirement for all suppliers to comply with this, and to ensure they have the appropriate tools to enable routine financial management and reporting, and the publishing of accurate data and providing evidence of this. Further information is available at www.aidtransparency.net/.

19. Risk

DFID Kenya rates the overall programme risk as ‘major’. The largest risk to the programme – with both high impact and high probability – is political instability, particularly as the programme will take place over a national and county election cycle in Kenya. This will be mitigated through the Managing Agent ensuring (and demonstrating that) all implementers of the programme work in a politically sensitive and savvy way. DFID Kenya has a high appetite for contextual risks (e.g. supporting programmes to adapt to a changing political environment); a medium to high risk appetite for operational/delivery risks (e.g. as we aim to innovate and test new approaches); though an extremely low appetite for human security risk or fiduciary risk with a zero tolerance approach to fraud or corruption. Bidders should set out what they see as the key risks to successful delivery of this work and how they would propose to mitigate these risks.

20. Requirements

DFID is seeking a consortium of a:

A. Management Agent – comprising a company (to act as the prime contractor) with proven results in:

(1) Managing development partner programmes[13], ideally at the town and county level in Kenya, and in a politically informed and savvy way,

(2) Designing, advertising and evaluating well publicized calls for proposals, where “winners” that have later demonstrated success,

(3) Providing technical oversight, ideally for each of the following areas and at a town or county level (although the bulk of this technical work will be carried out by the sub-contractors):
   a. Urban economic planning
   b. IC reform
   c. Investment promotion and management
   d. Capacity building

B. Urban Economic Planning Firm – comprising a company which specializes, and has proven results, in world class urban economic planning that includes climate-resilient infrastructure, value chain projects and the integration of digital technologies, which have revolutionized towns or cities in developing countries.

Note: The Managing Agent must be a separate (and not-connected) entity to any of the sub-contractors (the Urban Economic Planning firm, IC firm, Investment firm and Capacity Building specialists) or M&E firm. As specialist subcontractors are sought, subcontractors shall also not carry out more than one role in the consortium e.g. both urban economic planning and investment promotion.

21. Timeline

The Managing Agent (along with the independent M&E firm under a separate terms of reference) shall be procured by September 2018. The contract end date will be 3 months before the programme end date (the latter of which is anticipated to be September 2022 subject to the HMT approval mentioned above).

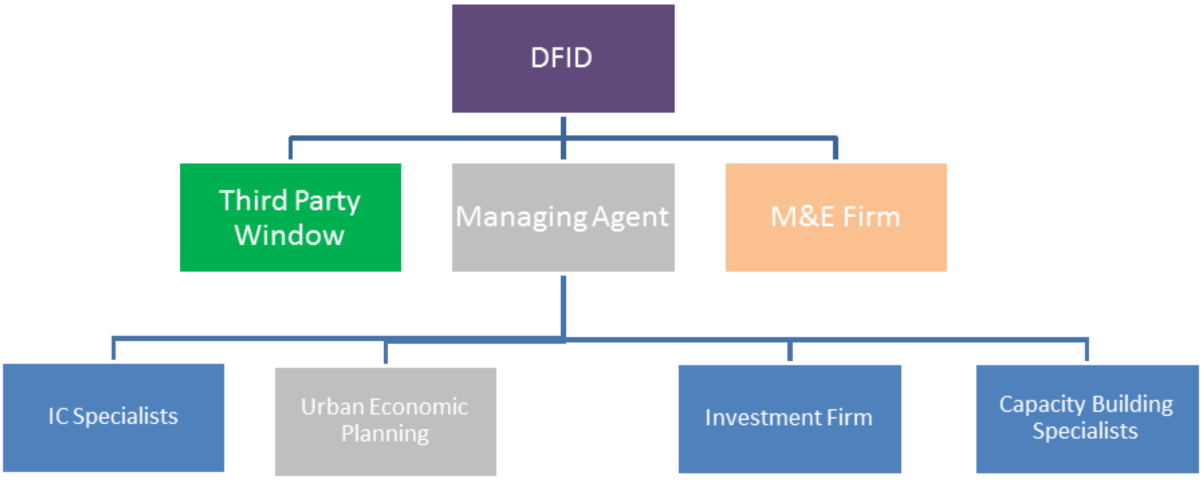
[13] Including evidencing capacity for all broad programme management functions such as financial management, risk management, due diligence and VfM in line with DFID guidelines.

DFID has the opportunity to scale up or down service provider activities, alter the scope of work and extend the ToR based on programme success and DFID Kenya needs.

22. Collaboration with others

The Managing Agent will collaborate with all relevant stakeholders (donors with complimentary programmes such as USAID and EU) and in particular with any strategic partnerships established by DFID with other partners such as the World Bank, and other DFID partners/initiatives on devolution, arid and semi-arid lands and along secondary corridors[14].

Annex 1 – Illustration of to-be-contracted partners



(grey)	Hired through this Consortium ToR (Managing Agent as prime contractor and subcontracting the urban economic planning firm)
(orange)	Hired through a separate M&E Firm ToR
(green)	Arrangement made by DFID in parallel
(blue)	To be subcontracted by Managing Agent through subsequent Calls for Proposals

[14] Potentially linking in with northern corridor growth hubs (dependent upon which towns are selected), as well as with arid and semi-arid lands and value chain development already supported by DFID Kenya, and with the World Bank on infrastructure / LAPSSET corridor development.

Annex 2 – Kenya risk assessment matrix

Date of assessment & assessing official: **10 July 2017, Roger Williams**

Theme	Risk Score	Risk Score	Risk Score
	Kenya (excluding areas listed separately)	**Advise against all but essential travel to within 15km of the coast from the Tana River down to the Sabaki River North of Malindi. It covers Lamu County and those areas of Tana River County north of the Tana river itself. Lamu and Manda Islands are now back in bounds.**	**Advise against all but essential travel to Mandera, Daadab and Garissa plus anywhere else within 60km of the Somali border (including areas North of Pate Island on the coast)[15] and Eastleigh in Nairobi**
OVERALL RATING	4	5	5
FCO travel advice	4	5	5
Host nation travel advice	Not available	Not available	Curfew in Place
Transportation	4	4	4
Security	4	5	5
Civil unrest	4	4	5
Violence/crime	4	4	5
Terrorism	4	5	5
Espionage	4	2	2
War	1	1	3
Hurricane	1	1	1
Earthquake	1	1	1
Flood	3	2	2
Medical Services	3	4 (nurses strike)	4

1 Very Low risk	2 Low risk	3 Med risk	**4 High risk**	5 Very High risk
			SIGNIFICANTLY GREATER THAN NORMAL RISK	

[15] **For these areas specific travel advice should be sought. See latest FCO travel advice for Kenya**